



SUSTAINABILITY REPORTING FOR SMES:

Is your Business at an
Upstream of Downstream
Control Point?

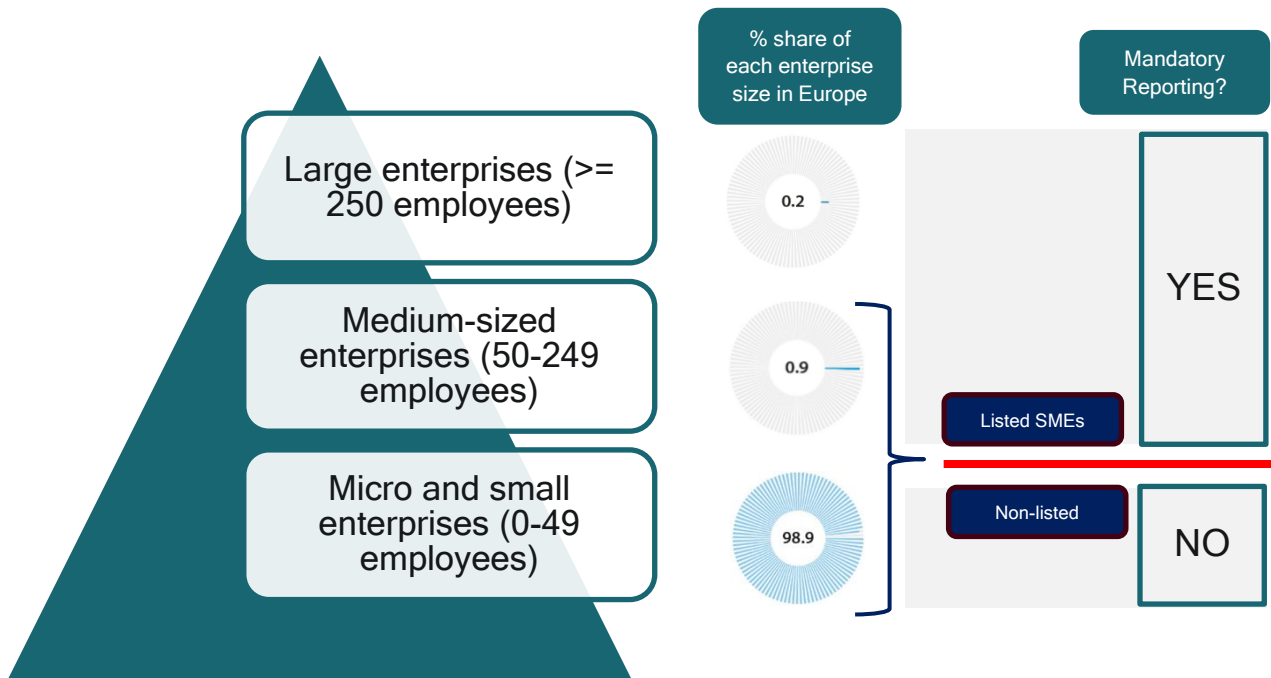


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Regulatory context

Sustainability regulation is evolving rapidly across many jurisdictions, taking the shape of a pyramid across entire industry structures as illustrated below:



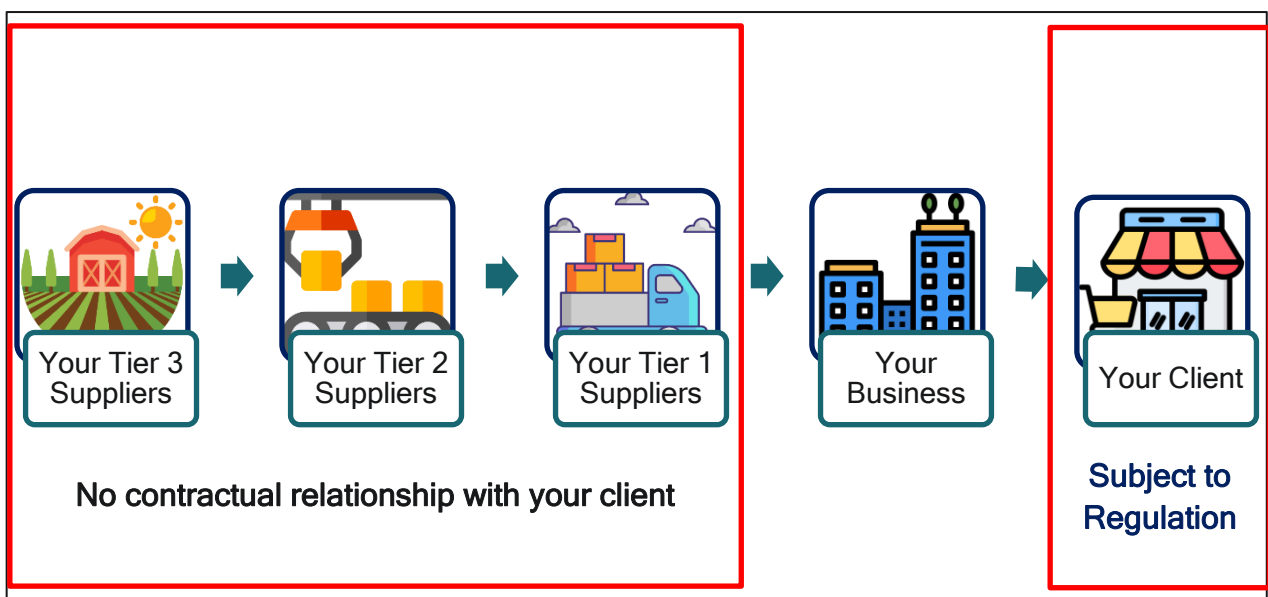
% share of each enterprise size in Europe data compiled from Eurostat.

For the 98.9% of micro and small enterprises, and non-listed SMEs, regulation may appear far away. As a result, there appear to be no impetus to engage in the management of material sustainability topics.

Supply chain relationships and “control points”

Your larger business partners (clients, suppliers and banks) who are now faced with sustainability reporting regulation need to report on sustainability risks and opportunities across the entire value chain.

But, how can they effectively assess business relationships with businesses they do not have contractual relationships with? In other words, how can they assess the risks and opportunities of your suppliers (Tier 1), or your suppliers' suppliers (Tier 2)?



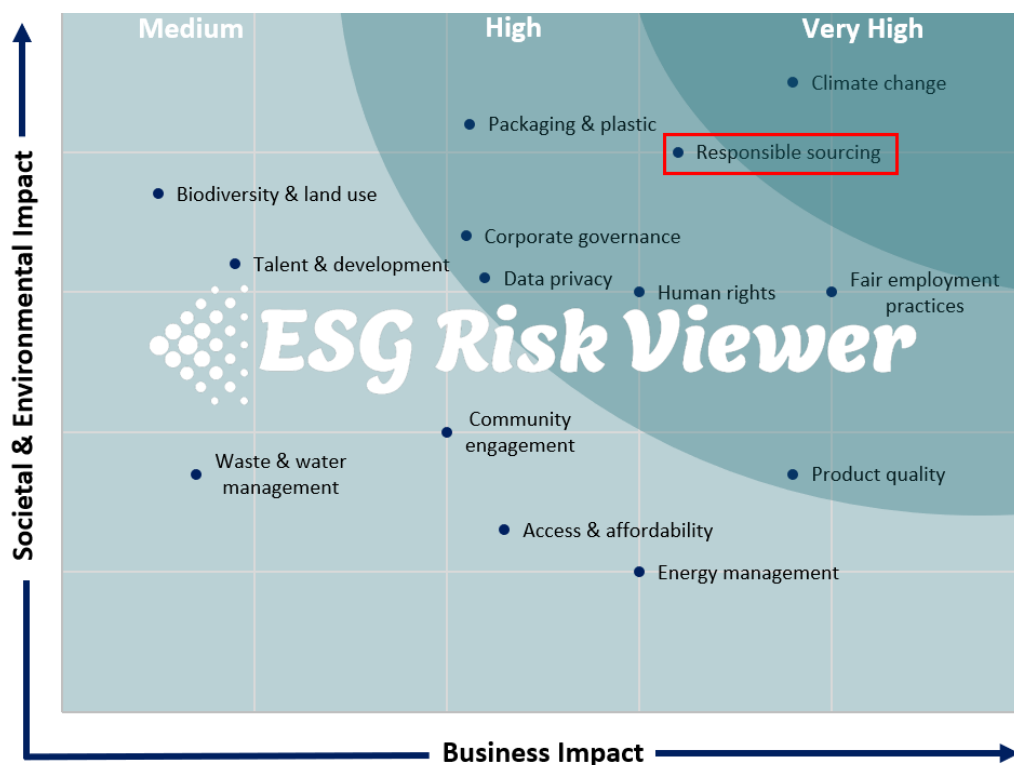
The longer the upstream supply chain, the less visibility your clients have over your Tier 3 suppliers for example. Your business might be an ideal **control point** for your client.

Reasons why your business might be at a downstream or upstream “control point”

Your business might be an ideal **control point** for your corporate clients and lenders; and they are likely to assess the due diligence process you have in place to control your suppliers and sub-contractors.

This is because you have greater visibility and/or leverage over your own suppliers and business relationships further up the supply chain. Conducting due diligence on your business to determine whether you are in turn conducting due diligence on your suppliers provides some comfort that the risks of adverse impacts directly linked to suppliers have been identified, prevented and mitigated.

Consider for example the following double materiality matrix of your typical corporate client, a larger multinational retailer:



“*Responsible sourcing*” has been identified as a material sustainability topic by your corporate client who will need to report using the specific requirements in applicable frameworks such as

- (International - ISSB) - Environmental & Social Impacts of Ingredient Supply Chain (FB-AG-430a.1, 2 and 3)

- (European - ESRS) - Workers in the value chain (ESRS S2)
- (Voluntary & International - GRI) - GRI 308: Supplier Environmental Assessment 2016 and GRI 414: Supplier Social Assessment 2016

For example, in ESRS 2, it is stated that

“19. The undertaking shall disclose whether and how its policies with regard to workers in the value chain are aligned with internationally recognised standards relevant to value chain workers ... The undertaking shall also disclose the extent to which violations in relation to ... the OECD Guidelines for Multinational Enterprises that involve workers in the value chain have been reported in its upstream and downstream value chain and, if applicable, an indication of the nature of these.”

The OECD Guidelines for Multinational Enterprises clearly specify the need for multinational enterprises to carry out due diligence beyond Tier 1 suppliers, across the entire value chain, and your business is potentially the ideal control point for such due diligence.

Concluding thoughts

SMEs should become “see-through” business partners for their corporate clients and lenders.

Supply chain visibility leads to supply chain resilience. SMEs should proactively engage with sustainability reporting and effectively become “see-through” business partners for their corporate clients and lenders.

SMEs increasingly receive requests for sustainability-related information from banks and corporate clients, who in turn need this information to manage their sustainability profiles for aspects that arise from the relationships with your business.

Proactive and voluntary sustainability reporting will clearly be a source of competitive advantage.

The decision of and actual or potential corporate client may rest on the **opacity** or **clarity** that your business brings in the management of its sustainability profile.

