MED MSMEs
Policies for inclusive growth
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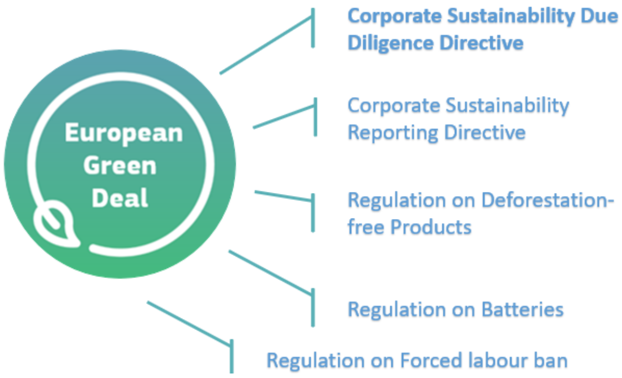
TABADOOL Dialogue - Will the future EU directive on Corporate Sustainability Due Diligence impact neighbourhood south MSMES?

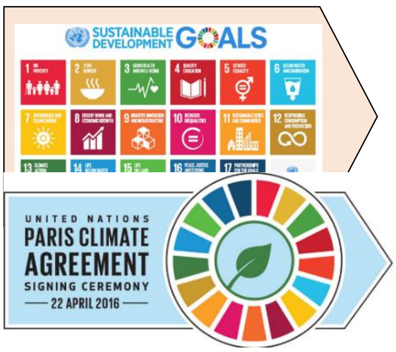
13 OCTOBER 2022 - KEY HIGHLIGHTS AND TAKEAWAYS

THE UPCOMING EU CSDD DIRECTIVE: STRATEGIC FRAME

The Tabadool dialogue on October 13,2022 under the MED MSMEs Programme gathered more than 50 participants from Europe and South Med countries at the **EU Delegation** and on line to exchange on the potential impact on South Med enterprises of the upcoming obligation for 12,000+ EU and 4,000 non-EU companies to disclose Environmental, Social and Governance data. So far 1/3 of companies has some kind of supply chain due diligence in place based on a voluntary framework. However, progress remain uneven among different sizes, sectors, regions.

Ms Anais TABELING, **DG GROW**, highlighted that the 2014 EU-Non-Financial Reporting Directive (NFRD) contributed to some progress but has not mainstreamed uptake of due diligence (DD). Some EU countries have already stepped up the action and presented national laws that need to be harmonized.





For these reasons, in 2020, The Commission announced legislation on sustainable corporate governance (proposal COM/2022/71 final) as part of its headline ambition of "An economy that works for people" and the "green deal".

This is also serving the achievement of the Sustainable Development Goals and the Paris Agreement on Climate change.

WHO IS CONCERNED? AND HOW?

On 23 February 2022, the European Commission adopted a proposal for a directive on corporate sustainability due diligence by virtue of which 'in scope' companies would be required to:

- undertake **due diligence across their value chains** to identify the adverse impacts of their business;
- implement **processes to mitigate those impacts**; and
- integrate sustainability and human rights considerations into their **corporate governance and management systems.**

EU and non-EU companies are in the scope of the draft directive, i.e. a total of 16,700 companies that – in Europe - employ more than 500 employees and report a turnover exceeding €500m (Group 1) and companies employing more than 250 employees and generating more than €40m in sales (Group 2 that apply to three sectors. MSMEs will be impacted indirectly as the directive will also apply to suppliers.

		LARGE EU LLCs + REGULATED FINANCIAL COMPANIES	NON-EU COMPANIES	SMALL AND MEDIUM ENTERPRISES
GROUP 1	*500+ employees and more than net €150 million of turnover**	**+/- 9,400** companies	**+/- 2,600** companies	Micro companies and small and medium enterprises (SMEs) are not directly concerned by the proposed rules.
GROUP 2	*250+ employees and more than net €40 million of turnover*, operating in defined high impact sectors.* *The rules will apply to this group 2 years later than to group 1.*	**+/- 3,400** companies	**+/- 1,400** companies	

The duties are planned at the corporate and the director levels:

Corporates

Human rights and environmental adverse impacts

Identifying, preventing, bringing to an end, and accounting for negative human rights and environmental impacts in company's **own operations, subsidiaries and value chains ('established business relationships')**.

Directors

Due diligence: setting up and overseeing the due diligence processes and integrating them into the corporate strategy. Report to the board.

Duty of care: when fulfilling their duty, take into account the human rights, climate change and environmental consequences

As regards Climate Change: Group 1 companies will have to **adopt a plan** to ensure that their business strategy is compatible with limiting global warming to 1.5 °C in line with the Paris Agreement. In case climate change is identified principal risk for company's operations, emission reduction objectives will be included. Directors' remuneration will be **linked to their contribution** to long-term sustainability.

Courtesy DG GROW, Anais TABELING

A toolbox of appropriate measures will be developed to accompany the implementation of the directive at both levels.

The **implementation and public enforcement of due diligence**:

- A **complaint mechanism** set up by company (affected persons, trade unions, CSOs)
- **Supervisory authorities**: "substantiated concerns", Sanctions, European network
- **Obligation of means**: own operations, subsidiaries and established business relations, 'safeguard' for liability in value chains beyond Tier 1, burden of proof on claimant

A MEDIUM-TERM PERSPECTIVE

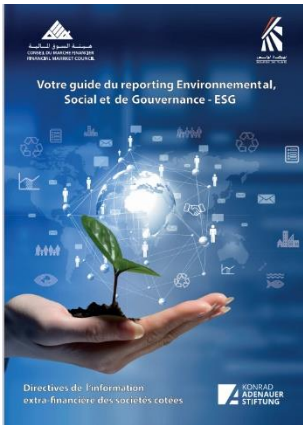
Ms Anne-Catherine HUSSON-TRAORE, **Novethic**, explained that the Directive should be adopted by end of 2022 and fully implemented by 2029. This will require heavy private sector investments. It will also exert a domino effect on the South Med companies participating directly of indirectly to global value chains. The induced transformation needs to be taken into consideration when crafting sustainable development policies, developing national trade and investment strategies and support instruments accompanying the transformation. In that respect, **2029 is tomorrow**.

End of 2022	Mid-2023	2025	2026	2027	2029
Completion and adoption of the CSRD	Finalization of sectoral and SME-specific standards	Companies already subject to Non Financial Reporting Directive	Companies with more than 250 employees	Listed SMEs	Foreign companies operating in Europe

Courtesy Novethic, Anne-Catherine HUSSON-TRAORE

FROM POLICY TO IMPACT

Several frameworks and tools have been developed to assist companies in their transformation. The following was presented in session:



Mr Bilel SAHNOUN, **Tunis Stock Exchange** CEO, stressed that the BMVT published end 2021 the ESG (Environmental, Social and Governance) Reporting Guide, intended in particular for listed companies. This Guide presents the principles of the Sustainable Stock Exchanges (SSE) Initiative of the United Nations and provides practical recommendations for their implementation.

The Guide, intended for directors, managers and executives of listed companies on the one hand, and for the company's stakeholders (statutory auditors, employee representatives, shareholders, investors....) on the other, the guide proposes a matrix of indicators for a progressive approach to extra-financial reporting on environmental, social and governance (ESG) considerations - **Access the guide**.

Mr Aurélien BAUDOUIN, Director with the **ANIMA Investment Network**[1].presented the IMPACT RATING, a proprietary online tool engaging companies towards positive impacts for their

[1] ANIMA is a platform gathering 70+ members for economic cooperation between Europe, the Middle East and Africa, supporting a shared and sustainable development in the region - Your partners in Europe Middle East and Africa | ANIMA Investment Network

territories by assessing the performance and impact of a company in its economic, social, environmental and territorial dimensions.

The tool consists of **90 questions and 33 criteria** aligned with international standards (ISO26000, SDGs, EU taxonomy, etc). It is customisable and designed to be adapted to each organisation and strategy. It is recognised by international institutions: support of the European Union, label of UfM and good practice promoted by ITC and the UNEP-MAP. [Access the tool here](#).

ANIMA INVESTMENT NETWORK
IMPACT RATING
ECONOMY SOCIAL ENVIRONMENT TERRITORY

Economy		Social		Environment		Community	
		SOC1	Direct job creation	ENV1	Waste production management		
ECO1	Product value for the population	SOC2	Qualification of created jobs	ENV2	Waste treatment and recycling	TER1	Impact on the structure of the local economy
ECO2	Eviction of existing companies	SOC3	Type of contract	ENV3	Reduction in energy consumption	TER2	Participation in local social actions
ECO3	Sub-contracting and local purchases	SOC4	Wage policy	ENV4	Renewable energy	TER3	Social and solidarity economy (SSE)
ECO4	Indirect job creation	SOC5	Local recruitment	ENV5	Reduction in water consumption	TER4	Development strategy & territorial anchorage
ECO5	Partnership attitude within the sector	SOC6	Equal opportunities	ENV6	Consumption of forests and agricultural soils	TER5	Fight against corruption
ECO6	Impact on local infrastructure	SOC7	Vocational training	ENV7	Protection of biodiversity and habitats	TER6	Transparency
		SOC8	Participation in local training	ENV8	Quality of constructions and impact on landscape		
		SOC9	Social protection	ENV9	Impact on residents and mitigation measures		
		SOC10	Employees' represent. & protect., social dialogue	ENV10	Environmental quality of products & services		
				ENV11	Transport & logistics optimisation		

DIALOGUE

The dialogue was enriched by the interventions of the [CGEM](#) (Morocco, Mr Mohammed TALAL, Vice-President), the [Federation of Egyptian Industry](#) (Eng. Ahmed KAMAL, Executive Director, Environmental Compliance Office and Sustainable Development) and the [Jordan Businessmen Association](#) (Mr Boucai RAHIM AL ABED, Secretary General). Discussions revolved around the following:

- *The impact of the new directive might only be indirect for South MED MSMEs, but the ineluctable transformation of value chains towards more green and social models might have the effect of **expelling small enterprises** from the new supply chains.*
- *Reversely, the transformation can be **turned into an opportunity** for those players who proactively integrate the environmental, social and governance dimensions in their production and commercialization practices.*
- *The **financial sector** is expected to play a critical role in the adoption of sustainable due diligence reporting, notably the capital markets and the stock exchanges for listed companies, but also the increased integration of ESG criteria into the credit scoring systems of financial institutions.*

- ***Big data and artificial intelligence*** will be increasingly used to monitor the impact of companies, as they allow setting up industry standards, identifying weaknesses and proposing tailored action plans. Data can also help identify "green washing".
- Turning a threat into an opportunity requires ***policy, regulatory, taxation and enterprise support measures*** in favour of actors in global value chains who are indirectly affected by the obligations of the directive.

جمعيـــة رجـال الأعـمـال الأردنييـن
Jordanian Businessmen Association

- The ***regional level*** could be relevant for the dissemination of harmonized standards. A regional excellence centre could also contribute to developing the capacities of institutions supporting the development of the private sector in this regard by training talents and developing products that are fit for purpose.

novethic
GROUPE CAISSE DES DÉPÔTS

- The public and private sector coordinated approach calls for ***support to an informed dialogue***, for example on extending the ESG reporting obligations to non-listed SMEs within a clear and appropriate timeframe negotiated with the EU.

CSR EGYPT