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What do new ESG reporting rules mean for SMEs in Europe?

Environmental, Social, and Governance (ESG) reporting has become increasingly important in recent years. The latest legislation from the European Union, however, means businesses will have no choice but to take it seriously – something that could have significant consequences for larger enterprises and longer term significant impacts for publicly traded small to medium-sized enterprises (SMEs).

In June, the EU and the European Parliament announced an agreement on the *Corporate Sustainability Reporting Directive (CSRD)*. An amendment to the 2014 non-financial reporting directive, the new legislation requires all companies with over 500 employees to publish regular reports on their ESG activities to help investors, customers, and other stakeholders evaluate their non-financial, sustainability and social impact performance.

CSRD is due to be rolled out in three stages:

- 1st January 2024 for companies already subject to the existing non-financial directive

1st January 2025 for large companies not presently subject to the non-financial directive, and

1st January 2026 for listed SMEs, small and non-complex institutions, and captive insurance undertakings

While most large companies are likely to have the resources to compile these reports as required, smaller companies may find it more of a challenge. With less than four years to go until ESG reporting becomes mandatory, it’s important for SMEs to consider how they’ll meet these new regulatory reporting demands.

While CSRD’s SME-specific reporting requirements are not released yet, the CSRD’s efforts are being informed by global standard setters across the ESG ecosystem. As a result, SMEs that are informing the development of their sustainability practices with the guidance of leading standard setters, such as the GRI and ISSB, will undoubtedly have a smoother transition to satisfying the reporting demands once released.

Getting ahead of regulatory requirements

SMEs will be able to opt out for a “transitional period” of two years, meaning they’ll be exempt from the application of the directive until January 2028. During this grace period, smaller companies will have the opportunity to put their ESG affairs in order, identify the elements they want to track and marshal their resources so they can produce the required reports as required without interrupting the day-to-day running of their business.

Fortunately, there’s no need for SMEs to make seismic shifts to their operations to demonstrate their efforts. Making smaller improvements can still be effective. Whether that’s investing in green energy or office equipment such as timed LED lighting, reducing or removing paper waste, or transitioning to more digital forms of communication, SMEs can make small changes in a short space of time and record an immediate impact, benefitting the planet and showing the company’s commitment to sustainability.

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There is no doubt that there is a will to act sustainably. However, *SMEs can find the prospect of ESG reporting daunting*. After all, the time, money, and expertise needed to compile a compelling ESG report can be incredibly draining on a small business with limited resources. Many will have to rely on external support or take precious time out from their daily routine simply to get the job done.

Fortunately, there are tech-enabled solutions available that SMEs can employ to reduce the burden on their time and resources. Using technology to automate reporting processes and increase transparency into ESG data will help ensure that smaller companies can produce the required reports without disrupting their usual business operations. Complying with regulation will be made easier as well, with companies better able to identify the areas needed to meet regulation and remain in line with how other businesses are reporting.

The introduction of the CSRD is yet another sign that ESG reporting is here to stay. In time, SMEs will find themselves under greater scrutiny than ever before. It’s vital, therefore, that they use the next four to six years to get ahead of the trend before it becomes a laborious and time-intensive process.

Jessica Camus, Global Head of ESG at Diginex.

Article by JESSICA CAMUS