

Unlocking the SME Net Zero Transition



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RECOMMENDATIONS

Our recommendations respond to three sets of barriers that SMEs (Small and Medium-sized Enterprises) told us prevent them from taking greater sustainability action.

To address lack of time, capacity and information

- 1 **Banks:** Improve business understanding through a **revamped mentoring offering** and by convening business networks to share good practice.
- 2 **Government & business:** Relaunch the **UK Business Climate Hub** with improved content and greater publicity.
- 3 **Larger businesses:** Provide **training, resources and support** to help SME suppliers improve their environmental practices.
- 4 **SMEs: Seek advice and support** from their financial service providers and/or larger customers, and use the UK Business Climate Hub, to map out their sustainability plan.

To ensure finance can respond to SME needs

- 5 **Banks:** Produce guides to **explain where SME spending on sustainable action makes financial sense** and offer financial products to support them.
- 6 **Government and Devolved Administrations:** Issue **“Help to Green” vouchers** of £5,000 for SME action.
- 7 **British Business Bank:** **Use all available funds and schemes**, including the new Growth Guarantee Scheme and Start Up Loan Scheme to encourage carbon reduction activity.
- 8 **UK Finance:** Support banks and other actors to better support SME action, by **facilitating knowledge-sharing and data-gathering**.

To address the policy gap

- 9 **Local Authorities:** Establish a **Taskforce** to plug the gaps in SME-facing sustainability policy and help strengthen SME understanding of what is required.
- 10 **Government, Devolved Administrations & Local Authorities:** Publish **sector-specific regulatory timelines**, grounded in a long-term green industrial strategy, so SMEs know how to plan.

FOREWORD

Small and medium-sized enterprises (SMEs) make up the bulk of the UK economy and are responsible for between 43-53% of UK greenhouse gas emissions.

I commissioned this report because small businesses are close to my heart. Most of my career I have tried to help them thrive and grow by providing financial products. I spoke to two small business owners I have known for over 50 years and who have had long and successful careers running their own businesses. Already concerned by high inflation and recovering after the Covid-19 pandemic, they told me, in pretty colourful language, that they didn't know how they would deal with growing expectations to address their environmental impact. They lacked time, capacity, capability and the right level of information.

At best, these pressures could be a distraction to running a functioning business; at worst, they could eradicate already thin profit margins. The primary research evidence we brought together in this report, led for us by BVA BDRC, has confirmed these concerns across the country.

For those who care about addressing climate change, some of the findings will be stark. Appetite among SMEs to take major carbon-reducing actions dropped between 2021 and 2023, to 19% from 27%. Some 48% of business owners are worried about the impact of increased costs and economic conditions on their businesses, rising to 57% among those who want to reduce their climate impacts. Also, there is low willingness to take out more external finance to fund sustainability improvements.

But SMEs themselves offer the solutions. Our research asked business owners what they need from banks, government and other businesses to help them reduce their environmental impact. Their message was clear: help us understand what needs to be done, with digestible information; help fund it with the right combination of public and private finance so it doesn't endanger our viability; and put in place a clear, consistent policy framework that we understand. The three chapters at the centre of this report deal with each of those in turn.

I'm proud that the UK financial services sector is playing its part to address this challenge. As the case studies in this report detail, banks already offer a wide range of products and services to help their business customers address their environmental impacts. They must continue to do so, and – SMEs told us – must get better at communicating the benefits of these products to companies, both for their profits and environmental impacts.

In our 2022 report, *Net Zero Homes*, we argued that it was “time for a reset” for the greening of the UK housing stock. It is likewise time to reset the support that government and the financial services sector offer to SMEs to decarbonise. If we do not do this, many businesses will be left behind, and we will fail to deliver the just transition that is so important to maintaining public commitment to Net Zero. We can and must offer a better future for the businesses at the core of the UK economy.



David Postings
Chief Executive
UK Finance

INTRODUCTION

The case for change: sustainable transition as an economic trend

The UK's small and medium-sized enterprises – the SMEs that drive the country's economy – are crucial players on the path to a more sustainable future. Some 99% of UK businesses are SMEs, and around three-quarters are sole traders.¹ And although they have relatively low environmental footprints at an individual level, they account for 43-53% of UK businesses' greenhouse gas emissions in aggregate.²

The transition to a more sustainable economy is a resilience issue for all companies, large and small. Climate change and nature loss pose major risks to human wellbeing and financial stability, a message that is becoming starker as temperature rises start to exceed 1.5°C. But importantly, the transformation of the global energy system is also an economic trend for which companies need to be prepared. Competitive pricing is making clean power and electric vehicle sales grow exponentially and, much like the digital and internet revolutions, companies will need to consider whether they are ready for these changes, particularly those that can benefit them.³



¹ Ecologi (2023) Ecologi: For our planet, Ecologi BBB Report. (Accessed: 2024).

² British Business Bank (2021) Smaller businesses and the transition to net zero. (Accessed: 23 April 2024).

³ See, for example, [International Energy Agency](#) 2023 and [Rocky Mountain Institute](#) 2023

On a micro-level, the transition offers significant opportunities for SMEs, with extensive literature demonstrating the benefits of sustainable action through branding and marketing (the “halo effect”) and connecting more closely with eco-conscious consumers and employees. Companies may also find that costs are changing. And regulations and policies are likely to come into place over the coming decades that change the way they are expected to do business – from the phase-out of petrol and diesel cars to the emergence of lower-polluting and decline of higher-polluting sectors. A highly heterogeneous group, SMEs will be affected by these developments in a wide variety of ways.

Box 0.1: Defining sustainability for this report

Terms like “sustainability” and “ESG⁴” cover a wide variety of environmental and social issues, many of which SMEs will encounter in their day-to-day business. This report focuses mainly on actions needed to help SMEs contribute to the decarbonisation of the economy – linked to the term “Net Zero” – which can include lowering their own greenhouse gas emissions or adjusting their business models so that they produce goods or services that meet the needs of a low-carbon economy. The UK Government is committed to achieving a “Net Zero” economy by 2050, and this will require action by many businesses. While the report takes this narrow focus, the recommendations may also apply to other environmental or social challenges.

Many SMEs are not prepared for these changes. As this report shows, a large cohort of them do not have the time, capacity, or finance to address their environmental impacts and risks fully. While many have addressed the quick wins, for example moving to LED lighting, they find it harder to identify and prioritise more complex requirements. Many are also concerned about the timescales for return on investment (ROI) and how this aligns with their broader business strategy and profitability. Even those that have stronger capabilities are often hampered by confusing or conflicting information and policy.

Banking case-study 1: Starling Sustainability Jargon Buster

Starling is making good progress to becoming a Net Zero company. But given that the brand is based on values of transparency, the lender wanted to make sure that customers could clearly understand when they were talking about their greener banking journey. So, they created a Sustainability Jargon Buster that sets out its Net Zero goals and clearly explains what different terms mean.

⁴ Environmental, Social and Governance

UK Finance and the financial services sector's role

As lenders and providers of business accounts to SMEs, banks and other financial services companies have an interest in supporting small businesses to reduce their carbon emissions, including through provision of finance. As lenders face pressure or choose to reduce the environmental impacts associated with their loan books, this could have unintended consequences for SMEs and their access to finance.

UK Finance continues to help its members to navigate this challenge:

- In 2019-20, we partnered with the LSE Grantham Institute and the University of Leeds on a project to enhance capabilities in “banking the just transition” to Net Zero, producing *Financing climate action with positive social impact: How banking can support a just transition in the UK* in June 2020 and an accompanying *policy brief* in July.
- In October 2021, we worked with the Confederation of British Industry (CBI) to issue *Financing Green: A guide for SMEs*, to help small businesses take advantage of the opportunity in the transition.
- Since 2021, we have operated an Industry Working Group on ESG issues for SMEs to help lenders understand latest trends and share good practice in championing small businesses’ improved sustainability.
- We have also issued related papers on the decarbonisation of the UK housing stock, *Net Zero Homes: Time for a Reset*, in October 2022, and on policy actions needed to drive forward the wider decarbonisation of the UK economy, *Mobilising Capital for a Net Zero Transition*, in October 2023.

This report builds on those foundations, setting out specific, actionable recommendations for UK governments, the financial services sector and SMEs, to help drive forward the transition to a more sustainable economy.

This report and recommendations

In the following chapters, this report sets out the challenges faced by SMEs in aligning with the Net Zero transition, before delving into specific solutions based around three themes of **resourcing, finance and policy**.

Drawing on research by our partners, [BVA BDRC](#) (see Box 0.3), the recommendations advocate for policy certainty and look to deepen understanding of required actions among SMEs; improve knowledge-sharing and capability-building; and ensure that viable SMEs have finance available to them and feel confident that they will see benefits if they choose to borrow.

The research identified a range of needs, which government, the financial services sector and other key actors are well placed to respond to:

- Financial incentives, including support tailored to SME needs, in the shape of grants, low-cost loans, tax breaks and discounts.

- More in-person and personalised contact as well as tailored advice, resources and services.
- Improved publicly accessible guidance in the shape of online resources, tools, webinars and workshops.
- Access to sustainability consultants, low-cost audits, or menus of no- or low-cost options.
- Knowledge-sharing and networks, to collaborate and hear from peers and other experts, with practical advice on how to take action.
- Industry- or sector-specific information.
- Policy clarity, including clearer targets and timelines, and potentially rewards such as ratings, rankings and other certifications to improve pay-off for action.

The report explores these issues in more detail, leading to our ten recommendations for policymakers, financial services companies and other actors in the SME value-chain.

Box 0.2: Net Zero commitments: ensuring that no SME is left behind

Many banks and other financial institutions, including a large number of UK Finance members, have made commitments to reducing or ending their “financed emissions” – the emissions resulting from the activities they invest in or lend to – in the coming decades, through initiatives like the Net Zero Banking Alliance (NZBA). UK-headquartered banks make up one of the largest national cohorts in the NZBA, and UK Finance represents both UK-based and international NZBA members.

All banks are likely to choose or be encouraged over the coming years to reduce their contribution to climate change through their loan books. It is important that they do so in a way that avoids unintended consequences.

For the provision of commercial finance, this could include a decreased appetite to lend to companies that are unable to demonstrate that they have processes to reduce their own emissions. In one potential scenario, this could result in cutting off lending to companies that are genuinely trying to reduce their emissions but unable to articulate this because of resourcing or capabilities, or those that have very limited environmental impacts. It could also mean that small companies associated with high emissions but important for the transition – think of transport companies for power grid installation – are stymied.

It's important to avoid this. To do so, we need the right combination of policies and actions, to ensure that all parts of the economy move toward net zero together. The recommendations in this report look to enable that.

Box 0.3: Methodological approach

BVA BDRC, an independent research consultancy in partnership with BVA Nudge Consulting, conducted a combination of primary and secondary research to support this report. The process included the following elements:

1. A literature review to develop a comprehensive understanding of recent research on SMEs and sustainability.
2. Qualitative primary research with leaders of 24 SMEs, through a series of exercises over a three-day period using an online platform, Recollective, in August 2023. This was followed by four online focus groups in October 2023. Participants were selected from a range of sectors, with a mix of turnovers up to £25m, as well as from diverse business age and owner age-groups, with representation of some family-owned businesses. Participants were drawn from a range of UK locations and banked with a wide range of providers. Those self-defining as at the forefront of sustainability issues were not included in the research.
3. Detailed interviews with eight policy experts in the field of SMEs and sustainability, comprising the Green Finance Institute, the Organisation for Economic Cooperation and Development, the Institute of Directors, the Federation of Small Businesses, the British Business Bank, the Institute of Chartered Accountants of England and Wales, and two independent consultants. These interviews were conducted during August-October 2023.
4. Two in-person workshops and follow-up sessions with members of UK Finance in August-September 2023 to review preliminary findings.

Results from the original research were reviewed by BVA's Nudge Consultancy to offer a behavioural science lens to the analysis, providing a better understanding of how business owners can be empowered to turn concerns about climate change into practical action for their businesses.

THE CHALLENGE FOR SMES – THE GAP BETWEEN ACTION AND INACTION

Many SMEs are taking action to improve their sustainability, but for most businesses this work is relatively small-scale. According to the British Business Bank (BBB), some 96% of SMEs in 2021 reported taking at least one simple action toward carbon reduction, such as reducing waste or switching power tariffs, but 76% were yet to implement comprehensive sustainability strategies.⁵

Our qualitative research bears out this mixed picture. SMEs in the sample reported taking many sustainability-related steps: using energy-efficient lighting; installing smart meters, solar panels and electric vehicle charge-points; switching to low-carbon heating and cooling systems; encouraging staff to walk or cycle to work; and taking steps to reduce business travel. But large-scale change is rarer.

Box 1.1: A focus on those who need support

In designing this report, UK Finance and BVA BDRC wanted to capture the voices of companies that are less well-advanced in preparing for the transition to net zero. Much of our qualitative analysis, including interviews, focused on smaller SMEs that did not define themselves as sustainability leaders. Other evidence, including quantitative data via the UK Finance/BVA BDRC SME Finance Monitor, draws from a larger sample covering both small and medium-sized businesses, and without excluding those that self-define as sustainability leaders.

One among many priorities ...

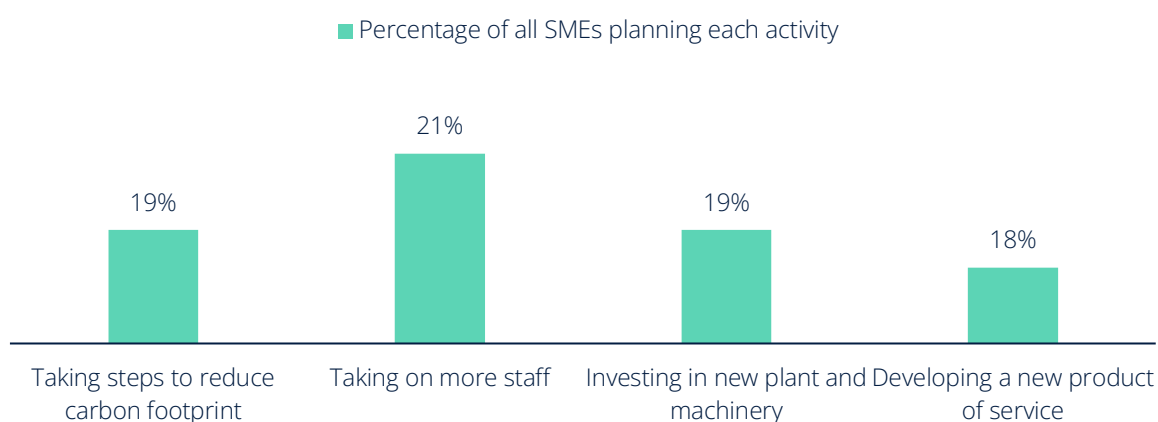
We know that incremental or small-scale change will not be enough to meet the UK's climate targets. The appetite to implement large-scale reductions is lower than it might be. Data from the SME Finance Monitor conducted by BVA BDRC for UK Finance shows that in 2023, only 19% of all SMEs said they planned to “take significant steps to reduce the carbon footprint of the business”. This was more likely to be the case among the largest SMEs (50%), those operating in hospitality (26%) and businesses that import and export (28%). There was also slightly more planned activity amongst younger businesses and younger business owners (21% of under 50 year-olds and 21% of businesses less than five years old). A 2023 British Standards Institute survey of 1,000 SMEs found that though four-fifths said that Net Zero was important to their business, less than one-quarter had a Net Zero policy, were measuring progress, or had attended any relevant training.

⁵ British Business Bank (2021), [Net Zero Report](#) (Accessed: 23 April 2024)

An overarching message from our engagement with SMEs was that decarbonisation is “*a thing, but not ‘the’ thing*”. Many companies do not prioritise reducing carbon emissions because they have a range of competing issues to tackle, with other priorities including taking on staff, investing in new assets, and developing new offerings.

“So the first thing to say is that in the life of an SME, there’s a lot going on.”
Policy Expert

Key future activities for SMEs 2023



Source: SME Finance Monitor 2023: Key activities planned in next 12 months

Responding to the UK Finance/BVA BDRC SME Finance Monitor in 2023, 21% of SMEs were prioritising taking on more staff, while 19% were prioritising taking steps to reduce their carbon footprint. This figure has reduced in recent years, with the proportion of companies reporting that they will prioritise reducing their carbon footprints falling from 27% in 2021. Anecdotal evidence from UK Finance members in their engagement with SME clients appears to bear this out – some report a decreased appetite to take action amid other challenges.

“I don’t know what we should or could be doing, and because it’s not a priority, I’m not going out of my way to find out. It doesn’t affect us. Our clients aren’t asking for it. We have no incentive really, apart from [...] ethical wants and needs to be more sustainable.”
Construction business, London

Barriers to action

To reverse this trend, we examined what barriers need to be addressed so that companies are able to take action easily, even where sustainability competes with other priorities for business owners' time and energy.

The SME leaders interviewed for this report identified three main categories of barrier, which are explored in greater detail in the following chapters:

1. **Resourcing – time, information and capacity:** SMEs frequently pointed out that they lacked the time to think about their approach to sustainability, without even considering the resourcing needed to enact any plans. Information about what action to take in their specific sectors and circumstances is missing, and many feel they lack the personal capabilities and institutional capacity to take action.
2. **Finance:** Participants recognised that finance is available, but this is not always matching up with demand and the actions for which it is needed. Many are also reluctant to borrow money to improve their sustainability.
3. **Policy clarity:** Frequent changes to both sustainability policy narratives and SME support have created uncertainty, which further erodes willingness to prioritise the issue.

One among many priorities ... but still catalysing action

Our recommendations – for policymakers, financial services and businesses – respond to these barriers, with a view to creating the conditions that will support action aligned with the UK's decarbonisation goals.

BARRIER 1: RESOURCING – TIME, INFORMATION, CAPACITY



Dave runs a long-established independent garage in South Wales. His key business challenge is competing with larger dealer groups and recruiting and maintaining staff. For him, sustainability is relatively low on the list of priorities, and he doesn't see customer demand for improving sustainable performance. The garage has a waste oil burner, but permits to operate it are prohibitively expensive, so they don't use it. The company recently installed LED lighting and some sensors, and they try to recycle where possible. Dave is frustrated by recent legislation – for example, he questions the environmental value of recent changes in Wales where at the time a 20mph speed limit in built-up areas had recently been imposed, and also thinks that the switch to electric cars is not straightforward. He feels that the government should be investing much more in renewable energy to support the decarbonisation of the economy. He doesn't feel that he has had any information or support from his bank to encourage sustainability and would be looking for grants or other financial support to transition.

“Some of the big challenges we face are with the cost of living going up, it means that we have lost some customers who couldn't afford it anymore plus the added expense of fuel/materials means we have had to increase our prices.”

“I think the words are banded around so much, that they mean different things to different people. They feel like buzzwords...I think it's large scale and it doesn't apply to us...some companies are carbon neutral because they pay companies to plant trees for them. It's another world, not for us.”



“Part of our culture feels a little stuck in operating the same way we always have. This makes it difficult to enact sustainable drive organisationally ... We work remotely when we can, use environmentally friendly products and are a small team, therefore I feel that other leadership members think that we have already done enough.”

Training company, Birmingham

In keeping with the data from the SME Finance Monitor, our engagement with SMEs reaffirmed that sustainability is important to most, but that dedicating resource to addressing sustainability challenges is difficult. This has been exacerbated over recent years as many SMEs continue to face considerable challenges after Covid-19 and amid inflationary pressures. Business leaders consistently reported a lack of time, information and capacity to deal with sustainability as central inhibitors to their activities. As the quotes and case study above reveal, there is a lack of understanding or ability to prioritise sustainability over other pressing priorities.

Capacity and time

We identified a widespread perception among businesses that making the transition is too difficult for their sector or individual business, that the effort needed is not worthwhile, and their time would be better spent on other priorities. Others felt that they were too small to make any significant impact. In terms of capability, some pointed to a lack of knowledge – many businesses, particularly smaller SMEs, do not have the advisors and dedicated sustainability-focused staff that larger businesses have.

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“Lack of manpower ... everyone in the team is up to their eyes with running the business.”

Toiletries wholesaler, Hertfordshire

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“The time it is going to take to create these changes and the admin work that comes with them and then get employees on side with them. We would have to re-look at our policies, and procedures, health and safety, etc., so it isn't just a simple process.”

Construction business, Manchester

Many studies have recognised this barrier to SME action, but offering constructive solutions is difficult when the fundamental issue – lack of time, even where individuals want to prioritise action – is so insoluble.

Information

Many SMEs also felt they lacked the knowledge and access to information that their larger counterparts have to address their sustainability impacts – pointing to a lack of training, insight, and access to skills, for example, around measurement of impact and success. Many reported difficulties with finding agencies or networks to provide them with advice.

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“The main barrier is ... information ... and the lack of time and resources – there is no-one with the time to look at and plan options. Often it comes down to someone passionate about the issue who steps in – and it's difficult as there is no clear pathway.”

Federation of Small Businesses

“I am unsure how to make my business more sustainable. I have heard that some of my industry colleagues are getting help from a specialised energy consultant to set and meet their sustainability goals. This sounds like a good idea to me. I also know that some other construction companies are using renewables and recyclable materials but I am worried about the cost.”

“It is something which we are very aware of and conscious of but something that we need to understand more as a business and how we can achieve this and what cost and practicalities are involved with it.”

Construction company, London

“We have had some information [from our bank]. But with all the paperwork, being brutally honest we have very limited time to read through it all. They offer advice on their website too, I believe, however it would be good to have personal contact from the bank. Perhaps come and see us and explain and be an expert offering knowledge - that would be great. Although we usually get more information through our accountants rather than the bank.”

CCTV manufacturer, Gloucester

Business leaders told us that many sources and how-to guides provide broad-brush advice whereas they are often seeking more detailed, actionable guidance. Advice to make a commitment to change, and to take efforts to reduce emissions, are common, they said, but not the specific sector-by-sector focus they would ideally like to see.

Conversely, others pointed to an over-proliferation of sources of advice, which leads some to be unsure of the most definitive, trustworthy sources among the noise.

“I feel there is a massive amount of confusing and contradictory information available, it is just so difficult to find out what is real and not. There are always companies giving information but more often than not they are just trying to make money for themselves. I also feel any legislative support to be confusing at best so not really helpful – I often find you have to pay a third party to decipher it for you.”

Holiday rental company, West Yorkshire

Recommendations

Our engagement points to four main recommendations:

1. **Banks:** Improve business understanding through a **revamped mentoring offering** and by convening business networks to share good practice.

As part of the qualitative research, several businesses reported that the challenges they face feel more insurmountable if they are tackling them alone. When asked about their relationship with their lender, many said that they wanted a more collaborative relationship, joining forces with those whose skillsets are different and can offer value as they tackle the sustainability of their operations.

The banking and wider lending sectors have expertise to offer here, both in direct engagement – see chapter 3, on finance and engagement with customers – and in creating networks and support for customers. UK Finance’s July 2022 publication, *Supporting ethnic minority entrepreneurship in the UK*, lists a range of positive examples of banks creating mentoring opportunities and networking communities to help ethnic minority groups share best practice in business leadership. There is evidence that mentoring programmes help drive changes to business practices.⁶



“Information and advice would be most useful. I am sure there are many things we could be doing better but it isn’t always obvious. Having a reputable support group where you could get tailor-made help for your business would be great.”

Importer/retailer, Bristol

On this basis, we recommend that banks offer greater support to businesses to improve their sustainability actions, through mentoring and SME networks, similar to models rolled out for women led businesses. Such schemes should aim to overcome the information and capacity barriers SMEs identify and build confidence among small businesses to take action.

⁶ Nesta, [“Business mentoring – how strong is the evidence”](#), April 2019

Banking case study 2: Virgin Money Sustainable Business Coach

As well as operating its own business in a sustainable way, Virgin Money also wanted to help its business customers achieve long-term prosperity through developing sustainable growth plans.

Virgin Money did this by partnering with Future-Fit, a non-profit organisation, which provides businesses, investors and policy makers with the tools and guidance to create a more sustainable future. This includes developing a digital coach that supports businesses of all sizes, including SMEs, to understand their likely environmental and social impacts, and provides guidance on remedial steps to ensure they achieve their sustainability objectives.

Businesses can also use the coaching tool to enter a self-certified initiative called 'Future-Fit Engaged', demonstrating the business has started to act against their high priority ESG goals.

Any business can access the full tool and its features, not just Virgin Money's customers.

2. UK Government & business: Relaunch the UK Business Climate Hub with improved content and greater publicity

Drawing on the behavioural science insights of the BVA Nudge Consultancy, there is evidence that incomplete or an oversupply of information can generate confusion and choice paralysis, and lead to inaction. Individuals are more likely to take action if options are clear, unambiguous and easy to access. We can apply the same logic to SMEs: information needs to be clearly laid out with limited ambiguity, to help companies navigate the range of options they face as seamlessly as possible.

This is why initiatives like the UK Business Climate Hub are so important. The Hub is a government-supported online resource operated by a consortium of industry groups and large businesses, including some UK Finance members. As part of our research, we sought views from SME leaders on the Hub. The website was positively received as a good starting point and welcomed for providing sector- and region-specific information. However, none of the businesses in our qualitative sample had heard of the resource prior to this exercise.

“This [the UK Business Climate Hub] feels like it's a start. It doesn't feel like I could go to it right now and get what I need. But it feels like if this became the thing, and it was advertised and everyone started to be here ... When I was going through 'education' or 'charity' or 'southwest', there wasn't enough. However, I could see some of the bigger sectors.”

Educational charity, South West England

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“The case studies [in the UK Business Climate Hub] make it a little bit more authentic and they are diverse types of businesses, from online finance to a theatre company.”

Retail business, Wales

Given this apparent lack of awareness, we recommend relaunching the UK Business Climate Hub as a central, authoritative platform for SMEs to access information on decarbonisation. Any relaunch should be well publicised, with a government-supported communications campaign designed to target a wide range of users and assessed against relevant performance indicators.

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“I would be interested in receiving information and support from local sources. I feel that local governments and councils could be especially helpful given their understanding of local contexts and challenges. Learning about initiatives in my city could be beneficial. I would be open to receiving advice from sustainability-focused organisations – especially those who can provide tailored support for the professional services / consultancy sector. Workshops, webinars and access to online resources would all be really helpful.”

Business consulting, West Yorkshire

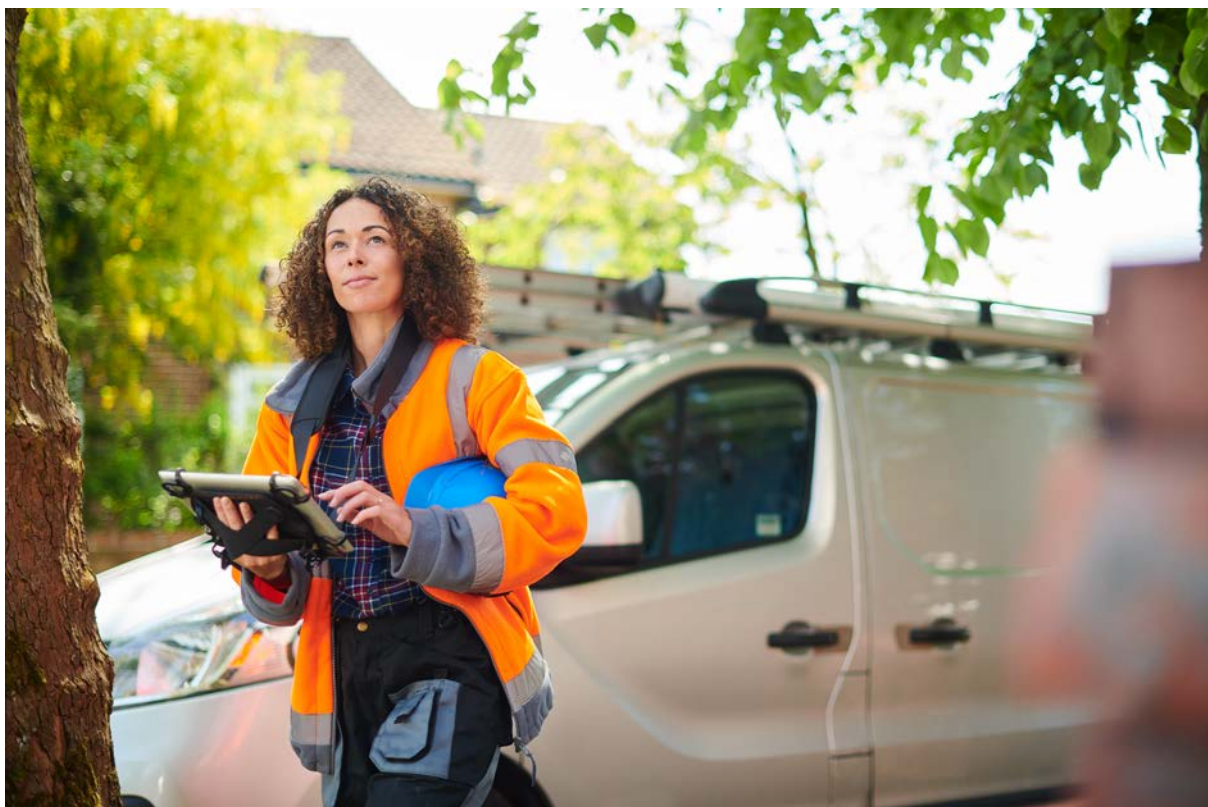
Our recommendation is that Government should offer greater resource to improving the Hub’s content and dissemination. We recommend that the Hub’s content is further iterated, offering clear pathways for specific sectors of the economy, and drawing on a range of sources including local authorities. Its focus could usefully widen out beyond climate issues over time. Properly designed and building on its strong foundation, the Hub could be a definitive source for all businesses to access decision-useful information. Our research suggests it is not yet perceived as such.

3. Larger businesses and service-providers: Provide **training, resources and support** to help SME suppliers improve their environmental practices

SMEs operate in an ecosystem that also includes a wide variety of other actors, including lenders but also suppliers, vendors, other financial services providers and accountants. All of these actors have a stake in supporting SMEs to improve their sustainability performance, if they are looking to make their own value chains greener. In many cases, engagement with SMEs revealed that some of these actors are particularly well trusted – this applies especially to accountants, with one SME also mentioning the trustworthiness of their insurance company.

As lenders increase their engagement to support SMEs on their sustainability journeys, we urge others do so in tandem. The collaboration underpinning the UK Business Climate Hub is a positive model, and one that should be fostered as SME action develops.

We also recognise that such action risks leaving slower-moving but well-meaning SMEs behind. A programme of genuine engagement, that seeks to support them on their journeys, will be critical.



There are positive models to follow. The Exponential Roadmap Initiative sets out a 1.5°C Supplier Engagement Guide which emphasises the need to maintain an ongoing dialogue with suppliers and to provide tools, training and resources to help suppliers reduce their emissions. The World Business Council on Sustainable Development (WBCSD) encourages businesses to incentivise supplier performance improvements through building capability and rewarding progress. The World Economic Forum's (WEF's) Alliance of CEO Climate Leaders is developing a Net Zero Value Chain Support Hub, which calls on larger businesses to offer public recognition for good sustainability performance, invest in supplier training, and provide access to technical resources like carbon accounting tools. Larger businesses should sign up to and implement the WEF's principles.

- 4. SMEs: Seek advice and support** from their financial service providers and/or larger customers, and use the UK Business Climate Hub to map out their sustainability plan

As we get closer to hitting emission reduction deadlines, and as government and other support improves (in line with our wider recommendations), it will fall to SMEs to set out their sustainability plans for banks, suppliers, vendors and others to see. The work of the UK Transition Plan Taskforce and others, to set out a workable mechanism for SMEs to agree and communicate their transition plan, should be set out on the UK Business Climate Hub, so that completion is as streamlined as possible.

There is a range of tools available to SMEs, including the UK Business Climate Hub as well as free environmental audits, and advice from service providers including banks, buyers and accountants. SMEs should:

- seek out this advice and support;
- where it is not available, call out the absence of support;
- use this support to consider how the shift to a low-carbon economy will affect their business, and what they need to do to prepare;
- work with other organisations in the same sector or region, if collaboration is needed.

Banking case-study 3: Barclays helps a manufacturer go greener after recovering from a fire

After Grantham Manufacturing rebuilt their building following a fire, they got in touch with Barclays who helped them install 272 solar panels on their roof. The Lincolnshire-based business now generates 58% of its yearly electricity needs through solar energy.

They've also installed extra features such as LED lighting to reduce electricity demand and improve working conditions and have added ground source heating across their production floor. They've also added a water-cooled air compressor that harnesses the heat generated by compressing air and directs it into the ground source system. The complete system is generating savings, has a payback period of nine years and has reduced the operating time of their heat pump by 35% (which equates to saving 21p per hour of heating the factory) – supporting Grantham Manufacturing to reduce both their building and business's carbon footprint.

BARRIER 2: FINANCE



Rachel runs a cleaning business with her husband in the Scottish Highlands. The biggest challenge currently facing the business is the cost of living – many customers are cancelling their services due to lack of funds. From a personal point of view, sustainability is very important to Rachel, and she does what she can – using recyclable cleaning cloths and eco-friendly products. Due to the relatively remote location, her mileage is high and she would ideally like to invest in electric vehicles. However, the upfront costs are prohibitive, so she would welcome information on available funding and grants. In addition to the funding cost, there are also concerns about the lack of infrastructure, if they were able to invest in electric vehicles.

“Some of the big challenges we face are with the cost of living going up, it means that we have lost some customers who couldn't afford it anymore plus the added expense of fuel/materials means we have had to increase our prices.”



Murray runs a 60-seat restaurant with on-site accommodation and a recently added wedding venue in the South West of Scotland. He employs around 90 people. They have already invested in a food composter to turn food waste into compost and in the next five years they are hoping to become fully sustainable in terms of electricity by installing solar panels and wind turbines on their land and are actively looking into this. However, plans are currently on hold due to the cost of living crisis – in particular fuel costs, as their monthly energy bills have risen from c£5k a month to c£22k a month, meaning that their current focus is keeping the business running and maintaining all their staff in employment.

“The Government should be offering more grants and services to business to help accelerate sustainable plans so we can do this a lot quicker and help the environment now rather than it take years and years.”



A respondent from a larger SME engineering logistics company felt that they had received good support from the two banks they worked with. When they started to transition their vehicles from diesel to electric, the bank advised them to lease the vehicles, rather than seek to finance them, due to the likelihood of technological change during the lifetime of the vehicles as well as better value. Their bank also provided support with sustainability metrics when looking to grow the business overseas.

“You can always approach a bank to get loans, a lease or a credit line. But it's not just about that; it's about the value-add. We need a partner [...], eventually we landed with [partner name]; they helped us with insights and analytics as well as the future of sustainability.”

In 2023, around half (48%) of respondents to the SME Finance Monitor told us that increasing costs or the current economic climate was a future barrier to their business. For SMEs that told us they wanted to reduce their carbon footprint, these concerns were true for 57%. Many SMEs are worried about the affordability of their day-to-day operations, which makes investing in the future – including sustainability-related investments – challenging. There is a widespread reluctance to invest in upfront costs, particularly where the return on investment is unclear.

“Cost is a huge issue - every time some new kind of sustainability issue arises it comes with a cost. Bear in mind that we are competing with imports that are not always subject to the same requirements that we have.”

Babywear manufacturer, Wolverhampton

“Making a project more sustainable will most likely add to the cost and reduce profit margins, so unless a client specifically wants it, we won't volunteer it as it will make us more expensive than our competitors.”

Construction company, London

This is a chronic challenge. We know that the transition to a decarbonised economy will require as much as £70bn a year of additional capital expenditure in the 2030s, most of which will come from private financial institutions, but which is not yet flowing at the levels needed.⁷ A key challenge for both the financial services sector and governments is how to move that money at scale.

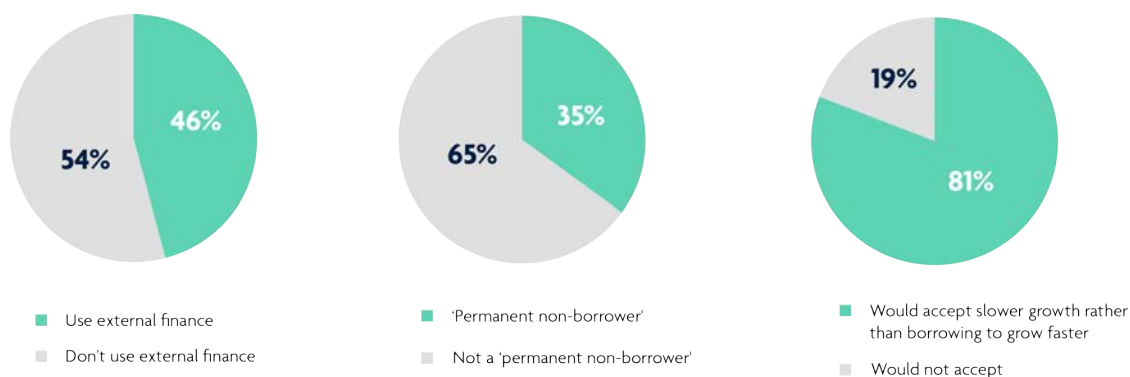
Willingness to borrow

Bank borrowing is one option available to SMEs, alongside self-financing through use of cashflow, credit cards, working capital products, and angel and equity investment. But willingness to borrow is low. This will need to change if we are to unlock available bank capital for the transition.

The UK SME Finance Monitor in 2023 found that just under half of SMEs use external finance, while over four-fifths would rather accept slower growth than borrow to grow faster. Just 8% planned to apply for more finance in the coming months, and 34% felt it would be difficult for them to access external finance.

⁷ HM Government, [Net Zero Review: Analysis Exploring the Key Issues](#), Dec 2021, p.15

Use of external finance 2023 (all SMEs)



Source: SME Finance Monitor 2023

The qualitative engagement with SMEs undertaken for this report supports this data. Respondents pointed to concerns about taking finance to support sustainability actions, compounded by wider uncertainties including fears of being an “early mover”, adopting a technology while it is costlier or has a lower efficacy, or concerns about return on investment.

In combination, the evidence indicates that, while there is an important role for bank finance to support the SME transition, it cannot be the sole solution to any funding gap and businesses need support to understand whether and when financial products are right for them.

What are lenders already doing?

Banks and other lenders have rolled out a range of products and offerings to help customers improve their sustainability credentials and build resilience for the energy transition, as seen above. Our engagement with UK Finance members identified the following examples of good practice:

- Lenders providing green financing products to SMEs for green projects.
- Upskilling of relationship managers to help companies identify sustainable actions and associated financing needs.
- Offering training, assessment, and coaching tools to customers, including supporting companies to set and measure progress against sustainability strategies.
- Promoting good practices through public messaging, including case studies, blogs, and communications with customers.

Banking case-study 4: NatWest Accelerator programme supports an entrepreneur to turn coffee grounds into beauty products

When Maddie Booth began suffering from acne problems as a final-year student, she couldn't find any cosmetic products that were both sustainable and in her price range.

Her solution was to start a company that made the kind of zero-waste products she wanted to buy, at a price she could afford.

Now her firm, Scrubbee, which specialises in cruelty-free, vegan, plastic-free cosmetics, is going from strength to strength.

Maddie, who's 23, was working part-time in a coffee shop in Birmingham and was amazed at the volume of coffee grounds that were thrown away each day.

She researched different uses for the spent grounds and discovered that coffee-based skincare products had many benefits, such as fighting acne and regenerating skin cells.

Supported by NatWest's Accelerator programme, Scrubbee now sells four coffee-based face scrubs while helping to reduce food waste.

Banking case-study 5: Barclays supports the Torpenhow Cheese Company to transition to organic

Mark and Jenny Lee, owners of the Torpenhow Cheese Company, got in touch with Barclays to discuss their two-year plan to becoming an organic farm. To make this change, they needed to focus on the health of the soil and make sure their cows got all the nutrients they needed from the grass and clovers.

Barclays supported them with capital, so that they could invest in converting to an organic, grass-based system. It also helped them build a cheese store on the farm, which met the high standards required of a certified organic farm.

Not only have they attracted new customers in the area, but they also sell their produce at local markets, which has really helped increase their sales. Being aware of consumer sustainability trends has helped their company grow, and they've now hired three more cheesemakers.

Banking case-study 6: Starling supports a Yorkshire based painting and decorating business

Grōni is a sustainable painting and decorating business, based in Yorkshire. Founded by Matus Marek in 2020, it offers customers a greener way to decorate their home, office or café.

The Grōni team use ecological and non-toxic paints to minimise exposure to potentially harmful chemicals. They use 100% compostable, vegetable-based dust sheets and bin bags to avoid single-use plastic materials.

Leftover paint is offered to other clients or a client's friends or family for free, helping to reduce waste and form a community of customers who 'paint it forward'.

Grōni has also pioneered a 'pedal and paint' scheme which sees the team cycle to as many jobs as possible. The scheme is being piloted in York. If they have to drive, they track their mileage and calculate emissions, which they often offset through the technology platform Ecologi. In addition, Grōni arranges for the Yorkshire Dales Millennium Trust to plant one tree for each completed project, for example a newly painted living room.

Groni manages its business finances with Starling, a branchless bank that offers customers debit cards made from recycled plastic.

However, lenders also recognise that they must prepare to do far more. The financial services sector will play an important role as the transition to a sustainable economy steps up, and far greater sums of finance will need to be ready for deployment. With many banks making substantial commitments to increase their sustainable finance offerings – many in the hundreds of billions or trillions – a key challenge is deploying that capital by building demand among customers and generating a pipeline of bankable projects to lend to.

“Only two key institutions in the UK touch all SMEs – HMRC and the banks. They could so positively carry these messages [around sustainability].”

Institute of Directors

Improving data availability

Key to this – and a major challenge for SMEs – is improving data availability. For lenders to better direct their capital toward sustainable activities and to offer support to those companies with sustainability business plans, they need good data to assess those plans and performance. Over recent years, UK Finance members have observed that SMEs often face multiple and conflicting requests for sustainability data from different lenders and procurers. This represents a burden for SMEs and makes data received by different lenders harder to compare. UK Finance supports efforts to address this. We sit on the Steering Group for Bankers for Net Zero’s Project Perseus, which seeks to create a model for more automated data transfer among businesses, energy companies, banks and other stakeholders; and engage with other similar initiatives, including the Net Zero Data Public Utility.



Recommendations

Our engagement with SMEs and policy experts pointed to four key interventions from governments and banks, which can help to improve finance mobilisation for SMEs, and can also help incentivise SMEs to use available capital to make sustainable changes to their business.

1. **Banks:** Produce guides to **explain where SME spending on sustainable action makes financial sense**, and offer financial products to support them

In offering products (whether green-labelled or otherwise) to help customers improve their environmental performance, banks should articulate the payback or savings available if borrowing is used to undertake such improvements. We know that banks offer a range of financing options for customers to green their businesses, but a lack of appetite to take on debt acts as a barrier to take-up. Building a customer-centred economic case will benefit both the SME, by addressing cognitive barriers that prevent action, and banks by driving up demand for financing products.

Banking case-study 7: Speciality vegetable grower Westland Nurseries expands sustainable production with £1million Lombard funding

British grower Westland Nurseries, a fine dining supplier of delicious specialities such as micro leaves, edible flowers, sea vegetables and tomatoes, secured a £1million sustainability upgrade deal with Lombard, NatWest Group's asset finance provider.

The funding supported the Worcestershire based business to install £540,000 of LED lighting for horticultural growing. The lighting will increase product yields while reducing energy costs. A further £160,000 is funding solar panels on site powering Westland's production house while a third deal has also been arranged to set up a new packing line, enhancing production efficiency while cutting costs to the wider business.

Over the lifetime of the LED lights, nearly 8,000 tonnes of CO₂ emissions will be saved. The solar energy will also contribute CO₂ emission savings, taking the total saved to over 9,500 tonnes overall.

Behavioural science insights tell us that actors often overemphasise and oversimplify initial cost outlays and underplay future gains – a tendency driven partly by “present bias” which makes future gains more difficult to comprehend. Laying out a clearer assessment of future gains against present losses helps to provide a clearer cost-benefit case and strengthen the basis for action.

When offering financial products to support SMEs, banks should provide simple resources to help SMEs understand how they can use these products both to reduce emissions and save money. For example, if borrowing to install solar panels can save the

business money over a certain number of years, a lender can incentivise SMEs to pay for solar panel installation by setting this saving out in a clear report.

“Banks can help businesses to work out what will make a difference. For example, is it worth installing that air-source heat pump? How long will it take to pay back?”

Policy Expert

“There is an opportunity for financial services companies to create demand for change by offering compelling products such as low-cost finance for energy efficiency measures or electrifying your fleet. The key is to make it as easy and as appealing as possible for SMEs.”

Policy Expert

“I think financial institutions don't realise how significant a role they can play in encouraging businesses like mine. Grants are so necessary, and they could provide financial advice, information, make them available for businesses like mine, and then [set out] what's in it for us and some things we need to do and how to do them. I think they really have this information, but they're not really available to small businesses.”

Hospitality, Scotland

This information should be coupled with a continuation and, where appropriate, an expansion of banks' product offerings to meet the growing needs of SMEs on a sustainable transition. Such products do not necessarily need to be labelled “green”: SMEs should choose the financial product that is right for them, not go for one simply because of its environmental labelling.

Banking case-study 8: Lloyds Green Building Tool

The Green Buildings Tool is a digital insight tool that helps business customers to identify, evaluate and understand the estimated outcomes of potential investments to make their property more energy efficient. It is suitable for a single property through to larger portfolios.

Assessing these opportunities is an important activity for landlords, owner occupiers or tenants at various stages of a property's lifecycle, e.g. prior to purchase, during renovation, or as part of scheduled maintenance.

The Green Buildings Tool calculates potential savings by combining available benchmark data and the information provided about a building to build an immediate business case. The dashboard generates a tailored recommendation of cost-saving measures that could improve the green credentials of a property.

2. UK Government and Devolved Administrations: Launch "Help to Green" scheme including £5,000 vouchers for SME action

Government support packages for SME sustainable action have been variable and inconsistent. Research by the Federation of Small Businesses (FSB) and Warwick Business School in September 2023 found that despite England having 719 Net Zero-focused interventions for small businesses, the vast majority are failing to reach companies. To level the playing field and incentivise action, the FSB recommended a "Help to Green" scheme which combines improved advice for SMEs with a one-off voucher of £5,000 to invest in low emission transport solutions, sustainable manufacturing, energy efficiency or microgeneration. Appropriately targeted, this could help to unlock further lending from the private sector. The concept of vouchers to incentivise action was also supported in the UK Government-commissioned, independent *Mission Zero* recommendations in 2023.⁸

“[The government] could provide targeted incentives (like tax breaks or grants) for businesses that implement sustainable practices, as this would encourage wider adoption. Offering accessible resources, workshops, or advisory services tailored to professional services companies like ours would help us to effectively become more sustainable. Also, making regulatory processes related to sustainability more straightforward and streamlined would reduce complexity and make it easier for us to implement effective improvements.”

Business consulting, Newcastle

⁸ HM Government, [Mission Zero report](#), September 2022, p.150

3. **British Business Bank: Use all available funds and schemes**, including the new Growth Guarantee Scheme and Start Up Loan scheme to encourage carbon reduction activity

The British Business Bank, with its strategic objective to drive sustainable growth through its support for smaller businesses, has a vital role to play in supporting businesses to consider reducing carbon emissions when they access funds. We welcome the fact that new regional funds (e.g. the Northern Ireland fund) have sustainability considerations embedded into their design. This should be embedded across all British Business Bank products, especially the Start-Up Loan Scheme which could act as a demonstrator for what support, advice and messages shift behaviour. And while the Recovery Loan Scheme (which will be replaced by the Growth Guarantee Scheme) can already be used for green investment, the Bank should do more to promote this. We welcome the extension of the scheme to the end of March 2026 as part of the March 2024 Spring Budget.

4. **UK Finance:** Support banks and other actors to better support SME action, by **facilitating knowledge-sharing and data-gathering.**

As the trade association for lenders in the UK, UK Finance has a unique role to play in facilitating and supporting best practice among banks. To support banks to strengthen their capabilities in backing SME action, UK Finance will encourage the sharing of good practice among its members through its Industrial Working Group on ESG issues for SMEs. Using the SME Finance Monitor, it will also collect data and monitor progress on SME action, then share and utilise this data to inform next steps.

BARRIER 3: POLICY CLARITY



Angus is the General Manager of a small whisky distillery which also has a visitor centre. The business is doing well, although it was hit hard by Covid and faces a challenging market amid rising cost of living. The business acknowledges customer demand for sustainably produced whisky and recognises that this can confer competitive advantage. Over the last few years, the business has implemented a number of sustainable innovations which have had the dual purpose of both being more sustainable as well as providing cost savings (for example, using a third party to take by-products for use to generate gas and electricity; utilising variable speed fans in boilers, motors and pumps; and using 100% recyclable packaging). They have selected a specific malted barley supplier at higher cost but with better environmental credentials. They would like to use solar panels but are unable to do so, due to operating in a listed building. Their needs – for both advice and funding – are highly sector-specific and they have received useful support from trade associations as well as local funding initiatives. They are not in a position to borrow additional funds as a relatively new business and would very much like to see funding support from local and national levels.

“We can’t put [additional costs] onto a bottle because, as much as everybody wants to be sustainable with our products, the minute you start sticking another £20 per bottle, people just will not buy it. Small steps ... that’s the way we’re looking at it.”

“Generalised information can work in a lot of industries. The whisky industry is just that a bit more bespoke in certain parts and certain aspects ... the Government should be offering more grants and services to business to help accelerate sustainable plans so we can do this a lot quicker and help the environment now rather than it take years and years.”



“Short term costs are high but long-term benefits are uncertain due to uncertain policy and regulatory environments, technological changes etc. – so there is a strong need for a consistent durable policy framework.”

OECD (Organisation for Economic Cooperation and Development) representative



“There is a lot of pressure placed onto businesses by government bodies to become more sustainable or be Net Zero, etc., but very little support is offered to help them achieve this.”

Technology company, Leeds

A step-change in SME sustainability policy

Over the past forty years, the extent and quality of SME support has varied as economic pressures mounted and successive governments altered priorities, sometimes at short notice and in a confusing manner. The framework for Government-sponsored SME support is reorganised frequently, from Regional Development Agencies (RDAs) through Local Enterprise Partnerships (LEPs) to local authority responsibilities.

For decarbonisation and wider sustainability issues, too, a lack of policy clarity has inhibited the mobilisation of capital — an issue raised in UK Finance’s work with the LSE Grantham Institute and examined in our paper *Mobilising Capital for the Net Zero Transition*, where market participants told us they see inconsistency and confusion in current policy. Our qualitative research with SMEs validates this: there is an overriding perception that the current framework for achieving the UK’s decarbonisation goals is fragmented and confusing, with mixed messaging from government and other political parties.

Across all of our engagement with businesses for this project, there were no comments suggesting that Government had provided sufficient clarity to enable SMEs to understand what is required to achieve the UK’s sustainability goals. Moreover, many told us that their willingness to act had been dampened by more recent negative rhetoric around Net Zero, particularly following Government announcements slowing the pace of electric vehicle mandates and home retrofit expectations in late 2023. This inhibits investment because SMEs have concerns about acting out of concert with Government plans. It suggests a step-change is needed.

“

“We have lost faith and confidence in the Government. Do we want to invest this time and money when we’re trying to grow the business? The Government might just turn around and go back on themselves ... you want to get me on board but you’re not sure yourself.”

Construction, Manchester

“

“I need someone who understands my sector, understands how we do things and how we manufacture things but there is no help whatsoever ... The Government has one idea, the Council has other ideas.”

Engineering, Outer London

SME heterogeneity

Compounding the challenge, it is important to recognise the heterogeneous needs of SMEs which cover all sectors of the economy, a wide spectrum of sizes, and have lifetimes spanning just a few months to many decades. This underscores that we need not just clear SME policy, but clear policy for all sectors of the economy — and communicated in a way that is accessible for all sizes of business.

Box 4.1: Sectoral differences for SMEs

The trajectories and needs of businesses will vary significantly depending on which sectors they operate in. For example, for businesses in:

- **manufacturing**, production processes are often energy- and emissions-intensive, and emissions-reductions in some sectors (e.g. chemicals) will require significant capital deployment to replace expensive equipment;
- **clothing and textiles**, many sustainability and emissions impacts will be associated with international supply chains, where procurement and supplier engagement processes will be critical to improving performance;
- **hospitality**, emissions reduction will need to focus on multiple variables, including energy use, supplier engagement and waste management — all made more difficult by a challenging post-Covid and cost-of-living environment;
- **food and beverages**, engagement with customers, including large buyers like supermarket chains, will create difficult pressures to improve sustainability performance at pace, in a highly cost-competitive environment;
- **transportation and haulage**, ability to implement a sustainability strategy may rely on rolling stock changes, which will be costly and may have uncertain payback horizons;
- **professional services**, environmental footprints tend to be smaller, and lower-burden actions can help to improve sustainability profiles.

SMEs' response to the decarbonisation of the economy may look widely different, with some able to make small changes to significantly reduce their impact while others opt to transform business models to better align with the transition. Some do not own their own premises, so have limited control over buildings-based emissions. For some, very little change may be needed, for example because the decarbonisation of the power grid will automatically reduce the emissions associated with their power use. For others, the necessary changes will only become available as a result of technological improvements — e.g. businesses reliant on certain types of heavy freight, where alternative solutions are not yet available. These SMEs may be best placed tracking and supporting the work of programmes like [Mission Possible](#), which aims to accelerate decarbonisation in hard-to-tackle industries.

“Sustainability is important to our business, and we try where we can, to be sustainable. Unfortunately, in our business it is difficult to find ways to be more sustainable as obviously we create a lot of waste products which need to be removed in responsible and regulated ways and sadly there aren't many sustainable options available to anyone in the disposal of these waste products ... It feels impossible to become Net Zero.”

Family tyre business, South East Wales

Recommendations

The feedback from SMEs, and evidence of the need for a step-change in the UK's policy approach to SME support for sustainable action, points to two main recommendations for policymakers, beyond those already set out in the previous sections.

1. **UK Government: Establish an action-focused taskforce** to plug the gaps in SME-facing sustainability policy, and help strengthen SME understanding of what is required

The independent review of UK decarbonisation policy, *Mission Zero*, which sought to set out how the Government can achieve its Net Zero goals in a way that enhances competitiveness, noted that Government needs to “act to enable SMEs to actively participate and benefit from the [...] transition”, and proposed the establishment of a taskforce of suppliers, small business landlords and business groups to agree how to cut energy use in rented premises.⁹

This would be a strong start. However, given the need for a step-change in policy identified in this and other research, it is likely that a wider taskforce remit — encompassing not just emissions associated with rented premises, but also wider policy gaps — would offer significant value.

After the likely General Election in 2024, this taskforce should have a clear mandate to advise the new Government on policies to unlock SME action, jointly owned by government and the private sector, so that its recommendations can be acted on at pace.

⁹ <https://assets.publishing.service.gov.uk/media/63c0299ee90e0771c128965b/mission-zero-independent-review.pdf> HM Government, *Mission Zero report*, September 2022, p.151

“

“I feel that if sustainability is something which is going to be taken seriously, we would need a concerted effort from central government to make it easier or cheaper to use sustainable options, rather than expecting peripheral services to pick up the slack.”

Education and training company, Birmingham

2. UK Government and Devolved Administrations: Publish **sector-specific regulatory timelines**, grounded in a long-term green industrial strategy so SMEs know how to plan

The Government has made efforts to communicate its plans for achieving Net Zero across multiple sectors, including by releasing Net Zero investment roadmaps for specific sectors in which greater sums of private capital are needed.

It is clear from our qualitative engagement, however, that this is not instilling the confidence in businesses needed to catalyse action. Moreover, information is not landing with many SMEs who need to be aware of the policy landscape and mechanisms for improving their sustainability practices.



The UK has changed the narrative and approach to industrial planning several times in the past decade, with the Industrial Strategy of Theresa May's premiership giving way to the "Plan for Growth" and other, more diffuse approaches to supporting industry following the Covid-19 pandemic.¹⁰ A lack of centralised narrative about the importance of green growth to the UK economy has further undermined confidence and willingness to act. A clearer, long-term industrial strategy – as backed by a wide range of other major UK sectors¹¹ – would help to revitalise sustainable actions across the economy.

Unclear information adds to misinformation, with actors filling in the gaps with assumptions about policy expectations – see, for example, the reaction to the UK government's changes to electric vehicle and home retrofit mandates in September 2023, which were interpreted as a full-scale rollback. Drawing on the behavioural insights of the BVA Nudge Consultancy, we posit that such misinformation needs to be combatted by a clearer, more positive SME-facing narrative.

Supplementing UK Finance's ask for clearer sector-by-sector decarbonisation roadmaps in our *Mobilising Capital for the Net Zero Transition* paper, we recommend higher-level communications, targeted at SMEs, to help individuals and SME leadership teams with less bandwidth update themselves on key regulatory and policy milestones. This could, for example, comprise well-defined and actionable regulatory pathways so that SMEs can plan for their futures in light of government plans. These should ideally be tested with a representative cohort of SMEs to ensure they meet their needs.

This should tie in closely with, and be communicated through, the SME Business Climate Hub (see chapter 2).

¹⁰ House of Lords Library, "[Calls for a UK Industrial Strategy](#)", January 2024

¹¹ See e.g. BCC and Make UK

CONCLUSIONS

The qualitative research evidence presented in this report, involving wide-ranging interviews with UK businesses, has helped provide a richer understanding of the opportunities, barriers, motivations and needs of SMEs as they consider improving their environmental performance.

SMEs are diverse, concerned with a range of urgent and pressing challenges, and rarely flush with excess cash. It is in this context that the institutions around them must provide meaningful support — and that includes lenders and larger businesses as well as governments.

For the lending sector, decarbonising and improving the environmental performance of SMEs is important, not just because it will help to enhance overall sustainability, but because lenders have a vested interest in ensuring that businesses — their customers — are resilient and prepared for a changing future.



As the UK looks ahead to a General Election in 2024 and a new government — whatever the outcome of the election — we hope the ten recommendations in this paper are implemented and help create a step change in support for SME sustainable action. The banking sector will play its part by supporting its SME clients through mentoring, information and providing financing products that help fund the required changes.

There is an electoral case to make for climate leadership. A wealth of polling and public perceptions data shows that voters want stronger, clearer policies from their governments to address climate change and other sustainability challenges. In a 2021/22 survey of 125 countries, some 69% of the population expressed a willingness to contribute 1% of their personal income to addressing climate change, with 89% demanding intensified political action.¹²

A new narrative of achievability, opportunity and innovation is needed to foster greater action. We call on the future government to provide real, global leadership on the transition to Net Zero. In doing so, the UK can be re-established as a climate front-runner, and position itself to take advantage of the economic benefits of the low-carbon economy, to the benefit of all businesses.

¹² Nature Climate Change, [“Globally representative evidence on the actual and perceived support for climate action”](#), February 2024