

# Considerations on SMEs and transition plans

**A paper from the TPT's SME  
Advisory Group chaired by  
Bankers for Net Zero**

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PRODUCED FOR THE

**TPT** Transition Plan  
Taskforce

# About Bankers for Net Zero

Bankers for Net Zero (B4NZ) is the UK Country Chapter of the UN-convened Net Zero Banking Alliance. The initiative brings together banks, businesses, policymakers and regulators to define and implement the interventions needed to accelerate the UK economy's transition to net zero. Our focus is strategic policy alignment. By creating clarity on which areas of the net zero transition require policies that can optimise the contribution banks can make to the real economy, we enable policymakers and banks to play their part in accelerating the transition to net zero.

## TPT SME Advisory Group

The SME Advisory Group to the Transition Plan Taskforce, chaired by Bankers for Net Zero, was set up in July 2023 to consider proportionate sustainability reporting and transition planning activities for SMEs. The working group brought

together participants across finance, industry, civil society, Government and regulation to develop guiding principles towards future transition guidance for SMEs.

## About this briefing paper

This briefing paper is written for institutions, policymakers and regulators involved in setting future transition planning guidance and regulation standards. It sets out:

1. The current SME landscape in the UK
2. The growing relevance of transition plans for SMEs
3. The challenges, opportunities and recommendations on transition plans for SMEs
4. Guiding principles for SME transition plans

The ideas and recommendations in this document are the product of a series of working sessions and interviews involving banks, corporations, policymakers and industry stakeholders. The Bankers for Net Zero initiative and partners are eager to work with private sector actors, governments and standard setters to bring this paper's ideas to fruition and ensure that industry action can mainstream net zero for SMEs across the UK.

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Whilst this paper reflects the general consensus reached within the Advisory Group, it does not necessarily represent the views of individual members. The views, input and/or contributions of individual members are not necessarily aligned with the views held by, or the commercial strategies of, their employers/affiliated organisations. This paper does not constitute financial, legal, or other professional advice and should not be relied upon as such. Nothing in the paper is intended to override, substitute, or alter existing legal or regulatory requirements, including, without limitation, duties of the entity's directors and senior managers, and the entity's constitutional documents. Nothing in the paper should be understood to require the disclosure of commercially sensitive information.

The paper was produced independently of the TPT Steering Group and Delivery Groups and does not necessarily represent their views.

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# 1. The UK SME landscape and the transition

With over 5.5 million SMEs in the UK, making up over 99% of UK private sector businesses, SMEs sit at the beating heart of the UK economy.<sup>1</sup> Mobilising SMEs for climate action now will be critical to ensuring a just and resilient transition to net zero.

As agile, early adopters, SMEs stand in a strong position to capitalise on the environmental and economic benefits of transitioning their business practices towards greener models. Failure to prepare early could mean that banks and buyers of SME services could withdraw from markets quickly, causing damaging economic impacts on SMEs and driving dangerous social outcomes. Financial and non-financial institutions have a responsibility to ensure that SMEs on their lending books and throughout their supply chains are well-

equipped to tackle transition planning and have the confidence and tools to embark on their transition journey.

However, SMEs continue to face significant obstacles to tackling net zero action at a firm level, such as the need for more information and awareness of the opportunities; regulatory hurdles; and limited access to resource networks, knowledge and finance. This briefing paper considers how transition plans can create opportunities for SMEs and provides recommendations for addressing these challenges. It demonstrates how, with proper collaboration between industry, Governments, regulators and SMEs, we can ensure that the UK's smallest companies can take their first steps towards climate action.

## Defining SMEs

This paper uses the UK government's definition of SMEs as of February 2024. This encompasses micro (less than ten employees and an annual turnover under €2 million (£1.73 million)), small (less than 50 employees and an annual turnover under €10 million (£8.66 million)) and medium-sized (less than 250 employees and an annual turnover under €50 million (£43.31 million)) businesses. SMEs also operate across all sectors. This wide-ranging definition encompasses a diverse set of companies who each have very different roles to play in the climate transition. For example, some will have a much larger impact on the overall carbon footprint of the UK than others. Similarly, managing climate risk and taking net zero action will look very different for a micro tech company or a local customer-facing business compared to a medium-sized manufacturing company that distributes its products worldwide.

Readers should note that on 18 March 2024, just prior to publication of this paper, the Government announced its expectation to increase the number of companies which qualify as a smaller or medium-sized business, through a 50% uplift to the thresholds that determine a company's size, as well as consulting on further measures. Bankers for Net Zero will continue to monitor the outcomes of this consultation and will engage with Government to ensure that future recommendations and regulations facing SMEs are proportionate.

<sup>1</sup>) British Business Bank, 2023, *Small Business Finance Markets 2022/23*.

In 2023, total SME employment in the UK stood at 16.7 million (around 61% of all private sector employment), constituting over 5.5 million businesses and 99.2% of the total business population. Of this population, 95.4% were micro-businesses, 3.94% were small businesses,<sup>2</sup> and 0.65% were medium-sized businesses. Further, SME populations are not evenly distributed across the UK. At the start of 2023, there were 4.9 million SMEs in England, 298,000 in Scotland, 219,000 in Wales, and 122,000 in Northern Ireland. London (1.0 million) and the South East of England (852,000) are home to the largest SME population, accounting for 34% of UK businesses, whilst the North East had the lowest SME population amongst the English regions (156,000).<sup>3</sup>

From a sectoral perspective, SMEs account for at least 99% of the overall population in each of the main industry sectors and, therefore, determine the distribution of the business population overall. At the start of 2023, 16% of UK SMEs (the most significant proportion) were operating in the Construction sector, compared with less than 1% in the Mining, Quarrying and Utilities sector. There were also many SMEs working in the Professional, Scientific and Technical Activities (14%) and Wholesale and Retail Trade and Repair sectors (10%).<sup>4</sup>

Every SME is different. The heterogeneous nature of the business landscape in the UK has made it complex to implement a one-size-fits-all solution to encourage SMEs to develop and disclose climate targets and net zero roadmaps.

In the face of escalating climate change concerns, the UK's small businesses have a decisive role to play in delivering the UK Government's legally binding commitment to achieving net zero emissions by 2050. As the UK economy prepares for a low-carbon future, SMEs will face encroaching levels of climate-related transition and physical risk across many sectors, sizes and regions. For example, for the 16% of UK SMEs operating in the construction sector, the transition to a climate-resilient economy will demand low-carbon heating processes, improvements in energy efficiency and new skills and training to manufacture and install new green technologies.

By adopting net zero action, SMEs can efficiently prepare for future regulatory changes, mitigate climate-related risks, and enhance long-term business resilience so they can meet the evolving needs of customers.

## As transition pressures on SMEs grow, they face significant hurdles

**The global economic transition to a climate-resilient future is fully underway within the larger corporate sector.**

Since COP26, over 675 of the world's largest financial institutions from 50 countries have joined the [Glasgow Financial Alliance for Net Zero's](#) affiliated alliances, representing trillions in pledged private capital flowing towards net zero transformation.<sup>5</sup> In 2023, 23,000+ companies - representing a staggering US\$67 trillion in market capitalisation - disclosed their environmental performance data to the [Carbon Disclosure Project \(CDP\)](#).<sup>6</sup>

While emissions reporting activity among large companies has mainly been driven by investor demand and regulation, many SMEs have historically been exempt from mandatory reporting requirements and some of the pressures large companies face. However, as regulatory pressure accelerates globally, SMEs face increasing levels of fragmented disclosure requests from large corporate buyers, finance providers and government contractors, who encourage them to provide emissions data, set targets, and plan emissions reductions.

Embedded across major supplier networks, smaller suppliers, vendors, and businesses increasingly find themselves compelled to understand and report their climate impacts and climate-related risks to large customers that are mandated to report. On top of this, regulated size requirement thresholds for businesses to disclose have dropped dramatically.

2) UK Government, 2023, [Business population estimates for the UK and regions 2023](#)

3) UK Government, 2023, [Business population estimates for the UK and regions 2023](#)".

4) UK Government, 2023, [Business population estimates for the UK and regions 2023](#)".

5) GFANZ, 2023, ["GFANZ delivers on the year of the transition plan with continued growth and progress to close key gaps in the global financial system and accelerate climate investment"](#).

6) CDP, 2023, ["CDP 2023 Disclosure Data Factsheet"](#).

## Examples of reporting requirements for SMEs

The EU's Corporate Sustainability Reporting Directive (CSRD) mandates that companies who meet two of the following three conditions will have to comply with the CSRD: €50 million in net turnover; €25 million in assets; or 250 or more employees. Additionally, from 1st January 2026, SMEs with securities listed on EU-regulated markets must disclose against CSRD.<sup>7</sup>

As part of CSRD, in January 2024, the European Financial Reporting Advisory Group (EFRAG) launched a public consultation on two Exposure Drafts on sustainability standards for SMEs – for listed SMEs (ESRS LSME ED) and voluntary reporting standards for non-listed SMEs (ESRS VSME ED).

- The ESRS LSME ED for Listed SMEs was developed in response to CSRD and targets public interest SMEs, including those listed on EU exchanges and certain financial institutions. It aims to set out proportionate and relevant reporting requirements tailored to the size and complexity of these businesses. The standard will be issued as a delegated act and will be effective on 1 January 2026 with an additional two year opt out.
- The ESRS VSME ED offers a simple reporting tool to assist non-listed SMEs in responding to requests for sustainability information that they receive from business counterparts (i.e., banks, investors or larger companies for which non-listed SMEs are suppliers) in an efficient and proportionate manner, to address the burden of multiple, uncoordinated requests from partners.

**In the UK**, in 2022, the Financial Conduct Authority (FCA) extended the application of its climate-related financial disclosure requirements to issuers of standard listed shares and Global Depository Receipts. At the time, more than 200 additional listed companies were subject to Taskforce for Climate-Related Financial Disclosures (TCFD)-aligned disclosure requirements under these rules, including listed SMEs.<sup>8</sup>

Financial institutions also require granular data on their SME clients' sustainability performance to manage climate-related risks, develop relevant sustainable and transition financing instruments and meet Scope 3 Category 15 (financed emissions) reporting requirements. Approximately 60% of public and private financial institutions access this data directly from clients.<sup>9</sup> Alternatively, 40% of public institutions and 25% of private financial institutions use intermediaries, such as other financial institutions or ESG data rating providers, to access emissions data from SME customers.<sup>10</sup>

As a result, SMEs face increasingly divergent data requests from finance providers and corporate buyers due to the lack of dominant SME-specific standards for reporting GHG emissions. Without harmonised reporting standards, SME responses to environmental regulation have been ad hoc and uncoordinated. A recent report from Sage reveals that whilst over 8 in 10 SMEs (83%) say that sustainability is important to their business, just 7.7% of SMEs say that they are undertaking sustainability reporting.<sup>11</sup> Where SMEs report climate-related data, the provided information is often inconsistent and of varying quality across firms. This makes it hard for banks, buyers and policymakers to access relevant information, and lay the foundation of their transition journeys.

7) CSRD, 2023, "Corporate Sustainability Reporting".

8) Financial Conduct Authority, 2021, "Enhancing climate-related disclosures by standard listing companies".

9) OECD, 2023, "Financing SMEs for sustainability – Financial institution strategies and approaches".

10) OECD, 2023, "Financing SMEs for sustainability – Financial institution strategies and approaches".

11) Sage, 2023, "Path for growth: Making sustainability reporting work for SMEs".

## Emissions reporting requirements in the UK

As part of new legislation introduced in 2018, the UK Government introduced the Streamlined Energy and Carbon Reporting (SECR) policy, which requires an estimated 11,900 companies in the UK to disclose their energy and carbon emissions. SECR builds on, without replacing, existing requirements that companies may face, such as mandatory GHG reporting for quoted companies, the Energy Saving Opportunity Scheme (ESOS), the Climate Change Agreements (CCA) scheme, and the EU Emissions Trading Scheme (ETS). The legislation affects large unquoted companies and large limited liability partnerships with over 250+ employees, thus effectively excluding UK SMEs.

**In the 2023 Green Finance Strategy**, the government set out its plan to introduce streamlined 'Sustainability Disclosure Requirements' (SDR), building on global best practices and leading standards. Core to this is the process to assess and endorse the global corporate reporting baseline of the International Sustainability Standards Board: the IFRS S1 and S2 Standards. The aim is for the information companies disclose under the UK-endorsed standards to be globally comparable and decision-useful for investors.



## Transition planning is the next stage of demonstrating strong climate leadership.

"A climate-related transition plan is an aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions."

- The IFRS S2 Standard definition of a transition plan<sup>12</sup>

Transition plans are vital to demonstrating to the market an organisation's strategic roadmap to aligning its core business with a low-GHG emissions and climate-resilient future. A transition plan enables an organisation to outline how it will deliver on its strategy to align with the latest and most ambitious climate science recommendations and keep itself in line or ahead of relevant policy goals for the organisation<sup>13</sup>

Transition planning and the disclosure of transition plans are core to a successful economy-wide transition to net zero. A robust approach to transition planning provides a blueprint for strategic delivery, and disclosure of transition plans can equip businesses with the information they need to finance and drive the transition at the speed and scale required.

The [Transition Plan Taskforce](#) (TPT) was launched by HM Treasury in March 2022 with a mandate to bring together leaders from industry, academia, and regulation to develop good practices for transition plan disclosures for finance and the real economy. In October 2023, the TPT published the final Disclosure Framework, providing comprehensive guidance for organisations designing and delivering their climate strategies.

The Transition Plan Taskforce [Disclosure Framework](#), developed through consultation with industry,

academia, regulators and international standard setters, provides the 'gold standard' framework for transition plans. Grounded in three guiding principles, "Ambition", "Action", and "Accountability", the Framework's recommendations are structured around 5 Elements: Foundations, Implementation Strategy, Engagement Strategy, Metrics & Targets and Governance. Building on this structure, the TPT recommends disclosures in relation to 19 Sub-Elements that set out a best practice, credible and robust climate transition plan.

In 2023, the Financial Conduct Authority committed to incorporating the recommendations of the TPT Framework into its disclosure requirements for listed companies, asset managers and FCA-regulated asset owners. In Primary Market Bulletin 45, published in August 2023, the FCA set out its intention to consult on rules and guidance for listed companies to disclose in line with the UK-endorsed ISSB standards and the TPT Framework as a complementary package<sup>14</sup>

The TPT Disclosure Framework builds on international best practices and is designed to be consistent with the climate-related disclosure standard (IFRS S2) issued by the ISSB and the Glasgow Financial Alliance for Net Zero (GFANZ) framework for transition planning.

<sup>12</sup> International Financial Reporting Standards (IFRS), 2023 "IFRS S2 Climate-related Disclosures"

<sup>13</sup> CDP, 2022, "Climate Transition Plans"

<sup>14</sup> Financial Conduct Authority, 2023, "Primary Market Bulletin 45"

Figure 1: The TPT Disclosure Framework

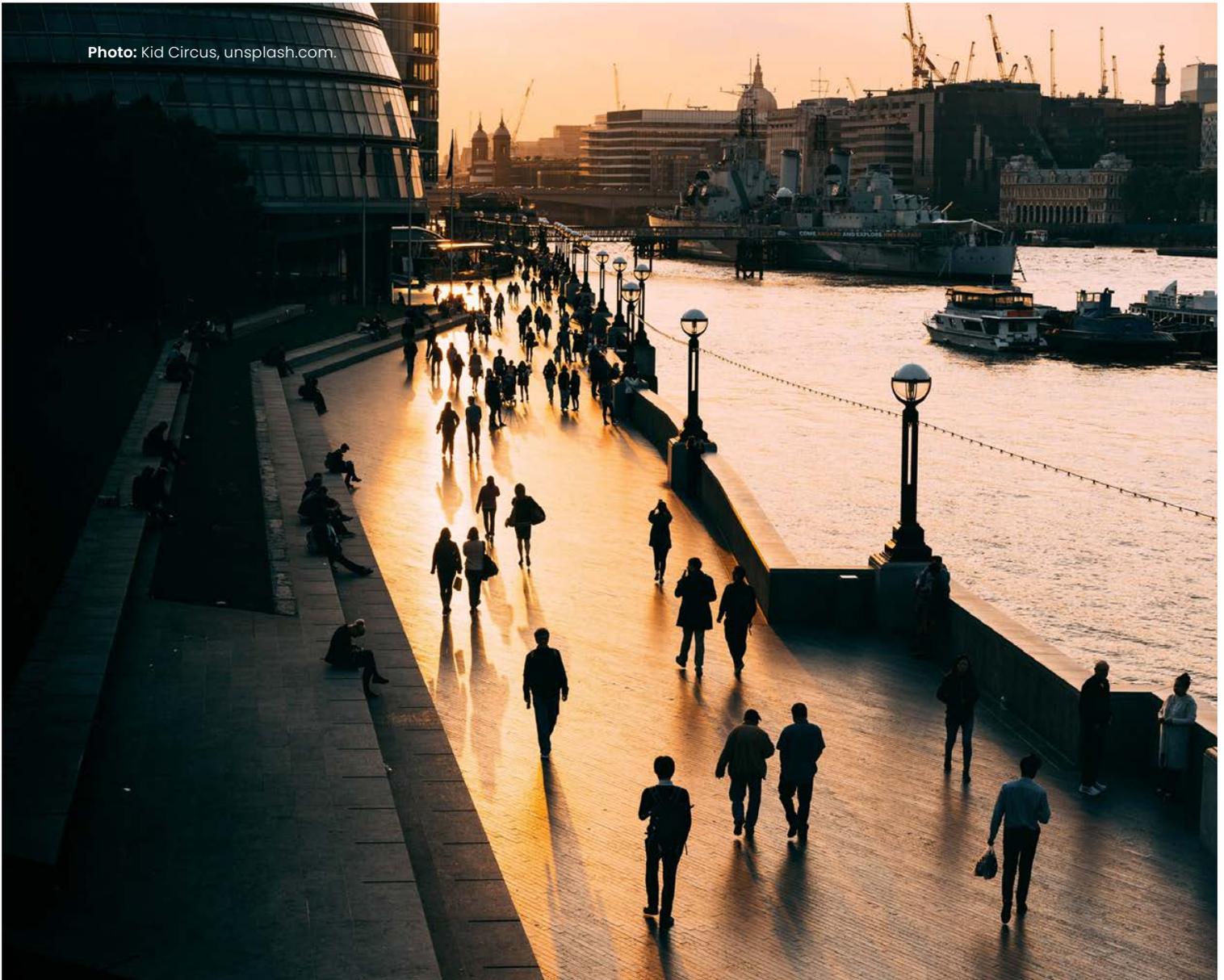
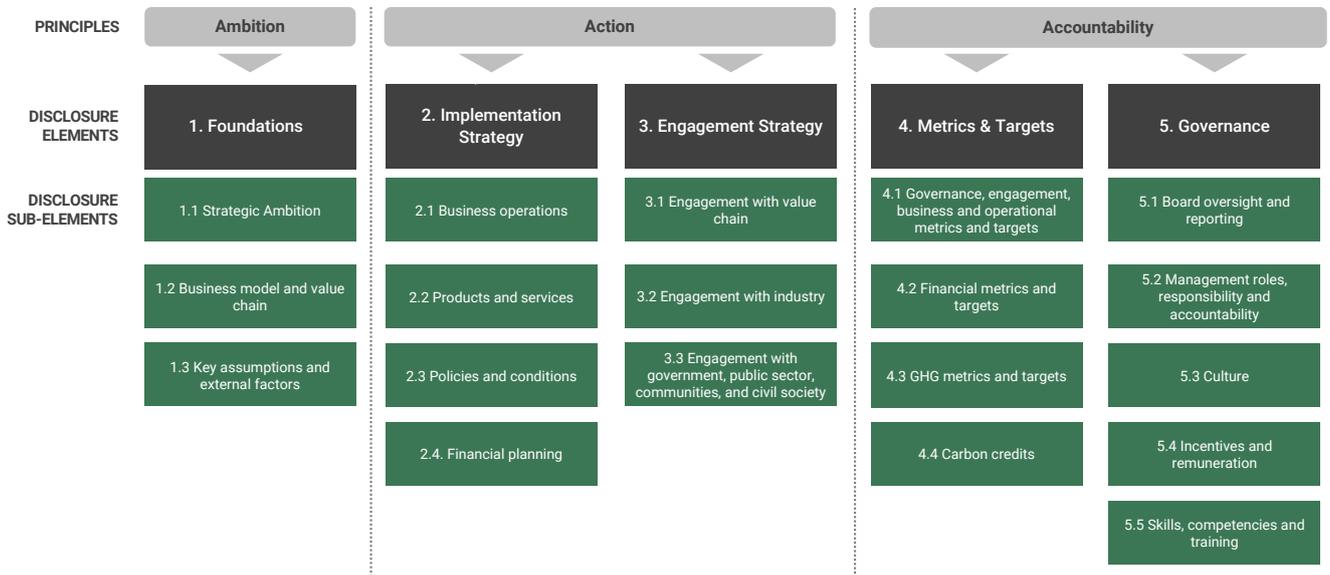


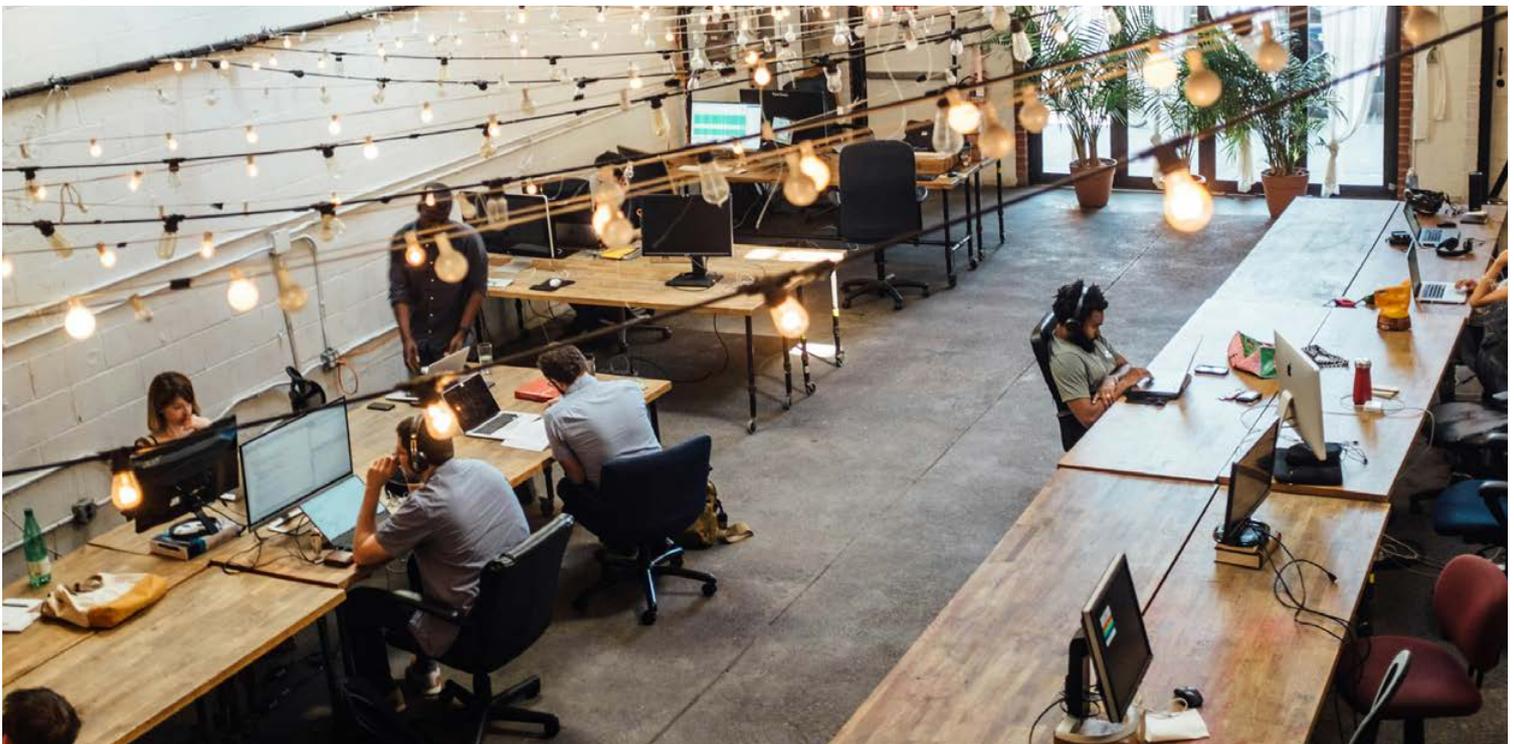
Photo: Kid Circus, unsplash.com.

## 2. The growing relevance of transition plans for SMEs

**As the carbon impact of entire value chains and lending portfolios comes under greater scrutiny, pressure intensifies for SMEs. For all SMEs, but especially those exposed to high climate-related transition and physical risks, preparing early and mapping risks and opportunities is critical to ensure a 'just', economy-wide transition to a low-carbon future.**

As small businesses are increasingly expected to conform to their business partners' decarbonisation demands, transition planning offers an incremental approach to make better business sense of the transition process and the commercial and non-commercial value it can generate within current business models.<sup>14</sup> An emerging ecosystem of consolidated and industry-aligned transition planning literature and resources has proliferated in recent years, and there is growing international momentum behind private sector transition plans as the stage of demonstrating strong climate leadership.

As SMEs may face transition plan requests from their banks and buyers in the future, there is a growing imperative to ensure that current frameworks and disclosure requests are standardised and proportionate the nature of a small business, to avoid complexity and confusion and streamline the transition journey for SMEs. Preparing transition plans early may ensure SMEs, especially those acutely vulnerable to climate-related transition and physical risk, can meet the growing demand from stakeholders to demonstrate decarbonisation progress and seize new market opportunities created by the global shift towards a low-carbon economy.<sup>15</sup>



<sup>14</sup> University of Birmingham, 2023, "COP28: Why understanding how SMEs transition to net zero is pivotal for a faster transition"

<sup>15</sup> CISL, 2023, "Bank Action Guide: including acutely vulnerable Small-Medium Enterprises (SMEs) in just transition to net zero"

## Existing tools for SME transition planning and disclosure

The following examples are all part of a burgeoning ecosystem of tools, initiatives and coalitions being developed to enable SMEs to engage with credible transition planning, share knowledge and streamline the transition process.

### Perseus

In collaboration with [Icebreaker One](#), Bankers for Net Zero is developing [Perseus](#), which aims to enable automated emissions reporting for every SME in the UK, creating a whole-of-market solution to deliver rapidly scalable, low-effort, low-friction emissions reporting. By developing the rules and processes that make automated reporting possible, data will flow from the real economy (from energy companies) to the financial economy (to banks) with the permission of the customer (the SME), therefore improving the quality and impact of outcomes for stakeholders.

This data flow will be cohesive, assurable, comparable and can lead to actionable emissions reporting. It will help inform investment decisions, enable targeted decarbonisation interventions, reduce reporting burdens and unlock green finance. The Perseus Implementation is based on a tried and tested foundation that has delivered Open Banking and Open Energy.

Project Perseus was featured in the UK Government's updated 2023 Green Finance Strategy as a critical part of the decarbonisation architecture required to support the UK's small businesses towards net zero.

### SME Climate Hub

Highly relevant to our report are the efforts of the [SME Climate Hub](#), a global initiative founded by the We Mean Business Coalition, the Exponential Roadmap Initiative, and the UN Race to Zero, to mainstream climate action in the SME population and provide an official pathway for SMEs to join the UN Race to Zero Campaign.

The Hub aims to streamline the path for SMEs to take climate action by providing a one-stop-shop platform for SMEs to:

- Make an internationally recognised SME Climate Commitment
- Access free, practical tools and resources to help curb emissions
- Unlock valuable incentives

In the UK, the [UK Business Climate Hub](#) (UKBCH) provides net zero advice for SMEs exclusively in the UK. Managed by the Broadway Initiative, the UKBCH is a shared endeavour developed with the Department for Energy Security and Net Zero (DESNZ), the SME Climate Hub and the UK's main business organisations, energy networks, high street banks and professional bodies. The UKBCH offers ways in which SMEs can reduce carbon emissions in buildings, transport, energy usage and supply chains through sector-specific information.

## Natwest Carbon Planner

**NatWest Carbon Planner**, powered by **Sage Earth**, is a free tool aimed at helping SMEs understand their carbon footprint and identify ways in which they could reduce their emissions and costs. Launched in September 2022, the digital platform empowers customers to locate operational efficiencies. It provides content and resources to aid businesses in making well-informed decisions, aiming to equip companies with the tools to navigate the current inflationary challenges and tackle their carbon emissions. NatWest Carbon Planner can also be integrated with accountancy software as an optional feature to automate a company's carbon footprint calculation aspect.

## Virgin Money Sustainable Business Coach

In 2021, Virgin Money launched the **Sustainable Business Coach**, a free app for UK businesses to take climate action by helping them understand more about the environmental and social impact of their business through identification and measurement of progress against their high-priority goals.

Developed through partnerships with fintech data experts Life Moments and built on the Future-Fit Business Benchmark, the app provides an objective assessment of a business's environmental, social and governance (ESG) impacts and gives guidance on how to improve. In January 2024, Virgin Money introduced a self-certification to the app Future-Fit Engaged. This is designed to recognise and encourage sustainability-related action taken by smaller businesses.

Also, businesses with a strong score can be eligible for Virgin Money's Sustainability-Linked Loan (SLL), reducing the arrangement fee for businesses whose core activities proactively help the economy transition to a more sustainable model.

## Net Zero Council

In May 2023, the Department for Energy Security and Net Zero announced the launch of the Government's Net Zero Council. The Council, co-chaired by Energy Minister Graham Stuart and Co-op Group chief executive Shirine Khoury-Haq, provides a cross-cutting strategy across major business sectors to deliver the UK's net zero targets and capture the benefits of this transition in the UK. As part of the Council's work, a dedicated SME workstream chaired by the Federation of Small Businesses aims to identify key challenges facing

SMEs up and down the country in reducing their carbon footprints and supporting their transition with new information and advice.

As part of the SME workstream, the Council will develop individual roadmaps to support SME access to green finance within different sectors and ease the policy and regulatory hurdles preventing SMEs from tackling decarbonisation within their business practice and specific industries.

It is important to note that, through these recommendations and reflections, the SME Advisory Group is not calling on all SMEs to begin preparing transition plans. However, the Advisory Group strongly recognises the important role that transition planning will play for larger SMEs across a number of different sectors, who may be required to prepare proportionate transition plans by lenders, investors, regulators or corporate buyers. The Advisory Group also endorses the importance of SMEs voluntarily delivering transition plans as they recognise the benefits that the design and implementation of transition plans can bring. The principles and recommendations outlined in this paper are designed to support standardisation and capacity building for the types of businesses outlined above.

## 3. The challenges and opportunities of transition plans for SMEs

The SME Advisory Group for the Transition Plan Taskforce, convened by Bankers for Net Zero, brought together over 90 leaders across finance, industry, UK Government, regulators, trade associations and SMEs for a series of working sessions and interviews over Autumn and Winter 2023.

These workshops explored where each of these sectors could play an additional role in enabling transition plan preparation and where the biggest barriers and opportunities lie in supporting SMEs to engage in net zero action and transition their business practices effectively.

- **31st October 2024:** Private Sector workshop – Over 45 participants from finance, audit, consulting, law, energy, healthcare, defence and food and drink sectors.
- **13th November 2023:** Public Sector and Government workshop – Participants included economic development banks, Government departments, Cabinet Office and regulators.
- **14th November 2023:** SME & Trade Associations workshop – Attendees included national and international trade associations serving SMEs across numerous industries and SME members.
- **9th January 2024:** All hands workshop – Attendees included over 40 leaders across finance, industry, UK Government, regulators, SMEs and trade associations.

Through these working groups, the participants highlighted several internal and external barriers hampering SME efforts to tackle transition planning at a firm level. Participants then explored the opportunities for SMEs to take meaningful action on net zero, highlighting potential solutions and recommendations to drive change and increase the adoption of transition planning practices.

This research adopts the UK government's definition of an SME, acknowledging the broad and diverse population of businesses that it encompasses. The applicability of the considerations and recommendations made throughout this document may vary in relation to the organisation's size.

### A. There is no standard framework for reporting GHG emissions for SMEs

Throughout our workshop process, participants stressed that without dominant frameworks for SME emissions reporting, there is no consistent approach to collecting, measuring, and storing data and no common process for SMEs to report GHG emissions. Participants also highlighted how, where larger disclosure standards were developed to account for national and international issues and were modelled after the needs and resources of large companies, SMEs typically act on a local/regional level. Disclosure requirements are therefore often complex and disproportionate to each SME's size and sector<sup>16</sup>

<sup>16</sup>) ESRC, 2023, "Actionable Information enables SMEs to Journey towards Net Zero".

Participants also highlighted that SMEs are navigating a wide range of inconsistent and technically challenging data requests from multiple stakeholders and struggle to determine what topics are relevant and applicable to their business. For example, a British Business Bank study found that 65% of SMEs state current reporting standards are too complex and that they would be more likely to engage if standards were tailored and simpler.<sup>17</sup>

Attendees of our SME working groups, primarily larger private sector institutions that bank or buy SME services, emphasised how this low-quality data is not comparable, actionable or assurable within their reporting frameworks. These larger corporations and financial services providers, who are obligated to measure and report their Scope 3 emissions, stressed how irregular data collection methods mean they cannot effectively report on sustainability performance or ensure the credibility and reliability of their climate risk management practice.

**Recommendation 1: The government should engage with standard setters and industry coalitions, like Bankers for Net Zero, to establish a market-wide carbon reporting framework for SMEs.**

A simple reporting framework would enable SMEs, financial institutions, value chains and regulators to use comparable estimations and assumptions when calculating GHG emissions, ensuring estimations are equal across the market and promoting fair competition. This would further encourage interoperability, allowing SMEs to easily transfer their data to different clients and customers through value chains. Critically, this baseline would be based upon existing reporting frameworks to avoid adding to the growing and complex ecosystem of emissions reporting frameworks.

The development of such standards should consider **proportionality**, ensuring requests are realistic for a business with limited resources to comply with; **consistency**, by clearly defining and simplifying key terms, topics, and metrics across the reporting landscape; and **materiality**, by providing clear rules to easily determine material topics and metrics for SME reporting.<sup>18</sup>

This framework could be actioned across Government financing and lending (e.g. through public financial institutions) and through procurement policy and would work to encourage a clear national baseline of metrics for the industry to adopt and build upon.

In 2021, CDP, in partnership with the SME Climate Hub, Exponential Roadmap Initiative and Normative, launched an SME Climate Disclosure Framework, providing key climate-related reporting indicators and metrics that SMEs should be reporting on. The framework was designed to align with and take influence from international standards such as the GHG Protocol, TCFD, CDSB, SBTi, UN SDGs and the 1.5 Business Playbook. This example of existing best practice could be streamlined further to improve interoperability with ISSB, provide further specific reporting guidance for micro and small SMEs, and be further tested with the government to drive economy-wide adoption and deliver on the recommendations above.

17) ESRC, 2023, "Actionable Information enables SMEs to Journey towards Net Zero".

18) Sage, 2023, "Path for growth: Making sustainability reporting work for SMEs".

## B. More needs to be done to increase awareness of transition plans for SMEs and how they may be impacted

Throughout the workshop process, participants highlighted that many SMEs are not aware that they may be expected to produce a transition plan for business partners or regulators, nor are they aware of the impact and value that the transition planning process could bring to their organisation. In the UK, 34% of business owners and managers attributed a lack of knowledge as the main barrier to having a sustainability strategy for net zero action.<sup>19</sup> Participants highlighted that this lack of understanding could lead to unintentional greenwashing.

Participants noted that even those SMEs who are familiar with these terms and resources may lack the know-how to translate the theory into real-term, practical solutions for their operations. Despite nearly 60% of UK SMEs being reasonably aware of net zero concepts, over half (53%) are not ready to prioritise decarbonisation.<sup>20</sup>

As SMEs may continue to face increasing transition plan and emissions disclosure requests from their banks and buyers, it is critical to ensure that trustworthy, credible transition planning resources are available for SMEs access and develop their own climate strategies.

### **Recommendation 2: Banks and buyers of SME services can support capacity building for SMEs by:**

- **Leveraging existing relationships to facilitate knowledge exchange:** Existing customer and supply chain relationships can be deepened and leveraged to ensure incentives and information reach SMEs. This will ensure that finance, expertise and resources are deployed to accelerate capacity building for SMEs and improve awareness of the benefits of setting realistic climate goals.
- **Providing access to high-quality, reliable transition information:** A Zero Carbon Business Partnership study found that 71% of SMEs could not recommend a single web source for help on decarbonisation.<sup>21</sup> As banks and corporates design and test their net-zero transition plans, they stand in an excellent position to ensure that trustworthy transition resources are shared with the SME in a standardised and guided way. If banks and other institutions could offer SMEs transition packages (for example, by sharing market insight, best practices, ready-made transition plan formats and access to knowledge-sharing hubs), then SMEs would be in a stronger position to set the foundations of their decarbonisation strategy.

This should be supported by collaborative efforts and agreements with the Government and standard setters to assess and grow the interoperability of emerging SME disclosure standards with other leading market standards to ensure no divergent approaches from different private actors.

19) Lloyds, 2022, "Up to 4 million small businesses have no plans for net zero transition".

20) British Business Bank, 2021, "Small businesses and the transition to net zero".

21) Zero Carbon Business Partnership, 2021, "New coalition to support SMEs out of lockdown and ensure UK meets net zero target".

### **Recommendation 3: Governments and industry coalitions must champion capacity building through the development of an SME transition plan resource Hub**

To bridge the SME net zero transition gap, there is a particular opportunity for transition plan guidance, resources, and curated content that is UK-specific and provides breakdowns of information at regional and sector levels.

This should build upon existing industry initiatives like the Broadway Initiative's UK Carbon Business Hub and SME Climate Hub to create an easily browsable index of the best, freely available transition planning resources. This Hub would:

1. Raise awareness and educate SMEs about the benefits of transition planning.
2. Provide resources on transition planning for SMEs to support understanding of how they may be impacted, including explanations of legislative or regulatory requirements.
3. Provide guidance on designing, delivering and implementing a transition plan that is proportionate to the SME's size and sector.
4. Provide a convening space to foster innovation and facilitate broader knowledge sharing and best practice.

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

## **C. SMEs may face fragmented and disproportionate transition plan disclosure requests from banks and buyers**

Throughout the workshop process, participants highlighted that small businesses may face inconsistent requests for climate metrics and transition or carbon reduction plans from banking partners or corporate buyers who are obligated to report on their Scope 3 emissions. For example, in April 2021, the Government announced that all businesses bidding to Central Government Departments, their Executive Agencies and Non-Departmental Public Bodies when procuring goods and/or services with an anticipated contract value above £5million per annum must publish a Carbon Reduction Plan.<sup>22</sup> Similarly, in July 2020, global technology provider Microsoft updated its supplier Code of Conduct to require complete and accurate Scope 1, 2 and 3 GHG emissions data as well as plans for how suppliers will reduce their emissions.<sup>23</sup>

Participants noted that transition plan disclosure requests extend further than just GHG emissions data, considering wider sustainability-related disclosures across several areas, including how businesses engage their supply chains, how they consider climate adaptation, and how they manage and respond

22) GOV.UK, 2021 "Firms must commit to net zero to win major Government contracts"

23) Microsoft, 2023 "Developing a Sustainable Procurement Strategy"

to interdependencies with stakeholders, society, the economy and the natural environment. As transition planning becomes a norm for larger companies, SMEs could increasingly face disparate and complex requests for transition plans.

Participants highlighted that government and industry agreement on a proportionate set of indicators for all SMEs would ensure that transition planning disclosures are reported as consistent and comparable, facilitating their use in benchmarking and decision-making by investors, purchasers, policymakers, and other stakeholders. This would further support large companies, including banks, investors and corporate buyers, in delivering their own transition plans in greater detail, as transition plans will require robust collaboration with the value chain and industry.

**Recommendation 4: The Government should work with lenders and investors to develop standardised transition plan disclosure requests from the Government, investors and lenders.**

To support companies that are starting to develop transition plans, we recommend that the Government establishes a dedicated task force of industry coalitions, corporates and standard setters to standardise proportionate transition plan disclosure requests for SMEs.

Building off the TPT Disclosure Framework, this group would work to agree on proportionate transition planning principles and disclosures to enable SMEs to meet transition planning demands practically and ensure consistency across the market.

Engagement between actors from across Government and industry would ensure banks and buyers of SME services can articulate clear, comparable and consistent guidance in developing credible net-zero transition plans and can address cross-cutting issues in transition plan design and implementation for SMEs.

These principles could be actioned across Government financing and lending (e.g. through public financial institutions) and through procurement policy and would work to encourage clear, proportionate guidelines for SME transition planning for banks, investors and lenders to adopt and build upon.

This work would be complemented by the emissions reporting framework outlined in **Recommendation 1**, which provides a holistic package of guidance for emissions reporting and wider firm-level, transition-related disclosures.

## D. Every SME is different: comparing SMEs across sizes, sectors and regions

Participants in the working groups emphasised that setting and understanding the context that the SME operates in will be a critical component of a successful transition and is essential in understanding the barriers, benefits and drivers that influence the adoption of transition practices.

Attendees highlighted that, in the UK, geography may play a significant role in defining the incentives and challenges that SMEs must overcome to transition their business model, as the green model may be more viable for some SMEs operating in different regions across the UK. For example, there may be opportunities for businesses located in regions of the UK where clean energy infrastructure has already been developed (such as wind farms in Scotland). SMEs operating in the regional proximity of highly developed green energy grids may benefit from the switch to low carbon at more affordable rates. Therefore, transitioning to a greener business model may be more financially viable than firms operating in less energy-developed corners of the UK.

Similarly, colleagues highlighted how motivations for implementing decarbonisation strategies will also depend on the SME's size and sector. For example, for SMEs within extractive or power generation industries that face high levels of climate-related transition risks, it may be too financially challenging or not at all viable to adopt transition practices: the overheads for investment may be too high and good financial returns may be required in a shorter timeframe for a profit to be made. Approximately a quarter of all UK small businesses cite the length of maturation/uncertainty of return on green investment as a main reason for not introducing energy-efficient solutions.<sup>24</sup>

**Recommendation 5: SMEs must prioritise engagement with peers and local networks, including business associations, as they are powerful tools in fostering collective action.**

SME-to-SME engagement can catalyse transformative actions from those who have yet to begin their net-zero journey. Witnessing first-hand the financial and environmental benefits of adopting transition plans could minimise risk perception in SMEs hesitant to implement such practices. This further supports SMEs' access to trustworthy, high-quality support and guidance.

Similarly, scaling down from a national to a regional level can make engagement strategies more viable by allowing regional SMEs with similar characteristics and challenges to share information on transitioning and access tailored aid from local authorities.

Engagement with and membership in trade associations and business groups, like the [Institute of Directors](#), the [Federation of Small Businesses](#), and the [Confederation of British Industry](#), will also be a critical resource to support SMEs in delivering on their transition journey. Acting on behalf of the SME, business groups can:

- Ensure that the voices of SMEs are heard in discussions with civil servants and Government, providing advice and guidance on schemes that would assist SMEs in their transition.
- Liaise and discuss concerns with individual members through specific customer service systems, i.e. discussions around energy consumption, energy efficiency, and specific barriers to SME transitions.
- Collaborate on projects that will directly support SMEs in their transition, e.g. through informational projects (UK Business Climate Hub) or projects to assist in easing the burden of transition (carbon accounting and Project Perseus).

**CASE STUDY:** The [Sustainable Business Hub](#) at the Institute of Directors (IOD) is an online resource providing best practice advice and resources on business sustainability for the IOD SME community. This central Hub, supported by the IOD's National Sustainability Taskforce, engages with regional IOD branches to provide sustainability-related events, news, educational content, and other initiatives across the IOD community, facilitating knowledge and innovation exchange.

24) McTague.M., 2023, "Accelerating Progress"

## 4. Guiding principles for SME transition planning

Reflecting upon the outputs of our working group, the SME Advisory Group aims to set out in the simplest terms a set of fair guiding principles to ensure that the emerging ecosystem of transition guidance considers proportionate requirements for SMEs when disclosing transition plans and equips SMEs with the necessary tools to kickstart their transition journey.

When preparing transition plans or when responding to information requests from large clients with transition plans, SMEs can:

### Recommendation 6: **SMEs can use the three principles of 'Ambition', 'Action' and 'Accountability' to frame an SME's understanding of their own transition journey.**

SMEs, at the outset, can initially draw on the TPT's three guiding principles to develop and disclose transition plans.

- **"Ambition"** – which includes setting out the entity's overall objectives and priorities, including for decarbonization, managing key risks and opportunities, and contributing to the economy-wide transitions.
- **"Action"** – translating ambition into concrete, short-term steps.
- **"Accountability"** – enabling the delivery of the plan through clear governance mechanisms along with appropriate reporting. Through this process, businesses should seek and take account of feedback from key stakeholders, including financial services providers, corporate buyers, trade associations or fellow SMEs, to successfully iterate and develop their plans and enable a positive feedback loop between key ecosystem stakeholders.

## Recommendation 7: SMEs can use the TPT's 'Strategic & Rounded Approach' to set out their powerful roles in supporting the economy-wide transition.

The TPT recommends that businesses consider a "strategic and rounded approach" to transition plans.

This means considering:

1. the entity's own decarbonization;
2. understanding and acting on the risks the entity is exposed to (both transition risks and physical risks) and the opportunities that may also arise from the transition;
3. how the entity may contribute to the economy-wide transition. This means understanding the levers and capabilities it has to accelerate the transition.

This concept may help SMEs understand and communicate how they can embed and accelerate the transition whilst also minimising risks and ensuring long-term value. This approach can demonstrate to users of SME disclosures their contribution to the wider transition; a focus simply on emissions reporting may not reveal this valuable information.

SMEs, start-ups and the entrepreneurs behind them are important drivers of the many innovations that can advance sustainable development and the green transition. Established across major supplier networks and value chains, small businesses and new entrants to the market are more likely to pioneer radical and disruptive eco-innovations and research from the UNEP FI suggests SME innovation can support access to new and emerging green markets, increase profitability along the value chain, help firms to stay ahead of standards and regulation, help attract investment, and increase productivity and technical capacity.<sup>25</sup> Articulating

these innovations may be a powerful means for SMEs to demonstrate their contribution to the economy-wide transition.

SMEs will also be essential to delivering a just and resilient transition due to their role in generating employment, economic prosperity, innovation and social cohesion. Further, while individual SME GHG emissions may be small, in aggregate, they contribute a large proportion of overall UK emissions. SMEs will also be crucial to attempts to 'level up' the UK economy, given their disproportionate presence in deindustrialised areas and in regions without cities that attract large firms with agglomeration effects.<sup>26</sup>

Adopting transition planning practices can further ensure that SMEs can meet the growing demand from stakeholders for responsible business practices and can seize new market opportunities created by the global shift towards a low-carbon economy.

<sup>25</sup> UNEP, 2014 "The business case for Eco-innovation"

<sup>26</sup> LSE Grantham Institute, 2020 "Financing SMEs to support a just transition to net zero emissions in the UK"

## Recommendation 8: SMEs can use the TPT Disclosure Framework and wider guidance as a strategic thinking tool

While all components of the TPT Disclosure Framework are important, the SME Advisory Group recognises that SMEs, or those in jurisdictions without a solid grounding in climate-related data collection and disclosure, may not be able to disclose the same level of detail, at least initially.

Expectations related to the sophistication and detail of transition plans may vary across geographies, industries and from different users of transition plans, meaning the disclosure recommendations in the TPT Disclosure Framework may not all be applicable to smaller businesses.

There may be value for SMEs to use the Disclosure Framework internally to help identify the aspects that are most relevant to their business model. This may include identifying useful areas of action beyond emissions reporting, which may help the business' own transition journey and secure long-term value within a changing climate. The TPT's [Transition Planning Cycle](#) may also offer guidance on the steps a business can take in its journey.

Some SMEs, particularly micro-SMEs, may not have strong risk management processes in place, making them particularly vulnerable to climate related risks. Building business resilience to climate change by identifying and managing physical- and transition-related risks will be critical to ensuring business survival in an economy wide transition to net zero.

For example, in 2022, a report from the London School of Economics found that many SMEs have a blind spot for future climate risks, are ill-equipped

for an unpredictable future, and are making business decisions today which will 'lock in' future risks from disruption like floods or heat waves. The data shows that almost eight per cent (7.82%) of new business premises in England and Wales were built in medium or high-risk flood areas. Decisions on the location, infrastructure, supply chain networks or core business models of new business sites can 'lock in' future risks and may be difficult and costly to reverse.<sup>27</sup>

The TPT's Disclosure Framework and Transition Planning Cycle may help SMEs map the actions they are taking to respond to these physical and transition-related climate risks and grasp the opportunities that could arise from a changing climate and the transition to a net zero economy.

GFANZ have also set out how their transition plan framework may be applicable for SMEs. As part of their 2022 guidance 'Expectations for Real-economy Transition Plans', GFANZ outlined the themes and components of the GFANZ transition plan framework most relevant for SMEs. The GFANZ transition plan themes and components are set out in table 2 below, with those most relevant to SMEs highlighted in blue.

The GFANZ priorities are largely aligned to discussions and findings of the SME Advisory for the TPT and were endorsed by the Advisory Group members. However, the advisory and working groups found a further, critical area that should be prioritized for SMEs when developing, implementing and disclosing transition plans: engagement with industry (highlighted in orange in table 2).

27) LSE Grantham Institute, 2021 "The risk of corporate lock in to future physical climate risks: the case of flood risk in England and Wales"

**Table 2:** Adaptation of GFANZ table 'Most critical components for SMEs and companies starting to develop transition plans'<sup>28</sup>

GFANZ THEME	GFANZ COMPONENT	PERSPECTIVES FROM FINANCIAL INSTITUTIONS
<b>Foundations</b>	Objectives and priorities	Helpful for understanding a company's driving goals
<b>Implementation Strategy</b>	Activities and decision-making	Outlines a company's actions and how it plans to implement its transition plan
	Policies and conditions	Provides evidence that the transition plan is supported by clear policies
	Products and services	Outlines how the company's commercial activity supports the transition plan
<b>Engagement Strategy</b>	Value chain	Provides evidence that the transition plan accounts for dependencies within the value chain
	Industry	Provides evidence that a company is committed to industry-wide action
	Government and public sector	Provides evidence that the transition plan accounts for policy dependencies
<b>Metrics &amp; Targets</b>	Metrics & Targets	Outlines a company targets and enables tracking of progress and cross-comparison
<b>Governance</b>	Roles, responsibilities, remuneration	Outlines the mechanisms in place to enable accountability and execution
	Skills and culture	Provides evidence of the strategic priority of the transition plan within the company.

Given that the TPT Disclosure Framework uses broadly the same key areas of a credible transition plan, similar logic could be applied for SMEs using the TPT Disclosure Framework.

As outlined in our recommendations, the SME Advisory Group found that engagement with and membership in industry associations and business groups was a critical resource for SMEs to access information related to transition planning and take meaningful action to meet climate-related targets.

28) GFANZ, 2022 "Expectations for Real Economy Transition Plans"

## 5. Summary of SME Advisory Group recommendations

THEME	RECOMMENDATION	
<b>Emissions reporting for SMEs</b>	1	The government should engage with standard setters and industry coalitions, like Bankers for Net Zero, to establish a market-wide carbon reporting framework for SMEs.
<b>Raising awareness of transition plans for SMEs</b>	2	Banks and buyers of SME services should support capacity building for SMEs by leveraging existing relationships and sharing transition plan resources.
	3	Government and industry should champion capacity building through the development of an SME transition plan resource Hub.
<b>Fragmented disclosure requests from partners</b>	4	The government should work with lenders and investors to develop standardised transition plan disclosure requests from the Government, investors and lenders.
<b>Comparing SMEs across different sizes, sectors and regions</b>	5	SMEs should prioritise engagement with peers and local networks, including business associations, as they are powerful tools for fostering collective action.
<b>Guiding principles for SME transition planning</b>	6	Use the 3 principles of 'Ambition', 'Action' and 'Accountability' to frame an SME's understanding of their own transition journey.
<b>Guiding principles for SME transition planning</b>	7	Use the TPT's 'Strategic & Rounded Approach' to set out SMEs' powerful roles in supporting the economy-wide transition.
<b>Guiding principles for SME transition planning</b>	8	Use the TPT Disclosure Framework and wider guidance as a strategic thinking tool

# Conclusion

**As innovators and entrepreneurs, SMEs sit in the engine room of the UK economy and are poised to play a pivotal role in the journey to a zero-carbon future.**

This briefing has considered the challenges and opportunities of transition plans for SMEs and how future guidance can be developed to allow small businesses to effectively communicate their climate action plans and champion progress towards a climate-resilient future. The need for a pre-competitive, collaborative approach from finance, industry, and governments is clear. Without immediate action, we risk leaving behind a critical component of the UK economy in the race to net zero.

With the correct strategy embedded within a wider net zero policy and regulatory framework, the UK is uniquely positioned to capitalise on the pioneering nature of small businesses across the economy. Private sector institutions can support these efforts by leveraging existing relationships to ensure incentives and information reach SMEs and by sharing best practices and resources as they embark on their transition plan process. However, the private sector alone cannot catalyse mainstream climate action across UK SMEs. To accelerate progress, the UK government must step in and set a clear national decarbonisation roadmap to support SMEs in going further and faster.

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The need for a pre-competitive, collaborative approach from finance, industry, and governments is clear. Without immediate action, we risk leaving behind a critical component of the UK economy in the race to net zero.

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