



**Sustainable
Stock Exchanges
Initiative**



IFC

**International
Finance Corporation**
WORLD BANK GROUP

Model guidance for SMEs to integrate sustainable business practices

A template for exchanges



Schweizerische Eidgenossenschaft
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**Swiss Agency for Development
and Cooperation SDC**

A note to exchanges

Purpose and scope of the guidance

This Model Guidance provides exchanges with a structured template to develop guidance for SMEs on the adoption and integration of sustainable business practices. It should be read together with the Action Plan “*How exchanges can promote sustainable SMEs*”.¹

The UN SSE has previously issued a series of model guidance documents focused on specific topics, for example ESG disclosure (2015), climate disclosures (2021) and sustainability-related financial disclosures (2024).² The SSE’s model guidance series is written in the voice of an exchange speaking to market participants and is intended to help exchanges get started on a topic. Exchanges are encouraged to replicate the text in this model guidance, customize it for their market and publish it under their own brand. It can also form the basis for education and capacity building initiatives, offering a means to achieve tangible outputs by exchanges in their efforts to work more closely with SMEs on sustainability.

This model guidance is not intended to replace guidance documents or other initiatives focusing on particular sustainability topics (e.g. climate disclosure), but could be used alongside those to help exchanges either develop new guidance that is tailor-made for SMEs or customize existing guidance to suit SMEs. Exchanges can target listed SMEs or cast a wider net to benefit (and potentially attract) unlisted SMEs as well.

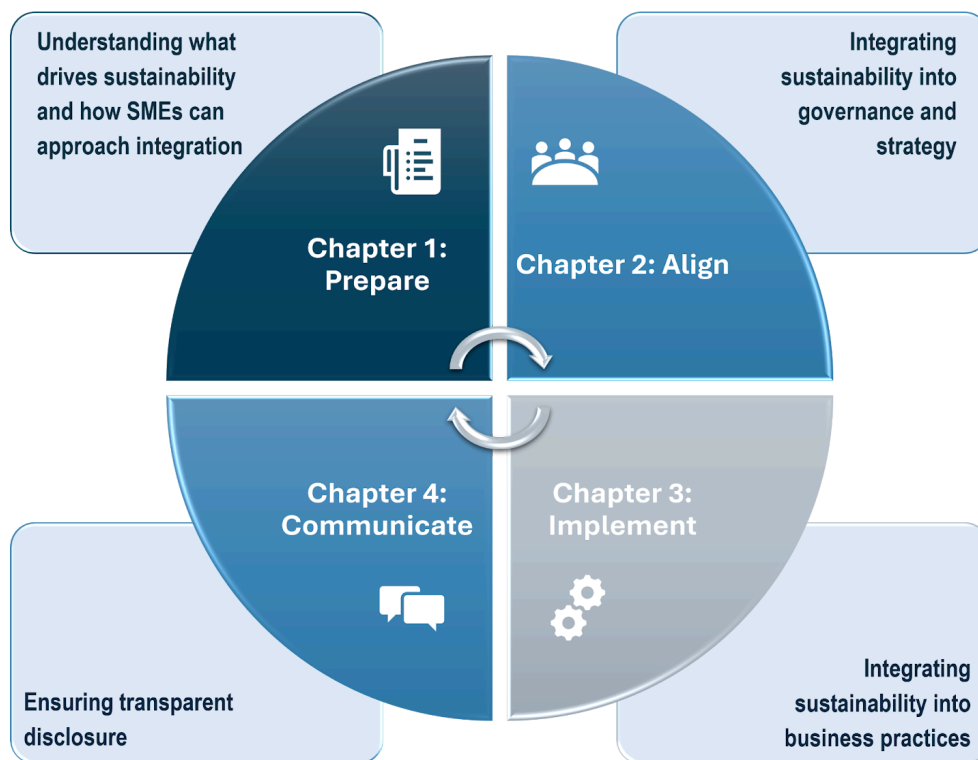
What constitutes an SME varies significantly across different markets. SMEs are also present across a broad range of sectors. Accordingly, the challenges and opportunities that SMEs are faced with may vary. Exchanges know their own markets best and should leverage local requirements and definitions to focus their guidance. The guidance can be further enhanced by incorporation of jurisdiction- or sector-specific topics or examples. Local governments and organizations may have specific guidance and tools available that exchanges can tap into.

Structure of the guidance

This guidance is structured along a four-step process (see [Figure 1](#)) that offers a systematic approach to sustainability integration. The process is aimed to help SMEs **prepare** for action through reinforcing the relevance and importance of sustainability to their business and providing an understanding of possible approaches for action; how SMEs can **align** their businesses to sustainable development goals by integrating sustainability across governance and strategy; how SMEs can **implement** sustainable business strategies through risk management and operational processes; and how to **communicate** progress and performance through public disclosures.

¹ Publications | SSE Initiative

² To access all of the model guidance documents, including the Action Plan “How exchanges can promote sustainable SMEs and other publications, see the UN SSE website [Publications](#)

Figure 1: The four-step process for SMEs to integrate sustainability


Source: UN SSE

While the four steps are positioned as a cycle of continuous progress, exchanges can select to focus their guidance on all aspects or to extract only portions of it - for example the exchange may wish to facilitate an incremental approach by starting with a focus on preparation and alignment, while others (perhaps in more mature markets) may be able to focus on providing guidance for sustainability disclosure by SMEs.

Throughout the guidance, practical aspects are highlighted as follows:




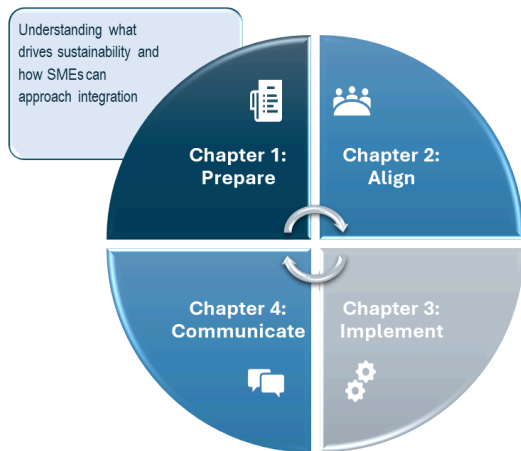
	Helpful tips Practical suggestions for applying the principles
	Illustrative examples Example of application, case study or research
	Tools and resources Information about a tool or resource that may be helpful to the SME

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Chapter 1. Prepare

This chapter aims to help SMEs understand why sustainability is important and provides context for SMEs to approach integration.



Key takeaways:

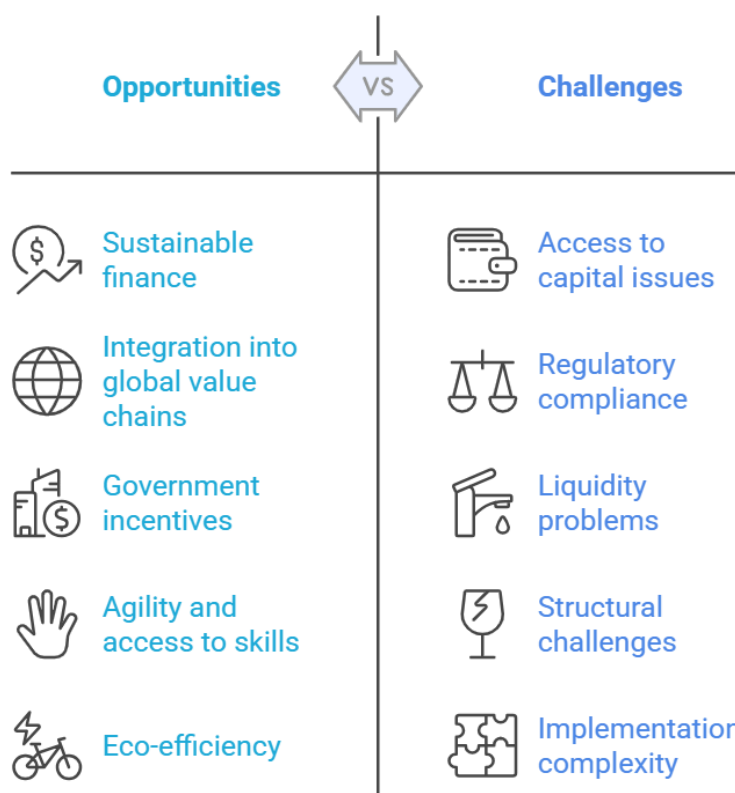
- ☐ Understand what drives integration.
- ☐ Stay informed about global trends, consumer preferences, and industry standards related to sustainability.
- ☐ Review and understand the principle of proportionality to consider whether and how it could be applied during the process of integration.

1.1 Understanding the incentives, challenges and opportunities

As sustainability becomes an increasing driver of business success, compelling reasons arise for SMEs to embrace sustainability. Evolving consumer expectations, tighter regulatory requirements, and shifting investor priorities are reshaping the business environment. Embracing sustainability is no longer just a compliance exercise, it is a strategic moment for growth and long-term viability. While the transition as an SME may feel daunting and comes with challenges, implementing sustainability can also present opportunities for SMEs. Identifying opportunities and balancing them with operational realities can bridge the gap created by challenges to create incentives for action ([figure 2](#)).

The following drivers can incentivize SMEs to integrate sustainability into their operations:

- **Market differentiation** meeting a growing demand from environmentally and socially conscious consumers.
- **Proactive compliance** with evolving regulations to avoid penalties and secure business opportunities.
- **Access to financing** from investors and lenders that favour sustainability credentials.
- **Enhanced resilience** to climate, resource, and economic risks for long-term viability.
- **Fostering innovation** which can open new markets and strengthen competitive positioning.
- **Attracting and retaining talent** since employees increasingly seek purpose-driven, sustainable workplaces.

Figure 2: Overview of opportunities and challenges for SMEs

Source: UN SSE

The nature and intensity of **challenges** that an SME may face could vary depending on factors such as the industry, geographic location and size of the SME. Strategies for SMEs to adopt sustainable business practices therefore need to be considered on a case-by-case basis.

- **Limited financial resources and difficulties gaining access to capital.** Implementing sustainable business practices may require upfront financial investment in, for example, technology and training that SMEs may struggle to afford immediately. SMEs may face challenges in securing finance for sustainability initiatives, particularly if they cannot provide adequate information about their company or demonstrate their operational and financial performance.
- **Regulatory compliance.** SMEs' lack of resources and expertise can hamper their ability to meet regulatory and reporting requirements and hence lead to enforcement action by exchanges and/or other regulators.
- **Liquidity problems.** SMEs are easily affected by market volatility, fragmentation and lack of liquidity. Investor perceptions about the risk profile of SMEs can limit trading activity, exacerbating liquidity challenges and affecting exchange trading volumes. SME markets generally exhibit lower liquidity compared to main markets, making it challenging for SMEs to raise capital and attract investors. Volatility in SME markets has increased in the post-COVID period with stimulus packages amplifying market fluctuations, especially in SME markets dominated by retail investors.³

³ World Federation of Exchanges (September 2024) [Global developments in SME markets over the past decade](#)

- ➡ **Structural challenges.** Studies show that most SMEs are unlikely to have “sophisticated divisionalized structures”.⁴ Particularly in emerging markets, more relaxed management structures and practices have seen SMEs struggling to comply with best practices in the corporate structures and governance that are often expected by exchanges and market regulators. Limited record-holding and reporting further hampers the ability to monitor compliance. The need for rapid innovation and growth, coupled with constant competitive pressures, forces management and staff to prioritize immediate challenges. Time pressures, limited resources, and organizational constraints often means that a systematic approach to environmental, social, and economic sustainability takes a back seat.⁵ Further, the growing demand for organisations to integrate sustainability into their core strategies has created a pressing need for professionals with specialised skills in ESG areas. And while the IFC notes that the entrepreneurial nature of SMEs makes them people-dependent rather than process-driven, the scarcity of sustainability-skilled talent remains a significant challenge across multiple sectors, including SMEs, corporations, and public institutions.⁶
- ➡ **Complexity of implementation.** Keeping up with evolving sustainability standards, regulations and demands can be time-consuming, complex and challenging for SMEs, especially if they lack dedicated sustainability departments or expertise. In addition, stakeholders such as investors increasingly ask for granular data on sustainability performance, which SMEs are not as well equipped or motivated to provide, especially in an environment where technological solutions and policy instruments may favour larger companies.⁷ This may jeopardize future opportunities to realize market opportunities or access finance, which is exacerbated by increasing pressure on SMEs to advance on the journey to net zero or to develop transition plans. This is a particularly strong risk for SMEs that operate in sectors with traditionally high emission levels and challenging abatement opportunities.⁸ In addition, SMEs that do make an effort to pursue sustainability implementation may struggle to highlight their sustainability credentials to the market. For example there are very limited public ESG scores available in the market, and even if a listed SME is able to obtain an ESG score from a data provider, it may still be disadvantaged by market capitalization weighted equity indices that favour larger enterprises.

In managing the challenges they may face, SMEs can leverage their unique features to maximize **opportunities** in several areas. Integrating ESG/sustainability principles early in a company's development helps establish the foundation for long-term success and resilience. SMEs that take early action to integrate sustainable business practices are likely to be better positioned to benefit from green finance, business partnerships etc. and to manage an orderly, gradual transition towards more sustainable growth. Early action will also enable the SME to be resilient and responsive to regulatory changes and demands from larger organizations in the value chain.

⁴ Loucks, Elizabeth & Martens, Martin & Cho, Charles (2010) Sustainability Accounting, Management and Policy Journal.Vol. 1 No. 2, pages 178-200. [Engaging small- and medium-sized businesses in sustainability](#)

⁵ International Finance Corporation (2023) [User's Guide to IFC's Sustainability Assessment and Improvement Tool for Midsize Growth Companies](#)

⁶ World Economic Forum (2024) [Green jobs grow twice as fast as workers with green skills](#)

⁷ Sage (November 2022) [The Climate Impact of SMEs](#)

⁸ OECD (March 2024) [Financing SMEs and Entrepreneurs 2024 AN OECD SCOREBOARD](#)

- **Sustainable finance.** Investors increasingly incorporate sustainability criteria when making investment and funding decisions. SMEs with strong sustainable business practices may find it easier to attract investment and secure funding, at a lower cost of borrowing.⁹
- **Integration into sustainable global value chains.** SMEs that are positioned to respond to the sustainability standards and requirements of multinationals may find greater opportunities to integrate into sustainable global value chains. Involvement in global value chains may lead to greater productivity, higher revenue, and access to a wider range of products and services.¹⁰
- **Government incentives.** Governments and financial institutions often offer incentives, grants, or preferential financing terms to businesses that implement sustainable initiatives.¹¹
- **Agility and access to skills and talent.** While SMEs may have limited budgets and smaller staff, their lower complexity can be advantageous. Fewer people involved in decision-making can streamline processes. Simpler lines of communication make SMEs more agile, allowing them to quickly identify and implement changes. SME personnel are cross-functional by nature and necessity, and staff may be able to assume expanded roles and new responsibilities in order to respond to the sustainability imperative. As within larger organizations, SMEs need to focus on reskilling to meet the growing demand for sustainability-related job skills.¹² In addition, employees increasingly seek purposeful work environments. Integrating strong sustainability values can boost morale, attract talent and support higher employee retention rates, reducing recruitment and training costs over time.
- **Eco-efficiency.** Implementing operational practices focused on conservation of resources such as energy and water, reducing waste, and efficient supply chain management can lead to cost savings over time. Sustainable practices also often improve operational efficiency, which may enhance productivity.

In summary, by integrating sustainability into their business strategies, SMEs can align with market demand and increasing regulation, enhance their reputation, attract customers, employees and investors, realize cost savings opportunities, expand competitive advantage, and build long-term resilient businesses in an ever-changing global economy. This may open opportunities for the creation of collaborative efforts and partnerships to leverage technology and tools, enable knowledge transfer and enhance educational efforts.

⁹ A 2022 study by Accenture “[Measuring sustainability. Creating value](#)” found that between 2013 and 2020, companies with consistently high ESG performance tended to score 2.6x higher on total shareholder return (TSR) than medium performers.

¹⁰ OECD (27 June 2023) [OECD SME and Entrepreneurship Outlook 2023](#)

¹¹ As set out in the Financial Management article [Innovative ways to finance sustainability projects](#) in July 2023, there are examples of governments setting sustainability goals incentivizing behavior change through grants, subsidies, or targeted blended finance packages at low or preferential rates. Examples include the European Green Deal, as well as the Green Recovery Challenge Fund and Automotive Transformation Fund in the UK.

¹² World Economic Forum (2024) [Green jobs grow twice as fast as workers with green skills](#)



Tools and Resources

The SME Climate Hub supports SMEs in the climate transition

The SME Climate Hub¹³ is a non-profit global initiative that aims to empower SMEs to take climate action and build resilient businesses for the future. The Hub is an initiative of the We Mean Business Coalition, the Exponential Roadmap Initiative and the United Nations Race to Zero campaign in collaboration with Normative software and the Net Zero team at Oxford University. It was launched at the 2020 Climate Week in New York.

Through partnering with NGOs, corporations, financial institutions and others, the SME Climate Hub hopes to increase the support and resources available for small business climate action. It offers free resources and guidance that SMEs can leverage to reduce their emissions. By committing to emissions reduction through the SME Climate Hub, SMEs are counted in the UN Climate Change High Level Champion's Race to Zero campaign. The Hub mainstreams climate action for SMEs, enabling them to:

- Take action by utilizing the free tools and resources to measure emissions and discover steps and strategies to reach net zero.
- Make a credible science-aligned net zero commitment, joining the Race to Zero campaign.
- Report progress using the SME Climate Hub reporting tool.

UN Global Compact's SME ESG hub and ESG START assessment tool for Malaysia

The UN Global Compact Network Malaysia & Brunei aims to provide a one-stop ESG resource platform for Malaysian Small and Medium Enterprises (SMEs). The SME ESG hub consists of four gateways with various resources under each section:¹⁴

- Inspire - Case studies and resources to learn from the successes of others.
- Plan - resources to support planning of ESG actions for positive impact.
- Act - resources to support implementation, based on the SME Sustainability Action Guide's 6-step framework
- Communicate - resources to support reporting and disclosure.

The hub also offers the ESG START assessment tool,¹⁵ a simple digital tool that measures the company's ESG maturity level. It can be used by SMEs in all sectors, and takes a binary yes/no approach across eight ESG indicators (namely climate action, energy efficiency, water, waste, human rights, living wages, gender equality and anti-corruption) with 20 questions each. It takes the company through a process of determining the materiality of the topic, learning and capacity building, making commitments, measuring progress and reporting.

Upon completion, the company can access an ESG report showing its ESG maturity level, a peer comparison, and level of readiness against the SDGs. The report facilitates an entry into sustainability reporting and can also be shared with various stakeholders who may find the data useful.

¹³ [SME Climate Hub website](#)

¹⁴ UN Global Compact Network Malaysia & Brunei (2023) [SME ESG Hub](#)

¹⁵ UN Global Compact Network Malaysia & Brunei (2023) [SME ESG Readiness Assessment](#)



Illustrative Example

Linking green innovation to better SME performance

A 2022 study from the Faculty of Economics and Business at the Universitas Mahasaraswati Denpasar in Indonesia, considered the impact of green innovation in SMEs.¹⁶ The study aimed to challenge the norm that SMEs generally prioritize economic performance, by considering the impact of green innovation as a strategic step to increase sustainability and financial performance in the global market. Green innovation in the context of the study entailed integrating the intellectual capital of a business with the concept of sustainability, thus prompting innovation in greening product offering and processes.

A survey questionnaire was distributed to owners or managers of 336 SMEs in Bali, Indonesia, over three months. The study proved that environmental damage is, in fact, a large challenge for SMEs today, requiring them to tap into the intellectual capital to address the challenge. Practically speaking, equipping employees with the knowledge and skills to incorporate green technology into business operations and create processes to reduce energy consumption and harmful waste, spurs increased innovation. In addition, the strong relationship between SMEs and environmentally conscious stakeholders motivates SMEs to produce green innovations, while demonstrating proactive responses to regulatory pressures.

The study contends that the development of more environmentally-friendly products and processes by SMEs not only repairs environmental damage but also enhances the economic performance of SMEs. By investing in technology, these businesses could lower production costs and reduce raw material waste. Moreover, green innovation contributes to positive branding, elevating SMEs above their peers in similar sectors, which in turn strengthens their financial capacity. The statistical findings imply that social and environmental responsibility is crucial for the long-term financial success of SMEs. It noted a positive correlation between a sustainability orientation and business performance, also since their practices align with the increasing preferences of stakeholders who support sustainable initiatives.

1.2 Understanding the evolving landscape

The business and sustainability landscape is highly dynamic, with competition increasingly coming from global and other non-traditional sources. The mainstreaming of sustainability sees businesses increasingly employing strategic responses to manage their impacts, identify risks and opportunities and support business resilience.

Global trends have historically been shaped by technological disruption, environmental crises (especially climate change), and societal or geopolitical shifts. The Sustainable Development Goals (SDGs) were created to tackle the most critical sustainability challenges globally.¹⁷ The 17 interconnected goals and their associated targets offer useful insights into the direction of travel for policy and markets (Figure 3).

SMEs that understand these broader trends, country- and region-specific developments and expected regulatory interventions can offer useful perspectives that the SME can use to identify actual or anticipated implications for the business, and to develop appropriate responses.

¹⁶ MDPI Open Access Journals (December 2022) [Does Green Innovation Improve SME Performance?](#)

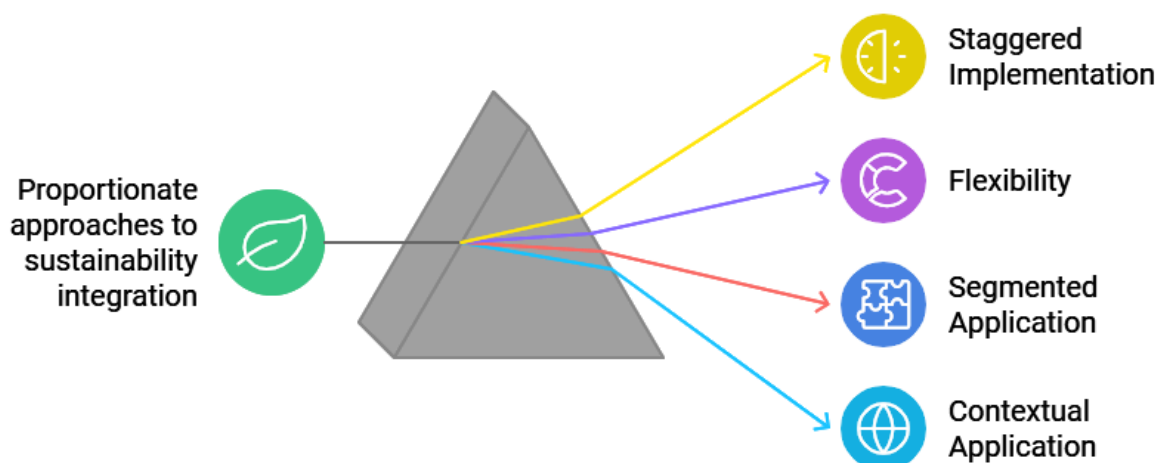
¹⁷ UN Department of Economic and Social Affairs website (2024) [THE 17 GOALS | Sustainable Development](#)

Figure 3: The Sustainable Development Goals

Source: UN DESA

1.3 Tailoring sustainability for SMEs: the principle of proportionality

As part of taking a structured approach to the integration of sustainable business practices, it is further recommended that SMEs investigate a proportionate approach. Applying proportionality allows SMEs to proceed in a pragmatic and realistic way without implying any limitation in activity. The objective is to reflect the SME's particular circumstances and capacity, without diluting the robustness of the actions that it takes. In practice, this can involve a number of potential approaches (Figure 4).

Figure 4: Proportionate approaches to SME sustainability integration

Source: UN SSE

- **Staggered implementation:** The SME makes incremental changes and increases or expands action over time or as resources become available. This approach may for example mean that actions are tailored to the SMEs lifecycle stage as an evolutionary process, where systems and processes are adapted or expanded along with the business's growth. Actions may also be taken incrementally as skills and tools expand - for example, an SME can begin monitoring and reporting on Scope 1 emissions while building capabilities on Scope 2 and 3 measurement and reporting.
- **Flexibility on the extent of implementation:** Approaches are scaled in proportion to size and capability. For example, an SME's governance structure may take a more simplified approach (also see [section 2.2](#) for more on this).
- **Segmented application:** In certain sectors or circumstances, a similar set of guidelines or rules may apply to businesses with the same characteristics, such as the industry, location of operation etc.¹⁸ For example, a jurisdiction might take a proportional approach where all businesses in a particular industry are subject to the same set of rules, with different regulations for businesses in a different industry.
- **Contextual application:** SMEs can prioritize actions according to the national or jurisdictional context, or to respond to the needs of particular stakeholder sets.¹⁹ In other words, the design and implementation of SME approaches take into account the development context of the country, balanced with the capacity and resource constraints of the SME in question.

The success of applying proportionality is in being intentional about how a particular issue is being approached. This ensures that the necessary consideration is applied even though the action taken may be limited in scope, staggered, flexible, segmented or contextual. It further supports alignment among roleplayers and those affected by the actions taken.



Illustrative Examples

Dealing with human rights impacts proportionally²⁰

Principle 14 of the UN Guiding Principles on Business and Human Rights (UNGPs), states that “the responsibility of business enterprises to respect human rights applies to all enterprises regardless of their size, sector, operational context, ownership and structure. Nevertheless, the scale and complexity of the means through which enterprises meet that responsibility may vary according to these factors and with the severity of the enterprise’s adverse human rights impacts.”

The basic principle here is that the responsibility applies fully and equally to all businesses. Even SMEs can have severe human rights impacts and the response should be commensurate to the impact. However, in the Commentary to the principle, provision is made for the fact that SMEs have less capacity for formal processes and structures and thus provision is made for different approaches to how the responsibility is met, proportional to a range of factors such as size.

¹⁸ Bank for International Settlements (July 2022) [High-level considerations on proportionality](#)

¹⁹ UN Trade & Development Global Sustainable Finance Observatory (June 2024) [Shaping the Future of SME Sustainability Disclosure: A Holistic Approach](#)

²⁰ National Action Plans on Business and Human Rights website [Small & medium-sized enterprises](#)

Proportionality in regulation: the banking sector²¹

In protecting the systemic stability of financial system regulation, the core principles for banking supervision (BCP) and the Basel Framework acknowledge proportionality by making provision for rules and supervision practices to correspond with the systemic importance and risk profile of relevant banks as well as the broader characteristics of a particular financial system, such as applying simpler approaches or tailored regulation. Exchanges and regulators could take a similar approach to regulatory proportionality in setting rules for SMEs, for example as they may relate to the size or sector of the SME.

Proportionality in governance practices: South Africa's King IV approach²²

As with human rights, the principles of good governance are universal and should apply to all organisations irrespective of size, nature and industry in which it operates. However, since organizations (even in the same sector) vary based on size, maturity and nature of the organization and the resources at its disposal, the practices implemented by organisations may differ.

In South Africa, the King IV Report on Corporate Governance expressly caters for the proportional application of governance practices. This means even though it is not expressly stated, practices should be scaled in accordance with certain proportionality considerations specific to the organization:

- Size of turnover and workforce.
- Resources.
- Extent and complexity of activities, including impact on the triple context of the economy, environment and society in which it operates.

Proportional application always remains subject to requirements of the law .

The following examples of possible proportional scaling of practices are noted in the report:

- Recommendations for the establishment of certain functions (covering e.g. finance, risk, technology and information, compliance and internal audit), the organization could appoint a senior employee rather than a team. If warranted and practical, the responsibility could even be part-time, shared among employees or affiliated organizations or outsourced.
- Where it is recommended that the governing body form subcommittees to perform certain functions, a proportional approach could see the governing body carrying out that function itself, or by delegating (without abdicating its accountability) a member of the governing body to prepare submissions on relevant issues for consideration by the full governing body.
- Formal policies can be developed incrementally by commencing with the establishment of basic principles, criteria and processes and evolving the document as the approach matures.

²¹ Bank for International Settlements (July 2022) [Basel Committee on Banking Supervision: High-level considerations on proportionality](#)

²² Institute of Directors South Africa (2016) [King IV Report - Web Version](#)



Tools and Resources

Applying proportionality throughout the SME lifecycle: The IFC SME Governance Guidebook

In its *SME Governance Guidebook*,²³ the International Finance Corporation suggests that successful SMEs evolve through four distinct stages of growth, from Start-Up, through Active Growth and Organizational Development to Business Expansion. In each stage, the business may be presented with new challenges and opportunities, and may reach a definitive point where it is ready to transition. As the business progresses, its approach to governance will also evolve. Owners need to adapt the governance policies, practices, and structures of the business progressively as the business matures. For example, a central or concentrated decision-making process may be common in the early stages of the business, but this should evolve with the business and needs to gradually transition decision-making to more distributed and collaborative, expanding to a professional executive team and trusted external advisers (or an advisory board). Later, these advisers may transition to be on the board of directors.

This progressive or staggered approach can be considered an example of proportionality in evolving the governance approach with the business growth. It can also find application in relation to other aspects of the business. As the business evolves, strategic processes, risk management and internal control, disclosure and transparency need to evolve and expand as well.

Typically the focus on sustainability becomes more pronounced as the business progresses through the stages - for example, it may expand to enter the supply chain of a larger enterprise, which brings with it larger pressures to proactively address economic, social and environmental risks and impacts, as well as being more transparent about progress. Understanding in which stage of evolution the SME business is, may assist it in understanding the extent to which it needs to respond to these focus areas, and may position the proportionate or incremental nature in which sustainability imperatives can be integrated.

²³ International Finance Corporation (2019) [SME GOVERNANCE GUIDEBOOK](#)

Chapter 2. Align

This chapter aims to help SMEs align their strategy and governance processes approach to the integration of sustainable business practices.

Key takeaways:

- ☐ Incorporate sustainability into strategy development.
- ☐ Ensure that the approach to governance positions the business to provide appropriate oversight and accountability for sustainability integration.



2.1 Sustainable strategy

As with any business, and whether this is formalized or not, an SME may have a vision and mission setting out its purpose and what it aims to achieve with the business. Strategy sets out the steps to be taken to realize the goals of the business and how to position and differentiate it. Traditionally these steps may include defining the business model and goals, setting action plans to achieve goals, developing policies that outline expected values and behaviors, and identifying the resources that are required to execute action plans. Strategic planning processes might take account of external factors via scans of the operating landscape, with identification of relevant trends and developments, and the formulation of appropriate responses. When developing new strategies or evolving existing plans, businesses may also evaluate current operations and practices to identify gaps that need to be filled or to incorporate new opportunities and growth strategies.

The business culture of SMEs is often less formal, lacking the typical approaches to strategy development followed by larger enterprises. Given a tendency to focus on matters that are directly related to business, the opportunity to consider the strategic value of sustainability integration may be lost. However, employing a sustainability lens can help businesses recognize new and potentially more effective strategies to build a competitive advantage and achieve resilience.²⁴ The broad scope of potentially relevant sustainability matters brings the promise of a number of possibilities to evolve the business's competencies.

Instead of creating a separate sustainability strategy, a more effective approach is to integrate sustainability into the overall business strategy from the beginning, using it to enhance and advance the business objectives.

²⁴ Loucks, Elizabeth & Martens, Martin & Cho, Charles (2010) Sustainability Accounting, Management and Policy Journal.Vol. 1 No. 2, pages 178-200. [Engaging small- and medium-sized businesses in sustainability](#)

A number of steps are recommended for SMEs to pursue a sustainable approach to strategy. This includes reviewing the extent to which sustainability is incorporated into vision, values and culture of the organization, assessing the operational landscape to identify relevant economic, social and environmental impacts, risks and opportunities, understanding changing market conditions, and considering the extent to which existing plans incorporate management of sustainability impacts, risks and opportunities. Tools are available to assist SMEs in this regard. It may also be useful for exchanges to align with global frameworks or international standards. This alignment will make it easier for SMEs to enter global supply chains and align with international sustainability principles, frameworks and standards.



Tools and Resources

❖ Assisting SMEs to kick-start their readiness for sustainability integration

The IFC's Sustainability Assessment and Improvement Tool²⁵

The IFC's Sustainability Assessment and Improvement Tool for Midsize Growth Companies includes an Excel-based instrument that offers a structured approach to assist SMEs to examine whether their existing policies and practices are sufficiently aligned with sustainability and to tailor priority actions to their business model and strategy.

For example, an overarching theme asks whether sustainability is embedded in vision, values, and business conduct policies. The tool can then be operationalized by the SME as follows:

- Detailed recommended practices to follow, for example asking whether the company's approach to sustainability, including environmental and social performance, is articulated within the context of its vision and values.
- Further explanation and guidance is provided on each recommended practice, to give context.
- The SME can populate the excel spreadsheet to note the status of implementation of a practice, what the priority level is and to identify action steps to be taken.

The tool provides SMEs with a practical method to assess where it is in terms of integrating sustainability into strategy through aspects like vision, values and culture, and beyond (including decision-making and strategic leadership, human capital, risk management etc.). It further enables the SME to set action plans for progress and monitor status updates.

The UOB Sustainability Compass²⁶

The United Overseas Bank (UOB) Sustainability Compass provides a step-by-step guide for SMEs to assess their readiness for sustainability integration. It offers an online tool that generates a customized report based on the sector and sustainability maturity stage of the business. The report also provides next steps to chart the sustainability journey, guiding the SME through a roadmap that identifies the different phases of going sustainable. Following the launch in Singapore, businesses in Malaysia, Thailand and Indonesia now have access to the tool, with an intended extensive ASEAN footprint.

²⁵ International Finance Corporation (2023) The Sustainability Assessment and Improvement Tool for Midsize Growth Companies

²⁶ UOB (2022) UOB Sustainability Compass

The Istanbul Chamber of Industry Sectoral Roadmaps²⁷

The Istanbul Chamber of Industry (ICI) provides road maps for 10 different sectors, presenting SMEs with sector-specific guiding priorities and key performance indicators for future sustainability studies.

Malaysia's government targets sustainability integration by SMEs

The Suruhanjaya Syarikat Malaysia (SSM, or Companies Commission of Malaysia) Business Best Practice Circular 6/2017²⁸ was issued primarily to provide guidance to companies in preparing a business review report in line with the local Companies Act. However, in preparing the business review report, companies also respond to other expectations including information on the company's policy and practices relating to corporate responsibility issues. As a result, the circular also aims to raise awareness on the imperative for companies to adopt corporate responsibility initiatives and to disclose their impacts on the environment, economy and society.

In 2024, SME Corp Malaysia (the central coordinating agency for SME development programmes across all related Ministries and agencies) launched a quick guide MSMEs to support the implementation of ESG practices. The guide consists of eight steps to help businesses grasp the significance of ESG in their operations. These steps include understanding ESG importance, setting objectives, identifying relevant ESG indicators, creating a sustainability action plan, and utilising a user-friendly template for ESG reporting.²⁹

❖ Resources to consult in identifying sustainability topics

Various resources capture a broad range of sustainability themes and specific topics, which may assist SMEs to identify relevant topics. These include (but are not limited to) the following:

- Broad principle-based frameworks such as the UN SDGs,³⁰ UN Global Compact,³¹ and the OECD Guidelines for Multinational Enterprises.³²
- Reporting frameworks such as the GRI Standards,³³ the IFRS Sustainability Disclosure Standards³⁴ the European Sustainability Reporting Standards (ESRS).³⁵ While reporting is ideally an outcome rather than a starting point, consulting reporting frameworks may be useful when identifying applicable material topics.
- Topic-specific frameworks such as the CDP,³⁶ the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD, which has since been absorbed into the IFRS Sustainability Disclosure Standards),³⁷ the Task Force on Nature-related Financial Disclosures (TNFD), the Paris Agreement³⁸ and the UN Guiding Principles for Business and Human Rights.³⁹

²⁷ Istanbul Chamber of Industry website ICI - Sectoral Road Map

²⁸ Companies Commission of Malaysia (2017) BEST BUSINESS PRACTICE CIRCULAR 6/2017

²⁹ SME Corp (2024) SME Corporation Malaysia - SME Corp unveils ESG quick guide for MSMEs

³⁰ Sustainable Development Goals

³¹ UN Global Compact

³² MNE Guidelines - Organisation for Economic Co-operation and Development

³³ GRI - Standards

³⁴ IFRS - General Sustainability-related Disclosures

³⁵ Delegated regulation - EU - 2023/2772 - EN - EUR-Lex

³⁶ CDP - Carbon Disclosure Project

³⁷ Task Force on Climate-Related Financial Disclosures

³⁸ The Paris Agreement | United Nations

³⁹ UN Guiding Principles

- Industry-specific frameworks such as the SASB Standards⁴⁰ and the GRI Topic Standards.⁴¹
- National frameworks for sustainable development.
- Benchmarks such as Future-Fit Business⁴² and the Natural Capital Protocol.⁴³

2.2 Governance

Good governance practices are a means of ensuring that leadership and oversight is strategic, adding value and providing continuity and accountability.⁴⁴ Good governance is also a cornerstone in the Environmental (E) and Social (S) aspects of the ESG (Environmental, Social, and Governance) triangle. By embedding corporate governance practices that are tailored to their size and growth stage, SMEs can drive both operational success and broader ESG outcomes, enabling them to meet stakeholder expectations and contribute to sustainable development.

Given the diverse nature of SMEs, corporate governance principles in particular lend themselves to a proportionate approach (as discussed in Chapter 1). Merely limiting the application of governance practices developed for larger companies is not fit for SMEs due to the unique challenges and resource constraints these businesses face. To address this, a more tailored approach to corporate governance is needed, one that evolves with the business. The IFC recommends that SME governance be allowed to grow organically through fit for purpose approaches that adapt as the business evolves through growth stages.⁴⁵

A typical **corporate governance structure** involves three types of participants with different levels of authority: owners, board members and management (Figure 5). In the case of an SME, at given points in time, these three role players may overlap or even be the same person or persons. SMEs may not even use the specific terminology to describe these roles. However, it is still of value to distinguish between the roles that they perform and the authority that they have to ensure that relationships between the role players remain appropriate, decision-making can be effective, and accountability and oversight be executed responsibly. Ensuring that the roles and respective responsibilities are clearly outlined and ideally ring-fenced (even where the same person fills a position), facilitates the continuation of good governance practices as the organization grows through various stages of its lifecycle.

⁴⁰ SASB

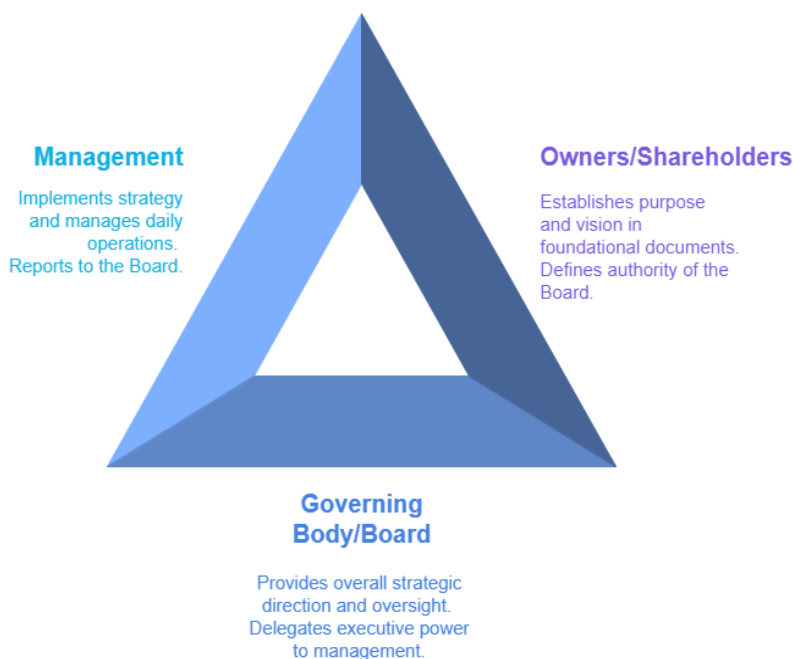
⁴¹ GRI - Standards

⁴² Future-Fit Business

⁴³ Natural Capital Protocol

⁴⁴ IFC Corporate Governance Knowledge Publication (2019) [Governance-for-SME-Sustainability-and-Growth](#)

⁴⁵ IFC Corporate Governance Knowledge Publication (2019) [Governance-for-SME-Sustainability-and-Growth](#)

Figure 5: Participants in a typical corporate governance structureSource: IFC⁴⁶

An SME's approach to **Board composition** and related aspects such as subcommittees and remuneration, will be determined according to the resources and characteristics of the business.⁴⁷ For example, while larger organizations typically ensure a balance of power on the Board through a majority of non-executive directors who bring a degree of independence and objectivity, independence might be more difficult to achieve in SMEs that are managed by small numbers of staff or are family owned or run, implying close relationships between owners, directors and managers.

**Helpful Tip****Leveraging Board composition to ensure independence and tap into expertise**

To ensure objectivity and balance in decision-making it is recommended that particularly non-owner managed SMEs consider to what extent they may be able to bring independence into Board decisions, whether through appointing an independent Board member or Chairperson. An owner-managed SME may not be able to do this, however they could consider consulting an external person with the necessary expertise for advice on an ad hoc basis, to ensure that decisions can stand the test of accountability.⁴⁸

Appointing the full complement of typical Board committees may not be required or practical in smaller or owner-managed SMEs,⁴⁹ but for more complex businesses they can help to spread the workload of dealing with matters such as risk, remuneration, nomination, audit and sustainability. Advisory committees could be

⁴⁶ International Finance Corporation (2019) [SME GOVERNANCE GUIDEBOOK](#)

⁴⁷ International Finance Corporation (2019) [SME GOVERNANCE GUIDEBOOK](#)

⁴⁸ Institute of Directors (2016) [King IV Part 6 Supplement for Small and Medium Enterprises](#)

⁴⁹ Except where this is prescribed, for example In Spain, having an audit committee is mandatory certain kind of listed SMEs - See [Official Bulletin No 293](#) (Source in Spanish)

formed on an ad hoc basis to deal with key aspects. This will also allow SMEs to tap into important expertise that they may otherwise lack.⁵⁰

Governance practices are not static, and particularly in the case of SMEs will evolve with the business. Identifying the most appropriate structures and approaches at a particular stage of the business, to ensure clear division of authority, transparent and accountable decision-making, is critical for the organization to meet challenges and build resilience. Positioning a strong approach to governance can be a very useful catalyst for the integration of sustainability considerations into the business.



Tools and Resources

The IFC's SME Governance Guidebook

The IFC's SME Governance Guidebook⁵¹ provides practical guidance on how SMEs can tailor governance to be fit for purpose at the various stages of the business lifecycle, as a means of strengthening their businesses over the long term. The Guidebook offers an SME Governance Framework that can be tailored for application, and provides a discussion of Key Governance Topics and Leading Practices to assist SMEs identify which aspects to implement. It specifically notes that implementing good governance practices can help SMEs address a number of challenges, as follows:

- “Effective policies, structures, and processes help reduce overreliance on a few ‘key persons’.
- Companies with sound governance have better access to finance, as they appear more attractive and less risky for investors and banks.
- Family-run businesses increase the chances of long-term survival through proactive succession planning and managing the family-versus-business relationship.
- Prudent governance reduces risks and improves the management of conflicts among various shareholders and stakeholders.
- Well-structured management bodies (and later, boards of directors) provide critical stewardship, strategic direction, and business connections for sustainable growth.
- Good governance is a common regulatory prerequisite for an IPO (initial public offering).
- Prudent internal controls help companies enhance risk management and build greater resistance to fraud, theft, and mismanagement.
- Good governance practices help the founders recover some freedom in their lives. They can control and direct the business without having to be directly involved in all operational decisions. Well-governed companies attract and retain higher-quality staff that the founders can rely on.”

⁵⁰ International Finance Corporation (2019) [SME GOVERNANCE GUIDEBOOK](#)

⁵¹ International Finance Corporation (2019) [SME GOVERNANCE GUIDEBOOK](#)

National governance guidance

Malaysia

The Malaysian Securities Commission (SC) issued updates to the Malaysian Code on Corporate Governance (MCCG) in 2021, which include the introduction of new and enhanced best practices to fortify the corporate governance practices of publicly listed companies. The MCCG 2021 updates include:⁵²

- Board policies and practices on the selection and nomination processes and criteria for directors.
- Further guidance on practices with low levels of adoption.
- The role of the board and senior management in addressing sustainability risks and opportunities of the company.

South Africa

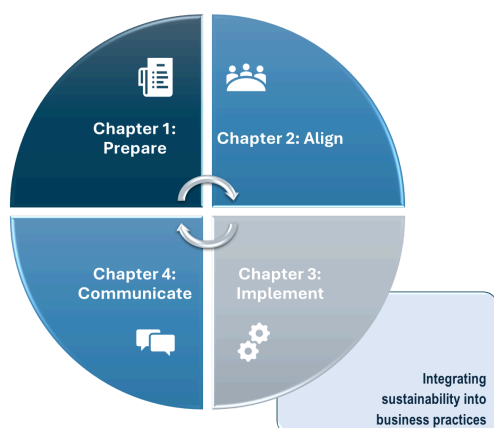
The King IV Code on Corporate Governance in South Africa includes supplements to assist various types of organizations to implement King IV. These organisations include SMEs. The premise for these supplements is to dispel the notion that corporate governance is focused on listed companies. This notion does not take into account that corporations all exist in a bigger ecosystem made up of the relationships and interactions amongst companies, investors, SMEs, supply chains, civil society and state owned entities, which supply essential infrastructure. The intention therefore is to address governance across the whole of this ecosystem by equipping other types of organizations to incorporate best practice governance principles as well.⁵³

⁵² Securities Commission Malaysia (2021) [SC Updates the Malaysian Code on Corporate Governance to Promote Board Leadership and Oversight of Sustainability - Media Releases](#) | Securities Commission Malaysia and EY (2021) [Fortifying governance: Malaysian Code on Corporate Governance 2021 updates](#) | EY Malaysia

⁵³ Institute of Directors (2016) [King IV Part 6 Supplement for Small and Medium Enterprises](#)

Chapter 3. Implement

This chapter aims to provide insights for SMEs to operationalize sustainability management through risk management as well as the key functions that are needed for day-to-day management.



Key takeaways:

- ☐ Extend risk management processes to sustainability risk.
- ☐ Identify functional roles for implementation and educate employees.
- ☐ Adopt efficient and sustainable management practices across all aspects of business operations, such as reducing waste, conserving energy, and using sustainable materials.

3.1 Risk Management

All organizations, regardless of size, sector or capacity, are naturally alert to the imperative of managing risk. Risk governance, management and related internal controls often cover broad risk themes such as financial risk, operational risk, compliance and legal risk. Economic, social and environmental threats may already be implicit in some of these risk categories, depending on the nature of the business. It is necessary to drill deeper into what these risks entail as well as to identify and manage any further sustainability risks. Leveraging sustainability-integrated risk management can be of particular value to SMEs to build resilience and demonstrate responsiveness and adaptability, which may attract investors and enhance access to capital.⁵⁴ Further, as good governance practices include oversight of risk management by the top levels of the organization, sustainability risk awareness should be built across all levels of the corporate governance structure.

It is not necessary for SMEs to employ complex enterprise risk identification systems and processes to list their main sustainability risks. Beyond risks that are implicit in broader risk categories, there are resources to support the process of sustainability risk identification. Reviewing these resources and filtering to identify those that may be relevant and potentially applicable to the SME and its context, will already be a significant step forward and enable the SME to assess the potential impact and develop plans to mitigate negative outcomes for the business. This exercise can even be conducted in conjunction with the landscape assessment during strategy development.

In addition to identifying environmental and social risk from an operational perspective, **stakeholder pressures** and **value chain considerations** incentivize a deeper focus on risk. For example, SMEs that are progressing strongly along a growth path towards becoming part of a larger corporation's supply chain, could be under pressure to proactively

⁵⁴ Accountancy Europe (November 2023) [5 reasons why sustainability matters for SMEs](#)

address environmental and social sustainability risks. The nature of risk will be dependent on the nature of the industry sector in which the SME operates and that of the supply chain that it is working to enter. Due to the matters that large multinationals are exposed to, the SME can be expected to manage human rights-related risks such as forced or child labour and worker safety, product-related risks and significant environmental impacts on biodiversity and the ecosystem.⁵⁵

Balancing proportionality with materiality can be pivotal in ensuring that the SME's approach matches the size and complexity of the organization. Materiality in sustainability refers to the most important impacts, risks and opportunities that an organization applies its mind to in terms of strategy, management and disclosure. Double materiality means considering both the financial impacts of economic, environmental and social factors on a business and the impacts its activities have on society and the environment. This approach is finding increasingly dominant application, as it recognizes that a business's impact on the environment and society needs to be managed, but that these impacts could also be material to its financial performance. It thus acknowledges impacts, risks and opportunities from both financial and non-financial perspectives.

Double materiality takes into account a wide range of stakeholders, including:

- investors and financial stakeholders who are interested in how sustainability issues might impact the company's financial performance and long-term viability,
- employees who are concerned with the company's social and environmental practices, which can affect their well-being, job satisfaction, and productivity,
- customers who increasingly prefer to support companies with strong sustainability practices and ethical standards,
- suppliers and business partners whose operations and reputations could be affected by the company's sustainability practices,
- regulators and policymakers who require companies to disclose their sustainability impacts and compliance with environmental and social regulations,
- local communities who are directly impacted by the company's operations (especially in terms of environmental and social effects), and
- non-governmental organizations (NGOs) and advocacy groups who monitor and influence corporate behaviour and ethical practices.

By considering these diverse stakeholders, double materiality ensures a comprehensive view of a company's sustainability impacts and financial risks.

SMEs can focus their efforts on areas of their business that pose the most significant impacts, risks and opportunities. With this targeted approach, smaller firms can minimize unnecessary expenses and enhance operational efficiency.

⁵⁵ International Finance Corporation (2019) SME GOVERNANCE GUIDEBOOK



Tools and Resources

❖ **Leverage available resources to help identify sustainability risks:**

The World Economic Forum releases the *Global Risks Report*⁵⁶ annually, exploring some of the most severe risks that may emerge within ten years. The risks are categorized across economic, environmental, geopolitical, societal and technological issues. SMEs can use the report to identify overarching sustainability risks and to then drill down into the issues covered in each of these risks to determine relevance for the SME.

The following environmental risks feature in the 2024 report: Extreme weather events, critical change to Earth systems, biodiversity loss and ecosystem collapse, natural resource shortages and pollution. Key societal risks include societal polarization, lack of economic opportunity and involuntary migration.

❖ **COSO guidance for ESG risk identification**

The Committee of Sponsoring Organizations (COSO)'s *Enterprise Risk Management – Applying Enterprise Risk Management to Environmental, Social and Governance (ESG) Risks* guide⁵⁷ aims to assist practitioners in identifying and managing sustainability-related risks. The guidance acknowledges that SMEs may lack sufficient resources to apply a comprehensive risk management system similar to what large corporations are capable of doing. A common-sense approach is recommended, using available resources efficiently to ensure that risk awareness and continual monitoring can be optimized.

The three steps that the guide proposes when dealing with ESG risk entail the identification of risks, assessment and prioritization of risks, and development of risk responses. The guide also discusses a number of practical steps that SMEs can tailor to their own circumstances. For example, taking an incremental approach by reviewing the existing risk profile of the organization to determine which ESG-related risks have or have not been identified. Another approach is to involve subject-matter experts to identify and define the impact of ESG-related risks that may impact the organization's strategic and operational plans.

❖ **Sustainability Reporting Standards provide guidance on identifying material industry-based sustainability impacts, risks and opportunities**

Sustainability reporting frameworks and standards make provision for the fact that sustainability imperatives may vary in nature and intensity across different sectors and industries. SMEs can leverage these to help identify impacts, risks and opportunities that may be relevant to their business but also to anticipate which issues may be prioritized across the value chain that they form part of.

For example, the following can be used in conjunction to provide a comprehensive view of most significant impacts as well as material risks and opportunities:

- The GRI Standards, which reflect stakeholder expectations for sustainability reporting, are expanding their Standards with standards for 40 sectors, to help businesses identify the most significant impacts for a particular sector.⁵⁸ Sector Standards describe the sustainability context for a sector, outline the likely material topics based on the sector's most significant impacts, and list disclosures that are

⁵⁶ World Economic Forum (January 2024) [Global Risks Report 2024](#)

⁵⁷ COSO (2018) [Enterprise Risk Management](#)

⁵⁸ Global Reporting Initiative website (2024) [GRI - Sector Program](#)

relevant for the sector to report on. Sector Standards have been published for Oil and Gas (GRI 11), Coal (GRI 12), Agriculture, Aquaculture and Fishing (GRI 13), as well as Mining (GRI 14). Standards for Financial Services (Banking, Insurance and Capital Markets) and Textiles and Apparel are under development.

- The IFRS Foundation's Sustainability Accounting Standards Board's (SASB) Standards⁵⁹ focus on disclosure of sustainability information to investors. Covering 77 industries, it identifies the sustainability-related risks and opportunities most likely to affect cash flows, access to finance and cost of capital over the short, medium or long term and the related topics and metrics that should be disclosed to. The SASB Materiality Finder is a useful tool to look up and compare industries and related topics.⁶⁰

Other reporting frameworks may also provide or develop industry-based standards. It is therefore important that SMEs remain informed about global, regional or national developments in this regard to the extent that it may be relevant.



Helpful Tip

Responding to climate risk as an SME

Climate change is considered to be a pervasive risk, affecting businesses of all types and sizes, including SMEs. This means SMEs also need to consider their vulnerability and to understand which mitigation and adaptation actions are necessary to build resilience, protect their assets and ensure business continuity. Research shows that while there are a number of proactive SMEs and “ecopreneurs”, the vast majority of SMEs are considered to be reactive and may only react in response to direct impact from aspects such as regulatory interventions, stakeholder demands or major incidents.⁶¹

SMEs may be daunted by the cost and effort of transitioning, but there may also be opportunities to innovate, introduce efficiencies and gain consumer trust through introducing environmentally sustainable practices. Early preparation and action can position the business for greater resilience and longevity.

Scenario planning is an effective approach to risk identification and mitigation planning, and has evolved particularly in managing climate risk through the use of science-based information. Essentially it enables the organization to consider and analyze a range of risks and opportunities that different impacts of climate change may expose the business to, and to plan responses to different scenarios. This can include regulatory impacts (e.g. if policy responses to the climate crisis impact cost of ongoing operations), physical impacts (e.g. extreme weather damage to an SME's critical facilities) and financial impacts (e.g. how investors, banks and insurance companies assess climate risk in the context of an SMEs operations).

Few SMEs have resources to conduct sophisticated climate scenarios. However, tools are available (for example from the Intergovernmental Panel on Climate Change (IPCC) and International Energy Agency (IEA)). SMEs can use these as a starting point for a step-by-step approach to climate scenario analysis.

⁵⁹ IFRS Foundation website (2024) [SASB Standards overview](#)

⁶⁰ IFRS Foundation website (2024) [Exploring materiality - SASB](#)

⁶¹ Accountancy Europe (November 2023) [5 reasons why sustainability matters for SMEs](#)



Illustrative Example

Climate Scenario Planning for SMEs

The Institute of Chartered Accountants in England and Wales (ICAEW) suggests that SMEs can realize a range of benefits from climate scenario planning, such as helping the businesses to understand its resilience to different kinds of climate impacts, and to manage climate-related risks and opportunities.

It proposes the following potential steps for a customized SME approach:⁶²

- Leverage existing resources. Utilizing climate scenarios that have already been developed, such as those from the IPCC, IEA, or models from the Network for Greening the Financial System (NGFS), can save time and ensure the analysis aligns with current scientific understanding.
- Consider using a variety of scenarios (e.g., different warming levels) to capture a broad range of possible futures.
- After selecting climate scenarios, it is often more practical initially to focus on qualitative narratives (such as shifts in customer behaviour). Over time, quantitative scenarios may become more feasible as the analysis progresses. Quantification may be required by current or upcoming regulations.
- There is no one-size-fits-all universal approach to climate scenarios. The effects of climate change will differ depending on numerous factors: the business model and industry, the location of operations, the assets of the business and the nature of its markets and customers.
- Determine appropriate responses and adjust the tactics and strategy according to insights gained from the analysis of risks and opportunities.
- Ensure proper governance by incorporating climate scenario analysis into strategic planning and risk management processes, and assign oversight as appropriate.

3.2 Managing Sustainability: Key Functions

Processes to embed sustainability benefit most when dedicated responsibility and accountability is allocated. Given that SMEs typically don't have large numbers of employees, this may be challenging. Depending on the availability of resources, the SME can either allocate a dedicated employee to focus on sustainability or add sustainability elements to existing staff responsibilities, or combine both approaches.

Generally, SME organizational lines of authority are informal, with structures being dependent on factors such as staff numbers, resources, the stage of business growth and business model. For smaller SMEs particularly, business owners are accountable and responsible for strategic control and can also take on the oversight of sustainability issues with delegation to other functions focusing on operational duties.

⁶² ICAEW (September 2023) [ESG for SMEs: step-by-step climate scenario analysis](#)

When starting out, sustainability functions will likely focus mostly on identifying relevant sustainability impacts and understanding regulatory requirements and data requests. The range of sustainability topics is very broad, therefore it makes practical sense to break action down into particular areas of focus.

Given the wide scope of sustainability topics, there is no single ideal qualification or profession that is best suited to the role. Sustainability officers come from a diverse range of professional backgrounds, with typical areas of qualification found among sustainability practitioners covering environmental science, engineering, political and social sciences, law, economics or finance. Certain competencies can prove valuable in successfully executing the functions performed by a sustainability officer. These include strategic thinking and planning, stakeholder relationship management, project management, research and analytical skills, verbal and communication skills. Technical skills in more complex aspects could be built up over time, or brought in via external experts (although this should ideally be a short-term solution).



Tools and Resources

UN Global Compact Roadmap for Integrated Sustainability

The UN Global Compact's *Roadmap for Integrated Sustainability*⁶³ notes that, as entities mature in their efforts to embed sustainability, resourcing demands can also shift. When starting out, the Roadmap recommends that it is useful to explore two questions to consider which functions to prioritize for sustainability integration:

- What functions are necessary to drive progress toward current sustainability goals?
- What functions are perceived to be particularly influential in the company's value creation?



Illustrative Example

Bursa Malaysia's Corporate Sustainability Practitioner (CSP) Competency Framework 2.0

The Corporate Sustainability Practitioner 2.0 (CSP 2.0) Competency Framework launched in 2024 is a comprehensive tool developed by Bursa Malaysia and the UN Global Compact Network Malaysia & Brunei (UNGCMYB) for Human Resource professionals to identify the core skills and competencies needed for a multitude of roles in corporate sustainability. Additionally, the tool also functions as a roadmap of skills and competencies for individuals to use as they develop themselves and navigate the corporate sustainability ecosystem.⁶⁴

⁶³ UN Global Compact (2015) *Roadmap for Integrated Sustainability*

⁶⁴ Bursa Malaysia (2024) *Corporate Sustainability Practitioner Competency Framework* and *BURSA MALAYSIA CLIMATE WEEK 2024 FOCUSES ON SUSTAINABLE FINANCE AND EDUCATION*

3.3 Efficient Implementation and Management

SMEs should take a pragmatic approach to prioritizing and staggering their actions and accommodating limited resources, while making tangible progress. As a precursor to sustainability reporting, a materiality assessment can be helpful in this process. SMEs should focus on those issues that are material to their business and avoid attempting to prioritize too many issues and failing to gain real traction on any of them. Focusing on a few selected material issues that are linked to strategic objectives will support deeper integration and progress and enable more efficient resourcing.

Implementation should be guided by management systems that capture the policies, processes and procedures to address operational priorities. This typically involves the following actions:

- Reviewing existing systems, procedures, job descriptions and metrics to identify whether changes or new approaches are required to align with sustainability policies and goals.
- Training relevant staff to equip them with the policies and goals.
- Putting processes in place to monitor and evaluate implementation and progress. This includes the development of targets, objectives and related timelines as well as the identification of metrics and indicators to measure progress and / or performance.
- Implement operational sustainability initiatives. Start with the basics by implementing environmentally friendly practices across all aspects of the business, such as reducing waste, conserving energy, and using sustainable materials.

Effective implementation is underpinned by effective cross-functional collaboration. The leadership of the organization (such as the owner and/or CEO, Board of directors and management) plays a critical integration and corporate governance role, focusing on aspects such as setting the vision, supporting and clearly communicating the business case as compelling, reinforcing the priority of integration, setting goals and overseeing implementation and modeling desired behaviors.⁶⁵



Helpful Tip

Practical suggestions for implementing sustainability at operational level

The Chartered Accountant's *Sustainability Roadmap*⁶⁶ issued in 2022 by Chartered Accountants Worldwide provides a series of signposts across sustainability integration topics. They propose the following elements be considered when embedding a sustainability mindset throughout operations:

- Implementing a combined top-down, bottom-up approach throughout the organization can incentivise people to achieve sustainability goals. (In practice this can include incorporating sustainability goals into organizational objectives and into individual performance indicators for staff, management and executive roles.)

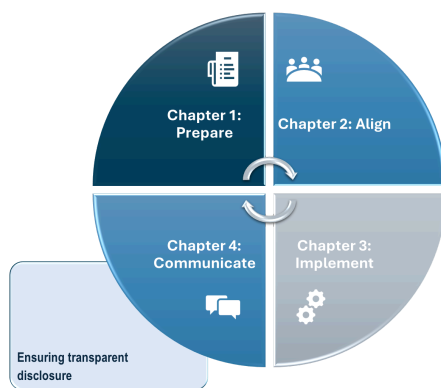
⁶⁵ UN Global Compact (2015) [Roadmap for Integrated Sustainability](#)

⁶⁶ Chartered Accountants Worldwide (2022) [The Chartered Accountant's Sustainability Roadmap](#)

- Clearly define roles and responsibilities for administrative, management and supervisory aspects of sustainability management and ensure proper oversight of their management. Establish whether ESG responsibilities have been assigned to management or committees, and if not, develop the necessary policies and systems.
- Provide training and education to ensure all team members understand what is expected of them and are committed to do their part in delivering on the sustainability strategy.
- Conduct a skills analysis to identify existing sustainability-related skills in the organization and any skills / knowledge gaps. Develop plans to fill the gaps, whether through education, recruitment or outsourcing.
- Ensure that there is a budget to finance and support the sustainability integration process, for example to onboard dedicated resources, set up sustainability reporting systems and processes, or appoint external consultants .

Chapter 4. Communicate

This chapter provides insight into the importance of transparency and growing pressure on SMEs to report on their integration of sustainability.



Key takeaways:

- ☐ Measure and report. Establish metrics to track sustainability performance and regularly report on progress.
- ☐ Communicate effectively and transparently by leveraging data management and balanced disclosures.

4.1 The importance of transparency

Transparency is a cornerstone of good governance and sustainable business practices. It enhances credibility with stakeholders and demonstrates a commitment to sustainability. The modern information age and pervasive nature of media and social media means that businesses can no longer conceal their actions. Further, continuing technological disruption has led to the generation of immeasurable amounts of data, coupled with increasingly sophisticated analytical tools. This enables stakeholders to obtain deep insights into businesses without ever engaging the organization directly.

Given this context, it is in the best interests of all businesses to proactively present the narrative that it wishes to share with its stakeholders. This is achieved through effective and transparent public disclosure and reporting about sustainability.

4.2 Sustainability Reporting for SMEs

Similar to larger enterprises, SMEs are facing escalating sustainability reporting demands and requirements. These can originate from regulators, providers of financial capital, supply chain partners, customers etc. The global sustainability reporting landscape, which has for at least two decades been characterized by a proliferation of standards and frameworks, has undergone a significant shift in the last few years towards convergence, and there is an increasing focus on voluntary standards becoming mandatory. The expansion of reporting standards has a clear ripple effect on SMEs in two ways:⁶⁷

- If they follow a similar trajectory, the development of accounting standards suggests that sustainability reporting standards will be developed for SMEs;
- The presence of SMEs in the supply chain of larger entities who are required to comply with the standards, extends the reach of reporting expectations to those SMEs.

⁶⁷ UN Trade & Development Global Sustainable Finance Observatory (June 2024) [Shaping the Future of SME Sustainability Disclosure: A Holistic Approach](#)

SMEs therefore require support to navigate and fulfill these evolving requirements.

Sustainability disclosure should be credible and as complete as possible. Basing it on established models and being guided by the principles of materiality and proportionality is a good starting point and can play a relevant role in decreasing the information asymmetry problem that exists between large and smaller organizations.⁶⁸

SME reporting guidance or standards should take into account any issues of national or regional importance, as well as the national development context and the needs, capacities, and resource constraints of the SMEs in question. SMEs could take a building block approach to applying different standards in incremental fashion, over a timeline that gives SMEs the opportunity to plan and scale up their reporting capacities.⁶⁹



Helpful Tip

Benefits of sustainability reporting by SMEs⁷⁰

While sustainability reporting is an ever-evolving environment, it can support the realization of many benefits for large and small organizations alike, which span various aspects of the business, such as strategic advantage, operational efficiency, and strengthened stakeholder relationships. Some of the benefits that have been noted by several sources over time, include the following:

- Providing an enhanced understanding of impacts, risks and opportunities
- Emphasizing the connection between financial performance and non-financial performance
- Enabling more strategic business planning across the short, medium and long-term
- Providing opportunities to benchmark among peers and across sectors
- Preventing issues like being implicated in publicized environmental, and governance failures
- Enhancing operational efficiency and mitigating costs
- Minimizing negative environmental and social impact, which enhances reputation and brand loyalty
- Enabling broader more genuine valuation of the organization and more in-depth stakeholder engagement to clarify expectations of sustainable growth.

⁶⁸ UN Trade & Development (2013) [Accounting and Financial Reporting by Small and Medium-sized Enterprises: Trends and Prospects](#)

⁶⁹ UN Trade & Development Global sustainable finance observatory (June 2024) [Shaping the Future of SME Sustainability Disclosure: A Holistic Approach](#)

⁷⁰ ShineWing TY TEOH website (2025) [Sustainability Reporting For Malaysian SME](#)



Tools and Resources

❖ How do global sustainability frameworks cater for SMEs?

International Sustainability Standards Board (ISSB)

The ISSB was established in 2021 following consolidation in a range of voluntary investor-focused sustainability standards, namely the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, the Climate Disclosure Standards Board (CDSB) Framework, the Sustainability Accounting Standards Board (SASB) Standards, and the Integrated Reporting Framework. In 2023, the ISSB issued its International Financial Reporting Standards (IFRS) S1 on general sustainability-related disclosures, and IFRS S2 on climate-related disclosures. These standards aim to promote a uniform approach to global sustainability reporting by providing investors with reliable and consistent information on sustainability issues and their financial impacts on reporting entities.

The ISSB Standards enables proportionality and staggered implementation by requiring entities to only report on the sustainability-related risks and opportunities that are considered to be material to that specific entity. They further offer transition relief allowing companies to start reporting against the Climate-related Disclosures Standard and the climate components of the General Sustainability-related Disclosures Standard in the first year of application, along with exemptions for specific sectors on Scope 3 emissions disclosure in the first year.⁷¹

Global Reporting Initiative (GRI)

The GRI Standards have been established for over two decades and are used across the world for corporate reporting on sustainability impacts. It is made up of a modular set of standards across three series: the Universal Standards which cover aspects such as general disclosures, materiality, management approach, Topic Standards across economic, environmental and social topics, and Sector Standards.

The Standards enable flexibility in allowing reporting organizations to provide a permitted set of reasons for omission over most commitments. The GRI has also run a number of programmes and initiatives to support SMEs, such as the Corporate Sustainability and Reporting for Competitive Business programme which was run in six developing nations to achieve three goals: developing SME capacity for sustainability reporting, enabling a conducive reporting environment and fostering demand for sustainability data.⁷²

CSRD and ESRS

The EU's Corporate Sustainability Reporting Directive (CSRD) has spurred probably the biggest global shift towards mandatory sustainability reporting for companies when it mandated the new ESRS. In January 2024, the European Commission released the European Sustainability Reporting Standards (ESRS), containing comprehensive sustainability disclosure standards for large companies. These standards aim to cover all relevant environmental, social, and governance (ESG) issues, providing a comprehensive view of companies' sustainability performance. The focus is on double materiality, encompassing both financially material aspects and impact-related material matters.

⁷¹ Sage (November 2023) [Path for growth: Making sustainability reporting work for SMEs](#)

⁷² Global Reporting Initiative [GRI - Corporate Sustainability and Reporting for Competitive Business](#)

In advising the European Commission, the European Financial Reporting Advisory Group (EFRAG) proposed that a proportional approach be taken to widening the scope of the ESRS to SMEs,⁷³ with reporting requirements suitable for the size and complexity of their activities and the capacities and characteristics of the reporting organization. As a result, EFRAG released the Voluntary ESRS for SMEs (VSME) in December 2024, offering a simple and standardised framework for SMEs to report on ESG issues.

The Omnibus Simplification Package proposal of early 2025 postponed implementation of the CSRD and will revise and simplify the ESRS disclosures.⁷⁴ Listed SMEs would be exempt from the CSRD. However, the VSME is expected to become the standard approach for SMEs and other businesses outside the proposed CSRD scope. Due to the growing expectations of ESG reporting along the value chain, SMEs that proactively align with the VSME and use reporting as a strategic tool will be better positioned to secure financing, strengthen business relationships, and remain competitive.

❖ **Other initiatives to promote and support SME Sustainability Reporting**

CDP⁷⁵

In April 2024, CDP released a dedicated CDP SME corporate questionnaire. It builds on CDP's collaboration with the SME Climate Hub (resulting in an SME Climate Disclosure Framework) and a pilot process for SMEs run during 2023. The new questionnaire is aligned to the CDP full corporate questionnaire, but with fewer data points, simplified question formats and enhanced guidance to support SME reporting.

Project Savannah⁷⁶

Launched in June 2023 as a collaborative effort between the UN Development Programme, the Monetary Authority of Singapore (MAS), and the Global Legal Entity Identifier Foundation (GLEIF), Project Savannah aims to pilot a framework to aid Micro, Small, and Medium Sized Enterprises (MSMEs) in their sustainability reporting journey. It aims to establish a set of basic ESG metrics for common adoption by MSMEs. Harnessing technology and verified data (where available) it aims to simplify data collection, storage and verification for SMEs, thus facilitating higher quality reporting.



Illustrative Examples

Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group create tools to promote SME Sustainability Reporting

Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group was established in May 2020. Co-chaired by the Hong Kong Monetary Authority and the Securities and Futures Commission, the Steering Group represents an alliance of the financial regulators, Hong Kong Exchanges and Clearing Limited, and Government bureaux working together for a sustainable future. The Steering Group was created to coordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategies.

⁷³ UN Trade & Development GSFO (June 2024) [Shaping the Future of SME Sustainability Disclosure: A Holistic Approach](#)

⁷⁴ European Commission (February 2025) [Q&A on simplification omnibus I and II](#)

⁷⁵ UNDP (March 2024) [White Paper on Project Savannah: Common ESG Metrics for Generating Digital Sustainability Credentials for MSMEs | United Nations Development Programme](#)

⁷⁶ UNDP (March 2024) [White Paper on Project Savannah: Common ESG Metrics for Generating Digital Sustainability Credentials for MSMEs | United Nations Development Programme](#)

In February 2024, the Steering Group and the Hong Kong University of Science and Technology launched two greenhouse gas emissions calculation and estimation tools to facilitate sustainability reporting by corporates and financial institutions in Hong Kong. Available to the public for free, the calculation tool enables users, especially small and medium-sized enterprises, to calculate their own GHG emissions based on actual activity levels.⁷⁷

This initiative follows an earlier commitment to create a data portal for increased availability and accessibility of climate-related data, collected through the Non-Listed Company Questionnaire on Climate and Environmental Risk.⁷⁸ The Questionnaire was launched by the Steering Group in December 2022, in collaboration with CDP to aid SMEs' sustainability reporting processes, and raise their sustainability visibility to lenders, investors and supply chain clients. The easy-to-use template is a cross-sector reporting guide designed for first-time reporting corporates in Hong Kong to facilitate the collection and assessment of company-level data for risk assessment which can aid SMEs' access to sustainability financing..

Malaysian Simplified ESG Disclosure Guide for SMEs in Supply Chains⁷⁹

Issued in October 2023 by Capital Markets Malaysia (which operates under the auspices of the Securities Commission of Malaysia), the Simplified ESG Disclosure Guidance for SMEs in the Supply Chain (SEDG) aims to provide practical, structured guidance on ESG disclosures expected of SMEs within the supply chains. Making Malaysia the first country to provide a streamlined and standardised set of ESG disclosure guidelines for supply chain SMEs, the SEDG comprises 15 topics and 35 priority disclosures that are aligned with local and global sustainability guidelines, categorised into Basic, Intermediate and Advanced, to cater to the different levels of sustainability maturity of each SME.

The guidance covers indicators and metrics that can be tracked and disclosed to measure ESG progress, as well as additional guidance to provide SMEs additional information to further guide on the requirements of the disclosure. Sector Guides feature enhanced ESG disclosure guidelines for SMEs in the supply chains of five significant sectors in Malaysia's economy (Energy, Transport and Logistics, Construction and Real Estate, Agriculture and Manufacturing), delving into specific material environmental considerations relevant in these sectors such as biodiversity, nature-related and climate disclosures. They further incorporate social considerations to help companies achieve a deeper understanding of human rights and labour standards, which are especially relevant to the labour-intensive Agriculture, Manufacturing, and Construction and Real Estate sectors.

⁷⁷ Green and Sustainable Finance Cross-Agency Steering Group website (2024) [New greenhouse gas emissions calculation and estimation tools to support sustainability reporting](#)

⁷⁸ Hong Kong Sustainable Finance Hub: Green and Sustainable Finance Cross-Agency Steering Group (2024) [Non-listed Company Questionnaire on Climate and Environmental Risk](#)

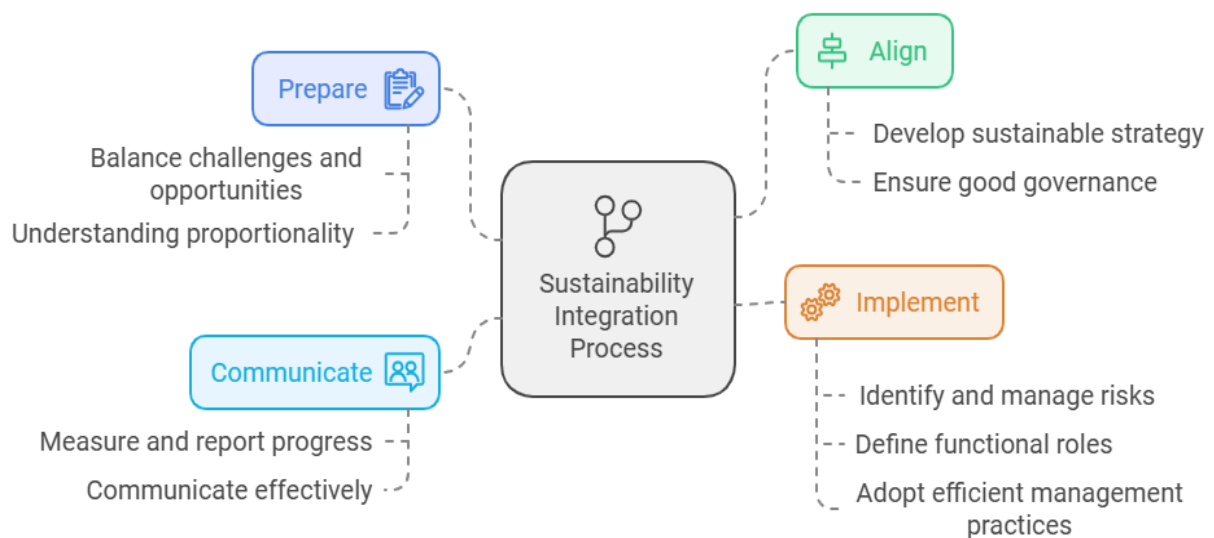
⁷⁹ Capital Markets Malaysia (2023) [Simplified ESG Disclosure Guide \(SEDG\)](#)

Conclusion

SMEs constitute a major component of the world economy, and can comprise many different kinds of organizations across an unlimited range of sectors. Integral to global value chains, both as buyers and suppliers, SMEs are important not only for global economic stability but also as vital in achieving sustainable development through the SDGs and beyond. They have the potential to drive significant positive change by adopting sustainable business practices, helping to address urgent environmental and social challenges. At the same time, SMEs can benefit from these practices by mitigating risks and seizing opportunities that arise from global sustainability trends.

This guidance provides SMEs with a structured approach to integrate sustainable business practices with clearly defined actions (Figure 6 and Annexure).

Figure 6: Overview of proposed integration actions



Source: UN SSE

Annex: Summary checklist for integration actions

The following checklist can be used when pursuing integration of sustainable business practices as set out in the Model Guidance. Items can be customized according to the exchange's approach with the option to remove or add actions as may be considered appropriate.

■ **Prepare:**

- ☐ Understand the context of the business and incentives that drive the business case for integrating sustainability. Stay informed about relevant regulations and ensure compliance to avoid penalties and reputational risks. Proactively meeting or exceeding regulatory requirements can also create business opportunities.
- ☐ Monitor global trends, consumer preferences, and industry standards related to sustainability. Adapting to these trends can help SMEs anticipate future challenges and opportunities.
- ☐ Review and understand the principle of proportionality to consider whether and how it could be applied during the process of integration.

■ **Align:**

- ☐ Incorporate sustainability into strategy development. This can commence with development of a sustainability strategy that aligns with the company's goals and values and which is eventually integrated into core business strategy. Where possible, enhance the strategy with specific objectives, timelines, and key performance indicators (KPIs) to measure progress.
- ☐ Pursue the implementation of appropriate structures and systems for good governance.. Ensure that the approach to corporate governance positions the business to provide appropriate oversight and accountability for sustainability integration.

■ **Implement:**

- ☐ Conduct a materiality assessment to assist in taking a pragmatic approach by identifying the key impacts, risks and opportunities to focus initial efforts on.
- ☐ Develop plans for management of material impacts, risks and opportunities.
- ☐ Identify functional roles that will drive and influence integration. Educate employees to understand the importance of sustainability and their role in achieving sustainability goals.
- ☐ Adopt efficient sustainable management practices. Start with the basics by implementing environmentally friendly practices across all aspects of the business, such as reducing waste, conserving energy, and using sustainable materials.

■ **Communicate**

- ☐ Measure and Report Progress. Establish metrics to track sustainability performance and regularly report on progress.
- ☐ Communicate Effectively. Share successes, challenges, and lessons learned with internal and external stakeholders through effective communication channels. Use storytelling and data to illustrate the positive impact of sustainability initiatives.



Note

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The UN SSE initiative is a UN Partnership Programme organised by UNCTAD, the UN Global Compact, UNEP FI and the PRI. The UN SSE's mission is to provide a global platform for exploring how exchanges, in collaboration with investors, companies (issuers), regulators, policy makers and relevant international organisations can enhance performance on environmental, social and corporate governance issues and encourage sustainable investment, including the financing of the UN Sustainable Development Goals. The UN SSE seeks to achieve this mission through an integrated programme of conducting evidence-based policy analysis, facilitating a network and forum for multi-stakeholder consensus-building, and providing technical guidelines, advisory services and training.



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IFC (a member of the World Bank Group) is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 developing countries, using our capital, mobilization capacity, expertise, and influence to create jobs and raise living standards for people. In fiscal year 2024, IFC committed a record \$56 billion to private companies and financial institutions, leveraging private sector solutions and mobilizing private capital to create a world free of poverty on a livable planet. For more information, visit www.ifc.org.

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