energy saving trust

SMEs and the decarbonisation challenge

Jack Wilkinson Dix

SMEs and decarbonisation

- There are 5.5 million SMEs in the UK, almost all businesses across different sectors are SMEs
- British Business Bank estimates SMEs account for between 43% and 53% of UK business emissions (corresponding to 36% of total emissions).
- Energy crisis highlights vulnerability of many SMEs – rocketing bills with little protection
- SMEs have often been overlooked in decarbonisation discussions and policy provision.
- Their heterogeneity presents a significant challenge in creating an effective strategy and accompanying policies.

Key barriers

Primary focus	Common barriers	Common drivers
Internal/intra-organisational-level	• Lack of awareness • Lack of specialist knowledge/technical skills • Limitations in organisational learning • Competing priorities/lack of time • Resource constraints • Access to capital • Short term tenancies • Lack of strategic alignment	• Cost savings • Risk mitigation • Pro-environmental values • Staff morale
External/inter-organisational level	• Lack of trusted brokers/intermediaries • Information deficit regarding opportunities • Principal-agent/split-incentive problem	• Compliance • Competitive advantage • New market opportunities • Corporate reputation • Public subsidy

Barriers and drivers to SME decarbonisation widely studied. Accompanying table taken from report with barriers largely holding true across sectors.

Assumption that barrier-removal results in pro-environmental behaviour changes is problematic. Fails to acknowledge the complexity of decision-making, and heterogeneity of SMEs.

Decision-making in SMEs often less formalised, more strongly influenced by personal, professional, and organisational values, influenced by local contexts with less control over decisions than larger businesses.

SMEs' understanding of net zero and their role in decarbonisation often less clear than big businesses with fewer resources available to address knowledge gaps.

The opportunity

- The cost of meeting Net Zero has now fallen to below 1% of GDP.
- Simultaneously, 1.7m green jobs could be created this decade if the UK Government adopts the advice of the CCC in their Sixth Carbon Budget.

- SME Climate Hub reasons for joining – grow your business, future-proof your business, and be part of the solution. All benefits expert interviewees were eager to get across.

- Benefits for local areas and regions from decarbonisation increasingly recognised by local leaders.

- For individual businesses, being able to diversify and secure long term net zero-aligned work is a key opportunity but requires a supportive private and public framework

Policy gaps and recommendations

Key policy gaps

- Common barriers are well-known. We have discussed many of these already.
- There is no UK Government SME-specific decarbonisation strategy. National coordination non-existent
- Support for SMEs has been more piecemeal in England than other UK nations, often via innovation competition funding. More generalised support often coming from regional government.
- Key policy gaps include:
    - Information
    - Advice
    - Access to finance
    - Access to skilled practitioners
- ERDF-funded initiatives offer insights, future role of UK Shared Prosperity Fund unclear. Appears to have less of a decarbonisation focus.
- Still awaiting outcomes from previous policy announcements (e.g. MEES, changes to ESOS).

Recommendations

An enhanced and more joined up policy and support framework is needed.

Support needs to take better account of the differing needs of SMEs in different sectors.

Specifically, we recommended that UK Government:

- Produce **a strategy for SME decarbonisation.**
  - Focused on upfront financing and time and knowledge constraints. Must include better co-ordination of activity delivered through different programmes.
- Set out a **clear regulatory timetable** for cross-sector milestones.
  - Establish firm dates for future low carbon standards, set as early as possible (and expressed more strongly than 'ambitions'). Reducing decarbonisation costs and risks.
- Create and facilitate a joined-up support framework (**a one-stop-shop**).
  - Ongoing awareness raising and a single contact point for SMEs, providing access to financing support, information on regulations, footprinting and audit services, as well as peer learning networks.

Recommendations

- Task the British Business Bank with helping to develop the private green finance market, recognising that public sector financing will likely be required in the interim. Fiscal incentives to apply throughout the 2020s

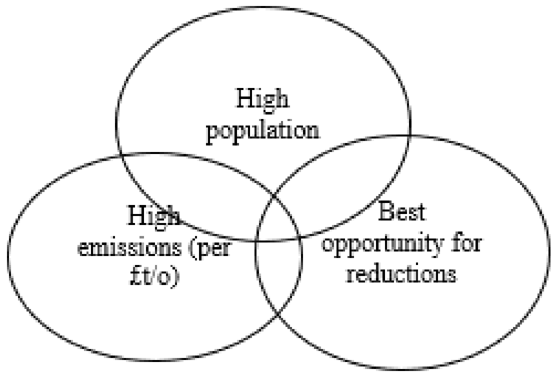
- Decarbonisation pathways differ greatly between sectors. Public/private co-creation should be taking place to offer resources and pathways to different sectors. The SME Net Zero Working Group could be a model to build on to deliver this.

- Coordination is crucial. UKSPF needs to learn the lessons of ERDF and share learnings with evaluation of programmes occurring frequently with results shared widely.

- Sectoral and place-based peer networks of SMEs and concerned stakeholders will be crucial for the success of an SME decarbonisation strategy. These networks were supported across the SMEs and experts we spoke to.

Why these four sectors?

- Priority sectors: horticulture; restaurants; electrical, plumbing, and other construction installation trades; and manufacturers of wearing apparel.
- Chosen from an analysis of 2 and 3-digit BEIS SICs alongside GHG emission data and Business Population Estimate data along with a wider literature review and input from expert colleagues.
- **Aim: identify groups of SMEs at the intersection of the Venn diagram. A range of other criteria were then applied to create a final list.**



Further criteria considered in the selection process were:

- Under-researched and/or under-supported SME group.
- Alignment with residential or big business decarbonisation
- Their ability to influence households and other businesses (Scope 3 emissions)
- Diversity between the four groups, ensuring that we had:
  - A representation of sole traders and micro-businesses in at least one group
  - A balance of more social and technical measures in the decarbonisation pathway.