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DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

SMALL AND MEDIUM- SIZED ENTERPRISES (SMEs) FAQs

TVT-INF-002 / Version 4.0
April 2022

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PART 1: SME DEFINITION, ROUTE AND METHOD APPROACH

1. Why did the SBTi introduce the new SME route?

As SMEs start responding to climate change, a growing number are turning to the Science Based Targets initiative (SBTi) to demonstrate their commitment to reducing emissions, and to get help with setting robust, credible targets that are in line with climate science. But many SMEs remain concerned that they lack the skills or capacity to set these targets. In response, the SBTi – a partnership between CDP, the UN Global Compact, World Resources Institute and WWF – introduced a streamlined target-setting route for small and medium-sized companies.

2. 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 science-based targets (near-term and long-term options available) by choosing from one of the predefined target options available in the [SME science-based target setting form](#). Unlike larger companies, the near-term option does not require SMEs to set targets for their scope 3 emissions; however, SMEs must commit to measure and reduce their scope 3 emissions.

3. 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 on FAQ 13).

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. The standard commitment and/or target validation routes are not available to companies that fall under our SME definition.

4. What are the differences between near-term and long-term targets for SMEs?

Near-term targets must cover a minimum of 5 years and a maximum of 10 years from the date the target is submitted to the SBTi for official validation. Long-term (net-zero) targets shall have a target year no later than 2050.

Target options for SMEs:

- **Near-term science-based targets** are absolute scope 1 and 2 GHG emissions reduction targets that should be achieved by 2030, from a predefined base year.
- **Net-zero targets** include:
 - Long-term science-based targets which are absolute scope 1, 2 and 3 GHG emissions reduction targets that should be met by 2050 at the latest, from a predefined base year.
 - A commitment to neutralize any unabated emissions when the long-term science-based target is achieved.

5. Can SMEs set net-zero targets through the SBTi?

Yes. SMEs can set net-zero targets through our predefined target options available in the [SME science-based target setting form](#). SMEs must set targets aligned to a 1.5°C near-term science-based target to be eligible to set a net-zero target. This means that setting a net-zero target includes setting both near-term and long-term science-based targets, and the near-term target must be aligned to 1.5°C pathways.

6. How do we count the number of employees?

An employee is identified using a headcount. Companies should include the total number of people employed by the organization, including full-time and part-time employees.

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

For companies with seasonal employees or employees whose numbers change on a regular basis, the average annual headcount of employees must be used to calculate employee numbers.

8. 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. For near-term targets, companies are required to describe the activities generating scope 1 and 2 emissions and provide their emissions in their chosen base year calculated in tCO₂e, 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. For long-term targets, companies are also required to describe and provide scope 3 emissions in their chosen base year calculated in tCO₂e.

The above information is required when filling in and submitting the [SME science-based target setting form](#). The validation process will be delayed if any information is missing.

9. What is the process to validate my targets?

- i. **Fill in the [SME target setting form](#):** Fill in your company's complete information, choose a target and provide an answer for all Criteria-related questions.
- ii. **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 and share the Terms and Conditions. The T&C must be signed and sent to targets@sciencebasedtargets.org.
- iii. **Invoicing and fee payment:** Once the T&C are signed, the SBTi team will send the payment details to the SME. Once done, the payment confirmation for the one-time fee should be sent to smes@sciencebasedtargets.org. Please refer to the following prices for the SMEs validation service offerings

Selected Service	Price
Setting new near-term targets or replacing previous near-term targets	\$1,000 USD*
Setting new net-zero targets ONLY (only companies with previously set 1.5°C near-term targets are eligible for this option)	\$1,000 USD*
Setting near-term targets AND net-zero targets	\$2,000 USD*

**These fees are reduced fee options compared to the standard fee of USD \$9,500 and up (+applicable VAT). Companies headquartered in developing countries and economies in transition, as defined by the [United Nations Secretariat's Department of Economic and Social](#)*

Affairs listed in Table B and C on page 141-142, will have the option to request a waiver for their target submission fee. A waiver option for these companies will be applicable for both the near-term and net-zero target validation services. We encourage large, multinational companies based in developing countries to pay the normal service fee to ensure the exemption can be reserved for companies that would benefit most from the waiver.

- iv. **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.
- v. **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.

10. 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 and does not belong to the Financial Institutions or Fossil Fuel sector, here's how to set a science-based target: Complete the [SME science-based target setting form](#). All SMEs must use the [SME science-based target setting form](#) for SMEs to validate their targets.

11. 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 [SME science-based target setting form](#).

12. 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.

13. 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. Due to the developing status of our [Oil and Gas guidance](#), the SBTi has updated its fossil fuel policy. In addition to its existing policy to not validate targets from fossil fuel companies, it will no longer accept commitments from these companies, 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.

14. 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.

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

SMEs can only be part of the Business Ambition and Race to Zero campaign if they opt to have a net-zero target.

16. Does my SME need to pay for the target validation service?

The target validation service 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 submitting the [SME science-based target setting form](#), SMEs must request an exemption from the initiative to be considered.

PART 2: BASE YEAR, RECALCULATIONS AND EMISSION INVENTORIES

17. Can companies use different base years than the ones provided in the Target Setting Form?

Companies using the SME route cannot choose a different base year than 2018, 2019, 2020 or 2021 target years. 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](#).

18. 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](#).

19. 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 Form?

Yes, your company can still use the predetermined options in the [SME science-based target setting form](#). 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.

20. Can an SME set scope 3 targets?

The SBTi does not require companies using the SME route to set scope 3 targets for near-term 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 long-term target (net-zero), scope 3 targets would have to be described and reported on the target validation form. The SBTi encourages companies to use [SBTi resources](#) to set ambitious scope 3 targets.

21. Do the predetermined 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.

22. 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/>.

23. 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 referring 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/>.