Joint public statement following the consultation on EFRAG's Exposure Draft for a Voluntary Sustainability Reporting Standard for non-listed SMEs (VSME ED)

Impact Europe, the Global Alliance of Impact Lawyers, and Euclid Network - the European Social Enterprise Network, endorsed by the signatory organisations, jointly issue this statement to welcome the EFRAG's Exposure Draft for a Voluntary Sustainability Reporting Standard (VSME ED) and share our key recommendations to further align it with the needs of the impact and social economy ecosystems.

The VSME is a significant step forward towards the standardisation of ESG reporting, which has the potential to benefit SMEs, stakeholders, larger companies in the value chain, and investors. The draft reporting standard provides a simple and proportionate tool to guide the sustainability reporting of non-listed SMEs. We particularly welcome the modular and gradual approach to reporting tailored to SMEs' different stages of maturity in their sustainability journey as well as the varying data needs of business partners and stakeholders. Moreover, we embrace the value chain cap principle for its role in clarifying reasonable data requests from business partners.

Impact and social enterprises are predominantly non-listed SMEs. These undertakings are ahead of the sustainability curve with a business model focused on intentionally generating measurable positive impacts on underserved social and/or environmental issues. To maximise the uptake of the VSME in this sector, we believe that EFRAG could implement the following recommendations:

1. **Create clear avenues for voluntary positive impact reporting.**
   We recommend that EFRAG integrates voluntary positive impact disclosures into the standard modules, and recognition of positive impact under general principles for the report preparation and materiality assessment, as detailed in the annex. This will ensure that SMEs not only address ESG risks but can also highlight their positive contributions. The benefits for both the sector and society at large are manifold:
   - SMEs would better substantiate positive impact claims through a consolidated reporting approach, providing negative and positive impacts to sustainability matters.
   - VSME transparency on positive impacts can lead to a natural increase in standardisation over time, enhancing comparability and benchmarking of positive impact performance and metrics. This is key for impact investors' data needs and policymakers regulating the impact and social economy spaces.
   - SMEs would better position themselves in the market to attract impact finance, which offers favourable and tailored financing to their unique business models.
   - The VSME could unlock significant growth opportunities for the impact and social economy ecosystems, while ultimately contributing to the realisation of the UN SDGs and the EU's agenda for a just green transition.

2. **Include a supplementary module for impact enterprises.**
   Developing a specific standard tailored for impact and social enterprises could help differentiate businesses with inherent positive impacts, such as job creation, or adjacent positive impacts, like community engagement and volunteering, from those where social or environmental positive impact is central to the business model. For instance, an enterprise that promotes the sustainable integration of refugees and migrants into the labour market by providing training and job opportunities, while simultaneously collaborating with companies seeking talent. This differentiation could reduce instances of social and greenwashing. Additionally, it would better align with the nuanced data needs of impact investors, which go beyond what VSME typically provides.

   Such a module would require EFRAG's engagement with key impact stakeholders in its design. Hence, the organisations represented in the joint statement are committed to contributing to these efforts.

3. **Safeguard the value chain cap and balance data user needs in SME Reporting.**
   We welcome the need to streamline SME reporting and impose a value chain cap while recognising occasional requirements for additional information that might be necessary. EFRAG could offer guidance on making proportionate requests and mandate justifications for any additional disclosures not covered by the VSME and sector standards.

4. **Strengthen the governance aspect in ESG reporting within the Basic Module.**
   Governance, including transparency on ownership structure and sustainability responsibilities, should be included in disclosures to provide proof of the maturity stage of an SME's impact journey. SMEs benefit from implementing and reporting good corporate governance practices, with early adoption facilitating easier implementation. Reporting on governance encourages investment and credibility.

5. **Offer a centralised, user-friendly digital tool to simplify the reporting process, consolidating reported information, pre-populating sector-relevant data, and automating calculations.**

We commend EFRAG's commitment to enhancing sustainability reporting accessibility for non-listed SMEs through the VSME ED. Recognising a valuable opportunity, we advocate for clearer pathways for disclosing positive social and environmental impacts in the final revised version of the VSME.

This adaptation holds significant potential to contribute to Europe's transformation into a sustainable economy and society while addressing the financing gap for social and environmental challenges, fostering the growth of the impact and social economy sectors.

ANNEX: Detailed recommendations on how to incorporate avenues for reporting positive impacts on social and environmental matters within the VSME.

VSME

Principles for the preparation of the sustainability report should explicitly include positive impact in Paragraph 9a.

Basic Module
Inclusion of disclosure on positive impacts on various stakeholders including the workforce, workers in the value chain, affected communities, consumers, and end-users.
Include examples of such positive impacts, e.g. raising living standards, inclusion of minority groups, upskilling of the workforce, "buying social" etc.
Report on predefined intended positive impact objectives, target groups, indicators to measure impact (standard or customised), and impact performance when possible.

Narrative-PAT Module
Disclosure N3 on "Management of Material Sustainability Matters" could encompass reporting on policies to measure and manage positive impacts, as well as the disclosure of certifications or labels for sustainable business models, social enterprises (e.g., People and Planet First businesses), or impact enterprises (e.g., B Corps), along with mission safeguarding measures.

Business Partners Module
Serving the data needs of business partners reporting under SFDR, CSRD, and other EU regulations.

Additional Voluntary Impact Module
Developing specific standard tailored for impact entities could potentially improve access to impact finance by better aligning with the nuanced requirements of impact investors.

Impact Materiality Assessment:
Clear inclusion of optional impact materiality assessment to report on social and/or environmental positive impacts (e.g. Paragraph 46)

Use of the models:
Enterprises having an inherent or adjacent positive impact on sustainability matters but who do not necessarily have it as core to their business model could better benefit of the Basic and Narrative modules' revised version. Social and Impact enterprises would benefit from the additional Impact Module which would allow them to substantiate their impact claims and access impact finance.