

Beyond European simplifications: How to support SMEs in the transition

On February 26, 2025, the European Commission presented the Omnibus I package, proposing amendments to three pillars of the European regulatory framework for sustainable finance: **the Corporate Sustainability Reporting Directive (CSRD)**, **the Corporate Sustainability Due Diligence Directive (CSDDD)**, and the Taxonomy Regulation.

These regulations were originally designed to provide harmonized and comparable sustainability data, enabling investors, central banks, and supervisory authorities to assess risks, seize opportunities, and direct capital toward a more resilient and sustainable economy.

European financial institutions confirm that **corporate reporting on climate and human rights is no longer just a regulatory obligation but a business necessity**, essential for accessing credit and financial markets and protecting against economic and financial risks.

A recent study by ISTAT (the Italian statistic agency) shows that **sustainability does not reduce competitiveness**. On the contrary, Italian **companies with a medium or high environmental profile**, particularly those using renewable energy sources and improving energy efficiency, **generate greater added value** compared to those that have not embarked on a transition pathway.

However, the **changes introduced in the Omnibus package risk undermining the effectiveness of this system**.

The debate on regulatory simplification has so far **overlooked the specific needs of** small and medium-sized enterprises (**SMEs**), which **account for over 50% of the EU's GDP** (41% in Italy) and **63% of corporate greenhouse gas emissions** but are **exempted from mandatory reporting obligations**.

Without an harmonized, proportionate, and accessible framework, **SMEs lack the tools and capabilities to report the information required by the financial system and large companies in their value chains**, which is necessary to assess exposure to environmental and climate risks and the environmental and social impacts of their activities.

This leads to fragmented and misaligned requests from clients, investors, and financial institutions, to which **SMEs** often cannot respond coherently. The result is **incomplete or non-comparable data, a disproportionate administrative burden, and increasing difficulty in demonstrating sustainability reliability**.

The lack of adequate skills and resources to navigate such a complex regulatory system exposes **SMEs to the risk of being perceived as higher-risk entities, leading to stricter credit access conditions and exclusion from credit processes or commercial relationships**.

As noted by the European Banking Authority (EBA), the **ESG** (Environmental, Social and Governance) information landscape **remains fragmented, particularly for non-listed SMEs**, which struggle to obtain, process, and disclose reliable data.

The combination of **the lack in transparency obligations for SMEs and little internal awareness** creates an information **gap** that **limits the effectiveness of ESG** risk assessments by banks.

Similarly, recent statements from European Central Bank representatives have expressed strong concern: **deregulation or reduced transparency requirements would undermine financial institutions' ability to effectively manage risks** related to climate and natural crises.

Banks will remain bound by **prudential rules requiring selective credit assessments** to protect against these risks, and they will **continue** to demand **detailed documentation from companies**.

Furthermore, additional European Central Bank data confirm that **companies with better environmental performance benefit from more favorable credit conditions**, while those with high environmental impact face stricter credit standards.

It is therefore **crucial to avoid focusing on exemptions or reduced obligations** and instead orient **reforms toward a clear, stable, and coherent regulatory framework that simplifies without weakening**, accompanied by adequate **capacity-building policies to support SMEs** in developing the necessary skills to comply with these directives.

A simplified yet robust regulatory framework would enable **SMEs to plan, access financing, and actively contribute to the transition**.

If that won't happen, the risk is **that smaller enterprises will be excluded from the competitiveness goals the European Union is building**, which are also based on the implementation of the Green Deal and the ability of the entire value chain to demonstrate concrete environmental commitments.

Recommendations

In view of the European Parliament discussions CNA, Legacoop, Euro Coop and ECCO, the climate think tank, have developed a series of recommendations to strengthen SMEs' ability to report, decarbonize their activities, and access financing.

1. Proportionate, scalable, and progressive reporting standards

It is essential to revise **reporting standards to be proportionate, scalable, and adapted** to the size and capabilities of companies while ensuring data comparability.

A gradual and coherent approach, as follows, is recommended:

- **Micro-enterprises (up to 10 employees): Exempt** from reporting for the **first two years**, then **adopt the new SME1 standards**, currently under review by the European Commission.
- **Small enterprises (up to 50 employees): Adopt the new SME standard.**
- **Medium enterprises (up to 250 employees): Adopt the simplified version of the ESRS**, also under review.

Consideration should also be given to **temporal scalability for small enterprises**, i.e., transitioning to the simplified ESRS version after two years.

This system would **balance administrative burdens with information quality**, ensuring an evolutionary path for SMEs consistent with the information needs of the market and financial institutions.

Standards must be revised to meet the information needed by financial institutions and large companies for reliable ESG performance assessments of suppliers and financing recipients, while ensuring that **data requests are realistically achievable for SMEs** given their current technical and organizational capabilities.

Full coherence between adopted reporting standards and the information required along the value chain can prevent fragmentation, disproportionate burdens, and duplication.

2. Materiality and Sectoral Standards

It is necessary to **restore and develop voluntary sectoral standards** to guide reporting and help companies identify material themes and relevant indicators for their sector. These tools, if well-designed, can **prevent the reporting of irrelevant or inconsistent information, improving comparability and reducing the risk of greenwashing**. Sectoral standards should **not introduce new obligations** but guide and simplify the process for companies.

For the same reasons, **maintaining the obligation of double materiality for VSME Standards is recommended**. This approach is crucial to reduce information burdens, avoid collecting and communicating insignificant data, and help companies focus on risks, impacts, and KPIs relevant to their sector and business model.

3. Risk-Based Due Diligence

Due diligence activities must be based on robust **risk assessment, directing actions based on actual risks across the entire value chain**. Limiting due diligence to Tier 1 suppliers and clients would impose disproportionate burdens without tangible benefits. A risk-based system focuses efforts where needed, protecting companies from reputational and financial risks. **Restricting due diligence to Tier 1 would undermine its effectiveness, excluding severe risks like deforestation or forced labor**.

4. Transition Plans (TP)

Transition Plans are increasingly emerging as key tools for assessing the credibility of corporate strategies in a context of growing uncertainty and guiding financial sector investment decisions, which require forward-looking information.

Transition Plans must not be reduced to mere reporting exercises but **structured to be credible and implementable**. It is critical to **maintain the obligation to “put into effect” under Article 22 of the CSDDD**.

Equally important is **developing a clear and progressive framework enabling SMEs to build and implement robust transition plans**, starting with minimum requirements and progressing to more complex versions. This would facilitate SMEs' access to green financing tied to the transition.

5. Strengthening concrete support from large companies, financial operators, and public institutions

The CSDDD, as approved in 2024, introduces an important principle: large companies must not only verify but also support their SME suppliers in reporting and due diligence.

Large companies should adopt a proactive approach toward their direct suppliers' ESG performance, taking on a role in **raising awareness and monitoring**.

However, **the responsibility** to support SMEs **cannot fall solely on large companies**.

European institutions and Member States must play an active and systemic role in ensuring SMEs have access to the tools, skills, and resources needed to align with regulatory obligations.

Policymakers must take explicit responsibility for developing and funding support measures.

This principle should be concretized through **practical and integrated measures** within the CSDDD and CSRD frameworks, **including**:

- **Capacity Building: To provide technical training and update management systems** to ensure SMEs understand and can implement effective reporting processes. **Institutions should create mandatory training courses and fund data collection systems to support SMEs.**
- **Financial assistance: To support for covering consultancy costs and targeted financial aid** (e.g., public guarantees, low-interest loans) for building reporting processes.
- **Shared infrastructure: To develop digital platforms, standardized templates, and common software for data collection.**
- **Transition incentives: To introduce financial incentives or improved credit ratings** tied to adopting credible transition plans or publishing ESG reports, tailored for SMEs.
- **Reward policies: To include structured reward mechanisms within public procurement and ESG performance evaluation systems.** **Large companies** should update supplier qualification and selection criteria, **rewarding those adopting transparent ESG practices and credible transition plans**, which could translate into better supplier rankings, priority access to contracts, or more favorable economic terms. **Public institutions can support** these mechanisms through common guidelines and ESG criteria in public tenders (e.g., **Green Public Procurement**).

Conclusion

It is our hope that the next steps in regulating and supporting SMEs will be characterized by shared and concrete commitment from all stakeholders.

European, national, and regional institutions must provide tools, resources, and capacity-building policies to simplify and proportionate reporting obligations, ensuring a **balance between transparency, environmental sustainability, and economic viability** for companies of all sizes.

LegaCoop, Euro Coop, CNA, ECCO and Euro Coop will continue to be active points of reference in dialogue with institutions and financial actors, contributing to defining a clear, stable, and accessible regulatory framework that accounts for the specificities of cooperative enterprises and SMEs.

Legacoop is one of the main associations representing Italian cooperatives. It includes over 10,000 cooperatives, 7 million members, and a production value exceeding 80 billion euros. Active across all economic sectors, it promotes cooperative culture and the cooperative model, supporting sustainable development, inclusion, and participation. It highlights the commitment of cooperative enterprises to ecological transition, social responsibility, and the construction of an economy focused on collective well-being, in line with the principles and values of cooperative identity. Legacoop actively participates in international and European networks of the cooperative movement.

CNA – The National Confederation of Crafts and Small and Medium Enterprises – brings together 620,000 entrepreneurs who provide employment to 1.2 million people. CNA is one of the largest representative associations, with a widespread presence throughout the national territory. It represents and protects the interests of micro, small, and medium-sized enterprises operating in manufacturing, construction, services, transport, commerce, tourism, and related sectors, with a particular focus on crafts and self-employment. CNA engages in dialogue with institutions to promote the value of craftsmanship and small and medium enterprises as key players in sustainable development and Italy's economic and social progress.

ECCO is a non-profit Foundation and Third Sector Entity established in 2021 as an independent think tank. ECCO is not tied to private interests and is funded exclusively through philanthropic or public resources. It works in the public interest to accelerate climate action at national, European, and global levels. ECCO is composed of a team of experts who develop and promote evidence-based analysis to inform policy choices, transformative climate solutions and strategies, the creation of new narratives, and the building of consensus for inclusive, effective, and timely climate action.

Founded in 1957 in Brussels, **Euro Coop** was one of the first NGOs recognized by the European Commission. Today, Euro Coop represents 19 national members comprising 6,300 cooperative enterprises, mainly in the food retail sector. These cooperatives manage 91,000 points of sale, employ 490,000 people, and generate approximately 60 billion euros in annual turnover.
