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Financing the Green Transition

The European Green Deal

The view of SMEs emerging from field research

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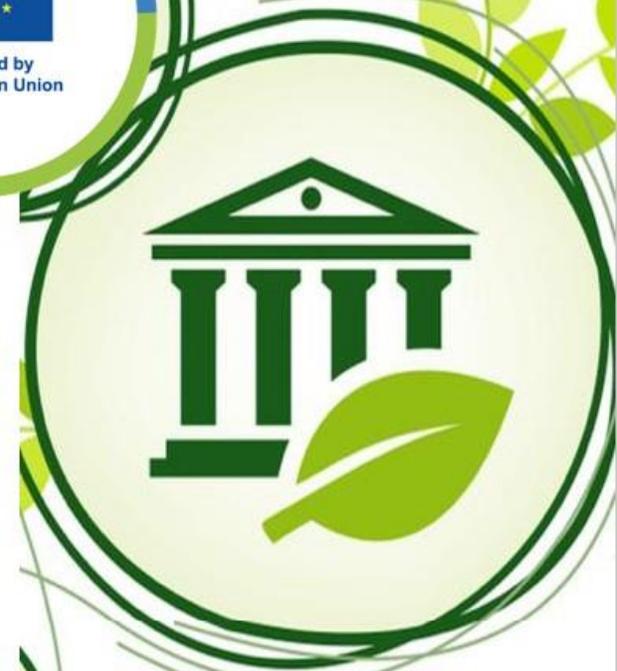
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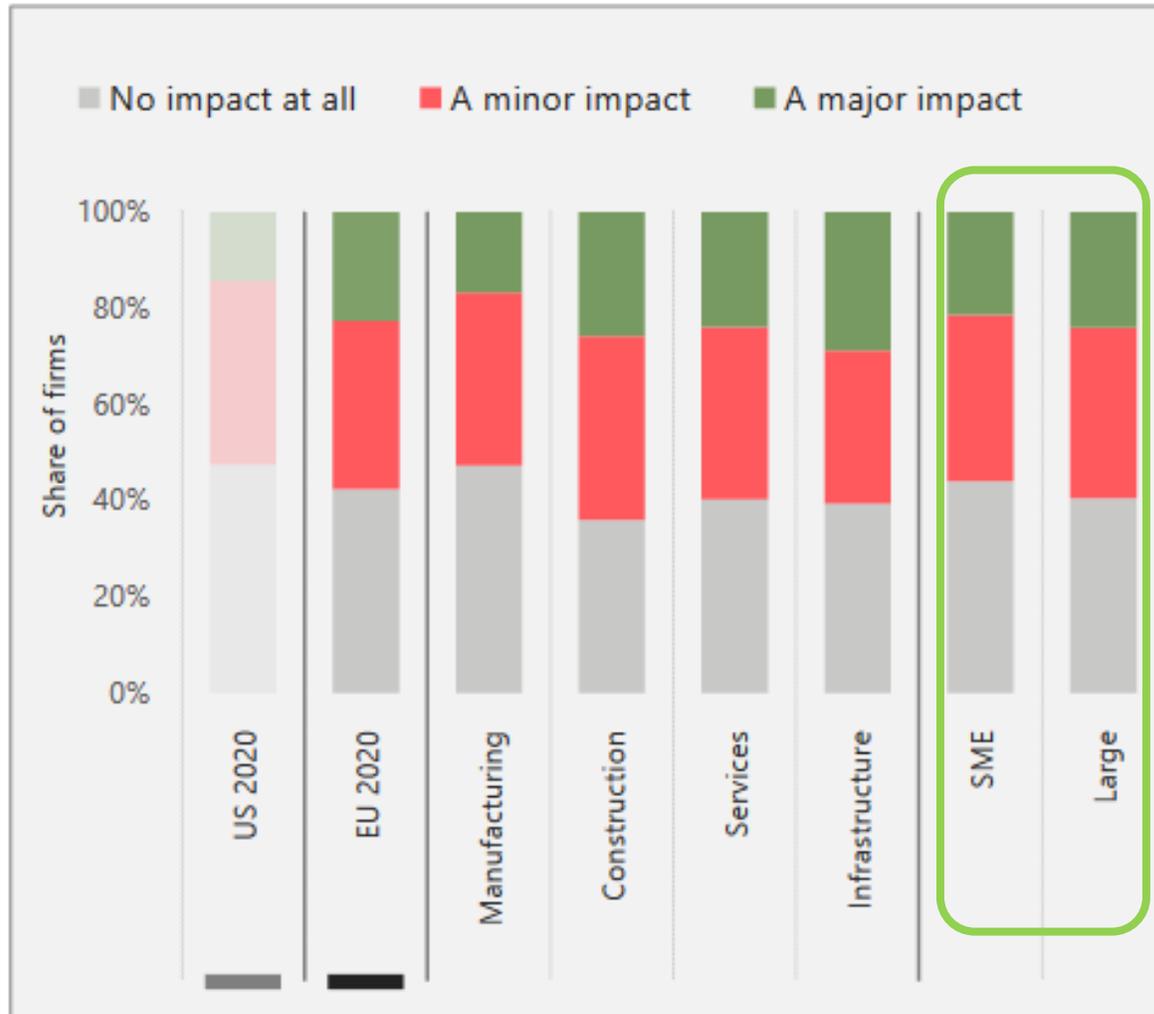
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Agenda

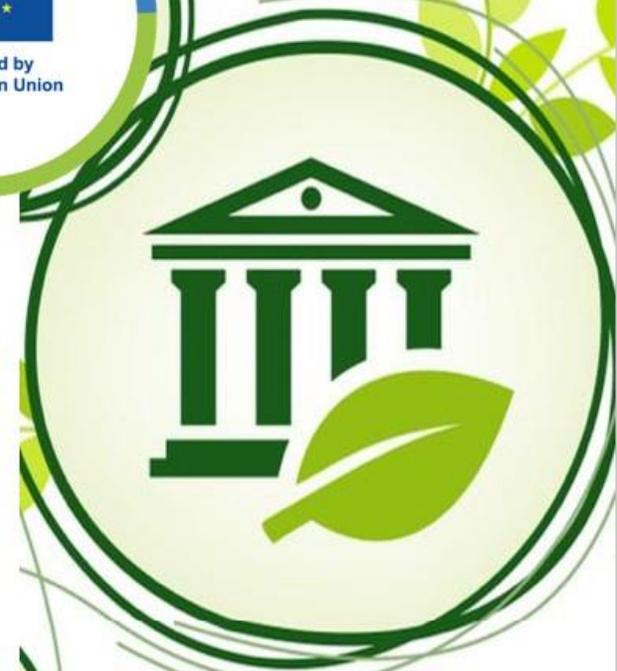
- SMEs and European Green Deal – some results from desk research
- Interviews methodology
- SMEs and the European Green Deal in the light of interviews
- SMEs and the European Green Deal – recommendations



SMEs and green transition



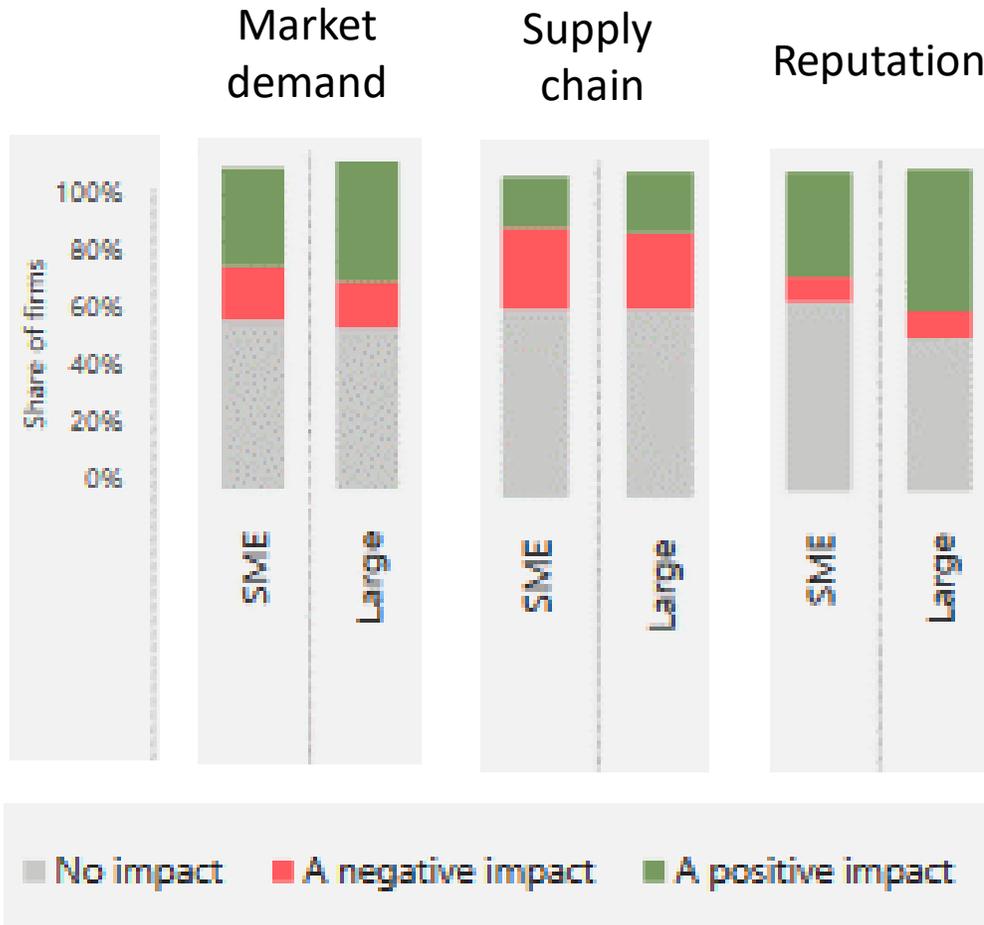
Q: Thinking about climate change and the related changes in weather patterns, would you say these weather events currently have a major impact, a minor impact or no impact at all on your business?



Source: EIB (2020), EIB Group survey on investment and investment finance 2020

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Consequences of the reduction in carbon emissions over next 5 years by firms size

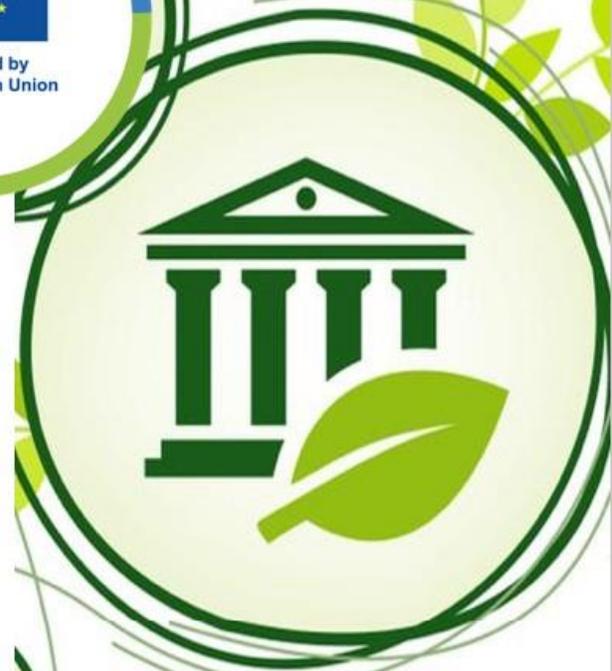


What impact over the next five years will the transition to a reduction of carbon emissions have on your:

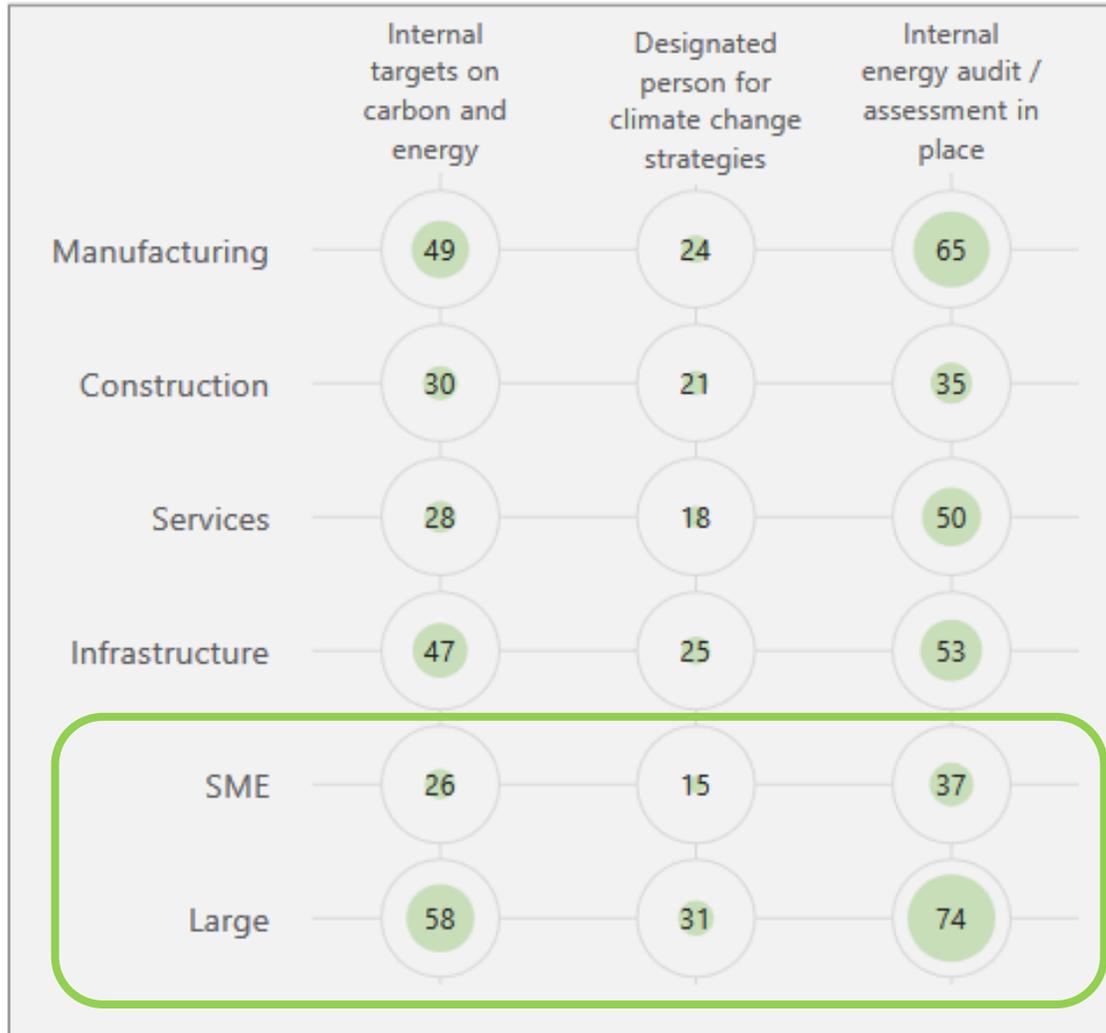
Q1: market demand

Q2: supply chain

Q3: reputation?



SMEs and green transition



Q1. In 2019 and under normal conditions, did your company set and monitor internal targets on carbon emissions and energy consumption?

Q2. In 2019 and under normal conditions, did your company have a designated person responsible for defining and monitoring climate change strategies?

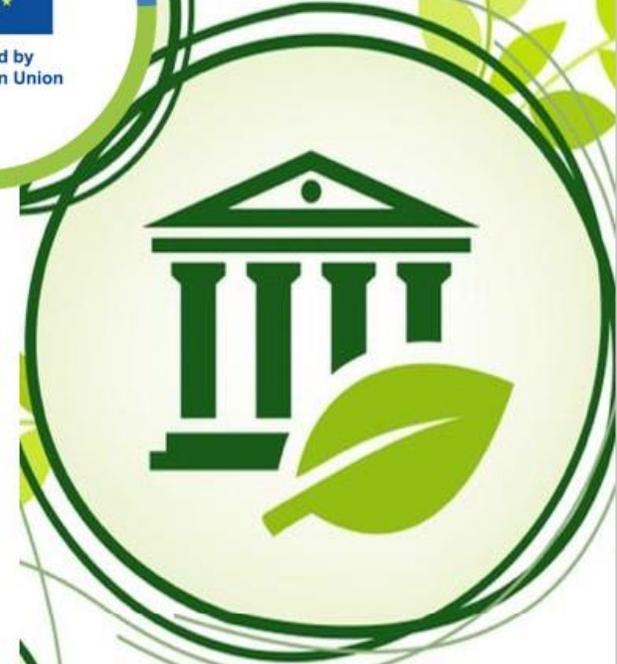
Q3. And can I check, in the past four years has your company had an energy audit? By this, I mean an assessment of the energy needs and efficiency of your company's building or buildings?



Source: EIB (2020), EIB Group survey on investment and investment finance 2020

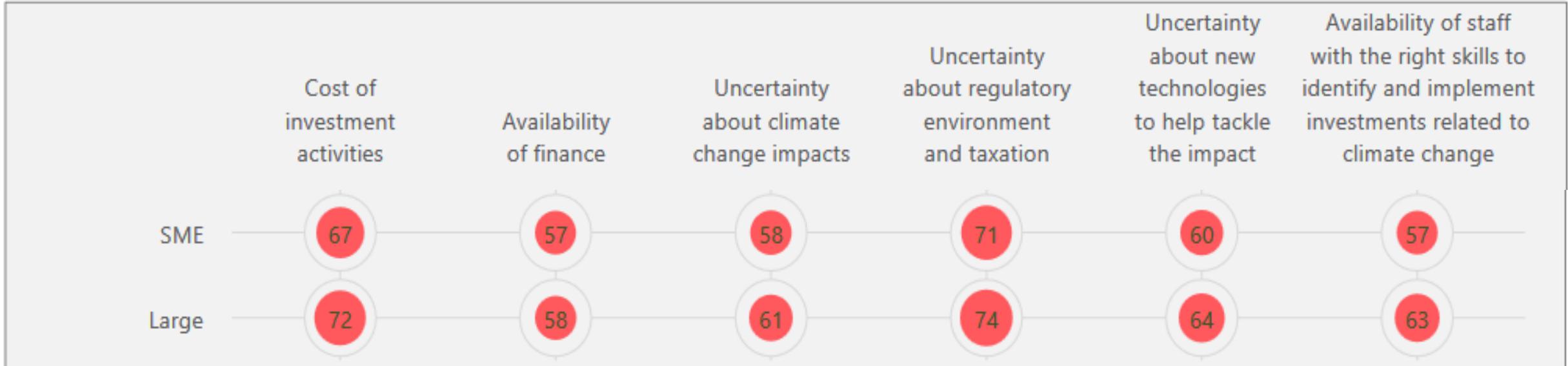
SMEs and green transition

- 67% firms have either made investments or plan to do so, to tackle the impacts of weather events and reductions in carbon emissions.
- 58% of SMEs have already invested or are planning to invest in climate care measures, compared to 78% of large companies.
- At the same time, SMEs point to many barriers
(European Investment Banks, 2020).



SMEs and green transition

Barriers to investing in activities to tackle climate change



Source: EIB (2020), EIB Group survey on investment and investment finance 2020

Q: To what extent is the following an obstacle to investing in activities to tackle weather events and emissions reduction? Is it a major obstacle, minor obstacle or not at obstacle at all?



#GreenFin field surveys

Questionari, CATI & CAWI (N = 126)

trade unionists and workers in selected sectors (banking, SMEs, brown sector)

Semi-structured interviews (N = 16)

EURO CADRES

UniCredit

EWC members

national-level trade unions: France, Hungary, Italy, Montenegro, Romania, Slovakia, Slovenia, Spain, Sweden

April –
December
2023



Co-funded by
the European Union



Interviews – respondents' profile

- employed in the financial sector, especially in positions related to working with clients facing the challenge of implementing green finance in their businesses
- having knowledge of the green economy, green and just transition and the Green Deal
- having knowledge of issues related to green finance
- having an orientation to the process of developing the competencies of financial sector employees, green financial skills, green jobs
- employed in small and medium-sized enterprises, including those representing the brown sector, most likely to be most affected by changes related to green finance
- having an orientation to the activities of trade union organizations in the area of green transition



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Interviews – main assumptions

Interviews' structure

- (1) General perceptions of the Green Deal
- (2) **Green Deal and SMEs**
- (3) Green Deal and the brown sector
- (4) Competencies of employees in the financial sector and their development
- (5) Concluding remarks and recommendations



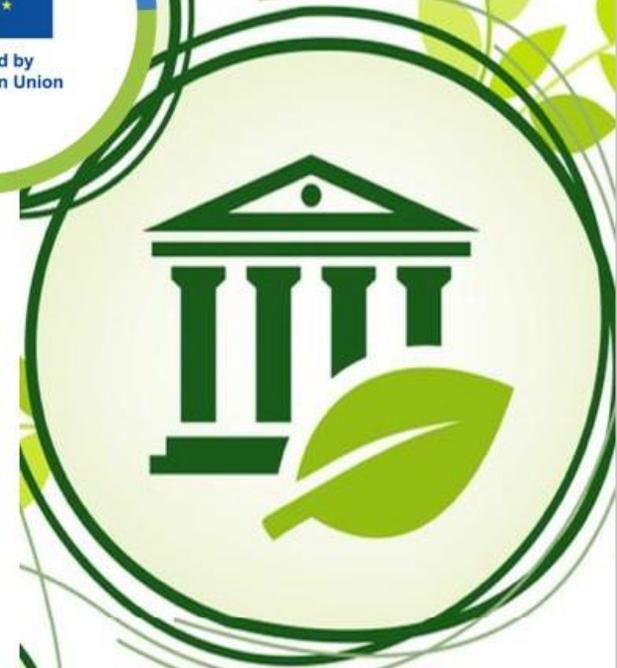
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Green Deal - general perceptions

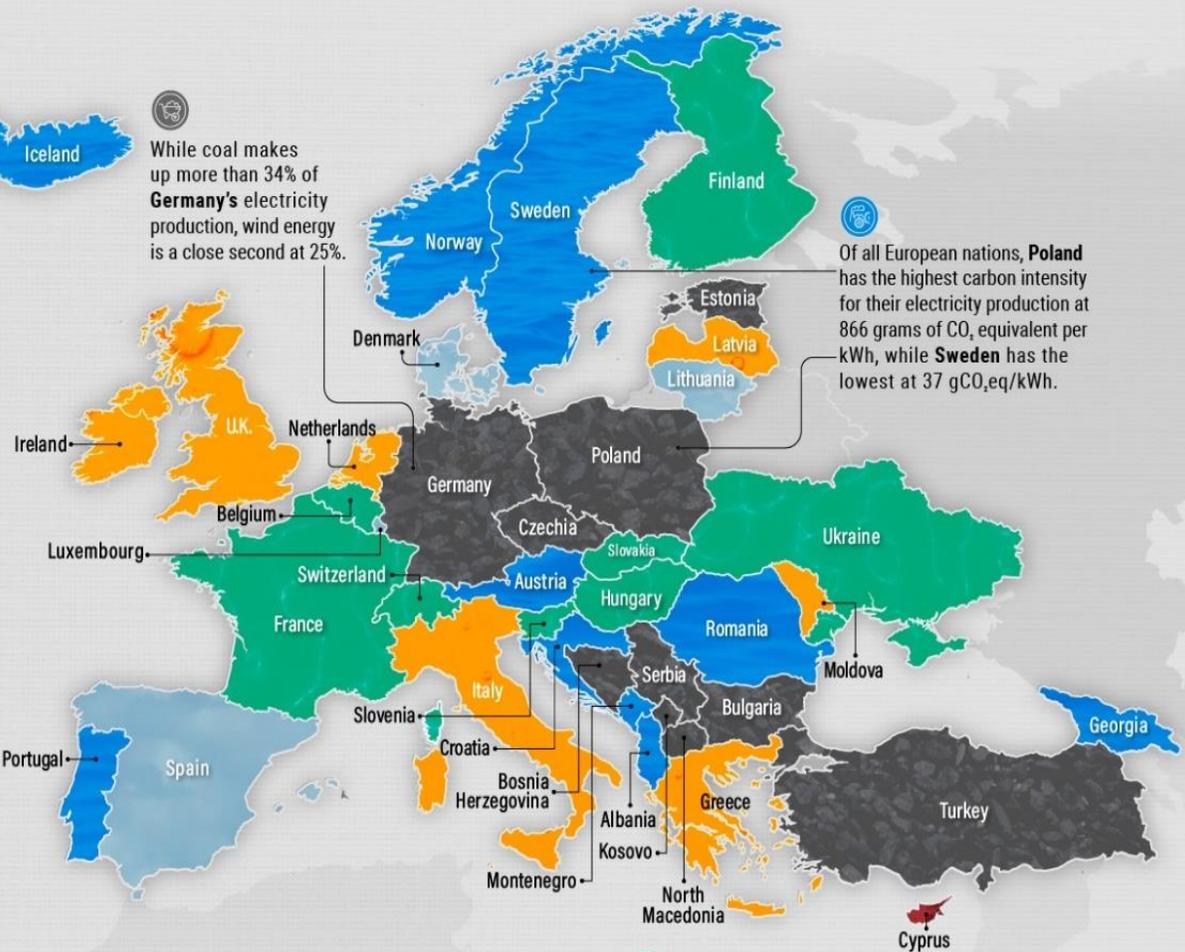
- General attitude toward the Green Deal **diverse between countries**. It depends largely on historical, political and cultural conditions, as well as the level of economic development

(IDI_9_FR, IDI_14_SK, IDI_10_RO, IDI_11_HU, IDI_15_SK).

- Energy mix context



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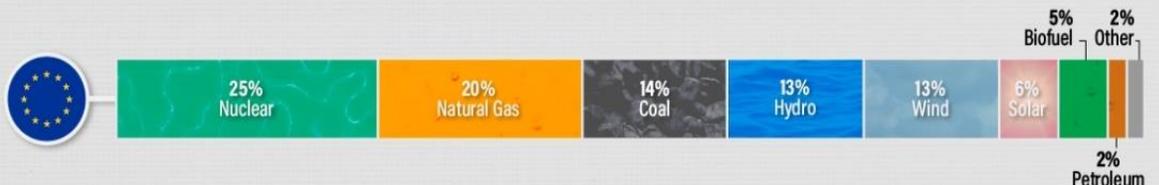


While coal makes up more than 34% of **Germany's** electricity production, wind energy is a close second at 25%.

Of all European nations, **Poland** has the highest carbon intensity for their electricity production at 866 grams of CO₂ equivalent per kWh, while **Sweden** has the lowest at 37 gCO₂eq/kWh.

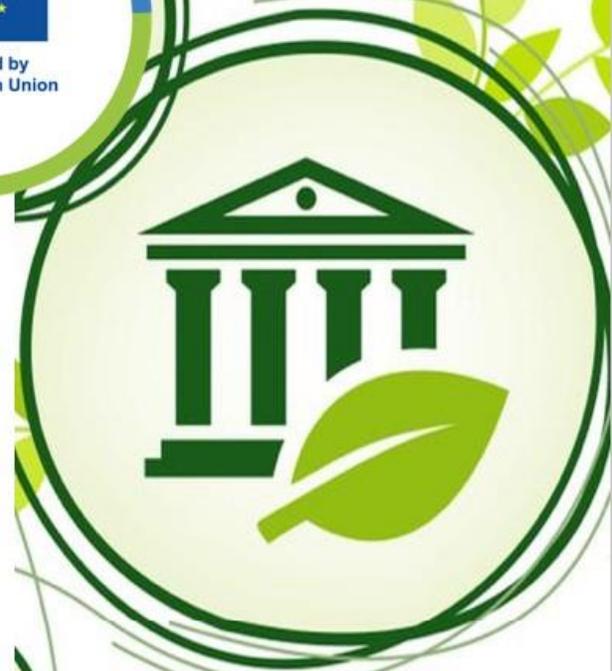
A decade ago, more than a quarter of Europe's electricity was produced using coal. Since then, **solar and wind** generation have doubled to replace declining coal use.

EU Electricity Generation by Source 2021



Survey's national context

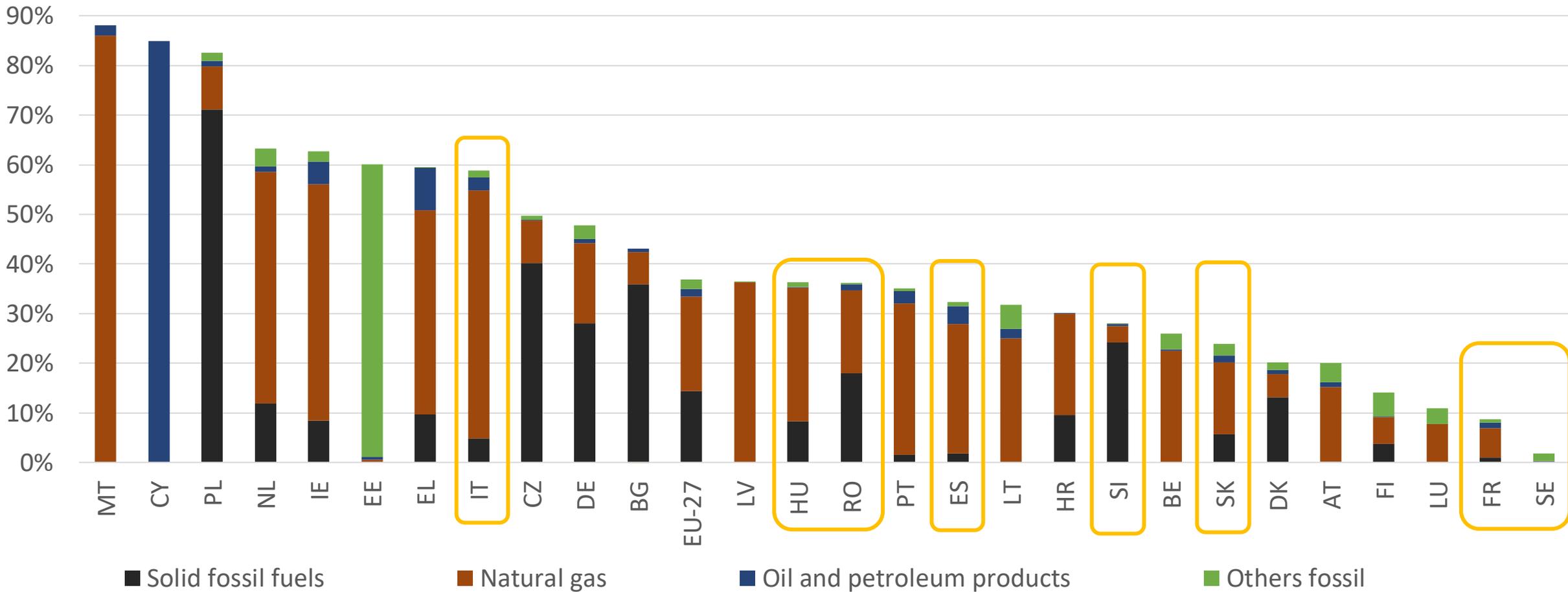
Source: <https://www.visualcapitalist.com/mapped-europes-biggest-sources-of-electricity-by-country/>



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Survey's national context

Fossil fuels in energy mix by country in 2021



The Green Deal and SMEs – interviews results (1)



- The approach in this area is similar in each interview/country.
- SMEs are not yet fully aware of the responsibilities they will face due to the Green Deal.

BUT

- Implementation of green finance has an impact on SMEs.

WHY?



The Green Deal and SMEs – interviews results (3)

A lot of corporations, when they sign contracts, pay attention to the green transformation issues at the partner's place (IDI_14_SK).

(...) in the ESG the global company will produce norms for SMEs. So that not every I mean if you work for one global company and maybe also another company that the companies can ask the same figures because otherwise every company will ask different figures (...) the SMEs will have double (IDI_9_FR).

1. SMEs are suppliers to large corporations, for which reporting related to the implementation of the Green Deal regulatory is obligatory

→ they require SMEs to meet and monitor pro-environmental requirements

→ these requirements are different for particular large company

→ standardisation is needed

The Green Deal and SMEs – interviews results (4)

2. **Importance of SMEs in economy** implies that regulations related to ESG are needed also for SMEs.

In 2022 24.3 million SMEs were active in the EU-27 – 99.8% of all enterprises in the non-financial business sector (NFBS), with employment 84.9 milion people (64.4% NFBS).

- The need of an addressing ecological transition is especially visible in nations characterized by widespread small-scale businesses. A striking example from interviews is Montenegro, where most economic activities revolve around SMEs and micro-enterprises.
- Especially in micro-enterprises (mostly family businesses) the management processes are simplified, and the **complicated procedures and norms are difficult to implement**, and in many cases ecological requirements don't meet attitudes SMEs' owners.

The Green Deal and SMEs – interviews results (5)

I think that the small and medium sized enterprises are very important here because they can also be the ones who can be who innovative and fast moving maybe more easily than a big classic industrial company (IDI_13_SWE).

Taking into consideration SMEs' flexibility, and innovativeness, creativity as well as an ecological attitudes of their owners, their impact in ecological transition could be visible.

The Green Deal and SMEs – interviews results (6)

It is a buzzword, so to say, to be sustainable these days, and if you can show that you are in a company that works (...) In a modern way to try to transform the industries that is of often seems as very positive (SI_13_SWE).

The chance for more dynamic spreading ecological transition in SMEs, especially run by young owners, could be actual trends. **Climate change, greening daily life behaviours, promotes greening economic activity.**

In this context, SMEs can look at green finance as an opportunity for business development in a specific direction related to pro-environmental activities.



The Green Deal and SMEs – interviews results (7)

BUT

There are many challenges in executing and managing ecological transition processes

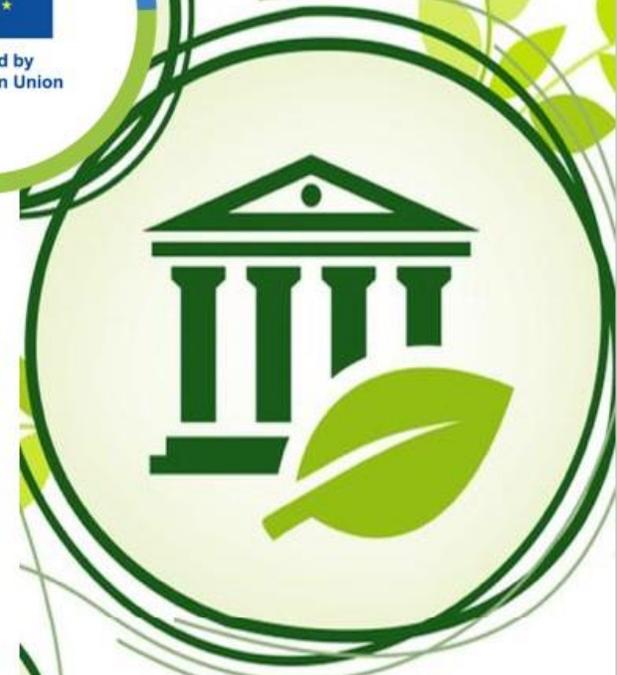


SMEs and green transition

Climate change policies and climate change impact the bottom line of SMEs

- There are costs associated with climate change policies (regulations and standards).
- SMEs suffer from rising energy costs, due to carbon taxes and other pricing mechanisms.
- SMEs face changing demand patterns

(Vickers, Prashant, Corr, Kasparova, Lyon, 2009)



The Green Deal and SMEs – interviews results (7)

There are many challenges in executing and managing ecological transition processes

- SMEs are taking these actions mainly because of their **interest in reducing costs** – much attention is paid to electricity costs.

Companies that they request our help that produce different things or others they do not produce, but they want to decrease their consumption of energy. We even have one department which is working with this green energy. So, with the water tubing or with wind turbine or with solar energy. So, a lot of small companies ask us for the help (IDI_12_RO).

The Green Deal and SMEs – interviews results (8)

There are many challenges in executing and managing ecological transition processes

- Despite the different perspectives among SMEs, the interviews point out a common fundamental **challenge in executing and managing ecological transition** processes. Among these challenges, there is a notable **economic and financial difficulty in making production method changes** aimed at green transition in parallel to productivity enhancement.
- SMEs will soon have to become interested in the green deal in the context of meeting standards, generating pollution, and reporting information on the harmfulness of their activities. Government subsidies encourage environmentally friendly activities. In the case of a green deal, there should also be some incentive.

The Green Deal and SMEs – interviews results (9)

There are many challenges in executing and managing ecological transition processes

- SMEs' financing systems during transition is important, also to prevent negative social impacts (like great cut offs, dislocations, and relocation) → There is a **potential to enhance financial sector actions and national policies to support this transition, but equally crucial is internally SMEs' organizing and networking** (IDI_4_EWC).
- **Lack of union presence** within them brings to failing to address all the social interests involved in transition processes (IDI_5_IT, IDI_3_MNE) → **the absence of collective bargaining** in such enterprises is not surprising (IDI_2_EWC, IDI_8_EWC).

The Green Deal and SMEs – what and how? (1)

Why and how financial institutions can support SMEs? [Interviews results]

- **Lack of effective entities providing information on transition process funding or managing SMEs** according to their specificity → leaning toward the economic benefits of transition processes → aspects like the possible increasing of the outsourcing or job cuts are sometimes disregarded (IDI_3_MNE).
- Companies can look at green finance as an opportunity for business development in a specific direction related to pro-environmental activities. For companies, **advisory assistance from banks would be valuable**. The role of bank employees should move in the direction of being experts (IDI_10_RO).

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The Green Deal and SMEs – what and how? (2)



Why and how financial institutions can support SMEs? [Interviews results]

Maybe they will need someone to keep these regulations and all these aspects of this project. As a bank, we require it, because there must be some points which must be kept (IDI_15_SK).

In France, we have five big groups of banks and three of them are international and the other two are only national, and they cover the whole (...) territory of France and all of them. One of them has actually employed our former secretary general to help them with the Green Deal. So, it's a trade unionist who works with them (IDI_9_FR).

- ❑ Banks could develop transitional programmes so as **not to suddenly impose too many obligations on SMEs**. Some banks are already undertaking green deal initiatives in relation to SMEs, but the level is varied and rather low.

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The Green Deal and SMEs – what and how? (3)



Networking [Interviews results]

- It is equally **crucial for SMEs themselves to internally organize**, creating groups or networks among them for collaboration, support, information sharing, and best practices even before turning to financial partners (IDI_4_EWC).
- **The territorial level's centrality emerges**, which, similar to the union for businesses, could be a tool to stimulate and foster not only reflection and action on this issue but also the aggregation of local SMEs, perhaps through contractual forms like network contracts, thus promoting collaborative and solidarity projects (IDI_1_IT, IDI_2_EWC).

THANK YOU FOR YOUR ATTENTION

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