

# ENABLING SMES' SUSTAINABILITY JOURNEY AS A KEY LEVER TO GREEN SUPPLY CHAINS PERSPECTIVES FROM COP28 PANELS



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بنك أبوظبي الأول

**FAB**

First Abu Dhabi Bank

Strategic Pathway Partner

The series of COP28 outcome papers represent the key insights and discussions from FAB's hosted panels and roundtables during COP28. They are not intended to provide a comprehensive overview of the topics covered.



## CONTEXT

The **decarbonisation of supply chains is a critical component in global efforts** to reduce emissions and reach net zero by 2050, with **60-80% of corporates' emissions originating from outside their direct operations**. Given this significant impact, transforming supply chains becomes imperative in the fight against climate change.

Within this context, **the role of small and medium-sized enterprises (SMEs) is crucial**. SMEs are responsible for a major portion of global trade, amounting to 90% of all companies, making them key players in supply chains worldwide. However, their contribution also means they are a substantial source of emissions, representing most of the Scope 3 GHG emissions for larger corporations. Hence, enabling and integrating SMEs into sustainable supply chain practices is not just beneficial but essential for achieving comprehensive and effective decarbonisation of the economy.

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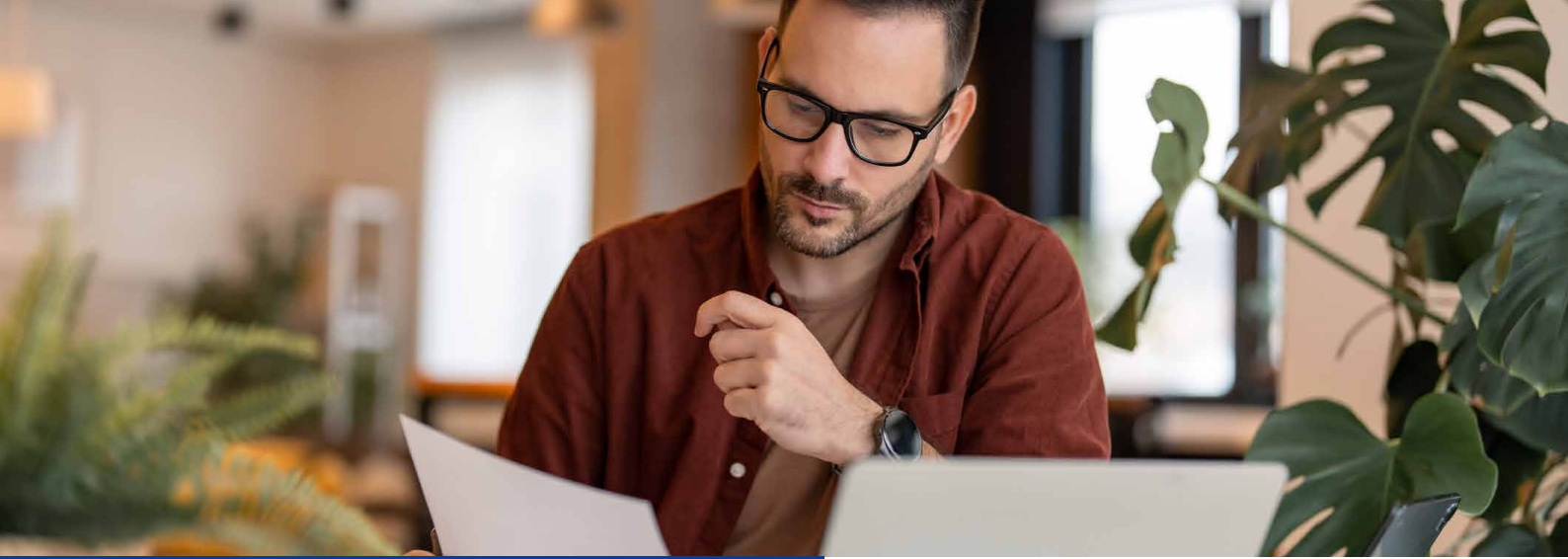
## KEY FACTS

- At the company level, emissions originating from the supply chain are typically **11.4 times greater than those from direct operations**<sup>1</sup>.
- SMEs make up roughly **90% of global businesses** and over **50% of employment**<sup>2</sup>.
- Currently, **only 10% of SMEs track their greenhouse gas emissions**, and 22% lack a full understanding of the concept of "net zero"<sup>3</sup>.

<sup>1</sup>CDP (2021)

<sup>2</sup>SME Climate Hub (2021)

<sup>3</sup>OCDE (2023)



## CHALLENGES

SMEs in the supply chain decarbonisation process often face the **challenge of bearing costs without reaping equivalent value**. Responsibilities and expenses for reducing emissions are frequently passed down from larger corporations to SMEs, but the financial benefits or **“greenium” (if any) largely remain with the larger entities**. This creates a significant imbalance as SMEs struggle with complex sustainability standards and regulations, often without adequate financial backing.

Moreover, market dynamics play a role in these challenges. SMEs often operate in **competitive markets where cost and efficiency are prioritised over sustainability** and where managing costs is paramount to the enterprise’s survival. Without consumer demand or regulatory pressure for sustainable products and services, SMEs may not have an incentive to change their existing practices.

SMEs also face a **significant knowledge and resource gap**. Many small businesses are not fully aware of the impact their operations have on the environment or the benefits of adopting greener practices. This lack of awareness is compounded by limited access to information and resources.

An additional challenge in greening supply chains is the need for a **common language and trust in data exchange between SMEs and larger corporations**. Diverse standards and regulations complicate sustainability reporting, creating a gap in communication and collaboration.

## REGIONAL SPECIFICITIES

Key regional specificities to highlight in the context of supply chain decarbonisation involve understanding the unique challenges and opportunities present in different areas. For example, in regions like the European Union, **data sovereignty protections can create specific frictions in managing supply chain data**, necessitating tailored approaches to data handling and sharing. This also illustrates the need for **globalised standards that can simplify sustainability reporting and tracking for SMEs**, helping them to navigate varying regional regulations and standards.





## OPPORTUNITIES AND INNOVATIVE SOLUTIONS

Despite these challenges, there are numerous emerging opportunities and innovative solutions to enable SMEs and green supply chains.

**Technological innovation stands out as a significant enabler.** Digital tools and platforms can help SMEs manage their supply chains more efficiently and sustainably. Greenomy's Software as a Service (SaaS) platform simplifies sustainability reporting by integrating legislative codification and ESG data libraries with generative AI, easing the compliance burden for SMEs. The Gprnt (Green Print) initiative, launched by the Monetary Authority of Singapore, streamlines ESG data collection and reporting, with Microsoft's collaboration enhancing its capabilities in cloud computing and AI.

**The banking industry also provides innovative financing solutions.** The European Bank for Reconstruction and Development (EBRD) is actively supporting SMEs in sustainability and decarbonisation efforts through their "Green Technology Selector" platform, guiding businesses to sustainable solutions with a country-specific directory of eco-friendly technologies. These technologies qualify for the EBRD's Green Value Chain (GVC) financing.

**First Abu Dhabi Bank (FAB) has partnered with Coriolis Technologies to enhance sustainability in supply chain finance.** Leveraging Coriolis's data analytics and ESG rating tools, FAB aims to allocate USD 135 billion towards sustainable projects by 2030. Furthermore, FAB's "Coriolis Partnership" focuses on linking supply chain finance to sustainability, offering both financial and technical support to SMEs, ensuring that they meet global sustainability standards.

Collaborative initiatives also present substantial opportunities. **Partnerships between SMEs and larger corporations or government entities** can provide the necessary resources and expertise to drive sustainable practices. For example, joint ventures could allow SMEs to access more sustainable materials at a lower cost or participate in industry-wide initiatives to reduce emissions.

Innovative solutions are emerging. For example, the **SME Climate Hub is a non-profit global initiative that empowers SMEs to take climate action.** Through the platform, SMEs are offered tools to measure and report their GHG emissions and to move towards net zero.



## PRIORITIES AND NEXT STEPS

- **Education and awareness:** Large corporations emphasise the importance of educating smaller suppliers about decarbonisation and its benefits. Organising collaborative forums or workshops can help SMEs understand and prioritise sustainability.
- **Data standardisation and sharing:** Addressing the fragmentation in standards and ensuring common data language is vital. Creating common data exchange protocols and ensuring trust in data sharing will accelerate the decarbonisation process.
- **Legislation and regulation:** Introducing or refining legislation to standardise sustainability practices, especially across players operating in the same supply chains, can push the needle on decarbonisation.
- **Collaboration:** Collaboration between large corporations and SMEs is crucial. Instead of pushing the responsibility onto SMEs, a collaborative approach can be more effective in achieving mutual sustainability goals.
- **Financial and technical support:** Offering financial incentives and technical assistance can motivate SMEs to adopt sustainable practices. Making green financing options more accessible to SMEs will encourage more businesses to invest in sustainable technologies and practices.

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