

MAINSTREAMING NET ZERO

Mobilising SMEs for Climate Action



About Bankers for Net Zero

Bankers for Net Zero is a collaborative initiative bringing together leaders from the UK banking sector, along with representatives from business and government, who share a commitment to accelerating the UK's transition to net zero carbon emissions. The initiative was established in 2020 to develop ambitious but achievable policy recommendations and pledges to action ahead of COP26.

The banks participating in the initiative are Barclays, ClearBank, Ecology Building Society, Handelsbanken, Tide and Triodos. Delivery of the initiative's programme of work is led by the All Party Parliamentary Group on Fair Business Banking, Volans and Re:Pattern, and overseen by a Steering Committee made up of representatives from the participating banks, along with the UNEP Finance Initiative, the COP26 Champions team, the UK Green Building Council, the Grantham Research Institute at the London School of Economics, the Club of Rome and the Impact Investment Institute.

The Bankers for Net Zero SME working group was established in November 2020. We are particularly grateful to Dame Teresa Graham DBE, who, in addition to being a member of the Bankers for Net Zero Steering Committee, participated in the SME working group as a special advisor. Thanks also to Gareth Dinnage, Managing Director of Seacourt, and Gunnlaugur Erlendsson, Founder & CEO of ENSO Tyres, for sharing their insights with us.

About this Briefing Paper

This paper is written primarily for parliamentarians and policy makers. Our aim is to set out in the simplest terms possible how the combination of action from banks and Government can accelerate progress towards net zero for the UK's approximately 6 million small- and medium-sized enterprises.

The ideas and recommendations in this document are the product of a series of working sessions involving banks and small businesses. The Bankers for Net Zero initiative participants and partners are eager to work with parliamentarians and policy makers to bring the ideas in this paper to fruition and to ensure that government action has the desired impact of catalysing private sector action.



Forewords

“As Bankers for Net Zero Champion, I am delighted to be part of an initiative that really digs to the heart of the regulatory and legislative challenges that banks and businesses are facing as the UK embraces the net zero challenge. Supporting our SMEs through this process will be critical. Banks have a great deal of agency that can be harnessed in order to reach the 6 million SMEs in the UK, and this report clearly demonstrates how a coordinated effort between finance and government can deliver support and value to SMEs.”

BIM AFOLAMI MP, Bankers for Net Zero Champion

“SMEs have a crucial role to play in the race to Net Zero, and they are committed to playing their part. As argued by this report, what they need from both Government and the banking setting is a framework of information and incentives that supports their transition to decarbonised business models. This historical transition to a new way of doing business is unprecedented, and all parts of society will need to be aligned.”

JONATHAN GELDART, Director General, Institute of Directors

“Many SMEs, especially privately-owned or family businesses, have operated responsibly in their communities for generations. Emerging from the pandemic, they will be keen to play their part in tackling climate change, while securing their long-term business prospects. But planning the most sensible transition route and investment strategy is a challenge. We believe that access to reliable, comprehensive guidance and appropriate incentives will spur the widespread engagement needed, with banks on hand to provide the finance their SME customers require.”

RICHARD WINDER, Head of External Affairs, Handelsbanken

“The race to Net Zero is truly a ‘whole economy project’, and as such we have welcomed the opportunity to collaborate on this briefing paper.

We have long recognised the role of banks to act as much more than neutral finance providers, and to take seriously their responsibility in driving positive social and environmental change. Banks must now step up and provide targeted products, guidance and signposting for their SME customers. However, we will only realise our Net Zero ambitions if these actions are underpinned by coordinated resources and support from government and other providers.

The recommendations put forward in this paper provide policy makers with clear guidance on how this can be achieved, and with COP26 on the horizon, give the UK a unique opportunity to demonstrate to a global audience what tackling climate change looks like.”

SIMON CRICHTON, Head of Relationship Management, Triodos Bank UK

“This is a unique moment when we still have the ability to change the direction of travel and to avert the potential catastrophic consequences of unchecked consumerism and the heating of our planet.

SMEs can play a pivotal role in driving down our carbon emissions and supporting UK PLC in our aspirations of leading the world on tackling climate change. This excellent paper sets out the many opportunities that can be acted upon and see the business community working in unison to a common goal of transitioning our economy to a low carbon model. The opportunity is here, we have the insight and the ability to make fundamental change – we just need the desire and ambition to make this a reality.”

GARETH DINNAGE, Managing Director, Seacourt

Forewords

“I am keen that all professional organisations, including banks and trade associations, convene clusters of SMEs from their networks so that those evangelists who have walked the journey can encourage their peers to do likewise”.

DAME TERESA GRAHAM DBE

“Running an environmentally sustainable business and supporting the government’s Net Zero agenda is something we know was high on the list of priorities for small business owners before the outbreak of the pandemic. As we come out the other side of the COVID crisis, survival, protecting jobs, and rebuilding are now, quite rightly, the issues small business owners have to place their focus on. However, we know there is a desire amongst small businesses for the Net Zero agenda to play a key part in the regrowth of the economy, and the banking sector is well placed to work, alongside the government, to help small businesses to incorporate Net Zero initiatives into their plans for re-emergence.

Making it easy for small business owners to understand their carbon footprint and take action to move towards Net Zero is crucial, it will simply not happen if it is prohibitively difficult. Access to clear and simple guidance and tools is an important first step to capitalise on engagement in this issue and support small businesses on their Net Zero journeys.”

OLIVER PRILL, CEO, Tide

“This is a golden opportunity to take what has been an extremely difficult year for our country’s SMEs and turn it into something positive. We need to help them come through the Covid-19 crisis as greener and more sustainable businesses, complying with increasing regulation and responding to growing consumer demand for action on the climate crisis. It will be a win-win for businesses and the environment. No SME should be forgotten or left behind in the UK’s transition to net zero. We will not get to net zero as a country without SMEs taking action now.”

LOUISE KJELLERUP ROPER, CEO, Volans



SMEs and Net Zero

The UK has 6 million small- and medium-sized enterprises (SMEs) – businesses with fewer than 250 employees. That means 99% of all UK businesses are SMEs, and the vast majority of those are micro-enterprises with fewer than 10 employees. Collectively, SMEs are responsible for 52% of the turnover of UK plc and they employ more than 16.5 million people – a quarter of the total population.¹

Self-evidently, the UK Government cannot meet its long-term climate goals if it doesn't take the 99% of British businesses with fewer than 250 employees with it. Because most SMEs are in non-carbon intensive industries, their contribution to UK emissions is small relative to their number: SMEs produce just 12% of total UK emissions.² But this doesn't mean they can be ignored in the race to decarbonise Britain. The race to net zero is a whole economy project: no business can be left behind.

Enabling SMEs to start reducing their emissions now is critical to the goal of ensuring a 'just transition' to net zero. There is a risk that if this isn't done properly, banks and investors will withdraw from markets quickly, to the detriment of many small businesses. Both banks and policymakers have a responsibility to help SMEs prepare early for a future in which businesses that have high emissions will, inevitably, face higher costs and fewer opportunities. Failure to prepare early will increase the risk of some SMEs losing out in the transition to net zero.

The good news is that many SMEs are ready and willing to play their part. 52% of UK SMEs consider reducing their environmental impact a top priority.³ 87% of SMEs of all sizes across England, Wales and Scotland are aware and supportive of governments declaring a climate emergency.⁴

But SMEs are being held back from acting on their desire to move towards net zero by two critical factors: misaligned or weak incentives and inadequate information. According to a recent survey by the Zero Carbon Business Partnership, 71% of SMEs could not recommend a single web source for help on decarbonisation and one in three were not familiar with the phrase net zero. 40% cited cost as a barrier to taking action.⁵

The COVID-19 crisis has in many ways made things worse. According to the Enterprise Research Centre's 2020 Business Futures Survey, COVID-19 was the number one barrier to adopting net zero practices cited by SMEs.⁶ Most SMEs right now are focused on survival or getting back on their feet: they don't have the bandwidth to prioritise getting to net zero. Nor do they have the cash to invest in measures that may pay for themselves over time but require an up-front capital investment. And with £75 billion of debt having been disbursed to British businesses through the government's three coronavirus loan schemes as of March 2021,⁷ most are reluctant to take on yet more debt in order to finance investments in decarbonising their operations.

While we do not underestimate the seriousness of these barriers to action, we firmly believe that, with the right combination of support from government, banks and other solution providers, they are surmountable. This paper sets out how.

1 House of Commons Library: Briefing paper - Number 06152, 22nd January 2021

2 Blog: Small and medium enterprises (SMEs) are vital to UK decarbonisation – how do we meaningfully engage them? | Corporate Leaders Groups - University of Cambridge

3 Small business past, present and future - Enterprise Research Centre

4 Small Business advice on net zero: Discovery phase - Broadway Initiative

5 New coalition to support SMEs out of lockdown and ensure UK meets net zero target - Zero Carbon Business Partnership

6 Enterprise Research Centre - State of Small Business Britain 2020

7 Coronavirus: Business loans schemes - House of Commons Library (parliament.uk). April 2021.

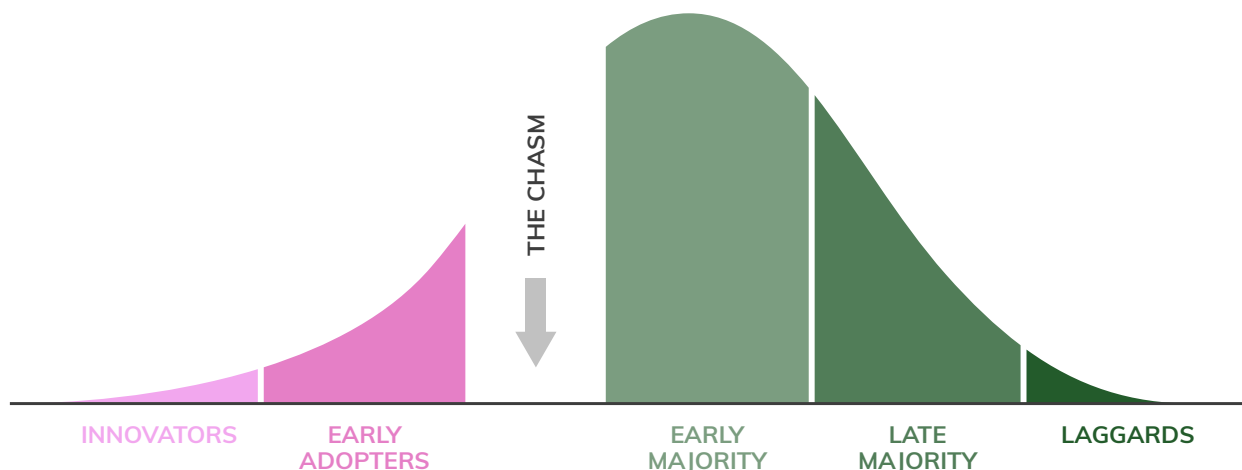
Crossing the Chasm

The UK is home to many pioneering SMEs that have already taken significant steps to reduce or, in some cases, zero out their emissions. But these early adopters of the net zero agenda represent a small minority of the total UK SME population. The challenge now is to mobilise the mainstream of British business.

In the world of technology and innovation, moving from early adopters into the mainstream is referred to as “crossing the chasm”.⁸ This is a good analogy for where we are today in terms of net zero action by SMEs. The chasm exists because, while pioneers and early adopters are willing to take a risk with new technologies, the majority is more cautious and pragmatic. They require complete solutions, convenience and reliability.

The package of recommendations outlined in this paper is designed with the explicit goal of mainstreaming net zero action, by making it attractive to – and easy for – the so-called ‘early majority’ of SMEs. These SMEs are already aware of the net zero agenda and are willing, in principle, to act on it, but have not yet done so. Whereas the early adopters that have already taken action number in the thousands, the early majority of SMEs likely numbers in the millions.

8 See Geoffrey Moore, Crossing the Chasm: Marketing and Selling High-Tech Products to Mainstream Customers (first published in 1991)



Where banks fit in

Banks are well positioned to play a positive role in helping SMEs move towards net zero. For a start, all SMEs have a bank – albeit in many cases their relationship with their bank is a relatively shallow one. Those existing customer relationships can be deepened and leveraged to ensure incentives and information reach their intended target. And many SMEs will need access to financial products and services – for example loans to cover the cost of investments in new equipment or improvements to their facilities – to help them meet their net zero goals.

The response to the COVID-19 crisis provides a useful template for how banks and government can work together to support SMEs on the transition to net zero. Banks have played a critical role as conduits for government-backed loan schemes during the COVID crisis. Though the types of support required to get to net zero will look different, the precedent of banks and government working hand-in-hand to deliver support where it's needed is highly relevant.

The COVID crisis has also shifted perceptions of the banking sector. According to a survey by Deloitte, 34% of UK consumers trust their bank more since the onset of COVID-19, while 52% would like their bank to do even more to help society as a result of the pandemic.⁹ While some SMEs had close banking relationships pre-COVID, many more have now become used to turning to their banks for help over the last 18 months. That trust – and the expectation that banks will do more to serve society – can be leveraged to help tackle the climate crisis.

Finally, the recent wave of net zero commitments from banks means that the clock is now ticking for banks to develop and publish credible plans for transitioning their entire customer base – including SMEs – to net zero. The myth that banks are just neutral providers of finance has been felled by the net zero imperative. Banks can and do influence their customers – and while they certainly can't deliver a net zero transition without supportive policy action, they can use their balance sheets, their expertise and their relationships to amplify the impact of net zero policies.

9 Deloitte - Customer financial wellbeing deteriorates while trust in banks rise



Getting to Net Zero:

What it will take

The Bankers for Net Zero SME working group identified three areas where action is needed to enable the majority of UK SMEs to join the race to net zero: incentives, information and data standards. In this section we will headline what's needed in each of these areas, before delving into more detailed recommendations for how to address them in the next section.

1. SMEs need incentives to make net zero a priority

Awareness of, and support for, net zero goals among SMEs is relatively high. According to Carbon Trust data, an estimated 87% of SMEs across England, Wales and Scotland are now aware and supportive of governments declaring a climate emergency.¹⁰ The proportion of SMEs that see reducing their environmental footprint as a priority and would like to do more to improve things like energy efficiency is just above 50% – a finding that is consistent across multiple surveys conducted both before and after the COVID-19 pandemic started.¹¹

However, most SMEs do not currently have strong incentives to prioritise decarbonisation and so, very often, willingness is not converted into action. In this context, policy measures that directly incentivise emissions reductions could have a transformative impact. Specifically, this could work by linking lower emissions to one or more of the following:

- **Lower taxes** – eg., by offering business rates relief linked to carbon footprint or enhanced capital allowances for investments in decarbonisation.
- **A lower cost of capital** – eg., by banks offering lower interest rate loans to finance green investments by SMEs (“green loans”), or where reduced rates are contingent on SMEs meeting carbon reduction goals (“sustainability-linked loans”).
- **New revenue-generating opportunities** – eg., by setting procurement rules that promote the inclusion of SMEs in contractors’ supply chains and favour contractors with lower carbon emissions, including in their supply chains.

2. SMEs also need access to high-quality, trustworthy information

Once a business has decided to act, it needs information and advice it can trust on how to:

- **Measure** its carbon footprint
- **Reduce** it
- **Finance** the necessary investments

As mentioned in the introduction, recent survey data indicates that a majority of SMEs do not know where to turn for information or advice on how to get to net zero. The issue is not an absence of sources for this information and advice: there are many places an SME could turn for help on how to decarbonise – and the list is growing fast. Instead, the three important hurdles to overcome are:

- **Low awareness of what's available:** the fact that 71% of SMEs could not recommend a single web source for help on getting to net zero is an indication of just how much awareness raising is needed.

10 Carbon Trust - Energy efficiency starts here: SME survey results

11 Enterprise Research Centre - Small business past, present and future; Carbon Trust- Energy efficiency starts here: SME survey results; BSI - Net zero barometer report

- **Confusion and overwhelm:** for those SMEs that have looked for help and advice on decarbonising, the experience can be frustrating due to the sheer number of different information sources and solution providers to choose from. For SMEs with limited knowledge and time, the need to sift through so many options and the difficulty of making an informed judgment about which information sources to trust and which solution providers are right for them is a barrier to action.
- **A fragmented landscape:** though there are many providers of information and advice on aspects of the decarbonisation journey for SMEs, few (if any) cover the full spectrum of support most SMEs will need. In particular, advice on how to measure and reduce carbon footprint is often disconnected from information on how to fund or finance such reductions, leading many SMEs to conclude (often incorrectly) that investments in lowering emissions are too expensive for them.

3. A standardised approach to measurement and reporting of progress is essential

The current lack of consistency and standardisation around the measurement and reporting of emissions at a company level (particularly a small company level) is likely to make the implementation of new policies and products that incentivise action harder and uptake by SMEs lower.

Many banks are creating their own in-house methodologies for carbon accounting, but unless these are built on a common set of standards, different banks' approaches are likely to be inconsistent, introducing unnecessary friction into the system. Leading international frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD), the Partnership for Carbon Accounting Financials (PCAF) and the Science-Based Targets initiative (SBTi) tend to focus more on large companies than small ones. Likewise, disclosure platforms and reporting frameworks such as CDP and GRI are designed for large companies, not small ones.

Several carbon calculators designed specifically for SMEs already exist – notably Carbon Trust's SME Carbon Footprint Calculator.¹² There are tools that promise simplicity, such as Climate Hero's carbon calculator ('Calculate your carbon footprint in just 5 minutes'),¹³ and there are tools that promise rigour, such as the GHG Emissions Calculation Tool created by the GHG Protocol and WRI.¹⁴

The challenge, then, is not to create yet more tools and frameworks, but rather to streamline and simplify the process for SMEs. Incentives will be more effective if there is less "friction" for SMEs seeking to qualify for lower-cost finance or government support. A simple step in the right direction would be for banks (ideally alongside relevant public bodies, such as the British Business Bank, and government departments such as HM Treasury and the Department for Business, Energy and Industrial Strategy) to publish a list of approved carbon calculators.

12 Carbon Trust - SME Carbon Footprint Calculator

13 Climate Hero - How to go carbon neutral

14 GreenHouse Gas Protocol - The GHG Emissions Calculations Tool



How to do it:

Priority actions for supporting SMEs on the path to net zero

FOUNDATIONS OF A NET ZERO AGENDA

Critically, these three areas are interdependent: efforts to address them piecemeal will have a limited impact, whereas a comprehensive strategy to address all three will unlock synergies and combinatorial effects that enable more SMEs to go further, faster.

Whilst our focus in this paper has been on SMEs specifically, it is critical that measures to accelerate the net zero transition for SMEs are nested within a wider net zero policy and regulatory framework that sets clear incentives for businesses and households to decarbonise.

We look forward to the Government's net zero strategy being published later this year. The following recommendations, which are aligned with the existing policy asks of a wide range of institutions across business, finance, academia and civil society, must be the foundation stones upon which we build a successful net zero strategy for the whole UK economy:

- 1. Apply a carbon charge to every tonne of CO₂ emitted in the UK.** The Zero Carbon Commission has set out how this can be done in a way that supports a green and just recovery from COVID-19.¹⁵ Carbon pricing is backed by a broad global coalition of business leaders, economists, civil society groups and multilateral institutions. The Zero Carbon Commission's recommendation that the Government set out a clear carbon price trajectory reaching a minimum of £75/tCO₂e by 2030 across all sectors of the economy is in line with the best available economic analysis of what level of carbon pricing is needed to support Paris alignment.¹⁶
- 2. Scrap VAT on low and zero carbon products.** The recent campaign on this issue by The Daily Express and Ecotricity noted that, in many cases, 'green products which would help in the battle with global warming can carry more VAT than polluting products.'¹⁷ The proposal to scrap VAT on low and zero carbon products would not only fix this distortion but create clear incentives for both consumers and businesses to go green – enabling UK businesses developing low carbon products and services to thrive.
- 3. Make all investments that reduce emissions tax-deductible.** The super-deduction announced by the Chancellor of the Exchequer at the 2021 Budget offers a useful model – but it is too short-term to stimulate the level of investment in green industries and technologies needed to meet the UK's net zero by 2050 target. As an immediate priority, the Government should clarify that all investments in renewable energy, energy efficiency and low-carbon heating solutions will be eligible for the super-deduction. Then, specifically for investments in decarbonisation and energy efficiency, the super-deduction should be extended past 31st March 2023, when it is currently set to expire. The generosity of the deduction should decrease in increments after 2023 – from the current 130% to 100% by 2028. After 2028, 100% enhanced capital allowances for low-carbon investments should remain in place.
- 4. Ensure net zero is baked into financial regulation.** The Chancellor's recent decision to incorporate support for net zero into the mandate of the Bank of England is welcome. We hope and expect to see this affecting the Bank's approach to regulation in the months and years ahead. While this paper is not the place for a detailed discussion of how regulators should go about incorporating net zero into their approach, we note that this will undoubtedly need to go beyond the existing focus on disclosure and stress-testing. Several recent papers and reports have set out detailed recommendations for how financial regulators can play an active role in ensuring finance is aligned with the goal of limiting global warming to well below 2°C.¹⁸

15 Zero Carbon Campaign - Policy Positions

16 See, for example, Carbon Pricing Leadership Coalition - Report of the high-level commission on carbon prices

17 Express - Green Britain: Sign our zero for zero petition now

18 See, for example, Financial Stability in a Planetary Emergency, co-authored by Bankers for Net Zero delivery partner, James Vaccaro.

SME-SPECIFIC MEASURES TO INCENTIVISE NET ZERO

Nested within an overall Net Zero Strategy for the UK economy, we believe there are a number of specific ways in which the Government can – and should – incentivise SMEs to prioritise emissions reductions as they recover from the COVID-19 crisis.

Recommendations developed by the Bankers for Net Zero SME working group include:

- 1. Repurpose and extend existing Government-backed schemes to incorporate criteria around net zero alignment.** For example, the British Business Bank's Enterprise Finance Guarantee (EFG) scheme,¹⁹ which has significantly increased the flow of finance to SMEs since it launched in 2009, should be extended and "greened" by making net zero alignment part of the scheme's eligibility criteria. Likewise, the Future Fund,²⁰ which launched in May 2020, could usefully be extended but this time with "green strings" attached, by making eligibility conditional on net zero alignment. Similar criteria should also be incorporated into the Recovery Loan Scheme (RLS)²¹ and any successors to it.
- 2. Use the corporate tax system to incentivise investment in decarbonisation.** In addition to the economy-wide fiscal measures listed above, we believe that the full power of the UK's corporate tax regime could and should be used to incentivise business investment in reaching net zero. Offering tax breaks and/or business rates relief to firms that meet specific carbon reduction targets within a prescribed timeframe would help make decarbonisation pay for SMEs.
- 3. Use the Government's procurement budget to incentivise supply chain decarbonisation:** the UK Government spends £284 billion a year on buying goods and services from external suppliers – almost a third of total public expenditure.²² Much of this goes to large contractors, but the Government could mandate that, for all contracts above a certain size, SMEs must make up a set proportion of the supply chain and that contractors' emissions – including supply chain emissions – will be a factor in bid evaluation. The announcement in June 2021 that, from September, prospective suppliers bidding for government contracts worth more than £5 million a year will need to have committed to achieving net zero by 2050 and have published a carbon reduction plan, is a welcome step in the right direction.

INFORMATION AND ADVICE ON NET ZERO

The Bankers for Net Zero SME working group strongly endorses the need for a "one-stop-shop" net zero advisory hub that aggregates information on how to measure your footprint, reduce emissions and finance those reductions. We believe that such a hub could play a significant market-building role, by driving awareness and understanding of how SMEs across the country can play their part in the race to net zero.

Encouragingly, efforts to create something along these lines – such as the SME Climate Hub²³ and the Zero Carbon Business Partnership²⁴ – are underway. Both are still nascent and neither yet includes information on how to finance/fund action or sign-posting to potential sources of finance/funding. This is a gap that Bankers for Net Zero is actively seeking to plug through collaboration with the initiatives listed above.

The group also identified several other features that will be important considerations:

- 1. Given the distinct characteristics of SMEs across different regions of England, Wales, Scotland and Northern Ireland, a central, online hub should be complemented by centres in different regions. Key partners to bring this regional dimension to life include universities, Local Enterprise Partnerships (LEPs) and Community Development Finance Institutions (CDFIs), as well as the devolved administrations in Edinburgh, Cardiff and Belfast.**

19 British Business Bank - Enterprise Finance Guarantee: Facilitating lending to the UK's smaller businesses

20 British Business Bank - Future Fund

21 British Business Bank - Recovery Loan Scheme

22 Institute For Government - Government procurement: the scale and nature of contracting in the UK

23 UK Business Climate Hub - Join thousands of UK businesses tackling climate change

24 Zero Carbon Business - Get ready for net zero

2. **The central hub should provide practical, actionable advice on issues that are common to all or most SMEs, while sign-posting to high quality resources and service providers that can help SMEs address issues that are specific to their industry.**
3. **The approach to advice should be holistic – built around the needs of SMEs as whole companies – rather than product-driven.**
4. **There should be a strong emphasis on peer-to-peer learning – bringing clusters of SMEs together to learn from each other. Banks could play a role in (physically) hosting peer-to-peer learning events for SMEs.**

Given the work that is already underway by the Zero Carbon Business Partnership and others, we are not recommending starting from scratch on the creation of a Net Zero advisory hub, but rather are seeking to collaborate with existing initiatives in this space. In fact, a collaborative approach is critical given that one of the key barriers to adoption is the fragmented nature of the net zero advisory landscape today.

Ultimately, creating the right infrastructure to simplify access to trustworthy, high-quality support and guidance for SMEs is critical to building a strong market response to the net zero imperative. This requires collaboration across business, finance and the public sector.

CREATING A CONSISTENT APPROACH TO DATA AND REPORTING

The various market-building interventions described in this paper all require a base layer of action to create common standards around how SMEs' emissions are measured. This is essential because complexity and inconsistency is a significant factor that holds back SMEs from acting.

Creating a truly standardised approach is a substantial task requiring collaboration across a wide set of stakeholders and funding to enable those involved to commit sufficient resources to the process. It is also an urgent priority: banks are already creating their own bespoke methodologies; if these are not reconciled at an early stage, the risk of significant divergence and fragmentation increases.

Stakeholders that will need to be part of the process of creating standards for carbon accounting for SMEs include:

1. **Data providers** such as Ofgem, Carbon Trust and banks themselves.
2. **Standard setters** such as the Science Based Targets initiative (SBTi), the Partnership for Carbon Accounting Financials (PCAF) and the British Standards Institute (BSI) to ensure scientific rigour and consistency with international standards.
3. **Regulatory agencies** such as the Information Commissioner's Office (ICO) to ensure issues around privacy and data sharing are appropriately dealt with.
4. **Credit bureaus** such as TransUnion, Equifax or Experian, since they may ultimately become key conduits for standardised data on businesses' carbon emissions.

The key will be to combine "back-end" rigour with "front-end" simplicity – generating trust in the integrity of the data while presenting information in a user-friendly way that removes barriers to SME engagement.

Conclusion

As well as “crossing the chasm”, another concept from the world of technology and innovation is relevant here: the “hype cycle”. With the UK due to host COP26 in November 2021 – without doubt the most hyped climate conference in history – we are fast approaching the peak of the hype cycle for the net zero agenda in the UK.

The real test will be what happens when the circus moves on. If 2021 has been the year in which net zero talk has gone mainstream, 2022 is the year in which we need net zero action to go mainstream – and that means mobilising the 99% of British businesses with fewer than 250 employees to play their part.

This paper has set out what it will take to cross the chasm – to go from a few thousand UK SMEs taking climate action to a few million. What is clear is that a piecemeal, uncoordinated approach won’t build the necessary momentum to get across the chasm, which would leave millions of UK SMEs ill-prepared for the net zero transition.

The key is a comprehensive strategy that tackles all three of the issues highlighted in this briefing: clear, long-term incentives for businesses of all sizes to prioritise decarbonisation; an advisory hub to help time-poor SMEs make sense of how they can get to net zero; and a standardised approach to measurement and reporting of carbon performance at the enterprise level.

Banks can play an enabling role – helping to amplify incentives set by policymakers with “green” financial products and services that lower the cost of capital for SMEs that are serious about getting to net zero, as well as acting as conduits and conveners for trustworthy information and advice. But banks cannot trigger the mainstreaming of net zero action across the UK SME population on their own. To get across the chasm, the UK Government will need to step up to give the market a healthy following wind.

SMEs are the beating heart of the UK economy. They are pivotal to the net zero transition. We cannot afford to leave them behind.



Who we are

Bankers for NetZero members:



Delivery partners:



About the Delivery Partners

The APPG on Fair Business Banking is one of the largest and most influential APPGs in parliament, the group has 17 officers and has a membership of over 116 MPs and peers. It has led the field in the creation of a dispute resolution service for businesses, and works effectively at executive level with industry, government, parliament and regulators to facilitate and implement changes that foster improvements in trust, co-operation and productivity between businesses and the banking sector.

Website: www.appgbanking.org.uk

Volans is a think-tank and advisory firm operating at the leading edge of sustainability and innovation to catalyse systemic change. Founded by the 'Godfather of the Sustainability movement' John Elkington in 2008, Volans helps business leaders make sense of the emergent future to unlock the potential of their organisation and create opportunities in the face of exponential planetary challenges.

Website: www.volans.com

Re:Pattern catalyses business model innovation for sustainability by working across diverse networks and stakeholder ecosystems - creating new pathways for the flow of finance. Led by the former Strategy Director for Triodos Bank and Banking Board member of the UN Principles for Responsible Banking, Re:Pattern develops strategies, policies and practices to support sustainable finance globally.

Website: www.repattern.org