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

![Chart showing percentage of businesses taking action on climate]

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

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

How the financial community can help

1. Highlighting the risk of not taking climate action
2. Support and incentivise SMEs’ decarbonisation
3. Connect SMEs to expertise

- Assess and communicate risks posed by climate change and the responses to it, e.g. asset write downs or policies penalising high emitters.
- Offer new financial products e.g. green loans
- Facilitate working capital support e.g. sustainable supply chain finance
- 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

Based on SME Climate Hub Survey of 185 SME businesses conducted in July 2021
Barriers to financing the SME net zero transition

**Barriers**

- **SMEs**
  - SMEs sometimes lack awareness of climate-related risks and opportunities, and may lack time to engage

- **Banks**
  - Margins for servicing SMEs can be challenging

**Consequences**

- Limited expertise
- A lack of investment in solutions

- Less time and relationship building for SMEs
- Less intelligence about needs of SMEs
- Less unconventional financial support or new technology offers for SMEs

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The opportunity of the SME net zero transition

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<tr>
<th>Mitigating Risk</th>
<th>Seizing Commercial Opportunities</th>
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<td><strong>For SMEs</strong></td>
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<tr>
<td>▪ Changing consumer preferences pose risks to those left behind: 50% sales growth in consumer goods in the US attributed to sustainably marketed products.(^5)</td>
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<td>▪ Policy developments, such as extension of carbon tax, pose risks to laggards</td>
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<td><strong>For Banks</strong></td>
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<tr>
<td>▪ 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.</td>
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<td>▪ 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)</td>
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<td>▪ Servicing leaders on climate action will enable the bank to, in the words of one banking leader, work with “the winners of tomorrow”.(^7)</td>
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<td>▪ The net zero transition necessitates a closer relationship between bank and client, achieving this will create stickier bank-client relationships</td>
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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: 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.\(^{10}\)

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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.
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.

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

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