

# SUSTAINABLE DEVELOPMENT: EFAA'S GOAL FOR 2019 AND BEYOND

The importance of small and medium-sized enterprises and practices (SMEs and SMPs) in the pursuit of the UN's Sustainable Development Goals (SDGs) is growing, write EFAA's *Bodo Richardt* and *Paul Thompson*

**T**hroughout 2018 we witnessed a fast-growing emphasis on the pursuit of the SDGs, and the corresponding discussion on how to measure and report on economic, social and environmental performance.

At the end of last year, set against growing concerns that global efforts to meet climate-related goals may amount to too little too late, many of the world's leaders convened in Katowice, Poland at the UN Climate Summit (COP 24).

Two key issues were getting all nations to agree on uniform rules for measuring and reporting their own performance in cutting emissions, and how to connect reduction efforts across regions and nations. Discussions at regional and national level will affect legislators and regulators, as they will need to collect information from enterprises to monitor progress both in quality and quantity.

Already we observe a growing pressure for enterprises to explain how their activities impact the environment and society. Given that in Europe – and, indeed, many if not all other regions – SMEs account for the

majority of private sector GDP, employment and environmental and social impact, it is no surprise that some wonder whether SMEs should disclose such impacts.

This was a key motivation behind our conducting the *EFAA Survey of Non-Financial Reporting Requirements for SMEs in Europe*, which looks at the nature and extent of the reporting of non-financial information (NFI) by SMEs in 14 European countries.

EU directives – the Accounting Directive and Non-Financial Reporting Directive – only require reporting of NFI by large companies, and our study revealed that most EU member states have, for the large part, chosen not to extend these reporting requirements to SMEs.

In November 2018, EFAA hosted a roundtable in Vienna on the *Reporting of NFI by SMEs* to discuss the report's findings and policy implications. The presentations and discussion showed support for reporting on NFI by SMEs. The Global Reporting Initiative with *Small Business, Big Impact – Making the Case for SME Sustainability Reporting* and the IIRC with *Creating Value for SMEs through Integrated Thinking* already claim that their reporting frameworks are beneficial and fit for use by SMEs.

EFAA had previously issued the paper *Integrated Thinking and Reporting for SMEs: The Why and How*, and implementation guidance from the IIRC is in the pipeline. Proponents argue that, insofar as it can demonstrate alignment of an entity's vision and strategy with responsible business guidelines and the SDGs, reporting of NFI by SMEs can yield benefits ranging from improved access to finance through to attracting and retaining new customers and staff. At the same time, there are concerns that,

if not done right, additional requirements might increase the burden on SMEs with little or no corresponding benefit.

## FOCUS ON CONTRIBUTION

EFAA will, in 2019, focus on the contribution of accountants working in SMEs and SMPs towards achieving the climate-related objectives enshrined in the SDGs.

Specifically, as the European Commission goes about its comprehensive review of public reporting by companies, we will convene a debate on the reporting of NFI by SMEs, and actively participate in the European Corporate Reporting Lab (European Lab) that is tasked with focusing on non-financial reporting, including sustainability reporting.

In 2019 we anticipate that EU regulators will be pushing the private sector to step up its contribution to the pursuit of the SDGs, and greater transparency by the private sector on their contribution, in the shape of public reporting, will be the essential catalyst to action.

In the *Financial Times*, Mervyn King argued that integrated reporting is key to sustainable finance. It is hard to imagine how the SDGs can be achieved without SMEs contributing their fair share. Standing alone, each SME has only a small impact and, as such, fails to qualify as a public interest entity; collectively, however, they have a huge impact and, as such, qualify as a public interest sector. Accordingly, we predict that this realisation will culminate in the EU either requiring or else strongly encouraging SMEs – or some SMEs – to report on NFI reporting.

We plan to play our part by informing the debate. We have already started, and the next highlight will be on 19 February 2019 in Brussels, when we host a panel debate of MEPs and senior representatives of SMEs and the accountancy profession. We hope you will join us. ■



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