



## Financing a net zero transition: Challenges for SMEs - Event Summary

### Speakers

- Paul Scully MP - Minister for Small Business, Consumers and Labour Markets
- Heather Buchanan - Co-Founder of Bankers for Net Zero
- Nick Lee - Head of Regulatory Affairs at OakNorth
- Ian Sutherland - CFO of Tide
- Peter Udale - Director of Responsible Finance
- Andrew Harrison - Head of Business Banking at NatWest

### Background Information

- Small and medium-sized businesses (SMEs) comprise 99% of UK business, employing over a quarter of the population, and accounting for 52% of the UK private sector's turnover ([House of Commons Library](#)).
- The sheer significance that SMEs play in the UK economy means the Government cannot reach its goal of net zero carbon emissions by 2050 without the cooperation of SMEs.
- While SMEs recognise the importance of sustainability, they face significant barriers when turning this ambition into reality. They are held back by:
  - 1) A lack of information
  - 2) Weak financial incentives

### Key themes from the session

- It's vital SMEs are encouraged to make the transition to net zero ahead of time in order to ensure the economy's transition is a glidepath rather than a rocky hill whereby SMEs are forced to take quick action to reach national commitments in time.
- It is important that SMEs from all industries, risk appetites and sizes have access to the finance necessary to transition to net zero given the cost at hand. However traditional banks tend to be more risk averse in this area which is understandable given the lack of information and experience available.
- A standardised approach to measuring and reporting carbon emissions is vital in allowing SMEs to effectively transition to net zero and helping banks support their clients.

Please find a full summary of the event below.



### **Incentivising SMEs to transition to net zero**

- It's vital SMEs are encouraged to make the transition to net zero ahead of time in order to ensure the economy's net zero transition is a glidepath rather than a rocky hill whereby SMEs are forced to take quick action to reach national commitments in time.
- The current narrative for SMEs wanting to reach net zero is the costs and bureaucracy involved, and without regulation forcing SMEs to face these challenges, it's necessary to incentivise small businesses if we want to reach net zero by 2050.
- Developing a tool to look ahead 20 or 30 years to help SMEs understand what the linear opportunities of transitioning now are would show SMEs the benefits of beginning the transition early.
- It was argued that businesses that invest in the transition now will be the winners however SMEs who invest now might miss out on the introduction of future financial incentives to encourage the transition to net zero. Therefore Government must provide clear messaging on whether SMEs should begin investing in reaching net zero.
- Creating an environment where innovative, pragmatic and reliable ideas to transition to net zero are openly shared is useful for SMEs to understand potential solutions. The British Business Bank was referenced as a useful and existing tool in this area.

### **Standardisation of carbon measuring and reporting**

- In order to understand current SME emissions, check that measures being taken are effective, assess whether SMEs are making adequate progress towards net zero and ensure greenwashing is prevented, a standard carbon measuring and reporting framework is increasingly necessary.
- A robust framework would also help banks understand Scope 1, 2 and 3 emissions, encouraging banks to take action where necessary to meet net zero targets.
- The challenge is creating a framework that can be used across all industries and countries to allow for effective and reliable comparisons.

### **Financing SMEs transitioning to net zero**

- In order for banks to achieve net zero commitments, their balance sheets must also be green, encouraging a complete green 'make-over'.
- It is important that SMEs from all industries, risk appetites and sizes have access to the finance necessary to transition to net zero given the cost at hand. However traditional banks tend to be more risk averse in this area which is understandable given the lack of information and experience available.
- SMEs that may not fit the traditional model of lending or face difficulties accessing financing due to the traditional banks' risk averse approach, require access to alternative lenders such as Community Development Finance Institutes who are more focused on lending to SMEs, encouraging financial support of such lenders from Government.
- Initiatives to support financing SMEs transitioning to net zero by financial institutions are



welcomed, such as NatWest's accelerator programme for businesses focused on sustainability initiatives.

#### **Other areas of discussion**

- The Covid-19 pandemic marked a shift in how banks engage with SMEs as shown by the introduction of CBILs and BBLs, showing that banks can play a pivotal role in supporting SMEs through extraordinary change.
- The importance of working with newer generations in this area was recognised due to their influence, experience and passion within this area.



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