Connecting SMEs for a green economy

GreenEcoNet Policy Brief

Private Climate Finance Mechanisms for SMEs

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Abstract

In the post COP21 agenda, dedicated private to private finance mechanisms to fund climate mitigation and adaptations actions are expected to play an increasingly important role. These should be part of a much larger package of actions to reengineer our economy towards a green economy model. In Europe, SMEs provide the majority of employment and generate more than half of the GDP in Europe: Europe therefore needs an enabling policy environment which reduces the barriers they experience when trying to access these finance mechanisms to fully exploit the opportunities offered by the green economy.

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Main policy messages

- Europe needs a specific and dedicated set of policy measures at the core of European economic policy to facilitate access to green private to private finance instruments for green SMEs, both as recipient, i.e. implementers, and as investors.
- This set of measures should be consistent and integrated across scales (European, National, Regional, Local) and across member states, whilst respecting cultural, social, environmental and economic specificities.
- The set of policy measures should address the barriers SMEs experience, in particular barriers related to technical and managerial capacity, skills knowledge and information, so that SMEs can exploit all the available private to private finance instruments.
- The use of a participatory collaborative approach where SMEs and investors interested in the deployment of green economy solutions are involved in the development of the policy measures directly or through their multipliers, should be investigated, for example through the establishment of permanent investors - SMEs round table.
- A mandatory monitoring, reporting and evaluation mechanism which ensures that the flow of investments to and from the SMEs happens, and that investors, funding instruments and recipients meet green criteria in the broader sense should be deployed.
- Policy measures should include provisions to encourage the growth of direct peer to peer and citizens to SMEs mechanisms of investment, in particular crowdfunding.

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1. Introduction and scope

In the post COP21 agenda, private actors have emerged as a fundamental group of stakeholders in the transition to a new, greener economy model: in particular, their contribution to the development and implementation of climate mitigation and adaptation actions have for the first time been acknowledged as essential (UNFCC 2015).

One of the most important aspects of this transition is the reengineering of the current financial flows (traditional or brown financing) towards an environmentally and socially responsible, sustainable and resilient model (green financing). Along public financial flows from the government and other public bodies, the green transition agenda would explicitly require private actors to contribute significantly (European Court of Auditor 2013), both as investors and as recipients.

In the current brief we focus on private to private mechanisms to finance the green transition in SMEs. We will be using climate finance mechanisms as a case study.

We have decided to focus our attention on SMEs, because of two reasons: in Europe SMEs generate the majority of employment and of GVA; SMEs' innovation agenda, their ability to develop niche and complex products and services, often in untested markets, their structural flexibility could strongly benefit by these financial flows to develop novel greener solutions, products and services that could play an important role on reaching and delivering the global green targets, and allow the European economy to fully exploit the opportunities offered by the Green Transition.

Yet, SMEs experience a series of barriers which obstacle or limit their ability to exploit the full range of financial mechanisms available. Among the main barriers it is worth remembering: (i) lack of accessible information and knowledge (ii) lack of technical and managerial capacity and skills on exploiting the opportunities.

The objective of this policy brief is hence to present a critical exploration of the private to private mechanisms to finance the green transition in SMEs to inform the work of European level policy makers in their quest to achieve an enabling regional environment which would promote and foster the deployment of such mechanisms by SMEs and contribute to the achievement of European green economy goals, and in particular climate mitigation and adaptation goals. More specifically, we will first look at the research and case studies generated by the GreenEcoNet platform (Section 2). We will then review the current European policy landscape on the subject (Section 2). Finally, we will conclude by comparing the outcome of those two sections and by using the results of this comparison to inform a series of recommendations to European policy makers in Section 4.

2. GreenEcoNet Research and Case Studies

In this section we present the results of the analysis of these data within the context of our research on barriers and enablers. On the platform finance mechanisms are taxonomically organised into 4 categories: Internal Financing (IF), provided from within the company; Third Party Financing (TPF) provided by external private actors1, Subsidies (S) from public sources and Bank Loans (BL). A company can use a combination of mechanisms to fund the

[1] Bank Loans are excluded and are treated separately

development and deployment of a green solution2,3. In table 1 we shows the mechanisms ranked in order of usage and in and table 2 we rank the mechanisms combinations[4].

Table 2.1 Financing instruments ranked by usage

Instruments	Number of case studies	% case studies
Internal Financing (IF)	63	76.83%
Third Party Financing (TPF)	13	15.85%
Subsidies (S)	10	12.20%
Bank Loans (BL)	6	7.32%

Table 2.2 Combination of financing instruments ranked by usage

Combination of mechanisms	Number of case studies	% case studies
IF/TPF	5	6.10%
IF/S	2	2.44%
IF/TPF/S	2	2.44%
IF/BL	1	1.22%
IF/TPF/BL	1	1.22%

We can conclude that SMEs preferred mechanism are private to private mechanisms: in particular, green solutions are financed through a combination of private to private mechanisms in the 79% of cases, and through individual private to private mechanisms in 70% of cases. Only

[2] The category "Other" allows SMEs to include any other possible instrument and the category was not considered in the analysis

[3] The platform does not collect information on the % contribution of each mechanism to the funding of the green solution in the case where multiple mechanisms are used.

[4] We have removed those combinations that were not used (0%).

in 6% of the cases, private to private mechanisms are used together with public to private mechanisms, and only in another 6% of cases public to private mechanisms are used on their own.

If we analyse the results of the analysis within the context of GreenEcoNet research on barriers to the uptake, development and deployment of green solutions, which identified lack of financing, lack of capability and technical and managerial skills to develop business plans as major barriers[5], we conclude that solutions are needed to enable SMEs to exploit the full range of private to private mechanisms available, beyond the limited range of options currently exploited.

3. Policy framework at EU level

The analysis of the current European legislative framework regarding private to private finance of green solutions, and more specifically of climate solutions, shows it is generally poor of main binding agreements among parties. In particular, we analysed the literature from and about European institutions in the last 10 years, starting from the EUR-Lex 2016 database (Branten and Purju, 2013; European Commission 2008; European Commission 2011).

Specifically, the large majority of the available EU materials are reports and communications from the EC to the Parliament, and using climate finance as example, they follow the evolution of the climate global debate fostering and advocating for the agreed targets in the Conference of the Parties. Within table 3.1 we show as example the results of four searches related to private climate finance:

Table 3.1 Combination of financing instruments ranked by usage

Keywords	N° of results	Binding instruments (%)	Non-binding Instruments (%)	Others[c] (%)
Private climate finance	5	0	0	100
Climate finance	90	0	7	93
Private Climate finance and Small and Medium-sized enterprises and / or businesses	2	0	0	100
Climate finance and Small and Medium-sized enterprises and / or businesses	3	0	6	94

Summarizing, the European Community legislative panorama lacks of:

- Clear supranational binding actions
- Parties' agreement on the finance fluxes structure:
- Clarity of available financial schemes for potential investors:

[5] See GreenEcoNet Thematic Workshop 3

- Schemes to enable, promote and facilitate the rising intra-European private to private climate finance investments which include SMEs, beyond what can more generically be perceived as risk sharing facilities.

Three additional issues emerged from our analysis:

- Clear mandatory monitoring reporting and evaluation approaches focusing on the degree of completion, efficiency, effectiveness and efficacy of private to private climate finance instruments are needed but seem to be missing. This makes it difficult to estimate how much of the investments flow to European SMEs and how many of these are actually successful in the near, mid and long term.
- An adequate toolkit for the communication in layman language, i.e. accessible to SMEs and more particularly to the micro and small enterprises, of information concerning financing opportunities is needed but seems to be either extremely localised, with large differences between different member states, or absent, and GreenEcoNet stakeholders highlighted it as an important barrier.
- Instruments to build technical and managerial capacity and skills for and on the successful utilisation of the full range of financing instruments are needed and are localised, with some noticeable differences between member states, or sporadic or missing.

Finally, and possibly more important, a set of policy measures regarding European SMEs access to private to private mechanisms for the financing of green economy solutions consistent and integrated across scales, from the EU level to the local, and member states is needed, learning from best in class examples available in the EU (Esch, 2011; Juergens et al., 2012).

Whilst the “Think Small First” - A “Small Business Act” for Europe communication (European Commission, 2008) moves in the direction of addressing some of the issues, the gaps we identified are far from solved.

4. Policy recommendations (or short summary of policy proposal of framework)

- It is important to develop a consistent and coordinated set of policy measures at European level to facilitate access to green private to private finance instruments for green SMEs, both as recipient, i.e. implementers, and as investors. These measures should be specific and dedicated to SMEs because of their importance for the European economy in terms of job generation, contribution to GVA / GDP and to socio economic sustainability and resilience. This set of measures should be consistent and integrated across scales (European, National, Regional, Local) and across member states, whilst respecting cultural, social, environmental and economic specificities.
- The set of policy measures should address the barriers SMEs experience, in particular barriers related to capacity, skills knowledge and information, and ensure they can fully exploit the entire range of available private to private finance instruments.
- To make sure the framework is accessible, effective, efficient and efficacious we would recommend the use of a participatory collaborative approach where SMEs and investors interested in the deployment of green economy solutions are involved in the development of the policy measures directly or through their multipliers. As part of this collaborative, participatory effort, establishing a permanent investors-SMEs round table may help align the strategic objectives of the two groups and build a common language. More research is needed together with the development of pilot case studies.

- The policy measures should include also measures to address the technical and managerial skill and capacity gaps in terms of exploitation of different financing instrument, address the substantial differences that exists between different regions in Europe in terms of SMEs support, and should include a mandatory monitoring, reporting and evaluation mechanism which ensures that the flow of investments to and from the SMEs happens, and that investors, funding instruments and recipients meet green criteria in the broader sense as defined by UNEP's Green Economy Initiative.
- Finally, the policy measures should include provisions to encourage the growth of direct peer to peer and citizens to SMEs mechanisms of investment, in particular crowdfunding (De Buysere et al., 2012).

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About GreenEcoNet

GreenEcoNet is a project financed by the 7th EU Framework Programme for Research, which brings businesses and academia together on an EU-wide platform to support small and medium enterprises (SMEs) in the transition to a green economy. This platform (http://www.greeneconet.eu/) allows SMEs in Europe to connect to each other and to share their experiences, innovations and best practices. It thus aims to assist SMEs in optimally reaping the business opportunities of a green economy. Partners in GreenEcoNet are: the University of York - Stockholm Environment Institute, the Centre for European Policy Studies (CEPS), the University of Piraeus Research Center (UPRC), the Ecologic Institute, JIN Climate and Sustainability and the Green Economy Coalition.

DISCLAIMER

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