



Financing SMEs for sustainability

Concept note



OECD Platform on Financing SMEs for Sustainability

The OECD Platform on Financing SMEs for Sustainability seeks to provide a forum to foster dialogue and knowledge sharing among public and private financial institutions, policy makers and SME representatives. Its aim is to foster the conditions needed to finance SMEs for sustainability, in order to contribute to the overarching objective of carbon neutrality by 2050, as set out in the Paris Agreement.

What is the issue?

Around the globe, many small and medium-sized enterprises (SMEs) are struggling to play their part in the green transition. They will need to adapt rapidly to contribute to meeting current targets and achieving carbon neutrality by 2050. However, they need the resources to do so. Research shows that a lack of financing is a key challenge that SMEs face when trying to undertake green actions and adapt to the transition to a more sustainable economy. For instance, 27% of European SMEs signal a lack of financial resources as the main reason preventing them from becoming more sustainable, significantly higher than large firms.

In addition to the longstanding challenges that SMEs face in accessing finance, SMEs seeking to undertake sustainable and green actions face additional barriers to fund these activities. On the supply side, barriers include information asymmetries between financial institutions and SMEs, a limited range of sustainable financing products adapted to the needs of SMEs and the “niche” nature of green markets, which result in

incompatibility of investors’ and entrepreneurs’ ideals and objectives. On the demand side, SMEs may not yet see a strong business case for greening. They often lack awareness and investor-readiness for green financial opportunities, and may not have the capabilities to meet the reporting requirements that financial institutions require for green financing. They also face long and uncertain payback periods when undertaking green investments, along with difficulties in ensuring user demand when producing green outputs, which also require a shift in consumption patterns.

The COVID-19 pandemic and other natural disasters have increased awareness of the impact of human activity on the environment and the urgent need to act, placing sustainability objectives as a priority in the global policy agenda. Recovery from the COVID-19 crisis offers an additional opportunity to advance these objectives, as many national and supranational recovery packages have sustainability at their core.



How can the OECD Platform on *Financing SMEs for Sustainability* address these challenges?

There is broad recognition that government action and public investment alone are not enough to achieve the Paris Agreement goals. We need to engage and promote the role of a range of actors in driving change. The Platform on Financing SMEs for Sustainability seeks to provide a forum to foster dialogue and knowledge sharing among public and private financial institutions, policy makers and SME representatives on how to overcome the challenges that SMEs face in accessing sustainable

finance. It aims to contribute to the efforts to enable businesses of all sizes to participate in the green transition.

The initiative places a specific emphasis on how to foster the conditions needed to finance SMEs for sustainability, including identifying the diverse opportunities and financing needs of SMEs to fund sustainable actions. It recognises the pivotal role of financial institutions, governments and other actors in accompanying SMEs in the transition to a sustainable growth model.

It seeks to leverage efforts underway by public financial institutions other key actors to increase awareness and knowledge sharing. Many financial institutions are already taking proactive steps to green their products and portfolios and help SMEs to access them. This initiative aims to showcase these successful practices.

Three pillars underpin the development of the initiative: analytical research, knowledge sharing on country and financial institution experiences, and networking and policy dialogue.



Knowledge sharing on country and financial institution experiences

- The Platform will showcase national and financial institution experiences to stimulate demand for and mobilise green finance for SMEs, including specific financing instruments (e.g. mini-green bonds, hybrid financing) and national roadmaps to reach carbon neutrality by 2050. These experiences will help shed light on the drivers of and barriers to sustainable financing for SMEs.
- It will also explore approaches to financing different types of SMEs to support the range

of green actions they take (e.g. biodiversity, circular economy).

- Pilots could serve to operationalise relevant models by additional countries and institutions.
- Participants will work together to develop a set of mutually agreed objectives and principles to guide the various actors in financing SMEs for sustainability.

Analytical research

- The OECD Secretariat and Platform participants will develop and share new and ongoing research on financing SMEs for sustainability, focusing on the specific challenges these firms face. Work will leverage data from across the OECD (e.g. SME financing Scoreboard indicators, firm-level data, sectoral data, environmental and finance data), as well as data collected by Platform

participants (available survey data, bank data e.g. on the provision of green loans or climate related credit), and additional government data).

- Research will also seek to assess different programmes, schemes, and financial products and identify good practices.

- The Platform will feed into an OECD report on “Financing SME for sustainability”. A summary will be produced after each meeting, including

Networking and policy dialogue

The Platform will be chaired by one or more national government leaders and/or financial institutions, as is the case in similar OECD platforms. It will:

- Through ongoing dialogue and an annual meeting, convene and engage public and private financial institutions, policy makers, investors, regulators, SME associations, international organisations, and experts on sustainable finance around the globe to inform the design and implementation of policies and frameworks that will contribute to including SMEs in the green transition by easing financing barriers. It will contribute to environmental global processes such as the COP.
- Promote the participation of diverse sizes and types of financial institutions, in order to have a good representation of the finance market

a repository of good policy practices for knowledge sharing.

for SMEs, in line with the G20/OECD High-Level Principles on SME Financing.

- Enhance participation of all actors through a horizontal platform in which all participants play an active role. Different formats will be adopted to facilitate exchange among participants. In particular, roundtables, webinars, presentation of research findings and discussion of case studies, and policy experiences to analyse and showcase successful practices implemented by governments and financial institutions.
- Collect regular feedback and experiences from partners on the latest developments on sustainable and green financing for SMEs.
- Continue building and expanding the initiative’s network to account for geographic diversity as well as the different challenges and pathways build to ease SME access to sustainable and green finance.

What is the value added of becoming a partner?

Becoming a partner of the OECD Platform on Financing SMEs for Sustainability means joining a rapidly growing network of governments, financial institutions, SMEs associations and experts aiming to shape and contribute to the international discussion on SME access to sustainable and green finance.

Becoming partner gives the opportunity to influence and contribute to:

Evidence building and analytical research

Possibility to cooperate directly with the OECD analytical team in producing and accessing research and expertise on topics of common interest. Possibility for partners to showcase their experiences through on an international stage.

Networking and policy dialogue

Participate in specialised workshops and technical webinars on relevant topics. Potential topics could include for example “Stimulating SME demand for Sustainable Finance”, “Financing SMEs for sustainability: leveraging the COVID-19 recovery packages”, “Hybrid financing for green SMEs”, “The role of Fintech in financing SMEs for sustainability”.

In addition, participants can have PR exposure on social media (Twitter, LinkedIn) and on press releases from countries and the OECD.

Partnership

Interested organisations might join on a yearly basis, but we think that the real value added for both the OECD, governments and financial institutions involved lies in a medium- to long-term engagement and continued exchange.

Membership in the Financing SMEs for Sustainability Platform requires a commitment from financial institutions:

- Participation in the Informal Steering Group for the Platform;
- A membership fee which funds the Financing SMEs for Sustainability activities;
- Involvement in networking activities and research projects (the level of involvement is voluntary and up to the partner - company representatives can change depending on opportunity and thematic topics of interest).

Interested OECD members can fund the platform through voluntary contributions.

Role of the OECD

The OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) will serve as the convener and facilitator of the Platform. The OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) is well placed to host the Financing SMEs for Sustainability Platform, which will promote knowledge sharing and peer learning to empower financial institutions and SMEs to contribute to achieving a successful net zero transition. CFE has pioneered work on SME and entrepreneurship financing, through its *Financing SMEs and Entrepreneurs Scoreboard*, thematic work on broadening the range of instruments for SMEs and entrepreneurs and the development of the G20/OECD High-Level Principles on SME Financing. By bringing together its vast network of policy makers and SME financing experts, together with financial institutions and SME representatives, the OECD is well equipped to foster this multi-stakeholder dialogue, backed by quality analysis, and thus contribute to supporting the global agenda on these issues.



Tentative timeline

- ▶ **Summer 2021** – Outreach to potential partners
- ▶ **2 November 2021** – Official launch of the Platform in conjunction with the COP26 meeting
- ▶ **December 2021** – Start of the Platform activities

About the OECD Centre for Entrepreneurship, SMEs, Regions and Cities

The OECD Centre for Entrepreneurship, SMEs, Regions and Cities provides comparative statistics, analysis and capacity building for local and national actors to work together to unleash the potential of entrepreneurs and small and medium-sized enterprises, promote inclusive and sustainable regions and cities, boost local job creation, and support sound tourism policies.

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