



ENVIRONMENTAL IMPACT

Transition to sustainability: Next steps to support European SMEs' journey

JUNE 2025



This focus paper was prepared by the European Microfinance Network with support from the Mastercard Center for Inclusive Growth. The views and insights presented are those of the author and are intended to inform discussion; they do not reflect the official position or policies of supporting partners.

This paper focuses on the role of micro and small enterprises (MSEs) in the EU's environmental transition. It considers the obstacles they face and possible solutions to ensure a sustainable and prosperous transition. MSEs represent a significant proportion of EU businesses, micro enterprises alone accounted for **93.6% of all European enterprises in 2023**, employing nearly half of the enterprise workforce. Despite their size, MSEs are responsible for a considerable proportion of environmental impact. According to **OECD data**, they contribute to **40% of greenhouse gas emissions** in general, and half of industrial pollution.

While a growing number of MSEs are committed to improving sustainability, **only 42% are implementing at least five resource efficiency measures**, such as saving energy and minimising waste. Access to finance remains a critical barrier: 55% of SMEs cite it as a substantial obstacle, and 70% indicate a need for additional financial support to accelerate their green transition.

To address these challenges, the paper recommends (1) to **increase MSEs' awareness and knowledge of support schemes and technical expertise**, (2) to **simplify regulatory and reporting requirements** and (3) to **improve financial support through targeted financial instruments and incentives**.

The paper highlights the importance of a tailored support tool, such as a one-stop-shop platform, to provide MSEs with the necessary resources and facilitate their transition to a more sustainable model.

"Play big" for our small businesses

In its report¹ focusing on the Single Market published in April 2024, Enrico Letta emphasises the urgency for "**the EU to "play big" to facilitate the participation of small- and medium- sized enterprises (SMEs) in the Single Market**". The report reminds us of the obstacles that SMEs are facing in Europe: **complex bureaucratic procedures, high administrative burdens, lack of information and of support services**.

In the context of the new European Union political mandate, this report calls for a **simplification of procedures**, more **tailored guidance** and an **easier access to finance for SMEs**. When it comes to the main objectives under **the new Single Market 2025**, the report underlines the necessity to ensure the **alignment between the new Single Market with the objectives set under the European Green Deal for a fair and sustainable transition** and recommends financial supports to be directed toward the transition of **all economic actors in the EU**.

Through the **Mastercard Strive EU program**², we had the opportunity to hear from small businesses on their journey incorporating sustainable practices along with the obstacles they were facing. Behind the ambitious European Green Deal, we need to ensure (1) that **all EU businesses, whatever the sector or the size, get the support and guidance to shift their activities towards a greener model** and (2) **at a reasonable cost**.

While the co-legislators are discussing the Omnibus 1 package, this paper calls on EU policy makers to take greater account of the challenges small businesses are facing in the green transition. The key recommendations include raising awareness and improving knowledge among MSEs, simplifying regulations, improving access to finance, and developing tailored support tools, such as a one-stop shop platform.

¹ Enrico Letta [Report](#) - Much more than a market, April 2024

² [Mastercard Strive](#) is a portfolio of philanthropic programs supported by the Mastercard Center for Inclusive Growth and funded by the Mastercard Impact Fund. With programs in more than 20 countries around the world, Mastercard Strive aims to reach 18 million small businesses to go digital, get capital, and access networks and know-how.

The objective of this focus paper is to **understand the role of micro and small enterprises in their journey incorporating sustainable practices** (section 1), **identify the barriers they are facing in their journey towards a more sustainable model** (section 2) and offer a few **theoretical and practical solutions which could ensure a sustainability transition that fosters prosperity** for micro and small enterprises in Europe (section 3).

Micro and small businesses and environmental sustainability: big expectations for small actors

Since 2019, the **pressure on large companies and SMEs** to improve their environmental sustainability has been increasing steadily along with the **proliferation of legal and regulatory texts**. The new European Commission will pursue the implementation of the Green Deal and intends to **“improve access to finance, simplifying the regulatory environment, and promoting innovation for SMEs”**³ but while doing so, we must make sure that **the specific nature and need of the smallest economic actors** in the EU are addressed.

The **Omnibus simplification package**⁴ published on February 26th, 2025, is a good step in the right direction for a simplification of the framework since MSEs (1) represent most European enterprises, (2) contribute to the EU emissions, (3) have many advantages to improve their **environmental** and social impacts in many sectors.

The proposed changes to the Corporate Sustainability Reporting Directive (CSRD) aim to simplify reporting requirements by limiting them to large companies with over 1,000 employees and significant financial thresholds. It introduces a voluntary SME reporting standard to reduce data demands on smaller companies, revise the European Sustainability Reporting standard (ESRS) for clarity and consistency and remove the need for sector-specific standards.

Small actors for a big share of the EU economy

In 2023⁵, **micro enterprises**⁶ played a crucial role in the EU economy, accounting for **93.6%⁷ of enterprises**, employing **77.5 million people** (48% of the total number of all people employed in enterprises⁸) while small enterprises⁹ accounted for **5.4%** of the total of enterprises in the EU.

Despite their small size, micro- and small enterprises (MSEs) represent the backbone of the EU economy and hold the potential to speed up (or delay) the race to the zero-emissions goals.

Small individual impacts but an important cumulative impact

All European firms have an impact on the environment, but they also have the power to reduce it, contributing to the 2050 zero-emission goal.

However, **estimating the share of micro and small enterprises’ emissions in all sectors is challenging** due among other things to limited information on the environmental footprint of MSEs as well as the time and costs it

³ President von der Leyen's [mission letter](#) to Stéphane Séjourné, 2024

⁴ European Commission, Proposal for a [Directive](#) of the European Parliament and of the Council amending Directives 2006/43/EC, 2013/34/EU, (EU) 2022/2464 and (EU) 2024/1760 as regards certain corporate sustainability reporting and due diligence requirements, February 2025

⁵ Annual [Report](#) on European SMEs 2023/2024, GROW and JRC

⁶ Commission [Recommendation](#) of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (notified under document number C(2003) 1422) (OJ L 124, 20.5.2003, pp. 36–41) and [Directive](#) 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC, article 3 – Micro enterprises responds to at least two of the three following criteria: 1) a balance sheet total of € 350 000 or less, 2) a net turnover of € 700 000 or less and 3) an average number of employees during the financial year of 10 or less.

⁷ Annual [Report](#) on European SMEs 2023/2024, GROW and JRC

⁸ Eurostat [Data](#)

⁹ Commission [Recommendation](#) of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (notified under document number C(2003) 1422) (OJ L 124, 20.5.2003, pp. 36–41) and [Directive](#) 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC, article 3 – Small enterprises are businesses whose balance sheet dates do not exceed the limits of at least two of the three following criteria: 1) a balance sheet total of € 5 000 000, 2) net turnover of € 10 000 000 and 3) average number of employees during the financial year of 50.

involves. Indeed, compared to large companies, who are required to collect and report data, they often lack the means and expertise to do the same. This finding is confirmed by the OECD^{10 11} which points out that research and regulatory scrutiny have **focused mainly on large enterprises**, excluding the development of MSE's efforts on the reduction of pollution, waste management and greenhouse gas emissions. Based on a sample of SMEs in 15 countries, the OECD nonetheless estimates that SMEs are responsible for **40% of greenhouse gas emissions, half of the industrial pollution** and from **one-fifth to three-quarters of energy, electricity and gas use**¹². The European Commission, in its 2022 report on SMEs¹³, estimates the collective share of SMEs in total account for **63.3% of all CO2 and greenhouse gas emissions**.

Recent surveys show a willingness from MSEs to improve their environmental impact: **40% say they are considering becoming more sustainable** while 18% say they are not planning to transition to more environmentally conscious practices soon¹⁴. This tendency is confirmed by the OECD¹⁵, which notes that **MSEs have the potential to become sustainable faster than large companies** as they have more flexibility to implement sustainable practices but also invent new ones. Drawing a distinction between micro- and small-enterprises, the OECD finds that if SMEs are more and more likely to engage in environmental initiatives, **more and more micro-enterprises are "born green"**¹⁶. Despite the obstacles that we will tackle later in this paper, MSEs are intending to step up their game when it comes to their sustainability transition.

Why MSEs are switching to greener practices

Adopting environmental principles benefits MSEs beyond compliance. The 2024 Eurobarometer survey¹⁷ found that **93% of EU MSEs have implemented resource efficiency measures** like energy savings and recycling. The World Economic Forum¹⁸ reports that **88% of institutional investors assess environmental factors**, while 60% of employees and 58% of consumers prioritize sustainability in their choices.

Sustainable strategies enhance efficiency, reduce costs, and boost competitiveness. Transparent environmental reporting¹⁹ attracts investors and improves access to capital. Managing environmental risks strengthens reputation and operational efficiency, while consumer demand for sustainability continues to grow—71% of European consumers prefer sustainable products²⁰. By integrating sustainability, MSEs align with Europe's goals, fulfill ethical and regulatory responsibilities, and position themselves for long-term success.

Where can MSEs improve their environmental impact?

Despite their size, every effort by MSEs to reduce environmental impact matters. Beyond creating sustainable products, they are also working across their production chains to minimize their footprint.

The 2024 Eurobarometer²¹ reveals that 42% of responding MSEs were implementing actions in at least five resource efficiency actions: **saving energy (66%), minimising waste (66%), reduced materials use (57%), saving water (49%), recycling by reusing material or waste within the company (48%), switching to sustainable suppliers of materials, designing products that are easier to maintain, repair or reuse (33%), using predominantly renewable energy sources (24%) and selling residue and waste to another company (22%)**.

Since 2021, MSE investment in sustainability has increased, in line with the European Green Deal. Around 38% have invested at least 1% of their turnover in sustainable technologies, while 13% have invested more than 5% in the last two years. In the following section we will focus on these obstacles.

¹⁰ OECD SME and Entrepreneurship [paper](#) N° 42, Assessing greenhouse gas emissions and energy consumption in SMEs: Towards a pilot dashboard of SME greening and green entrepreneurship indicators, April 2022

¹¹ OECD SME and Entrepreneurship [paper](#) N° 60, Which SMEs are greening? Cross country evidence from one million websites, 2024

¹² OECD SME and Entrepreneurship [paper](#) N° 60, Which SMEs are greening? Cross country evidence from one million websites, 2024

¹³ European Commission (2022), Annual Report on European SMEs 2021/2022: SMEs and environmental sustainability, European Commission, Brussels.

¹⁴ European Commission, [Flash Barometer](#) 486, SMEs, start-ups, scale-up and entrepreneurship, September 2020

¹⁵ OECD SME and Entrepreneurship [paper](#) N° 60, Which SMEs are greening? Cross country evidence from one million websites, 2024

¹⁶ OECD SME and Entrepreneurship [paper](#) N° 60, Which SMEs are greening? Cross country evidence from one million websites, 2024

¹⁷ European Commission, [Flash barometer](#) 549 - SMEs, resource efficiency and green markets, October 2024

¹⁸ World Economic Forum- [How harnessing the power of SMEs and mid-sized companies can shape the future of sustainability](#)

¹⁹ Accountancy Europe-[5 reasons why sustainability matters for SMEs](#)

²⁰ Center for Sustainability and Excellence-[how-ESG reporting benefits SMEs](#)

²¹ European Commission, [Flash barometer](#) 549 - SMEs, resource efficiency and green markets, October 2024

IN A NUTSHELL

MSMEs represent approximately between **40% and 63.3% of the total emissions attributable** to businesses in the EU.

The latest results from the European Commission's Eurobarometer and OECD reports show us that **consumer's demand, investors' requirement and legal obligations** have led MSEs to embrace the environmental transition.

93% of the SMEs responding to the Eurobarometer survey declared having implemented **at least one measure to reduce their emissions**, which represent a progression from 89% from the previous survey in 2021 and **38% of them have invested at least 1% of the turnover on their environmental transition**.

This demonstrates the growing commitment of MSEs to integrate sustainability into their operations but also **highlights the need for continued support and policy interventions to accelerate this transition**, particularly for the smallest ones.

Considering the importance of MSEs in the EU economy and the climate urgency, MSEs' current efforts won't be enough to keep up with the goals set for 2030. The Letta report mentions the need to facilitate a "*greater participation of small and medium-sized enterprises in the Single Market (...) representing the backbone of the EU economy*". While deepening the Single Market and speeding up our environmental transition, it is therefore important **to understand and address the obstacles faced by the smallest enterprises in the EU and set a friendlier and more enabling environment for them**.

I. Barriers to the environmental sustainability of micro and small businesses

The Relief SMEs Package²² published by the European Commission in September 2023 estimates **that 55% of SMEs in Europe are struggling with regulatory and administrative burden and 21% report difficulties to access finance**. These data are confirmed by the 2024 Eurobarometer²³ which shows that 35% of SMEs who implemented resource- efficiency actions faced **complex administrative or legal procedures** and **28% of SMEs responding to the survey mentioned the cost of adopting resource efficiency measures** as a barrier.

The obstacles mentioned above are not new: **administrative and legislative burden, access to finance and lack of skilled work force are the most cited obstacles by MSEs** and we can see these obstacles also exist in their environmental and digital transition. Policy makers at the EU and national level have already taken the measure of the difficulties faced by MSEs in Europe. The Letta²⁴ and the Draghi²⁵ reports along with the Omnibus package call for a reduction and simplification of the regulatory and administrative burden to establish an enabling ecosystem where MSEs could benefit from the Single Market. In the same way, the **2025 recommendations²⁶ of the European Semester** encourages Member States to mobilise public and private investment on areas such as the environmental and digital transition.

The following obstacles described below are all connected and represent the basis of the solutions later presented in this paper.

²² Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - [SME Relief Package](#), September 2023

²³ European Commission, [Flash barometer](#) 549 - SMEs, resource efficiency and green markets, October 2024

²⁴ Enrico Letta [Report](#) - Much more than a market, April 2024

²⁵ Draghi [Report](#) - The future of European competitiveness – A competitiveness strategy for Europe, September 2024

²⁶ European Semester Autumn Package, [Recommendations](#) for 2025

1. Lack of skills, knowledge and awareness

A major challenge MSEs face when selecting and implementing environmentally sustainable technologies is the lack of knowledge and expertise in determining which technology to adopt.

The 2023 SME Climate Hub survey²⁷ found that insufficient knowledge about sustainable practices is the first barrier to environmental sustainability, with **58% of SMEs citing a lack of skills and knowledge as the main reason for not engaging more in their environmental transition**, followed by a lack of time for 44%. Similarly, the 2024 Eurobarometer report²⁸ reveals that 50% of SMEs rely on their own technical expertise to develop resource-efficient solutions. However, only 26% of SMEs reported that they need technical support or consultancy for developing new products, services, or production processes, likely due to the high cost of hiring external experts.

The lack of skills and knowledge affects not only the technical aspects of environmental sustainability integration but also awareness of **evolving environmental regulations and available support schemes for MSEs** (funding and non-financial services). The **changing EU policy and regulatory framework creates uncertainty for businesses, particularly for MSEs**, who lack the resources of larger companies to navigate legal requirements, certification processes, and inspections.

Evolving regulation also hinders, to a certain extent, innovations and investments in new technologies as there are always doubts as to whether the technology will still be compliant in the next years or even needed due to the evolving environmental requirements from EU and national authorities.

2. Navigating regulatory and reporting requirements

An analysis of policies by the International Energy Agency (IEA) and the OECD²⁹, covering both pre- and post-COVID periods as well as the launch of the European Green Deal, revealed that most policies supporting enterprises in their environmentally sustainable transition **lack specific measures for MSEs**. The IEA found that out of 6,000 environmental and energy policy measures, only 100 targeted MSEs. Additionally, OECD's³⁰ review of post-COVID national recovery plans across 91 countries showed that just **5% of measures and 2.4% of total funding were dedicated to MSE-specific policies**.

A similar observation applies at the EU level: since 2019, the European Union has broadened its policy framework to accelerate environmental integration in EU businesses. However, despite micro-enterprises making up **93.6% of EU businesses**³¹, the initial **policy and regulatory framework primarily targets medium and large enterprises**.

Through its policy framework, the EU has set extensive and high objectives for the environmental transition of the European economy – the European Green Deal provides the overarching framework for the EU's sustainability agenda and the EU environmental transition goal: the Fit for 55 package³², the **EU green taxonomy**³³, **Corporate Sustainability Reporting Directive (CSRD)**³⁴, the **Corporate Sustainability Due Diligence Directive (CSDDD)**³⁵, Sustainable Finance Disclosure Regulation (SFDR)³⁶, the **Communication on transition finance**³⁷ and the 2022 Council Recommendation on ensuring a fair transition towards climate neutrality³⁸.

²⁷ SME Climate Hub, SME Climate Hub [Survey](#) 2023

²⁸ European Commission, [Flash barometer](#) 549 - SMEs, resource efficiency and green markets, October 2024

²⁹ OECD, "No net zero without SMEs: Exploring the key issues for greening SMEs and green entrepreneurship", [OECD SME and Entrepreneurship Papers](#), No. 30, 2021

³⁰ OECD, Financing SMEs and Entrepreneurs 2022: An OECD [Scoreboard](#), 2022

³¹ Annual [Report](#) on European SMEs 2023/2024, GROW and JRC

³² European Commission, Fit for 55 [package](#)

³³ [Regulation](#) (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

³⁴ [Directive](#) (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

³⁵ [Directive](#) (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859

³⁶ [Regulation](#) (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

³⁷ [Communication](#) from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Strategy for Financing the Transition to a Sustainable Economy

³⁸ Council [Recommendation](#) of 16 June 2022 on ensuring a fair transition towards climate neutrality

Among those texts, **CSRD³⁹ and CSDDD⁴⁰ have raised numerous discussions from the entities in and outside of the scope of application of these texts.** Reporting is one of the central pillars of the transition to a low carbon economy. By disclosing data on their environmental activities, they aim to demonstrate the impact or contribution of companies on the environment and society. It also enhances transparency with investors and will inspire other businesses to improve their own impacts (including for upstream suppliers who are being asked to provide data by reporting companies).

The **CSRD** requires all large companies and all listed companies (except listed micro-enterprises) to disclose information on what they see as risks and opportunities arising from social and environmental issues, and on the impact of their activities on people. The objective of the CSRD is to help investors, civil society organisations, consumers and other stakeholders to evaluate the sustainability performance of companies. By establishing a common reporting framework, the directive aims to ensure that companies report reliable and comparable sustainability information to ultimately re-orient the investments towards the most sustainable technologies. Companies falling under the scope of the CSRD have to report according to specific standards on its policy, the outcome of this policy, the risks and the Key Performance Indicators on ESG matters.

The **CSDDD** supplements the CSRD by setting out a corporate due diligence duty for large companies to identify and address human rights and environmental impacts due to their activities, their subsidiaries activities and from the chain of activities.

MSEs and reporting

Micro- and small- enterprises are out of the scope of the CSRD and the CSDDD, but they are in practice indirectly **impacted by these requirements through two strands:** (1) through **their role in value chain** (as upstream supplier to a company subject to reporting) and (2) when **seeking financing**. In both situations reporting companies (financial institutions or main contractors) have to gather data from MSEs (as clients or contractors) to incorporate them in their own reporting.

This **trickledown effect** has created a situation where MSEs are required to provide data on the environmental and social impacts of their activities. However, **MSEs are often not equipped (financially and technically) to measure and report on their sustainability performance.**

In its report, the OECD⁴¹ points out that financial institutions are either using an existing framework to gather this data or their own methodologies, resulting in MSEs being asked **to comply with different reporting frameworks, adding to the administrative and legal burdens they already face.**

While the direct regulatory burden on small businesses has been delayed and may be significantly reduced if the Omnibus Proposal is fully adopted, **SMEs should remain attentive to indirect pressures from business partners and market expectations regarding sustainability.**

³⁹ [Directive](#) (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.

⁴⁰ [Directive](#) (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859

⁴¹ OECD, Financing SMEs and Entrepreneurs, OCDE [Scoreboard](#), 2024

Support measures for MSEs and the simplification of reporting

Despite the efforts from the European Commission to adapt the policy and regulatory framework to small actors, the “*Think Small First*” principle⁴² for MSEs should be fully implemented when it comes to MSEs’ environmental transition.

A proportionate and tailored policy and support framework for MSEs is essential to ensure their competitiveness, growth and sustainability⁴³. The European Commission has multiplied its initiatives toward this goal but often, **micro- enterprises who have specific needs, do not benefit from any specific treatments or do not manage to access funding or capacity programmes due to the lack of awareness, knowledge or financial resources.**

The SME Strategy for a Sustainable and Digital Europe⁴⁴ aims to (1) build SMEs’ capacity for their twin transition (2) reduce regulatory burden and (3) improve access to financing. In 2023, this plan was reviewed through the SME Relief package⁴⁵, which focuses on helping enterprises secure transition finance. This Relief package included two actions (1) to simplify reporting requirements to limit the consequences of the trickledown effect⁴⁶ and (2) to encourage financial intermediaries to develop their offer of sustainable finance for SMEs by developing a standard product or developing a definition of green loans based on the advice of the European Banking Authority (EBA)⁴⁷.

In December 2024, the European Financial Reporting Advisory Group (EFRAG) introduced its Voluntary reporting standards for non-listed micro, small and medium sized undertakings (VSMEs)⁴⁸. These standards offer a set of information that could replace the current, unharmonized questionnaires from financial institutions of supply chain contractors. While the use of VSMEs is still too recent to assess, the initiative is a positive step for MSEs. Besides the VSMEs, it is also important to mention the existence of the **Enterprise Europe Network (EEN)**, which provides tailored services to SMEs to properly help them assess their needs and provide advice on **sustainable technology investments**. The **European Resource Efficiency Knowledge Centre (EREK)** also works with SMEs on resource efficiency and circular economy practices and provides training to SMEs to help them comply with new requirements.

The **Platform for Sustainable Finance** has developed a **new streamlined approach**⁴⁹ to recognize SMEs’ environmental performance outside of the framework of the EU green taxonomy.

The European Commission recognizes the challenges MSEs face in reporting and complying with regulatory requirements. However, there are a few measures addressing the specific needs of micro-enterprises. The European Commission’s **recommendation**⁵⁰ **on transition finance**, which advises enterprises on accessing EU sustainable finance tools, highlights this issue. While it calls for more proportionality for SMEs, it does not apply to micro-enterprises due to their size and limited administrative capacity⁵¹.

⁴² The “think small first” or “Small Business lens” principle is defined as a regulatory and legislative approach which takes into account the needs of and potential impact on small businesses when designing new legislation or regulation. WTO, A [handbook](#) for policymakers to support micro, small and medium sized enterprises to engage in international trade

⁴³ European Commission, [Communication](#) from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - An SME Strategy for a sustainable and digital Europe, March 2020

⁴⁴ European Commission, [Communication](#) from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - An SME Strategy for a sustainable and digital Europe, March 2020

⁴⁵ European Commission, [Communication](#) from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions SME - Relief Package, September 2023

⁴⁶ European Commission, [Communication](#) from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions SME - Relief Package, September 2023 – Action 14

⁴⁷ European Commission, [Communication](#) from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions SME - Relief Package, September 2023 – Action 15

⁴⁸ EFRAG Voluntarily sustainability Reporting Standard for non-listed SMEs, ([VSME](#)), December 2024

⁴⁹ EU Platform on Sustainable Finance, [Streamlining Sustainable Finance for SMEs](#), March 2025

⁵⁰ Commission [Recommendation](#) (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy

⁵¹ Commission [Recommendation](#) (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy – Purpose and scope

Omnibus package as a temporary relief for MSEs

The simplification omnibus package⁵² adopted by the College of Commissioner in February includes a directive⁵³ amending CSRD and CSDDD which aims to reduce the reporting burden and limit the trickle-down effect of obligations to small businesses. The implementation of the reporting requirements has also been delayed to 2028 for companies due to start reporting in 2026.

For small businesses, the Commission will also provide a set of **voluntary SME standards designed to help small entities to comply with reporting requirements from larger companies** of financial institutions. Based on these voluntary standards, large companies will not be able to ask small businesses for more information than what is provided under the voluntary standards. This should somehow protect small businesses from trickle-down effects of obligations on smaller companies.

3. Financing constraints for sustainability transition

MSEs' financial constraints stemming from their **environmental ambition** are not new. In its *“Strategy on financing the transition to a sustainable economy”*⁵⁴, the European Commission already called for further actions to set a more inclusive sustainable finance framework to allow SMEs to access sustainable finance.

Three years later, however, the Eurobarometer⁵⁵ still shows that **61% of SMEs adopting resource efficiency actions are using their own financial resources**. For micro- enterprises, this percentage is lower. In its 2024 Scoreboard⁵⁶ on *“Financing SMEs and Entrepreneurs”*, the OECD points out that 55% of the 350 SMEs responding to its survey mentioned the access to finance as a substantial obstacle and **70% declared they would need further financial support to accelerate their sustainability transition**.

When attempting to secure funding to finance environmental technology, MSEs face different challenges all gravitating around (1) **the lack of expertise on their transition to sustainability**, (2) **the lack of data regarding their current environmental and social impact** and (3) **the cost of feasibility studies which can support their funding application**.

In its report⁵⁷, the Energy Efficiency Financial Institutions Group (EEFIG) also shows that SMEs are facing financing challenges due to **“the lack of standardized financial products, a lack of regulatory guidance, high upfront costs and limited awareness of institutions and borrowers”** and adds that SMEs are largely excluded from financial products designed to improve energy efficiency building and production processes. SMEs' lack of expertise and tools to monitor their emissions are also expected to increase difficulties in accessing green loans.

EBA's response to the European Commission's call for evidence⁵⁸ on green loans and mortgages confirms this observation: **green loans still constitute a small part of credit institutions' total assets** and remain limited for MSEs. The banking authority also points out the lack of comparability between products on the green loan market due to the lack of an EU level definition as well as rules.

From the research and feedback received from the MSEs sector, we can identify two main obstacles leading to the under development of the green loans market for MSEs, trapping them **into a vicious circle**.

1. **Conditions to access external funding:** to access external funding through a financial institution, MSEs can apply either to a standard loan or to a “green loan” (sustainable finance). In accordance to CSRD and CSDDD, banks, as financial institutions, must disclose the sustainability of their own activities but also of their clients' activities. MSEs who are not in the scope of the reporting requirement will therefore be asked to provide data on their current environmental impact to access funding. As mentioned, MSEs often cannot provide these data (emissions,

⁵² European Commission, [Omnibus I Package](#), 26.02.2025

⁵³ European Commission, Proposal for a [Directive](#) of the European Parliament and of the Council amending Directives (EU) 2022/2464 and (EU) 2024/1760 as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements, 26.02.2025

⁵⁴ [Communication](#) from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Empty - Strategy for Financing The Transition To A Sustainable Economy, 06.07.2021

⁵⁵ European Commission, [Flash barometer](#) 549 - SMEs, resource efficiency and green markets, October 2024

⁵⁶ OECD [Scoreboard](#) - Financing SMEs and Entrepreneurs 2024 - March 2024

⁵⁷ The Energy Efficiency Financial Institutions Group (EEFIG), The Evaluation of financing practices for energy efficiency in buildings, SMEs and in industry, October 2021

⁵⁸ [EBA Report](#) - In response to the call for advice from the European Commission on green loans and mortgages - December 2023

alignment of their activities with the green taxonomy, Green Asset Ratio) and therefore cannot access funding since investors will prefer to invest in “environmental” enterprises as shown by the OECD⁵⁹: **83% of investors prefer to invest in environmentally and socially sustainable businesses** to reach their own environmental and social goals.

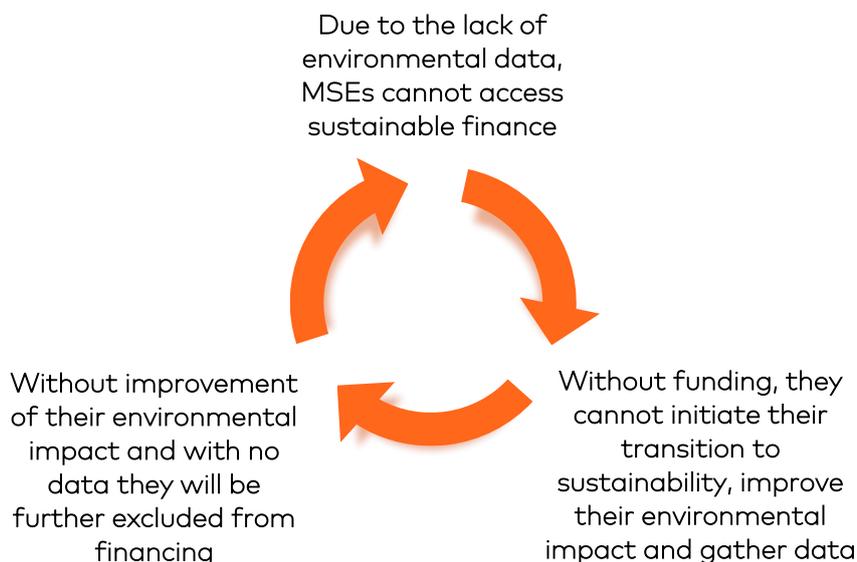
When it comes to providing information on environmental impact to financial intermediaries, the OECD and MSEs note that the requirements go from data on GHG emissions, certificates, sustainability strategy, audited reported...with different methodologies applied across the different stages of the loan application and its repayment.

Moreover, in the absence of enough data proving the sustainability of the business, a financial institution will be reluctant to provide a green loan to a business as it could be considered as **green washing**.

2. **Cost of funding:** Due to the economic and financial context, interest rates remain high. When it comes to green loans, it appears that the interest rates are not lower as setting up these products involves extra costs for banks (who must check the sustainability of their clients).

As a result of these two obstacles, the demand for green loans from MSEs is low which explains why the market for MSEs green loans remains reticent and financial intermediaries are not developing sustainable finance products for MSEs⁶⁰.

Vicious circle for the financing of sustainable plans for MSEs



⁵⁹ OECD [Scoreboard](#) - Financing SMEs and Entrepreneurs 2024 - March 2024

⁶⁰ OECD [Scoreboard](#) - Financing SMEs and Entrepreneurs 2024 - March 2024

IN A NUTSHELL

When it comes to their transition, MSEs face three main interdependent obstacles:

1. A lack of **expertise on environmental technologies and a lack of awareness** as to supporting schemes: without this knowledge, they cannot adopt sustainable technologies and gather data on their environmental impact.
2. This lack of expertise has repercussions on the understanding and implementation of **the regulatory and legislation framework** but also on their capacity to **collect data for the reporting requirements** as part of the trickle-down effect triggered by the implementation of CSRD and CSDDD.
3. Without data to share, MSEs cannot comply with the environmental requirements from financial institutions, making **access to external funding more difficult**.
4. In the following section we develop a few ideas to ensure that micro and small enterprises' needs are correctly addressed to allow their participation to the environmental transition efforts.

II. The path to improve micro and small enterprises' sustainability transition

The Draghi and Letta reports are clear as to **the need to set up a strategy for a sustainable transition inclusive of all businesses and for MSEs** as they represent **93.6% of the European Economy**.

As we have seen above, many initiatives have been taken at the EU level **but most of them are failing to focus on the specific needs of micro enterprises**. To ensure that **micro and small businesses are part of the single market and the transition to a low-carbon, regenerative economy**, we believe that efforts should focus on three dimensions: **(1) awareness and knowledge, (2) reporting and legislative framework and (3) financing**.

To implement these recommendations and in continuation of the European Commission 's efforts, we recommend the creation of a **one stop shop platform which will gather all the information and support needed, at the national level and sector by sector, for MSEs**.

1. *Building MSEs' capacity for their sustainable environmental transition*

- 1.1. Increase **awareness on existing support schemes and programs for MSEs' environmental and social integration at the EU and national level** to ensure MSEs have access to all the opportunities.
- 1.2. Ensure access to **expertise and skills to support the technical aspects of the transition** (free of cost or proportional to the turnover of the company): identify experts according to the **sector and size of businesses** which can provide hands on transition plan adapted to the capacities of the enterprise.
- 1.3. **Provide non-financial services support** for administrative and legal procedures
- 1.4. Encourage **collaboration between MSEs, larger corporations, and research institutions** and **develop exchanges of best practices** and mentoring for **each sector** at the national level

2. *Simplification of the legal and reporting requirements for MSEs*

- 2.1. Through the Omnibus package, the European Commission is planning on providing voluntary standards which will help small businesses with the reporting request from larger companies. These standards will also play as safeguard against over burdening reporting requirements. MSEs should be given particular attention in order to make sure **those standards remain flexible easily implementable**.
- 2.2. Provide **clear and easy guidelines, sector by sector and size by size for MSEs on the environmental legislation** to help them understand and apply it to reduce the legislative uncertainty which can hinder the adoption of some **environmental** technologies.

Innovation fund winner (Mastercard Strive EU)

Tilt's (transforming in a low carbon transition) mission is to equip financial institutions (FIs) with open tools, data, and methodologies to help Small and Medium Enterprises (SMEs) achieve an equitable, nature-positive, and net-zero future. tilt offers a fully automated data analytics solution that uses minimal SME inputs (product information, business type, and location) to link with science-based climate data from sources like the International Energy Agency (IEA), Inevitable Policy Response (IPR), and Ecoinvent. This generates climate indicators that assess emissions intensity and transition risks. Additionally, tilt includes a "Climate Action Guide" to collect complementary data such as production amounts to provide firm- and product-specific climate action recommendations for complementary data such as production amounts to provide firm- and product-specific climate action recommendations for tailored sustainability improvement loans for SMEs.

The goal is to help every SME in the EU access funding and knowledge to transition successfully to a net-zero future by 2050. tilt emphasizes transparency (open- tools and methodology), automation (easy-to-use for resource-limited SMEs), and scalability (applicable globally).

3. Developing funding opportunities for MSEs' sustainable transition

- 3.1. Develop **EU and national financial instruments** (guarantees, grants and loans) targeted to financial institutions serving MSEs

The EIB group and National development banks should develop their offer of **guarantees for financial intermediaries providing green loans to MSEs** with a more risk-oriented policy. The Letta report is suggesting a "European Green Guarantee". The objective will be to incentive banks to **deliver green loans to micro enterprises**.

A prerequisite to further develop financial instruments for financial intermediaries financing MSEs would be to **define "green loans"** to support the development of the green loans market. In parallel, simplifying the regulatory framework (reporting requirements and certainty on environmental technologies) would incentives banks to develop green loans and offer better financing conditions for MSEs.

- 3.2. **Combine grants/subsidies and financials instruments to reduce interest rates and make loans more accessible.** More non-repayable funding to finance MSEs 's **environmental** plan is also a solution to break the vicious circle of lack of expertise/reporting requirements/access to funding.

The **Social Climate Fund** and the **Just Transition Fund** should be used according to their intents, meaning to ensure a fair and just transition for all enterprises.

- 3.3. Provide **financial incentives and develop funding opportunities for environmentally conscious innovation** (*in a side box reference to the Strive EU programme*)
- 3.4. Further develop the capacity of **microfinance institutions** and **alternative finance providers** as a tool towards the **sustainable transition** of MSEs with no access to funding

In practice, how to ensure that MSEs will benefit from these solutions?

The path towards **sustainable** MSEs will go through a tailored support tool **specifically designed for micro and small enterprises, sector by sector and country by country**. A MSEs tailored one-stop-shop structure will include a digital platform, physical hubs, expert support and monitoring tools, and will provide a comprehensive ecosystem that can facilitate MSEs' access to sustainable finance, tools and resources, while fostering collaboration between different stakeholders.

A one-stop shop for the smallest businesses would address the unique challenges and opportunities of each industry while providing comprehensive guidance. This approach would allow micro and small businesses to

implement tailored environmental strategies that are most relevant to their specific sector, maximizing the benefits of sustainability initiatives.⁶¹⁶²

By focusing on sector-specific sustainability criteria, small businesses can manage risks more effectively, improve their reputation and meet the evolving demands of customers and supply chains⁶³.

In addition, a sector-based approach allows micro and small businesses to benchmark their performance against industry peers, identify areas for improvement and potentially gain a competitive advantage in their respective markets⁶⁴.

This targeted strategy also helps smaller companies to navigate the complexities of implementing environmental **transition** more efficiently, reducing costs and resource allocation while still achieving significant environmental, social and governance improvements.

This approach is supported by the success of similar initiatives implemented by the European Commission, such as the Enterprise Europe Network (EEN)⁶⁵ and the European Digital Innovation Hubs (EDIHs)⁶⁶. While EEN and EDIH provide important resources for SMEs, their effectiveness in supporting the micro-enterprises is limited by complexity⁶⁷, limited awareness, focus on larger or technology-driven firms⁶⁸, regional disparities and insufficient tailored services.

The idea would be to use these existing organisations with a wide network to create the one-stop-shop and enable micro- and small- businesses to find the help, knowledge and support they need in **sustainability transition** in one place. Mastercard's Strive programme⁶⁹ is an example of how such a platform can succeed, offering a turnkey solution tailored to small business needs. This approach helps small businesses feel less isolated in their sustainability journey and saves them time by centralising essential information.

Individually, small business may contribute little compared to their larger peers, but collectively they can make a big difference⁷⁰.

⁶¹ British Business Bank-[Benefits of ESG for small businesses](#)

⁶² Enterprise Nation-[ESG for small businesses: How to build and implement an ESG policy](#)

⁶³ British Business Bank-[what is ESG a guide for smaller businesses](#)

⁶⁴ Morningstar- [Identifying the sectors to benefit from ESG](#)

⁶⁵ [Enterprise Europe Network](#)

⁶⁶ [European Digital Innovation Hubs](#)

⁶⁷ European Investment Bank – [Report](#) on Financing the digitalisation of small and medium-sized enterprises, 2020

⁶⁸ [The under-tapped potential of trade and investment promotion tools: The Enterprise Europe Network](#)

⁶⁹ [One Stop Shop for Business Support as part of the Strive UK Programme](#), Enterprise Nation & Mastercard

⁷⁰ World Economic Forum-[Why SMEs are key to a more sustainable and inclusive world](#), March 2023

Glossary

- **CSDDD** (Corporate Sustainability Due Diligence Directive): An EU regulation requiring companies within the scope of the Directive to identify and address adverse human rights and environmental impacts of their actions inside and outside Europe.
- **CSRD** (Corporate Sustainability Reporting Directive): An EU directive that mandates large companies and listed SMEs to disclose their environmental, social, and governance (ESG) activities.
- **EBA** (European Banking Authority): An EU agency responsible for ensuring a stable and transparent banking sector. It provides guidance on green loans, sustainable finance, and risk assessment, influencing the accessibility of green funding for MSEs.
- **EDIH** (European Digital Innovation Hubs): EU-supported centers that provide digital transformation assistance to SMEs, including guidance on sustainability, energy efficiency, and low-carbon technologies to support the green and digital transition.
- **EEFIG** (Energy Efficiency Financial Institutions Group): A European Commission-led initiative that identifies barriers to financing energy efficiency projects. It works on expanding access to sustainable finance for SMEs and developing standardized financial products to support energy-efficient investments.
- **EFRAG** (European Financial Reporting Advisory Group): A body that advises the European Commission on corporate reporting standards, including sustainability and ESG disclosures
- **Enterprise Europe Network (EEN)**: An EU-supported advisory service helping SMEs with innovation, sustainability, and market access, though many MSEs find it complex and not sufficiently tailored to their needs.
- **EREK (European Resource Efficiency Knowledge Centre)**: A European initiative supporting SMEs and MSEs in adopting resource efficiency and circular economy practices through training, advisory services, and best-practice sharing.
- **ESG (Environmental, Social, and Governance)**: A framework used to evaluate a company's sustainability and ethical impact.
- **EU Fit for 55 Package**: A legislative package aimed at reducing the EU's greenhouse gas emissions by 55% by 2030, affecting industries and businesses of all sizes.
- **EU Green Taxonomy**: A classification system that helps define which economic activities are environmentally sustainable, guiding investors and businesses toward greener practices.
- **Eurobarometer**: A series of surveys conducted by the European Commission to assess public and business sentiment on various issues, including environmental sustainability and environmental transition efforts by MSEs.
- **European Green Deal**: A set of policy initiatives by the European Commission aimed at making Europe climate-neutral by 2050. It provides a framework for sustainable economic growth and environmental protection.
- **Green Loan**: A financial product designed to support businesses that invest in energy efficiency, renewable energy, or sustainable projects.

- **MSEs (Micro and Small Enterprises)** ⁷¹: Businesses with a limited number of employees and turnover, typically classified as:
 - **Micro-enterprises**: Micro enterprises are businesses which do not exceed the limit of at least two of the three following criteria: 1) a balance sheet total of € 350 000, 2) a net turnover of € 700 000 and 3) an average number of employees during the financial year of 10.
 - **Small enterprises**: Small enterprises are businesses which on their balance sheet dates do not exceed the limits of at least two of the three following criteria: 1) a balance sheet total of € 5 000 000, 2) net turnover of € 10 000 000 and 3) average number of employees during the financial year of 50.
- **OECD (Organisation for Economic Co-operation and Development)**: An international body that provides research and policy guidance on various economic issues.
- **Resource Efficiency**: The practice of using materials, energy, and resources efficiently to minimize waste and reduce environmental impact.
- **Single Market**: The European Single Market ensures the free movement of goods, services, capital, and labour across EU Member States, helping businesses grow while maintaining regulatory alignment with sustainability goals.
- **Sustainable Finance**: Financial services (e.g., green loans, sustainability-linked investments) designed to support environmentally responsible business practices.
- **VSME (Voluntary SME Sustainability Reporting Standard)**: A set of simplified voluntary reporting standards developed by the European Financial Reporting Advisory Group (EFRAG) to help micro, small, and medium-sized enterprises (MSEs & SMEs) disclose their sustainability performance.

⁷¹ Commission [Recommendation](#) of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (notified under document number C(2003) 1422) (OJ L 124, 20.5.2003, pp. 36–41)

ABOUT

The [European Microfinance Network](#) (EMN) is a member-based not-for-profit organisation based in Brussels, which promotes microfinance as a tool to fight social and financial exclusion in Europe through self-employment and the creation of microenterprises. It is the Network's mission to facilitate capacity building and to advocate on behalf of the sector.

[Mastercard Strive](#) is a portfolio of philanthropic programs supported by the [Mastercard Center for Inclusive Growth](#) and funded by the [Mastercard Impact Fund](#). With programs in more than 20 countries around the world, Mastercard Strive aims to reach 18 million small businesses to go digital, get capital, and access networks and know-how.

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