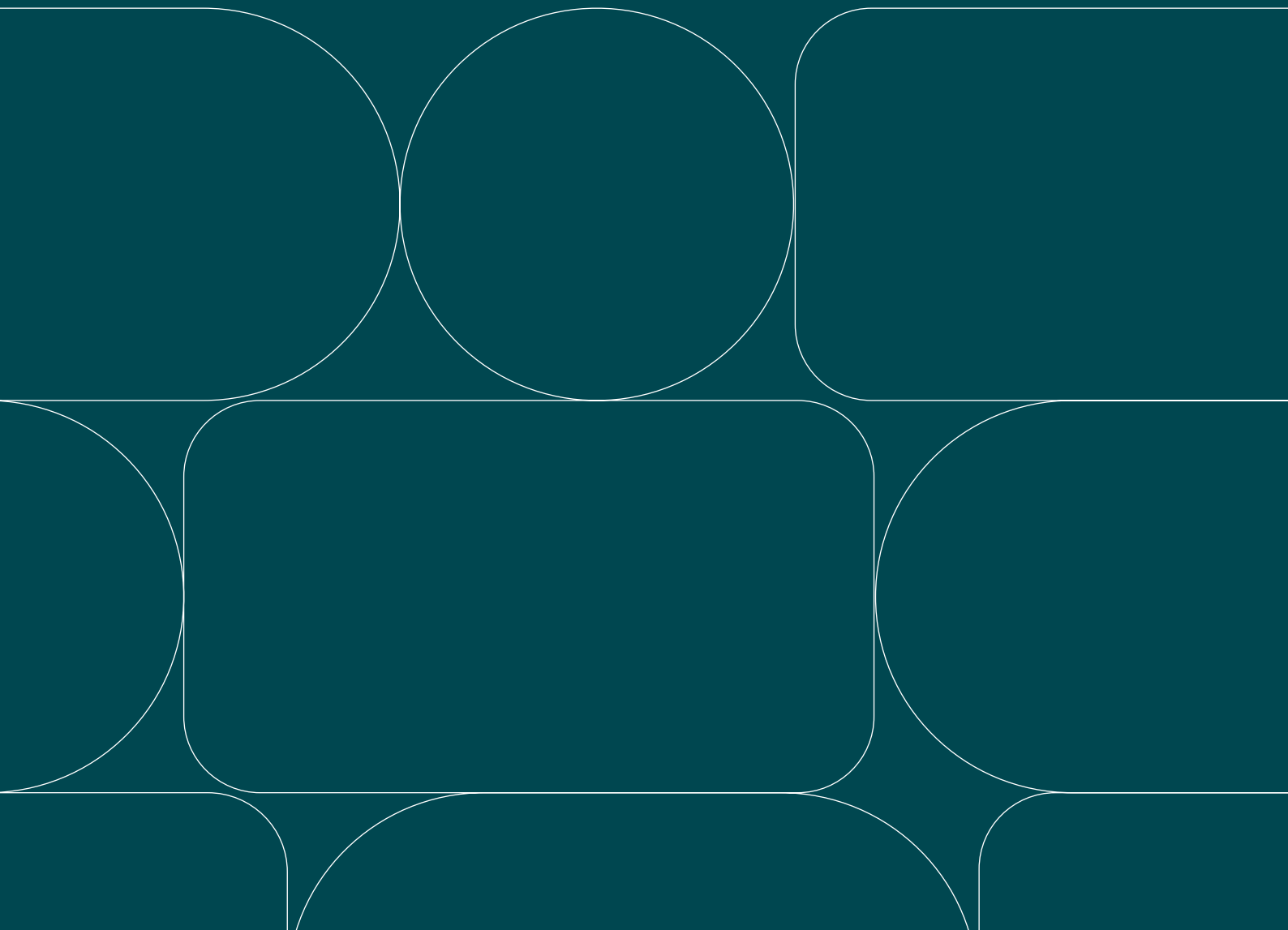


How can banks support SMEs in the journey to net-zero?



The role of SMEs in building a more sustainable future



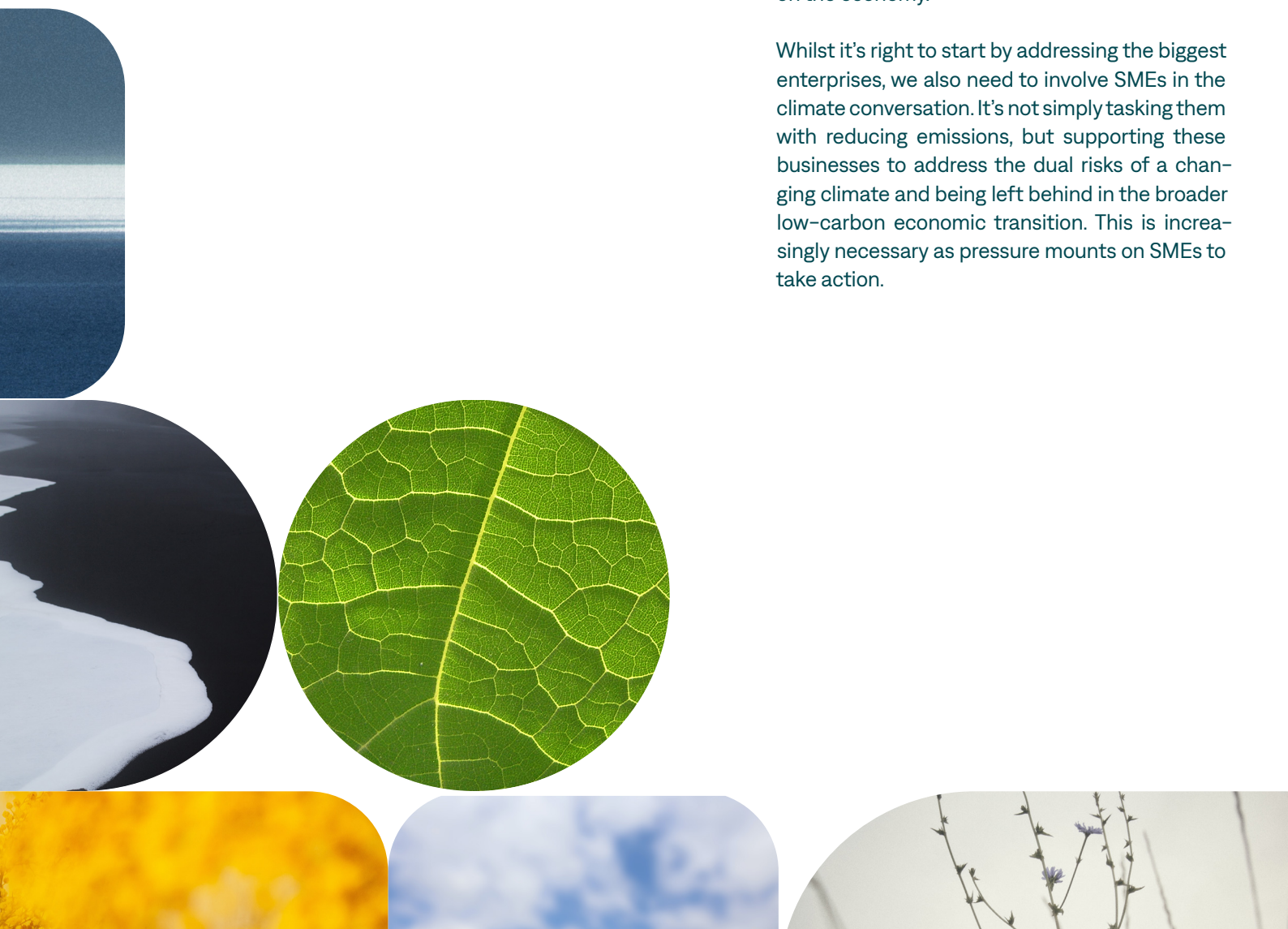
Small and medium-sized enterprises (SMEs) are typically defined as businesses with fewer than 250 full-time employees. Based on this definition, there are over 5.6 million SMEs in the UK.

SMEs are vital to the UK economy, contributing **50% of total UK turnover** and providing more than **half of the nation's employment**.

Like larger businesses, SMEs also use a significant amount of energy, fuel and materials to deliver their products and services. In fact, SMEs contribute around **30% of the UK's total emissions**.

Yet, public discourse often neglects to understand and address climate change from an SME perspective, despite their considerable influence on the economy.

Whilst it's right to start by addressing the biggest enterprises, we also need to involve SMEs in the climate conversation. It's not simply tasking them with reducing emissions, but supporting these businesses to address the dual risks of a changing climate and being left behind in the broader low-carbon economic transition. This is increasingly necessary as pressure mounts on SMEs to take action.



The pressure on SMEs to take climate action

Push Factors on SMEs



Consumer and public pressure

COP26 and the recent IPCC reports highlighted how urgently we need to reduce emissions and how our society and economies can successfully transition. Consequently, this has created greater awareness in the general public and increased pressure for climate action from all sectors of society.

Demand for science-based targets

Since the IPCC's 1.5 degrees report in 2018 and subsequent COP events, we have seen the risks of climate change becoming mainstream in assessing businesses and their supply chains. There is also increasing awareness of the market-related benefits of shifting to a low-carbon economy. This has raised scrutiny from investors, the government and the public on enterprises to have more robust science-based targets, climate actions and better reporting.

Business risks

Even since COP26, the risks of not taking climate action are multiplying. This is due to energy cost exposures, the possible future carbon taxes, losing out on finance and investment that has carbon stipulations. And, failing to take advantage of a new area of growth in the provision of low-carbon and sustainable products and services.

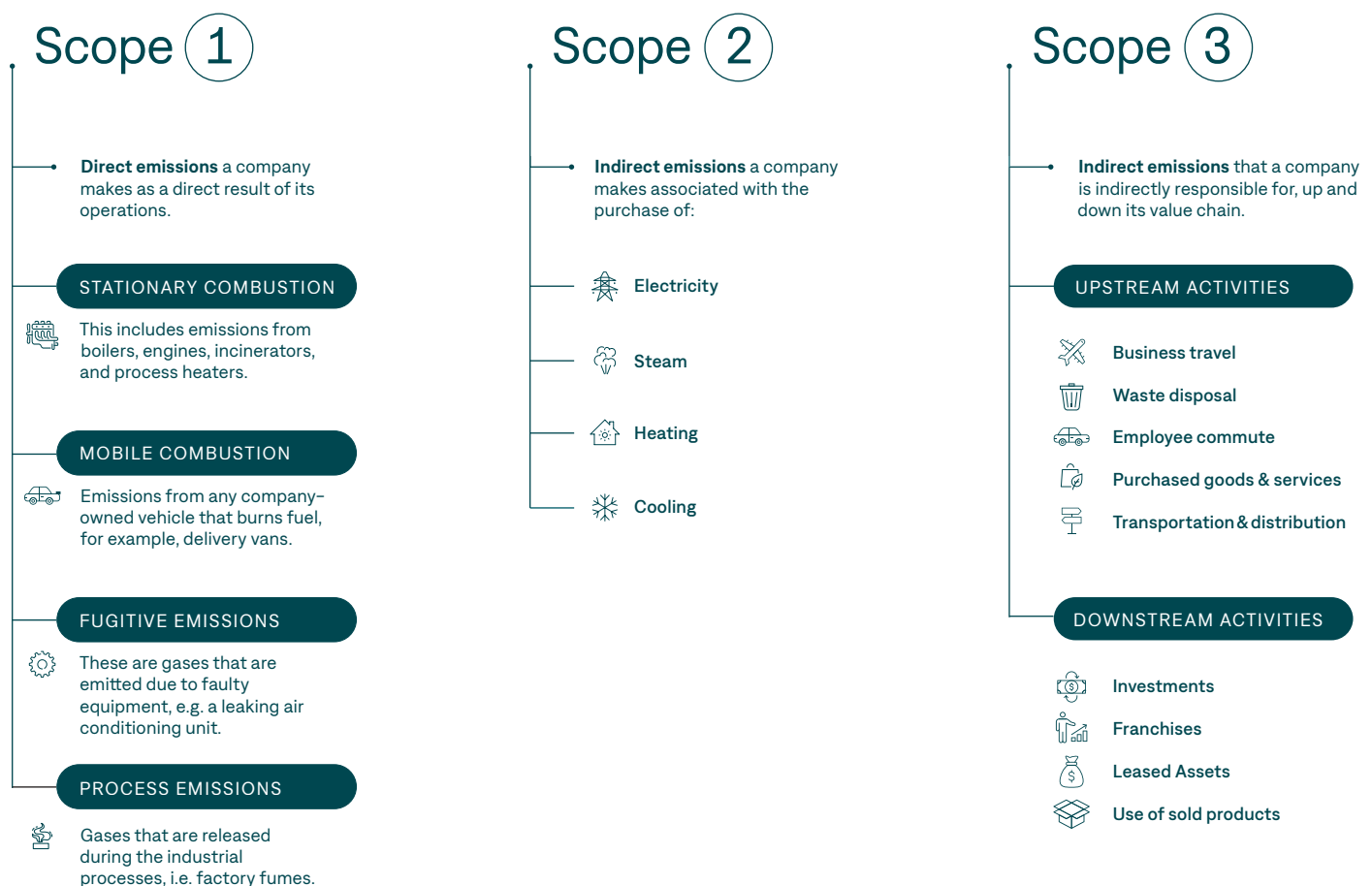
B2B pressure

Larger corporations now have to measure and address their Scope 3 emissions – greenhouse gases emitted from upstream and downstream activities (see diagram below). A large proportion of these emissions come from their supply chain.

As SMEs are usually at the centre of corporate supply chains, they are increasingly being asked to provide data on their emissions and pressured to take action to reduce them.

As a result, many SMEs are at risk of losing business unless they can provide the requisite information and create climate action plans that meet the standards expected of corporate buyers and investors.

It might sound like there's a lot of top-down pressure, and there is in some cases. But it's equally important to look at the other reasons why SMEs do, and should, engage in measuring and reducing their emissions.



Pull Factors on SMEs



Business opportunities

The demand for low-carbon products and services is rapidly increasing. This represents a significant opportunity for businesses, as low-carbon products and services become the norm, not the alternative, in our net-zero societies. Companies that act first and fast can access new opportunities and gain a competitive advantage.

Co-benefits

Reducing carbon emissions also has other economic or 'co-benefits'. For example, when we improve the insulation of buildings, we save money on heating, and we create warmer and healthier environments, making team members happier, healthier and more productive. The same is true for upgrading lighting, reducing onsite emissions from vehicles, and countless other areas of action. They simply make good business sense. Improving energy efficiency in the current times of high and volatile energy prices is essential to business continuity, not just carbon reduction.

Motivated business leaders

Many SMEs are motivated to take action through committed individuals and leaders. The majority of SMEs are small, with fewer than ten employees. So, the influence of individuals cannot be understated.

The challenges facing SMEs

Despite the mounting pressure, many SMEs are struggling to take action due to the following roadblocks:

Access to capital

Given the lean operations of SMEs, and current economic challenges, access to capital is often a barrier to many climate actions.

Results from the UN-backed SME Climate Hub's survey of SMEs committed through the hub showed that even amongst this cohort, the vast majority (70%) needed external finance and funding to reduce emissions. And most had not been offered any financial incentive to reduce their emissions.

Results from the SME Climate Hub's survey:

50% of small businesses calculate emissions

48% delay climate action due to a lack of funding

60% of small businesses plan to reduce their carbon impact

40% delay climate action due to a lack of time

2/3 of small business owners worry they don't have the skills/knowledge to tackle the climate crisis

70% of SMEs need access to external funds to reduce their emissions faster or at all

63% delay climate action due to a lack of skills and knowledge

1/3 of SMEs have been offered a financial incentive to reduce emissions

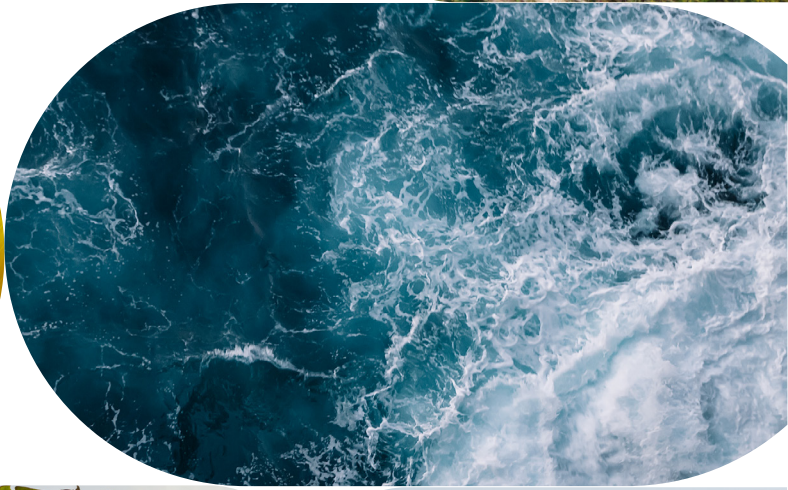
Lack of resources

Currently, a great deal of the efforts for reducing carbon emissions in SMEs focuses on scaling down enterprise-level requirements, reporting and initiatives rather than working from the ground up. These target and reporting requirements are often complex and require significant resources and literacy in the subject. Even established enterprises and carbon officers can find the work challenging and time-consuming.

Whilst there have been efforts to simplify and target resources, there is still a gap between capacity, carbon literacy and the requirements to engage with initiatives.

How can we expect SMEs to set targets and report progress if they don't understand why or how? Or if they don't have the means to implement their plans and achieve these targets?

Yet, scaling down existing initiatives and protocols won't address the needs of most of this cohort. We need something else to help bridge the gap. Something that is action-focused and helps businesses manage their priorities. Something that saves the most carbon and reduces SMEs' exposure to risk whilst maximising opportunities.



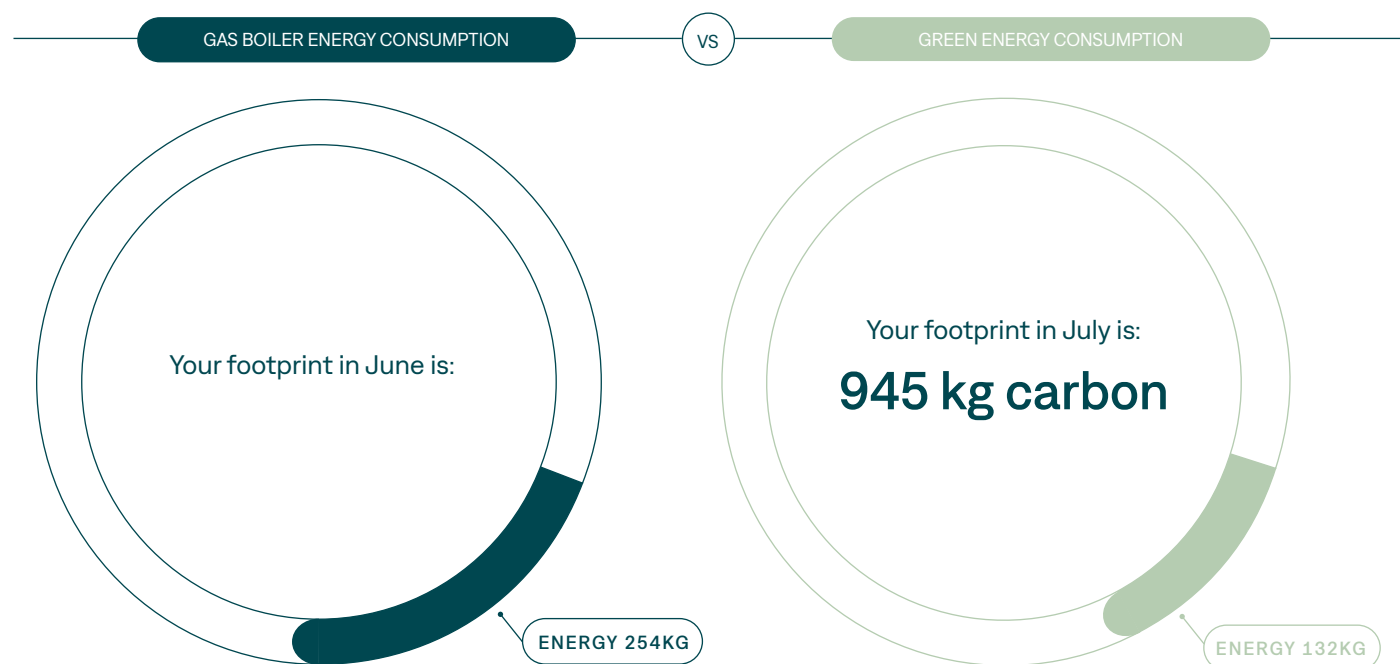
How to bridge the gap

Carbon emissions come from a range of business activities. When businesses generate carbon footprints for these activities, they can quickly prioritise actions according to the most significant impact. Furthermore, these actions can also be assessed for their viability and feasibility for any given time or context.

For example, businesses use energy for heat, lighting, IT equipment, specialist appliances, machinery and transport. This has a significant carbon footprint and an increasing cost due to energy market volatility and other global situations such as conflict and politics.

Therefore, improving energy efficiency or investing in low-carbon heating solutions, like heat pumps, would be a good place to start. As there are so many options to consider, SMEs need carbon footprints that are easy to generate that simply illustrate where priorities for action should be.

Once SMEs know what action to take, they need advice and funding to help them implement the changes. This is where financial institutions come in...



The role of banks in supporting SMEs

Financial institutions play a crucial role in shifting to low-carbon economies and enabling pathways to decarbonisation. That role is only going to get more important.

Improving access to finance

Banks have the power to assist SMEs through several means. The most obvious of these is through lending and investment consistent with credible emissions reduction, broader sustainability objectives and the various green investment taxonomies.

Access to finance for SMEs is critical, whether to extend a new low-carbon product or service provision in a high-growth market or to reduce energy consumption. Both have business cases and clear returns on investment as long as the correct options are considered and the fundamentals are in place.

There are many more reasons why banks benefit from supporting SMEs:

ESG requirements

Banks are increasingly subject to various voluntary, regulatory and sector-specific environmental and social governance (ESG) target and disclosure requirements. Many have been participating in disclosures through platforms such as CDP for several years and have set science-based targets.

Across the UK and Europe, there is a high level of scrutiny, not just on operations but on the impact of lending and investments upon a wide range of sustainability indicators, especially climate mitigation.



Regulations

Recent years have also seen the emergence of several standards for climate-related finance disclosure (e.g. ISSB, the EU's SFDR, UK's CFDR and TCFD). This is increasing the urgency and stringency of the financial sector to pivot towards being an enabler of climate action and emissions reduction.

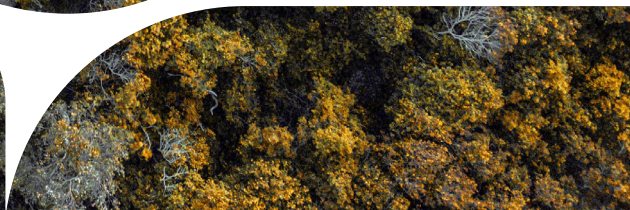
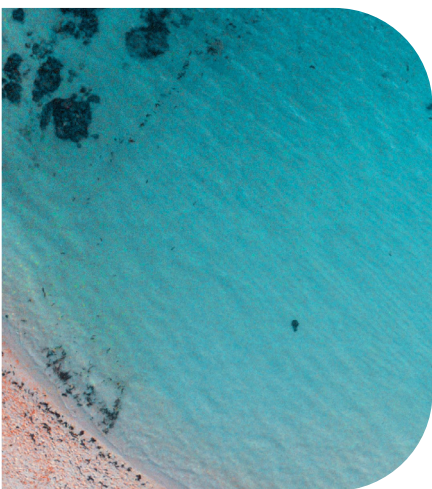
Central to this are the requirements for financial organisations to assess and manage their climate-related risks and opportunities in the context of their climate targets, and their portfolio of investments.

Business opportunities

Lending to SMEs is a significant exposure for banks but also a substantial opportunity for green finance, and it enables higher levels of emissions reduction. There is a real need for banks and SMEs to avoid stranded assets and lock-in with the rapid decarbonisation that economies will undergo.

Green lending also provides stimulus for the demand for goods and services in the low-carbon and renewable energy sectors of the economy, which can benefit banks as this is likely to positively affect part of the SME customer base that provides these services.

In more general risk terms, reducing energy costs and exposure to other carbon and climate financial risks will both enhance the standing of the SMEs in question and reduce the likelihood of their default. Therefore, supporting efforts to become more efficient and low-carbon increases the viability of the businesses themselves, especially given the volatile energy situation and the likelihood of rising costs on carbon and regulatory requirements.



How Cogo can help

We believe the solution starts with improving people's understanding of where emissions lie in an organisation's operations and highlighting opportunities to reduce carbon.

So we help SMEs analyse, measure, reduce and track their carbon footprint. We use market-specific spend-based emissions data from economic input-output models to provide businesses with an overview of where they are, where they need to go and how they can make the biggest difference.

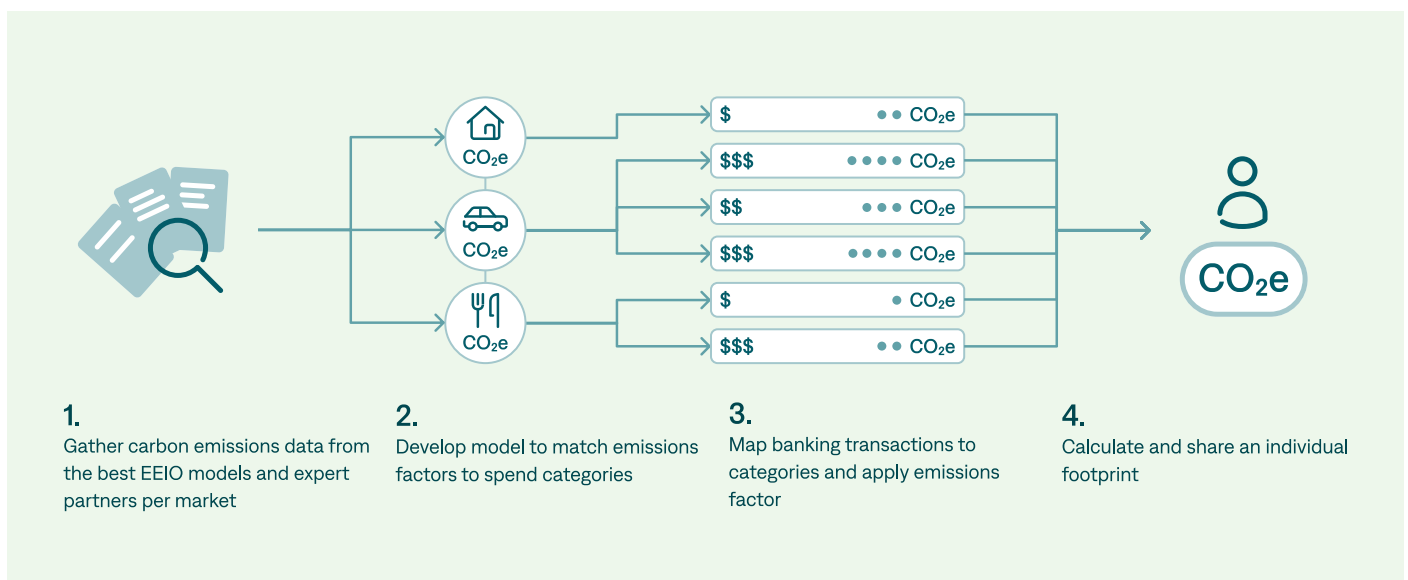
Whilst we focus on taking action, it's important that SMEs are aligned to future target setting, reporting and compliance needs. This helps SMEs progress in a way that makes them future proof, without complexity compromising their initial steps.

Our approach uses behavioural science and learnings to structure the user experience and ensure SMEs are engaged in taking action. We make sure that the route from footprint to action to implementation is broken down into bite-sized chunks that are easy to follow.

We also tailor to the needs of different sectors and sizes of businesses to keep the content and application relevant. Because no two businesses are the same.

Furthermore, our experience of working with providers, whether for individuals or SMEs, has provided us with the ability to create and identify opportunities for action. We can then link SMEs to finance offers (e.g. Green loans), and signpost to grants, further information and support.

We believe that support for SMEs should be easily accessible. Too often information is either too hard to find or overwhelming. So, we ensure information is presented simply and at the point where the user needs it.



Are you ready to take action?

If you want to support SMEs
in the journey to net-zero,
get in touch:



cogo.co/contact-us