



Supporting Document 2: Statement on the degree of alignment of the recommendations of the High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities (HLEG)

This document outlines the following information for each HLEG recommendation:

- The most applicable degree of alignment among the following three categories:
 - fully aligned;
 - partially aligned;
 - not aligned;
- Statement on how the net zero criteria applied by the Initiative is aligned with the HLEG recommendation; and
- If it is partially aligned or not aligned, include a statement on the challenges and opportunities for further alignment.

Recommendation 1: Announcing a Net Zero Pledge

A net zero pledge should be made publicly by the leadership of the non-state actor and represent a fair share of the needed global climate mitigation effort. The pledge should contain interim targets (including targets for 2025, 2030 and 2035) and plans to reach net zero in line with IPCC or IEA net zero greenhouse gas emissions modelled pathways that limit warming to 1.5°C with no or limited overshoot, and with global emissions declining by 50% by 2030, reaching net zero CO2 emissions by 2050 and net zero greenhouse gas emissions soon after. Net zero must be sustained thereafter.

SME Climate Hub Commitment Alignment: Partially aligned

The SME Climate Hub's Commitment is mostly aligned to this recommendation. SME signatories must make a public commitment (searchable on our public database) to achieve net zero by 2050 and set an interim target to halve emissions within at least 10 years. However, we do not ask them to set interim targets at 5-year intervals. SMEs lack the knowledge, financing, and resources larger entities do, and are more prone to major operational changes. Given the more limited capacity it is not realistic to expect them to review their targets this frequently.

Recommendation 2: Setting Net Zero Targets

Non-state actors must have short-, medium- and long-term absolute emissions reduction targets and, where appropriate, relative emissions reduction targets across their value chain that are at least consistent with the latest IPCC net zero greenhouse gas emissions modelled pathways that limit warming to 1.5°C with no or limited overshoot, and where global emissions decline at least 50% below 2020 levels by 2030, reaching net zero CO2 emissions by 2050, followed by net zero greenhouse gas emissions soon after.

SME Climate Hub Commitment Alignment: Partially aligned

We ask SME signatories to set near-term targets (halve emissions within 10 years) and long-term targets (complete reduction by 20250) which are aligned with 1.5°C. However, we do not ask them to set interim targets at 5-year intervals. SMEs lack the knowledge, financing, and resources larger entities do, and are more prone to major operational changes. Given the more limited capacity it is not realistic to expect them to review their targets this frequently.

Recommendation 3: Using Voluntary Credits

- *Non-state actors must prioritise urgent and deep reduction of emissions across their value chain. High integrity carbon credits in voluntary markets should be used for beyond value chain mitigation but cannot be counted toward a non-state actor's interim emissions reductions required by its net zero pathway.*
- *High-integrity carbon credits are one mechanism to facilitate much-needed financial support towards decarbonizing developing country economies. As best-practice guidelines develop, non-state actors meeting their interim targets on their net zero pathway are strongly encouraged to balance out the rest of their annual unabated emissions by purchasing high-integrity carbon credits.*
- *A high-quality carbon credit should, at a minimum, fit the criteria of additionality (i.e. the mitigation activity would not have happened without the incentive created by the carbon credit revenues) and permanence.*

SME Climate Hub Commitment Alignment: Fully aligned

We ask SME signatories to aim for emission reduction of all scopes of at least 90% compared to their business's chosen base year. For the remaining unavoidable emissions (i.e. residual emissions), we encourage SMEs to compensate by supporting projects that remove carbon dioxide permanently, via the use of mechanisms such as voluntary credits. Given the resourcing constraints most SMEs have, we don't actively encourage them to use voluntary credits for interim targets but do have guidance available if they wish to do so.

Recommendation 4: Creating a Transition Plan

Non-state actors must publicly disclose comprehensive and actionable net zero transition plans which indicate actions that will be undertaken to meet all targets, as well as align governance and incentive structures, capital expenditures, research and development, skills and human resource development, and public advocacy, while also supporting a just transition. Transition plans should be updated every five years and progress should be reported annually.

SME Climate Hub Commitment Alignment: Partially aligned

Given the resource constraints faced by SMEs, requiring transition plans could act as a significant deterrent to making a public net zero pledge. However, we strongly encourage SMEs to develop transition plans and provide a digital tool that creates a bespoke, trackable climate action plan to help reduce this barrier. We also require annual reporting, including details of the initiatives and actions being taken to support decarbonization across all scopes.

Recommendation 5: Phasing Out of Fossil Fuels and Scaling Up Renewable Energy

- *All net zero pledges should include specific targets aimed at ending the use of and/or support for fossil fuels in line with IPCC and IEA net zero greenhouse gas emissions modelled pathways that limit warming to 1.5°C with no or limited overshoot, with global emissions declining by at least 50% by 2030, reaching net zero CO2 emissions by 2050, followed by net zero greenhouse gas emissions soon after.*
- *The transition away from fossil fuels must be just for affected communities, workers and all consumers to ensure access to energy, and avoid transference of fossil fuel assets to new owners.*
- *The transition away from fossil fuels must be matched by a fully funded transition toward renewable energy.*

SME Climate Hub Commitment Alignment: Fully aligned

Our commitment requires a reduction in emissions across Scope 1, 2, and 3, which recognises that a transition away from fossil fuels is essential to achieving net zero. However, given the realities faced by SMEs, it is not appropriate to require them to directly fund renewable energy initiatives, as many (particularly those in developing economies) do not currently have the financial capacity or access to sufficiently developed renewable energy infrastructure to do so in the near term.

Similarly, ensuring a just transition for affected communities is often beyond the direct influence of SMEs, particularly as these businesses themselves frequently form part of the affected communities. Nevertheless, we provide a significant range of resources and guidance to support SMEs in transitioning towards renewable energy, advancing and financing decarbonisation efforts.

Recommendation 6: Aligning Lobbying and Advocacy

Non-state actors must align their external policy and engagement efforts, including membership in trade associations, to the goal of reducing global emissions by at least 50% by 2030 and reaching net zero CO2 emissions by 2050, followed by net zero greenhouse gas emissions soon after. This means lobbying for positive climate action and not lobbying against it.

SME Climate Hub Commitment Alignment: Partially aligned

SMEs play a very different role from larger non-state entities when it comes to lobbying and advocacy. Rather than engaging directly, SMEs often rely on larger organizations to advocate on their behalf. As such, it is not appropriate to require them to disclose trade association affiliations, many of which are highly sector-specific. However, we do provide guidance on how SMEs can engage in policy advocacy to help promote responsible lobbying and provide opportunities for them to join our campaigns.

Recommendation 7: People and Nature in the Just Transition

- *As part of their net zero plans, businesses, cities and regions with material land-use emissions must achieve and maintain operations and supply chains that avoid the conversion of remaining natural ecosystems— eliminating deforestation and peatland loss by 2025 at the latest, and the conversion of other remaining natural ecosystems by 2030.*

- *Financial institutions should have a policy of not investing or financing businesses linked to deforestation and should eliminate agricultural commodity-driven deforestation from their investment and credit portfolios by 2025, as part of their net zero plans.*

SME Climate Hub Commitment Alignment: Partially aligned

Due to its emissions mitigation-focused remit, the SME Climate Hub commitment does not contain explicit language on avoiding deforestation and peatland loss. However, for SMEs with material land-use emissions, achieving net zero would inherently require avoiding the conversion of natural ecosystems, as this is essential to reducing overall emissions. We offer resources to our SMEs to help them understand and reduce their impact on nature

Recommendation 8: Increasing Transparency and Accountability

- *Non-state actors must annually disclose their greenhouse gas data, net zero targets and the plans for, and progress towards, meeting those targets, and other relevant information against their baseline along with comparable data to enable effective tracking of progress toward their net zero targets.*
- *Non-state actors must report in a standardised, open format and via public platforms that feed into the UNFCCC Global Climate Action Portal to address data gaps, inconsistencies and inaccessibility that slow climate action.*
- *Non-state actors must have their reported emissions reductions verified by independent third parties. Special attention will be needed to build sufficient capacity in developing countries to verify emission reductions.*
- *Disclosures ought to be accurate and reliable. Large financial and non-financial businesses should seek independent evaluation of their annual progress reporting and disclosures, including opinion on climate governance, as well as independent evaluation of metrics and targets, internal controls evaluation and verification on their greenhouse gas emissions reporting and reductions.*

SME Climate Hub Commitment Alignment: Partially aligned

When SMEs make the SME Climate Hub commitment they are recognized by the UN Climate Change's Global Climate Action portal. We ask SME signatories to publicly disclose their greenhouse gas emissions data, targets, and progress plans on an annual basis. However, recognising the capacity constraints faced by many SMEs, we also accept disclosures on a biennial basis. These disclosures are published on the SME Climate Hub platform, and we provide an in-house reporting tool to enable reporting through a standardised, accessible, and open format. This reporting tool is based off CDP's initial disclosure framework and regularly updated to ensure it aligns with other reporting pathways.

However, we do not require third-party verification of these disclosures. Independent verification can represent a significant financial burden for SMEs, many of which already operate under considerable resource constraints, particularly in developing economies. As such, it is not appropriate to expect SMEs to divert already limited resources towards third-party assurance processes. We provide significant resources and tools to help them accurately capture data, such as

carbon calculators and written guidance. When an SME reports to us, this is made publicly available via our SME database, providing a first level of accountability.

Recommendation 9: Investing in Just Transitions

To achieve net zero globally, while also ensuring a just transition and sustainable development, there needs to be a new deal for development that includes financial institutions and multinational corporations working with governments, Multilateral Development Banks and Development Finance Institutions to consistently take more risk and set targets to greatly scale investments in the clean energy transition in developing countries.

SME Climate Hub Commitment Alignment:

Not relevant to SME signatories

Recommendation 10: Accelerating the Road to Regulation

- *In order to ensure rigour, consistency and competitiveness, regulators should develop regulation and standards in areas including net zero pledges, transition plans and disclosure, starting with high-impact corporate emitters, including private and state-owned enterprises and financial institutions.*
- *The challenge of fragmented regulatory regimes should be tackled by launching a new Task Force on net zero Regulation that convenes a community of international regulators and experts to work together towards net zero.*

SME Climate Hub Commitment Alignment:

Not relevant to SME signatories