Fostering Eco Innovation in SMEs

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Small and medium-sized enterprises (SMEs) are the backbone of the economy.

SMEs are drivers for innovation, job creation and growth.The challenges and opportunities are enormous. In the last 25 years, the global economy has doubled – doubling use of resources. The economy is now five times bigger than 50 years ago, while the planet has fewer resources. For the fast-growing global population to achieve OECD levels of income by 2050, the economy would need to be 40 times bigger than now. Environmental pressures risk the long-term sustainability of the recovery. This is impossible; there must be fundamental change.

Eco-innovation offers a major opportunity – no longer a niche market, but a real driver for sustainability, bridging the gap between environmental protection and growth and jobs.

The global environmental goods and services markets are growing rapidly. Eco-industry has been growing 8% annually, it is one of most dynamic sectors. US and Europe have benefitted from a competitive advantage in the €1 000 billion global market, which is expected to triple by 2030. Forward-looking environmental policies have led to first-mover advantages for entrepreneurs. The pace of eco-innovation and scaling up is growing fast. New competitors in the USA, EU, South Korea, China and India, spurred on by massive public support, are showing interest in this fast-developing industry. Eco-innovation, resource efficiency and pollution abatement is not only about eco-industries. Moving to cleaner and more energy- and resource-efficient products, processes, and services will ensure a competitive advantage for industry irrespective of sector. SMEs, both as active developers and as adopters of eco-innovation, must exploit the emerging commercial opportunity.

SMEs represent our economy's future.

SMEs can provide the creativity and entrepreneurship that is required to achieve a system innovation towards a resource efficient economy. For innovative SMEs to thrive, we must create a more business-friendly environment. However green entrepreneurs face additional specific barriers and challenges – such as access to finance, protection of intellectual property rights (IPR) and the skills gap - which slow the rapid take- up and dissemination of eco-innovation throughout the
economy.

Eco-innovation is a relatively new and rapidly expanding field.

Support and governance structures, network, skills and funding sources are only emerging. There is a lack of public funding and access to private finance is difficult, as innovative SMEs are often young companies and eco-innovation is seen as more risky than other fields of innovation. Public policies must de-risk eco-innovation and provide the necessary

incentives to spur and leverage private funding for green growth. A coordinated response is essential at local, national and global levels to overcome these difficulties. We focus on bringing eco-innovation from research to market, improving market conditions, opening up global markets. Rapid and reinforced actions are now required, building on our experience.

Policies to accelerate demand: Increasing demand for eco-innovation and environmental goods and services.

Regulation must promote eco- innovation, efficiency, performance and competitiveness. It must avoid lock-in to outdated solutions. Regulations must be regularly reviewed, be flexible to meet technical progress and must be enforced. A mix of instruments – technology standards, benchmarks, product performance requirements and market-based instruments – must complement regulation.

The potential of the Eco-design directive to support eco-innovation should be expanded to cover non-energy related products. In order for the SMEs to benefit from new product and process requirements, the extension of the Eco-design should be based on the “think small first” principle and provide at least timely information and sufficient time for adjustment. When possible extensive consultation must be initiated about (a) the standards in standardization in order that the information about environmental performances is correct and comparable; (b) the level of minimum performance required by law; and (c) future performances expected to be necessary to make the environmental ambitions become reality as an incentive to frontrunner eco-innovation developers.

Green public procurement must be applied in order to to facilitate SME participation and generate uptake of innovative green technologies. Green procurement facilitates investment into innovative solutions by de-risking investment propositions for early stage eco-businesses and helps create a virtuous circle of demand, supply and investment on a sustainable basis. Forward-looking procurement will indicate the direction of change; life-cycle costing and the bundling of public and private demand are necessary elements. Companies must be encouraged to introduce eco-innovative approaches in their business models and investments. Citizens must be made aware of the need for and availability of green products through education and labeling.

Getting eco-innovation to market: Support for SMEs in development and market-introduction of eco-innovative products, processes and services, including integration of research and commercialization.

Research programs must sustain eco-innovation efforts and be fully open to SME participation. They must actively investigate emerging areas for eco-innovation, including re-design of existing material chains, cross-sector research, and user-led innovation, as well as improving dissemination and facilitating commercialization of results. Support must be developed for pre- and post-research activities, including expansion of the CIP program and

use of structural funds. Eco-innovation and SME-friendly value chains must be created with the strength and dynamism to supply and pull eco-innovative solutions. Technical diligence and other verification schemes should be encouraged to prove the credentials of eco-innovation with the investors and final users.

Greater green investment: Action to encourage public funding and private-sector investment.

Public authorities must reduce the risk of eco-innovative investments. Tax incentives, economic instruments and financial tools to leverage private investment in the sector must signal the commitment. A dynamic venture-capital market is a prerequisite for the success of eco-innovation. Education as to the business opportunity presented by eco-innovation is required for private-sector investors to change mindsets and invest in this rapidly emerging sector. Cohesion policy must become an important element of bridging the divergence in eco-innovation development and uptake.

Green skills: Promoting green jobs and providing workforce training to tackle the green skills gap in SMEs.

All jobs will increasingly involve a green element. Green training is needed at the earliest stage, including mainstreaming eco-innovation into technical fields of education. Current training needs must be mapped to identify gaps and solutions for dealing with them through suitable programs on both the technical and management eco-innovation skills required. This requires optimizing funding for national or regional initiatives to promote green technical and business skills.

Green partnerships: Building on existing networks and reinforcing links between eco- entrepreneurs.

Organizations working with SMEs – trade associations, clusters or equipment suppliers – must be further mobilized to help them devise and implement eco-innovative solutions for their businesses. Such networks must be encouraged to work together across the industries and continents to exchange solutions, improve dissemination of opportunities and challenges in eco-innovation and link supply and demand, in particular matching investors with entrepreneurs and strengthening the link with applied research in order to overcome the lack of R&D in SMEs. Mentoring schemes, corporate venturing, net- working and clustering of green enterprises must be explored to pro- vide green entrepreneurs with the necessary management skills and infrastructure to succeed. Partnerships with large enterprises are necessary to harness the transformative power of greening supply chains.

International trade/co-operation: Driving force to speed the global transition to a green economy.

Global growth will open up new opportunities for exporters. All external economic policy instruments, particularly development aid, must foster the growth of green SMEs. Action must be taken at local, national and global level to eliminate tariff and non-tariff barriers to international trade in environmental goods, technologies and services, while protecting IPR. Acting within the World Trade Organization and bilaterally to secure better market access for eco-innovative entrepreneurs should be a key goal. We must streamline regulatory dialogue in the area of green growth by promoting equivalence, mutual recognition and convergence on key issues, as well as adoption of our rules and standards. Opening up global markets to eco-innovation will involve networking with SME-support facilities abroad, promotion of green technologies and setting up of international technology-transfer mechanisms for SMEs.

Political support: Eco-innovation must gain political support and become a key objective of policies.

Eco-innovation is not a luxury but good business and essential for our future. The strategy should be set the key challenges facing states and the vision for transformation towards a green and sustainable economy. SMEs are an integral part of this solution. We now have to move towards implementation. A ‘Green SME deal’ would accelerate eco-innovation development. The new Eco-innovation Action Plan must set the direction of change and provide the means to achieve these ambitious goals. With adequate commitment and support from all parties at regional, national and global level, we can achieve eco-innovation, making it our way to exit the crisis and enter a new, green economy, delivering sustainable, smart and inclusive growth.