



Five Ways You Can Help Power SMBs' Green Transition

small business lending business customers ESG

Summary: With many small businesses looking to improve their ESG credentials, CFIs have an opportunity to position themselves as a trusted sustainability partner by offering financing, tools and expertise. At the same time, they can boost their ability to attract and retain small business customers. We detail five ways CFIs can accomplish both goals.

The Amazon rainforest produces about 20% of the world's oxygen and absorbs between 90B and 140B metric tons of carbon. To counter the continued risk of deforestation of its 16K different species of trees, the Amazon Fund was set up in 2008. Perhaps surprisingly, with a donation of \$1.2B, the biggest contributor to the fund is Norway — a country 6K miles away from Brazil. Of course, not all sustainability efforts are on such a large scale, but they are just as critical.

There are 33.2MM small businesses in the US, accounting for 99% of all firms and 43.5% of GDP. Among other issues they must contend with, small and midsize businesses (SMBs) are increasingly seeing the need to adopt environmentally sound practices. Tax incentives, rising operational costs, and customer and employee preferences are all putting pressure on them to go green. However, a survey by SME Climate Hub found that “two-thirds of small business owners are worried they don't have the right skills and knowledge to tackle the climate crisis.”

Funding for green projects is another key stumbling block, part of a larger issue of declining perceived access to capital for SMBs. The Small Business Index shows that just under half of SMBs believe they have good access to capital now — compared to two-thirds in 2017. Community financial institutions (CFIs) can help plug this gap, placing them in a strong position to attract and retain business customers, as well as support climate goals and improve their own ESG credentials.

Here are **five examples of what CFIs could do to support SMBs with their green goals:**

- 1. Financing for eco-friendly upgrades.** This includes financing for the installation of renewable energy sources and energy-efficient construction or renovation. It can also include purchasing greener equipment and business supplies. Projects of this nature can be a challenge, due to installation costs, which are traditionally hard to fund. For example, many SMBs have missed out on potential solar panel savings due to limited financing options. CFIs now have an opportunity to build a compelling offer by partnering with solar loan providers and installation specialists.
- 2. Financing for a sustainable supply chain.** CFIs can play an important role in supporting SMBs' transition to a more sustainable supply chain by financing greener procurement, transportation, and packaging initiatives. There is also a financial business case to this transition, according to an EY survey of leaders in supply chain sustainability. It found that 70% of companies who have implemented sustainable practices in their supply chain have either already experienced enhanced efficiency and productivity or expect to in the next three years.
- 3. Carbon-neutral business accounts.** These accounts tend to provide detailed information about the business' carbon footprint and offer tailored content on sustainable choices. This empowers account holders

to make informed decisions about their spending and invest in carbon-offsetting programs, as well as ESG products. Incorporating incentive schemes can further encourage SMBs to buy in an eco-conscious manner.

4. **Green credit cards.** To qualify as an authentic green product, these cards must do one of the following:
 - Be issued by a financial institution that funds green energy and sustainable investments.
 - Offset carbon emissions associated with the business' purchases (for example, Aspiration Zero plants a tree for every purchase over \$1.50).
 - Promote more sustainable spending, like giving cashback or rewards for green purchases (FutureCard for example).

5. **Information, advice, and connections.** As SMBs' trusted partner, CFIs can position themselves as a hub for sustainable practices. They can provide much-needed subject matter expertise and services — perhaps through strategic partnerships — such as energy audits, waste reduction strategies, and guidance on obtaining eco certification. By forming partnerships with specialist providers, CFIs can enable SMBs to select and implement sustainability projects from start to finish with minimal resources.

It is important to recognize that SMBs differ in their paths to sustainability depending on their size, sector, and other characteristics, so a tailored approach is essential. CFIs can help new and existing SMB customers by raising awareness and providing tools and financing to best support them in their journey to net zero. Doing so will help CFIs capitalize on a growing market while strengthening their own ESG credentials.

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ECONOMY & RATES

Rates As Of: 08/15/2023 05:38AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.56	0.01	1.14
6M	5.56	0.03	0.80
1Y	5.39	0.03	0.68
2Y	4.99	0.11	0.56
5Y	4.42	0.24	0.42
10Y	4.25	0.29	0.37
30Y	4.33	0.32	0.36
FF Market	FF Disc		IORB
5.33	5.50		5.40
SOFR	Prime		OBFR
5.30	8.50		5.31

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