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DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) FAQs

TVT-INF-002 / Version 2.0
April 2021

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PART 1: SME DEFINITION, ROUTE AND METHOD APPROACH

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 the predefined target options available in the SME [Target Setting Letter](#). 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.

How does the SBTi define 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 that this does not include Financial Institutions (FIs) and Oil & Gas (O&G) companies (read further below).

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. Country-level definitions, emissions intensity, market capitalization, or any other considerations are not used by the SBTi to classify this type of entity.

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.

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. Companies are required to describe the activities generating scope 1 and 2 emissions, 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.

The above information is required when sending the [Target Setting Letter \(TSL\)](#). If any information is missing, this will cause a delay in the validation process.

What is the process to validate my targets?

1. **Complete your [Target Setting Letter](#)** Review, sign and send a digital copy of the TSL in PDF format to targets@sciencebasedtargets.org. A confirmation email will be sent upon its reception.
2. **Due diligence and target approval** A thorough review will be performed by the SBTi to ensure all information is complete and accurate. Incomplete information or inconsistencies will cause a delay in the overall process. After passing the due diligence, an email will be sent to confirm the target approval.
3. **Invoicing and fee payment** : Based on the billing information submitted in the TSL, the payment details will be sent to the SME. Once completed, the payment confirmation for the one-time fee of USD 1,000 (+ applicable VAT) should be sent to targets@sciencebasedtargets.org.
4. **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.
5. **Target publication** The targets will be published on the Science Based Targets initiative (SBTi) website as well as our partners' websites at CDP and We Mean Business. SMEs who are engaging in the UN Global Compact will also be recognized on this website.

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

If your company is a non-subsidiary, 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. All SMEs must use the [Target Setting Letter](#) for SMEs to validate their targets.

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 a 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?

No, these sectors are not allowed to use the SME streamlined route. Oil and Gas companies are not able to set targets at this time, 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. Please consult the Standard Commitment Letter to find out how the SBTi defines companies in these sectors for the purposes of target validation.

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 approved and posted on 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 join the Business Ambition for 1.5°C. If SMEs decide to sign the Business Ambition for 1.5°C Commitment letter, they shall first complete, sign and submit the SMEs [Target Setting Letter](#). After having an approved target, SMEs can join the campaign through signing the [Business Ambition for 1.5°C commitment letter](#). It is important that the scope 1+2 target in the SMEs [Target Setting Letter](#) matches the level of ambition aligned with Option 1 or Option 2 in the Business Ambition for 1.5°C letter. For option 1, a scope 1+2 target in line with 1.5°C is required, for option 2, a scope 1+2 target in line with well-below 2°C is sufficient.

SMEs are not expected to submit scope 3 targets for SBTi validation, however, by submitting the SME [Target Setting Letter](#) they are committing to measure and reduce scope 3 emissions.

SMEs failing to submit the SME Targets Setting letter will not be considered part of the SBTi and Business Ambition for 1.5°C.

For more information about the Business Ambition for 1.5°C, please consult the [Frequently Asked Questions](#).

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.

Does my SME 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](#). When sending the [Target Setting Letter](#) to targets@sciencebasedtargets.org, SMEs must request an exemption from the initiative to be considered.

PART 2: BASE YEAR, RECALCULATIONS AND EMISSION INVENTORIES

Can companies use different base years than the ones provided in the Target Setting Letter?

Companies using the SME route cannot choose a different base year than 2018, 2019 or 2020 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. The predefined options are in line with keeping global temperature increase below 1.5°C or well-below 2°C. For more information about these thresholds for target classification, please consult the [Foundations of Science-based Target Setting paper](#).

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 Corporate Accounting and Reporting Standard](#).

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 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. If choosing to set a scope 3 target, we encourage companies to use SBTi resources to set ambitious scope 3 targets.

Do the pre-determined options mean SMEs cannot use other science-based target methods, such as the Sectoral Decarbonization Approach (SDA)?

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.

Is there any specific guidance on how to annually report progress against our targets?

Companies should publicly disclose their emissions inventory and progress against their targets. Recommendations include annual reports, sustainability reports, CDP, and/or the company's website. For guidance on measuring and reporting emissions, we recommend the toolbox provided by the SME Climate Hub: <https://smeclimatehub.org/tools/>

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 to refer 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/>