Implementing Sustainability Reporting Requirements that Work for SMEs

Draft Policy Note

OECD contribution to the G20 Sustainable Finance Working Group (SFWG)

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The G20 Sustainable Finance Roadmap outlines strategies for enhancing sustainable finance to address climate and environmental risks, including by aligning investments with sustainability goals; fostering consistent and comparable information and data on sustainability risks and opportunities; assessment and management of climate and other sustainability risks; and promoting the role of international financial institutions and public actors in addressing challenges and mobilising sustainable finance (G20, 2021[1]).

Implementing sustainability reporting requirements that work for all, including SMEs and emerging market and developing economies (EMDEs), is one of the four key priorities for the SFWG in 2024 (G20, 2024[2]). This Policy Note was prepared by the OECD for presentation at the 3rd meeting of the SFWG on 9-10 July 2024. It builds on the work of the OECD Platform on Financing SMEs for Sustainability and the thematic chapter of *Financing SMEs and Entrepreneurs 2024: An OECD Scoreboard* (OECD, 2024[3]). The note discusses key challenges that SMEs in advanced and EM economies face in accessing sustainable finance, focusing on addressing the challenge of sustainability reporting for these firms. It offers a menu of policy options, including good practices, that can help address some of the main challenges in scaling up sustainable finance for SMEs, in order to support the implementation of the Roadmap and advance the SFWG's 2024 priorities.

Scaling up sustainable finance for SMEs is critical to meeting the objectives of the 2030 Agenda and the Paris Agreement

SMEs have a significant collective environmental footprint, accounting for at least 50% of business sector GHG emissions globally (ITC, 2021[4]). Innovative small businesses and entrepreneurs also have a key role to play in developing and scaling solutions to the climate crisis.

However, most SMEs in G20 countries are at the beginning of the journey to net zero, having taken only simple actions toward greening. Few SMEs have applied measures requiring structural changes or significant investments. Likewise, few SMEs have developed transition plans or made commitments to reach net zero (OECD, 2022[5]). The challenges of transition planning and taking action toward net zero are even more amplified for SMEs in EMDEs, which can face more limited options and higher costs of transitioning to low-carbon business models compared to more developed economies. Higher barriers to access to finance are another challenge for SMEs in EMDEs (IPCC, 2022[6]).

While volumes of sustainable finance have grown over the last decade, SMEs have not tapped into this pool of finance, due in large part to the complexity and costs associated with sustainability reporting

In a 2023 global survey of public development banks and private financial institutions (FIs), the majority of respondents stated that they are integrating climate considerations in their operations, including in developing institutional objectives and plans (68%) and assessing some or all financing/investment opportunities (66%). 72% are providing dedicated financing programmes or more advantageous conditions for investments focused on green objectives. Financial institutions are also starting to provide tailored financing solutions for SMEs' investments in net zero and greening, including through medium- and long-term loans (69%), short-term loans and factoring (38%), credit guarantees (67% of public development banks), and other instruments (OECD, 2023[7]).

However, investors and financing providers need consistent, comparable and reliable sustainability-related information, including from SMEs, to fully integrate sustainability considerations into financial decision making (G20, 2021[1]). Yet SMEs, particularly micro and small enterprises and those in EMDEs, are not as well equipped to measure and provide data on their sustainability performance as large enterprises.

Sustainability reporting can therefore be overly onerous for these firms. There is emerging evidence that SMEs currently resort to more expensive financing options rather than taking on the reporting requirements associated with sustainable financing instruments, with risks for slowing the pace of their green transition. Furthermore, as sustainability considerations become systematically integrated in financing decisions, SMEs will need to comply or risk losing access to finance.

The reporting burden is further exacerbated by multiple reporting demands coming from different stakeholders, with many financial institutions developing their own methodologies and sustainability questionnaires for SME clients (OECD, 2023[7]). This is also true of information requested by large enterprises, which also need information from SMEs in their supply chains to report on their sustainability performance. The multiplication of sustainability measurement tools, trackers and reporting solutions has also become a challenge, both for SMEs and policy makers. A recent review of carbon reporting solutions found that there are currently over 270 different solutions for carbon emissions reporting alone (Icebreaker One, 2024[8]).

These developments reflect in large part the lack of sustainability reporting frameworks adapted to the reporting capacities of smaller firms, as well as limited interoperability between reporting frameworks for financial institutions and large enterprises with SMEs in their value chains. They also reflect the limited pricing-in of climate and other risks in financing instruments. The existence of different definitions and classifications of SMEs both within and across countries may also contribute to duplication of reporting demands, posing a particular challenge for SMEs operating within supply chains and across jurisdictions.

Policy makers, standard setters, regulators, public development banks and other public actors have an important role to play in fostering conditions for scaling up the provision and uptake of sustainable finance by SMEs.

Transparency and interoperability of sustainability-related data, definitions and standards is important to align data demands and reduce SMEs' reporting burden. Proportionality in ESG reporting requirements could be considered, in line with SMEs' ability to measure and report on their ESG performance. Governments could also consider flexible timelines for the implementation of ESG considerations in SME business practices, while supporting capacity building for reporting and compliance, in line with the 2022 Updated G20/OECD High-Level Principles on SME Financing (G20/OECD, 2022[9]).

Financial support is critical to mobilise private financing for SMEs' green investments, especially in EMDEs, accompanied by non-financial support to help SMEs bridge knowledge and awareness gaps and address reporting challenges. Understanding SMEs' diverse needs and pathways to net zero is important for adequate tailoring of this support (OECD, 2022[5]).

Regulatory and policy considerations that can scale up the provision of transition finance and support SMEs' access to transition finance are also critical to ensure a more just and inclusive transition. These considerations can entail, for example, the development of transition taxonomies and simplified frameworks for transition planning for SMEs. Transition finance is also critical for EMDEs which face longer and more costly transition journeys (OECD, 2024[3]; OECD, 2022[10]).

Strengthening the sustainable finance ecosystem for SMEs, by promoting dialogue and knowledge-sharing among the diverse actors, will be critical for success.

Many ecosystem actors are central to closing the SME sustainable finance gap in G20 countries and beyond. Private banks, Fintechs, ESG intermediaries, such as rating agencies, accountants and other relevant stakeholders have a key role to play in providing information, tools, and advisory services as well as by linking financing conditions and other incentives with sustainability performance indicators (OECD, 2022[5]).

Fostering knowledge-sharing and dialogue among these actors is key to bridging knowledge gaps and mobilising sustainable finance for SMEs. A global dialogue on solutions to enable SMEs to respond to sustainability reporting requirements, including across jurisdictions, will be important to strengthen their access to sustainable finance and accelerate the green transition globally.

The OECD, through its Platform on Financing SMEs for Sustainability, stands ready to support the G20 SFWG in its efforts to enhance sustainable finance for SMEs.

Implementing sustainability reporting requirements that work for SMEs

Introduction

The G20 Sustainable Finance Roadmap outlines strategies for enhancing sustainable finance to address climate and environmental risks, including by aligning investments with sustainability goals; fostering consistent and comparable information and data on sustainability risks and opportunities; assessment and management of climate and other sustainability risks; and promoting the role of international financial institutions and public actors in addressing challenges and mobilising sustainable finance. Implementing sustainability reporting requirements that work for all, including SMEs and emerging market and developing economies (EMDEs), is one of the four key priorities for the SFWG in 2024.

This Policy Note was prepared by the OECD for the 3rd meeting of the SFWG on 9-10 July 2024. It builds on the work of the OECD Platform on Financing SMEs for Sustainability and the thematic chapter of *Financing SMEs and Entrepreneurs 2024: An OECD Scoreboard* (OECD, 2024[3]). The note discusses key challenges that SMEs in OECD and EMDEs face in accessing sustainable finance, focusing on addressing the challenge of sustainability reporting for these firms. It offers a menu of policy options, including good practices, that can help address some of the main challenges in scaling up sustainable finance for SMEs, in order to support the implementation of the Roadmap and advance the SFWG's 2024 priorities (G20, 2024[2]).

The OECD welcomes feedback on this draft Note from the SFWG by 31 July 2024, including additional information and examples, which can be incorporated in the final version of the Note.

Scaling up sustainable finance for SMEs is critical to meet the objectives of the 2030 Agenda and the Paris Agreement

Financing the net-zero and broader green transition of millions of SMEs globally is a key priority for meeting the objectives of the 2030 Agenda and the Paris Agreement. For example, SMEs account for a significant share of the global greenhouse emissions: about 40% of business sector GHG emissions in EU countries, according to recent OECD estimates, and about 50% globally according to the International Trade Centre (ITC) (OECD, 2023[11]; ITC, 2021[12]). SMEs and entrepreneurs also have an important role to play in developing the innovative technologies, products and processes that advance the global net-zero agenda. For example, SMEs account for an estimated 70% and 90% of clean tech companies in the UK and Finland respectively (ETLA, 2015[13]) (Carbon Trust, 2013[14]).

However, SMEs have taken only limited actions toward greening their business models. A 2023 global survey of SMEs showed that while most SMEs (82%) recognise that the green transition is a high priority, the large majority have taken only elementary steps toward greening their business models, such as the introduction of energy efficiency measures and waste reduction (76%), reducing energy consumption (71%) and employee education (66%) (SME Climate Hub, 2023[15]). SMEs, however, are hesitant to undertake larger investments for structural changes (e.g. redesigning products or processes for sustainability; engaging across their entire supply chain, etc.). For example, fewer than three in ten European SMEs are designing products that are easy to reuse, recycle and maintain, and fewer than two in ten use predominantly renewable energy for their production (European Commission, 2022[16]; Ipsos, 2022[17]).

Both SME access to and uptake of sustainable finance need to be strengthened

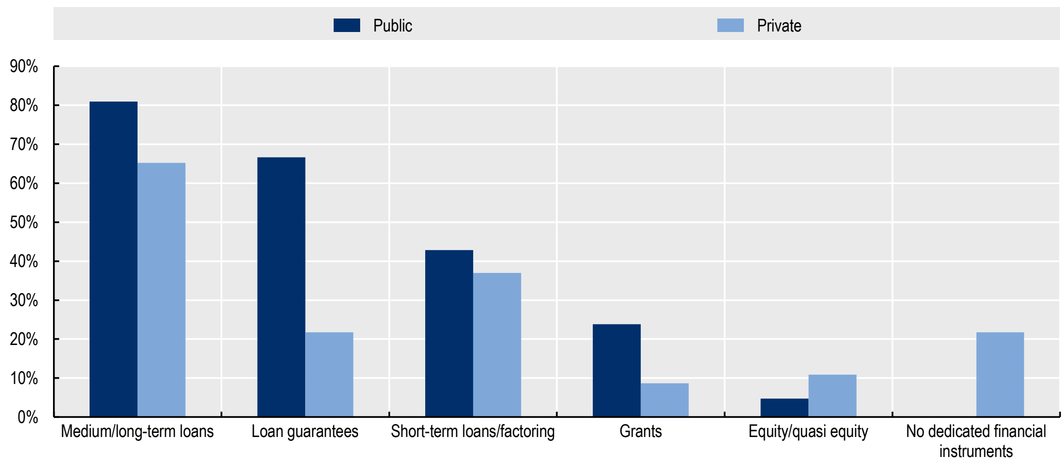
The provision of sustainable finance has grown considerably in the past decade, with tailored products for SMEs beginning to emerge …

Sustainable finance[1] has grown over the past decade. Sustainable investing assets now account for about USD 30 trillion globally, issuance of impact bonds (green, social, sustainability, sustainability-linked) totalled USD 939 billion in 2023, and financial institutions around the globe are increasingly pledging to integrate ESG factors into their operations as well as to align their portfolios with net zero, the Sustainable Development Goals and other sustainability metrics (GSIA, 2022[18]; Bloomberg, 2024[19]; UNEP FI, 2024[20]).

In a 2023 survey of public development banks and private financial institutions (FIs), the majority of respondents stated that they are integrating climate considerations in their operations, including in developing institutional objectives and plans (68%), assessing some or all financing/investment opportunities (66%) and providing dedicated financing programmes or more advantageous conditions for investments focused on green objectives (72%) (OECD, 2023[7]).

Financial institutions are also starting to provide tailored financing solutions for SMEs' investments in net zero and greening, including through medium- and long-term loans (69%), short-term loans and factoring (38%), credit guarantees (67% of public development banks), and other financing instruments (Figure 1). The provision of sustainable finance is driven by regulatory requirements, consideration of the implications for the financial institution's long-term financial and operational performance, and demand from various internal and external stakeholders (OECD, 2023[7]).

Figure 1. Green and sustainable finance for SMEs is provided mainly in the form of debt instruments and guarantees



Source: (OECD, 2023[7])

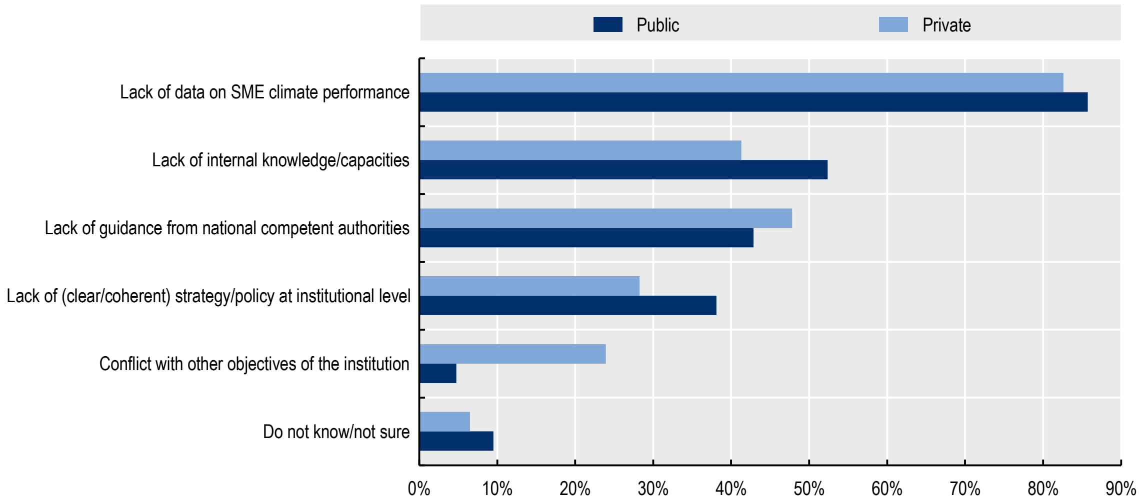
[1] Sustainable finance takes into consideration environmental, social and governance factors (ESG) in financing decisions, with the "E" pillar including all financing that considers environmental performance as a criterion for the financing decision or for determining the financing conditions, regardless of the purpose of use of the funds. Sustainable finance therefore goes beyond the financing of greening or environmentally sustainable investments/projects as defined by relevant green and sustainable taxonomies.

… However, SMEs have not yet tapped into this pool of sustainable finance, due in large part to the costs associated with sustainability reporting

Financing providers and investors need consistent, comparable and reliable sustainability-related information, including from SMEs, to fully integrate sustainability considerations into financial decision making (G20, 2021[1]). Yet SMEs, particularly micro and small enterprises and those in EMDEs, are not as well equipped to measure and provide data on their sustainability performance as large enterprises. Limited availability and quality of granular data on SMEs' sustainability performance represent a key barrier to financial institutions' integration of sustainability considerations in SME operations (Figure 2).

Figure 2. Lack of granular data on SME climate performance is a challenge for most banks

Public development banks and private financial institutions' challenges in integrating climate considerations in financing/investment decisions regarding SME clients (% of respondents)



Source: (OECD, 2023[7])

As sustainability considerations become systematically integrated in financing decisions, SMEs will need to comply or risk losing access to finance. In the 2023 OECD survey of public development banks and private financial institutions, over 70% of financial institutions stated that they are already asking for sustainability-related data from their SME clients. Of those that currently do not ask for any data, the majority intend to introduce reporting requirements in the near to medium term (OECD, 2023[7]).

Just as data is a challenge for financial institutions, sustainability reporting also currently acts as a constraint to SME demand for sustainable finance. Indeed, there is evidence that SMEs currently resort to more expensive financing options rather than taking on the reporting requirements associated with sustainable financing instruments despite the favourable financing conditions these instruments offer. For example, in a 2023 survey among EU SMEs, out of 413 companies that have accessed external financing to invest in greening, only about a third accessed financing with some kind of promotional green or sustainable finance element (SMEunited and Eurochambres, 2023[21]). In the absence of frameworks for SME sustainability reporting that are proportionate to SMEs' resources and capacities, SMEs face sustainability reporting demands that reflect the complexity and comprehensiveness of reporting frameworks designed for large entities.

The reporting burden is further exacerbated by multiple reporting demands coming from different stakeholders, with many financial institutions developing their own methodologies and sustainability questionnaires for SME clients (OECD, 2023[7]). Large enterprises also need sustainability-related data and information from SME suppliers to report on their own sustainability performance. In the absence of standardised and interoperable frameworks for SME reporting, the demands for data and information from financial institutions (and supply chains) to SMEs will continue to pose a challenge both within and across jurisdictions.

The existence of different definitions and classifications of SMEs both within and across countries may also contribute to multiplication of reporting demands, posing a particular challenge for SMEs operating within supply chains and across jurisdictions. Furthermore, the lack of harmonisation of the statistical definition of an SME by banks and national organisations when measuring SME access to finance across countries is a challenge, which may also contribute to confusion among SMEs about their eligibility for certain financing products, including sustainable finance, and the different reporting requirements they may be subject to when obtaining finance in different jurisdictions (Box 1) (OECD, 2024[3]).

Box 1. There is no universal definition of an SME or SME finance

Statistical definitions of an SME vary significantly across countries and regions around the world, owing to differences in economic, social and political economy contexts (see Annex A). Within countries, differences also exist between banks and national organisations when measuring SME access to finance. Definitions of an SME loan can be based on firm size, usually number of employees or annal turnover, but they can also be based on a proxy, such as the size of the loan. However, the size of what is considered an SME loan differs among countries and sometimes even among banks within the same country.

Heterogeneity in definitions has implications for access to sustainable finance and for sustainability disclosure, adding to the complexity of SME sustainability reporting to financial institutions and supply chains. Indeed, the existence of different definitions and classifications of SMEs both within and across countries may contribute to multiplication of reporting demands. It may also contribute to confusion among SMEs about their eligibility for certain financing products, including sustainable finance, and the different reporting requirements they may be subject to when obtaining finance in different jurisdictions.

The G20 has a central role to play in fostering the alignment of definitions and indicators across jurisdictions. The OECD can support these efforts through its longstanding work in this area. Since, 2012, the OECD *Financing SMEs and Entrepreneurs Scoreboard* focuses on ensuring transparency in definitions, while encouraging coordination and convergence in definitions and indicators. In the area of SME sustainable finance, the OECD Platform on Financing SMEs for Sustainability works with financial institutions, policy makers, standard setters and others to foster global convergence on a core set of sustainability indicators that SMEs can report to financial institutions, to meet the needs of financial institution reporting and enhance SME access to sustainable finance instruments.

Source: Financing SMEs and Entrepreneurs 2024: An OECD Scoreboard, (OECD, 2024[3])

The development of sustainability measurement tools, trackers and reporting solutions aims at helping SMEs measure and report on their environmental footprint. However, the multiplication of these tools has also become a challenge, both for SMEs and policy makers. A recent study of carbon reporting solutions for SMEs found that there are currently over 270 different solutions for carbon reporting alone (Icebreaker One, 2024[8]). In this context it is difficult for SMEs to discern the appropriate tools to use. They may even choose to use tools that evaluate their sustainability performance most favourably, which raises questions about the credibility and consistency of data that are provided to financial institutions and reported to regulators and policy makers. Broad framework conditions, including how carbon is priced and how climate and other risks are integrated in financing instruments, also matter for the uptake of sustainable finance. If the financial benefits of green and sustainable finance instruments do not outweigh the additional monitoring and reporting costs associated with these instruments, SME demand and uptake will remain a challenge.

The public sector has an important role to play in fostering conditions for scaling up the provision and uptake of sustainable finance by SMEs

Financing and non-financial support

Public institutions can help accelerate the provision of financing for SMEs' green transition through direct financing of SME clients as well as through the crowding-in of private financing for SMEs. They can do so through the provision of dedicated green and sustainable support instruments and programmes that take sustainability-related metrics into account when setting financing conditions and can thus offer more favourable financing conditions for greening investments or for clients who can demonstrate better sustainability performance (see Annex B). For instance, green guarantees can have preferential features such as: a higher guarantee coverage rate; a lower fee or a cap on the interest rate charged by the on-lenders; a waiver of the requirement for on-lenders to bring in a personal guarantee; and others. Green lending programmes can offer preferential financing costs and other conditions compared to traditional programmes that do not have to meet any greening-related key performance indicators (KPIs). Meanwhile sustainability-linked financing instruments link financing conditions to sustainability-related KPIs and can thus offer better conditions over time subject to improvements in these KPIs (see Box 2).

Box 2. Selected examples of green and sustainable finance support for SMEs

In **Brazil,** the Brazilian Development Bank (BNDES) is implementing the Credito ASG line, which provides debt financing linked to ESG performance. The loan programme provides more attractive financial conditions (e.g. lower interest rates) to SMEs that can demonstrate improvements across a set of key ESG performance indicators during the term of the loan, in order to encourage the adoption of more efficient and sustainable business practices. The ESG indicators include obtaining of specific environmental and social certifications, scopes 1, 2 and 3 emissions and others. Also in Brazil, the Banco de Desenvolvimento de Minas Gerais (BDMG) has introduced a dedicated green credit line to finance long-term projects in renewable energy generation as well as financing for the acquisition of machinery and equipment for GHG emission reduction and climate change adaptation.

The Sustainability Portfolio Guarantee Product, implemented by the **EIF** under the InvestEU programme, aims to enhance access to debt finance for SMEs investing in the EU's green and sustainable transformation. In comparison to the market's standard products, the EIF Sustainability Guarantee offers preferential conditions to financial intermediaries, such as a high guarantee coverage rate of up to 70% and a maximum transaction amount of 7.5 million when private financial intermediaries finance SMEs. Eligible to apply for the guarantees are "Sustainable Enterprises" (e.g. those working with clean-tech related technology or recipients of an eco-label from an EU labelling scheme) or "Green Investments" (such as SME's investment in energy efficiency or sustainable use of materials).

The EUR 500 million Growth and Sustainability Loan Scheme operated by the **Strategic Banking Cooperation of Ireland** (**SBCI**) provides longer-term lending to SMEs. The Scheme targets a minimum of 30% of the lending volume towards environmental sustainability purposes with the aim of encouraging SMEs to take positive actions in support of the climate change agenda.

In **Finland**, Finnvera, in collaboration with the European Investment Fund (EIF), offers direct financing for sustainability in the form of a Climate and Environmental Loan product aimed at supporting Finnish companies engaged in advancing renewable energy sources, energy efficiency, sustainable materials usage and the transition to a circular or low-emission economy. This initiative encompasses various sectors, including renewable energy, green and energy-efficient certified commercial buildings, zero- and low-emission mobility infrastructure, Green ICT investments, waste management, and circular economy business models. The scheme provides favourable loan terms, with amounts ranging from EUR 150 000 to EUR 2 million per financing project. The loan does not require collateral and the EIF provides a 60% guarantee.

In **Korea**, the Government, in conjunction with the Korea Energy Agency, Korea Credit Guarantee Fund and the Korea Technology Finance Corporation, launched the Green Guarantee Program for SMEs that operate in the New and Renewable Power Generation sector or in the New and Renewable Energy Industry. The Program aims to provide liquidity support and incentivise capital expenditures in green facilities and technologies by guaranteeing up to 95% of the loan amount.

In **Mexico,** the FIRA (Fideicomisos Instituidos en la Relación con la Agricultura) promotes financing by granting loans and providing guarantees and technical assistance to SMEs that contribute to the sustainability of Mexico's agricultural sector.

In **Portugal,** the government, through the Banco Portgues de Fomento, has allocated EUR 100 million for Linha de Credito para a Descarbonizacao e Economia Circular (Line of Credit for Decarbonization and Circular Economy). Through this scheme, SMEs can apply for financing backed by guarantees to invest in projects aimed at improving energy efficiency or incorporating circular economy concepts (e.g. upgrading equipment, processes for resource optimization, etc.). Guarantees cover 80% of outstanding capital up to a maximum amount of EUR 2 million per company.

In **South Africa**, through a partnership between National Treasury's Jobs Fund and GreenCape, with support from the RMB Fund (part of the FirstRand Foundation), the Green Outcomes Fund (GOF) provides outcomes-based matched (concessional) funding to local investment funds to support investments into local MSMEs that make a demonstrable contribution to South Africa's green economy, as well as job and enterprise creation in priority impact areas. The GOF blends concessionary funding with private capital, thus enabling participating fund managers to develop and adapt their SME investment models and support services. Also in South Africa, in 2023 the National Treasury launched the Energy Bounce Back Loan Guarantee Scheme (EBB), which provides loan guarantees for businesses to invest in solar panels, and working capital loans to businesses in rooftop solar supply chains.

In June 2021, the Government of **Sweden** launched a special credit guarantee for green investments. The programme will facilitate loan offerings to companies that contribute to reaching the goals of the environmental objectives system and climate policy framework. To qualify for the guarantee scheme, the company needs to its contribution to environmental objectives in line with the EC's Green Taxonomy.

Source: (BNDES, 2024[22]) (BDMG, 2024[23]) (EIF, 2023[24]) (SBCI, 2022[25]), (Finnvera, 2023[26]), (Bpifrance, 2023[27]), (Banco Portugues de Fomento, 2023[28]), (FNGCIMM, 2022[29]), (Swedish MInistry of Finance, 2021[30]), (Energy Efficiency and Renewable Sources Fund, 2004[31]), (ALIDE, 2017[32]), (AECM, 2023[33]) (Green Outcomes Fund, 2023[34]) (National Treasury and the South African Reserve Bank, 2023[35]).

Public actors also have a pivotal role to play in providing non-financial support for SMEs and entrepreneurs to enhance their access to as well as uptake of sustainable finance. Non-financial services, in the form of data, education and training, advice and tools are crucial as part of the policy mix. They can raise awareness and help SMEs and entrepreneurs strengthen understanding of the steps needed to take to green their businesses and report on their sustainable performance. Non-financial services can also help them allocate financial resources appropriately (Table 1). Non-financial support is also critical to help SMEs measure and report on their sustainability performance which is a key pre-requisite for accessing green and sustainable finance (see Box 3). It is for these reasons that financing support should often go hand-in-hand with the provision of advice, tools and capacity building for small business clients.

Table 1. Types of non-financial support instruments for SME access to sustainable finance and SME greening

	Providers	Characteristics	Examples
Data and information portals	Public financial institutions, business advisory support service providers, international financial institutions and organisations	These platforms provide SMEs with data and information on sustainability-related requirements, including reporting, and related financial and capacity building support available to help SMEs meet these requirements. They can provide tools and resources to understand, measure, and mitigate carbon and other environmental footprints. Online hubs and portals can provide comprehensive information and guidance on sectoral emissions, transition plans, available green financing instruments and others.	British Business Bank's online Finance Hub EIB advisory services Green Growth Knowledge Partnership's (GGKP) Green Industry Platform France's CSR Portal (Portail RSE)
Measurement tools	Public financial institutions, banks, business advisory service providers, international governmental or non-governmental organisations (all in partnership with data solution providers)	Measurement tools are deployed to calculate and measure carbon and other sustainability footprints. These tools can evaluate how firms are adhering to environmental reporting frameworks and benchmark against other firms environmental performance. These tools can offer both comprehensive and simplified methods for emissions assessment.	Business Development Bank of Canada Climate Action Centre Danish Business Authority's Climate Compass Hellenic Development Bank ESG Tracker (Greece) Wallonie Entreprendre ESG platfom (Belgium) SME Climate Hub tools
Tailored capacity building and support	Public financial institutions, government agencies, business support service providers, international financial institutions and organisations	Organisations provide consulting and advisory services to aid SMEs in their net-zero transition.	Bpifrance Decarbonisation support Industrial Bank of Korea's Green Consulting service Environmental assessments, and advisory and consultancy services provided by the Green Fund, managed by the Development Bank of Southern Africa (DBSA) Capacity Building Programme for Green Transition of Indonesian SMEs from the Ministry of Co-operatives and Small and Medium Enterprises
Data sharing and automation platforms	Multistakeholder effort including governments, regulators, financial institutions, data solution providers and others	These platforms automate the sustainability data reporting process and facilitate reporting using digital tools	Project Perseus (UK) MAS (Singapore)

Source: Authors.

Box 3. Selected examples of SME support on adoption of sustainability practices and sustainability reporting

France: Bpifrance and the French Agency for Ecological Transition, ADEME have jointly implemented the Decarbonisation Accelerator, aimed at supporting French SMEs and midcaps in their green transition. As part of this initiative, Bpifrance and ADEME provide a Climatometer, a free tool which allows SMEs to calculate their environmental footprint. SMEs also obtain an individual diagnosis assessing environmental impacts and recommendations for climate actions they can take. Additionally, the Ministry of the Economy and Finance of France and the digital services incubator (beta.gouv) developed the RSE Portal, which provides businesses with a streamlined process to understand and comply with their Corporate Social Responsibility (CSR) and ESG obligations. Upon registration, businesses gain access a personalized dashboard where they can further refine their criteria and manage their obligations effectively. Businesses can also use the Portal to conduct the so called BDESE (Economic, Social and Environmental Database) reporting, whereby they can fill out relevant forms and be directed to appropriate reporting platforms (e.g. Egapro index, transition plans, etc.).

India: The Small Industries Development Bank of India (SIDBI) offers technical assistance and capacity building to Indian SMEs to help them build capacity and awareness on energy efficiency as well as to adopt energy efficiency practices. Notably, SIDBI, in collaboration with the Indian Bureau for Energy Efficiency, provides an online tool that can generate energy assessment reports for SMEs, helping them identify cost savings and potential energy efficiency measures. Since 2022, SIDBI has also been conducting a quarterly Sustainability Perceptions Index in collaboration with Dun and Bradstreet India, which gathers information on the actions SMEs are taking to implement sustainability practices in their operations.

Korea: The Industrial Bank of Korea (IBK) provides a range of different support solutions to SMEs to help them to measure their sustainability performance as well as to take steps toward its improvement. These include awareness raising on sustainability management, self-assessment tools on sustainability performance, and free and tailored consulting advice provided by the IBK Consulting Centre, including on regulatory compliance challenges. The IBK uses an external service provider for the development of the ESG assessments and ratings of its SME clients and provides tailored advice on how SMEs can improve their ESG performance and ratings.

Malaysia: Capital Markets Malaysia (CMM), an affiliate of the Securities Commission Malaysia, has developed and launched a Simplified ESG Disclosure Guide (SEDG) for SMEs in supply chains, which consolidates and simplifies different global and local ESG-related frameworks into 35 priority disclosure indicators and information. These are aligned with numerous frameworks, including the Bursa Malaysia Sustainability Reporting Guide, Global Reporting Initiative (GRI), International Sustainability Standards Board (ISSB), Greenhouse Gas Protocol (GHG Protocol) and others. CMM also provides SMEs with in-person training, tutorials, and workshops on ESG reporting under the SEDG Adopter Programme.

South Africa: The Green Fund, managed by the Development Bank of South Africa, provides technical and business support, including advisory and consultancy services to SMEs. This support covers project preparation, feasibility studies, business planning, and environmental impact assessments to ensure projects are viable and align with green economy objectives.

United Kingdom: The British Business Bank (BBB), the UK public development bank, has established an online Finance Hub to direct SMEs to digital resources and information on sustainable finance-related topics including information on digital carbon calculators, environmental initiatives and financing tools for sustainability. The BBB alongside the UK government and other stakeholders are also supporting Project Perseus which is seeking to develop automated sustainability reporting solutions for

UK enterprises building on the principle of open banking. The pilot architecture developed by this project uses smart meter data to simplify Scope 2 reporting for enterprises by enabling the sharing of these data from energy providers to financial institutions and other relevant stakeholders, with the consent of the enterprise. The solution will be piloted with several financial institutions within a sandbox setting in the early part of 2025.

In the **United States**, the Environmental Protection Agency (EPA) runs a Small Business Gateway, which, among others, provides information on environmental assistance and technical help available from the Agency. In addition, the US Small Business Environmental Home Page is intended to be a "one-stop shop" for small businesses and assistance providers who seek information on a wide range of environmental topics. It directs users to compliance information (including links to state websites), fact sheets on environmental best management practices in ten SME sectors (bakeries, service stations, retail stores, etc.), key small business publications, information on upcoming events, etc.

The SME Climate Hub is a joint initiative of the We Mean Business Coalition and the Exponential Roadmap Initiative whose key objective is to mainstream climate action to SMEs. The hub offers practical tools for SMEs such as a Business Carbon Calculator as well as educational resources on creating credible transition plans and accessing sustainable finance. The SME Climate Hub recently launched a web-based reporting tool that facilitates climate-related data reporting by SMEs. The reporting tool is aligned with the Carbon Disclosure Project (CDP) and has three main components: reporting on annual GHG emissions, listing actions taken to reduce business and value chain emissions, and monitoring on progress so far. The SME Climate Hub partners with governments to tailor its products to specific markets and organise awareness raising campaigns. It has done this in a few G20 countries including **India**, **the UK** and **the US**. It has also launched regional campaigns in the **Latin America and Caribbean region** as well as **Middle East and North Africa**.

UNDP and Singapore: The Monetary Authority of Singapore has partnered with the United Nations Development Programme (UNDP) and the Global Legal Entity Identifier Foundation (GLEIF) to develop digital sustainability credentials for SMEs and to simplify the ESG reporting process for MSMEs by leveraging on digital initiatives such as MAS' Project Greenprint to generate ESG data credentials that can be housed in MSMEs' Legal Entity Identifier (LEI) records.

Sources: (Bpifrance, 2024[36]) (Ministry of Economy and Finance, 2024[37]) (SIDBI, 2024[38]) (SIDBI, 2023[39]) (IBK, 2023[40]) (Capital Markets Malaysia, 2023[41]) (BBB, 2019[42]), (EPA, 2024[43]) (SME Climate Hub, 2024[44]) (MAS, 2023[45]) (DBSA, 2023[46]).

Strengthening SMEs' ability to report and streamlined reporting standards for SMEs

Simplified SME reporting standards aim to take account of SMEs' relatively more limited capacities for measurement and reporting compared to large firms and provide a framework for aligning sustainability requirements for SMEs to minimise their reporting burden. Promoting interoperability among the reporting standards across jurisdictions can also help reduce duplication in reporting demands from SMEs operating or seeking finance internationally.

Some initiatives have already been put in place to simplify SME reporting. The International Financial Reporting Standards Foundation (IFRS), the European Financial Reporting Advisory Group (EFRAG) and the Carbon Disclosure Project have all undertaken initiatives to simplify and streamline reporting standards for SMEs. There is also increased evidence of collaboration initiatives between these standard setters to promote interoperability between these frameworks (Box 4). The Monetary Authority of Singapore in partnership with UNDP and other non-governmental partners have also developed a simplified framework for sustainability disclosure for SMEs as part of a broader initiative to develop digital sustainability credentials for small businesses (Box 3).

However, the very diverse characteristics of SMEs and their approaches to sustainability add to the challenge of designing streamlined reporting standards for SMEs. Policy makers have long been grappling with the heterogeneity of the SME population within and across countries and regions, including the different pathways for SME greening, where SMEs may play the role of eco-innovators, eco-entrepreneurs and eco-adopters (OECD, 2013[47]). Some approaches, such as EFRAG's VSME, therefore take a modular approach to account for these differences (Box 4).

Box 4. Selected initiatives to limit the sustainability reporting burden on SMEs

IFRS

The **International Financial Reporting Standards** (IFRS) Foundation, which developed the International Sustainability Standards Board (ISSB) standards, has taken an initiative to streamline the ISSB standards for non-public SMEs. Compared to the full ISSB, these new accounting standards omit topics not relevant to SMEs, simplify the principles for recognising and measuring assets/liabilities/income/expenses, and require fewer disclosures. To ease readability, the streamlined offering is written in a clear, easily translatable language and some accounting choices are restricted to provide a simpler methodology. The initiative also limits the frequency of revisions to ISSB (once every 3 years) to further reduce the reporting burden for small businesses.

CDP

The **Carbon Disclosure Project (CDP)** released in 2024 an SME questionnaire which is fully aligned with the CDP full corporate questionnaire but contains fewer data points and a simplified format for the questions to ease SME understanding and reporting. It has also developed enhanced guidance to ease SMEs' reporting burden.

EFRAG

The **European Financial Reporting Advisory Group (EFRAG)** is currently creating simplified reporting standards for SMEs. These standards complement the existing European Sustainability Reporting Standards (ESRS), which are mainly designed for large companies. There are two sets of standards: one mandatory for Listed SMEs (LSME) and another voluntary for non-listed SMEs (VSME). The VSME framework aims to aid unlisted SMEs, who represent the majority of EU SMEs, meet sustainability data requests from financial institutions and supply chain partners.

Interoperability initiatives

Standard setters have also begun to develop initiatives to foster interoperability between their reporting standards. For example, the IFRS Foundation and EFRAG have been working together to align their reporting standards and have recently published an interoperability guidance showcasing the alignment between their respective frameworks. Likewise, the Carbon Disclosure Project (CDP) has been collaborating with EFRAG to align its own disclosure framework with the ESRS.

Source: (IFRS, 2023[48]), (Deloitte, 2023[49]), (CDP, 2024[50]) (EFRAG, 2024[51]) (EFRAG, 2023[52])

Regulatory and policy framework conditions

A clear and transparent regulatory and policy framework can help to limit uncertainty and strengthen the business case for investing in greening and for aligning incentives for both the provision and uptake of sustainable finance for SMEs.

Providing a clear economy-wide transition path and a coherent regulatory and policy framework on net zero and greening can serve as an important foundation on which to build SME and financial-sector specific regulations, policies and support programmes. This entails, among other things, the development and implementation of clear and binding targets and transition plans at national as well as sectoral levels, accompanied by interim targets and milestones; comprehensive legislation on climate and greening-related as well as relevant sector-specific regulations (e.g. energy, transport, agriculture, etc.); policy coherence across sectors and subjects; implementation of relevant instruments such as carbon pricing (e.g. carbon taxes, cap-and-trade systems, etc.), sustainability disclosure, subsidies and incentives for low-carbon technology development and adoption (OECD, 2022[5]).

Such framework conditions are important to reduce regulatory and policy uncertainty and risks, and to foster an environment that is conducive for SME investment in greening. They can also have important implications for how climate and environmental risks and opportunities are priced-in in financing instruments with impacts on financing decisions and financing conditions. For instance, by adequately accounting for environmental risks and externalities, financial institutions will be able to offer better financing conditions for green and sustainable instruments, making them attractive enough to outweigh the additional reporting costs and thus boost SMEs' uptake of such instruments.

Taking the SME dimension into consideration when designing regulations and policies is also critical. SMEs do not have the same resources and capacities as large enterprises to address regulatory requirements, particularly complex requirements such as non-financial disclosure in line with various existing national and international reporting standards. It is therefore important to adopt an SME lens when developing environmental and other disclosure requirements that may impose disproportionate costs on SMEs. This does mean exempting SMEs from regulations, which may produce unintended consequences, such as creating a threshold effect or barriers to firm investment and growth, but rather enabling them to comply (OECD, 2021[53]; OECD, 2023[54]). Moreover, even if exempted, SMEs are likely be indirectly impacted by the requirements imposed on larger entities as evident in recent rollouts of sustainability disclosure regulations.

Consideration of the SME dimension can include, for example, the introduction of regulatory requirements that are proportional to firm size and thus entail considerable simplification and lower resource intensity for smaller enterprises (see more below specifically on sustainability disclosure) (OECD, 2022[5]). Governments could also consider flexible timelines for the implementation of sustainability considerations in SME business practices, while supporting capacity building for reporting and compliance, in line with the 2022 Updated G20/OECD High-Level Principles on SME Financing (G20/OECD, 2022[9]) When determining what policy intervention to use, governments can consider the impact of the policy, the relevance of SMEs to the goals of the policy, and what subgroups of SMEs (sector, age, geographic location, etc.) are most likely to be affected (OECD, 2021[53]).

Many countries, including Germany, Korea, Sweden, Switzerland, the United Kingdom and the United States, have introduced a variety of mechanisms to better account for SMEs, including: collecting granular data on key features and behaviours of various types of SMEs, undertaking ex post evaluations to assess the effectiveness of policies and programmes for specific populations of businesses, creating dedicated institutions to coordinate functions, incorporating the use of SME threshold testing to gauge the relevance of a policy to SMEs, and strengthening consultation processes to include voices that are less heard (OECD, 2021[53]). The different approaches and mechanisms to include the SME dimension need to be adapted to fit the countries' specific institutional set-up (OECD, 2023[54]).

Transition finance frameworks

Regulatory and policy considerations that can scale up the provision of transition finance and support SMEs' access to transition finance are also critical to ensure a more just and inclusive transition. Notably, it is important that taxonomies do not just cover sustainable and sustainability-aligned activities, but also account for the dynamic process of greening that needs to be undertaken by entities in currently "brown" sectors. This is critical to better align the incentives for financial institutions' provision of so-called transition finance to help SMEs in highly polluting and hard-to-abate-sectors to improve their sustainability performance. Transition finance is also important for SMEs in emerging economies which face more challenging and costly transition paths compared to SMEs in more developed economies (OECD, 2022[10]; OECD, 2024[3]).

As the delivery of sustainable finance is contingent on the provision of credible and science-based transition plans by financed entities, it is also important to develop frameworks for simplified transition planning for SMEs that are proportional to SMEs' resources and capacities. SMEs should also have access to technical support and advice to help them develop such transition plans.

Strengthening the sustainable finance ecosystem for SMEs by promoting dialogue, knowledge-sharing and co-operation among the diverse actors can help enhance sustainable finance for SMEs

Many other ecosystem actors are central to closing the SME sustainable finance gap in G20 countries and beyond. Private banks, Fintechs, ESG intermediaries, such as rating agencies, accountants and other relevant stakeholders have a key role to play in providing information, tools, and advisory services as well as by linking financing conditions and other incentives with sustainability performance indicators (OECD, 2022[5]).

An important priority in this area is to build relevant skills among ecosystem actors. Skills and expertise in the areas of sustainability, including sustainability disclosure, need to be strengthened in both in advanced economies and EMDEs. While skills in carbon accounting, carbon credits, emissions trading, impact assessment, and sustainability reporting are among the fastest-growing green skills in some advanced economies, the growth in demand for these skills continues to outpace the increase in supply (LinkedIn, 2023[55]).

Fostering knowledge-sharing and dialogue among these actors is also key to bridging knowledge gaps and mobilising sustainable finance for SMEs (Box 5). A global dialogue on solutions to enable SMEs to respond to sustainability reporting requirements, including across jurisdictions, will be important to strengthen their access to sustainable finance and accelerate the green transition globally.

Box 5. Selected examples of international initiatives to support access to and uptake of SME sustainable finance

The **G20 Sustainable Finance Working Group** (SFWG) aims to mobilize sustainable finance by identifying institutional and market barriers to sustainable finance and to develop options to overcome them. It aims to contribute to a better alignment of the international financial system to the objectives of the 2030 Agenda and the Paris Agreement. The G20 Sustainable Finance Roadmap identifies five key priorities including Market development and approaches to align investments to sustainability goals; consistent comparable and decision-useful information on sustainability risks, opportunities and impacts; assessment and management of climate and sustainability risks; role of IFIs public finance and policy incentives; and cross-cutting issues on this topic.

The **Executive Agency for Small and Medium-sized (EASME)** created by the European Commission aims to aid in creating a more competitive and resource-efficient European economy based on knowledge transfer and innovation. The EASME manages the Sustainable Industry Low Carbon Scheme and is part of the EU programme for the Environment and Climate Action, the European Maritime and Fisheries Fund and the legacy of the Intelligent Energy Europe programme and the Eco-innovation initiative.

The **Asia-Pacific Economic Cooperation (APEC)** established a working group that developed a 2021–2024 strategic plan for SMEs' development in the Asia-Pacific region. As its key objective the working group highlights SMEs' access to global value chains, finance and alternative financial solutions. To foster SMEs' competitiveness and access to international markets, they promote green awareness among businesses and support green SMEs. Moreover, in September 2022 the APEC's Ministers responsible for SMEs urged APEC member states to accelerate SMEs' access to sustainable finance.

In Latin America, the **Green Finance Latin-American Platform** has been developed to support national development banks and private financial institutions to share knowledge on green finance. As of 2024, it has 12 initiatives in partnership with the Inter-American Development Bank to promote sustainable instruments including on increasing SME access to green finance.

The working group on **Innovation of the Pacific Alliance** has created the programme on Innovation for Sustainability with the objective to help entrepreneurs in eco-innovation to grow and develop. The Programme has also the objective to help SMEs be competitive by implementing sustainable practices.

The **European Commission's** Platform on Sustainable Finance provides recommendations around the usability of the EU Taxonomy and other sustainable finance frameworks. These recommendations include usability considerations for SMEs and entrepreneurs, with the goal of ensuring that SMEs have equitable access to sustainable finance.

The **European Association of Guarantee Institutions (AECM)** Working Group on Sustainability helps to foster knowledge exchange and coordination among its members in the area of guarantees to support access to sustainable finance.

The **OECD Platform on Financing SMEs for Sustainability** provides a forum for global collaboration, knowledge sharing and implementation of good practices among public and private financial institutions, policy makers, standard setters, SME representatives and other ecosystem actors to enhance the provision and uptake of SME sustainable finance for a successful climate transition.

Source: (APEC, 2022[56]), (Green Finance Latin American Platform, 2023[57]), (Cisneros, 2019[58]), (G20 Indonesia, 2022[59]), (European Commision, 2020[60]), (AECM, 2022[61]) (G20, 2024[2])

Conclusions and next steps

Bridging SMEs' and EMDEs' sustainability-related data and reporting gaps is a critical priority for scaling up the provision and uptake of sustainable finance and achieving global sustainability objectives. It requires significant efforts and international co-operation. The continued focus of the G20 Sustainable Finance Working Group on these issues can help raise awareness of the specific challenges faced by SMEs and EMDEs, and harness international co-operation to accelerate progress on ensuring sustainability reporting works for all.

The identification of concrete solutions and good practices that are scalable is essential for this effort. In particular, the identification of a set of core sustainability indicators that SMEs can report to financial institutions in order to obtain sustainable finance, building on emerging disclosure standards in different jurisdictions and on existing reporting tools and trackers, can help avoid an overly onerous burden on SMEs and EMDEs. In 2024, the OECD, through its Platform on Financing SMEs for Sustainability, is developing an overview of existing and emerging reporting standards for financial institutions and for SMEs in different jurisdictions, and identifying available sustainability-related measurement tools that may help SMEs comply with these standards and with requests from financial institutions. In the second half of 2024, the OECD will convene a dialogue which seeks to foster shared understanding and convergence on the data demands from financial institutions to their SME clients. The OECD stands ready to share the findings of this work with the SFWG in support of its priorities.

Likewise, a better understanding of the diverse SME sustainable financing instruments and non-financial support packages currently in use or being developed, and dissemination of good practices to foster their implementation in various countries and settings, can help accelerate the uptake of sustainable finance by SMEs and EMDEs. The OECD is developing a compendium of good practices in the provision of financial and non-financial support to foster SMEs' green investments. The study will map the range of sustainability-related financing and non-financial support instruments for SMEs across different countries and regions. It will also seek to gather insights on the uptake of these instruments and identify success factors and innovative new approaches to stimulate both the supply and demand for sustainable finance by SMEs. The OECD stands ready to share the findings of this work to support the SFWG agenda.

Box 6. Next steps

- The SFWG is invited to provide comments on the draft Policy Note, in particular additional country information and examples, by 31 July 2024.
- A draft final Note will be shared in advance of the 4th SFWG meeting in September 2024.
- For any questions and comments, please contact the OECD Secretariat: Flore-Anne.Messy@oecd.org, Mathilde.Mesnard@oecd.org and Miriam.Koreen@oecd.org.

Annex A. Selected national statistical definitions of an SME

Country	National statistical definition of SMEs
Argentina	Varies by sector
Australia	Size of firm: less than 200 employees
Austria	Size of firm: 1 – 249 employees
Belgium	Size of firm: less than 250 employees
Brazil	Annual turnover of up to BRL 4.8 million
Canada	Size of firm: 1-499 employees
Chile	Annual sales of firm: up to UF 100 000
China	The definition of SMEs differs according to sector.
Colombia	Size of firm: less than 200 employees
Czech Republic	Size of firm: less than 250 employees
Denmark	Size of firm: less than 250 employees
Estonia	Size of firm: less than 250 employees
Finland	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)
France	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)
Georgia	Less than 100 employees and turnover below GEL 1.5 million
Greece	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)
Hungary	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)
Ireland	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)
Israel	Size of firm: less than 100 employees and annual turnover of up to NIS 100 million
India	Annual turnover of less than Rs. 250 Crore
Indonesia	Maximum turnover of 50 billion rupiah or maximum assets (excluding building land asset) of 10 billion rupiah
Italy	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)
Japan	Varies by sector
Kazakhstan	Less than 250 employees in addition to an annual income criterium
Korea	Varies by sector
Latvia	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)
Lithuania	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)
Luxembourg	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)
Malaysia	Manufacturing sector: Sales turnover not exceeding RM 50 million or full-time employees not exceeding 200. Services and other sectors: Sales turnover not exceeding RM 20 million or full-time employees not exceeding 75.
Mexico	Firm size: up to 100 or 250 employees, depending on the sector
The Netherlands	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet

	below EUR 43 million)
New Zealand	No unique national definition.
Norway	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)
Portugal	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)
Peru	SMEs are defined by annual turnover
Saudia Arabia	Size of firm: less than 250 employees, annual revenue less than SAR 40 million
Serbia	Up to 250 employees, turnover up to EUR 10 million, total assets up to EUR 5 million
Slovak Republic	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)
Slovenia	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)
South Africa	SMEs are defined by annual turnover
Spain	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)
Sweden	EU definition (less than 250 employees and annual turnover below EUR 50 million and/ or balance sheet below EUR 43 million)
Switzerland	Size of firm: less than 250 employees
Thailand	Number of employees and revenue according to the industry: firms in manufacturing less than 200 employees and revenue of less than THB 500 million Firms in services: Less than 100 employees and THB 300 in revenue.
Turkïye	Less than 250 employees and TRY 40 million in assets
Ukraine	Less than 250 employees and EUR 50 million in turnover
United Kingdom	Size of firm: less than 250 employees
United States	Size of firm: less than 500 employees

Source: (OECD, 2024[3]) (Monshaat, 2024[62]) (Government of India - Ministry of Micro, Small and Medium Enterprises, 2022[63]) (Gobierno de Argentina, 2024[64])

Annex B. Types of green and sustainable finance instruments

Instrument	Type	Providers	Characteristics	Environmental aspects of the instrument
Green loans	Debt	PFIs, Banks	Lending to finance SME greening can be enhanced through targeted SME lending portfolios or green credit lines.	Green loans are committed exclusively to finance green projects such as those addressing climate change, natural resource depletion, biodiversity loss, and air, water and soil pollution. These instruments involve periodic reporting by the borrower to the lender of the actual use of proceeds, through qualitative or quantitative performance measures (e.g. electricity generation, or reduction of GHG emissions).
Green concessional loans	Debt	PFIs, Non-Commercial banks	As PFIs support governments to achieve policy goals, they are in a position to provide loans with favourable terms for SMEs, i.e. grace periods and low interest rates	Green concessional loans are used specifically for environmental investments and granted with (substantially) more favourable terms compared to market loans (below-the market interest rates, longer grant periods or a combination of both). Such loans may be conditional on measures beyond regulatory requirements (e.g., use of best available techniques or best management practices).
Bridge loans	Debt	PFIs, Investors	Bridge loans can be crucial for the survival of green projects. Given the large risk of sustainable projects, this instrument allows the SME to have capital until permanent or next stage financing can be obtained.	Bridge loans are particularly useful for green pioneer companies facing high upfront costs and risks in early-stage development phases and between funding rounds, (e.g. developing cutting-edge technologies in areas such as clean energy or mobility).
Green revolving credit	Debt	PFIs, Banks	Revolving credit gives flexibility to green SMEs as they can use funds when they need it. The requested amount is available, once used and repaid, the credit replenishes.	Green revolving credits are often dedicated to fund energy efficiency, renewable energy, and/or sustainability projects that generate cost savings. A portion of the savings are used to replenish Green Revolving Funds allowing reinvestment in future similar projects.
Green guarantees to banks	Debt	PFIs, Banks, Mutual Guarantee Societies	PFIs and guarantee societies can incentivize bank lending by providing guarantees to green credit lines. Eco-credits are examples of loan guarantees to promote energy efficiency projects	Green credit guarantees have specific eligibility criteria aligned with environmental objectives that can be based on the use of proceeds and/or on the characteristics of borrowers. Green guarantees may have monitor and evaluation frameworks to measure and report climate performance and disclose the carbon footprint of the guaranteed portfolio.
Green supply chain financing/ green factoring	Debt	PFIs, Banks, Enterprises	Financial institutions as well as enterprises can use this instrument to support SME greening in supply chains.	Supply chain finance involves a buyer approving its supplier invoices for financing by a bank when a product or service is provided. This type of financing helps the supplier get short-term credit and optimize working capital, while the buyer gets more time to pay off balances. Green supply chain finance entails the provision of financing at preferential rates upon demonstrated sustainability performance. Such preferential rates can potentially improve along with sustainability scores.
Grants for green projects	Grants	PFIs	PFIs can channel governmental grants for green SME projects. Grants can include cash transfers as well as technical support.	While green subsidies are specifically used to help firms offset high upfront costs related to the implementation of green technologies and/or processes, green grants can be used for a broader set of purposes (e.g. incentivize production of green products and services).

Green equity	Equity	Impact Investors, PFIs, Venture capital funds	Equity is one of the main instruments used by impact investors but it can also be used by PFIs and private financial institutions	Green Equity includes both Venture Capital and Private Equity aimed specifically at funding innovative solutions to address environmental challenges (e.g. Green-tech, sustainability start-ups). Green VC typically fund the development of pilot-scale green projects where investments can have long funding periods. It has continuous monitoring and reporting, and investors are directly involved in corporate governance to ensure products and processes are aligned to climate objectives. PE fund green start-ups in advanced stages, and also incorporate green indicators to evaluate performance.
Hybrid Financing	Equity and Debt	Impact Investors, PFIs	Hybrid instruments combine debt and equity. It is useful for SMEs as they can convert outstanding debt into equity.	Using hybrid financing instruments, PFIs are able to offer additional incentives for SMEs' green transition. SMEs are likely to benefit more from green investments as compared to alternative investments because of favourable financing conditions (e.g. when a green loan is connected to a grant). For example, PFIs can provide a certain percentage of the green loan in the form of a grant if the company uses the grant for targeted green measures such as investment in renewable energies or energy efficiency.
Mini-green bonds	Capital Markets	Banks, PFIs, Impact Investors	They are smaller green bonds to allow the access of unlisted SMEs to capital markets. Mini bonds can complement large green bonds. The downside is that they are often perceived as risky investments, thus they are guaranteed by public institutions.	Mini-green bonds are committed exclusively to financing environmental or climate projects. These bonds are issued by green start-ups or SMEs. They often cannot be traded and must be held until maturity, as they do not usually have a secondary market for investors to exit early. Green mini bonds are also less regulated and given their high perceived risk they offer higher returns compared to traditional bonds.
Sustainability-linked instruments	Debt, capital markets	Banks, PFIs, Impact investors	Loans or bonds whose financing conditions are tied to the sustainability/ESG performance of the issuer.	Sustainability-linked loans have a dynamic interest rate linked solely to selected sustainability performance indicators, such as carbon emissions or a specific ESG target. Beneficial conditions are not tied to the use of proceeds (like in green concessional loans). ESG-linked bonds have coupons linked to sustainability performance targets (e.g. EU Taxonomy, UN Sustainable Development Goals related to climate change or environmental degradation).

Source: (OECD, 2022[5])

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