



UNIVERSITY OF
CAMBRIDGE
INSTITUTE FOR
SUSTAINABILITY LEADERSHIP

Banking
Environment
Initiative



SMEs, Finance and the Net Zero Transition

January 2022

Two CISL centres of expertise collaborating with WMB and BSR to support the SME-transition



Delivering

- 1 Net zero training for SMEs
- 2 Guidance for SMEs to access finance for reducing emissions, available via the SME Climate Hub
- 3 Insights on new technologies critical to supporting an SME net zero transition
- 4 Building banking community capacity to support their clients transition to net zero



SMEs not yet a part of the net zero transition

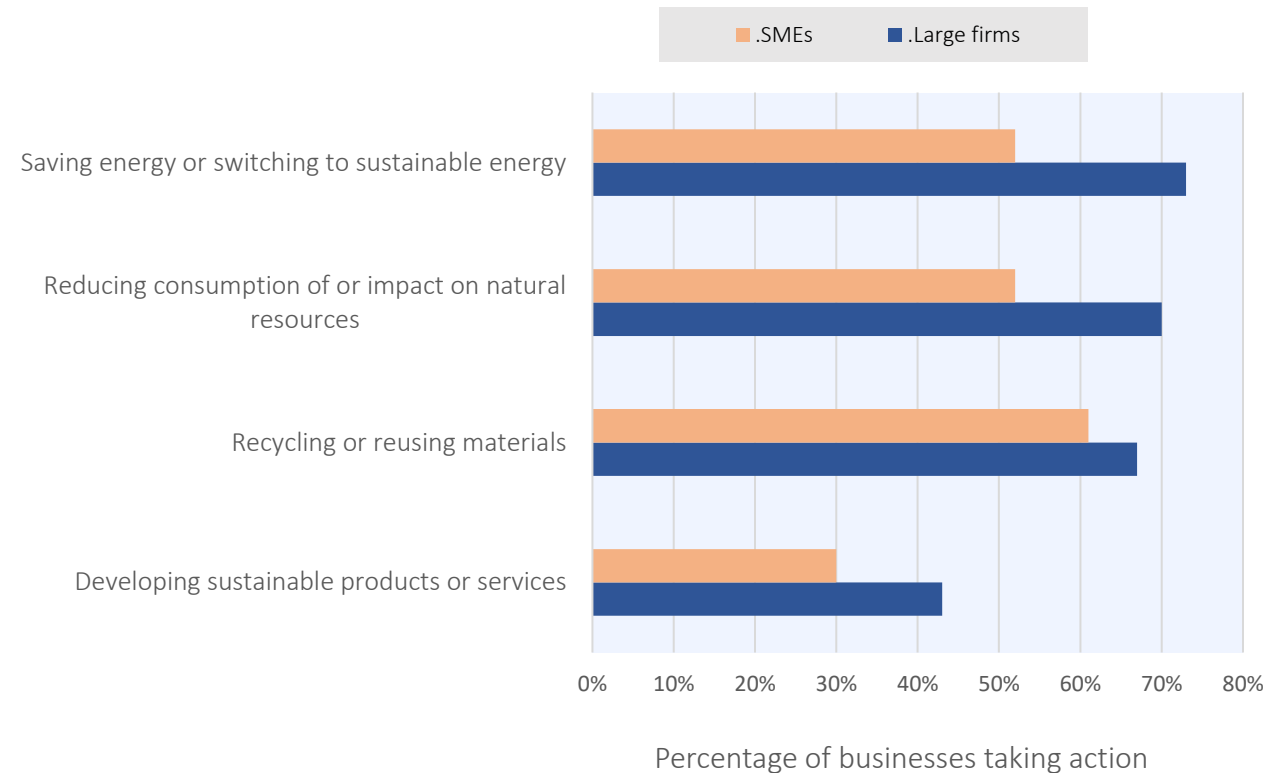
Small and medium sized enterprises (SMEs) lag behind larger corporates on net zero commitments:

- 30 per cent of SMEs in the UK currently have no plans to become sustainable.¹
- Even amongst those who have made a net zero commitment under the [SME Climate Hub](#), only 6 out of 10 have an emissions reduction plan.
- Chart 1 shows SMEs lag behind large firms on a range of actions to reduce emissions.

Without an SME transition, we do not have a net zero transition:

- SMEs account for 99 per cent of businesses globally.³
- In the OECD area, SMEs contribute 60 per cent of industrial emissions.

Chart 1: SMEs taking less action on climate than large firms²



¹ David Vetter, (2021). 30% Of U.K. Small Firms Have ‘No Plans’ To Become Sustainable, Survey Finds. Forbes. Retrieved from: <https://bit.ly/3bkwlwL>

² European Commission, (2020). Eurobarometer Survey https://data.europa.eu/data/datasets/s2244_486_eng?locale=en

³ OECD (2017). Small, Medium, Strong. Trends in SME Performance and Business Conditions. Retrieved from: <https://doi.org/10.1787/9789264275683-en>

Financial community can help SMEs transition, but is not yet seen as a source of assistance

How the financial community can help

Yet a survey shows, SMEs expect very little from the financial community

1. Highlighting the risk of not taking climate action

Assess and communicate risks posed by climate change and the responses to it, e.g. asset write downs or policies penalising high emitters.

2. Support and incentivise SMEs' decarbonisation

Offer new financial products e.g. green loans

Facilitate working capital support e.g. sustainable supply chain finance

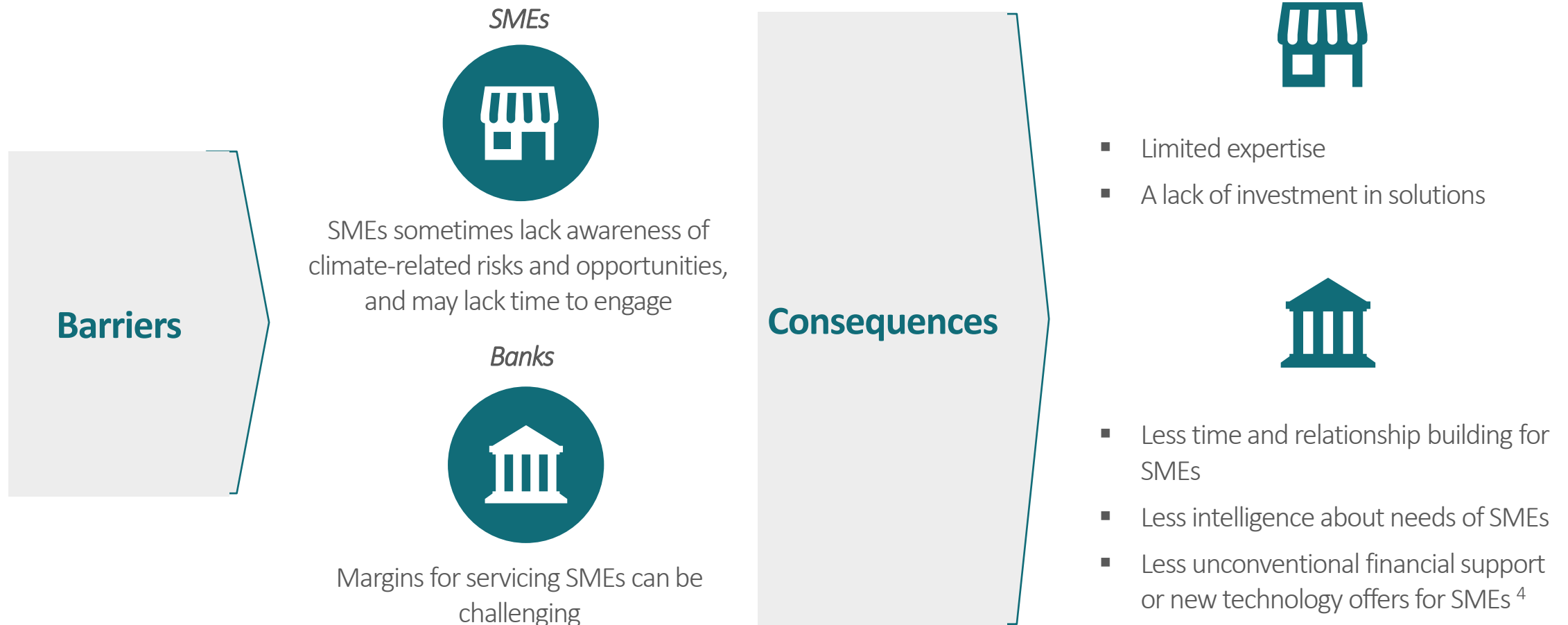
3. Connect SMEs to expertise

Provide insights into how SME customers' industries and peers are taking action

Connect SMEs to sustainability specialists

Only 4.6 per cent of SMEs would go to their bank for support with designing or delivering an emissions reduction plan

Barriers to financing the SME net zero transition



⁴ NatWest (2021). A springboard to recovery. Retrieved from: <https://bit.ly/3vOtJAx>

The opportunity of the SME net zero transition

For
SMEs



Mitigating Risk

- Changing consumer preferences pose risks to those left behind: 50% sales growth in consumer goods in the US attributed to sustainably marketed products.⁵
- Policy developments, such as extension of carbon tax, pose risks to laggards

Seizing Commercial Opportunities

- The fastest growing consumer brands in America in recent years, such as Allbirds, have been leaders in sustainability.
- Investing in energy efficiency and clean technology reduces footprint and cost, as well as creating resilience to policy change.

For
Banks



- Supporting SME clients' emissions reduction will reduce SME and bank portfolio exposure to climate-related sources of transition risk – policy, technology and consumer preference risks. This can increase associated resilience.

- Reducing SME emissions will enable banks to achieve their net zero commitments and support larger corporate clients address their scope 3 emissions reduction targets.⁶
- Servicing leaders on climate action will enable the bank to, in the words of one banking leader, work with “the winners of tomorrow”.⁷
- The net zero transition necessitates a closer relationship between bank and client, achieving this will create stickier bank-client relationships

⁵ Whelan, Tensie. Kronthal-Sacco, Randi. (2019). Research: Actually, Consumers Do Buy Sustainable Products. Harvard Business Review. Retrieved from: <https://bit.ly/3w8NnHB>

⁶ United Nations. Net-Zero Banking Alliance. Retrieved from: <https://bit.ly/3nSAV17>; Re large corporates see: Rosenbaum, Eric. (2021). Climate experts are worried about the toughest carbon emissions for companies to capture. CNBC. Retrieved from: <https://cnb.cx/3q0oxsA>

⁷ Senior bank representative quote in CISL. (2020). Bank 2030: Accelerating the transition to a low carbon economy. Cambridge: University of Cambridge Institute for Sustainability Leadership.

Banks provide financial support for sustainable business activities both directly and indirectly

DIRECT: Green and sustainability-linked loans

Certify business' investment meet climate-positive criteria in exchange for interest rate discount.

Example: Lloyds Banking Group's Clean Growth Initiative.⁹

INDIRECT: Concessionary finance

Public body takes investment risk to 'crowd-in' private finance.

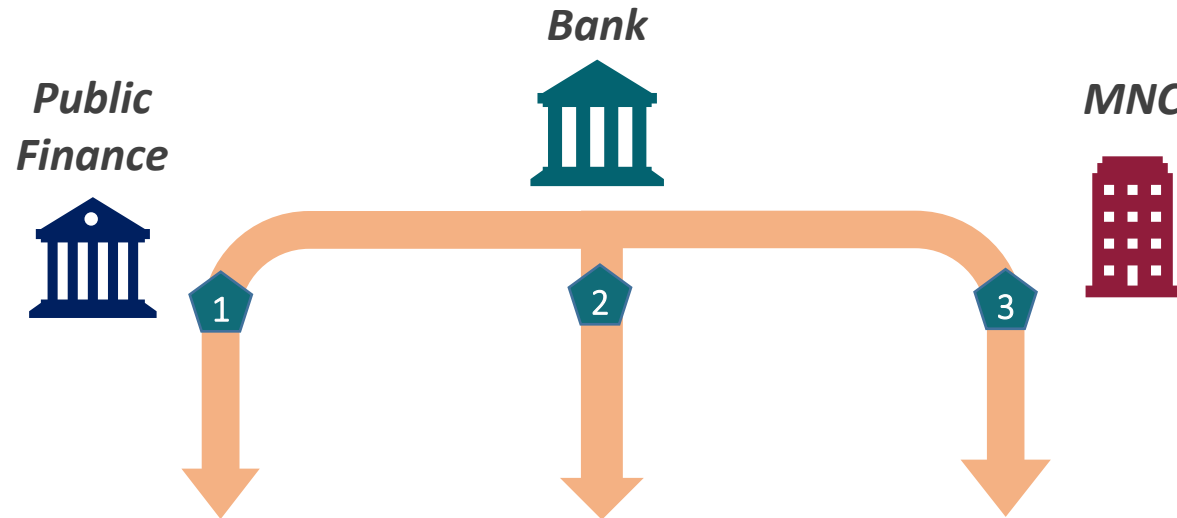
Example: KfW and EIB's Green Growth Fund provides financing to businesses for energy efficiency and renewable energy through partnerships with financial institutions.⁸

INDIRECT: Sustainable supply chain finance

Sustainable supply chain finance

Multinational corporation (MNC) buyer arranges for a bank to extend discounted credit their suppliers based on sustainability criteria of SME and buyer's credit rating.

Example: Walmart's suppliers fulfilling certain sustainability criteria can now use purchase order numbers they have raised with Walmart to access discounted working capital from HSBC.¹⁰



⁸ Köning, Anja-Nadine. Club, Chris. Apampa, Andrew. (2020). Innovative development finance toolbox. KfW Development Bank. Retrieved from: <https://bit.ly/31cWz2d>

⁹ Lloyds Bank. Clean Growth Financing Initiative. Retrieved from: <https://bit.ly/2XZHi3w>

¹⁰ Jay, Ashar. (2019). HSBC and Walmart join forces on sustainable supply chain finance programme . The Global Treasurer. Retrieved from: <https://bit.ly/2ZPEmHA>

SME Climate Hub empowers smaller businesses to be part of net zero transition



The [SME Climate Hub](#) is an online platform of resources for small and medium size businesses looking to transition to a net zero economy.

Initiated by government campaigns, the Hub aims to incentivise and assist businesses commit halving GHG emissions before 2030 and reaching net-zero before 2050.

SMEs who make the commitment will gain access to the tools to enable them to measure emissions, develop a business strategy to improve operations and report on their progress.

These resources will help SMEs access and apply for financial support.

SME Climate Hub Ecosystem



Banking Environment Initiative contribution to Hub: Financial support guide for SMEs

- In November, 2021, the SME Climate Hub launched an online guide on financial support for SMEs.
- The online guide was created in collaboration with We Mean Business, BSR, CISL and project participants from the banking and corporate sector.
- Summarising financial support for reducing emissions, it takes businesses through various sources of funding and how to access it.
- One of the aims of the guide is to encourage SMEs to rethink their relationship with their bank.

Financial support

Financial support for reducing emissions

By clicking on any of the above sources of funding, you will be taken to information on:

- Who to speak with at this source of funding
- How to prepare for our visit
- Who to call (including a local adviser)

Access the SME Climate Hub's Financial
Support Guide here

Points of contact at CISL

What you can do next

1. Use the guide for financial support on the SME Climate Hub, available [here](#).
2. Share it with your network
3. Contact us if you
 - a) have any questions,
 - b) have case studies you would like us to share
 - c) would like to discuss the work and potential innovative solutions



Annabel Ross

Senior Programme Manager
Banking Environment Initiative (CISL)

Annabel.Ross@cisl.cam.ac.uk

+44 7784 219604



Thom Marx

Project Manager
Centre for Sustainable Finance (CISL)

Thom.Marx@cisl.cam.ac.uk

+44 7411354740



Grant Rudgley

Senior Project Manager
Banking Environment Initiative (CISL)

Grant.Rudgley@cisl.cam.ac.uk

+44 7840 638230

[Banking Environment Initiative \(BEI\)](#)

