

# **Green and Sustainable Finance Cross-Agency Steering Group Climate and Environmental Risk Questionnaire for SMEs**

Extended teach-in on SME responses to the  
Questionnaire

**September 2023**

# Reminder: How the SME Questionnaire can help

The SME Questionnaire is aligned with the Task Force on Climate-related Financial Disclosures (TCFD) framework.



# **General good practice on sustainability for SMEs**

# Trigger events requiring a sustainability strategy

Preparing in advance will make a sustainability “trigger event” less time critical, which tends to aid decision making

- You need to take-out, or renew, corporate financing or a new loan *[Your bank may ask for these details]*
- Your premises or supply chain are affected by a natural disaster, e.g. flooding, typhoon *[It's probably too late, this time]*
- You lose a large deal for sustainability reasons *[make sure that doesn't happen the next time]*
- Your supply chain starts to ask for more details as part of regular monitoring or contracting *[will they stick with you?]*
- Your competition launches a new eco-friendly product *[can you catch-up?]*

# Good practice sustainability principles for SMEs

Successfully preparing yourself for climate transition is a sensible part of your business model

If...

- you can't measure it, you can't manage it
- you can measure it, then collect the evidence for it
- you can write it down, you can share it
- you are realistic and credible, it can be achievable over the long term
- it's good for efficiency, it's likely good for the environment
- you use it, then it is considered part of your footprint
- you do this well, you can build a brand around it
- you are honest, you are more likely to be forgiven



# Considerations for SMEs in their responses

Below we summarise a number of key SME considerations and “gotyas” that are worth being aware of

- Embrace your **flexibility and adaptability** – it is your differentiator against larger competition
- Try to **create value**, don't just avoid harm
- **Avoid working in siloes** – you are the experts in your own business, so solve this yourself as far as possible
- Remember that, **it isn't just about carbon** (also consider waste, water intensity, plastic pollution and biodiversity)
- **Scale makes a difference** – e.g. a 25% reduction in one factory may create good publicity, but do less than a common 5% reduction across the board
- And hence, **be wary** of “high profile, low impact” initiatives

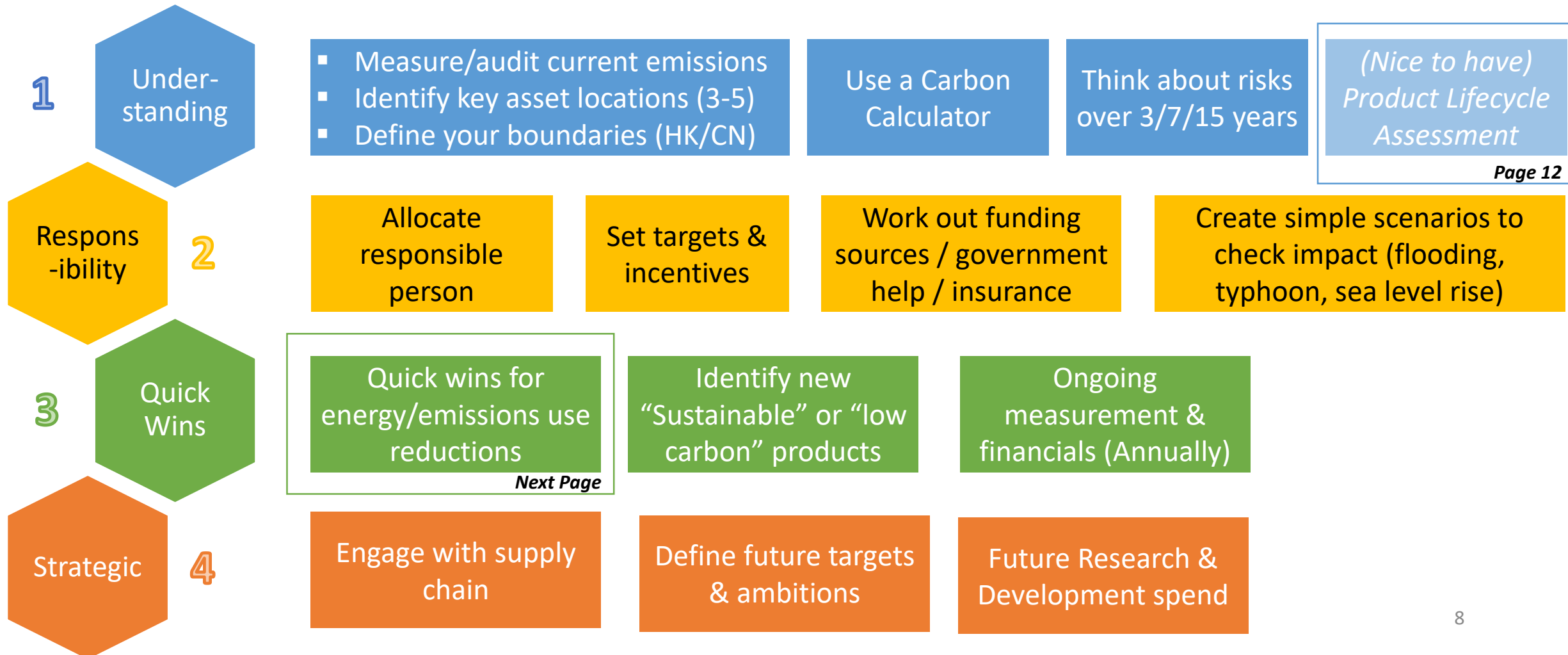
# Common misconceptions for SMEs

We can identify a number of common areas that firms can make a mistake with, and help you learn from them

- You can **collaborate as an industry**<sup>^</sup> – i.e. sometimes it is better to agree areas that you can act on together, such as new certifications or supplier requirements
- “**Small business is a small impact**”, isn’t the case if undertaken together
- Don’t just assume that **local will have fewer emissions** – i.e. you need to consider the wider supply chain and impact
- You don’t have to do full **public disclosure, that should be considered carefully** – i.e. some aspects of savings may be a competitive edge
- **It isn’t just your own activities that count** - i.e. you need to consider your whole supply chain and product lifecycle

# Approaching the SME Questionnaire?

How could you approach the SME Questionnaire in a structured manner for a smaller business





# SME quick wins (1 of 3) – Your products

There are a number of quick wins that most SMEs can undertake to improve their sustainability

Area of focus	Potential quick wins
Products	<ul style="list-style-type: none"><li>▪ Launch “eco-friendly” variants of products, for a price premium</li><li>▪ Label all products with their environmental impact/ability to recycle</li></ul>
Packaging	<ul style="list-style-type: none"><li>▪ Reduce the use of plastics</li><li>▪ Remove packaging, or use easily recycled packaging (e.g. paper)</li></ul>
Transportation (of goods, of staff)	<ul style="list-style-type: none"><li>▪ Shift to greener transportation of products</li><li>▪ Buy more locally to reduce emissions</li><li>▪ Implement new travel policies (e.g. more train travel)</li><li>▪ Try to change staff behaviors (e.g. travel using public transport, cycling)</li></ul>
Suppliers	<ul style="list-style-type: none"><li>▪ Engage suppliers in your conversation, take their ideas</li><li>▪ Common delivery schedules and others</li></ul>

# SME quick wins (2 of 3) – Your office

Ultimately engagement and behavioural change are more cost effective than significant transformations

Area of focus	Potential quick wins
In the office	<ul style="list-style-type: none"><li>▪ For catering, switch to tap-water and refillable mugs/water bottles (use water filters if needed)</li><li>▪ Switch from cow to plant based milks</li><li>▪ If you have an office canteen, have more vegetarian options (or do vegetarian days)</li><li>▪ Consider your aircon temperatures</li><li>▪ Switch to biodegradable products (e.g. cleaning products)</li></ul>
Paper	<ul style="list-style-type: none"><li>▪ Reduce paper usage as far as possible, switch to digital</li><li>▪ On digital – use “Bring Your Own Device” to avoid the impact/cost of buying new technology for employees</li></ul>
Recycling	<ul style="list-style-type: none"><li>▪ Offer recycling facilities for staff and customers</li><li>▪ Use government schemes (e.g. electronics recycling)</li><li>▪ Reuse can often be more effective than recycling</li></ul>

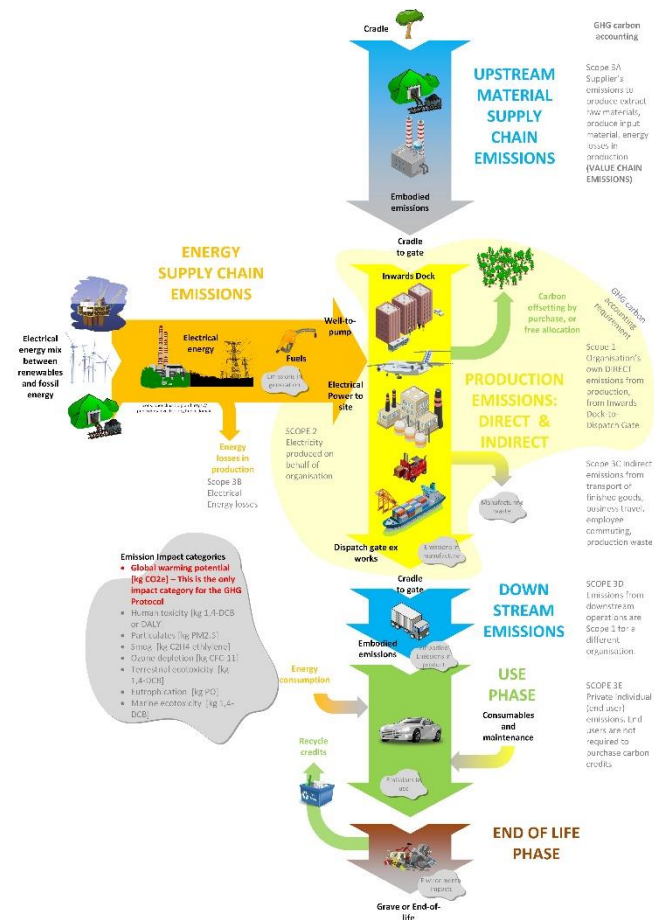
# SME quick wins (3 of 3) – Others

Although ultimately you can consider more substantial

Area of focus	Potential quick wins
Building materials	<ul style="list-style-type: none"><li>▪ If undertaking building projects, switch to sustainable sources (e.g. recycled wood) rather than using concrete</li></ul>
Energy sources	<ul style="list-style-type: none"><li>▪ Switch to “Green” electricity tariffs</li><li>▪ Install solar panels, or other greener generation capabilities</li><li>▪ Use waste materials to generate energy</li><li>▪ Use combined “heat and energy” power sources (cogeneration)</li></ul>
Energy usage	<ul style="list-style-type: none"><li>▪ Install energy saving measures, turn off lights/aircon at night</li><li>▪ Switch to energy saving lightbulbs</li><li>▪ Change your target aircon / heating settings</li><li>▪ Turn off unused equipment</li></ul>
Offsets	<ul style="list-style-type: none"><li>▪ You can buy, and price, trusted offsets to manage things you can’t change</li></ul>

# Life cycle analysis to measure climate impacts

Life cycle assessment or LCA (also known as life cycle analysis) is a methodology for assessing environmental impacts associated with all the stages of the life cycle of a commercial product, process, or service



LCA studies the **environmental aspects** and **potential impacts** throughout a product's life cycle (i.e. **cradle-to-grave**) from raw materials acquisition through production, use and disposal. The general categories of environmental impacts needing consideration include resource use, human health, and ecological consequences.

Widely recognized procedures for conducting LCAs are included in the 14000 series of environmental management standards of the International Organization for Standardization (ISO), in particular, in ISO 14040 and ISO 14044. ISO 14040 provides the 'principles and framework' of the Standard, while ISO 14044 provides an outline of the 'requirements and guidelines'.

# Specific question examples

# Governance Questions

## Module Questions: 1. Governance

Question	Potential SME answers
1.1 Is there any member(s) of your organization responsible for overseeing climate change matters?	<ul style="list-style-type: none"><li>▪ Delegated to an accountable person. Typical suggestions would include:<ul style="list-style-type: none"><li>▪ A visionary leader (e.g. Founder / CEO / Chainperson)</li><li>▪ Head / Chief of Operations</li></ul></li><li>▪ Avoid delegating too far down the organization chain</li></ul>
1.2 Do you provide incentives for the management of climate-related issues, including the attainment of targets? (&1.2a)	<ul style="list-style-type: none"><li>▪ Ensure you set one or two key targets that are achievable (e.g. energy usage reductions, switch to green travel, recycling)</li><li>▪ Tie to a specific bonus for the responsible person(s), or your management team</li><li>▪ Targets disclosed as percentages of revenue or salary avoid disclosure risk</li></ul>
1.3 Are you familiar with any local government or related incentives to manage your climate-related issues, risks or disclosure? (&1.3a)	<ul style="list-style-type: none"><li>▪ In advance, research and ask your local jurisdiction(s) that you operate in<ul style="list-style-type: none"><li>▪ CASG website will cover Hong Kong</li><li>▪ Local business bureaus or organisations can often help</li></ul></li><li>▪ Report the incentives to your management team, and decide which to take</li></ul>

# Climate-related Risks Questions (1 of 2)

## Module Questions: 2. Climate-related Risks

Question	Potential SME answers
2.1 How does your organization define short-, medium- and long-term time horizons?	<ul style="list-style-type: none"><li>▪ Short term: 3 years</li><li>▪ Medium term: 7 to 10 years</li><li>▪ Long term: 10 to 15 years</li></ul>
2.2 Do you assess your climate risks? (&2.2a)	<ul style="list-style-type: none"><li>▪ Yes – Focus on the core KPIs from Section 1 and line them up for Short &amp; Medium Term</li><li>▪ Long term – define more ambitious goals, ideally tied to “net zero”</li></ul>
2.3 Can you provide a financial impact figure for any of the risks listed in the previous question?	<ul style="list-style-type: none"><li>▪ Consider disclosure on “low risk” e.g. travel spend reductions</li><li>▪ And potentially percentage of energy usage being saved</li></ul>
2.4 What is the proportion of revenue in your organization that is reliant upon high-carbon products (e.g., oil, gas, coal)?	<ul style="list-style-type: none"><li>▪ Create a reasonable estimate (based on product sales, finger in the air?)</li><li>▪ Or say zero if you do not rely on these (e.g. food &amp; beverage, services)</li><li>▪ Reliance means no clear alternative (e.g. petrol driven delivery van could be replaced with an electric alternative easily)</li></ul>

# Climate-related Risks Questions (2 of 2)

## Module Questions: 2. Climate-related Risks

Question	Potential SME answers
2.5 Please provide key asset locations of the organization, including both operating assets and collateral assets.	<ul style="list-style-type: none"><li>▪ Consider defining the physical location of key factories, key technology/head office(s) (wholly or majority owned)</li><li>▪ If based in Hong Kong, look up the address</li></ul>
2.6 Does your organization have sufficient insurance policy coverage to mitigate against financial losses due to residual physical risks after the implementation of your organization's climate risk policy and strategy?	<ul style="list-style-type: none"><li>▪ Discuss with your insurance agent, and make a management decision on whether to purchase this</li><li>▪ It is critical to consider risk and the physical location of assets.</li><li>▪ Also, consider how important an asset is, and therefore could you operate virtually / remotely without it</li></ul>



# Business Strategy Questions (1 of 3)

## Module Questions: 3. Business Strategy

Question	Potential SME answers
3.1 Does your organization use climate-related scenario analysis to inform its strategy?	<ul style="list-style-type: none"><li>▪ Choose one or two key scenarios:<ul style="list-style-type: none"><li>▪ Increasing in flooding / natural disasters in Asia (Current policies)</li><li>▪ Rise in sea levels (Current policies)</li></ul></li><li>▪ If you wish to use RCP scenarios, you would need advice/help</li></ul>
3.2 Provide details of your organization's use of climate-related scenario analysis.	<ul style="list-style-type: none"><li>▪ Consider through the points above, against assets listed in Section 2.5</li></ul>
3.3 Describe where and how climate-related risks and opportunities have influenced your strategy.	<ul style="list-style-type: none"><li>▪ Bring together the horizon and the outcomes from Section 3.1</li><li>▪ Along with investments you may wish to make</li></ul>

# Business Strategy Questions (2 of 3)

## Module Questions: 3. Business Strategy

Question	Potential SME answers
3.4 Describe where and how climate-related risks and opportunities have influenced your financial planning.	<ul style="list-style-type: none"><li>▪ Ensure that your CFO / Finance person has considered climate risk</li><li>▪ Focus on the costs of production and your capital allocation/expenditure</li><li>▪ Consider the impact on assets of natural disasters</li></ul>
3.5 Does your organization's strategy include a transition plan that aligns with a 1.5°C world?	<ul style="list-style-type: none"><li>▪ This is an optimistic scenario, you can likely say "yes" if your scenarios considered this</li></ul>
3.6 Quantify the percentage share of your spending/revenue that is aligned with your organization's transition to a 1.5°C world.	<ul style="list-style-type: none"><li>▪ Consider this as a percentage of your Research &amp; Development</li></ul>

# Business Strategy Questions (3 of 3)

## Module Questions: 3. Business Strategy

Question	Potential SME answers
3.7 Do you classify any of your existing goods and/or services as low-carbon products? (3.7a)	<ul style="list-style-type: none"><li>▪ This can be a good marketing opportunity</li></ul>
3.8 Provide details of the organization's capital investment in low-carbon or other green technologies.	<ul style="list-style-type: none"><li>▪ See general principles for further ideas, this would include:<ul style="list-style-type: none"><li>▪ Improving energy sources</li><li>▪ New technologies that are more efficient</li><li>▪ Recycling, waste management</li><li>▪ “Circular” economies</li></ul></li></ul>
3.9 Provide the R&D investments that have been made in low-carbon or other green technologies, now and in the future.	
3.10 Provide details of your organization's plans to cater for any emerging demand of competitive energy efficient products.	

# Reported Emissions, Targets & Performance Questions (1 of 3)

## Module Questions: 4. Reported Emissions, Targets & Performance

Question	Potential SME answers
4.1 Do you evaluate your organization's GHG emissions? (&4.1a)	[See separate section on carbon calculation]  Key inputs: Electricity supply; Fuel expenses
4.2 What were your organization's gross global Scope 1 and 2 emissions in metric tons CO2e?	Method: Location based is often simpler
4.3 Are there any sources (e.g. facilities, specific GHGs, activities, geographies, etc.) of Scope 1 and Scope 2 emissions that are within your selected reporting boundary which are not included in your disclosure? (&4.3a)	<ul style="list-style-type: none"><li>▪ Sometimes you may exclude other jurisdictions, as it is too complicated:<ul style="list-style-type: none"><li>▪ No published electricity emissions or rates</li><li>▪ Unable to measure or record employee behaviour</li></ul></li><li>▪ Or where an ownership structure means you do not materially control them</li></ul>

# Reported Emissions, Targets & Performance Questions (2 of 3)

## Module Questions: 4. Reported Emissions, Targets & Performance

Question	Potential SME answers
4.4 How do your gross global emissions (Scope 1 and 2 combined) for the reporting year compare to those of the previous reporting year? (&4.4a)	<ul style="list-style-type: none"><li>▪ Only over time will you be able to calculate this</li><li>▪ In the meantime, a proxy would likely be energy pricing increases</li></ul>
4.5 Describe your emissions in the context of an appropriate business metric (Emissions intensity).	<ul style="list-style-type: none"><li>▪ It may be realistic to approximately identify an overall figure divided by well understand metrics such as:<ul style="list-style-type: none"><li>▪ “Emissions per widget”</li><li>▪ “Emissions per customer served”</li><li>▪ “Emissions per FTE”</li></ul></li></ul>

# Reported Emissions, Targets & Performance Questions (3 of 3)

## Module Questions: 4. Reported Emissions, Targets & Performance

Question	Potential SME answers
4.6 Did you have an emissions target that was active in the reporting year? (&4.4a/b/c)	<ul style="list-style-type: none"><li>▪ Link this to the overall strategy and metrics</li></ul>
4.7 Did you have emissions reduction initiatives that were active within the reporting year? Note that this can include those in the planning and/or implementation phases. (&4.7a)	<ul style="list-style-type: none"><li>▪ Summarize one or two key targets</li><li>▪ Link them to the overall initiatives</li></ul>