Green growth opportunities for SMEs
Green Action Plan

SUMMARY
Green growth, as a way to reconcile economic growth with environmental sustainability, offers numerous business opportunities for small and medium-sized enterprises (SMEs). Depending on their profile and sector, companies can put environmental products and services on the fast-growing green market. They can also make environmental improvements in their operations to reduce costs and comply with regulatory requirements. Companies wishing to engage in greening, however, are often faced with a lack of specialist knowledge, difficulties in accessing finance and excessive regulatory burdens.

The Green Action Plan (GAP), proposed by the European Commission in 2014, is aimed at helping SMEs turn environmental challenges into opportunities. It focuses on resource efficiency, green entrepreneurship and green skills, eco-innovation, greener value chains, and facilitating market access for SMEs. It also provides tools for the internationalisation of European SMEs, taking advantage of Europe's leadership in green technologies. The Plan complements other EU initiatives, such as the Green Employment Initiative, a Roadmap to a Resource Efficient Europe, Circular Economy and European Industrial Renaissance, and is intended to create synergies between them, using the financing under existing programmes. The actions proposed are intended not only to benefit SMEs and the economy, but also to help address environmental challenges related to resource scarcity, waste management and climate change.

Reactions to the Plan have been largely positive, with stakeholders pointing out the need to involve business associations, take into account the variety of SME models in Europe, and prioritise financing, knowledge transfer and a supportive regulatory environment. The European Parliament welcomed the Plan but pointed out areas requiring further effort.

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Background
Small and medium-sized enterprises (SME) in Europe are confronted with rising pressures – both from the market and legislation – to meet environmental standards. The demand for green products and services is rising, while the international green market is rapidly growing, by 5% a year, and according to forecasts, will triple by 2030. The global shift towards a greener economy helps address common environmental challenges, such as resource depletion and emissions, and can also bring economic benefits. Companies can in some cases cut their costs, while complying with standards and improving their corporate image.

The links between the economy and the environment are also high on the EU agenda. Sustainable growth is one of the priorities of the Europe 2020 strategy, with a flagship initiative dedicated to a 'Resource-efficient Europe'. 'Enabling SMEs to turn the environmental challenges into opportunities' is one of the ten principles of the Small Business Act – a package of SME-related measures. Several other EU green initiatives include an economic dimension: the Eco-Innovation Action Plan (EcoAP), the Green Employment Initiative and Circular economy: A zero waste programme for Europe. Environmental concerns are increasingly mainstreamed into transport and energy policies. Higher SME resource efficiency and the shift to a low-carbon economy are also key aspects of the proposed re-industrialisation of Europe (European Industrial Renaissance), which is expected to help small businesses cope with globalisation and competition.

Green growth
What is green growth?
Green growth is a means of reconciling economic growth with environmental sustainability. It is related to sustainable development, a concept based on three themes: economic, environmental and social. The scope of green growth, however, is narrower, as it focuses mainly on the links between the economy and the environment. It is seen as a way to achieve a green economy, by means of balancing the economic and environmental objectives, seeing short-term costs in perspective and focusing on long-term gains. Key elements of green growth are: sustainable use of resources; increased share of renewable energy; preserving natural capital (air, water, land and wildlife); as well as reducing emissions and waste.

Why is green growth important?
Green growth can contribute to reducing environmental degradation and mitigating climate change. It can help improve air and water quality, decrease pollution and waste, maintain biodiversity, counteract resource depletion, improve the health and well-being of the population, and strengthen energy security by reducing dependence on imported fossil fuels. Conserving natural resources also translates into higher natural capital available for use in production processes. An important aspect of green growth is that it offers synergies between environmental protection and economic development, turning green investments into a driver of economic growth and competitiveness.

Green growth in practice
Greening of the economy can refer to providing green products and services, or to making environmental improvements to existing operations in more traditional sectors. Green products include those which are biodegradable or reusable, durable, energy efficient, free of toxic compounds, manufactured with minimal environmental impact,
and preferably obtained from local manufacturers or resources. Examples include: organic food; chemicals and cleaning supplies; recycled products; energy efficient equipment and eco-friendly packaging materials. Green services can include: green cleaning and recycling; green consulting; nature conservation; air pollution control; waste management; eco-design; green offsets; green web hosting; and provision of cleaner emissions technologies. Environmental improvements in existing processes may involve: higher energy efficiency of buildings in the construction sector; dissemination of low-carbon technologies in transport; better water management; and energy efficiency in industrial production; as well as increased use of renewable sources across the economy.

**Measuring green growth**

Although the EU has not yet produced a set of indicators for measuring green growth,¹ Eurostat regularly publishes statistics on one of its crucial aspects – resource efficiency (see figure 1). The main indicator used is resource productivity, which measures the total amount of materials used by an economy in relation to GDP. Other indicators include: the share of renewable energy in final energy consumption; greenhouse gas emissions per capita; energy productivity; water exploitation; recycling of waste; eco-innovation; environmental tax revenues; biodiversity; population exposure to air pollution; soil erosion; and emissions from transport.

![Figure 1 – Resource efficiency in EU-28](image)


**SMEs and the environment**

**SMEs in the EU**

SMEs represent over 90% of all EU businesses and account for two out of three jobs. SMEs are classified as medium, small and micro enterprises on the basis of the number of employees (fewer than 250, 50 and 10 respectively), and their turnover or balance sheet total. In 2013, there were **over 20 million SMEs** in the EU. The majority were small and micro enterprises, accounting for 40% each, while medium enterprises made up the remaining 20%. The five main sectors in which SMEs are active include the wholesale and retail trade sector; manufacturing; construction; professional, scientific and technical activities (e.g. accounting, consultancy and research); accommodation; and food. Together, these five sectors account for about 78% of SME activity in EU-28.

According to the European Commission, SMEs play a crucial role for economic growth, innovation and job creation in the European economy. However, they are still...
recovering from the recent economic crisis. The latest Annual Report on European SMEs shows that, in 2013, SMEs in the EU-28 experienced a value-added increase of 1.1%, while employment fell by 0.5%, and the number of enterprises decreased by 0.9%. The economic outlook is positive, nevertheless, with both value-added and employment forecast to rise.

The main challenges faced by SMEs in Europe include difficulty in accessing finance, regulatory burdens, finding customers, ensuring competitiveness, and costs of production and labour. The business opportunities offered by green growth could offer a way to address some of these issues. EU green growth initiatives can open up additional sources of finance for companies interested in environmental investments. Streamlining procedures can contribute to facilitating environmental compliance for companies wishing to green their activities. Training for green skills could cover the current gaps experienced by companies in this area. Currently, European manufacturing companies spend 50% of their total manufacturing costs on raw materials, energy and water. Improving resource efficiency can help reduce these production costs and increase productivity (with a savings potential calculated at €630 billion per year for the European industry). Moreover, SMEs can take advantage of the opportunities offered by the global market for environmental goods and services, given that Europe is a leader in environmentally friendly technologies. The opportunities offered by green growth can be of interest to a large number of SMEs, as an estimated 40-45% of them are companies with high environmental impact. Such high-impact sectors include manufacturing, energy production, transport and construction.

SME views on green growth

In 2013, the European Commission organised a public consultation to gather stakeholders' views on the most effective support measures for SMEs to become more resource efficient and facilitate international commercialisation of green products and services. The respondent SMEs highlighted lack of information and cost efficiency concerns as the main obstacles to green investment. The reluctance of finance providers to offer funds for resource efficiency investments was also mentioned in this context, as resource efficiency improvements are believed to take too long to be financially viable and the financial return is perceived as not high enough. The respondents emphasised the role of environmental labels and certification schemes in facilitating access to markets for green products and services, the importance of clusters and partnerships in the value chain in order to share knowledge on green business models, as well as the need to develop green skills. They highlighted the lack of sufficient advisory and consultancy services, especially in the area of
resource efficiency, technology and knowledge transfer. The main stages of the value chain where support is needed, according to the respondents, are waste management, production operations and recycling.

The consultation complemented the results of two Eurobarometer surveys (no. 342 and 381) on 'SMEs, resource efficiency and green markets'. These surveys included topics such as compliance with environmental legislation, resource efficiency actions, barriers to resource efficiency, policy support for green business, and the current state of the green market. The findings showed that the majority of SMEs that decided to invest in environmental improvements were satisfied with the return on their resource efficiency investments. Investments had decreased costs for 42% of respondents (for 21% the costs increased and 25% reported no impact). Most of the investments on resource efficiency were low cost, while the main actions focused on minimising waste and saving energy. As far as the green market is concerned, 26% of surveyed SMEs offered green products and services in 2013 (see figure 2), with 7% intending to do so in the next two years. The most common sectors where such products are offered are construction, food and beverages, and electronic and mechanical machinery and equipment. The national and EU markets remain the main target markets.

Green Action Plan

The Green Action Plan (GAP) is an EU initiative aimed at turning environmental challenges into business opportunities and using the potential to transition to a green economy. The GAP was announced in the July 2014 Commission communication, accompanied by a list of actions. The actions respond, in large measure, to the issues identified during the public consultation and the Eurobarometer surveys, taking into account the stakeholders’ concerns. The Plan focuses on: resource efficiency; green entrepreneurship and eco-innovation; greener value chains; circular economy; and facilitating market access for green SMEs, both in the EU and internationally. It includes guidance to SMEs on the cost-effectiveness of resource efficiency investments; facilitating access to finance; assisting the internationalisation of European SMEs; supporting green entrepreneurship and eco-innovation through developing an entrepreneurial mind-set and fostering business-friendly regulations; as well as providing knowledge-sharing opportunities and technology transfer within cross-sectoral cooperation along the value chains.

Improving SME resource efficiency

The actions proposed address three issues: providing information and advice to SMEs on how to improve their resource efficiency in a cost-effective manner; supporting green technology transfer; and facilitating access to finance for environmental improvements. A European Resource Efficiency Excellence Centre (to be set up in 2015) will help estimate the return on investment and the financial viability of specific efficiency improvements, as well as develop a self-assessment tool allowing SMEs to assess their efficiency performance. It will provide training and liaise with national and regional partners, including the Enterprise Europe Network (EEN). The EEN will organise a campaign to raise awareness of resource efficiency, and provide information on the sources of funding and non-financial support. In late 2015, a Guide for Managing Authorities of European Structural and Investment (ESI) Funds to support resource efficiency in SMEs is expected to be published. The European Commission will also provide updated information on its Access to Finance portal. In 2014, an EU-wide
Network for Eco-Innovation Investment was established, to bring together public and private financiers and investors that support eco-innovation.

**Green entrepreneurship, green skills and eco-innovation**

SMEs need support in developing, financing and putting green ideas on the market. Actions in this area are aimed at promoting eco-innovative business ideas, green entrepreneurship and innovative clusters. Skills development is offered under the Green Employment Initiative, educational models are prepared by the Climate Knowledge and Innovation Community of the European Institute of Innovation and Technology (EIT), and partnerships are formed via Knowledge Alliances and Sector Skills Alliances under Erasmus+. New business models using eco-innovative technologies can be tested via the Environmental Technology Verification tool. In addition, a Cluster Excellence Programme will offer training on resource efficiency and sustainability among cluster managers.

**Green value chain and circular economy**

Actions in this area will be aimed at enhancing cross-sectoral and cross-regional cooperation across the value chain to share specialised knowledge. A 2014 study identified the barriers to a circular economy, and a study on industrial symbiosis (particularly waste streams) is expected in 2015. Cooperation between businesses will be promoted through the Horizon 2020 action ‘Cluster facilitated projects for new industrial value chains’, and the European Cluster Observatory will map geographic concentrations of eco-industries. The Observatory will also analyse the conditions conducive to the emergence of such industries, and contribute to the development of circular business models.

**Better access to green markets**

The EU is a leader in green and low carbon technologies, as a net exporter which represents approximately one third of the world market for environmental industries. It also has commitments as regards climate change cooperation and neighbourhood policies. This brings potential opportunities for EU SME investment in other countries. Specific actions in this area focus on improving the market access for green SMEs, both in the EU and internationally, as well as building partnerships. European Standardisation Organisations (e.g. European Committee for Standardization (CEN), and the European Committee for Electrotechnical Standardization (CENELEC)) will be encouraged to include environmental aspects in standardisation. The European Commission will support the development of environmental standards (e.g. labelling) and their international recognition, and promote green public procurement. European Strategic Cluster Partnerships will be further developed, in particular in the area of resource efficiency and clean technologies. Additional partnerships will be established under the cluster internationalisation programme for SMEs and cluster matchmaking missions. The Partnership Instrument 2014-2020 will support partnerships with middle income countries, in particular focusing on low carbon technologies. An additional green technology transfer action for South Mediterranean countries will support cooperation on the ‘greening of industry’.

**Financing**

The Plan does not provide for any new funding. It is a framework which reinforces existing green initiatives and creates synergies between them. The actions will be partially financed from programmes such as COSME, LIFE, Horizon 2020 (the SME Instrument and the theme ‘Societal Challenge – Climate Action, Environment, Resource Efficiency and Raw Materials’), as well as the European Structural and Investment (ESI).
Funds (thematic European Regional Development Fund and European Maritime & Fisheries Fund priorities, related to investments in innovation). Some financing is also still available through the Competitiveness and Innovation Programme (CIP). Cooperation with third countries will be financed through the Partnership Instrument. In addition, EIB instruments will be used, including the Natural Capital Financing Facility (NCFF) and Private Finance for Energy Efficiency instruments (PF4EE).

Implementation
The GAP itself does not set a specific time frame or deadlines for completing the actions. Currently, several calls for proposals, tenders and action grants are ongoing, in particular in the area of clusters, resource efficiency, eco-innovation for a circular economy, and waste. In addition, the EIT has launched a series of educational initiatives related to green skills and several tools (ETV), and platforms (GreenEcoNet) are being developed. The implementation of actions is monitored on the GAP website.

Stakeholders' views
The European Association of Craft, Small and Medium-sized Enterprises (UEAPME) welcomed the GAP, but insisted that it will be successful only if SME intermediary bodies are involved in its implementation, going beyond the Commission's own Enterprise Europe Network. UEAPME also emphasised the need to develop green skills and to remedy the current lack of consultants specialising specifically in resource efficiency for SMEs. It warned about the administrative burdens of environmental legislative measures for SMEs. BusinessEurope, which represents business federations, pointed out the need to support innovative business concepts and marketing of green products and services, as well as sharing successful public policy initiatives at EU level. It suggested special EIB loans and guarantees for resource efficiency investments, and to ensure that the public sector gives only generic guidance, while specific and technical questions are dealt with by the private consulting market. The Association of Chartered Certified Accountants (ACCA) stressed the diversity of the sector and the need for the initiative to take 'the differences between large companies and SMEs, but also the differences between micro, small and medium-sized enterprises' into account, and thus adopt varied approaches. Eurocities, a network of local authorities and business partners, underlined the role of city administrations in issues such as energy and water efficiency, waste recycling and transport, as well as facilitating contacts between businesses and research institutions. It also highlighted the need to tailor solutions to individual businesses and business sectors, focusing on the most cost-efficient investments.

EU institutions
The European Economic and Social Committee, in its 2014 opinion on 'The circular economy: job creation and the Green Action Plan for SMEs', highlighted the importance of this plan for competitiveness and growth. It also called for cooperation between public and private actors, pilot schemes in individual sectors, access to finance and training, expansion of verification tools (such as the Environmental Technology Verification) and establishment of a circular market for materials, parts and intermediate products. The Committee of the Regions, in its 2015 opinion on the 'Green Action Plan for SMEs and Green Employment Initiative', welcomed the plan and underlined the need to involve the public sector and local and regional authorities in facilitating the transition to a green economy, especially in view of their management of ESI Funds. The Council of the EU welcomed the Green Action Plan in its December 2014 conclusions. The European Council mentioned energy efficiency and Energy Union in its
March 2015 conclusions, while the 2030 climate and energy policy framework was a prominent topic in the October 2014 conclusions. A package of proposals on Energy Union is anticipated for later this year. The GAP also builds on European Council June 2014 conclusions, calling for a resource-efficient and competitive industrial base.

European Parliament

In response to the Commission's communication on the Green Action Plan, the Parliament adopted in May 2015 a resolution on green growth opportunities for SMEs. It welcomed the initiative, but pointed out areas requiring further effort: financing; research, development and innovation; knowledge transfer; and regulatory frameworks. Highlighting the diversity of SMEs in Europe, it advised against one-size-fits-all models, including sources of finance. In its 2012 resolution on a resource efficient Europe, the Parliament underlined the need to support innovation and investment in new techniques and business models for green growth, and stated that a shift to a resource-efficient economy should boost competitiveness, growth and jobs thanks to 'cost savings from improved efficiency, commercialisation of innovations, and better management of resources over their whole life cycle'. In its 2013 resolution on 'Eco-innovation – Jobs and growth through environmental policy' Parliament stated that 'investing in green growth is not a costly duty but a huge economic opportunity'. It noted the potential for job creation, not only in the area of renewable energy, energy efficiency and transport, but in all sectors, and stressed the role of eco-innovation in the green economy. In its 2014 resolution on 'reindustrialising Europe to promote competitiveness and sustainability' Parliament saw energy and resource efficiency as the basis for a European industrial renewal, and called for a swift integration of green products and services in the internal market. During the negotiations on the Multiannual Financial Framework 2014-2020, the Parliament added eco-innovation to the investment priorities of the European Regional Development Fund. More recently, however, on the controversial issue of withdrawing the circular economy package from the European Commission's 2015 work programme, the EP did not produce a joint resolution on the broader work programme.

Main references

'Green Action Plan for SMEs', webpage of the European Commission.
'SMEs and the environment in the European Union', PLANET SA and Danish Technological Institute, 2010.

Endnotes

1 A broader database of green growth indicators has been created by the OECD. They are grouped under four headings: environmental and resource productivity (more efficient use of natural capital, measured by production-based CO2 emissions, energy consumption per capita, renewable energy as % of total energy supply); the natural asset base (state of freshwater, land and wildlife resources); environmental quality of life (e.g. population exposure to air pollution), and economic opportunities and policy responses (e.g. public spending on environmentally related R&D, green patents). While works in this area are still ongoing, over 20 countries have already used this framework, adopting it to their national contexts.

2 Pilot actions are currently being implemented in Brazil and Mexico.

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