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Mobilising SMEs in the face of the Climate and Energy Crisis

Analysis and Best Practices in Spain

CLIMATE STRATEGY & PARTNERS

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About Climate Strategy & Partners

Climate Strategy & Partners ("Climate Strategy") is a leading consultancy advising on climate finance, innovation, energy efficiency investments, business strategies and government policies required for the transition to a net zero emissions economy. For 13 years, the Climate Strategy team has been advising companies, banks and governments around the world on how to accelerate the economic transition to a low-carbon economy. Climate Strategy's CEO, Peter Sweatman, has authored or co-authored 19 technical reports and is a rapporteur for the European Commission's and the United Nations Environment Finance Programme's (UNEP FI) Energy Efficiency Financial Institutions Group (EEFIG). Climate Strategy has supported the development of energy transition policies in the G20 and has worked with the governments of Mexico, France, UK and Spain and continues to implement business solutions to reduce carbon emissions for global leaders in the business sector. Six years ago, Climate Strategy launched a subsidiary called Energy Efficiency Capital Advisors which has structured and executed ten energy efficiency projects for international investors worth over €60 million saving energy in cities, businesses and buildings in Spain.

About this report

This report has been developed by Peter Sweatman, CEO of Climate Strategy, and Adriana Rodríguez, as principal researcher and coordinator, with the assistance of Alejandro Bravo and Mauricio Yrivarren, in research and graphic design. All information contained in this report has been obtained by Climate Strategy & Partners from public sources, or directly from the companies cited, which it believes to be accurate and reliable. However, due to the possibility of human or mechanical error, as well as other factors, all information contained in this document is provided "AS IS", without warranty of any kind. This report has been prepared with input from reports published by numerous experts and organisations and has been reviewed by the following experts: **David López (Senior Associate, European Climate Foundation, Spain), Carmen Navarro (Manager, Spanish Group for Green Growth and coordinator of SME Climate Hub in Spain), Lara Lázaro (Senior Researcher, Elcano Royal Institute), Isabell Büschel (Director, T&E Spain), Óscar Pulido (Fleet Electrification Officer, T&E Spain), David Howell (Head of Climate and Energy, Environmental Governance Area at SEO/BirdLife), and Pablo Barrenechea (Director of Climate Action, ECODES).**

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Executive Summary

Executive summary

SMEs contribute to 61.5% of Spain's gross value added,[1] generate 64.5% of employment[2] and account for 99.8% of the business fabric (a total of 2,926,484 companies).[3] It is also estimated that 50% of Spain's GHG emissions come from the activities of these companies.[4] Mobilising and supporting their decarbonisation is therefore a fundamental requirement for achieving the country's net zero emissions target, while ensuring a fair and stable transition of the economy and employment.

However, most climate and sustainability policy initiatives have focused on the green transition of large companies, leaving a knowledge and action gap in assisting SMEs during their decarbonisation efforts. This support is essential as they face a lack of resources to start and deepen their energy transition. Additionally, SMEs in Spain are struggling to survive a complex economic situation after the Covid-19 standstill and the energy price shock aggravated by the Russian invasion of Ukraine. Increasing legislative pressure introduces new obligations for greater transparency and climate action that require more ambition and an active stance from SMEs.

In response to the need to better understand how to mobilise and execute the decarbonisation of Spanish SMEs, this report examines their current climate action situation, analyses the challenges and benefits of this transition in a context of energy crisis and identifies best practices for adopting and implementing climate action plans in smaller companies. To this end, empirical research was carried out through a consultation process with more than 300 SMEs in various regions of Spain. Following the mapping and outreach to **90 national and local SME platforms**, **more than 30 meetings and interviews and 9 workshops with SMEs** were organised and a **questionnaire** was launched **which achieved 309 responses** with a reliability rate of 90%. Research on scientific, international and national recommendations for effective SME climate action was also carried out to frame the SME consultation process and to test the results against science-aligned climate best practice.

The results of this research suggest that **the majority (60%) of Spanish SMEs perceive the risks of climate change** and rising energy bills due to dependence on fossil fuels. Among them, **leading SMEs understand that transitioning their business model towards a greener one contributes to mitigating and even solving the economic difficulties they face**. Moreover, they have shown significant ambition to adopt climate action plans that help them maximise the opportunities of decarbonisation: cost reductions, productivity and competitiveness gains and new business opportunities are the main consequences of ambitious climate action for companies.

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[1] Eurostat. (2020). *Small and medium-sized enterprises: an overview.* [Website]. Available at https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20200514-1

[2] MINCOTUR. (2022). *SME Figures August 2022.* Available at http://www.ipyme.org/es-ES/ApWeb/EstadisticasPYME/Documents/CifrasPYME-agosto2022.pdf

[3] Ibid.

[4] Emissions from the diffuse sector account for 61% of total emissions in Spain, of which more than half are estimated to come from SMEs given the characteristics of the companies belonging to this sector. As for emissions from the emissions market, i.e. 39% of the country's total emissions, it is estimated that 75% come from the 30 most polluting companies in Spain and, therefore, we assume that SMEs contribute significantly to the remaining 25%. The final estimate is that SMEs contribute approximately 50% of Spain's total emissions. Data extracted from: Sustainability Observatory (2021). *Report of the Sustainability Observatory: Decarbonisation 2020 in Europe, Spain and Autonomous Communities.* [Website]. Available at https://www.observatoriosostenibilidad.com/documents/NdP%20Resultados%20informe%20DESCARBONIZACION%202021.pdf ; InfoLibre. (2017). *These are the 20 companies that generate 80% of CO2 in Spain.* [Website]. Available at https://www.infolibre.es/politica/son-20-empresas-generan-80-co2-espana_1_1135728.html ; ISM Community. (2017). *Spanish SMEs waste a quarter of the energy they consume.* [Website]. Available at https://www.comunidadism.es/actualidad/las-pymes-espanolas-malgastan-una-cuarta-parte-de-la-energia-que-consumen/

However, SMEs' climate strategies lack structure and have significant gaps. **Their green transition has begun, in large part, because of the pressure from some stakeholders demanding greater ambition.** While these pressures have served to mobilise SMEs' climate awareness organically, their response has generally been selective, and ad-hoc, towards a few sustainable practices and, in most cases, without including a comprehensive plan to reduce emissions across their activities and value chain. **This partial and reactive approach is not sufficient to accelerate the 50% emissions reduction by 2030 and achieve climate neutrality of the Spanish economy by 2050.**

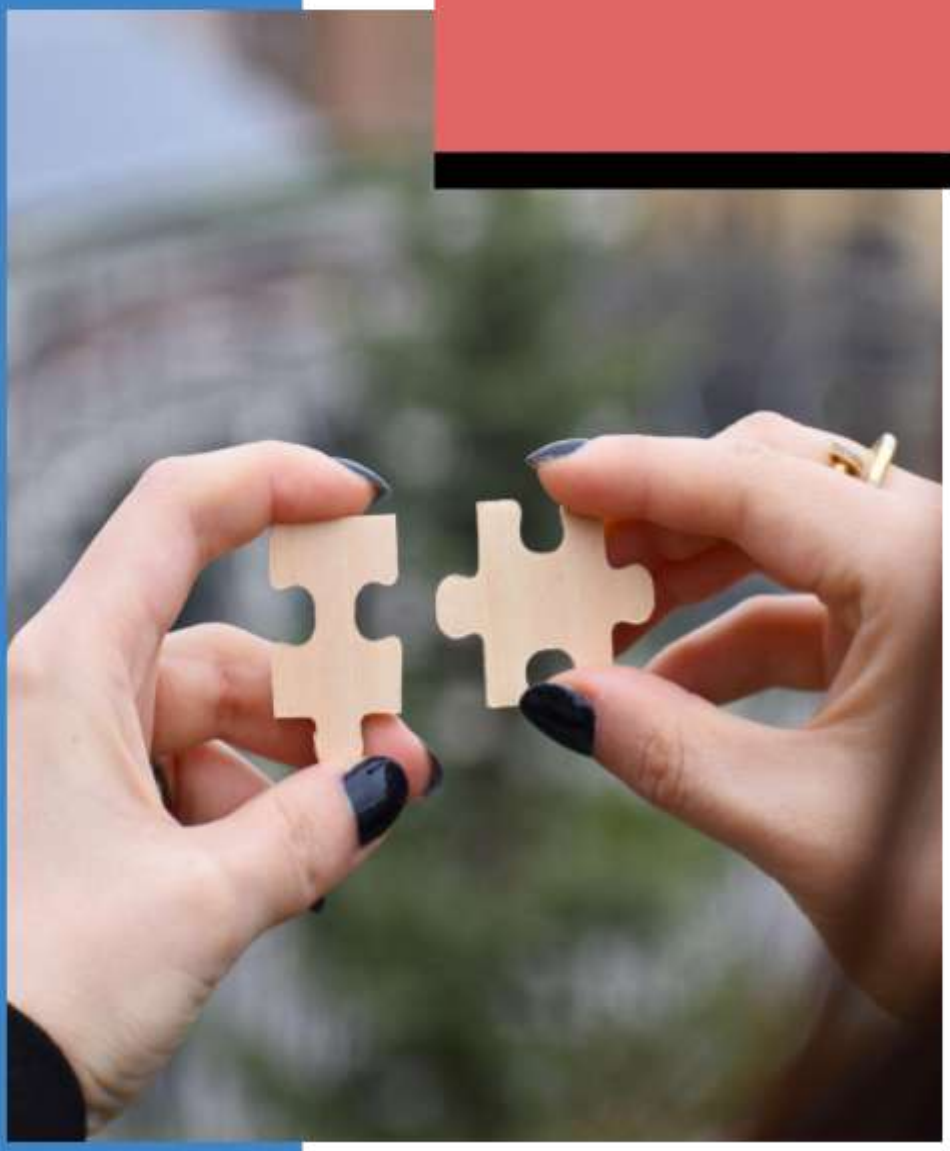
SMEs do not have a clear vision of how to carry out their decarbonisation pathway in line with scientific recommendations. For instance, a large share **(58%) have not yet calculated their carbon footprint**. The barriers they face, particularly **lack of finance and knowledge, prevent them from putting forward robust climate related actions**. Achieving a structural and active approach to climate action is now more necessary than ever to ensure their economic and environmental resilience. **This can be achieved through the development of a coherent climate action plan with best practices** that deliver effective, full scope (1, 2 and 3) emission reductions in SMEs.

Based on the experiences gathered from Spanish SMEs leading decarbonisation efforts and international and national recommendations, **the third section of this report contains a guide with best climate practices** divided into three key pillars to achieve a structural approach: Targets, Action and Governance. In addition, **there is an important opportunity to provide SMEs with more consistent resources for the development and implementation of climate action plans**. The *SME Climate Hub* is a new tool to facilitate this process.

The last section of this report offers a series of recommendations that aim to meet the needs highlighted by Spanish SMEs that want to deepen their decarbonisation:

- **Offer support** with a more structural approach for SMEs in key sectors.
- **Incentivise SMEs** to develop a decarbonisation framework with key performance indicators.
- **Promote** the provision of carbon footprint accounting services.
- **Create sustainability networks on best climate practices** segmented and focused on providing regional and sectoral mutual support.
- **Develop best practice guidelines on residual emissions offsets** in line with scientific recommendations.
- **Focus more collaboration and research initiatives** on deepening the understanding of climate adaptation in SMEs.
- **Public funds** should be directed to SME sectors with a significant contribution to climate change.
- **A green tax reform** that encourages environmentally friendly practices among SMEs.
- **Establish more national frameworks to give recognition and visibility** to SME leaders in climate action and innovation.

Approach: Gaps in Best Climate Action Practices for SMEs



Approach: Gaps in Best Climate Action Practices for SMEs

Most climate and sustainability policy initiatives have focused on the energy transition of large companies. A study by the European Union's Joint Research Centre (JRC) finds a knowledge and action gap in assisting SMEs during their decarbonisation efforts and in supporting them to overcome the resource barriers they face.[5] The JRC identifies the SME Climate Hub[6] as one of the few international initiatives seeking to mobilise SME climate ambition, but at the date of publication of this report only 68 Spanish SMEs are members. There is also **a need to strengthen SME training on best climate action practices and to promote more research on how to adapt these practices in small businesses in order to mobilise their decarbonisation efforts**.[7]

This same knowledge and action gap was identified in a Climate Strategy project carried out in 2021 with member companies of the Spanish Green Growth Group (GECV).[8] Its aim was to identify best practices for developing climate action plans in companies and translate them into a guide entitled **"Twelve Keys for Companies towards Decarbonisation: A Best Practice Guide for Converting Net Zero Emissions Targets into Climate Action Plans".[9]** Launched at COP26 in Glasgow, the guide was endorsed by 37 GECV members (11 of them SMEs) with over $330 billion in aggregate revenues covering 300 million tonnes of direct and indirect GHG emissions.[10]

Climate Strategy's CEO with leaders at the launch of the Best Practice Guide for Turning Net Zero Emissions Targets into Climate Action Plans[11]

To identify best practices aligned with science, more than 30 international initiatives of a diverse nature were investigated (see Table 1): regulatory schemes, UN partnerships, investor groups

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[5] Mac Nulty. H, Thollander. P, Bertoldi. P, & Vetters, N. (2021). *Company-focused initiatives mapping analysis and recommendations for an EU Corporate Covenant*. JRC Science for Policy Report. Available at http://www.atok.cz/folders/aktdok/prilohy/Invitation-to-provide-feedback-on-the-forthcoming-EU-Corporate-Covenant-Initiative/EU-Corporate-Covenant-Study-2021---Full-report--13-09-21.pdf

[6] The SME Climate Hub is an international initiative that aims to empower SMEs to take climate action and build resilient businesses for the future. It is led by We Mean Business Coalition, Exponential Roadmap Initiative and the United Nations Race to Zero in collaboration with Normative and Oxford University's Net Zero team. SME Climate Hub (2022). *Website*. Available at https://smeclimatehub.org/

[7] Quintás. M, Martínez-Senra. A and Sartal, A. (2018). *The Role of SMEs' Green Business Models in the Transition to a Low-Carbon Economy: Differences in Their Design and Degree of Adoption Stemming from Business Size.* Sustainability N°10. Available at https://www.mdpi.com/2071-1050/10/6/2109

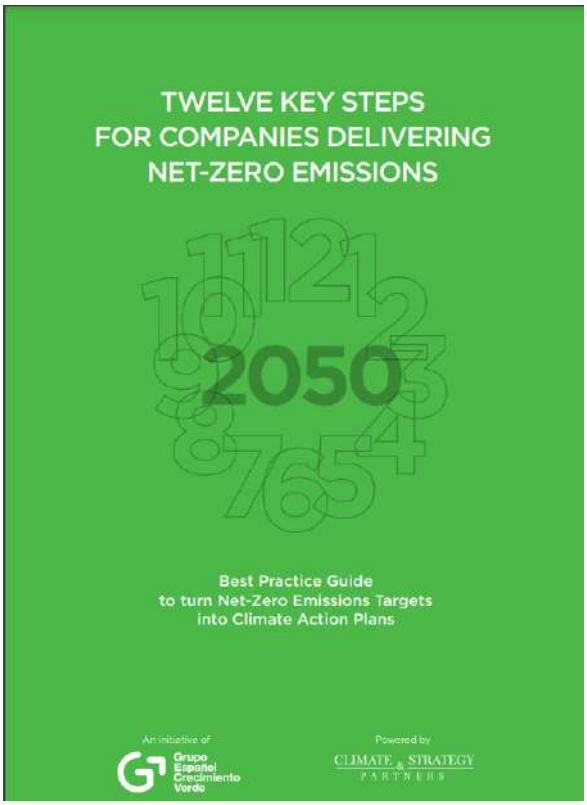
[8] GECV (2022). *Website*. Available at https://grupocrecimientoverde.org/

[9] Climate Strategy & Partners, & GECV (2021). *Best Practice Guide to turn Net-Zero Emissions Targets into Climate Action Plans* . Available at https://grupocrecimientoverde.org/wp-content/uploads/2021/11/Guide_12_KEY_STEPS_FOR_COMPANIES_DELIVERING_NETZERO_EMISSIONS_GECV.pdf?utm_source=web&utm_medium=boton

[10] Ibid.

[11] Image courtesy of GECV

and civil society initiatives. After a process of cross-checking with GECV companies, these practices were included in a guide divided into three pillars (Targets, Actions and Governance) and twelve key steps for a coherent, science-based climate action plan:



1. Targets towards net zero emissions by 2050, based on science and aligned with the 1.5°C target
2. Sectoral roadmaps with concrete emission reduction actions in the short, medium and long term
3. Financial projections aligned with the Paris Agreement and the European Taxonomy
4. For financial institutions: Sectoral decarbonisation targets supported by science-based financing policies
5. Climate risk assessment and investment allocation aligned with decarbonisation
6. Transparent disclosure of significant climate information
7. Climate scenario-based performance assessments of the action plan
8. Targets and actions for climate adaptation
9. Transparent public relations aligned with the net zero emissions target
10. Impact Analysis for a Just Transition
11. Board oversight and remuneration linked to reduction targets
12. Presentation of the plan to the shareholders and voting at the shareholders' meetings

Examples of the guide and its very detailed work.

Table 1: Mapping of global initiatives focused on business climate action

Source: Own creation by Vivid Economics and Climate Strategy & Partners (2021).

Although most of the companies participating in the GECV project are large companies, 11 of them are SMEs. During the consultation process with these SMEs, the **difficulties that smaller companies face when trying to implement the identified climate actions were highlighted,** as they are mainly designed for larger companies with more resources. This dialogue showed that **although Spanish SMEs have ambitious climate aspirations and want to join the climate transition towards net zero emissions, most of them lack the finance, knowledge, time and skills to do so**.[12]

[12] To recognise this challenge, a disclaimer was included at the end of the guidance which makes a reference directed at SME adherents, who "*may act according to their resources and the materiality in the context of their business.*" Ibid.

Methodology

Methodology

In 2022, Climate Strategy contacted **more than 450 Spanish companies (over 300 of them SMEs) via some 90 national and local SME platforms,** and directly, to study their positioning on climate action and raise awareness of best practices to decarbonise their activities. Specifically, we focused on:

1. Understanding the particular circumstances of Spanish SMEs and their current situation with regard to climate action.
2. Exploring the risks and challenges of the climate transition faced by SMEs in the context of the energy crisis and the benefits and opportunities available to them to overcome them.
3. Supporting and accelerating the decarbonisation of SMEs by simplifying and adapting international and national best practices that facilitate the adoption and implementation of climate action plans towards net zero emissions by 2050.

In order to provide answers to these questions with both a theoretical and practical analysis, Climate Strategy firstly focused on reviewing more than 50 publications, listed in the bibliography section, on scientific and international recommendations for effective climate action in SMEs. An analysis of climate strategies in Spain at national and regional level was also carried out, including research on aspects such as available climate finance for SMEs and adapted tools and guidelines to assist their decarbonisation. The best practices identified have been contrasted with the guide developed together with the GECV companies. Its recommendations, based on the different experiences of Spanish companies, served as a guide to conduct the analysis of data found in this report.

In terms of empirical research, a 6-month consultation process was opened with SMEs from different regions and sectors in Spain to further deepen the on-the-ground progress of their ecological transition. Access to SMEs during this consultation was facilitated through the main national and regional business platforms: private business associations, chambers of commerce and public entities. In total, more than 90 of these platforms were identified, contacted and organised, resulting in:

- More than 30 informal meetings and interviews with SMEs (either their managers or sustainability officers) and with sustainability officers of national and regional SME platforms.
- 9 webinars and workshops supported by various SME platforms, targeting their members which focused on:

- Raising awareness of the benefits and opportunities of taking effective, science-based climate action for the resilience of their businesses in the context of the energy crisis;
- Exploring and contrasting with the attendees the best international and national practices that can be applied within SMEs to elaborate and implement climate action plans, including joining the SME Climate Hub as a supporting and positioning initiative;
- Collecting the experiences of those SMEs that have already started their decarbonisation pathway to identify possible challenges and barriers.

- Development of SME case studies that represent the climate efforts and actions of companies that are in the process of deepening their decarbonisation. These cases will serve to illustrate the current state of the climate transition in SMEs that are already implementing green practices and identify best practices adapted to their circumstances and capacities.

- The selection of the cases was first made among the SME Climate Hub members coming from one of the Spanish regions where a workshop was organised. If there were no members from that region, the regional SME platform driving the workshop was consulted on their recommendations of leading SMEs.
- The cases were elaborated together with the responsible people in the SMEs, based on meetings, informal interviews and workshops with them. Once developed, the case studies were sent to the SMEs for their review.

An online questionnaire was also created to collect the experiences of a representative sample of Spanish SMEs, the questionnaire can be found in Annex 1. A total of 309 SMEs responded to the questionnaire, of which 20% were attendees of the webinars organised by Climate Strategy, and 80% were responses collected via social media (Twitter and LinkedIn) or via SurveyMonkey. **Based on the total population of SMEs in Spain (a total of 2,926,484 companies)[13], a survey of 309 SMEs carries a margin of error of 5% and a reliability rate of 90%.**

It should be noted that the results of this questionnaire suffer from a self-selection bias, as it was mainly distributed among SMEs that were already part of business platforms and working groups on sustainability and that had already shown an interest in climate action and registered for the workshops organised by Climate Strategy. In addition, a warm glow effect may be found, whereby respondents, especially those who attended the workshops, felt the need to answer the questions positively. Therefore, **it is to be expected that the results on climate action are more positive than among the general SME population.**

The main findings of this research and consultation process are developed in the following two sections of the report, firstly, the progress in climate action by Spanish SMEs and, secondly, the climate risks and regulatory changes they face. Finally, the last section outlines **the best practices identified for Spanish SMEs, structured under three pillars: Targets, Action and Governance. The case studies presented throughout this report are also structured around these three pillars.**

[13] Ibid.

Progress on climate action in Spanish SMEs: an organic and reactive response

Progress on climate action in Spanish SMEs: an organic and reactive response

The consultation process conducted with Spanish SMEs shows that there is a growing awareness of the risks of climate change and an interest in taking action against this unprecedented crisis. Most SMEs have already started to implement sustainable practices to reduce the environmental impact of their activities. In part, this progress has been organic, driven by pressure from stakeholders increasingly concerned about the climate and energy crisis. However, SMEs' climate strategies suffer from significant gaps, as they do not cover their entire activities and value chains. There are barriers that explain these gaps, in particular insufficient finance and knowledge.[14] In addition, after the Covid-19 hiatus and the current energy insecurity caused by the war in Ukraine, many SMEs find themselves in a critical survival situation.

The lack of a structural approach to climate action in SMEs jeopardises a complete decarbonisation of the Spanish economy before 2050. It is therefore essential to support them in adopting and implementing ambitious, coherent and science-based climate action plans to guide them on their path towards net zero emissions.

Developing a structural climate action plan also addresses several of the barriers faced by SMEs: it helps to reduce energy bills and opens up new business and financing opportunities that improve their competitiveness. In addition, the economic shocks of Covid-19 and energy insecurity are examples of future related impacts of climate change on SMEs, so taking an active stance on these risks through a plan that responds to them is key to ensure their readiness and resilience.

[14] Other barriers identified in our questionnaire and an SME Climate Hub survey are lack of time, other priorities and lack of skills or staff. SME Climate Hub (2022). *New data reveals that two-thirds of small businesses surveyed are concerned that they do not know how to take climate action.* [Website]. Available at https://businessclimatehub.org/new-survey-reveals-small-business-barriers-climate-action/

A complex economic situation in the aftermath of Covid-19 and the Ukraine war

The Covid-19 pandemic that began in 2020 has exemplified the social and economic consequences of the degradation of our biosphere and the importance of reducing our GHG emissions to restore and protect it. Global warming is altering the relationships between animal species, leading to increased risks of infections and the spread of pathogens.[15] **Moreover, climate change and the risk of pandemics share common causes, including deforestation, habitat destruction and mass livestock farming.[16] Climate action is therefore a crucial measure to strengthen the resilience of our economy and society to similar crises in the future.**

Spain is one of the EU countries whose economy has been hit the hardest by the pandemic. In 2020, the country's GDP shrank by 10.8%,[17] the worst recession in 80 years. The unemployment rate in 2021 stood at 13.3% on average.[18] **According to the Bank of Spain, SMEs experienced the largest loss of income in 2020,[19] while by the end of 2021 only 30%[20] of SMEs appeared to have recovered from these losses**. The latest report from the National Federation of Self-Employed Workers' Associations (ATA) warns that **66.5% of the self-employed have not recovered their losses during the two years of the pandemic.**[21] **This is a critical problem for the Spanish economy, as SMEs constitute its core, representing 65% of total employment.[22]**

In this context of slow recovery for SMEs, the last half of 2021 was marked by an unprecedented rise in energy prices, provoking an economic shock that was then

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[15] Harvard School of Public Health (2020). *Coronaviruses and Climate Change.* [Web site]. Available at https://www.hsph.harvard.edu/c-change/subtopics/coronavirus-and-climate-change/
[16] Ibid.
[17] Chislett, W. (2021). *Challenges and opportunities for Spain in times of COVID-19*. [Website]. Available at http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/wp01-2021-chislett-challenges-and-opportunities-for-spain-in-times-of-covid-19
[18] Expansión (2022). *Unemployment in Spain.* [Website]. Available at https://datosmacro.expansion.com/paro/espana
[19] Banco de España (2021). *The Impact of the Covid-19 Crisis on the Financial Situation of Spanish SMEs.* Available at https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/IntervencionesPublicas/DirectoresGenerales/economia/arce180221Cepyme.pdf
[20] Allievi, M. (2021). *Only 30% of SMEs claim to have started the economic recovery.* [Website]. Available at https://elpais.com/economia/2021-10-19/siete-de-cada-diez-pymes-asegura-que-aun-no-han-recuperado-el-nivel-de-actividad-prepandemia.html
[21] ATA Self-employed (2022). *Barómetro Situación Autónomos May 2022.* Available at https://ata.es/wp-content/uploads/2022/05/np-barometro-XIV-Mayo-2022.pdf
[22] MINCOTUR. (2019). *Strategic Framework on SME Policy 2030.* Available at https://industria.gob.es/es-es/Servicios/MarcoEstrategicoPYME/Marco%20Estrat%C3%A9gico%20PYME.pdf

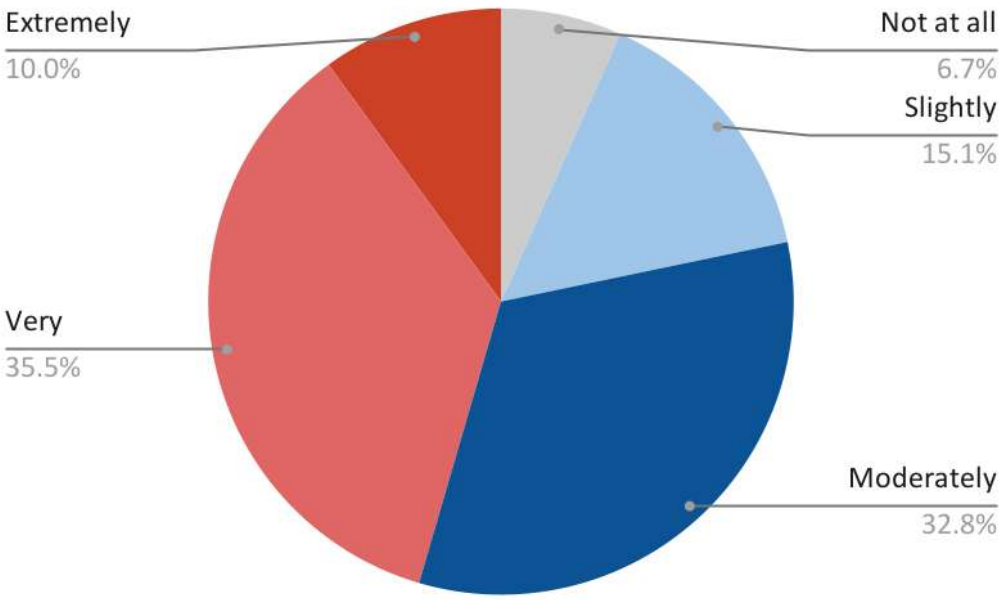
strongly aggravated by the Russian invasion of Ukraine in February 2022. The rising price of gas, the fossil fuel that sets the marginal price in the wholesale electricity market, led to a continuous escalation in the price of electricity to over 400 euros per MWh in December 2021 (compared to 67 euros per MWh on average in May).[23] After the reduction in the supply of Russian gas due to the conflict in Ukraine, which in 2021 represented 40% of total gas consumption in Europe,[24] and the threats of sanctions by the EU, the price of electricity broke its historical record in Spain in March 2022, reaching 545 euros per MWh.[25]

The war on the European continent and the energy crisis have had a significant impact on SMEs, which were already suffering a complicated economic situation after Covid-19. According to a study by the Bank of Spain carried out in the second quarter of 2022, **almost 80% of companies state that they are suffering a negative impact due to the energy crisis**.[26] In addition, the rise in energy and food prices, whose supply has also been disrupted by the war,[27] has led to an unprecedented rise in inflation in Europe and particularly in Spain. **In July 2022, the consumer price index (CPI) reached 10.8%,[28] a 40-year high in Spain,[29] and 8.9% on average in the EU**. [30]

Cepyme has warned that SMEs are in a critical situation, as in addition to a slow recovery after the pandemic, they must face an increase in their operating costs (23% more expensive in the first quarter of 2022) and the consequent losses in productivity and competitiveness.[31] **The majority of Spanish companies are suffering from economic difficulties: 76.8% of companies have reported price increases in their factors of production[32] and 40% of the self-employed suffer from late payments.**[33] Our questionnaire with SMEs coincides with these results: **78% of respondents indicate that their company has felt the negative impact of the crisis**.

[23] Noceda, M. (2022). *The year of lights: how the price of electricity soared in 2021.* [Website]. Available at https://elpais.com/economia/2022-01-14/el-ano-de-las-luces-como-se-disparo-el-precio-de-la-luz-en-2021.html
[24] IEA. (2022). *How Europe can cut natural gas imports from Russia significantly within a year.* [Website]. Available at *https://www.iea.org/news/how-europe-can-cut-natural-gas-imports-from-russia-significantly-within-a-year*
[25] Fariza, I. (2022). *La luz fulmina su récord histórico en España: el precio mayorista se dispara hasta los 545 euros por megavatio hora.* [Website]. Available at https://elpais.com/economia/2022-03-07/la-luz-fulmina-su-record-historico-en-espana-545-euros-por-megavatio-hora.html
[26] Bank of Spain (2022). *Survey of Spanish companies on the evolution of their activity: Second Quarter 2022.* Available at https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/InformesBoletinesRevistas/NotasEconomicas/22/T2/Fich/be2202-ne05.pdf
[27] ECB (2022). *The surge in euro area food inflation and the impact of the Russia-Ukraine war* [Website]. Available at https://www.ecb.europa.eu/pub/economic-bulletin/focus/2022/html/ecb.ebbox202204_06~4e32074619.en.html.
[28] INE. (2022). *Consumer Price Index (CPI): August 2022.* [Website]. Available at https://www.ine.es/dyngs/INEbase/es/operacion.htm?c=Estadistica_C&cid=1254736176802&menu=ultiDatos&idp=1254735976607
[29] Five days (2022). *CPI soars in July to 10.8% due to food and electricity prices.* Available at https://cincodias.elpais.com/cincodias/2022/07/29/economia/1659075714_226137.html
[30] Eurostat. (2022). *Flash estimate July 2022: Euro area annual inflation up to 8.9%.* [Website]. Disponible en https://ec.europa.eu/eurostat/documents/2995521/14644650/2-29072022-AP-EN.pdf/8b14d87f-df6c-aeb5-7dc9-40c60e4f6bc2?t=1659018437532
[31] López. S. (2022). *Spanish companies are on guard against the coming economic storm.* [Website]. Available at https://elpais.com/economia/negocios/2022-07-23/las-empresas-espanolas-se-ponen-en-guardia-ante-la-tormenta-economica-que-se-avecina.html
[32] Bank of Spain (2022). *Survey of Spanish companies on the evolution of their activity: Second Quarter 2022.* Available at https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/InformesBoletinesRevistas/NotasEconomicas/22/T2/Fich/be2202-ne05.pdf
[33] ATA Self-employed (2022). *Barómetro Situación Autónomos May 2022.* Available at https://ata.es/wp-content/uploads/2022/05/np-barometro-XIV-Mayo-2022.pdf

Figure 1. SMEs (%) that have felt the impacts of the energy crisis this year. *Data collected from Climate Strategy questionnaire, question 8: How much has this year's energy crisis affected your company?*



Both Covid-19 and rising energy prices are examples of the risks posed by climate change to SMEs and the economy that supports them. **A climate action plan is a tool to actively strengthen the resilience of these businesses to similar shocks by preventing and mitigating their impacts.** As the third section of this best practice report explains, the development of a structural action plan is based on the identification of these risks particular to the company and the opportunities to overcome them - for example, by implementing efficiency measures to reduce energy consumption and thus also the company's energy bills and by installing photovoltaic panels to reduce dependency on a volatile electricity market.

The case of iSiMAR (see case study no. 1, next page), which decided to install photovoltaic panels to reduce its energy bill during this energy crisis, exemplifies the benefits of being prepared and proactively responding to climate risks by accelerating climate action.

Case study: iSiMAR: The search for differential value within sustainability

"The value of sustainability is becoming a necessity, in our case it started as a vocation and has since become a differential value for our company. " [34]

Luis Unceta, CEO of iSiMAR

1. Description

iSiMAR is an outdoor furniture manufacturer with a workforce of 52 employees and has its headquarters in Navarre, although it also has offices in other parts of Spain and the world, such as Madrid and Los Angeles. The company was created in 1964 but its original activity was not related to furniture but to the manufacture of galvanised rod and chicken cages.

In 2010, iSiMAR decided to change its activity and specialised in designer outdoor furniture, taking advantage of the know-how gained from the company's years of experience in metal and rod work.[35] Since then, the company has managed to produce sustainable furniture made with different artistic studies and collections with avant-garde designs.

2. Sustainable Trajectory

Since 2010, iSiMAR's main focus has been to adopt sustainability as a fundamental policy to be followed by all its activities. This change was driven by the company's management, who wanted to transform the furniture industry, and also found support among employees. To do this, iSiMAR began by identifying the Sustainable Development Goals that were most relevant to its manufacturing process and the company's daily business. This exercise helped to identify the areas to be worked on by the company and served as a basis for the commitments made and sustainability actions carried out by Isimar so far.

As part of its Corporate Social Responsibility (CSR) policy, the company has identified eight main sustainable development commitments, which are supported by a comprehensive plan that shapes and strengthens them.[36] Part of these objectives set by the company are framed by the best climate practices identified throughout this report.

3. Best climate practices

The following goals and measures of iSiMAR's CSR Policy can be highlighted in line with international best practices identified by this report and classified into three pillars:

Objectives:

Reduction targets. As a member of the SME Climate Hub, Isimar is committed to halving its emissions by 2030 and achieving net zero emissions by 2050.

Action:

Energy efficiency. One of the first sustainability measures the company undertook was to replace its lighting system with LED lights. In addition, they continuously monitor and review their production processes in order to be more efficient.

Renewable energy. Due to very high energy consumption typical of furniture production, the current energy crisis has negatively impacted iSiMAR, causing its costs to triple. This led it to invest significantly in self-consumption with an investment of almost €400,000 in the installation of 1,352 solar panels with a total power of 600kw .[37] Thus iSiMAR managed to reduce its costs and self-supply up to 62% of its energy consumption, while it also reached an agreement with the companies neighbouring its factory to

[34] Extracted from the webinar
[35] Ttandem (2022). *Interview with Luis Unceta, CEO of Isimar.* [Website]. Available at https://www.ttandem.com/blog/luis-unceta-ttandem-nos-ha-metido-la-semilla-de-lo-digital-hemos-visto-resultados-desde-el-primer-dia/
[36] Isimar (2022). *About us.* [Website]. Available at https://www.isimar.es/sobre-nosotros/
[37] Renewable Energies (2022). *A 600 kW shared self-consumption system that sells the surplus to neighbouring companies.* [Website]. Available at https://www.energias-renovables.com/autoconsumo/un-autoconsumo-compartido-de-600-kw-que-20220906

sell the surplus energy in PPA.[38] In addition, it supplements the percentage of energy that cannot be covered by the panels with a renewable energy trading company that ensures that 100% of the energy consumed is of renewable origin.

Eco-design. Its commitments set out in its CSR Policy include extending the life of its products and following a plastic-free policy in the company. Regarding the latter, iSiMAR has developed a project with the University of Navarra to design plastic-free packaging for its products. This project is still under development, but the company has already managed to eliminate 100% of the plastic from the packaging for the chairs it produces through the use of recycled cardboard and is currently working on replicating this packaging for its tables. The materials used during the production of the furniture (aluminium and galvanised steel) are 100% recycled and recyclable. Thus, once the end of life of the product is reached, it is possible to recycle it as its design allows each piece to be completely disassembled, each one being identified for proper recycling. While the fabrics of the cushions and upholstery products are not recycled, they are long-lasting to extend the useful life of the product. iSiMAR has also introduced a pickling method that gives a second life to damaged chairs and furniture by melting them down or rehabilitating them.

Green suppliers. In addition to using renewable energy suppliers to meet its energy demand, it is also committed to local industry and 80% of its suppliers are located less than 100km from the factory. Among them are the distributors of various materials they use, such as rods, foams, dowels, packaging, etc.

Governance:

Stakeholder consultation. iSiMAR's commitment to sustainability was the product of a consensus between a conscientious management and a workforce that supported the mission to make the furniture industry more sustainable.

Green advocate. iSiMAR has a new sustainability officer who is responsible for articulating the company's green policies.

Positioning and communicating climate action. iSiMAR has been part of the SME Climate Hub since 2021. iSiMAR's CSR policy is certified by the Chamber of Commerce of Navarre and the company has a sustainability compendium which includes the aforementioned commitments, as well as information on the materials used, such as aluminium and galvanised steel.[39] iSiMAR is also part of the EcoOne initiative to promote sustainability in the hotel sector. [40]

4. Challenges and lessons for the future:

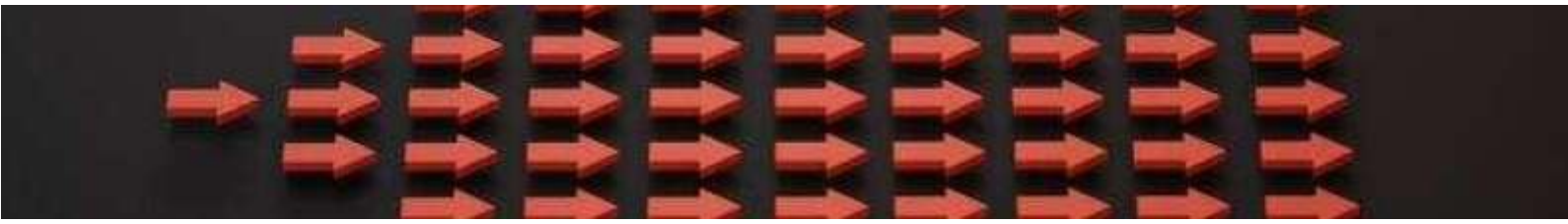
iSiMAR is a good example of a cutting-edge company in its approach to sustainability, which has enabled it to obtain differential value and a greater competitiveness of its products in the market. Having taken sustainable actions more than 10 years ago has reinforced the readiness of this SME in the face of the increased pressure that big brands and companies are putting on their suppliers to be sustainable, thus helping iSiMAR to internationalise its products and collaborate with major companies such as Starbucks or Marriott Hotels. In addition, this early start in sustainability has helped them mitigate some of the high energy costs caused by the current energy crisis that would otherwise have had a greater impact on the company.

However, iSiMAR still faces challenges, such as starting to calculate its carbon footprint in order to align the actions taken by the company with its decarbonisation goal. One of the main problems encountered by the company is to look for alternatives to using a gas oven to fix the paint on the furniture, as this is one of its biggest sources of consumption and its price has increased considerably due to the energy crisis. Green hydrogen is seen by the company as a feasible alternative to the high economic cost of using electricity to reach the necessary temperature, but they have not found projects to invest in at the moment as it is a renewable energy still under development. Therefore, iSiMAR has started to look for ways to improve the insulation and consumption of the furnace to make it more efficient, until it finds a viable energy alternative that allows it to stop using gas as a heat source.

[38] Power Purchase Agreement, a long-term power purchase agreement between a renewable developer and a consumer. Iberdrola (2020). *Power Purchase Agreement*. [Website]. Available at https://www.iberdrola.com/conocenos/contrato-ppa-energia
[39] iSIMAR (2020). *Certificate of Sustainability*. [Website]. Available at https://www.isimar.es/media/Certificado-de-Sostenibilidad.pdf
[40] EcoOne (2020). *Website*. Available at https://eco-one.es/

Growing climate ambition and gaps to be filled

Among Spanish SMEs, there is a significant awareness of the negative impacts of climate change on business performance. **60% of the SMEs surveyed perceive the existence of climate risks for their business and want to address them in a more structured way. Notably, 56% have shown an interest in learning more about the process of joining the SME Climate Hub**, an international initiative focused on climate action in SMEs and highlighted as a best practice in the workshops organised by Climate Strategy.[41] **11% are already in the process of joining. In other words, Spanish SMEs have climate ambitions and want to be part of the global efforts towards a net zero economy**.



Climate action by Spanish SMEs also appears to have increased in recent years, this is a finding from our consultation process that contrasts with the inaction found in previous studies conducted on Spain.[42] Some 28% of respondents indicate that their SMEs have a net zero emissions target and 41% that they have partial emissions reduction targets. In addition, 38% of SMEs say they have a climate action plan,[43] which is defined as a plan *"on how to transition the company to a business model that is compatible with a net zero economy. The transition plan defines how the business model, its products and production methods, growth strategy and investments should be developed over time to respond to climate-related risks and capitalise on opportunities".*[44]

[41] It is possible that a warm glow effect is found, whereby respondents, especially those who attended the workshops, felt the need to answer the questions positively. Therefore, it is to be expected that the results on climate action are more positive than among the general SME population.

[42] According to a study by Quintás et al. carried out in 2016 among SMEs in Galicia, on average SMEs had implemented only one climate practice out of the 9 highlighted by the study (and also included in the Climate Strategy questionnaire). We did find a significant improvement over time in the number of practices implemented, which may explain why in 2022, when our study was conducted, there is an apparent increase in the climate action of Spanish SMEs.
Quintás. M, Martínez-Senra. A and Sartal, A. (2018). *The Role of SMEs' Green Business Models in the Transition to a Low-Carbon Economy: Differences in Their Design and Degree of Adoption Stemming from Business Size.* Sustainability N°10. Available at https://www.mdpi.com/2071-1050/10/6/2109

[43] According to the Spain 2021 Eurobarometer, the figure is lower: 16% of SMEs claim to have a plan to reduce their carbon footprint. In addition, 14% claim to be planning to define a strategy. European Commission (2022). *Eurobarometer SMEs, resource efficiency and green markets*. No. 498. Available at https://europa.eu/eurobarometer/surveys/detail/2287
It should be noted that the results of our questionnaire suffer from a self-selection bias, as it was mainly distributed among SMEs that were already part of business platforms and working groups on sustainability and that had already shown an interest in climate action and registered for workshops organised by Climate Strategy. The results on climate action are therefore expected to be more positive than those of other surveys.

[44] CDP (2020). *The Time for Action is Now. Recommendations for policymakers to incentivize corporate climate action.* CDP Climate Change Policy Brief 2020. Available at https://cdn.cdp.net/cdp-production/cms/policy_briefings/documents/000/005/453/original/CDP_Climate_Change_Policy_brief_2020_%282%29.pdf?1606487771

Figure 2. SMEs (%) with net zero emissions and decarbonisation targets.
Data collected from Climate Strategy questionnaire, question 10: Does your company have a net zero emissions target for 2050 or sooner?

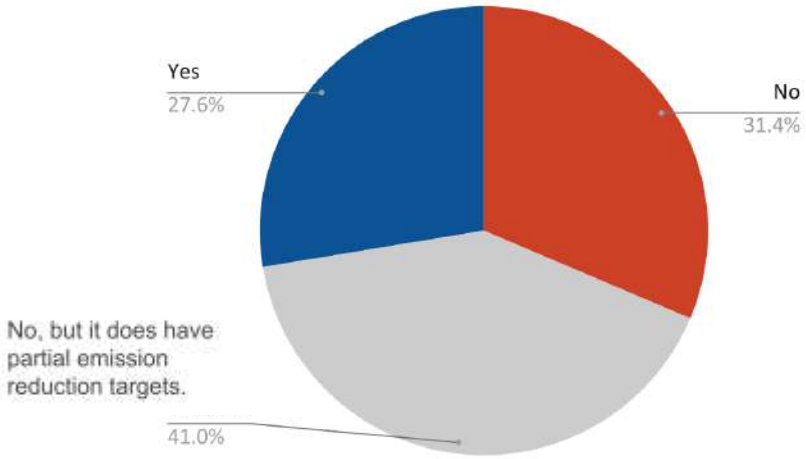
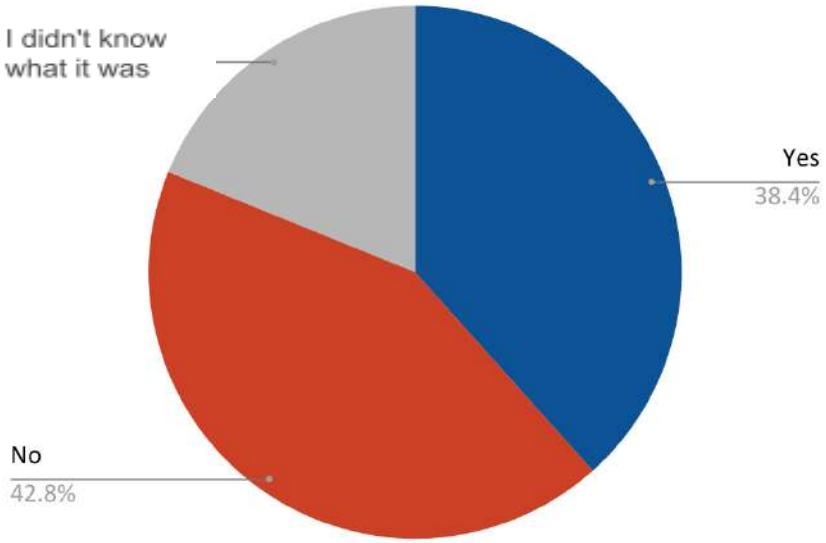
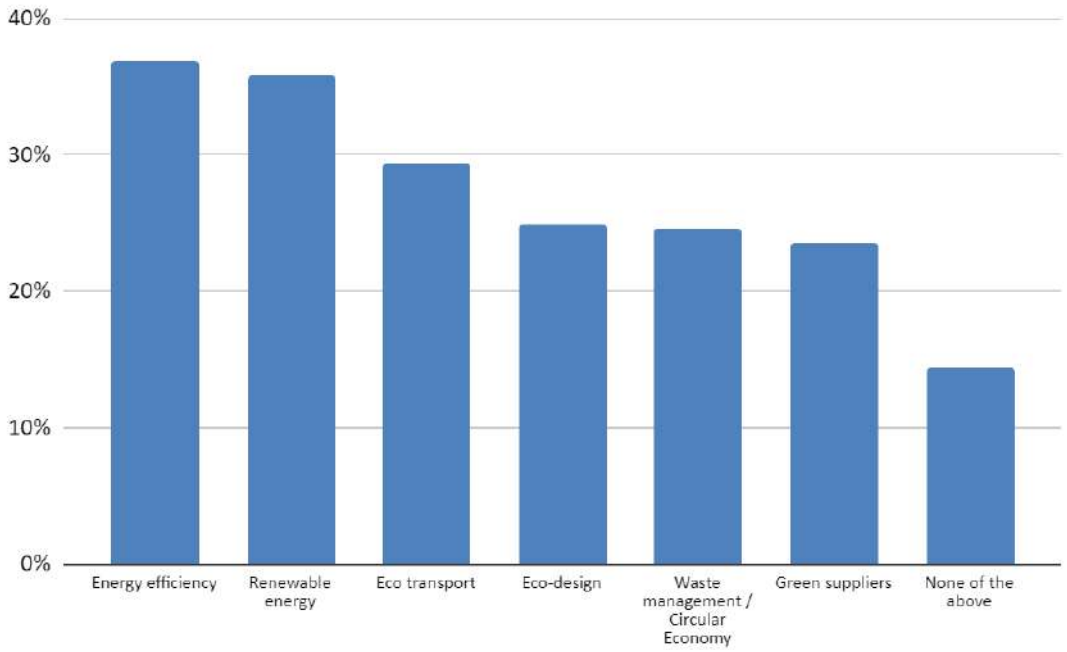


Figure 3. SMEs (%) that have a climate action plan.
Data collected from the Climate Strategy questionnaire, question 6: Does your company have a climate action plan?



Energy efficiency measures (38%)[45] and waste management (39%) are among the most frequent emissions reduction actions taken by the SMEs surveyed. Only 20% admit that their SME has not implemented any decarbonisation actions. [46]

Figure 4. SMEs (%) that have implemented climate actions.
Data collected from the Climate Strategy questionnaire, question 11: Has your company implemented actions in any of the following areas?



However, there is a considerable gap in this progress towards deeper climate action: 58% of SMEs surveyed have not yet calculated their GHG emissions. **That is, although 69% of SMEs have some kind of emissions reduction target, many of them do not know what their decarbonisation starting point is.** These results suggest that SMEs intend to begin their climate transition and have already implemented some decarbonisation measures, but they do not have a complete and clear vision of what trajectory and execution they need to follow to achieve deep results. In other words, they are not following a structured process in this transition. Assessing the adequacy and sufficiency of the implemented measures and their effectiveness would therefore be a difficult future task.

A study by Quintás et al. (2018) suggests that green innovation in the business models of SMEs can help in their transformation process towards low-carbon economies.[47] The case of Omplim (see case study no. 2) illustrates how a company that has considered positive environmental and social impacts as a business opportunity from the outset and has included them among its values and objectives facilitates the development of a comprehensive climate strategy with green best practices. However, neither this work from 2022, nor the study by Quintas et al. (2018), finds that SMEs are widely incorporating decarbonisation into their business models.

[45] According to the Spain Eurobarometer 2021, the figure is higher: 78% of SMEs claim to have implemented energy saving measures. European Commission (2022). *Eurobarometer SMEs, resource efficiency and green markets*. No. 498. Available at https://europa.eu/eurobarometer/surveys/detail/2287
[46] This result is an improvement and contrasts with that of Quintás et al., which finds that in 2016 43.3% of SMEs surveyed had not adopted green practices (although it should be noted that the two surveys differ in the type of practices included). Quintás. M, Martínez-Senra. A and Sartal, A. (2018). *The Role of SMEs' Green Business Models in the Transition to a Low-Carbon Economy: Differences in Their Design and Degree of Adoption Stemming from Business Size.* Sustainability N°10. Available at https://www.mdpi.com/2071-1050/10/6/2109
[47] Ibid.

Case study: Omplim: Ensuring the connection between positive environmental and social impact

"***Through its focus on energy efficiency, Omplim seeks to promote quality housing that is affordable, inclusive and sustainable*".**
Jordi Casajoana, Director of Omplim

1. Description

OMPLIM is a micro-small company based in Barcelona and founded in 2017, with less than 10 employees on its staff. Its activity focuses on the management of the entire production cycle of real estate projects for sale and rental, while other companies are responsible for the implementation and construction of these projects.

Omplim's purpose is to transform the way real estate developments are built and developed, making them affordable and preserving their inclusive, sustainable and quality character. It describes itself as a "low profit" company. This is not because it is a company that has more or less income, but because it has a social juncture. Thus, by statute, it has to reinvest a minimum of 50% of the profits obtained in the territory where it operates.

2. Sustainable Trajectory

Since the beginning of its activity, Omplim has aimed at implementing a new business model in the real estate sector. As such, it has made a firm commitment to enhancing the positive social and environmental impact of its activity. An example of this is the responsible label distinction awarded by the company *Ingeniería Social* and the *+Responsables* association in 2017. Since then, Omplim has renewed this certificate on an annual basis, which recognises its commitment and good practices in terms of Corporate Social Responsibility.

Throughout its journey towards greater sustainability, Omplim has sought to position and accompany the climate actions it has been developing. Thus, it is part of various initiatives, including being a B-Corp company[48] since 2017, obtaining the certificate in 2019, which makes it the only real estate manager in the whole of the Peninsula to be part of it.[49] In addition, it has been a member since 2018 of the Construction Technology Institute Foundation of Catalonia, where it seeks to establish a construction model in which life cycle considerations and sustainability are the essential pillars in building construction. Finally, Omplim is also a member of the SME Climate Hub since 2021.

3. Best climate practices

The following goals and measures can be highlighted in line with international best practices identified by this report and classified into three pillars:

Objectives:

Calculation of emissions. Omplim uses the tool developed by Normative for the SME Climate Hub and compares these results with those obtained through its own tool to calculate the emissions generated in its business activity as a manager.

Reduction target. Omplim is committed to reducing CO2 emissions by 100% by 2030.[50] This target is part of its membership of the SME Climate Hub, which sets a target of net zero emissions by 2050, so being able to achieve this by 2030 is a significant step forward. In order to achieve this, it has set annual emission targets to meet.

Offset policy. Emissions that it cannot reduce or that are not under its control are offset through a voluntary programme run by the Generalitat's Climate Change Office. For example, in 2020 it reduced as much as possible and offset 100% of the remaining CO2 emissions through this programme. In addition, Omplim seeks to offset every square metre built with an environmentally restored square metre.[51] To this end, Omplim has defined collaboration agreements with social and environmental organisations in the territory to develop projects for the conservation and preservation of the natural environment.

[48] B Corp is a global organisation comprising 4,400 companies that are focused on an inclusive and sustainable economy. B Corp Spain (2022). *About B Corps*. [Website]. Available at https://www.bcorpspain.es/sobre-b-corp
[49] Omplim (2020). *We share and build with you.* Available at https://www.omplim.cat/wp-content/uploads/2020/05/OMPLIM_SPA_.pdf
[50] Omplim (2019). *We #BCorp companies are #leadingthechange towards a fairer, more sustainable world*. [Website]. Disponible en https://www.facebook.com/1379706045438769/posts/2507304426012253/
[51] RSC Week (2021). *m² Built m² Refurbished*. [Website]. Available at https://semanarsc.org/ficha-empresa-participante-rsc/?id=134

Action:

Impact assessment on workers and communities. Omplim seeks to integrate into its management the measurement of the possible impact of its real estate projects on the territory and the community. It also participates in initiatives to enhance the positive social impact of its business.

Energy efficiency. Energy efficiency is very present in the company, especially in relation to housing construction, as this is its most polluting activity. Thus, in its real estate projects, it uses efficient materials and prioritises the most efficient energy labels (A). Omplim tries to ensure that all actions aimed at achieving this objective do not have an impact on the affordability of housing.

Renewable Energies. The company promotes the use of various renewable energy sources in its projects.

Green suppliers. Omplim uses value-based questionnaires where various questions are asked to select construction companies on the basis of their corporate sustainability. In addition, they follow proximity criteria for the choice of suppliers, most of them being less than 20 km away from the construction site.

Ecodesign. Omplim uses the TCQi-GMA tool, ITeC software, to measure the environmental impact of all the constructions in which it participates. With this tool, the company can analyse the entire life cycle, from the production of the materials used in the construction of the building to the end of its life. To develop the entire methodology, it is referenced through the European LEVEL(s) framework. [52]

Governance:

Stakeholder consultation. Omplim maintains open channels of communication with customers, suppliers, investors, the local community and other stakeholders to integrate their needs and expectations into the management of the company.[53] This is based on Omplim's Code of Conduct. [54]

Positioning and communicating climate action. Since its creation, Omplim has sought to position its climate leadership by being part of the SME Climate Hub from 2021. In addition, it is also a signatory to the United Nations Race to Zero initiative and is one of the 786 companies that committed at COP25 to achieve net zero emissions by 2050.

4. Challenges and lessons for the future:

Omplim wants to continue working towards the goal of net zero emissions by 2030. To this end, it plans to develop projects with low environmental impact in their construction and use. This may entail higher than usual development investments, so they will need to convince potential customers of the financial outlay required to rent or buy their sustainable homes. It will be key to justify these investments on the basis of the positive environmental impact and energy savings promoted by the efficiency measures that have been implemented in their buildings. These measures ultimately benefit the prospective homebuyer or tenant in terms of energy bill savings being even more valuable in the current energy crisis.

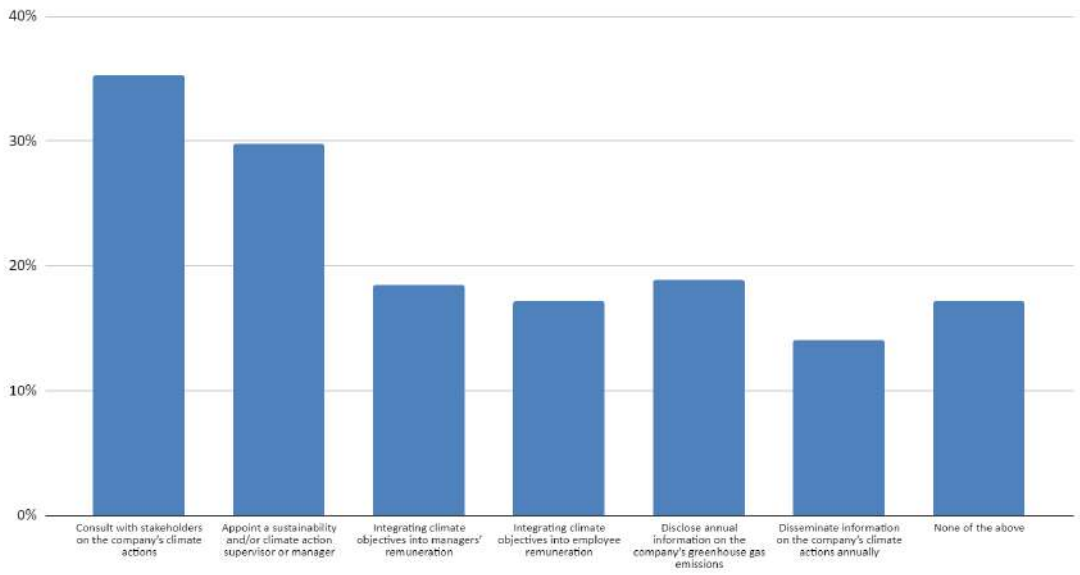
Omplim will also have to work on making the properties in which it collaborates more affordable, all of which is part of the company's future objectives.

[52] European Commission (2022). *Level (s). European Framework for sustainable buildings.* [Website]. Available at https://environment.ec.europa.eu/topics/circular-economy/levels_en
[53] Omplim (2017). *Social Responsibility Policy*. Available at https://www.omplim.cat/wp-content/uploads/2017/07/Pol%C3%ADtica-RSC_OMPLIM-Cast.pdf
[54] Omplim (2018). *Our commitment to CSR*. Available at https://www.omplim.cat/wp-content/uploads/2017/07/Nuestro-compromiso-con-la-RSC_OMPLIM.pdf

Climate Strategy's research shows that there is a lack of a systematic approach to climate action in SMEs, i.e. a clear emissions reduction trajectory towards net zero emissions, with science-based targets, a roadmap to achieve them and performance indicators to evaluate them. Some key areas for emission reductions have not yet gained significant attention from SMEs (e.g. only 15% have implemented eco-design practices and 21% select green suppliers).

Furthermore, **37% of SMEs surveyed admit that they have not yet implemented any climate governance measures, which is key to ensure the right incentives for long-term decarbonisation and effective implementation of climate actions.** In fact, a survey by the General Council of Economists with 685 company managers concludes that the social and environmental awareness of company owners and/or managers is the main pressure towards company sustainability.[55] Several of the case studies (e.g. Ecodicta, Jardines de Alfabia, iSiMAR, Carmela Caramela) are SMEs that started their sustainable journey partly due to the motivation of their founders and directors.

Figure 5. SMEs (%) that have implemented climate governance measures. *Data collected from the Climate Strategy questionnaire, question 12: Has your company implemented actions in any of the following areas?*



[55] Consejo General de Economistas & Consejo General de la Ingeniería Técnica Industrial de España (2021). *Sustainable development of SMEs in Spain.* Available at https://economistas.es/Contenido/Consejo/Estudios%20y%20trabajos/Estudio%20Desarrollo%20sostenible%20de%20la%20pyme%20en%20Espa%C3%B1a.pdf

Drivers and barriers behind SME climate action

There are barriers to climate action that explain the lack of a structural approach to climate change in SMEs. Some 48% of the more than 300 Spanish SMEs surveyed attribute this to a lack of finance and 43% to a lack of knowledge. A similar survey conducted by the SME Climate Hub with 194 of its international members also finds lack of finance as one of the main barriers to more ambitious climate action (48% of respondents) and highlights that 69% of SMEs surveyed identified access to external finance as a prerequisite for reducing their emissions.[56] Grant Thornton also found a lack of awareness among Spanish companies with between 50 and 500 employees: 42.6% of the 400 companies surveyed were unaware of the existence of Law 11/2018 on non-financial reporting.[57]

Quintás et al. (2018) argue that government support is key to remove these barriers through, on the one hand, training actions on climate action adapted to SMEs and, on the other hand, legislative initiatives requiring stricter environmental obligations from these companies.[58] The latter recommendation was identified as key to mobilising the decarbonisation of SMEs. **The survey of the General Council of Economists also indicates that legislation is the second main pressure driving companies towards sustainability, following managers' awareness**.[59]

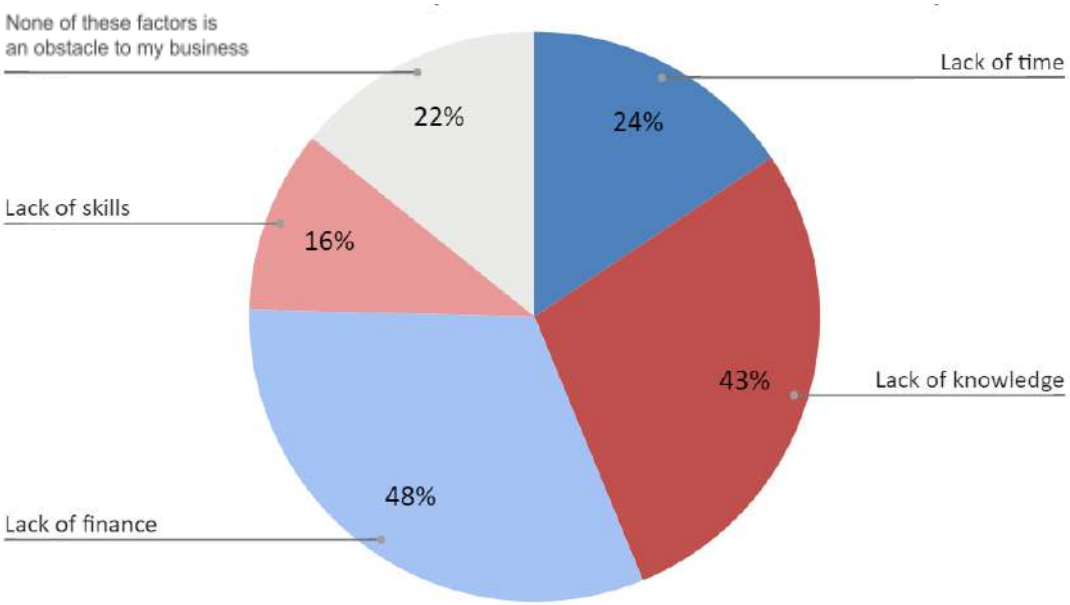
[56] SME Climate Hub (2022). *New data reveals that two-thirds of small businesses surveyed are concerned that they do not know how to take climate action.* [Website]. Available at https://businessclimatehub.org/new-survey-reveals-small-business-barriers-climate-action/ and Mendiluce, M. (2022). *The 2030 Agenda, in the hands of SMEs.* [Website]. Available at https://revistas.eleconomista.es/agua/2022/junio/la-agenda-2030-en-manos-de-las-pymes-DH11344520

[57] Romano, J. & Puig-Serra, S. (2021). *Measurement and engagement: keys to ensure compliance with the Non-Financial Reporting Law.* [Website]. Available at https://www.grantthornton.es/perspectivas/auditoria/medicion-y-compromiso-claves-para-asegurar-el-cumplimiento-de-la-ley-de-informacion-no-financiera/

[58] Quintás. M, Martínez-Senra. A and Sartal, A. (2018). *The Role of SMEs' Green Business Models in the Transition to a Low-Carbon Economy: Differences in Their Design and Degree of Adoption Stemming from Business Size.* Sustainability N°10. Available at https://www.mdpi.com/2071-1050/10/6/2109

[59] Consejo General de Economistas & Consejo General de la Ingeniería Técnica Industrial de España (2021). *Sustainable development of SMEs in Spain.* Available at https://economistas.es/Contenido/Consejo/Estudios%20y%20trabajos/Estudio%20Desarrollo%20sostenible%20de%20la%20pyme%20en%20Espa%C3%B1a.pdf

Figure 6. Barriers for SMEs to deepen their climate action (% of SMEs). *Data collected from the Climate Strategy questionnaire, question 13: Do you consider any of the following factors to be barriers to further climate action in your company?*



The consultation process also focused on better understanding what the main drivers of SME climate action are. **42% of the respondents claim to have felt pressure from a stakeholder to further deepen their climate action, among them their customers, employees and suppliers**.[60] In fact, the most implemented climate governance action by SMEs is consultations with their stakeholders (29% of respondents), showing the influence they have in steering the company's actions. Social awareness of the importance of acting against climate change has increased in recent years, especially after Covid-19, which explains the pressure from these stakeholders.[61]

[60] A Global Compact study finds a higher result: 56% of Spanish SMEs have felt pressure from their stakeholders. These include customers (39%), employees (21%), civil society (13%), suppliers (9%), shareholders (9%) and investors (5%). Spanish Global Compact Network (2022). *Contribution of Spanish companies to the 2030 Agenda: results of the business consultation on sustainable development*. [Website]. Available at https://www.pactomundial.org/biblioteca/contribucion-empresas-espanolas-agenda-2030-resultados-consulta-empresarial/

[61] Mohommad, A & Pugacheva, I. (2021). *Impact of COVID-19 on Attitudes to Climate Change and Support for Climate Policies*. IMF Working Paper 22/23. Available at https://www.imf.org/-/media/Files/Publications/WP/2022/English/wpiea2022023-print-pdf.ashx

Table 2: Comparison of results from SME questionnaires on barriers and drivers of climate action.

	Climate Strategy	SME Climate Hub	Grant Thornton	UN Global Compact
Barriers				
Lack of funding	48%	48%	N/A	N/A
Lack of knowledge	43%	63%	42,6%[62]	
Lack of skills	16%	63%[63]	N/A	
Lack of time	24%		N/A	
Drivers				
Clients	21%	N/A	N/A	39%
Employees	18%			21%
Suppliers	13%			9%
Civil Society	N/A			13%
Creditors/ Investors	3%			5%
Shareholders	5%			9%
Government	10%			N/A

Several of the case studies collected by this report show how pressure from their closest stakeholders has driven the sustainable trajectory of SMEs towards more ambitious climate action. This pressure point seems to be driving SMEs to try to remove the barriers they face organically, i.e. from a bottom-up approach in response to the demands of these stakeholders.

The case of Balneario Ariño (see case no. 3) is an example of the influence that employees and funders and investors can have on a company's green transition. Created with national funds for the rehabilitation of areas degraded by mining, Balneario Ariño shows how public funding focused on sustainability objectives can be a critical factor in mobilising climate action. The Balneario has highlighted the importance of its employees' and CEO's drive to generate a climate culture that encourages the implementation of green practices. After several actions on efficiency, renewable energy and KM 0 policies, Balneario has set itself the goal of becoming the first self-sufficient spa in Europe. As the following section explains, this external financial support is now very present in Spain's climate plans as a result of the European *Next Generation* funds.

[62] Grant Thornton measures awareness based on whether SMEs surveyed were aware of the existence of Law 11/2018 on non-financial reporting.
[63] The SME Climate Hub questionnaire links skills with knowledge.

Case study: Balneario Ariño: Promoting sustainable tourism in harmony with the natural environment.

"Our employees and customers appreciate the climate actions we take at the spa. We are also contributing to the urgent need for action against the climate crisis.
Pedro Villanueva, CEO Balneario Ariño Spa

1. Description

This spa hotel located in Ariño, in the province of Teruel, was founded in 2014 and has a total of 62 employees. Publicly owned but privately managed, it was created using national funds to boost the economy in areas degraded by mining.

Balneario Ariño is part of the Biblu group of companies and specialises in thermal and hydrotherapy treatments, as well as offering hotel and restaurant services. The company's objective is to offer responsible, quality tourism, while at the same time supporting sustainability and rural development in a natural environment such as the Sierra de Arcos.

2. Sustainable Trajectory

Since its creation, the spa has sought to generate environmental culture and awareness. One of the first examples of this was the organisation of awareness days on organic farming in 2016. In this sense, the company has continued to develop different commitments compiled in the Decalogue of Values of the Biblu Group, among which the most important is to minimise its carbon footprint to the maximum[64] .

In 2019, the spa took the next step towards greater climate ambition by developing a Corporate Social Responsibility Strategic Plan for 2021, which includes concrete actions towards its decarbonisation[65]. As a result, they received the RSA award from the Aragonese Development Institute[66]. In addition, CEO Pedro Villanueva announced the goal of achieving net zero emissions by 2050, in line with Spanish and EU targets and positioning the spa among Spain's leading SMEs in climate action.

3. Best climate practices

The following goals and measures included in its Strategic Plan can be highlighted, in line with international best practices identified by this report and classified into three pillars:

Objectives:

Calculation of emissions. The spa developed a report to calculate its carbon footprint, which was 443,000 kg of direct CO2 emissions per year. This data made Balneario Ariño want to intervene to curb its direct emissions by carrying out various actions.

Reduction targets. Balneario aims to reduce its direct emissions by 90% by 2030, and also to achieve net zero emissions by 2050.

[64] Biblu Group (n. d.). *Decalogue of values.* Available at https://www.biblu.es/wp-content/uploads/2021/05/Deca%CC%81logo-Biblu_compressed-1.pdf
[65] Instituto Aragonés de Fomento and Government of Aragón (n. d.). *RSA-SMEs evaluation.* [Web site]. Available at https://aragonempresa.com/empresas-sello-rsa/imprimir.php?idusuario=563&idencuesta=6.
[66] Teruel Provincial Council (2019). *The Provincial Council of Teruel presents the "Teruel siente" awards for sustainable tourism in its different categories.* [Website]. Available at https://www.dpteruel.es/DPTweb/la-diputacion-de-teruel-entrega-los-premios-teruel-siente-de-turismo-sostenible-en-sus-diferentes-categorias/

Offsetting policy. The spa carries out measures to compensate for its emissions by planting indigenous trees and shrubs on the spa grounds.

Action:

Energy efficiency. The spa has sought to implement various measures aimed at energy saving and has also raised awareness of this issue among its employees. It has invested in efficient machinery and has also improved the facilities' thermal insulation.

Renewable energies. The company has expanded its use of renewable energies, an example of which is the installation of solar panels in a vertical garden of various heights. In addition, as part of the project to improve and expand the facilities, which is subsidised with the funds *Miner*, the spa is considering the possibility of installing hydro generators to store hydrogen and redistribute the surplus energy in the region.[67]

Circularity of waste. The spa carries out a selective collection of the waste generated and has installed osmosis systems to reduce it.

Green suppliers. Balneario Ariño follows a kilometre 0 policy, prioritising the use of products from the region and that are as close as possible to its facilities, with 80% of the suppliers being from the same region. **This has led the spa to create its own laundry, as this type of service does not exist within a radius of 200 kilometres.** In addition, it has a policy of selecting suppliers based on an annual evaluation of their environmental and social aspects, and looks for those who have carried out actions in the field of corporate social responsibility.

Governance:

Consultation with stakeholders. The spa has identified the relevant stakeholders for the company's actions and has established a direct relationship with them, integrating all of this through the GRI model.[68]

Green advocate. The head of Balneario's Corporate Social Responsibility area is also in charge of sustainability actions.

4. Challenges and lessons for the future

Balneario Ariño continues to look for new ways to meet its short- and long-term emissions reduction targets. For example, it **is working towards the goal of becoming one of the first energy self-sufficient spas in Europe, going further than the geothermal spas in Northern Europe**.[69] To do so, it will also have to face a number of regulatory barriers. Some of these are particular to its sector and involve considerable energy costs, such as the obligation to have refrigerators in the rooms or the requirement to maintain water boilers at temperatures above 70°C. This shows that at the same time as changes are taking place at the company level, it will be key that they are accompanied by a regulatory framework that assists and pushes their journey towards an emissions neutral business model.

On the other hand, the start-up Ecodicta (case no. 4) exemplifies the important influence of consumer preferences on the climate ambition of SMEs. Focused on offering sustainable fashion alternatives with clothing rental, Ecodicta has identified as a key strategy for its competitiveness highlighting to its customers the environmental advantages of its services over the traditional textile industry. In 2022, it started calculating its carbon footprint to show its customers the CO2 emissions savings from using its services.

[67] Aragón Radio (2021). *Ariño will have the first energy self-sufficient spa in Europe.* Podcast. Available at https://www.cartv.es/aragonradio/podcast/emision/diario-economico-15-10-2021-arino-contara-con-el-primer-balneario-con-autosuficiencia-energetica-de-europa

[68] Through the Global Reporting Initiative, which aims to increase the quality, rigour and usefulness of sustainability reports. Instituto Nacional de Seguridad e Higiene en el Trabajo (National Institute for Health and Safety at Work) (2018). *Corporate Social Responsibility. GRI (Global Reporting Initiative) model.* NTP 648. Disponible en https://www.insst.es/documents/94886/326775/ntp_648.pdf/2288e306-a964-4fa0-a0ae-193e902de4ad?version=1.0&t=1528459741296

[69] Aragón Radio (2021). *Ariño will have the first energy self-sufficient spa in Europe.* Podcast. Available at https://www.cartv.es/aragonradio/podcast/emision/diario-economico-15-10-2021-arino-contara-con-el-primer-balneario-con-autosuficiencia-energetica-de-europa

Case study: Ecodicta: Entrepreneurship in a circular fashion industry

"Sustainability is not just about materials, but must involve the entire value chain, from product design to marketing[70] ".
Raúl González, CEO of Ecodicta

1. Description

Ecodicta is a *start-up* created by young entrepreneurs in 2018 with less than 10 employees. This micro-enterprise works as a circular wardrobe focused on renting women's clothing by sending 4 to 10 items of clothing, which are exchanged every month.

Due to the alternative model they promote within the fashion world, the company was a finalist in the Premios Jóvenes Más Humano, which are part of MITES[71] and support innovative and socially responsible projects.

2. Sustainable Trajectory

Ecodicta was created with the aim of extending the useful life of garments, thus reducing the high environmental cost[72] of their production. Since its inception, Ecodicta has been offering clothing rental services to increase the life cycle of these products. This is one of the best practices outlined in a UN report on the fashion sector, which shows that increasing the durability of a garment could reduce its carbon footprint by up to half.[73]

Although Ecodicta has been exclusively dedicated to clothing rental since its inception, it decided to expand its business model to other sustainable activities. Since 2022, it also offers the possibility to buy second-hand clothes. Each garment is rented a maximum of 20 times. Thus, the clothes offered for sale are those that have already completed the rental cycle defined by the company. In addition, they collaborate with another startup, Upcyclick, to reuse and transform these clothes and put them back into circulation. Finally, since 2022 they have also started to market sustainable cosmetic products through monthly boxes with different items.

3. Best climate practices

The following targets and measures can be highlighted in line with international best practices identified by this report and classified under the three pillars:

Objectives:

Calculation of emissions. In 2022 it started to calculate the carbon footprint of its products and thus show its competitive advantage over the traditional textile industry. This calculation is carried out with the Dycle tool, which allows the calculation of the 3 scopes of emissions, finding that **renting a garment means a saving of 12.43 kg of CO2 compared to one that is not rented**.[74] The transport of orders is carried out by Correos Express, which has recently begun to calculate and provide data on the emissions of this activity in Ecodicta's value chain.[75]

[70] Salse, A. (2020). *Interview with Raúl González (Ecodicta).* [Website]. Available at https://www.itslogicnow.com/blogs/logic-stories/interview-with-raul-gonzalez-ecodicta?lang=es
[71] Ministry of Labour and Social Economy.
[72] According to the European Parliament, it takes 2,700 litres of water to produce one cotton T-shirt. European Parliament (2020). *What if fashion were good for the planet?*. European Parliamentary Research Service. Available at https://www.europarl.europa.eu/RegData/etudes/ATAG/2020/656296/EPRS_ATA(2020)656296_EN.pdf
[73] United Nations Climate Change (2020). *Fashion Industry Charter for Climate Action.* Climate Action Playbook. Available at https://unfccc.int/sites/default/files/resource/20_REP_UN%20FIC%20Playbook_V7.pdf
[74] Dcycle (2022). *How do we calculate the impact savings from using Ecodicta*? [Web site]. Available at https://new.dcycle.io/post/how-do-we-calculate-the-environmental-impact-savings-from-using-ecodicta
[75] Correos Express. (n.d.). *We launched a carbon footprint calculator to measure the environmental impact of shipments.* [Website]. Available at https://www.correosexpress.com/web/correosexpress/-/lanzamos-una-calculadora-de-huella-de-carbono-para-medir-el-impacto-ambiental-de-los-envios

Action:

Energy efficiency. An example of measures on the energy efficiency of its activities is the collaboration with Telelavo for the laundry of the clothes it rents out using an artisanal washing system with environmentally friendly products. This method saves energy because the use of these products does not require the use of hot water in the washing process.

Eco Transport. The clothes are transported by Correos Express, which has a fleet of electric vehicles, although Ecodicta cannot guarantee that all deliveries will be made by an environmentally friendly transport.

Green suppliers. As a clothing rental platform, knowing the origin of the clothing is key to certifying that it has a sustainable origin. Ecodicta works with 78 brands, most of which are based in Spain. However, not all the products it purchases and rents are sustainable, as according to the company there are not enough viable alternatives to maintain the variety of clothing available, so currently only 20% of the clothes rented are sustainable. Thus, Ecodicta is also looking for other ways to sell clothes that have not been sold in department stores.

Ecodesign. In addition to seeking to purchase products that have a sustainable origin, Ecodicta's business model focuses on extending the life cycle of products as much as possible.

Governance:

Positioning and communicating climate action. Ecodicta seeks to communicate the green actions it carries out. For example, it uses different hashtags on social networks to promote its activity. An example of this is #FashionForChange where it collaborates in a project to collect and treat plastic waste in Kenya.[76] It also tries to involve its suppliers in the path towards sustainability and participated with seven of the brands it works with in a fashion show at COP25.[77]

4. Challenges and lessons for the future:

The fashion industry has a profoundly negative environmental impact.[78] In Spain, only 0.3% of the fashion sector's turnover goes to environmental protection.[79] Projects like Ecodicta follow in the steps of others such as "Fashion for Good", which also seeks to transform the fashion industry into a sustainable model. Ecodicta also pursue some of the best practices set out by the UN in its report, although as this[80] and other studies warn,[81] these initiatives must be accompanied by more responsible consumption. Even so, they are initiatives to be taken into account, as similar platforms claim that for every item of clothing put back into circulation it is possible to compensate up to 30% of a new one. **Ecodicta is on the way to increasing its climate action, but to do so it also faces several challenges. Among them, the difficulty of tracing the origin of the unsustainable clothing they use or looking for green transport alternatives at the national level to ensure their shipments are in accordance with their green philosophy**.

The family business Froxá (case no. 5) **has** also **identified sustainability as a lever for its competitive advantage**. With the aim of transmitting a sustainable image in its local community and thus spreading its brand, **the company has initiated several projects to reduce emissions, such as the installation of photovoltaic panels in its factories and the transition to a fleet of electric vehicles for the distribution of its products**. All of this has been done with the financial support of the European Regional Development Funds of Cantabria 2014-2020, showing **the important role that public funding plays in removing the barriers that SMEs face in deepening their climate action.**

[76] Kubuka (2022). *Kleanbera Recycling.* [Web site]. Available at https://kubuka.org/proyectos/kleanbera-recycling/
[77] Salse, A. (2020). *Interview with Raúl González (Ecodicta).* [Website]. Available at https://www.itslogicnow.com/blogs/logic-stories/interview-with-raul-gonzalez-ecodicta?lang=es
[78] Laudes Foundation (n.d.). *What we do. Leading the industry transformation.* [Website]. Available at https://www.laudesfoundation.org/what-we-do
[79] National Institute of Statistics (2021). *Survey of Industry Expenditure on Environmental Protection. Year 2019.* https://www.ine.es/prensa/egpm_2019.pdf
[80] These business models will have to be accompanied by reduced consumer purchases of clothing, which is difficult to assess. United Nations Climate Change (2020). *Fashion Industry Charter for Climate Action.* Climate Action Playbook. Available at https://unfccc.int/sites/default/files/resource/20_REP_UN%20FIC%20Playbook_V7.p
[81] Studies in Germany, Sweden and the United States show that only 40% of consumers claim to be able to use one of these clothing rental services. Ellen MacArthur Foundation (2017). *A New Textiles Economy.* Full Report. Available at https://emf.thirdlight.com/link/2axvc7eob8zx-za4ule/@/preview/1?o

Case study: Froxá: Building on the benefits of climate action for the local community

"Our goal in incorporating clean energy in our company was to give a different image. so that people could get to know us and also because we consider it a moral and civic duty"[82] .
Denis Vilcoq, Froxá General Manager.

1. Description

Froxá is a family company founded in 1983, dedicated to the production and distribution of prepared foods, fish and seafood. It is located in Cantabria and has around 100 employees. In 2021 it had a turnover of 34 million euros and has established itself as one of the leading food companies in the region.

One of Froxá's priorities is food safety and in this sense they have the IFS certification[83] which ensures that the appropriate processes have been established to guarantee the safety of the products they manufacture. Furthermore, Froxá is not only responsible for the production of these products but also for their transport.

2. Sustainable Trajectory

Within the framework of the European Regional Development Funds programme for Cantabria 2014-2020, in 2018 Froxá carried out its first project focused on investing in the self-consumption of its factory through the installation of photovoltaic panels.

As a continuation of this first step, at the beginning of 2019 Froxá established its environmental and quality policy,[84] base on which the company has built its main sustainability project: Froxá Zero.[85] With this plan, the company seeks to grow and promote the brand among the region's population, while combining improved margins and results with sustainability.

Finally, in 2022 Froxá has compiled these environmental commitments along with other company standards in a code of ethics. [86]

3. Best climate practices

The following goals and measures can be highlighted in line with international best practices identified by this report and classified into three pillars:

Objectives:

Calculation of emissions. Continuing its sustainable commitment acquired in 2019, Froxá started to calculate its carbon footprint in 2020, registering 503 tonnes of CO2 equivalent/year. [87]

Offset policy. In 2022 it began to offset part of its carbon footprint with two reforestation projects, one in the Amazon and the other in Cantabria. With these they have managed to offset 50 tonnes of CO2 equivalent. Froxá was also the first company to take part in the Cantabria Chamber of Commerce project on offsetting its carbon footprint at source.[88]

Action:

Energy efficiency: In its facilities it has replaced traditional lighting with LEDs, as well as installing more efficient electric motors to reduce energy consumption. Froxá is also studying the possibility of replacing the plastic curtains used in the refrigerators with a forced air system in the refrigerator doors to reduce the leakage of cold air to the outside.

[82] Extracted from the webinar. Chamber of Cantabria (2022). *Sustainable Fridays - Leadership, climate action and security in SMEs*. YouTube. Available at https://www.youtube.com/watch?v=MIcPKnPzHig
[83] IFS (2017). *International Featured Standards.* [Website]. Available at https://www.ifs-certification.com/index.php/es/ifs
[84] Froxá. (2019). *Environmental and Quality Policy.* Available at https://froxa.com/wp-content/uploads/2022/02/Pol%C3%ADtica-de-calidad-y-medioambiental.pdf
[85] Froxá. (2021). *Froxá Zero.* [Web site]. Available at https://froxa.com/zero/
[86] Froxá. (2022). *Code of Ethics.* [Web site]. Available at https://prezi.com/p/xrpxf0be-qld/codigo-etico-froxa/
[87] Cantabria Económica (2022). *Froxá is committed to growth through sustainability.* [Website]. Available at https://www.cantabriaeconomica.com/empresas/froxa-apuesta-por-el-crecimiento-a-traves-de-la-sostenibilidad/
[88] Chamber of Cantabria (2022). *Carbon Footprint Offsetting.* [Website]. Available at https://www.camaracantabria.com/medio_ambiente/huella_carbono.php

Renewable energies. One of the bases of Froxá Zero is self-consumption through the installation of photovoltaic panels in its factories, which have been increasing over time with various investments.[89] In 2019, Froxá generated more than 600 MWh of clean energy, avoiding the emission of 215 tonnes of CO2 per year.

Eco Transport. The company is committed to the total renewal of its fleet of vehicles to electric models for the distribution of its goods and seeks to guarantee express deliveries at no cost to the environmental health of Cantabria. **Froxá has** also **installed the first ultra-fast charger for electric vehicles in Cantabria**.

Ecodesign. Regarding the production, Froxá has been in talks with the Government of Cantabria to invest in aquaculture and thus accelerate the transition to a sustainable food system. The aim is to follow the pace set by the European Commission, which sees aquaculture as an alternative to fish imports and as having a lower environmental footprint than other land-based farms.[90]

Governance:

Positioning and communicating climate action. Froxá seeks to communicate its green actions, an example of which is the launch of its fleet of electric vehicles that also serve to convey a sustainable image. Froxá also took part in a round table discussion at the 2022 Food Industry Fair in Barcelona, where they talked about issues related to their sustainable action such as eco-design.

4. Challenges and lessons for the future:

Froxá is a leading food company that has managed to carry out different sustainable actions to reduce its environmental impact in the region. In addition to the aforementioned measures, they have also opted for the digitalisation of their production processes to increase their productivity and efficiency. One of the company's future projects will be the expansion and improvement of its renewable energy facilities in order to achieve the goal of self-consumption. They plan to invest €160,000 between 2022 and 2023 in the installation of solar panels in the company's car parks. On the other hand, a challenge they will have to face is the search for ways to increase the autonomy capacity of their fleet of electric vehicles so that they do not have problems using it for all their deliveries. In fact, due to these problems, Froxá has been forced to return to using thermal vehicles for some of its journeys.

[89] In 2019 investment of €3.3 million, a third of which is a grant from the Government of Cantabria. Europapress. (2019). *Froxá improves its production with new lines and a photovoltaic plant*. [Website]. Available at https://www.europapress.es/epagro/noticia-froxa-mejora-produccion-nuevas-lineas-planta-fotovoltaica-20190404144314.html

[90] European Commission (2021). *European Green Pact: Commission adopts strategic guidelines for a more sustainable and competitive EU aquaculture*. [Website]. Available at https://ec.europa.eu/commission/presscorner/detail/es/ip_21_1554

While these cases of leading SMEs exemplify the positive influence of increased environmental awareness among SME stakeholders and the resulting pressure on them towards greater climate ambition, **overall the data show that this organic and reactive response to global warming is no longer sufficient**.

There are considerable gaps in SMEs' strategies, such as a lack of knowledge of their actual emissions, low presence of key climate actions in some business areas (such as eco-design or selection of green suppliers) and weak climate governance. On the contrary, **SMEs have taken a selective and *ad-hoc* approach towards some sustainable practices, based on the expectations of their stakeholders**, which do not outline a clear trajectory towards net zero emissions by reducing real emissions over time in all their activities.

These gaps must be closed to achieve robust decarbonisation in line with the science, which urges a 50% reduction in our economy's emissions by 2030.[91] Both legislative push and government support (whether through funding, training or other climate assistance programmes)[92] are key to removing the barriers faced by SMEs to accelerate green and structural transition of their entire business model.

Moreover, as the next section explains, these **regulatory changes and financial support have already been put in place, but in an accelerated manner, to address a severe energy crisis.** This acceleration poses new risks for SMEs left behind. Russia's recent invasion of Ukraine has made clear the urgency of a green transition in all productive sectors. The new sustainability obligations imposed on business require the development of a comprehensive, seamless climate action plan that addresses all SME activities. This will help to strengthen their resilience to future climate risks and increase their performance and competitiveness in a volatile environment exposed to energy and economic shocks.

[91] IPCC (2020). *Global Warming of 1.5ºC.* [Available at https://www.ipcc.ch/sr15/
[92] Quintás. M, Martínez-Senra. A and Sartal, A. (2018). *The Role of SMEs' Green Business Models in the Transition to a Low-Carbon Economy: Differences in Their Design and Degree of Adoption Stemming from Business Size.* Sustainability Nº10. Available at https://www.mdpi.com/2071-1050/10/6/2109

In search of resilience: legislative and financial push towards a structural response against climate transition risks

In search of resilience: A legislative and financial push towards a structural response against climate transition risks

The financial barrier is undoubtedly a key factor that needs to be tackled and explains the climate action gaps of SMEs. This is stated by 48% of the more than 300 Spanish SMEs surveyed. The Covid-19 crisis and the current energy insecurity due to the war in Ukraine have put additional pressure on their economic situation. **The push for sustainability legislation is essential to mobilise SMEs and must take this situation into account and be accompanied by the necessary financial support.**

In response to the energy transition and crisis, major regulatory changes and sustainability finance programmes have been initiated or accelerated to mobilise and support business climate action. This is key to aligning the economy with the net zero emissions trajectory and achieving the goals of energy independence from fossil fuels. At the same time, and **as a condition of eligibility for this financial support, further decarbonisation obligations on business have also been introduced.**

The war started by Russia in Ukraine has accelerated the need for an energy transition in Europe to eliminate the dependence of the productive sectors on fossil fuels in order to avoid future energy crises. This urgency is reflected in the European Commission's REPowerEU communication,[93] , which positions the transition towards greater efficiency and the use of clean energy as the most effective strategy in the short and medium term to protect companies and families against price rises. The action plans derived from this strategy have introduced new energy saving measures, notably the communication "Saving gas for a safe winter"[94] with a view to winter 2022 and estimates of an increase in energy prices due to gas supply disruptions.

[93] European Commission (2022). *REPowerEU: A plan to rapidly reduce dependence on Russian fossil fuels and fast forward the green transition.* [Website]. Available at https://ec.europa.eu/commission/presscorner/detail/en/IP_22_3131
[94] European Commission (2022). *COM/2022/360 final.* Available at https://eur-lex.europa.eu/resource.html?uri=cellar:55edf05c-08d0-11ed-b11c-01aa75ed71a1.0008.02/DOC_1&format=PDF

In response to the objective imposed by this communication on Spain to reduce its energy consumption by 7%, a royal decree was approved on 14 August with exceptional measures that directly impact SMEs,[95] especially those in the service sector.[96] This decree establishes as compulsory measures such as limiting air conditioning in summer to 27ºC or heating in winter to 19ºC and turning off shop windows after 10 pm.[97] In October, the Spanish government also published an energy security plan[98] with 73 measures to further increase energy saving and renewable energy consumption in households and businesses, such as new aid for self-consumption, the installation of digital gas meters and recommendations for energy audits.[99] These behavioural change measures and other more structural and long-term efficiency measures are what a climate action plan should take into account and include in its decarbonisation roadmap.

The *Next Generation EU* funds, which seek to mitigate the impacts of the pandemic, will provide essential financial support during this period of energy volatility. Spain is the second largest recipient of these recovery funds, receiving €150 billion,[100] which is equivalent to 11% of Spain's GDP. To foster a green economic recovery that respects planetary boundaries and thus prevent future risks to public health, the Spanish Recovery and Resilience Plan allocates 39.7% of these funds to green investments,[101] including grants to companies (examples of these grants are listed in the third section on best practices). Having a robust climate action plan in place helps to identify these funding opportunities and increases the eligibility of SMEs seeking support to invest in the green transition of their activities, thus strengthening their recovery from the pandemic and mitigating the impacts of the current energy crisis.

[95] An anecdotal example is the impact of new energy saving measures on the production of ice for supermarkets and other small businesses, which have had to face skyrocketing prices. Mateos, A. (2022). *Ice producers warn that the problem may increase.* [Website]. Available at https://www.ultimahora.es/noticias/local/2022/08/03/1767543/hielo-mallorca-productores-advierten-problema-puede-aumentar.html

[96] Royal Decree-Law 14/2022, of 1 August, on economic sustainability measures in the field of transport, grants and study aids, as well as energy saving and efficiency measures and measures to reduce energy dependence on natural gas. "BOE" no. 184, of 2 August 2022, pages 111381 to 111463 (83 pages).

[97] Jack. V, & Zimmermann, A. *Here's what EU countries are doing to save energy ahead of winter.* [Web site]. Available at https://www.politico.eu/article/eu-countries-save-energy-winter/

[98] MITECO. (2022). *Energy Security Plan.* Available at https://www.miteco.gob.es/es/prensa/221011_planse_octubre2022_tcm30-546382.pdf

[99] ESADE (2022). *The government's new energy saving measures: what will work better (and what won't).* [Website]. Available at https://www.esade.edu/ecpol/es/blog/las-nuevas-medidas-del-gobierno-para-ahorro-energetico-que-funcionara-mejor-y-que-no/

[100] Feás, E. & Steinberg, F. (2021). *The figures for Spain in the European Recovery Plan.* [Website]. Available at https://www.realinstitutoelcano.org/analisis/las-cifras-para-espana-del-plan-de-recuperacion-europeo/

[101] Commission Staff Working Document. Analysis of the Spanish recovery and resilience plan accompanying the document Proposal for a Council Implementing Decision on the approval of the evaluation of the Spanish recovery and resilience plan (SWD/2021/147 final).

The European Green Pact, launched in 2019, has been a paradigm shift in the continent's and Spain's legislative response to climate change.[102] The Pact has been legally binding through the European Climate Law passed in 2021 and establishes the goal of climate neutrality by 2050. It also imposes an intermediate target of a 55% net reduction in GHG emissions by 2030.[103] These new targets have involved the review of existing legislation as well as proposals for new EU regulations and directives to achieve them, including within companies, through the "Fit for 55" package.

These include the new European Directive on Corporate Sustainability Disclosures[104] which imposes new obligations on companies with more than 250 employees and listed SMEs. By introducing more stringent due diligence obligations in the value chains of these companies, **a significant indirect impact is expected on unlisted SMEs, which may face increased demand for transparency on their climate action from large suppliers and customers.**[105] Indeed, there are already examples of large companies with net zero emission commitments that want to reduce indirect emissions in their value chains (scope 3). To do so, they have started to require decarbonisation efforts among their suppliers, many of them SMEs.[106] A significant number of these large companies are already part of the 1.5ºC Supply Chain Leaders initiative, including Spain's Telefónica, which also supports the SME Climate Hub.[107]

The recently approved European taxonomy of sustainable finance imposes new transparency requirements on financial actors in relation to carbon-intensive sectors, which will have an indirect impact on SMEs and the information they may be asked to provide by their banks.[108] To these disclosure obligations must be added those introduced by the Spanish Climate Change and Energy Transition Law, which introduces an article on emission reduction plans in companies that will possibly also have an indirect impact on Spanish SMEs.[109]

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[102] European Commission (2019). *COM/2019/640 final*. Disponible en https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1576150542719&uri=COM%3A2019%3A640%3AFIN
[103] Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ("European Climate Law")
[104] European Commission (2021). *COM/2021/189*. Available at https://www.consilium.europa.eu/media/57644/st10835-xx22.pdf
[105] Wendland, F. (2021). *The EU taxonomy can strengthen SMEs in the green transition*. [Website] Available at https://www.euractiv.com/section/energy-environment/opinion/the-eu-taxonomy-can-strengthen-smes-in-the-green-transition/ ;
Deloitte (2022). *The Corporate Sustainability Reporting Directive*. [Website] Available at https://www2.deloitte.com/nl/nl/pages/sustainability/articles/the-corporate-sustainability-reporting-directive-latest-insights.html
[106] WSP. (2020). *Net zero: Are SMEs the missing link in the chain?* [Website] Available at https://www.wsp.com/es-pa/insights/cero-neto-son-las-pymes-lo-que-falta-en-la-cadena
[107] SME Climate Hub (2022). *Supply Chain Leaders 1.5ºC*. [Website] Available at https://smeclimatehub.org/supply-chain-leaders/#:~:text=The%201.5%C2%B0C%20Supply,through%20the%20SME%20Climate%20Hub.
[108] UNEP FI & European Banking Federation (2022). *Practical Approaches to Applying the EU Taxonomy to Bank Lending*. Available at https://www.unepfi.org/wordpress/wp-content/uploads/2022/02/Practical-Approaches-to-Applying-the-EU-Taxonomy-to-Bank-Lending-2022.pdf
[109] Law 7/2021, of 20 May, on climate change and energy transition. "BOE" no. 121, 21 May 2021, pages 62009 to 62052 (44 pages).

Having a climate action plan and an annual disclosure of progress made in their decarbonisation (best practice included in the guidance of this report) will ensure that SMEs are prepared for these demands for greater transparency.

In short, there is already legislative pressure towards structural climate action in SMEs. As this and other studies have identified, such pressure is key to mobilising SMEs and filling the gaps in the plans of those that have already begun their decarbonisation. While their new pace in the wake of the Ukraine crisis may seem dizzying for these companies, which are still trying to recover from the pandemic, it will serve to strengthen their climate and energy security. Developing a climate action plan that responds to these regulatory changes is now more essential than ever, not least so that SMEs among the leaders can benefit from the financial support introduced by European, national and local governments to assist their transition.

Finally, as highlighted in the last section of the final recommendations, governmental efforts to push for energy independence in Europe and Spain would benefit from taking into account the economic situation and needs of these small businesses in their strategies. **SMEs want to act but often encounter barriers that do not allow them to do so easily.** An example of this is Jardines de Alfabia (case no. 6) and their unsuccessful efforts to install photovoltaic panels in rural areas due to the effort they have to make to overcome regulatory barriers. Balneario Ariño (case no. 3) highlights the inconveniences caused by some legal requirements on hotels, such as the obligation to have fridges on in the rooms, which prevents ambitious efficiency actions. Froxá (case no. 5) has also encountered problems when introducing electric vehicles in its fleet, as the current infrastructures do not allow their use over long distances.

Case study: Alfabia: The nexus between family tradition and environmental conservation.

"All the actions we carry out are done in a natural way, using traditional methods, because of our love for the land and traditional agriculture." [110]
Cristina Zaforteza, Manager of Alfabia.

1. Description

Alfabia is a 13th-century family property open to the public, being considered a site of historical-artistic interest since 1954 and a UNESCO intangible heritage site since 2011.[111] Alfabia is a group of houses, agricultural outbuildings and historical-artistic gardens located in the Tramuntana Sierra.

The site has 10 employees and consists of a house, a garden, an orchard and a small livestock farm with local animals. Apart from being open to the public and organising tourist visits, this space is also available for the organisation of events and weddings.

2. Sustainable Trajectory

Being a place with many centuries of history, Jardines de Alfabia has continued to use the same traditional methods and values used for many centuries and has also been able to adapt to the new times with various initiatives. All the actions it undertakes form part of the traditional and historical culture of the place. This is due, among other reasons, to the fact that it has always prioritised the love and care of the historical heritage over business for its own sake. All this has earned Alfabia the recognition of the Government of the Balearic Islands by awarding it the prize for the best Sustainable Tourism initiative 2021.[112] A clear example of the actions carried out in a traditional way is the use of 13th-century irrigation ditches to collect and transport water from a spring, taking advantage of the terrain's orography.

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[110] Extracted from the webinar. CAEB. (2022). *Leadership, climate action and energy security for SMEs.* YouTube. [Website]. Available at https://www.youtube.com/watch?v=cb20pfVVlV8
[111] Serra de Tramuntana (2017). *Visions of Alfabia in the Serra de Tramuntana.* [Website]. Available at https://www.serradetramuntana.net/es/blog-serra-tramuntana-patrimonio-mundial/Blog_2017/visiones_alfabia_serra_tramuntana
[112] Government of the Balearic Islands (2021). *The Government of the Balearic Islands presents the Tourism Awards 2021.* [Website]. Available at https://www.caib.es/pidip2front/jsp/es/ficha-convocatoriaPDF/strongel-govern-de-les-illes-balears-entrega-los-premios-del-turismo-2021strong

3. Best climate practices

The following goals and measures implemented by Alfabia can be highlighted, in line with international best practices identified by this report and classified into three pillars:

Action:

Energy efficiency. Alfabia has tried to reduce its energy consumption by installing LED lights and by not using air conditioning inside the open house.

Renewable energies. One of Alfabia's objectives is to be self-sufficient in energy through the installation of solar panels, but they have encountered problems with the protection granted by UNESCO for being a cultural interest place. Therefore, Alfabia is in the process of trying to better understand how to move forward in this aspect.

Ecodesign. As part of its activity, Alfabia also has an organic vegetable garden, which is irrigated with old irrigation ditches. They obtain mainly fruits which they use for the production of juices that are on sale in their cafeteria.

Circularity of waste. Alfabia follows a strict recycling and waste separation programme in compliance with European regulations. Part of this waste is used as compost to fertilise their vegetable garden. They have also digitised all the information and entrances to the site using QR codes to reduce paper consumption.[113]

Green suppliers. When choosing their suppliers, they always choose those closest to their installations.

Governance:

Consultation with stakeholders. As they are regulated and controlled by the Consell de Mallorca, they are constantly communicating with the different official bodies on what climate measures they can and should adopt on issues such as self-consumption.

4. Challenges and lessons for the future:

Alfabia have a long history behind them, which is proof of their state of conservation maintained thanks to the traditional way of working that they have continued to implement since their creation. This way of working allows Alfabia to be a sustainable initiative reference in the Balearic Islands. **Looking to the future, and as its management has shown, Alfabia will seek ways to start calculating its carbon footprint while trying to achieve its goal of self-consumption of energy.** They will have to do this without altering their heritage, located in a natural area of special interest, and respecting its qualification as a UNESCO intangible heritage site.

This is a challenge for Alfabia, as in Spain protected buildings are excluded from energy certification.[114] Thus, any action taken regarding energy efficiency has to be in accordance with the unalterable elements dictated by the competent authority of the official protection. However, there are projects at European and national level to reduce the energy bill while protecting the cultural, artistic and heritage value of the building. Protected historic buildings such as the Alhambra in Granada or the University of Alcalá have already implemented various energy efficiency measures.

[113] Alfabia Gardens (2021). *Sustainable Gardens*. [Web site]. Available at https://www.jardinesdealfabia.com/sostenibilidad/
[114] Royal Decree 390/2021, of 1 June, approving the basic procedure for the certification of the energy efficiency of buildings. "BOE" no. 131, of 02/06/2021.

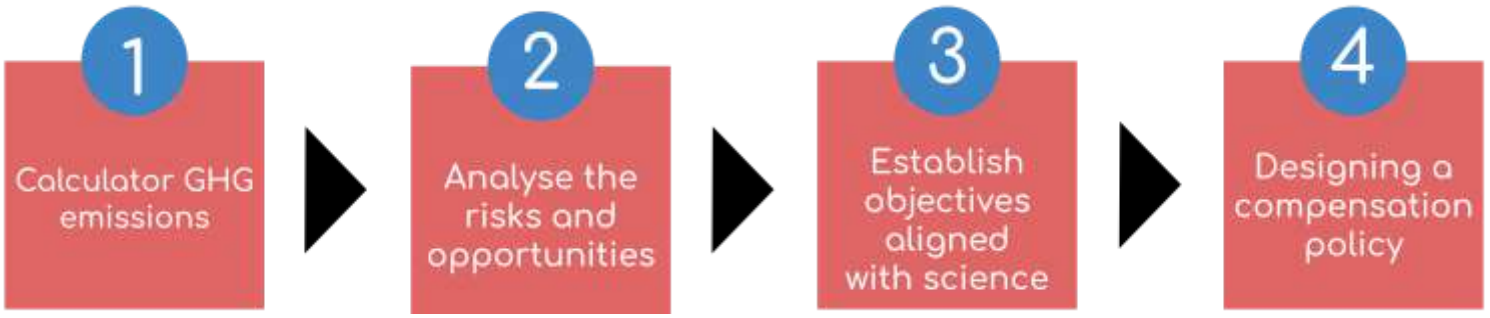
The three keys to a climate action plan and best practices of Spanish SMEs

The three keys to a climate action plan and best practices of Spanish SMEs

The previous sections have outlined the importance of SMEs developing robust climate action plans to ensure an active, systematic and effective role in addressing the climate risks and opportunities presented by the ecological transition. **This section aims to provide a set of best practices for developing and implementing science-consistent plans to guide SMEs towards net zero by 2050.**

The following best practices have been identified based on contacts with leading SMEs in sustainability, international, national and local guidelines and recommendations for decarbonisation in companies. They have been divided into three pillars (Objectives, Action and Governance), following the classification of the GECV guidance which facilitates the structuring of the different steps to be included in a climate action plan. [115]

Pillar 1: Reduction Targets



The first step before designing any emission reduction strategy is to identify the starting point, to map out a trajectory towards net zero emissions by 2050 and identify the green actions and governance measures that need to accompany it. As our questionnaire and the consultation process have already shown, this is a fundamental step for structural climate action, but often neglected in those Spanish SMEs that are in the process of advancing their decarbonisation. **Only 42% of the surveyed SMEs claim to have calculated at least one scope of their emissions.** The following best practices have been selected to facilitate and simplify this process by providing easily accessible digital tools in Spanish and with few administrative steps. It also includes recommendations for establishing an appropriate trajectory for the SME and for the development of ambitious and science-based targets.

[115] Climate Strategy & Partners, & GECV (2021). *Best Practice Guide to turn Net-Zero Emissions Targets into Climate Action Plans*. Available at https://grupocrecimientoverde.org/wp-content/uploads/2021/11/Guide_12_KEY_STEPS_FOR_COMPANIES_DELIVERING_NETZERO_EMISSIONS_GECV.pdf?utm_source=web&utm_medium=boton

1. Calculating GHG emissions

To establish a starting point, the annual GHG emissions of all company activities should be measured. This includes:

- Direct emissions (known as Scope 1) from sources under the company's control, be it its buildings, vehicle fleet, or a generation plant.
- Emissions resulting from energy consumption purchased by the company (Scope 2), such as electricity or heating. [116]

Scope 1 and 2 emissions are the easiest to track and also the easiest to see how to reduce, as the company has more control over their origins. Therefore, international best practice considers it essential for SMEs to calculate both scopes. [117]

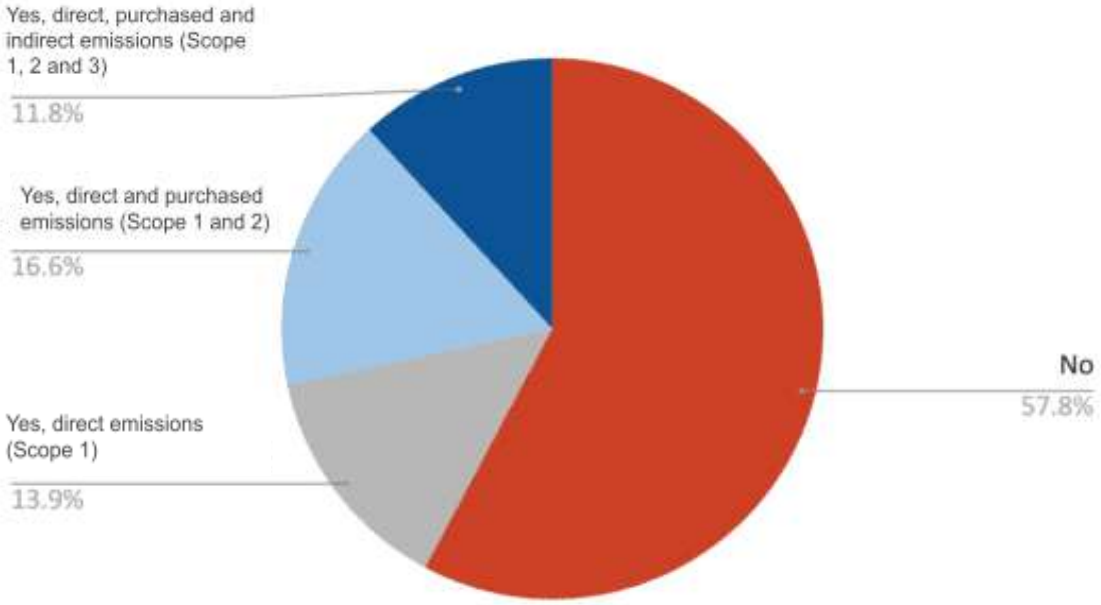
Scope 3 emissions are more complex to track and less easy to measure: they are those indirect emissions related to the rest of the company's activities that go through its entire value chain, including those of its suppliers and customers (using the product). **Their complexity explains why 30% of the SMEs surveyed have calculated scope 1 and/or 2 but only 12% have calculated scope 3.** As SMEs have less control over their sources is often recommended to diagnose first the significance of these emissions. If found that scope 3 emissions may account for a significant proportion of the company's total emissions, then it is advisable to measure them. [118]

[116] Mathis, W. (2022). *Why Measuring the 'Scope' of Carbon Emissions Is Tricky.* [Website]. Available at https://www.bloomberg.com/news/articles/2022-06-14/why-the-scope-of-carbon-emissions-is-hard-to-gauge-quicktake?cmpid=BBD062022_GREENDAILY&utm_medium=email&utm_source=newsletter&utm_term=220620&utm_campaign=greendaily#xj4y7vzkg

[117] Mac Nulty. H, Thollander. P, Bertoldi. P, & Vetters, N. (2021). *Company-focused initiatives mapping analysis and recommendations for an EU Corporate Covenant.* JRC Science for Policy Report. Available at http://www.atok.cz/folders/aktdok/prilohy/Invitation-to-provide-feedback-on-the-forthcoming-EU-Corporate-Covenant-Initiative/EU-Corporate-Covenant-Study-2021---Full-report--13-09-21.pdf;
SME Climate Hub (2020). *The SME Climate Hub Commitment.* Available at https://smeclimatehub.org/wp-content/uploads/2020/09/About-the-SME-Climate-Commitment-v1.0.pdf; Exponential Roadmap Initiative. (2020). *The 1.5° Business Playbook.* Available at https://exponentialroadmap.org/wp-content/uploads/2020/11/1.5C-Business-Playbook-v1.1.1pdf.pdf ;
SBTI. (2022). *Small and Medium-Sized enterprises (SMEs) FAQs.* Available at https://sciencebasedtargets.org/resources/files/FAQs-for-SMEs.pdf ; MITECO. (2020). *Carbon footprint register. Offsetting and carbon dioxide absorption projects.* Available at https://www.miteco.gob.es/es/cambio-climatico/temas/mitigacion-politicas-y-medidas/folletohuellacarbono_tcm30-178353.pdf

[118] "SMEs should commit to examine their Scope 3 emissions and measure them where possible if they constitute a significant proportion of their overall emissions." Mac Nulty. H, Thollander. P, Bertoldi. P, & Vetters, N. (2021). *Company-focused initiatives mapping analysis and recommendations for an EU Corporate Covenant.* JRC Science for Policy Report. Available at http://www.atok.cz/folders/aktdok/prilohy/Invitation-to-provide-feedback-on-the-forthcoming-EU-Corporate-Covenant-Initiative/EU-Corporate-Covenant-Study-2021---Full-report--13-09-21.pdf

Figure 8. SMEs (%) that have calculated their Scope 1, 2 and/or 3 emissions.
Data collected from the Climate Strategy questionnaire, question 9: Has your company calculated its greenhouse gas emissions?



One of the recommended methods for effective and simple monitoring of an SME's emissions is to **collect the company's invoices (energy consumption, water and paper consumption, business travel, catering, etc.) and store them according to an archiving system known as the *Environmental Management System***.[119] Based on this monitoring, there are several free online tools that focus on assisting companies in calculating scope 1 and 2 emissions. For the calculation of Scope 3, some of these tools also integrate Scope 3 and there are other tools specifically designed to calculate Scope 3.

[119] WWF. (2021). *Emission Possible Guide.* Available at https://www.wwf.org.uk/sites/default/files/2021-05/WWF-UK%20Emission%20Possible_05.pdf
An environmental management system is a tool that can also be based on and certified by internationally recognised standards such as ISO 14001 or EMAS. Junta de Andalucía (2006). *Environmental Management Systems.* Available at https://www.juntadeandalucia.es/medioambiente/consolidado/publicacionesdigitales/CA-73-8_MANUAL_DE_GESTION_MEDIOAMBIENTAL_ESTUDIO_MEDIOAMBIENTAL_DE_%20LOS_%20PUERTOS_%20DE_LA_COMUNIDAD_AUT/CA-73-8/6_SISTEMAS_DE_GESTION_MEDIOAMBIENTAL.PDF

International, national and local tools[120] :

Normative	The online tool developed by Normative for the SME Climate Hub with the support of Google.org,[121] free for all SMEs, is based on the company's consumption and expenditure and can estimate all emission scopes (1, 2 and 3). Omplim is one of the SMEs consulted for this report that already uses this tool.
CARBON TRUST	The Carbon Trust has developed an online tool specifically for SMEs to calculate Scopes 1 and 2 based on the amount of energy and fuel used.[122]
GREENHOUSE GAS PROTOCOL	The Greenhouse Gas Protocol initiative also has an online tool focusing on Scope 3 emissions, although only in English, which follows the classification of the 15 types of Scope 3 emissions promoted by its standards.[123] This tool is already used by Ecoterrae (case #7).
VICEPRESIDENCIA TERCERA DEL GOBIERNO MINISTERIO PARA LA TRANSICIÓN ECOLÓGICA Y EL RETO DEMOGRÁFICO	The Ministry for Ecological Transition and the Demographic Challenge (MITECO) has developed an excel tool for Scopes 1 and 2 that calculates emissions based on fuel consumption and other technical factors.[124] It has also adapted this calculator to farms to capture emissions resulting from activities such as fertiliser use, crop residue management and the machinery used in this sector.
ScopeCO2	Scope CO2 is an online tool developed by Ecodes through CeroCO2[125] and in collaboration with the #PorElClima Community.[126] This open access tool is free and has been promoted, among others, by the Government of Aragon during a workshop for SMEs.[127] It covers emission scopes 1, 2 and 3 and has been updated to adapt it to the healthcare and hospitality sectors.[128]
Oficina Catalana del Canvi Climàtic	The Catalan Office for Climate Change has developed an excel tool for Scope 1 and 2 and certain categories of Scope 3 (waste, transport and purchased goods) that is based on factors such as fuel consumption, type of transport used or material purchased, etc.[129]
	Based on MITECO's excel, the tool promoted by the Directorate General for Energy and Climate Change of the Balearic Islands also provides a methodology to calculate emission scopes 1 and 2.[130]
BBVA | One View	There are also initiatives by banks to assist their customers in calculating their carbon footprint. For example, the smart financial aggregator BBVA One View has incorporated a new functionality that estimates the climate impact of SMEs based on their electricity, natural gas and fuel expenses (scopes 1 and 2).[131] This new tool has been verified by CeroCO2. [132]

[120] These lists are not exhaustive and include tools that have been identified during the research process for this report.
[121] SME Climate Hub (2022). *Calculate your business emissions.* [Available at https://smeclimatehub.org/start-measuring/
[122] Carbon Trust (2022). *SME Carbon Footprint Calculator.* [Available at https://www.carbontrust.com/es/node/1019
[123] Greenhouse Gas Protocol (2022). *Scope 3 Evaluator.* [Available at https://ghgprotocol.org/scope-3-evaluator
[124] MITECO. (2021). *Carbon footprint calculators.* [Available at https://www.miteco.gob.es/es/cambio-climatico/temas/mitigacion-politicas-y-medidas/calculadoras.aspx
[125] ZeroCO2. *Web page.* Available at https://www.ceroco2.org/
[126] PorElClima Community. *Web page.* Available at https://porelclima.org/
[127] Comarca de la Jacetania (2022). *Workshop on Carbon Footprint Calculation for SMEs.* [Available at https://www.jacetania.es/noticia-taller-calculo-huella-carbono-pymes-482.php
[128] Scope CO2.(2022). *Free online tool.* [Available at https://www.scopeco2.org/login/login.php
[129] Generalitat de Catalunya.(2022). *GHG emissions calculator.* [Website]. Available at https://canviclimatic.gencat.cat/es/actua/calculadora_demissions
[130] Government of the Balearic Islands (2022). *Carbon footprint calculator.* [Website]. Available at https://www.caib.es/sites/canviclimatic2/es/calculadora_de_petjada_de_carboni/
[131] BBVA (2022). *BBVA One View.* [Available at https://www.bbvaoneview.com/local_kyop/bbvaoneview_login.html#/
[132] Ecodes (2022). *BBVA provides SMEs with an estimate of their carbon footprint.* [Website]. Available at https://ecodes.org/hacemos/cambio-climatico/mitigacion/ceroco2/bbva-facilita-a-las-pymes-una-estimacion-de-su-huella-de-carbono

Case study: Ecoterrae: Leading companies towards net zero emissions

"The SME Climate Hub makes it easy for companies to the process of implementing sustainable actions." [133]
Octavio Acosta. Head of Business Development at Ecoterrae.

1. Description

Ecoterrae is a Sevilla-based consultancy firm created in 2012 and specialised in climate change and sustainability. Its objective is to act as a strategic ally between the public and private sectors for the implementation of sustainable measures in both. Ecoterrae's three main areas of work are strategic communication, mitigation and adaptation to climate change.

Ecoterrae has carried out various projects with important national companies and organisations. Of particular note is the collaboration with Viajes El Corte Inglés to monitor the environmental sustainability of its events through the NOW2030 tool and with Real Betis Balompié in the development of its FOREVER GREEN sustainability plan. As a part of this collaboration with Real Betis the first sustainable match of Spanish National Football League was played. **Thanks to the good practices and the awareness of those involved, 911 tonnes of CO2 emissions were save**.[134]

2. Sustainable Trajectory

Ecoterrae was born with the aim of developing the Spanish voluntary carbon market, taking advantage of the Climate Projects[135] promoted by the Spanish government dedicated to financing for the reduction of emissions in companies in the diffuse sector. This allowed it to develop various projects and in 2014 it became a leading consultant in climate finance management in Spain, with more than 30 million euros managed and more than 4 million tonnes of CO2 reduced, especially in sectors such as biomass and waste.

Since then, the company has continued to make progress in different areas. In 2016, it managed to register the first large Andalusian companies in the Carbon Footprint register of the Ministry for Ecological Transition and the Demographic Challenge. In addition, it has advised more than 100 municipalities throughout Spain in the development of their climate action plans and was the first company to certify a sustainable event in Andalusia.[136] In 2021, Ecoterrae was also a signatory of the Guide developed by the Spanish Group for Green Growth and promoted by Climate Strategy, which identifies 12 keys for companies towards decarbonisation, and was represented in person at the COP26 in Glasgow to support the Guide.

3. Best climate practices

The following goals and measures can be highlighted in line with international best practices identified by this report and classified into three pillars:

Objectives:

Calculation of emissions. Ecoterrae calculates its carbon footprint, including the 3 scopes. This calculation is carried out using the Greenhouse Gas Protocol (GHG Protocol) tool and is based on internationally recognised standards and certifications such as ISO 14064 or PAS 2060. Since 2014, it has been registering this data in the MITECO carbon footprint register. In addition, it carries out an external certification of its GHG emissions inventory to give it more recognition and validity.

Reduction target. Since 2015 Ecoterrae has been progressively reducing its emissions. It aims to reduce its emissions as much as possible and to remain a 100% carbon-neutral company every year, aligning its purpose with the targets set by the SME Climate Hub, going beyond the 2050 target. This past year (2021), Ecoterrae has managed to reduce its emissions by 20% compared to the previous year and has compensated in Spain the rest of the emissions that it has not been able to avoid.

[133] Extracted from the webinar
[134] La Publicidad (2022). *The first sustainable match of LaLiga Santander*. [Website]. Disponible en https://lapublicidad.net/el-primer-partido-sostenible-de-laliga-santander/?doing_wp_cron=1660058362.9355690479278564453125
[135] MITECO. (2019). *Climate Projects (2012-2019)* [Website]. Available at https://www.miteco.gob.es/es/cambio-climatico/temas/proyectos-clima/que-es-un-proyecto-clima/default.aspx
[136] This event was the World Travel and Tourism Summit (WTTC) held in Seville in 2019. Ecoterrae (2019). *A sustainable event on a global scale in Seville.* [Website]. Available at https://www.ecoterrae.com/wttc-evento-sostenible/

Compensation policy. Ecoterrae offsets the emissions it cannot reduce and this is something it also tries to pass on to its clients. An example of this was the offsetting of the carbon footprint generated by attending the COP26 event in Scotland. To this end, it invested in a renewable energy project in India validated by the United Nations. To offset the corporate carbon footprint generated in 2021, it has resorted to the financial support of a project to reforest degraded forests in Spain, the latter being carried out in San Nicolás (Cebreros, Ávila) and registered as an absorption project with the Ministry for Ecological Transition and the Demographic Challenge.

Action:

Assessment of transition's impact on workers and communities. As part of Ecoterrae code of conduct, they conduct environmental awareness and sensitisation activities to its employees, customers, suppliers and other stakeholders.[137] In addition, they must act in accordance with Ecoterrae code of conduct which establish principles in case of conflict of interest.

Green suppliers. For chosing their suppliers, Ecoterrae assesses various criteria, one being that the company is committed to sustainability. To check this, they usually look for suppliers with a climate action plan or report non-financial information to achieve carbon neutrality.

Governance:

Positioning and communicating climate action. Ecoterrae stresses the importance of supporting its actions in different initiatives and organisations at national and international level. It is a member of the SME Climate Hub, the Spanish Group for Green Growth and the #PorElClima community, among others.

4. Challenges and lessons for the future:

Ecoterrae is a clear example of an SME that works for sustainability both inside and outside the company. Thus, the various projects it has carried out have led to a significant reduction in the carbon footprint of the companies and organisations with which it has collaborated. An example of this is the saving of 4,000,000 tonnes of CO_2 equivalent in the Climate Projects mentioned above. In this sense, they have expanded their activity by creating a new digital services consultancy called ClimAction Solution. **Through this new platform, they manage to facilitate access for Spanish SMEs to carbon footprint calculation, registration and offsetting services.** They have done this through the digitalisation and democratisation of the services with a lower cost for SMEs. Looking to the future, Ecoterrae has the challenge ahead of it to achieve its goal of maintaining net zero emissions each year, serving as a carbon neutral ally to all its clients and collaborators committed to climate action.

[137] Ecoterrae (2021). *Code of Ethics and Conduct.* Available at https://www.ecoterrae.com/wp-content/uploads/2021/05/Codigo-Etico-y-de-Conducta.pdf

2. Analysing the risks and opportunities of the green transition

Once the starting point of the net zero trajectory has been defined, it is time to look ahead: **What risks will this amount of emissions pose to the SME's activities? What opportunities can decarbonisation bring and how can the company benefit from them?** Having a clear picture of these questions going forward will be key to setting climate targets and an accompanying plan that are tailored to the company's unique situation and designed to strengthen its resilience and competitiveness.[138]

Climate Strategy's survey of over 300 SMEs shows that the vast majority see climate change as a risk to their business, while other studies indicate that **companies perceive the green transition as a way to increase customer satisfaction, gain competitive advantage, improve employee motivation and increase profitability.**[139] A climate action plan should be designed to exploit these opportunities.

Climate change brings with it various risks to a company's operations, its economic sustainability and its positioning vis-à-vis competitors.[140] A report by the World Economic Forum concludes that 4 of the 5 most important risks for businesses today are linked to environmental issues.[141] There are two types: physical risks (including acute risks caused by extreme weather events and chronic risks from long-term changes in climate trends, such as a sustained rise in temperature and sea levels) and transition risks (those arising from the transition to an emission-neutral economy, such as legal, reputational, technological and market risks).[142]

[138] Larger companies in Spain are already making progress in including climate change within their risk analysis. For example, 74% of the companies in Forética's Climate Change Cluster have already included these climate risks at the same level as the rest of the risks in their matrix. Forética (2021). *Las empresas en España ante el reto de la descarbonización*. Available at https://foretica.org/wp-content/uploads/cero_emisiones_netas_empresas_espana_descarbonizacion.pdf

[139] Consejo General de Economistas & Consejo General de la Ingeniería Técnica Industrial de España (2021). *Sustainable development of SMEs in Spain.* Available at https://economistas.es/Contenido/Consejo/Estudios%20y%20trabajos/Estudio%20Desarrollo%20sostenible%20de%20la%20pyme%20en%20Espa%C3%B1a.pdf

[140] Chapter Zero (2020). *A climate change boardroom toolkit*. Available at https://chapterzero.org.uk/wp-content/uploads/2021/09/Chapter-Zero-Board-Toolkit-2020.pdf

[141] World Economic Forum (2021). *The Global Risks Report 2021.* Insight report 16th edition. Available at https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2021.pdf

[142] TCFD (2017). *Recommendations of the Task Force on Climate-related Financial Disclosures.* Final Report. Available at https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

Physical risks have significant impacts on the financial performance of SMEs. On the one hand, they can damage the company's assets and facilities, and on the other hand, they can destabilise its value and supply chain, e.g. by deteriorating the availability of water, food, raw materials, etc.[143] This leads to increased operating and capital costs, as well as lost profits due to reduced production capacity.[144]

Summer 2022, the hottest summer in Spain in the last 50 years

As this report is being prepared in the summer of 2022, Spain and the whole of Europe[145] are facing unprecedented heatwaves, droughts and fires. The Spanish State Meteorological Agency (AEMet) has declared that since it has meteorological data (1961), the summer months of 2022 (June, July and August) have been the hottest, having exceeded the previous warmest summer in 2003 by 0.4ºC.[146] They have also been marked by a shortage of precipitation and humidity.[147] These factors have resulted in a higher number of severe fires - more than 290,000 hectares have burned so far this year,[148] a record number in the last 15 years, making Spain the European country with the highest number of hectares burned this year.[149]

Fires and drought have negatively impacted key sectors in Spain such as tourism, agriculture[150] and hydroelectric production.[151] These extreme events put even more pressure on energy and food prices, further aggravating inflation and thus the economic situation of businesses. [152]

The European Commission's latest report on fiscal sustainability[153] concludes that **the cumulative cost in Spain of enduring extreme weather events over the last four decades amounts to 7.7% of its GDP**, the worst result in the EU. Moreover, it estimates that Spain would be the country with the highest increase in public debt, rising to 4.5 points in a 1.5ºC global warming scenario. Moody's has also warned of the risk of an increase in the number and intensity of extreme weather events for Spain's credit profile, and for its companies.[154]

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[143] Ibid.
[144] Chapter Zero (2020). *A climate change boardroom toolkit*. Available at https://chapterzero.org.uk/wp-content/uploads/2021/09/Chapter-Zero-Board-Toolkit-2020.pdf
[145] It was also the hottest summer on record in Europe since 1881. Copernicus Climate Change Service (2022). *C3S Climate Bulletin shows summer 2022 was Europe's warmest on record.* [Web site]. Available at https://climate.copernicus.eu/c3s-climate-bulletin-shows-summer-2022-was-europes-warmest-record
[146] AEMET. (2022). *Spain has experienced the hottest summer in its data series.* [Available at https://www.aemet.es/es/noticias/2022/09/resumen_clima_agosto_2022
[147] AEMET. (2022). *Spain, on track for the warmest summer in its historical series.* [Available at https://aemetblog.es/2022/08/19/espana-camino-del-verano-mas-calido-de-su-serie-historica/
[148] RTVE (2022). *El verano del fuego: los grandes incendios que más hectáreas han calcinado.* [Sitio web].Disponible en https://www.rtve.es/noticias/20220902/verano-2022-fuego-grandes-incendios-hectareas/2399690.shtml#:~:text=En%20todo%202022%2C%20y%20hasta,sobre%20Incendios%20Forestales%20(EFFIS).&text=Estos%20fuegos%20dejan%20tambi%C3%A9n%20otros,los%20de%20las%20hect%C3%A1reas%20quemadas.
[149] 40% of the hectares burnt in Europe by fires in 2022 were in Spain.
EFFIS. (2022). *EFFIS Estimates for EU Countries.* [Available at https://effis.jrc.ec.europa.eu/apps/effis.statistics/estimates
[150] The drought has had the greatest economic and ecological impacts in Western Europe, particularly in terms of lower crop yields, which has further accentuated the international food price and food security crisis that the world is experiencing due to the war in Ukraine. Planelles, P. (2022). *Global warming makes an extreme drought like the one experienced this summer in the northern hemisphere 20 times more likely.* [Available at https://elpais.com/clima-y-medio-ambiente/2022-10-05/el-calentamiento-global-hace-20-veces-mas-probable-una-sequia-extrema-como-la-vivida-este-verano-en-el-hemisferio-norte.html
[151] Martin, S. (2022). *Drought threatens tourism and agriculture in the Viñuela reservoir in Spain.* [Available at https://es.euronews.com/2022/08/14/la-sequia-amenaza-el-turismo-y-la-agricultura-del-pantano-de-la-vinuela-en-espana ;
Segre (2022). *Drought causes a 15% drop in hydroelectric production in Lleida.* [Available at https://www.segre.com/es/noticias/comarcas/2022/08/13/la_sequia_hace_caer_produccion_hidroelectrica_lleida_180416_1091.html
[152] Five days (2022). *Fires, one more burden for the economy and climate change.* [Available at https://cincodias.elpais.com/cincodias/2022/09/28/economia/1664377347_805343.html
[153] European Commission (2021). *Fiscal Sustainability Report 2021.* [Available at https://economy-finance.ec.europa.eu/publications/fiscal-sustainability-report-2021_en
[154] Moody's. (2022). *Moody's affirms Spain's Baa1 rating and maintains stable outlook.* [Available at https://www.moodys.com/research/Moodys-affirms-Spains-Baa1-rating-and-maintains-stable-outlook--PR_467623

SMEs will also face new legal obligations on sustainability, as well as obligations imposed on their suppliers, customers and funders, which fall indirectly on them. These transition risks, explained in more detail in the previous section, include changes in disclosure requirements on the company's GHG emissions and climate actions, in the standards of products and materials used, pricing of energy consumption and mandatory energy reduction measures, etc.[155] **Failure to respond timely and effectively to these regulatory demands can lead to increased operational costs for SMEs and even legal risks.**

In addition, the market itself also reacts to climate risks when, for example, regulatory changes or physical risks alter the availability and prices of raw materials and commodities and services, thus impacting supply-demand throughout the supply chain. The energy crisis following the destabilisation of gas supplies, abruptly aggravated by Russia's war in Ukraine, shows how SMEs are being directly affected by high energy prices. **Changes in preferences among consumers, investors and suppliers also impact the demand for SME products and services and, in turn, can negatively influence the reputation of companies that are not contributing to the fight against climate change.**[156]The importance of these stakeholders for SMEs is reflected in our survey.

Another transition risk that can harm SMEs are technological changes and innovative disruptions that aim to contribute to the reduction of energy consumption and GHG emissions - renewable energies, batteries, smart and efficient production systems, etc. **Failure to update their operations with these technologies can harm the SME's competitiveness, their production and cost distribution and ultimately reduce consumer demand for their goods and services.**[157]

[155] Ibid; Chapter Zero (2020). *A climate change boardroom toolkit.* Available at https://chapterzero.org.uk/wp-content/uploads/2021/09/Chapter-Zero-Board-Toolkit-2020.pdf
[156] Ibid
[157] Ibid

While climate change brings these physical and transitional risks for SMEs, designing an effective response to prevent and mitigate them brings economic benefits and new business opportunities. As explained in the next pillar on "Action", implementing energy efficiency measures and self-consumption of renewables, as well as a business model based on eco-design, low waste and a green value chain, means reducing production costs, increasing demand from increasingly sustainability-conscious consumers and opening the way to diversification and new markets. **SMEs' competitiveness and financing opportunities will benefit from these measures, while their resilience to future climate risks will be strengthened.**[158] A clear example of this is the case of iSiMAR, which thanks to its commitment to sustainability as a competitive advantage has achieved strategic partnerships with major clients such as Starbucks or Marriott hotels.

In order to identify these risks and opportunities, it will be essential for SMEs to understand the impact their business has on the environment and to design an effective response, with concrete climate actions in those activities that are most carbon intensive. This explains the importance of calculating the carbon footprint, following the first step of this Pillar, and conducting a risk and opportunity analysis in light of this calculation. Integrating this complete and holistic analysis into the management of the company will facilitate the next task of setting climate targets in line with the existing risks and opportunities for the SME's activities and a plan with effective actions in its most material branches.

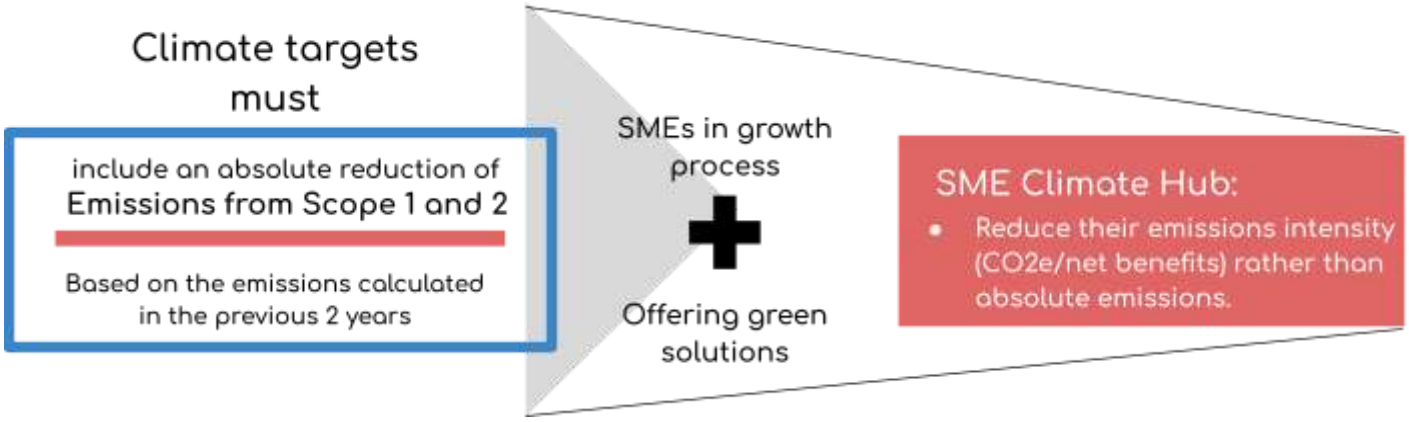
3. Setting climate targets aligned with science

The IPCC report published in 2022 warns that to prevent the worst consequences of climate change, limiting global warming to 1.5°C above pre-industrial levels will be critical.[159] This requires **reaching net zero emissions by 2050[160] and halving emissions by 2030**. **28% of SMEs surveyed claim to have a net zero target** - quite positive progress, but the design of these targets must also follow best practice to ensure alignment with the timelines required by science and robust emissions reductions in practice.

[158] Ibid
[159] IPCC (2020). *Global Warming of 1.5 °C.* [Website]. Available at https://www.ipcc.ch/sr15/
[160] Forética (2021). *Companies in Spain facing the challenge of decarbonisation.* Available at https://foretica.org/wp-content/uploads/cero_emisiones_netas_empresas_espana_descarbonizacion.pdf

The main international initiatives focused on validating corporate emissions reduction targets follow the IPCC guidelines, including those focused on SMEs. Thus, both **the SME Climate Hub[161] and SBTi[162] require a commitment to at least 90% emission reductions by 2050** (as explained in the next section, the remaining 10% would have to be neutralised) **and a 50% reduction in company emissions by 2030** or earlier[163] . The case studies compiled in this report show that SMEs can position their leadership and pre-empt these recommendations with net zero targets for 2050 (Balneario Ariño, Ecoterrae, iSIMAR), 2040 (Laragon), or 2030 (Omplim).

In particular, those SMEs whose business model revolves around sustainability at source or those operating in low carbon intensive sectors such as consulting have the advantage and opportunity to increase the ambition of their net zero targets by 2050. After all, as shown in the previous section on climate risk and opportunity analysis, **getting ahead of the ecological transition means ensuring the economic sustainability and resilience of the company.**



International recommendations make it clear that these climate targets must include an absolute reduction of Scope 1 and 2 emissions, based on the emissions calculated in the previous 2 years.[164] For those SMEs that are in the process of growth and that offer green solutions (such as Laragon (case nº8) and Ecoterrae), the SME Climate Hub makes the exception of having to reduce their emissions intensity (CO2e/net profits) instead of absolute emissions. [165]

[161] SME Climate Hub (2021). *SME Climate Commitment*. [Website]. Available at https://smeclimatehub.org/sme-climate-commitment/?utm_source=SME%20Climate%20Commitment&utm_medium=tool-highlights&utm_campaign=SMECH ; Exponential Roadmap Initiative. (2020). *The 1.5º Business Playbook*. Available at https://exponentialroadmap.org/wp-content/uploads/2020/11/1.5C-Business-Playbook-v1.1.1pdf.pdf
[162] It does not include SMEs in the financial sector or in the oil and gas sector. The application form is: https://form.jotform.com/targets/sme-target-validation
[163] "Its minimum target to align with 1.5°C should be to halve emissions by 2030 (7% reduction year-on-year), but preferably faster". Exponential Roadmap Initiative (2020). *The 1.5º Business Playbook*. Available at https://exponentialroadmap.org/wp-content/uploads/2020/11/1.5C-Business-Playbook-v1.1.1pdf.pdf
[164] Mac Nulty. H, Thollander. P, Bertoldi. P, & Vetters, N. (2021). *Company-focused initiatives mapping analysis and recommendations for an EU Corporate Covenant*. JRC Science Policy Report. Available at http://www.atok.cz/folders/aktdok/prilohy/Invitation-to-provide-feedback-on-the-forthcoming-EU-Corporate-Covenant-Initiative/EU-Corporate-Covenant-Study-2021---Full-report--13-09-21.pdf
[165] SME Climate Hub (2020). *About the SME Climate Commitment*. Available at https://smeclimatehub.org/wp-content/uploads/2020/09/About-the-SME-Climate-Commitment-v1.0.pdf

In relation to Scope 3 emissions, as they are more difficult to track and control by an SME, recommendations tend to focus on the materiality of these emissions. If they can be measured and calculations show that they account for more than 40% of the company's total emissions, it is strongly recommended to set a robust and measurable reduction target.[166] **The SME Climate Hub does require the inclusion of business travel (a Scope 3 category) within the company's targets, as at first sight it is easier to monitor**.[167] As the next Pillar on "Action" will show, there are several methods by which SMEs can influence other indirect sources of their emissions, such as their suppliers, and reduce the carbon footprint coming from their value chain.

Finally, the **SME Climate Hub requires that within 3 to 6 months of the SME joining the initiative, intermediate emissions reduction targets are set (every 4 years)**[168] that project a realistic pathway towards the 2030 (50% reduction) and 2050 (net zero) targets.[169] This is for example done by Omplim, which has set annual reduction targets. **All climate targets should be reviewed every 5 years in view of the SME's progress in decarbonisation.** [170]

There are already 68 Spanish SMEs that have committed to meet these net zero reduction requirements through the SME Climate Hub.[171] Also, 14 Spanish SMEs have validated their short-term decarbonisation targets (minimum 50% reduction by 2030) with the SBTi initiative.[172]

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[166] Mac Nulty. H, Thollander. P, Bertoldi. P, & Vetters, N. (2021). *Company-focused initiatives mapping analysis and recommendations for an EU Corporate Covenant*. JRC Science for Policy Report. Available at http://www.atok.cz/folders/aktdok/prilohy/Invitation-to-provide-feedback-on-the-forthcoming-EU-Corporate-Covenant-Initiative/EU-Corporate-Covenant-Study-2021---Full-report--13-09-21.pdf

[167] SME Climate Hub (2021). *SME Climate Commitment*. [Website]. Available at https://smeclimatehub.org/sme-climate-commitment/?utm_source=SME%20Climate%20Commitment&utm_medium=tool-highlights&utm_campaign=SMECH

[168] Mac Nulty. H, Thollander. P, Bertoldi. P, & Vetters, N. (2021). *Company-focused initiatives mapping analysis and recommendations for an EU Corporate Covenant*. JRC Science for Policy Report. Available at http://www.atok.cz/folders/aktdok/prilohy/Invitation-to-provide-feedback-on-the-forthcoming-EU-Corporate-Covenant-Initiative/EU-Corporate-Covenant-Study-2021---Full-report--13-09-21.pdf

[169] "Hub Commitment after 3-6 months of membership". SME Climate Hub (2021). *SME Climate Commitment*. [Website]. Available at https://smeclimatehub.org/sme-climate-commitment/?utm_source=SME%20Climate%20Commitment&utm_medium=tool-highlights&utm_campaign=SMECH;
Forética also recommends short and long-term objectives. Forética (2021). *Las empresas en España ante el reto de la descarbonización*. Available at https://foretica.org/wp-content/uploads/cero_emisiones_netas_empresas_espana_descarbonizacion.pdf

[170] SBTI. (2022). *Small and Medium-Sized enterprises (SMEs) FAQs*. Available at https://sciencebasedtargets.org/resources/files/FAQs-for-SMEs.pdf

[171] SME Climate Hub (2022). *Committed companies*. [Website]. Available at https://smeclimatehub.org/committed-businesses/

[172] SBTI. (2022). *Companies taking action*. [Web site]. Available at https://sciencebasedtargets.org/companies-taking-action#table

Case study: Laragon: Digitalisation as a tool towards emissions reduction

"The problem for companies is that it is difficult to find the time, but the option of a green champion can be a good idea to start taking climate action through digitalisation"[173] **.** Kevin Esposito, Laragon Consulting Manager

1. Description

Laragon is a technology consultancy founded in 2006 with headquarters in Madrid and in Mexico. Laragon offers digitalisation services for large companies in the areas of sustainability, environment, safety and health.

Its activity focuses on working with companies to understand their digitisation needs by providing the latest technology on the market. Laragon works in sectors such as construction, energy and transport. Laragon has been working for companies for many years helping them to align their ESG strategies through digitalisation. ESG is especially linked to socially responsible investment and the provision of non-financial information.[174]

1. Sustainable Trajectory

Since its inception, Laragon has implemented and developed several non-financial information management projects for the areas of sustainability and environment in companies that are pioneers in sustainability rankings. Since 2007, the company has been working with Enablon to digitise and help companies implement this information. In 2011, Laragon helped large Spanish companies such as Ferrovial and Gas Natural Fenosa in their corporate sustainability management through systems such as Enablon. [175]

In addition, in 2020, Laragon joined the Spanish Green Growth Group as a partner. In 2021 they co-signed the guide developed by the Spanish Green Growth Group, and promoted by Climate Strategy, which identifies 12 keys for companies towards decarbonisation.[176] In 2021 they also launched Laragon Vision 2030, a project focused on the digitisation of ESG objectives.

2. Best climate practices

The following goals and measures can be highlighted in line with international best practices identified by this report and classified into three pillars:

[173] Extracted from the webinar
[174] The basis of its work is ESG objectives, i.e. environment, social commitment and good governance. Global Compact Spanish Network (2022). *ESG criteria and their relationship with the SDGs.* [Website]. Available at https://www.pactomundial.org/noticia/criterios-esg-y-su-relacion-con-los-ods/
[175] Compromiso RSE (2011). *Gas Natural Fenosa, FCC, Ferrovial and OHL share their sustainability reporting experiences.* [Website]. Available at https://www.compromisorse.com/rse/2011/07/04/gas-natural-fenosa-fcc-ferrovial-y-ohl-comparten-sus-experiencias-de-reporting-de-sostenibilidad/
[176] GECV (2021). *Twelve keys for companies towards decarbonisation.* [Website]. Available at https://grupocrecimientoverde.org/best-practice-guide-to-turn-net-zero-emissions-targets-into-climate-action-plans/

Objectives:

Calculation of emissions. Laragon calculates its carbon footprint through its Laragon Vision 2030 tool. It also sees it as essential to have a third party verify that the calculations made are correct and has contracted a certification company for this purpose.

Reduction target. As a member of the SME Climate Hub, **the company has committed to reduce its emissions by 50% by 2030**[177] and reach net zero emissions by 2040.

Action:

Energy efficiency. Laragon has renovated all the equipment in its facilities.

Eco transport. Laragon encourages the use of car sharing and public transport to get to the office. They have also invested in technology to promote teleworking.

Green suppliers. When choosing its suppliers, Laragon looks for companies with similar sustainable objectives and commitments to its own.

Governance:

Positioning and communicating climate action. Laragon is aware of the importance of communicating its actions in order to become a company with net zero emissions. For this purpose, they have sought to position themselves in organisations that help them to achieve this goal and have been members of the Spanish Global Compact Network since 2017. They have also been part of the Spanish Group for Green Growth since 2020 and the SME Climate Hub since 2021.

3. Challenges and lessons for the future:

Laragon's future goal is to continue to work towards achieving the sustainable development objectives set out in its strategy. Joining the SME Climate Hub has been an essential starting point for implementing the best business climate practices towards decarbonisation. In addition, **the company sees it as key to continue to seek out new organisations and companies to collaborate with towards a net zero emissions economy**.

The main challenges Laragon sees in the green transition are, on the one hand, to continue working on finding new and innovative digital solutions to help it meet its climate goals and, on the other hand, to make these technologies available to other companies regardless of their size or budget.

[177] Laragon (2021). *Laragon joins the SME Climate Hub committing to reduce its GHG emissions by 50% by 2030.* [Website]. Available at https://www.laragon.es/laragon-se-compromete-a-reducir-a-la-mitad-sus-emisiones-de-gei-antes-de-2030/

4. Design an emissions offsetting policy

The case studies in this report show that SMEs often start their sustainability journey by offsetting part or all of their emissions, possibly because it is a simpler process than deep decarbonisation that requires intervention in different branches of the company. However, t**o achieve net zero in our economy, scientific recommendations call for at least 90% emission reductions by 2050, while offsetting should be integrated into the SME climate action plan as a decarbonisation complement.**[178]

Therefore, designing an offset policy is included in this guide as the last step of this Pillar, being considered important once the starting point and the trajectory towards net zero are identified. **Once the SME has decided on the total percentage of emissions (>90%) it plans to reduce by 2050, the next step is to establish a strategy to neutralise the residual emissions (<10%)** that cannot be reduced due to technological difficulties. This neutralisation must be done by investing in permanent carbon removal solutions.[179] However, as highlighted by Climate Action Network International (a global network of civil society organisations involved in the fight against climate change), the potential of carbon removal technologies is still limited, so **emissions reductions must always be prioritised**.[180]

In the short term, and as the SME progresses in its decarbonisation, it is advisable to make an annual, voluntary offset of those emissions that could not be reduced to accelerate climate action outside the company's value chain. This can be achieved through carbon credits in high-quality projects, **such as nature-based solutions, which guarantee additional impact, avoid double counting of emissions, and are permanent and certified by a third party.**[181] Indeed, it is advisable to invest in those projects that favour the restoration and conservation of natural carbon sinks, as it provides many important co-benefits, especially in the face of other environmental crises, such as biodiversity loss and desertification and the loss of natural fertility and soil organic content.

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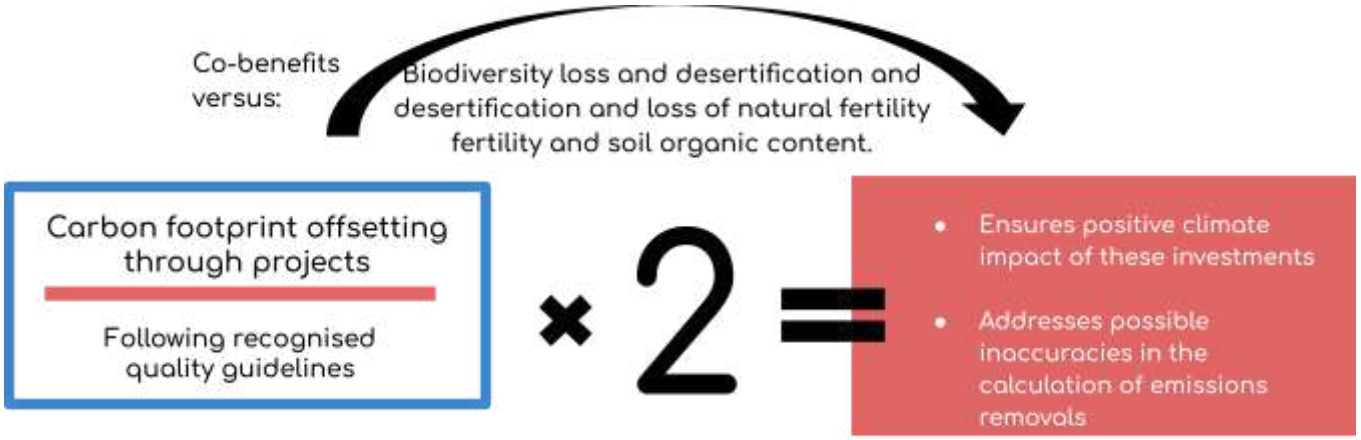
[178] Forética (2021). *Companies in Spain facing the challenge of decarbonisation*. Available at https://foretica.org/wp-content/uploads/cero_emisiones_netas_empresas_espana_descarbonizacion.pdf

[179] SBTI.(2022).*SBTi Target Validation Application for Small and Medium-Sized Enterprises (SMEs*). [Website]. Available at https://form.jotform.com/targets/sme-target-validation ; Climeworks is an example of an initiative where direct carbon sequestration projects can be invested in. Climeworks (2022). Join the fight against climate change. [Website]. Available at https://climeworks.com/ However, it is worth noting the high price that these projects can cost SMEs: as of today, according to the ClimeWorks website, the cost of offsetting is €1/kg CO2/month, or €12mil/T CO2/year.

[180] Climate Action Network (2021). *Carbon Capture, Storage and Utilisation*. Available at https://climatenetwork.org/wp-content/uploads/2021/01/can_position_carbon_capture_storage_and_utilisation_january_2021.pdf

[181] The principle of additionality means that the offsetting of a project can only be taken into account if that project would not have occurred in a business-as-usual scenario and without the funding dedicated to the purchase of credits. In addition, offset emissions can only be counted as such once. Finally, the project must ensure that the absorption of emissions is permanent, e.g. through protected and conserved reforestation, with no risk of disappearing.
Climate Partner (2022). *How do carbon offset projects contribute to climate neutrality?* [Website]. Available at https://www.climatepartner.com/en/news/what-makes-a-high-quality-carbon-offset-project

Offsetting through these projects should follow the most recognised quality guidelines to ensure that the project's carbon offsets are effective and consistent with the company's emissions, such as the Verified Carbon Standard[182] or the Gold Standard.[183] In addition, **to ensure the positive climate impact of these investments and to take into account possible inaccuracies in the calculation of emission removals, best practice suggests offsetting twice the company's emissions, a practice-led in Spain by Climate Strategy since 2009**. [184]

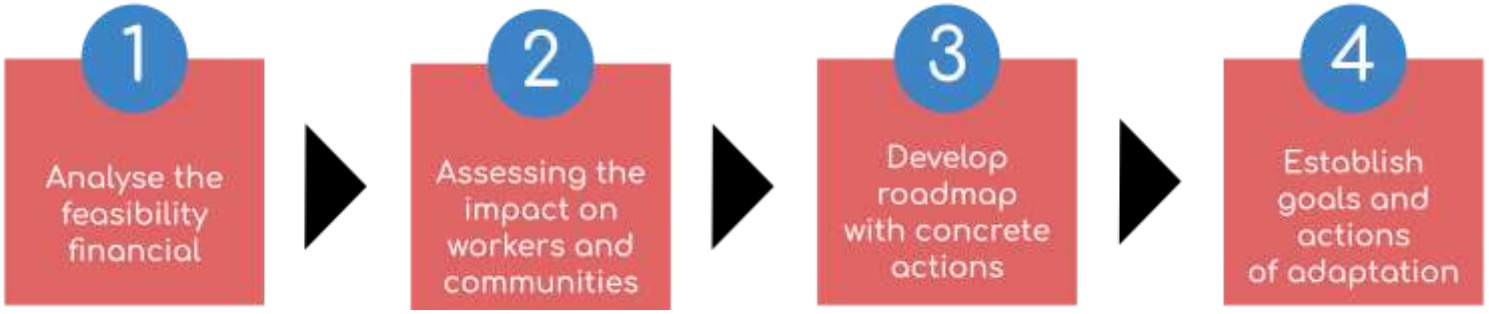


Omplim and Ecoterrae are examples of SMEs that annually offset their emissions that they have not been able to reduce through certified national projects (one promoted by the Generalitat in the case of Omplim and a reforestation programme in Spain in the case of Ecoterrae). There are national initiatives responsible for accounting and providing credits for carbon offsets, such as HuellaCero,[185] CeroCO2[186] and SACE (Sistema Andaluz de Compensación de Emisiones).[187] There are also offsetting programmes in different regions of Spain for those SMEs that are interested in making a positive contribution to their local communities, where their activities have the most impact. For example, Froxá participates in the Cantabria Chamber of Commerce project on carbon offsetting at source (which is based on blockchain technology for tracking and monitoring).[188] MITECO has a province search engine to find such local offset projects. [189]

While this type of voluntary offsetting can benefit a company's reputation and its climate ambition positioning, it should not detract from the importance of emissions reductions, which, while more complex, bring more benefits and opportunities.

[182] VERRA (2018). *The VCS Program*. [Website]. Available at https://verra.org/project/vcs-program/
[183] Gold Standard (2021). *A higher standard for climate security and sustainable development*. [Website]. Available at https://www.goldstandard.org/our-story/gold-standard-global-goals
[184] Exponential Roadmap Initiative (2020). *The 1.5° Business Playbook*. Available at https://exponentialroadmap.org/wp-content/uploads/2020/11/1.5C-Business-Playbook-v1.1.1pdf.pdf
[185] Zero Footprint. *Website*. Available at http://www.huellacero.com/
[186] ZeroCO2. *Website*. Available at https://www.ceroco2.org/
[187] Junta de Andalucía (2022). *Andalusian Emissions Compensation System (SACE)*. [Website]. Available at https://www.juntadeandalucia.es/medioambiente/portal/web/cambio-climatico/indice/-/asset_publisher/hdxWUGtQGkX8/content/sistema-andaluz-de-compensaci-c3-b3n-de-emisiones-sace--1/20151
[188] Chamber of Cantabria (2022). *Carbon Footprint Offsetting*. [Website]. Available at https://www.camaracantabria.com/medio_ambiente/huella_carbono.php
[189] MITECO. (2022). *Absorption project finder*. [Website]. Available at https://www.miteco.gob.es/es/cambio-climatico/temas/mitigacion-politicas-y-medidas/buscador_proyectos.aspx

Pillar 2: Climate Action



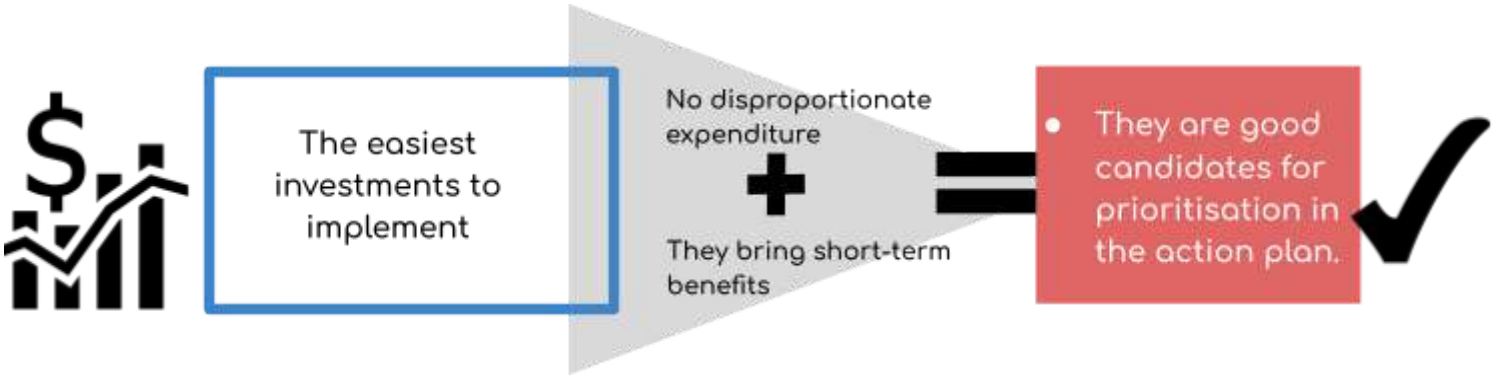
After analysing and defining the emissions reduction trajectory towards net zero, the next step is to establish concrete actions to achieve it.

Spanish SMEs understand the risks of climate change for their business and that acting on them is important. However, due to various barriers such as lack of funding or knowledge and, so far, a weak legislative push, **SMEs have, in general, implemented selective and *ad hoc* decarbonisation actions in areas where climate awareness is already predominant among their stakeholders**.

There are still untapped and possibly lesser-known green practices that also bring extensive benefits and can contribute to a deeper green transition. **It will also be essential to assess the impact of these actions on the company's activities, workers and communities so that the most appropriate measures can be defined to ensure positive and just transition impacts.**

Any climate action plan has to be economically justified in the long term. The opportunity analysis explained in the first pillar of "Objectives" highlights **numerous benefits for the company's finances, such as reduced energy consumption, increased production capacity, improved product demand and competitiveness and, looking ahead, enhanced resilience.** It is this analysis that should guide the priority emission reduction actions in the SME's climate action plan.

Investments that are easier to implement, as they do not entail disproportionate costs for SMEs and bring short-term benefits, are good candidates for prioritisation in the action plan. The case studies in this report show several examples of these practices, such as the installation of LED lighting in the Jardines de Alfabia or iSIMAR buildings, the contracting of a low-energy laundry supplier by Ecodicta and the contracting of green electricity suppliers by Laragon.



Actions that require more costly investments and/or bring more long-term benefits are often less attractive at first sight for SMEs, even if their impact on emissions reduction is significant. For example, the acquisition of a fleet of electric vehicles by Froxá or the buildings insulation of Balneario Ariño. Financial support is key to encouraging this type of action.

The Climate Strategy questionnaire and the consultation process have shown that lack of finance is the main barrier to ambitious climate action in Spanish SMEs. The survey of the General Council of Economists also indicates that SMEs perceive the lack of public support, the cost of implementing sustainability policies and the lack of financial resources as the main barriers.[190] It is important to devise a climate action plan that brings better returns for the company when SMEs are struggling to survive the Covid-19 economic conditions and the energy-economic crisis arose from Russia's war in Ukraine.

However, **several public and private initiatives have been identified at national and regional level on green practices implementation in SMEs.** The following is a non-exhaustive list of examples of such support, which does not cover all the Autonomous Communities but serves as a guide for those SMEs that want to start looking for funding opportunities:

European level	National level	Regional level					
		Balearic Islands	Cantabria	Community of Madrid	Aragon	Catalonia	Cáceres
Next Generation EU Aid for the sustainable and digital transition of SMEs	Industrial Entrepreneurship Support Programme for SMEs Major credit institutions, including BBVA, Santander, Sabadell and Caixabank	Grants for the installation of renewable energies and energy efficiency Up to 45% of the total of eligible cost	Chamber of Cantabria + ERDF Sustainability Programme for SMEs. In 2022 total budget 337.000€ and 3.500€ maximum per SME.	Aid for energy efficiency and renovation 5.5M€ by 2022	Energy efficiency in SMEs 20M€ by 2022	ICF EcoVerde Loans of €2.5m for sustainable investments	Improving the competitiveness of small retail trade Energy efficiency. Grants of up to €30,000 per establishment by 2022.
European Regional Development Fund (ERDF) Energy efficiency SMEs in the industrial sector -Balearic Islands: €1M -Cantabria: +4M€. -Madrid: +12M€. -Aragon: +€10M	FondICO SME 250M investment in strategic or innovative sectors such as sustainability	Aid for the purchase of electric vehicles Up to 4000 € per vehicle	Programme to support SMEs for sustainable transport and digital Budget +1M€	Grants for sustainable mobility in the city of Madrid Transport-intensive SMEs. 1M€ by 2022	MEMTA Project Job creation green and digital in populations (<5k inhabitants)	ICAEN 112M€ self-consumption aid and use of renewable energy sources	Aid for sustainable mobility Financing of up to €5000 by 2023.
	Green Private Finance -Santander Commitment 2025: 120,000 M€. -BBVA Commitment 2025: €100,000m -CaixaBank Commitment 2024: €64,000m	Energy efficiency in agricultural installations Up to € 30000 per aid				PREE5000 5,5M€. Energy rehabilitation in buildings	

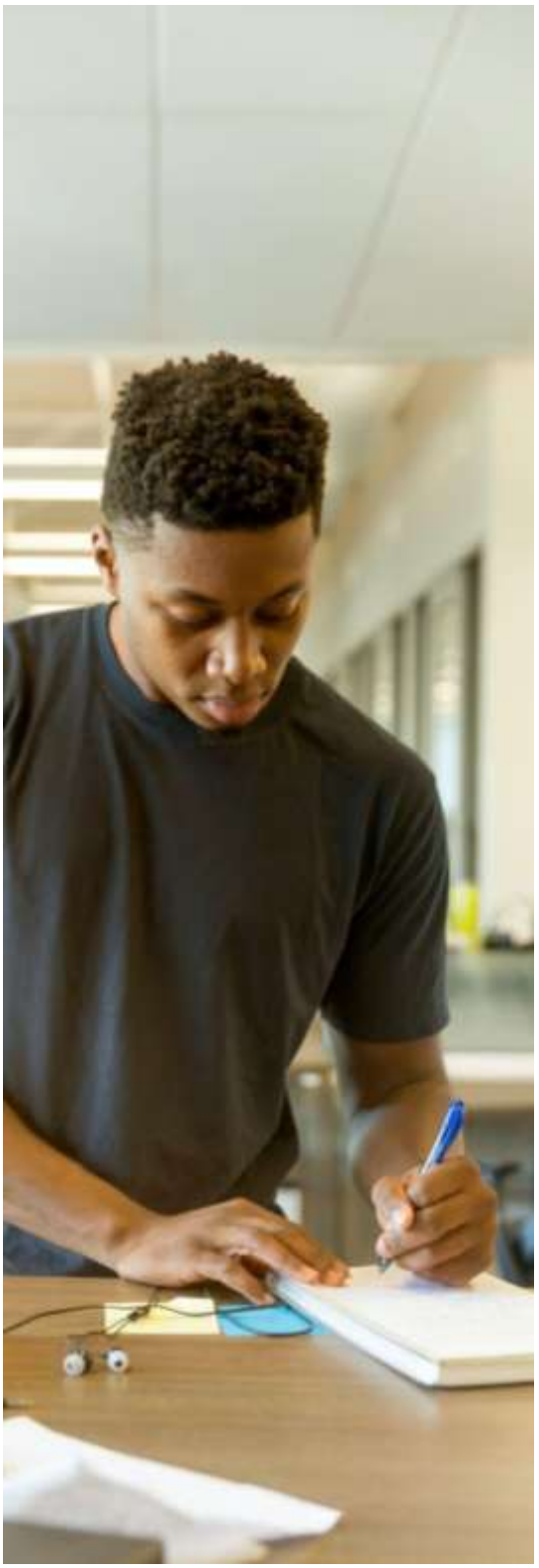
[190] Consejo General de Economistas & Consejo General de la Ingeniería Técnica Industrial de España (2021). *Sustainable development of SMEs in Spain.* Available at https://economistas.es/Contenido/Consejo/Estudios%20y%20trabajos/Estudio%20Desarrollo%20sostenible%20de%20la%20pyme%20en%20Espa%C3%B1a.pdf

2. Assess the impact of the SME's transition on its workers and local communities.

Once the financial feasibility of the climate action plan for the company has been analysed, the next step is to analyse the feasibility for its employees and relevant local communities. Namely, **what risks can implementing reduction actions, such as new technologies or processes, pose on these stakeholders?. What benefits and opportunities can the implementation of the Plan bring them, positively impacting also on the performance of the SME?** As the survey and case studies show, stakeholder relations are key to business decisions in SMEs, which explains why stakeholder consultations are the most predominant climate governance action (29% of respondents). The *ad hoc* and reactive response to stakeholder expectations on sustainability practices is the result of this influence.

These questions to be asked by SMEs aim to ensure that the decarbonisation of their activities contributes to global and national efforts[191] towards a just transition. **In other words, a process of decarbonisation of the economy that not only focuses on emission reductions but also creates new jobs, helps eradicate poverty and builds healthier, more equitable and climate-resilient communities.**[192] To this end, it is recommended to establish a social dialogue with workers and their trade unions and with local communities and their associations. This dialogue serves to help better identify the risks and benefits of the company's transition in areas relevant to these stakeholders and co-create a climate action plan that responds to them.[193]

[191] MITECO. (2019). *Just Transition within the Strategic Framework for Energy and Climate*. Available at https://www.miteco.gob.es/es/prensa/etj-castellano-interactivo_tcm30-505654.pdf
[192] Just Transition Centre and B Team (2018). *Just Transition: A Business Guide*. Available at https://bteam.org/assets/reports/Just-Transition-A-Business-Guide.pdf
[193] Ibid.



The decarbonisation of an SME entails the adoption of new practices, processes and technologies that may be abrupt for its employees. When taking into consideration the required investment needs in social protection and training, the company is working to avoid potential legal and reputational risks. At the same time, it ensures its competitiveness and productivity, which could have been damaged by the lack of adaptation of its workers, increasing costs and reducing the company's productive capacity.

Open communication with the local community on how the transition of the SME can bring benefits to the local economy also helps to strengthen its brand and reputation and thus improve its customer base.[194] In addition, there are grants launched by the Institute for Just Transition[195] targeting small projects that, for example, generate employment in areas affected by mining restructuring. This type of funding can be useful for SMEs looking to start new green activities that also benefit local employment and development.

In short, the implementation of a climate action plan that strives to achieve these positive impacts and based on a dialogue of consultation and co-creation ensures social support for the SME's climate action. This is key for these small-scale enterprises where maintaining good relations is part of their sales strategy.[196] Moreover, this dialogue lays the groundwork for exploring new business opportunities and innovative reforms to improve SME performance.[197] As the Government centres its climate plans and investments on just transition, focusing on the impacts of SME decarbonisation and establishing a social dialogue plan also improves the chances of securing external finance to support the more costly climate actions identified in the Plan.

[194] Ibid
[195] MITECO. *Just Transition Aid.* [Website]. Available at https://www.transicionjusta.gob.es/ayudas/tipos_ayudas/index-ides-idweb.asp
[196] Junta de Andalucía (2014). *Business development and strategy: SMEs and large companies.* Disponible en http://agrega.juntadeandalucia.es/repositorio/15102010/26/es-an_2010101513_9120001/EA2_U2_T3_Contenidos_v04.pdf
[197] Ibid

3. Develop a roadmap with concrete actions

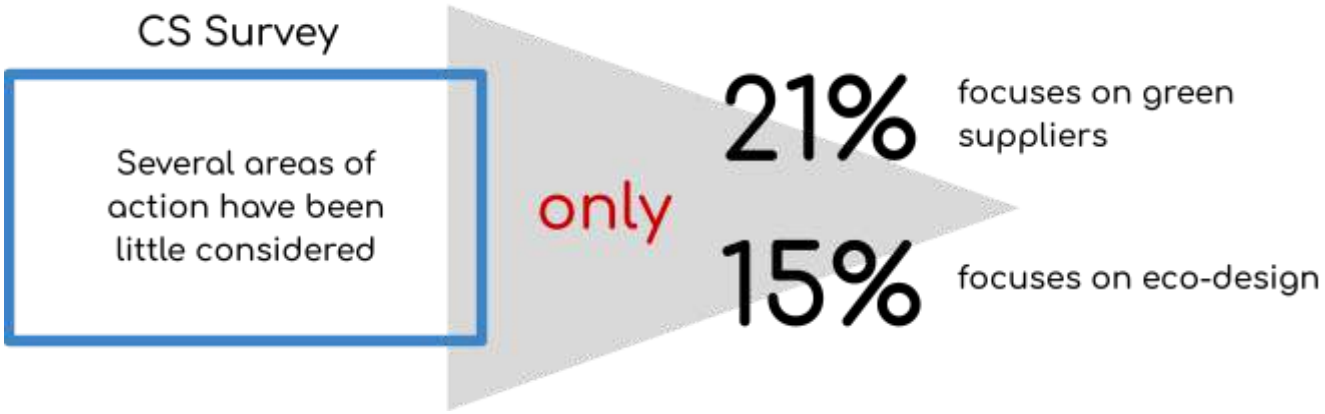
Defining a roadmap aligned with the SME's climate objectives depends largely on the sector in which it operates and the activities it carries out in the value chain, as the materiality of the emissions will be at different action points. For example, while for Froxá the distribution of its products is an important area for action, in the case of Omplim ensuring that the materials used for the construction of its buildings are sustainable is a priority.

In addition, based on the company's own analysis of the financial viability of the Plan and the impacts on workers and local communities, a particular action may be needed at different times in the trajectory set by each company. In view of the SME economic situation, **simpler actions requiring less investment may be prioritised earlier in the roadmap while studying funding opportunities and ways to implement other more in-depth actions.** The Balneario Ariño, which since its origin was financed by public funds, has taken into account their activities sustainability and installed photovoltaic panels in their facilities. On the other hand, Alfabia, which is still studying how to overcome the legal barriers to implement renewable energy technologies in rural areas, has started by changing the lighting in its buildings to a more efficient one.

After an evaluation of several studies focusing on best business climate practices, in particular, those that collect the Spanish experience in SMEs,[198] and the recommendations of international initiatives, in particular those of the SME Climate Hub, 6 priority action areas have been identified and applicable to most sectors. **The following (non-exhaustive) list can help SMEs to elaborate a holistic plan in line with their climate objectives, integrating various green solutions targeted at their different business branches and value chain to tackle all emission scopes (1, 2 and 3).**

[198] Quintás. M, Martínez-Senra. A and Sartal, A. (2018). *The Role of SMEs' Green Business Models in the Transition to a Low-Carbon Economy: Differences in Their Design and Degree of Adoption Stemming from Business Size.* Sustainability N°10. Available at https://www.mdpi.com/2071-1050/10/6/2109

This is one of the main gaps identified by the Climate Strategy questionnaire, which finds that the decarbonisation strategies of the SMEs surveyed do not touch on parts of their activities that may be material to their emissions. Several areas of action have been poorly considered by respondents; for example, only 21% focus on green suppliers and 15% on eco-design. Other **studies show that many of the actions that have been predominantly implemented in Spanish SMEs in recent years have not been effective in reducing their emissions (such as mere recycling without taking into account alternatives such as waste prevention or reuse).**[199] On the contrary, the actions included in the following list have a high potential to create and contribute significant ecological value.



- **Energy Efficiency**

A study by the EU's Joint Research Centre (JRC) finds that there are few initiatives focused on improving the energy performance of companies.[200] As an example, it refers to the SBTi initiative, recognised for its strict validation of corporate climate targets, which allows these targets to be met by using 100% renewable energy without first requiring a reduction in consumption. **Any SME's plan should include coordination of its energy efficiency solutions to reduce its energy consumption to a minimum and then be covered by renewable energy.**[201] This principle of **"energy efficiency first" aligns with European recommendations**[202] and Spain's climate plans,[203] being more relevant than ever given the new exceptional measures to save energy and reduce gas dependency in view of the winters of 2022 and 2023. [204]

[199] Ibid
[200] Mac Nulty. H, Thollander. P, Bertoldi. P, & Vetters, N. (2021). *Company-focused initiatives mapping analysis and recommendations for an EU Corporate Covenant.* JRC Science Policy Report. Available at http://www.atok.cz/folders/aktdok/prilohy/Invitation-to-provide-feedback-on-the-forthcoming-EU-Corporate-Covenant-Initiative/EU-Corporate-Covenant-Study-2021---Full-report--13-09-21.pdf
[201] Ibid
[202] Commission Recommendation (EU) 2021/1749 of 28 September 2021 on Energy Efficiency First: From principles to practice - Guidelines and examples for application in energy decision-making and beyond, OJEU No. 350 of 4 October 2021, pages 9-59 (51 p.)
[203] MITECO. (2020). *National Integrated Energy and Climate Plan 2021-2030.* [Website]. Available at https://www.miteco.gob.es/images/es/pnieccompleto_tcm30-508410.pdf
[204] Royal Decree-Law 14/2022, of 1 August, on economic sustainability measures in the field of transport, grants and study aids, as well as energy saving and efficiency measures and measures to reduce energy dependence on natural gas. "BOE" no. 184, of 2 August 2022, pages 111381 to 111463 (83 pages).

Prioritising efficiency guarantees a cost reduction in the SME's energy bill, as well as a less costly investment in self-consumption technologies. **Spanish SMEs have a savings potential of 24.14% of total consumption.**[205] Despite the lack of attention highlighted in the JRC study, it is positive to find that energy efficiency is one of the most implemented actions among the Spanish SMEs surveyed (38%).

Furthermore, the case studies show that **energy efficiency is a predominant practice among sustainability leaders**, be it through the use of more efficient suppliers, such as the contracting of a green laundry at Ecodicta, or the prioritisation of real estate projects with high-efficiency certificates at Omplim, or the use of more modern and efficient machinery at Laragon and Balneario Ariño.

As demonstrated by the different solutions implemented in these SMEs of various sectors and sizes, there are many alternatives that a company can consider to reduce its energy consumption in various activities. **In order to identify the most appropriate solutions for a particular SME and to know the potential for reducing consumption, the first key step is to carry out an energy audit**.[206] This is a very rare practice in Spain (only 6% of SMEs have carried out an energy audit in recent years),[207] but it is estimated that an SME can identify between 15% and 30% energy savings with a complete audit.[208] In addition, **state aid is available to support SMEs in carrying out such audits.**[209] **It is essential to mobilise their participation in these grants, as in recent years only 10% of SMEs have tried to apply for energy efficiency grants**. [210]

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[205] "8.8% of which corresponds to lighting savings and 15.4% to lighting savings.
the rest of energy uses". Naturgy Foundation. *9th Index of Energy Efficiency in SMEs*. [Website]. Available at https://www.fundacionnaturgy.org/publicacion/9a-indice-de-eficiencia-energetica-en-las-pymes/

[206] Quintás. M, Martínez-Senra. A and Sartal, A. (2018). *The Role of SMEs' Green Business Models in the Transition to a Low-Carbon Economy: Differences in Their Design and Degree of Adoption Stemming from Business Size.* Sustainability N°10. Available at https://www.mdpi.com/2071-1050/10/6/2109 ;
Mac Nulty. H, Thollander. P, Bertoldi. P, & Vetters, N. (2021). *Company-focused initiatives mapping analysis and recommendations for an EU Corporate Covenant.* JRC Science Policy Report. Available at http://www.atok.cz/folders/aktdok/prilohy/Invitation-to-provide-feedback-on-the-forthcoming-EU-Corporate-Covenant-Initiative/EU-Corporate-Covenant-Study-2021---Full-report--13-09-21.pdf.;
MITES (2021). *Good practice guide for SMEs and the self-employed.* Available at https://www.vidasostenible.org/wp-content/uploads/2021/03/Gui%CC%81a-Buenas-Pra%CC%81cticas_fvs-24-03-2021.pdf

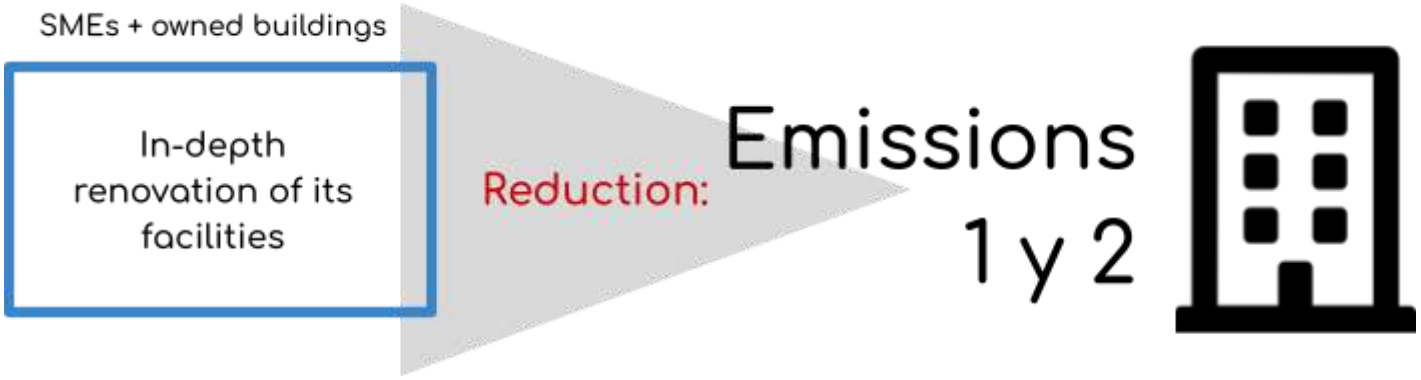
[207] Naturgy Foundation. *9th Index of Energy Efficiency in SMEs*. [Website]. Available at https://www.fundacionnaturgy.org/publicacion/9a-indice-de-eficiencia-energetica-en-las-pymes/

[208] Quintás. M, Martínez-Senra. A and Sartal, A. (2018). *The Role of SMEs' Green Business Models in the Transition to a Low-Carbon Economy: Differences in Their Design and Degree of Adoption Stemming from Business Size.* Sustainability N°10. Available at https://www.mdpi.com/2071-1050/10/6/2109

[209] Royal Decree-Law 263/2019, of 1 August, which regulates the aid programme for energy efficiency actions in SMEs and large companies in the industrial sector. "BOE" no. 89, of 13 April 2019, pages 38664 to 38691 (28 pages).

[210] Naturgy Foundation. *9th Index of Energy Efficiency in SMEs*. [Website]. Available at https://www.fundacionnaturgy.org/publicacion/9a-indice-de-eficiencia-energetica-en-las-pymes/

Once the areas of highest consumption have been identified, it is time to establish concrete actions to reduce consumption.[211] For those SMEs that operate within their own buildings, a **thorough renovation** of their facilities is an opportunity to reduce their consumption and therefore their Scope 1 and 2 emissions, while contributing to the goal of gas energy independence.[212] This can consist of: improving the insulation of buildings (already done by Balneario Ariño), installing smart thermostats and air-source heat pumps,[213] using LED lighting (action implemented by Jardines de Alfabia), among others.



SMEs that promote teleworking among their employees should include awareness raising on the importance of renovating their housing within the social dialogue (step 2 of this Pillar).[214] These building technical improvements should also be followed by changes in behaviour towards **more efficient**, or "sufficient", **habits in line** with the new decree on saving measures. For example, lowering the average office temperature by 1°C (with a maximum of 19°C according to the decree),[215] which can reduce energy consumption by 8%,[216] limiting air conditioning to 27°C,[217] frequent switching off of lights and electrical appliances, control of refrigerators, ovens and boilers, etc.[218]

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[211] MITES (2021). *Good practice guide for SMEs and the self-employed.* Available at https://www.vidasostenible.org/wp-content/uploads/2021/03/Gui%CC%81a-Buenas-Pra%CC%81cticas_fvs-24-03-2021.pdf

[212] Peter Sweatman (2022). *How building refurbishment can help Spain's energy independence and decarbonisation.* EsadeEcPol Insight Nº35. Available at https://www.esade.edu/ecpol/wp-content/uploads/2022/05/AAFF_ESP_EsadeEcPol_Insight35_EmergencyEnergy_DEF-1.pdf

[213] Ibid.

[214] SME Climate Hub (2022). *Climate Fit Education course.* [Website]. Available at https://smeclimatehub.org/climate-fit/

[215] Royal Decree-Law 14/2022, of 1 August, on economic sustainability measures in the field of transport, grants and study aids, as well as energy saving and efficiency measures and measures to reduce energy dependence on natural gas. "BOE" no. 184, of 2 August 2022, pages 111381 to 111463 (83 pages).

[216] SME Climate Hub (2022). *Climate Fit Education course.* [Website]. Available at https://smeclimatehub.org/climate-fit/

[217] Royal Decree-Law 14/2022, of 1 August, on economic sustainability measures in the field of transport, grants and study aids, as well as energy saving and efficiency measures and measures to reduce energy dependence on natural gas. "BOE" no. 184, of 2 August 2022, pages 111381 to 111463 (83 pages).

[218] Some of the most widespread energy efficiency habits in SMEs according to the Naturgy Foundation study are: Use of flat monitors in computer equipment (85%). Control of cold rooms: airtight enclosure, maintenance of control and regulation elements, automatic defrosting, adaptation of the temperature to the product (more than 70% of those with cold rooms). Control of ovens in industry: maintenance of the good state of the seal, working at full load, use of programmable controllers (more than 70% of industries with ovens). Control of boilers in industry: control of emissions, regulation and regular cleaning of burners (72% and 94%, respectively). Independent lighting in all areas of the facilities (79%). Naturgy Foundation. *9th Index of Energy Efficiency in SMEs.* [Website]. Available at https://www.fundacionnaturgy.org/publicacion/9a-indice-de-eficiencia-energetica-en-las-pymes/

Production methods are also a source of considerable GHG emissions where making changes to **more efficient machinery, technologies and processes**[219] should bring significant reductions in consumption and Scope 1 and 2 emissions. In fact, it is estimated that this is the measure that contributes most to energy savings in SMEs (225.92 ktoe/year).[220] Balneario Ariño or Laragon are examples of leading SMEs that have decided to change their machinery to more efficient ones. Identifying these more efficient methods can help to consider **trigeneration and cogeneration** technologies[221] for combined production. [222]

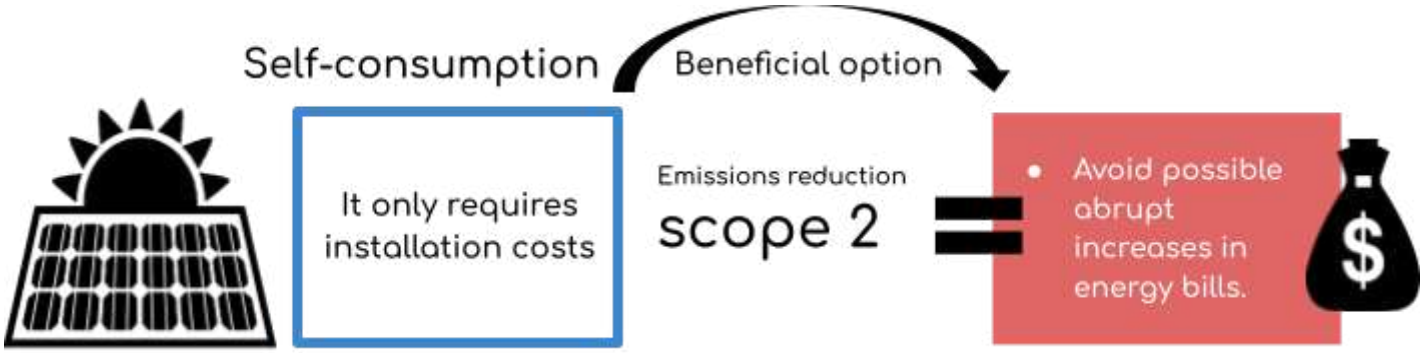
Finally, implementing an **energy management system** (ISO 15001) contributes to the long-term integration of energy efficiency practices in SMEs[223] and can help to save 16.51 ktoe/year.[224] This is a practice that is still not predominant among Spanish SMEs.[225]

[219] Quintás. M, Martínez-Senra. A and Sartal, A. (2018). *The Role of SMEs' Green Business Models in the Transition to a Low-Carbon Economy: Differences in Their Design and Degree of Adoption Stemming from Business Size.* Sustainability N°10. Available at https://www.mdpi.com/2071-1050/10/6/2109
[220] MITECO. (2014). *National Energy Efficiency Action Plan 2014-2020.* Available at https://ec.europa.eu/energy/sites/ener/files/documents/NEEAP_2014_ES-es.pdf
[221] "Cogeneration systems, which are combined systems for producing both heat and power, save a considerable amount of energy compared to the separate production of the same amount of heat (from conventional combustion generators) and power (from conventional power plants). Trigeneration systems are based on combined heat and power systems together with absorption chillers using cogeneration."
[222] Quintás. M, Martínez-Senra. A and Sartal, A. (2018). *The Role of SMEs' Green Business Models in the Transition to a Low-Carbon Economy: Differences in Their Design and Degree of Adoption Stemming from Business Size.* Sustainability No. 10. Available at https://www.mdpi.com/2071-1050/10/6/2109; SME Climate Hub. (2022). *Climate Fit Education course.* [Website]. Available at https://smeclimatehub.org/climate-fit/
[223] MITES (2021). *Good practice guide for SMEs and the self-employed.* Available at https://www.vidasostenible.org/wp-content/uploads/2021/03/Gui%CC%81a-Buenas-Pra%CC%81cticas_fvs-24-03-2021.pdf
[224] MITECO. (2014). *National Energy Efficiency Action Plan 2014-2020.* Available at https://ec.europa.eu/energy/sites/ener/files/documents/NEEAP_2014_ES-es.pdf
[225] "The most widespread inefficient habits among the population are the following: Not having an energy management system (94%). Not having any quality, energy or environmental management system (ISO type or similar) (88%)". Naturgy Foundation. *9th Index of Energy Efficiency in SMEs.* [Website]. Available at https://www.fundacionnaturgy.org/publicacion/9a-indice-de-eficiencia-energetica-en-las-pymes/

- **Renewable energies**

Once consumption reduction potentials have been identified, the next step is to ensure that the rest of the company's energy demand comes from 100% renewable energy (solar, wind or geothermal energy),[226] thus eliminating any use of fossil fuels. SMEs have various alternatives for this and the identification of the most appropriate one will depend on various factors such as their location (as an example, the case of Jardines de Alfabia, which has had problems with the installation of photovoltaic panels as it is in a rural area), their facilities and their activities, among others. The Climate Strategy questionnaire shows that this practice is starting to be considered by SMEs (31%).[227]

Self-consumption[228] is one of the most beneficial options for reducing Scope 2 emissions, as it only requires an investment in the installation and protects against abrupt increases in the company's energy bill. However, it requires a first technological investment in e.g. solar panels, which may be important for some SMEs. State aid is already available to support companies in this investment, as the previous section on financial viability shows. Several of the case studies have started their journey towards self-consumption, some with financial support such as Froxá, which installed its first solar panels in 2018 with ERDF funds from Cantabria, or Balneario Ariño, which has added panels to its vertical gardens. In the case of iSiMAR, the company decided to install photovoltaic panels as a result of the energy crisis, managing to reduce high costs and self-supply 62% of its energy consumption.



As exemplified by the case of Alfabia, some facilities may face legal or technical barriers to the implementation of self-consumption technologies. Other SMEs may not have control over the facilities or offices where they work, and others may consider the financial barrier as too much of a hurdle to overcome. For these cases, another alternative is to contract with **renewable energy suppliers,**[229] something that has already been done, for example, by Laragon.

[226] Quintás. M, Martínez-Senra. A and Sartal, A. (2018). *The Role of SMEs' Green Business Models in the Transition to a Low-Carbon Economy: Differences in Their Design and Degree of Adoption Stemming from Business Size.* Sustainability N°10. Available at https://www.mdpi.com/2071-1050/10/6/2109
[227] This result is more positive than the one found in the Spain 2021 Eurobarometer (only 18% of SMEs use renewable energy). According to the Spain 2021 Eurobarometer the figure is lower: 16% of SMEs claim to have a plan to reduce their carbon footprint. In addition, 14% claim to be planning to define a strategy. European Commission (2022). *Eurobarometer SMEs, resource efficiency and green markets.* NO. 498. Available at https://europa.eu/eurobarometer/surveys/detail/2287
[228] Recommended by: SME Climate Hub (2022). *Climate Fit Education course.* [Website]. Available at https://smeclimatehub.org/climate-fit/
[229] Ibid.

Finally, **on-site power purchase agreements** (PPAs) are becoming increasingly common[230] (PPAs). These are long-term contracts between a renewable energy project developer and a company for the latter to finance one of its projects.

If an SME were to sign a 5-year PPA today, it is estimated that it could save 35% of its energy costs, and if it were to sign a 10-year PPA, it would save 10%.[231] However, PPAs can be complex for a small business and there is also an opportunity cost, as what is cheap today may not be so in a few years. Therefore, before signing such a contract, it is advisable for the SME to get advice.[232] To avoid risks, the longer the contract, the less the company will end up paying. The SME also can enter into a contract with neighbouring companies for the supply of surplus renewable energy, as in the case of iSiMAR.

- **Eco Transport**

Transport, whether of people or goods, is an energy-intensive activity[233] and is ,therefore, often one of the main sources of emissions in SMEs (Scope 1 or 3).[234] In addition, **business vehicles travel on average more kilometres annually, which means that they are responsible for more than two-thirds (72%) of the CO2 emissions of all new registrations.**[235] Despite the benefits that greener and more efficient transport can bring to a company's portfolio, it is not a predominant practice according to our survey - only 26% of respondents say they have implemented these solutions.

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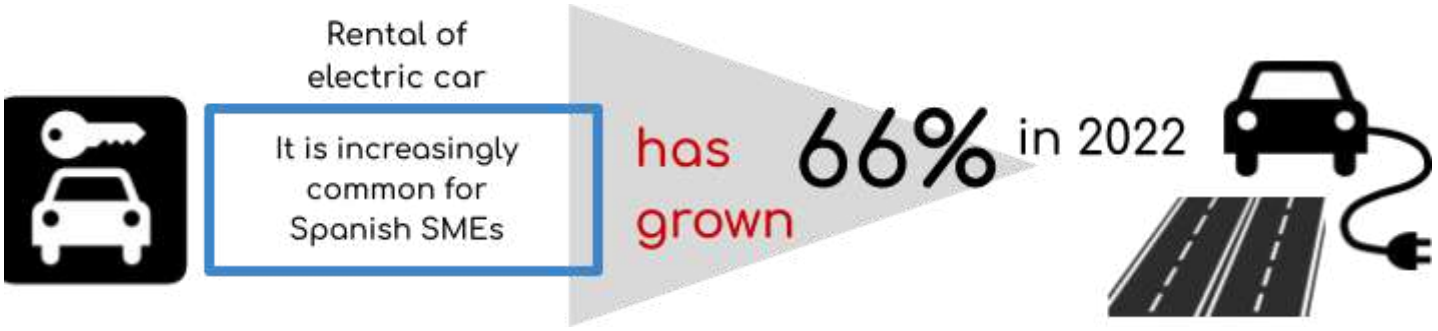
[230] Ibid.
[231] Cinco días (2021). *How can SMEs escape the upward spiral of electricity prices*. [Website]. Available at https://cincodias.elpais.com/cincodias/2021/11/16/companias/1637062362_138032.html
[232] Ibid.
[233] MITMA (2020). *Pollutant emissions from transport*. [Website]. Available at https://observatoriotransporte.mitma.es/inform/es/2020/sostenibilidad-ambiental/-emisiones-y-eficiencia-ambiental/emisiones-contaminantes-del-transporte
[234] SME Climate Hub (2022). *Climate Fit Education course*. [Website]. Available at https://smeclimatehub.org/climate-fit/
[235] Transport & Environment (2022). *The Spanish corporate fleet is responsible for more than two thirds of new vehicle emissions*. [Website]. Available at https://www.transportenvironment.org/discover/la-flota-corporativa-espanola-es-responsable-de-mas-de-dos-tercios-de-las-emisiones-de-los-nuevos-vehiculos/

The most effective option to reduce the impact of transport on a company's emissions is the use of **electric vehicles** to replace internal combustion vehicles (ICE) with petrol and diesel.[236] This has been the strategy of Froxá, which decided to switch its entire fleet to electric vehicles to distribute its food products. However, the company encountered barriers maximising this practice, as the current road infrastructure is insufficient to guarantee the autonomy of these vehicles over long distances. In addition, acquiring electric vehicles is a significant upfront investment, so it is a positive development to see the introduction of state financial support programmes for their acquisition. The rental of electric cars by SMEs is also an alternative that is becoming more common in Spain, having increased by 66% in 2022. [237]



Other efficiency actions can be taken as the SME studies and addresses these barriers as it progresses towards an eco-friendly vehicle fleet. For SMEs where road distribution of goods is part of their activities (Scope 1), establishing an **efficient driving** strategy[238] is a simple short-term measure, which also leads to a reduction in their operating costs by requiring less fuel use. This can be done by collecting data on the company's logistics, such as distribution routes, kilometres driven and amount of fuel used, which can then be used to design an optimisation strategy. [239]

This strategy should include fuel consumption targets in line with SME decarbonisation targets to align both trajectories. **IDAE has a guide that can assist in developing this strategy by focusing comprehensively on a range of efficient driving practices that address both vehicle control and driver responses and attitudes.**[240] In the case of third-party distribution, there are options for contracting companies using electric vehicles, such as Ecodicta and the use of Correos Express services.

[236] MITES (2021). *Good practice guide for SMEs and the self-employed*. Available at https://www.vidasostenible.org/wp-content/uploads/2021/03/Gui%CC%81a-Buenas-Pra%CC%81cticas_fvs-24-03-2021.pdf
[237] Northgate (2022). *SMEs opt for electric vehicle leasing*. [Website]. Available at https://www.northgate.es/sobre-nosotros/actualidad/2022/06/las-pymes-apuestan-por-el-renting-de-electricos
[238] SME Climate Hub (2022). *Climate Fit Education course*. [Website]. Available at https://smeclimatehub.org/climate-fit/
[239] Ibid.
[240] IDAE. (2021). *Guide to efficient driving of commercial vehicles*. Available at https://www.idae.es/sites/default/files/documentos/publicaciones_idae/documentos_10320_conduccion_eficiente_veh_industriales_a2011_a_982a7098.pdf

When the company receives goods from long distances (scope 3), it is recommended to prioritise **transport by train or sea,**[241] as they are the most environmentally friendly options due to their lower emissions compared to air transport.[242] A predominant alternative among Spanish SMEs that avoids long-distance transport emissions is to contract **local suppliers**, following a "KM 0" policy.[243] This is the case of: Omplim, which uses suppliers less than 20 KM away for its works; Balneario Ariño, whose consumed goods come mostly from suppliers in the same region; Carmela Caramela (case no. 9), which uses mostly textiles from Spanish producers. These types of policies also contribute to a just green transition that promotes local development and have a positive impact on the SME's relations with the community.

Finally, in relation to the transport of SME employees (scope 3), establishing policies that encourage the use of **public transport**[244] and its promotion in social dialogues would contribute to reducing this source of emissions. **A 2011 census shows that in Spain 61.5% of commuting to work was by private car and only 17.6% by public transport and 2.3% by bicycle**.[245] The IDAE guidelines recommend companies to establish Transport to Work Plans agreed and agreed with employees[246] which are developed through a technical study with the collection of data and information on the problems and dysfunctions that exist in the transport of employees. Based on this diagnosis, corrective measures and actions within the company's reach are established to promote more environmentally friendly mobility.[247] **They can reduce at least 15% of commuting to work by car**.[248]

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[241] SME Hub: Ships often use low-quality fuels, and their engines are often not optimised to reduce emissions. However, some shippers offer low-emission transport options using better fuel that they can explore with their shipping providers.
[242] MITMA (2020). *Pollutant emissions from transport.* [Website]. Available at https://observatoriotransporte.mitma.es/inform/es/2020/sostenibilidad-ambiental/-emisiones-y-eficiencia-ambiental/emisiones-contaminantes-del-transporte
[243] MITES (2021). *Good practice guide for SMEs and the self-employed.* Available at https://www.vidasostenible.org/wp-content/uploads/2021/03/Gui%CC%81a-Buenas-Pra%CC%81cticas_fvs-24-03-2021.pdf
[244] Ibid.
"Use transport maps and similar tools so that each company employee can design his or her own low-impact transport menu. The idea is to identify the different alternatives other than the car for the journey between home and the workplace: public transport, carpooling, cycling and walking. Company management should promote incentives for the use of public transport and create infrastructure (changing rooms, showers, etc.) for users of bicycles and/or roller skates. Incentives can also be considered in the form of providing transport passes or similar instruments. Another option is to provide financial incentives for employees who park their cars and cycle or walk to work.
[245] IDAE. (2021). *Mobility to work: a pending challenge.* Available at https://www.idae.es/sites/default/files/la_movilidad_al_trabajo_un_reto_pendiente_dgt_idae_junio_2019.pdf
[246] For more information on how to develop a Transport to Work Plan: IDAE. (2021). *Transport to Work Plans.* Available at https://www.movilidad-idae.com/sites/default/files/2019-06/Guia-IDAE-019_PTT.PDF ; IDAE. (2021). *Mobility to work: a pending challenge.* Available at https://www.idae.es/sites/default/files/la_movilidad_al_trabajo_un_reto_pendiente_dgt_idae_junio_2019.pdf
[247] IDAE. (2021). *Mobility to work: a pending challenge.* Available at https://www.idae.es/sites/default/files/la_movilidad_al_trabajo_un_reto_pendiente_dgt_idae_junio_2019.pdf
[248] Ibid.

Promoting **teleworking** is another option, although it does not always mean a reduction in emissions: **heating a home for 1 hour and 15 minutes can offset the positive impacts of avoiding commuting**. It is therefore essential to ensure efficient and responsible consumption in workers' personal homes (see section on energy efficiency). [249]

Laragon is an example of an SME promoting the use of public transport and teleworking, while recognising and monitoring emissions in individual homes. Business travel is a source of emissions that the SME can easily act on by including a policy that prioritises **videoconferencing** and, if necessary, travel by train when possible.[250]

[249] MITES (2021). *Good practice guide for SMEs and the self-employed*. Available at https://www.vidasostenible.org/wp-content/uploads/2021/03/Gui%CC%81a-Buenas-Pra%CC%81cticas_fvs-24-03-2021.pdf

[250] SME Climate Hub (2022). *Climate Fit Education course*. [Website]. Available at https://smeclimatehub.org/climate-fit/ ; Exponential Roadmap Initiative. (2020). *The 1.5° Business Playbook*. Available at https://exponentialroadmap.org/wp-content/uploads/2020/11/1.5C-Business-Playbook-v1.1.1pdf.pdf

Case study: Carmela Caramela: A local entrepreneur facing the challenge of mass consumption

"We believe that another way of making fashion is possible, respecting people, their health and the environment". [251]
Mamen Flores, Carmela Caramela CEO

1. Description

Carmela Caramela is a small family-run fashion company based in Badajoz, Extremadura, managed by its creator Mamen Flores and her husband. This young brand created its first collection in 2018 and since then has sought to position itself as an alternative to the 'fast fashion' fashion of the big companies. [252]

To this end, it has focused on the entire process of sustainable clothing production, from design to manufacture, promoting that it is carried out in Spain and with decent working conditions.

Carmela Caramela has sought to go against society's excessive consumption by organising various education and awareness campaigns on social networks. Moreover, with this objective in mind and the idea of giving the brand greater exclusivity and quality, it only launches two collections of clothes a year.

2. Sustainable Trajectory

Carmela Caramela was not created originally as a sustainable fashion brand, but this approach emerged once Mamen perceived the extreme pollution of the fashion industry. Since then, the brand changed its values to focus on producing clothes that are different, exclusive and environmentally friendly.

Carmela Caramela uses natural, sustainable and ecological materials and fabrics of Spanish origin to make its clothes. An example of this is the purchase of organic cotton and sourcing from local producers in order to reduce the company's CO2 emissions.

3. Best climate practices

The following goals and measures implemented by Carmela Caramela can be highlighted in line with international best practices identified by this report and classified into two pillars:

[251] Carmela Caramela (2020). *Spanish sustainable clothing brand.* [Website]. Available at https://carmelacaramela.com/nosotros/
[252] Grada (2018). *Carmela Caramela', Extremadura design that is committed to sustainable fashion.* [Website]. Available at https://www.grada.es/web/carmela-caramela-diseno-extremeno-moda-sostenible/

Action:

Eco-design. The use of sustainable and environmentally friendly materials is the brand essence. Most of these are of natural origin like organic cotton or merino wool. In some cases, when required by the design it also uses recycled products for the production of its garments.

Green suppliers. The company buys materials and fabrics from sustainable suppliers and in the case of wool, they seek to ensure that their production respects animal welfare. To this end, the company's supplier have a code of good practices that ensures that animals are not mistreated.[253] On the other hand, for the distribution of their garments they avoid use of plastic in the packaging, and Carmela itself produces it with materials such as tissue paper or cardboard. The garments are then distributed by a transport company that, at Carmela Caramela's express request, does not use any other packaging or plastic for its shipments. In addition, most of its suppliers are located in Spain in order to reduce the emissions caused by transport..

Circularity of waste. Carmela Caramela has a policy of waste reduction and recycling. In addition, with the surplus fabrics it generates in the manufacture of clothing, it seeks to reuse them for other purposes. Thus, it uses part of them for the production of other garments and those that cannot be used are distributed among local companies and workshops as cleaning rags.

Governance:

Positioning and communicating climate action. To recognise the sustainable actions that Carmela Caramela carries out, it has obtained certifications that certify that the clothes and materials used by the brand respect the environment. Specifically the OEKO TEX certificate on textile ecology and the Global Organic Textile Standards recognises the organic and sustainable origin of the textile materials used by Carmela Caramela.[254]

4. Challenges and lessons for the future:

Carmela Caramela is an example that in a sector as polluting as fashion, it is possible to produce a variety of quality garments while using sustainable materials and processes. However, the company still faces several problems identified such as **the difficulty of competing against big brands because of the higher price of its products when using ecological fabrics. They also struggle to obtain from their suppliers the fabric necessary for its activity because it has a lower demand compared to big companies.**

The company has also noted a lack of campaigns and awareness-raising by government institutions about how polluting the fashion industry is, something the brand has always tried to emphasise. In addition, Carmela Caramela will also have to start measuring its carbon footprint in order to set reduction targets and take action in other areas such as energy efficiency or renewable energy to help the company continue on its sustainable path.

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[253] The company has been awarded the Responsible Wool Standard (RWS), which certifies responsible wool production with regard to animal welfare and land management. Baruffa. (20222). *Sustainability Report.* Available at https://www.baruffa.com/wp-content/uploads/2022/05/2021-bilancio-sostenibilita-ZBLB.pdf

[254] Positive Impact Fashion (n.d.). *OEKO TEX Certificate.* [Web site]. Available at https://modaimpactopositivo.com/certificado/oeko-tex/ ; Moda Impacto Positivo. (n.d.). *GOTS Certificate.* [Website]. Available at https://modaimpactopositivo.com/certificado/gots/

- **Ecodesign**

80% of the environmental impact of products is determined by their design and development.[255] It is therefore critical to take into consideration the **life cycle of the** materials or goods produced (scope 1) or purchased (scope 3) by the company.

This means analysing the following aspects of the product's value chain: the materials and production methods used, the transport for distribution, the product's lifetime, the efficiency during use and the end of its life. [256]

Improving the climate impact of any of these factors contributes to not only a reduction of the company's emissions but also an increase in the quality and competitiveness of its products while reducing production costs.[257] The ultimate goal is to transform the company's business model from a traditionally linear, use-and-waste approach to a circular one that leads not only to emission reductions but also to innovation in the company's processes and products. Despite these benefits of eco-design, the survey shows that it is the least implemented green practice in SMEs (15%).[258]

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[255] This is also the case for packaging. Ecoembes. (2021). *Ecodesign, a key tool to reduce waste. Executive report.* Available at https://www.ecoembesthecircularcampus.com/web/app/uploads/2021/12/InformeEjecutivoEcodiseno2021.pdf ; Quintás. M, Martínez-Senra. A and Sartal, A. (2018). *The Role of SMEs' Green Business Models in the Transition to a Low-Carbon Economy: Differences in Their Design and Degree of Adoption Stemming from Business Size.* Sustainability N°10. Available at https://www.mdpi.com/2071-1050/10/6/2109

[256] SME Climate Hub (2022). *Climate Fit Education course*. [Website]. Available at https://smeclimatehub.org/climate-fit/

[257] Quintás. M, Martínez-Senra. A and Sartal, A. (2018). *The Role of SMEs' Green Business Models in the Transition to a Low-Carbon Economy: Differences in Their Design and Degree of Adoption Stemming from Business Size.* Sustainability N°10. Available at https://www.mdpi.com/2071-1050/10/6/2109

[258] A survey by the Spanish Chamber of Commerce and Mapfre also finds that eco-design considerations are not very common among SMEs, with only 21% taking them into account. Madrid Chamber of Commerce and Mapfre (2021). *Report on Circular Economy and SMEs in Spain.* Available at https://www.camara.es/sites/default/files/publicaciones/informe-economia-circular-pymes-marzo-2021.pdf

There are **methodologies and certifications** to measure and understand the life cycle of a product. Life Cycle Assessment (LCA) is, for example, an international methodology supported by the European Union[259] that allows the environmental impacts of any product or service to be assessed and points for improvement identified.[260] Based on LCA and with the aim of harmonising its application in the European context, the EU has developed the Product Environmental Footprint (PEF) methodology[261] recommended for SMEs by the European Commission.[262] ISO 14040[263] and ISO 14044[264] are two examples of LCA certifications that companies can acquire. More specific and appropriate sectoral methodologies have also been developed. Omplim, for example, uses ITEC's TCQi-GMA tool and the European LEVEL(s) methodology to analyse from the production of the materials used in the construction of the building to the end of life of the building.

Choosing **sustainable and efficient materials** is the first step in ensuring a low-emission life cycle. Replacing carbon-intensive materials such as cement or steel with less polluting materials such as wood contributes significantly to reducing emissions. This is the case, for example, in building construction. [265]

However, the most sustainable material alternatives may vary depending on the sector, as the impact of the selected material on emissions from use and end-of-life must also be taken into account.[266] It is also key to use materials that have been produced efficiently as well.[267] Another good practice is to ensure that the materials used can be reused at the end of the product life. An example of the latest is iSIMAR which produces furniture from 100% recycled and recyclable materials while also using a pickling method that gives a second life to damaged chairs and furniture by melting or refurbishing them.

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[259] European Commission. *European Platform on Life Cycle Assessment.* [Website]. Available at https://eplca.jrc.ec.europa.eu/

[260] Sala. S, Martino. A, Beylot. A, & Ardente, F. (2020). *The evolution of life cycle assessment in European policies over three decades*. Available at https://www.researchgate.net/publication/351015952_The_evolution_of_life_cycle_assessment_in_European_policies_over_three_decades

[261] European Commission (2021). *Understanding Product Environmental Footprint and Organisation Environmental Footprint methods*. Available at https://ec.europa.eu/environment/eussd/smgp/pdf/EF%20simple%20guide_v7_clen.pdf

[262] European Commission (2021). *Commission Recommendation (EU) 2021/2279 of 15 December 2021 on the use of the Environmental Footprint methods to measure and communicate the life cycle environmental performance of products and organisations*. [Website]. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021H2279

[263] ISO 14040 describes the LCA principles and framework. ISO (2022). *ISO 14040:2006 Environmental management and Life cycle assessment: Principles and framework*. [Web site]. Available at https://www.iso.org/standard/37456.html

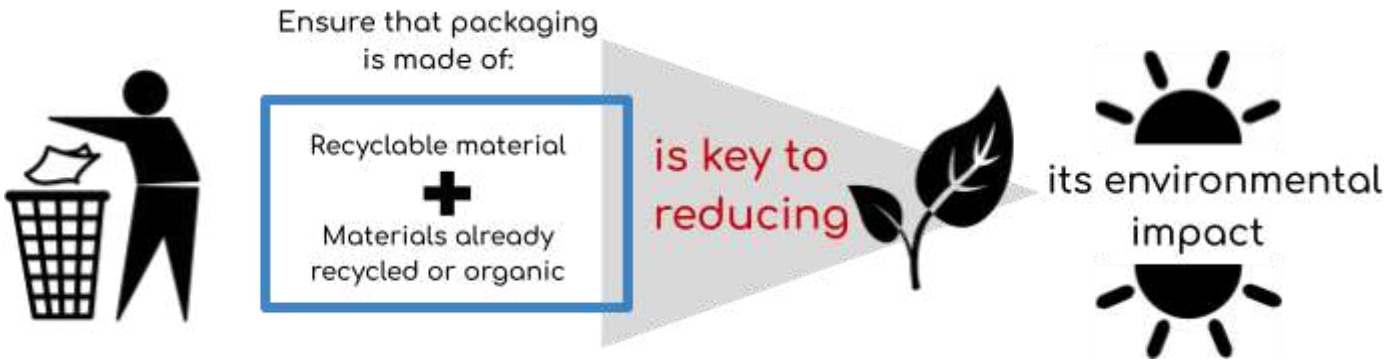
[264] ISO 4046 describes specific requirements and provides LCA guidelines. ISO (2022). *ISO 14040:2006 Environmental management and Life cycle assessment: Requirements and guidelines*. [Web site]. Available at https://www.iso.org/standard/38498.html

[265] International Resource Panel (2020). *Resource Efficiency and Climate Change: Material Efficiency Strategies for a Climate Change Low-Carbon Future.* Available at https://wedocs.unep.org/bitstream/handle/20.500.11822/34351/RECCR.pdf?sequence=1&isAllowed=y

[266] Ibid.

[267] Materials efficiency was defined as "the search for technical strategies, business models, consumer preferences and policy instruments that would lead to a substantial reduction in the production of high-volume, energy-intensive materials necessary for human well-being" (Allwood et al., 2013). Materials include biomass, cement, fossil fuels, metals, non-metallic minerals, plastics and wood.

Eco-design in product **packaging** is also an action that has gained a lot of attention from SMEs in Spain.[268] According to the Prevention Business Plan carried out by Ecoembes, **between 2018 and 2020, 57% of its collaborating SMEs implemented eco-design measures in packaging, of which 47% focused on weight reduction and the elimination of plastic in packaging.**[269] In addition, ensuring that packaging is made of recyclable material or uses already recycled or organic materials is key to reducing its environmental impact. **Encouraging reuse, which has only been applied by 3% of** Ecoembes' **SME** partners,[270] is the next step as it further contributes to reducing material and energy consumption (see next section on the waste management hierarchy). The action on packaging was one of the main points in the workshop held with the Cáceres Chamber of Commerce, where SMEs participating highlighted the difficulty of finding suppliers of eco-friendly packaging at an affordable price.

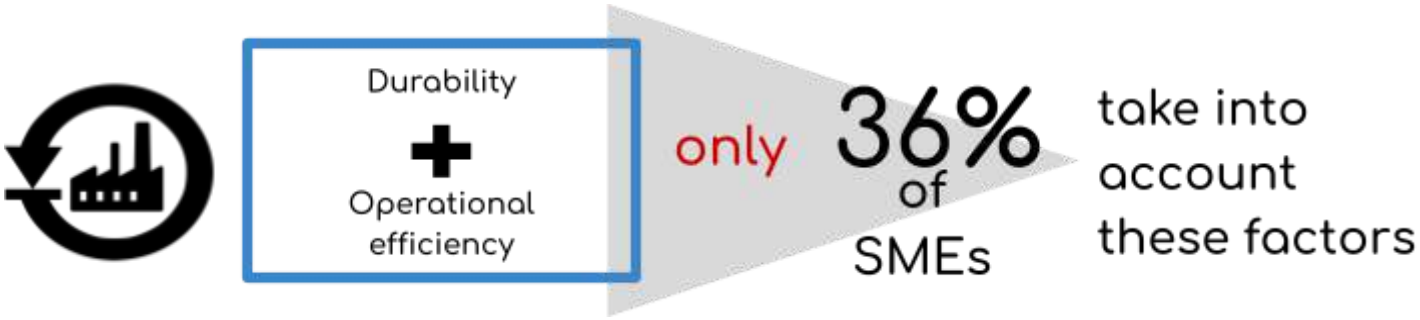


In relation to the **production methods** used, the previous sections on energy efficiency and renewable energies explain some actions to reduce consumption during production and ensure that clean energy covers the rest. The previous section on **green transport** also provides options for reducing emissions in this part of the product life cycle.

[268] "In fact, since 1999, more than 54,500 measures have been implemented, ranging from the elimination of unnecessary material to the reintroduction of recycled plastic, among others, making it possible for a bottle of water to weigh 18.4% less than it did 20 years ago and a yoghurt pot to be 21% lighter.
This has saved a total of 607,971 tonnes of raw materials and avoided the emission of 2,333,625 tonnes of CO2. Likewise, the consumption of more than 24 million MWh of energy has been avoided and more than 221 million m3 of water have been saved". Ecoembes. (2021). *Eco-design, a key tool for reducing waste.* Available at https://www.ecoembesthecircularcampus.com/web/app/uploads/2021/12/InformeEjecutivoEcodiseno2021.pdf

[269] Ibid.
[270] Ibid.

Product **durability and operational efficiency** are two aspects that can be addressed in the product design phase. **Only 36% of SMEs design their products with these factors in mind**.[271] Establishing a policy that avoids product **obsolescence**[272] will be key to ensuring product longevity and product quality and, thus, consumer satisfaction. The case of Ecodicta illustrates another way to completely redirect the business model of an SME towards the circular economy. By maximising the longevity of a garment through leasing, Ecodicta contributes to reducing its environmental impact. The *product-as-a-service* business model recommended by the European Commission's Circular Economy Action Plan[273] seeks to shift from an approach focused on selling products to one focused on charging for their use. Consequently, this incentives the company to design and offer longer-lasting products with materials that can be reused and revalued for new products.[274]



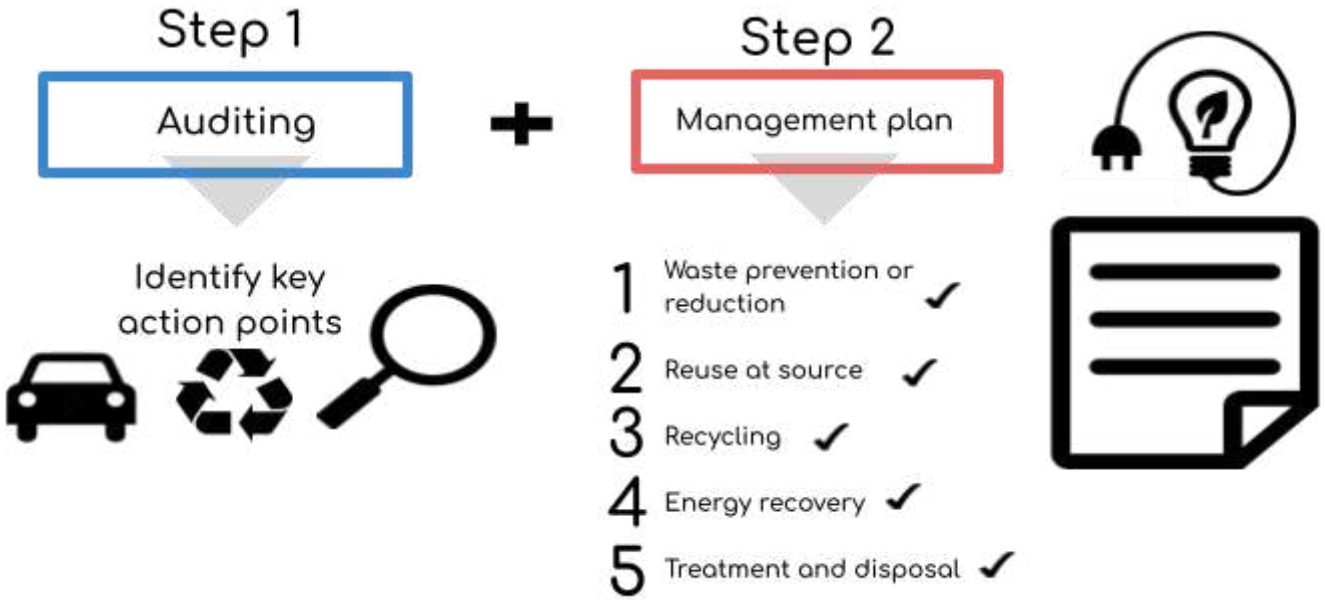
Promoting a sustainable product **end-of-life** (explained in more detail in the next section) is, in fact, the next and last key step to achieve a circular business model. Reuse and revalorization contribute to reducing raw material use and energy consumption from production. The concept of the reverse supply chain can facilitate this process by ensuring that the materials used for a product remain within the company's production cycle, ideally by taking back used products from its customers for reuse in the creation of new ones.[275]

[271] European Commission (2022). *Eurobarometer SMEs, resource efficiency and green markets*. NO. 498. Available at https://europa.eu/eurobarometer/surveys/detail/2287
[272] SME Climate Hub Climate Fit Education course: policy of deliberately limiting the life of a product in order to encourage the purchaser to replace it. SME Climate Hub (2022). *Climate Fit Education course*. [Website]. Available at https://smeclimatehub.org/climate-fit/
[273] European Commission (2020). *Communication from the Commission on a new Circular Economy Action Plan For a cleaner and more competitive Europe*. [Website]. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1583933814386&uri=COM:2020:98:FIN
[274] SME Climate Hub (2022). *Climate Fit Education course*. [Website]. Available at https://smeclimatehub.org/climate-fit/
[275] Ibid.

- **Waste circularity**

Waste can account for around 15% of a company's carbon footprint[276] (scope 3), so its prevention and reduction would contribute significantly to the decarbonisation of the SME. The previous section shows how taking into account eco-design principles ensures the circularity of materials used in SME products. Planning a sustainable end-of-life of the goods produced and consumed through responsible waste management is also key to promote the revalorisation of these products and thus prevent emissions resulting from their consumption and production. **As the questionnaire shows, this area is the most advanced among Spanish SMEs (39% of respondents claim to have implemented this practice),**[277] possibly due to a deep and long-lasting awareness campaign in recent years in Spain.

The first step towards sustainable waste management is to conduct an **audit** that identifies the key action points in the SME's operations where there is potential to optimise its waste. Based on this identification, a waste management plan should be drawn up that follows the following **hierarchy**: **1) waste prevention or reduction, 2) reuse at source, 3) recycling,**[278] **4) energy recovery and 5) treatment and disposal.**



[276] Sustain Life (2022). *Calculating carbon emissions from waste.* [Website]. Available at https://www.sustain.life/blog/calculating-carbon-emissions-waste
[277] Similar results: a survey by the United Nations Global Compact Spain of more than 1900 Spanish companies found that 50% of them have an environmental policy. And 43% have promoted circular economy processes (improvement in waste management, reduction, recycling and reuse). Among large companies, 67% have already implemented circular economy processes, while only 37% of SMEs and 20% of the self-employed have done so to date. CSR Commitment (2021). *43% of Spanish companies promote circular economy processes.* [Website]. Available at https://www.compromisorse.com/rse/2021/11/22/un-43-de-las-empresas-espanolas-impulsan-procesos-de-economia-circular/
[278] Recycling is defined as a method of resource recovery involving the collection and treatment of waste products to be used as raw materials in the production of the same or similar products. The EU waste strategy distinguishes between reuse and recycling. Reuse means using waste as raw material in a different process without structural changes, and recycling refers to structural changes in materials within the same process. Quintás. M, Martínez-Senra. A and Sartal, A. (2018). *The Role of SMEs' Green Business Models in the Transition to a Low-Carbon Economy: Differences in Their Design and Degree of Adoption Stemming from Business Size.* Sustainability N°10. Available at https://www.mdpi.com/2071-1050/10/6/2109

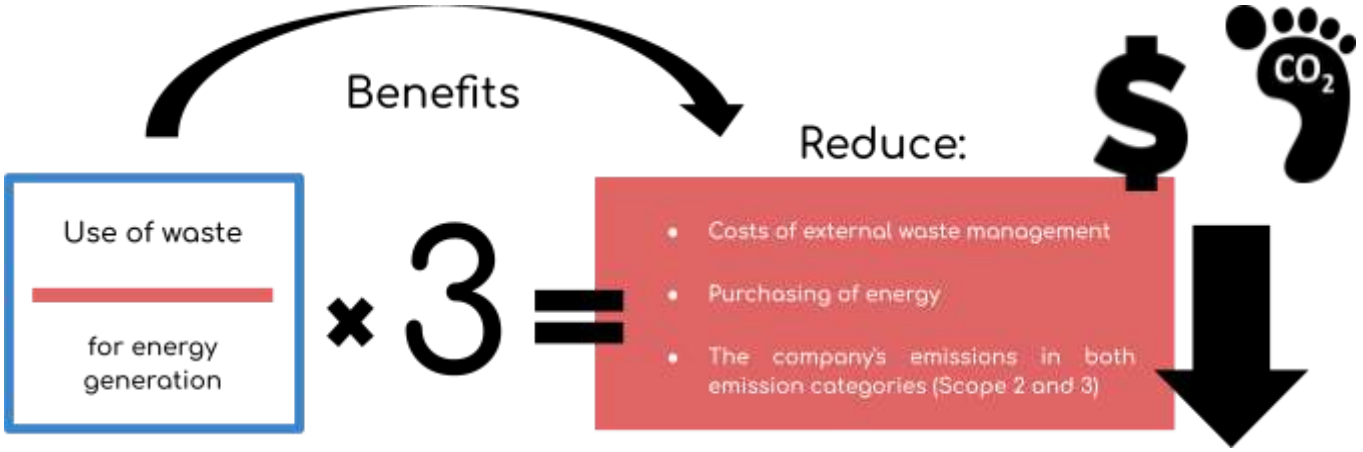
There are various **waste prevention or reduction** strategies[279] that can be considered depending on the type of company's activities. A very common example explained in the previous section within the eco-design approach is the use of more efficient materials (as in the case of Omplim and its building materials). **Digitisation can also be a simple way to prevent unnecessary consumption of paper and other materials**, as Alfabia has already done.

The case of Ecodicta, explained above, based on a business model focused on the product as a service, also shows how to promote the **reuse at source** of produced goods. **A reuse practice that is also increasingly common among SMEs is to sell or give waste to other companies for their use (56% of SMEs)**.[280] Carmela Caramela is an example of this, donating its waste fabrics to local businesses to be used for cleaning activities, which can also foster positive relations in the local community.

Recycling for further use in companies' products is also a recommended practice starting to become predominant among Spanish SMEs.[281] According to a survey by the Spanish Chamber of Commerce and Mapfre, **71% claim to use recycled paper and cardboard as a secondary raw material**. However, this same practice needs to be pushed towards recycled materials such as plastic (implemented by only 25% of SMEs surveyed).[282] **Organic waste composting**[283] is another form of recycling beneficial for sectors such as agriculture that can also save costs related to the external management of food waste.[284] Alfabia, for example, uses compost from its organic waste to fertilise its vegetable garden.

[279] 82% of SMEs try to minimise their waste. European Commission (2022). *Eurobarometer SMEs, resource efficiency and green markets*. No. 498. Available at https://europa.eu/eurobarometer/surveys/detail/2287
[280] Madrid Chamber of Commerce and Mapfre (2021). *Report on Circular Economy and SMEs in Spain*. Available at https://www.camara.es/sites/default/files/publicaciones/informe-economia-circular-pymes-marzo-2021.pdf
[281] 76% of SMEs recycle by reusing materials or waste. Ibid.
[282] Madrid Chamber of Commerce and Mapfre (2021). *Report on Circular Economy and SMEs in Spain.* Available at https://www.camara.es/sites/default/files/publicaciones/informe-economia-circular-pymes-marzo-2021.pdf
[283] "This is the technique by which the necessary conditions are created for decomposing organisms to produce a high quality compost from organic waste. It is a natural product, without chemical compounds and free of pathogens. In many cases it acts as a bactericide and fungicide". Friends of the Earth (2012). *Composting Manual.* Available at http://www.compostaenred.org/documentacion/Manuales/6Manual_Compostaje_AdT.pdf
[284] SME Climate Hub (2022). *Climate Fit Education course*. [Website]. Available at https://smeclimatehub.org/climate-fit/

Finally, the use of waste for **energy generation** brings a triple benefit by reducing the costs of external waste management and energy purchase while reducing the company's emissions in both emission categories (Scopes 2 and 3).[285] European projects have already been carried out in this respect, such as Biogas3 which involved agri-food SMEs (32 Spanish) in order to develop small biogas plants associated with their production. A tool derived from this project (smallbiogas) serves to analyse the technical, economic and environmental feasibility of creating a small-scale biogas plant.[286]

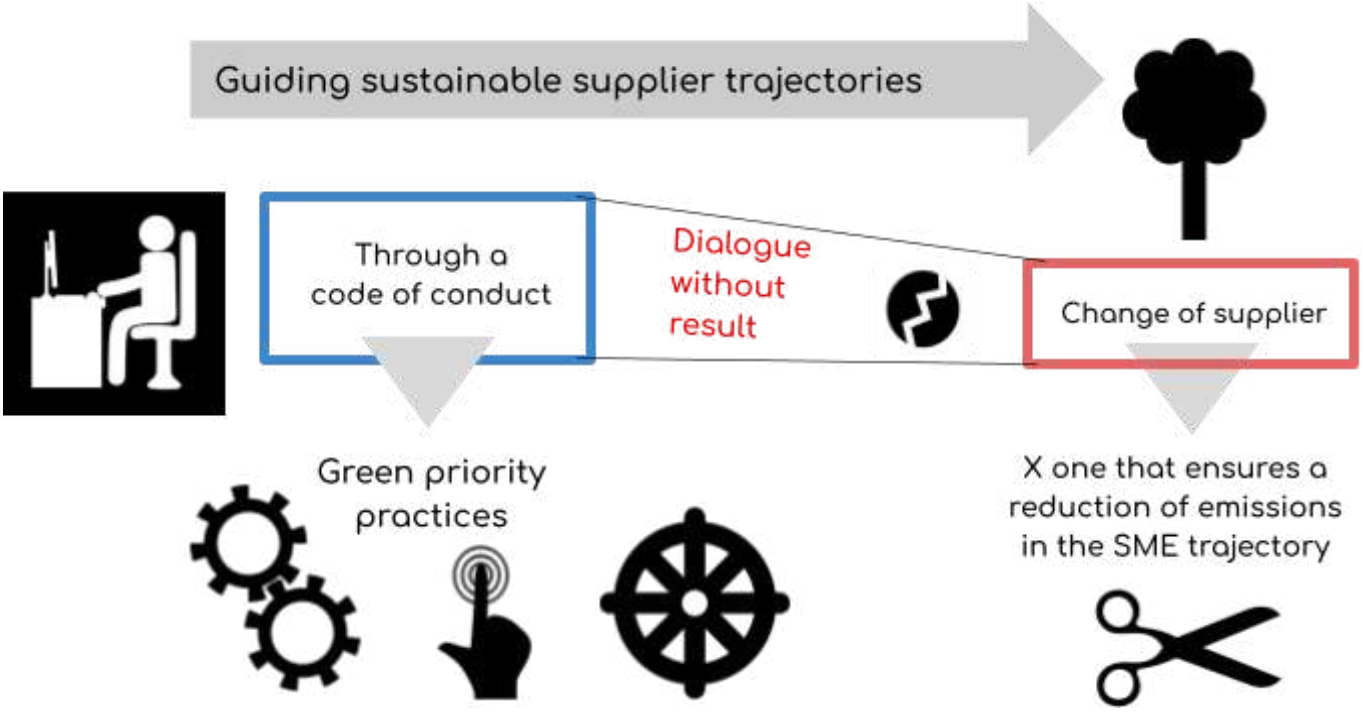


- **Green suppliers**

Developing a sustainable supplier policy is the most effective action to reduce the scope 3 emissions of an SME. The previous sections have already explained the importance of selecting renewable energy or eco-products suppliers that use sustainable and low-emission transport for their distribution. Our questionnaire finds that **only 21% of SMEs are carrying out this practice,[287] so there is an opportunity to raise awareness of the green benefits of this strategy in Spain.**

[285] Quintás. M, Martínez-Senra. A and Sartal, A. (2018). *The Role of SMEs' Green Business Models in the Transition to a Low-Carbon Economy: Differences in Their Design and Degree of Adoption Stemming from Business Size.* Sustainability N°10. Available at https://www.mdpi.com/2071-1050/10/6/2109
[286] Renewable Energies (2016). *Three hundred European agri-food SMEs are interested in biogas with self-consumption.* [Website]. Available at https://www.energias-renovables.com/bioenergia/trescientas-pymes-agroalimentarias-europeas-se-interesan-por-20160210
[287] According to the EuroBarometer Spain 2021, 53% of SMEs are looking to switch to greener materials suppliers. European Commission (2022). *Eurobarometer SMEs, resource efficiency and green markets.* NO. 498. Available at https://europa.eu/eurobarometer/surveys/detail/2287

In general, the first step in designing successful action with suppliers is to **identify** those where the SME concentrates its largest expenditures and, therefore, where it has the most opportunities for influence suppliers that fall within the areas of the European Taxonomy of Sustainable Finance.[288] The SME can then choose to establish an **ongoing dialogue**[289] with these suppliers on climate action to jointly explore pathways towards decarbonisation, thus contributing to improving the relationship between the two. This dialogue can take the form of letters from SME managers to the highest levels of the supplier demanding more ambitious environmental action and one-off meetings between the managers of the two companies.[290] Requiring the supplier to commit to the ambition towards the 1.5ºC target through initiatives such as SBTi or *1.5ºC Supply Chain Leaders*[291] is a first step that sets your transition in motion. [292]



The case of Carmela Caramela illustrates the benefits of this communication with suppliers. In order to prevent the distribution company from using bags for her products, the director of this SME was in contact with the company to ensure that she only uses the ecological packaging provided by the company. Despite initial reluctance, after several conversations, the supplier agreed to follow Carmela's instructions. Choosing suppliers that offer sustainable materials for product packaging is indeed an activity that can have a very positive impact on reducing emissions for SMEs that have to distribute their products.[293]

[288] Exponential Roadmap Initiative (2020). *The 1.5° Business Playbook*. Available at https://exponentialroadmap.org/wp-content/uploads/2020/11/1.5C-Business-Playbook-v1.1.1pdf.pdf
[289] SME Climate Hub (2022). *Climate Fit Education course.* [Website]. Available at https://smeclimatehub.org/climate-fit/
[290] Ibid.
[291] SME Climate Hub (2022). *Supply Chain Leaders 1.5°C.* [Website]. Available at https://smeclimatehub.org/supply-chain-leaders/
[292] Exponential Roadmap Initiative (2020). *The 1.5° Business Playbook*. Available at https://exponentialroadmap.org/wp-content/uploads/2020/11/1.5C-Business-Playbook-v1.1.1pdf.pdf
[293] MITES (2021). *Good practice guide for SMEs and the self-employed.* Available at https://www.vidasostenible.org/wp-content/uploads/2021/03/Gui%CC%81a-Buenas-Pra%CC%81cticas_fvs-24-03-2021.pdf

To guide the sustainable trajectory of these suppliers, the SME can establish a **code of conduct**[294] that identifies priority green practices in a company, such as those highlighted in the previous sections. In case of a dialogue that does not yield the desired results, the SME should consider a **change of supplier** to one committed to climate action that ensures an emissions reduction in the SME's trajectory.

In order to select new suppliers or renew a contract, the SME should draw up **sustainable evaluation criteria** that assess the companies' climate strategy and their transparency on GHG emissions data (as is already done by Ecoterrae, for example).[295] Conducting a value questionnaire based on these criteria prior to any contract, as is the case with Omplim, is an effective way to get an accurate supplier assessment and also helps to start a dialogue between the two companies. This is a process that should be done annually, as illustrated by Balneario Ariño, as this keeps supplier data up to date.

[294] Exponential Roadmap Initiative (2020). *The 1.5° Business Playbook*. Available at https://exponentialroadmap.org/wp-content/uploads/2020/11/1.5C-Business-Playbook-v1.1.1pdf.pdf
[295] Exponential Roadmap Initiative (2020). *The 1.5° Business Playbook*. Available at https://exponentialroadmap.org/wp-content/uploads/2020/11/1.5C-Business-Playbook-v1.1.1pdf.pdf

4. Set targets and actions for climate adaptation

The previous section on climate risk analysis (Pillar 1) shows how global warming is negatively impacting the performance of SMEs. **Developing a climate action plan obliges the company to study these risks and set goals and actions to prevent and mitigate them**. Especially in the case of SMEs, whose business model is predominantly local, it is imperative to adapt their activities and facilities to changes in their immediate environment.

The IPCC identifies climate adaptation as a process with 5 phases: 1) risk awareness, 2) situation assessment, 3) planning, 4) implementation of measures, 5) monitoring and evaluation of the process.[296] Thus, before setting goals and actions, it is first necessary to understand the different climate scenarios and projections at the local level and in the regions where the SME value chain reaches. This will show the risks of extreme weather events, such as fires or droughts, and long-term climate changes, such as changes in temperature, humidity, rainfall, etc. [297]

These risks will differ depending on the MSE sector.[298] Once they have been identified, a strategy can be devised to strengthen the MSE's buildings and other facilities and redirect its value chain and supplier selection to areas where secure and stable supply can be assured.

One problem with respect to climate adaptation in SMEs is that SMEs are often confused about the difference between mitigation and climate adaptation, often interpreted as the same. [299]

There are barriers to structured and accurate adaptation by SMEs due to the lack of local and sectoral knowledge on climate risks and the lack of initiatives and tools that offer SMEs a "menu" of appropriate actions. Moreover, these actions require long-term investments with a considerable level of uncertainty.[300] **The National Climate Adaptation Plan does not extensively develop adaptation measures specific to the special situation of SMEs.**[301]

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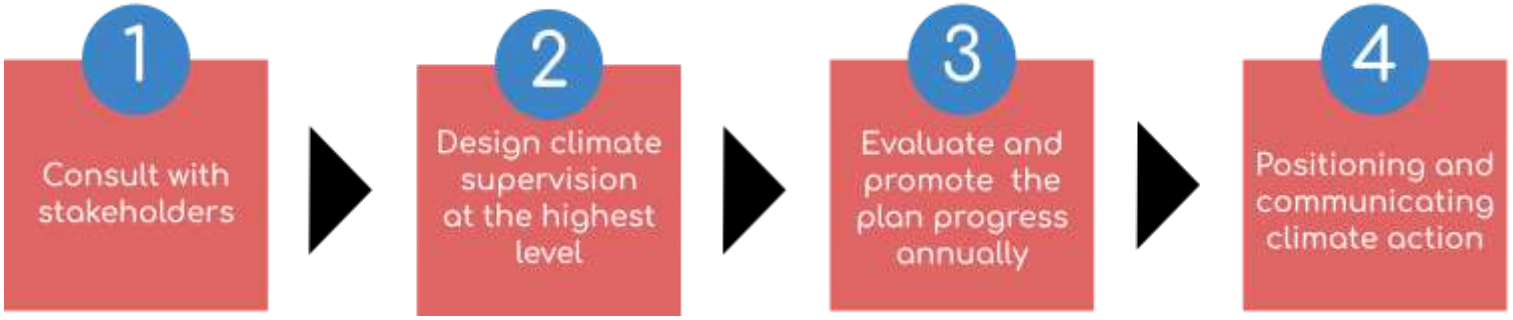
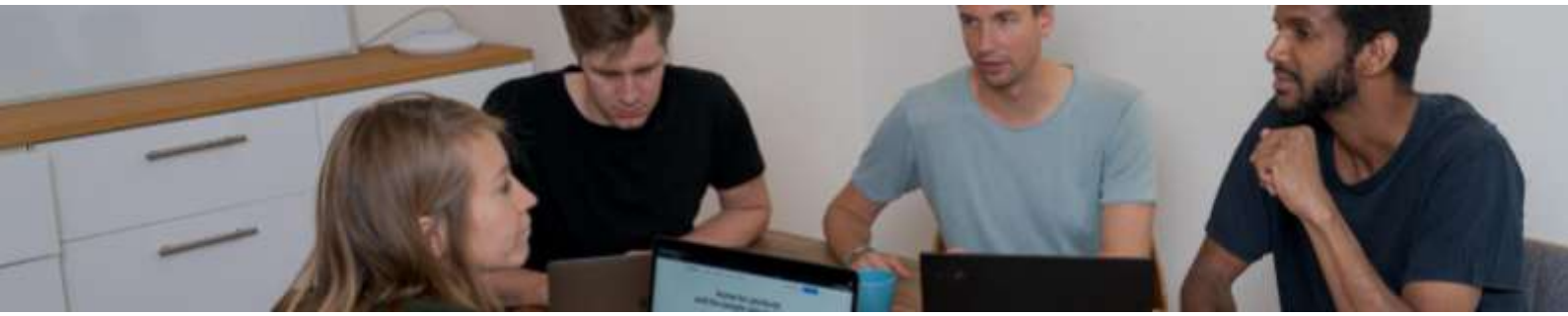
[296] IPCC (2022). *Climate Change 2022: Impacts, Adaptation and Vulnerability.* [Website]. Available at https://www.ipcc.ch/report/ar6/wg2/
[297] McKinsey (2015). *How companies can adapt to climate change.* [Website]. Available at https://www.mckinsey.com/capabilities/sustainability/our-insights/how-companies-can-adapt-to-climate-change
[298] Ibid.
[299] Bernal, C. (2022). *Why is there a lack of private sector adaptation to climate change in Spain?* [Website]. Available at https://www.lavanguardia.com/participacion/cartas/20221005/8553803/hay-falta-adaptacion-sector-privado-espana-cambio-climatico.html
[300] UNDP (2016). *Adapting from the Ground Up: Enabling Small Businesses in Developing Countries to Adapt to Climate Change.* [Website]. Available at https://www.undp.org/publications/adapting-ground-enabling-small-businesses-developing-countries-adapt-climate-change
[301] MITECO. (2020). *National Climate Change Adaptation Plan 2021-2030.* Available at https://www.miteco.gob.es/es/cambio-climatico/temas/impactos-vulnerabilidad-y-adaptacion/pnacc-2021-2030_tcm30-512163.pdf

Pillar 3: Climate Governance



Establishing monitoring and evaluation processes for the Plan will be key to effective and consistent **implementation** to achieve the intermediate climate targets towards net zero along the established trajectory. This climate governance also needs to be transparent to SME stakeholders in order to position and communicate its leadership on climate action. The consultation process and the questionnaire have shown that this Pillar has been underdeveloped among Spanish SMEs: **37% of the respondents have not yet implemented any climate governance measures**.



1) Consult with stakeholders

Pillar 2 highlights the importance of promoting a just transition of SMEs and the benefits that a positive relationship with their workers and local communities can bring. Ensuring an ongoing social dialogue with these stakeholders will not only help to identify the risks that the climate action plan may pose to them but also to create a responsive plan to maximise the benefits of the company's green transition. In addition, a survey by the General Council of Economists,[302] identifies stakeholders, especially employees and suppliers, as a positive pressure towards greater sustainability in companies. **Maintaining a dialogue with them can therefore contribute to increasing the ambition of the climate action plan.**

[302] Consejo General de Economistas & Consejo General de la Ingeniería Técnica Industrial de España (2021). *Sustainable development of SMEs in Spain.* Available at https://economistas.es/Contenido/Consejo/Estudios%20y%20trabajos/Estudio%20Desarrollo%20sostenible%20de%20la%20pyme%20en%20Espa%C3%B1a.pdf

To this end, social dialogue should involve collaborative consultation with the SME's stakeholders, including them from the very beginning - i.e. from the first considerations on climate action in the company to the development of the emission reduction targets, the design of the roadmap and the monitoring and dissemination of the plan's results.[303] Dialogue can include processes such as information exchange and collective bargaining. [304]

A common practice among the case studies that facilitate the implementation of this consultation in a systematic way throughout the organisation's processes is to include the principles that the dialogue should follow within a code of conduct or ethics (as already done by Omplim, Froxá and Ecoterrae). Local governments can also facilitate a realistic and coherent plan with public climate strategies (see the example of Alfabia, which is in constant communication with local authorities to study ways of implementing self-consumption technologies in rural areas).

There are international guidelines with recommendations for planning and implementing stakeholder consultations. The Balneario Ariño, for example, uses the Global Reporting Initiative (GRI). There are also tools and software to manage consultations, such as the one used by Laragon developed by Enablon.

The results of this dialogue should be reflected in the climate action plan and, by being constant and continuous, in revisions of this plan and its targets. In addition, the dialogue should focus on coordinating collective climate action to engage stakeholders not only in the decarbonisation of the SME itself, but also to contribute with their own actions to increase the ambition of global efforts and national policies to ensure a just transition. [305]

SMEs have different ways to promote and implement this joint action with their stakeholders, either by organising leading events and awareness-raising campaigns (such as the fashion show organised by Ecodicta with its suppliers during COP25) or by creating and joining longer-term climate alliances (such as the Spanish Green Growth Group, of which Ecoterrae and Laragon are members, or the B Corp community of which Omplim is a member).

[303] Just Transition Centre and B Team (2018). *Just Transition: A Business Guide*. Available at https://bteam.org/assets/reports/Just-Transition-A-Business-Guide.pdf
[304] Ibid.
[305] Ibid.

2) **Appoint a "green champion" for the company within climate oversight at the leadership level.**

The commitment of SME managers and decision-makers to climate action is the driving force behind the Plan implementation. This is confirmed by the General Council of Economists survey , which identifies the importance among companies that the management team recognises sustainable management practices.[306] While the day-to-day priorities of keeping the company afloat often dominate their minds and agendas, the goal of net zero is a long-term one. Aligning management incentives to this goal ensures that the engine of climate action keeps running.

A corporate practice highly recommended by international initiatives is to integrate the achievement of climate objectives into the variable **remuneration** of managers and, if possible, also of employees.[307] As our questionnaire shows, **this is not a very common practice among Spanish SMEs (11% and 10% respectively)**, but it can help to align the whole company with its sustainable trajectory.

Another way to ensure adequate incentives for the Plan implementation is to appoint a **"green champion"** in the company, ideally one of the managers or those in charge of achieving effective legitimisation of climate action. **The SME Climate Hub defines a green champion as: "a person who seeks to lead change in an organisation to make it a smarter, more effective and sustainable business."** [308]

Therefore, with this "**green champion**" climate action would always be included in the SME day-to-day agenda. This seems to be one of the most common governance practices among the SMEs surveyed (23%) and has also been implemented in some case studies (Ecoterrae, Laragon, Balneario Ariño, iSiMAR).

[306] Consejo General de Economistas & Consejo General de la Ingeniería Técnica Industrial de España (2021). *Sustainable development of SMEs in Spain.* Available at https://economistas.es/Contenido/Consejo/Estudios%20y%20trabajos/Estudio%20Desarrollo%20sostenible%20de%20la%20pyme%20en%20Espa%C3%B1a.pdf
[307] Exponential Roadmap Initiative (2020). *The 1.5º Business Playbook.* Available at https://exponentialroadmap.org/wp-content/uploads/2020/11/1.5C-Business-Playbook-v1.1.1pdf.pdf
[308] SME Climate Hub (2022). *Climate Fit Education course.* [Website]. Available at https://smeclimatehub.org/climate-fit/

3) **Evaluate and promote the Plan's progress on an annual basis.**

Any plan must be evaluated frequently to ensure that it is working properly and achieving its objectives. Establishing **quantitative performance indicators** to measure the progress of the actions included in the roadmap and the consequent emission reductions, is the simplest and most obvious method for this evaluation. In case this progress is not in line with the SME's climate objectives, an update of the plan with corrective measures should be used to bring it in line with the established emission reduction trajectory. Performing this process annually ensures that the SME's actions do not fall too far behind its targets.[309]

Disclosure of these results, in particular transparency on the SME's emissions and the reduction achieved each year, through an **annual climate report** helps to systematise this process to ensure proper decision making in the revision of the plan.[310] In addition, it is key to feed back into the social dialogue with stakeholders,[311] to build their trust,[312] and to position the SME's climate leadership for reputational benefits.[313] **An example of a simple annual climate report by an SME is the one we have been producing since 2010 at Climate Strategy.[314]**

These governance practices are not very prevalent among the SMEs surveyed (only 23% of SMEs claim to disclose their emissions and 18% report information on their climate actions). Nor have they been implemented in detail in the case studies. This is not surprising, as comprehensive disclosure first requires further work on the key aspects of Pillars 1 and 2 of this guidebook.

As Spanish SMEs make progress in measuring their emissions, designing decarbonisation targets and developing a roadmap towards net zero emissions, it is expected that they will also be able to produce comprehensive annual climate assessments and reports.

[309] Ibid; Exponential Roadmap Initiative (2020). *The 1.5º Business Playbook*. Available at https://exponentialroadmap.org/wp-content/uploads/2020/11/1.5C-Business-Playbook-v1.1.1pdf.pdf
[310] SME Climate Hub (2022). *Climate Fit Education course.* [Website]. Available at https://smeclimatehub.org/climate-fit/
[311] Ibid.
[312] Forética (2021). *Companies in Spain facing the challenge of decarbonisation*. Available at https://foretica.org/wp-content/uploads/cero_emisiones_netas_empresas_espana_descarbonizacion.pdf
[313] Ibid.
[314] Climate Strategy & Partners (2021). *Corporate Social Responsibility.* Available at https://www.climatestrategy.com/es/informes/CS%202021_CSR%20report_SPANISH_final.pdf

There are several international guides[315] and national guides[316] aimed at small businesses which explain in a simple way how to apply recognised climate disclosure standards, such as GRI. In 2022, the SME Climate Hub also plans to launch a disclosure tool developed by the international Carbon Disclosure Project initiative that makes it easier for its members to do this reporting.

4) **Positioning and communicating climate action**

Creating a science-based climate action plan with a clear trajectory towards net zero is a very positive asset for the SME's reputation locally, nationally and internationally. Positioning the company's sustainable leadership through globally recognised initiatives brings benefits such as increased brand awareness among consumers and improved competitiveness.

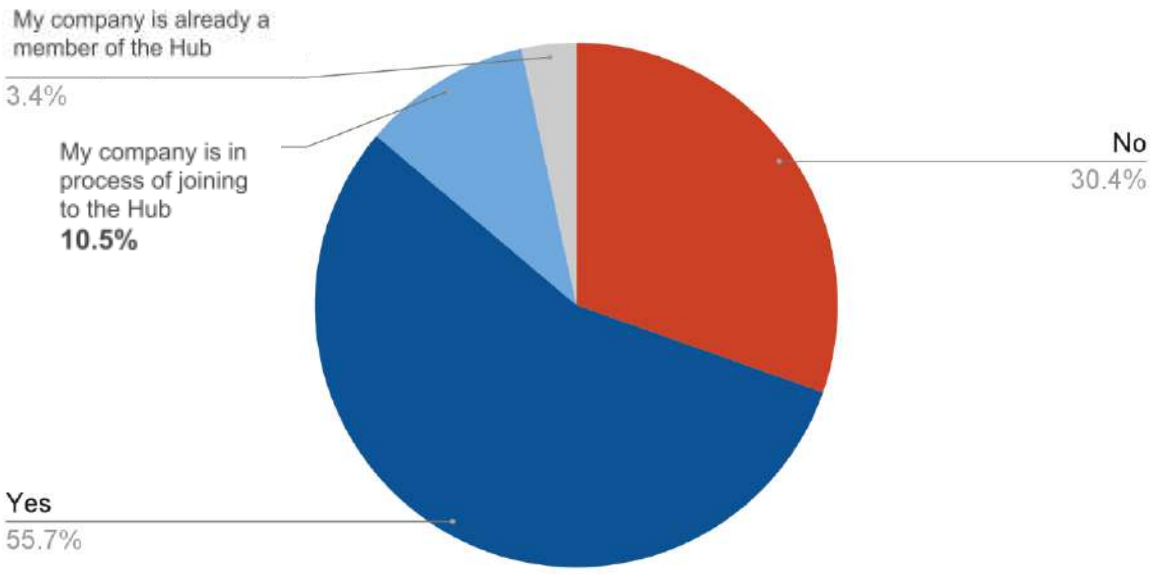
Furthermore, communicating the importance of climate ambition among SMEs and exemplifying the best practices they can implement for decarbonisation will serve as an incentive and mobilisation driver for other companies to follow suit. This practice must be done in a fully transparent and honest way to avoid falling into greenwashing, which can bring serious reputational risks in the future.

This report has identified the SME Climate Hub as the most recognised and useful initiative aimed specifically at SMEs that seeks to empower them to adopt climate commitments and achieve net zero emissions by 2050. Joining the SME Climate Hub is the official pathway for SMEs to join the UN Race to Zero, the largest official climate campaign for the private sector at COPs.

[315] WWF's Emission Possible Guide, which includes an overview of the reporting protocol and the most common terms, such as Scope 1, 2 and 3, as well as sector-specific recommendations. WWF. (2021). *Emission Possible Guide.* Available at https://www.wwf.org.uk/sites/default/files/2021-05/WWF-UK%20Emission%20Possible_05.pdf

[316] The GRI standard allows the content of the report to be adapted to the company's possibilities. Therefore, if your SME has never produced one, and is exempt from its official presentation, it is recommended to start with level C, in order to increase the difficulty if desired the following year, as this document is produced annually. Valencia Chamber of Commerce (2021). *How to make a sustainability report in SMEs following the GRI model.* Available at https://www.camaravalencia.com/es-ES/competitividad/medioambiente-energia/Documents/Dinamiza/5-Como-hacer-una-memoria-de-sostenibilidad-en-pymes-siguiendo-el-modelo-GRI.pdf

Figure 9. SMEs' interest (%) in the SME Climate Hub.
Data collected from the Climate Strategy questionnaire, question 14: Would you consider information to be useful and useful?



The pathway to becoming part of the Hub is aligned with the Pillars and practices identified by this guidance by requiring SMEs to 1) measure their GHG emissions, 2) commit to reducing these emissions to net zero by 2050 and by half by 2030, 3) take actions to achieve the targets and 4) regularly disclose progress.

To facilitate this process, the SME Climate Hub provides its members with digital tools such as a carbon footprint calculator developed by Normative with the support of Google.org,[317] a reporting platform developed by CDP (awaiting launch), a tool to identify reduction actions created by Exponential Roadmap Initiative (awaiting launch) and a training course on climate action from BSR and the Institute for Sustainability Leadership at the University of Cambridge (CISL).[318]

Up to date, more than 5,300 SMEs have joined the Hub, the majority of which are Anglo-Saxon (more than 2,000 from the UK). However, at the time of writing, only around 68 Spanish SMEs have joined. UK government support has been key to the mobilisation of its SMEs. Localisation and language also explain the obstacles to positioning climate action for non-English speaking small businesses. In fact, a study by Ecodes and the Spanish Global Compact Network concludes that Spanish SMEs find it difficult to access international sustainability initiatives. [319]The SME Climate Hub is in the process of translating its platform into Spanish to facilitate access for Spanish-speaking SMEs.

[317] SME Climate Hub (2022). *Calculate your business emissions.* [Website]. Available at https://smeclimatehub.org/start-measuring/
[318] SME Climate Hub (2022). *Climate Fit Education course.* [Website]. Available at https://smeclimatehub.org/climate-fit/
[319] ECODES & Global Compact Spanish Network (2020). *Yearbook 2020: Business Climate Action in Spain.* Available at: https://ecodes.org/images/Anuario_2020__Acci%C3%B3n_Clim%C3%A1tica_Empresarial_en_Espa%C3%B1a.pdf

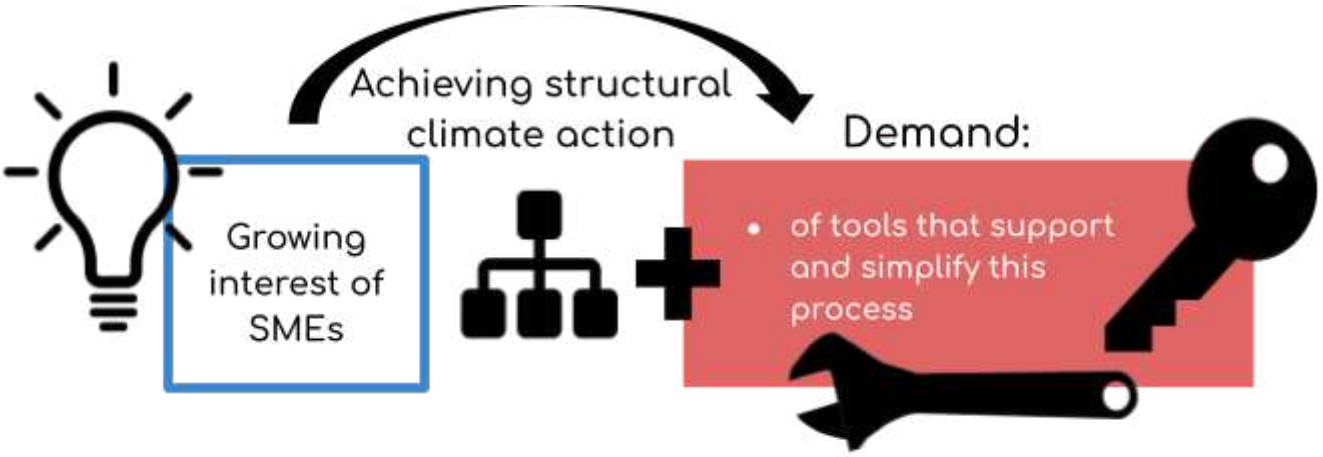
Among the SMEs that have joined the Hub are several of the case studies (Omplim, Laragon, iSIMAR and Ecoterrae), which have highlighted the usefulness and ease of use of their tools, such as the carbon footprint calculator. **With this report and guide, it is hoped that this initiative will reach Spanish SMEs in order to mobilise their climate commitments.**

Conclusions and recommendations

Conclusions and recommendations

Spanish SMEs **understand and perceive the risks of climate change and rising energy bills** due to the dependence on fossil fuels. Their closest stakeholders have also contributed significantly to directing SMEs' attention to the importance of deepening their climate action. As a result, SMEs are increasingly interested in joining the global decarbonisation efforts towards a zero emissions economy. **They have already implemented climate action in some of their business areas to start their green transition and several cases of leading SMEs illustrate the challenges they face on this journey, the benefits they can reap and the next steps to deepen their decarbonisation**.

In general, we found that unlike larger companies with more resources or companies working on the climate sector per se, **the climate action of Spanish SMEs suffers from a lack of structural focus and responds to the particular demands of a few stakeholders.** The result has been a selective and *ad hoc* effort focused on a few areas of their business that does not guarantee full decarbonisation towards net zero. Added to this are the barriers they face, in particular funding and knowledge barriers, at a time when they are struggling to survive the recent crises caused by Covid-19 and the war in Ukraine. These barriers have prevented more ambitious and coherent climate action.



One of the most significant gaps is that few SMEs have calculated their direct and indirect emissions, so they **do not have a clear vision of their decarbonisation trajectory in line with science**: halving their emissions by 2030 and reducing at least 90% by 2050. There is however a growing interest on the part of SMEs (exemplified by the leaders) in achieving structural climate action that is accompanied by a latent demand for tools to support them and simplify this process. **Climate risk readiness is essential if SMEs want to ensure their competitiveness, open up business and financing opportunities, and strengthen their future resilience in a volatile environment exposed to energy and economic shocks**.

In addition, with the new European and Spanish policies on corporate sustainability, SMEs face increased legal requirements and demands from their suppliers, funders and customers for greater climate transparency. To this end, it is key to develop ambitious, structural and coherent climate action plans that address all company activities, responding to these risks and demands, while helping to maximise the opportunities of the green transition. **SMEs that participated in the consultation process showed significant ambition to adopt these plans and to deepen their knowledge** on best practices to implement them.

This report provides a step-by-step and best practice guide with numerous alternatives to reduce SMEs' emissions in their most material activities and thus design a trajectory towards net zero with no gaps. It will be particularly important to **focus further efforts on improving knowledge on SME scope 3 emissions**, which requires more tools and joint engagement. In this respect, **the lack of "green" procurement by government and large companies has been pointed out as** one of the reasons why this action is less prioritised among SMEs. There is also an **initial over-reliance on offsetting that will have to migrate to become a marginal component** of climate action, applying only to a maximum of 10% of SME emissions.

Increasing legislative pressure is a positive push towards a more structural approach to fill these gaps and thus mobilise deep climate action in SMEs that are increasingly interested and willing to join the transition. **Public financial support will also be essential, as financing is one of the main barriers perceived by SMEs** to start considering and accelerate their decarbonisation actions**.**

In this context of increasing legislative, economic and social pressure, there is an important **opportunity to provide SMEs with more consistent resources for the development and implementation of climate action plans**. The fact that in 2022 the SME Climate Hub and its tools will be translated into Spanish will be a significant advantage for SMEs as it also offers the official pathway to join the UN Race to Zero. In addition, the following recommendations have been identified during the consultation process to address the needs highlighted by participating SMEs that want to deepen their decarbonisation:

- Offer support with a more structural approach for SMEs in key sectors with the aim of identifying common areas and steps towards decarbonisation.
- Transparency is key: SMEs must be incentivised to develop a decarbonisation framework with key performance indicators.
- Accountants have an important role to play in advising SMEs: boosting the supply of accounting services on carbon footprint calculation is needed.
- Create sustainability networks on best climate practices segmented and focused on providing mutual, regional and sectoral support to advance and monitor decarbonisation progress and address existing barriers.
- Develop best practice guidelines on residual emissions offsets in line with scientific recommendations.
- Focus more collaboration and research initiatives on deepening knowledge on how Spanish SMEs can contribute to climate adaptation.
- Public funds should be targeted at SME sectors with a significant contribution to climate change, based on the identification by sustainability networks of the most material GHG emissions reductions.
- A green tax reform (VAT relief, depreciation, etc.) to encourage green practices among SMEs.[320]
- Establish more national structures to give recognition and visibility to SME leaders in climate action and innovation.

[320] For example, fiscal measures (VAT relief, depreciation) that promote the purchase of electric vehicles and chargers by SMEs and the self-employed could be one of the ways to accelerate the transition to vehicles with a lower carbon footprint. For example, fiscal measures (VAT relief, depreciation) that promote the purchase of electric vehicles and chargers by SMEs and the self-employed could be one of the ways to accelerate the transition to vehicles with a lower carbon footprint. Transport & Environment (2022). *Using green tax reform to steer Spain's corporate fleet.* Available at https://www.transportenvironment.org/wp-content/uploads/2022/07/Spain-company-car-briefing-Spanish.pdf

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