

Data Platform support to SMEs for ESG reporting and EU taxonomy implementation

Preliminary Assessment

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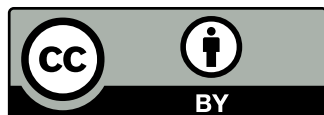
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DATA PLATFORM SUPPORT TO SMEs FOR ESG REPORTING AND EU TAXONOMY IMPLEMENTATION

Preliminary Assessment

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Abstract

Sustainable finance is a key factor in the economy's transition towards climate-neutrality by 2050. Although non-listed small and medium enterprises (SMEs) account for 99% of EU enterprises, they are currently exempted from disclosing sustainability information under the new EU Taxonomy Regulation. However, SMEs could benefit from voluntary reporting through higher visibility, improved access to credit, benchmarking opportunities and improved monitoring of trajectories towards sustainability targets. Digital platforms can help SMEs in reporting but the current landscape for solutions targeting SMEs is fragmented. Underlying problems are a lack of standardization, non-harmonized metrics and limited incentives for SMEs to allocate time and resources for voluntary disclosures. A scanning of existing solutions based on desk-research and interviews with platform providers highlighted the need to communicate clearly to SMEs the added value of disclosure. Barriers for SMEs to voluntarily disclose sustainability information could be reduced by shifting (high) costs away from them and towards data platforms or investors interested in the data. In addition, more focus should be put on the choice of metrics and their harmonization, auditing and data quality control, as well as on counter-acting green-washing.

Keywords: Taxonomy Regulation, Sustainable Finance, SMEs, data platforms, Green Deal.

1. EXECUTIVE SUMMARY

Transitioning to a carbon-neutral EU by 2050 requires diverting financial flows towards sustainable activities. The EU Taxonomy Regulation defines the conditions under which activities qualify as environmentally sustainable (including the compliance with the technical screening criteria defined in the Delegated Act). The Regulation creates the conditions to establish the degree to which an investment is considered environmentally sustainable. Disclosures are for the moment voluntary for non-listed SMEs, which constitute 99% of the EU's enterprise population. Improving the extent and quality of SMEs' sustainability disclosures will likely facilitate their access to sustainable financing and accelerate the EU's transition towards sustainability and climate-neutrality.

To find out how SMEs can participate and benefit from the EU taxonomy, the present report first looks at available platforms and the type of information that is collected on SMEs, by whom and how. It then considers the factors that could motivate SMEs to report their data. Finally, the report looks at how data quality is ensured. The preliminary assessment aims to understand the existing fintech¹ data platform ecosystem and to identify barriers and needs for SMEs to participate in (future) reporting of sustainability information.

An initial screening of digital platforms shows that, while there are many solutions available for companies to do ESG (Environmental, Social and Governance) reporting, only few platforms have a clear focus on SMEs and are aligned with the EU Taxonomy. These platforms either focus on investors (with a financial portfolio perspective) or on individual companies. When the focus is on the investor, it appears that data completeness for portfolios analysis is crucial, and there is a tendency to use algorithms to approximate missing data (e.g. data not reported by companies).

This is especially the case for SMEs. In the case of company-focussed platforms, more efforts are made to support individual companies with their reporting but, in many cases, the focus is still on listed companies that are in any case required by law to disclose their alignment with the Taxonomy.

A set of interviews with data platform providers were held to identify challenges for SMEs in reporting their alignment with the EU taxonomy. Several case studies, comprising of either interviews or in-depth web research, show that the main barriers for SMEs are a lack of standardisation, discrepancies between frameworks applied by different platform providers, non-harmonized metrics for SMEs, as well as high administrative burdens and costs related to data acquisition and quality control.

To incentivize SMEs in reporting their EU taxonomy data, a shift in the cost towards the investors or a reduction of reporting and auditing fees, according for example to the size of the SMEs, were mentioned as possible solutions during the interviews. To shift away from cumbersome reporting obligations towards value creation for SMEs, it will be crucial in the years to come to communicate the value of disclosing sustainability information and provide incentives for SMEs to do so. Disclosure of information on the platforms will allow SMEs to gain access to finance, to benchmark themselves against future sustainable targets or competitors, and to gain more visibility towards investors and also towards customers. In addition, company-focussed digital platforms should provide SMEs with tailored support to obtain the data needed to do the disclosures, help with the reporting and provide certified auditing services, thereby reducing the burden for SMEs.

Several recommendations can be made to policy-makers and fintech data platform providers based

¹ Fintech connects financial services and technology and refers to the use of technology by companies providing financial services.

on the information collected. It is recommended that these suggestions are followed-up with a future feasibility assessment.

Table 1: Summary of recommendations.

Overview of the main recommendations	
Facilitating access to reporting for SMEs	<p>The administrative and financial burden of reporting by SMEs should be minimised as much as possible. Data platform business models that charge SMEs with a lower fee depending on employee numbers or that shift payment to investors are examples of how to reduce costs.</p> <p>Support for reporting and auditing should be available to SMEs for free or at a low cost.</p>
Communicate value creation	<p>SMEs should be encouraged to report their sustainability data, and the advantages of doing so should be clearly explained: These involve access to sustainable finance, visibility to investors and consumers as well as benchmarking against competitors or targets.</p>
Ensure data quality	<p>To ensure high quality of data, one option would be to introduce standards and harmonization for data input (starting with the European Single Access Point) as well as for metrics used, including for simplified reporting standards by SMEs.</p> <p>To avoid green-washing, data needs to be checked for completeness and accuracy. For this, a system of certified external audit could be put in place. In case of algorithmic acquisition of the data, additional checks might be considered to ensure that data gathered online is accurate and reliable.</p>
Ensure goal orientation	<p>All measures that will be implemented should not exist only for the purpose of disclosure only but also to contribute to helping companies, including SMEs, to set and reach their targets to achieve a transition to sustainability and climate neutrality by 2050. Thus, only disclosures and standards that lead to an operational change by companies should be fostered.</p>

2. INTRODUCTION

2.1 STUDYING SME'S DISCLOSURES FOR SUSTAINABLE FINANCE

If properly used, financial instruments are one of the key elements to support the transition towards a carbon-neutral society by 2050 and to achieve the goals of the Paris Agreement to limit global warming. Diverting financial flows to sustainable activities and projects can help reduce harmful and polluting activities and support innovation in sustainable practices, scale-up of climate technologies and transitions of companies towards lower impact activities.

The EU Taxonomy, which defines the conditions under which activities qualify as environmentally sustainable (including the compliance with the technical screening criteria defined in the Delegated Act), is voluntary for non-listed SMEs.

This report aims to provide initial insights into potential barriers and motivations for small and medium sized enterprises into voluntarily disclosing sustainability information in the context of the EU taxonomy and to understand how much data is currently already available for SMEs. The objective of this study is to better understand potential benefits and drawbacks for SMEs to report their data and communicate these results to policy-makers and stakeholders. The research consists of a preliminary assessment performed over six months (October 2021 – April 2022) to get a better understanding of the existing data on SMEs

(accessible via online data platforms), to identify potential barriers but also incentives for these SMEs to report data, and to detect potential problems related to data quality. The geographical boundary for researching data platforms was set to Europe, with a particular focus on the European Union (plus the United Kingdom). The research results were presented to and discussed within the Platform on Sustainable Finance SME Working Group.²

2.2 THE EU TAXONOMY REGULATION AND RELATED LEGISLATION

The Action Plan on Sustainable Finance, adopted by the European Commission in March 2018, aimed at reorienting capital flows towards sustainable investment, managing risk stemming from climate change, environmental degradation and social issues and promoting transparency and long-term investments in financial and economic activities. One of the biggest challenges identified was a clear definition of what can be considered as “environmentally sustainable”.³ In July 2021, the European Commission adopted the renewed Sustainable Finance Strategy that builds on the Action Plan and includes the further development of the taxonomy.⁴ The research undertaken by the JRC connects to Action 2b⁵ and 4c⁶ of the EC's Strategy for financing the transition to a sustainable economy. In the context of Action 2b, this study examines innovative fintech and digital platform solutions to support the reporting of sustainability information under the EU taxonomy

² The Platform on Sustainable Finance is an advisory body to the European Commission on several tasks and topics related to further developing the EU taxonomy and it supports the Commission in the technical preparation of delegated acts, in order to implement the EU taxonomy. European Commission (2022).

³ European Commission (2018)

⁴ European Commission (2021c)

⁵ Action 2b aims to improve the inclusiveness of sustainable finance through integrating “sustainable finance related data in the data spaces under the European Data Strategy and reflect, together with the Digital Finance Platform, on possible further actions to enable and encourage innovative solutions using digital technologies to support SMEs and retail investors”. European Commission (2021c)

⁶ Action 4c aims to increase the contribution of the financial sector to sustainability through the Commission's efforts to “take action to improve the reliability and comparability of ESG ratings and further assess certain aspects of ESG research, to decide on whether an intervention is necessary”. European Commission (2021c)

with a specific focus on SMEs. Under Action 4c the report looks at data quality and increased use of reporting opportunities from voluntary participants (non-listed SMEs).

This challenge is addressed in the Regulation on the establishment of a framework to facilitate sustainable investment (also known as the 'Taxonomy Regulation'), which for the first time defines sustainable economic activities for investment purposes that will be harmonized at Union level.⁷ The Regulation covers six environmental objectives: Climate change adaptation, climate change mitigation (for which disclosure requirements apply as of 1 January 2022), the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control and the protection and restoration of biodiversity and ecosystems (for which disclosure requirements apply only as of 1 January 2023).

The Taxonomy Regulation is accompanied by Delegated Acts (DAs), which define the technical screening criteria (TSCs). The TSCs form the basis to decide under which conditions a specific economic activity contributes substantially to one or more of the EU's environmental objectives, while at the same time respecting the "do no significant harm principle" (DNSH) as well as a set of Minimum Social Safeguards. The Delegated Act defining the TSC for climate change adaptation and mitigation, the 'Climate Delegated Act', was adopted as EU law in December 2021.⁸ The DA for the other four environmental criteria (the 'Environmental Delegated Act') is set to follow.

A second delegated act on the disclosures large companies need to provide under article 8 of the

Taxonomy Regulation, specifies the disclosure obligations for financial and non-financial undertakings to help translate the technical screening criteria into measurable economic performance indicators – key performance indicators (KPIs) – related to turnover, capital expenditure (CapEx) and operational expenditures (OpEx). These disclosure requirements will apply to firms in the scope of the Non-Financial reporting Directive (NFRD), which is set to be replaced by the Corporate Sustainability Reporting Directive (CSRD). While only listed companies with more than 500 employees were required to disclose sustainability information under the NFRD, also listed small and medium sized enterprises (SMEs) (except for micro-enterprises⁹) will be required to report their sustainability information under the CSRD proposal. This, however, can be done in a proportionate manner and based on standards appropriate to their size and capacities. As for non-listed SMEs, they can report their KPIs on a voluntary basis. Standards for SMEs will set a reference for what sustainability information undertakings can expect to request from the SMEs in their value chain.¹⁰

The European Financial Reporting Advisory Group (EFRAG) is providing a technical report to the European Commission in the form of fully developed draft EU Sustainability Reporting Standards (ESRS), which include standards for SMEs.¹¹ A review of the application of the Regulation will take place before 30 June 2024. There will also be a review and impact assessment on the inclusion of SMEs.¹²

While there is a transition phase for disclosures, during which only the proportion of Taxonomy-eligible and non-Taxonomy eligible activities have to be disclosed, the full set of KPIs for non-financial undertakings and for financial undertakings need to

⁷ European Union (2020)

⁸ European Commission (2021a)

⁹ Micro-enterprises are companies with less than 10 employees and typically a turnover or balance sheet total of less than EUR 2 million per year. https://ec.europa.eu/growth/smes/sme-definition_de

¹⁰ European Commission(2021d)

¹¹ EFRAG(2021)

¹² European Commission (2021b)

be disclosed respectively from 1 January 2023 and from 1 January 2024.

already routinely collected or publicly available on SMEs.

2.3 CHALLENGES AND OPPORTUNITIES

2.3.1 Sustainable Financing for Small and Medium Enterprises (SMEs)

SMEs make up the backbone of the EU's industry. 99% of European companies have less than 250 employees.¹³ Nonetheless, SMEs remain excluded from mandatory reporting under the Taxonomy Regulation. However, to foster inclusiveness, solutions need to be developed to collect information on their taxonomy alignment. At the same time, reporting and obtaining the required data might constitute, for both listed and non-listed SMEs, a disproportionately large burden, especially in the case of micro companies with only a few employees.

In addition, SMEs data is important for the reporting of large companies as many SMEs are part of their supply chain. In particular, carbon emissions of supply chains are estimated to amount to an average of 70% of a company's emissions.¹⁴ SMEs must therefore be involved in reporting, as big companies need them for their scope 3 reporting, as part of their value chain.

To sum up, given the huge share of SMEs within the EU economy and within supply chains, it is indispensable to support and prepare SMEs for reporting in an EU taxonomy context, to ensure their access to sustainable finance and to develop an adequate set of standards that take into account the specific needs and constraints of SMEs. Little is currently known about sustainability data that is

2.3.2 Data platforms and fintech solutions

There is a wide landscape of existing digital solutions that support companies in reporting sustainability information and assessing their alignment with the EU taxonomy. Many of these solutions are operated by large international players,^{15,16} but there is also a number of emerging fintech solutions currently in operation or under development. To date, no inventory of these solutions exists and their modes of operation and business models remain to be analysed. The level of involvement or participation of SMEs in these solutions remains unclear.

13 Statistics on small and medium-sized enterprises. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Statistics_on_small_and_medium-sized_enterprises

14 Capgemini Invest(2021)

15 WWG (2020)

16 Solutions include offers by large players, such as Bloomberg, Morningstar, Moody's, IntertrustGroup, Sustainalytics and others. <https://www.bloomberg.com/professional/blog/what-the-eu-esg-taxonomy-requires-you-to-report-and-when/> ; [https://www.morningstar.com/en-uk/learn/eu-sustainable-finance-action-plan?utm_source=google&utm_medium=cpc&utm_medium=cpc&utm_campaign=eu_action_plan_benelux&utm_campaign=eu_action_plan_benelux&utm_content=eu_action_plan_resources_hub%3Futm_source%3Dgoogle&utm_content=eu_action_plan_resources_hub&gclid=CjwKCAjw14uVBhBEEiwAaufYx8JxjSGuCFW0543CQhLavFrY_3FUDj7Lo4ttw1bl_kzQbxjsKfCi6RoCzugQAvD_BwE](https://www.morningstar.com/en-uk/learn/eu-sustainable-finance-action-plan?utm_source=google&utm_medium=cpc&utm_medium=cpc&utm_campaign=eu_action_plan_benelux&utm_campaign=eu_action_plan_benelux&utm_content=eu_action_plan_resources_hub%3Futm_source%3Dgoogle&utm_content=eu_action_plan_resources_hub&gclid=CjwKCAjw14uVBhBEEiwAaufYx8JxjSGuCFW0543CQhLavFrY_3FUDj7Lo4ttw1bl_kzQbxjsKfCi6RoCzugQAvD_BwE;); <https://www.intertrustgroup.com/insights/private-funds-how-to-tackle-the-eu-taxonomy/> (09.06.2022)

3. RESEARCH QUESTIONS

The aim of the report is to provide an initial examination of the existing landscape of data platforms for EU Taxonomy reporting in support of SMEs. In this context, the purpose of the exercise was to understand how far the market is responding to a need to deliver SME focused solutions for EU taxonomy reporting and how much traction any of these solutions are achieving, especially within their target population. It is vital to shed light on the existing landscape of digital solutions that provide support to companies in terms of taxonomy alignment, with a special focus on SMEs. Knowledge of the current market for ESG data platforms might offer a way to understand the potential for taxonomy alignment.

In this context, several questions need to be answered to understand the situation of SMEs regarding these particular aspects:

1. What information on SMEs is currently already being collected? And by whom, how and why?

To find out how SMEs can be included in voluntary taxonomy reporting, it is important to understand if there is already data available that could make the reporting process quicker, easier and less costly. In a next step, it is important to detect who is collecting this data and what the motivation behind this collection is.

2. What can motivate SMEs to do voluntary reporting?

This question tries to find answers on how to motivate SMEs to report their sustainability data and taxonomy alignment and to provide suggestions on how reporting can be beneficial to small enterprises.

3. How can data quality be guaranteed?

When data is available or submitted it is equally important to ensure that the data is complete, correct and of high quality. This needs to be done in a way that is manageable and at a low cost for SMEs.

Answering these three questions should allow to better understand the current positioning of SMEs when it comes to the EU taxonomy and provide support in deciding how to include SMEs in reporting or even developing SME standards. The results of this report can serve policy-makers in understanding the existing landscape on fintech data platforms and the use of data for EU taxonomy alignment. It also offers a basis to discuss the role of SMEs and ways to include them in reporting, both from the policy-making as well as the industry perspective.

While this research provides a first initial scanning of the current market of data platform solutions suitable for SMEs, a follow-up report is suggested that looks into how the available data in the market might be used by regulators in order to provide a testbed for new fintech solutions and services.

4. METHODOLOGY

This research follows two steps:

STEP 1 - Scanning of existing data platforms

This step consisted of a scanning of existing data platforms. This was based on an online search, as well as on support by the data advisory service of the JRC that conducted a key word search in order to find relevant digital platforms focussing on ESG, taxonomy alignment and SMEs. The key words used consisted of 'data platform', 'ESG reporting', 'EU taxonomy' and 'SME's'.

To understand the availability of sustainability data from SMEs for EU taxonomy alignment, the availability of ESG data with reference to the taxonomy was used to understand how much data is available..

STEP 2 - In-depth interviews

In a second step, a non-exhaustive selection of data providers was made, ranging from large companies to innovative fintech companies, from the private sector to public sector innovation. These case studies were selected based on the results of the first scanning step. Interviews were held for the platforms that indicated specific support for SMEs on their website. Some of the interview partners allowed us insights into the design of the data platforms, including other larger data providers.

A set of online interviews were conducted during which the following questions were asked:

- How do the platforms acquire their data?
- What are the needs of the various end users (SMEs, investors, banks, etc.)?
- How can SMEs do reporting without high costs, efforts and administrative burden?
- How can data quality be insured?

These questions were used as steering questions in the interviews, which were conducted as

semi-structured interviews, thus allowing the interviewees to elaborate on the topic in more detail on the basis of the four steering questions. While the platforms were asked to explain how they acquire data, they were also allowed to explain how other data platforms (e.g. when collaborating with them) collected their data on SMEs. Where possible, some also provided demonstrations of data platforms beyond their own data platform. The interviews were complemented with selected cases based on desk research (see table 2).

This is a first initial qualitative study to better understand the existing challenges and opportunities for SMEs in EU Taxonomy reporting. As the list of interviewed organizations is not exhaustive, due to the limited time-frame of the study, this report needs to be considered as a preliminary assessment. Follow-ups are recommended for further in-depth and quantitative analysis and for potential extension of the sample platforms interviewed to go beyond the preliminary assessment.

Table 2: Case studies on digital platforms for SME-focussed reporting for the EU Taxonomy.

Case studies	Interviews	Web research
Case Studies	x	x
Moody's		x
Sustainalytics		x
Refinitiv	x	x
Greenaumatic		x
Ecovadis	x	x
Greenomy	x	x
ESGgen Scorecard	x	x
PlusValue's ESG Plat	x	x
Knowshape	x	x

5. CASE STUDIES

Following the desk research, case studies were performed to gain a better practical understanding on data availability on SMEs. Companies with a clear focus on SMEs were selected for further review. Where possible, we reached out to the companies (see also table 2) to conduct semi-structured interviews to understand the perspectives of the players in the field. The cases examine how Moody's, Sustainalytics and Refinitiv collect SME data with a focus towards portfolio completeness. The case studies about Greenaumatic, Ecovadis, Greenomy, ESGgen, PlusValue and Knowshape focused more on the company support models for EU taxonomy alignment. Barriers and opportunities for SMEs were identified through the interview sessions. As this is a preliminary assessment, the sample size is limited, and an extension of the interviews and case studies is suggested for further research.

5.1 MOODY'S

Moody's is one of the world's largest risk assessment firms with more than 13 000 employees and more than 100 years of experience. It provides services ranging from credit ratings for investors, to data analytics and ESG ratings. While they do have a separate focus on SMEs, their main customers are investors.

As is typical within the ESG assessment space, the focus of these ratings is on larger, publicly listed firms. In order to serve clients with a broader focus that includes SMEs and private entities, Moody's Analytics has developed a predictive tool that allows users to model the full-range of (estimated) ESG scores for any firm globally. This model is based on the ESG data of the 5,000 companies that have been rated in the traditional manner, as well as a range of additional macroeconomic, financial and socioeconomic variables. The model calculates what the expected ESG score for the firm in question would be given the data held on firms in

the same sector, geography and size bracket.

This model is used by a sizeable cross-section of the market including corporates, investors and banks, all of which require ESG profiling for their entire supply-chain, portfolio or counterparties, including SMEs. Moody's Analytics has now pre-scored 140 million SMEs and private firms using the model and allows users direct access to these scores via the Moody's Orbis platform.

In addition, Moody's offers services at firm level, for instance via Moody's Orbis database. This database has information on 400 million companies (of which, it contains more detailed financial information for 41 million). On an SME level it allows to verify if the company exists and has published reports or patents that can be found via the database. Orbis helps investors to assess companies' ESG risks by using an ESG Score Predictor at company level.¹⁷

5.2 SUSTAINALYTICS

Sustainalytics collects ESG ratings for over 11 000 companies and compliance for over 40 000. There is no direct audit of the firm's data, but feedback dialogues with the companies after obtaining the data. Data for the rating stems from news, financial data (from external providers), specialized publications and company reports (e.g. on ESG, sustainability, annual reports). The costs for the rating does not lie with the companies but with the costumers, *i.e.* the investors and the financial sector.¹⁸

Sustainalytics also supports companies in granular reporting for the EU taxonomy, with a focus on the climate mitigation objective. A company can report on the eligibility and alignment of its activities based on revenues, CapEx and OpEx. The assessment takes into account substantial contribution, DNSH and minimum safeguards.

¹⁷ Interview with Moody's, 4.10.2021.

¹⁸ Ecoreporter (2018)

Where the company is lacking data, Sustainalytics uses an algorithm to complement this data. The target for Sustainalytics is portfolio managers, investors and fund managers that need complete data sets.¹⁹

5.3 REFINITIV

The Refinitiv database is comparable to Moody's and Sustainalytics and has a broad range of metrics available, including for SMEs. The database comprises a variety of categories for ESG data. Data gaps remain when companies that sign up to the platform do not have available data (for instance, for reports in previous years). Overall, if data is not available for a particular field, said field can be left blank. While there will be some points deducted in the rating, the impact on this rating can be reduced through points received through data in the other categories.

A report from Refinitiv showed that transparency and reliability of company's ESG data is improving. For instance, they highlighted that the use of external auditing by companies has increased to 25% in 2020.²⁰

5.4 GREENAUMATIC

Greenaumatic²¹ is an intermediary accountancy platform that focusses on SME support and works together with banks. The platform requires SMEs to report sustainability information when applying for loans and supports the SMEs in obtaining the data. Readily available data can currently be found when looking at greenhouse gas emissions related to energy consumption and fuel consumption. Data collected also varies per sector and might depend on requirements within the supply chain of larger companies, for instance, when needing information about the CO₂ emissions for transportation of certain products. The banks and accountant firm

could play a role in verifying the data and ensuring data quality. The data itself remains in the hands of the SME. This opens opportunities for further use of the data for related disclosures, *e.g.* on larger data platforms. According to Greenaumatic, one of the main challenges lies in the fact that while certain information is available and accessible to SMEs, they might be unaware of how to obtain it or how it relates to certain disclosure requirements, including alignment with the EU taxonomy. One problem, for instance, is seen in NACE codes that SMEs might not have updated for their activities or that cannot be linked to CapEX and OpEX. As there are not many laws governing the disclosure of SME sustainability information, the potential positive impact needs to be highlighted as a motivation for companies to do reporting. Greenaumatic shows SMEs the impact in percentage of total revenue linked to EU ETS²² pricing.²³

5.5 ECOVADIS

EcoVadis provides business sustainability ratings, intelligence and collaborative performance improvement tools for global supply chains. EcoVadis's enterprise solution focusses on monitoring the performance of the entire value chain of a company, both upstream and downstream. They provide sustainability scorecard based on customized questionnaires for different industry types, locations and company sizes. Their assessment platform is conceptualized as a tool to improve performance of the participating companies. It allows to track progress and to benchmark the company to compare its performance with competitors. Companies also receive recommendations on how they can improve their performance. EcoVadis awards "medals" that can help showcase good sustainability performance. The reporting is adapted to different international legislation (including EU legislation) and covers

¹⁹ Sustainalytics (2022)

²⁰ Refinitiv (2020)

²¹ De Veer (2022)

²² The EU's Emission Trading System is one of the cornerstones of the EU's policy to combat climate change and establishes a price and a market for CO₂. https://ec.europa.eu/clima/eu-action/eu-emissions-trading-system-eu-ets_en

²³ Interview with Greenaumatic, January 21, 2022.

environment, ethics, labor & human rights as well as sustainable procurement. One key element of EcoVadis's assessment methodology is the use of their 360 degree watch that allows to include information from up to 5 years in the past from public sources (both negative and positive) on the company with the use of AI. It includes data from the Global Regulatory Information Database (GRIDTM) and is combined with stakeholder inputs and in-person analysis.²⁴

Ecovadis applies a pricing that depends on the size of the company.²⁵

In a report, EcoVadis highlights the need to increase the quality of the input data and to increase transparency of providers on the methodology used and on the fees involved. In addition, they support a right for customers to have their rating challenged or corrected if proven wrong. However, they point out the need to keep different methodologies and business models to cater for the need of the different users of the data and instead to focus on transparency.²⁶

5.6 GREENOMY

Greenomy is a Brussels-based fintech start-up founded in 2019 with 50 employees to date. Their work outside of Europe includes a regulatory sandbox in the UK and the establishment of a taxonomy for the United Arab Emirates. The company offers a solution for EU Taxonomy, which is also available for SMEs (although they are not particularly targeting them at the moment but are looking into potential opportunities). They provide a Software as a Service (SaaS)-based Taxonomy Alignment platform that companies can use to compute the relevant metrics for their company, investments or debt. The EU taxonomy alignment screening is self-guided. Companies can retrieve

raw EU taxonomy data from the Greenomy's API. The reporting includes Minimum Social Safeguards and DNSH criteria. Companies can create a profile on the platform and select NACE activities that are eligible for the taxonomy and enter their data. After uploading data about their economic activities, the platform automatically calculates the company's EU taxonomy alignment, if it is taxonomy-eligible. The platform then calculates aligned OpEX, CapEX and turnover. The company receives a report, including all the calculated KPIs.

At the time of the interview (December 2021), 5000 corporates were signed up on the platform via Deloitte. Additional data is collected from data platforms, such as sustainability data. EU taxonomy reporting with Greenomy currently takes only about a day and it is expected to only take a few minutes in the future. However, for many SMEs this is expected to take longer if they do not have all the required data ready at hand.

To have better access to SME data, Greenomy intends to work with Ecochain (NL), a Dutch environmental intelligence platform, that provides scope 1, 2, and 3 emission data as well as life-cycle assessments for SMEs and for larger companies.²⁷

When it comes to reporting for SMEs, Greenomy suggested the use of a reduced number of KPIs and stressed the importance of finding a way to have limited assurance costs for the certification. While there are costs involved for SMEs, the company also stressed the added values of reporting for small enterprises, including visibility, benchmarking and better access to financing.

To ensure that SMEs can be included in EU taxonomy reporting the company focusses on affordable costs. The current business model is

²⁴ Ecovadis (2021)

²⁵ For SMEs, costs start at 349€ for a basic subscription if the company has less than 25 employees (699€ to include additional features, such as Scope 1 and 2 emission calculation or the use of EcoVadis performance medals). For medium sized companies (with more than 100 employees), prices range from 899-3999€ for a one-year subscription.

²⁶ EcoVadis (2021)

²⁷ Ecochain (2022)

designed to make services to small companies almost free and to instead charge the investors and banks. It is them that can send out invitations to their investees to do a free screening. Companies only have to pay if they intend to use and download their report for other purposes, for instance, to present to different investors that are not engaged on the platform.

Greenomy further highlighted the difference between data providers such as Sustainalytics or ISS ESG, that use AI and algorithms to get data on companies, and Fintech solutions like Greenomy that focus on direct reporting by companies. Greenomy puts emphasis on the benefits of combining both. In the interview they pointed out that it would be important to have policy incentives to ensure all companies add their data to make reporting more accurate and to reduce the currently existing gaps in data.

One particularity of Greenomy is that their platform serves as a transition tool for companies to reach their 2050 targets towards climate neutrality. This means that the platform is not intended for singular use but as a monitoring tool for the company to understand their current status in relation to their future targets. In addition, the platform also highlights the best performing companies, helps companies to benchmark, and supports them in finding areas where they might want to do green investment.²⁸ This gives companies the incentives to not only report but also change their way of operating, shift their activities, or rethink their supply chain.

5.7 ESGGEN SCORECARD

ESGgen is a UK-based fintech start-up that provides ESG assessment for small and medium businesses – including start-ups with a focus on alignment with the EU taxonomy. They have a specific focus on SMEs, provide a certified audit and use science-

based metrics. Their target customers are SMEs with the aim to create value for SMEs from ESG reporting. ESGgen provides a different payment scheme based on the number of employees of the company to be assessed, making it affordable for smaller companies to perform an ESG assessment and audit.

The solution is still under development but will be fully digitalised by the end of 2022. This will allow companies to dynamically update their report on a monthly basis and to track their progress. In addition to monthly reporting, there is an annual accounting by ISAE3000 certified accountants to guarantee data quality.

On data availability, the founders highlight that all the data needed for the reporting can already be found in the documentation of SMEs – in their accounting systems, payrolls, or other documents but they might not be aware of it. ESGGen helps them to collect, standardize and report their data.

Beyond benchmarking their ESG performance, SMEs receive information about the value and risks of their activities. This can be completed by a full audit. For companies that have a well-managed accounting system, the reporting can be done within a few hours.²⁹

The metrics for the reporting themselves are based on scientific recommendations, in line with the Paris Agreement, UN development goals, and where applicable with the EU taxonomy. Since certain sector-specific aspects are included from the assessment, such as weapons or biodiversity, the ESGgen scorecard is only 71% aligned with the EU taxonomy. ESGgen simplified existing ESG reporting by using only 27 metrics that are the most applicable to SMEs.³⁰

In addition, in 2021, ESGGen collaborated on

²⁸ Interview with Greenomy, December 8, 2022.

²⁹ Interview with ESGgen. 7.2.2022 and 14.2.2022.

³⁰ The metrics are based on the PhD work of Marc Levere at King's College London, and are based on the scientific recommendations. Lepere(2021)

a study led by King's College London and the University of Oxford that looked at the alignment of major ESG frameworks with the EU taxonomy.³¹

Their study also examined the alignment of frameworks between each other showing the relatively high disparity between standards used. However, especially amongst larger data companies, they found a relatively high percentage of alignment (between 60-80%). While this study was commissioned by one data platform only and thus might not allow for a direct comparison, it shows the interest in platforms' alignment with the EU Taxonomy.

During the interviews, the founders of ESGgen shared their doubts about the aggregated metrics of larger data platforms and the use of algorithms to calculate industry averages based on companies location or sector of activities. According to them, this sort of data collection does not focus on exact values for companies, especially small ones, and does not truly help to alleviate the problems stemming from unsustainable firm behaviour, nor does it allow benchmarking or helping a company to improve or highlight their sustainability performance. While it does lead to complete data sets, these data sets will not contain accurate information to evaluate the performance of individual firms.

5.8 PLUSVALUE'S ESG PLAT

PlusValue's ESG Plat is a digital platform solution aspiring to leverage financial and sustainability data to connect capital providers with SMEs and mid-caps. It aims to collect data on several thousand unlisted SMEs across all sectors and will collect data directly from companies themselves rather than employing sectoral averages and other proxies. Their assessment model, targeting company-level data to support performance comparisons via industry-specific benchmarking, includes double materiality due diligence and risk assessment and management. PlusValue also

intends to integrate additional factors, such as company size and geography, to design holistic benchmarks such as ESG scoring and rankings to be navigated by capital providers.

ESG Plat is built around a modular sustainability framework which combines a common base of compulsory metrics – for which all companies must provide data – and a number of extra metrics for which data is not required but which contribute to improve companies' ESG scoring. This would allow the tool to be both thorough and easy to manage by smaller business, with limited available information on their ESG performance. ESG Plat's framework is based on alignment with sustainability standards such as GRI, SASB, IIRC and IRIS+.

Once data is collected, companies are compared on the basis of alternative assessment frameworks placing different weights on each metric. Capital providers navigating the results are then offered the option to select which assessment framework is used to evaluate companies, such as the EU taxonomy, the UN's SDGs, or a customised assessment framework allowing to choose preferred weights for the metrics. Another feature in ESG Plat's current iteration is the integration of multi-factor assurance, which would improve data validation and limit a company's ability to greenwash. This would be based on the validation of information provided by the companies through web-crawling and assessing unstructured data from news, reports, and social media to ensure consistency with data provided by the companies.

PlusValue is planning to offer companies the opportunity to connect directly with ESG Plat, with current plans including a dedicated self-assessment tool, access to API to connect companies' ERPs and IoT sources, and a predictive algorithm to infer missing data. While the latter is frequently used for data compilation and scores in bigger data platforms, the former appears to be a distinctive way of collecting granular and reliable data. This

³¹ ESGgen (2021)

also allows for real-time updates of data and high data accuracy.³² (The API connection and predictive algorithm are planned for future development of the platform.)

In its current stage of development, ESG Plat will receive revenue from capital providers, thereby limiting the cost for the SMEs and mid-caps willing to share data with the platform. ESG Plat emphasises equal focus on both capital providers and companies and is developing partnerships with public institutions to develop a business model based on the free distribution of ESG data as a public good.

5.9 KNOWSHAPE

Knowshape³³ is an academic spin-off solution, based on a research project by Prof. Andrea Giacomelli at Ca' Foscari University of Venice. The solution is directly based on the text of the EU taxonomy and is one of the closest aligned solutions with the EU taxonomy. A more detailed analysis of the extension of the EU sustainability Taxonomy to SME's can be find in an academic paper.³⁴

Knowshape created a data platform and taxonomy alignment tool that consists of three modules:

- A taxonomy alignment module that checks the eligibility of an economic criteria for the taxonomy, as well as determines the actual alignment of eligible economic activities. The data for the taxonomy alignment check is collected and based on ESG indicators indicated by technical screening criteria.
- The “ESG Sustainability Plan Model” module, creates a Taxonomy Alignment Plan (or CapEx Plan based on Article 8) as well as an ESG Additional Plan to measure short and long term targets towards thresholds in the technical

screening criteria of the delegated act.

- A financial module that focuses on financial impacts and determines how the Sustainability Plan affects profits and loss as well as its funding source.

The taxonomy alignment tool is based on the technical screening criteria and includes key performance indicators (KPIs) with regards to CapEX, OpEX and turnover.

To determine the alignment and the eligibility for funding, the text of the taxonomy regulation is shown. The company using the tool can then check the performance of their own activity and describe whether the activity is eligible or not. In some cases, the company might need expert advice to be able to determine whether this is the case.

The data platform can be used in four different ways:

1. Directly by companies, if they have all the internal documentation prepared and ready to upload.
2. By a specialist advisory team supporting the company: technical consultants that support the company with the first two modules, planners that assist with the 3rd module, and a group of auditors that ensure the quality of the data.
3. By banks, that can provide this solution to their counterparts in order to collect the Taxonomy data in an already structured format for feeding the internal credit processes and reporting (GAR). Firms can then in turn upload their documentation.
4. By a specialist team with a particular focus on SMEs, selected by the bank interested in the SME data. The (external) specialist team, composed

³² Interview with PlusValue, 14 September 2021.

³³ Knowshape(2022)

³⁴ Giacomelli (2021)

of engineers, planners and auditors, uses the tool to file and write the report and send it to the bank.

The tool is a scalable market-solution. It is web-based and can be used by 10 000+ companies at the same time. It is based on an open data model that allows for a machine-readable output and a customizable report. Knowshape is developing the integration with the main corporate enterprise resource planning (ERPs) software, in particular with SAP.

The tool is particularly promoted to banks, whose key interest is to increase their green asset ratio and therefore to include SMEs. However, this is also the most costly option as it takes on board SMEs that never had to collect data on their sustainability performance before. Thus, they need to be supported by specialists that can measure and calculate emissions and other environmental impacts. For this reason, the cost per company in the most expensive scenario requiring consulting support was even estimated to reach EUR 50 000. In this case, a company had to start collecting their data from scratch for the taxonomy alignment and is they had never done any sort of sustainability reporting before.

The duration for a taxonomy-alignment assessment ranges between 1 to 3+ month, depending on the data missing by the SME. This assessment includes the data acquisition and the on-site measurement and calculation of emission and impact data. While this might be one of the lengthier and more costly options, this ensures accurate and detailed data.

During the interview, the (still) significant lack of information and data needed to do the reporting on the side of many SMEs was highlighted. For instance, in some cases the expert team of Knowshape (technical consultants and planners) even went on-site to assist with the measurement of emissions.³⁵

Knowshape focusses on close alignment to the text of the EU taxonomy and provides expert support for the various steps required in the reporting. This closeness to the original legislative text is a clear added value in the way to implement the EU taxonomy and to reach the science-based objectives founded on technical screening criteria. But this closeness also means that the platform might be more complicated to understand and navigate than some of the other solutions examined.

35 Interview with Professor Andrea Giacomelli, Knowshape, 25.11.2021.



6. RESULTS

6.1 FINDINGS FROM ONLINE RESEARCH

Four main findings can be highlighted:

- the great variety of existing solutions
- the limited focus for SMEs
- two types of platforms on the market
- scarcity of solutions for SMEs

6.1.1 Variety of solutions

The initial online research highlighted that many different solutions currently exist on the market. It appears that most (if not all) of the data platform providers use different input data, different metrics and different ways to deal with missing data. This variety in the reporting means that there is a risk of cherry-picking data that looks favourable when reported, or to select metrics that allow for better results when chosen. In addition, the variety in outcomes means that many of the reported data are subject to interpretation and cannot be directly compared when stemming from different platforms.

A first step to address this problem would be to harmonise the input data. This could be done through the European single data access point (ESAP), which is to be established by 31 December 2024. It will allow companies, including SMEs, to disclose their financial and sustainability-related information at one single access point that will be accessible to the public. This would provide a free platform for disclosing information and would guarantee access by third parties, such as NGOs or civil society, which could scrutinize the data and could in turn promote higher quality of the data submitted. Through the ESAP, there would also be a better harmonization of the technical standards used by the authorized data collecting entities. In addition, the European Securities and Markets Authority (ESMA) will perform certain automated

validations to ensure data compliance.³⁶

6.1.2 Limited offer for SMEs

The screening of solutions showed that while there are many market solutions, there is a very limited focus on SMEs. This can be explained by the fact that reporting for SMEs is voluntary and hence motivation to do so is currently still limited, especially when considering that SMEs have less resources to dedicate to this exercise. Creating a digital platform business model around SMEs is therefore currently particularly challenging. Solutions towards this challenge were explored in more details in the interview section.

6.1.3 Two types of platforms

There are two different types of platform solutions that exist (see Figure 1):

Type 1: Platforms with an investor focus

Platforms with investor focus, such as Moody's, Bloomberg, Refinitiv or Sustainalytics, that focus on data completeness across portfolios and oftentimes apply algorithms to complete and estimate data for companies, especially SMEs, based on geography, size and industry sector. This allows to generate sector-averages but offers only limited information about the performance of an individual company. AI and automated searches are frequently used to obtain company's ESG data based on information companies make public online, such as websites, company reports or CSR or ESG reports.³⁷ This can also include public media coverage of the companies. In many cases, regression models or machine-learning algorithms can be used to derive estimates for missing data of companies. The focus is on data completeness across portfolios

³⁶ European Commission (2021e)

³⁷ Refinitiv (2022)

Table 2: Case studies on digital platforms for SME-focussed reporting for the EU Taxonomy.

Investor-focus	Company-focus	Both (+auditors)
		

rather than on details and granularity, especially when it comes to data about SMEs. However, while this helps in complementing portfolio data, it may say little about the individual performance of a company.

Type 2: Platforms with a company focus

These platforms typically operate on a smaller scale and directly support individual companies in reporting and disclosing information with regards to taxonomy alignment and ESG data. This allows for higher granularity of the data, closer monitoring of progress and also higher attention to data quality and auditing. Oftentimes, they provide direct support services or consulting to companies for performing their reporting duties, and sometimes even to calculate or obtain the data needed for doing this reporting. This, in comparison, provides higher granularity but also comes at higher costs and time needed for the acquisition of data. For this reason, the focus is usually on a limited number of companies.

These two types of platforms are complementary and, ideally, the information obtained from companies by the second type of platforms can be used as the basis for feeding data platforms for investors (type 1) with accurate and updated data on individual companies. ESAP could potentially serve as a connecting element for these two platform types in the future. Some platforms, such as Greenomy, are currently working on connecting

the detailed company data support with the investor level.

The scanning revealed a group of data platforms that explicitly mention SMEs in their target groups. These were selected for more in-depth analysis and interviews alongside several of the most dominant players in the field.

6.1.4 Dedicated solutions for SMEs are scarce

Finally, and this is coherent with the limited focus on SMEs, while there are many different solutions existing for ESG reporting for large and listed companies, solutions directly targeting SMEs, especially with regard to EU taxonomy alignment, are still scarce. A few do, however, already exist and these could be found mostly in the fintech start-up and spin-off scene. To better understand their role in encouraging SMEs to do reporting and obtaining all relevant data, follow-up interviews were conducted in a second step with Greenomy, ESGgen, the Digital Impact Platform and Knowshape.

6.2 FINDINGS FROM INTERVIEWS

Following the desk-based study six interviews were conducted, both with large platform providers and with fintech start-ups and spin-offs from academic solutions, to get practical insights and to better understand the implications for SMEs of EU taxonomy alignment reporting. The semi-structured interviews focussed on understanding

the data collection process, the kind of data that was available and needed by the data platforms, the potential costs and benefits of SMEs in being involved in the reporting, as well as the ways the data platforms ensure data quality.

As that the aim of the research was to display the perceived barriers and opportunities for SMEs and for data collection in the context of the EU taxonomy, some of the findings of the study result directly from the perspectives provided by the companies interviewed. Because the size of these companies varied strongly, the results might be subject to a certain bias and need to be confirmed by a larger quantitative assessment. However, the findings provide first indications of potential opportunities and drawbacks for SMEs.

6.2.1 Data availability, collection and quality

When it comes to data availability, especially for SMEs, different responses were received during the interviews. We observed that for data platforms focussing on investors and covering a high number of companies there are large data gaps for some of the provided metrics existing not only for SMEs but also for large and listed companies. However, this did not necessarily have a major negative impact on the overall ESG score of the companies whenever data was available for other data categories to compensate these gaps. However, depending on the importance of the missing information, this could undermine the solidity of the whole reporting exercise. Solutions to overcome this problem need to be integrated and could take the form of indicators on completeness and robustness of the data.

In the case of smaller non-listed SMEs, data collection is approached differently by the various platforms interviewed. The company-focussed platforms oftentimes provide individual support in

obtaining the data for reporting, either through the company's use of digital accounting programmes or through on-site support and technical assistance by experts and engineers. Costs for SMEs vary strongly depending on the method used.³⁸

Some of the interviewees mentioned their uncertainty about how to do include SMEs in reporting, as they are exempted from mandatory disclosures but there might be simplified reporting guidelines proposed for them in the future. There were diverging views on whether the data missed by SMEs could only be obtained through more in-depth environmental studies (such as life-cycle assessments, allocation models and climate risk and vulnerability assessments), which would require high technical expertise and external support, or whether data obtained from accountant sheets could be sufficient to understand the degree of alignment with the EU taxonomy. Harmonization of standards and reporting criteria for voluntary disclosures by SMEs would make it easier to understand which level of detail of data is required to perform disclosures and would allow platforms to cater to the needs of SMEs.

It appears that for current alignment calculations performed by digital platforms, it is sometimes sufficient to report whether companies have policies in place or not, rather than having to provide detailed result-oriented data. While asking for existing company policies gives an overview of the companies' attention towards the environmental dimension, it might not be sufficient to change company behaviour in the long term or provide a true score of a company's alignment with the Taxonomy or with minimum social safeguards. In addition, in most reporting solutions, the company data is not directly audited. Companies therefore might not feel the pressure to change their corporate behaviour, try to obtain more granular data, or change their firm operations.

38 Exemplary solutions we examined depended on the size of the company and the level of (in-person) support that was needed. They ranged from as little as EUR 349 for an online assessment to EUR 50 000 for in-depth analysis with the support of an expert team on site.

Several interviews highlighted the market's prioritization of data completeness over data quality, especially for the assessment of portfolios.³⁹ For this reason, AI and algorithms are frequently used to complement data sets. Granular or company-level data was not seen as absolutely necessary for these purposes.⁴⁰

Interviewees also noted that for some data categories in the commonly used databases, the type of data collection should be reviewed and could be changed. For instance, at current, typical reporting questions ask for simple availability of reports *e.g.* a report on the gender equality strategy of a company, rather than to have metrics in place to check the quality and functioning of the company strategy in practice.⁴¹

Caution has to be applied to automatic data collection as there is a risk for manipulating the search algorithm (*e.g.* through additional positive social media coverage to obtain better scores). In addition, the use of algorithms to calculate industry averages to complete datasets might also reduce the interest of laggards to report data if this would result in a lower score than the industry average.

The issue of lack of standardisation and lack of auditing data quality is pointed out by some academic papers. A lack of auditing raises the threat of 'greenwashing' and increases the risk of companies selecting standards that suit them, choosing data for reporting or even leaving out data that might reflect negatively on their performance.^{42,43} The variety of applied standards and the lack of auditing and control largely reduces the effectiveness and impact of mandatory reporting towards sustainability. In particular, higher transparency is needed from platforms with regards to the input data used as well as the types of metrics applied. The use of ESAP was pointed out

as one way to improve the quality of the input data. In this respect, company-based data platforms oftentimes offer targeted auditing services though in-house or credited expert, which can ensure high quality of data but might come at an overall higher cost. To identify potential misfits, data platforms might also use algorithms to automatically double-check the data received from companies or other sources with information available online.

Overall, in terms of data collection, data gaps were identified for all companies, but in particular for SMEs. The level of detail of the data needed to be collected was debated, potentially due to some level of regulatory ambiguity, especially for non-listed SMEs that might benefit from simplified reporting criteria. In terms of data quality, a clear understanding of the needed input data as well as harmonization of the data is needed to ensure that the final reporting is representative and that scores can be compared between participating firms. The use of AI for completing data sets or proof-checking data could enable reporting but should be watched with caution. External and independent auditing is oftentimes lacking.

6.2.2 Affordability and benefits for SMEs

Some of the interviews highlighted the potential high costs for SMEs to participate in the reporting activities, especially when they had no data on sustainability or on ESGs available. Personal consultation support or auditing services could thus lead to high costs and time-consuming evaluation. Alternatively, some of the interviewed fintech solutions offered differentiated pricing based on the size of the company. Again, the costs seemed to be dependent on the kind of metrics chosen. In some cases, accounting data seemed to be sufficient for analysing the alignment with the EU taxonomy, while for other cases more detailed calculations of

39 Alessi & Battiston (2021)

40 Moody's, Greenaumatic, ESGGen.

41 Interview and platform trial with Marc Lepere, Kings College London, 2022.

42 Lepere (2021a)

43 Lepere (2021b)

environmental impacts needed to be performed. A clearer indication for the type of reporting needed from SMEs might help in better estimating the expected costs.

The interviews highlighted a range of different solutions to ensure that reporting would not create an unmanageable administrative burden for SMEs. One solution to include SMEs in larger data platforms could be by shifting the financial burden to other actors, such as banks, that are interested in obtaining SME data. In some of the business models presented, the final costs were already with the investors or banks interested in the SME data, rather than with the SMEs themselves. These models would highly reduce the barrier for SMEs to do reporting. This would incentivize SMEs to sign up to a platform and share their data, helping with data completeness for portfolios while at the same time giving SMEs access to benchmarking data and more visibility.

In addition, the importance to move from reporting obligations to value creation for SMEs was highlighted across the board. This can be done by incorporating ESG, including taxonomy alignment, into the SME's business strategy, attracting more customers and potentially even allowing for higher price margins. Data platforms can play an important role in communicating the potential value as well as supporting the SMEs in monitoring and implementation. As some of the fintech companies offered continuous performance checks, the company could benchmark itself against its future target performance to comply with the Paris Agreement and the EU's goals for reaching carbon neutrality in 2050, and be offered a roadmap and assistance in how to reach these goals.

It was stressed that reporting also makes benchmarking of companies against competitors possible, allowing to monitor and improve their performance. SMEs could also use its ESG scoring

for marketing and building trust with its customers, thereby benefitting from the reporting exercise.⁴⁴

An important aspect of reporting and submitting data on a platform is the visibility to investors and access to finance. This is perhaps the most crucial aspect for SMEs. Including SMEs in reporting would also allow investors to get better insights in the risk-profiles of SMEs they seek to support.

To sum up, while reporting might be cost and time-intensive, especially if the company needs to collect and report data for the very first time, there are several approaches already existing that lower the entry barrier for SMEs, ranging from size-based price models, to shifting costs to actors interested in the data. A set of metrics specifically designed for non-listed SMEs is needed to harmonize the collection of data. These should be adapted to the reporting capacities of SMEs to ensure data can be obtained without disproportionately high costs or time efforts. In addition, it is important to communicate the value of compliance to encourage SMEs to voluntarily disclose their data. By focussing on value creation and the ability to track their progress and compare their performance as well as attract financing, SMEs can benefit in many ways from reporting their taxonomy alignment.

⁴⁴ However, these disclosures could also come with negative consequences for worst-in-class performers, who might not share the same benefits as SMEs that are more taxonomy-aligned and might rank better.



7. RECOMMENDATIONS

In order to promote data reporting by SMEs in the context of the EU taxonomy, and to ensure data quality, a series of recommendations can be made to policy-makers as well as to data platform providers based on the outcomes of the scanning exercise and interviews. As these recommendations are partially based on the interviews conducted, caution needs to be applied with respect to their possible biases or certain lack of information. The first recommendation is thus to perform follow-up research assessing the findings stemming from the interviews and initial findings.

The recommendations are structured around: access, value creation, data input and quality control as well as goal orientation.

Access to data platforms needs to be free or at the very least affordable **for SMEs** in order to allow them to do ESG reporting given their limited resources. It could be suggested to data platform providers to offer pricing models where investors or banks pay for the reporting process, and potentially for support and analysis, as one way of financing the disclosures for SMEs. This option should be further analyzed for potential impact of this pricing strategy. However, when sustainability data is available for SMEs this could even make them eligible for green loans with lower interest rates offered by banks.⁴⁵ Ideally, this should also include free assessment and support, as well as free auditing of the data. While third party assessment of the data is crucial to ensure data quality, it should not come at a cost that would deter SMEs from doing EU taxonomy alignment disclosures.

Alternatively, preferential pricing systems for SMEs, for instance based on the number of company employees, could make costs proportionate and reasonable for SMEs.

ESG disclosures should not be seen as simple accounting requirements but as a tool to create additional value for the company. **Communication by both policy-makers and platform providers should focus on value creation**, and digital platforms should support companies, especially SMEs, in identifying ways to create value from their insights on sustainability performance. This can be useful, for instance, to optimize internal processes to reduce costs from energy consumption, make informed investment choices or to improve the company's image in terms of environmental and social performance. Disclosures also allow SMEs to benchmark themselves against their competitors, thus allowing them to better monitor their performance in comparison to their peers and identifying their weak and strong points. Finally, disclosures make SMEs more visible and can help attract investments and financing which could further help the company to grow and develop.^{46,47}

Standardization is crucial to **ensure a high level of data quality**, both for data inserted in the system as well as for data resulting from assessments. For input data, the European Single Access Point (ESAP) will play an important role. It will allow NGOs and other actors to have access to ESG data and provide an additional layer of control. However, it is also necessary to have certified, standardized and independent control and auditing mechanisms that go beyond automatic algorithms. This includes, for instance, certified external audits for disclosures at company level. It is recommended both for policy-makers as well as for data platform providers to take measures that ensure input data is reliable, *e.g.* when stemming from online news to not be blown out of proportion, and is based on accurate company reporting. Using digital accounting system for inputs as well as measurements from IoT devices could be one way of ensuring data quality.

⁴⁵ Weinman (2022)

⁴⁶ Gregor (2021)

⁴⁷ Giacomelli (2021)

In addition, regulation plays an important role in ensuring that the market focusses not only on complete data sets across portfolios but also on higher granularity, completeness and quality of data for individual companies. To achieve this, a better link between investor-focussed and company-focussed data platforms could be fostered to replace currently used algorithms that complement missing data. While algorithms should not be used to give insights about an individual company's sustainability performance in the absence of actual measurements they could be useful to provide insights on the average performance within a given economic sector, market segment or country. This could be useful to benchmark the performance of each individual firm and monitor progress at an aggregate level.

To ensure comparability of results between platforms, clearer guidelines on how to apply the EU taxonomy as well as a standardized set of metrics, especially with regards to disclosure requirements for SMEs, are needed from policy-makers. This should go hand in hand with higher transparency on the input data collected and on the metrics used for the assessment on the side of platforms and data providers.

Finally, it is worthwhile to remember that **reporting should not be a goal in itself** but data platforms should be used as a transformative tool that result in companies acting towards a neutral-carbon society. One way to achieve this is by suggesting targets for companies to reach (e.g. in line with the Paris Agreements or the objectives of the Green Deal) and supporting the company in achieving this goal, *e.g.* through yearly targets that it can benchmark itself against. This would provide companies, especially SMEs, with a performance measurement tool, and could even be connected to further incentives (such as labels recognizing the achievement of certain targets used for accessing financing or for marketing purposes). Transition tools monitoring improvement rather than focussing on static comparison between companies might also provide incentives for SMEs with higher

environmental impact to report their taxonomy-alignment without having to fear negative consequences. While this research focussed mostly on companies benefitting from reporting, future research could also look at companies that might suffer negative consequences from reporting their data.

As these recommendations are based on a preliminary scanning exercise and on the perspectives given by the interviewed entities, these recommendations can serve as an indication of preferences of market actors but still require further feasibility assessment.

To sum up, this study highlighted that free or affordable access to data platforms, support and auditing would make reporting more attractive for SMEs. Helping them report data can contribute to achieving the goals of the Green Deal, and fostering high data quality, harmonized data input and standards for metrics, as well as finding a way to audit the data is necessary. SMEs should be incentivized to do voluntary reporting through promoting the benefits of ESG reporting, including benchmarking, visibility and access to finance. Finally, linking company-focussed platforms with large investor-focussed platforms would reduce data gaps and better include SMEs in the process.

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5. Interview with ESGgen. February 7 and 14, 2022.
6. Interview with Greenautomatic, January 21, 2022.

LIST OF ABBREVIATIONS AND DEFINITIONS

AI	Artificial Intelligence
API	Application Programming Interface
CapEx	Capital Expenditures
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
DA	Delegated Act
DNSH	Do No Significant Harm principle
ERP	Enterprise resource planning
ESAP	European Single Access Point
ESG	Environment, Social, Governance
ESMA	European Securities and Markets Authority
EU	European Union
EU ETS	EU Emissions Trading System
GAR	Global Assessment Report
GRI	Global Reporting Initiative
IIRC	Integrated International Reporting Council
IoT	Internet of Things
IRIS+	Impact Reporting and Investment Standards
IP	Intellectual Property
JRC	Joint Research Centre
KPI	Key performance indicator
NACE	Nomenclature of Economic Activities
NFRD	Non-Financial Reporting Directive
NGO	Non-governmental Organisation
OpEx	Operational Expenditures

SaaS	Software as a Service
SASB	Sustainability Accounting Standards Board
SDGs	Sustainable Development Goals
SMEs	Small and medium-sized enterprises
TSC	Technical Screening Criteria

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