Fostering Sustainability in Small and Medium-Sized Enterprises

Generali SME EnterPRIZE White Paper

4TH EDITION

SDA Bocconi SCHOOL OF MANAGEMENT
SUSTAINABILITY LAB

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Table of Contents

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FOREWORD

Generali Group CEO - Philippe Donnet

It has been four years since Generali launched SME EnterPRIZE, our flagship initiative to promote sustainability among European small and medium-sized enterprises (SMEs) and support them in integrating sustainable practices into their business models.

In light of the current global financial fluctuations and geopolitical tensions, coupled with the rapid advancement of new technologies, SMEs across various sectors continue to face significant challenges on a daily basis. This is why we remain firmly convinced of the importance for them to integrate ESG considerations into their activities.

Building on the analytical methodology developed in the three previous editions and the evidence gathered from interviewing 1,260 enterprises across ten EU countries, the fourth edition of the SME EnterPRIZE White Paper aims to identify emerging trends and new developments related to strategic sustainability approaches, implementation barriers, market demands, and the benefits of adopting a robust ESG approach.

Furthermore, the study places a special focus on climate resilience, and the timing could not be more critical as extreme weather events continue to increase in both frequency and magnitude. In 2024, Europe experienced its hottest summer on record. Around two million people were affected by heavy rainfall in Austria, the Czech Republic, Poland, Romania, Slovakia and Hungary in September, and over 370,000 hectares of forest were ravaged by wildfires in the first nine months of the year. The devastating floods in Spain's Valencian Community last October, which claimed 230 lives and destroyed homes and businesses, served as a stark reminder of the scale and impact of such disasters. With SMEs being particularly vulnerable to climate change and extreme weather events, examining their climate risk awareness, adaptation strategies, risk mitigation approaches, and risk transfer mechanisms is crucial.

Beyond fostering dialogue with SMEs and raising their awareness of sustainability, one of the key goals of SME EnterPRIZE has always been to help Europe's policymakers and financial services professionals define clear paths to support these businesses in their just sustainable transition. The results of this study confirm that while the overall trend is promising, much work remains to build a framework that truly supports a sustainable future for European SMEs.

For this reason, I am confident this report will serve as a crucial resource to further advance towards this key objective. On behalf of all my colleagues at Generali, I warmly thank the SDA Bocconi Sustainability Lab team for their invaluable work and commitment.

FOREWORD

Bocconi University Rector - Francesco Billari

As we present the fourth edition of the Generali SME EnterPRIZE White Paper, *Fostering Sustainability in Small and Medium-Sized Enterprises*, we stand at a critical juncture in the evolution of sustainable business practices. This comprehensive research, drawing on five years of continuous investigation, provides fresh insights into how European SMEs are navigating the complex landscape of sustainability transformation.

The findings of this edition are particularly significant, as they capture a moment of remarkable resilience and consolidation. Our analysis of 1,260 SMEs across ten European countries reaffirms their commitment to sustainability, with 44% of companies either implementing or actively pursuing sustainability strategies. This sustained level of engagement, reached despite growing implementation challenges and economic pressures, represents both a significant achievement and a strong foundation for future growth while highlighting opportunities for enhanced support mechanisms to drive broader adoption.

This edition's expanded focus on climate resilience and risk management makes it especially valuable. In an era where climate-related challenges are becoming increasingly tangible for businesses, our research provides crucial insights into how SMEs are assessing, preparing for, and responding to these risks. The addition of Slovenia to our geographical scope further enriches our understanding of regional variations in sustainability approaches and challenges.

The research highlights both encouraging developments and persistent hurdles. While we see growing sophistication in how SMEs approach sustainability, particularly among larger enterprises, we also observe disparities in adoption rates and capabilities across different business segments. These findings underscore the importance of developing more nuanced, size-sensitive support frameworks that can effectively address the diverse needs of our SME ecosystem.

As we look to the future, this White Paper serves as a roadmap for action. The recommendations presented here offer practical guidance for policymakers, financial institutions, and other stakeholders committed to supporting SMEs in their sustainability journey. The evidence-based insights aim to guide the creation of policies and programmes that can effectively accelerate the just transition to a more sustainable economy.

This research exemplifies Bocconi University's commitment to producing actionable knowledge that bridges academic rigour with practical business needs. We are proud to contribute to this vital dialogue on sustainable business transformation and remain dedicated to supporting the development of evidence-based solutions for a more sustainable future.

FOREWORD

Assistant Secretary General and Director of UNDP's Bureau of Policy and Programme Support - Marcos Neto

We are living in an era of polycrisis, marked by rising global conflicts, risks, and polarisation. With 1.1 billion people living in multidimensional poverty, geopolitical tensions are escalating, protectionism is on the rise, and global value chains are fragmenting. The climate crisis further exacerbates these challenges, exposing over three billion people to disasters[1] and causing annual global economic losses exceeding US$368 billion[2].

In Southeast Asia, as in Europe, Micro, Small, and Medium Enterprises (MSMEs) form the backbone of the economy, representing 97% of businesses in the region[3]. Southeast Asia is also the European Union's third-largest trading partner, with MSMEs contributing 10-30% of the region's exports[4]. Despite their central role in economic activity, the growth and survival of Southeast Asian MSMEs are increasingly jeopardised by a range of long-standing challenges - climate risks, business disruptions, and limited access to financing - all of which are compounded by a lack of financial resilience.

Addressing these rising and interconnected risks is essential for sustainable development and requires partnerships that harness the complementary strengths of both the public and private sectors. In 2024, UNDP and Generali released the joint *SME EnterPRIZE* report on Building MSME Resilience in Southeast Asia, underscoring the pivotal role that well-designed insurance products can play in helping MSMEs - and, by extension, global value chains - become more financially resilient in an era of escalating risks. UNDP is proud of its partnership with Generali and our shared commitment to support MSMEs in building greater resilience. We welcome the launch of the 2025 *SME EnterPRIZE* White Paper, which provides actionable insights for policymakers and financial services to help SMEs advance on their path to sustainability.

1. *World Health Organization (2023), Climate change key facts. https://www.who.int/news-room/fact-sheets/detail/climate-change-and-health*
2. *Aon (2025), Climate and catastrophe insight: 2025 annual report https://aon.mediaroom.com/2025-01-22-Greater-Insurability-of-Climate-Risk-is-Key-to-Global-Economic-Resilience-Aon-Catastrophe-Report*
3. *United Nations Development Programme & Generali (2024), Building MSME Resilience in Southeast Asia https://irff.undp.org/report/building-msme-resilience-southeast-asia*
4. *United Nations Development Programme & Generali (2024), Building MSME Resilience in Southeast Asia https://irff.undp.org/report/building-msme-resilience-southeast-asia*

UNDP – Generali Partnership

The United Nations Development Programme (UNDP) and Generali Partnership, launched in 2022, is building the financial resilience of global value chains and small to medium-sized enterprises by developing innovative insurance solutions, digital tools, research and advocacy.

The strength of this public-private partnership is its unique ability to harness the technical expertise, global footprint and thought leadership of both organisations. By leveraging Generali's insurance expertise and UNDP's focus on sustainable development, the partnership has achieved significant milestones. Between 2023-2024, Generali expanded the SME EnterPRIZE programme to Asia. Together, UNDP and Generali published joint reports on 'Building MSME Resilience in Southeast Asia' and 'Parametric Insurance to Build Financial Resilience', launched an Insurance Innovation Challenge to develop insurance solutions for SMEs in Malaysia, and released a free online tool called the 'SME loss prevention framework' for climate-vulnerable SMEs in Malaysia to understand and prepare for rising climate risks.

Objectives of the Fourth Edition of the Generali SME EnterPRIZE White Paper

The fourth edition of the White Paper *Fostering Sustainability in Small and Medium-Sized Enterprises*, developed by SDA Bocconi School of Management Sustainability Lab and promoted by Assicurazioni Generali's SME EnterPRIZE project, presents an **ongoing state-of-the-art analysis of the sustainable transition of European SMEs**. Building upon five years of continuous research, this report offers fresh insights into how European SMEs are managing their transition toward more sustainable business practices.

The research methodology centres on a **tailored and extensive survey encompassing 1,260 European SMEs**, representing one of the most comprehensive studies of its kind in Europe. The investigation has expanded its geographical scope to include Slovenia, bringing the total to ten European countries, including Austria, Croatia, the Czech Republic, France, Germany, Hungary, Italy, Portugal, and Spain. This broader coverage enables more nuanced comparative analyses across different contexts.

The report is structured into six chapters addressing crucial aspects of SMEs' sustainability.

The opening chapter traces the evolution of how European SMEs strategically approach sustainability, documenting the trends and patterns that have occurred in recent years. **The second chapter** explores the challenges SMEs face, including regulatory complexities, inadequate institutional support, limited access to sustainable financing, and bureaucratic hurdles.

The third section evaluates the concrete advantages gained by SMEs that have implemented or are in the process of implementing sustainability strategies, examining how the business case for Environmental, Social, and Governance (ESG) practices has evolved in today's challenging economic environment. **The fourth chapter** addresses climate change resilience among SMEs, recognising their **particular** vulnerabilities due to size limitations and operational constraints while identifying adaptation opportunities across different sectors.

The fifth chapter investigates the various forms of support SMEs seek in their sustainability journey, emphasising the importance of understanding and addressing their specific needs to facilitate a successful just transition. **The document concludes** with actionable recommendations for policymakers and financial institutions, outlining immediate and longer-term measures to support SMEs in their sustainability efforts.

This research serves as a tool for monitoring and understanding the evolving sustainability landscape in which European SMEs operate. Its findings and recommendations aim to advance sustainable practices and inform policy development across Europe while providing practical guidance for businesses navigating their sustainability transformation.

The document's unique contribution lies in its comprehensive approach to tracking SMEs' sustainability progress, combining detailed analysis of current practices with forward-looking recommendations for stakeholders across the European business ecosystem. This makes it a valuable resource for understanding and supporting the sustainable development of Europe's small and medium-sized enterprise sector.

Executive Summary

The fourth edition of the Generali SME EnterPRIZE White Paper, based on a comprehensive survey of 1,260 European SMEs across ten countries, demonstrates the resilience of European SMEs in their sustainable transition journey while highlighting areas requiring targeted support.

The research reveals a consolidation in ESG adoption, with combined implementation rates holding steady at 44% despite growing challenges, marking significant progress from 34% in 2020. This resilience is particularly noteworthy in the current complex economic environment. The data shows a clear differentiation in adoption patterns, with company size emerging as a crucial determinant – larger SMEs demonstrate strong leadership with 65% adoption rates, while smaller enterprises maintain a solid foundation at 36% – indicating significant potential for growth through targeted support.

While SMEs demonstrate commitment to sustainability, they face increasing implementation challenges, with a lack of public incentives (54%), institutional support gaps (53%), and limited sustainable finance access (53%) emerging as key areas requiring attention. These barriers to implementation show notable regional variations, particularly between Eastern and Western European countries, suggesting opportunities for knowledge sharing and targeted policy interventions building on successful approaches.

The business case for ESG remains robust, with environmental benefits as the leading advantage at 83% positive impact, followed by strong social benefits. Notably, financial advantages show the most significant improvements, particularly in credit and insurance conditions, indicating increasing market recognition of ESG performance.

Climate risk awareness varies significantly across the SME landscape, with sustainability leaders showing 69% risk recognition compared to the 50% average. Price volatility emerges as the primary climate-related concern (47%), while companies prioritise operational responses such as local sourcing (33%) and renewable energy adoption (27%) over more complex strategic adaptations.

Support needs have consistently grown across all categories, with tax incentives (78%) and public funding (76%) leading priorities. This increasing demand for comprehensive support denotes a growing recognition of the complexity of sustainable transition, requiring coordinated action across policy, financial, and capacity-building dimensions.

The findings inform targeted recommendations for policymakers and financial institutions, emphasising the need for simplified regulatory frameworks, enhanced public incentives, tailored financial instruments, and proactive advisory support to accelerate the just sustainable transition of European SMEs.

I. Recommendations for Policymakers

- **Priority 1 Regulatory Simplification and Proportionality:** Develop a simplified, size-sensitive regulatory framework to address the 53% of SMEs struggling with institutional complexity, ensuring graduated requirements that match business capabilities from small to medium enterprises.

- **Priority 2 Enhanced Public Incentives:** Implement a targeted support system combining strategic tax incentives and dedicated green transition funding to address the 54% of SMEs citing lack of public support, accelerating sustainable transition adoption.

- **Priority 3 Enhanced Institutional Capacity for Supporting SMEs:** Strengthen institutions' ability to support SMEs through targeted training and streamlined processes, addressing the emerged support gaps while aligning with EU administrative burden reduction goals.

- **Priority 4 SMEs Engagement and Capacity Building:** Develop comprehensive capacity-building programmes leveraging regional knowledge centres and stakeholder networks (e.g. trade associations, chambers of commerce) to scale successful practices and foster SME advancement.

II. Recommendations for the Financial Sector

- **Priority 1 Tailored Financial Products:** Develop sector-specific financial instruments with ESG-linked favourable terms to address the 53% of SMEs lacking access to sustainable finance, ensuring viability for smaller enterprises while maintaining robust risk management standards.

- **Priority 2 Innovative Climate Risk Management:** Address the significant climate risks protection gap (with only 31% of insurance coverage safeguarding against climate-related risks) through innovative products and public-private partnerships, creating affordable coverage options for SMEs facing these risks.

- **Priority 3 Proactive Engagement and Support:** Expand the role of financial institutions beyond traditional financing to provide comprehensive transition support and guidance, targeting the 56% of SMEs (especially Laggards and Undecided) yet to implement ESG strategies.

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CHAPTER 1

How European SMEs Approach Sustainability and Recent Evolutions

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Chapter 1 reveals significant trends in ESG adoption among European SMEs between 2020 and 2025. Key findings demonstrate remarkable resilience in sustainability commitment, with combined Heroes and Soon-to-be implementation rates holding steady at 44% despite growing challenges. Company size emerges as a crucial factor, with larger SMEs (50-249 employees) leading the way with a 65% adoption rate, while smaller enterprises (10-19 employees) establish a foundation at 36%. A cross-country comparison highlights opportunities for knowledge sharing, with Austria and Portugal demonstrating leading practices. Meanwhile, varying adoption rates in Eastern European countries suggest the need for targeted support initiatives. The analysis of specific initiatives underscores the strategic prioritisation of operational measures, with recycling and energy efficiency emerging as established practices across all SME categories.

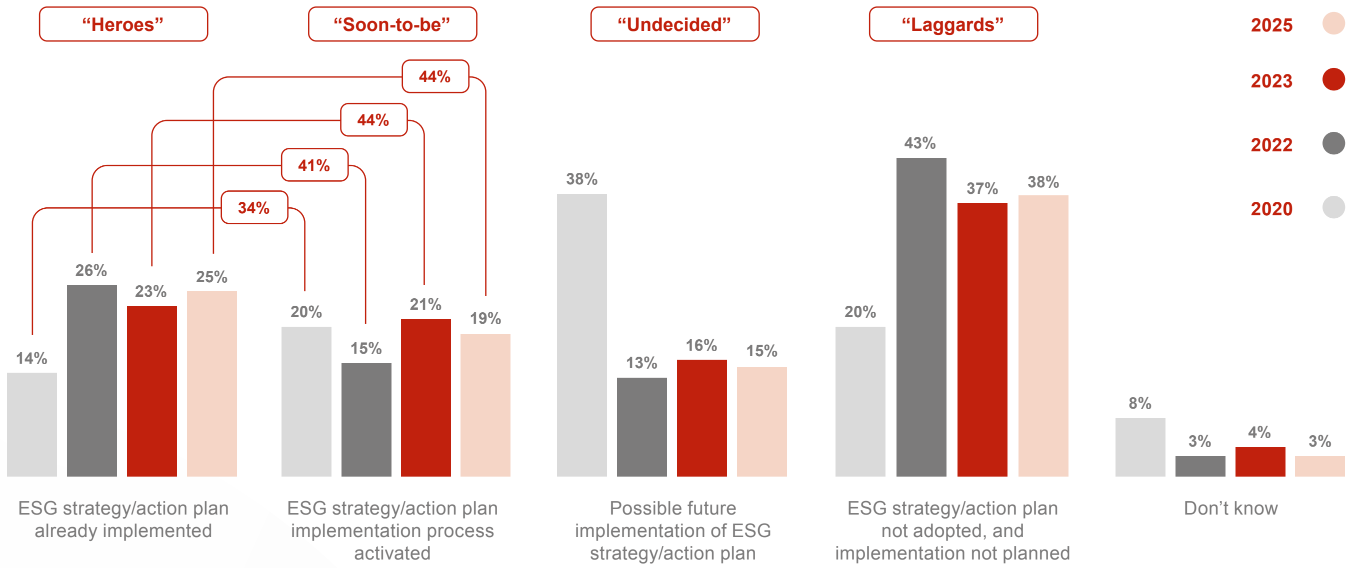
1.1 ESG adoption resilience: combined Heroes and Soon-to-be implementation rates hold at 44% despite growing barriers, showing market maturity and consolidation while highlighting opportunities for targeted institutional support

Based on the 2020-2025 strategic sustainability trend data (**Figure 1**), European SMEs' approach to sustainability demonstrates remarkable resilience alongside ongoing challenges. The data collected over the past three years reveals a consolidation of ESG adoption among European SMEs. The combined percentage of companies that have either implemented or are implementing sustainability strategies (Heroes and Soon-to-be) has remained steady at 44%, showing significant progress from 34% in 2020.

The evolution of this trend is noteworthy: in 2022, the combined percentage of Heroes and Soon-to-be companies reached 41% (with Heroes at 26% and Soon-to-be at 15%). By 2023, this increased to 44% (Heroes at 23% and Soon-to-be at 21%), with the most recent survey in early 2025 confirming this steady 44% level (Heroes at 25% and Soon-to-be at 19%). Maintaining the 44% mark despite increasing implementation challenges and economic uncertainties demonstrates remarkable resilience in ESG commitment.

This stability extends across other segments. The percentage of Laggards has shown a consistent pattern, from 43% in 2022 to 37% in 2023, with a slight increase to 38% in 2025. The Undecided segment has remained relatively stable between 13% in 2022 and 15% in 2025, suggesting a well-defined market structure.

(Figure 1) Strategic Approach to Sustainability Trend 2020-2025 – % of SMEs



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260; May 2023 Total N. 1,240; May 2022 Total N. 1,000, European Commission SMEs, start-ups, scale-ups and entrepreneurship Flash Eurobarometer 486 (2020)

This consolidation of ESG adoption manifests in two significant ways:

- **The resilience factor**: The sustained level of 44% combined Heroes and Soon-to-be companies is notable, given the increasing complexity of ESG implementation and growing economic pressures. This stability demonstrates the strong foundation of sustainability commitment among European SMEs. While this may appear as a **plateau** in purely numerical terms, it represents a significant achievement in maintaining momentum despite challenging conditions.

- **The market maturity dynamic**: The data reveals a clear market structure with distinct segments: a strong core of sustainability leaders (Heroes and Soon-to-be at 44%), a significant group of Laggards (38%), and a smaller but important segment of Undecided companies (15%). While this may appear as **polarisation**, this segmentation also presents clear opportunities for targeted policy interventions and support mechanisms.

This market consolidation presents both strategic imperatives and opportunities. The immediate priority should be to support and reinforce the resilience of leading companies while developing targeted approaches for Laggards and Undecided companies. The stable presence of Undecided companies (15%) represents a significant opportunity for growth through well-calibrated support mechanisms and incentives.

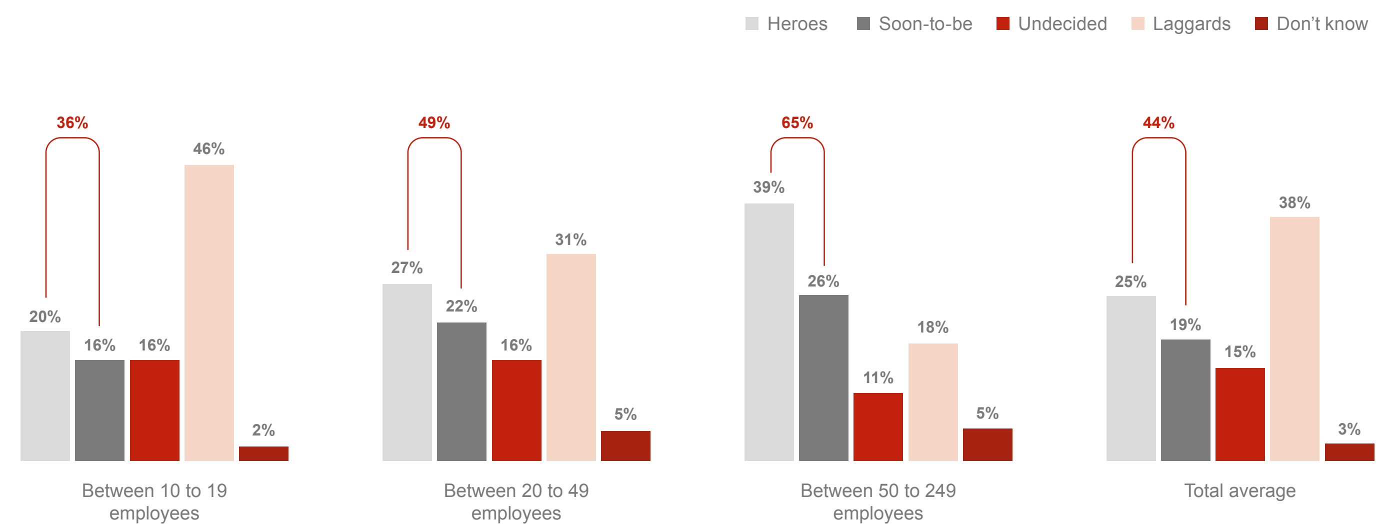
The sustained commitment to ESG adoption suggests that while current support mechanisms have effectively established a strong foundation, the next phase requires more sophisticated and targeted approaches. This includes sector-specific and size-sensitive support initiatives that strengthen existing commitments and attract new adopters, particularly among smaller enterprises, which demonstrate the greatest growth potential.

1.2 Company size drives ESG adoption: larger SMEs lead with a 65% combined (Heroes + Soon-to-be) implementation rate, showing a clear link between company size and ESG engagement

Our analysis reveals a clear correlation between company size and adoption of ESG practices, with a particularly pronounced trend among larger companies (**Figure 2**). Companies with 50-249 employees demonstrate the highest combined implementation rate (Heroes + Soon-to-be) at 65%, significantly exceeding the total average of 44%. These findings underscore how more structured organisations possess greater resources and capabilities to integrate sustainability strategies effectively.

Conversely, smaller enterprises (10-19 employees) show a combined rate of 36%, the lowest among analysed segments, with a notable presence of Laggards (46%). Of particular interest is the progressive decrease in the percentage of Undecided companies as organisational size increases, dropping from 16% in smaller firms to 11% in larger ones. The proportion of companies self-identifying as "Don't know" remains relatively low across all segments, fluctuating between 2% and 5%, indicating a solid level of general awareness regarding sustainability matters.

(Figure 2) Strategic Approach to Sustainability in 2025 – % of SMEs by Number of Employees

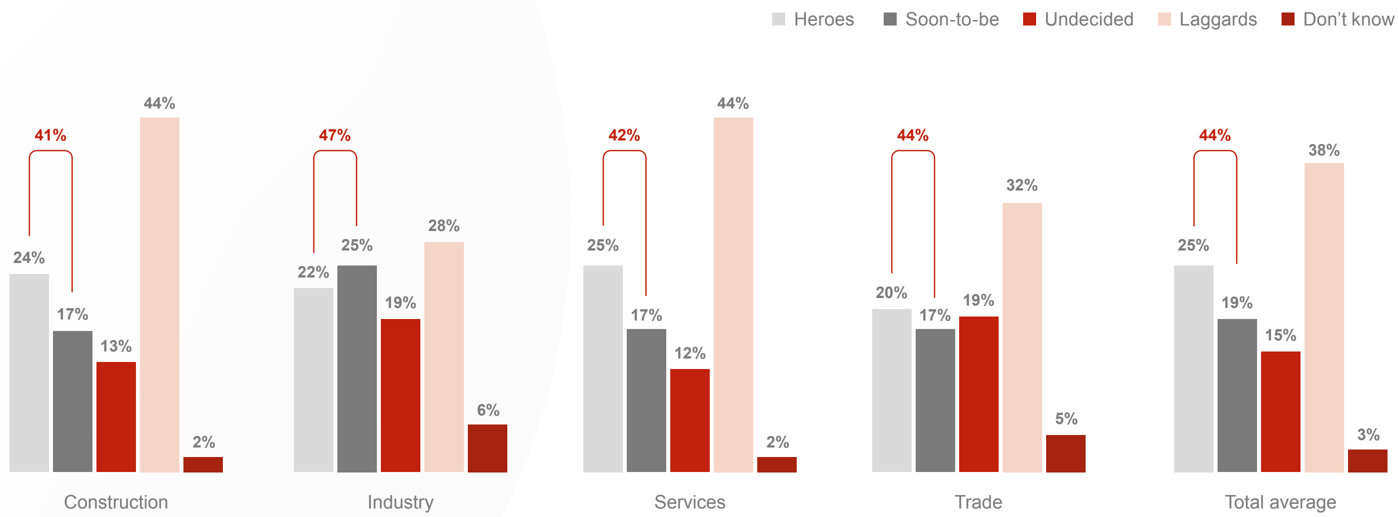


Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260

1.3 Sector analysis shows limited variation in ESG adoption: Industry leads with a 47% combined implementation rate (Heroes + Soon-to-be), marginally above other sectors

The sectoral analysis reveals relatively modest variations in ESG adoption across different industries, with most sectors hovering around the total average implementation rate of 44% (**Figure 3**). The industrial sector emerges as the frontrunner, with a combined implementation rate (Heroes + Soon-to-be) of 47%, reflecting marginally stronger engagement with sustainability initiatives. This sector demonstrates the highest proportion of Soon-to-be implementers at 25%, indicating a strong pipeline for future ESG adoption.

(Figure 3) Strategic Approach to Sustainability in 2025 – % of SMEs by Sector



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260

The services and trade sectors align with the overall average, at 42% and 44%, respectively, with a similar internal composition. The services sector records the lowest combined implementation rate at 41%. Notably, the proportion of Heroes remains relatively stable across sectors, ranging from 22% to 25%, suggesting that sustainability leadership transcends industry boundaries.

These findings indicate that sector-specific characteristics play a less significant role in ESG adoption than other factors, such as company size. This also signifies that barriers to implementation may be more universal across industries.

1.4 Evolution of sustainability commitment in European SMEs: a cross-country comparative analysis of combined Heroes and Soon-to-be SMEs from 2020 to 2025

The longitudinal analysis of ESG adoption across European countries from 2020 to 2025 reveals variations in sustainability commitment and implementation patterns (**Figure 4**). By 2025, the data highlights a divergence between leading and lagging nations, with Austria and Portugal emerging as frontrunners, both surpassing a 50% combined implementation rate (Heroes + Soon-to-be). This marks an improvement for Austria which has risen from 45% in 2020, while Portugal has maintained consistently high performance throughout the period.

The evolution of sustainability adoption shows particularly strong growth in certain markets, most notably Italy, which has more than doubled its implementation rate from 20% in 2020 to 47% in 2025. Similarly, Slovenia has demonstrated substantial progress, increasing from 18% to 32% over the same period. Germany has shown fluctuating but generally positive momentum, reaching 49% in 2025 after peaking at 54% in 2023.

(Figure 4) Strategic Approach to Sustainability Trend 2020-2025 – % of Heroes + Soon-to-be SMEs by Country

	Austria	Croatia	Czech Republic	France	Germany	Hungary	Italy	Portugal	Slovenia	Spain	Average
2025	52%	30%	40%	42%	49%	45%	47%	51%	32%	47%	44%
2023	43%	31%	35%	39%	54%	38%	52%	49%		43%	44%
2022	45%		38%	41%	48%	33%	37%			46%	41%
2020	45%	32%	31%	39%	37%	37%	20%	52%	18%	31%	34%

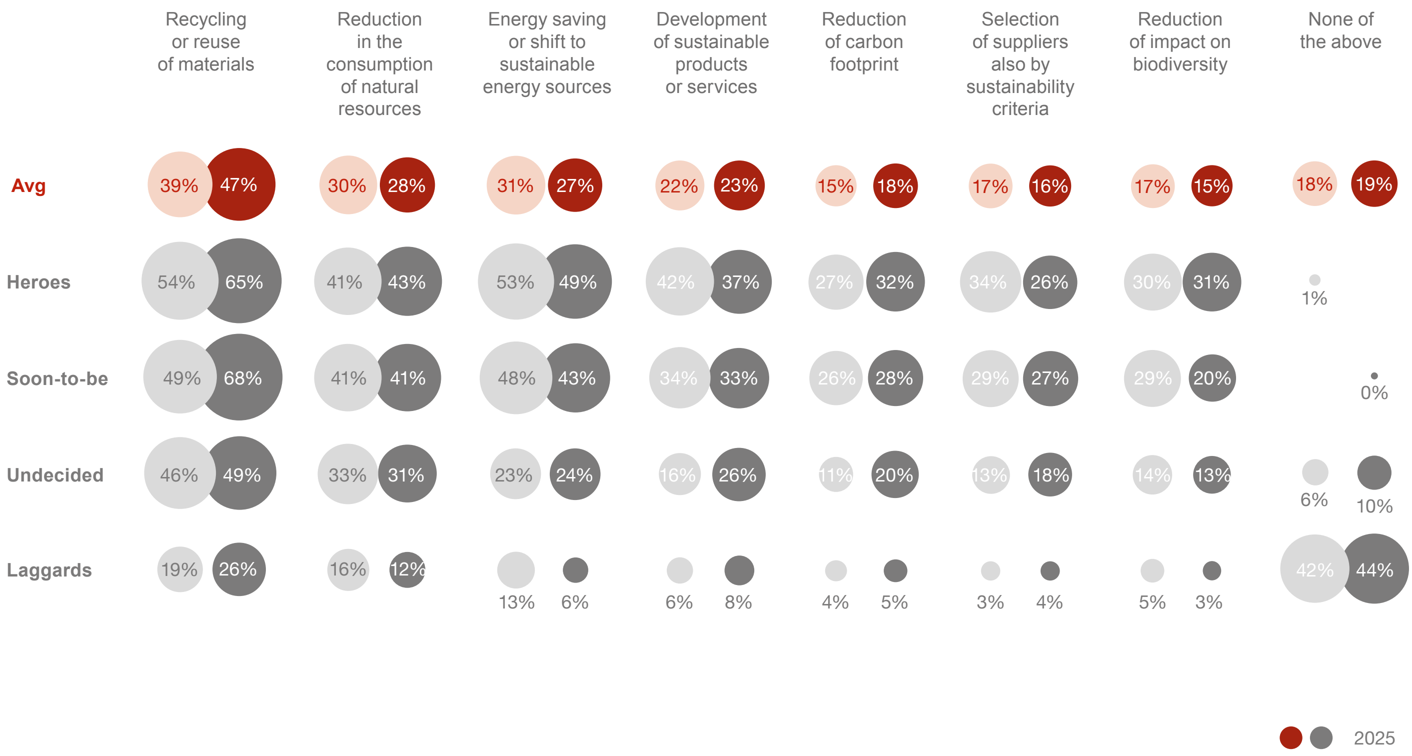
Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260

However, some countries have shown more modest progress or stagnation. Croatia, for instance, has maintained a relatively stable but lower rate, declining slightly from 32% in 2020 to 30% in 2025. The overall European average, by contrast, has shown steady improvement, rising from 34% in 2020 to 44% in 2025. This suggests a broader positive trend in ESG adoption across the continent despite regional variations in the pace and extent of implementation.

1.5 Recycling and energy efficiency lead the adoption of sustainability initiatives across SME categories, with a notable performance gap between Heroes, Soon-to-be, and Laggards

The analysis of sustainability initiatives across different SME categories (**Figure 5**) reveals a clear hierarchy in implementation patterns. Recycling and material reuse emerge as the most widely adopted practices, followed by resource and energy efficiency initiatives. Data shows a particularly stark contrast between Heroes and Laggards, underscoring performance gaps across all sustainability measures.

(Figure 5) Main Initiatives Actively Undertaken in the Field of Sustainability – 2025 vs 2023 – % of SMEs by Strategic Approach



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260; May 2023 Total N. 1,240

In 2025, recycling and material reuse stand out as the most widely implemented initiatives, with Heroes achieving an impressive 65% adoption rate, surpassed by Soon-to-be companies at 68%. This marks a notable increase from 2023 levels, reflecting growing momentum in circular economy practices. Energy management initiatives also show strong adoption, with Heroes maintaining high engagement in both sustainable energy transitions (49%) and resource consumption reduction (43%).

A concerning trend emerges among Laggards, who exhibit minimal engagement across most initiatives. Implementation rates remain consistently below 12% for the majority of sustainability measures, except for recycling (26%). Notably, 44% of Laggards fall into the "None of the above" category, indicating a significant gap in sustainability engagement. The Undecided category demonstrates moderate adoption levels, with a strong performance in recycling (49%), highlighting the potential for future progress in sustainability implementation.

The overall trend between 2023 and 2025 indicates a steady increase in sustainability initiatives particularly in core areas such as recycling and energy efficiency. However, more specialised initiatives – such as biodiversity impact reduction and supplier selection based on sustainability criteria – continue to show more modest adoption rates across all categories.

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CHAPTER 2

Shifting Obstacles: the Barriers to Sustainability Strategy Implementation in SMEs

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Chapter 2 examines the evolving barriers to adopting ESG practices. The data unveils a concerning increase in all major obstacles between 2023 and 2025. The lack of public incentives emerges as the primary challenge, mentioned by 54% of SMEs (+6% from 2023). This is followed by institutional support gaps at 53% (+5%) and sustainable finance accessibility at 53% (+6%). Geographic analysis shows regional variations in perceived barriers. Eastern European countries, especially Slovenia, worry more about public incentives (66%) and institutional support (64%), while Western European nations like France perceive fewer barriers overall. Italy is unique because it shows much lower concerns about internal resources (27%) and market recognition (20%). Smaller companies face more challenges in every area, indicating a negative association between company size and perceived barriers. The overall increase in barriers suggests that the shift to sustainability is becoming more complex, which means there is a need for coordinated support mechanisms that consider both geographical context and organisational scale.

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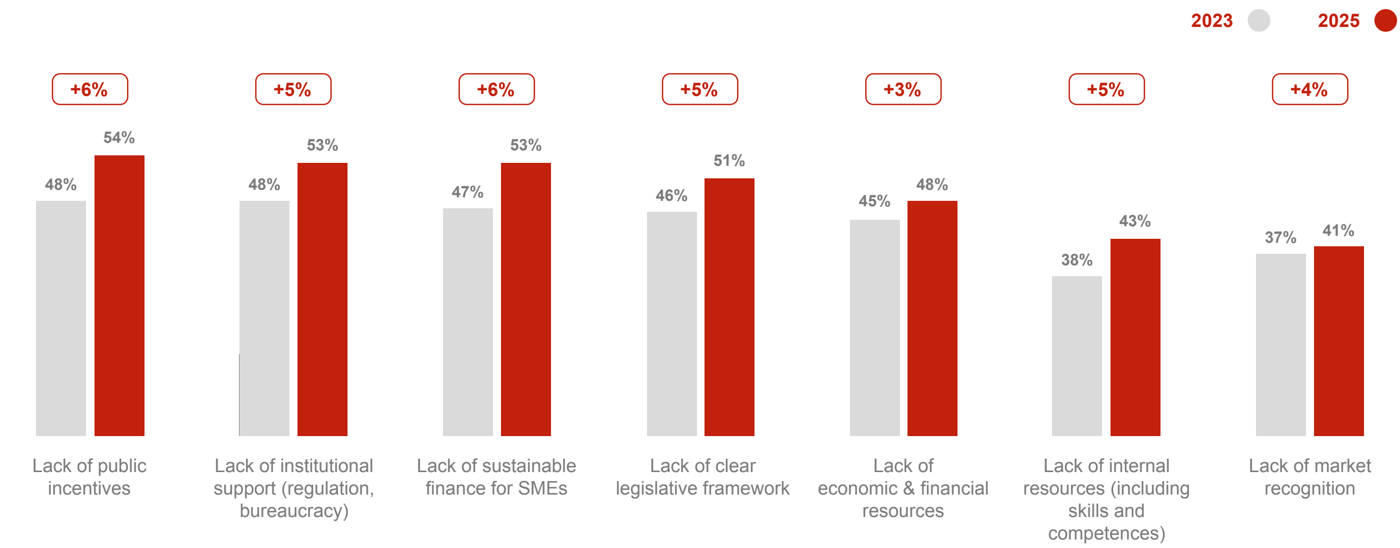
2.1 Rising ESG adoption barriers: a public support gap and complex regulations emerge as key challenges for SMEs, with all major barriers showing a significant increase from 2023 to 2025

The analysis of barriers to ESG adoption among European SMEs between 2023 and 2025 (**Figure 6**) reveals a concerning increase across all major obstacles, with significant growth in public support-related challenges. The most pressing barrier is the lack of public incentives, cited by 54% of SMEs in 2025 – a 6% increase from 2023. This is closely followed by institutional challenges, with 53% of SMEs identifying bureaucratic complexities and the lack of regulatory support as major hurdles, a 5% increase from the previous period.

Concerns over access to sustainable finance have also grown, with 53% of SMEs reporting it as a significant barrier in 2025, up 6% from 2023. In addition, the regulatory environment continues to present challenges – 51% of SMEs cite the lack of a clear legislative framework as a major obstacle, a 5% increase from 2023.

Even though internal and market-related barriers are comparatively lower, they have still increased. The lack of internal resources, including skills and competencies, rose by 5% to 43% in 2025, and market recognition challenges went up by 4% to 41%. Overall, the increase across all barriers confirms that the sustainability transition is becoming more complicated for SMEs. The trend highlights the need for more coordinated support mechanisms across public, institutional, and market dimensions.

(Figure 6) The Barriers to Sustainable Transition for SMEs in 2025 vs 2023 – % of SMEs Identifying Barriers as "Very important" + "Important"



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260; May 2023 Total N. 1,240

2.2 Barriers to the adoption of an ESG approach: public incentives and institutional support emerge as critical challenges in all countries, with some variations in perceived importance

The cross-country analysis of ESG adoption barriers (**Figure 7**) reveals that while all SMEs face these obstacles, there are variations in how these challenges are perceived across European countries. There is noteworthy disparity between Western and Eastern European countries in how they prioritise different barriers. In Slovenia, SMEs report the highest concern regarding public incentives, with 66% identifying this as a significant barrier, followed by Hungary at 64% and the Czech Republic at 59%. This highlights a particular challenge in Eastern European markets regarding public sector support for sustainability initiatives.

Institutional support – including regulatory and bureaucratic challenges – is a consistently significant barrier across most countries, though with notable variations. Again, Slovenia and the Czech Republic show high levels of concern in this area (64% and 63%, respectively), while Italy reports a markedly lower level of concern at 38%. This disparity might reflect differences in national regulatory frameworks and institutional support mechanisms. The data also reveals interesting patterns regarding financial barriers, with sustainable finance access being particularly problematic in Slovenia (65%), Spain (63%), and Croatia (63%), suggesting potential regional disparities in the availability of sustainability-focused financing options.

(Figure 7) The Barriers to Sustainable Transition for SMEs in 2025 by Country – % of SMEs Identifying Barriers as "Very important" + "Important"

	Austria	Croatia	Czech Republic	France	Germany	Hungary	Italy	Portugal	Slovenia	Spain	Avg
Lack of public incentives	42%	58%	59%	45%	49%	64%	53%	54%	66%	59%	54%
Lack of institutional support (regulation, bureaucracy)	48%	58%	63%	42%	54%	55%	38%	52%	64%	58%	53%
Lack of sustainable finance for SMEs	36%	63%	55%	41%	40%	59%	49%	61%	65%	63%	53%
Lack of clear legislative framework	38%	62%	55%	46%	51%	60%	37%	49%	60%	55%	51%
Lack of economic & financial resources	36%	61%	46%	45%	42%	50%	39%	51%	64%	50%	48%
Lack of internal resources (including skills, competences)	38%	53%	47%	39%	40%	50%	27%	45%	50%	47%	43%
Lack of market recognition	40%	41%	42%	35%	37%	48%	20%	51%	52%	49%	41%

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260

France consistently reports lower barrier perceptions across most categories than other countries, specifically regarding public incentives and institutional support, potentially indicating a more developed sustainability support ecosystem. Conversely, Italy shows a unique pattern with relatively lower concerns about internal resources and market recognition than other barriers. Italian SMEs are facing different challenges in their sustainability journey, particularly a lack of public incentives and sustainable finance instruments. The overall average figures across all countries indicate that while public incentives (54%) and institutional support (53%) are the most pressing concerns, a clear hierarchy of barriers remains relatively consistent despite variations in magnitude. While national contexts significantly influence the intensity of perceived barriers, the fundamental challenges to ESG adoption are similar across European SMEs.

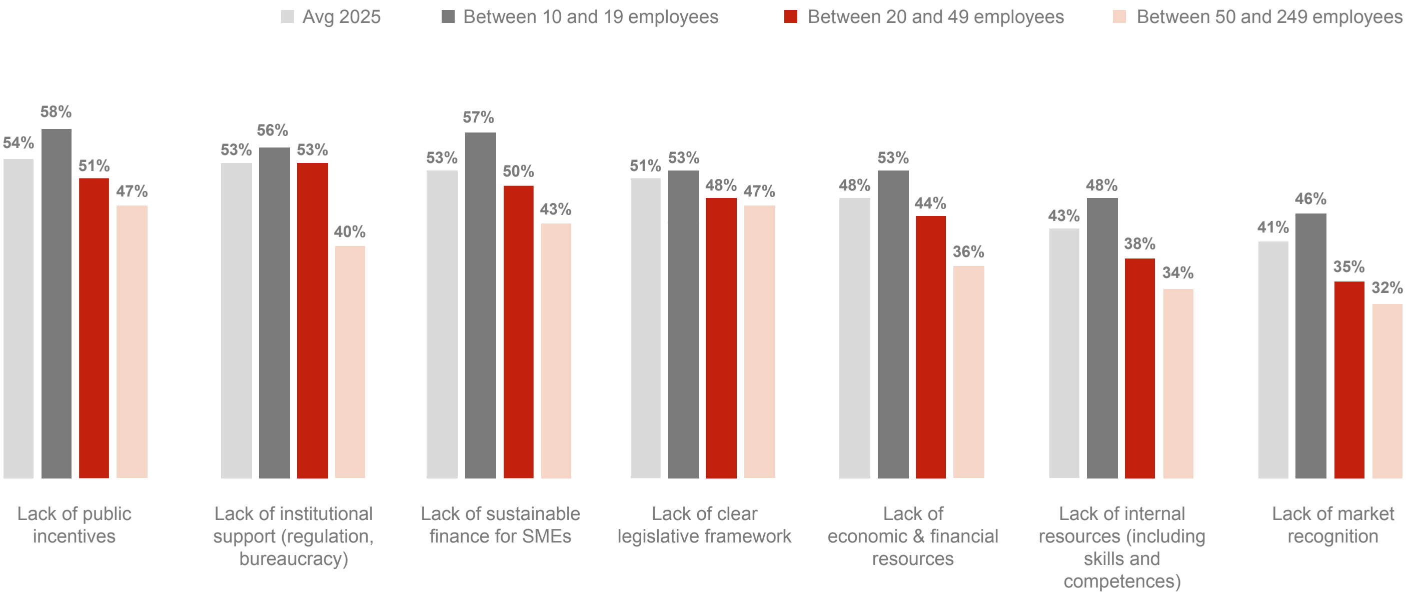
2.3 SME sustainability barriers: smaller companies face greater implementation barriers and challenges

The data reveals a clear inverse relationship between company size and perceived barriers to sustainability implementation. Smaller enterprises consistently report higher levels of challenges across all measured dimensions (**Figure 8**). This pattern is particularly pronounced in the lack of public incentives, where 58% of companies with 10-19 employees identify this as a significant barrier, compared to 47% of larger companies with 50-249 employees. Similarly, access to sustainable finance shows a marked disparity, with 57% of smaller companies reporting this as a major challenge versus 43% of their larger counterparts.

The findings also highlight that institutional and regulatory barriers are significant obstacles. A lack of institutional support and clear legislative frameworks consistently ranks among the top concerns, with smaller enterprises showing higher levels of concern (56% and 53%, respectively) compared to larger organisations (40% and 47%). This confirms that navigating regulatory complexity poses a disproportionate challenge for smaller businesses with limited administrative resources.

Internal resource constraints and market recognition emerge as relatively lower barriers across all size categories yet still reflect the same pattern of size-based disparity. However, it's noteworthy that even these "lower" barriers are still considered significant by a substantial portion of SMEs, with 48% of smaller companies citing internal resource limitations as a major hurdle.

(Figure 8) The Barriers to Sustainable Transition for SMEs in 2025 by Size – % of SMEs Identifying Barriers as "Very important" + "Important"



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260

These findings underscore the need for size-sensitive support mechanisms that address the heightened challenges smaller enterprises face in their sustainability transition. The consistent pattern across all barrier categories underscores the need for a comprehensive approach to support rather than focusing on individual barriers in isolation.

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CHAPTER 3

The Advantages of a Sustainable Approach and the Development of the ESG Business Case for SMEs

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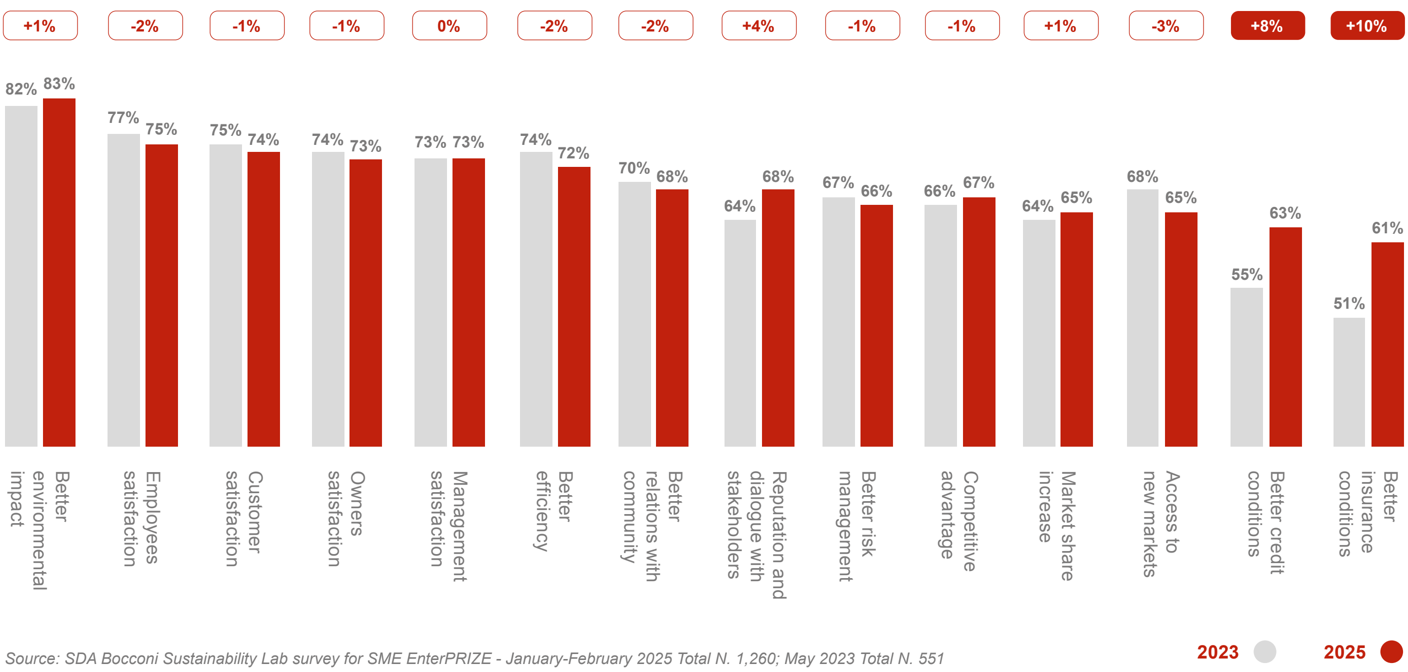
Chapter 3 demonstrates that the ESG business case remains robust despite fluctuations in perceived benefits. Environmental impact continues to lead advantages at 83% (+1% from 2023), followed by strong social benefits in employee satisfaction (75%) and customer satisfaction (74%). Financial and operational benefits show the most positive developments, with credit conditions improving by 8% and insurance conditions by 10%. The cross-country analysis reveals variations in benefit realisation. The Czech Republic leads in environmental impact recognition (93%), while France excels in management satisfaction (90%). Italy presents a distinct pattern with lower perceived ("very positive" or "positive") benefits across categories. These findings indicate a maturing ESG business case where financial benefits increasingly complement established environmental and social advantages.

3.1 The ESG business case holds despite marginal adjustments: data confirms advantages across all domains, with better credit and insurance conditions experiencing the most positive increase since 2023

The analysis of ESG adoption benefits between 2023 and 2025 (**Figure 9**) reveals a mix of stability and change across different impact areas. Environmental benefits remain the top advantage, with 83% of SMEs reporting positive impacts (+1% from 2023), reinforcing the fundamental environmental value proposition of ESG adoption. Social and market benefits are also strong, particularly in employee satisfaction (75%) and customer satisfaction (74%), although these figures slightly declined (-2% and -1%, respectively) compared to 2023.

The biggest improvements are observed in financial and operational benefits, particularly in areas related to risk management and financial conditions. Better credit conditions rose by 8% (from 55% to 63%), while better insurance conditions demonstrate the strongest growth, up by 10% (from 51% to 61%). These gains suggest that the financial sector is increasingly recognising and rewarding ESG performance, creating business advantages for companies that adopt an ESG approach.

(Figure 9) Benefits of Adopting an ESG Approach 2025 vs 2023 – % of SMEs Declaring "Very positive" + "Positive" Benefits



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260; May 2023 Total N. 551

However, the data also reveals some areas of modest decline across operational and stakeholder-related benefits. Better efficiency (-2%) and better relations with the community (-2%) show slight decreases from 2023 levels. These marginal declines might reflect increasing stakeholder expectations or the challenges of maintaining momentum in these areas. Market-related benefits show mixed results, with market share increase slightly growing (+1%) while access to new markets shows a 3% decline, suggesting potential challenges in translating ESG performance into market expansion opportunities.

The overall pattern shows that while the core business case for ESG remains robust, how benefits are being realised is evolving. Financial and risk management benefits are growing, while environmental impacts remain steady. This means that ESG adoption is increasingly being recognised and rewarded by financial markets and risk managers, even though some traditional operational and stakeholder benefits show slower growth or stagnation. This evolution suggests the ESG business case is maturing, with tangible financial gains increasingly complementing the well-established environmental and social advantages.

3.2 The ESG business case by country: cross-country analysis reveals widespread positive impact, with environmental and employee satisfaction leading among perceived advantages

The geographical analysis of ESG benefits across European countries in 2025 (**Figure 10**) reveals variations in perceived advantages while highlighting some consistent patterns in core benefits. Environmental impact emerges as the leading benefit across all countries, with particularly strong recognition in the Czech Republic (93%), Croatia, Portugal, and Slovenia (all close to 90%), significantly above the European average of 83%. This consistently high rating confirms that the environmental value proposition of ESG adoption is well-established across European markets.

Employee and stakeholder satisfaction also shows strong positive impacts across most countries, though with notable regional variations. The Czech Republic demonstrates strong performance in employee satisfaction (86%), while France shows exceptional results in management satisfaction (90%). This seems to reflect that social benefits of ESG adoption vary by culture and business environment. Italian SMEs show fewer strongly positive responses, but this should not necessarily be interpreted as a negative finding. The data in the analysis shows the combined percentage of companies reporting “very positive” and “positive” benefits. It does not capture the full spectrum of responses. A significant portion of Italian SMEs reported “neutral” rather than negative impacts. This more cautious evaluation approach suggests that Italian companies take a measured view of benefits, often rating impacts as neutral when they are not distinctly positive. As a result, their lower percentage of strongly positive perceptions, compared to other European countries, may reflect a preference for moderation rather than actual underperformance in achieving sustainability benefits.

The data also reveals interesting patterns in financial and operational benefits. Germany and the Czech Republic show consistently strong performance across both these categories, with better credit conditions (74% and 77%, respectively) and better insurance conditions (75% and 73%, respectively) well above the European average. Interestingly, SMEs in Austria perceive “very positive” or “positive” benefits regarding improved credit conditions (77%), while SMEs in Portugal declare “very positive” or “positive” benefits regarding better insurance conditions (77%).

(Figure 10) Benefits of Adopting an ESG Approach 2025 by Country – % of SMEs Declaring “Very positive” + “Positive” Benefits

	Better environmental impact	Employees satisfaction	Customer satisfaction	Owners satisfaction	Management satisfaction	Better efficiency	Better relations with community	Reputation and dialogue with stakeholders	Better risk management	Competitive advantage	Market share increase	Access to new markets	Better credit conditions	Better insurance conditions
Avg	83%	75%	74%	73%	73%	72%	68%	68%	67%	66%	65%	65%	63%	61%
Austria	84%	81%	75%	77%	81%	79%	79%	72%	84%	61%	72%	72%	77%	65%
Croatia	88%	79%	85%	67%	61%	67%	64%	70%	73%	79%	55%	61%	64%	64%
Czech Republic	93%	86%	89%	80%	77%	77%	70%	89%	84%	77%	75%	75%	77%	73%
France	81%	83%	84%	84%	90%	81%	84%	87%	75%	84%	83%	79%	68%	73%
Germany	84%	84%	78%	78%	81%	74%	78%	70%	73%	71%	79%	81%	74%	75%
Hungary	76%	57%	69%	61%	65%	76%	59%	57%	63%	59%	51%	45%	57%	65%
Italy	71%	63%	60%	65%	41%	60%	48%	47%	45%	57%	48%	53%	53%	51%
Portugal	88%	80%	82%	82%	77%	80%	77%	77%	73%	77%	64%	71%	59%	77%
Slovenia	89%	80%	83%	71%	74%	86%	71%	60%	71%	80%	71%	60%	63%	69%
Spain	86%	73%	80%	75%	77%	72%	75%	77%	66%	70%	80%	79%	62%	55%

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 551

Access to new markets and increases in market share vary the most by country. Spain stands out, with 79% and 80% reporting these benefits, respectively. This shows that market-related advantages from ESG adoption may depend more on local market conditions and business environment than other benefit categories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CHAPTER 4

Climate Change Risks: Awareness Levels and Response Strategies Among European SMEs

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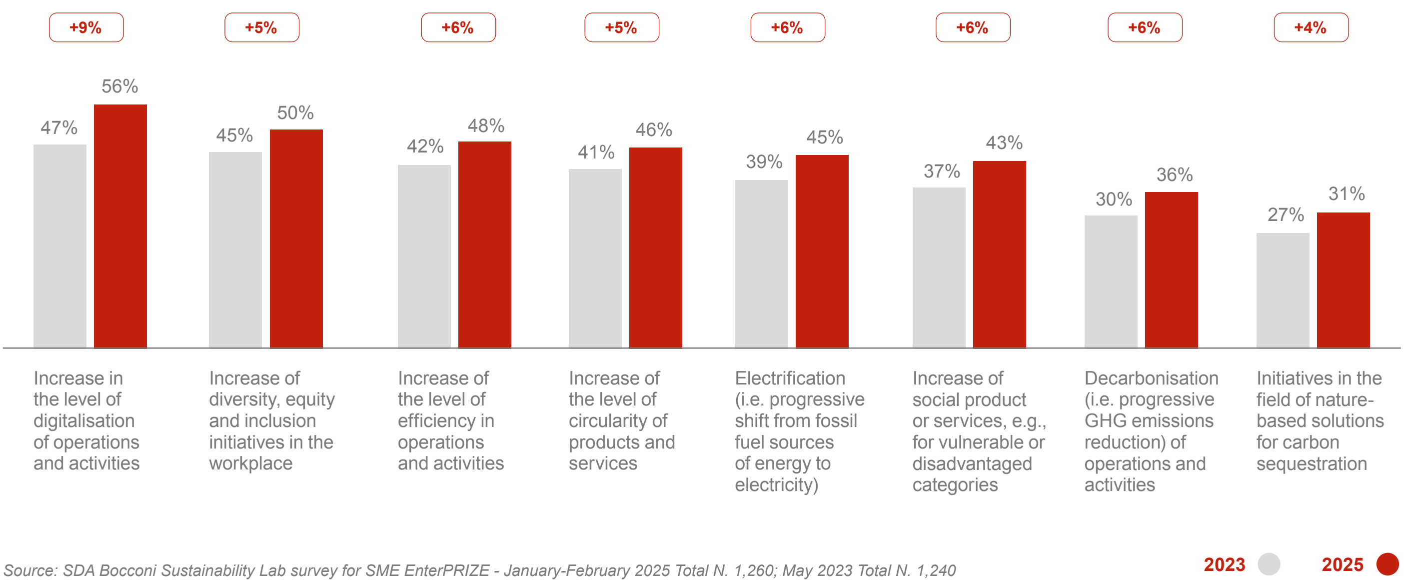
Chapter 4 explores SMEs' climate risk awareness and response strategies. The analysis shows a clear correlation between sustainability maturity and risk recognition, with Heroes demonstrating 69% risk awareness compared to the 50% average. Company size significantly influences awareness, with larger SMEs showing higher recognition (57%) compared to smaller enterprises (48%). Price volatility emerges as SMEs' primary climate-related concern (47%), while physical risks and supply chain disruptions have a lower impact (15% each). In response, SMEs prioritise operational measures, with local sourcing leading adoption efforts (33%), followed by renewable energy (27%) and efficiency improvements (23%). Risk transfer strategies remain predominantly traditional, with standard insurance leading at 31% adoption. Instead, innovative solutions struggle to gain traction, rarely exceeding 7% adoption.

4.1 SMEs' readiness for future transformation drivers: digital leadership emerges, while environmental challenges show growing but lower confidence across all strategic drivers

The analysis of SMEs' readiness for future transformations (**Figure 11**) reveals a clear hierarchy of preparedness for different initiatives, with digital transformation emerging as the frontrunner. From 2023 to 2025, all categories experienced consistent growth though with variations in both the pace and extent of progress. Digital transformation stands out as the area where SMEs feel most prepared, with 56% of companies declaring themselves ready ("very" or "fairly") in 2025, marking a substantial 9% increase from 2023. This significant jump indicates that companies are prioritising digital capabilities as a foundational element of their transformation strategies. Diversity, equity, and inclusion initiatives follow closely behind, with 50% of SMEs feeling ("very" or "fairly") prepared in 2025. This represents a 5% increase from 2023, indicating growing recognition of the importance of workplace inclusivity. Operational efficiency and circularity show moderate levels of preparedness, with 48% and 46% of SMEs, respectively, feeling "very "or "fairly ready" in 2025. While both categories have improved from 2023 (increases of 6% and 5%, respectively), the data shows that companies are making steady but measured progress in these areas. The relatively strong performance in these operational aspects may reflect their more tangible and immediate business impact.

(Figure 11) % of SMEs Declaring Their Companies Prepared ("Very" + "Fairly") 2025 vs 2023



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260; May 2023 Total N. 1,240

However, the data reveals SMEs feel less confident in environmental initiatives. Electrification (45%), social product development (43%), decarbonisation (36%), and nature-based solutions (31%) show lower preparedness levels, despite all improving since 2023. This implies that while SMEs recognise the importance of environmental challenges, they may find these transformations more complex or resource-intensive to implement. The notably lower readiness for nature-based solutions and decarbonisation initiatives points to specific challenges in addressing more advanced environmental objectives, potentially due to technical complexity, resource requirements, or unclear implementation pathways.

This gap between digital/operational readiness and environmental preparedness highlights a potential area for focused support and intervention, especially as environmental challenges become increasingly critical for business sustainability.

4.2 SMEs' climate risk awareness: heroes show 69% risk recognition, with company size and sector-specific variations revealing complex risk perception patterns

The analysis of climate risk awareness among European SMEs in 2025 reveals varying levels of risk recognition across different business categories, sizes, and sectors (**Figure 12**):

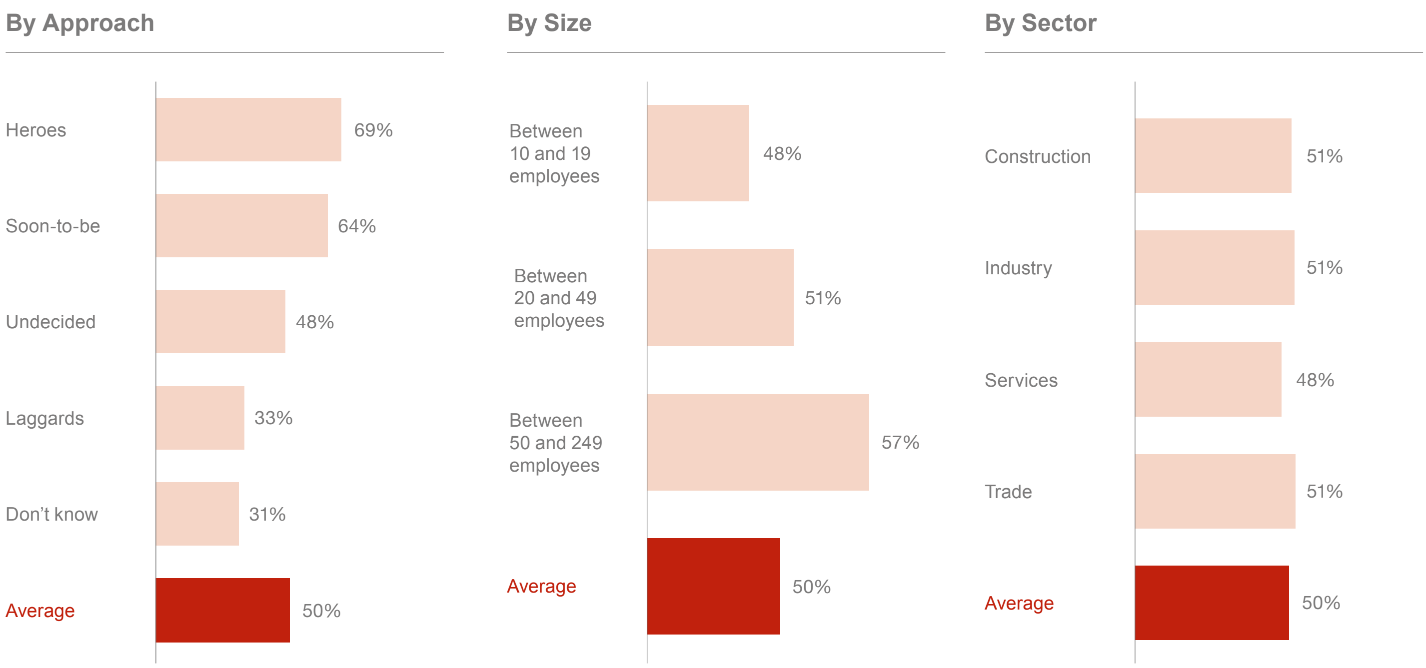
- **From a strategic standpoint**, the data shows a clear link between a company's sustainability commitment and its climate risk awareness. Heroes demonstrate the highest level of risk recognition at 69%, significantly above the average of 50%, while Soon-to-be companies follow at 64%. This suggests that businesses further along in their sustainability journey are also more aware of climate-related risks, likely due to their greater engagement with environmental issues and more advanced risk assessment capabilities.

- **The size-based analysis** provides compelling evidence of how organisational scale influences risk perception. Larger SMEs (50-249 employees) show the highest risk awareness at 57%, followed by mid-sized companies (20-49 employees) at 51%, and smaller enterprises (10-19 employees) at 48%. This trend shows a clear correlation: as companies grow, they likely have more resources for risk assessment and management, while also facing greater regulatory scrutiny and stakeholder expectations, leading to increased risk recognition.

- **The sectoral analysis** reveals smaller differences in risk perception across industries. Construction, industry, and trade sectors all report 51% risk awareness, followed by the services sector at 48%. These modest variations show that climate risk is increasingly recognised as a universal business concern.

The 50% average across all categories indicates that while climate risk awareness has gained significant traction among European SMEs, there is still substantial room for improvement – especially among smaller companies and those in the early stages of their sustainability journey. The considerable gap between Heroes (69%) and Laggards (33%) in risk recognition suggests that enhancing climate risk awareness could be a key driver in advancing broader sustainability initiatives among SMEs.

(Figure 12) *"How aware is your company of the risks related to climate change?"* **- % of SMEs Declaring Being Aware of Climate Change Risk ("Very" + "Fairly subject") in 2025 – by Approach, Size, Sector**



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260

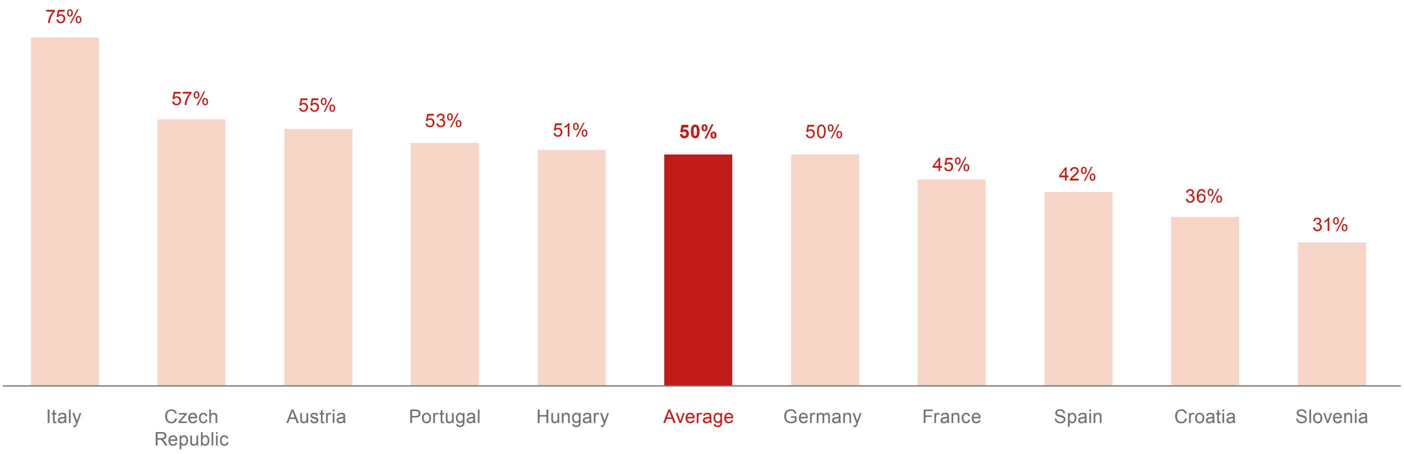
4.3 SMEs’ climate risk awareness by country: geographic disparities highlight the need for harmonised risk assessment approaches

The analysis of climate risk awareness among European SMEs in 2025 (**Figure 13**) reveals significant geographical differences. The substantial variation in risk perception across countries presents both challenges and opportunities for developing harmonised approaches to climate risk assessment and management across the EU.

The data shows a distinct clustering pattern among countries. Italy stands out as the leader, with 75% of SMEs reporting awareness of climate-related risks, significantly above the European average of 50%. This gap indicates that Italian SMEs may perceive more immediate climate-related challenges, which have heightened their awareness.

A second tier of countries, including the Czech Republic (57%), Austria (55%), and Portugal (53%), demonstrates above-average awareness levels, potentially indicating successful national policies or regional factors influencing risk perception. Northern and Central European countries, such as Germany (50%) and Hungary (51%), align with the European average, whereas France (45%) and Spain (42%) show lower awareness levels than expected given their economic development and exposure to climate-related risks. Moreover, a concerning gap exists between the leading and lagging countries, with Croatia (36%) and Slovenia (31%) reporting significantly lower levels of risk awareness.

(Figure 13) *“How aware is your company of the risks related to climate change?”* **- % of SMEs Declaring Being Aware of Climate Change Risk (“Very” + “Fairly subject”) in 2025 – by Approach, Size, Sector**



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260

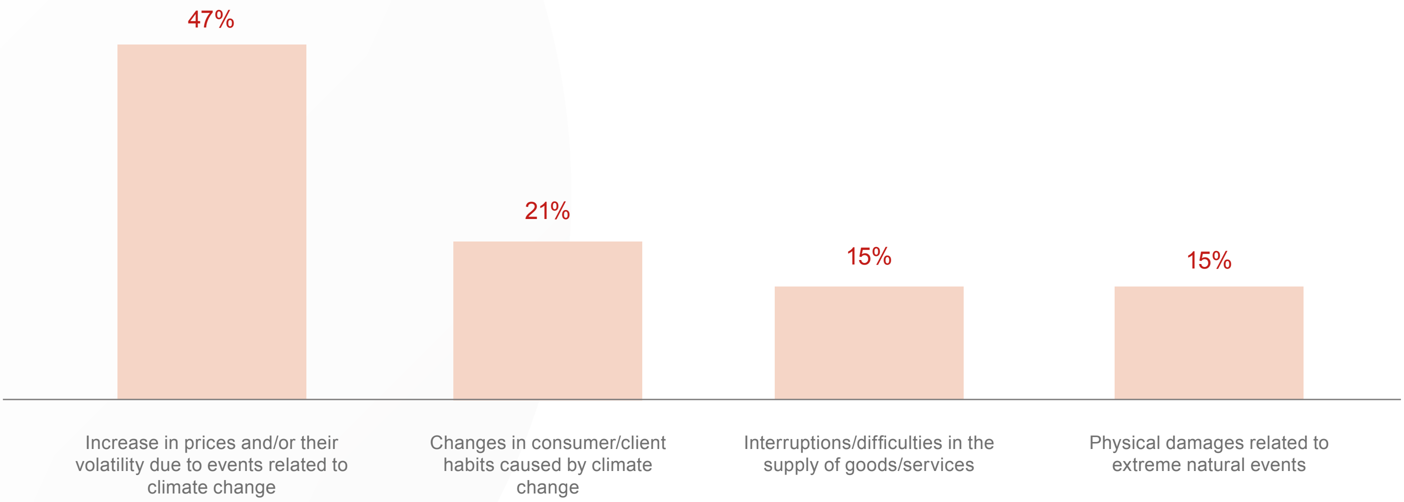
The large gap between the highest – and lowest – performing countries – a 44 – percentage point difference between Italy and Slovenia – highlights the need for more coordinated European approaches to climate risk assessment and awareness building. This variation also suggests that current education and assessment efforts may be fragmented across the EU, potentially leaving some regions more vulnerable to climate-related business disruptions.

These findings underscore the importance of developing unified risk assessment frameworks and support mechanisms, with a particular focus on increasing awareness in underperforming regions while learning from the successful methods implemented in high-awareness countries like Italy.

4.4 Climate risk impact assessment: price volatility emerges as SMEs' primary concern at 47%, while market behaviour shifts and physical risks have less impact

The analysis of climate risk impacts on European SMEs in 2025 (**Figure 14**) reveals a clear hierarchy of concerns, with price volatility emerging as the dominant challenge. The data shows that 47% of SMEs report significant impacts ("very" or "fairly significant") from climate-related price increases and volatility, more than double the concern level for any other category. This pronounced focus on pricing consequences indicates that SMEs are primarily experiencing climate change through its economic and market effects rather than through direct physical impacts.

(Figure 14) *"How significant have the following events been for your company in the last five years?"*
- % of SMEs Declaring the Events Being Significant in 2025 ("Very" + "Fairly significant")



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260

The second tier of impacts centres on changing consumer and client behaviours, with 21% of SMEs reporting significant effects. This finding suggests that while market demand shifts are occurring in response to climate change, they currently pose a moderate challenge compared to pricing pressures. It may indicate that consumer adaptation to climate change is still in its early stages or that businesses have managed to adjust more effectively to evolving consumer preferences than to price volatility.

Perhaps most notably, a relatively small proportion of SMEs report significant operational impacts from climate change – both in terms of supply chain disruptions (15%) and physical damage from extreme weather events (15%). This equal impact highlights that indirect disruptions are perceived as just as challenging as direct physical damages. The relatively low percentage for physical damages could indicate either effective adaptation measures already in place, limited exposure to extreme weather events during the assessment period, or an underestimation of physical climate risks.

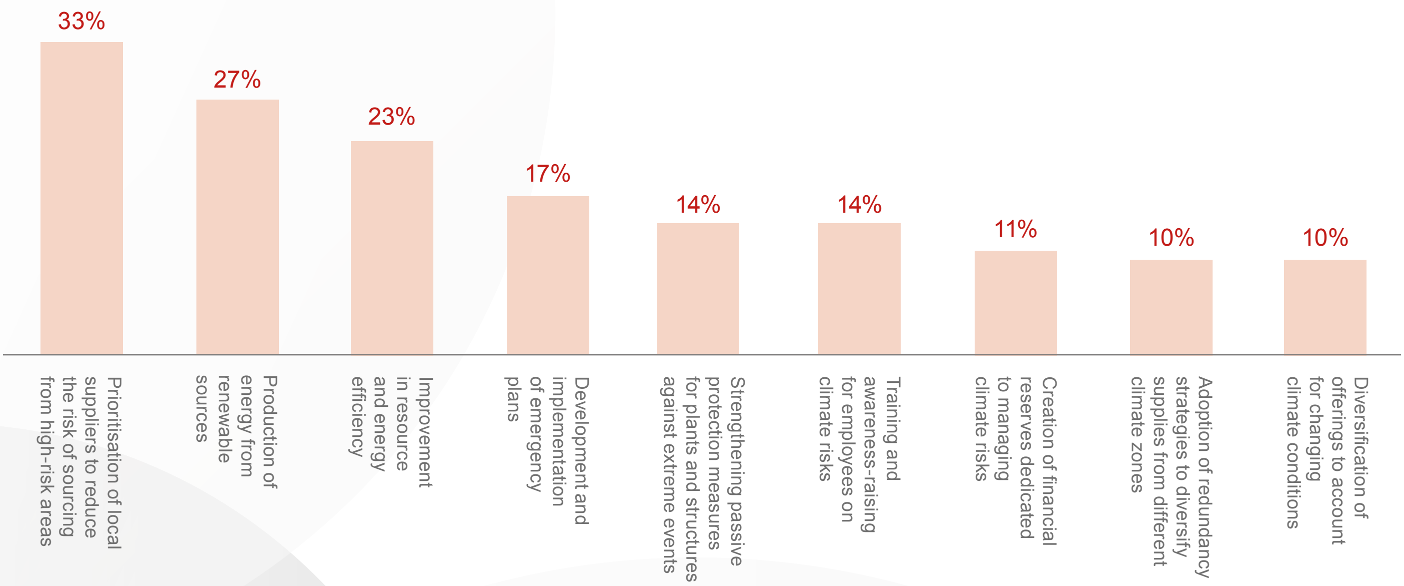
These findings illustrate that climate risk is primarily manifesting through market mechanisms rather than physical impacts, with financial volatility being the primary channel through which European SMEs are experiencing climate change effects. This underscores that immediate policy responses should prioritise market stabilisation and price risk management tools while also preparing businesses for potentially increasing physical risks in the future.

4.5 Strategic response to climate risks: local sourcing leads at 33%, with energy transition (27%) and better efficiency (23%) following, while financial and diversification strategies show lower adoption rates

The analysis of strategic responses to climate risks (**Figure 15**) shows that SMEs favour operational and supply chain measures over financial and diversification strategies. The data indicates that SMEs are primarily focusing on immediate, tangible actions rather than more complex, long-term adaptive measures.

Local sourcing emerges as the dominant strategy, with 33% of SMEs prioritising suppliers from lower-risk areas. This preference likely reflects both a risk management approach and a response to recent supply chain disruptions, indicating that SMEs are actively working to build more resilient supply networks. The second most adopted measure is the production of energy from renewable sources at 27%, followed by resource and energy efficiency improvements at 23%. This cluster of operational measures indicates that SMEs are prioritising actions that can deliver both risk mitigation and potential cost savings.

(Figure 15) *"Which climate change adaptation and risk reduction strategies has your company implemented in the last five years?"* **- % of SMEs Declaring "Very" + "Fairly significant" Adoption in 2025**



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260

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The middle tier of responses focuses on organisational preparedness, with 17% of SMEs developing and implementing emergency plans and 14% investing in physical protection measures and employee training. These moderate adoption rates suggest that while companies recognise the importance of organisational readiness, they may face barriers to implementing more comprehensive risk management approaches.

Perhaps most importantly, the data reveals significantly lower adoption rates for financial and diversification strategies. The creation of dedicated financial reserves (11%), supply chain redundancy or diversification (10%), and product/service diversification (10%) show markedly lower implementation rates. This pattern suggests that SMEs may find these strategies more complex and resource-intensive, making them challenging to implement despite their potential importance for long-term resilience. It may also indicate difficulties related to resource constraints, expertise limitations, or perceived complexity of execution.

Overall, the strategic response trend highlights a potential vulnerability in SMEs' climate risk management approach, as immediate operational measures are prioritised over longer-term adaptive strategies. The findings underscore a need for targeted support to help SMEs develop more comprehensive risk management frameworks that balance both short-term operational improvements and long-term strategic adaptations.

4.6 Strategic response to climate risks by country: geographic variations characterise climate strategy adoption across Europe, with Austria showing consistent leadership across categories while Italy displays a mixed pattern–strong in renewable energy (41%) but lagging in other areas

The geographical analysis of climate risk strategy adoption across European countries in 2025 (**Figure 16**) reveals variations in both overall approaches and specific national priorities. Austria demonstrates consistently high adoption rates across multiple strategic areas, particularly excelling in local supplier prioritisation (46%), resource efficiency (34%), and renewable energy production (32%). This approach suggests that Austrian SMEs have developed a well-structured climate risk management framework.

Italy presents a notably different pattern, characterised by a strong focus on renewable energy production (41%) – the highest rate among all countries for this strategy – but significantly lower adoption rates across other categories. This disparity, with particularly low figures in local supplier prioritisation (13%) and emergency planning (9%), highlights a more targeted rather than comprehensive approach to climate risk management.

The data reveals distinct regional patterns in strategic priorities. Northern European countries, particularly Germany, exhibit more balanced adoption rates across different strategies, with relatively consistent figures in areas such as local sourcing (35%), renewable energy (32%), and resource efficiency (31%). In contrast, Eastern European countries display more varied adoption patterns, with Croatia placing greater emphasis on local sourcing (30%) but showing lower adoption in renewable energy (15%).

Portugal stands out in specific areas, particularly in local supplier prioritisation (43%), while maintaining close-to-average rates across several other categories. Despite being a major economy, Spain shows relatively modest adoption rates across most categories, with its highest figure in local sourcing (28%).

(Figure 16) *"Which climate change adaptation and risk reduction strategies has your company implemented in the last five years?"*
- % of SMEs Declaring "Very" + "Fairly significant" Adoption in 2025

	Austria	Croatia	Czech Republic	France	Germany	Hungary	Italy	Portugal	Slovenia	Spain	Average
Prioritisation of local suppliers	46%	30%	42%	34%	35%	37%	13%	43%	32%	28%	33%
Production of renewable energy	32%	15%	24%	23%	32%	28%	41%	25%	21%	27%	27%
Resource and energy efficiency improvement	34%	18%	25%	18%	31%	25%	18%	23%	15%	24%	23%
Development and implementation of emergency plans	22%	19%	16%	15%	25%	22%	9%	15%	15%	16%	17%
Strengthening passive protection against extreme events	24%	15%	15%	17%	15%	14%	5%	17%	11%	11%	14%
Training and awareness-raising for employees on climate risks	22%	10%	20%	11%	17%	19%	9%	13%	13%	9%	14%
Creation of financial reserves dedicated to manage climate risks	22%	9%	7%	12%	15%	15%	5%	13%	12%	7%	11%
Redundancy supply strategies from different climate zones	19%	5%	20%	6%	10%	11%	3%	17%	9%	9%	10%
Offerings diversification to account for changing climate conditions	17%	8%	9%	7%	13%	10%	4%	16%	5%	11%	10%

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260

The data also highlights a consistent pattern across all countries: more complex or resource-intensive strategies – such as financial reserve creation, supply chain diversification, and product/service diversification – show significantly lower adoption rates. This trend shows that SMEs across Europe face similar challenges in implementing more sophisticated climate risk management strategies, regardless of their geographical location. The average figures across all categories indicate that while basic risk management strategies have gained reasonable traction, more advanced approaches remain at an early stage of adoption across the continent.

4.7 Climate risk transfer strategies: traditional insurance dominates at 31% average adoption, with Heroes leading the pack, while innovative solutions remain underutilised

The landscape of climate risk transfer mechanisms ranges from well-established insurance products to emerging innovative solutions. Survey data from European SMEs (**Figure 17**) reveals varying adoption rates across different tools, reflecting their maturity and market acceptance:

- **Traditional insurance against climate events (31% adoption)**. Traditional insurance remains the primary method of climate risk transfer, providing direct coverage against damages from extreme weather events. For example, a manufacturing company might secure coverage against flood damage to its production facilities, including both structural damage and equipment losses. These policies typically offer standardised coverage with clearly defined terms and conditions for specific climate-related perils.

- **Business interruption insurance (16% adoption)**. This specialised coverage extends beyond physical damage to protect against lost income during operational disruptions. For instance, a retail business affected by severe flooding could receive compensation not only for physical damage but also for lost revenue during the recovery period. This type of insurance has proven particularly valuable for SMEs, where extended downtime can threaten business survival.

- **Public-private partnerships (7% adoption)**. These partnerships represent a more innovative approach to risk management, combining government support with private sector expertise. An example is the French natural catastrophe insurance scheme (CCR), where the government provides unlimited reinsurance backing to private insurers offering natural catastrophe coverage. This model expands coverage availability while maintaining market efficiency.

- **Risk transfer and sharing agreements (7% adoption)**. These arrangements involve direct risk-sharing between business partners. For example, a supplier might agree to share the financial impact of climate-related supply chain disruptions with their customers through contractual agreements. This approach helps distribute risks more evenly across the value chain while strengthening business relationships.

- **Peer-to-peer risk transfer platforms (3% adoption)**. The newest and least utilised solution involves digital platforms that enable direct risk-sharing among businesses with similar risk profiles. While adoption remains low, these platforms offer the potential for more efficient risk transfer, particularly for smaller risks. For instance, a group of small businesses in the same geographic area might pool resources to create a mutual fund for covering climate-related damages.

(Figure 17) *"Which climate risk transfer initiative has your company implemented in the last five years, if any?"*
- % of SMEs Declaring "Very" + "Fairly significant" Adoption in 2025

	Insurance against damages from extreme climate events	Business interruption insurance	Public-private partnership for climate risk management	Risk transfer and sharing agreements with suppliers and customers	Peer-to-peer risk transfer platforms
Avg	31%	16%	7%	7%	3%
Heroes	42%	22%	11%	13%	5%
Soon-to-be	38%	24%	11%	10%	4%
Undecided	32%	17%	4%	6%	3%
Laggards	21%	8%	3%	2%	1%

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260

This contrast between traditional and innovative risk transfer mechanisms signals a significant opportunity for developing and promoting alternative risk management solutions. The data indicates that even the most sustainability-advanced companies could benefit from greater awareness and support in adopting innovative risk transfer strategies. This potentially points to a need for policy interventions or market development initiatives to encourage broader adoption of diverse risk management approaches.

4.8 Climate risk transfer strategies: traditional insurance solutions lead in all countries, while innovative risk transfer mechanisms struggle to gain traction

The geographical analysis of climate risk transfer strategies across European countries in 2025 (**Figure 18**) reveals variations in adoption patterns while highlighting the consistent dominance of traditional insurance solutions across all markets. Germany emerges as the leader in traditional insurance adoption for extreme climate events, with 39% of SMEs implementing such coverage. This is followed by Hungary at 37% and Austria at 33%, suggesting that Central European countries may have more developed insurance markets or greater risk awareness.

In terms of business interruption insurance, the data shows more modest but still significant adoption rates, with Germany and Hungary leading at 21%, followed by Austria (20%).

(Figure 18) *"Which climate risk transfer initiative has your company implemented in the last five years, if any?"*
- % of SMEs Declaring "Very" + "Fairly significant" Adoption in 2025

	Austria	Croatia	Czech Republic	France	Germany	Hungary	Italy	Portugal	Slovenia	Spain	**Average**
Insurance against damages from extreme climate events	33%	34%	27%	27%	39%	37%	27%	32%	31%	27%	31%
Business interruption insurance	20%	15%	18%	15%	21%	21%	16%	15%	9%	11%	16%
Public-private partnership for climate risk management	13%	5%	7%	7%	7%	9%	3%	5%	8%	4%	7%
Risk transfer and sharing agreements with suppliers and customers	13%	6%	7%	7%	9%	10%	3%	6%	5%	3%	7%
Peer-to-peer risk transfer platforms	5%	3%	5%	2%	4%	1%	2%	2%	5%	1%	3%

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260

The findings highlight the limited uptake of innovative risk transfer mechanisms across all countries. Public-private partnerships for climate risk management show particularly low adoption rates, with even the leading country, Austria, reaching only 13% adoption. Similarly, risk transfer and sharing agreements with suppliers and customers remain underutilised, with adoption rates ranging from 13% in Austria to just 3% in Italy. This confirms a significant gap in the development and acceptance of alternative risk transfer mechanisms.

Peer-to-peer risk transfer platforms have the lowest adoption rates across all countries, with no nation exceeding 5% adoption. This consistently low uptake indicates that innovative risk transfer solutions face universal challenges in gaining market acceptance, regardless of geographical location or market maturity. Even in countries with otherwise sophisticated risk management approaches, these novel platforms struggle to gain significant traction.

This pattern of strong conventional insurance adoption, coupled with the limited uptake of innovative solutions, calls for targeted interventions to promote alternative risk transfer mechanisms. The data indicates that even in markets with well-developed insurance sectors, there remains significant potential to expand the range of risk transfer tools available to and utilised by SMEs.

The climate insurance protection gap

The climate insurance protection gap – the uninsured portion of economic losses caused by extreme weather and climate-related events – represents a significant challenge for the European economy. According to the most recent report by the European Central Bank (ECB) and the European Insurance and Occupational Pensions Authority (EIOPA), published in December 2024, **natural catastrophes caused approximately €900 billion in direct economic losses within the EU between 1981 and 2023**. One-fifth of these losses occurred from 2021 to 2023 (€65 billion in 2021; €57 billion in 2022; €45 billion in 2023)[5]. **However, only about a quarter of these losses were insured**, with some countries insuring less than 5% of total damages. According to ECB data, countries with national insurance schemes demonstrate higher insurance coverage rates (47% on average) compared to those without such schemes (below 18%). Several EU member states, including France, Germany, Austria, and Spain, have established mandatory insurance coverage systems that protect businesses against natural catastrophe risks, while Italy is set to launch its national scheme in 2025.

Without appropriate measures to promote and incentivise insurance coverage for climate risks, the protection gap is expected to widen significantly. Developing coordinated insurance mechanisms at both national and EU levels is crucial to enhancing Europe's resilience to climate-related disasters. This widening is driven by Europe's status as the fastest-warming continent and the increasing frequency of extreme weather events. The trend carries significant economic implications, affecting economic recovery, credit risk exposure, and public finances.

Insurance pools have gained significant momentum as a viable solution to address the climate insurance protection gap affecting European SMEs. These pools distribute financial risks across multiple stakeholders, enhancing coverage availability and affordability for smaller clients, especially SMEs. This approach allows insurers to expand their product portfolios and extend their coverage to a broader client base. **Public-private reinsurance schemes**, where governments backstop private insurers to expand coverage, are a key application of (climate) risk pooling. The ECB and EIOPA have proposed an EU-wide public-private reinsurance scheme to pool climate-related risks, aiming to stabilise the insurance market and improve access to coverage[6].

5. *ECB & EIOPA (2024), Towards a European system for natural catastrophe risk management https://www.ecb.europa.eu/pub/pdf/other/ecb.climateinsuranceprotectiongap_EIOPA202412~6403e0de2b.en.pdf*

6. *ECB & EIOPA (2023), Policy options to reduce the climate insurance protection gap https://www.ecb.europa.eu/pub/pdf/other/ecb.policyoptions_EIOPA~c0adae58b7.en.pdf*

Parametric insurance for climate risk transfer

Parametric insurance is an innovative solution to address the significant climate protection gap identified in our research, where only 31% of European SMEs have adopted traditional insurance against climate events. Unlike conventional policies, which require detailed damage assessment, **parametric insurance provides automatic payouts based on predefined objective parameters** (such as rainfall levels, wind speed, or drought duration). This approach offers several strategic advantages for SMEs' risk management. The automatic payout mechanism, triggered by predetermined thresholds, delivers immediate financial support crucial for business continuity. By eliminating uncertainties and delays associated with traditional loss adjustment processes, parametric insurance fosters greater trust in insurance mechanisms among SMEs.

As highlighted by international research[7], **parametric insurance has proven particularly effective in agricultural sectors**, where weather-related triggers can be precisely calibrated to crop cycles and regional climate patterns. This enables farmers to receive compensation quickly when specific weather conditions threaten their yields.

The range of insurable risks through parametric solutions continues to expand as data collection and monitoring technologies advance. Key applications include:

- coverage for excess rainfall and flooding, where payouts are triggered by precipitation levels exceeding predetermined thresholds;
- drought protection, based on rainfall deficits or soil moisture levels;
- extreme temperature events, affecting both agricultural yields and urban business operations;
- wind-related risks, particularly relevant for coastal areas and exposed infrastructure.

Notably, **these solutions can be structured to address both acute events (such as storms or floods) and chronic stresses (such as prolonged dry spells)**, providing comprehensive protection against a broad spectrum of climate-related risks facing SMEs. The objective nature of parametric insurance triggers also makes these products particularly suitable for aggregation through public-private partnerships, potentially increasing their accessibility and affordability for smaller businesses.

7. *UNDP (2024), Building MSME Resilience in Southeast Asia https://www.sme-enterprize.com/wp-content/uploads/2024/03/Building-MSME-Resilience-in-Southeast-Asia.pdf*

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CHAPTER 5

Listening to SMEs: the Support They Need to Aid Their Just Sustainable Transition

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Chapter 5 highlights the growing demand for comprehensive support across all measured categories between 2023 and 2025. Tax incentives emerge as the most requested measure, rising to 78% (+5%), while national subsidised funding shows the strongest growth, reaching 76% (+10%). The analysis reveals a clear hierarchy in support preferences, with financial mechanisms consistently rated as highly relevant by over 70% of SMEs. A cross-country analysis highlights regional variations in support priorities. France, Spain, and Germany show particularly strong demand for tax incentives (86%, 85%, and 80%, respectively), while Italy reports lower demand across most categories. The universal increase in demand across all support categories, ranging from +2% to +10%, displays growing recognition of the need for comprehensive support mechanisms that combine financial assistance with capacity building and market development measures.

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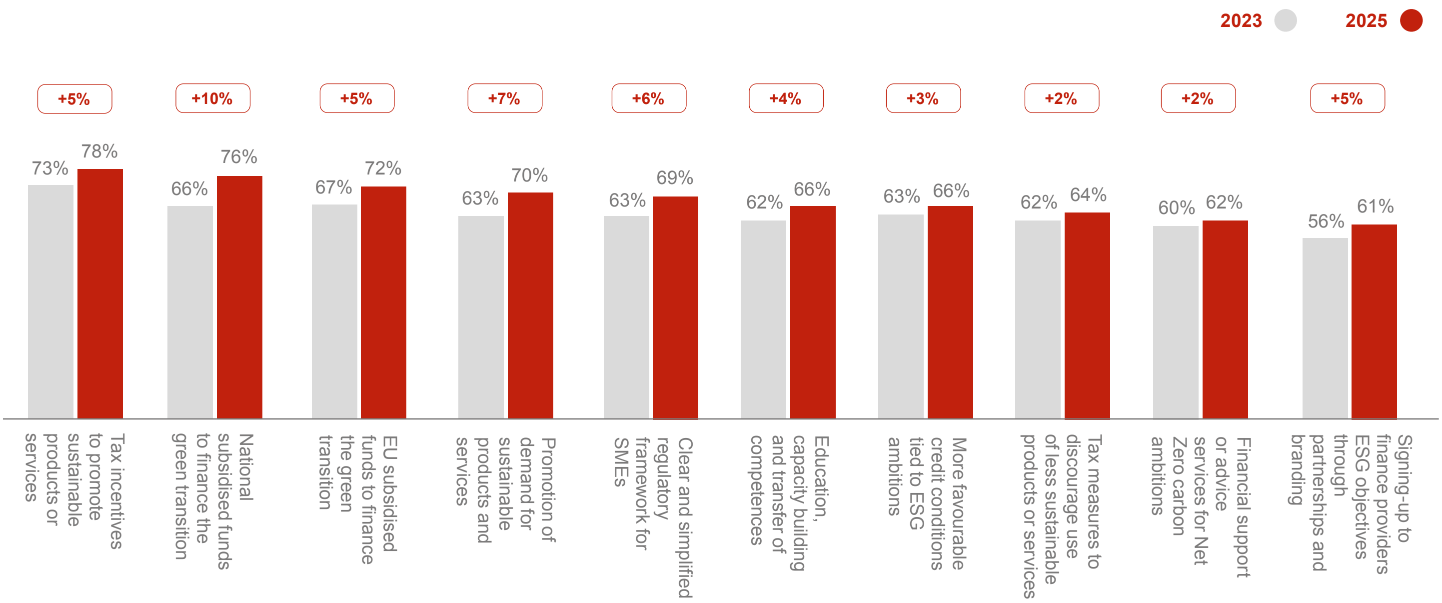
5.1 European SMEs signal a growing need for comprehensive support: tax incentives and public funding lead priorities, with rising demand across all support measures

The analysis of SMEs' support needs between 2023 and 2025 (**Figure 19**) reveals a consistent upward trend across all categories, with financial and regulatory measures emerging as clear priorities. Tax incentives for sustainable products and services stand out as the most requested form of support, increasing from 73% to 78% (+5%), while national subsidised funds for green transition show the most significant growth, rising from 66% to 76% (+10%). This strong preference for financial support mechanisms suggests that SMEs continue to view cost and resource constraints as primary barriers to sustainability implementation.

The data highlights a clear tiered structure in support preferences. The top tier consists of financial support mechanisms, with tax incentives and public funding (both national and EU) consistently rated as highly relevant by over 70% of SMEs. The second tier comprises regulatory and market development measures, including demand promotion (70%) and regulatory framework simplification (69%), both of which show significant increases from 2023.

(Figure 19) How SMEs Ask to Be Supported in 2025 vs 2023 - % of SMEs Declaring the Initiative Relevant ("Very" + "Fairly")



Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260; May 2023 Total N. 1,240

Notably, even the lower-rated support measures show meaningful increases in perceived relevance. Education and capacity-building initiatives rose from 62% to 66% (+4%), while more specialised support mechanisms, such as ESG-linked credit conditions, went up from 63% to 66% (+3%). The smallest increase was observed in financial support for Net Zero carbon ambitions (+2%), though this still reflects a positive trend in recognising the need for climate-specific support.

The universal increase across all categories, ranging from +2% to +10%, indicates a growing sophistication in SMEs' understanding of the support needed for successful sustainability transitions. Rather than focusing solely on financial assistance, companies increasingly acknowledge the importance of a comprehensive support ecosystem that includes capacity building, market development, and specialised financial instruments. This evolution in support preferences suggests that SMEs are developing a more nuanced understanding of the challenges and requirements of sustainability implementation, while continuing to emphasise the fundamental importance of financial and regulatory support mechanisms.

5.2 European SMEs signal a growing need for comprehensive support: cross-country analysis reveals regional variations in supporting priorities and requirements

The geographical analysis of SME support preferences in 2025 (**Figure 20**) reveals regional differences but also some consistent patterns across Europe. Tax incentives and financial support mechanisms remain the top priorities across all countries, though with varying levels of importance. France demonstrates particularly strong demand for tax incentives to promote sustainable products and services (86%), followed by Spain (85%) and Germany (81%), all significantly above the European average of 78%.

National and EU subsidised funding also shows strong support, though with regional variations. National funding support appears particularly crucial in Spain (81%) and Germany (80%), while EU funding is notably prioritised in France (84%) and Portugal (78%). Italy stands out as an exception, showing lower demand in most support categories, particularly EU funding (46%) and demand promotion (39%), possibly due to different market conditions or policy priorities in the region.

The data also highlights variations in regulatory and capacity-building measures. Slovenia demonstrates strong interest in regulatory framework simplification (77%), while Germany places a high value on education and capacity building (79%). These differences confirm that support mechanisms should be tailored to each national context, reflecting varying levels of market maturity and institutional development.

More specialised mechanisms, such as ESG-linked credit conditions and Net Zero ambition support, show generally lower but still significant demand levels across countries. However, differences persist even in these categories, with the Czech Republic showing a stronger preference for favourable credit conditions (76%) compared to Italy's notably lower demand (33%).

The variations in support preferences across countries highlight the importance of developing flexible, regionally adapted support frameworks while maintaining certain core elements – particularly financial incentives and subsidies – that consistently show high demand across all markets. The data indicates that while European SMEs share common needs for sustainability support, the specific types and prioritisation of support mechanisms should be tailored to each country's context and market conditions.

(Figure 20) How SMEs Ask To Be Supported in 2025 by Country - % of SMEs Declaring the Initiative Relevant ("Very" + "Fairly")

	Austria	Croatia	Czech Republic	France	Germany	Hungary	Italy	Portugal	Slovenia	Spain	Average
Tax incentives to promote sustainable products or services	73%	69%	80%	86%	81%	78%	71%	80%	72%	85%	78%
National subsidised funds to finance the green transition	64%	72%	76%	79%	80%	74%	75%	78%	75%	81%	76%
EU subsidised funds to finance the green transition	68%	75%	73%	84%	77%	75%	46%	78%	73%	76%	72%
Promotion of demand for sustainable products and services	70%	61%	76%	79%	79%	69%	39%	76%	73%	79%	70%
Clear and simplified regulatory framework for SMEs	67%	74%	78%	76%	71%	71%	35%	74%	77%	77%	69%
Education, capacity building and transfer of competences	71%	70%	70%	73%	79%	66%	25%	76%	73%	67%	66%
More favourable credit conditions tied to ESG ambitions	65%	63%	76%	73%	74%	66%	33%	71%	72%	70%	66%
Tax measures to discourage use of less sustainable products	63%	65%	59%	71%	75%	69%	36%	68%	65%	74%	64%
Financial support or advice services for Net Zero carbon ambitions	65%	61%	64%	69%	69%	65%	33%	70%	55%	73%	62%
Signing-up to finance providers ESG objectives through partnerships	60%	62%	69%	69%	67%	64%	26%	66%	62%	67%	61%

Source: SDA Bocconi Sustainability Lab survey for SME EnterPRIZE - January-February 2025 Total N. 1,260

The EU Competitiveness Compass: a strategic response to SMEs' sustainability transition needs

The EU Competitiveness Compass[8], released on January 29, 2025, is a comprehensive Communication from the European Commission aimed at strengthening European competitiveness and providing a framework to guide policy actions over the next five years. The Compass emerges at a critical juncture, addressing concerns about Europe's global competitive position and the need to accelerate sustainable transition while maintaining economic strength. This policy document acknowledges that while SMEs form the backbone of the European economy, they face significant challenges in implementing sustainability strategies and remaining competitive in an increasingly complex global landscape. The Compass directly responds to the main barriers identified by SMEs through a multi-faceted approach.

Recognising financial constraints as a primary obstacle for SMEs, the Compass proposes the creation of a Savings and Investment Union and introduces new financial instruments tailored to SMEs. These instruments include improving access to venture capital and equity financing, addressing the current overreliance on bank financing that often limits SMEs' ability to invest in sustainable transitions.

On the regulatory front, the Compass commits to a substantial reduction in administrative burden, targeting a 25% decrease for all companies and an enhanced 35% reduction specifically for SMEs.

This is implemented through a series of simplification packages, the first of which, the Sustainability Omnibus package[9], was introduced on February 26, 2025. Its directive proposals include a focus on simplifying sustainable finance reporting, sustainability due diligence, and taxonomy requirements[10].

Among its key provisions, the measure eliminates mandatory sustainability reporting obligations for listed SMEs while strengthening the "value-chain cap" to protect all businesses with fewer than 1,000 employees from excessive information requests from larger companies in the supply chain (the so-called "trickle-down" effect). These changes aim to create a more proportionate regulatory environment, allowing small businesses to focus on sustainable growth rather than administrative compliance.

8. *European Commission (2025), A Competitiveness Compass for the EU, Brussels, 29.1.2025 COM(2025) 30 final https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025DC0030*

9. *European Commission (2025), Proposal for a Directive of the European Parliament and of The Council Amending Directives 2006/43/EC, 2013/34/EU, (EU) 2022/2464 and (EU) 2024/1760 as regards certain Corporate Sustainability Reporting and Due Diligence Requirements Brussels, 26.2.2025 COM(2025) 81 final 2025/0045 (COD) https://commission.europa.eu/document/download/892fa84e-d027-439b-8527-72669cc42844_en?filename=COM_2025_81_EN.pdf*

10. *https://ec.europa.eu/commission/presscorner/detail/en/qanda_25_615*

The Compass also acknowledges SMEs' call for enhanced public support by proposing a coordinated approach between EU and national policies through the **Competitiveness Coordination Tool**. This mechanism aims to better align support measures across different governance levels, potentially making it easier for SMEs to navigate and access available resources. The proposed European Competitiveness Fund further strengthens this support structure by providing dedicated funding for strategic technologies and manufacturing capabilities.

The success of this initiative will largely depend on its effective implementation and the ability to translate its strategic vision into practical, accessible support for SMEs of all sizes and sectors. The emphasis on regular monitoring and reporting through the Annual Single Market and Competitiveness Report signals a strong commitment to ensuring the framework's effectiveness and adaptability to evolving needs.

This comprehensive policy approach, combining financial support, regulatory simplification, and capacity building, represents a significant step towards addressing the barriers and support needs identified by European SMEs in their sustainable transition journey. Its successful implementation will be crucial for achieving the EU's broader objectives of maintaining global competitiveness while advancing toward a sustainable, climate-neutral economy.

The Clean Industrial Deal: an opportunity to accelerate the sustainable transition of European SMEs

The Clean Industrial Deal[11], presented by the European Commission on February 26, 2025, offers a strategic framework to help enterprises, including SMEs, overcome the barriers they face in their sustainable transition. Conceived as a development strategy that integrates climate action and competitiveness, the Deal proposes measures that directly address the challenges identified by SMEs in our research.

Financial barriers and public incentives. The Deal introduces several innovative funding mechanisms to address the lack of public incentives and limited access to sustainable finance. **A pilot programme aims to provide financial guarantees** for Power Purchase Agreements (PPAs), **specifically focusing** on SMEs and energy-intensive industries. The simplification of State aid rules through the Clean Industrial Deal State Aid Framework should complement the pilot programme by introducing options to facilitate rapid approval of decarbonisation support measures. The Commission also issues recommendations to Member States on **adopting fiscal incentives, such as accelerated depreciation for clean technologies**, while also enhancing InvestEU's risk capacity to mobilise approximately 50 billion euros in additional financing for sustainable projects.

Regulatory and administrative complexity. The Deal includes substantial reforms to streamline processes and reduce administrative burdens in response to regulatory and institutional complexity. The Industrial Decarbonisation Accelerator Act aims to simplify authorisation procedures related to energy access and industrial decarbonisation, making it easier for smaller companies to implement sustainability projects.

Promotion of public sustainable demand. Additionally, the harmonisation of public procurement criteria through the introduction of non-price criteria would prioritise sustainability in public tenders, creating more opportunities for SMEs offering sustainable products and services.

11. *European Commission (2025), The Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation, Brussels, 26.2.2025 COM(2025) 85 final https://commission.europa.eu/document/download/9db1c5c8-9e82-467b-ab6a-905feeb4b6b0_en*

Circular economy and resources. The Deal addresses challenges related to material access and circularity, a crucial element for SMEs, through a comprehensive approach to resource efficiency. The forthcoming Circular Economy Act, expected in 2026, aims to accelerate the transition towards circular business models by enabling the free movement of secondary raw materials and circular products across the Single Market.

Skills and labour market. To support the development of skills necessary for the sustainable transition, the Deal proposes extensive education and training initiatives. The Union of Skills initiative focuses on lifelong learning and vocational training, ensuring that SMEs can access the expertise they need to remain competitive in the transition to an increasingly digital world and a greener economy.

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CHAPTER 6

A Roadmap to Foster the Just Sustainable Transition of European SMEs

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Chapter 6 presents recommendations for supporting and accelerating SMEs' sustainable transition progress, addressing both policy and financial sector interventions.

For policymakers, the priorities include regulatory simplification to reinforce and build upon demonstrated ESG commitment, enhanced public incentives to support continued progress and address key challenges cited by SMEs, and capacity-building efforts targeted at institutional stakeholders and SMEs to scale successful practices.

The financial sector recommendations focus on developing more targeted financial instruments to narrow the significant protection gap in climate risk insurance and taking a more proactive advisory role to engage the 56% of SMEs yet to implement ESG strategies. The recommendations also emphasise the need for tailored approaches that recognise the varying capabilities of SMEs across business sizes, from small enterprises to medium-sized companies.

These interventions aim to overcome current adoption barriers while fostering a more inclusive and effective sustainable transition for European SMEs.

6.1 Building on SMEs' ESG resilience: key recommendations for policymakers and the financial sector to support and accelerate sustainable transition

A. Recommendations for policymakers

A1. Regulatory simplification and proportionality

Our data shows that 53% of European SMEs identify institutional complexity as a significant barrier to sustainability adoption. This challenge is particularly pronounced among smaller enterprises, which show a 36% adoption rate of sustainable strategies, compared to 65% for medium-sized companies. This gap reflects not only differences in reporting capabilities but also the greater difficulty smaller firms face in navigating the bureaucratic and administrative complexities associated with implementing sustainability projects.

The analysis of regulatory and institutional complexity as a barrier to SMEs' sustainable transition requires a broader perspective beyond ESG reporting requirements. While frameworks like the EFRAG VSME standards have introduced gradual and voluntary sustainability reporting approaches, regulatory and bureaucratic challenges extend across multiple operational areas crucial for an effective sustainable transition.

SMEs encounter complex and fragmented authorisation processes when seeking to install renewable energy systems, implement circular economy initiatives, obtain environmental certifications, or access public incentives for energy efficiency improvements. The involvement of multiple authorities, layered regulations, and procedural complexity represents a significant obstacle, particularly for smaller organisations with limited resources and expertise.

For this reason, policymakers need to develop an approach focused on regulatory simplification and proportionality that extends beyond ESG reporting.

This approach could include:

- **rationalisation and standardisation of authorisation processes for sustainability projects**, with simplified procedures and defined timelines. This would help SMEs better plan and execute their sustainability initiatives while reducing administrative uncertainty and delays.
- **introduction of "fast-track" paths for SMEs** seeking certifications and incentives, with requirements calibrated to their actual capabilities. This acknowledges that smaller enterprises require different treatment than larger organisations when accessing sustainability-related opportunities.

- **Effective coordination between different administrative levels** to eliminate duplications and overlaps, ensuring that SMEs do not face redundant requirements from different authorities when implementing sustainability initiatives.

A broad-spectrum simplification approach is the only way to remove the obstacles that currently limit SMEs, especially smaller enterprises, from achieving their sustainability objectives. The challenge is not just making ESG reporting more accessible but creating a regulatory and administrative environment that facilitates the practical implementation of sustainable projects and initiatives.

A2. Enhanced public incentives

European SMEs' transition towards sustainability has demonstrated remarkable resilience, with 44% of companies actively pursuing ESG strategies. However, the lack of public incentives remains a significant barrier, identified by 54% of SMEs as a core challenge. To consolidate progress and accelerate adoption, a more targeted and strategic support system is needed.

A multi-pronged approach to public incentives should be designed, balancing financial stimulus with regulatory and market-based mechanisms.

A key element of this strategy is targeted tax incentives, which can make sustainability investments more financially attractive. These incentives should encourage businesses to adopt more sustainable production and consumption models, particularly in areas such as energy efficiency, circular economy practices, and CO_2 emissions reduction. Several measures can be deployed to achieve this, including enhanced tax deductions for expenditures on low-impact technologies, accelerated depreciation schemes for investments in green infrastructure, and tax credits for ESG-driven business models that significantly improve sustainability performance.

Beyond tax benefits, SMEs require dedicated financial mechanisms to support their sustainability transition. This is evident from the strong growth in demand for national and EU subsidised funding. Support for national funding increased by 10% reaching 76%, while demand for EU funding rose by 5% reaching 72%. However, despite the existence of numerous European and national programmes, complex procedures and lack of coordination across different administrative levels often hinder the effectiveness of these initiatives. The European Union has recognised these challenges through the recent EU Competitiveness Compass initiative, which introduces measures to reduce administrative burdens.

To build upon these efforts, public support systems should focus on harmonising requirements across different financial initiatives, creating streamlined application procedures to facilitate SME access to funding, and establishing clear coordination between EU, national, and regional support programmes to prevent fragmentation. **A harmonised approach would help ensure that existing funding reaches SMEs more effectively while maintaining appropriate oversight and accountability**.

A3. Enhanced institutional stakeholder capacity for SME support

The effectiveness of sustainability support mechanisms for SMEs critically depends on the capacity of international and national institutional stakeholders to design and implement appropriate initiatives. The White Paper's findings reveal that 53% of SMEs identify institutional support gaps as a major barrier. These figures indicate a pressing need to enhance public institutions' ability to support SMEs in their sustainable transition. To address this, targeted capacity-building programmes are required at the European, national, and regional levels to improve institutions' ability to understand and respond to SMEs' needs.

This effort should include specialised training for civil servants on sustainability challenges specific to SMEs, with a focus on the distinct needs of different business segments.

A key priority is equipping public administrators with the skills to streamline administrative procedures while maintaining necessary oversight. This aligns with the EU Competitiveness Compass initiative, which aims to reduce administrative burden by 25% for all companies and by 35% specifically for SMEs. Public administrators should receive training in digital tools and simplified procedures that can make support programmes more accessible while ensuring effective resource allocation.

Improving cross-departmental coordination is essential to eliminating the fragmentation of support initiatives that often confuses SMEs. One potential solution is the creation of dedicated SME sustainability liaison offices within public administrations. Staffed by officials trained in both sustainability requirements and SME operations, these offices would serve as single points of contact, helping to bridge the current gap between available support and SME access.

This enhanced institutional capacity would enable public administrations to transition from being perceived as sources of bureaucratic complexity to effective facilitators of SMEs' sustainable transition, ultimately supporting the broader objectives of European sustainability policy.

A4. SMEs' engagement and capacity building

Developing effective engagement and capacity-building instruments is crucial for accelerating SMEs' sustainable transition. With 66% of SMEs identifying education and capacity building as relevant support measures (+4% from 2023), a comprehensive approach addressing organisational, economic, and social innovation is essential for driving meaningful change.

These programmes should focus on practical implementation challenges, helping companies develop the organisational capabilities needed for sustainable transition. This includes support for developing new business models, implementing effective reporting systems, and managing stakeholder relationships.

Where available, regional innovation centres should serve as knowledge-transfer hubs, leveraging the experiences of sustainability leaders who have demonstrated significantly higher adoption rates across key initiatives.

These centres should work closely with other businesses as well as networking players, such as **trade associations and chambers of commerce, which play a vital role as intermediary bodies in promoting sustainability awareness and providing practical support to SMEs**. With their established networks and deep understanding of local business ecosystems, they are uniquely positioned to facilitate knowledge transfer and best practice sharing among their members. These actors should be empowered to act as key facilitators in this process, bridging the gap between support programmes and SMEs. Their role should extend beyond traditional advocacy to include active participation in programme design and implementation. By leveraging these established networks, support programmes can more effectively reach and engage SMEs across different sectors and size categories, helping to address disparities in sustainability adoption between larger SMEs and smaller enterprises.

This comprehensive approach to innovation support and capacity building, working through established intermediary bodies and focusing on practical implementation, would provide SMEs with the tools and knowledge needed to advance their sustainability initiatives while building long-term resilience in an increasingly complex business environment.

B. Recommendations for the financial sector

B1. Tailored financial products

The financial sector should respond more effectively to SMEs' sustainable financing needs, as 53% report insufficient access to dedicated sustainable finance options. This also represents a market opportunity to develop more sophisticated and targeted products.

Financial institutions should design sector- and size-specific financing solutions that account for the varying sustainability challenges and opportunities across industries and SME sizes. This could include starter products with simplified terms for smaller enterprises, progressing to more advanced instruments with stronger ESG-linked incentives for larger companies.

Performance-based financing mechanisms should link favourable terms to measurable ESG targets, creating tangible incentives for sustainability improvement. The research indicates that companies with strong ESG performance already benefit from better credit conditions (63%, +8% from 2023) and improved insurance terms (61%, +10%), suggesting that sustainable business practices contribute to risk reduction. To build on this trend, **financial institutions should develop standardised ESG assessment frameworks that enable consistent evaluation while remaining proportionate to company size and sector**.

By developing such nuanced financial products, the sector can help bridge the current financing gap while promoting sustainable business practices across the SME landscape. This approach would not only support individual companies' transition efforts but also contribute to broader market transformation towards sustainability.

B2. Innovative climate risk management

The significant protection gap in climate risk coverage among European SMEs, with only 31% having adopted traditional insurance solutions, presents both a challenge and an opportunity for the financial sector. This gap is particularly concerning given that half of SMEs acknowledge their exposure to climate-related risks, yet most lack adequate protection mechanisms.

The financial sector has a unique opportunity to position itself as a strategic partner in enhancing SMEs' resilience to climate risks. This role becomes increasingly critical as businesses face growing acute or chronic climate-related challenges. The combination of direct physical threats, operational disruptions, and broader market effects creates a complex risk landscape that requires comprehensive management strategies. As climate patterns become increasingly unpredictable, developing robust resilience measures becomes essential for ensuring business continuity and long-term sustainability in the SME sector.

Public-private partnerships offer a promising way to expand climate risk coverage. **Financial institutions should collaborate with public authorities to develop frameworks that make risk protection more accessible and affordable, particularly for smaller businesses**. This could involve innovative solutions such as parametric insurance products and new risk-sharing mechanisms, including insurance risk pooling schemes, tailored to specific business needs and sectors.

By developing innovative risk management solutions through public-private collaboration, the sector can help bridge the current protection gap while supporting SMEs in building long-term resilience. This approach would not only secure new business opportunities for financial institutions but also contribute significantly to the overall stability and sustainability of the SME sector.

B3. Proactive engagement and support

The financial sector, including both banks and insurance companies, has a significant opportunity to accelerate SME sustainability adoption through enhanced advisory services and strategic support. **With 56% of SMEs yet to implement ESG strategies, financial institutions can play a transformative role by moving beyond traditional financing and risk coverage to become trusted advisors in the sustainability transition process**.

To achieve this, financial institutions should develop comprehensive advisory programmes that combine sustainability expertise with a deep understanding of SME operations. Banks can guide SMEs on sustainable financing options and investment strategies, while insurers can offer valuable insights into risk assessment and mitigation. This expanded role should include technical guidance on sustainability implementation, support in identifying relevant funding opportunities, and strategic planning for long-term transition.

To maximise their impact, financial institutions should strengthen their engagement with key public and private sector stakeholders. By working within the broader sustainability support ecosystem, financial institutions can help create more coordinated and effective assistance for SMEs.

This systematic approach is particularly crucial for reaching Laggards and Undecided companies, which may require more comprehensive support to begin their sustainability journey.

This proactive advisory approach, supported by ecosystem partnerships, would enable financial institutions to drive broader transformation of the SME sector while developing deeper, more valuable relationships with their clients. By helping companies navigate their sustainability journey, financial institutions can build long-term partnerships that benefit both the SME sector and their own strategic objectives.

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APPENDIX

Country Overview

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The findings indicate that, while European SMEs recognise the value of implementing an ESG approach, financial and regulatory barriers persist, preventing widespread adoption. Tailored support mechanisms, such as improved financing options and streamlined regulations, remain necessary to advance sustainability transitions. Climate risk is moderately acknowledged by European SMEs; however, their mitigation strategies currently appear to be constrained. Coverage against extreme climate events remains the primary climate risk transfer strategy for European SMEs in 2025.

ESG adoption and progress

The European average for ESG adoption (Heroes + Soon-to-be) remains stable at 44% between 2023 and 2025, with country variations. Austria (52%) and Portugal (51%) lead in implementation rates in 2025, while Germany and Italy slightly recede from their leading 2023 positions. Croatia (31%) and Slovenia (32%) report significantly lower adoption rates. However, Slovenia records substantial growth, with a 14% increase in ESG adoption compared to its last recorded results in 2020.

Barriers to implementation

Institutional and financial support emerge as the primary challenges across countries though with regional variations. Eastern European countries such as Slovenia (66%), Hungary (64%), and the Czech Republic (63%) report higher concerns regarding public incentives and institutional support. Meanwhile, Western European nations, particularly France, show lower barrier perceptions, suggesting a more developed support ecosystem.

Benefits realisation

Despite these challenges, SMEs report significant benefits from ESG practices, particularly regarding environmental impact, risk management, and employee satisfaction. The Czech Republic (93%), Slovenia (89%) and Portugal (88%) stand out for improvements in environmental impact. France exhibits strong management satisfaction at 90%, while Germany records notable gains in employee satisfaction at 84%. Austria and Hungary (both 84%) also emphasise better environmental impact (84%), which is associated with improved risk management and efficiency gains.

Support priorities

Tax incentives emerge as the dominant support request across most countries, with particularly strong demand in France (86%), Spain (85%), and Germany (81%). EU-subsidised funds are particularly sought after in Croatia, where 75% of SMEs consider them relevant for financing their green transitions. Meanwhile, Italian SMEs appear to prioritise national subsidised funds. In Slovenia, regulatory simplifications are a high priority, with 77% of SMEs highlighting the need for clearer and simplified regulations.

Climate risk management

Climate risk awareness varies significantly across European SMEs, with the average rate standing at 50%. Italy is the forerunner with 3 out of 4 SMEs acknowledging climate risk exposure. The Czech Republic (57%) and Austria (55%) follow, while in Croatia (36%) and Slovenia (31%), climate risk awareness remains lower.

Strategic response to climate risk

In response to climate risks, SMEs primarily focus on operational strategies, particularly by prioritising local suppliers, a dominant approach in Austria (46%) and Portugal (43%). Renewable energy production is another key strategy, particularly in Italy, where 41% of SMEs report implementing this measure. Finally, insurance coverage against extreme climate events remains a widely adopted risk transfer strategy, with German SMEs (39%) reporting the highest adoption rate.

Country Overview (main aspects investigated)	Austria	Croatia	Czech Republic	France	Germany	Hungary	Italy	Portugal	Slovenia	Spain
ESG adoption Heroes + Soon-to-be *2025 vs 2023* *2025 avg. 44%* *2023 avg. 44%*	52% (+9%)	30% (-1%)	40% (+5%)	42% (+3%)	49% (-5%)	45% (+7%)	47% (-5%)	51% (+2%)	32% (+14%)*	47% (+4%)
Main barriers to ESG adoption (% of SMEs declaring "Very important" + "Important")	Lack of institutional support (regulation, bureaucracy) (48%)	Lack of sustainable finance for SMEs (63%)	Lack of institutional support (regulation, bureaucracy) (63%)	Lack of clear legislative framework (46%)	Lack of institutional support (regulation, bureaucracy) (54%)	Lack of public incentives (64%)	Lack of public incentives (53%)	Lack of sustainable finance for SMEs (61%)	Lack of public incentives (66%)	Lack of sustainable finance for SMEs (63%)
Benefits from ESG adoption (% of SMEs declaring "Very positive" + "Positive" benefits)	Better environmental impact / Better risk management (84%)	Better environmental impact (88%)	Better environmental impact (93%)	Management satisfaction (90%)	Better environmental impact / Employees satisfaction (84%)	Better environmental impact / Better efficiency (76%)	Better environmental impact (71%)	Better environmental impact (88%)	Better environmental impact (89%)	Better environmental impact (86%)
Priority requests for support (% of SMEs declaring the initiative "Very relevant" + "Fairly relevant")	Tax incentives to promote sustainable products or services (73%)	EU subsidised funds to finance the green transition (75%)	Tax incentives to promote sustainable products or services (80%)	Tax incentives to promote sustainable products or services (86%)	Tax incentives to promote sustainable products or services (81%)	Tax incentives to promote sustainable products or services (78%)	National subsidised funds to finance the green transition (75%)	Tax incentives to promote sustainable products or services (80%)	Clear and simplified regulatory framework for SMEs (77%)	Tax incentives to promote sustainable products or services (85%)
Climate risk awareness *2025 avg. 50%*	55%	36%	57%	45%	50%	51%	75%	53%	31%	42%
Strategic response to climate risk (% of SMEs declaring "Very significant" + "Fairly significant" adoption in 2025)	Prioritisation of local suppliers (46%)	Prioritisation of local suppliers (30%)	Prioritisation of local suppliers (42%)	Prioritisation of local suppliers (34%)	Prioritisation of local suppliers (35%)	Prioritisation of local suppliers (37%)	Production of renewable energy (41%)	Prioritisation of local suppliers (43%)	Prioritisation of local suppliers (32%)	Prioritisation of local suppliers (28%)
Climate risk transfer strategies (% of SMEs declaring "Very significant" + "Fairly significant" adoption in 2025)	**Insurance against damages from extreme climate events Avg. 31%**									
	33%	34%	27%	27%	39%	37%	27%	32%	31%	27%

** Note: 2025 vs 2020 for Slovenia*

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Survey Methodology

A mixed methodology was used, combining CATI (Computer-Assisted Telephone Interviewing) with CAWI (Computer-Assisted Web Interviewing) to ensure optimal coverage. Regarding the sampling plan, the latest Eurostat data on European enterprises was used to develop a reasoned, country-by-country approach, ensuring representative coverage by macro-sector and employee class. The interviews were conducted between January and February 2025. The main preliminary results and insights were shared and discussed with representatives of EU institutions.

Number of Employees	Austria	Croatia	Czech Republic	France	Germany	Hungary	Italy	Portugal	Spain	Total
From 10 to 19	68	69	60	92	91	69	80	67	94	690
From 20 to 49	36	35	40	47	47	35	45	37	48	370
From 50 to 249	16	16	20	21	22	16	35	16	18	180
Total	**120**	**120**	**120**	**160**	**160**	**120**	**160**	**120**	**160**	**1240**

Sector	Austria	Croatia	Czech Republic	France	Germany	Hungary	Italy	Portugal	Spain	Total
Construction	20	21	15	28	27	17	22	18	22	190
Industry	20	34	37	29	30	28	44	34	33	289
Services	52	41	42	66	63	45	61	39	67	476
Trade	28	24	26	37	40	30	33	29	38	285
Total	**120**	**120**	**120**	**160**	**160**	**120**	**160**	**120**	**160**	**1240**

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