



Small & Informal Business in a Green Economy

Getting a stake in the transition

Why small matters

We believe that smaller businesses hold the key to a fair economic transition - it is the disrupters, the social enterprises, the innovators, and the little guys who can wire social and environmental purpose into their heart of the economy. It is increasingly understood that governments need the direct involvement of the private sector to manage local ecosystems enable local communities, promote resource efficiency create local jobs, empower women and support marginalized communities – in a nutshell: to realise the green economy.

The [World Bank](#) has found that private sector is highly characterized by small and medium enterprises (SMEs), particularly in emerging economies where formal SMEs contribute up to 60% of total employment and up to 40% of national income (GDP). The importance of SMEs is even higher when informal SMEs are included. SMEs are crucial to meeting the challenges of adapting to climate change, offering low carbon products and services, meeting the needs of the base of the pyramid and providing employment opportunities.

All around the world SMEs are already providing innovative solutions in response to local social, environmental and economic challenges. Individually they are driving the inclusive green economy forward in their communities and in their countries. Such efforts create a lasting collective impact for marginalised communities – bringing the opportunity to get a stake in the emerging sustainable economy.

Still too often such SMEs are unseen champions which, while actively shaping green economy on the ground, need support to realise their full potential. In addition to challenges such as access to financing or technology and a lack of adequate business management skills, the ecosystem in developing and emerging economies often additionally obstructs business development. The barriers are even more pronounced for social and environmental SMEs as they are pioneering new business models that challenge conventional perceptions of business. Ultimately SMEs – and especially micro, and informal businesses – can't do it alone. They need recognition and enabling policy to help them grow, go green, and empower new innovators and entrepreneurs to solve problems in their local communities.

SMEs have a unique role to play in ensuring a green economy is both prosperous and inclusive. They bring wealth and jobs directly into local communities when they grow. They are the first line of defence for billions around the world when it comes to waste disposal, environmental protection, and disaster recovery. By nature, small businesses are flexible, resilient and responsive - they achieve a leverage effect for green and inclusive growth. But it's up to policymakers to make use of SMEs potential to actively shape the green and inclusive economy, and empower entrepreneurial solutions.

What is already being done?

Global frameworks such as the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs) or the COP21 Paris Agreement are giving increasing attention to the role of private sector and especially SMEs in discussion but also in the implementation. Governments around the world recognise that SMEs matter, but sometimes it can be difficult to provide the right support or make SMEs aware of support that does exist. For informal business, the possibility of formalisation has trade-offs and complexities that individuals and governments alike are reluctant to unpick.

An increasing number of initiatives and projects are aiming to support SMEs that contribute to the green economy transition, for example SWITCH Africa Green (funded by the European Union

and implemented by UN Environment together with UNDP and UNOPS). Still the acceleration of SMEs needs to be scaled-up way more to build their outstanding potential. In many places the best that SMEs can hope for are warm words, sometimes regulatory exemptions, and occasionally direct support to go green. We need to go much further by listening to what SMEs are asking for and copying the best practice that is emerging around the world.

SME issues at the 2019 PAGE Ministerial:

- Parallel panel – ‘What role do small- and medium-sized enterprises play in promoting inclusion?’
- Parallel panel – ‘Greening small- and medium-sized enterprises’

What’s missing? – Voices from the ground

What do SMEs still need to empower them to take part in the transition? Here we explore perspectives from experts, businesses, and civil society groups around the world.

1. Strengthening business development capacities ([SEED](#))ⁱⁱ
SMEs often need additional business development support to be efficient contributors to the green economy and become financially stable as they scale up their sustainability ambitions. But each and every SME is different, from its individual internal needs to its contrasting and challenging environments. A tailored and needs-based approach is important to facilitate continuous growth.
2. Give small business visibility and a voice ([SEED](#))ⁱⁱⁱ
SMEs are major players in innovation and job creation, but too many remain unseen champions. The importance of SMEs successfully shaping the green economy in their communities and regions is still underestimated on national and international stages. Frameworks, strategies, policies and implementation mechanisms of the green economy transition need to bridge macro actions at the national level with micro implementation by SMEs on the ground. SMEs should be invited to participate fully in policy development discussions through consultations and multi-stakeholder processes.
3. Partner with SME networks ([GreenEcoNet](#))^{iv}
The diversity of SMEs means that one-size-fits support is rarely effective. Supporting SME networks and engaging in partnership with them is an ideal way to provide bespoke support, while also empowering innovation and sharing of best-practice with local, regional or sectoral peers in a non-competitive environment.
4. Support local green enterprise ([Santa Cruz Declaration](#))^v
SMEs of all kinds are important for the green transition, but local green enterprises which are creating sustainable solutions within communities, and retain value in local economies, have a particular role to play. It is crucial that policy and partnerships are responsive to micro and informal green enterprise of this type.
5. Ensure policy coherence at different levels ([Green Win](#))^{vi}
The most impactful policy for SMEs is that which is closest to them - local policy. But SMEs do need the certainty and clarity that comes from aligning local policy with national policies and international frameworks - such as the SDGs.
6. Support creation of markets & access ([Green Win](#))^{vii}
Policies that recognise simple green practices, sector-specific certification, or eco-labelling can create new market opportunities for innovative SMEs and help reward SMEs that are already green.
7. Provide a simple legal form for social enterprise ([GEC](#))
Social enterprise bridges the gap between business and charity. Creating a simple legal form for social purpose business of all sizes is a straightforward way to provide favourable tax, procurement, and financing environment for entrepreneurs that want to challenge conventional business models and embrace a triple bottom-line.

8. Support informal self-organisation (IIED)^{viii}
An important starting point for informal SMEs in many countries is that they are empowered to self-organise and potentially win group contracts. Governments should be open to procuring green services from informal microbusinesses, which can be a route to formalisation or just recognition.
9. Recognise the importance of small, but many (IIED)
The average SME alone has little influence on economic transition, but incremental change to empower and green small-scale agriculture or local construction/building businesses will have a profound role in shaping economies.
10. Close the 'missing middle' financing gap (SEED)^{ix}
Early stage SMEs face revenues from sales are still too low to cover start-up costs - especially in emerging economies access to private or family capital is low. Microcredit for households and micro-enterprises has increasingly become available in many regions, but SME financing remains rare and they are at risk of failure during the 'missing middle'. The World Bank estimate ~70% of all micro, small and medium-sized enterprises in emerging markets lacking access to credit, so new flexible finance instruments are needed which recognise the social and environmental value that SMEs offer.
11. Simplify and widen assessment of SME impact (SEED)^x
Funding bodies and governments are looking increasingly for evidence of impact, which for SMEs shaping the green economy has to include social and environmental benefits. But measuring these benefits as requested requires adequate time and resources - things that especially start-up SMEs are often short of. Additionally, many SMEs' contributions to the green economy are difficult to measure, for example contributions to local biodiversity and food security. SMEs will not be able to assess their contributions to a green economy alone.

Policy Headlines

Preparing the ground for the PAGE Ministerial:

- ✓ *What policies can ensure that SMEs are empowered to deliver a green economy?*
- ✓ *How can entrepreneurship help people get a stake in the transition?*
- ✓ *What does this mean for PAGE – what should ministers prioritise to support green SMEs?*

Links and Further Reading

ⁱ <https://www.worldbank.org/en/topic/smefinance>

ⁱⁱ <https://www.seed.uno/images/documents/1908/a4seedpolicyreport2015finweb.pdf>

ⁱⁱⁱ <https://www.seed.uno/images/documents/1908/a4seedpolicyreport2015finweb.pdf>

^{iv} <http://greeneconet.eu/sites/default/files/publications/GreenEcoNet%20Policy%20Brief%20No.2%20-%20%27Networking%20for%20SME%20innovation%20in%20a%20green%20economy%27.pdf>

^v <https://www.greeneconomycoalition.org/assets/reports/GEC-Reports/The-Santa-Cruz-Declaration-on-Small-Green-Enterprise.pdf>

^{vi} http://www.greengrowthknowledge.org/sites/default/files/downloads/resource/Enabling_Environments_for_Green_SMEs.pdf

^{vii} http://www.greengrowthknowledge.org/sites/default/files/downloads/resource/Enabling_Environments_for_Green_SMEs.pdf

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http://www.greengrowthknowledge.org/sites/default/files/downloads/resource/IIED_informality_inclusive_green_growth.pdf

^{ix} <https://www.seed.uno/images/documents/1908/a4seedpolicyreport2015finweb.pdf>

^x <https://www.seed.uno/images/documents/1908/a4seedpolicyreport2015finweb.pdf>