

## Is the Final VSME Tailored for Impact?

*The Voluntary Sustainability Reporting Standard (VSME) simplifies sustainability reporting for non-listed SMEs, addressing some of the unique challenges faced by impact actors, thanks to input from impact stakeholders.*

**January 2025**

*Author: Stephanie Brenda Smialowski*

At the request of the European Commission, [EFRAG](#) (European Financial Reporting Advisory Group) developed the Voluntary Sustainability Reporting Standard for non-listed SMEs (VSME). This standard is designed for enterprises not falling under the mandatory scope of the EU's Corporate Sustainability Reporting Directive (CSRD). It aims to address the unique sustainability reporting needs and capacity of non-listed small and medium-sized enterprises (SMEs), enabling them to access sustainable finance and contribute to the transition towards a more socially and environmentally sustainable economy.

By providing a standardised framework, the VSME replaces the uncoordinated and burdensome ESG questionnaires often requested by different stakeholders, such as banks, investors and business partners. Additionally, it introduces a proportionate set of indicators designed to simplify reporting and help non-listed SMEs embark on their sustainability journey while monitoring their performance over time.

EFRAG submitted its final technical advice on the VSME to the European Commission on 17 December 2024 (find the VSME standard [here](#)), following a comprehensive public consultation held between 22 January and 21 May 2024, which gathered input from diverse stakeholders, including Impact Europe. This policy brief will show how that input shaped VSME and what it means for stakeholders throughout the impact ecosystem.

### **VSME's role in the impact ecosystem**

Impact Europe recognised the VSME as a significant tool to alleviate the reporting burden enterprises in the impact and social economy spaces experience. The burden is largely due to the trickle-down effects from the Sustainable Finance Disclosure Regulation ([SFDR](#)) and CSRD. This means they must report on negative impacts in addition to their usual positive impact performance disclosure to validate their impact claims.

By providing a clear and simple template, the **VSME holds the potential to reduce heavy reporting requirements while setting a practical benchmark** for reasonable and proportionate ESG data requests to these actors.

The VSME is also beneficial for impact funds, helping them align their reporting obligations under SFDR with the reporting capacity of their portfolio companies. Additionally, it supports corporates in obtaining the necessary data from non-listed SMEs in their value chains to meet the reporting requirements of CSRD.

## Providing industry insights & feedback

Impact Europe contributed to the refinement of the VSME through EFRAG's consultation, motivated by the standard's potential to ease reporting burdens for impact enterprises and investors. These burdens included balancing negative and positive impact reporting, while navigating KPIs designed for large listed assets (e.g., SFDR's Principal Adverse Impacts and CSRD's ESRS). To support this effort, we surveyed impact actors to provide feedback on the VSME draft and engaged with key stakeholders and partners in the field.

We collected additional insights during our webinar, "**SMEs with Impact: Facilitating Sustainability Reporting**" (watch the recording [here](#)). The event featured contributions from key speakers, including: EFRAG's CEO, Saskia Slomp; Elisa Bevilacqua, responsible for developing the VSME standard; and Antoine de Martel, Associate Director and CFO at Innpect. The webinar provided a platform to offer insights to EU policymakers on the data needs of impact investors and encouraged impact stakeholders to contribute to EFRAG's consultation.

## Joint recommendations to strengthen the VSME

On 8 July 2024, Impact Europe led the publication of the [joint statement](#) in collaboration with the [Global Alliance of Impact Lawyers \(GAIL\)](#) and [Euclid Network—the European Social Enterprise Network](#). Endorsed by multiple signatory organisations, the statement welcomed EFRAG's Exposure Draft for the VSME standard and presented key recommendations to better address the needs of the ecosystem.

As impact and social enterprises are ahead of the sustainability curve, with business models intentionally generating measurable positive impacts on social and/or environmental issues, the following key areas for improvement were proposed to enhance the benefits of the VSME and maximise its adoption by the ecosystem:

1. **Create clear avenues for voluntary positive impact reporting:** Ensuring SMEs can highlight their positive impacts, in addition to addressing ESG risks, will make the VSME more attractive to impact enterprises and investors.
2. **Include a supplementary module for impact enterprises:** Differentiating impact enterprises from mainstream companies will showcase their advanced sustainability practices and leadership.
3. **Safeguard the value chain cap and balance data user needs:** Clarifying reasonable additional data requests from business partners through the value chain cap principle could protect SMEs from excessive demands.
4. **Strengthen governance aspects:** Enhanced governance reporting, including transparency on ownership structure and sustainability responsibilities, will demonstrate the maturity of an SME's sustainability journey, bolstering its credibility and investment appeal.
5. **Offer a centralised, user-friendly digital tool:** Simplifying the reporting process through a digital platform that consolidates information, pre-populates sector-relevant data, and automates calculations will increase efficiency and uptake by the market.

For more details on these recommendations, [read the joint statement](#).

## Simplifying Basic & Comprehensive Modules

EFRAG has integrated feedback from the public consultation, introducing additional simplifications to the VSME. The **final version** is structured into two modules: a Basic Module designed for micro-undertakings, and a minimum requirement for other undertakings, alongside a Comprehensive Module offering further data points beyond the Basic module.

The Comprehensive Module is likely to be requested by banks, investors and corporate clients. SMEs can report solely under the Basic Module or combine both the Basic and Comprehensive modules. These disclosures span across sectors, with EFRAG recognising that some additional data may be needed to reflect the specific needs of certain sectors.

### Basic Module

- **Entry-level** for non-listed SMEs, particularly targeting micro undertakings.
- All disclosures are required but whenever it is appropriate (e.g. "**if applicable**").
- **11 Disclosures** including simplified narrative disclosures and ESG Topical Metrics:
  - **General information**
    - **B1:** Basis for preparation
    - **B2:** Practices, policies and future initiatives for transitioning towards a more sustainable economy
  - **Environment metrics**
    - **B3:** Energy and greenhouse gas emissions
    - **B4:** Pollution of air, water and soil
    - **B5:** Biodiversity
    - **B6:** Water
    - **B7:** Resource use, circular economy and waste management
  - **Social metrics**
    - **B8:** Workforce – General characteristics
    - **B9:** Workforce – Health and safety
    - **B10:** Workforce – Remuneration, collective bargaining and training
  - **Governance metrics**
    - **B11:** Convictions and fines for corruption and bribery



### Comprehensive Module

- Adds **supplementary information** to the Basic module to address the ESG data needs of business partners.

- **Sustainable Finance datapoints** as proxies for ESG management (e.g. SFDR PAI, EBA Pillar 3, Benchmark Regulation).
- Disclosure wherever it is appropriate (e.g. "**if applicable**").
- Applying the Basic module is a prerequisite for applying the Comprehensive module.
- **7 disclosures:**
  - **General information**
    - **C1:** Strategy: Business Model and Sustainability – Related Initiatives
    - **C2:** Description of practices, policies and future initiatives for transitioning towards a more sustainable economy
  - **Environmental Metrics**
    - **C3:** GHG reduction targets and climate transition
    - **C4:** Climate risks
  - **Social Metrics**
    - **C5:** Additional (general) workforce characteristics
    - **C6:** Additional own workforce information - Human rights policies and processes
    - **C7:** Severe negative human rights incidents
  - **Governance Metrics**
    - **C8:** Revenues from certain sectors and exclusion from EU reference benchmarks
    - **C9:** Gender diversity ratio in the governance body

## Wins for impact

**The final VSME reflects Impact Europe’s key recommendations from the joint statement and our consultation response:**

- The draft now enables the reporting of **positive impacts**, whereas previously it only addressed negative impact reporting.
- A clear opening for **disclosing additional information** not included in the standard (metrics and/or narrative disclosures) relevant to the enterprise’s specific sector.
- The Basic Module Guidance supports SMEs by offering templates that facilitate reporting on “Practices, policies, and future initiatives for transitioning towards a more sustainable economy (B2 datapoint),” **addressing not only the organisation’s workforce but also workers in the value chain, affected communities, consumers, and end-users** (p. 16 – 17).
- The Basic Module Guidance also recognises **social economy entities**, providing opportunities for **Cooperatives** to report on specific governance features, investments in the social economy, profit distribution according to mutualistic principles, or activities related to services of general economic interest.
- A new disclosure on **sustainability-related certification or label**, if relevant (B1 question - Basis for preparation).
- EFRAG introduced further simplifications and used accessible language in the standard indicators. Additionally, the materiality assessment, deemed too complex by consultation respondents, has been excluded, allowing SMEs to report on relevant datapoints.

By offering a clear, streamlined template with proportional indicators for sustainability disclosures relevant to SFDR and CSRD reporting, these adjustments will reduce the reporting burden, enhance visibility, and simplify access to finance for impact and social enterprises. They also align more closely with the EU's priorities for the new European Commission, including reducing reporting burdens, improving SME competitiveness, fostering innovation and supporting the Social Economy Action Plan, alongside the green and just transitions.

## **Next Steps: Supporting VSME implementation and adoption**

To support the implementation and uptake of the VSME, EFRAG will launch a series of initiatives in 2025. These will include the issuance of support guides, educational materials, outreach activities, awareness-raising events and the monitoring of emerging tools and platforms to address stakeholder requests for the integration of digital tools to simplify the use of VSME.

The standard still awaits formal adoption by the European Commission. However, market participants are encouraged to start using it voluntarily (find the VSME standard [here](#)). Due to its voluntary nature, the standard's success in helping non-listed SMEs to report ESG information depends on its adoption by investors, banks and business partners. We therefore recommend that impact investors seeking to simplify reporting requirements for portfolio companies to comply with SFDR explore this standard as a potential solution.

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Do you have opinions and feedback on VSME's practicality and effectiveness? Let us know – by reaching out directly to [Stephanie B. Smialowski](#), Senior Policy Advisor.



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