



**B4NZ SME Sustainability Reporting Baseline Exercise** – Connecting government, financial institutions, corporates and SMEs to align on standard sustainability attributes and a common data currency

**Key information:**

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| Name           | <b>B4NZ SME Sustainability Reporting Baseline Exercise</b> – Connecting Government and Industry to align on a comparable and interoperable sustainability and GHG emissions reporting framework. |
| Timeline       | First release: November 2024, ongoing thereafter   |
| Funding status | <i>Partially funded</i><br><i>A funding breakdown can be provided on request</i>   |

**Background:**

The number of carbon accounting solutions and other technologies that gather data from SMEs and provide estimates of GHG emission impacts has exploded over recent years. In 2024, a study from Icebreaker One, commissioned by the British Business Bank, revealed over 270+ carbon reporting tools (& growing) specifically aimed at SMEs operating in the UK. However, without a common framework for SME sustainability reporting, there is no consistent approach to collecting, measuring, and storing data and no common process for SMEs to report sustainability impacts to larger customers that require it. This includes stakeholders such as financial institutions.

On top of this, SMEs are navigating a wide range of inconsistent and technically challenging data requests on a range of sustainability related attributes (including GHG emissions) from large corporate customers and finance providers (who are mandated to report) and struggle to determine what topics are relevant and applicable to their business. For banks and buyers of SME services (e.g. large corporates), the data received is not comparable or assurable within their Scope 3 disclosure frameworks. Larger corporations and financial services providers, who are obligated to measure and report their Scope 3 emissions, emphasise how irregular data collection methods mean they cannot effectively report on sustainability performance or ensure the credibility and reliability of their climate risk management practice.

**There is currently no agreed and comparable process for SMEs to report GHG emissions and sustainability impacts to customers, across industry, finance, and Government procurement processes. There is an imperative to seek consensus on SME sustainability attributes and ensure this is driven by not only what major corporates & financial institutions are asking for, but the quality data that SMEs are in possession of.**

**B4NZ work delivered to date:**

- B4NZ – To date, B4NZ have been active in engaging leading financial, business, Government and regulatory actors to tackle key issues facing SMEs in climate disclosure, through streamlining and



standardising the transition process (**SME Advisory Group for the TPT, Net Zero Council**) and delivering frictionless, automated emissions reporting (**Project Perseus**).

- **SME Net Zero Council:** Upon invitation from Minister Graham Stuart, B4NZ are supporting the delivery of the SME workstream for the Net Zero Council within the Department for Energy Security and Net Zero. This programme is developing sectoral decarbonisation roadmaps for SMEs, including a sub-series of workshops exploring how to improve SME access to green finance in different sectors.
- **SME Advisory Group for the TPT:** B4NZ have convened the SME Advisory Group for the Transition Plan Taskforce, exploring where the biggest barriers and opportunities lie to supporting SMEs to transition their business practices effectively. Our [joint report with the TPT](#) was published in April 2024. In the process of developing this report, B4NZ engaged industry stakeholders to explore the responsibility that financial and non-financial institutions must ensure that SMEs on their lending books and throughout their supply chains are well-equipped to tackle net zero and how to streamline and standardise the process of reporting on sustainability impacts.
- **SME Convening for Transition Finance Market Review:** B4NZ have facilitated SME focused workshops alongside TFMR and are supporting TFMR with development of final report and recommendations.

These programmes address both the need to engage SMEs in decarbonisation, as well as improve standardisation and interoperability of emissions reporting for small businesses and the larger corporate sector.

To further this work, we are proposing to deliver a dedicated workstream, collaborating with key industry partners to deliver:

1. **Recommendations towards a proportionate, comparable and interoperable sustainability (Including emissions) data reporting framework and underlying data requirements.**

Through workstream delivery, provide options and implementation options around a common sustainability standard & data request, which are applicable to SMEs inclusive of microbusinesses. Microbusinesses, which make up approximately 95% of the UK business population, while unlikely to be caught by regulation or reporting requirements in the short term, any business that holds a bank account, has any lending or is part of a larger supply chain will likely be asked for this information regardless of individual regulatory reporting obligations.

The development of this data provision framework should consider **proportionality**, ensuring requests are realistic for a business with limited resources to comply with; **consistency**, by clearly defining and simplifying key terms, topics, and metrics across the reporting landscape; and **materiality**, by providing clear rules to easily determine material topics and metrics for SME reporting.

2. **Create Consensus on reporting with a view to having consistent, national guidance**

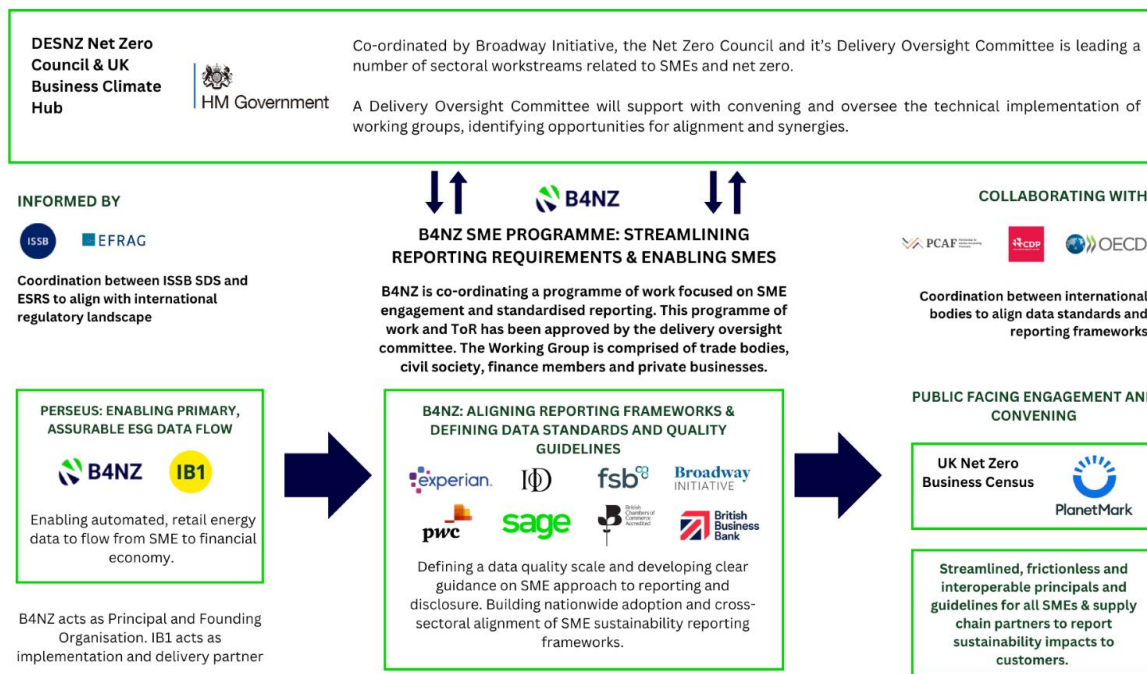


Define standard, rules and guidance for SME applicability and an SME quality framework. By working on a bottom-up approach, we can identify potential additional reporting requirements depending on size/sector, as well as ensuring interoperability with international reporting requirements for larger corporations.

There are already standards and suggestions for how this can be approached. However, they remain fragmented and there is still no overall agreement on how to engage with SMEs in supply chains, with different stakeholders asking for different information in different formats, creating complexity and confusion for SMEs. The purpose of this work, which would be an ongoing process as standards develop, will be to create consensus amongst stakeholders and SME representatives to ensure that SMEs are supported, not burdened, by developing standards.

### B4NZ Workstream Ecosystem

This workstream will sit under the Net Zero Council as the primary ‘SME first’ focussed delivery programme.





## OBJECTIVES Summary:

1. Reach agreement with government on the messaging and positioning around the need for a common sustainability standard for SMEs. This is to ensure a common point of reference to be used by SMEs to counter the growing sustainability requests from business counterparties and lowering entry barriers for SMEs to sustainability reporting
2. Make recommendations for what should be considered when creating a proportionate minimum data disclosure baseline to allow SMEs to engage in low-effort, low-friction sustainability reporting, including for micro-businesses.
3. Determine a data quality scale, to ensure there is clear guidance for SMEs on how to accurately report data, with a focus on increasing data quality and providing assurable and comparable data.
4. Demonstrate alignment on SME disclosure requirements from customers; informed by international standards (EFRAG, ISSB) and collaborating with recognised reporting frameworks (CDP, PCAF, TCFD).
5. Develop supporting Government guidance on the most relevant metrics to ensure SMEs are not overburdened by reporting requirements and can easily deliver on requests from banks, buyers and regulators. This will include how elements of PPN06/21 / Carbon Reduction Plan (CRP) reporting as a standard can be a starting point for broader SME disclosure. Data requests should be reasonable and driven by a quality threshold and a view as to how the data will be ultimately consumed by end users.
6. Engage with relevant Government departments to ensure that these proposals can be effectively implemented.
7. Engage internationally with developing workstreams in the OECD and with EFRAG to ensure interoperability transnationally.

## Initial Workstream Policy Asks

The below are draft proposals for agreement as part of the SME working group.

- *The UK Government should establish a market-wide carbon reporting framework for SMEs. This framework should prioritise proportionality, ensuring that requests for information are manageable for businesses with limited resources; consistency, by clearly defining and simplifying key terms, topics, and metrics; and materiality, by providing guidelines to identify significant topics and metrics for reporting. Requests for sustainability information from SMEs should use a standardised template to ensure uniformity and ease of reporting.*
- *The UK Government should establish a uniform approach for requesting sustainability information from Small and Medium Enterprises (SMEs) to ensure consistency, clarity, and efficiency in data collection.*
- *The UK Government should implement a standardised template for requesting sustainability information from SMEs.*



## PROPOSED WORK PROGRAMME (FIRST 6 MONTHS)

### 1) Building consensus on the demands of SMEs & aligning to the 'quality' data SMEs can reasonably provide

**The initial step will be to clearly define the policy ambition and role of Government in delivering a single, cohesive basic reporting standard for SMEs to adopt. Alongside the Working Group members and other market participants, the Government must collaborate with industry to set benchmark recommendations and principals for SMEs to report their sustainability impacts to customers, financial institutions and Government.**

The Working Group will then focus on sustainability attributes and frameworks relating to climate and GHG emissions (including the Government's Carbon Reduction Plan/ PPN 06/21 standard) and will then move onto wider sustainability metrics collected by banks/ corporates. This will explore primary 'data pulls' from corporates and financial institutions, as well as the areas SMEs can seek to proactively provide data for commercial benefit.

Next, determining what quantifiable, system-based data SMEs would be able to share in the short to mid-term. By determining what quality available is likely to be available to SMEs the working group can agree on an appropriate SME disclosure framework.

To ensure increased levels of market trust, addressing the issue of lack comparability and poor-quality data must be considered. An initial definition around SME data quality and market need.

### 2) Stratifying demand by SME Segment

The SME population is not homogenous. Past research from the BCC and others highlights the need to ensure data requirements are reasonable based on SME/ business type.

Creating an initial segmentation of SMEs driven by a focus on relevant metrics and data provision.

### 3) Building an initial view of SME data requirements and practical rules on need to share/ request based on SME type.

This will require developing proposed guidance on a common data quality scale per SME relevant metric.

Whilst there is a roadmap to create a pathway for free flowing, assurable data (Perseus) outlining an SME quality pathway to actual, assurable data and how this will be treated by corporates / financial institutions should be defined.

### 4. Consideration as to the practical approaches for SME adoption and engagement at scale. Leveraging existing market infrastructure.



Ensuring SME engagement and ease of adoption will be critical. Developing recommendations and key industry partners to support SME adoption at scale.

### Membership & Engagement

- **Key organisations include;** BBB (Lead sponsor) IOD, FSB, UK Finance, Broadway Initiative, NetZero Council, Cabinet Office, DESNZ.
- **Delivery workstream members;** Experian, BBB, PwC, Atom Bank, Santander, NatWest, Allica, Oxbury, Planet Mark, FSB, IoD, BDO, Sage.
- **Observers:** Broadway Initiative, DESNZ Net Zero Council, UN Net Zero Banking Alliance, OECD Platform for Financing SMEs for Sustainability and British Chambers of Commerce, among others.

We will begin work in September 2024.

### Working Group Operations

1. Be co-chaired by Hannah Cool (B4NZ) and one other member of the core group.
2. Members will receive support from B4NZ in the following ways:
  - a. Scheduling meetings and taking minutes and actions.
  - b. Proactively engage with all stakeholders.
3. Report to industry stakeholders on progress and key recommendations.
4. A full working group terms of reference will be agreed with all members and published for transparency
5. This working group will be open to all interested parties and working group materials made available online

### Coordination with other initiatives:

- B4NZ to lead/support reporting element of Net Zero Council work on SME reporting, ensuring full alignment with UK gov policy initiatives.
- Coordination with the OECD Platform for Financing SMEs for Sustainability. Our knowledge partnership with the OECD Platform will enable the OECD Platform Secretariat and members to learn from and engage with B4NZ and its members and promote outreach and engagement globally. By contributing to shaping future outputs and high-level guidance for the OECD, our cooperation will accelerate the transition to net zero for SMEs and provide a systematic approach for SMEs to engage fully with reducing their carbon emissions.



## B4NZ SECRETARIAT

Alongside delivering this work programme, the B4NZ Secretariat will continue to engage in specialised workstreams dedicated to raising ambition within Government, ensuring interoperability across the market and collaborating with other key ecosystem actors and initiatives. This is including, but not limited to:

### Policy engagement, research & development:

- Conducting policy research and analysis on the regulatory landscape related to SME emissions reporting, disclosure requirements and legislation in the UK and internationally. Delivering workshops, roundtables and 1:1 interviews with industry partners, academic institutions, and think-tanks to leverage expertise and resources.
- Development of policy recommendations to support drive the adoption and implementation of harmonised SME disclosure requirements.
- Comprehensive political engagement strategy with new Government to further report recommendations. Further engagement with Government enquiries e.g. **Transition Plan Taskforce**, **Transition Finance Markets Review** as required.

**Political and international engagement:** Engage with policymakers and advocate for supportive regulatory frameworks to enable the successful implementation of SME reporting alignment and accelerate progress towards net zero.

**Net Zero Council & Transition Plan Taskforce:** Ongoing engagement with the Net Zero Council/Broadway Initiative to ensure identify organisations, standards, initiatives to support solution and strengthen collaboration with Government departments and industry leaders.

**Communications, External engagement, Event management, International engagement:** Raise awareness, engagement and reach of reporting framework advocacy through industry engagements and communications channels to drive cross sectoral adoption.

- Ongoing partnerships and dialogue with **COP29 Presidency** and **International Chambers of Commerce** to advance sustainability efforts and support capacity building for SMEs, financial institutions and Governments within different jurisdictions.
- Presence at national and international climate and political events (including Davos, COP29, Party Conferences and New York Climate Week) to demonstrate impact and drive adoption and collaboration.



## **B4NZ ECOSYSTEM**

Through this programme, B4NZ will engage the full spectrum of its diverse and powerful ecosystem of organisations across industry, Government, regulation and civil society. These networks serve as crucial conduits for disseminating innovative strategies and fostering cross-sectoral collaboration to mobilise sustainable finance for the real economy.

Through advocacy, policy formulation, and targeted interventions, our relationships with major trade associations provide access to valuable insights and resources necessary for navigating the complexities of SME decarbonisation, accelerating the development of tailored solutions that align with regulatory frameworks and industry standards, ensuring a smooth transition towards a greener economy for SMEs.

All work done by B4NZ is pre-competitive and, whilst funding is received for individual workstreams from core sponsors, all work and engagement is focused on creating the right market infrastructure and all members engage on this basis.

### **Organisations already engaged in this programme to date include, but are not limited to:**

- ICAEW
- Federation of Small Businesses
- British Chambers of Commerce
- International Chambers of Commerce
- UK Export Finance; UK development banks
- British Business Bank
- Institute of Directors
- Scaleup Institute
- UK Finance
- FCA
- LSE Grantham Research Institute
- CDP
- We Mean Business Coalition
- The City UK
- Confederation of British Industry (CBI)
- OECD Platform on Financing SMEs for Sustainability
- Association of Chartered Certified Accountants
- SME Climate Hub
- UN Race to Zero
- Cabinet Office, Treasury DBT and DESNZ
- United Nations Environment Programme
- Cabinet Office, Treasury DBT and DESNZ





## **ABOUT B4NZ**

*B4NZ convenes the UK Country Chapter of the Net Zero Banking Alliance, one of the four main pillars of the Glasgow Financial Alliance for Net Zero. It is a collaborative initiative bringing together leaders from the UK banking sector, along with representatives from the business and government who share a commitment to accelerate the UK's transition to net zero. The core focus is strategic policy alignment – by creating clarity on which areas of the net zero transition require policies which can optimise the contribution banks can make to the real economy, B4NZ enables both policymakers and banks to play their part in accelerating the transition to net zero.*