



United Nations
Global Compact

SME ENGAGEMENT STRATEGY

2021–2023





CONTENTS

EXECUTIVE SUMMARY	04
--------------------------	-----------

ABBREVIATIONS	08
----------------------	-----------

1. INTRODUCTION	10
------------------------	-----------

2. SUSTAINABILITY AND SMES	12
-----------------------------------	-----------

SMEs are critical to the realization of
SDGs and fulfillment of 2030 Agenda

SME engagement in sustainability:
Complex challenges and mixed track record

Supporting SMEs sustainability journeys:
What will it entail?

3. DEEPENING AND SCALING UN GLOBAL COMPACT SME ENGAGEMENT	16
--	-----------

4. STRATEGY OVERVIEW	18
-----------------------------	-----------

Entry points

Vision

Results chain

Strategy workstreams and key activities

Stakeholder benefits

5. STRATEGY OPERATIONALIZATION	30
---------------------------------------	-----------

Operationalization priorities for 2022 and 2023

Scaling-up strategy implementation

CONCLUSION	32
-------------------	-----------

<i>ANNEX</i>	<i>34</i>
--------------	-----------

<i>SME DEFINITION</i>	<i>34</i>
-----------------------	-----------

EXECUTIVE SUMMARY

Strategic overview

Over the last 21 years, the United Nations Global Compact has grown from a group of 44 businesses into what is today the world's largest corporate sustainability initiative and a global movement of more than 15,000 businesses and 3,000 non-business stakeholders across 160 countries.

While progress is being achieved — 88 percent of UN Global Compact participants are acting on the Sustainable Development Goals (SDGs) — we recognize more must be done by businesses globally to accelerate corporate sustainability and responsible business practice. Even among the current participants of the UN Global Compact, only 39 percent of companies believe their targets are sufficiently ambitious and only 46 percent are embedding the Global Goals into their core business. There are only a few years left to shift the world onto a 1.5°C trajectory, reduce global inequalities and achieve the substance of the 2030 Agenda for Sustainable Development.

The new strategic ambition of the UN Global Compact seeks to accelerate delivery of these world goals — the 2030 Agenda and the Paris Agreement. By realizing five major shifts, the plan will raise ambitions and expectations of how businesses will embed all Ten Principles of the UN Global Compact and scale up the number of companies taking meaningful action. These strategic shifts are:

1. Raising corporate accountability
2. Accelerating growth in the Global South
3. Measuring impact in priority areas
4. Harnessing the collective action of small- and medium-sized enterprises (SMEs)
5. Having strong, active engagement with the United Nations

THIS SME STRATEGY WILL SECURE THE DELIVERY OF STRATEGY SHIFT #4.

SME engagement in sustainability

Complex challenges and mixed track record

SMEs are the engine of private sector growth, both in developing and developed economies, and are critical to the fulfilment of the Global Goals. Their per capita contribution may be smaller than that of larger firms, but the cumulative impact of SMEs is significant. Globally, SMEs account for 90 percent of businesses and 50 percent of total employment,¹ with formal firms constituting 40 percent of GDP in emerging economies.² The International Labour Organization (ILO) reports that in developing economies, seven out of 10 jobs are created by SMEs. Their most prominent impact is felt on sustainable growth and employment (SDG 8) and sustainable industrialization and innovation (SDG 9),³ although clear linkages and contributions can be defined across all 17 SDGs.

SMEs are critical to international trade as well — even when they are not directly involved, they supply valuable goods and services across global and regional value chains serving as a 'glue'. This footprint makes them important stakeholders in the success and failures of national and regional sustainability agendas.

Research conducted by the UN Global Compact as well as other institutions⁴ has indicated that SMEs are broadly lagging on integrating sustainability tenets within their core business operations. This is true even in cases such as the European Union (EU) where sensible policies and incentives exist. For instance, the annual progress report of the UN Global Compact notes that 92 percent of companies (UN Global Compact participants) with revenue greater than USD 1 billion have some sort of emission targets vs. 58 percent of SME participants. Approximately 86 percent of companies with revenue of more than USD 1 billion have set measurable sustainability goals vs. 54 percent of those with revenue of less than USD 25 million. On reporting as well, there are stark variances between larger and smaller firms. Among companies with revenue of more than USD

1 billion, 94 percent report on sustainability performance, while among companies with revenue of less than USD 25 million, the rate is much smaller at 48 percent.

The contributing factors are manifold and nuanced as noted in following chapters; however the key challenges include pressing operational priorities, a small resource base (technical, human capital, financial), an under-developed regulatory agenda on sustainability and a knowledge gap at the enterprise level. In many cases, the benefits of sustainability to SME business goals are not well articulated or the investments and attention required from SMEs is simply beyond their capacities to maintain sustainably. Sustainability is also perceived as a strategy that yields benefits/returns on investment only in the long term. For these and other reasons, engagement in sustainability tends to be an afterthought for most SMEs, particularly in developing economies.

On the other hand, SMEs are inherently lean and agile, pivoting swiftly in new directions when the leadership is convinced of the value proposition. The relatively flat organizational structure allows them this flexibility. The example of the e-commerce sector during the pandemic is a key example. Faced with large-scale business closures due to lockdowns, SMEs were able to survive by joining e-marketplaces and maintaining linkages with the market. Many of such SMEs, regardless of geography, had previously limited engagement within the digital economy and yet adjusted in response to the crisis. Active SME engagement within the initiatives of the UN Global Compact points to their intent to drive sustainability within their business operations. There is cognizance that the UN Global Compact can further support this by developing SME-specific resources and tailoring existing programmatic activities in line with SME capacities and interests.

is a realization though that support for SMEs requires strengthening when compared with support for larger participants in the UN Global Compact. Over the past decade, the suite of programmatic activities of the UN Global Compact has both grown and diversified with significant appeal for larger firms. The engagement with SMEs has, however, remained uneven. There is also recognition that natural constraints of SMEs in the form of small team sizes and limited resources should be considered while designing programmatic activities. Smaller SMEs have struggled somewhat to absorb and operationalize the wealth of resources and activities at their disposal via their association with the UN Global Compact.

Consultations with Local Networks and SMEs have revealed that while SMEs do engage enthusiastically within the framework of the UN Global Compact, they also are actively seeking out linkages with business goals. This is because of natural constraints related to business pressures, small teams and resources and is especially true as we traverse along the developed/developing economy spectrum.

The programmatic interventions aimed at SMEs therefore need to be practical and targeted, while the impact on SME business results, required investments and benefits need to be transparently articulated for SMEs to assist in their decision making. Successful and long-term engagement with SMEs will necessarily require strategies which diverge from that of larger companies due to their inherently separate challenges and coping capacities.

In summary, SMEs are ready and willing to scale their engagement within sustainability in general, and within the UN Global Compact in particular, provided that content and initiatives can be made even more targeted and meaningful.

Experience of the UN Global Compact with SME engagement

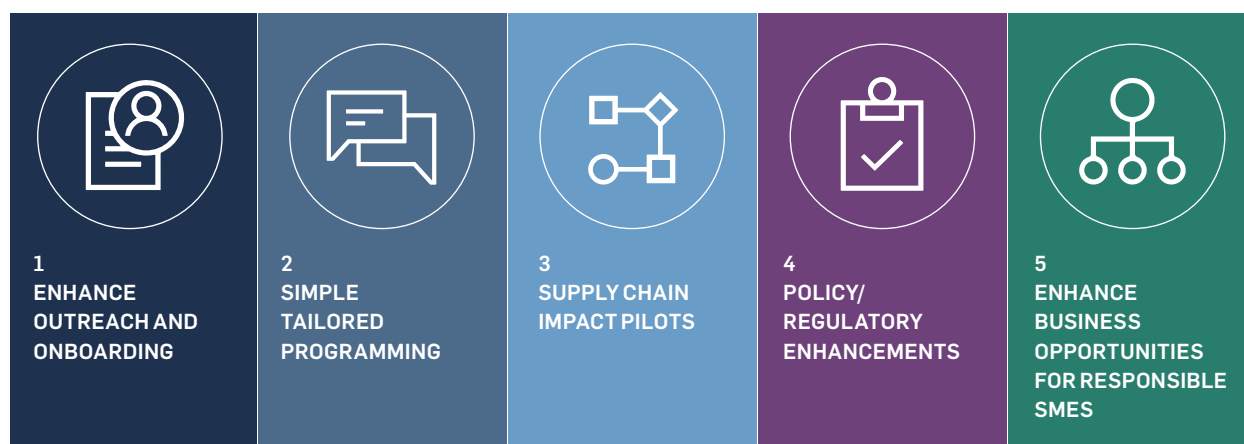
Approximately 65 percent of participants in the UN Global Compact are SMEs. Local Networks (LNs)⁵ of the UN Global Compact, which advance corporate sustainability at the national and regional level, have adapted to SME needs and provide value-added services and engagement opportunities in countries with a SME-dense private sector structure. This is, however, not uniform across all Local Networks, and there is particularly limited capacity in the smaller Local Networks to support the large numbers of SMEs that are relatively new to sustainability. There

Strategy vision and workstreams

The following vision articulates the ambition of fostering meaningful engagement by the UN Global Compact with SMEs at a global scale via the Local Networks. It serves as an aspirational long-term vision, linked to the corporate strategy of the UN Global Compact, towards which this strategic plan as well as future iterations will be directed.

To accelerate and scale meaningful SME engagement in sustainability, in accordance with SME capacities and business realities

FIGURE 1 STRATEGY WORKSTREAMS FOR THE UN GLOBAL COMPACT SME ENGAGEMENT STRATEGY



Source: UN Global Compact

The strategy provides meaningful pathways enabling SMEs to identify direct linkages between sustainability and profitability and absorb tailored content and programmatic interventions aligned with their absorptive capacities.

The ultimate vision is for SMEs to leverage the Ten Principles of the UN Global Compact as a driver of business success while integrating responsible behavior at the core of their strategic mission.

THE STRATEGY IS COMPRISED OF FIVE WORKSTREAMS:

WORKSTREAM 1

ENHANCE SME OUTREACH AND ONBOARDING

The first workstream aims to strengthen the overall applications and onboarding journey of an SME that is either considering applying or has recently joined the UN Global Compact. This will be achieved via the following outputs: a streamlined applications process which improves application turnaround times while maintaining the due diligence and integrity of the due diligence process; a uniform onboarding process which is digitally delivered and improves the quality of onboarding support provided by Local Networks to SMEs; an SME Readiness Tool which results in enhanced capacities of Local Networks to assess SME readiness levels and accordingly direct them to pertinent programming. This workstream is intimately link to the revised Communications on Progress (CoP)⁶ process launched recently, which features ongoing digitalization and improved usability, which will also benefit SMEs.

WORKSTREAM 2

TAILORED PROGRAMMING

This workstream is aimed at bridging the important gap existing in terms of specific programming and content for SMEs at both the local and regional levels. Due to the importance of these tools and resources to both Local Networks and their participant firms, this workstream has been assigned high priority in terms of sequencing implementation.

The implementation of activities under this workstream will result in development of a comprehensive knowledge base focusing on the Ten Principles of the UN Global Compact, tailored to SMEs and accessible digitally. This will involve the scaling up of structured SME peer-to-peer learning on sustainability at the national and regional levels and deployment of digital e-learning experiences via the UN Global Compact Academy (commencing with a foundational e-learning course on the the Ten Principles of the UN Global Compact). These three components are expected to comprehensively step up the quality and scale of the value that SMEs can derive from engaging with the UN Global Compact.

WORKSTREAM 3

SUPPLY CHAIN IMPACT PILOTS (SCIP)

The third workstream is aimed at engaging with SMEs via regional supply chains of multinational (MNE) participant companies. It constitutes a capacity-building initiative specially tailored to SME suppliers of MNE participants, with 'components' based on the Ten Principles of the UN Global Compact. The UN Global Compact Local Networks will serve as project implementation anchors (>65 active networks),

and the project is implemented in partnerships with partners providing best-in-class capacity development support.

The business case of engaging with SMEs via supply chains is strengthened by three factors. First, this is a priority for MNEs. Extending sustainability commitments through the supply chain is the most difficult aspect of sustainability for MNEs. According to the UN Global Compact progress report, the No. 1 challenge to sustainability alignment cited by 58 percent of UN Global Compact companies with revenue of more than USD 1 billion is 'extending the strategy through the supply chain'. (For comparison only 18 percent cite lack of financial resources as a challenge). Second, SMEs within the same supply chain likely face similar challenges and therefore interventions can be clearly articulated and effective in support of these SMEs. Finally, the linkage with the MNE ensures that SMEs have an incentive to engage and improve their sustainability footprint.

WORKSTREAM 4 POLICY/REGULATORY ENHANCEMENTS

Long-term economic, social and environmental sustainable transformation is only possible once national strategies and regulations as well as operational best practices are developed and then adopted by SMEs via incentives and directives. This workstream is aimed at building the capacities of Local Networks so that they can positively influence and shape the national sustainability agenda over the long term, involving policies, strategies,

regulations and public/private dialogue. Regulatory requirements remain a critical driver of changes in SME behavior towards adopting more responsible and sustainable practices. In the long term, Local Networks will be better engaged in national policy-making frameworks within the sustainability sphere, and national governments will be actively supported in their sustainability agenda via the expertise of the UN Global Compact.

WORKSTREAM 5 ENHANCE BUSINESS OPPORTUNITIES FOR RESPONSIBLE SMES

This workstream seeks to expand market opportunities for SMEs which are engaged in responsible and sustainable behavior via collaboration with two important vehicles of market-activity — procurement frameworks and e-commerce marketplaces. SMEs are best engaged via market-incentives, and creatively identifying solutions where e-commerce marketplaces and/or procurement frameworks can reward SMEs that are demonstrably engaged in responsible behavior may stimulate more SMEs to adopt sustainable practices.

Activities under this workstream will involve project-based pilots led by Local Networks in i) e-commerce marketplace pilots, leveraging marketplaces to encourage responsible SME behavior; and ii) procurement pilots to increase sustainability requirements in national public/donor procurement frameworks.

Conclusion

This strategy is driven by a cognizance that strengthened engagement with SMEs in sustainability is no longer simply an option but a prerequisite for the fulfillment of the mandate of the UN Global Compact. Via this SME strategy, the UN Global Compact has identified key pathways for meaningfully bringing SMEs into the sustainability fold and expanding their knowledge and practical application of sustainability issues. Through the operationalization of the five workstreams in a phased manner and spread over the two-year timeframe, the UN Global Compact aims to bridge the high priority gaps resulting in a strong value proposition for SMEs, which can be further strengthened via the next iteration of the strategy on the SDGs by 2030. They enable companies to move from benchmarking against the competition or against their own past performance towards UN Global Compact established benchmarks — to set goals at the level of ambition required to deliver on the SDGs, rather than at the level of ambition that currently seems possible to deliver on.

ABBREVIATIONS

ACRONYM	FULL-FORM
CoP	Communication on Progress
EU	European Union
GVC	Global Value Chains
LN	Local Network
MNE	Multinational Enterprise
SCIP	Supply Chain Impact Pilot
SCORE	Sustaining Competitive and Responsible Enterprises programme
SEA	South East Asia
SDGs	Sustainable Development Goals
SME	Small- and Medium-sized Enterprises
UN	United Nations





1 INTRODUCTION STRATEGIC OVERVIEW

SMEs are the engine of private sector growth, yet they are underserved when it comes to support for integrating sustainability tenets within their business operations. The UN Global Compact SME Engagement Strategy represents an ambitious effort to engage with SMEs globally and assist them in embarking or further maturing on their sustainability journeys. Through the implementation of this strategy, the UN Global Compact will be better positioned, globally and locally, to serve participant SMEs' progress.

Over the last 21 years, the UN Global Compact has grown from a group of 44 businesses into what is today the world's largest corporate sustainability initiative and a global movement of more than 15,000 businesses and 3,000 non-business stakeholders across 160 countries.

While progress is being made, and 88 percent of companies in the UN Global Compact are taking actions to further the Global Goals, we recognize more must be done by businesses globally to accelerate corporate sustainability and responsible business practice. Even within the current participants of UN Global Compact, only 39 percent of companies believe their targets are sufficiently ambitious and only 46 percent are embedding Global Goals into their core business. There are only eight years left to shift the world onto a 1.5°C trajectory, reduce global inequalities and achieve the substance of the 2030 Agenda for Sustainable Development.

The new strategic ambition of the UN Global Compact seeks to accelerate delivery of these world goals — the 2030 Agenda and the Paris Agreement. The plan will raise ambitions and expectations of how businesses will embed all Ten Principles of the UN Global Compact and scale up the number of companies taking meaningful actions by realizing five strategic shifts:

1. Accountable companies
2. Balanced growth
3. Measurable impact in priority areas
4. Harnessing the collective action of SMEs
5. Strong and active engagement with the United Nations

**THIS STRATEGY WILL SECURE THE
DELIVERY OF STRATEGY SHIFT #4.**



UN Global Compact Strategy

The SME strategy is aligned — in spirit and in action — with the UN Global Compact Strategy. There are five strategic shifts:

1. ACCOUNTABLE COMPANIES

The UN Global Compact will strive to move participant companies faster and farther in demonstrating progress on corporate sustainability and responsible business practices. We will use specific, measurable targets within an enhanced reporting framework to hold participating companies accountable.

2. BALANCED GROWTH OF LOCAL AND REGIONAL NETWORKS FOR GLOBAL COVERAGE

In addition to strengthening each of the existing 69 Local Networks of the UN Global Compact, we will extend our engagement with businesses in other countries, particularly in the Global South, through the establishment of new Local Networks, Regional Networks and broader geographic coverage of existing Local Networks.

3. MEASURABLE IMPACT IN PRIORITIZED AREAS

Co-created with the Local Networks that deliver programmes on the ground, programmes of the UN Global Compact will focus on the Ten Principles to lead action on five priority Global Goals. We are uniquely placed to shape the business community's progress and action on these priority areas: Gender Equality (SDG 5); Decent Work and Economic Growth (SDG 8); Climate Action (SDG 13); Peace, Justice and Strong Institutions (SDG 16); and Partnerships (SDG 17). We will adapt each programme to each country's unique needs.

4. HARNESSING THE COLLECTIVE ACTION OF SMES

A specific focus of the strategy is to enhance engagement and action of SMEs through the establishment of a targeted and cross-cutting SME programme that leverages digital tools and value chains to reach scale.

5. STRONG AND ACTIVE ENGAGEMENT WITH THE UN

In working ever more closely with various UN agencies, resident coordinators and UN country teams, the reach and ability of the UN Global Compact to drive change in business is substantially enhanced. This strategy calls for deeper collaboration at the global and national levels, particularly in the UN Common Country Analysis (CCA) and private sector engagement processes to unlock the collective strength of the UN in advancing corporate sustainability and responsible business practice globally.

In pursuing these five strategic shifts over the 2021–2023 period, we will measure collective impact in five critical areas, namely the number of Global Compact participants committed to the goals of the Paris Agreement, making public commitments to human rights and labour, demonstrating broad-based gender parity in operations, enforcing compliance on anti-corruption and bribery and taking actions to advance the SDGs.

At the heart of this SME strategy is the cognizance that engagement with SMEs in sustainability is no longer simply an option but a prerequisite for the fulfillment of the mandate of the UN Global Compact and delivery of the Global Goals. The strategy provides meaningful pathways enabling SMEs to identify direct linkages

between sustainability and profitability and absorb tailored content and programmatic interventions aligned with their absorptive capacities. The ultimate vision is for SMEs to leverage the Ten Principles of the UN Global Compact as a driver of business success, while integrating responsible behaviour at the core of their strategic mission.

2 SUSTAINABILITY AND SMES

AN INEXTRICABLE RELATIONSHIP

2.1 SMEs are critical to realization of Global Goals and fulfillment of 2030 Agenda

The societal and economic contributions of SMEs cannot be understated. Globally, SMEs account for 90 percent of businesses and 50 percent of total employment,⁷ with formal firms constituting 40 percent of the GDP in emerging economies.⁸ The overall contributions are likely much higher when informal firms are factored in. According to the ILO, SMEs account for most new job creation worldwide, accounting for seven out of 10 jobs in developing countries.⁹ In doing so, SMEs exhibit inclusive patterns of hiring young people, older workers and less-skilled workers. SMEs also provide much needed competition necessary for a dynamic private sector-led economy and, in development contexts where resources and business environments are conducive, SMEs are significant drivers of innovation. For these and many other contributions, SMEs have been identified as engines of private sector growth in both developing and developed markets. Overall, SMEs make essential contributions to the Global Goals. Their most prominent impact is felt on sustainable growth and employment (SDG 8) and sustainable industrialization and innovation (SDG 9).¹⁰

2.2 SME engagement in sustainability: complex challenges and mixed track record

The significant contribution of SMEs to employment and national incomes makes them essential stakeholders in national sustainability agendas. Their involvement is not only limited to national boundaries — SMEs are key to shaping the sustainability profile in Global Value Chains (GVCs) and Regional Value Chains (RVCs) and highly influential in determining the success or failure of regional sustainability agendas.

SMEs in many developed economies have benefited from policy-level initiatives backed by sensible regulations, incentives and capacity development initiatives, leading to an aggregate forward movement in their sustainability journeys. Much work remains, but SMEs in these advanced economies have access to meaningful resources and guidance and fare relatively better than do their peers in developing economies.

It is important to note that even within developed economies, SMEs are lagging on the sustainability agenda. A recent survey¹¹ of EU27 SMEs provides interesting insights — only 13 percent of SMEs indicated that they have already adopted a sustainability strategy. Another 21 percent are in the process of implementing one, 40 percent note that they may adopt one in the future and 18 percent say that they have not considered adopting one. Many of the SMEs are engaged in informal, unstructured activities in three sustainability domains — employee welfare, environment and community engagement. In recognition of the importance of SMEs, the EU has prioritized the role of

SMEs as part of its 'New Industrial Strategy for Europe' and has also developed specific strategies including the EU SME Strategy for a sustainable and digital Europe.

Developing-country SMEs face a range of entrenched challenges — pressing operational challenges, weak resource base (technical, human capital, financial), an under-developed regulatory agenda on sustainability and a severe knowledge gap at the enterprise level. The above disparity has been noted via consultations with Local Networks.

THERE ARE MANY CONTRIBUTING FACTORS, CHIEFLY THE FOLLOWING:

1. Near-constant business pressures stem from challenges across their supply chains. SMEs typically have lower survival rates than do their larger counterparts, ranging from 80 percent at the end of year one but drastically reducing to 50 percent by the end of year five and 33 percent (one in three) at the end of year 10.¹² In such difficult operating environments, the focus on sustainability naturally suffers. During times of crisis SMEs are often the least resilient because typically they have limited cash reserves, smaller teams and client bases and less capacity to manage commercial pressures than do larger companies.
2. SMEs possess lesser resources compared to MNEs in terms of cash-reserves, human capital capabilities and technical expertise, which impact their ability to cope with market depressions (such as during the ongoing pandemic). Progress on non-core business initiatives suffers during these downturns.
3. SMEs must be able to absorb the philosophy behind the Ten Principles of the UN Global Compact and then translate the vision to practical and tangible activities that they can then operationalize. This is very hard to do for SMEs. Most SMEs are used to, and need, direct and locally relevant sector-specific guidelines. SMEs suffer from weak internal manpower and bandwidth to dissect the high-level principles and work out direct activities. Therefore SME engagements must include capacity-building aspects woven around the central goal of sustainability as a central goal.
4. SMEs have limited capabilities to identify and capitalize on market opportunities. In practical terms, this includes the ability to recognize the market opportunities as well as productivity enhancements that can materialize via SME investments in sustainability.
5. Regulatory uncertainty and weak institutional support are problematic in developing economies — which further reduces the survivability rates for SMEs and limits their engagement in sustainability.
6. Consumer insensitivity and market immaturity exists towards sustainable products and services. This is a function of whether customers are becoming more conscious of issues relating to the four areas of the UN Global Compact (human rights, labour, environment and anti-corruption) and are demanding more sustainably produced products. This serves as the chief incentive for SMEs to adapt their practices.
7. On the other hand, SMEs are inherently lean and agile, pivoting swiftly in new directions when the leadership is convinced of the value proposition. Despite the challenges, SMEs across the spectrum of development contexts, sizes and sectors do frequently engage in sustainability initiatives, albeit informally or on a limited scale. The engagement may be driven by the personal beliefs of the founder, social norms, proximity to local communities with which SMEs have deep ties or even regulatory requirements.
8. The relatively flat organizational/decision-making structure of SMEs also means that once they see the value of an initiative, they can pivot swiftly to engage relatively much more quickly than can large firms. The example of the e-commerce sector during the pandemic is a key example. Faced with large-scale business closures due to lockdowns, SMEs were able to survive by joining e-marketplaces and maintaining linkages with the market. Many of such SMEs, regardless of geography, had previously limited engagement within the digital economy and yet adjusted in response to the crisis.
9. Active SME engagement within UN Global Compact initiatives including accelerators points to their intent to drive sustainability within their business operations. There is cognizance that the UN Global Compact can further support this by developing SME-specific resources and tailoring existing programmatic activities in line with SME capacities and interests.

2.3 Supporting SMEs' sustainability journeys: what will it entail?

Ultimately, a viable transition for enabling SMEs to adopt sustainable practices will need to be compatible with SME resources and capacities through the effective deployment of additional tools and initiatives and their transposition or adaptation according to the actual needs and capacities of these companies.¹³ Meaningful engagement of SMEs will necessarily diverge from that of larger companies due to their inherently separate challenges and coping capacities.

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1. Clear articulation of the benefits of sustainability on SMEs' business goals, typical return on investments and related timeframes as well as the levels of investments required to aid SME decision-making: These aspects need to be better conveyed to SMEs so that they can internalize the benefits to their business goals and the extent of investments that will be required.
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2. Practical guidance that SMEs can act on to get through the 'sustainability fog': The discourse on sustainability aimed at SMEs should increase focus on practical guidance which can be readily understood and operationalized by SMEs. The small team sizes of SMEs further constrains their ability to sift through voluminous and complex content. Concrete and simplified guidance — sector-specific and aligned with firm-size characteristics — is required so that SMEs understand exactly what is required from them.
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3. SMEs require support to identify direct linkages between sustainability and profitability (e.g. supporting access to supply chains, markets, investment through enhanced reputation) and need practical advice such as translating the Ten Principles of the UN Global Compact to an operational plan (goal-setting), sector-specific guidance in a simple and digestible format, etc.
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4. Engagement via supply chains: Access to large companies via certified value chains is a big draw for SMEs. The MNEs serve as a large and stable market for SMEs, potentially offering long-term opportunities for growth. Additionally, most large-company CEOs are increasingly interested in engaging SMEs across supply chains. Engagement at the supply chain level can also have important development implications for entire sectors, if multiple MNEs are involved.

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5. Influencing SMEs towards sustainability via market-mechanisms: This is based on the premise that key vehicles of private sector activity, such as public- and private-sector procurement frameworks and e-marketplaces among others, can influence SMEs towards embracing sustainable behavior via incentives. This can be achieved via integration of environmental, social and governance (ESG) tenets in supplier- and vendor-selection criteria.
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6. Partnerships for success: The role of business associations in advocating and anchoring sustainability initiatives geared towards SMEs is invaluable. SMEs learn best via structured peer-learning environments, and sector associations play an important role in both advocating on behalf of SMEs as well as directing relevant expertise to SMEs.
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7. Financing mechanisms to support SMEs in their sustainability journeys: Access to financing support for SMEs is critical, both for making sustainability-linked investments as well as general credit for operational expenditure. In this regard, a supporting ecosystem comprised of public- and private-sector lending institutions providing grants/loan instruments is needed with ESG-linked vetting criteria to gauge overall creditworthiness of SMEs.



3 DEEPENING AND SCALING UN GLOBAL COMPACT ENGAGEMENT

THE CRITICAL IMPERATIVE

SIGNIFICANT PROGRESS HAS BEEN MADE DURING THE PAST DECADE IN MOBILIZING THE PRIVATE SECTOR TO ACT AMBITIOUSLY ON SUSTAINABILITY AND THE SUSTAINABLE DEVELOPMENT GOALS (SDGS). THIS PROGRESS HAS HITHERTO MAINLY BEEN LED BY LARGER FIRMS.

For instance, the annual progress report of the UN Global Compact notes that 92 percent of companies (UN Global Compact participants) with revenue greater than USD 1 billion have some sort of emission targets vs. 58 percent of SME participants. Approximately 86 percent of companies with revenue of more than USD 1 billion have set measurable sustainability goals vs. 54 percent of those with revenue of less than USD 25 million. On reporting as well, there are stark variances between larger and smaller firms. Among companies with revenue of more than USD 1 billion, 94 percent report on sustainability performance, while among companies with revenue of less than USD 25 million, the rate is much smaller at 48 percent.

Going forward, meaningful engagement with SMEs will be vital for accelerating the private sector's overall sustainability agenda. Therefore, having an approach for SMEs will be a key factor in moving the needle for business transformation.

Yet support to SME sustainability agendas remains fragmented and too complex for them to absorb. There is a significant gap in SME readiness for undertaking sustainability-based initiatives, due to both capability and resourcing challenges. The segment represents a diverse group with a range of capabilities and absorptive capacities, but generally SMEs possess lesser resources (compared with multinational corporations) and are struggling with everyday business realities.

MNEs have increasingly sought out mechanisms for ensuring responsible practices among their direct and indirect SME suppliers, which are often distributed regionally. For governments also, the progress towards the implementation of national development goals and internationally agreed development agendas will remain at risk until SME capacities, including in areas such as waste management, fair wages and workplace safety, child-labour and others, can be boosted.

Within the UN Global Compact, more than 60 percent of the membership is comprised of SMEs. Introspection has yielded the need to improve the value provided by the UN Global Compact to SMEs and engage them in activities which are best suited for their absorptive capacities as well as resourcing challenges. These considerations are matched by the comparative advantages of the UN Global Compact via which it is well suited to serve SMEs. Consultations with Local Networks and SMEs have revealed that SMEs do engage enthusiastically within the UN Global Compact framework and respond readily to initiatives that also respond to their business-related needs. In other words, it is important to help SMEs clearly visualize the impact of their SME engagements on their business goals. This is because of natural constraints related to business pressures, small teams and resources and is especially true as we traverse along the developed/developing economy spectrum.

The programmatic interventions aimed at SMEs therefore need to be practical and targeted while the impact on SME business results, required investments and benefits needs to be transparently articulated for SMEs to assist in their decision-making.



Comparative advantages of the UN Global Compact

As the largest corporate sustainability initiative in the world, the UN Global Compact counts more than 15,000 companies as Participants based in 160 countries (the majority of which are SMEs). Through its worldwide Local Networks, the UN Global Compact has the distinct advantage of being able to adapt its work within regional and local contexts. The UN Global Compact is uniquely positioned to boost SME readiness levels due to four primary strengths:

- The UN Global Compact maintains a field presence via 69 local networks, providing a regionally material delivery mechanism to support SME capability building.
- To bring SMEs up to speed in delivering on the Global Goals, substantive expertise on the Ten Principles of the UN Global Compact is necessary. The UN Global Compact holds this expertise, taking a holistic, principles-based approach to sustainability through the lens of human rights, environment, labour and anti-corruption.
- Scaling impact in the private sector requires multi-stakeholder dialogue and action, and the convening power of the UN Global Compact to engage a number of partners such as Governments, the United Nations, NGOs and trade partners in a safe space on sustainability-related issues is one of its greatest strengths.
- The membership base of the UN Global Compact includes strong engagement from MNEs with which to partner and enable SMEs to connect with and learn from. Enabling SMEs to access global supply chains would be a business benefit for SMEs as well as progress in delivering the Global Goals.

4 STRATEGY OVERVIEW

CHARTING THE WAY FORWARD

In 2021, three strategic documents — the UN Global Compact Strategy, Africa Strategy and the SME Engagement Strategy — were developed to guide the UN Global Compact towards setting ambitious goals, with SMEs as one of the core beneficiary stakeholders. Through the SME Engagement Strategy,¹⁴ the UN Global Compact is establishing efficient ways to enable significant numbers of SMEs to easily adopt the Ten Principles directly through "joining, engaging and reporting" and indirectly through ecosystems, business association and partnerships.

4.1 Entry points

There are three key entry points for the SME Engagement Strategy which strengthen the business case for undertaking an SME-focused strategy for the UN Global Compact as well as dictate the relative positioning of the strategy.

2030 AGENDA

The 2030 Agenda for Sustainable Development was adopted in 2015 by all UN member-states as a universal, transformative approach to sustainable development action. The Agenda comprises 17 Sustainable Development Goals (SDGs), broken down into 169 targets to be met by 2030. These were built upon the Millennium Development Goals (2000–2015) and take an increasingly integrated approach that highlights the interconnected nature of the Global Goals. Sustainable development is targeted across three dimensions: economic, social and environmental.

The 2030 Agenda is characterized by core principles including universality in committing all countries, irrespective of the level of development, and inclusiveness throughout all segments of society. In addition, it is guided by the notion of "leave no one behind" to ensure that all nations and all people are reached in achieving the Global Goals. This requires a multi-stakeholder approach whereby partnerships amongst diverse actors enable collective change. Underpinning the 2030 Agenda are five critical dimensions: people, planet, prosperity, peace and partner-

ship. These work to eliminate extreme poverty and hunger, reduce inequalities, protect the planet and foster peaceful, inclusive societies through valuing collaborative partnerships. The holistic nature of the 2030 Agenda highlights the interlinkages and interconnectedness in achieving the Global Goals as a universal commitment.

UN GLOBAL COMPACT STRATEGY

The United Nations Global Compact is uniquely positioned to drive corporate sustainability at the intersection of various stakeholders and sectors. The UN Global Compact Strategy (2021–2023) leverages this position to drive global collective action. SMEs are noted as a key beneficiary stakeholder of this strategy that will benefit significantly from implementation activities.

The primary ambition of the UN Global Compact Strategy is to accelerate and scale the global collective impact of business by upholding the Ten Principles and delivering the Global Goals. The Ten Principles of the UN Global Compact cover the key areas of human rights, labour, the environment and anti-corruption. These principles are intrinsic in achieving the 2030 Agenda and the Paris Agreement. Therefore the 2021–2023 UN Global Compact Strategy redefines participation in the UN Global Compact to emphasize a commitment to action and progress through embedding principles of sustainability, setting ambitious goals and embracing partnerships. The two main drivers of change include accountable companies and enabling ecosystems. These work to engage key actors and stakeholders, primarily including MNEs, leading national companies and SMEs.

The UN Global Compact Strategy envisions five strategic shifts by 2023: accountable companies, balanced growth of local and regional networks, measurable impact in prioritized areas, harnessing the collective action of SMEs and active engagement with the United Nations. To achieve these, a strong investment in the operating model must be ensured through empowering Local Networks and building internal capabilities.

THE UN GLOBAL COMPACT AFRICA STRATEGY

The UN Global Compact Africa Strategy grounds itself in the Ten Principles across the areas of human rights, labour, the environment and anti-corruption within the context of Africa. It aims to drive corporate sustainability and responsible business practices across the continent through working in close partnership with various stakeholders and actors. This is a critical entry point for the SME Strategy, given that the vast majority of companies in Africa are SMEs.

The Africa Strategy is guided by three interlocking strategic objectives: 1) to grow the impact of the UN Global Compact through focus on issues most relevant to Africa, 2) to drive inclusive impact, inclusive of all sizes, geographies and sectors, and 3) to leverage associations, supply chains and sources of capital. Relevant focus issues in Africa resonate most across the Global Goals of Gender Equality (SDG 5), Decent Work and Economic Growth (SDG 8), Climate Action (SDG 13), Peace, Justice and Strong Institutions (SDG 16) and Partnerships for the Goals (SDG 17). Through these Global Goals, the strategy will enable the private sector to impact poverty, hunger, health and education.

The strategy envisions four strategic targets by 2023: to maximize penetration of the Top 100 companies in Africa, focus on growth in the designated Four Centres (Kenya, Morocco, Nigeria and South Africa), grow presence throughout Africa and increase the number of SME participants in Local Networks. The operating model will include the creation of a new Africa Hub located in Nigeria that will work alongside the existing ten Local Networks in Africa, including the Four Centres, and the UN Global Compact headquarters in New York. Ultimately, through global, regional and local collaboration the Africa Strategy will empower SMEs, youth and women and ensure no one is left behind in achieving sustainable development throughout Africa.

4.2 Vision

The following vision articulates the ambition of the UN Global Compact of fostering meaningful engagement with SMEs on a global scale, via the UN Global Compact Local Networks. It serves as an aspirational long-term vision towards which this strategic plan as well as future iterations will be directed.

To accelerate and scale meaningful SME engagement in sustainability, in accordance with SME capacities and business realities

THIS VISION:

- Identifies SMEs as critical, currently underserved stakeholders in the global march towards sustainability.
- Emphasizes the importance of ensuring a feasible transition for SMEs with provision of support based on their capacities, resources and local contexts.
- Articulates the overall ambition that the UN Global Compact is able to help SMEs understand and incorporate practical sustainability practices — aligned with the Ten Principles of the UN Global Compact — that will have tangible and meaningful impact on their business goals.
- Acknowledges that SMEs have unique challenges and strengths, requiring tailored approaches, which may differ from traditional MNE approaches.
- Assures the private sector, Governments and the international development community of the renewed focus of the UN Global Compact in supporting SME engagement in sustainability.

4.3 Results chain

The following table articulates the results chain for the SME strategy until 2023. Beyond the specific targets noted for each workstream, the topline KPIs that the strategy will be measured against are the following:

- # SMEs engaged in the UN Global Compact
- # SMEs engaging in the programmatic initiatives of the UN Global Compact
- # Ecosystems activated to adopt the Ten Principles of the UN Global Compact as a standard

Specific targets for these topline Key Performance Indicators (KPIs) will be defined in the early stages of strategy implementation.

TABLE 1 RESULTS CHAIN FOR SME ENGAGEMENT STRATEGY

WORKSTREAM	OUTPUTS	OUTCOMES	ANTICIPATED IMPACT	KPIS
1. Enhance SME outreach and onboarding	<p>Op 1.1. Streamlined SME applications process</p> <p>Op 1.2. Uniform onboarding process, digitally delivered</p> <p>Op 1.3. SME Readiness tool</p> <p>Op 1.4. Digital content access for Local Networks and SMEs</p>	<p>O 1.1. Local Networks and partnership engagement teams are better able to guide SMEs during pre- and post- joining stages</p> <p>O 1.2. Local Networks and SMEs are able to digitally access meaningful, tailored, focused content on the Ten Principles of the UN Global Compact</p>	<p>I 1.1. Reduced burden for Local Networks and partnerships engagement team during applications and onboarding stages</p> <p>I 1.2. Streamlined applications and onboarding experience for SMEs</p> <p>I 1.3. Early understanding of the practicalities of sustainability</p> <p>I 1.4. SMEs with relatively higher maturity levels and absorptive capacities joining the UN Global Compact</p>	<p># SMEs joining and taking up engagement opportunities</p> <p># Local Networks using SME readiness tool for decision-making support</p>
2. SME-tailored programming	<p>Op 2.1. Tailored content for SMEs focusing on the Ten Principles of the UN Global Compact</p> <p>Op 2.2. SME-focused academy experiences</p> <p>Op 2.3. Peer learning groups (focusing on the Ten Principles of the UN Global Compact)</p> <p>Op 2.4. Joint SME programming with sector associations and development partners</p>	<p>O 2.1. SMEs and Local Networks benefit from knowledge base adapted to SMEs' absorptive capacities and needs</p> <p>O 2.2. Enhanced SME and Local Network peer-to-peer learning on sustainability at national and regional levels</p> <p>O 2.3. Scaling-up of activities of the UN Global Compact focusing on SMEs</p>	<p>I 2.1. Enhanced SME knowledge on the fundamentals of the Ten Principles of the UN Global Compact and how to operationalize them within business processes</p>	<p># SMEs joining and taking up engagement opportunities</p>
3. Supply chain impact pilots (SCIPs)	<p>Op 3.1. Successfully executed SCIPs and concretized methodology and scope of SCIP offerings</p> <p>Op 3.2. Technical partnerships are forged with identified partners (technical agencies and sustainability alliances) via memoranda of understanding (MOUs)</p>	<p>O 3.1. SME suppliers are exposed to operational insights on how to enhance productivity via sustainability good practices</p> <p>O 3.2. Sector-specific expertise flows to the Global Compact Office and Local Networks via SCIP- level engagement with technical partners</p>	<p>I 3.1. Improved SME compliance with good sustainability practices within participating MNE supply chains, contributing to long-term productivity</p> <p>I 3.2. Improve MNE - SME supplier engagement on sustainability</p> <p>I 3.3. Strengthened sector-specific knowledge base at Global Compact Office and Local Network levels</p>	<p># SMEs engaged and incentivized to invest in good sustainability practices via supply-chain level engagement</p> <p># MNE (subsidiary HQs) with which supply-chain pilots have been launched</p>
4. Policy/Regulatory enhancements	<p>Op 4.1. Local Network pilots on supporting national sustainability development agendas</p> <p>Op 4.2. Local Network playbooks, pilots on diffusing national regulations to SMEs via collective action methodology and direct coaching</p>	<p>O 4.1. The UN Global Compact contributes to national policy development exercise (strategy, regulations)</p> <p>O 4.2. Local Networks gain exposure and knowledge on contributing to national policies involving sustainability dimensions</p>	<p>I 4.1. National governments are supported in their sustainability agenda</p> <p>I 4.2. Local Networks are better engaged in national policy-making frameworks within the sustainability sphere</p>	<p># Local Networks engaging with Governments in establishing and implementing national sustainability agenda involving SMEs</p> <p># Peer learning groups focusing on sustainability policy and regulatory dimensions</p> <p># policies/regulations to which contributions are made by Local Networks</p>
5. Enhance business opportunities for responsible SMEs	<p>Op 5.1. Pilot: E-commerce marketplaces and buyer-seller matching mechanisms</p> <p>Op 5.2. Pilot: Public procurement; donor procurement</p>	<p>O 5.1. Increased access to markets for SMEs engaged in good, demonstrable sustainable practices</p>	<p>I 5.1. Network effect leading to more SMEs engaged and benefiting from responsible behaviour</p>	<p># Market mechanisms impacted via UN Global Compact interventions</p> <p># SMEs engaged in pilots</p>

4.4 Strategy workstreams and key activities

THE STRATEGY COMPRISES FIVE WORKSTREAMS:

FIGURE 2 STRATEGY WORKSTREAMS FOR THE UN GLOBAL COMPACT SME ENGAGEMENT STRATEGY

 1 ENHANCE OUTREACH AND ONBOARDING	 2 SIMPLE TAILORED PROGRAMMING	 3 SUPPLY CHAIN IMPACT PILOTS	 4 POLICY/ REGULATORY ENHANCEMENTS	 5 ENHANCE BUSINESS OPPORTUNITIES FOR RESPONSIBLE SMES
Digital onboarding, goal setting, benchmarking	Ten Principles content	Either single supply chain (one MNE) based or multi-supply chains based (multiple MNC)	LN's contribute to effective policy making, e.g. national/regional trade strategies, sustainability policies, investment regimes	Integrate sustainability requirements in national and donor procurement frameworks
Onboarding readiness tool to facilitate direct or indirect SME engagement	Peer learning groups (delivered locally/regionally)	Addressing productivity and sustainability issues at SME suppliers within regional supply chains	SMEs are supported in understanding and complying with changing regulations	Increase partnerships with business associations
Aligned to CoP	Academy-driven experiences			Influence/support e-marketplaces
	Playbooks			
	Accelerators			

Source: UN Global Compact

WORKSTREAM 1

ENHANCE SME OUTREACH AND ONBOARDING

The first workstream aims to strengthen the overall applications and onboarding journey of an SME that is either considering applying or has recently joined the UN Global Compact. This will be achieved via the following outputs: a streamlined applications process which improves the application turnaround times while maintaining the due diligence and integrity of the due diligence process;

a uniform onboarding process which is digitally delivered and improves the quality of onboarding support provided by Local Networks to SMEs; an SME Readiness Tool that results in enhanced capacities of Local Networks to assess SME readiness levels and accordingly direct them to pertinent programming. This workstream is intimately linked to the revised CoP process.

ACTIVITY	OUTPUT	PRIORITY	TIMELINE				RESOURCES
			2022		2023		
			Q1 Q2	Q3 Q4	Q1 Q2	Q3 Q4	
<p>A 1.1.1. Applications decentralization and streamlining:</p> <p>Modify external application form and simplify internal processes. Explore incentive mechanisms to engage local networks in applications review/approval process.</p> <p>Leverage Salesforce to decentralize processing and support networks to continue being responsible for prospects with a revenue < US\$ 50 million</p>	<p>Op 1.1. Streamlined SME applications process</p>	<p>High</p>					<p>\$30,000</p>
<p>A 1.2.1. Create an onboarding journey for SMEs:</p> <p>Develop a uniform onboarding guide derived from templates/prototypes at Global Compact Office and Local Network levels (e.g. Singapore, Brazil and Spain).</p> <p>Localize content in multiple languages and upload global template on hub for local adaption</p>	<p>Op 1.2. Uniform onboarding process, digitally delivered</p>	<p>High</p>					<p>\$200,000</p>
<p>A 1.3.1. Develop web-based SME Readiness Assessment Tool which will help:</p> <p>Serve as decision-making support for Local Networks to either recommend SMEs to join or to redirect them to resources for non-members</p> <p>Serve as a goal-setting mechanism during onboarding stage. Help SMEs in translating the Ten Principles into operational actions. Develop industry and global benchmarks to help SMEs gain competitiveness</p> <p>Encourage CoP completion</p>	<p>Op 1.3. SME Readiness tool</p>	<p>Medium</p>					<p>\$150,000</p>
<p>A 1.4.1. Provide digital access for Local Networks to curated knowledge resources deployed centrally</p>	<p>Op 1.4. Digital content access for Local Networks and SMEs</p>	<p>Medium</p>					<p>In line with ongoing digital initiative</p>

WORKSTREAM 2

TAILORED PROGRAMMING

This workstream is aimed at bridging the important gap existing in terms of specific programming and content for SMEs at both the Global Compact Office and Local Network levels. Due to the importance of these tools and resources to both Local Networks and their participant firms, this workstream has been assigned high priority in terms of sequencing implementation. The implementation of activities under this workstream will result in development of a comprehensive SME knowledge base, accessible digitally and focusing on the Ten Principles of

the UN Global Compact. This will also involve scaling up of structured SME peer-to-peer learning on sustainability at the national and regional levels and deployment of digital e-learning experiences via the UN Global Compact Academy (commencing with a foundational e-Learning course on the Ten Principles of the UN Global Compact). These three components are expected to comprehensively step up the quality and scale of the value proposition that the Global Compact Office and Local Networks can together offer SMEs.

ACTIVITY	OUTPUT	PRIORITY	TIMELINE				RESOURCES
			2022		2023		
			Q1 Q2	Q3 Q4	Q1 Q2	Q3 Q4	
<p>A 2.1.1. Tailored SME content on the Ten Principles of the UN Global Compact:</p> <p>Develop key resources related to the Ten Principles of the UN Global Compact, which are of interest and tailored to SMEs, including practical checklists, narratives, expected behaviour change, concept notes, speaker briefings and case studies. Content to feed use-cases including peer learning groups (PLGs), Academy experiences</p>	<p>Op 2.1. Tailored content for SMEs focusing on the Ten Principles of the UN Global Compact</p>	High					\$175,000
<p>A 2.2.1. E-Learning tool:</p> <p>Practical, interactive 30-minute learning that provides a foundational understanding of principles-based approach and step-by-step guidance on operationalization for the Ten Principles of the UN Global Compact</p>	<p>Op 2.2. SME-focused academy experiences</p>						\$150,000
<p>A 2.2.2. Develop/implement a 2022-2023 plan for Academy 'experiences' sessions. These will build upon content developed for output 2.1. Select examples:</p> <p>"Trends/influencers" sessions (global, regional) with thought leaders and business practitioners Academy training and sessions led by partner organizations on SME-oriented topics.</p> <p>E-learning course on fundamentals of sustainability, lasting up to 10 weekly sessions (with certificates of completion). Curricula will feature a mix of instructor-led, self-paced material and courses to be open specifically to SMEs within the UN Global Compact network</p> <p>Simplified text and video guide on 'CoP excellence' which can be made available to Local Network secretariats for dissemination to their SME participants</p>							\$500,000

WORKSTREAM 2

TAILORED PROGRAMMING (CONTINUED)

ACTIVITY	OUTPUT	PRIORITY	TIMELINE				RESOURCES
			2022		2023		
			Q1 Q2	Q3 Q4	Q1 Q2	Q3 Q4	
<p>A 2.3.1. Support Local Networks to establish and run local SME peer learning groups. The goal of the peer learning groups would be to disseminate essential/fundamental content on the Ten Principles and other topics, interact with experts, discuss latest trends and connect with peers on shared challenges</p> <p>Adapt the 'Hub' as a knowledge exchange platform among Local Networks. Introduce functionality within the tool to allow Local Networks to upload content such as case studies, success/failure case studies and best-practice guides that can be viewed by other Local Network secretariats</p>	<p>Op 2.3. Peer Learning Groups (focusing on the Ten Principles of the UN Global Compact)</p>						\$300,000
<p>A 2.4.1. Launch a joint UN Global Compact-International Trade Centre (ITC) project to train Local Network staff on selected ITC tools, in particular Sustainability Map (https://www.sustainabilitymap.org/home) with the goal of further training and disseminating the insights to participant SMEs and to partner sector associations. SMEs can benefit from the comprehensive insights gained from the tool in terms of their sustainability but also their internationalization journeys</p>	<p>Op 2.4. Joint SME programming with sector associations and development partners</p>	Medium					\$150,000
<p>A 2.4.2. Undertake joint programming with key associations and chambers in the form of training and sensitization sessions on a regular basis</p>		Low					\$100,000

WORKSTREAM 3

SUPPLY CHAIN IMPACT PILOTS (SCIPS)

It is estimated that activity carried out via value chains results in more than 80 percent of greenhouse gas emissions and up to 90 percent of impact on air, land and water, biodiversity and use of natural resources.¹⁵ Similar conclusions can be drawn in terms of socio-economic issues such as labour and human rights.¹⁶

MNEs are increasingly facing regulatory and societal pressures to ensure responsible practices across their supplier base. Indeed as noted by McKinsey, two-thirds of the average company's environment, social and governance footprint lies with suppliers. Despite some progress, MNEs have struggled to operationalize effective supplier management models beyond the 1st / 2nd supplier tiers. SME suppliers are a particular challenge, given weak SME capabilities and declining leverage of MNEs' many degrees of separation. This challenge is exacerbated, given the cross-border nature of supply chains.

SMEs within the same supply chain likely face similar challenges and therefore interventions can be clearly articulated and effective in support of these SMEs. The linkage with the MNE ensures that SMEs have an incentive to engage and improve their sustainability footprint.

With these considerations in mind, the third workstream is aimed at engaging with SMEs via regional supply chains of multinational (MNE) participant companies. It constitutes a capacity-building initiative specially tailored to SME suppliers of MNE participants. Local Networks will serve as project implementation anchors (>65 active networks), and the project is implemented in partnerships with partners providing best-in-class capacity development support such as the ILO through their SCORE initiative and Productivity Ecosystems for Decent Work Programme (see accompanying box for more details). Cooperation on the latter would overlap with Workstream 4 of the SME strategy as well given the potential impact on national regulations.

ACTIVITY	OUTPUT	PRIORITY	TIMELINE				RESOURCES
			2022		2023		
			Q1 Q2	Q3 Q4	Q1 Q2	Q3 Q4	
<p>A 3.1.1. Plan and execute supply chain impact pilots (SCIPs) with participant MNEs and a subset of their SME supplier base</p> <p>SME trainings blended self-paced/instructor-led format structured around the Ten Principles of the UN Global Compact</p> <p>Peer learning and ideation sessions (leveraging peer learning group methodology)</p> <p>SME productivity audits, gap analysis and recommendations</p> <p>Value chain-driven sector sustainability roadmap (sector specific, multiple MNEs)</p>	<p>Op 3.1. Successfully executed SCIPs and concretized methodology and scope of SCIP offerings.</p>	High					\$1,000,000
<p>A 3.1.2. Establish strategic partnerships with sector-specific technical agencies (multilateral organizations) and sustainability programmes/ alliances to deepen sector-specific content and access to expertise within the UN Global Compact network. These partnerships would help drive sector-specific insights that can be leveraged by Local Networks as needed</p>	<p>Op 3.2. Technical partnerships are forged with identified partners (technical agencies and sustainability alliances) via MOUs.</p>	Medium					

ILO Programmes on SME productivity



SCORE PROGRAMME

Sustaining Competitive and Responsible Enterprises (SCORE) is an ILO global programme that improves productivity and working conditions in small and medium enterprises (SMEs). The primary goal of the global programme is the effective implementation of SCORE Training — which combines practical classroom training with in-factory consulting. SCORE Training is a modular programme that focuses on developing cooperative relations at the workplace covering topics related to workplace cooperation, quality management, clean production, occupational safety and health, human resource management, and gender equality. Each of the modules includes a joint, two-day classroom training for managers and workers and follow-up consultations with experts in the participating enterprises. Since inception, SCORE Training has been delivered to over 3100 SME's globally. This represents a total workforce of over 533,000 workers who have benefited from enterprise improvements, including efforts to develop a culture of respect, trust and communication in the workplace. SCORE Training has improved productivity up to 50% in participating SMEs and boasts an 91% satisfaction rate.



PRODUCTIVITY ECOSYSTEMS FOR DECENT WORK PROGRAMME

Achieving a virtuous cycle between productivity and decent work is required if economic growth is to lead to poverty alleviation and prosperity. To create and strengthen this virtuous cycle, the ILO proposes the Productivity Ecosystems for Decent Work Programme. The Programme is built on the recognition that productivity growth and the pre-Covid slow-down are determined by a myriad of interfacing dynamics across policy, markets and enterprises. Furthermore, the virtuous cycle between productivity and decent work, where productivity growth leads to decent job creation and vice-versa, is not automatic. Therefore, rather than using a "one size fits all" approach or intervening at a single level, the Programme will address productivity and decent work deficits across policy, sector and enterprise levels for win-win solutions that improve productivity and that ensure, through social dialogue and workplace cooperation, that gains are distributed equitably. The Programme (currently implemented in Ghana, South Africa and Viet Nam) aims to achieve lasting change by addressing the root causes of low productivity — not just to treat the symptoms — and by promoting the capacity and ownership of local and national actors.

Source: ILO Photos: UNDP; ILO / Marcel Crozet

WORKSTREAM 4

POLICY/REGULATORY ENHANCEMENTS

Long-term economic, social and environmental sustainable transformation is only possible once national strategies and regulations are aligned with operational best practices, which can then be adopted by SMEs via incentives and directives. This workstream is aimed at building the capacities of Local Networks so that they can positively influence and shape the national sustainability agenda over the long term, involving policies, strategies, regulations and public/private dialogue. This is important, given that regulatory requirements remain a critical driver of changes in SME behaviour towards adopting more responsible and sustainable practices. In the long term, Local Networks will be better engaged in national

policy-making frameworks within the sustainability sphere, and national governments will be actively supported in their sustainability agenda via UN Global Compact expertise. Implementation is expected to take the form of pilots involving playbooks and coaching aimed at Local Networks with best practices on engaging with policy-making institutions. The workstream will capitalize on existing SME-oriented initiatives involving the Global Compact Office, Local Networks and national regulators such as collective action work on anti-corruption by the UN Global Compact which aims to bring about SME-level behavioural shifts on anti-corruption tailored to national regulations.

ACTIVITY	OUTPUT	PRIORITY	TIMELINE				RESOURCES
			2022		2023		
			Q1 Q2	Q3 Q4	Q1 Q2	Q3 Q4	
<p>A 4.1.1. Develop playbooks and provide coaching for positioning Local Networks within the policy-making and development policy architecture of the country. In particular, practical recommendations on how Local Networks can get involved with policy design initiatives related to:</p>	<p>Op 4.1. LN pilots on supporting national sustainability development agendas:</p>	<p>High</p>					<p>\$150,000</p>
<p>Local Network roles in shaping Labour/Environment/ human rights/ anti-corruption strategies</p>							
<p>Positioning Local Networks as anchors for export and investment promotion (in collaboration with partners such as International Finance Corp.)</p>							
<p>Engaging with UN Resident Coordinator (UNRC) systems on sustainability via the UN's sustainable development cooperation framework</p>							
<p>A 4.2.1. Deploy the collective action methodology of the UN Global Compact, peer learning groups and Academy resources to diffuse knowledge on national /international regulations for SMEs. The SME Strategy's workstream 2 content will be localized / adapted to align with local, regional context</p>	<p>Op 4.2. Local Network pilots on diffusing national regulations to SMEs via collective action methodology and direct coaching.</p>	<p>High</p>					<p>\$200,000</p>
<p>Regulations within the four areas essential for trade/export to specific markets such as the European Union (for example, upcoming regulation on human rights due diligence) or free trade areas such as African Continental Free Trade Area</p>							
<p>National regulations within the four areas, which require SME compliance</p>							
<p>A 4.2.2. Develop guidance for positioning Local Networks as a trusted intermediary between regulatory authorities and SMEs. Utilize best practices identified in Georgia and other Local Networks. SMEs would approach the Local Network for specific guidance on changing regulatory requirements related to the four key areas (human rights, labour, environment, anti-corruption), thereby relieving some of the pressure on the authorities and establishing a niche for the UN Global Compact</p>		<p>Medium</p>					<p>\$75,000</p>

WORKSTREAM 5

ENHANCE BUSINESS OPPORTUNITIES FOR RESPONSIBLE SMES

This workstream seeks to expand market opportunities for SMEs that are engaged in responsible and sustainable behaviour via collaboration with two important vehicles of market-activity — procurement frameworks and e-commerce marketplaces. SMEs are best engaged via market-incentives, and creatively identifying solutions where e-commerce marketplaces and/or procurement frameworks can reward SMEs that are demonstrably engaged in responsible behaviour may be a good pathway for stimulating more SMEs to adopt sustainable practices.

This workstream is not necessarily limited to marketplaces and procurement frameworks but flexible to include other buyer-seller matching frameworks as well.

Activities under this workstream will involve project-based pilots led by Local Networks in i) e-commerce marketplace pilots, leveraging marketplaces to encourage responsible SME behaviour; and ii) procurement pilots to increase sustainability requirements in national public/donor procurement frameworks.

ACTIVITY	OUTPUT	PRIORITY	TIMELINE				RESOURCES
			2022		2023		
			Q1 Q2	Q3 Q4	Q1 Q2	Q3 Q4	
A 5.1.1. Establish partnership with e-commerce marketplaces (The marketplace would benefit from a pool of SME vendors with common value systems (strengthening the marketplace's value proposition), while SMEs would potentially benefit from entry to promoted sections of the marketplaces, commission discounts and/ or onboarding support provided by the Local Network secretariat. A regional marketplace with cross-border operations could be considered with multiple Local Networks involved)	Op 5.1. Pilot: E-commerce marketplaces and buyer-seller matching mechanisms	High					\$100,000
A 5.2.1 Provide assistance to national public sector procurement frameworks to integrate sustainability tenets within their supplier selection/vetting process. Pilots to be conducted potentially in collaboration with the UN Development Programme	Op 5.2. Pilot: public procurement; donor procurement	High					\$75,000
A 5.2.2. Leverage UN procurement budget / combined purchasing power as a means to promote supplier sustainable practices. Engage meaningfully in supporting implementation of findings in recent study on 'advancing sustainability in UN procurement'. Engage select Local Networks as far as possible in pilots related to procurement for UN country offices.		High					\$75,000

4.5 Stakeholder benefits

The operationalization of the SME Engagement Strategy will lead to tangible impact for multiple stakeholders. SMEs are the ultimate beneficiaries, while Local Networks, Global Compact Office teams, Governments, MNEs and development partners will benefit as well.

WHAT CAN KEY BENEFICIARIES EXPECT FROM THE STRATEGY OPERATIONALIZATION?

SMES

1. Increased pathways for SME learning via peer learning, Academy experiences, supply chain impact pilots among others.
 2. SMEs will be better able to identify direct linkages between sustainability and profitability (e.g. supporting access to supply chains, markets, investment through enhanced reputation), and benefit from practical advice e.g. translating the Ten Principles of the UN Global Compact to an operational plan (goal-setting, linked to the CoP, sector-specific guidance in a simple and digestible format, etc). The strategy is tailored to match SME business realities and aligned with their absorptive capacities.
 3. Practical guidance on the Ten Principles of the UN Global Compact that the SMEs can meaningfully integrate within their business operations.
 4. Access to up-to-date SME-specific sustainability resources from other partners.
-

LOCAL NETWORKS

1. Strengthened value proposition for Local Networks across the lifecycle of the customer journey (attraction/applications, onboarding, engagement and retention).
 2. Access to a comprehensive knowledge base that can be used to define further use-cases based on the local context and needs.
-

GLOBAL COMPACT OFFICE

1. Improved understanding of SME needs and integrating them in core programming.
-

GOVERNMENTS

1. Support in implementing the established national sustainability agenda, via Local Networks engaged in awareness-raising, coaching and other programming.
 2. Influence national policies and regulations in areas linked to sustainability including environmental protection, trade and investment promotion, labour regulations, entrepreneurship etc.
 3. Strengthened private sector-led advocacy which can serve as meaningful inputs for policy-making.
 4. Inflow of international best practices via regional and national peer learning groups.
-

PARTICIPANT MNEs (IN PARTICIPATING SUPPLY CHAIN IMPACT PILOTS)

1. Tangible support in engaging SME suppliers within their value chains on sustainability issues.
 2. Greater value proposition for engaging in programmatic activities of the UN Global Compact.
-

DEVELOPMENT PARTNERS

1. Access to robust needs-assessment on sustainability needs of SMEs, which development partners can choose to select in alignment with their mandate.
 2. Local Network support/contributions in designing and implementing development initiatives involving sustainability dimensions.
 3. At national levels, Resident Coordinator Offices can benefit from Local Network inputs on sustainability issues addressed as part of the multi-year UN Sustainable Development Cooperation Framework.
-

5 STRATEGY OPERATIONALIZATION FROM VISION TO ACTION

5.1 Operationalization priorities for 2022 and 2023

The strategy adopts a pragmatic approach towards implementation with due consideration to broader developments linked to the implementation of the corporate strategy, as well as capacity considerations at the Local Network and Global Compact Office levels.

In 2022 the focus primarily is on workstreams 1 and 2, as well as on workstream 3 (on an opportunity basis). For activities which are relatively newer to the UN Global Compact and require a measure of testing and refinement before being fully integrated within the UN Global Compact suite of offerings, a pilots-based approach will be adopted.

THE FOCUS FOR Q1, Q2 2022 WILL BE ON IMPLEMENTING THE FOLLOWING PRIORITIES:

- Developing/consolidating tailored Ten Principles material for SMEs, made available digitally.
- Deploying an e-learning course for SMEs on the Ten Principles.
- Finalizing a peer learning methodology suitable for SMEs, linked to existing activities at the Local Network level.
- Design of supply chain impact pilots.

THE FOCUS OF Q3, Q4 2022 WILL BE ON THE FOLLOWING PRIORITIES:

- Refining and scaling up SMEs peer learning groups on a range of SME-oriented topics at the national level.
- Conceptualizing and implementing a range of use-cases for SME-focused academy experiences.
- Initial implementation of supply chain impact pilots.
- Development of a uniform onboarding journey.

In 2023, the ambition of activities will be raised in line with the work plan and progress on 2022 initiatives. SME peer learning groups will be scaled to regional levels, and the Academy will implement a range of value-added use-cases. Supply chain pilots are expected to be scaled up as well, based on proven methodology and lessons learned from 2022 pilots. The SME Readiness Tool is expected to be deployed during this timeframe as well. The medium- to long-term focus will also include readying SMEs to benefit from meaningful investments and leverage available market access via trade agreements and trading zones.

To assist in implementation, a Global Compact Office-level SME engagement team may be deployed, tasked with supporting Global Compact Office teams and Local Networks on wide-ranging, cross-cutting SME issues. The team would serve as the technical backbone providing expertise and support related to knowledge-resources, training, events for Local Networks and provide internal consulting services to Global Compact Office programmatic teams, CoP teams and Local Networks. The team may be geographically distributed to ensure regional representation.

5.2 Scaling-up strategy implementation

The SME Engagement Strategy is closely intertwined with implementation of other strategic initiatives, primarily linked to the UN Global Compact Strategy and the Africa Strategy. Strategy implementation will therefore leverage the various engagement opportunities that are being refined, developed, scaled as part of those initiatives. These include the peer learning groups, Academy, events (Target Gender Equality LIVE, Leaders Summit, Uniting Business LIVE, COP 27 etc.), accelerators and Think Labs, among others.

THE KEY LEVERS OF SCALABILITY:

DIGITALIZATION

Provision of digital access to knowledge base and utilization of e-tools by both Local Networks and participant SMEs. Through these mechanisms, SMEs can access useful resources on a self-serve basis and Local Networks can leverage the knowledge base for implementing new use-cases as opportunities arise.

LEVERAGING PILOTS TO TEST AND SCALE NEW IDEAS

The pilots-based approach will be critical to testing out which mechanisms work better for SME engagement than others. Given that many of these initiatives such as supply chain pilots are yet untested for the UN Global Compact, the pilots-based approach will ensure that only high-potential ideas which are feasible in the context of the UN Global Compact are explored.

PARTNERSHIPS

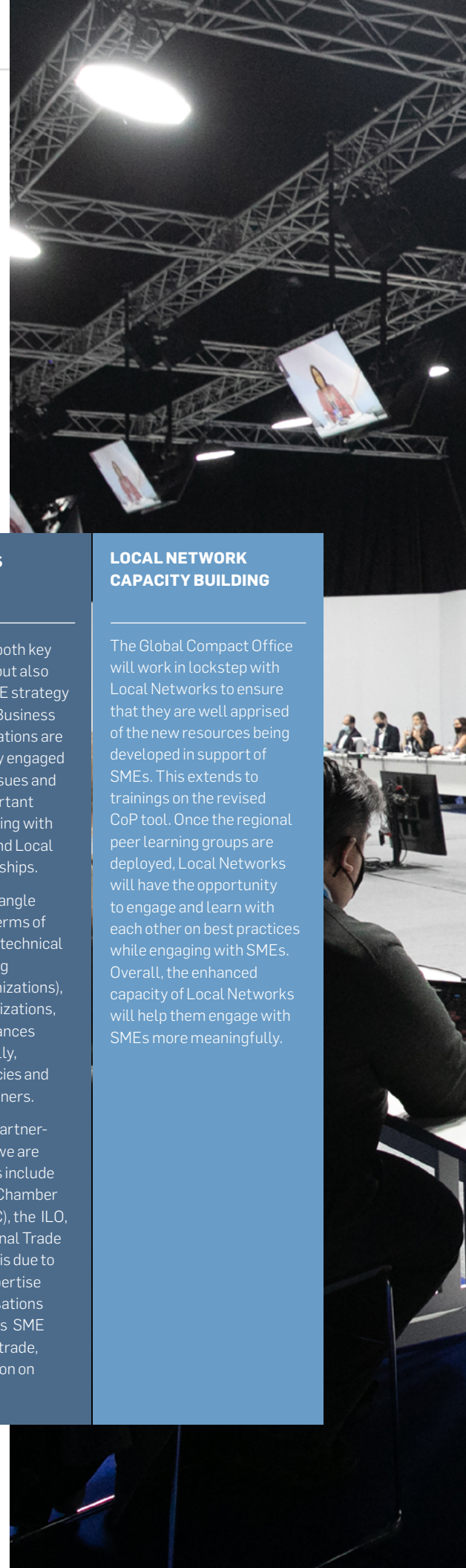
Partnerships are both key to the scalability but also the efficacy of SME strategy implementation. Business and sector associations are frequently already engaged in SME-specific issues and can serve as important anchors for engaging with SME groups beyond Local Network memberships.

The partnerships angle is also critical in terms of engagement with technical agencies (including multilateral organizations), civil society organizations, sustainability alliances as well as, critically, government agencies and development partners.

Implementation partnerships with whom we are planning activities include the International Chamber of Commerce (ICC), the ILO, and the International Trade Centre (ITC). This is due to the significant expertise that these organisations command vis-a-vis SME competitiveness, trade, and implementation on the ground.

LOCAL NETWORK CAPACITY BUILDING

The Global Compact Office will work in lockstep with Local Networks to ensure that they are well apprised of the new resources being developed in support of SMEs. This extends to trainings on the revised CoP tool. Once the regional peer learning groups are deployed, Local Networks will have the opportunity to engage and learn with each other on best practices while engaging with SMEs. Overall, the enhanced capacity of Local Networks will help them engage with SMEs more meaningfully.



CONCLUSION

This strategy is driven by a cognizance that strengthened engagement with SMEs in sustainability is no longer simply an option but a prerequisite for the fulfillment of the mandate of the UN Global Compact.

It is now evermore essential for businesses of all sizes and sectors to embed principles of sustainability in their ways of working, set ambitious targets and act with partners to deliver the 2030 Agenda. Indeed, the adoption of the Ten Principles of the UN Global Compact and advancement of responsible business practices is essential for recovery from the COVID-19 pandemic and to ensure long-term corporate competitive advantage.

The strategic ambition of the UN Global Compact is to accelerate and scale the global collective impact of business by upholding the Ten Principles and delivering the Global Goals through accountable companies and ecosystems that enable change. The realization of this ambition will require robust and meaningful engagement with SMEs. This segment of the private sector is vital for healthy growth in terms of GDP, employment and overall private sector growth at the national level. Indeed, the importance of SMEs is not limited by national development statuses. The vast majority of enterprises in both the EU and South East Asia tend to be MSMEs. At the cross-border level, SMEs function as the indispensable 'glue' within global value chains, acting as suppliers of products and services upstream.

The challenge however is that SMEs worldwide face significant challenges to their business goals which have hitherto limited their attention to sustainability. Via this SME strategy, the UN Global Compact has identified key pathways for meaningfully bringing SMEs into the sustainability fold and expanding their knowledge and practical application of sustainability issues. Through the operationalization of the five workstreams in a phased manner and spread over the two-year timeframe, the UN Global Compact aims to bridge the high priority gaps resulting in a strong value proposition for SMEs, which can be further strengthened via the next iteration of the strategy.





ANNEX

SME definition

There are no standard, accepted and global definitions of SMEs or MSMEs, although development institutions such as the IFC and the ILO have made proposals. Attempts at standardizing definitions have been only moderately successful. The reason is that development statuses of economies can make a significant difference — a medium-sized firm in a high-income economy may correlate to a large firm in a lower-income economy. For instance, a 50-employee company may be classified as a small company for an EU economy, while it may fit within the classification of a medium-sized firm in an South East Asian economy. Certainly, a company with 250 staff-headcount would well fit the classification of a large company in many economies.

The staff headcount (not necessarily full-time employees and can include contract staff) is used as an indicator, while the annual revenue and assets are secondary criteria due to exchange rate considerations.

Governments define the scope of what constitutes an MSME based on their national contexts. Number of employees and annual turnover are the two most common criteria used (along with total assets), but even at the national level, the criteria may differ based on sector as indicated in the accompanying table.

TABLE 2 MSME CLASSIFICATION

INDICATOR	EMPLOYEES	TOTAL ASSETS	ANNUAL SALES
Micro enterprise	< 10	< US\$ 100,000	< US\$ 100,000
Small enterprise	10–49	US\$ 100,000 – US\$ 3m	US\$ 100,000 – US\$ 3m
Medium enterprise	50–300	US\$ 3m – US\$ 5m	US\$ 3 m – US\$ 5m

Source: IFC

TABLE 3 MSME CLASSIFICATIONS, SELECT ECONOMIES

ECONOMY	MICRO	SMALL	MEDIUM	LARGE
Australia	0–4	5–19	20–199	>199
Bangladesh	<10 Services < 25 Manufacturing	10–24 Services 25–99 Manufacturing	50–100 Services 100–250 Manufacturing	>100 Services >250 Manufacturing
Egypt	1–4	5–49	50–99	>99
Fiji	0–6	7–20	21–50	>50
Japan	1–9	10–49	50–300	>300
Kenya	1–9	10–49	50–99	≥100
Mexico	0–10	11–50 Industry 11–30 Trade 11–50 Services	51–250 Industry 31–100 Trade 51–100 Services	>250 Industry >100 Trade >100 Services
Nigeria	1–9	10–49	50–199	≥200
Spain	0–9	10–49	50–249	>249
Sri Lanka	1–4 Industry, Construction, Services 1–3 Trade	5–24 Industry, Construction 5–15 Services 4–14 Trade	25–199 Industry, Construction 15–34 Trade 16–74 Services	>199 Industry, Construction >34 Trade >74 Services
Thailand		≤50 Manufacturing, Services ≤25 Wholesale ≤15 Retail	51–200 Manufacturing, Services 26–50 Wholesale 16–30 Retail	>200 Manufacturing, Services >50 Wholesale >30 Retail
United States	0–19	20–99	100–499	>499

Source: IFC

Which definition does the UN Global Compact SME Strategy employ?

The SME Strategy deliberately avoids employing a standard global definition for SMEs. For the purposes of strategy operationalization (for instance when SME candidates for a pilot project have to be selected), the strategy refers to national definitions which may have been developed and promulgated by a Ministry of Labour, Central Bank, small business promotion agencies, etc. Local Networks therefore are encouraged to defer to their national definitions for segmenting their participants and for any other requirements needing enterprise classification.

The strategy is specifically geared towards catering to SMEs with a reasonable level of internal capability as well as maturity, so that they can adequately operationalize sustainability tenets within their business operations. For this reason, microenterprises (typically enterprises with staff-headcount less than 10) are not actively included within the scope of this strategy.

Endnotes

- 1 ILO notes the contributions as 2/3rd of jobs worldwide
- 2 <https://www.worldbank.org/en/topic/sme/finance>
- 3 International Trade Center News (2019) "\$1 trillion in annual investment to unlock the development power of small businesses" Press Release 25 June 2019. Accessed here: <http://www.intracen.org/news/1-trillion-in-annual-investment-to-unlock-the-development-power-of-small-businesses/>
- 4 For example, <https://www.sme-enterprize.com/wp-content/uploads/2021/09/SME-EnterPRIZE-White-Paper.pdf>
- 5 Information about the Local Networks of the UN Global Compact is available at <https://www.unglobalcompact.org/engage-locally>
- 6 The CoP refers to the annual requirement for communication on progress that the company has made vis-à-vis its commitments. Information on the CoP can be reviewed here: <https://www.unglobalcompact.org/participation/report/cop>
- 7 ILO notes the contributions as 2/3rd of jobs worldwide
- 8 <https://www.worldbank.org/en/topic/sme/finance>
- 9 World Bank (2019) "Improving SMEs' access to finance and finding innovative solutions to unlock sources of capital" Access here: <https://www.worldbank.org/en/topic/sme/finance>
- 10 International Trade Centre News (2019) "\$1 trillion in annual investment to unlock the development power of small businesses" Press Release 25 June 2019. Accessed here: <http://www.intracen.org/news/1-trillion-in-annual-investment-to-unlock-the-development-power-of-small-businesses/>
- 11 <https://www.sme-enterprize.com/wp-content/uploads/2021/09/SME-EnterPRIZE-White-Paper.pdf>
- 12 US Small Business Administration, <https://www.forbes.com/sites/forbesfinancecouncil/2018/10/25/what-percentage-of-small-businesses-fail-and-how-can-you-avoid-being-one-of-them/?sh=63ea92b243b5>
- 13 <https://www.sme-enterprize.com/wp-content/uploads/2021/09/SME-EnterPRIZE-White-Paper.pdf>
- 14 Hereafter referred to as the 'SME Strategy'
- 15 <https://www.mckinsey.com/business-functions/sustainability/our-insights/starting-at-the-source-sustainability-in-supply-chains>
- 16 <https://www.sme-enterprize.com/wp-content/uploads/2021/09/SME-EnterPRIZE-White-Paper.pdf>



THE TEN PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT



HUMAN RIGHTS

- 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
- 2 make sure that they are not complicit in human rights abuses.



LABOUR

- 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- 4 the elimination of all forms of forced and compulsory labour;
- 5 the effective abolition of child labour; and
- 6 the elimination of discrimination in respect of employment and occupation.



ENVIRONMENT

- 7 Businesses should support a precautionary approach to environmental challenges;
- 8 undertake initiatives to promote greater environmental responsibility; and
- 9 encourage the development and diffusion of environmentally friendly technologies.



ANTI-CORRUPTION

- 10 Businesses should work against corruption in all its forms, including extortion and bribery.

The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

ABOUT THE UNITED NATIONS GLOBAL COMPACT

As a special initiative of the UN Secretary-General, the United Nations Global Compact is a call to companies everywhere to align their operations and strategies with Ten Principles in the areas of human rights, labour, environment and anti-corruption. Its ambition is to accelerate and scale the global collective impact of business by upholding the Ten Principles and delivering the Sustainable Development Goals through accountable companies and ecosystems that enable change. With more than 15,000 companies and 3,000 non-business signatories based in more than 160 countries and with 69 Local Networks, the UN Global Compact is the world's largest corporate sustainability initiative, uniting business for a better world.

For more information, follow [@globalcompact](https://twitter.com/globalcompact) on social media and visit our website at unglobalcompact.org.



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