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SAN FRANCISCO/WASHINGTON, DC — When applied to droughts, wildfires, hurricanes, floods, or other extreme weather events, the term “unprecedented” is getting old. In August, when the Intergovernmental Panel on Climate Change released its latest report about the dire realities we face, a drought exacerbated by global warming already had been raging for years across much of southern Africa.

It seems as though world leaders are finally ready to take meaningful action, but there’s a critical group regularly missing from key climate meetings like the recent United Nations Climate Change Conference (COP26) in Glasgow: local, climate-focused small businesses that already are making a difference in their communities. Small and medium-size enterprises (SMEs) working on climate adaptation and mitigation are a crucial but underestimated partner in the fight to reduce emissions.

Even though climate financing options are increasing, SMEs’ role in sustainable development continues to be overlooked. Their predicament is one shared by more than 200 million SMEs of all types in developing countries that cannot get the funds they need to grow, facing an estimated $5.2 trillion annual financing gap. International investors focus on getting dollars out the door through larger deals, while local capital is kept on the sidelines by high collateral requirements and unmanageable interest rates for early-stage businesses.

SMEs represent 90 percent of businesses and provide more than 50 percent of jobs worldwide according to the World Bank, so they have a key role to play in creating opportunities in economies struggling to recover from the COVID-19 pandemic. Examples like SELCO India, a pioneering off-grid solar company, and Husk Power, an innovative pay-as-you-go renewable energy provider operating in Asia and Africa, show that with the right amount and type of financing and technical support, small businesses can improve lives through energy access—a key international goal. Off-grid renewables also help power sustainable mobility in both rural and urban settings.

Small businesses also have an important role to play in greening agriculture. Land use for crop and livestock production accounts for 24 percent of global greenhouse gas emissions, and farms are vulnerable to droughts, floods, and rising temperatures. Financing climate-smart agricultural entrepreneurs is essential for making our food systems more resilient. Here, too, off-grid renewable energy has become indispensable, providing power for irrigation, processing grains, and operating the cold rooms and coolers needed to store dairy products, fresh seafood, and fruits and vegetables.

When small businesses have the financing and support they need, they can drive economic growth while mitigating emissions and supporting adaptation to climate change. That is because small businesses are more agile and adaptable—and respond to local needs much faster and more effectively—than large organizations. They also offer governments and policymakers an opportunity to try out new ideas, revealing both pitfalls and best practices before initiatives are scaled regionally or nationally.

Achieving the global goal of net-zero emissions requires policymakers, investors, banks, and others to attend to SMEs’ needs much more effectively than they have in the past. For starters, the world needs far more finance vehicles and instruments that are tailored to small businesses working in the green economy. That means a mix of lower-cost, long-term capital and blended finance, as well as easier access.

The world also needs more business accelerators focused on adaptation to climate change. There are only 25 such green accelerators located in non-OECD (Organisation for Economic Co-operation and Development) countries. Funding research and establishing professional networks will drive support to businesses that have strong growth potential.

Better metrics to assess success will be needed. That does not mean lowering environmental, social, and governance standards. Instead, it means devising indicators specifically for green enterprises in the SME sector to help them demonstrate their effectiveness and attract more investment.

Finally, investors must not overlook women, who produce up to 80 percent of food in the Global South. Women also are the most vulnerable to the effects of climate change. Investing in female climate entrepreneurs benefits the climate, food production, and overall prosperity.

Small businesses are integral to climate-change mitigation, adaptation, and resilience. Providing them the financing and support necessary to help them succeed is in everyone’s interest.

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