ESG VISION FOR SGBs

LEGAL FRAMEWORKS IN 10 COUNTRIES

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Executive Summary

The adoption of Environmental, Social and Governance (ESG) standards is relevant not only because investors are more inclined to consider them in their investment decisions but also due to their potential positive impact on sustainable development. While ESG implementation is still mostly voluntary, governments around the world are increasingly integrating these standards into their legal frameworks. Thus, understanding how the law supports ESG adoption becomes essential. However, the law alone is not sufficient to ensure that companies apply these standards. Investment is also needed to guarantee that the impact of ESG practices is long-lasting.
In this paper we present our findings on how legal frameworks of 10 countries support ESG standards implementation, and what funding alternatives are available, particularly to small and medium enterprises (SMEs).

Key Findings

Key Finding 1: While legal provisions to advance ESG adoption may exist, their enforcement is lacking even in countries with most advanced legal frameworks.

We found that even in the least advanced legal frameworks there are laws and regulations that support the adoption of ESG standards related to gender, climate and decent work. Yet, because enforcement varies across the sample, a gap between these legal provisions and actual practices is created and will remain until the level of enforcement improves.

Key Finding 2: Penalties appear to predominate as measures to promote ESG standards but may not be the most effective mechanisms available.

Negative incentives appear to be a widespread mechanism for managing non-compliance with ESG regulation. Yet, in the context of low enforcement, these mechanisms may prove ineffective. In contrast, cases such as the Broad-Based Black Economic Empowerment Act (BBBEE) in South Africa offer evidence of positive mechanisms like awards or recognitions, that led to the implementation of ESG criteria.

Key Finding 3: Disclosure is a necessary condition but insufficient to ensure ESG adoption.

Legal frameworks studied tend to put some emphasis on disclosure of ESG topics, and while such practice is relevant to know the current situation and evaluate the performance of ESG initiatives deployed, its usefulness depends on the accuracy and reliability of what is disclosed.

Key Finding 4: The existence of mandates for ESG adoption contrasts with the lack of resources available to support their implementation in SMEs.

SMEs are less prepared to implement ESG standards because they have fewer resources available for such initiatives (World Economic Forum, 2025). Thus, external funding may be critical to ensure they adopt these practices. Furthermore, whenever funding was found to be available for this type of business, access was deemed complex due to bureaucratic processes for application among other aspects.

Key Finding 5: The social aspects in ESG appear to receive less attention in favor of environmental topics.

Although the ESG framework gives the same relevance to the social, environmental and governance dimensions, in practice, it seems that there are more laws that address environmental issues.

Key Finding 6: Public-private alliances constitute a mechanism with the potential to reinforce existing regulations for ESG adoption and channel funding more effectively.

Various cases indicate that companies can collaborate with governments to channel resources to advance ESG adoption. The case of Coppel in Mexico is an example of how local governments could help scale and facilitate private sector initiatives that aim to develop technical capabilities in small businesses. Furthermore, if these initiatives were to integrate ESG topics as a priority, SMEs could access the tools they currently lack to take the first steps in their sustainability journey. Such approach would enable the advancement of ESG-related targets despite the current lack of governmental funding.

The case of BanCO_2 also shows that governments could function as an effective intermediary that connects business funds for environmental conservation with the people who provide environmental services, enhancing projects' impact scope towards the social dimension of ESG.

Key Finding 7: Digitalization and centralization of government procurement appear promising for developing smaller companies and ensuring compliance with ESG regulations.

We found success cases in Canada and Germany that show that a centralized approach for procurement could ease access to opportunities to supply government agencies given that certain ESG standards are met. At the same time, these initiatives enhance transparency of government spending that supports sustainable suppliers. Moreover, when such platforms for responsible procurement are used to promote learning and inspiration from peer experiences, their impact can potentially multiply.

Key Finding 8: Setting targets for ESG supporting initiatives at the government level not only creates accountability but helps evaluate the efficacy of current governmental initiatives to advance ESG standards implementation.

An example from Australia illustrates how government initiatives that aimed to benefit indigenous businesses were strengthened by setting specific targets, communicating them to the public and using them to continuously improve.

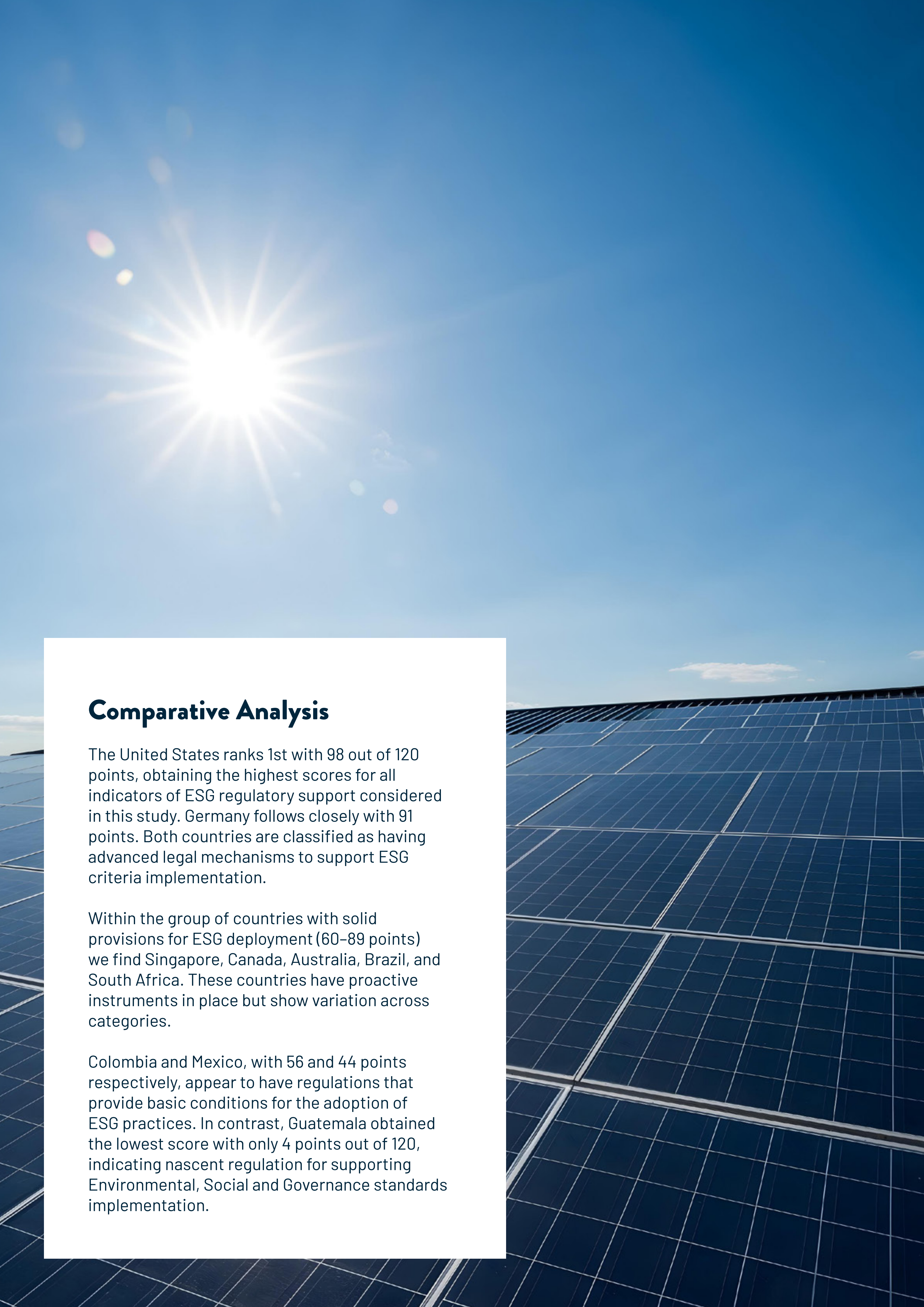
Introduction

This article presents the results of research conducted by ANDE, TrustLaw, Thomson Reuters Foundation, and legal teams of law firms in 10 countries: Hogan Lovells in Australia, Mexico, and Singapore; Clifford Chance LLP in the United States; Machado, Meyer Sendacz e Opice in Brazil; Muñoz Tamayo y Asociados in Colombia; Bowmans in South Africa; Consortium Legal in Guatemala; McInnes Cooper LLP in Canada; and Allen and Overy LLP in Germany.

The evolution of ESG regulation at the national level has been shaped by international frameworks and standards. Key references include the UN Guiding Principles on Business and Human Rights (2011), the OECD Guidelines for Multinational Enterprises, ILO core labor conventions on decent work, and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. More recently, the European Union's Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive have set new benchmarks that influence regulatory approaches globally, including in countries covered by this study.

This study focuses on small and medium enterprises (SMEs), including small and growing businesses (SGBs). Following ANDE's definition, SGBs are commercially viable businesses with 5 to 250 employees that have significant potential for growth and operate in the "missing middle" (too large for microfinance but often unable to access traditional bank financing). SMEs, while defined differently across jurisdictions, generally share similar characteristics and face comparable challenges in adopting ESG practices due to resource constraints and limited influence over their business ecosystems.

The study aimed to uncover what legal mechanisms are available to promote the adoption of Environmental, Social and Governance criteria concerning gender, climate and decent work in the private sector, with particular focus on SMEs. This research also attempted to identify relevant voids in the legal frameworks of each country and best practices that could be implemented in Latin America to facilitate the adoption of these standards.



Comparative Analysis

The United States ranks 1st with 98 out of 120 points, obtaining the highest scores for all indicators of ESG regulatory support considered in this study. Germany follows closely with 91 points. Both countries are classified as having advanced legal mechanisms to support ESG criteria implementation.

Within the group of countries with solid provisions for ESG deployment (60–89 points) we find Singapore, Canada, Australia, Brazil, and South Africa. These countries have proactive instruments in place but show variation across categories.

Colombia and Mexico, with 56 and 44 points respectively, appear to have regulations that provide basic conditions for the adoption of ESG practices. In contrast, Guatemala obtained the lowest score with only 4 points out of 120, indicating nascent regulation for supporting Environmental, Social and Governance standards implementation.

Comparación del nivel de madurez por país

RANK	COUNTRY	GUIDANCE	INCENTIVES	PROCUREMENT	FUNDING	TOTAL	LEVEL
1	United States	26	25	22	25	**98**	Advanced
2	Germany	27	22	22	20	**91**	Advanced
3	Singapore	24	20	15	20	**79**	Solid
4	Canada	21	15	17	21	**74**	Solid
5	Australia	23	14	19	13	**69**	Solid
6	Brazil	18	16	17	16	**67**	Solid
7	South Africa	18	10	24	14	**66**	Solid
8	Colombia	15	13	15	13	**56**	Basic
9	Mexico	16	6	16	6	**44**	Basic
10	Guatemala	2	1	1	0	**4**	Nascent

Guidance in Law, Regulation, or Policy on ESG Standards

[Relates to Key Findings 1, 2, 3, and 5]

Germany and the United States lead this category with scores of 27 and 26 out of 30 respectively, reflecting comprehensive legal frameworks with strong enforcement mechanisms. Germany's Supply Chain Due Diligence Act (LkSG) stands out for its penalties of up to 10% of annual turnover, while the U.S. combines EPA environmental regulations, SEC disclosure rules, Title VII protections, and OSHA labor standards into a robust enforcement ecosystem.

Singapore (24/30) and Australia (23/30) also demonstrate strong frameworks, though with different emphases. Singapore's Energy Conservation Act and Carbon Pricing Act mandate emissions reporting with significant penalties, while Australia's National Greenhouse and Energy Reporting Act and Modern Slavery Act create accountability mechanisms.

A notable pattern emerges in middle-tier countries: Mexico scores 16/30 with comprehensive climate and labor laws (General Climate Change Law, Federal Labor Law, NOM-035 on psychosocial risks), but enforcement mechanisms received only 4 out of 10 points. This gap between legislation and enforcement is the widest among countries in this tier. Similarly, South Africa (18/30) has constitutional protections and the Employment Equity Act but lacks an overarching ESG framework, relying instead on voluntary codes like CRISA and King Codes.

Guatemala (2/30) represents a regulatory vacuum. As the legal team noted: "No specific regulations or policies exist on these topics."

Disclosure emerges as the subject that stands out in more advanced countries. The United States, Germany, Australia, and Singapore all have mandatory or recommended disclosure requirements for climate-related information, following TCFD recommendations. This transparency enables stakeholders to evaluate companies' ESG performance but remains insufficient without enforcement.

Fines are the main instrument to enforce ESG related regulations, with some countries exhibiting other penalties that prevent companies from accessing funding or participating in public bids. The United States' and Canada's legal frameworks also consider the emission of orders for corrective measures for non-compliant companies. More advanced countries consider other civil and even criminal penalties like imprisonment in cases of disclosure fraud.

Case Study: Pick n Pay and the Broad-Based Black Economic Empowerment Act

Pick n Pay is a retailer in South Africa that serves as an example of the impact of the Broad-Based Black Economic Empowerment (BBBEE) Act 2003, a legal provision for the "effective participation of black people in the economy" (Government Gazette Republic of South Africa, 2004; pp. 2). This Act is accompanied by a rating mechanism managed by the BBBEE rating agency, part of the South African National Accreditation System. Companies' commitment to BBBEE is evaluated by this agency and can obtain one of nine scores ranging from non-compliance to full compliance. The BBBEE Act and Codes of Good Practice published by the BBBEE rating agency comprise strategies such as the involvement of black people as owners or managers of companies and special procurement conditions as part of the conditions necessary to include the black population in the formal economy. As a result of the adoption of BBBEE policies, 80% of top and senior management, and 99% of all employees of Pick n Pay were "Historically Disadvantaged South Africans" (Pick n Pay, 2024).

Legal Incentives for Investment in SMEs

[Relates to Key Findings 4 and 5]

Small and medium enterprises form the backbone of the global economy. For instance, they create about 70% of formal jobs around the world (International Labour Organization, 2019). Yet, concerning sustainability adoption, these companies appear to be lagging (World Economic Forum, 2025), not because they are not willing to incorporate these practices, but because they must surpass diverse obstacles, like resource limitations or reduced power to influence their business ecosystems. In this context, these companies, particularly those that are growing, can benefit from legal incentives to advance the implementation of ESG standards.

This category shows the widest disparities across countries. The United States leads with 25/30, driven by the Inflation Reduction Act (2022) and Infrastructure Investment and Jobs Act, which provide substantial tax credits and financing for greenhouse gas reduction and clean energy with emphasis on small business partnerships. Germany follows with 22/30, offering tax deductions of up to 50% on fixed assets (capped at €1 million annually) plus subsidies for renewable energy and social innovation.

Singapore (20/30) provides a 70% risk-share through its EFS-Green initiative for financial institutions financing green projects, a generous quantum compared to other incentive programs. However, its incentives focus almost exclusively on climate, with limited support for gender or decent work initiatives.

A significant gap appears in middle-tier countries. Brazil (16/30) offers a specific 1% income tax deduction for socio-environmental projects under Law 9,249/1995, while Australia (14/30) and Canada (15/30) have general ESIC and provincial tax credits that are not specifically targeted at ESG-focused SMEs.

South Africa explicitly lacks incentives for ESG-focused SMEs. As researchers noted: "There are NO financial incentives for corporations to invest in SMEs that support climate, gender or decent work." The country scored only 10/30, with existing incentives being general rather than ESG-targeted.

Mexico (6/30) and Guatemala (1/30) represent the bottom tier. Mexico's research team reported: "No existen incentivos legales para PyMEs" (No legal incentives exist for SMEs). Available mechanisms like green bonds and LEED certification are voluntary and private-sector driven, not government incentives.

Tax incentives appear more common in countries with advanced mechanisms, and energy is the topic that stands out for tax incentives available. Overall, gender and decent work are left aside from the subjects covered by the different types of incentives set in place to promote investment in SMEs.

Legislative Provisions for Inclusive Procurement Policies

[Relates to Key Findings 6 and 7]

Inclusive procurement presents a different pattern than other categories. South Africa leads with 24/30, demonstrating how mandatory procurement policies can drive systemic change. The BBBEE Act and Preferential Procurement Policy Framework Act (PPPFA) create a comprehensive scorecard system evaluating ownership, management control, skills development, and enterprise development. Companies like Standard Bank and Pick n Pay have achieved Level 1 ratings, and government contracts require BBBEE compliance.

Germany and the United States tied at 22/30. Germany's centralized procurement through the Beschaffungsamt des BMI includes a digital platform launched in 2022 that enables SMEs to browse contracts aligned with their offerings. The United States requires federal agencies to report percentages of contracts awarded to small businesses and diverse groups, achieving a record 26.5% of federal contract dollars to small businesses in fiscal year 2022.

Australia (19/30) demonstrates measurable impact through its Indigenous Procurement Policy, which resulted in $1.6 billion in contracts with 1,200 indigenous businesses during 2021-2022. Canada (17/30) and Brazil (17/30) show emerging frameworks, with Canada's Treasury Board Standard requiring GHG disclosure for contracts over $25 million and Brazil's Law 14,133/2021 promoting ESG terms in public bidding.

Singapore presents a notable gap in this category (15/30). Despite advanced frameworks in other areas, researchers found "no laws or regulations that mandate or incentivize inclusive procurement policies." This represents an area for potential policy development.

Mexico (16/30) has anti-discrimination provisions in the Federal Labor Law and requirements in the General Law for Equality, but these are general rather than procurement-specific. Colombia (15/30) has laws protecting workers with disabilities and promoting women's participation but with limited documented implementation.

Germany's Centralized Government Procurement

In Germany, there is a centralized agency at the federal government level responsible for procurement from civilian entities (Federal Republic of Germany, n.d.). As part of their initiatives, in 2022 they created a public announcement service where companies can see bids coming from different authorities ranging from local to federal. The new publication service allows companies to browse exactly the type of bids that align with their offering. Other functionalities make the platform user friendly.

Network for Sustainable Procurement

In 2010, the Canadian Collaboration for Sustainable Procurement was founded (Reeve Consulting, 2025). It is a network of institutions in the public sector. To access all the services provided by the network, that include knowledge exchange, resources and even personalized support, institutions must become members (Reeve Consulting, n.d.). The work of the network is organized based on the pillars of sustainable procurement that address the environment, ethics, the social impacts of this activity and engagement of indigenous communities (Reeve Consulting, 2025). As part of the network, institutions can participate in a benchmark of best practices that allows them to inform a continuous improvement process. Besides, the network publishes an annual report showcasing their results, success cases, and highlighting trends in sustainable procurement.

Target Setting and Outcome Evaluation

In Australia, the Indigenous Procurement Policy came into implementation in 2015. Its objective was to promote indigenous business development, through their participation as suppliers of the different government agencies of Australia's Commonwealth (National Indigenous Australian Agency, Australian Government, n.d.). The policy, amended in 2025, requires that objectives for both number and value of contracts awarded to indigenous business are established. The results are not only evaluated but also communicated to the public every year. To support the implementation of the policy, the government of Australia also issued guidelines for key actors of the process, such as people in charge of procurement, and other resources like samples of contract clauses.

Government Funding Strategies for SMEs

[Relates to Key Findings 4, 6, and 8]

The United States leads this category with 25/30, offering multiple pathways through the Small Business Administration (SBA): Women's Business Centers, the 8(a) program for socially disadvantaged groups, EXIM financing for exporters, and the State Small Business Credit Initiative ($10 billion). The Minority Business Development Agency provides additional support for diverse entrepreneurs.

Canada (21/30) and Germany (20/30) follow with comprehensive but complex systems. Canada's Women and Gender Equality (WAGE) program, Women Entrepreneurship Loan Fund, and Low Carbon Economy Fund ($1.4 billion) provide multiple entry points. In 2024, labour force participation among women aged 25–54 reached a record of 85%, encompassing those employed full-time or part-time as well as those actively seeking employment. Despite this advancement and the protection mentioned, women earned on average 87 cents for every dollar earned by men, with the gender wage gap being even more pronounced for Black, Indigenous, and other women of colour. (Government of Canada – Facts, stats, and impact: Gender equality) In 2024, labour force participation among women aged 25–54 reached a record of 85%, encompassing those employed full-time or part-time as well as those actively seeking employment. Despite this advancement and the protection mentioned, women earned on average 87 cents for every dollar earned by men, with the gender wage gap being even more pronounced for Black, Indigenous, and other women of colour. (Government of Canada – Facts, stats, and impact: Gender equality)

However, on April 23, 2025, the CSA announced that it has paused its work to develop amendments to existing diversity disclosure requirements. The Chair of the CSA, Stan Magidson, explained how in recent months, the global economic and geopolitical landscape has rapidly and significantly changed, and this pause is being taken to support Canadian markets and issuers as they adapt to the recent developments in the U.S. and globally. The CSA indicated in its release that it will monitor regulatory developments in climate-related and diversity-related disclosure, expecting to revisit these issues in future years, while continuing to monitor issuer disclosure and working to address misleading disclosure, including greenwashing. With respect to diversity-related disclosure, non-venture issuers will continue to be required to provide disclosure regarding the representation of women on their boards and in executive officer positions based on the existing requirements under National Instrument 58-101 Disclosure of Corporate Governance Practices. (CSA - CSA updates market on approach to climate-related and diversity-related disclosure projects) (Norton Rose Fulbright - Canadian Securities Administrators put climate and enhanced diversity disclosure on hold).

Another notable case is the Clean Economy Investment Tax Credits. Overall, Canada has introduced five major clean economy investment tax credits ("ITCs") through Budgets 2022 to 2025. It's a refundable tax credit for capital invested in the adoption and operation of new Clean Tech property in Canada between March 28, 2023 to December 31, 2034. The CT ITC rate may be up to 30%.

Germany offers support through SEND, Social Impact Fund, DKTI, and GIZ, though access requires navigating detailed Förderrichtlinien (funding guidelines) case by case.

Singapore (20/30) provides clear funding mechanisms including EFS-Green loans up to S$50 million, Enterprise Development Grant (up to 70% for sustainability projects), and MAS Sustainable Loan Grant Scheme. However, criteria tend to favor established enterprises over early-stage SMEs.

Brazil (16/30) offers Desenvolve SP, Floresta+, and Law 13,800 endowment funds, with access through BACEN and Ministry of Environment procedures. South Africa (14/30) has SEDA and SEFA programs, but researchers noted that "most schemes do NOT specifically target SMMEs that focus on decent work, gender equality and climate change."

Australia (13/30) lacks major legislative funding schemes for ESG-focused SMEs, with grants dispersed across departments and accessible through GrantConnect. Colombia (13/30) has Fondo Mujer Emprende and programs under Law 2125/2021 targeting 15 categories of vulnerable women, but with multiple documentary requirements.

Mexico (6/30) and Guatemala (0/30) represent critical gaps. Mexico's research team stated: "No hay esquemas legislativos y de financiamiento para PyMEs con estos objetivos específicos" (No legislative and financing schemes exist for SMEs with these specific objectives). Guatemala's response across all funding questions was "N/A" or "No existen estrategias de financiación."

Even in countries at advanced and solid levels, where funds dedicated to SMEs exist, access to them may not be easy. Such contradiction reduces the effectiveness and impact of the funding strategy established by the government.

Coppel Emprende Program
Coppel Emprende is a program from the foundation of Grupo Coppel, a major Mexican retailer and financial services provider (Fundación Coppel, n.d.). Coppel Emprende is part of the line of action that promotes economic and social development and aims to provide training to micro and small entrepreneurs and develop commercial competencies that help them trigger business growth and positive social impact in their surroundings. Within the broader Coppel Emprende program, Coppel Emprende Seed Capital is an initiative launched in 2023 that works with the support of local governments, educational institutions and local non-governmental organizations to support community entrepreneurs. Once 45% of the learning content available in Coppel Emprende platform is completed, participants become eligible for seed capital. The top 50 entrepreneurs per state are selected based on their performance and each receives up to MXN $8,000 (approximately USD $470) in kind, totaling MXN $400,000 (approximately USD $23,500) per state (Estrella, 2025; Rosales, 2025). Resources granted are a result of contributions from participant institutions.

BancO2
An initiative promoted by CORNARE, a public entity in Colombia, Bancolombia, a private bank, and an NGO called MASBOSQUES (more forests in English), BanCO_2 was launched in 2013 (Bancolombia, 2016). BanCO_2 connects different stakeholders in private and public sectors, as well as within civil society, particularly in rural areas, to fund the preservation of natural resources in the country (BanCO_2, n.d.). There are various ways for companies to provide funds: one is voluntary, and another is associated with mandatory compensation when a project needs a license to operate due to its activities' impact on the environment. There is also compensation related to projects that require trees to be cut, and others associated with the protection of endangered species. Families or communities sign voluntary agreements, and they receive payment through a bank account with Bancolombia. To date, 107 companies have compensated for their carbon emissions through BanCO_2, thereby ensuring the flow of resources to more than two thousand families who are rewarded for the environmental services they provide to preserve 61,546 hectares (BanCO_2, n.d.).

Net-Zero Challenge
The Government of Canada has also introduced the Net-Zero Challenge, which "encourages businesses to develop and implement credible and effective plans to transition their facilities and operations to net-zero emissions by 2050". This is not a requirement under legislation, but a program from the Federal Government which provides businesses who sign up with a community to discuss best practices with and create a roadmap to get to Net-Zero. As of December 12, 2025 there are 322 participants. (Government of Canada – The Net-Zero Challenge)

A note on:

Greenwashing and Environmental Protection Legislation in Canada
Amendments to the Competition Act became law on June 20, 2024, which included changes to address greenwashing by:

- Requiring that claims about the environmental benefits of a product be supported by adequate and proper testing; and
- Requiring that claims about the environmental benefits of a business or business activity be based on adequate and proper substantiation in accordance with an internationally recognized methodology.

The rationale behind changes in 2024 and 2025 are the notion that these greenwashing provisions are creating investment uncertainty and having "the opposite of the desired effect with some parties slowing or reversing efforts to protect the environment." (Government of Canada – Budget 2025 - Chapter 1: Building a stronger Canadian economy)

A notable case of greenwashing in Canada involved Volkswagen and Audi importing 128,000 vehicles into Canada which failed to meet federal emissions standards. Volkswagen was ordered to pay $196.5 million after pleading guilty to 60 charges for offences under CEPA, including misleading information and unlawful importation of vehicles.

Beyond these legislative 'reporting' requirements, there are of course a whole host of more general federal environmental requirements not cited in this report.

Methodology

Legal teams in each country responded to a standardized questionnaire addressing four categories of ESG legal support: (1) Guidance in Law, Regulation, or Policy on ESG Standards, examining the existence, clarity, and enforceability of laws addressing gender equality, climate action, and decent work; (2) Legal Incentives for Investment in SMEs, covering tax breaks, grants, or financial mechanisms that encourage corporate investment in small businesses focused on ESG topics; (3) Legislative Provisions for Inclusive Procurement Policies, reviewing laws promoting procurement from diverse-led suppliers such as women-owned, minority-owned, and disability-inclusive businesses; and (4) Government Funding Strategies for SMEs, assessing public funding programs, accessibility criteria, and effectiveness of support mechanisms.

Each category was evaluated on three subcategories, with scores ranging from 0 to 10 points each. Scores of 0–2 indicate limited or vague provisions with weak or no enforcement; 3–5 reflect specific but narrow provisions with moderate enforcement; and 6–10 represent comprehensive provisions with strong enforcement and significant penalties. The maximum score per category is 30 points, yielding a maximum total score of 120 points across all four categories. The subcategories for each dimension are detailed in the following table:

Based on total scores, countries were classified into four levels: Nascent (0–29 points), indicating few or no ESG legal provisions; Basic (30–59), with minimal provisions in place; Solid (60–89), where proactive instruments are present in the legal framework; and Advanced (90–120), reflecting comprehensive ESG support mechanisms.

This study has several methodological limitations. First, data was collected by ten different legal teams, and although all followed the same questionnaire, variations in interpretation, depth of analysis, and familiarity with ESG frameworks may have influenced scoring consistency. Second, research was conducted between 2023 and 2024, and legal frameworks evolve continuously. Significant developments have occurred since data collection, including mandatory climate disclosure rules in the United States (SEC, 2024) and Singapore (2024); Brazil's mandatory sustainability reporting for listed companies (CVM Resolution 193, 2023); Mexico's Sustainability Information Standards (NIS) effective January 2025; and Canada's Fighting Against Forced Labour and Child Labour in Supply Chains Act (2024). These developments may have altered the relative positioning of some countries. Third, this study evaluates laws and regulations as written; implementation gaps, informal practices, and cultural factors affecting ESG adoption were not systematically assessed.

CATEGORY	SUBCATEGORY 1	SUBCATEGORY 2	SUBCATEGORY 3
Guidance in Law	Presence of laws	Clarity of standards	Enforcement mechanisms
Legal Incentives	Availability of incentives	Comparison to other sectors	Impact on ESG topics
Inclusive Procurement	Existence of laws	Case studies/examples	Impact assessment
Inclusive Procurement	Programs available	Accessibility	Impact assessment

Country Profiles

The following profiles synthesize findings across all four categories for each country, ordered by overall ranking. Each profile highlights distinctive strengths, notable gaps, and relevant contextual factors that shape how ESG frameworks operate in practice.

United States (98/120 – Advanced)

The United States demonstrates the most comprehensive ESG legal framework in this study, with strong scores across all four categories. Its strength lies in the combination of robust federal regulations (EPA, SEC, OSHA), substantial funding programs (SBA, EXIM), and recent legislative investments through the Inflation Reduction Act. The federal procurement system achieved record small business participation at 26.5% in FY2022. Areas for improvement include greater emphasis on social dimensions beyond anti-discrimination laws.

Germany (91/120 – Advanced)

Germany leads in Guidance (27/30), driven by the Supply Chain Due Diligence Act with its 10% turnover penalties. The country combines strong enforcement with a centralized digital procurement platform and multiple funding channels (SEND, GIZ, DKTI). However, complex Förderrichtlinien requirements can create access barriers for smaller enterprises.

Singapore (79/120 – Solid)

Singapore excels in climate-focused regulation through its Carbon Pricing Act and Energy Conservation Act, with enforcement via the National Environment Agency. The EFS-Green 70% risk-share represents generous support for green projects. Notable gaps exist in inclusive procurement policies (15/30) and in legislation addressing gender and decent work, where researchers found no specific laws.

Canada (74/120 – Solid)

Canada shows balanced performance with solid frameworks across all categories. Strengths include the WAGE program for gender equity, Women Entrepreneurship Loan Fund, and emerging supply chain legislation (Forced Labour Act 2024). The Canadian Collaboration for Sustainable Procurement provides a model for peer learning. Provincial variation in enforcement represents a key limitation. Canada has been an example of renegotiation, independence and resilience.

Australia (69/120 – Solid)

Australia demonstrates strong guidance (23/30) through mandatory reporting acts (NGER, Modern Slavery) and an effective Indigenous Procurement Policy achieving $1.6 billion in indigenous business contracts. However, limited targeted incentives for ESG-focused SMEs (14/30) and fragmented government funding (13/30) indicate areas for policy development.

Brazil (67/120 – Solid)

Brazil offers balanced support with specific mechanisms including the 1% income tax deduction for socio-environmental projects and Law 14,133/2021 promoting ESG in public procurement. The Environmental Crimes Law provides criminal, administrative, and restitution sanctions. Access to funding through BACEN and Ministry of Environment procedures remains complex for smaller enterprises.

South Africa (66/120 – Solid)

South Africa presents a unique profile, leading in procurement (24/30) through the globally recognized BBBEE framework while explicitly lacking ESG-targeted investment incentives (10/30). The BBBEE scorecard covering ownership, management, and enterprise development demonstrates how positive mechanisms can drive systemic change. Extending this approach to SME investment incentives represents an opportunity.

Colombia (56/120 — Basic)

Colombia shows moderate frameworks across all categories with specific provisions for women-led enterprises (Decree 761/2022) and innovative programs like Manzanas del Cuidado recognized by the OECD. Financial Superintendency circulars require ESG disclosure for securities issuers. Law 2125/2021 creates incentives for 15 categories of vulnerable women entrepreneurs, though access requires extensive documentation.

Mexico (44/120 — Basic)

Mexico presents the widest gap between legal foundations and implementation support. Constitutional protections and climate legislation exist (General Climate Change Law, Sustainable Taxonomy in pilot phase), but researchers found virtually no incentives (6/30) or funding (6/30) for ESG-focused SMEs. The gap between legislation presence (16/30) and enforcement capacity (4/10 on enforcement subcategory) highlights implementation challenges. Private initiatives like Coppel Emprende fill some gaps.

Guatemala (4/120 — Nascent)

Guatemala represents a regulatory vacuum across all ESG dimensions. Researchers noted "no specific regulations or policies exist on these topics" and responses to funding and incentive questions were consistently "N/A." This represents the most significant gap in Latin American ESG frameworks among countries studied.

Conclusions

The objective of this study was to identify legal mechanisms available to encourage the adoption of Environmental, Social and Governance standards related to gender, climate and decent work, with special emphasis on those provisions targeting SMEs. In addition, we sought to shed light into the gaps that remained in the legal frameworks and best practices with potential application in Latin America. Thus, with the help of various law firms, we collected data and evaluated the legal frameworks of 10 countries in four categories.

The analysis reveals several key findings:

- **While there are at least rudimentary laws and regulations that support the adoption of ESG standards related to gender, climate and decent work in most countries, their enforcement varies from country to country depending on different internal factors, thus creating a gap in actual practices.**

- **Examples like that of the BBBEE in South Africa show that enforcement does not need to be associated with penalties, as there are other positive mechanisms that may be more effective for ESG adoption.**

- **Despite that disclosure is a necessary condition for ESG adoption, it may not be sufficient. Consequently, third party assurance, like the BBBEE rating also shows, may be a good practice that could help advance ESG standards implementation.**

- **Availability of funding for SMEs dedicated to developing solutions to social and environmental problems is not enough. Institutions offering these funds must also develop application processes and eligibility criteria that make access easy instead of difficult.**

- **Most legal frameworks in the sample appear to address topics in the environmental dimension of ESG, with somewhat less attention being given to social issues. Advancing the sustainability agenda requires incorporating all its dimensions. A good practice could be to depart from a good diagnosis of the subjects in which each country is falling behind, to set priorities and strategies to improve them.**

Recommendations

These findings point to actionable steps for policymakers, institutions, and SMEs:

For Policymakers:

- Strengthen enforcement mechanisms: Regulations exist but are inconsistently applied. Stronger enforcement and monitoring mechanisms are needed to close the gap between legal provisions and actual practices.
- Develop positive incentives: Non-punitive mechanisms (e.g., rating systems, preferential procurement, certifications) can be more effective than penalties alone, as demonstrated by the experience in South Africa.
- Balance ESG dimensions: Most legal frameworks emphasize environmental issues. Social dimensions (gender equality, labor rights) require greater focus to advance a comprehensive sustainability agenda.
- Implement third-party assurance: Independent verification mechanisms should complement disclosure requirements to ensure accuracy and reliability.

For Funding Institutions:

- Simplify access: Governments and institutions should streamline application processes to ensure SMEs can realistically access available funding.
- Set and communicate targets: Following Australia's example, establishing specific targets for ESG-supporting initiatives creates accountability and enables continuous improvement.

For SMEs:

- Leverage public-private partnerships: Collaborate with government and private sector initiatives that provide training, resources, and funding for sustainability practices.
- Explore digital procurement platforms: Centralized procurement systems in countries like Germany and Canada offer opportunities for smaller companies to access government contracts.
- Seek certification and ratings: Voluntary certifications and ESG ratings can add value to businesses and open doors to new opportunities.

For Future Research:

- Conduct follow-up studies to track changes in legal frameworks since the original data collection.
- Expand the sample to include additional countries, particularly in Latin America and other emerging markets.
- Investigate the specific barriers SMEs face in accessing ESG-related funding and develop targeted solutions.

For Latin American Policymakers and Institutions:

- Leverage regional initiatives: Existing platforms such as the Pacific Alliance's sustainability agenda, CAF (Development Bank of Latin America) green financing programs, and BID Lab's support for impact-driven SMEs offer opportunities for cross-country learning and resource mobilization.
- Build on existing foundations: Countries like Brazil (B3's ISE sustainability index since 2005) and Colombia (Green Protocol for the financial sector since 2012) have pioneering initiatives that can inform regional best practices.
- Address the financing gap: The IFC estimates a $5 trillion financing gap for SMEs in emerging markets. Regional development banks and blended finance mechanisms can help channel resources to SMEs working on ESG solutions.

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This research was conducted by ANDE, TrustLaw, Thomson Reuters Foundation, and legal teams from: Hogan Lovells (Australia, Mexico, Singapore); Clifford Chance LLP (United States); Machado, Meyer Sendacz e Opice (Brazil); Muñoz Tamayo y Asociados (Colombia); Bowmans (South Africa); Consortium Legal (Guatemala); McInnes Cooper LLP (Canada); and Allen and Overy LLP (Germany).

Published by:
Aspen Network of Development Entrepeneurs (ANDE), 2025

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Hogan Lovells generously provided pro bono research that helped to make this report/guide possible. Thomson Reuters Foundation, through the TrustLaw global pro bono legal network, made the research possible by facilitating the pro bono connection. However, the contents reflect solely the views of ANDE and not those of the contributing legal teams or Thomson Reuters Foundation.

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