
Small and Medium-Sized Enterprises (SME) Frequently Asked Questions (FAQ)

Version 1.0
July 2020

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PART 1: SME definition, route and method approach

What is an SME?

For the purposes of target validation by SBTi, an SME is defined as a non-subsidiary, independent company with fewer than 500 employees. Note this does not include Financial Institutions (FIs) and Oil & Gas (O&G) companies (see also further below).

How do we count the number of employees?

An employee is identified using a head count, and **not** the number of full time employees (FTE).

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

Companies that have seasonal employees or a workforce that fluctuates on an annual basis are required to use the average annual headcount of employees to determine employee numbers.

Why did the SBTi introduce the new SME route?

The SBTi introduced this expedited option for SMEs because smaller companies often lack the resources and capabilities needed to set scope 3 targets and monitor progress against them. The SBTi's speedy and simplified approach for SMEs balances the need for them to take account of emissions across their value chains without imposing too great a burden on them.

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 a science-based target for their scope 1 and 2 emissions by choosing from one of two predefined target options. Unlike larger companies, the SBTi does not require SMEs to set targets for their scope 3 emissions; however, SMEs must commit to measure and reduce their scope 3 emissions.

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](#). 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.

I work for an SME, what should my company do to set an SBT?

If your company is a non-subsiary, independent company which employs fewer than 500 employees, here's how to set a science-based target: Complete the [Target Setting Letter for SMEs](#) and submit it via email to targets@sciencebasedtargets.org. Please note that a one-time target validation fee of USD 1,000 (+ applicable VAT) applies.

SMEs that committed to the SBTi before April 15, 2020 may submit their targets using the standard target validation process until August 15, 2020. After this date, they must use the [Target Setting Letter for SMEs](#).

What if my company is an SME with an approved SBT?

If your company is an SME and the SBTi has already approved your science-based target, the approved target will remain valid. However, if you wish to resubmit or update your target, you must use the [Target Setting Letter for SMEs](#).

Since setting an SBT, the number of employees in my company has increased to more than 500. Does this mean I have to resubmit my target as a non-SME company?

The [SBTi criteria](#) highlights that to ensure consistency with the most recent climate science and best practices, targets must be reviewed, and if necessary, recalculated and revalidated, at a minimum every 5 years. As such, companies that have 500+ employees after setting a target can review their target after a minimum of 5 years.

Can Financial Institutions and Oil & Gas companies that are SMEs use the new route?

Financial institutions and oil and gas companies are not able to set targets at this time, regardless of whether they are an SME or not. Please consult the [Standard Commitment Letter](#) to find out how the SBTi defines companies in these sectors for the purposes of target validation.

The rationale is that small companies in these sectors can have large impacts in terms of scope 3 emissions accounting, derived from financed emissions and use of sold products, for which it is best to follow a sectoral approach.

Once target validation criteria for these sectors have been finalized, companies in these sectors will be invited to submit targets in line with the new sector guidance and criteria.

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

Targets submitted through the dedicated route for SMEs will be automatically approved and posted to the SBTi website, pending due diligence review and payment. Companies will be sent a communications welcome pack and will be able to use the SBTi logo on their website and in company communications.

What is the expectation for SMEs participating in the Business Ambition for 1.5°C Campaign?

SMEs are welcome to participate in the [Business Ambition for 1.5°C campaign](#) by signing the Business Ambition for 1.5°C Commitment Letter and selecting one of the following options: SBTs across all relevant scopes in line with 1.5°C *or* net-zero target by no later than 2050 plus interim SBTs. Regardless of the option selected, the company is not expected to submit scope 3 targets to the initiative.

Next, the company must submit the SME Target Setting Letter and select a target either in line with 1.5°C or well-below 2°C. Please ensure that the target ambition level you select is consistent across both letters. Both letters must be submitted by October 15, 2020.

The SBTi encourages SMEs to select a science-based target by 2030 in line with the 1.5°C ambition in the Target Setting Letter. The 1.5°C Commitment Letter explains that if a company sets a long term net zero target and sets interim science-based targets in line with well-below 2°C, more aggressive emissions reductions will need to happen in the longer term for the company to meet its net-zero commitment.

For companies choosing Option 2 in the Business Ambition for 1.5°C Commitment Letter, the SBTi is [developing a framework](#) to enable companies to set robust and credible net-zero targets in line with a 1.5°C future.

If my company uses the new SME route to set a well-below 2°C target, and later wants to upgrade the level of ambition to 1.5°C, will it have to pay the USD 1 000 fee again?

No, the fee is a one-time fee. Upgrading a company's targets without changing the base year and target year is considered a voluntary ambition update in the SBTi and it currently has no cost for any type of company.

My company is an SME and it is headquartered in a developing country or emerging economy. Does it need to pay the USD 1 000 fee?

The fee can be waived for SMEs headquartered in developing countries and economies in transition, as defined by the United Nations Secretariat's Department of Economic and Social Affairs. Companies must contact targets@sciencebasedtargets.org to request an exemption from the initiative to be considered.

PART 2: Base year, recalculations and emission inventories

Can companies use a different base year than 2018?

Companies using the SME route cannot choose a different base year than 2018, nor target 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.

A 50% reduction between 2018 and 2030 yields a 4.2% annual linear reduction, which is in line with keeping global temperature increase below 1.5°C.

A 30% reduction between 2018 and 2030 yields a 2.5% annual linear reduction, which is in line with keeping global temperature increase well-below 2°C.

For more information about these thresholds for target classification, please consult the [Foundations of Science-based Target Setting](#) paper.

What can my company do if 2018 is not a representative year for the company's usual emissions?

If 2018 is not a representative year of your company's usual activities, clearly communicate it when tracking progress and set your strategy to reduce emissions at the rate consistent with your target ambition within the target timeframe (2.5% or 4.2%).

What can my company do if we do not have a 2018 emissions inventory?

If your company does not have a 2018 GHG inventory but has a most recent inventory, build on your established process to estimate the emissions in 2018. Sometimes data points may not be available for past years, and may have to back cast these data points.

Should my company recalculate its target based on acquisitions, mergers or divestments?

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 organizational boundary and track progress consistently. For more information on base year recalculations please consult the [GHG Protocol Accounting and Reporting Standard](#).

If my company is an SME that does have scope 1 or scope 2 emissions, can it still use the predetermined options in the Target Setting Letter?

Yes, your company can still use the predetermined options in the Target Setting Letter. When reporting progress against its target, your company must indicate that it does not emit scope 1 emissions or scope 2 emissions. 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.

Can an SME set a scope 3 targets?

The SBTi does not require companies using the SME route to set scope 3 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. We encourage companies to use SBTi [resources](#) to set ambitious scope 3 targets.

The SME target-setting letter only includes absolute targets. Does that mean they can't use the Sectoral Decarbonization Approach (SDA) approach and thus can't take organic growth into account?

Only absolute targets are included as these are the most straightforward. This makes it easier for SMEs to set targets, by allowing them to select a predefined target option rather than have to investigate different target-setting methods and input data.

For all types of targets (absolute or intensity), climate science indicates that emissions must be decoupled from growth. 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 for all sectors.