



Financial innovation for SME net zero transition:

Role of banks and buyers



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Executive Summary

There is no net zero economy without small and medium-sized enterprises (SMEs) transitioning to net zero aligned operations. Yet only 60 per cent of SMEs have a plan to reach net zero. They face several barriers that hinder their decarbonisation journey, including lack of knowledge, limited time, and lack of standardised guidance on emissions reporting. Banks and major corporates – those that finance and buy the products and services of SMEs – are well equipped to support SMEs' net zero action, and with their own net zero commitments, it is essential that they do so.

The Cambridge Institute for Sustainability Leadership (CISL) and BSR convened practitioners, including commercial banks from the Banking Environment Initiative (BEI), multi-national corporations, financial innovation specialists, and an international group of SMEs, for a series of *innovation sprints* to better address the barriers SMEs face to reach net zero. Participants from the sprints generated the following potential solutions to drive change and support SME net zero action:

Climate Readiness classification process

based upon market segmentation by stage, size, sector, and location criteria, and co-development of a diagnostic tool to assess SMEs Climate Readiness, promoting internal knowledge and action amongst SMEs about net zero, paired with appropriately calibrated transition resources.

Centralised, shared ESG/emissions data repository

between SMEs, corporates, and banks that triangulates data points for better scope-based progress reporting along supply chains. This repository can then be used to incentivise SME reporting and transition more effectively.

SME decarbonisation roadmaps (benchmarks)

incentivising opportunities and encouraging behaviour change.

A marketplace that provides net zero transition support services

for thematically clustered SMEs, corporates, and banks.

Each of the above suggested solutions yields a specific set of R&D next steps (see Table below 1). However, they need not be stand-alone solutions but could be mutually supportive, as there is overlap in the proposals. For example, a one-stop platform for banks, buyers, and SMEs that provides the space for mutual support in net zero efforts, benchmarking, data exchange and financial incentive could constitute a nexus between the four proposed approaches that emerged from the innovation sprints.

Both banks and buyers through their commitments to net zero, economy-wide exposure, and resources can play a key role in bridging the net zero financing gap by experimenting with incremental and radical innovations. This innovation sprint process, which took place in summer 2022, can be the first step toward further collaborative R&D that helps to close the SME net zero action gap.

Table 1: Next steps for each solution area based on innovation sprints

Solution area	Proposed solution	Next steps for each solution area
Knowledge-based	Climate Readiness classification process based upon market segmentation by stage, size, sector, and location criteria, and co-development of a diagnostic tool to assess SMEs Climate Readiness, promoting internal knowledge and action amongst SMEs about net zero, paired with appropriately calibrated transition resources.	<ul style="list-style-type: none"> • Develop SME market segmentation criteria to classify stage-, size-, sector-, and location-appropriate information • Develop with SMEs a diagnostic tool for SMEs to self-assess their Climate Readiness and classify according to segmentation criteria • Identify and develop technical and financial incentives for SMEs to use the readiness tools and resource packages provided by banks and buyers • Banks and buyers can support existing platforms in arranging knowledge and resources based on SME net zero transition maturity and sectors
Technology-based	Centralised, shared ESG/ emissions data repository between SMEs, corporates, and banks that triangulates data points for better scope-based progress reporting along supply chains. This repository can then be used to incentivise SME reporting and transition more effectively.	<ul style="list-style-type: none"> • Identify the key drivers and stakeholder groups for the traceability of evidence-based data • Develop criteria for data confidence and reduce the need for explicit auditing • Source data entry points to triangulate data for better scope-based progress reporting • Rapid trial of data incentives and their effectiveness in encouraging SMEs to use existing data repositories for emissions reporting
Behaviour-based	SME decarbonisation roadmaps (benchmarks), incentivising opportunities and encouraging behaviour change.	<ul style="list-style-type: none"> • Identify the specific behaviours that SMEs need to achieve decarbonisation • Tailor the roadmap provided to decarbonisation behaviours (e.g., use a carbon calculator, switch to a renewable energy provider, identify providers of recyclable packaging, etc.) • Co-identify existing resources, tools, and information that SMEs can use with their clientele and in their value chains or benefit most from during the roadmap • Co-develop a benchmarking methodology with expert stakeholders
Business model shifts for banks and buyers	A marketplace that provides net zero transition support services for thematically clustered SMEs, corporates, and banks.	<ul style="list-style-type: none"> • Identify SME needs to make progress on net zero and develop solutions • Assess the marketplace utility in relation to existing solutions • Develop incentives for SMEs to use the marketplace for solutions, particularly those who are less interested or cannot be engaged • Undertake a systematic review of existing interaction platforms to identify incentives and features for thematic aggregation of solutions, service offerings, and networks of banks, buyers, and SMEs on net zero

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1

Introduction

This report is about how banks and buyers (major corporates e.g., Microsoft) can play a greater role in supporting SME action towards net zero, complementing the actions of policymakers. It summarises the outcomes of an innovation sprint process aimed at elucidating how both parties can play this greater role and, by doing so, overcome the SME net zero transition gap.

1.1 The challenge: only 60 per cent of SMEs have a plan to reduce emissions

SMEs¹ account for 99 per cent of businesses globally and, in the Organisation for Economic Co-operation and Development (OECD) region, are responsible for 60 per cent of industrial emissions (OECD, 2017). If they do not reduce emissions, there is no net zero economy, but SMEs are largely struggling to start their transition to net zero. Only 60 per cent have a plan to achieve net zero, while the rest cite challenges related to lack of resources and internal expertise (see Figure 1):

Figure 1: SME Climate Hub Survey findings (2021)

Results from the SME Climate Hub's survey:



Source: smeclimatehub.org

¹ The research uses SME Climate Hub's definition of a small to medium sized enterprise as a company with up to 500 employees.

Barriers to SME net zero action

Lack of knowledge

SMEs often lack knowledge about the net zero transition, especially in emerging markets where the enabling policy environment and push from their customers is less strong (IFAC, 2022). In the UK, 34 per cent of business owners and managers attributed a lack of knowledge as the main barrier to having a sustainability strategy for net zero action (Lloyds Bank Business, 2022; NatWest, 2022).

Limited time

SMEs often lack the time to deal with the policy, market, and reporting pressures to reduce their carbon footprint (Kauffmann & Cusmano, 2022). Time devoted may also not be productive, as SMEs have reported confusion and overwhelm when trying to navigate available decarbonisation guidance.

Lack of standardised guidance on SME sustainability reporting

One of the most frequently cited barriers to action by SMEs participating in the research was the lack of standardised guidance on sustainability frameworks for reporting, especially for SMEs at the early stages of their net zero journey.

Missed opportunities

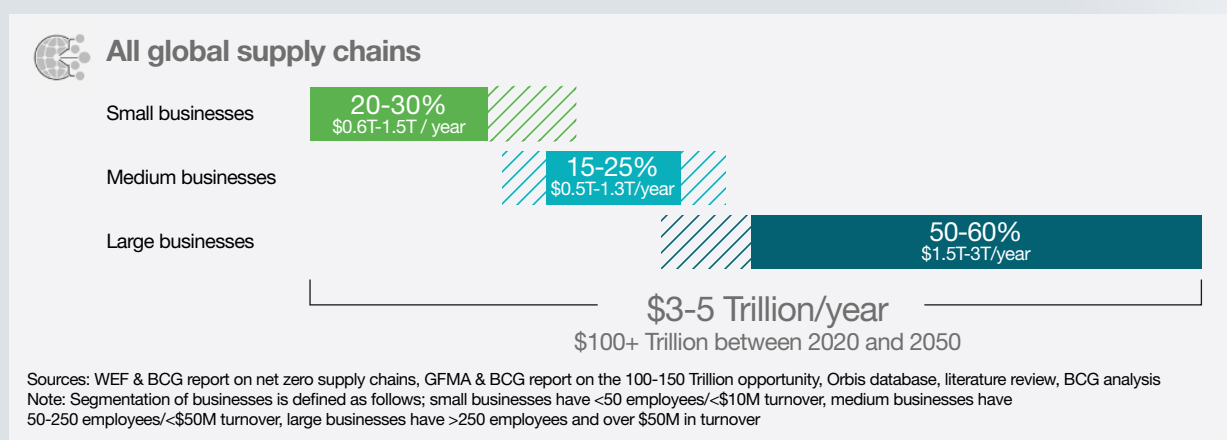
Lack of business-to-business support from SME customers (buyers of SME goods and services)

Most SMEs shared that they had not been contacted by their customers (buyers)² regarding their sustainability and climate action efforts. While some large companies have started to engage and support suppliers on climate action, SMEs are often deprioritised as companies first focus on larger suppliers with the most material GHG impact.

USD 50 trillion SME net zero financing access gap

Access to financial support is another frequently referenced impediment to SME action on net zero (WSP, 2021). SMEs face a disadvantage with respect to large firms when accessing finance, owing to opacity, under-collateralisation, and high transaction costs. Half of the estimated \$100trn investment needed to get global supply chains to net zero by 2050 will need to go to SMEs³ (HSBC/BCG, 2020), see Figure 2.

Figure 2: Estimated investment needed to reach net zero across global supply chains (BCG & HSBC, 2021)



1.2 Banks and buyers ideally positioned to support SME net zero action

Whilst both banks and buyers face their own challenges to support SME decarbonisation (see Appendix A), they can play a meaningful role in bridging the net zero financing gap through their commitments, economy-wide exposure, and resources, as well as help remove other obstacles related to knowledge, reporting, and net zero implementation across their supply chains.

Moreover, both corporates and banks have made ambitious net zero targets:

² The terms buyers, corporates, and multi-national companies (MNCs) are used interchangeably in the report.

³ For this calculation, SMEs are defined as businesses with <250 employees.

- Many corporations have set ambitious net zero targets to meet before or by 2050, per science-aligned recommendations from initiatives such as the [SBTi Net Zero](#) standard and the [UN Race to Zero](#) campaign. Achieving these targets will require companies to drastically reduce supply chain (Scope 3) emissions. These supply chain emissions are estimated to be 11.4x the average company's Scope 1&2 emissions (CDP, 2021).⁴ As each company is dealing with hundreds or thousands of SME suppliers, SME decarbonisation is therefore critical to reaching their climate goals.
- Some banks have made similar commitments regarding financed emissions in their lending portfolios that reflect the real economy and prevalence of SMEs (e.g., Net Zero Banking Alliance). With exposure to clients' supply chains, banks with a large global footprint – spanning the largest corporations and smallest micro-businesses – can leverage their position to share technical expertise and stimulate financial support for net zero transitions.

1.3 How can banks and buyers further increase SME net zero action?

The USD 50 trillion net zero financing gap indicates the need for innovation that better delivers on the existing and other yet undefined opportunities to accelerate SME net zero action. Table 2 outlines some of the opportunities for banks and buyers to support SME net zero action. These listed opportunities are not mutually exclusive and both banks and buyers can use these to support SMEs. To innovate methods to bridge the financing gap, the Banking Environment Initiative (BEI) at CISL and BSR convened relevant individuals from banks, major corporates, financial innovation specialists, and SMEs together for a series of innovation sprints.

We determined four key levers that banks and buyers can use to drive change and facilitate SME net zero action to offer clarity on the areas in which innovation is required, and provide structure for the sprints. These levers of change are:

1. Knowledge-based: developing or distributing knowledge
2. Technology-based: new technology or technology applications
3. Behaviour-based: supporting behaviour change of clients and suppliers
4. Business model shifts: imagining the bank and buyers' business models of a net zero future

These levers represent ways banks and corporates can take positive action to support SMEs in reaching net zero, complementing the actions of policymakers. The subsequent sections of the reports detail each lever and the results of these innovation sprints.

Table 2: Opportunities for buyers and banks to support SME net zero action

Opportunities for banks	Opportunities for buyers
Raise awareness amongst SMEs of the financial implications, both of opportunities linked to net zero leadership and the costs of inaction (CISL, 2020).	Connect SMEs to the practical tools, resources, and vendors needed to enable climate action.
Assess the climate-related financial risks of an SME and actively support them to mitigate these risks.	
Reward SMEs via climate standards in their own supply chains, for example, requiring suppliers to report on GHG emissions and/or set reduction targets.	Reward supplier SMEs taking climate action with better business—e.g., bigger and longer-term contracts and / or a preferential status.
Develop traditional and non-traditional financial products and services that facilitate and incentivise net zero transitions.	
Connect investors, large corporations, and small business clients with experts that can support the transition of the business, including the provision of tools to measure and report emissions footprints.	
Raise consumer awareness by amplifying communications efforts to share SMEs' sustainability achievements.	

⁴ See Appendix A for diagram of Scope 1-3.

2 Levers of change to support SME net zero action

This section defines the levers of change and articulates how these levers can be used by banks and major corporate buyers to help SMEs on their decarbonisation journey. A spotlight on current solutions for each lever is provided to highlight examples of action already being taken.

2.1 Knowledge-based



SMEs increasingly want to incorporate the latest information about net zero action into their business and financing processes but often struggle accessing this knowledge, which can be highly technical, dynamic, or sector specific.

Banks and major corporates use a variety of methodologies for collecting carbon data from their SME clients and suppliers. These reporting methodologies often do not fit together easily, creating the impression amongst SMEs that net zero action is a burden, not an opportunity.

Additionally, frameworks like the Science Based Targets initiative (SBTi), the Task Force on Climate-related Financial Disclosures (TCFD), the Carbon Disclosure

Project (CDP), and the Global Reporting Initiative (GRI) focus more on larger firms and are challenging to apply in SME contexts (WBCSD, 2020).

In 2021, CDP in collaboration with SME Climate Hub developed a disclosure framework specifically tailored to SMEs: [A climate disclosure framework for small and medium-sized enterprises \(SMEs\)](#).

In addition to the introduction of new tools, resources, and frameworks, developing mechanisms to ensure relevance and accessibility of the existing tools is also a limitation to SME climate action.

Knowledge-based solutions are needed to resolve such challenges, and the below table features an innovation spotlight on existing solutions from banks and buyers:

Table 3: Innovation spotlight on knowledge solutions from banks and buyers

Banks	Buyers/large corporates
<ul style="list-style-type: none"> Lloyds Banking Group developed a Bank's Green Buildings Tool as a free, interactive digital tool, which allows businesses to calculate buildings' energy efficiency and any potential savings that sustainable changes could produce. NatWest Group has developed a NatWest Carbon Tracker application that provides SMEs with an estimate of their carbon footprint. Lloyds Banking Group has a Bank Sustainability Hub, which includes a Now to Net Zero five-step guide to support business owners on embarking on a cleaner journey with guidance on how to measure, mobilise, and monitor progress. 	<ul style="list-style-type: none"> PepsiCo issued a \$1 billion Green Bond that will partly be used to proactively help their suppliers – often SMEs – understand their greenhouse gas (GHG) reductions in their own businesses, including how to calculate their GHG footprints and set science-based targets. To support emissions disclosure and reduction, Microsoft addressed the top request from their suppliers – the need for simple, comprehensive GHG accounting resources – and recently launched a tools and resources hub to aid their suppliers' efforts

2.2 Technology-based



Technology can enable SMEs to track their progress towards net zero, increase their understanding of net zero, improve access to financial services and connections that can support their decarbonisation journey (e.g., user-friendly, digital tools to enable emissions reporting).

Technology allows new relationship interfaces between banks, buyers and SMEs. It can serve as the foundation for engagement with SME clients and suppliers and financial products related to net zero action.

SMEs require a tailored, yet scalable approach that captures the variety of needs. Adaptive, automation technologies are essential for assessing SME net zero progress and providing incentives to decarbonise. New enabling technologies such as data science and satellite monitoring can facilitate new business models and digital financial products to incentivise SMEs.

An innovation spotlight on possible technology-based solutions and incentives by banks and major corporate buyers reveal the following:

Table 4: Innovation spotlight on technology-based solutions from banks and buyers

Banks	Buyers/large corporates
<ul style="list-style-type: none"> ADB Ventures (ADB) supported the development and launch of SatSure, which uses satellite technology to gather information through a data analytic platform to enable financial institutions to optimise credit decision-making in the agricultural sector. JUMO is a predictive technology platform developed in 2015 that uses artificial intelligence/machine learning and behavioural data derived from mobile usage to create financial identities for SMEs that do not have access to formal financial services as well as to offer other financial products to the SMEs. JUMO partners with mobile network operators across Africa and South Asia to gain access to customers' data to assess creditworthiness and offer real-time, customised loans and savings products to SMEs over their mobile phones. Funding Circle was founded in 2010 as a global peer-to-peer (P2P)/Marketplace lending platform focused on SMEs. It leverages Big Data analytics to expertly match SMEs that need capital with a wide variety of investors, including individuals, banks, asset management companies, insurance firms, and national and supranational entities, such as KfW and the European Investment Bank (EIB). 	<ul style="list-style-type: none"> In 2019, CISL coordinated a pilot programme, dubbed Project Trado, in which Sainsbury and Unilever teamed up with BNP Paribas to offer preferential supply chain finance pricing to tea producers in Malawi in return for the provision of sustainability data through blockchain based platform, Halotrade. UNEP FI (2016), in its fintech inquiry report, presented a range of prototype ideas, including the development of a blockchain-enabled collateral management registry for SMEs based on the model used by the International Monetary Fund. Another solution presented was the creation of Smart Asset Trade Finance (SATF) as a combination of Internet of Things (IoT) and blockchain's smart contracts to provide smart trade finance services, leveraging IoT to tag their claims on physical assets, making them trackable and traceable. A CISL report presented a snapshot of these and other fintech innovation solutions. Fawry (Egypt) has introduced innovative digital products to help SMEs obtain financing. In 2019, the company launched an electronic platform for consumer goods' companies that allows electronic ordering of products by SMEs. The platform also assists in providing finance for merchants by studying the digital transaction data as it relates to sales per merchant and their needs (World Bank, 2020)

2.3 Behaviour-based



Supporting behaviour change of clients and suppliers towards engaging SMEs is critical for effective net zero transition. Banks and major corporate buyers need to leverage insights they already have about influencing behaviour (consumer

or corporate) to prompt new behaviours amongst themselves and SMEs to access information, services, and experiences.

SMEs say they want to decarbonise, yet they struggle to find the time and resources and sometimes do not know where to start. Banks and buyers need to open pathways for SMEs to access information, services, products, and experiences to support SME behaviour change. On this, behavioural science can help guide banks and buyers to make decarbonisation as easy, social, attractive, and timely as possible for SMEs⁵.

As well as initiatives like the [SME Climate Hub](#), there is a growth in private platforms – from the likes of Moody's, Lloyds Banking Group, ACCA Global, Mastercard, and many more – offering their SME partners assistance in carbon measurement and business strategies, which promote transparency in reporting and therefore generate behavioural nudges to deliver on decarbonisation amongst SME communities.

Banks and buyers can leverage behavioural insights to inform the design of financial incentives for SMEs that can act as positive nudges for further net zero action. In recent years, a small number of commercial banks have started to offer lower rates to firms with high sustainability performance, which has revolutionised areas such as recycling.

An innovation spotlight highlights behaviour-based solutions and incentives by banks and buyers which can be extended to engage SMEs:

Table 5: Innovation spotlight on behaviour-based solutions from banks and buyers

Banks	Buyers/large corporates
<ul style="list-style-type: none"> German footwear and clothing manufacturer Puma launched a financing program for suppliers to reward social and environmental standards with BNP Paribas bank and the fintech firm GT Nexus. If suppliers get a high score on Puma's social and environmental audit, they get a higher share of the invoice upfront, which can cut suppliers financing fees. WBCSD has launched the Carbon Transparency Partnership, which provides a forum for businesses and decarbonisation stakeholders to collaborate across industries and geographies. This partnership nudges peers to increase transparency reporting across supply chains, which is a key enabler for strengthened emissions accountability and accelerated decarbonisation. 	<ul style="list-style-type: none"> Asda developed Sustain & Save Exchange, an online tool to support supplier interaction in resource efficiency and emissions reduction. The tool is free for suppliers; hosts live events, information, and ideas; and enables sharing of best practices and opportunities for increasing resource efficiency, creating a culture shift in business management towards net zero. Dow's Logistic Supplier Award Programs (S4TAR & DowGOL) are designed to encourage and recognise Dow's supply chain partners for excellent performance in the areas of safety, sustainability, social responsibility, and service (the 4Ss). The reward system promotes positive action and encourages peers to contribute further. Philips, building on the company's existing Supplier Sustainability Performance program, in which more than 250 suppliers participate annually, have taken an active role in supporting its suppliers in identifying decarbonisation opportunities in their factories. This is facilitated through free-of-charge on-site factory energy scans that identify cost-effective reduction measures. This helps improve the accountability and transparency of sustainability action.

⁵ https://www.bi.team/wp-content/uploads/2015/07/BIT-Publication-EAST_FA_WEB.pdf

2.4 Business model shifts for banks and buyers



Evolving banks' and buyers' relationships with SMEs will prove essential to addressing their own net zero challenges. This will require banks and buyers to introduce incremental and/or radical shifts to their business processes and models to ensure alignment with the net zero needs of SMEs.

For many banks, the future SME financing will necessitate a transformation of their product offer and business processes. Roland Berger (2021) identifies three key principles for banks to develop future-proof business models for SME engagement: optimised customer/client front end, straight-through processing (efficient, transparent, and harmonised), and open system architecture to build on collaboration potential with other financial institutions.

While there is an opportunity for business model shifts, the innovation sprints and showcases highlighted how existing operations and processes could be optimised within existing business models as a valuable first step. An innovation spotlight on possible changes in business processes for banks and buyers highlights the following:

Table 6: Innovation spotlight on business process changes for banks and buyers

Banks	Buyers/large corporates
<ul style="list-style-type: none"> Bank of Valletta, in collaboration with the Malta Development Bank (MDB), has launched 'BOV SME Invest,' a product aimed at SMEs planning new capital investment projects. BOV SME Invest provides SMEs with easier access to finance through reduced collateral requirements and finance costs. Backed by Asian Development Bank (ADB)'s AAA credit rating, ADB's Trade Finance Programme provides guarantees and loans to over 200 partner banks to support trade, enabling more companies throughout Asia to engage in import and export activities. Sri Lanka's Commercial Bank of Ceylon launched green development loans worth up to US \$165,000. Aimed at SMEs, the loans are available at below-market rates and repayable over seven years with a grace period of one year. Brazil's Banco Votorantim offers better financing terms to clients that maintain high social and environmental standards. Using its own procedures, Banco Votorantim scores borrowers based on their environmental and labour performance. Egypt's biggest private lender, Commercial International Bank (CIB) launched the country's first ever private sector green bond in advance of COP27. An emerging type of fixed-income security, green bonds generate capital for development projects with environmental benefits. CIB has raised \$100 million through the bond, money that will be lent to Egyptian businesses seeking to build energy-efficient buildings or improve their energy and waste management. 	<ul style="list-style-type: none"> PepsiCo is engaging high maturity suppliers one-on-one at the leadership level to align on priorities and collaborative initiatives. With agricultural suppliers, PepsiCo engages in development and implementation of on-farm projects as well as improvements in operational efficiencies and renewable electricity sourcing (WBCSD, 2020). In 2018, BT launched a sustainability contract clause, with Nokia as one of the first signatories. As of 2021, 12 key suppliers have a clause in their commercial contracts with BT or Openreach that commits them to make measurable carbon savings over the term of the contract. The key processes in implementing the clause is getting agreement to participate from suppliers and facilitating the understanding that opportunities will exist for energy savings and therefore carbon reduction. Microsoft is implementing additional sustainability requirements for suppliers. In July 2020, Microsoft updated its Supplier Code of Conduct, adding new language to support the company's bold carbon ambitions. This new language requires suppliers to disclose complete, consistent, and accurate Scope 1, 2 and 3 greenhouse gas (GHG) emissions data, or the components required to calculate such data.

3 Innovation sprints to devise new types of support

A series of innovation sprints was arranged to better address the barriers SMEs face to reach net zero. Participants from the sprints generated potential solutions to drive change and support SME net zero action.

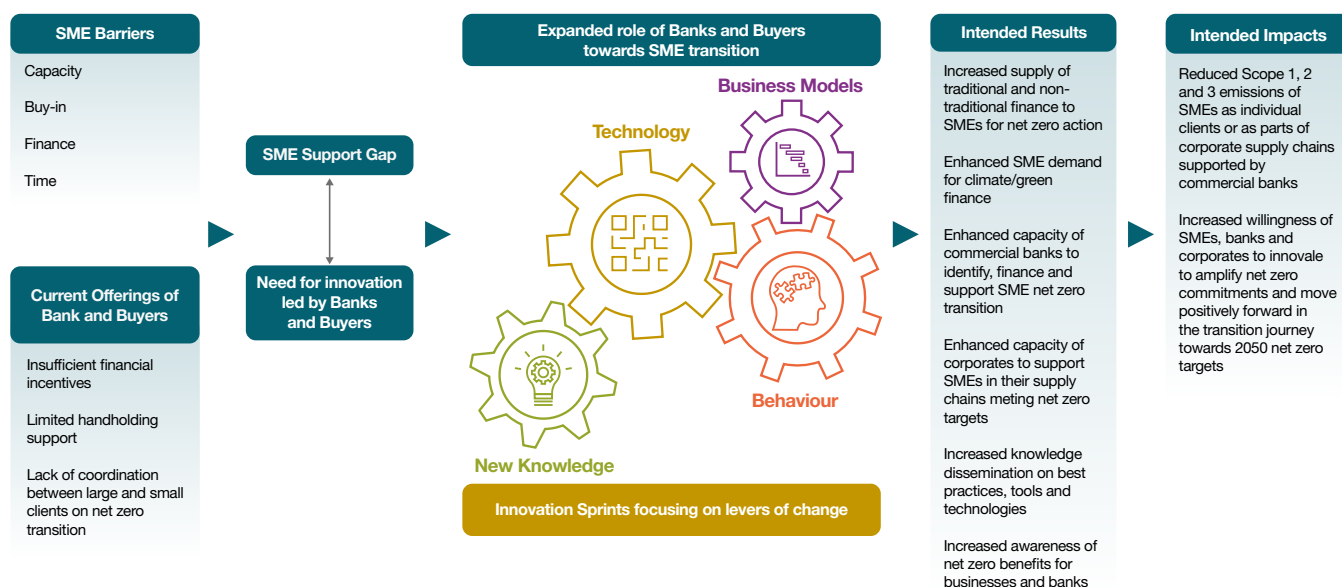
3.1 Sprint design

The levers of change were used to structure innovation sprints aimed at creating new ways for banks and buyers to support SMEs. The objective was to develop actionable recommendations that banks and buyers could take forward to incentivise SMEs (suppliers and clients) to take climate action.

During the sprints, participants co-created solutions in small groups, with each group focusing on a specific lever for financial innovation as discussed in section 2.

The conceptual framework in Figure 3 shows how the series of innovation sprints provided participants the opportunity to collaboratively create “seeds of action” through innovation mapping and ideation:

Figure 3: Conceptual framework for innovation sprints (2022)



The sprints brought together almost thirty practitioners from banks and corporations in 2022, complemented by a geographically diverse panel of financial innovation specialists and SME representatives. The sprints were spread across three sessions that involved:

1. A group of SMEs presenting the challenges faced in their decarbonisation journey, focusing on the role of financial incentives in reducing emissions, followed by brainstorming activities by banks and buyers with the goal of drafting potential innovations to be explored in the following sessions.
2. Expanding the ideas that emerged from session one, resulting in a set of recommendations for each lever for financial innovation.
3. Bringing four lever groups back together to share insights and results of the co-creation process.

Critically, during the last session, a panel of experts formed by specialists for financial innovation, SME representatives, and BSR, CISL, and We Mean Business Coalition members, reviewed the concepts developed by the four groups and shared feedback and ideas.

Participants were supported by a group of specialists who provided feedback and suggestions throughout the process.

3.2 Innovations devised

The following solutions for each lever of change are based on conclusions from the innovation sprints (see Table 7). Each solution is accompanied by an explanation as to why it has been prioritised and how it might be implemented. They are not mutually exclusive and would benefit from being applied together to help SMEs secure the financial support they need to be able to transition to net zero.

Table 7: Innovation and impact map for identified solutions

Lever	Solution(s)																																								
<div>New Knowledge</div> <div></div>	<div>Climate readiness classification process</div> <div>A scalable climate readiness classification process wherein SMEs are empowered to self-assess, and within which banks and corporates can deliver stage-, size-, sector- and location- appropriate information, tools, and solutions to support net zero action.</div> <div><table><tr><td>Innovation potential (incremental > radical)</td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td></tr><tr><td>Impact potential for net zero transition (low > high)</td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td></tr></table></div>	Innovation potential (incremental > radical)	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	Impact potential for net zero transition (low > high)	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
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<div>Business Model Shifts</div> <div></div>	<div>Marketplace to provide service offers for thematically clustered SMEs, corporates, and banks</div> <div>An aggregated marketplace for networks and service offers for sector-specific net zero transition challenges. This marketplace would cluster thematically for SMEs, corporates, and banks.</div> <div><table><tr><td>Innovation potential (incremental > radical)</td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td></tr><tr><td>Impact potential for net zero transition (low > high)</td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td></tr></table></div>	Innovation potential (incremental > radical)	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	Impact potential for net zero transition (low > high)	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
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Lever: Knowledge-based

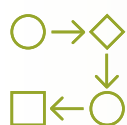
Solution: Climate readiness classification process



Why

Context and targeted outcomes for the lever

Readiness for and knowledge about, and appetite for, the climate transition journey varies widely across SMEs globally. SMEs themselves are heterogeneous with very different sizes and needs. This variety can result in SMEs receiving mis-calibrated information, tools, or services for their current stage of progression. To develop and deliver relevant financing solutions, all parties need to be better calibrated to the specific needs and stage of the individual SME's journey to net zero.



How

Areas for the banks and buyers to research and prepare for SME interaction

Banks and buyers can co-develop:

- A diagnostic tool for SMEs to self-assess their climate readiness and classify according to segmentation criteria
- SME market segmentation criteria to classify stage-, size-, sector- and location-appropriate information
- Technical and financial incentives for SMEs to use the readiness tools and resource packages provided by banks and buyers



What

Meaningful actions/ research/ development that will facilitate this solution for decarbonisation with SMEs

To better differentiate and serve the range of SME needs, it is recommended that a scalable Climate Readiness classification process be developed wherein SMEs are empowered to self-assess. From that classification, banks, buyers, and other partners can deliver stage-, size-, sector- and location-appropriate information, tools, and solutions to support net zero action.

It can help banks and buyers to

- deploy resources more effectively to current and future SME partners
- provide a data-informed approach to identifying gaps and developing future products and services
- offer tailored solutions

a) engage the optimal SME point of contact for the net zero journey

Timeline: 6-12 months (classification), 12-24 months (roll out and monitoring)



Where to start or continue

Resources/ examples/ initiatives to help banks and buyers find new and interesting ways to take this solution forward

Examples of approaches include:

- [Route to Net Zero Standard](#) (Carbon Trust)
- [PepsiCo's Sustainability Action Center](#) maturity framework (co-developed with BSR)
- [AbInBev's Eclipse](#) self-assessment (co-developed with BSR)
- BSR's [Supply Chain Maturity Ladder](#)



Who

Wider collaboration to recognise the support that banks and buyers might seek to help you better progress with clients

Cross-team collaboration is needed with procurement, marketing and data/IT team at banks and buyers. External partnerships are required with a diverse set of SMEs and resource platforms, like the SME Climate Hub.



Lever: Technology-based

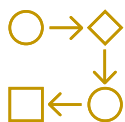
Solution: Centralised ESG data repository for SMEs, corporates, and banks



Why

Context and targeted outcomes for the lever

Corporates increasingly ask their suppliers (including SMEs) about their emissions to report on their own Scope 3 progress. Collecting and reporting this data is time-consuming and costly for the SME. Also, the availability of such emission data is a condition for accessing sustainability-related finance from banks and other parties. Standardisation of such data represents an opportunity to better incentivise SMEs.



How

Areas for the banks and buyers to research and prepare for SME interaction

Banks and buyers are recommended to:

- Co-identify the key drivers and stakeholder groups for traceability of evidence-based data
- Co-develop criteria for data confidence and reduce the need for explicit auditing
- Co-source data entry points to triangulate data for better scope-based progress reporting
- Co-curate incentives for SMEs' buy-in to use the repository for data reporting



What

Meaningful actions/ research/ development that will facilitate this solution for decarbonisation with SMEs

A central data repository which acts as a one-stop-shop for SMEs to access standardised emission data and/ or other ESG data. This can include open-source data from governments or agencies, as well as data from the SMEs themselves (primary sources).

For buyers (corporates): it provides emission and related ESG data about SMEs in supply chains.

For banks: links to their internal data systems to inform financial product development and risk quantification.

For SMEs: open access to ESG data relevant to Scope 1, 2, and 3 indicators per industry. This can help improve their disclosure.

Timeline: 6 months (planning and data management), 6-12 months (build phase), 12-18 months (test phase).



Lever: Technology-based

Solution: Centralised ESG data repository for SMEs, corporates, and banks



Where to start or continue

Resources/ examples/ initiatives to help banks and buyers find new and interesting ways to take this solution forward

Leverage data and technology already available, where possible, and complement with primary data from participants.

The technology for an emission database/repository exists, with several private service providers operating in separate ways, e.g., the GS-1 platform.

Furthermore, the Partnership for Carbon Transparency (PACT), hosted by the World Business Council for Sustainable Development (WBCSD), has released the first set of technical specifications for the standardised exchange of carbon emissions data.

The specifications will allow different emissions and accounting tech solutions to connect to and understand each other — making it easier for businesses to access data.

Another initiative, the [Carbon Call](#), is using technology-driven methods to uncover and address gaps in the existing global carbon accounting systems, focusing on carbon removal and land sector, methane, and indirect emissions.



Who

Wider collaboration to recognise the support that banks and buyers might seek to help you better progress with clients

Existing technology databases, repository platforms, and regulatory and principle setting agencies (e.g., United Nations Environment Programme Financial Initiative (UNEP FI) and European Commission).



Lever: Behaviour-based

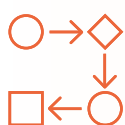
Solution: Behaviourally-informed roadmap for decarbonisation



Why

Context and targeted outcomes for the lever

SMEs face a multitude of transition barriers because of capacity, buy-in, and time, particularly those SMEs who have yet to begin their decarbonisation journey, and the journey can be a daunting one. SMEs need guidance on what they can do (their behaviour) to decarbonise and how to get there (a roadmap).



How

Areas for the banks and buyers to research and prepare for SME interaction

A huge wealth of information and resources around sustainability reporting exists. However, there is a need to filter this information to best suit SMEs' needs for decarbonisation. Banks and buyers can provide SMEs with a roadmap to better access the information flow and build their capacity to effectively transition to net zero.

The interactive roadmap will provide actionable steps to support progress and make decarbonisation manageable and achievable for SMEs.

Banks and buyers are recommended to:

- Identify the specific behaviours that SMEs need to perform to achieve decarbonisation
- Tailor the roadmap provided to decarbonisation behaviours (e.g., use a carbon calculator, switch to a renewable energy provider, identify providers of recyclable packaging, etc.)
- Co-identify existing resources, tools, and information that SMEs use with their clientele and value chains or benefit most from during the roadmap
- Co-develop a benchmarking methodology with expert stakeholders
- Provide incentives to SME clients to interact with the platform tools



What

Meaningful actions/ research/ development that will facilitate this solution for decarbonisation with SMEs

An interactive roadmap or platform ought to be developed, or an existing one is improved, to chart and benchmark approaches to decarbonisation.

Based on their benchmark and position, the interactive platform could help a diverse range of SMEs at different points on the net zero maturity spectrum access tailored resources for each stage, specific sectors, and issues emerging on their net zero journeys.

The benchmark and resource can also incentivise SMEs to expand their net zero action, as well as nudge banks and buyers to provide financial and non-financial support to SMEs that matches best practice according to the benchmark.

Timeline: 6 months (scoping phase), 6-12 months (educational content and tech development), and 12-36 months (engineering and pilot phase).



Lever: Behaviour-based

Solution: Behaviourally-informed roadmap for decarbonisation



Where to start or continue

Resources/ examples/ initiatives to help banks and buyers find new and interesting ways to take this solution forward

There are multiple platforms available which can be included in the roadmap to provide interactive, tailored resources and tools. These resources can also help SMEs connect more effectively with banks and buyers. For example, the SME Climate Hub can be expanded to include benchmarking and promote decarbonisation behaviours amongst SMEs.

Existing initiatives (e.g., B Corp and SME Climate Hub) could develop a benchmarking methodology with expert stakeholders and then include it in its certification

requirements, which ensures that companies commit to continuously improving their sustainability performance. Furthermore, B Corp can provide a platform for buyers and SMEs to connect and share insights and experiences of implementing decarbonisation roadmap(s).

Shell's [Energy Transition Hub](#) supplier benchmark is an example of digital platform that offers a supplier benchmark for the company suppliers, and that can be expanded to share best practices and explore decarbonisation behaviours that work for SMEs.



Who

Wider collaboration to recognise the support that banks and buyers might seek to help you better progress with clients

Benchmarking organisations, networks, and behavioural science experts to help identify decarbonisation behaviours as well as existing SME engagement platforms, like SME Climate Hub, B Corp, and Supplier Energy Transition Hub, to build out what banks and buyers have started.



Lever: Business Model Shifts for Banks and Buyers

Solution: Marketplace to provide net zero transition services for thematically clustered SMEs, corporates, and banks

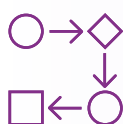


Why

Context and targeted outcomes for the lever

Existing platforms do not create a two-way channel for resource sharing and communication between SMEs and banks or buyers. They often work in siloes on net zero commitments, and there is a sender/receiver issue on thematic knowledge and service provision. SMEs can either be overwhelmed with the range of services and tools offered to them through banks and buyers or remain largely uninformed of the latest market offerings.

There is a need for thematic clustering of SMEs to provide bespoke and tailored support given the size and range of SMEs' focus. It is the natural next step for key market players to come together and do more to support each other in the net zero transition. It builds on the need for clients to have a range of solutions available through banks and buyers, opening sustainability support and increasing competition. Increasing the support and resources available to SMEs will allow SMEs to deepen their knowledge of industries and enable financial strategies for portfolio clusters.



How

Areas for the banks and buyers to research and prepare for SME interaction

Banks and buyers are recommended to:

- Identify SME needs to make progress on net zero and develop solutions
- Assess the utility of a marketplace concept in relation to existing solutions
- Develop incentives for SMEs to use the marketplace for solutions, particularly those who are less interested or cannot be engaged:
 - Increase time commitment
 - Facilitate mandated and/or voluntary engagement
 - Provide a solutions menu and standardised tools



What

Meaningful actions/ research/ development that will facilitate this solution for decarbonisation with SMEs

A marketplace that provides SMEs with a menu of solutions to address their specific emission challenges and access to peer groups tackling similar problems. Via the platform, the peers could also act together to influence the supply chain or get access to solutions that might not be available on an individual basis.

The marketplace can also help bring an incremental shift in the business model of banks and buyers with regard to their engagement with SME clients. It can help banks and buyers deepen their ESG-specific

industry knowledge and act as an enabler in developing financial strategies for different client clusters.

It can also enable banks to easily identify clients who would require support for their decarbonisation journey.

Timeline: 6 months (thematic clustering/ aggregation phase), 6-12 months (platform development phase), 12-18 months (prototyping phase), and 18-36 months (roll out and scale-up phase).



Lever: Business Model Shifts for Banks and Buyers

Solution: Marketplace to provide net zero transition services for thematically clustered SMEs, corporates, and banks



Where to start or continue

Resources/ examples/ initiatives to help banks and buyers find new and interesting ways to take this solution forward

At present, the SME Climate Hub provides a one-way communication channel for SMEs to access information and resources around net zero transition. It can be expanded to include SMEs, banks, and buyers to access a marketplace of solutions and service offerings.



Who

Wider collaboration to recognise the support that banks and buyers might seek to help you better progress with clients

Financial institution and corporate networks, which can help identify and standardise service offerings and solutions for SMEs, and data regulator(s), which can ensure SMEs have informed and transparent access to listed solutions.

4 Conclusion and suggested next steps

The potential solutions that emerged from the innovation sprints, co-designed by banks and buyers, and reviewed by SMEs, highlight areas where more can be done to better support the SMEs in their transition to net zero.

SMEs who participated in the innovation sprints were critical of the effectiveness of current net zero resources available for their community. They called on banks and buyers to ‘do more’ in facilitating SMEs’ access to emerging knowledge and services using digital technology and other user-friendly offerings. As a result, the proposed solutions that emerged from the innovation sprints are mutually supportive – stemming from the need for a user-friendly platform dedicated to SME net zero action and coalescing around the need for a one-stop platform for banks, buyers, and SMEs that provides the space for:

1. mutual support in net zero efforts,
2. benchmarking,
3. data and knowledge exchange about emissions (a marketplace for knowledge and solutions),
4. and targeted financial incentives, building on benchmarking.

Such a one-stop platform brings together the four proposed solutions that emerged from the innovation sprints, and, theoretically, these solutions have the potential to be incorporated within existing platforms, like the SME Climate Hub.

The solutions also steer toward Research & Development (R&D) next steps, detailed in the below Table 8. During this R&D, it would also be critical to map how policy and regulators could support the viability and impact of any eventual solutions.

Both banks and buyers, through their commitments, economy-wide exposure, and resources can play a key role in bridging the net zero financing gap. The innovation sprint process can be the first step toward further collaborative R&D that bridges this gap, enabling an inclusive transition to net zero.

Table 8: Next steps for each solution area based on innovation sprints

Lever of change	Proposed solution	Next steps for each solution area
Knowledge-based	Climate Readiness classification process based upon market segmentation by stage, size, sector, and location criteria, and co-development of a diagnostic tool to assess SMEs Climate Readiness, promoting internal knowledge and action amongst SMEs about net zero, paired with appropriately calibrated transition resources.	<ul style="list-style-type: none"> • Develop SME market segmentation criteria to classify stage-, size-, sector-, and location-appropriate information • Develop with SMEs a diagnostic tool for SMEs to self-assess their Climate Readiness and classify according to segmentation criteria • Identify and develop technical and financial incentives for SMEs to use the readiness tools and resource packages provided by banks and buyers • Banks and buyers can support existing platforms in arranging knowledge and resources based on SME net zero transition maturity and sectors
Technology-based	Centralised, shared ESG/emissions data repository between SMEs, corporates, and banks that triangulates data points for better scope-based progress reporting along supply chains. This repository can then be used to incentivise SME reporting and transition more effectively.	<ul style="list-style-type: none"> • Identify the key drivers and stakeholder groups for the traceability of evidence-based data • Develop criteria for data confidence and reduce the need for explicit auditing • Source data entry points to triangulate data for better scope-based progress reporting • Rapid trial of data incentives and their effectiveness in encouraging SMEs to use existing data repositories for emissions reporting
Behaviour-based	SME decarbonisation roadmaps (benchmarks), incentivising opportunities and encouraging behaviour change.	<ul style="list-style-type: none"> • Identify the specific behaviours that SMEs need to achieve decarbonisation • Tailor the roadmap provided to decarbonisation behaviours (e.g., use a carbon calculator, switch to a renewable energy provider, identify providers of recyclable packaging, etc.) • Co-identify existing resources, tools, and information that SMEs can use with their clientele and in their value chains or benefit most from during the roadmap • Co-develop a benchmarking methodology with expert stakeholders
Business model shifts for banks and buyers	A marketplace that provides net zero transition support services for thematically clustered SMEs, corporates, and banks.	<ul style="list-style-type: none"> • Identify SME needs to make progress on net zero and develop solutions • Assess the marketplace utility in relation to existing solutions • Develop incentives for SMEs to use the marketplace for solutions, particularly those who are less interested or cannot be engaged • Undertake a systematic review of existing interaction platforms to identify incentives and features for thematic aggregation of solutions, service offerings, and networks of banks, buyers, and SMEs on net zero

5

References

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Appendix A

1. Challenges faced by buyers and banks in supporting the SME net zero transition

In 2021, the British Business Bank's UK Network surveyed 159 business finance intermediaries⁶ to investigate the state of the UK SME finance ecosystem in relation to net zero-related projects. 60% of those surveyed felt that the business support ecosystem did not currently help SMEs to understand and identify net zero-related projects. Respondents called out specific issues such as a poor referral network, a lack of specialist advisers, and a lack of signposting or information that was easy for SMEs to understand.

The table outlines the range of challenges faced by buyers and banks in supporting SMEs in acting towards net zero goals:

Table: Challenges faced by buyers and banks in supporting SME net zero transition

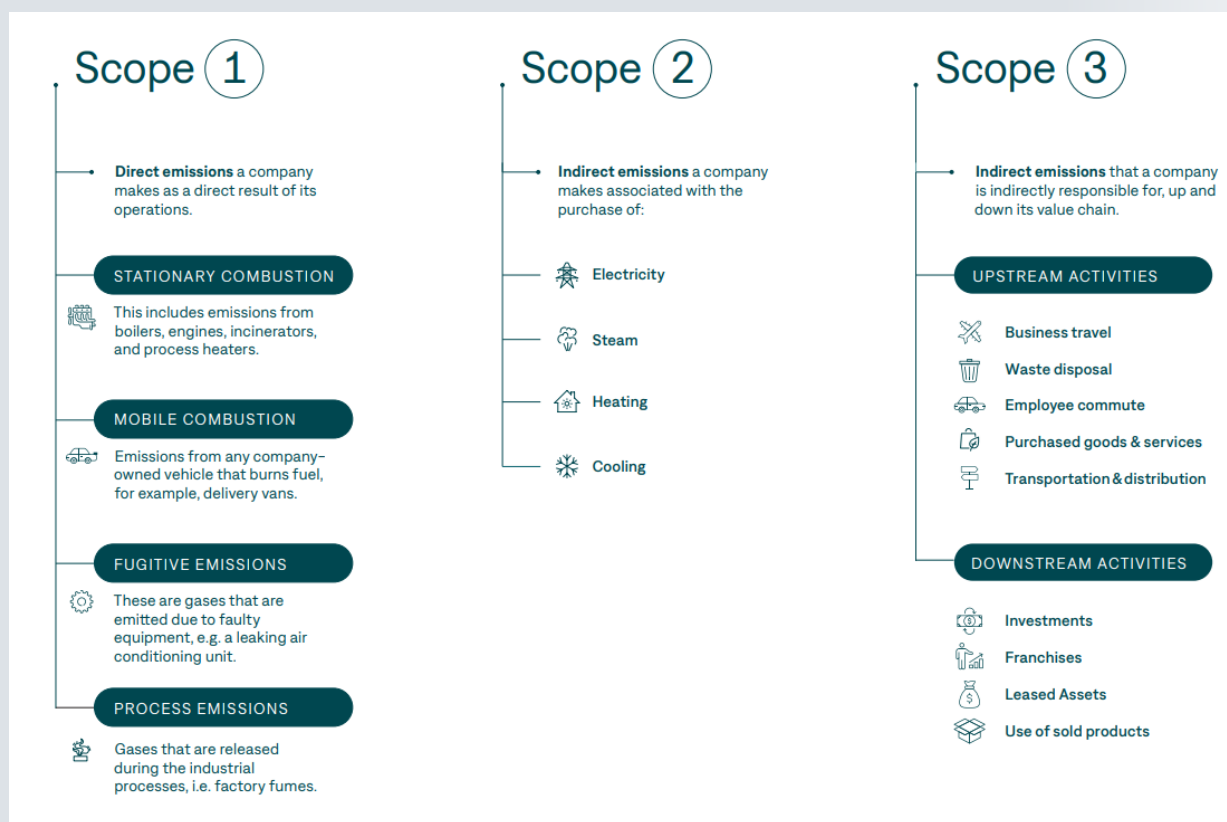
Challenges faced by buyers	Challenges faced by banks
<p>The long tails of supply chains and diversity of suppliers make it difficult for buyers to set and prioritise climate KPIs, particularly when sourcing may require adjustments to meet the differentiated needs of their suppliers. This challenge can make such solutions difficult to scale.</p> <p>Solutions for challenges must be viable even for suppliers for which buyers have limited leverage, such as those with relatively low production percentages and smaller contracts.</p> <p>Lack of climate expertise within buyer operations that could support navigating the complex tools and frameworks, such as the Science Based Target Initiative (SBTi), Climate Disclosure Project (CDP), and others.</p> <p>Incompatibility of sustainability solutions with existing buying processes, which leads to difficulty in creating universal requirements that can be used by any buyer and its suppliers. To ensure that solutions can be applied universally, supporting education and training on climate for suppliers will be an important element.</p>	<p>Demonstrating impact/ additionality of climate finance given to SMEs, i.e., whether the product or service the bank has provided has led to behaviour on the part of the financed company that would not have happened without that product or service. This is often reflected in the “data gap” banks face, as many SMEs face challenges measuring and collecting data.</p> <p>Supporting SMEs in their net zero transition when the margin to service these clients makes it more difficult to justify the investment in that support.</p> <p>The variety of financial solutions dedicated to climate/ sustainability objectives remains limited for SMEs. There is a need for collaborative R&D to help overcome obstacles and drive efficiencies across the SME finance space so that SMEs receive the help they need to stay competitive and build resilience.</p>

Besides these challenges, buyers, and banks—particularly those that are leading in climate action—understand the importance of their role in supporting SMEs to make the climate transition. The next section will highlight the approach undertaken to deal with the big problem of how banks and buyers can demonstrate the power and potential of collaboration through innovative technical and financial incentives/solutions for SMEs net zero transition. This can help them leverage their access and relationships to SMEs and businesses along the supply chains and clientele.

⁶ The British Business Bank identified finance intermediaries as the support service providers like lawyers, accountants, and small business finance advisors (IPSOS, 2021).

2. Details of scope 1-3

Figure: B2B pressure on targeting scope wise emissions (Cogo, 2022)



3. Further information about innovation sprints

The innovation sprints formed phase two of a partnership that began in 2021. In phase one, CISL and BSR focused on identifying barriers to SME climate action. Our research showed a clear need for financial innovation. Furthermore, in phase one, CISL and BSR explored the current landscape of solutions and developed an interactive, online resource for SMEs with information about:

- Where and how SMEs can obtain financial support for reducing emissions
- Guidance for SMEs on engaging with banks and buyers about such financial support
- Examples of available sources of funding, including success stories

This project was a part of the SME Climate Hub, a global community and online resource platform for SMEs looking to transition to net zero.



The **SME Climate Hub** is led by the We Mean Business Coalition and aims to support over one million SMEs globally to halve greenhouse gas emissions before 2030 and achieve net zero emissions before 2050. It features a commitment recognised by the UN Race to Zero and a set of freely available resources including educational courses (Climate Fit), guidance on business strategies and financial support, and tools for measuring and reporting emissions.

Collaborating organisations include the CDP, Ceres, International Chamber of Commerce (ICC), Intuit, Google, UN Race to Zero, United Nations Global Compact and the 1.5°C Supply Chain Leaders group, among others.

Feedback on solutions identified during the sprints consisted of evaluating whether:

- The solution supports SMEs and addresses one or more barriers to decarbonisation identified during phase one (i.e., Capacity, Buy-in, Finance, and Time)
- The solution pragmatically focuses on how to do so (solutions-focus).
- The solution clearly defines who does what (roles & responsibilities, including partnerships).
- The solution can be implemented in the short-term (e.g., milestones at 6/12 months).
- The solution focuses on what participants (individually or jointly) can implement.
- The solution innovates the status quo at scale (e.g., can result in change of practices by thousands of SMEs).

These solutions were then stress-tested via interviews with selected SMEs conducted between July and September 2022. The interviews took place in the period of July to September 2022. The six SMEs interviewed were selected to represent different levels of advancement in their climate journey, geographies, and sectors. During these interviews, CISL and BSR investigated how effective the solutions proposed during the innovation sprints were in addressing key existing challenges to SMEs decarbonisation.



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