

Financing SME 'Greening':

*UK Business and Policy
Evidence and Role for Local
Authorities*

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Intro: SME Finance for A Green UK Economy

- ▶ COP26 focused attention on building a green sustainable UK economy
- ▶ Insufficient UK govt policy focus on 'greening' SMEs
- ▶ UK Green Finance Institute offers no clear roadmap for SME green finance, poor policy mix constrains green SME development – **particularly for LAs and Growth Hubs**
- ▶ Govt and SMEs facing competing economic turbulence – Pandemic recovery, Brexit, Energy crisis... Green policies being undermined for short-term solutions
- ▶ SMEs represent 99% of UK private businesses, 60% of employment, 50%+ GVA and 50%+ pollution
- ▶ There is a need for a wider 'nature positive' approach to address net zero and market security for: energy, food, water, health
- ▶ SMEs urgently require green education, training, skills and financing
- ▶ **A potentially major role for LAs to deliver support and funding schemes, but patchy competition funding, mainly through ERDF and potentially SPF**

Empirical Evidence: BEIS LSBS 2019-2020

Awareness Col%	2019 (n=3486)	2020 (n=1513)	2021 (n=2801)
Not aware of any schemes	66.6	44.6	48.8
Energy Technology List	6.1	8.7	6.9
Enhanced Capital Allowance	11.8	12.1	12.7
Private Rented Sector Regs	12.2	11.7	10.8
Renewable Heat Incentive	23.6	24.5	27.8
Smart Meter Roll out	n/a	32.4	n/a
Workplace EV charge scheme	n/a	19.6	21.7
Energy Savings Opportunities Scheme	n/a	11.6	10.0

Which SMEs Take actions to install Green Energy Measures?

- ▶ Green Energy Installations fell from 14% in 2019 to 7% in 2020, rising back to 18% in 2021

Green Mission orientation actions:

- ▶ 26% act to address climate change - 'Green Mission' SMEs
- ▶ Priority green mission SMEs more likely to install renewable energy solutions
- ▶ SME employers in higher risk environmental/energy sectors: transport, retail, food and accommodation, face environmental regulations leading to a significant take-up of green measures.

Financial Performance orientation actions:

- ▶ 58% take action to reduce costs
- ▶ Significantly associated with SMEs in profit
- ▶ Government grants are associated with larger green mission SMEs

Resource orientation actions:

- ▶ SMEs that train staff were significantly more likely to take green actions
- ▶ Smaller SMEs, notably self employed, are less likely to seek and use external finance.
- ▶ SMEs in rented accommodation were less likely to take green actions

Local Authority-Related Support Activities

- ▶ ERDF LEP and Growth Hub evaluations demonstrate patchy access and use of competition funds and limited core funding for SME support
- ▶ SME A2F programmes e.g. Oxford Innovation's Cornwall programme – no specific green support
- ▶ Development of online support tools e.g. Staffs GrowthMapper with Net Zero guidance
- ▶ SME Aggregating schemes in Cornwall and Lincolnshire – mixed success
- ▶ OI's Net Zero manufacturing programme
- ▶ Mayor's GLA Better Futures programme e.g. West London Business NZ SME support
- ▶ Offer, advice, signposting, small grants/match funding, service vouchers – A2F for innovation equity from angel networks, banks and alternative funders (trusts, crowdfunds)
- ▶ High Street Banks offering preferential terms for Environmental Technology List lending
- ▶ Preferential Insurance rates for greener companies

Conclusions & Recommendations (1)

- ▶ There is increasing awareness of government energy efficiency schemes (rising from 33% in 2019 to 55% in 2020), but in COVID less action (14% down to 6%).
Greener renewable regions have greener SMEs – due in part to sector/green mission clusters
 - *Recommendation:* Coherent Govt SME Net Zero awareness raising and support package, targeting sectors/locations – **Key role for LAs, if better funded**
- ▶ Green mission and green action SMEs are larger, more innovative, growth-oriented, better financed, grant-assisted – but performance improvements may be lagged. Green ‘Laggards’ are more concerned with the bottom-line financial case
 - *Recommendation:* This requires better advice and supportive public financing (e.g. grants, soft loans, green investment/tax credits) to understand and rebalance financial trade-offs – **LAs can offer an ‘honest broker’ role**

Conclusions & Recommendations (2)

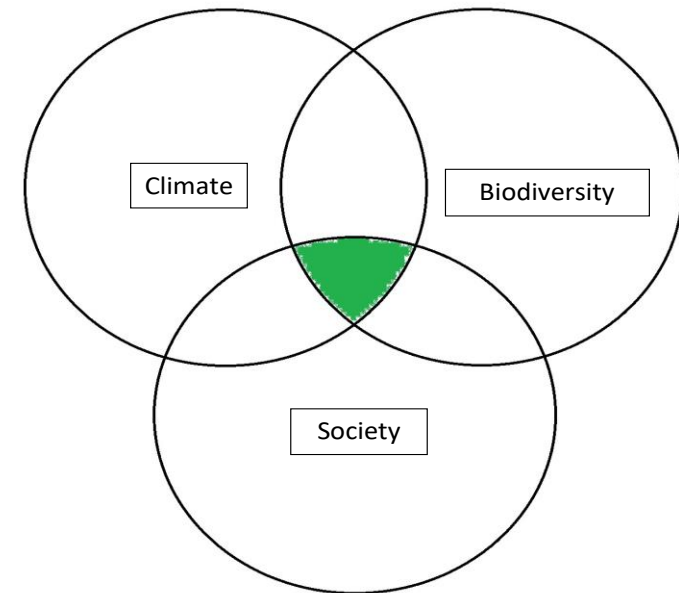
- ▶ Green actions are constrained for tenant businesses
 - *Recommendation:* Reduce the ‘Prisoner effect’ with schemes to get landlords and SMEs to work together, including SME aggregating schemes – More funding for improved, widespread LA schemes (*learn from ‘what works’ in ERDF – eg Somerset House green supply chains*)
- ▶ LSBS environmental data is limited (energy efficiency 1/3rd cohort, green mission biennially), and inconsistently collected
 - *Recommendation:* Increase the survey size for environmental data collection of green mission, intentions and financing – use consistent questions and sample structure to enable longitudinal analysis – **LAs remain underfunded, but need to keep better business green performance data e.g. green procurement, commercial premises energy performance, local energy area plans, air pollution – strengthen funding case**

Next Steps – Environmental Policy Mix

- ▶ UK policy is - big business/project top-down focused (unlike e.g. France's SME Green Tech)
- ▶ SME 'B Corps' demonstrate the benefits of self-reporting environmental impact, gaining market leadership, access to new markets, credibility with supply chains, customers and employees
- ▶ UK support policy needs to bring together nature, climate and society to maximise NZ and wider environmental protection (UN '30by30'), which requires an integrated SME support policy bringing together Depts Environment, Energy and Business - bring together 'Climate Hub' and 'Nature Positive'

Green Finance Policy Requirements:

- ▶ SME finance roadmap for green innovation/adoption
- ▶ Far greater co-financed investment into green innovation
- ▶ Improved bank lending for greening SMEs
- ▶ Targeted grant schemes
- ▶ Improved national awareness-raising programme for SMEs
- ▶ **Consistent local area LA approach with SME performance SBTs**
- ▶ **Toolkit support guides – enviro health-checker, find finance**



Next Steps – Increased Local Government Role

- ▶ Align to UN Sustainable Development Goals – have a **‘Green Economy Action Plan’** (eg GLA/ LB Hounslow)
- ▶ ERDF closing, SPF green business/SME proposals for capacity building, advice services and funding into key sectors and localities, offering EDI outreach and levelling up
- ▶ Improved SME aggregation support schemes for premises, equipment, IT efficiency, supply-chains
- ▶ Business and green and blue community programmes e.g. people and places, smart cities
- ▶ Develop green innovation enterprise zones e.g. West London Freight and Logistics
- ▶ Green Freeports e.g. Wash Plan
- ▶ Importance of LA biodiversity registers for land planning under Environment Act 2021
- ▶ Opportunities to explore Biodiversity Net Gain role as land bank manager – offsetting services with surplus spend on local green business support (e.g. Warwickshire and Worcestershire CCs)
- ▶ Larger green bond funding opportunities through collective LA operations
- ▶ Work with the private sector to leverage additional funding
- ▶ Rise of ‘Challenger Bank’ funding and alternative private fund raising sources

Current and recent related projects

- ▶ UKRI NERC funding for our **SME Nature Positive Finance** project 2023:
<https://www.ukri.org/news/new-research-will-integrate-biodiversity-and-finance/>
- ▶ [SME Financing for Biodiversity: Building Nature Measurement and Impacts into SME Financing \('SME FinBio'\) | Middlesex University London \(mdx.ac.uk\)](#)
- ▶ [Exploring External Finance Links to Build Back Better a Green UK SME Economy](#)
- ▶ [PIN-DRAFT-FINAL-Report-30-09-2020-RO-TH-1.pdf \(productivityinsightsnetwork.co.uk\)](#)
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