

Public consultation

Feedback on the voluntary SME standard

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Project presentation: Workshop series on the introduction of the voluntary SME standard

From February to May 2024, Climate & Company has organised a series of workshops in the Stuttgart area in cooperation with the Baden-Württemberg Ministry of Economic Affairs, Labour and Tourism. The aim of this initiative is to familiarise 5-10 SMEs intensively with EFRAG's draft voluntary SME standard. The workshops will enable the participating companies to implement the necessary internal data collection processes for sustainability reporting. They will also have the opportunity to take part in a field test and in the public consultation of the voluntary SME standard by EFRAG.

A key outcome of this project is the creation of a guide for German SMEs on implementing the voluntary SME standard. This guide will contain simplified and abridged versions of the standard's requirement texts as well as important tips, assistance and practical examples to make the reporting process easier for companies.

Six key messages on the voluntary SME standard

- 1. Overburdened by external data requests:** SMEs face the challenge of using different platforms for their customers' data requests and keeping them up to date. The fulfilment of sustainability requirements, especially from major customers, is often not only demanding but also administratively complex. Such data requests can lead to considerable management effort and even result in project losses if the information is provided late. We therefore welcome EFRAG's initiative to design the voluntary SME standard in such a way that it enables more systematic data collection. This could help SMEs to respond more quickly and efficiently to external enquiries.
- 2. Challenges in materiality analysis for SMEs:** SMEs face considerable difficulties when carrying out materiality analyses. They often find it difficult to weigh up the importance of different aspects, such as deciding whether the reduction of greenhouse gas emissions is more important than the contribution to the circular economy. In addition, identifying the key issues for their sector is often complex. Against this background, specific, sector-based support is essential. This should aim to provide SMEs with a clearer understanding of the material aspects relevant to their sector and help them to accurately record and evaluate them.
- 3. Problem of fragmentation of sustainability topics:** The current module structure in the SME standard leads to an unnecessary fragmentation of sustainability topics, which are typically reported in bundles in practice. For example, information on waste or greenhouse gas emissions is scattered across several modules. At present, there is no proposal for a thematically bundled and standardised structure for SME sustainability reports that would increase user and reader friendliness.
- 4. Increased need for support for SMEs:** Clearer definitions, policies and practical examples are needed to effectively support SMEs in their sustainability reporting. Particularly in areas such as emissions calculation and the circular economy, the requirements need to be clarified and supplemented with assistance to make it easier for SMEs to implement sustainability practices.
- 5. Promote flexibility and differentiation in reporting:** The SME standard should increasingly call for flexible reporting that does justice to the wide range of company sizes and business models in the SME sector. For example, the business partner module lacks an explicit request

to analyse past requests for information from important stakeholders (especially major customers and financiers) and to collect and report regularly requested information in a bundled form. This would enable companies to respond more specifically to individual requirements and minimise administrative burdens.

6. **Interaction between legislation and reporting:** For some disclosure requirements, the added value of reporting is not obvious. This is the case, for example, with commitments and disclosures on human rights relating to the company's own workforce, as these aspects are already automatically and mandatorily fulfilled by compliance with European and national legislation. The same applies to the entitlement to leave for family reasons.

Feedback on the structure of the standard

The structure of the standard in the three modules Basic, Narrative and Business Partner is logical, considering the diversity of SMEs in terms of employee numbers, capacities and progress in sustainability transformation. However, the division into modules leads to a fragmentation of sustainability topics that belong together in terms of content.

Example 1: Climate mathematics can be found in all three modules

- **Basic Module B3:** Energy consumption and greenhouse gas emissions
- **Narrative module N3:** Measures to improve energy efficiency and reduce greenhouse gas emissions
- **Business partner module BP4:** Transition plan to mitigate climate change

Example 2: Waste management duplicates itself and is located in both the basic and business partner modules

- **Basic module B7c:** Total annual waste generation, broken down by type (hazardous / non-hazardous)
- **Business partner module BP6:** Total amount of hazardous and/or radioactive waste generated

In practice, this information is usually reported in summarised form. The lack of bundling of thematically similar disclosures in the SME standard makes coherent and intuitive reporting difficult. EFRAG should explain how the required information can be structured in a standardised sustainability report. A structured template that categorises disclosures from all modules under the classic topics of environment (E), social (S) and good corporate governance (G) would be advantageous here. This categorisation would not only ensure that thematically related information is not reported in a scattered manner, but would also simplify the preparation process for companies and establish a uniform and intuitively comprehensible sequence of sustainability reporting by European SMEs.

Table 1 contains a structural template for SME sustainability reports, which is based on existing practice in terms of thematic separation. The long version can be found in the annex and assigns the individual disclosures of all modules to the topics proposed here.

Table 1 Structure template for SME sustainability reports

Basics
Materiality analysis

Stakeholders
Environment
Energy & Climate Pollution Biodiversity Water Circular economy & waste Climate risks for the company
Social
Information on the workforce Human rights
Governance
Approaches and policies Selected metrics

Companies show varying degrees of ambition in their sustainability reporting depending on the area. It is therefore important that they do not report exclusively according to the basic module, but also have the freedom to report in more detail in certain areas. This allows them to address material information that might otherwise be omitted.

Companies should be continually encouraged to decide individually which topics to emphasise and which to omit in their reports. An option for additional disclosures in the form of an empty box could be helpful to allow companies to include specific information that responds directly to requests from stakeholders, such as banks. Companies know their own needs and requirements best and should therefore be able to customise their reports accordingly.

Feedback on the individual modules

Basic module

In the basic module, which mainly consists of key figures, user-friendliness should be increased with a view to the final output, the "sustainability report", through **additional support measures**. We suggest including explicit notes in the module that encourage users to provide explanations and context for the respective key figures. This would help users not only to report the data, but also to categorise and interpret it in a meaningful way.

We also recommend providing more low-threshold **explanations of basic sustainability concepts**, such as the waste hierarchy and different types of land use. These should be complemented by hyperlinks to further resources. Such additional information would help small and medium-sized enterprises (SMEs) to familiarise themselves more effectively with environmental dimensions, key concepts and the associated EU objectives.

Basic Module - Biodiversity

The current requirement B5, which serves as the only information on biodiversity, proves to be insufficient for many SMEs. It is particularly problematic that the greatest negative impact on

biodiversity by European SMEs often does not result directly from the activities of the company itself, but from the activities within the (mostly non-European) supply chains.

Example for clarification:

- A small IT company that is directly adjacent to a nature reserve is obliged under B5 to disclose this.
- A meat producer with 225 employees carries out its activities in the suburbs and, according to B5, does not have to provide any information on biodiversity as it does not operate near a nature reserve. Soya imported from Brazil is mainly used as animal feed. In Brazil, tropical rainforest and other highly diverse ecosystems are being destroyed to expand soya production (see e.g. analyses by [Trase](#)). In this case, disclosure B5 does not reflect the actual impact of the meat producer on biodiversity. A more meaningful disclosure would relate to the traceability and origin of the animal feed (see e.g. [GRI Standard for Agriculture](#)).

To address this shortcoming, an additional supply chain-related criterion on biodiversity should be introduced for sectors with land-use-intensive upstream chains, particularly in food production. This criterion could focus on the traceability of raw materials (e.g. continent, country, region) as well as on the policies and possible targets of the purchasing departments. By limiting this requirement to sectors with intensive land use, SMEs from other sectors are protected from unnecessary additional costs, while at the same time the principle of polluter-pays proportionality is strengthened: Companies with major negative impacts on biodiversity must report more comprehensively.

[Narrative module and materiality analysis](#)

In the narrative module, conducting the materiality analysis poses a particular challenge. Participants in our workshop expressed concerns about objectivity in the selection of material topics. A **clearly defined scale for evaluating** the various topics would be very helpful here. In addition, **exemplary "instructions"** for conducting a materiality analysis would be valuable in order to offer SMEs targeted support.

Another support measure could include a **list of potentially essential topics for different sectors**. This would help SMEs to identify relevant topics for their specific sector and develop a better understanding of what is specifically required. This would be particularly useful for companies that do not yet have employees with in-depth knowledge of sustainability and experience difficulties in identifying important topics.

In addition, support is needed for **stakeholder involvement**. Many SMEs face the challenge of approaching this topic. Practical tips, such as the use of newsletters to involve certain stakeholder groups or the implementation of complaints mechanisms and feedback channels, could be enormously helpful.

[Business partner module](#)

With regard to the business partner module, EFRAG lacks a more detailed explanation of how this module can help companies to effectively fulfil the requirements of their business partners. A clearer understanding of the purposes and functions of the sustainability report could help here:

- **Data collection point:** The sustainability report should serve internally as a central data collection point that employees can access in order to respond efficiently to enquiries from external companies.

- **Communication with partners:** The report can be published regularly and made available to specific partners to keep them continuously informed about progress on sustainability issues.

It would also be helpful if EFRAG could differentiate more clearly **which requirements** come **specifically from the financial sector and which from other business partners**. Such a differentiation would enable companies to prioritise better. Particularly in the area of business partners, EFRAG should indicate which specific data requests are likely due to the CSRD reporting obligation of major customers and by when companies should have prepared for this.

SMEs are often faced with the challenge of having to process various data requests and questionnaires from clients on different platforms. EFRAG should explain whether and how the **VSME standards** (and/or CSRD) **could provide relief** in this area and briefly justify this.

For complex reporting requirements such as BP3, BP4, BP5, EFRAG should provide **additional guidance** in the appendix to support companies in their implementation. Where possible and appropriate, examples or best practices should be provided. A clear explanation of the importance of these topics could also help to convince companies of the need for thorough implementation.

Business Partner Module - Human Rights

The following disclosure points of the voluntary SME standard currently relate exclusively to the company's own employees:

- **BP7:** Declaration of principles on respect for human rights
- **BP8:** Monitoring procedures and grievance mechanisms
- **BP9:** Violations of human rights

These requirements are already covered by existing European law, which calls into question the need for these specific disclosures. If companies are expected to do more than the legal minimum, a clearer explanation of what exactly is required in these disclosure points is needed. It also remains unclear to what extent a code of conduct for suppliers should be integrated and disclosed in these points.

However, the real key point concerns **human rights along the supply chain**. EFRAG should consider adding a specific disclosure point that explicitly addresses human rights in the supply chain, possibly including monitoring procedures and grievance mechanisms to ensure comprehensive and transparent reporting.

Feedback on the individual disclosure requirements

Basic module

Disclosure requirement	Suggestions for improvement and tips
B2 Practices for transitioning towards a more sustainable economy	<p>The generally formulated criterion "Practices for the transition to a more sustainable economy" should be clarified by making it clear that the respective initiatives can be integrated in thematically appropriate places in the sustainability report. For example, initiatives to reduce energy consumption could be placed directly after the information on "Energy consumption" (B3). Similarly, measures for equal treatment in the workplace could be inserted after relevant key figures in the "Social" chapter.</p> <p>This structured placement not only makes it easier to understand the context of the reported information, but also increases the clarity and relevance of the sustainability report. This makes it easier for stakeholders to understand how the company implements and integrates specific sustainability goals.</p>
B3 Energy consumption	We suggest renaming the title B3 to " Energy consumption " to make it more intuitive to understand.
B3	SMEs need a clear definition of the terms "energy efficiency" and "greenhouse gas emissions" in order to organise their sustainability reports effectively. It is suggested that these definitions be clarified in the standard and supplemented with practical examples. In addition, examples of technologies that can contribute to improving energy efficiency and reducing greenhouse gas emissions should be provided. This assistance will enable SMEs to identify relevant technologies and to better document and communicate their efforts to achieve sustainability goals.
B3	<p>SMEs need clear guidelines on the collection of electricity data, particularly with regard to the choice between the grid approach and the contract approach. This choice affects how emissions are reported, particularly in relation to the purchase of green electricity. For example, the purchase of green electricity under a contract approach often means that no greenhouse gas emissions need to be reported, as these are assumed to be "zero".</p> <p>In the guidelines we developed, we presented energy consumption and greenhouse gas emissions separately, which was very well received by the participants. The advantage of this separation is that even if companies purchase green electricity and therefore report a "zero" greenhouse gas balance, they can still reduce their energy consumption and document these reductions. This enables SMEs to track and present progress in their energy efficiency independently of the reported emissions.</p>
B3	<p>Small and medium-sized enterprises (SMEs) need detailed support in calculating the energy consumption of company cars that are used for both private and business purposes.</p> <p>We propose splitting the electricity consumption of company cars into "drive electricity" for the actual driving operation and "other electricity" for additional consumers such as air conditioning or IT. This division would allow companies to</p>

	accurately demonstrate that an increase in overall electricity consumption is directly attributable to the switch from conventional vehicles to electric cars, and not to a general increase in electricity consumption for other reasons. A clear separation and specific calculation requirements would help SMEs to manage and report their energy balances more accurately.
B3	It would be a significant relief for SMEs if they could use units such as kilometres, litres or joules in addition to megawatt hours (mWh) when reporting energy consumption. This additional flexibility would be particularly beneficial for recording fuel consumption in the vehicle fleet, which is usually measured in litres or kilometres (for the distance travelled). The ability to specify different units of measurement, such as litres for liquid fuels and joules or kilowatt hours for electrical energy, would allow SMEs to document their data more accurately and easily depending on the energy source. This would not only reduce the administrative burden, but also increase the accuracy of reporting.
B5 Biodiversity	It is important to precisely define the geographical proximity of a company to areas worthy of protection, such as nature conservation areas. The term " directly adjacent " should be used to describe that a business site is immediately adjacent to a nature reserve or similarly protected area, with no other properties or barriers in between.
B7 (a) Circular economy	<p>In practice, it makes sense to report the proportion of recycled materials specifically at the level of individual materials instead of referring to the total weight of products or packaging. This approach not only enables more meaningful data analysis, but also simplifies the recording process.</p> <p>For example, the presentation could read as follows: Of the materials used in our products, 12% are recycled. Material A consists of 60% recycled components and material B of 30%.</p>
B7 (b) Circular economy	<p>To effectively support companies in improving their sustainability practices, we recommend implementing detailed guidance on the requirements for recyclability of materials. This support could include a list of recyclable materials and specific criteria that must be met for products to be easily dismantled or separated.</p> <p>For example, the assistance could include the following:</p> <ol style="list-style-type: none">1. List of recyclable materials: A comprehensive catalogue listing common and lesser-known recyclable materials.2. Design requirements for recyclability: Policies for the design of products that ensure that components and materials are easy to separate, which increases the efficiency of the recycling process.3. Conditions for separability: Specific requirements on how products must be designed to allow effective separation of different materials, including the use of non-permanent fasteners. <p>This information would not only improve transparency and understanding of the recyclability of products, but also help companies to make more sustainable decisions in product development.</p>
B7 Waste	The question arises as to what added value the disclosure of annual municipal waste offers for small companies. To assess the relevance of this requirement,

	consideration should be given to whether the associated information is relevant to stakeholders and contributes to the fulfilment of legal or regulatory requirements.
B7 Waste	<p>The participants in our workshop found it difficult to distinguish between "recycled" and "sent for disposal", especially if the waste management company itself carries out recycling processes. To address this issue, we recommend providing detailed guidance that includes the following:</p> <ol style="list-style-type: none"> 1. Definitions and criteria: Clear definitions of what exactly is meant by "recycled" and "sent for disposal", including the processes involved in disposal and recycling. 2. Communication guide with waste management companies: Guidance on how companies can communicate effectively with their waste management service providers to obtain transparent information on the actual treatment of materials.
B10 (d) Work force - remuneration, collective bargaining and training	There is a lack of clear guidance on the definition and measurement of informal training hours. The current vagueness of the term "informal training hours" can lead to incomparable results between companies. In order to improve comparability and transparency, at the very least formal and informal hours should be reported separately, supplemented by a clear policies on how informal hours are to be interpreted and recorded by the company. Alternatively, it could be suggested that only formal training hours be recorded.
B11 Workers in the value chain, affected communities, consumers and end users	SMEs often need additional support to understand the importance of due diligence and human rights-related issues . We suggest introducing support that introduces SMEs to the relevance of these issues. This support could include information on high-risk sectors and supply chains and provide practical guidance to ensure human rights compliance throughout their value chain.
B13 Good corporate governance	For the basic module on "Governance", we suggest introducing an additional disclosure requirement on good corporate governance . This should describe how the company is committed to good corporate governance and what specific policies it has implemented in this regard.

Narrative module

Disclosure requirement	Suggestions for improvement and tips
N3 Financial risks	<p>SMEs struggle to identify the specific requirements relating to the reporting of measures to reduce financial risks. The existing policies are not sufficiently clear in this respect, which prevents SMEs from effectively communicating what steps they have taken or plan to take.</p> <p>Furthermore, it is unclear how multi-year measures should be reported. Current reporting formats do not take into account that extensive and significant measures may be introduced in a base year, while less significant actions may take place in subsequent years. This reporting structure makes it difficult for companies to adequately demonstrate continuity and commitment to long-term strategic endeavours.</p>

	<p>To address these challenges, we suggest including a table in the standard that enables companies to present ongoing measures in detail. For example, the following columns could be integrated into this table:</p> <ul style="list-style-type: none"> • A column indicating the progress of the measure in per cent to show how far the implementation has progressed. • An additional column for comments, in which successes and challenges during implementation can be described. <p>These adjustments would not only increase transparency, but also enable a realistic and dynamic presentation of SMEs' commitment to long-term measures.</p>
N3 Financial opportunities	<p>We would also suggest adding concrete examples to the policies that illustrate how small and medium-sized enterprises (SMEs) can report on financial opportunities. A practical example could illustrate how SMEs could formulate and communicate their objectives in relation to securing funding opportunities.</p> <p>For example, a report example could look like this:</p> <ul style="list-style-type: none"> • One company reports that it is pursuing the goal of obtaining a specific grant from banks. • It could also be explained that the company is seeking to obtain a more favourable credit condition to support its growth plans. <p>Such an example would not only emphasise the relevance of the topic, but also provide SMEs with practical guidance on how to effectively present their financial objectives and the associated opportunities.</p>

Business partner module

Disclosure requirement	Suggestions for improvement and tips
BP6 Hazardous and/or radioactive waste ratio	<p>We suggest integrating the topic "Ratio of hazardous and/or radioactive waste" as part of the basic module, as hazardous waste is already covered in section B7. This integration is particularly useful because reporting on hazardous waste is not only a relevant source of information for stakeholders, but is also a legal requirement in Germany.</p> <p>The current separation of the topics in B7 and BP6 contributes to the complexity of the standard and could be avoided by consolidating them. Such consolidation would simplify the standard and increase its applicability for SMEs by reducing duplicate reporting and facilitating compliance.</p>
BP7 Declaration of principles on respect for human rights	<p>We recommend that the heading "Alignment with internationally recognised instruments" be changed to a clearer and more comprehensible form in order to communicate the content directly and unambiguously. An alternative title such as "Declaration of Principles on Respect for Human Rights" would not only better capture the essence of the section, but would also emphasise the importance and focus of the topic for external and internal stakeholders.</p>
BP8 Monitoring procedures	<p>We suggest changing the heading "Compliance monitoring procedures and mechanisms to address non-compliance" to a more concise and easier to understand form. An</p>

and grievance mechanisms	<p>alternative title such as "Monitoring procedures and grievance mechanisms" would communicate the content of the section more clearly and directly.</p> <p>This new designation focuses on the key aspects of monitoring and complaint handling, making the document more readable and accessible to users. It makes it easier for SMEs to understand the required processes and ensures that they recognise the importance of continuous monitoring and the effective handling of complaints and violations.</p>
BP9 Violations of human rights	<p>We recommend changing the title to "Violations of the OECD Guidelines by Multinational Enterprises or the UN Guiding Principles" to improve focus and clarity. An alternative title such as "Violations of human rights" would present the central theme of the section in a more concise and accessible way.</p>
BP10 Work-life balance	<p>Participants in our workshop questioned the purpose of disclosure regarding the number of sick days for carers. They argued that such data often reflects the health of the children, as parents have to care for their sick children. The informative value of this data with regard to company policy or workplace culture is therefore limited.</p> <p>Similar concerns were expressed about the disclosure of maternity and paternity leave. The decision of who takes parental leave is often a private choice, influenced by numerous individual factors, and does not necessarily reflect the sustainability or equality policies of the organisation. This raises the question of why it is necessary to report the percentage of people taking family leave by gender.</p> <p>It is proposed to introduce a metric for the number of part-time managers to analyse whether part-time work affects career opportunities. In general, these disclosures should be reassessed to ensure that they actually provide relevant and meaningful insights into company practices and do not encourage misleading or off-target interpretations.</p>

Annex

Table 2: Structure template: Allocation of the disclosures of all modules to the topics environment, social affairs and good corporate governance

Basics	
B1	Module selection
B1	Report boundaries
B2	Sustainability efforts of the company
N1	Strategy, business model and sustainability initiatives
Materiality analysis	
N2	Material sustainability matters
Stakeholders	
N4	Important stakeholders
Environment	
Energy and climate	
B3	Energy
B3	Greenhouse gas emissions

N3	Measures to improve energy efficiency and reduce greenhouse gas emissions
BP3	Target for the reduction of greenhouse gas emissions
BP4	Climate transition plan
Environmental pollution	
B4	Pollution of air, water and soil
Biodiversity	
B5	Biodiversity - Use of land in nature conservation areas
B5	Biodiversity - Information on land use
Water	
B6	Water
Circular economy & waste	
B7	Resource utilisation and contribution to the circular economy
B7	Recycling
B7	Waste
BP6	Hazardous and/or radioactive waste ratio
Climate risks for the company	
BP5	Physical risks of climate change
Social	
Information on the workforce	
B8	General characteristics
B9	Health and safety
B10	Remuneration, collective bargaining and training
BP11	Number of apprentices
BP11	Work-life balance
N3	Measures in relation to negative social impacts
Human rights	
BP7	Declaration of principle on respect for human rights
BP8	Monitoring procedures and complaints mechanisms
BP9	Violations of human rights
B11	Workers in the value chain
Governance	
Approaches and policies	
B13	Efforts towards good corporate governance
N5	Responsibilities in relation to sustainability matters
BP2	Gender diversity ratio in governance body
N3	Measures to prevent corruption and bribery
Selected key metrics	
B12	Conviction and fines for corruption and bribery
BP1	Revenues from certain sectors