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Accounting and financial reporting needs of microenterprises and small and medium-sized enterprises

Note by the UNCTAD secretariat

Summary

A review of current accounting and financial reporting requirements and practices among small and medium-sized enterprises (SMEs) is provided in this note, with the particular case of microenterprises considered where appropriate. Key regional and international institutions active in the field and efforts made to support the implementation of currently applicable standards and guidance are discussed.

The uptake of standards among different regions and jurisdictions is assessed and variations in approaches taken in the implementation process are identified. A business case, along with a cost and benefit analysis of the preparation of meaningful accounting and financial reporting by microenterprises and SMEs, is discussed. It is noted that accounting and reporting by SMEs is mostly not required in many jurisdictions; however, SMEs can benefit from this practice, with a view to enhancing relations with stakeholders, accessing finance and qualifying for integration into international supply chains, as well as improving internal financial controls and oversight. Reference is made to efforts in this area by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, along with relevant UNCTAD experience in assisting member States with building the capacities needed to meet the accounting and financial reporting requirements of microenterprises and SMEs.

Finally, a set of measures is presented that policymakers may wish to consider in assisting SMEs in transitioning to effective accounting and financial reporting practices.

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I. Introduction

1. The General Assembly, in its resolution 77/160 of 14 December 2022, on entrepreneurship for sustainable development, recognized the importance of microenterprises and SMEs, "which globally represent about 90 per cent of businesses and account for over two thirds of employment" and emphasized "their role in supporting achievement of the Sustainable Development Goals, in particular through promoting innovation, creativity and decent work for all".

2. The work of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting has consistently underscored the critical role that high-quality financial and non-financial reporting plays in fostering sustainable economic development. The Intergovernmental Working Group of Experts has long recognized that SMEs constitute the backbone of most economies, particularly in developing countries, accounting for a significant share of economic output. Despite their importance, SMEs often face disproportionate challenges in accessing finance, integrating into international supply chains and achieving long-term growth. One of the key constraints identified in this regard is the lack of reliable, comparable and decision-useful financial information.

3. For larger SMEs, access to formal credit critically depends on the availability of credible financial statements (e.g. balance sheets, income statements, cash flow records). Such documents enable banks to deploy transaction-based lending technologies, assess debt service capacity and verify profitability in a transparent manner. Conversely, microenterprises typically lack audited or even basic financial records. Lenders therefore rely on relationship lending rather than formal statements, using "soft" information (e.g. borrower character, repayment history, nature of the business) and cash flow proxies (e.g. daily sales tallies). This bifurcation creates a structural barrier whereby microenterprises without statements face automatic rejection or rationing under scored systems, while SMEs with credible statements can potentially access larger loans at lower rates. Without financial documentation, the information asymmetry cannot be resolved, forcing lenders to deny loans or perform costly manual assessments.[1]

4. The Intergovernmental Working Group of Experts, at its forty-second session, selected accounting and financial reporting needs of microenterprises and SMEs as a substantive item on the agenda of the forty-third session. Accordingly, the UNCTAD secretariat has prepared this note in order to facilitate the deliberations of delegates. A review of work done by the Intergovernmental Working Group of Experts in providing SMEs with suitable accounting and financial reporting guidance is discussed, followed by a discussion of other initiatives at the international level, including by the International Accounting Standards Board (IASB), to formulate standards and guidance for SMEs on accounting and financial reporting and to support implementation. Uptake among different regions and jurisdictions is discussed, followed by a business case for meaningful accounting and financial reporting and how it can improve internal controls and decision-making among SMEs, with the perspectives of various stakeholders considered. Revisions by IASB to date and the parallels with guidance issued by the Intergovernmental Working Group of Experts are considered, along with the broader issue of whether the needs of SMEs have been met and, if not, what action can be taken at the national and international levels in order to make accounting and financial reporting requirements more supportive of SMEs. Finally, consideration is given as to whether there is a need to make available guidance that is positioned between IASB standards and the guidance issued by the Intergovernmental Working Group of Experts.

[1] See https://www.unescap.org/kp/2022/small-and-medium-sized-enterprises-lending-approaches-role-banks-asia.

A. Intergovernmental Working Group of Experts

5. Since its establishment, the Intergovernmental Working Group of Experts has contributed to advancing the global financial reporting architecture by promoting the adoption and implementation of internationally recognized standards, while emphasizing the need for proportionality and inclusiveness. The Intergovernmental Working Group of Experts issued *Accounting and Financial Reporting Guidelines for SMEs* in response to the need for a simple, practical accounting framework tailored to the realities of SMEs in developing countries, where full international standards were often too complex and costly to implement.[2] In the course of the deliberations on developing the guidelines, the Intergovernmental Working Group of Experts identified the following three levels of enterprises, reflecting their relative sizes and sophistication:

(a) Level 1: listed enterprises whose securities are publicly traded and those in which there is significant public interest; usually required to issue annual statements using the approved reporting standard in their jurisdiction, such as the International Financial Reporting Standards (IFRS) issued by IASB;

(b) Level 2: significant business enterprises that do not issue public securities and in which there is no significant public interest;

(c) Level 3: smaller enterprises that are often owner-managed and have no or few employees; the proposed approach is simplified accruals-based accounting, linked to cash transactions; national regulators may permit a derogation for newly formed businesses or new entrants to the formal economy to use cash accounting for a limited time.

6. In 2003, the Intergovernmental Working Group of Experts issued guidance for levels 2 and 3 and, in 2009, updated and revised guidance for level 3. In view of the issuance by IASB of the IFRS for SMEs Accounting Standard, further work by the Intergovernmental Working Group of Experts on level 2 has been put on hold.

7. The work of the Intergovernmental Working Group of Experts has consistently served to highlight that improving the quality of financial reporting among SMEs can enhance transparency, strengthen governance and facilitate access to credit and investment. In this regard, the deliberations at its fortieth session, in 2023, are of particular relevance. Under the agenda item on "Accounting and reporting needs of microenterprises and SMEs and the role of accounting and reporting in facilitating the formalization of businesses in the informal economy," experts emphasized that formalization was closely linked to the ability of enterprises to produce credible financial information. The discussions highlighted that accounting records and financial statements were not merely compliance tools, but foundational elements that enabled enterprises to transition from informality to formality, access finance and participate in local and global markets and supply chains. In addition, the discussions underscored that while excessive reporting burdens could discourage formalization, appropriately tailored frameworks, combined with capacity-building and digital tools, could incentivize SMEs to enter and remain in the formal economy. Financial reporting can therefore serve as both a driver and an outcome of formalization, reinforcing a virtuous cycle of improved transparency, access to finance and business growth.

8. The analytical and capacity-building work on financial reporting of the Intergovernmental Working Group of Experts has been supported by practical instruments such as train-the-trainer workshops on SME accounting and the Accounting Development Tool, which is aimed at assisting countries in assessing the strengths and gaps of accounting infrastructure at the macro level, including with regard to education, accounting and reporting standards, institutional frameworks and enforcement mechanisms. Findings from assessments across a range of countries have consistently shown the need for scalable and tiered reporting frameworks that can accommodate the diversity of SMEs, particularly at the micro and informal levels.

[2] See https://unctad.org/publication/accounting-and-financial-reporting-guidelines-small-and-medium-sized-enterprises-smega and https://unctad.org/publication/accounting-and-financial-reporting-guidelines-small-and-medium-sized-enterprises-0.

B. International Accounting Standards Board

9. In 2009, IASB issued the IFRS for SMEs Accounting Standard, a self-contained set of accounting principles designed for entities that do not have public accountability, which is aimed at achieving a balance between the information needs of external users (e.g. lenders, investors, tax authorities) and the cost and complexity of preparing financial statements.[3]

10. Unlike the full IFRS accounting standards, which are primarily intended for publicly listed companies and entities with significant public interest, the IFRS for SMEs Accounting Standard simplifies recognition, measurement, presentation and disclosure requirements. It excludes topics that are not typically relevant to smaller entities, reduces the number of required disclosures and introduces simplified accounting treatments in areas such as financial instruments, goodwill and income taxes.

11. Since 2009, IASB has followed a policy of periodic, comprehensive reviews, rather than continuous changes, to maintain stability for SMEs while still improving the Standard. The main revisions took place in 2015 and 2022, as follows:[4]

(a) 2015 comprehensive review, effective in 2017, introducing a limited number of targeted amendments, including alignment with some full IFRS accounting standards principles (e.g. allowing revaluation for property, plants and equipment), simplification in areas such as deferred taxes and clarification of definitions (e.g. basic financial instruments);

(b) 2022 comprehensive review, effective in 2025, including an updated revenue recognition model broadly aligned with IFRS 15 Revenue from Contracts with Customers; a revised fair value framework aligned with IFRS 13 Fair Value Measurement; updated consolidation guidance reflecting IFRS 10 Consolidated Financial Statements; and improvements to financial instruments and disclosure requirements.

C. Comparison of the guidance and the Standard

12. Both *Accounting and Financial Reporting Guidelines for SMEs* of the Intergovernmental Working Group of Experts and the IFRS for SMEs Accounting Standard are aimed at improving the utility, quality, transparency and usefulness of financial reporting by smaller businesses, particularly in order to support access to finance and better decision-making by external users such as lenders and investors.

13. The IFRS for SMEs Accounting Standard provides a comprehensive framework for SMEs yet may still be too complex for very small enterprises, particularly those operating in low-capacity environments. In this context, the level 3 guidance of the Intergovernmental Working Group of Experts plays a key role by offering a simplified accounting framework tailored to the needs of the smallest businesses. The guidance emphasizes basic record-keeping, a simplified accruals-based accounting system linked to cash transactions and simplified financial statements, enabling micro-level entrepreneurs to improve financial management without requiring extensive technical expertise. The guidance also serves as a stepping stone towards more advanced reporting frameworks as enterprises grow and reporting needs evolve.

14. Insights emerging from deliberations at sessions of the Intergovernmental Working Group of Experts, from Accounting Development Tool assessments and from field-level experience, including for example, in Nigeria and Uganda, suggest that the operating environment of SMEs, including the smallest enterprises, is evolving rapidly, influenced by digitalization, new financing modalities and increasing expectations regarding transparency. In this context, it may be timely to reflect on whether existing simplified frameworks, such as the level 3 guidance, continue to fully meet the needs of SMEs or whether further refinement and updating could enhance relevance, usability and alignment with current

[3] See https://www.ifrs.org/issued-standards/ifrs-for-smes/.

[4] See https://www.ifrs.org/projects/completed-projects/2015/2015-comprehensive-review-of-the-ifrs-for-smes/ and https://www.ifrs.org/supporting-implementation/2015-ifrs-for-smes-supporting-materials/sme-updates/2022/december-2022-ifrs-for-smes-update/.

economic realities. Such reflections need to balance the objectives of simplicity, comparability and developmental impact.

II. Recent developments

A. Main entities

15. There are a number of regional and international institutions that impact standard-setting and practical implementation in the domain of microenterprises and SMEs. A brief review is presented in this section. Broadly, IASB acts as the international standard-setter; the International Federation of Accountants supports implementation through professional bodies; the Organisation for Economic Co-operation and Development (OECD) and the World Bank, as well as the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, focus on diagnostics, policy advice and capacity-building; and regional organizations promote harmonization and training.

1. International Accounting Standards Board

16. IASB has been working on the IFRS for SMEs Accounting Standard since the early 2000s; the formal project was adopted in 2003, the exposure draft was issued in 2007 and the first edition of the standard was issued in 2009. IASB has undertaken comprehensive reviews of the standard, developed implementation guidance and issued training modules and webinars for accountants and regulators.

17. To meet the particular needs of microenterprises, in 2013, IASB issued dedicated guidance on how to apply the IFRS for SMEs Accounting Standard, with simplifications and a selection of principles relevant to microenterprises, compliance with which would not impose an undue burden of time and resources. IASB notes that compliance with the guidance results in compliance with the Standard. IASB has not yet updated this guide.[5]

18. IASB issued the third edition of the IFRS for SMEs Accounting Standard in 2025, effective for periods beginning on or after 1 January 2027. Entities can choose to adopt the new edition early or continue to apply the previous edition, issued in 2015, until the effective date of the third edition. Supporting materials for the 2015 edition remain available.

2. International Federation of Accountants

19. The Federation supports the international implementation of SME financial reporting standards through an advisory group and a network of professional accountancy organizations in over 130 jurisdictions.[6] Activities include issuing guidance for accountants serving SMEs, promoting the adoption of the IFRS for SMEs Accounting Standard, issuing practice management and financial reporting guidance for small business accountants and organizing conferences and knowledge platforms. The Federation works with international standard-setting boards on auditing, ethics and education that affect SME reporting. At present, the Federation is focused on strengthening professional accounting organizations, co-organizing international events with UNCTAD, such as the Microenterprise and SME Days,[7] expanding guidance on sustainability and digital reporting for SMEs and supporting capacity-building and training worldwide.

3. Organisation for Economic Co-operation and Development

20. OECD, particularly through the Committee on SMEs and Entrepreneurship, has produced policy analysis and international comparative reports on SME finance, accounting transparency and reporting frameworks. Key outputs include the SME and entrepreneurship outlook and the financing SMEs and entrepreneurs scoreboard, which provide international

[5] See https://www.ifrs.org/supporting-implementation/2015-ifrs-for-smes-supporting-materials/micros/.
[6] See https://www.ifac.org/who-we-are/advisory-groups/small-and-medium-practices-advisory-group.
[7] See https://www.ifac.org/knowledge-gateway/discussion/un-msme-day-2025-ifac-oecd-unctad-world-bank-spotlight-building-capacity-smes-sustainability.

data and policy guidance related to SME financial information and access to finance. OECD organizes ministerial-level meetings, policy dialogues and research projects, to support better reporting, governance and financial transparency among SMEs. Currently, OECD is working on policy recommendations, data platforms and international cooperation on SME reporting, digital accounting systems and sustainable finance.[8]

4. World Bank

21. The Centre for Financial Reporting Reform of the World Bank has been supporting SME financial reporting reforms in developing countries since 2008. Its work has included diagnostic assessments of national accounting frameworks, technical assistance in adopting the IFRS for SMEs Accounting Standard, the training of regulators and professional accounting bodies and regional capacity-building programmes. The Centre organizes workshops and train-the-trainer programmes, to help countries update accounting frameworks and improve SME financial reporting systems, and delivers regional training programmes and advises Governments on adopting the Standard and strengthening the institutional infrastructure for accounting and auditing reforms.[9]

5. European Financial Reporting Advisory Group

22. The Group plays a key role in shaping European approaches to accounting and reporting standards, including those affecting SMEs, by advising the European Commission on the endorsement of IFRS and on accounting directives. The Group has also, among other activities, conducted technical research, stakeholder consultations and expert discussions on proportional reporting requirements for smaller entities.[10] The European Union has not adopted the IFRS for SMEs Accounting Standard.

6. European Commission

23. The Directorate-General for Financial Stability, Financial Services and Capital Markets Union and the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs have been the drivers of accounting and reporting frameworks affecting SMEs through the Accounting Directive, as well as initiatives to simplify reporting obligations for smaller companies and support harmonization with international standards. The Commission has funded technical studies, consultations and working groups on SME accounting practices and access to finance. Key ongoing work includes the monitoring and implementation of the revised Accounting Directive, including recent increases in SME size thresholds; the simplification of reporting requirements for smaller entities; and, together with the European Financial Reporting Advisory Group, an initiative for SMEs to voluntarily report harmonized performance indicators, to be posted on the European Single Access Point, to serve as a centralized platform in order to help SMEs access financial markets and investors.[11]

7. Regional accounting organizations

24. Initiatives of the Association of Southeast Asian Nations (ASEAN) and regional capital-market institutions, such as Capital Markets Malaysia, have, since the mid-2010s, developed simplified reporting frameworks and guidance for SMEs participating in international supply chains, particularly with regard to financial transparency and sustainability information requested by banks and investors. Work includes issuing simplified disclosure guides, organizing workshops and providing digital reporting templates

[8] See https://www.oecd.org/en/publications/financing-smes-and-entrepreneurs-2026_075d8058-en/full-report.html and https://www.oecd.org/en/publications/the-oecd-going-digital-measurement-roadmap-2026_b455e132-en.html.

[9] See https://cfrr.worldbank.org/news/adapting-accounting-frameworks-smes-and-ifrs-smes-accounting-standard-update-training-trainers and https://cfrr.worldbank.org/news/training-trainers-tot-workshop-ifrs-smes-accounting-standard-2025.

[10] See https://www.efrag.org/en/financial-reporting.

[11] See https://eur-lex.europa.eu/eli/dir_del/2023/2775/oj/eng, https://commission.europa.eu/topics/competitiveness/simplification_en and https://www.esma.europa.eu/esmas-activities/data/european-single-access-point-esap.

for SMEs.[12] The ASEAN Coordinating Committee on Micro, Small and Medium Enterprises was formed to better reflect the needs of microenterprises; the work plan is in the ASEAN Strategic Action Plan for SME Development 2016–2025.[13] ASEAN has expanded regional cooperation, to promote standardized sustainability and financial reporting practices for SMEs and to facilitate access to green finance and international markets.[14]

25. At the regional level, in Africa, a network of professional and institutional organizations has been developed with an important role in the promotion and implementation of accounting and financial reporting standards, including for SMEs. The Pan African Federation of Accountants serves as the primary continental organization, representing national professional accountancy bodies and engaging with international institutions to promote the adoption of international standards and provide guidance, training and a platform for articulating African perspectives in international standard-setting discussions.

26. In Latin America, the institutional landscape for accounting and financial reporting standards, including for SMEs, is characterized by a relatively high degree of regional coordination combined with alignment with international standards. The Inter-American Accounting Association plays a central role, bringing together professional accountancy bodies from across the region and promoting the adoption and consistent application of international standards, including the IFRS for SMEs Accounting Standard, while facilitating technical exchanges and capacity-building initiatives. In addition, the Group of Latin American Accounting Standard Setters provides a platform for national standard-setting bodies in order to coordinate positions and engage collectively with IASB, thereby ensuring that regional perspectives are reflected in international standard-setting processes. At the subregional level, organizations such as the Inter-American Accounting Association contribute to professional harmonization and knowledge-sharing.[15] Relatively widespread adoption of the IFRS for SMEs Accounting Standard may be observed in Latin America, supported by such regional mechanisms and by early policy decisions in several countries, to align national frameworks with international standards.[16]

B. Geographical reach and uptake of financial reporting standards

27. At present, 87 jurisdictions require or permit the IFRS for SMEs Accounting Standard, 12 jurisdictions are considering the Standard and 70 jurisdictions have not considered or do not use the Standard; the Standard is mostly used in developing countries and a small number of developed countries; and the highest adoption rates are in Africa and Latin America and the Caribbean.[17]

28. In contrast, adoption remains limited in North America; IFRS is mostly not used for domestic SMEs in Canada, Mexico or the United States of America. Similarly, fewer than half of jurisdictions in Asia and the Middle East have implemented the Standard, often preferring converged national standards. In the European Union, the Standard has not been adopted due to the primacy of the Accounting Directive; however several countries have introduced simplified national SME regimes inspired by IFRS concepts. For example, Ireland has adopted Financial Reporting Standard 102, which is based on the IFRS for SMEs Accounting Standard.[18] The United Kingdom of Great Britain and Northern Ireland has also

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[12] See https://jaif.asean.org/en/news/accelerate-business-digitalisation-with-the-digital-readiness-assessment-tool-for-msmes.

[13] See https://asean.org/book/asean-strategic-action-plan-for-sme-development-2016-2025/.

[14] See https://www.theacmf.org/sustainable-finance/publications/asean-simplified-esg-disclosure-guide-asedg-for-smes-in-supply-chains.

[15] See https://contadores-aic.org.

[16] As of 2015, 27 jurisdictions in Latin America and the Caribbean have adopted the Standard. See https://www.ifac.org/knowledge-gateway/discussion/research-insights-study-countries-adoption-ifrs-smes.

[17] See https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis-of-the-use-of-the-ifrs-for-smes-accounting-standard.

[18] See https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/uk-accounting-standards/frs-102/.

done the same. Overall, fewer than 50 per cent of jurisdictions globally apply the IFRS for SMEs Accounting Standard in a formal or near-equivalent way and, even where adoption exists, it is frequently restricted to optional use for non-publicly accountable entities. This fragmented pattern reflects in part traditional differences in legal systems, particularly between common law countries, which are more likely to adopt IFRS-based frameworks, and code law countries, in which accounting remains closely linked to taxation and company law, as well as differences in institutional capacity and regulatory priorities.

29. Common law countries, many of which are in Africa and Asia, that have adopted or closely aligned reporting standards with the IFRS for SMEs Accounting Standard include Ghana, Ireland, Kenya, Nigeria, Pakistan, Singapore, South Africa and the United Kingdom.

30. Code law countries that have generally not adopted the IFRS for SMEs Accounting Standard and that tend to rely on statutory accounting systems linked to tax law and European Union directives include Austria, Belgium, France, Germany, Italy, Poland and Spain. This contrasts with many code law countries in Latin America that have adopted the Standard.

31. The pattern of adoption thus is not based purely on legal origin but also depends on the strength of existing national Generally Accepted Accounting Principles systems, regulatory flexibility, the level of economic development and the influence of international institutions.[19] Common law jurisdictions are generally more likely to adopt or align with the IFRS for SMEs Accounting Standard and code law jurisdictions in Europe tend not to do so, yet the international pattern is better explained with regard to institutional capacity and regulatory frameworks than with regard to legal tradition and origin alone.

C. Importance of financial reporting standards

32. There is a strong business case for the adoption of an accounting and financial reporting standard such as the IFRS for SMEs Accounting Standard, since doing so can help enhance the transparency, comparability and credibility of the financial statements of SMEs, which are critical for integration into international value chains and participation in supply chain finance arrangements.[20] Standardized reporting reduces information asymmetries and facilitates risk assessment by lenders and investors, thereby improving access to finance and potentially lowering borrowing costs, as financial institutions tend to favour reliable and comparable financial information. This is particularly relevant given persistent SME financing constraints globally, with access to credit remaining a significant barrier to growth.[21] In addition, consistent financial reporting supports stronger business relationships and reputations with customers, suppliers and commercial partners, enabling SMEs to meet due diligence requirements in supply chains and benefit from supply chain finance mechanisms that depend on credible financial data.[22]

33. The level 3 guidance of the Intergovernmental Working Group of Experts in *Accounting and Financial Reporting Guidelines for SMEs* and the IFRS for SMEs Accounting Standard can be viewed as strategic tools for SMEs that help enhance financial transparency, facilitate market access and strengthen stakeholder confidence.[23]

34. It is important to note that a constraint in many developing countries is not related to the standard that has been formally adopted but to whether the underlying reporting infrastructure exists to operationalize any standard at scale. Such a reporting infrastructure

[19] Tarca A, 2012, The case for global accounting standards: Arguments and evidence, available at https://ssrn.com/abstract=2204889.

[20] Akpan J and Akinadewo IS, 2023, IFRS and SMEs: Assessing the impact of IFRS adoption on SMEs, World Journal of Finance and Investment Research, 7(4):34–56.

[21] See https://www.ecb.europa.eu/press/economic-bulletin/articles/2020/html/ecb.ebart202004_02~80dcc6a564.en.html.

[22] Mawutor JKM, Williams S and Oduwaa MA, 2019, Assessment of the adoption and implementation of IFRS for SMEs: A study of selected SMEs [in] Ga East, Ghana, Asian Journal of Finance and Accounting, 11(1).

[23] See https://cfrr.worldbank.org/news/adapting-accounting-frameworks-smes-and-ifrs-smes-accounting-standard-update-training-trainers.

includes standardized charts of accounts, digital reporting taxonomies, accounting and reporting systems that capture, process and structure transactional data and electronic invoicing (e-invoicing) and tax reporting systems, as well as an institutional ecosystem of preparers, auditors, regulators, software providers and other intermediaries.

35. Infrastructure readiness conditions the adoption of standards and, in many developing countries, the challenge is in how to sequence the development of a reporting infrastructure. The Intergovernmental Working Group of Experts has developed tools such as the Accounting Development Tool to help assess country capacity to produce high-quality and internationally comparable financial and sustainability reporting by evaluating the strength of the accounting and reporting infrastructure, currently only at the macro level.

III. Implementation challenges

A. General considerations

36. The implementation of structured accounting reporting frameworks is often difficult for microenterprises and small enterprises because of a combination of structural and behavioural constraints.[24] Many small firms operate with limited financial and human resources, meaning they lack trained accounting staff and cannot easily afford the external expertise or digital accounting systems needed to apply accrual-based standards. At the same time, owners of such firms often have low levels of technical knowledge of formal reporting requirements, which leads to simplified or informal bookkeeping rather than structured financial reporting. Even where capacity exists, there is frequently reluctance to fully disclose financial information due to concerns about exposing sensitive business data to competitors, tax authorities or lenders, as well as about loss of control over private family-run enterprises.

37. Studies have highlighted that implementation costs, perceived complexity and the limited perceived benefits of formal reporting further discourage adoption, particularly among microenterprises that prioritize survival and cash management over compliance with formal accounting frameworks.[25]

38. Studies indicate that SMEs may resist adopting the IFRS for SMEs Accounting Standard due to a variety of cultural factors; for example, businesses accustomed to local accounting standards may view it as unnecessary, complex and irrelevant for SMEs that operate locally, with the international comparability of financial statements seen as less critical.[26]

39. A survey among selected entrepreneurs and SME operators in Lagos State, Nigeria, indicated that the majority of SMEs did not have records of financial statements or keep records of the financial position of their businesses. Over 70 per cent of SMEs surveyed were family businesses in different locations and stated that much of the disclosures and information required by full financial statements were not relevant to their businesses. Some professionals stated that SMEs did not have public accountability and therefore did not need to disclose as much information as listed companies. Almost all of the respondents stated that the need for IFRS compliance and the issuance of financial statements was the responsibility of large organizations and multinationals.[27]

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[24] Perera D and Chand P, 2015, Issues in the adoption of IFRS for SMEs, Advances in Accounting, 31(1):165–178.

[25] Kamotho DW and PK Kaudo, 2023, The challenges SMEs face in adopting and implementing IFRS for SMEs: A case of Windhoek Central Business District, International Journal of Management Science and Business Administration, 9(4):7–20.

[26] Zubairu I, Alenezi M and Muhammadu H, 2025, An evaluation of the challenges faced by SMEs in implementing IFRS in emerging markets: Evidence from Ghana, in Moloi T, ed., Impacting Society Positively Through Technology in Accounting and Business Processes, Springer Proceedings in Business and Economics.

[27] See https://businessday.ng/opinion/article/how-international-financial-reporting-standards-ifrs-benefits-smes/.

40. A study in Namibia on identifying the barriers preventing SMEs from adopting and implementing the IFRS for SMEs Accounting Standard found that SMEs in the country were not fully adopting the Standard because of the lack of training, the inability to recruit professional accountants due to the high cost, the lack of experienced employees in SMEs and the unwillingness of SME owners to reveal financial transactions to third parties.[28]

41. Credibility and trust in financial reporting are supported by a sound reporting framework and the related capacity-building and implementation; a strong reporting infrastructure, including information technology tools; and audits. The first two elements need to be in place before audits can become effective. In this context, to help SMEs adopt cost effective audit standards, the International Auditing and Assurance Standards Board has developed an international standard on auditing for audits of financial statements of less complex entities, based on the full international standards on auditing; audits performed using this methodology are thus designed to provide a comparable level of assurance.[29]

42. Institutional capacity also plays a critical role. Implementing the IFRS for SMEs Accounting Standard requires enforcement mechanisms and trained accountants, auditors and regulators capable of interpreting and applying principles-based standards. In countries where professional accountancy bodies are less developed or where regulatory oversight is limited, policymakers may be reluctant to adopt a framework that depends heavily on professional judgment. Instead, they may favour simpler, rules-based national standards that are easier to administer and enforce.

43. Finally, regulatory priorities differ across jurisdictions. In economies with developed capital markets, there is a stronger incentive to align with international standards, to attract investment and enhance comparability.[30] In contrast, in economies dominated by small, family-owned enterprises with limited external financing demand, the perceived benefits of the IFRS for SMEs Accounting Standard may be outweighed by compliance costs.[31] As a result, adoption decisions reflect not only legal traditions, but also broader considerations related to economic structure, administrative feasibility and policy objectives, leading to the observed international diversity in uptake.

B. International Accounting Standards Board survey

44. In February 2025, IASB issued the results of an online survey on the implementation of the IFRS for SMEs Accounting Standard, showing that most respondents generally supported the continued use and periodic updating of the Standard, with mixed views regarding the IASB approach of aligning it with the full IFRS accounting standards.[32] Users of SME financial statements such as lenders and investors indicated that the most useful information in decision-making related to cash flows and liquidity, particularly the ability of SMEs to repay debt; financial risks and contingent liabilities; accounting policies applied by SMEs; and more disaggregated financial information that helped understand the financial position and performance of an SME. Cash flow information was highlighted as particularly important because lenders and creditors often rely on it to assess creditworthiness. Several concerns were mentioned repeatedly, namely, respondents emphasized the need to maintain an appropriate cost–benefit balance and indicated that frequent updates or excessive alignment with the full IFRS accounting standards could impose significant implementation costs on SMEs. Some stakeholders considered the Standard relatively complex for very small

[28] Kamotho and Kaudo, 2023.

[29] See https://www.iaasb.org/focus-areas/isa-lce-standard-audits-less-complex-entities.

[30] Bengtsson M and Argento D, 2023, International accounting convergence and divergence: Towards a framework for understanding de jure adoption of IFRS, Accounting in Europe, 20(3):370–392; Potharla S, 2025, Global adoption of IFRS: A comprehensive review and critical analysis 2000–2025, available at https://ssrn.com/abstract=5277789.

[31] Litjens R, Bissessur S, Langendijk H and Vergoossen R, 2012, How do preparers perceive costs and benefits of IFRS for SMEs Accounting Standard? Empirical evidence from the Kingdom of the Netherlands, Accounting in Europe, 9(2), 227–250.

[32] See https://www.ifrs.org/content/dam/ifrs/project/2019-comprehensive-review-of-the-ifrs-for-smes-standard/ifrs-standard/feedback-statement-effects-analysis.pdf.

or owner-managed enterprises and stressed the importance of keeping measurement and disclosure requirements simple and proportionate.

45. The feedback indicates that the IFRS for SMEs Accounting Standard needs to be simpler and less costly, to find wider appeal. Users such as lenders, investors and suppliers mainly prefer clearer information about liquidity, risks and cash flows, while preparers emphasize the importance of keeping reporting requirements manageable and cost-effective for smaller enterprises.

C. Digitalization and artificial intelligence

46. The evolving needs of SMEs in the context of digitalization and artificial intelligence are increasingly shaping how accounting and financial reporting frameworks are applied and delivered, with an increasing emphasis on accessibility, real-time data and decision-support tools.[33] The growing use of artificial intelligence and digitalized accounting systems is creating new challenges for SMEs, particularly in developing countries, because modern integrated platforms increasingly require reliable digital infrastructure, including stable Internet connectivity, cloud-computing services, secure payment systems, compatible point-of-sale technologies, data storage capacity, cybersecurity protections and trained personnel able to manage and interpret automated financial information.[34] Advanced systems can automatically link sales transactions, inventory management, supplier ordering, payroll, tax reporting and employee performance tracking, yet many small enterprises in developing countries face significant barriers to adoption due to high implementation costs, unreliable electricity and Internet access, the lack of technical expertise, limited access to financing, cybersecurity concerns and the difficulties of integrating informal cash-based business practices into sophisticated digital reporting systems.

47. In programmes such as those implemented by UNCTAD, digital tools such as the e-accounting platform are being integrated in order to help entrepreneurs manage finances more effectively, often through mobile-based applications, cloud-based accounting platforms and basic artificial intelligence-enabled analytics. For example, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting has issued an accounting training manual for microenterprises and SMEs and the e-accounting tool, which supports such enterprises in record-keeping and improving their chances of accessing credit.

48. These tools respond to the practical needs of SMEs by helping to simplify bookkeeping, automate routine tasks and provide insights into cash flow and business performance, which is often more immediately relevant than formal financial statements. For example, in El Salvador, digital entrepreneurship initiatives have incorporated training in the use of digital platforms to improve business management and reporting; and, in Uganda, digital solutions have been used to enhance financial literacy and record-keeping among small entrepreneurs, supporting better access to finance and participation in formal markets.[35]

D. Needs with regard to existing standards and guidance

49. The discussion in this note suggests that the needs of SMEs have only been partially met. Frameworks such as the IFRS for SMEs Accounting Standard have improved transparency, comparability and access to finance for more formalized firms, but many microenterprises and small enterprises still find the procedures too complex, costly or not sufficiently tailored to their limited capacities and predominantly local operations. In particular, the smallest firms often prioritize cash flow management and tax compliance over full accrual reporting and may lack the skills or incentives needed to adopt more elaborate

[33] See https://www.oecd.org/en/publications/the-digital-transformation-of-smes_bdb9256a-en.html.

[34] Oldemeyer L, Jede A and Teuteberg F, 2024, Investigation of artificial intelligence in SMEs: A systematic review of the state of the art and the main implementation challenges, Management Review Quarterly, 75:1185–1227.

[35] Based on internal monitoring data and project documentation of the UNCTAD Empretec programme.

standardized frameworks, while informal sector dynamics further reduce uptake. As a result, although progress has been made, particularly for medium-sized enterprises integrated into international supply chains or seeking external finance, the broader and more diverse needs of SMEs, particularly at the micro level, seem to have been only partly addressed.

50. In this regard, an update of the level 3 guidance of the Intergovernmental Working Group of Experts in *Accounting and Financial Reporting Guidelines for SMEs* could better address the artificial intelligence-driven and digital transaction environment for SMEs. The guidance was aimed at paper-based or semi-formal bookkeeping environments and does not fully reflect present circumstances, whereby even microenterprises increasingly use mobile money, point-of-sale systems, cloud-based accounting applications and platform-based sales channels. Updated guidance could address the new technologies and unique needs of SMEs, including microenterprises, with regard to financial reporting. Attempts to bridge the gap between informal accounting realities and modern automation need to be simple, modular and adaptable to the uneven levels of digitalization that may be found in emerging economies.

IV. Conclusion and issues for further discussion

51. In conclusion, accounting and financial reporting has a critical role to play in supporting the development, formalization and resilience of SMEs. There is a clear synergy between improved reporting and broader development outcomes. Better financial information can enhance access to finance, strengthen integration into value chains and improve transparency, while also supporting internal management, planning and decision-making within enterprises. However, for this potential to be fully realized, reporting frameworks need to be designed with proportionality at their core, considering size, capacity and risk profile, as well as the intended users of the financial information of SMEs.

52. National reporting frameworks and requirements need to reflect the realities of SMEs and be aligned with the needs of key users of financial information. Greater alignment between accounting, tax and regulatory systems can significantly reduce compliance burdens, minimize duplication and create incentives for formalization. At the same time, there is a need to promote globally consistent yet flexible reporting frameworks that can be adapted to different country contexts, recognizing that a one-size-fits-all approach is neither practical nor effective.

53. Capacity-building and technical assistance remain central to the success of any SME reporting framework. Initiatives such as training programmes, including train-the-trainer modules and practical guidance materials, are essential in building local expertise and ensuring that both preparers and users of financial information can effectively apply reporting standards. Strengthening such efforts, particularly in developing countries, is key in enhancing both compliance and the internal use of accounting information by SMEs.

54. A recurring theme is the need to find a balance between simplicity and credibility. Excessive or overly complex reporting requirements risk discouraging compliance and may lead SMEs back into the informal economy.[36] This underscores the importance of carefully considering the applicability of large-company rules to smaller entities and rethinking traditional thresholds such as turnover or number of employees. More flexible approaches, potentially incorporating risk-based criteria or the purpose of financial information, may offer more meaningful ways to determine appropriate reporting requirements.

55. Future work in this area could reassess SME classification criteria by examining alternatives to traditional size-based thresholds (e.g. turnover, assets, employees) and exploring risk-based, stakeholder-based or financing-based approaches to determining reporting obligations. Differences between developed and developing country contexts need to be taken into account, particularly in terms of institutional capacity, the availability of professional expertise and the structure of SME sectors. Future work could also include examinations of how limited professional capacity, weak enforcement mechanisms and large

[36] Loayza NV, Oviedo AM and Servén L, 2005, The impact of regulation on growth and informality: Cross-country evidence, Policy Research Working Paper No. 3623, World Bank.

informal sectors affect SME reporting outcomes. Successful policy approaches from developed and developing countries could also be identified and shared.

56. The discussion suggests continuing interest in developing proportionate and tiered reporting frameworks that balance the credibility and comparability associated with international standards, such as the IFRS for SMEs Accounting Standard, with the simplicity and cost-effectiveness required by smaller entities, such as that included in the level 3 guidance of the Intergovernmental Working Group of Experts in *Accounting and Financial Reporting Guidelines for SMEs*. As part of this discussion, revisiting and potentially updating this guidance could help ensure that it remains relevant to the evolving needs of all small enterprises, reflecting the increasing role of artificial intelligence and digitalization.

57. In addition to the issues presented in this note, delegates at the forty-third session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting may wish to consider the following questions:

(a) What are the main accounting and financial reporting-related challenges that SMEs face (the discussion could differentiate between those jurisdictions that have adopted accounting and financial reporting standards for SMEs and those that have not yet done so)?

(b) How can reporting standards help enhance SME participation in international supply chains and access to finance?

(c) Have the needs of SMEs been met with regard to accounting and financial reporting standards? If not, what needs to be done further in this regard?

(d) What is the role of infrastructure in implementing accounting and financial reporting standards and how can the development of such infrastructure be sequenced in order to help countries implement appropriate accounting and financial reporting standards?

(e) What are some good practices that policymakers and regulators could adopt to facilitate the adoption of accounting and reporting standards for microenterprises and SMEs?

(f) Is there a need to make available guidance for entities that are above the threshold of the level 3 guidance of the Intergovernmental Working Group of Experts in *Accounting and Financial Reporting Guidelines for SMEs* and below the level of entities capable of applying the IFRS for SMEs Accounting Standard?

(g) What can international forums such as the Intergovernmental Working Group of Experts do to further facilitate the adoption of accounting and financial reporting standards for SMEs?