

# SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) FAQs

TVT-INF-003 / Version 5.0

November 2023

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## PART 1: SME DEFINITION, ROUTE AND METHOD APPROACH

### 1. Why did the SBTi introduce the streamlined route for SMEs?

As SMEs start responding to climate change, a growing number are turning to the Science Based Targets initiative (SBTi) to demonstrate their commitment to reducing emissions, and to get help with setting robust, credible targets that are in line with climate science. But many SMEs remain concerned that they lack the skills or capacity to set these targets. In response, the SBTi – a partnership between CDP, the UN Global Compact, World Resources Institute and WWF – introduced a streamlined target-setting route for small and medium-sized companies.

### 2. How does the SME route differ from the standard target validation route?

The SBTi's streamlined route for SMEs enables them to bypass the initial stage of committing to set a science-based target and the standard target validation process. SMEs can immediately set science-based targets (near-term and net-zero options available) by choosing from one of the predefined target options available in the [SME science-based target setting form](#). Unlike larger companies, the near-term option does not require SMEs to set targets for their scope 3 emissions; however, SMEs must commit to measure and reduce their scope 3 emissions.

### 3. What specific criteria must a company meet to be eligible for the streamlined validation route for SMEs according to the new definition implemented by SBTi?

From January 1st, 2024<sup>1</sup>, companies may set targets through the streamlined validation route for SMEs if all criteria points are met:

1. Have <10,000 tCO<sub>2</sub>e across scope 1 and location-based scope 2

<sup>1</sup> Until January 1st, 2024, an SME is defined as an independent company that is not a subsidiary and has a workforce of fewer than 500 employees. This classification excludes financial institutions (FIs) and oil and gas (O&G) companies. Applications submitted on or before December 31st, 2023, will be assessed based on this definition.

2. Do not own or control maritime transport vessels
3. Do not own or control power generation assets
4. Are not classified in the [Financial Institutions \(FIs\)](#) and [Oil & Gas \(O&G\) Sectors\\*](#)
5. Are not a subsidiary of a parent company whose combined businesses fall into the standard validation route\*

And two or more are true:

1. Employ <250 employees\*\*
2. Turnover of <€40 million\*\*
3. Total assets of <€20 million\*\*
4. Are not in a mandatory FLAG sector\*\*\*

Following implementation of this definition, companies that are still classified as an SME may choose to set targets through the more stringent standard validation route.

\*Same as Version 4.0 SME criteria that will cease to be in effect on January 1st, 2024

\*\*CSRD alignment

\*\*\*See Criterion 1 of the [FLAG Guidance](#)

The SBTi exclusively considers the above criteria to classify an entity as an SME and only entities that fall within this definition can use the streamlined route for SMEs.

#### 4. Can you explain what a "mandatory FLAG sector" is and why it's relevant to the definition?

A "mandatory FLAG sector" refers to sectors that must adhere to specific sustainability standards. It's relevant because SMEs in these sectors must meet additional criteria, demonstrating their commitment to sustainability and compliance with sector-specific guidelines. The following are the concerning sectors:

- Forest and Paper Products–Forestry, Timber, Pulp, Paper, and Rubber
- Food Production–Agricultural Production
- Food Production–Animal Source
- Food and Beverage Processing
- Food and Staple Processing
- Tobacco

## **5. Can Financial Institutions and Oil & Gas companies that are SMEs use the streamlined validation route for SMEs?**

No, these sectors are not allowed to use the SME streamlined route. Due to the developing status of our [Oil and Gas guidance](#), the SBTi has updated its fossil fuel policy. In addition to its existing policy to not validate targets from fossil fuel companies, it will no longer accept commitments from these companies, regardless of whether they are an SME or not. As for Financial Institutions, they are required to use the [framework for the finance sector](#) and align their lending and investment portfolios with the ambition of the Paris Agreement.

## **6. Why is being a subsidiary of a parent company relevant to whether a business falls into the standard or streamlined route?**

The status of being a subsidiary of a larger parent company is important for SME eligibility because it ensures alignment with the combined business activities of the parent company. If the parent company's overall business falls into the standard validation route, the subsidiary is expected to adhere to the standard route. This approach maintains a uniform level of rigour and consistency in the target-setting process across the organization.

## **7. My business is considered an SME under the new definition. Do I need to use the SME target submission route?**

Not necessarily. Businesses that qualify as an SME under the new definition can use either the SME route or the standard route for target validation.

## **8. Why is the SBTi increasing the validation fee for SMEs?**

The demand for science-based targets from the private sector, especially from SMEs, has risen significantly in recent years and continues to grow. Validation fees ensure that the SBTi can deliver the target validation service to a high standard while also continually making improvements to services. As a non-profit, the fee is kept at a low level and waivers are offered to SMEs that demonstrate the need, helping to minimise the barriers for companies wishing to set science-based targets while enabling the SBTi to continue delivering a high-quality service.

## **9. Are businesses that no longer qualify as an SME required to pay the standard validation fee rates?**

After the new SME definition goes into effect on January 1, 2024, businesses that no longer qualify as an SME will need to use the standard target validation route and pay the fee associated with the standard validation route. This includes businesses resubmitting targets via a target update that used the SME route for their initial submissions.

Starting January 1, 2024, the SBTi will also reduce the threshold for SMEs to qualify for fee waivers, thereby ensuring that science-based targets promote ambitious and equitable corporate climate action. SMEs with less than \$10 million in annual revenue that are based in developing countries and economies in transition (as defined by the United Nations Department of Economic and Social Affairs) will be eligible for a fee waiver.

### **10. How will the SBTi be checking revenue/asset data to confirm eligibility?**

After the new definition takes effect, the SME validation route will require businesses to submit financial statements that confirm revenue and asset data. This will enable the SBTi to ensure that businesses requesting to use the SME route are compliant with the updated SME definition.

### **11. Why are maritime and power companies automatically excluded from SME consideration?**

Maritime vessels and power generation assets have the potential to generate large amounts of emissions, however data from these sectors is still maturing. This means it could be difficult for companies that own these assets to assess against the 10,000 tCO<sub>2</sub>e scope 1 and location-based scope 2 emission threshold. The SBTi therefore concludes that these companies should not be included in the SME definition.

### **12. Why are financial institutions and oil & gas companies automatically excluded from SME consideration?**

Financial institutions were already excluded from SME consideration before the updated definition, and should still use the SBTi's [Financial Sector Science-Based Targets Guidance](#).

The combustion of fossil fuels represents the single largest source of carbon dioxide emissions, which is why the SBTi is currently developing sector-specific target setting guidance for oil & gas companies. Once complete, companies from the oil & gas sector will need to use the sector-specific guidance to submit targets through the standard validation route.

### **13. Why are only some FLAG companies considered SMEs?**

The Global Reporting Initiative's sector classification for Forest, Land and Agriculture (FLAG) companies is broad and includes many low-emitting, small businesses. That is why some FLAG companies of a certain size, by employee or revenue, can qualify as SMEs.

#### **14. What happens to companies that were SMEs when their targets were validated, but are no longer SMEs under the new definition?**

The SME definition update is forward-looking, and will not require immediate action from companies that have already used the SME target validation route. Instead, starting on January 1, 2024, any business that wishes to use the SME target validation route will need to adhere to the new SME definition. Any business that submits targets through the SME route before January 1, 2024 will be assessed against the existing definition.

SMEs that resubmit their targets as part of a target recalculation or update after January 1, 2024 will need to abide by the new SME definition when selecting the target validation route.

#### **15. How were the specific requirements related to employees, assets and revenue determined?**

The SBTi performed detailed research into the trends and needs of SMEs in order to assess the parameters of the new definition. The initiative also took into account widely recognized standards, such as the [Corporate Sustainability Reporting Directive](#) (CSRD), when considering requirements related to number of employees, annual revenue and total assets. The CSRD is a directive in the European Union that defines required disclosures for businesses related to environmental, social, and governance topics.

#### **16. Why does the emissions criteria for the SME definition use location-based scope 2 as opposed to market-based scope 2?**

Location-based scope 2 emissions capture the inventory of scope 2 emissions prior to the use of market-based instruments (such as Renewable Energy Certificates). This allows for a more accurate comparison to be made against the 10,000 tCO<sub>2</sub>e limit in the new SME definition.

Companies and SMEs that use the standard and SME target validation route, respectively, will be able to use either location- or market-based scope 2 emissions when setting targets.

#### **17. What are the differences between near-term and long-term targets for SMEs?**

The differences between near-term and long-term targets for SMEs are as follows:

**Target Year:** Near-term targets have a target year set for 2030, which means the emissions reductions must be achieved by that year. In contrast, long-term targets aim for a target year no later than 2050. Long-term targets are associated with net-zero targets. This means that when a company sets a long-term target, SMEs commit not only to reducing scope 1,2,3 emissions at least 90% by 2050 at the latest, but also to neutralizing any unabated emissions when the target is achieved. However, it's worth highlighting that while net-zero targets are



commonly associated with long-term target years, there are situations where companies have the capability and resources to achieve net-zero emissions in a near-term period, which could be before 2050. In these circumstances, the SME may opt for the Net-Zero only option, which demonstrates that companies can adapt their target-setting strategies based on their unique circumstances and goals.

**Scope of Emissions:** Near-term targets are focused on absolute reductions in scope 1 and 2 GHG emissions. Net-Zero targets, on the other hand, encompass a broader scope, requiring absolute reductions in scope 1, 2, and 3 GHG emissions.

## 18. What are the target options available for SMEs using the streamlined route?

### Target options for SMEs:

- **Near-term science-based targets (new or update existing reduction near-term targets)** are absolute scope 1 and 2 GHG emissions reduction targets that should be achieved by 2030, from a predefined base year.
- **Near-term maintenance targets:** Enable companies that have achieved zero scope 1 and/or 2 emissions to sustain their efforts and continuously improve. SMEs choosing this option must follow GHG Protocol standards, report their progress annually, and provide supporting documentation for target validation. Additionally, they can select the maintenance approach that aligns with their specific emissions profile.
- **Net-zero targets** include:
  - **Long-term science-based targets:** These are comprehensive, absolute reductions in scope 1, 2, and 3 GHG emissions, with a goal to achieve them no later than 2050, from a predefined base year. Additionally, companies with long-term targets must complement them with near-term targets that must be aligned to 1.5°C pathways. Companies opting for long-term net-zero targets over a 5-10 year timeframe (near-term) have the choice of a dedicated **Net-Zero only service**. This option is also available for companies with existing 1.5°C-aligned near-term targets.
  - A commitment to offset any remaining emissions: This commitment involves neutralizing any emissions that cannot be reduced, once the long-term science-based target has been successfully achieved.

## 19. How do we count the number of employees?

Employee count is determined based on a headcount methodology. This includes the total number of individuals employed by the organization, encompassing both full-time and

part-time employees. For groups of SMEs where one SME entity belongs to another SME or is part of a group structure, it's important to consider the total headcount of the group, not just the headcount of the specific entity that is applying for target setting. This ensures a comprehensive and accurate calculation of employee numbers, which is essential for determining SME eligibility and meeting the criteria for target validation.

## 20. What if my company has a fluctuating number of employees on an annual cycle?

For companies with seasonal employees or employees whose numbers change on a regular basis, the average annual headcount of employees must be used to calculate employee numbers.

## 21. What information do I need to provide to validate my targets?

Like larger companies using our standard target validation route, SMEs are required to complete a recent, comprehensive greenhouse gas emissions inventory following the [Greenhouse Gas Protocol Corporate Accounting and Reporting Standard](#) and [Scope 2 Guidance](#). For near-term targets, companies are required to describe the activities generating scope 1 and scope 2 location based emissions (optionally scope 2 market based emissions) and provide their emissions in their chosen base year calculated in tCO<sub>2</sub>e, and after approval, they are required to publicly report their company-wide scope 1 and 2 GHG emissions inventory and progress against published targets on an annual basis. For long-term targets, companies are also required to describe and provide scope 3 emissions in their chosen base year calculated in tCO<sub>2</sub>e. Please check our [Target Validation Application Checklist for Small and Medium-Sized Enterprises \(SMEs\)](#).

The above information is required when filling in and submitting the [SME science-based target setting form](#). The validation process will be delayed if any information is missing.

## 22. What is the process to validate my targets?

To validate your targets, follow this structured process:

- i. **Eligibility Check:** Start by responding to the eligibility criteria questions in our Target Setting Form to determine if your company qualifies for the SME streamlined validation route.<sup>2</sup>
- ii. **Complete the SME Target Setting Form:** Provide comprehensive company information, choose a target, and answer all Criteria-related questions within the SME target setting form. Ensure you also input your billing information.

<sup>2</sup> This step becomes relevant when the new criteria take effect.



- iii. **Terms and Conditions (T&C):** To proceed with your submission, please ensure that you upload the fully completed Terms and Conditions (T&C) file in accordance with our provided guidelines.
- iv. **Due Diligence and Target Approval:** The SBTi conducts a thorough review to ensure all information is accurate and complete. Any missing data or inconsistencies may result in delays. Upon successful due diligence, you'll receive an email confirming target approval along with the next steps.
- v. **Invoicing and Fee Payment:** Once the SBTi verifies that the uploaded Terms and Conditions file is correct, we will share the payment details with your SME. After making the payment, please send the payment confirmation for the one-time fee to [smes@sciencebasedtargets.org](mailto:smes@sciencebasedtargets.org). For specific pricing details regarding the SMEs validation service offerings, kindly refer to our price structure.
- vi. **Price structure (until December 31, 2023)**

Selected Service	Price
Setting new near-term targets (including maintenance targets) or replacing previous near-term targets	\$1,000 USD*
Setting new net-zero targets ONLY (only companies with previously set 1.5C near-term targets are eligible for this option)	\$1,000 USD*
Setting near-term targets AND net-zero targets	\$2,000 USD*

vii. **Price structure (effective January 1, 2024)**

Selected Service	Price
Setting new near-term targets (including maintenance targets) or replacing previous near-term targets	\$1,250 USD*
Setting new net-zero targets ONLY (only companies with previously set 1.5C near-term targets are eligible for this option)	\$1,250 USD*
Setting near-term targets AND net-zero targets	\$2,500 USD*

*\*These fees are reduced fee options compared to the standard fee of USD \$9,500 and up (+applicable VAT) (see SBTi offerings [here](#)). Companies headquartered in developing countries and economies in transition, as defined by the [United Nations Secretariat's Department of Economic and Social Affairs](#) listed in Table B and C on page 141-142, will have the option to request a waiver for their target submission fee. A waiver option for these companies will be applicable for both the near-term and net-zero target validation services. A revenue threshold for a fee waiver (10M USD, starting January 1st, 2024, and 1B USD before*

*that date) applies to companies based in developing countries. We encourage large, multinational companies based in developing countries to pay the normal service fee to ensure the exemption can be reserved for companies that would benefit most from the waiver.*

- viii. **Payment verification and target confirmation:** Upon receiving the payment confirmation, the deposit is verified with the SBTi Finance Team. A final confirmation is sent to the SME, confirming the approval and registration of the target. The email contains a communications pack and relevant details regarding the target publication.
- ix. **Target publication** The targets will be publicly showcased on both the Science Based Targets initiative (SBTi) website and our partners' platform, We Mean Business. Additionally, SMEs actively participating in the UN Global Compact will receive recognition on this website as well.

### 23. What if my company is an SME with an approved SBT?

If your company is considered an SME (according to our latest criteria) with an approved science-based target (SBT), the approved target will remain valid. However, if you wish to resubmit or update your target, you must utilise the SME [science-based target setting form](#). According to [Criteria V. 5.1](#) C26, targets should be recalculated as needed to ensure their relevance and consistency (see FAQ 20).

### 24. My company submitted a target using the special route for SMEs. When will it be published?

Targets submitted via the SME streamlined route will undergo an approval process and, upon successful due diligence review and payment, will be published on the SBTi website. This process includes providing companies with a communications welcome pack and granting permission to use the SBTi logo in their official communications and on their websites. The duration from application submission to publication may vary depending on each company's specific circumstances. On average, it takes approximately 60 days to complete the entire process.

### 25. How can an SME participate in the Race to Zero campaign?

SMEs can become part of the Race to Zero campaign by adopting a net-zero target. This decision is in line with the campaign's mission of rallying businesses, cities, regions, and investors to achieve net-zero emissions by 2050. Once an SME establishes a net-zero target, they can actively participate in the Race to Zero initiative and play a role in global climate change mitigation. It's important to note that their involvement in the campaign is regularly updated on a quarterly basis.

## 26. Does my SME need to pay for the target validation service?

The target validation service fee can only be waived for SMEs with revenue of less than \$10 million USD<sup>3</sup> and headquartered in developing countries and economies in transition, [as defined by the United Nations Secretariat's Department of Economic and Social Affairs](#). When submitting the [SME science-based target setting form](#), SMEs must request an exemption from the initiative to be considered. We encourage large, multinational companies based in developing countries to pay the normal service fee to ensure the exemption can be reserved for companies that would benefit most from the waiver.

## PART 2: BASE YEAR, RECALCULATIONS AND EMISSION INVENTORIES

### 27. Can companies use different base years than the ones provided in the Target Setting Form?

The available base years follow the calendar year format, ranging from 2018 and onward. As each year concludes, it becomes available for selection in the subsequent year. The predefined target options represent a clean representation of the linear annual reduction rates used by the initiative to classify targets against temperature goals. The predefined options are in line with keeping global temperature increase below 1.5°C. For more information about these thresholds for target classification, please consult the [Foundations of Science-based Target Setting paper](#).

### 28. When should a company consider recalculating its science-based targets based on changes to its operations and emissions profile?

If your company acquires a new business or divests from a business line, keep your target. One of the benefits of using absolute-based targets is that the level of ambition is not affected. You will need to adjust your base year emissions to include the new organisational boundary and track progress consistently. According to [Criteria V.5.1 C26](#), targets should be recalculated as needed to ensure their relevance and consistency. Recalculation is triggered by the following changes:

- i) If scope 3 emissions become 40% or more of aggregated scope 1, 2, and 3 emissions.

<sup>3</sup> Please note that, effective from January 1st, 2024, companies based in developing countries requesting a fee waiver must meet a revenue threshold of 10 million USD. Prior to this date, the threshold stands at 1 billion USD.

- ii) If emissions of exclusions in the inventory or target boundary change significantly.
- iii) If there are significant changes in your company's structure and activities (e.g., acquisition, divestiture, merger, insourcing or outsourcing, shifts in goods or service offerings).
- iv) If there are significant adjustments to the base year inventory, data sources, or calculation methodologies, or changes in data used to set targets, such as growth projections (e.g., discovery of significant errors or a number of cumulative errors that are collectively significant). Your base year emissions recalculation policy must include a significance threshold of 5% or less, which applies to emission recalculations. In the absence of a base year emissions recalculation policy, your company must agree to apply a 5% significance threshold for emission recalculations.
- v) If there are other significant changes to projections or assumptions used in setting the science-based targets.

For more information on base year recalculations please consult the [GHG Protocol Corporate Accounting and Reporting Standard](#).

### **29. If my company is an SME that does not have scope 1 or scope 2 emissions, can it still use the predetermined options in the Target Setting Form?**

Yes, even if your company is an SME without scope 1 or scope 2 emissions, you can still utilize the predetermined options available in the [SME science-based target setting form](#) including the maintenance target option which is exclusive to companies accounting with “0” or nearly “0” scope 1 and/or 2 emissions. The predefined options are designed to accommodate different scenarios and align with specific criteria for setting targets, including for SMEs with varying emission profiles. So, you can make use of these options to establish your science-based targets, provided you meet the applicable eligibility criteria. When reporting progress against its target, your company must indicate that it does not emit scope 1 emissions or scope 2 emissions and provide documentation that confirms 0 emissions in scope 1 and/or 2. It must report scope 1 or scope 2 emissions as part of the target progress reporting if these emissions start being generated during the target period.

### **30. Can an SME set scope 3 targets?**

The SBTi does not require companies using the SME's streamlined route to set scope 3 targets for near-term targets; however, they must commit to measure and reduce their scope 3 emissions. SMEs can set ambitious scope 3 targets and communicate them on their website or other public channels; however, these will not be validated by the initiative.

If choosing to set net-zero targets, scope 3 targets would have to be described and reported on the target validation form. Net-zero targets for SMEs include absolute reductions in scope

1, scope 2, and scope 3 emissions. This allows SMEs to address and reduce emissions associated with their value chain and indirect activities to align with the Science-Based Targets initiative's goals and global climate objectives. The SBTi encourages companies to use [SBTi resources](#) to set ambitious scope 3 targets.

### **31. Can you explain what "tCO<sub>2</sub>e" means and why it's relevant to the criteria?**

"tCO<sub>2</sub>e" stands for metric tons of carbon dioxide equivalent. This unit is essential because it serves as a standardized measurement for quantifying greenhouse gas emissions. Its significance in the criteria lies in its role in defining the maximum allowable emissions across specific scopes (scope 1 and location-based scope 2) to determine eligibility for the streamlined route.

### **32. What's the significance of scope 1 and location-based scope 2 emissions in the criteria?**

Scope 1 emissions typically refer to direct emissions from sources that a company owns or controls, while location-based scope 2 emissions are related to purchased energy (electricity and heat) consumed by a company. These criteria set specific limits on emissions to ensure that SMEs have a relatively low carbon footprint to qualify for the streamlined route. For more information, consult the [GHG Protocol Corporate Accounting and Reporting Standard](#).

### **33. Do the predetermined options mean SMEs cannot use other science-based target methods, such as the Sectoral Decarbonization Approach (SDA)?**

The streamlined SME route focuses exclusively on absolute targets, offering simplicity and ease of use. This approach simplifies target setting for SMEs by providing predefined target options, eliminating the need to delve into various target-setting methodologies and data input. Climate science emphasizes the necessity of decoupling emissions from growth for all types of targets, be they absolute or intensity-based. Even though the SDA takes into consideration the initial intensity of the company and the projected growth to calculate a target, it also requires the reduction of absolute emissions across all sectors.

Following the November 2023 release of the updated definition, companies that are still classified as an SME may choose to set targets through the more stringent standard validation route.

### **34. Is there any specific guidance on how to annually report progress against our targets?**

Like larger companies using our standard target validation route, SMEs are required to complete a recent, comprehensive GHG emissions inventory following the Corporate

Standard and the Scope 2 Guidance and publicly report company-wide scope 1 and 2 GHG emissions inventory and progress against published targets annually.

Disclosure through standardized comparable data platforms is recommended like CDP's annual questionnaire, though annual reports, sustainability reports and the company's website are acceptable. For guidance on measuring and reporting emissions, we recommend the toolbox provided by the SME Climate Hub: <https://smeclimatehub.org/tools/>.

### **35. Is there guidance on how to implement set targets and how to achieve emissions reductions?**

The SBTi does not provide detailed resources on emissions reduction measures to achieve the set targets. Those measures will differ from sector to sector and company to company. We recommend referring to the toolbox of the SME Climate Hub for guidance on how to reduce your own emissions as well as value chain emissions: <https://smeclimatehub.org/tools/>.

For the most comprehensive and specific information, we recommend referring to the official [SBTi resources](#) or reaching out to us directly at [smes@sciencebasedtargets.org](mailto:smes@sciencebasedtargets.org).