

Executive Summary



# Empowering the Green Recovery



5 Thought leaders

6 Business voices



The International Trade Centre supports small business through the COVID-19 crisis.  
For more information, see <http://www.intracen.org/covid19/>

This publication is a contribution to the annual Micro, Small and Medium-Sized Enterprises Day campaign.

MSME Day takes place each year on 27 June.

The publication findings are presented in a global virtual debate that can be found at:  
[www.intracen.org](http://www.intracen.org)

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# Empowering the Green Recovery





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# Foreword

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In January 2020, very few would have predicted that a virus would bring the world to a standstill. A year later, COVID-19 had caused the most severe economic crisis since the global depression.

The effects of the pandemic are truly global, but responses are not. COVID-19 has shown that resilience matters, and laid bare the 'resilience divide' between small and large firms. While developed countries have the financial means to sustain their economies and protect the most vulnerable, most developing and least developed countries are unable to do the same. In these countries, many small and medium-sized enterprises (SMEs) succumbed to the shock.

But with every crisis comes opportunity. As the world gradually recovers from the pandemic, small businesses can and must rebuild in a way that prepares them for future shocks and strengthens their competitive position.

This is particularly crucial given the looming climate crisis. The economic impact of climate change is expected to be like a COVID-19-sized pandemic happening every ten years. The longer firms take to act, the higher costs become. Small businesses in developing countries can either adapt now, when opportunities abound and support is available, or will be forced to do so later, at greater expense and little or no funding.

Going green is both a survival imperative and a business opportunity.

The SME Competitiveness Outlook 2021 examines the lessons the pandemic has taught us, and shows how they apply to the climate emergency. Our results reveal that what makes firms more competitive also makes them more resilient. These attributes are not specific to health crises and can be incorporated into climate resilience strategies.

The report also identifies key areas where small firms with limited resources can invest to seize the opportunities in the green transition.

Now is the time to act. The drive to 'build back better' must incorporate environmental sustainability into business operations, investment choices, national policies and international commitments, and place SMEs at its core.



The International Trade Centre is fully committed to supporting SMEs in the green transition. We want to ensure that our partners in developing and least developed countries have the capacity and resources to respond to the climate challenge and pivot successfully. To this end, we adopted the GreenToCompete strategy.

The strategy brings together our large and diverse offering on environmental sustainability in a holistic and coherent manner. It allows ITC to support partner countries more effectively in leveraging the green transition to increase their trade competitiveness.

ITC is not alone in this endeavour. Many public and private actors across the globe are devoting considerable resources to rebuild greener after COVID-19. This reinforces the business case for SMEs to go green, particularly if there is a win-win in building sustainability and increasing competitiveness.

To ensure that the green transition materializes, we need coordinated action and targeted support. Even when the business case is compelling, and particularly when it is not, SMEs need help to become green. Business support organizations, lead firms in international value chains, governments and international institutions must assist SMEs in adapting to and mitigating climate change.

This report is a call for climate action, for the sake of our planet and our people. I hope you will join us in building a greener future.

**Pamela Coke-Hamilton**

Executive Director  
International Trade Centre

# At a Glance: Empowering the Green Recovery



Put **small firms** at the heart of the **green recovery**.

Small firms generate more than **50%** of jobs and greenhouse gas emissions\*

Resilience matters  
COVID-19 lessons



Resilient firms were **5x** less likely to lay off workers and more likely to have stable sales

## The fundamentals of resilience

**Business resilience** is based on:



■ a company's business processes

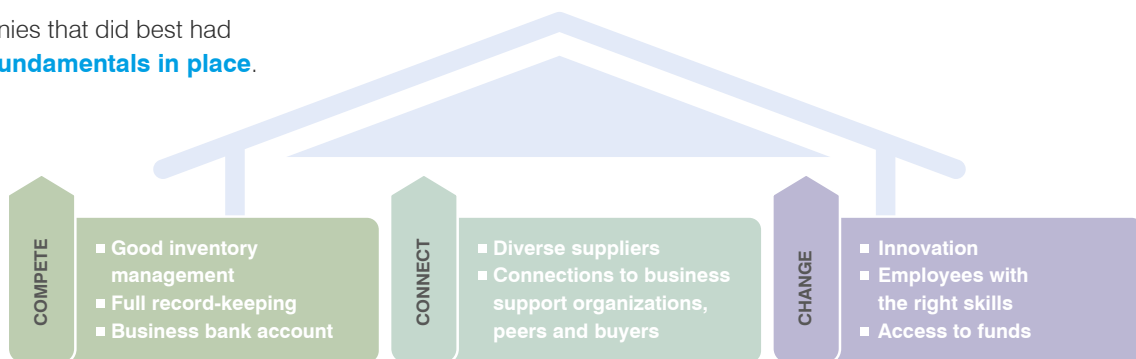


■ its internal and external connections



■ its ability to respond to changes.

Companies that did best had **these fundamentals in place**.



## Climate change matters for small firms

**Small firms in developing countries are more worried** about climate change, but less likely to act.

Who views environmental risks as significant for their business?



**68%**

in sub-Saharan Africa

**54%**

in developed countries\*

Who acts to reduce environmental risk?



**38%**

of small firms

**60%**

of large firms

What they do?



Reduce waste, invest in renewable energy, make green products and services, gain green certification and go digital



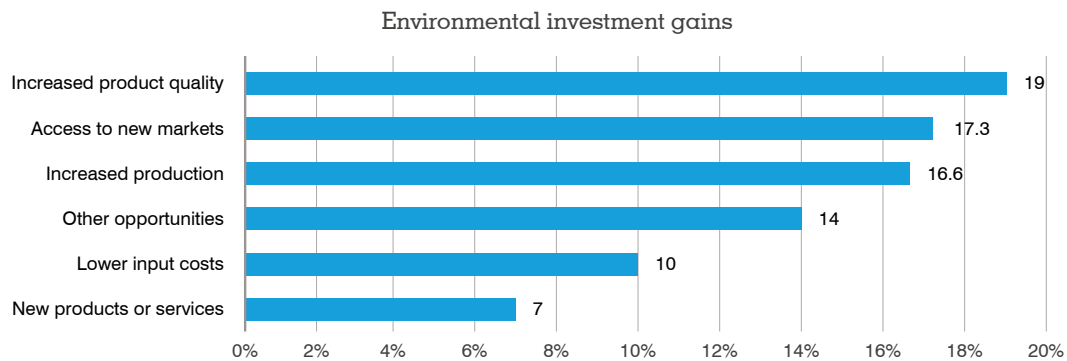
Women-owned and youth-led companies lag behind in adaptation.

\*All ITC data except as noted by an asterix. See endnotes in report.



## Go Green: Seize business opportunities

**Green your business** to seize new **opportunities**.



Nearly **60%** of surveyed African companies






that greened their enterprises said it led to new, higher-quality and more products, access to new markets, or lower input costs.

They were also better-positioned to tap the growing pot of green finance.



For companies that don't see short-term gains, remember: **Greening your business builds resilience and strengthens competitiveness.** New environmental regulations will require it and consumers will demand it. **Green finance markets seek it.**

## The Green Recovery Plan to support small businesses

	<b>BUSINESS SUPPORT ORGANIZATIONS</b>	<b>GOVERNMENTS</b>	<b>LEAD FIRMS IN VALUE CHAINS</b>	<b>INTERNATIONAL ORGANIZATIONS</b>
 <b>EMBRACE SUSTAINABILITY</b>	Develop expertise internally/seek it externally	Embed sustainability in recovery plans	Adopt a holistic approach to share and manage risk	Mainstream sustainability in development plans
 <b>COLLABORATE, COORDINATE</b>	Create/join networks to share knowledge	Coordinate to ensure regulatory coherence	Harmonize/recognize sustainability standards	Be a platform for information, best practices
 <b>ADVOCATE FOR SMES</b>	Build the local support ecosystem	'Think small first' in policymaking	Source from non-traditional locations	Bring SMEs to multilateral forums
 <b>FACILITATE SME FINANCE</b>	Be the trusted intermediary	Provide incentives for green finance	Facilitate access to supply chain financing	Promote tailored financial solutions
 <b>STRENGTHEN SME CAPACITY</b>	Train SMEs for green, innovative approaches	Promote innovation with skills and technologies	Build skills and technology base of small suppliers	Increase service offering for SMEs

# Executive Summary

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The SME Competitiveness Outlook 2021 provides a plan for fostering competitive, resilient and sustainable small and medium-sized enterprises (SMEs). SME competitiveness is at the core of ITC's mission, resilience is a key consideration in post-COVID-19 plans and sustainability is essential if the world is to address the climate crisis. This report shows how these three goals can – and should – be pursued in tandem.

COVID-19 was a harsh reminder of the economic and social damage that come with being unprepared. In addition to its grim toll on human life, the pandemic – and measures to contain it – have battered companies worldwide, both large and small.

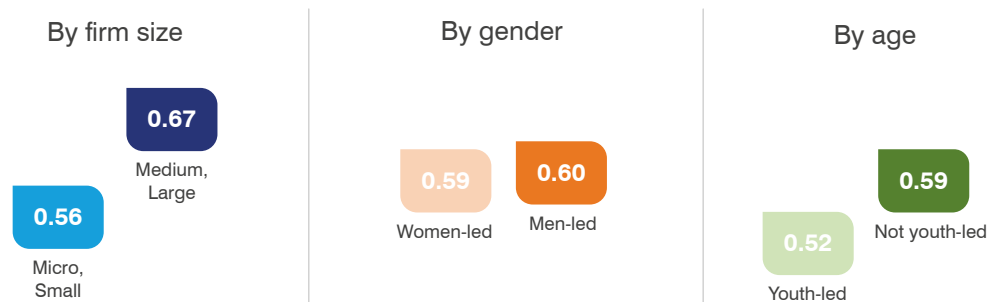
For small and medium-sized enterprises, with their scarce resources, surviving the crisis has been daunting. They suffered the most from the pandemic, with 60% of micro and 57% of small businesses strongly affected, compared with 43% of large firms. This is partly because smaller firms record lower levels of resilience, on average, than larger companies.

The pre-COVID-19 resilience score of micro and small firms was 16% lower than that of medium and large firms, according to a survey-based index constructed by the International Trade Centre. Similarly, companies led by youth have lower resilience scores than firms led by people over 34 years of age. While women-led firms in the sample displayed slightly lower scores than those owned and managed by men, the difference was not statistically significant.

## Smaller, youth-led firms are less resilient

Average index of resilience

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**Source:** ITC *SME Competitiveness* and *COVID-19 Business Impact Surveys* in Benin, Cambodia and the Philippines, July 2019-August 2020, with 770 firms. The index has values from 0 to 1, with higher values indicating greater resilience. See Annex II for detail.

Resilience is based on the strength of a company's business processes, its internal and external connections and its ability to pivot. It matters, as it signals how a company will fare when crisis strikes, and its chances of long-term success.

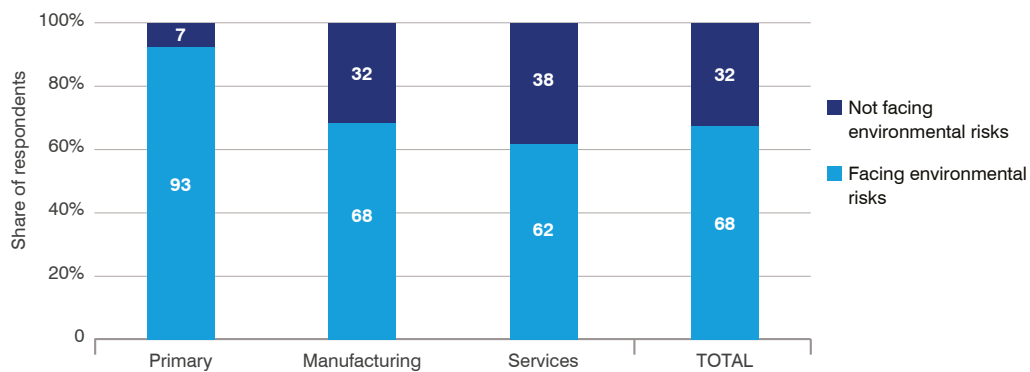
For example, during COVID-19 only 16% of resilient companies reported laying off employees, compared with 76% of companies with a lower index of resilience. As SMEs account for about 90% of businesses and more than 50% of employment worldwide, their demise has disastrous social and economic consequences.

Just as SMEs start to emerge from the first waves of the pandemic, a more far-reaching challenge looms – climate change.

Many scientists view climate change as even more disruptive than COVID-19 in the long term. While the range of likely impacts varies depending on the model used, the economic damage of climate change could be as bad as having a pandemic the size of COVID-19 every ten years.

Managers' experiences during COVID-19 made them aware of the need to build resilience to face future crises, including climate change. Indeed, small and medium-sized enterprises see environmental changes as a competitiveness risk. On average, 68% of the companies interviewed for ITC's SME Competitiveness Surveys in sub-Saharan Africa said that environmental risks were significant for their businesses, with the share rising to 93% among firms in the primary sector.

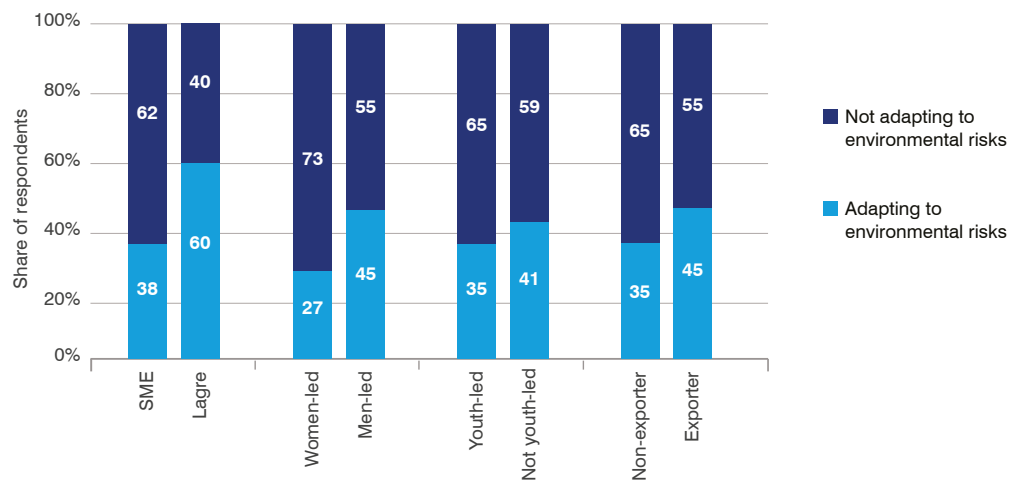
### Environmental risks significant for two-thirds of African companies



**Note:** Most respondents (94%) are SMEs with less than 100 employees, with 16% in the primary sector, 14% in manufacturing and 71% in services.  
**Source:** ITC *SME Competitiveness Surveys* of 1,359 companies, in Zambia (Year 2018, 242 businesses), Botswana (Year 2019, 615 businesses) and Benin (Year 2019, 502 businesses). See Annex II for detail.

Still, while many SMEs are concerned about the consequences of a changing climate, most have not yet invested in measures to adapt to it. Sixty per cent of large firms reported that they had invested in at least one measure to reduce exposure to environmental risks, according to ITC SME Competitiveness Surveys in Africa. In comparison, just 38% of micro, small and medium-sized firms had made such an investment.

### Smaller, women-led and youth-led firms less likely to invest in adaptation



**Note:** Companies are 'women-led' if they are at least 30% owned by women and the top manager is a woman. Companies are youth-led if the top manager is under 35.  
**Source:** ITC *SME Competitiveness Surveys* of 1,359 companies, in Zambia (Year 2018, 242 businesses), Botswana (Year 2019, 615 businesses) and Benin (Year 2019, 502 businesses). See Annex II for detail.

If it is mainly large firms that have the foresight and capital to adapt, only they will prepare adequately for climate change. Smaller companies that wait and try to cope after the event are likely to run down assets, with adverse effects on their competitiveness and survival. This could exacerbate corporate concentration, which research suggests is already on the rise as a result of COVID-19.

Not all is doom and gloom. Despite the bleak picture painted by COVID-19, some SMEs displayed a high degree of resilience. Also, the disruption caused by the pandemic provides an unprecedented opportunity to change unsustainable 'business as usual'.

This report analyses the key insights provided by resilient SMEs for all firms increasingly exposed to major disruptions. It also harvests the lessons learned in supporting SMEs during the pandemic and examines how and to what extent these can inform efforts to lessen the impact of the climate crisis.

## Lesson 1: Focus on fundamentals

As was the case with the pandemic, SMEs will confront more challenges than bigger firms to prepare for, and adapt to, the many facets of climate change. This reflects constraints that SMEs traditionally face, such as lack of knowledge about the specific impacts on their business, and shortage of finance and expertise to implement necessary countermeasures. It also reflects the trade-off between strengthening short-term competitiveness and building long-term resilience.

ITC research on the business impact of COVID-19 shows there is a path to foster both. Firms have capacities, and business ecosystems have characteristics, that allow companies to thrive in good times and survive in bad times. Businesses that fared better during the pandemic leveraged competitiveness attributes, which increased their resilience, according to evidence from two ITC surveys.

Practices that boosted the *capacity to compete* also made firms *robust* to the shock. Characteristics that drove the *capacity to connect* also determined the strength of the *relationships* that they drew on to access information and benefits during the crisis. Finally, aspects that bolstered firms' *ability to change* also fostered *responsive* coping strategies.

### Competitiveness builds resilience



Source: ITC.

The competitiveness attributes that lay the foundations of resilience are not specific to a health crisis. They enhance the ability of SMEs to cope with any shock, whether a pandemic or a hurricane. They make companies ready for the impacts, giving them relationships to draw on for help, and allowing them to respond in a timely and effective manner. Investing in these fundamental aspects of SME competitiveness can yield dividends for current competitiveness and future resilience.

## Lesson 2: Give timely and clear information

COVID-19 showed that people can adapt if they know what to do – wear a mask, observe physical distance, stay at home. Businesses will adapt if they are aware of risks and know the paths to build resilience.

Small businesses need timely, accurate and clear information on the potential effects of climate change, and of the shifts in consumption, production and trade that are emerging in response.

Climate change impacts follow an inequitable path. The most acute shifts are expected to occur in regions and countries with low incomes and lagging performance in achieving the United Nations Sustainable Development Goals. Businesses in strongly affected countries tend to have relatively fewer resources, alternatives and information to help them adapt.

Companies interviewed for ITC's SME Competitiveness Surveys in sub-Saharan Africa were most concerned by changing temperatures (34%), followed by water scarcity (22%) and floods (20%). They cited a range of other concerns, including scarcity (18%) and quality (15%) of business inputs, storms and other risks (15% each), lower air quality (3.2%) and rising sea levels (2.5%). This shows that small businesses are aware of, and probably already suffering, the direct effects of climate change.

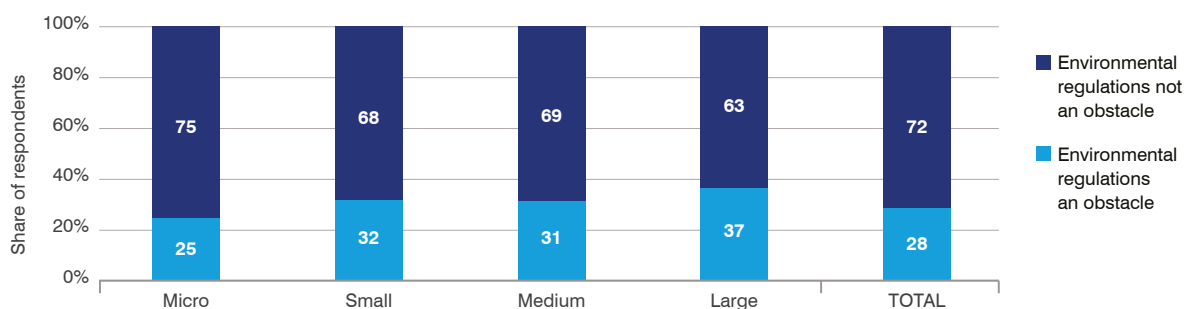
But SMEs in developing countries will not only bear the brunt of climate change's direct impacts. They will also be at the receiving end of measures, largely designed in developed countries, to counter the damage of a warming planet.

While necessary for mitigation and adaptation, such public and private requirements risk limiting further the ability of SMEs to compete, particularly if measures are not clear, coordinated and affordable.

Environmental regulations appear more often in governments' agendas, as they commit to reduce greenhouse gas emissions and mitigate the extent of climate change. New climate policies, regulations, laws and taxes may lead to regulatory risks for SMEs. There are financial costs associated with becoming compliant, and fees incurred for non-compliance.

Moreover, clear rules have yet to be implemented in many states, and the patchwork of declarations, policies and practices generates uncertainty and keeps smaller firms from planning their own green transition. More than one-quarter of African firms interviewed for the ITC SME Competitiveness Survey said that environmental regulations were an obstacle to their operations.

### More than one-quarter of firms view environmental regulations as obstacle

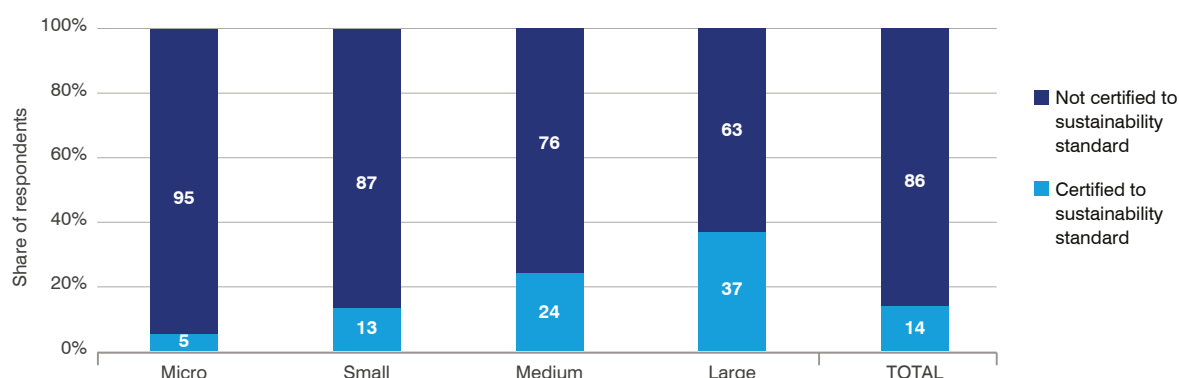


**Source:** ITC *SME Competitiveness Surveys* of 1,359 companies, in Zambia (Year 2018, 242 businesses), Botswana (Year 2019, 615 businesses) and Benin (Year 2019, 502 businesses). See Annex II for detail.

Voluntary sustainability standards complement government regulations and ballooned from just 15 in 1980 to more than 262 in 2020. These standards signal to environmentally-conscious buyers, including corporate purchasers and consumers, that firms follow certain desired practices.

Paradoxically, the proliferation of sustainability standards is limiting their potential, particularly for SMEs. Their multiplicity, as well as the stringency of requirements, make them technically and financially challenging for small businesses. Only 5% of micro and 13% of small firms interviewed by ITC globally were certified to a sustainability standard.

## Smaller firms are less likely to be certified to a sustainability standard



**Source:** ITC *SME Competitiveness Surveys* of 4,844 respondents interviewed between 2017 and 2020 in Argentina, Benin, Botswana, Burkina Faso, Cambodia, Ghana, Hungary, Kenya, Myanmar, Nigeria, the Philippines, Togo, Ukraine and Zambia. See Annex II for detail.

Knowledge about climate risks and how to adapt to them is scarce among SMEs. They often lack the ability to identify environmental threats and, especially, to assess adaptation options. If business support organizations facilitate SME access to such expertise, they can help close a critical knowledge gap.

At the same time, SMEs need timely and well-defined information to plan their own green transition. Public and private sector actors must convey their policy intentions clearly so that SME managers can avoid making investments or embarking on ventures that run counter to future measures.

## Lesson 3: Leverage opportunities

The transition to sustainable practices is a challenge – and an opportunity for SMEs to strengthen their competitiveness and resilience. Although 58% of the firms surveyed by ITC in 2019 expected climate change measures to affect them negatively, 39% expected some positive impact.

Adopting sustainable practices is not only about businesses being good – it is also about good business.

There are five factors driving the SME business case for going green:

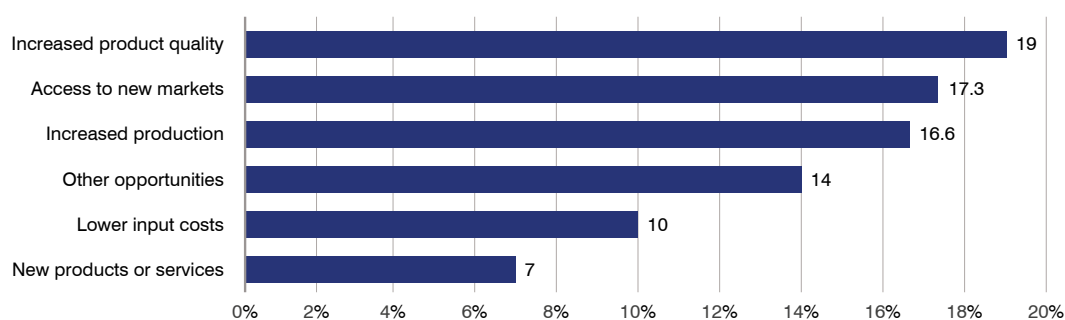
- Increased resilience
- Cost reduction and higher productivity
- Compliance with climate regulations
- Access to markets
- Eligibility for green financing

Measures to reduce firms' environmental footprint that cost nothing or very little, such as changing management of water, electricity and chemicals, pay off quickly. Although these 'quick wins' can mark the first step in the greening of SME business practices, bigger investments deliver much more significant benefits to the bottom line and the planet.

For example, the costliest measures adopted by SMEs participating in ITC's resource efficiency and circular production interventions were installing solar panels and electricity equipment, which require significant initial investments. These initiatives, however, are expected to deliver the largest total financial benefits after 10 years and the biggest environmental dividend in reduced greenhouse gas emissions.

Fifty-nine per cent of African firms that had invested in greening their enterprise said it provided them with new opportunities. Of firms that made green investment during the previous three years, 19% increased product quality, 17.3% accessed new markets, 16.6% increased production, 10% reduced their input costs and 7% made new products or services.

## Environmental investment gains



**Source:** ITC SME Competitiveness Surveys of 1,359 companies, in Zambia (Year 2018, 242 businesses), Botswana (Year 2019, 615 businesses) and Benin (Year 2019, 502 businesses). See Annex II for detail.

Some green investment projects, however, do not seem to pay off financially in the short term. Forty-one per cent of the firms interviewed by ITC in Africa felt their green actions had not yielded benefits. This is particularly true of firms in the services sector.

## Lesson 4: Support, support, support

Even when the green business case is compelling, and particularly when it is not, SMEs need support to transition. As small firms seek assistance to recover from the pandemic, all stakeholders should provide them with the means to become more competitive, resilient and sustainable.

Small firms must be at the centre of a green transition, as investing in them generates a 'double-dividend' of private and social gains. The Green Recovery Plan is a set of recommendations for business support organizations, governments, lead firms in international value chains and international organizations to help SMEs embark on a green transition.

## The Green Recovery Plan to support small businesses

	BUSINESS SUPPORT ORGANIZATIONS	GOVERNMENTS	LEAD FIRMS IN VALUE CHAINS	INTERNATIONAL ORGANIZATIONS
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COVID-19 taught the world hard lessons. Without action, climate change will teach even harder ones. By acting now and placing SMEs at the core of a green transition, it is possible simultaneously to address the climate crisis and build the competitiveness and resilience of the businesses on which a large percentage of the global population depend.

## Thought leaders



**Kamina Johnson Smith**  
Governments must help MSMEs  
build resilience to shocks



**William R. Moomaw**  
Climate change creates challenges  
and opportunities for SMEs



**Inger Andersen**  
SMEs must embrace circularity for  
businesses and the planet to survive



**Pedro Beirute Prada**  
Making exporters more competitive  
through environmental sustainability



**Ayman El Tarabishy**  
SMEs and climate change:  
Establishing patterns of resilience

## Business Voices



**Alisa Osei Asamoah**  
Rethinking the business  
of travel



**John Robin**  
A tragedy  
worse than COVID



**Ahmed Khan Buzdar**  
When the water  
runs out



**Hachmi Chenik**  
Resource efficiency  
boosts profits



**Juliet Namujju**  
Unite social, environmental  
and economic sustainability



**Douglas Baguma**  
Technology in the service  
of environment



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