AECM considerations for the upcoming First Omnibus package on sustainability

In November 2024, at the dawn of a new mandate under the auspices of investment, productivity, and competitiveness, President von der Leyen called for a “simplification revolution”, in particular for SMEs. The upcoming First Omnibus package on sustainability, which is set to streamline and simplify the often-overlapping obligations under the Corporate Sustainability Reporting Directive (CSRD), Corporate Sustainability Due Diligence Directive (CSDDD), and the EU Taxonomy Regulation, seems like the perfect opportunity to spearhead this revolution. In support of these efforts, the European Association of Guarantee Institutions (AECM) and its members would like to share their early thoughts and considerations regarding the upcoming proposal tabled for 26 February 2025.

AECM member guarantee institutions are concerned by the aforementioned legal acts and the overall sustainability reporting framework in different ways. However, each of them, in their activity, are witnessing the widespread difficulty for micro and small enterprises to meet sustainability disclosure requirements. For the smallest players, the trickle-down effect from the sustainability reporting framework requires the disclosure of quantitative data, which is both complex and disproportionate, and always favours more "virtuous" enterprises. The socio-economic fabric of Europe is mainly composed of very small enterprises, of which a large part must report through the supply chain, as counterparties to lenders and business partners. To embark on the path towards sustainability, micro and small enterprises need all the support they can get. At present, they are not yet fully aware of the materiality of ESG issues in their operations. This makes it difficult for SMEs to meet the demands for quantitative data themselves, given there are still no dedicated databases, and as such, data if often not fully compliant, so they must resort to contracting external support. In the medium term, these data inconsistences could hinder the objectives of the legislation, while spreading the credit crunch phenomenon.

In this respect, the overall provision of finance for SMEs is at stake. In an environment where credit availability for SMEs is scarce, the crucial role of guarantee institutions in bridging this market failure may be severally impacted. To revert this dynamic, and alleviate the increasing pressure on the smallest players, we encourage the regulator to consider the following key propositions.

Brussels, February 2025

Streamlining the sustainability reporting framework

AECM supports the Commission's objective to create reporting standards that allow enterprises to transparently and comparably disclose their sustainability performance and impacts. Reducing the administrative burden for all companies, from the sole trader to the large undertaking, can be achieved by streamlining and enhancing data coherence across all sustainability reporting. It is essential to harmonise the perimeters for reporting obligations from various pieces of EU legislation as well EU funds reporting requirements, thereby improving data consistency and comparability. The "once-only principle" should be implemented and respected to prevent the need to report the same information in different ways.

Moreover, pursuing a proportional and qualitative approach for micro and small enterprises is crucial. As exemplified by our Italian member Fedart Fidi, which developed an ESG questionnaire tailored to micro and small enterprises, it is important to consider the specific constraints faced by the smallest players, such as the lack of tools for collecting quantitative data. Requesting structured qualitative information tailored to micro and small enterprises would allow SMEs to satisfy reporting requirements from their financiers independently, with greater awareness and without the need for external assistance.

This general approach could be translated into the following adjustments for the benefit of SMEs:

- Developing a specific reporting standard based on qualitative information and adapted to the reality of micro and small enterprises, instead of deriving the reporting from information required for large undertakings.
- Aligning the scope of CSRD and CSDDD, i.e. to large undertakings with a net turnover of EUR 450 million and 1000 employees.
- Prioritising sector-agnostic standards and closely monitor their implementation before determining whether sector-specific standards are indeed warranted.
- Harmonising the CSRD reporting requirements with Pillar 3 disclosures on ESG risk.
- Postponing the application of CSRD from 2025 to 2027 to alleviate the trickle-down effect on SMEs and leave more time for adaptation.

Achieving a proportionate and reasonable VSME

The VSME standard, given the nature of voluntary information, should serve to mitigate as much as possible the trickle-down effect of reporting obligations on non-listed SMEs and, as a priority, to support these companies in the formation of their own ESG awareness. To achieve the highest impact, the voluntary standard should always signal the maximum reporting requirements possibly imposed on SMEs through the value chain. The basic module should depend only on basic, essential and therefore easily attainable data, in order to be entirely sufficient for small and micro-enterprises. The data should be exclusively qualitative, taking into account the aforementioned absence of suitable tools to support micro and small enterprises in finding quantitative information. In addition, the comprehensive module should not become mandatory, as it disproportionately disadvantages small and micro-enterprises. These measures would therefore guarantee additional safeguards to all MSMEs, with no exception, and ensure their competitiveness over the long term.

Reassessing the Green Asset Ratio for the benefit of SMEs

To reduce unnecessary burden on market participants, especially SMEs, reporting requirements arising from the EU Taxonomy Regulation should be reassessed. In the current state, the Green Asset Ratio requires large efforts from credit institutions and their clients, for very limited representativity. A complete abolition of this ratio would be a significant way forward for all credit institutions, and especially those with a large SME portfolio. Instead, a more suitable and streamlined approach could be developed, using data based on the VSME standard to integrate SMEs into sustainable finance, creating a virtuous cycle.

Improving the usability of Do No Significant Harm

The First Omnibus package should aim to improve the usability of the Taxonomy, carefully considering the applicability of the Do No Significant Harm (DNSH) criteria. AECM members, which play a crucial role in implementing EU funds, often struggle to understand if and how their operations align with these criteria. All guidance documents and FAQs related to the Taxonomy should be timely, coherent, and clear, helping guarantee institutions navigate the regulatory landscape without ambiguity, and ensuring the effective and easy implementation of EU funds. This clarity will enable guarantee institutions to focus more on their core mission of supporting SMEs in their growth and efforts towards sustainability, rather than stalling from complex regulatory requirements and suffering from legal uncertainty.

Brussels, February 2025

About us

The 47 members of the **European Association of Guarantee Institutions (AECM)** are operating in 32 countries in Europe. They are either private/mutual sector guarantee schemes or public promotional institutions or banks. Their mission is to support SMEs in getting access to finance. They provide guarantees to SMEs that have an economically sound project but do not dispose of sufficient bankable collateral. This so-called SME financing gap is recognised as market failure. By guaranteeing for these enterprises, guarantee institutions address effectively this market failure and facilitate SMEs' access to finance. The broader social and economic impact of this activity includes the following:

- Job creation and preservation of jobs by guaranteed companies
- Innovation and competition: crowding-in of new ideas leading to healthy competition with established market participants
- Structure and risk diversification of the European economy
- Regional development since many rural projects are supported
- Counter-cyclical role during crises

SME guarantees generally pursue a long-term objective and our members, if public, private, mutual or with mixed ownership structure, have a promotional mission.

AECM's members operate with counter-guarantees from regional, national, and European level. At the end of the year 2023, AECM's members had about EUR 207 billion of guarantee volume in portfolio, thereby granting guarantees to around 4.7 million SMEs. AECM's members are by far the most important counterparts of the EIF concerning EU counter-guarantees, handling EU (counter-)guarantees from the very beginning in 1998.

Have a look at our AECM brochure and at our most recent publications:

Priorities for the legislative period 2024-2029

AECM considerations for the Multiannual Financial Framework 2028-2034

AECM Statistical Yearbook 2023

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Brussels, February 2025