

# POSITION PAPER



## **ESBG recommendations on the potential inclusion of SMEs in the EU Taxonomy**

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## **Savings and retail banks are key players to finance SMEs and are deeply committed to the green transition.**

The European Savings and Retail Banking Group (ESBG) represents the locally focused European banking sector, helping savings and retail banks in European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. Altogether, ESBG has 28 members in 20 European countries, representing 873 savings and retail banks. ESBG is historically driven by the “three Rs”: retail (since its members are actively providing financial services for people – individual consumers and their households – as well as for SMEs); regional (ESBG members deploy broad distribution networks rooted within the communities they serve, including local and regional outreach in both urban and rural areas) and responsible (social responsibility is a core value of our members, towards their clients, employees, communities and the environment). As such, ESBG is a supporter of the EU Taxonomy as it is a cornerstone of the EU’s sustainable finance framework and an important market transparency tool. ESBG is more than committed to direct investments to the economic activities most needed for the transition, in line with the European Green Deal objectives.

**As discussions are currently ongoing in the Commission, as well as in the Platform on Sustainable Finance, this paper aims to bring further clarity on what would be the best way to include SMEs in the Taxonomy framework, based on savings and retail banks expertise. In doing so, ESBG experts intend to shed light on the challenges and opportunities resulting from the inclusion of SMEs in the Taxonomy. Indeed, given the complexity of the Taxonomy, ESBG stresses that one must avoid creating disadvantages for SMEs and the credit institutions financing them.**

First, ESBG finds that for both the green transition and efficiency purposes, including SMEs in the Taxonomy seems to be possible.

Nonetheless, ESBG highlights that most of SMEs have neither the tools nor the means to comply with the Taxonomy requirements as they currently stand, whether they wish to transition or not.

Hence, ESBG proposes three **recommendations** to make the inclusion of SMEs in the Taxonomy work smoothly, following three directions:

- *Implement some proportionality and flexibility regarding the scope.*
- *Indicators must be reviewed and simplified (at least some of them).*
- *Incite support for SMEs wishing to transition through various actors and tailored tools.*

We remain at your disposal ([adrien.boudet@wsbi-esbg.org](mailto:adrien.boudet@wsbi-esbg.org) or +32 478 84 34 88) should you have any questions or wish to discuss our recommendations.



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***ESBG assessment: Proportionate inclusion of SMEs in the Taxonomy seems to make sense, notably in light of other EU legislations' requirements.***

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*“To show to all your kindness, it behoves:  
There's none so small but you may need his aid.”<sup>1</sup>*

As a preliminary thought, we stress that speaking of SMEs in general could be misleading since we believe that it is important to differentiate between self-employed, microenterprises (up to 9 employees and 2 million€ turnover) and the rest of SMEs (up to 249 employees and 50 million€ turnover). In Spain, for example, 98% of the industrial fabric sector has less than 10 employees, 51% of which being self-employed. They also create 66% of jobs and account for 62% of the national gross domestic product (GDP)<sup>2</sup>. **SMEs are, therefore, of enormous importance in the business ecosystem, and it is essential that they adhere to the transition, given their impact on the various sectors and the entire value chain.**

Moreover, following the adoption of the Corporate Sustainability Reporting Directive (CSRD) and subsequent developments of the European Sustainability Reporting Standards (ESRS), larger companies will be required to report ESG-related information starting in 2024. **Although such regulation is not mandatory for non-listed SMEs, there are several reasons why an SME may be pushed to produce sustainability reports in accordance with ESG criteria.** In some cases, the company will be part of a value chain of companies subject to the CSRD and will be required to move towards a sustainable business model in accordance with the transition. In other cases, as a requirement for access to a source of financing, it will be required to prove its compliance with ESG criteria. Today, however, very few SMEs have the capacity to provide this information, and even fewer do so already. Depending on the requirements that the Commission decides to implement, SMEs might have to deal with increased administrative and financial burden whereas their non-EU competitors might not, meaning that they may need more public support and resources.

This is also true when it comes to the currently discussed Corporate Sustainability Due Diligence Directive (CSDDD). Even though SMEs are so far excluded from the scope, many of them will be captured indirectly by being part of the “value chain” of companies falling within the scope of the directive. This could lead to the need to comply with all the environmental conventions listed in the annexes whereas most of the SMEs lack the means and the expertise to do so.

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<sup>1</sup> Jean de la Fontaine, The lion and the rat : « *On a souvent besoin d'un plus petit que soi.* »

<sup>2</sup> [Marco Estratégico en política de PYME 2030.](#)



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***State of play: Despite heterogeneity between SMEs, most of them do not have neither the tools nor the means to comply with the Taxonomy requirements as they stand.***

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*“Anyone who holds as real and true what should undoubtedly be, but unfortunately is not, is heading for inevitable ruin.”<sup>3</sup>*

Given the heterogeneity described above, it is not easy to speak for SMEs as a whole. This complexity is reflected in ESBG members’ views. Nonetheless, some general lessons can be learnt to guide what to require from them and how to help them.

First, as a prerequisite, ESBG would like to recommend **getting in close contact with EU and national SMEs association before implementing any final measure.**

On the one hand, ESBG assesses that **there is currently a lack of viable green projects to finance in Europe** for several reasons (discrepancies between the supply and the demand, lack of demand, insufficient regulatory incentives and guidance notably, etc.). A study published in September 2023 for DG FISMA on SMEs access to sustainable finance<sup>4</sup> indicates that SMEs want to transform themselves. 60% of surveyed SMEs invest in transforming their business. Nonetheless, only a small proportion of the financing used can be classified as sustainable finance. There is obviously still a lack of information regarding the exact efforts of SMEs. As a consequence, it is necessary to reflect on how to encourage more transparency, but the lack of guidance on how SMEs can approach the Taxonomy and the SMEs’ limited resources make it highly complicated.

On the other hand, there are good reasons to assume that SMEs are sometimes carrying out sustainable activities without even knowing it. According to ESBG members, **SMEs are contributing (or planning at least) to the sustainable agenda**, even though the situation varies between member states. For instance, according to la Banque de France, French SMEs are planning to almost double their financial commitment to the energy transition in the three coming years.<sup>5</sup> Moreover, 93% of SMEs that are customers of Groupe BPCE (ESBG French member) have taken preventive action against the risks associated with global warming, natural disasters, or other climatic events, based on a result from a survey conducted in June 2023.

**The EU Taxonomy and the associated reporting obligations are complex in their current form. SMEs that would like to use the Taxonomy framework as a tool in their transition will need support to succeed without the resources of the larger companies.** Indeed, the taxonomy alignment of an economic activity or its financing are determined very in-depth. This leads to significant challenges in implementation and application. There is a risk that the objectives sought with the EU taxonomy will be missed due to over-complex definitions and requirements. Customisation could lead to simpler implementation and increased applicability of EU taxonomy and thus reduce the associated bureaucratic time and effort. **ESBG wishes to stress the importance of SMEs in the European business landscape, especially as part of the value chain of larger companies. Therefore, it is paramount that SMEs are not excluded from the positive effects of the push for a sustainable transition for European business and finance.**

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<sup>3</sup> Machiavelli, The Prince.

<sup>4</sup> Eurochambres and SME United “Access to sustainable finance for SMEs: A European survey”, September 2023, <https://www.eurochambres.eu/publication/access-to-sustainable-finance-for-smes-a-european-survey/>

<sup>5</sup> Study of la Banque de France : [bdf247-1\\_e cp\\_web.pdf \(banque-france.fr\)](https://www.banque-france.fr/medias/247/1/bdf247-1_e cp_web.pdf)



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## **ESBG recommendations to make a success of the integration of SMEs to the Taxonomy**

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*“An architect who, through the excellence of his art, corrects the defects of an old building and, without knocking it down, reduces it to some tolerable symmetry, deserves much more praise than one who completely ruins it in order to build a new one”.<sup>6</sup>*

Bearing that in mind, ESBG recommendations follow the **“three I”**:

- *Implement some proportionality and flexibility regarding the scope.*
- *Indicators must be reviewed and simplified (some of them at least).*
- *Incite support for SMEs wishing to transition through various actors and tools.*

### **1. Ensuring flexibility, simplification and a phase-in approach for SMEs will be key.**

One must emphasise that SMEs do not have the same resources as big companies to transition. Priority should be given to making the rules to be applied by SMEs proportionate and simplified. It means that flexibility will be required vis-à-vis SMEs should they be included in the EU Taxonomy. A solution could be **the adoption of a phase-in approach for SMEs**. For instance, micro-enterprises could first need to be exempted from the Taxonomy requirements to give them more time to familiarise with the Taxonomy framework and to adapt (since micro-enterprises are excluded of the CSRD framework). This could also mean that SMEs could be exempted from some Taxonomy requirements (depending on their complexity) during the first years. In this regard, there could be an alignment between the Taxonomy reporting requirements and the CSRD ones for consistency purposes, notably by allowing **voluntary taxonomy reporting** for SMEs – in the short term at least.

Since it is paramount to **ensure simplification of SME reporting (article 8 of the taxonomy<sup>7</sup>) and a progressive approach**, ESBG also proposes to only require the publication of one of the three ratios provided for in the Taxonomy for SMEs. In other words, SMEs should be free to decide which one of the three ratios (percentage of turnover aligned with the Taxonomy; CAPEX aligned with the Taxonomy; OPEX aligned with the Taxonomy) they should report depending on their preferences. This would combine simplicity and flexibility, as is required for SMEs.

### **2. Including SMEs in the Taxonomy could be an opportunity to review some Taxonomy indicators for more clarity, simplicity, and consistency.**

From a broader perspective, ESBG believes that **including SMEs in the Taxonomy could be the opportunity to rethink some key performance indicators, not only for SMEs but also for all the companies falling within the scope of the Taxonomy.**

First, **the current GAR methodology contains some shortcomings which distort the validity of the indicator.** Currently, only financing to larger companies may be included in

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<sup>6</sup> Richelieu, Testament Politique.

<sup>7</sup> Article 8-2 of the Taxonomy : *“In particular, non-financial undertakings shall disclose the following: (a) the proportion of their turnover derived from products or services associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9; and (b) the proportion of their capital expenditure and the proportion of their operating expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9.”*



the GAR<sup>8</sup> numerator. Smaller companies that do not have to produce a sustainability report are only included in the denominator. This contradiction needs to be resolved. **Non-reportable customers (e.g. SMEs) should also be included in the numerator of the GAR on a voluntary basis if the taxonomy alignment of the financed economic activity can be verified.** This may only apply to new businesses. As the SME portfolio of customers must be included in the denominator of the GAR, but cannot be included in the numerator, it puts banks (especially smaller ones and more local banks) at a disadvantage, as these usually have large SME portfolios.

On top of that, ESGB recommends **reframing the “Do No Significant Harm” (DNSH) criteria.** Verification of the DNSH criteria is currently required for all financing, which is very costly and, in many cases, unnecessary in our opinion. In any case, national requirements are often sufficiently stringent. In this regard, ESGB believes that some suggestions can be formulated:

- A first option would be to exempt SMEs from the DNSH criteria given its complexity, or at least to adopt a “phase in” period of 5 years minimum.
- Another option would be to make sure that **public authorities align their sectoral regulations with the Taxonomy requirements in the first place.** Indeed, it appears that SMEs are already subjects to sectorial regulation (in some member States) which are already applying Taxonomy requirements to some extent even though they are not aware of it. Therefore, instead of asking SMEs to comply with some Taxonomy requirements, **ESBG believes that it would make more sense to ask national public authorities to align their sectoral regulations with the Taxonomy criteria, so the burden does not rest on SMEs shoulders.** In this regard, the European Commission could elaborate a correspondence table between the taxonomy and the sectoral directives of the NACE sectors concerned by the taxonomy. Then, this table should be published and updated by competent public authorities.

More generally, the verification of taxonomy alignment is mandatory for at least one environmental objective. However, reporting must be carried out for all six environmental objectives. This produces **almost 10,000 key indicators for credit institutions<sup>9</sup>**, which do not necessarily add value for the reader of the report, but simply inflate the volume of the sustainability reports. **Reporting should therefore only be required to determine environmental objectives relevant to taxonomy alignment. In any event, SMEs will need time to adapt to these new requirements, regardless of the choice made.**

### ***3. SMEs will need more incentives and tailored tools from various actors to transition efficiently.***

**SMEs will need both the regulatory advice and financial tools to adapt properly to the Taxonomy requirements. ESGB wishes to highlight that financial institutions cannot bear the entirety of this burden alone. Incentives and public support from other actors are needed.** Chambers of Commerce, professional and sectoral organizations, accounting experts being on the front line on these technical subjects, resources and expertise from the public sector and NGOs should therefore contribute to helping SMEs in their transition journey.

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<sup>8</sup> The Green Asset Ratio (GAR) represents the share of sustainable financing (numerator) in the assets of an institution (denominator). The aim of the GAR is to express a simple and easy-to-understand benchmark for the ecological sustainability profile.

<sup>9</sup> Based on an internal study's estimation from DSGV (ESBG German member): 8,058 individual data points must be reported by credit institutions as of 31.12.2023. On top of that, as of 31.12.2025, the environmental objectives 3-6 must also be reported on for taxonomy alignment. In addition, two new reporting forms will be added then (fees and commission income). Hence, the number of “almost 10,000”.



SMEs (and especially the smallest ones) will also need to have access to public subsidies and aid to access green financing. Without additional incentives, it would be difficult for them to make the necessary investments (industrial investments, IT investments, etc.). **Self-employed, micro-enterprises (if not excluded) or SMEs that are looking for green financing or a subsidy that can benefit their business need support.** In the private sector there are some initiatives that facilitate, for example, the calculation of the carbon footprint, but we believe it is not enough. In some member states, subsidies are disbursed through their local principal bank, thus ensuring quality subsidy advice also for SMEs. In other member states, it could help SMEs **to get an integrative tool to serve as a guide.** Indeed, in the long term, one might fear that if there is no need to report ESG data as an obligation, self-employed and micro-enterprises reporting proactively and following voluntary standards might never happen. They have no structure and little incentive to do so at present. The tool created should be a guide to lead the consumers to the loan or subsidy that best suits them. It should not be a tool limited to capturing data required for ESG disclosure. The aim of such a tool should be to incentivise, by providing value to the user (e.g., if the user makes use of the tool for reporting, then the loan will be subsidised).

Given the diversity of SMEs, ESBG stresses that the self-employed and micro-enterprises may have difficulties in accessing credit. Therefore, they should be considered separately should SMEs be included in the Taxonomy. We believe that one way to facilitate such access is to **implement flexibility in the European programmes or funds dedicated to promoting the financing of ESG projects in the SME segment.** Currently, one may think that the Commission is not flexible enough. This is notably the case for example, when it comes to establishing ESG reporting and documentation requirements for EIB-EIF programs to support SME and microenterprise financing and to encourage the creation of specialized ESG products.



### **About ESBG (European Savings and Retail Banking Group)**

ESBG represents the locally focused European banking sector, helping savings and retail banks in 20 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. Advocating for a proportionate approach to banking rules, ESBG unites at EU level some 873 banks, which together employ 610,000 people driven to innovate at 50,000 outlets. ESBG members have total assets of € 6,38 trillion, provide 313 billion euros in loans to SMEs, and serve 163 million Europeans seeking retail banking services. ESBG members commit to further unleash the promise of sustainable, responsible 21<sup>st</sup> century banking.

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