



NatWest
Group

A springboard to sustainable recovery

Rising to the moment

November 2022





Now is the time for SMEs to keep their focus on decarbonisation to unlock a £175 billion+ revenue opportunity, and contribute to regional growth across the UK.

Front cover illustration by
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Alison Rose, CEO of NatWest

The imperative to tackle climate change – still the biggest single issue facing humanity – is more pressing than ever. Since 2021, when NatWest highlighted the key role SMEs can play in UK decarbonisation, companies have made impressive strides in their climate ambitions.

But, in the context of a turbulent macroeconomic environment, with the prospect of a recession in the UK, and the increasing cost of living due to rising energy prices and global supply-chain issues, SMEs face tighter cash flows and fear for the future of their businesses. As a result, they've had to juggle their priorities, often at the cost of environmental concerns.

Yet, against this volatile backdrop, we find that SMEs in the UK are still well placed, and indeed, pivotal, to drive the next decade of decarbonisation in the UK – and to harness growing revenue opportunities. With the business case for decarbonisation stronger than ever, SMEs may see significant savings in their own energy costs if they decide to decrease their carbon footprint. Our research finds that the revenue opportunity for SMEs in the UK through accessing decarbonisation revenue opportunities has increased by £15 billion since 2021, and is now over £175 billion.

As a leading bank committed to addressing climate change, NatWest has written this report to support our customers in this goal, and highlight how SMEs can seize the opportunity – and contribute to the net-zero transition in line with the government's raised climate ambitions.

The story of SME climate action is not just one for individual businesses, but also for achieving regional growth. The £175 billion revenue opportunity has the potential to create substantial regional growth benefits, with an expected 40,000 new SMEs focusing on specific sectors in different regions to spur green growth.

The opportunities vary from region to region. For example, more than 50% of the revenue opportunities for buildings and transport lie in the South and North West, where the population centres lie. Conversely, more than 50% of the SME opportunity in renewables deployment lies in the North East and East.

The UK has a track record of climate leadership, decarbonising faster than any other G20 country in the past 30 years, and being amongst the first countries in the world to set a Net Zero target. Whilst the UK is leading the way, the investment opportunity in the EU, at £1,450 billion of incremental investment, is five times UK investment, at

£350 billion, and the global investment figure is around 28 times UK investment, at £9,950 billion. This investment requirement creates opportunities for businesses of all shapes and sizes – and we will do everything we can as a bank to help businesses access that opportunity.

With our footprint in every community across the UK, as well as the substantial muscle of our regional boards, SME Taskforce, and Regional SME Taskforces, NatWest is uniquely placed to assist businesses. We have made good progress in meeting our commitments in implementing a range of other interventions aimed at responding to SMEs' needs. We focused these interventions on four pillars:

1. Ensuring SMEs have access to funding they need.
2. Helping SMEs know where they stand in relation to their business and climate footprint.
3. Supporting SMEs to identify the biggest opportunities for their business.
4. Helping SMEs navigate the climate-action landscape and connecting businesses to resources and insights relevant to their situation.

NatWest demonstrated our clear commitment to help advance the net-zero transition – and ensure SMEs have access to the funding they

need – when we set a £100 billion Climate and Sustainable Funding and Financing target in 2021, of which we have completed £26 billion of financing to date, completing £6.2 billion of climate and sustainable funding and financing in Q3 2022.¹ And, in February 2022, NatWest launched its Green Loans and Green Asset Finance product to help qualifying SMEs achieve sustainability. Our full range of commitments and progress is outlined in the final section of this report.

We know at the moment that it's tough out there for many businesses and we will do everything we can to help them to achieve their ambitions and to support the transition.

“

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Executive summary

SMEs have a pivotal role to play in the UK's decarbonisation.

Last year's report showed that, given the right support, SMEs could contribute almost 50% to the UK's total emissions reduction by 2030, in two ways:

1. Through accessing decarbonisation revenue opportunities, unlocking over £160 billion of potential revenue.
2. By decreasing their own emissions – with 55–75% of the investments SMEs needed between 2021 and 2030 being financially viable.

Today, many countries and companies have raised or set their climate ambitions, but face new challenges on energy costs, supply-side constraints and macro-economic uncertainty.

The UK raised its climate ambitions in the past year, when it published both its Net Zero Strategy, and its Energy Security Strategy. Meanwhile, other economies galvanised around COP26, with key countries like the United States setting Net Zero targets for the first time. This has been supported by increased private sector target setting and action. However, the UK and its citizens are facing three new potential decarbonisation challenges across energy prices and resilience, security of supply, and a volatile macro-

economic environment. SMEs are particularly impacted by all three challenges. While environmental concerns remain important for SMEs, the increasingly challenging economic environment means that, in many cases, they have other competing priorities. Considering this, NatWest has conducted this report to understand how the case for SME decarbonisation and wider decarbonisation revenue opportunities have evolved.

Key findings:

- **The revenue opportunity for SMEs in the UK has increased and is now over £175 billion (around £15 billion larger than last year).** Last year's report identified a revenue opportunity over £160 billion between now and 2030 for SMEs focussed on decarbonisation. Since then, the government has increased its climate ambitions, with the publication of its Net Zero Strategy and Energy Security Strategy.^{2,3} This means that the revenue opportunity for SMEs has increased. Furthermore, the UK's independent climate advisor and the National Infrastructure Commission (NIC) recently highlighted the importance of energy efficiency, low-carbon heat, and onshore renewables in the face of energy price and resilience challenges.⁴ If heeded, this advice could accelerate £115 billion – over 65 percent – of the total approximate £175 billion SME revenue opportunity.

- **Capturing this £175 billion revenue opportunity in the UK will require the creation of around 40,000 new SMEs, which can also contribute to regional growth, with each region playing different roles.** This can drive green growth across many of the UK's sectors – from the workers fitting insulation in the UK's 30 million+ homes, to the businesses deploying millions of electric-vehicle (EV) chargers, to the firms contracted to build world-leading renewable infrastructure. Regional focusses for SMEs will emerge. For example, over 50% of the revenue opportunities for buildings and transport lie in the South and North West, where the population centres lie. Conversely, more than 50% of the SME opportunity in renewables deployment lies in the North East and East.
- The story of SME climate action is not just one of growth, but also of regional opportunities. While SMEs need to grow in all regions of the UK, the North of England, Wales, and Scotland will see the most growth. In the North of England and Wales, this growth is driven by a scale up in SMEs in the retrofitting sector that will need to double. In Scotland and the North East, this is driven by the renewables sector where the number of SMEs will also need to more than double.
- **Beyond the UK, SMEs could access other markets with their low-carbon goods and services – helping the UK to continue to be a pathfinder.** Historically, the UK has had a track record of climate leadership by decarbonising faster than any other G20 country in the past 30 years, and being amongst the first countries in the world to set a Net Zero target.⁵ Looking ahead, the UK has world-leading 2030 decarbonisation targets and could be a pathfinder for a far larger global decarbonisation challenge.⁶ This global challenge brings opportunity for UK SMEs. The investment requirements to decarbonise Europe in the next ten years will be around five times the size of the investments required in the UK, and the global requirements will be around 30 times.⁷ UK SMEs already export nearly £200 billion of products and services today, including in many sectors critical to decarbonisation, for example chemicals, electrical equipment, and low-carbon services.⁸ SMEs that successfully export low-carbon products and services will be selling into growing larger global markets.⁹
 - **We know that the current economic environment is at the forefront for many businesses, but over and above improved revenue, the top four actions for SMEs to decarbonise make even**

“The top four actions for SMEs to decarbonise make more sense today than in 2021.”

more sense today than in 2021. The dramatic rise in energy prices in the UK, driven by high global gas prices, means that many decarbonisation investments could make more financial sense in 2022 than 2021. As transition commitments come into focus (for example, a ban on petrol and diesel car sales, an increase in building energy efficiency standards, and requirements for low-carbon heating), now may be the moment for SMEs to maximise these benefits. The top four actions SMEs need to take in decarbonising are insulating, installing low-carbon heat, switching to EVs, and deploying low-carbon power. If energy prices remain

elevated, deploying on-roof solar could pay back 25% faster today than in 2021, and insulation payback times could halve. The relative cost of deploying a heat pump or an EV has also decreased by hundreds of pounds per year. These business cases may get stronger still, if the UK explores energy market reforms to mitigate the price of electricity from gas.¹⁰

The six key areas of action outlined in last year's report remain important to support SMEs in decarbonisation: funding access, awareness, knowledge, skills and capabilities, market access, and helping businesses to navigate around sources of support.



“The financial sector has a clear role to play because transitioning to a low-carbon world requires up-front capital investment.”

The financial sector has a clear role to play as the transition to a low-carbon world requires up-front capital investment. Last year's report showed that – with the right support – SMEs could contribute up to 50% of UK 2030 emission targets through pursuing decarbonisation revenue opportunities and their own decarbonisation. It explained a range of interventions – built around four pillars – by which NatWest could support SMEs needs for delivering climate action. We have continued to support SMEs' decarbonisation efforts in each of these four pillars.

In conclusion:

The UK is entering a new phase of decarbonisation with world-leading targets, a 2050 Net Zero target, and a commitment to decrease emissions by 35% between 2022 and 2030.¹¹ Historically, nearly 90% of emissions reduction has come from highly consolidated sectors (industry and power), whereas the next 30 years of abatement will require action from all sectors across society, building, transport, and agriculture.¹² Becoming energy efficient not only reduces costs but makes businesses more competitive and productive and, if applied across the whole economy, supports growth. SMEs are a cornerstone of the UK economy and will play a central role in its decarbonisation.

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Perspective from Lord Nicholas Stern

The lead-up to COP27 in Egypt reminds us, once again, of the scale of the climate crisis and of how far short the world still falls in the relation between climate change actions and targets. We are sharply focussed on how dangerous our current path is, and of the urgency to achieve net-zero emissions by the middle of this century. We are reminded that, with climate change moving faster than we are, we need to take heed of what science tells us, and respond to this deeply dangerous threat with much greater urgency.

It is now common cause that the drive to a net-zero economy will take strong, internationally co-ordinated investment. A step-up in finance is absolutely crucial to speed up action and deliver the goals of the Paris Agreement. Every government and business globally should now be focussed on the investments and innovation required to reach net-zero emissions as quickly as possible.

The United Kingdom (UK) has decarbonised faster than any other G20 country over the past 30 years. It was one of the first countries in the world to set a Net Zero target, and it is also a world leader in its 2030 decarbonisation targets. With this track record of climate leadership, including in 2021 at Glasgow COP26, the UK can be a pathfinder for the enormous global decarbonisation challenge.

Leading up to COP27, we have seen countries agree to review their net-zero targets and increase their ambitions. The United States, China, and India have now set net-zero targets, while the European Union, which already has a net-zero 2050 target, is doubling down on decarbonisation efforts. Companies, too, are setting record-breaking climate targets, with knock-on effects across the private sector.

In 2021, NatWest research showed that – with the right support – SMEs could contribute up to 50% to the UK's 2030 emission targets through pursuing decarbonisation revenue opportunities and through their own decarbonisation. Pivotal

“Pivotal players in decarbonisation, SMEs need financial support now more than ever to capitalise on the emerging opportunities from the transition to a low-carbon economy. ”

players in decarbonisation, SMEs need financial support now more than ever to capitalise on the emerging opportunities from the transition to a low-carbon economy. The financial sector has a clear role to play, because transitioning to a low-carbon world requires up-front capital investment.

Amplifying this need for support is the fact that even beyond the UK, there are big opportunities for SMEs to break into other markets with their low-carbon offerings and to make their mark in the larger global decarbonisation challenge. We read in this NatWest report that UK SMEs already export close to £200 billion of products and services – and that includes to a range of sectors that play a major role in decarbonisation.

As Europe and the rest of the world make larger investments in decarbonisation, the UK SMEs that are already successfully exporting low-carbon products and services will be selling these to ever-growing larger global markets.

The additional revenue that could be unlocked, both locally and abroad, for SMEs could not only create jobs, but could grow the whole UK economy and contribute to the development of historically underdeveloped regions.

Sixteen years ago, we published *The Economics of Climate Change: The Stern Review*. Governments and businesses were slow to recognise the enormous threat that climate change poses to economic development and growth. But it is heartening to see the increased commitments to decarbonisation targets by so many businesses and countries.

We are still far from where we need to be. The world's scientists have sounded the warning that the world must act urgently to avoid the worst impacts of climate change. The benefits of taking action are clear. An ambitious global low-carbon transition could launch a new wave of transformation, both for the economy and for our planet. It can be the growth and development story of the 21st century. We must not wait.

*Professor Stern is the IG Patel Professor of Economics and Government, Chairman of the Grantham Research Institute on Climate Change and the Environment, and Head of the India Observatory at the London School of Economics, President of the British Academy, from July 2013 to 2017, and was elected Fellow of the Royal Society in 2014. He was Chief Economist of the European Bank for Reconstruction and Development, from 1994 to 1999, and Chief Economist and Senior Vice President at the World Bank, from 2000 to 2003. He was knighted for services to economics in 2004, made a cross-bench life peer as Baron Stern of Brentford in 2007, and appointed Companion of Honour for services to economics, international relations, and tackling climate change in 2017. He has published more than 15 books and 100 articles and his most recent book is *Why are We Waiting? The Logic, Urgency and Promise of Tackling Climate Change*.*

NatWest's research on the UK SME landscape

The insights in this report are based on NatWest's in-depth analysis of the UK SME landscape (firms with fewer than 250 employees). Research included:

- In-depth literature review of more than 30 reports with a UK and global focus.
- Data analysis of over 16 databases, UK and global.
- Detailed interviews with UK SME owners across a variety of sectors, regions, and environmental maturities.
- NatWest internal customer insights research.
- Interviews with NatWest's key strategic partners for supporting SMEs.
- Insights from NatWest SME Taskforce and previous SME-focused report, *A springboard to sustainable recovery: Unlocking the net-zero opportunity for UK SMEs*.

Acknowledgements

We would like to thank all our partners for their support and collaboration on this report.

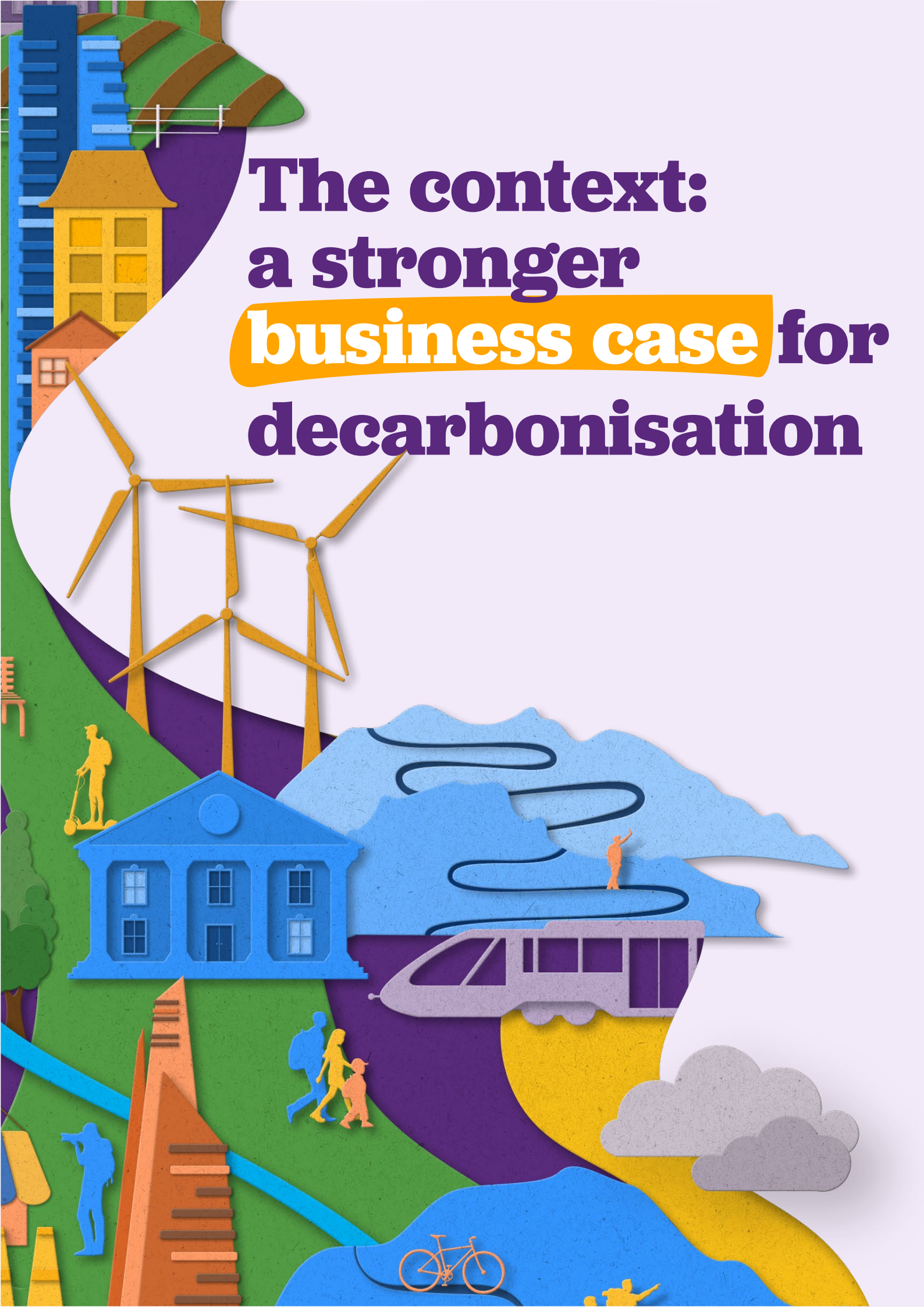
They include:

Sustainable Food Trust, High Value Manufacturing Catapult, Warwick Manufacturing Group, Octopus, and The University of Edinburgh.

We would also like to thank **McKinsey & Company** for its support on the research and analysis underpinning the report and **Douglas Knowledge Partners** for its editorial and design support.

Glossary of common terms

| | |
|--|--|
| SMEs | Small- and medium-sized businesses with fewer than 250 employees. |
| Scale ups | Defined by the OECD as companies with an average return of at least 20% in the past three years, and at least ten employees. |
| Net zero | A scenario in which an individual, business, or country contributes zero greenhouse-gas emissions to the atmosphere. If they do emit greenhouse gases, they can negate the impact through a range of other actions to remove greenhouse gases from the environment, such as planting trees or using carbon-capture technology. |
| Sustainable/ sustainability | A situation in which a business's or an individual's actions can continue indefinitely as they do not deplete natural resources. |
| Climate transition | The process through which a business or individual changes their behaviour and actions to become less harmful to the environment, such as reducing greenhouse-gas emissions. |
| Greenhouse-gas (GHG) emissions | The production of gases such as carbon dioxide that contribute to global warming, usually from the burning of fossil fuels. |
| Abatement | The process of reducing greenhouse-gas emissions, either by avoiding emissions or performing actions to remove them from the atmosphere, like planting trees. |
| Climate action | A catch-all term to describe the things that businesses or individuals can do to reduce their impact on the environment. |
| CAPEX | Capital expenditure or capital expense (CAPEX) - The money an organization or corporate entity spends to buy, maintain, or improve its fixed assets, such as buildings, vehicles, equipment, or land. It is considered a capital expenditure when the asset is newly purchased or when money is used towards extending the useful life of an existing asset, such as repairing the roof. |



The context: a stronger business case for decarbonisation

Since last year, new challenges have emerged at a moment when countries and companies have committed to decarbonisation plans.

Across both the public and private sectors, the past 12 months have seen significant commitments in climate ambition and action. The UK has continued to be a climate leader, strengthening its commitments and action. It has reduced its emissions faster than any other G20 nation¹³ (Exhibit 1), was the first

country in the world to set a legally binding Net Zero target¹⁴, and announced a world-leading Nationally Determined Contribution (NDC) of a 68% cut in emissions ahead of COP26.¹⁵

At COP26, HM Treasury announced that UK financial institutions and listed companies will be expected to publish independently reviewed net-zero transition plans from 2023, aiming to make the UK the world's first net-zero financial centre.¹⁶ Further, the UK government announced that Transition

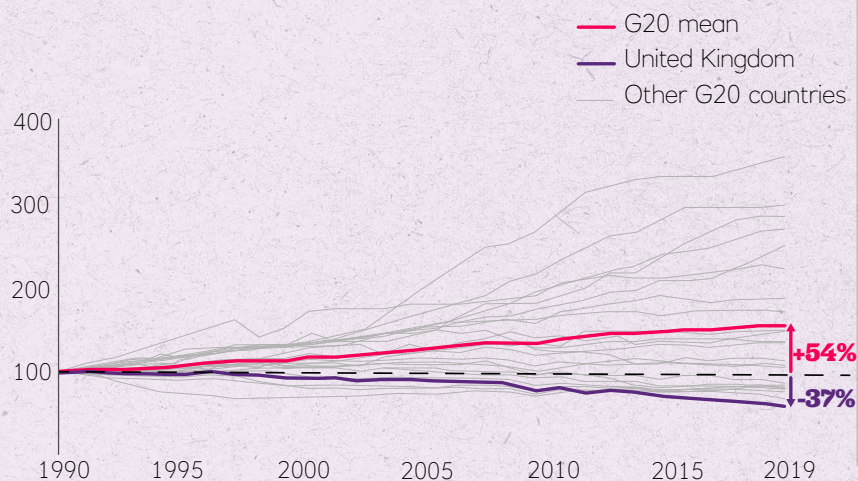
Exhibit 1

The UK is a pathfinder for global decarbonisation.

The UK has decarbonised faster than any other G20 nation...

...and has set world leading climate goals

Relative annual emissions of G20 countries¹, 1990=100



| | Nationally Determined Contribution ² | Net-zero target year ² |
|--------------------------|---|-----------------------------------|
| Strongest targets | 68% reduction in total emissions compared to 1990 levels by 2030 | 2050 |
| | >55% reduction in total emissions compared to 1990 levels by 2030 | 2050 |
| | 50-52% reduction in total emissions compared to 1990 levels by 2030 | 2050 |
| | No absolute emissions reduction commitment ³ | 2060 |
| | No absolute emissions reduction commitment ³ | 2070 |

| | | |
|--------------------------|---|-------------|
| Strongest targets | | |
| | 68% reduction in total emissions compared to 1990 levels by 2030 | 2050 |
| | >55% reduction in total emissions compared to 1990 levels by 2030 | 2050 |
| | 50-52% reduction in total emissions compared to 1990 levels by 2030 | 2050 |
| | No absolute emissions reduction commitment ³ | 2060 |
| | No absolute emissions reduction commitment ³ | 2070 |

¹ CCC Sixth Carbon Budget.

² ClimateActionTracker.org.

³ China and India have made targets based on reducing emissions intensity (a measure of emissions per GDP output), rather than reducing absolute emissions. It is likely that emissions for both these economies will rise by 2030.

Plans would be mandatory and the Transition Planning Taskforce, of which our CEO, Alison Rose, is a member, has developed definitions and guidance for transition plans. The work aligns with the Glasgow Financial Alliance for Net Zero (GFANZ) work specifically around Real Economy Transition Plans, co-chaired by our CEO, which produced guidance earlier this year. The UK became the first major economy to announce a Net Zero Strategy at the end of 2021.¹⁷ Furthermore, in 2022, in response to the invasion of Ukraine, the UK published its Energy Security Strategy. This aimed to reduce dependence on imported fossil fuels through the faster deployment of renewables, specifically in power and hydrogen.¹⁸

Around the world, many countries have set or increased their climate targets

In the run up to COP26, many of the world's major global economies and emitters set Net Zero targets for the first time, including the US, which means that about 75% of global emissions now sit under Net Zero targets.¹⁹ Countries have also agreed to review their Net Zero targets and to increase ambitions at COP27 in Egypt in November 2022. The EU has 2030 reduction targets and a Net Zero 2050 target, but it has raised its climate ambitions in the past 12 months. The EU launched its RePower policy that aims to end Europe's dependence on Russian fossil fuels.²⁰ One of the three main pillars includes a

proposal to increase the share of renewables in final energy in 2030 from 40% to 45%, and to reduce final energy consumption to 750 million tonnes of oil equivalent (Mtoe) instead of the 787 Mtoe included in the "Fit for 55" package from July 2021.

In the past year, the private sector has introduced new climate targets

Large businesses are continuing to set ambitious Net Zero targets. According to the annual Science-Based Targets initiative (SBTi) Progress Report, records were broken in 2021 for the number of companies that introduced new climate targets. Up to 2,253 companies (111 in the UK) based in 70 countries, representing 15 industries and a combined \$38 trillion – or one-third – of global market capitalisation approved emissions-reduction targets or commitments in 2021.²¹ Nearly a third of the UK's largest businesses pledge to eliminate their contribution to carbon emissions by 2050.²² The number of SMEs pledging commitment to net zero in the UK is the highest in the world, with over 3,500 businesses making this pledge.²³ However, in today's challenging economic environment, small businesses are finding it more difficult to prioritise environmental concerns.

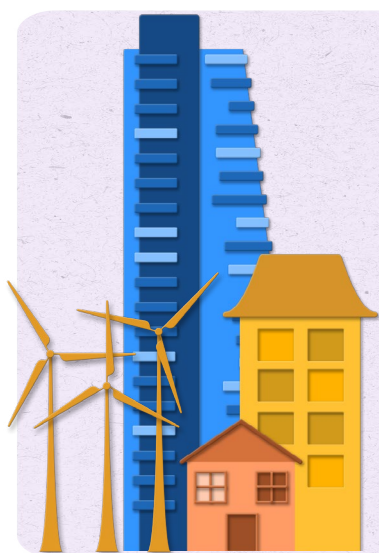
The UK and its citizens are facing three new challenges: Energy prices and resilience, supply-chain issues, and a volatile macro-economic environment.

These new challenges mean that SMEs have competing priorities when it comes to environmental concerns. The rise in the price of energy and challenges securing it began at the end of 2021, as economies began to recover after the COVID-19 pandemic and international energy demand started to grow again. The Russian invasion of Ukraine and climate conditions have exacerbated this crisis. Firms have experienced a 424% rise in gas costs and 349% increase in electricity since February 2021, as data from the Federation of Small Businesses (FSB) shows. SMEs are particularly vulnerable against the energy crisis and, in a recent survey of UK small businesses, 89% of respondents stated that rising energy prices were a problem, with 33% of those polled labelling it a 'major' challenge.²⁴ This is higher than any other issue facing the UK's SMEs.

Global supply-chain issues make raw materials costly and increase logistical challenges. Beginning during the COVID-19 lockdown, due to shifts in demand, labour shortages, and structural factors, supply-chain issues have been aggravated by the Russian invasion of Ukraine and COVID-19

lockdowns in China. This crisis has resulted in new challenges in producing many low-carbon technologies, for example, solar panels, insulation, and heat pumps.²⁵ Businesses in the UK agriculture sector are facing inflation of over 25% and price hikes in the region of 200% for fertiliser, gas, and fuel – and a raft of other cost pressures on feed, electricity, and seeds – as a result of the combined impacts of inflation, Brexit, and the war on Ukraine on supply costs to the industry.²⁶

The UK and the global macro-economic picture remains challenging. The Bank of England has stated that the UK is entering a recession, with inflation expected to reach 14% by the end of this year.²⁷ The increase in the cost of living has already been felt by people and businesses across the UK, meaning that many companies have tighter cash flows. High interest rates have resulted in investments becoming more costly. In a recent survey of UK SMEs, nearly a quarter (24%) of respondents said that rising interest rates have affected their organisation's ability to access finance, such as business loans or credit cards.²⁸



“The number of SMEs pledging commitment to net zero in the UK is the highest in the world, at over 3,500 businesses.”

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According to NatWest internal customer insights research, 24% of all businesses surveyed aren't confident that they will still be operating in 12 months' time²⁹, with these businesses more likely to have taken additional lending from their main bank and/or other providers. The biggest challenges right now for 46% of businesses are rising energy and fuel prices, followed by profitability, customer demand, and cashflow. In response to these increased operating costs, 41% of all businesses surveyed have changed the price they charge their customers, and are reviewing their expenditure, including marketing activity and their suppliers.

When asked what support they currently need from their business bank with regards to the cost of living and cost of trading crisis, businesses cited reduced banking fees, increased borrowing facilities to help get through the current situation, and payment holidays on borrowing as their top needs. The businesses facing greater immediate pressures appear to be receiving more support from their bank in relation to fees and payment holidays. However, there is a gap between business needs and what they're receiving, for example, 27% of businesses want borrowing facilities but only 18% have received this from their bank.

How NatWest is responding to help customers

To support and provide certainty to SME customers in these challenging times, NatWest Business Current Accounts continue to remain available without a minimum

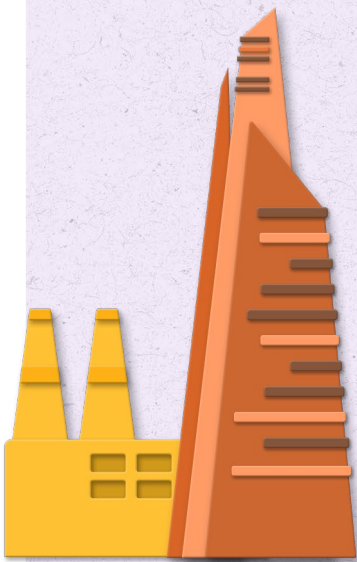
charge, and the Bank is freezing the standard published tariffs on these accounts for the next 12 months – pledging not to make any increases to these published fees. Furthermore, NatWest Group continually monitors all sectors to proactively identify the most vulnerable, and has developed a tailored support package for its 40,000 agriculture customers who are facing extreme impacts on supply costs and profit margins. Specifically, we announced an additional £1.25 billion lending package to the UK farming community and our 40,000 customers within it, building on an earlier set of measures for the sector announced in June 2022.³⁰ We completed £11.9 billion of climate and sustainable funding and financing in H1 2022, bringing the cumulative contribution to £20 billion against our target of £100 billion between 1 July 2021 and the end of 2025 and lent £1.35 billion to businesses for EV investment.³¹

In addition, NatWest has just launched a partnership with StepChange, the UK's largest debt charity, to offer our SME customers an independent debt advice service. NatWest is also donating £2 million to the charity to fund a dedicated team that will support our business customers struggling with their finances, amidst the rising cost of living. The new team plans to offer appointments to business customers who the bank feels would benefit from free debt advice. An independent advisor plans to explore the customer's situation and agree on the next steps, ranging from completing full debt advice to referral to other specialists such as tax accountants.

Finally, to ensure that as many SMEs as possible can realise the bottom-line benefits from their carbon-reduction efforts and innovation, the Bank has also reduced the lower threshold for its Green Loans offering for SMEs from £50,000 to £25,000, ensuring that more businesses can access funding to help transition to more sustainable practices, in turn reducing costs in the long run.

Energy resilience can be enhanced through decarbonisation

Successful decarbonisation of the UK energy system can contribute to faster, enduring national energy resilience, as it is one of the fastest ways to reduce reliance on imported fuels. Decarbonisation measures may reduce energy prices in the UK over the



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Decarbonisation of the UK energy system can contribute to faster, permanent national energy security as it is the fastest way to reduce reliance on imported fuels.

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medium term. The price of renewable energy continues to fall – since 2015, the price of offshore wind power has fallen by 67% in the UK.³² This reflects a global picture; the cheapest form of new power generation is onshore wind and solar.³³ Recent energy prices have highlighted the savings that renewables may bring. Solar in Europe saved the EU €29 billion during the summer of 2022 alone.³⁴ This extent of savings also occurs at household level. For example, a typical household with solar panels installed will see over £300 of savings on their energy bill per year, with this figure growing as energy prices rise. Furthermore, many of the measures required for decarbonisation could be deployed rapidly:

- **Onshore wind and solar:** once planning permission is approved, a 10 MW wind farm can be built in two months. A larger 50 MW wind farm can be built in six months. For an onshore solar farm,

construction can be completed in a matter of months, (the whole development from inception to operation can take anywhere between one and three years).

- **Insulating homes:** it takes several hours to insulate a typical home in the UK. The cost of insulating a house in the UK depends on the scale of the job, which in turn depends on the house size. For a spray foam insulation, a large-scale installation costs around £12 per square metre and a small scale installation costs around £20 per square metre.
- **Heat pumps:** it takes between a few hours and five days to install a heat pump in an average home. The cost of installing an air heat pump is also dependent on the size of the house. For a house with two to three bedrooms, the cost ranges between about £8,000 and £18,000.

“In this context, the business case for decarbonisation is strengthened.”

G. Wisson & Son – farmers who look after the land

The agricultural enterprise, G. Wisson & Son, run by husband and wife team, Margaret & Maurice Wisson, farms with about 1,000 head of cattle in Abbotsley, Cambridgeshire.

Manure pollutes rivers – so, with the help of NatWest, the farmers cemented the extensive cattle yard, and created a pond and two reed beds to contain all the water from the yard. The reed beds absorb all the excess nutrients and create a home for all sorts of water-side birds.

“We cover the manure heaps to protect the water, so there is no leaching. Farmers get a lot of the blame for polluted rivers. Everybody must do their bit to improve the situation,” says Maurice.

He started the farm with his late father, Gerald, in 1972, and the business now includes his son, Jonathan, and granddaughter, Katy.

“We’ve always farmed with the environment in mind. We have big hedges and wide stretches of grass around the fields, so we have an abundance of birds. If you look after the land, the land looks after you.”

About six years ago, through Lombard, which is part of NatWest, the farmers received funding to put in 50 kilowatts

of solar panels, to help with electricity generation. Working with NatWest has been a great experience, Margaret said. “Our relationship manager is very helpful. There’s always someone at the end of the phone to help you solve your problems.”

The Royal Society for the Protection of Birds (RSPB) found 14 different species of red-listed birds near the farm in a recent survey. There are increasing numbers of game birds and falcons, as well as hares and other animals.

“We love watching the birds. We’ve had eight nesting swallow pairs this year. We record the day they come and the day they leave – and the last ones left yesterday.”





**The time is
now for SMEs
to decarbonise
their own
businesses.**

The new global context has made business cases for decarbonisation stronger than ever. If properly supported with upfront capital, SMEs may potentially see significant savings in energy costs.

The current global context is challenging for UK SMEs, and many are concerned about their short- or long-term survival. However, this cloud may have a silver lining for many SMEs – due to factors such as increasing commitment to climate action in both the private and public sectors and the ongoing energy crisis, business cases for decarbonisation for many SMEs are stronger than ever. Although SMEs may often have competing priorities in this challenging environment, many SMEs may see substantial savings in energy costs if they seize the opportunity to decarbonise. To allow them to do so, SMEs will need support, particularly with upfront capital (please refer to section 4 for more details).

What does decarbonisation look like for SMEs?

NatWest's 2021 report, *A springboard to sustainable recovery*, showed that 55–75% of business cases for SME decarbonisation

will be positive by 2030, often due to savings in energy costs and increased efficiency — provided that they can be supported with upfront capital. For SMEs, it is therefore important to identify what actions their businesses can take to take advantage of the benefits of decarbonisation. For the majority of UK SMEs, decarbonisation will primarily involve decarbonising heat, power, and transport. The most important and impactful actions that SMEs can take to decarbonise include insulating buildings, installing heat pumps, investing in EVs, and installing rooftop solar.

- Although there is an upfront CAPEX cost associated with insulating buildings, it results in energy savings through increased energy efficiency for heating.
- Heat pumps can improve heating efficiency and their servicing costs are lower than alternatives, despite their higher upfront costs.
- EVs are around three times more efficient than internal combustion engine (ICE) vehicles, and, as such, are cheaper to run over a vehicle's lifetime.

“

If properly supported with upfront capital, SMEs could see significant savings in energy costs.

”

- Rooftop solar can often pay for itself over a short time span, as it allows users to avoid using electricity from the grid and to sell power back to the grid.

A case study helps illustrate how these actions could benefit an SME in practice (Exhibit 2). For a mid-size restaurant with 60 employees that owns its own premises, the business cases for installing rooftop solar, insulating the building, installing a heat pump

to improve heating efficiency, and purchasing an electric van for deliveries are positive, assuming energy prices remain elevated. These actions can yield substantial savings. Although the upfront CAPEX costs are high, the case for decarbonisation is compelling and makes financial sense for SMEs, despite the competing pressures of the challenging current environment. To allow SMEs like this one to seize the opportunity to decarbonise, it will be crucial to support SMEs in obtaining the necessary upfront capital.





Exhibit 2

The business case for SME decarbonisation is stronger than ever.

What can SMEs do to decarbonise

Jane runs a restaurant in Liverpool, employing 60 FTEs

To decarbonise her business, she could:

-  install a solar system on the roof
-  insulate walls and roof
-  install a heat pump
-  purchase an electric van

Insulate cavity of walls and roof¹

- Insulating the cavity of the walls and the roof of the restaurant would make the building ~14% more efficient, generating ~£330 of savings per year
- This benefit could improve to up to ~30% gain in efficiency and ~£690 savings per year if Jane's building was very inefficient in the first place

Install a solar system on the roof¹

- Installing a solar panel system on the roof of her restaurant would cost Jane ~£40k, and generate ~£5.2k savings in electricity per year
- The system would pay back in ~8 years, compared to ~10 years last year

Install a heat pump¹

- Jane could install a heat pump at her restaurant, improving her heating efficiency by four

Purchase an electric van¹

- Buying an electric car/van for her deliveries would be more expensive for Jane upfront, but given the current level of energy prices, it could generate up to ~£10-£30k of savings in fuel cost over its lifetime²
- Furthermore, the UK government would provide Jane with subsidies (£2.5k grant) and benefits (zero road tax)

Applying all the interventions to her restaurant², Jane would invest ~£105k in initial CAPEX, and generate ~£12k of savings per year (~£7.5k gas savings and ~£4.3k electricity savings). If energy prices remain elevated, her investment would pay back in ~9 years.

¹ Savings calculated assuming general energy price levels will remain high.

² Assuming Jane would insulate her restaurant and install a heat pump first, generating gas savings, then purchase an electric van, and finally install a solar system on her roof, which would generate electricity savings on all the other interventions.

Business cases for decarbonisation are more positive than ever

The current high energy prices are challenging for SMEs, but they do present opportunity. Many businesses cases for decarbonisation were already positive in 2021, and, due to the increased cost of energy, almost all the key business cases for SME decarbonisation have the same or better business cases in 2022 compared to 2021.³⁵

- Due to the current high energy prices, for SMEs that install **insulation** in their buildings to make them more energy efficient, the payback period could be cut in half.
- Installing a **heat pump** pays back today in half the time that it would have taken in 2021, because gas prices have increased more than electricity prices. SMEs that are currently operating in buildings with lower heat efficiency would see benefits from installing a heat pump and higher average savings.
- Although the business case for buying an **EV** can be positive, it depends on the way an SME will use the vehicle, including charging habits and the mileage driven per year. For SMEs that have long mileages and the ability to charge on their premises, the business case for switching to an EV could be positive today. Compared to 2021, the business case for switching to an EV has marginally improved due to increased petrol and diesel prices.

- High energy prices also mean that deploying **solar** panels today would pay back nearly 25% more quickly than estimated in 2021, thanks to energy costs that could be avoided.

Decarbonisation could result in large individual and cumulative savings for SMEs

For a small- to medium-sized business,³⁶ a combination of these four actions could yield substantial savings. Insulating buildings and installing a heat pump, purchasing an electric van for deliveries, and installing a solar-energy system would cost around £105,000 in initial CAPEX, but would generate around £11,000 of savings per year. As such, if energy prices remain elevated, this investment into decarbonising would pay back in around nine years.³⁷

Alongside these individual benefits, the cumulative impact of SMEs' decarbonisation could yield large financial savings nation-wide. For example, if support were provided to UK SMEs to deploy insulation and on-roof solar en masse, the annual energy savings for the UK could be over £1 billion per year. For the insulation component, if all the UK's SMEs insulated their premises effectively, they would see savings of over £500 million per year in avoided gas bills if energy prices remain elevated.³⁸ Widespread adoption of solar could lead to equal overall savings – fitting solar on the roofs of all technically feasible UK SMEs would save UK SMEs over £500 million per year in avoided electricity bills.³⁹

Regulatory measures and timetables are becoming clearer

The stronger business cases alone provide a compelling reason why SMEs should seize the moment to decarbonise. Adding more impetus is the fact that, on top of these stronger business cases, SMEs are now seeing increased clarity on the regulatory timescales and measures that will impact them. For example, the UK government is developing promising proposals to introduce a performance-based rating scheme for large commercial buildings, and to require that privately rented non-residential buildings have an Energy Performance Certificate (EPC) rating of B or higher by 2030.⁴⁰ This measure will mean that many SMEs may be required to install insulation, heat pumps, or solar to comply. SMEs could consider doing so now, when the business case is favourable.

The UK government has also announced a ban on new sales of petrol and diesel cars, to take effect by 2030, providing impetus for SMEs to invest in EVs. Additionally, the

government is aiming to deploy carbon capture and storage (CCS) and hydrogen power solutions at scale by the end of 2030 as part of its industrial decarbonisation strategy. There is significant funding in these areas. Finally, SMEs are increasingly feeling the pressure to decarbonise from customers with decarbonisation targets, so putting in place strong measures to decarbonise could make SMEs more competitive in this area.

The business cases for decarbonisation have never been stronger for SMEs. Seizing this opportunity to decarbonise will be crucial for the SMEs that are able to – decarbonisation can provide strong savings and make SMEs more competitive, aiding their survival in the long term. Increased regulatory drive and clarity is also providing impetus for decarbonisation, but, for many SMEs, the initial upfront CAPEX requirements may be a barrier. As such, strong support to enable SMEs to raise the capital required for decarbonisation is a must and will aid SMEs around the UK to take advantage of the current opportunity.



By the Wye – a sustainable glamping paradise in the Welsh woods

Dawn and Steve Farnworth always dreamt of building a treehouse and living in the Welsh woodlands. That dream came true in 2020 when they started their small family glamping business, By the Wye.

Situated in the Welsh woodlands, near the market village Hay on Wye, (the largest second-hand book town in the world), they offer luxury, eco-friendly, off-grid accommodation in treetop safari tents on the banks of the Wye river. Their son Dan, an arborist, and his wife, Edith, also work and live there with their children.

They employ another four local people, and have sustainability at the heart of their ethos. “We focus on minimal impact. We want to share the love of all things green and leave no footprint,” says Dawn.

Everything used in building the site was from their own woodlands. They bring much-needed revenue to the local economy. “All meat, vegetables, milk, and eggs served to guests are sourced from local suppliers. It’s important, as a business, to share what we have with the community, so that everybody benefits.”


Last year, By the Wye won the Wales Start-up Award, of which NatWest is a sponsor.

“We just knew that our vision would work. A NatWest business manager came for a site visit, did a forecast, came back, and said yes. She’s been our

business manager ever since and is extremely supportive. Without her help it wouldn’t have happened,” says Dawn.

Edith, who does the marketing, joined the NatWest Accelerator Programme soon after the business opened. “Their training in marketing and other areas is invaluable. Monthly check-ins with my accountability coach help me set new targets and stay focused on what needs to be done.”

Despite a challenging time during COVID, customers are returning for more time in the woods – home to badgers, foxes, otters and birds.



“When children come, we give them leaflets on the wildlife, and bat detectors, so they can hear the bats at night. They come from concrete jungles into beautiful nature.”



Seizing the **£175 billion** revenue opportunity in decarbonisation

Beyond the potential savings that SMEs could unlock through decarbonisation, the UK's drive towards net zero has created a significant revenue opportunity for SMEs. Thanks to raised ambitions, this revenue opportunity has increased substantially since 2021, and now stands at £175 billion or more. Capturing this opportunity would require the creation of around 40,000 new SMEs across the UK, creating 260,000 new jobs, with each region of the country playing a different role. Further afield, SMEs also have an opportunity to unlock revenue in Europe, as well as globally, by providing low-carbon goods and services, helping the UK remain a pathfinder in the global drive towards decarbonisation.

The revenue opportunity in decarbonisation for SMEs has increased to £175 billion

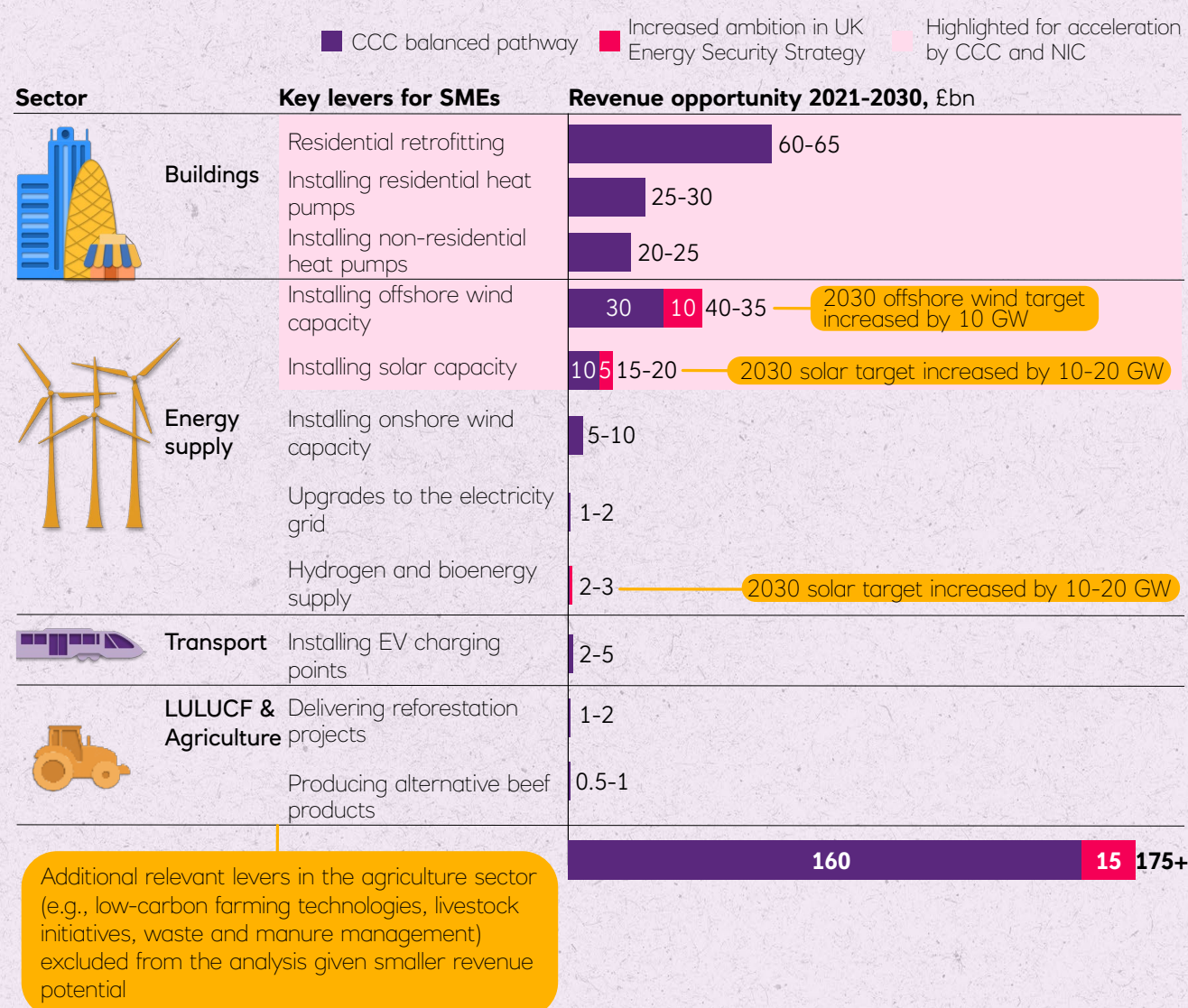
The UK government's decarbonisation ambitions have increased substantially since 2021. NatWest's 2021 report, *A springboard to sustainable recovery*, identified a revenue opportunity of at least £160 billion. Thanks to the raised decarbonisation ambitions, the revenue opportunity for SMEs has increased by £15 billion to £175 billion. The actions that will be required to get through the energy crisis could mean that a further £115 billion of this revenue opportunity is accelerated. Additional revenue opportunities could also be created over the next few years, and these could boost SMEs struggling in today's challenging business environment.

Playing a large role in the increased revenue opportunity is the fact that the UK has increased its targets for renewables deployment (Exhibit 3). The 2030 target for offshore wind has been increased from 40 GW to 50 GW, representing a total revenue opportunity of £40 billion. Ambitions for solar deployment have been increased from around 30 GW to between 40GW and 50GW in 2030, representing a total revenue opportunity of £15 billion, and the 2030 hydrogen capacity target has also been increased by 5 GW, with a total revenue opportunity of £2 billion. Key levers in these areas, for SMEs to take advantage of the increased targets, are installing offshore and onshore wind and solar capacity and supplying hydrogen and bioenergy.

In the buildings sector, key levers for SMEs are retrofitting residential housing and installing residential and non-residential heat pumps. Besides opportunities in solar, offshore wind, and hydrogen, SMEs could see opportunities in installing onshore wind capacity and upgrading the electricity grid. In transport, SMEs could look to installing EV charging points, while in land use, land-use change, and forestry (LULUCEF), SMEs could see opportunities in delivering reforestation projects and producing alternative beef products.

Exhibit 3

Raised government ambition increases the 2030 revenue opportunity for SMEs by around £15 billion to £175 billion+, with a further £115 billion that could be accelerated.



Source: Springboard to Sustainability 2021; UK Net Zero Strategy (2021); UK Energy Security Strategy (2022); CCC and NIC letter to Liz Truss (2022)

The areas of low-carbon heating, increasing building energy efficiency, onshore wind, and solar present opportunities for SMEs while potentially providing a viable route out of the energy crisis. As such, the Climate Change Committee (CCC) has recommended that these areas be accelerated:

- In low-carbon heat, SMEs can unlock a revenue opportunity of £25 billion to £30 billion through the installation of heat pumps in 290,000 buildings.
- In energy efficiency, SMEs could accelerate a revenue opportunity of between £60 billion and £65 billion in retrofitting residential buildings to increase their energy efficiency.

- Onshore wind and solar could present SMEs with the opportunity to accelerate a £20-£30 billion revenue opportunity in generation.

Capturing this £175 billion revenue opportunity in the UK will require the creation of 40,000 new SMEs, which in turn could create 260,000 new jobs.⁴¹

To capture the full £175 billion revenue opportunity in decarbonisation, around 40,000 new SME businesses will be required between now and 2030. SMEs will play a central role in decarbonisation. For example, SMEs are set to install 2.8 million residential heat pumps and retrofit 5 million homes with insulation by 2030 and install 29 GW renewable energy capacity every year to 2030. Assuming that no large-scale structural shifts take place in the sectors that will be responsible for delivering these technologies, the UK will require around

40,000 new SMEs, particularly in the buildings and renewable energy sectors. These new SMEs could provide 260,000 new jobs across the UK.

Many independent bodies have noted the role decarbonisation can play in stimulating economic growth. According to the CCC, achieving decarbonisation could lead to increased economic prosperity for the UK, with the potential for 2% GDP growth by 2030.⁴² Additionally, given that the UK currently imports a high proportion of its fuel, a transition to domestic renewables would minimise leakages in the UK economy, leading to an improvement in GDP and increased employment.⁴³ The Oxford Smith School has also shown that green-growth policies can be more economically advantageous than traditional packages, both in creating more new jobs and in generating long-run cost savings.⁴⁴

**Decarbonisation
can play a strong
role in stimulating
economic growth.**



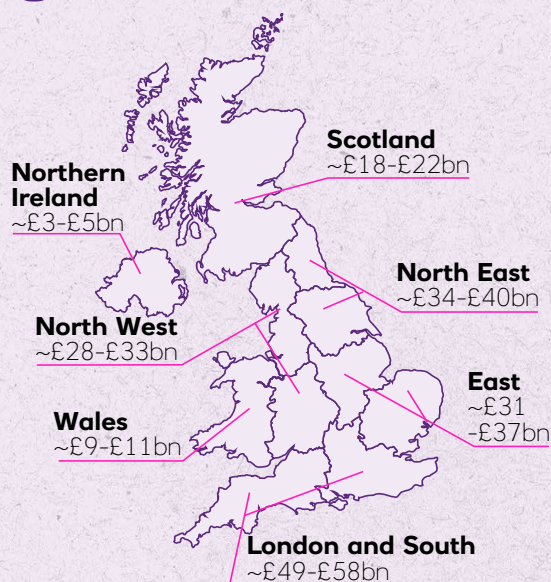
SMEs will play different roles in different regions

While SMEs across the country will play a role in decarbonisation, different regions will play different roles. For example, more than 50% of the revenue opportunities in the buildings sector lie in the South (including London) and the North West, which both include the major

population centres. In London alone, there is a £10 billion opportunity for SMEs in retrofitting buildings, which represents 12% of the total revenue opportunity in this area. Conversely, more than 50% of the opportunities for SMEs in renewables will be localised in the North East, the East, and in Scotland, because of the distribution of renewable resources, such as sites for offshore wind.

Exhibit 4

Across the UK there are multi-billion-pound revenue opportunities for SMEs that lean into the energy transition, but regions have different focusses.

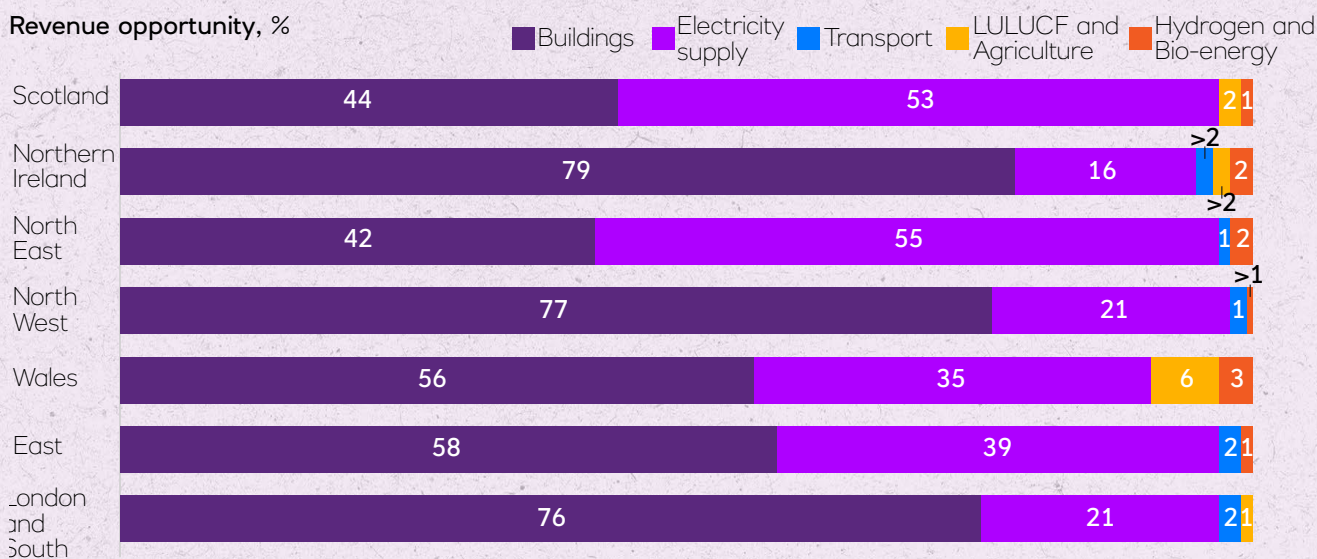


UK total revenue opportunity:
~£175bn+

50% of the electricity supply opportunity is in North East and East, given the distribution of renewable resources

55% of the overall buildings revenue opportunities is concentrated in London and the South and North West, where the population centres lie

~£10bn retrofitting opportunity for SMEs in London, which represents **~12%** of the total revenue opportunity



Source: Springboard to Sustainability 2021; UK Net Zero Strategy (2021); UK Energy Security Strategy (2022); CCC and NIC letter to Liz Truss (2022); McKinsey analysis

Revenue opportunities for SMEs in decarbonisation are not only a driver for growth, but could also contribute towards the development of historically underdeveloped regions. Currently, the North, Wales, and Scotland will need to see the largest growth in low-carbon businesses.

In the North and Wales, growth in low-carbon businesses will be driven by the scale-up of retrofitting firms. Today, there are 6,130 SMEs

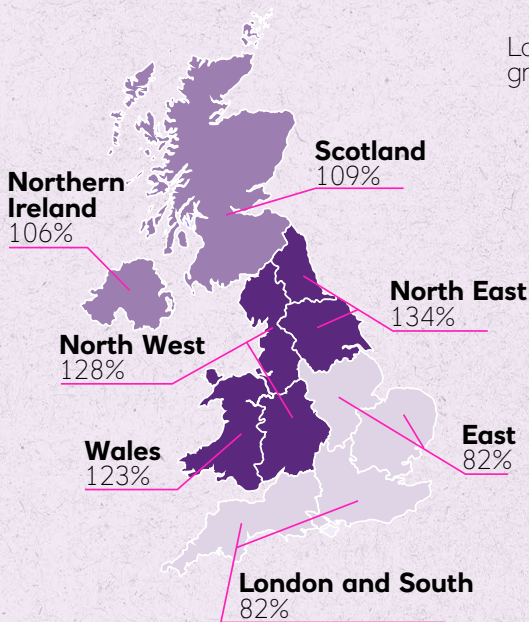
that deliver retrofitting in the North and Wales. This number will need to increase by 2.4 times to around 14,500.

In Scotland and the North East, growth in low-carbon businesses will be driven by the need for SMEs in the renewables sector. The number of SMEs working in renewables in Scotland and the North East will need to increase by 2.3 times, compared to the UK average of a 1.6-times increase.

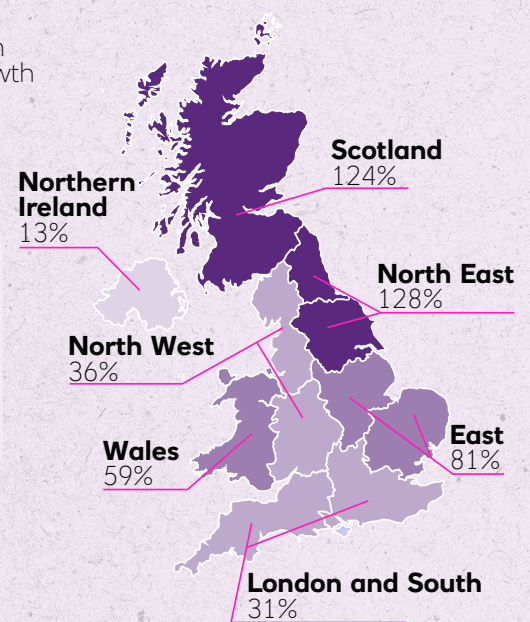
Exhibit 5

SMEs will need to grow by more than two times in the North, Wales, and Scotland, the fastest rates in the country.

Buildings, % growth in SMEs to 2030²



Electricity supply, % growth SMEs to 2030²



In order to unlock the total revenue opportunity, ~40k new SMEs would need to be created across the UK, or current SMEs would need to scale up creating ~260k new jobs by 2030¹

Retrofitting

We will need >2x the present day retrofitting SMEs in North West, North East, and Wales than we have today

Renewables

In Scotland and North East, the number of SMEs working in renewables will need to more than double

¹ The additional SMEs needed are not considered to be substituting current business activities, but to be entirely incremental and needed to unlock the full revenue potential for SMEs by 2030.

² Growth could either be through the creation of new SMEs or scaling up of existing SMEs.

Source: Springboard to Sustainability 2021; UK Net Zero Strategy (2021); UK Energy Security Strategy (2022); CCC and NIC letter to Elizabeth Truss (2022), McKinsey analysis

Opportunities in Europe and further afield

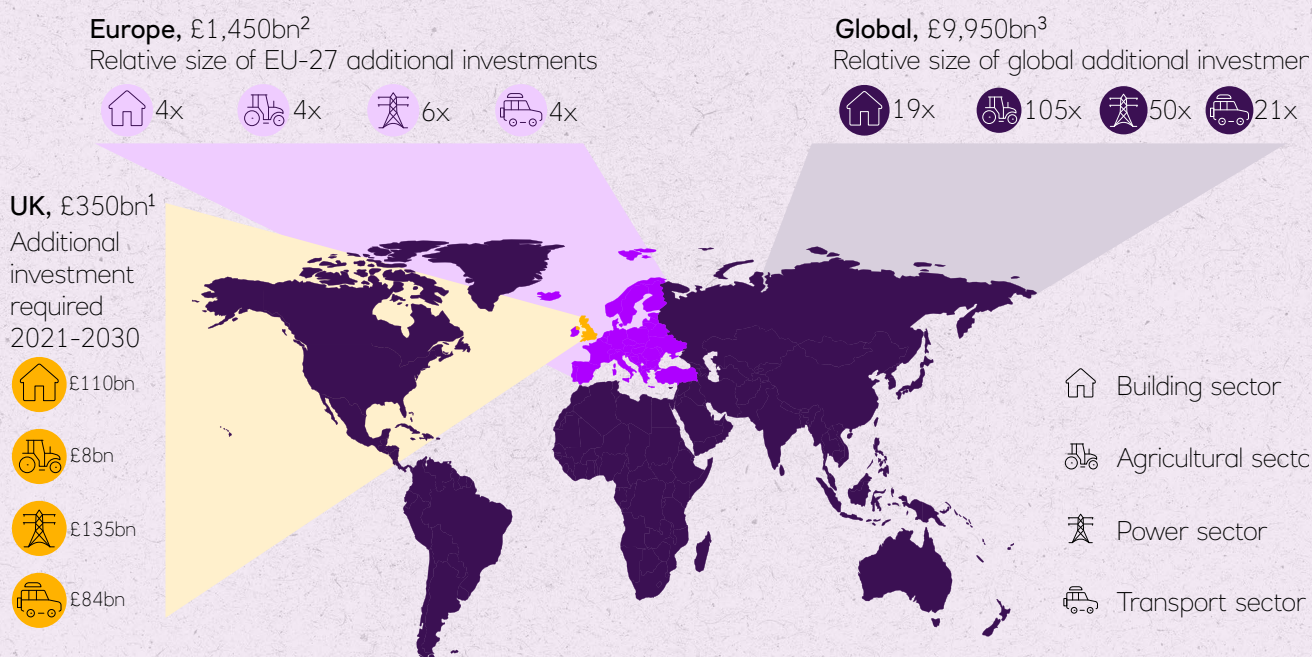
Beyond the UK, leading SMEs have revenue opportunities in Europe and the rest of the world through export. The UK is a pathfinder in global decarbonisation, but, while the UK is leading the way, Europe and the rest of the world require considerably larger investment into decarbonisation than the UK does alone. The investment opportunity in the EU is five times that of the UK, while the global investment opportunity is 28 times that of the UK. UK SMEs could take advantage of these large investment opportunities. The UK is already exporting low-carbon products and services to these markets, which brings in approximately £7 billion per year;⁴⁵ and this could grow substantially in the future.

UK SMEs in general have a strong history of exporting their products globally, selling around £200 billion worth of products and services abroad each year. Of the revenue that SMEs generate exporting products and services, up to 79% will be impacted by decarbonisation, meaning that UK SMEs could find low-carbon revenue opportunities abroad. The additional revenue that could be unlocked for SMEs through decarbonisation, both locally and abroad, is significant, and could create jobs, grow the UK economy, and contribute to the development of historically underdeveloped regions. As such, support for SMEs will be crucial in allowing them to unlock these revenue opportunities.

Exhibit 6

The investment requirement for EU and global decarbonisation is five times and 28 times the investment requirement for the UK.

2021–2030 additional zero-carbon investment requirements per sector and relative size of EU and global additional investment requirements compared to UK



¹ CCC (2021) Sixth Carbon Budget. ² McKinsey (2020) 'Net-zero' Europe. ³ NFGS 1.5-degree scenario relative to NGFS current policies scenario.

Nudie Snacks – reducing food miles for sustainable health

Sitting in her kitchen one night, entrepreneur Tracey Hogarth decided she was tired of artificially flavoured potato snacks and protein bars “tasting like cardboard”. She thought there had to be a way to sustainably create healthy, plant-based, gluten-free snacks.

So, she founded Nudie Snacks, which produces snacks made from vegetables, pulses, and other ingredients that are good for the body and the planet. “We save wonky vegetables from landfills to make our delicious products.”

These include roasted pulses, toasted coconut chips and, more recently, cauliflower crisps, using cauliflowers growing nearby. Based in Stewarton, Scotland, Nudie Snacks has five core employees and various external agents who help in the manufacturing processes on Scotland’s east coast.

“We reduce food miles in food production. We try to use raw

ingredients and products on our doorstep, rather than travelling thousands of miles to get them. We use waste vegetables that would otherwise have gone to landfill or animal feed,” says Tracey. “I believe in doing the right thing for the environment.”

She believes consumers have come out of COVID-19 much more aware of what’s going on, from a climate and health point of view. “They want to know where their food comes from, to support local suppliers, and to be part of the circular economy.”

Tracey is currently on NatWest’s Accelerator Growth Programme and interacts regularly with her business development manager,

who supports her in everything. “NatWest has many initiatives for smaller entrepreneurial business, to help them grow at scale. They offer seminars, events, and audiences with experts to support us. It can be lonely being a business owner. I value my personal, mentoring relationship with my accelerator manager. We talk everything through; sometimes just the chat is immensely valuable.

“NatWest advises me on funding strategies, how to grow the business, and how to network, and even gives me legal advice,” says Tracey.

“I’d like to build a recognisable brand and look back and say, ‘that was hard work but look what we did.’”





Actions needed, progress made

Support from financial institutions, the government, industry bodies, and large corporations is still needed to support SMEs in decarbonisation in six areas:

1

Funding access:

SMEs need financing options that acknowledge the societal benefit of delivering climate action. Examples include incentives and access to pricing premiums.

2

Awareness:

SMEs need clarity on how their specific business context can benefit from climate action, and they need to know how to go about implementing these on a practical level.

3

Knowledge:

SMEs need to know which measures might be most impactful in their business context, and how best to measure this impact.

4

Skills and capabilities:

SMEs need support to implement climate action in their organisations, for example, in re-training and upskilling employees and managing accreditation processes.

5

Market access:

SMEs need improved financial certainty about the benefits to their business from implementing climate action.

6

Navigation:

SMEs need assistance navigating the complex and changing climate action.

The financial sector has a clear role to play – it is increasingly finding ways to help money flow to SMEs that are decarbonising, for example, through preferential rates and treatment of green mortgages. SMEs particularly need to be supported to get the

upfront capital required to attain these savings and access these opportunities. Financial institutions can help de-risk SME investments and therefore provide these SMEs with better access to debt.

Last year, NatWest committed to a range of interventions that directly respond to the needs of SMEs, built around four pillars.



Ensuring SMEs have access to funding they need

Commitment

NatWest Group committed to providing £100 billion of funding by 2025 to support the investment that the UK needs, including business investment to make the transition to net zero. This £100 billion Climate and Sustainable Funding and Financing target marked a change in NatWest's support and demonstrated the Bank's ambition to support climate and sustainable assets, activities, and businesses to advance the net-zero economy.

The Bank announced the creation of climate financing options, including green loan and asset finance solutions to support SME customers in their transition journeys.

Progress

We have completed £26 billion of financing to date, against our target of £100 billion between 1 July 2021 and the end of 2025. Completing £6.2 billion of climate and sustainable funding and financing in Q3 2022.

In February 2022, NatWest Group launched Green Loans and Green Asset Finance, which are propositions for qualifying businesses of all sizes, with no arrangement fees, with the aim of helping them achieve their sustainability ambitions.

To ensure that as many SMEs as possible can realise the bottom-line benefits from their carbon-reduction efforts and innovation, the Bank has also reduced the minimum loan size for its Green Loans offering for SMEs from £50,000 to £25,000, ensuring that more businesses can access funding to help transition to more sustainable practices, which, in turn, reduces costs in the long term.

Commitment

We committed to launching a Climate and Sustainable Funding and Financing awareness building series including events and engagement, focusing on climate transition financing and alternative funding, such as grants and equity investment.

Progress

Three funding-stage-relevant events (start up, £500,000 to £3 million and £3 million+) will take place in November 2022, covering climate transition funding, grants, and crowd and equity funding. These events will give an overview of the current funding landscape and insights from investors and NatWest.



Helping SMEs know where they stand in relation to their business and climate footprint

Commitment

NatWest committed to supporting business banking customers to better understand their carbon footprint. This included a tracker designed specifically for SMEs, in partnership with CoGo, a company providing carbon-footprint management products that enable individuals and businesses to measure, reduce, and offset their impact on the climate.

Progress

In March 2022, NatWest Group launched the NatWest Carbon Tracker app pilot, which provides SMEs with an estimate of their carbon footprint. The platform was customer-led in design and developed with the support of more than 1,000 businesses. Using the results from the pilot, NatWest launched Carbon Planner in September 2022. The Carbon Planner takes a business through four practical steps to help them take action:

1. **Inform** – lets businesses know their current emission hotspots and suggests alternatives.
2. **Diagnose** – helps businesses understand what is best for their business.
3. **Plan** – supports businesses in developing a plan of actions.
4. **Deliver** – signposting potential options available to help them to take actions that can help their business and have the potential to reduce impact on the environment.

The platform is available to both customers and non-customers and helps UK businesses to manage their future fuel and operational costs and grow greener.

NatWest committed to helping customers develop sector-specific transition plans. Recognising the opportunities for Agriculture and Manufacturing

We have worked with the Sustainable Food Trust to build and pilot the Global Farm Metric, a tool to help farmers measure and plan actions to undertake more

Commitment

highlighted in last year's report, we committed to invest in technology and work with industry partners in these sectors. Initial partners include The Sustainable Food Trust, NFU Energy, High Value Manufacturing Catapults, and Ricardo Energy & Environment.

Progress

regenerative farming. This is not just about the climate, but also about reducing water stress, soil degradation, and energy consumption to increase sustainability. It includes 11 measures of sustainability to accurately capture the impact of actions on farms and enable farmers to benchmark the outcomes of those actions.

With High Value Manufacturing Catapults, and co-authored with Warwick Manufacturing Group, we launched an article outlining energy efficiency tips for manufacturing businesses to combat the cost of living crisis. The article can be found [here](#).

Within the Edinburgh Climate Change Institute (ECCI) Partnership – Climate Springboard programme, we are piloting workshops with Scottish SME customers to help them understand what they can do to transition toward net zero. With other banks, we have launched a carbon marketplace to connect buyers and sellers of high-quality carbon credits, allowing our customers to access transparent information about carbon credits through an open digital record of ownership, thereby providing a key enabler for carbon finance.



Supporting SMEs to identify the biggest opportunities for their business

Commitment

Across the UK, NatWest committed to launching six specialist Accelerators, connecting with regional centres of excellence, to include Clean Transport, the Circular Economy, and Transition to Net Zero.

Progress

The Clean Transport Accelerator was launched in May 2022 and delivered in partnership with Warwick Manufacturing Group. Businesses on this programme continue to be provided with specialist support and the Accelerator will expand and run again in March 2023. A Circular Economy Accelerator informed and supported businesses to understand the circular business model and implications for every aspect of their business. A quarter of spaces on the Accelerator are reserved for climate-related businesses.

With Transport representing 27% of Greenhouse Gas emissions in the UK, NatWest committed to supporting customers in their EV transition journeys, including

NatWest have launched a Future Mobility module within the educational platform, Business Builder, and launched the Clean Transport Accelerator. A proof of

Commitment

seizing the opportunity of electrification. Initiatives would include:

- Developing an education and awareness toolkit on the opportunities that 'Future Mobility' can present to SMEs.
- Collaborating with partners to deliver a Clean Transport Accelerator, specifically aimed at developing innovative solutions.
- Launching an EV diagnostic tool to help customers understand when, and how, to transition
- Financing through a bespoke EV-transition Lombard Asset Finance solution.
- Extending the Octopus Partnership to support customers with their charging infrastructure requirements of transitioning to EVs.

Progress

concept will launch in the fourth quarter of 2022 to test customers' interest in an EV diagnostics platform that supports how and when customers should transition to EVs. We have already completed work with Octopus to support consumer industries and their requirements to provide charging infrastructure for their customer base.



Helping SMEs navigate the climate action landscape and connecting businesses to resources and insights relevant to their situation

Commitment

NatWest committed to support SMEs to develop new skills and capabilities to deliver a business transition and for all the Bank's commercial banking relationship managers to undertake climate-change awareness training in partnership with University of Cambridge and University of Edinburgh.

In addition to helping SMEs build their climate action knowledge, the Bank committed to:

- Ensuring that 25% of the Bank's Accelerator spaces are ringfenced exclusively for climate businesses.
- Launching a bespoke mentoring platform with a focus on connecting businesses to climate expertise from within the NatWest network.

Progress

Climate-change awareness training, delivered by University of Edinburgh, was mandated across Commercial Banking (including all Commercial Banking Relationship Managers).

We launched Access to Business Experts in September 2022. This enabled businesses to identify the most appropriate support for them, from a range of 1:1 mentoring, peer-to-peer coaching (including transition to sustainable business models), and a business review with a Local Enterprise Manager. In addition, 25% of spaces on the Accelerator are reserved for climate-related businesses.

End Notes

Alison Rose - Foreward

1. Q3 2022 NatWest Group Results.

Executive summary

2. Net Zero Strategy: Build Back Greener (2021).
3. British Energy Security Strategy (2022).
4. CCC and NIC write to Prime Minister, Rt Hon Elizabeth Truss MP (2022).
5. Climate Change Committee Progress Report (2020).
6. Climate Action Tracker Global Profile (2022).
7. Total capital investment between 2021 and 2030 in CCC Balanced Pathway (2020) compared to total capital investment in McKinsey Net-Zero Europe report (2021) and McKinsey Net Zero report (2022).
8. SME Export Finance Survey 2022.
9. Global Landscape of Climate Finance 2021.
10. Financial Times (2022) UK looks to break link between soaring gas and power prices.
11. UNFCCC (2022) – UK NDC 2021 targeting a 68% reduction in emissions by 2030 relative to 1990.
12. Analysis based on CCC Sixth Carbon Budget and UK historic emissions reduction.

The context: a stronger business case for decarbonisation

13. CCC Progress Report (2022).
14. House of Commons Library: Global net zero commitments (2021).
15. UNFCCC (2022) – UK NDC 2021 targeting a 68% reduction in emissions by 2030 relative to 1990.
16. HM Treasury: UK will be the world's first net zero financial centre (2021).
17. UK Net Zero Strategy: Build Back Greener (2021).
18. UK Energy Security Strategy (2022).
19. United Nations Climate Action (2022).
20. RePowerEU (2022).
21. Science Based Targets initiative annual progress report (2021).
22. BEIS (2021): Third of UK's biggest companies commit to net zero.
23. BusinessClimateHub.org.
24. SME Survey by NerdWallet.
25. FitchRatings (2022): Ukraine war intensified low-carbon supply chain disruptions.
26. NatWest Group press release (2022, July 18): £1.25bn of support for farmers facing inflation challenges.
27. Bank of England August 2022 Monetary Policy Report.
28. SME survey by NerdWallet.
29. Savanta UK Business tracker
30. H1 2022 NatWest Group Results.
31. NatWest Group press release (2022, Nov 4): £1.35 billion lent to businesses for EV investment.
32. Bloomberg (2022): UK's Biggest-Ever Renewables Auction Is Also the Cheapest.
33. IEA World Energy Outlook 2020.
34. EMBER (2022): EU's record solar summer helps avoid €29bn in gas imports.

The time is now for SMEs to decarbonise their own businesses

35. The analysis is based on the top four business cases (solar, insulation, EVs, and heat pumps), which represent around 75% of total investments for SMEs between 2021 and 2030. The four analyses are independent from each other, so the business cases are not necessarily additive in terms of potential savings generated.
36. Considering a small to medium business (for example, a restaurant employing 60 FTEs consuming on average 30,000 kWh/year in electricity and gas and purchasing an electric van for its deliveries).
37. Cross-cutting main assumptions: assuming price of electricity and gas respectively 0.32£/kWh (average Apr-Oct 2022) vs 0.21£/kWh (average Oct-Mar 2021) and 0.08 £/kWh vs 0.04 £/kWh (Nimblefins); price of electricity sold to the grid 0.055£/kWh, in line with main utilities offerings; considering a building consuming ~30,000 kWh of both gas and electricity per year (small to medium business average consumption in the UK) and hence of a size of ~300m²; roof area assumed half of the size of the floor plan; assuming kilometrage of 11,000km/year for a car and 30,000km/year for an LCV and a lifetime of 14 years for both; fuel prices – petrol and diesel – extrapolated from UK government data (1.27£/l and 1.31£/l Jan-Sep 2021 and 1.66£/l and 1.76£/l Jan-Sep 2022 respectively); based on other assumptions, considering initial CAPEX for cars, boilers, and heat pumps in line with market prices and initial CAPEX for solar panels in line with government data on 10–50 kW installations.
38. Considering CCC data on non-residential buildings' gas consumption for heating, and assuming that ~70% of this demand comes from SMEs (Non-Domestic National Energy-Efficiency Framework 2020), we then apply a 14% energy saving, which is the mean energy saving from insulating a building based on BEIS data. Cost saving is calculated for gas prices as of October 2022.
39. Considering CCC data on non-residential buildings' electricity consumption. 15% of all SMEs assumed to be able to deploy rooftop solar (European Commission 2019). SMEs assumed to utilise 50% of this electricity and sell 50% to the grid.
40. CCC Progress Report (2022).

Seizing the £175 billion revenue opportunity in decarbonisation

41. In order to calculate the total number of SMEs needed by 2030 to unlock the total revenue opportunity in the UK, the revenue opportunity per lever has been multiplied by the business intensity (businesses/£million revenue) of the SMEs working in the specific subsector of interest.
42. CCC Economic impact of the sixth carbon budget (2020).
43. CCC Economic impact of the sixth carbon budget (2020).
44. Smith School: A net-zero emissions economic recovery from COVID-19 report (2020).
45. UK Green Growth Report (2021).

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The key findings, estimates and projections in this Report are based on various industry and other information and are based on assumptions and estimates and the result of market research, and are not statements of historical fact.

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Caution about and climate-related data and climate-related communication. There are significant challenges in relation to climate-related data due to quality and other limitations, in particular lack of accurate, complete, consistent, comparable and verifiable data. These, and other factors, contribute to the significant uncertainties inherent in accurately modelling, estimating and disclosing the impact of climate-related risks and opportunities. In addition, the maturity of underlying data, systems and controls that support climate-related reporting is generally considerably less sophisticated than the systems and internal controls for financial reporting and it also includes manual processes. In addition to the data challenges, climate-related reporting in our industry is not yet subject to the same globally recognised or accepted reporting or accounting principles and rules as traditional financial reporting. Accordingly, there is a lack of commonly accepted reporting practices for NatWest Group to follow or align to and climate-related measures between organisations in our industry may be non-comparable. Preparation of some of the climate-related reporting requires the application of a number of key judgements, assumptions and estimates. These judgements, assumptions and estimates are subject to change, and, when coupled with the longer time frames used, make any assessment of materiality inherently uncertain. In addition, our climate risk capabilities and net zero transition strategy and plan remain under development, and the data underlying these will evolve over time. As a result, we expect that certain information, statements and opinions contained in this document may subsequently prove to be incorrect and are likely to be amended, updated or restated in the future.

Cautionary note about forward-looking statements in this Report. This Report and the key findings, estimates and projections referred to in this Report (including but not limited to for instance projections about estimated UK SMEs revenue opportunity in decarbonisation, the estimated number of new SMEs which will need to be created, UK's carbon reduction delivered by SMEs, the estimated number of jobs created and SMEs by the transition to net zero, the value of the potential opportunities for the SMEs) are forward-looking statements. Words or phrases such as 'estimate', 'believe', 'commits', 'continue', 'could', 'expect', 'forecast', 'goal', 'guidance', 'intend', 'may', 'objective', 'plan', 'potential', 'predict', 'projection', 'seek', 'should', 'target', 'will', 'will provide', 'would' or similar expressions that convey the prospective nature of events or outcomes generally indicate other forward-looking statements. These forward-looking statements are based on current plans, expectations, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to NatWest Group's strategy or operations, which may result in NatWest Group being unable to achieve the current plans, expectations, estimates, targets, projections and other anticipated outcomes expressed or implied by such forward-looking statements. By their nature, certain of these disclosures are only estimates and, as a result, actual future results could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements. The forward-looking statements contained in this Report speak only as of the date we make them. Except to the extent legally required, we expressly disclaim any obligation or undertaking to update or revise any forward-looking statements in this Report, whether to reflect any change in our expectations regarding those forward-looking statements, any change in events, conditions or circumstances on which any such statement is based, or otherwise.

This cautionary note and forward-looking statement should not be regarded as complete and comprehensive and should be read together with: (i) the 'Risk Factors' included in the NatWest Group plc 2021 Annual Report and Accounts (with special regard to the risk factors in relation to 'Climate and sustainability related risks' that describes several particular uncertainties, climate and sustainability related risks to which NatWest Group is exposed) and included in the NatWest Group's H1 2022 Interim Results; (ii) the 'Cautionary statement regarding forward-looking statements' in the NatWest Group plc 2021 Annual Report and Accounts and in the NatWest Group's H1 2022 Interim Results; and (iii) Section 5.7 ('Cautionary note about climate-related data and methodology challenges') and the 'Climate-related and other forward-looking statements and metrics' of the NatWest Group's Climate-related disclosure report 2021.



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