LMA Loan Market Association

30 YEARS
SHAPING MARKETS. THEN AND NOW.

Scaling sustainable finance for SMEs:

Insights from the loan markets

September 2026

Table of contents

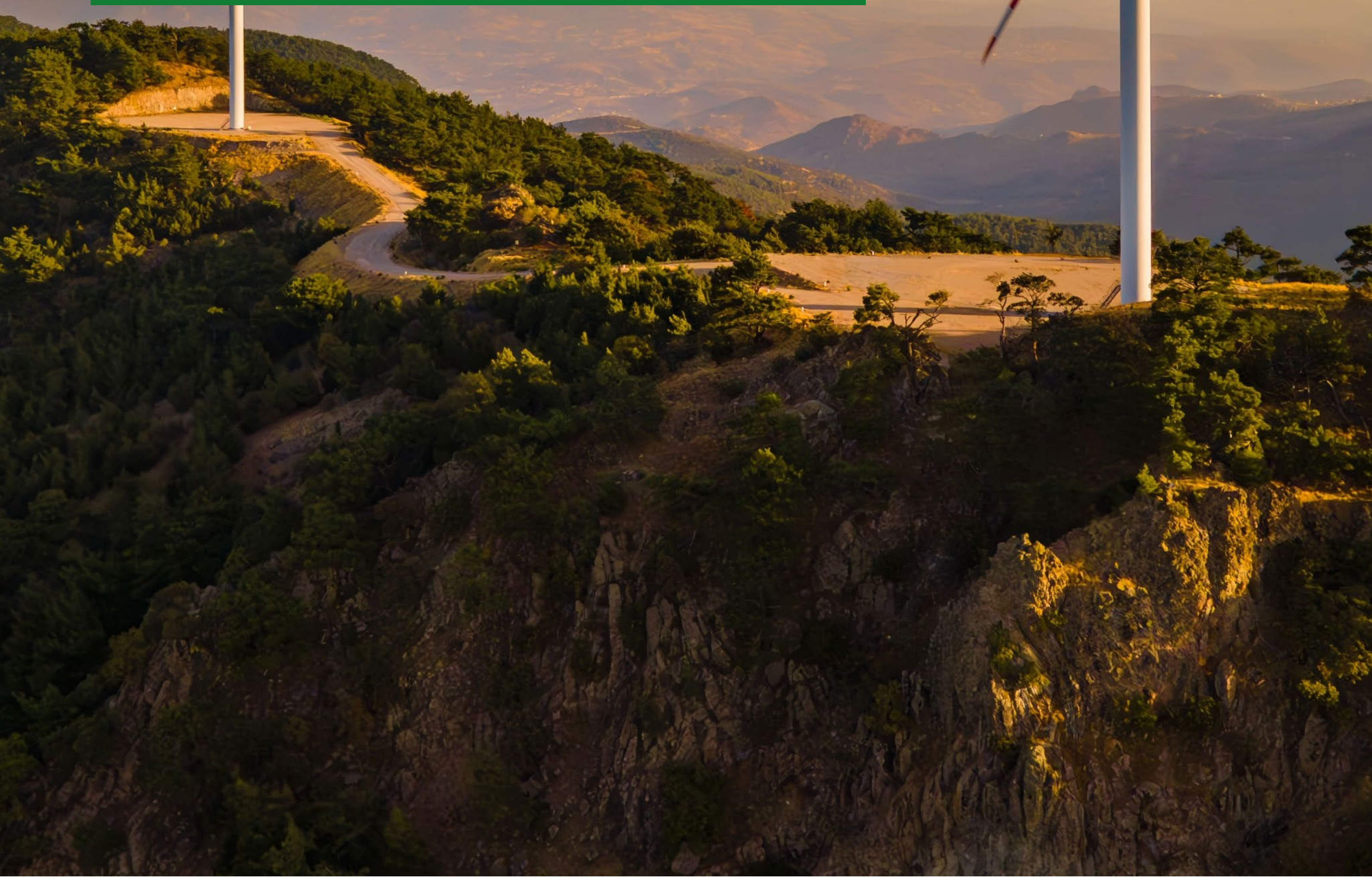
LMA | Loan Market Association

30 YEARS

SHAPING MARKETS. THEN AND NOW.

Since its foundation, the Loan Market Association (LMA) has supported the loan markets, with a focus on enhancing liquidity, efficiency, transparency, and sustainability. Today, with 880+ members in over 65 jurisdictions, the LMA represents an ever-growing diversity of participants in international capital markets, including institutional investors, private and public sector issuers, banks, non-banks, borrowers, technology solution platforms and market infrastructure providers, spanning the Europe, Middle East and Africa (EMEA).

For more information, please visit: www.lma.eu.com



Introduction

This is the second report in the Loan Market Association's (LMA) Sustainable Finance Insights Report series. It draws on feedback from the LMA's dedicated SME Taskforce.

Sustainable finance is an increasingly important feature of the loan markets and a strategic priority for lenders, investors, and policymakers alike.

Small and medium-sized enterprises (**SMEs**) are central to both the global economy and the sustainability transition. They represent around 90% of businesses globally and are estimated to account for around 40% of business-sector greenhouse gas emissions.[1] As bank lending remains a primary source of external finance for SMEs, the loan market and its stakeholders have an important role to play in enabling investment in sustainability-related activities and supporting SME transition.

Many SMEs are keen to pursue sustainability initiatives, but face significant challenges in accessing sustainable finance including limited awareness of available solutions, reporting and data constraints, resource limitations, and difficulties navigating an increasingly complex regulatory and market landscape.

Recognising these challenges and the growing demand for support from market participants, the LMA established the SME Loan Financing Taskforce (**SME Taskforce**) in 2025 to examine the barriers to SMEs accessing sustainable finance, identify practical and proportionate solutions, and consider how the LMA can best support improved and scaled access to sustainable lending for SMEs.

In 2026, the LMA surveyed the SME Taskforce to gather insights from financial institutions and advisory firms on the products, practices, and challenges associated with financing SME sustainability.

While the survey considered sustainable lending to SMEs more broadly, the feedback identified particular challenges in the practical application of the Sustainability-Linked Loan Principles (**SLLP**), including KPI selection, target setting, reporting and verification. By contrast, Green Loans were generally viewed as a more established and readily understood product in the SME market.

These findings informed the development of the 2026 Practice Note on the Application of the Sustainability-Linked Loan Principles to SMEs (**SME Practice Note**), which supports the practical and proportionate application of the SLLP to SME borrowers.

The Practice Note does not create a separate set of principles. Rather, it provides practical observations, considerations and examples to assist market participants in structuring and executing sustainability-linked loans for SMEs, while maintaining alignment with the existing SLLP framework. This report sets out the market context, survey findings and analysis that informed the development of the SME Practice Note and should be read alongside it.

Survey Respondent Profile

The survey received 30 responses from a broad cross-section of organisations active in SME and sustainable finance, including commercial banks, investment banks, non-bank lenders, development finance institutions, supranational institutions, external reviewers and rating agencies. Respondents represented significant SME lending activity. Of those providing lending volume data, 16 reported annual SME lending volumes in excess of €1 billion and a further five reported annual SME lending volumes between €50 million and €1 billion. Collectively, respondents represented at least €16.5 billion of annual SME lending, providing a meaningful indication of current market practice and perspectives.

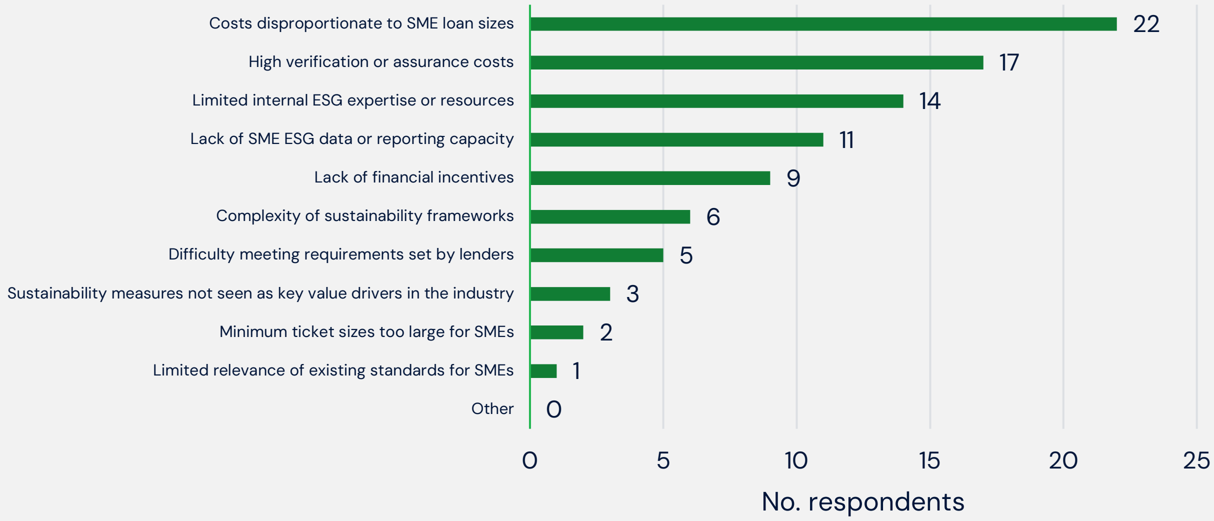
[1] OECD, 5 December 2023, COP28 - No net-zero without SMEs: Accelerating the green transition of SMEs.

Section A

Key Challenges to Scaling SME Sustainable Finance

Key challenges to scaling SME sustainable finance

What are the main challenges to offering or scaling sustainability-labelled finance for SMEs (Select top 3)?



Commercial viability and proportionality remain the primary barriers to adoption and scale. The economics of sustainability-labelled finance remain challenging for SMEs. Respondents consistently noted that structuring, legal, monitoring, reporting and verification costs are often disproportionate to financing size, while pricing incentives are not always sufficient to offset the additional burden.

Verification, reporting and monitoring obligations are viewed as disproportionate for SMEs. Verification and assurance requirements are consistently identified as a barrier to the adoption of SME sustainable finance. Evidence-gathering, reporting and assurance obligations can require investment in processes, systems and infrastructure weakening the business case for sustainability-labelled finance and, in some cases, discourage adoption altogether.

Resource, governance and capacity constraints impact both SMEs. Many SMEs lack the internal resources, ESG expertise, governance structures and dedicated personnel needed to engage effectively with sustainability-labelled finance.

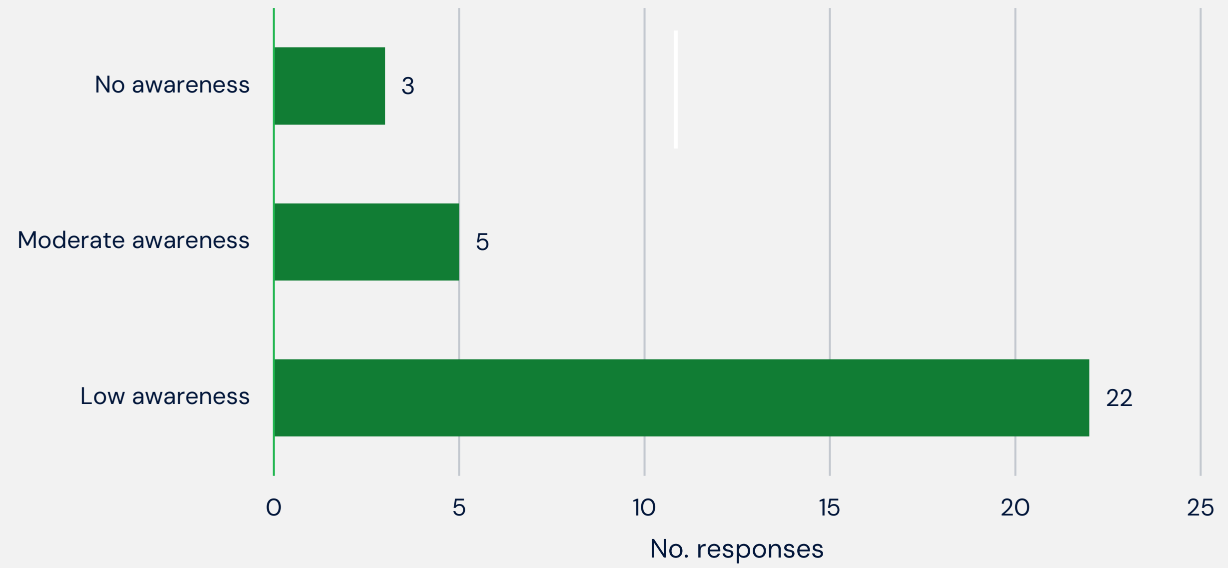
ESG data gaps and reporting challenges continue to impede market growth. Limited access to reliable ESG data remains a key challenge. Respondents highlighted difficulties in establishing baseline data, collecting relevant information and developing reporting systems capable of supporting sustainability-linked KPIs, targets and performance monitoring.

Framework requirements may not always align with SME capabilities and transition journeys. SMEs may struggle to meet framework requirements, particularly where quantitative targets are required from the outset. Respondents further noted that limited standardisation across lenders often necessitates bespoke transaction structures, increasing structuring and execution costs.

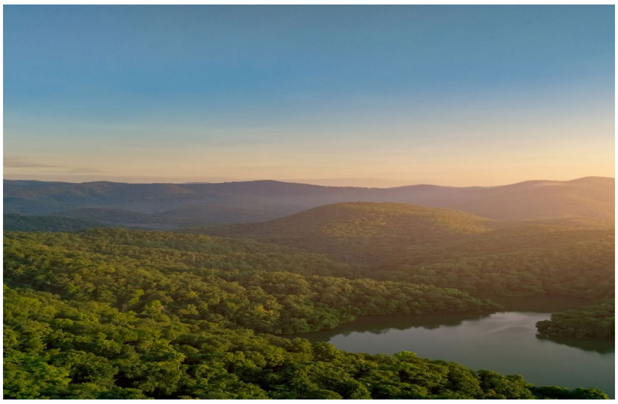
Awareness and understanding remain key barriers to adoption. Respondents identified limited awareness of both sustainability issues and sustainable finance solutions within the SME market. Familiarity with sustainability-labelled finance products, their potential business benefits and relevant financing structures was generally considered low, although awareness was reported to increase with organisational maturity, sustainability ambitions, customer and supply-chain expectations, and investor engagement. Fragmented SME education and engagement initiatives also highlight the need for greater coordination across the sustainable finance ecosystem.

Challenges can persist through refinancing. Respondents reported that sustainability-labelled features are sometimes removed where ongoing verification, reporting and KPI maintenance requirements are no longer considered proportionate to the benefits achieved. However, this does not necessarily reflect a reduction in sustainability ambition, with many borrowers continuing to pursue sustainability objectives outside the financing structure.

How familiar do you believe SMEs are with sustainability-labelled finance instruments?



As one respondent noted elsewhere in the survey, access is not necessarily the primary challenge; rather, many SMEs remain unaware of the opportunities that already exist.



Lender constraints can impact the scalability of SME sustainable finance.

Most respondents did not identify internal policies as a barrier to sustainability-labelled SME lending. Instead, challenges arise from commercial realities, operational complexity, resource requirements and limited market infrastructure, which can constrain the ability to scale sustainable finance solutions across SME portfolios.

Commercial viability, risk appetite and pricing constraints. Respondents noted that sustainability-labelled finance must remain commercially viable for both lenders and borrowers. In the absence of government support mechanisms or other market incentives, institutions reported limited scope to offer meaningful pricing benefits, with credit, risk appetite and return requirements continuing to influence product availability and scalability.

Internal capacity and sustainability expertise. Limited capacity within sustainable finance teams can restrict the level of structuring, advisory and ongoing monitoring support available to SME borrowers. Respondents also noted challenges in embedding sustainability expertise consistently across lending businesses, particularly where relationship managers play a key role in identifying and originating sustainable finance opportunities.

Systems, data infrastructure and automation. Respondents highlighted the need for greater automation, improved ESG data infrastructure and more efficient data collection processes to support SME sustainable finance at scale. Low levels of ESG data availability, combined with monitoring and reporting requirements, can create significant operational burdens.

Limited market infrastructure and ecosystem support. Respondents noted that broader market support remains underdeveloped, particularly in relation to standardised frameworks, SME-focused tools, data solutions and external support mechanisms. Greater alignment across market participants, together with simplified approaches tailored to SME circumstances, was viewed as important to supporting wider adoption and improving scalability.

Importantly, respondents were clear that many of these internal challenges ultimately stem from wider market conditions. In the absence of government support mechanisms, such as capital relief, risk-sharing arrangements or funding incentives, institutions face natural constraints on the financial benefits they can offer through sustainability-labelled products. Competitive market conditions therefore shape internal risk appetite, pricing decisions and resource allocation. As a result, many internal constraints are best understood as manifestations of broader external pressures rather than standalone barriers.

Section B

Sustainable lending to SMEs - Market analysis

Sustainable lending to SMEs - Market analysis

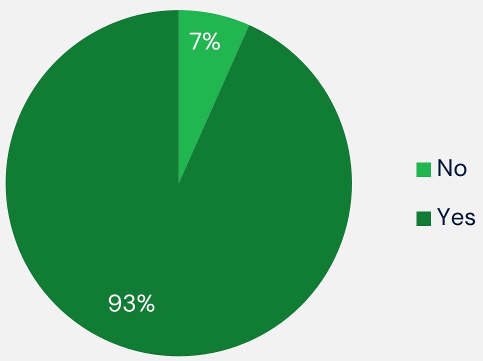
Whilst sustainable finance has become a more established feature of the SME lending market, and a broad range of sustainability-labelled products are now available, sustainability-labelled lending continues to represent only a small proportion of overall SME lending activity at most institutions.

Although interest in sustainability-labelled finance is increasing, SMEs remain largely focused on conventional financing.

Survey responses suggest that demand for SME sustainable finance appears strongest where there is clear commercial relevance and tangible benefits. Respondents identified financial incentives, improved access to capital, business resilience and alignment with strategies and stakeholder demand as key drivers.

Availability of Sustainable SME Finance Products

Does your organisation currently offer sustainability-focused finance to SMEs?



Approximately what proportion of your SME lending is sustainability-labelled?

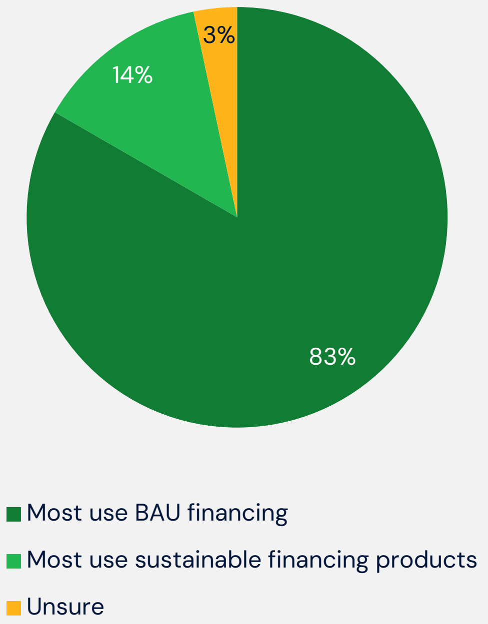
90% of respondents offer SME financing, and over 93% provide sustainable finance products to SME borrowers. Nevertheless, sustainability-labelled lending remains a relatively small proportion of overall SME lending activity.

The most common response placed sustainability-labelled products between 5% and 15% of SME lending portfolios, followed closely by portfolios where such lending represents less than 5%. A small number of institutions reported a share of between 15% and 30%.

None of the respondents reported sustainability-labelled lending to be above 30% of SME portfolio volume. Sustainability-labelled products therefore continue to complement, rather than replace, conventional lending structures.

SME Financing Trends

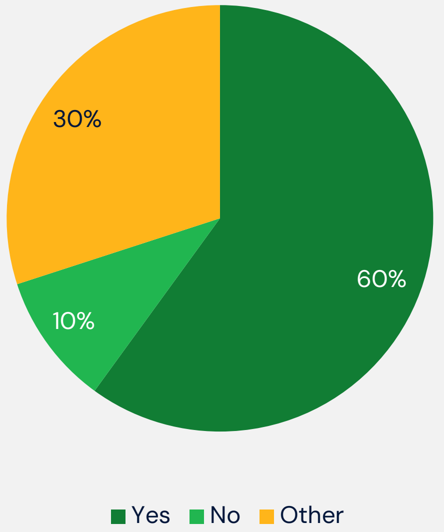
In your experience, do SMEs typically use business as usual (BAU) or sustainability-focused financing products to finance sustainability initiatives?



Survey results indicate that SMEs continue to rely predominantly on conventional financing. 83% of respondents indicated that SMEs typically use conventional financing rather than sustainable finance solutions, while only 14% believed that SMEs access sustainable finance products. Consistent with this finding, half of respondents estimated that between 76% and 100% of SMEs continue to rely on business-as-usual (**BAU**) lending to financing sustainability-related investments.

Demand for Sustainable Finance

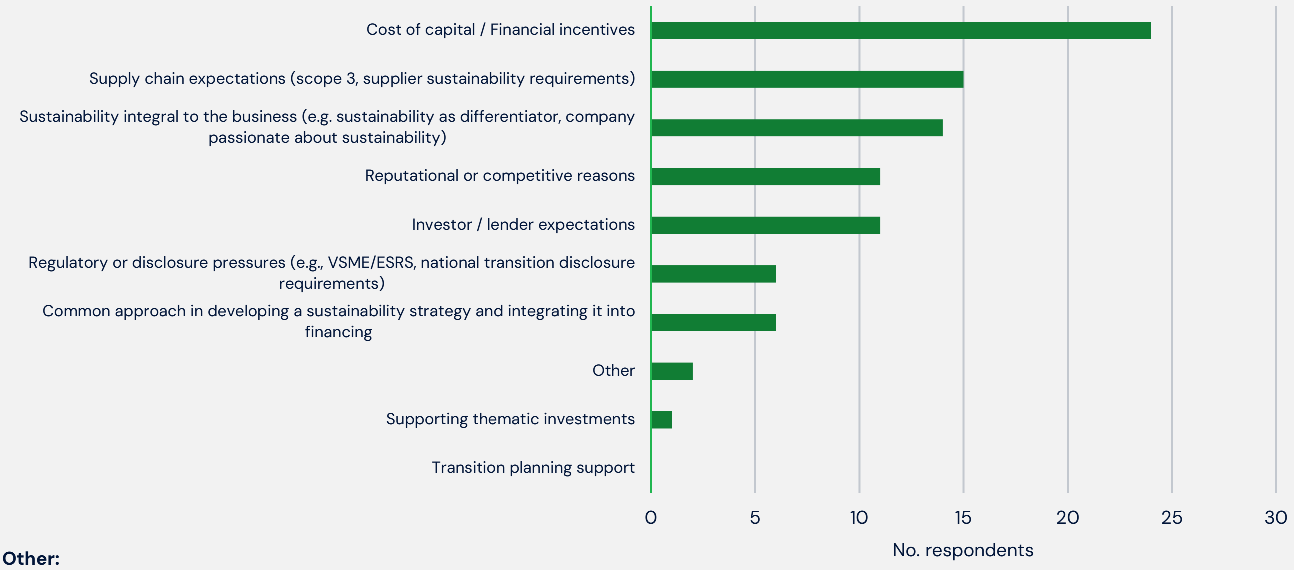
Is there interest from SMEs in accessing sustainability-labelled finance?



Other:

- If company has sustainability demands in business
- If the benefit outweighs the costs
- Yes, but arguably low interest
- Depends on if there are incentives (e.g. lower interest rate) or if we can support the SME in any other way.
- SMEs often consider labelled loans based on request from lenders.
- Currently limited FFP structures for SMEs
- Only if they are aware of the benefit (future proof business).
- Limited, only when it adds value or lowers cost of capital
- Yes, if this provides more access to financing

What factors typically influence the type of financing that SMEs access? (select top 3)



Other:

- Public Relation, business benefit (for example, it could be given extra points under the conditions when bid the Utilities)
- Types of lenders + Types of financial sponsors (funds and asset managers requirements)

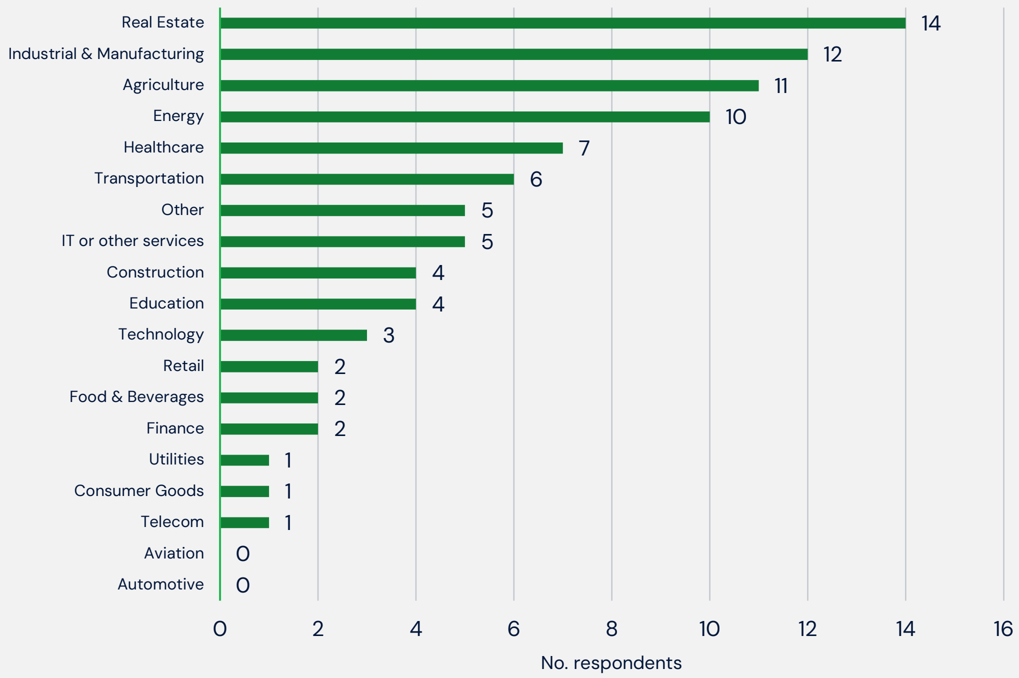
SMEs are more likely to pursue sustainable finance options when sustainable finance supports a clear commercial objective and forms part of SMEs' broader value proposition, customer offering or long-term growth strategy. Respondents identified financial incentives, business strategy, competitive positioning and stakeholder expectations as the principal drivers of SME engagement.

Investor and lender expectations and engagement were also identified as important catalysts, both for demand and greater engagement and, consistent with findings elsewhere in the survey, may also result in increased SME awareness of available sustainability products and their potential benefits.

Interestingly, although evolving reporting frameworks and sustainability-related regulations are influencing broader market behaviour, regulatory and disclosure requirements ranked below commercial and market-based drivers.

Sector Activity in SME Sustainable Finance

Based on your experience, which sectors are most active in accessing SME sustainable finance? (select top 3)



Other:

- Generally, "green" services businesses
- Pure players of SME tend to borrow with green and social labels.
- Otherwise very diversified across all sectors
- All of the above (no specific sectors stand out)
- Do not have a sufficient basket of facilities to highlight a 3rd industry.

The real estate, industrial, manufacturing, agriculture and energy sectors were consistently leading demand for SME sustainable finance products, likely reflecting the fact that they often have clear, measurable sustainability investment opportunities, are supported by well-established financing frameworks and standards and/or are subject to greater stakeholder, regulatory or transition-related pressures and sustainability outcomes may be easier to define, measure and monitor.

Regional Variation

Respondents highlighted that awareness of SME sustainable financing structures is highly uneven across markets and borrower segments with significant regional variation. Respondents perceived adoption of sustainable finance products in the US and Middle East to be constrained by lower awareness, while several European markets, including France and the Nordics, were associated with relatively higher awareness.

Section C

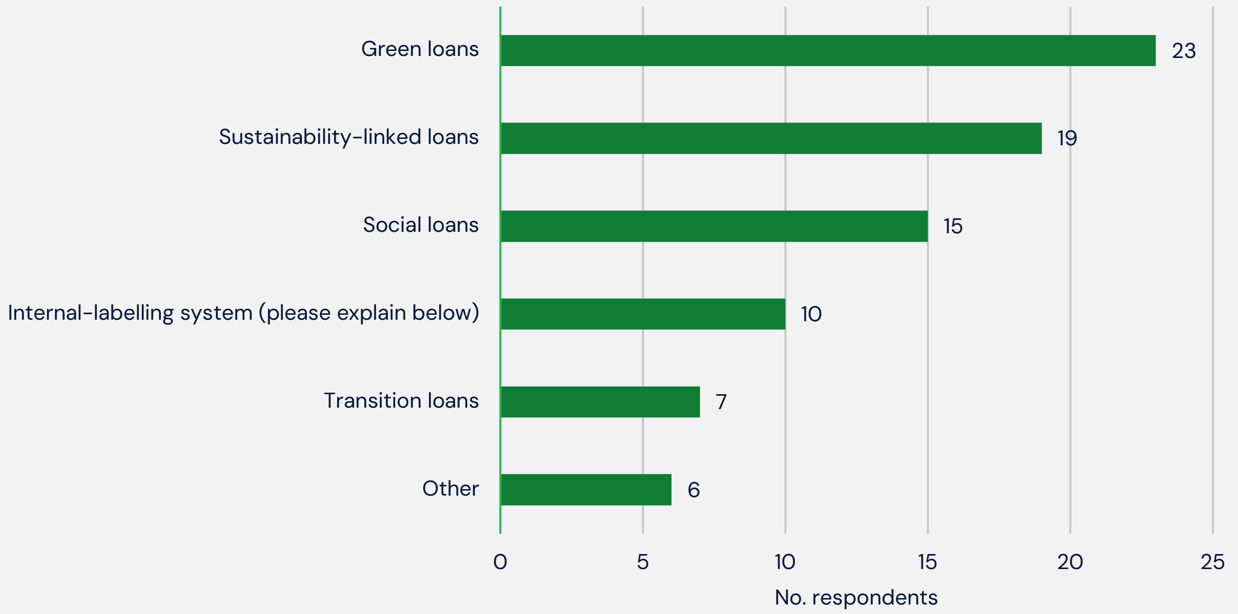
Types of sustainable finance being offered to and used by SMEs.

Types of sustainable finance being offered to and used by SMEs.

The market has developed to offer a wide range of SME sustainable finance products including labelled sustainable finance products. Lenders are responding to the need to provide simplified approaches tailored to the needs and capabilities of SME borrowers through the creation of internal lender created sustainable-lending frameworks (SME Sustainable Lending Frameworks) reflecting a broader market trend towards proportionality and standardisation in SME sustainable finance products.

SME Sustainable Financing Activity

What sustainable-labelled loan products does your institution offer to SMEs? (Select all that apply)



Lenders are now offering a range of labelled sustainable finance products to SMEs.

In 2026, green loans were the most commonly offered product to SMEs, followed by SLLs and social loans, indicating a role for both use-of-proceeds and KPI-linked structures in developing the SME sustainable finance market.

Transition loans were less widely available in 2026, with the Transition Loan Principles – Exposure Draft having only been published in October 2025[2]. Respondents nevertheless highlighted a growing need to support SMEs pursuing gradual transition pathways rather than only financing those activities directed towards defined environmental or social objectives.

[2] https://www.lma.eu.com/application/files/8017/6121/0645/Guide_to_Transition_Loans_-_16_October_2025.pdf

SME Sustainable Lending Frameworks

One third of respondents have developed their own SME Sustainable Lending Frameworks in order to bridge market-labelled sustainable finance and conventional SME financing including for example, simplified sustainability-linked structures (i.e. those that broadly align with SLLP but streamline and/or simplify features such as pricing incentives and use of standardised KPIs), frameworks based on internal scorecards and classification frameworks and those linked to ESG ratings.

These frameworks are not utilised to signal sustainability improvements externally and are used instead to:

- **reduce cost, complexity and execution friction** in cases where the application of market labelled-principles are seen as disproportionate to the size and resources of SME borrowers;
- **monitor and report sustainability outcomes** consistently across SME portfolios (e.g. by tracking use-of-proceeds, alignment with standards, impact and emissions data); and
- **retain flexibility** through tailored bilateral solutions that can be adapted to local market requirements and individual borrower circumstances.

Section D

Can sustainability-labelled finance support SME transition?

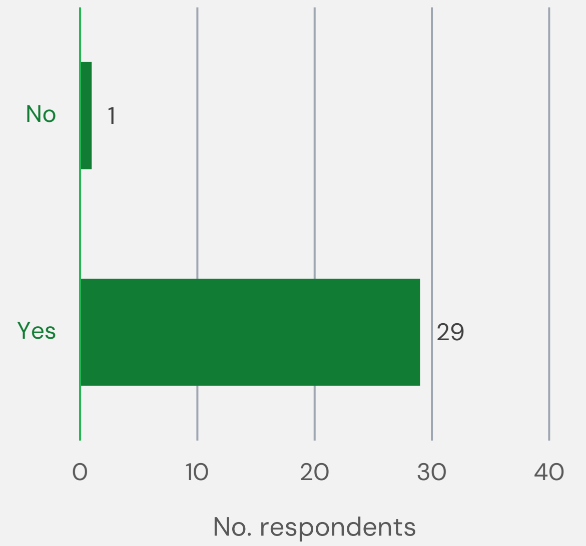
Can sustainability-labelled finance support SME transition?

The majority of respondents agreed that sustainability-labelled finance can play a positive role in supporting SMEs' transition towards more sustainable business models, however it is seen as an enabling tool rather than a standalone driver of sustainable change.

Sustainability finance is considered most effective in cases where relevant products are easy-to understand and implement, proportionate to SME capacity and maturity, adaptable to borrower circumstances and offering clear business-aligned incentives.

The effectiveness of individual sustainability-labelled products depends on borrower circumstances and financing needs.

In your view, can sustainability-labelled finance support SMEs' move towards sustainable business models?



Respondents identified a number of ways in which sustainability-labelled finance can support SME transition:

- assisting SMEs to **formalise sustainability strategies, transition plans** and **action programmes** and demonstrate **improvements** in sustainability-related objectives;
- **strengthen governance and internal coordination** by involving key internal stakeholders;
- increase senior management **focus and accountability** for sustainability objectives alongside wider business priorities;
- provide a **signalling tool** to enhance credibility and engagement lenders, investors and other stakeholders;
- create **alignment and efficiency around sustainability objectives between relevant stakeholders,** including borrowers, sponsors and lenders;
- support the development of **processes and systems for ESG data collection**, monitoring and reporting;
- **future proof business models** by integrating sustainability-related risk and value creation opportunities into business and financial models; and
- leverage **financial incentives** to influence behavioural and systems change.

How effective are individual sustainability-labelled instruments?

Green and social use-of-proceeds loans were viewed as particularly effective when linked to tangible outcomes, such as energy efficiency improvements, cleaner technologies or sustainable buildings. Respondents noted that features such as longer tenors, lower repayment burdens or grant support, may further improve project economics.

Sustainability-linked loans were also viewed positively, particularly for larger SMEs and lower mid-market borrowers with more developed sustainability strategies and access to ESG data. Respondents highlighted their ability to align stakeholders around common sustainability objectives and embed sustainability considerations within governance structures.

Transition-focused products were identified as increasingly relevant, particularly for SMEs seeking incremental pathways towards improved sustainability performance rather than immediate alignment with end-state green outcomes. Established market guidance, standardised documentation and precedent language were viewed as providing an effective foundation for transaction execution, while clear eligibility criteria helped support consistency and efficiency.

Conclusion

The survey findings suggest that the key challenge facing SME sustainable finance is not a lack of products, but ensuring that sustainability-labelled financing can be delivered in a manner that is proportionate, commercially viable and scalable for SME borrowers. While sustainable finance products are now widely available, adoption remains constrained by practical considerations including cost, data availability, reporting and verification requirements, and varying levels of sustainability maturity.

The findings also demonstrate continued market support for sustainability-linked finance as a tool to support SME transition, provided that frameworks are applied in a practical and credible manner. These insights directly informed the development of the *Practice Note on the Application of the Sustainability-Linked Loan Principles to SMEs*, which seeks to support the consistent, proportionate and integrity-driven application of the SLLP to SME borrowers while preserving alignment with the existing principles framework.

However, market guidance alone is unlikely to unlock the full potential of SME sustainable finance. Respondents consistently identified wider structural challenges, including economic viability, market infrastructure, data availability, education and awareness, and the limited availability of policy incentives and support mechanisms. Addressing these barriers will require continued collaboration across lenders, policymakers, regulators and industry stakeholders if sustainable finance is to be scaled effectively across the SME economy.

Disclaimer

This document is intended as an overview and is not intended to be comprehensive. While every care has been taken in its preparation no representation or warranty is given by the LMA or the authors as to the accuracy or completeness of the contents of this document. Most importantly, this document is not intended to provide legal or other advice on any matter whatsoever.