

Removing the barriers to SME climate action – and why banks are key

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/ Preface

Last year, we surveyed over 600 small business owners in the United Kingdom, New Zealand and Australia, to identify what motivates SMEs to take climate action. Our findings revealed that market competition, carbon regulation and consumer demand for sustainable products and services were key drivers, while financial barriers prevented many small businesses from taking action.

This research helped highlight common themes, but we wanted to dig deeper to identify specific barriers to climate action in the current economic context.

Business owners have experienced several crises in recent years—from the pandemic to the rising cost of everything. Developing and implementing sustainability initiatives is difficult during ‘normal’ times, but these crises have compounded existing challenges. So, we wanted to understand whether small business owners have the headspace for sustainability and what support they need.

In collaboration with the Federation of Small Businesses (FSB), we conducted three focus groups with a range of retail, hospitality, manufacturing, services, and transport businesses in the United Kingdom, to understand the the key challenges they are facing, how SMEs want to receive and consume climate change information, and better understand whether SMEs have a preference for certain types of finance.

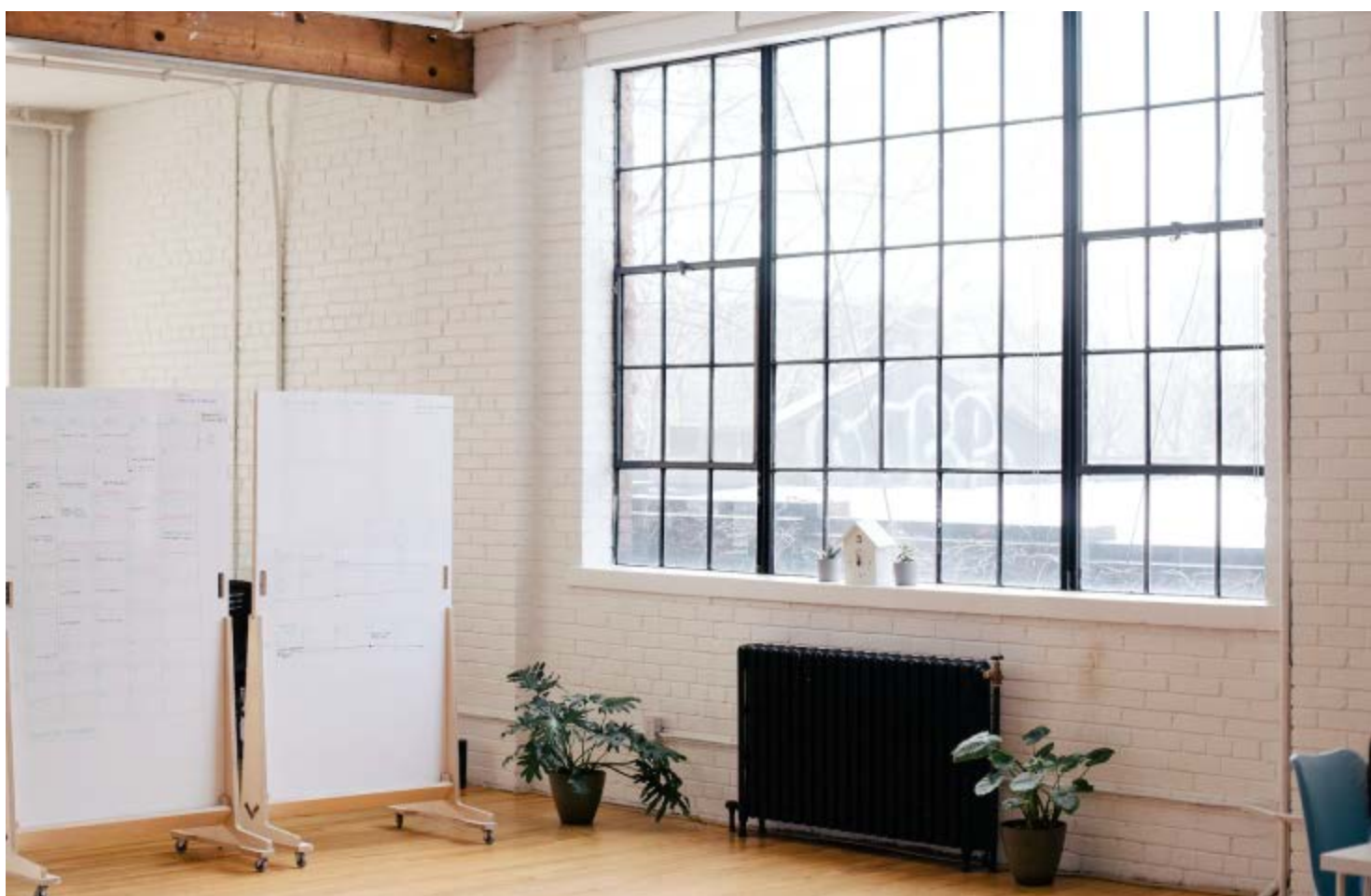
/ Executive Summary

Our research revealed SMEs face the following barriers when it comes to taking climate action:



Lack of knowledge

Many small business owners lack the knowledge they need to confidently take climate action and have difficulty finding relevant, specific advice.



Lack of time and resources

SMEs do not have the capacity or resources to take climate action, especially in the current economic context.



Struggle to afford expensive climate actions

Without financial assistance, high-cost actions remain out of reach for many small businesses.



Lack awareness of financial support

SMEs struggle to find and apply for grants and are not aware of financial support from banks.

/ Recommendations

1

Financial institutions can support SMEs by providing highly relevant climate change information.

2

SMEs need personalised financial assistance from their banks that will enable them to make the transition to a lower carbon impact.

3

Banks need to mobilise and get ahead of impending regulations around the issue of SME decarbonisation, as this will ultimately affect banks' ability to meet their own net zero targets.

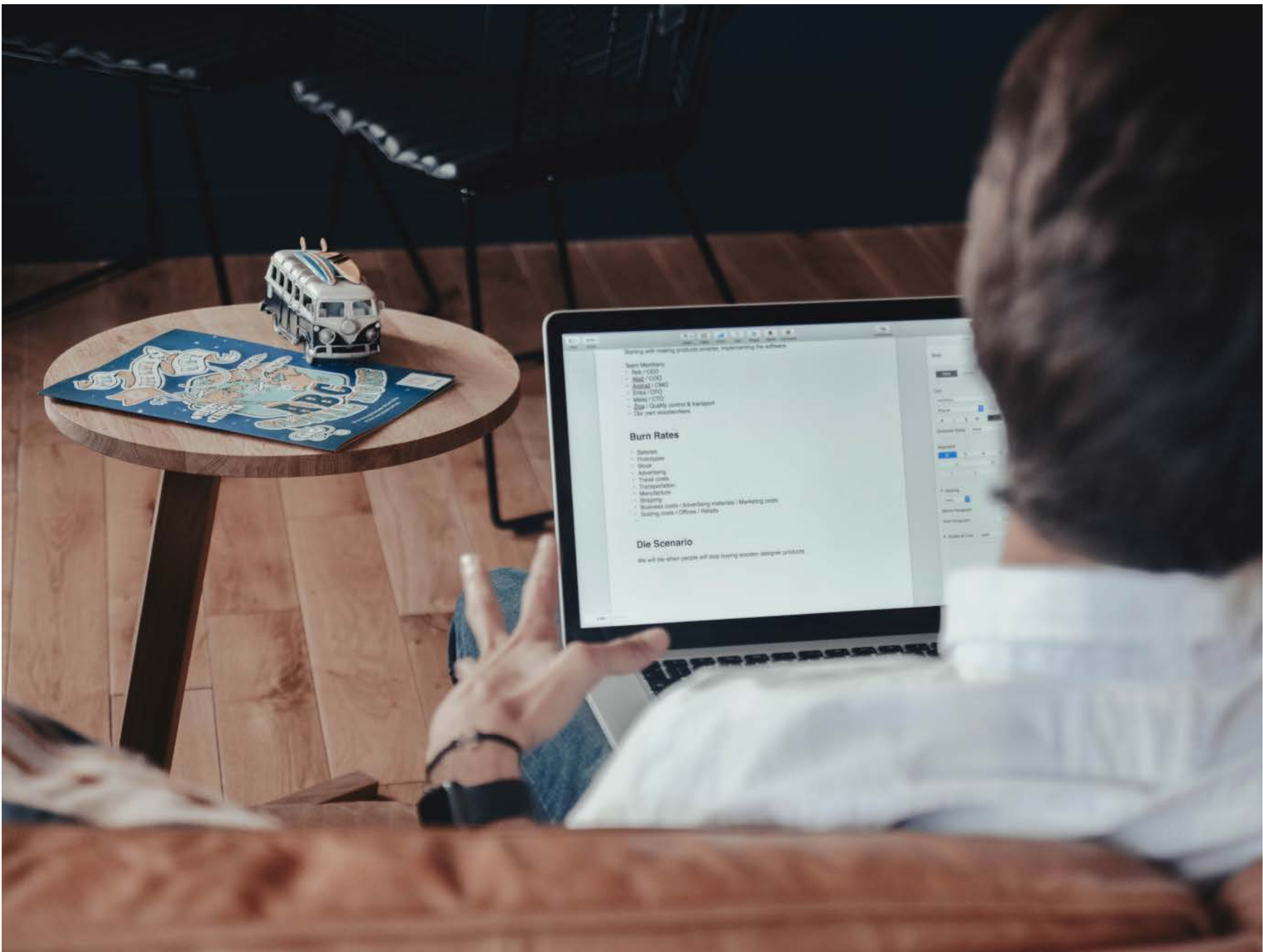
/ Introduction

Small and medium sized enterprises (SMEs) are the backbone of the economy. According to UK government statistics, they account for 99.9% of the business population, contribute around 50% of turnover in the UK’s private sector and provide three-fifths of the nation’s employment.

SMEs also use significant energy, fuel and materials to deliver their products and services. In fact, SMEs contribute around 30% of the UK’s total emissions. While individually, their climate actions may have a small impact, their collective impact is immense. Their actions not only influence their own emissions but

can also impact the businesses and communities around them. They affect the emissions of corporate supply chains. Despite their clearly crucial role in the transition to net zero, they are often left out of the climate conversation.

This research aims to understand some of the specific challenges they face, so we can provide better support, and encourage more meaningful climate action for SMEs.



/ barriers

/1

Lack of knowledge

Climate change is a complex topic, and the landscape is constantly changing. Our research revealed that small business owners find the terminology difficult to understand.

“I think that nobody really knows the difference between carbon neutral [and] net zero. So the terms are sort of bandied around.”

SMEs need clear education on climate change terms and what the UK’s net zero goals mean for their businesses.

The research also showed that SMEs find it challenging to find relevant information for their business. While free resources exist, the information is usually designed for a broad audience.

But SMEs are not a homogenous group, and needs differ across industries, sizes, customer types and regions. They require relevant and personalised information.

“If [climate change information] is going to help, it has to be meaningful, and it has to be representative of the business and what it means to you and, therefore, what you can do about it.”

Banks are well-placed to help bridge these gaps as banks can use SMEs’ transactional data to help them measure and understand their carbon footprint and send personalised climate action recommendations.

Carbon neutral

The state in which a company’s CO2 emissions are balanced by the removal or offset of carbon.

Net zero

The state in which greenhouse gas emissions have been reduced in line with a science-based target, and then the remaining residual emissions have been removed through offsetting.

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Lack of time and resources



Another critical barrier that prevents SMEs from taking climate action is not having the time or resources to implement sustainable action plans.

Larger businesses have whole teams and experts dedicated to understanding and implementing sustainable initiatives. However, many small businesses don't have the scope to hire internal or external help to dedicate to sustainability. For one participant, having an upskilled employee leave the company meant they had to pause progress on climate action.

"I'm really aware that since we lost the key member of staff who was looking after [our carbon measurement], and we lost a couple of other people last year that my time to actually get up to date on things is scarcer and scarcer."

Small businesses often cannot afford to invest in internal resources and upskilling team members. This amplifies the need for highly targeted information and recommendations for SMEs.

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Struggle to afford expensive climate actions

Certain high impact climate actions, like purchasing an electric vehicle, have high upfront costs. Without financial assistance, these actions remain out of reach for small businesses.

The cost of living crisis has also caused spikes in energy prices and other costs of goods. This has been a survival challenge for some businesses, and it is difficult for them to consider anything outside the scope of keeping afloat.

For others, the economic situation has dampened their immediate plans for climate action but not their motivation to continue taking climate action. These businesses may be looking to pause planned action until costs come down or reduce the scope of planned activities to fit into their current budgets.

“We do realise that our plans will maybe have to change slightly. You know, we’ll have to cut our cloth to fit our purse.”

There is a clear opportunity for banks to help small businesses with relevant financing.



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Lack awareness of financial support

The consensus within our focus groups showed that SMEs know grants exist but had difficulty finding and applying for them. This leaves many businesses to either self-fund or rule out high-cost (and often high-impact) actions.

Respondents said they gave up on applying for grants due to:

- Exclusionary requirements, particularly for micro-businesses, despite these businesses making up 74% of the private sector.**
- Applications are lengthy and complicated.**
- There is a lack of visibility or availability of grants.**

SMEs we spoke to were also unlikely to have heard from their banks about opportunities to finance carbon reduction projects. These discussions echo our findings from our previous [survey](#), which showed that only 30% of UK SMEs were aware of financing options for sustainable initiatives.

“There's actually a lot of different funding schemes out there, but in our experience, they've been really, really poorly marketed.”

/ How banks can help

/ How banks can help SMEs overcome barriers to climate action

Banks are under pressure to set ambitious net zero targets to meet before or by 2050. Achieving these targets will require banks to drastically reduce value chain (scope 3) emissions, particularly financed emissions. As each bank has hundreds and thousands of SME customers in their supply chain, SME decarbonisation is critical to reaching their climate targets.

Banks that can help small businesses overcome barriers to climate action and support SMEs in measuring, reporting and reducing their carbon emissions will both engage their business banking customers and cut emissions in their portfolios. Here’s how financial institutions can best support SMEs on their sustainability journey:

/1 Provide specific and incentivised finance for climate action

As identified from our research, many small businesses don’t believe they have the finances required to start their sustainability journey. Perhaps the most influential way that banks can support small businesses is through lending and investment consistent with credible emissions reduction and broader sustainability objectives.

While the research shows few have heard of specific offers from banks, there was high interest within the focus groups. Participants felt that a preferential rate should be provided for loans that will help to finance carbon reduction, to reflect the lower risk of the loan itself.

“I'd want the bank to be giving me an incentive because I'm doing this to cut my carbon footprint.”

/2 Help SMEs connect to relevant grants in addition to finance

To participants, it made sense that banks could support them to identify and apply for relevant grants to enable their actions, in addition to lending. Banks can use their building connections with Local Authorities and Local Enterprise Partnerships to help small businesses maximise the funding available to them.

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Help small business owners understand the business case for particular climate actions

As with any business decision, SMEs need to understand the business case for each climate action they are considering. As trusted financial partners, banks can provide the data to help SMEs make these decisions with confidence.

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Improve carbon literacy

Banks have an opportunity to help guide their small business customers through education and support. By integrating carbon trackers into the online banking experience, they can help customers understand their carbon footprint. This would help customers improve their carbon literacy, which our previous research shows helps increase motivation to take further climate action.

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Tailor paths to action

SMEs are not a homogenous group, and needs differ across industries, sizes, customer types and regions. It is, therefore, important that banks offer relevant and personalised information.

This can be achieved by helping customers understand their business carbon footprint and providing tailored recommendations as to how they can reduce their emissions.



/ How Cogo can help

/ 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 understand, 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. We also enable businesses to input activity data for additional accuracy and standards-aligned reporting.

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.

If you want to support SMEs
on their journey to net zero,
get in touch.

Contact Cogo.
