

Born Green via Digital: Increasing MSME's Competitiveness and Sustainability

A Facilitators' Reflection on the G20 Policy Toolkit

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1. Global context

In early 2021, as the world was grappling with the impact of the COVID-19 pandemic and the dramatic effects of the climate crisis, the urgency of adopting recovery and resilience strategies that promote a more equal and sustainable development model led the Italian Presidency to focus the G20 agenda on three broad, interconnected pillars of action: People, Planet, Prosperity.

The G20 trade and investment workstream was tasked, among others, with focussing on key actors in the strive to forge a jobs-intensive recovery for people-centred and environmentally sustainable economies: small entrepreneurs and the micro, small and medium-sized enterprises (MSMEs). These account for the overwhelming share of employment and GDP in countries across the world, and the pandemic threatened both their business continuity and their financial viability.

The technological advancement, the sustainability imperative and the recovery and resilience drive across and beyond G20 countries provide opportunities, as well as challenges, for Governments to support the green and digital transition of MSMEs and increase their competitiveness in global markets. Through its trade and investment workstream, G20 countries thus shared their policy experience in implementing entrepreneurship, trade and investment policies and initiatives that support MSMEs towards these objectives. Based on a G20 policy compendium compiled and a conceptual framework proposed by the facilitators, the Italian Presidency, with the support of the international organizations (UNCTAD, ITC, OECD, WTO and World Bank), formulated a [*Non-binding Policy Toolkit for Promoting Born Green via Digital MSMEs and Entrepreneurship in Global Supply Chains*](#). The toolkit was reflected in the [*Statement of the G20 Trade and Investment Ministers*](#).

UNCTAD led the substantive backstopping of the international organizations to the preparation for the Toolkit. This short paper elaborates on the conceptual framework and core steps in its development. It is meant to shed light, from an insider's perspective, on its relevance in guiding future policy initiatives in the area of entrepreneurship and MSMEs development by G20 and non G20 economies.

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2. “Born green via digital”: a conceptual framework

The priorities set by the Italian Presidency of the G20: People, Planet, Prosperity, aimed to provide shared, coordinated and equitable responses to the many difficult challenges facing the world. These of course included the pandemic, with its impact on human health worldwide, but also on peoples’ livelihoods and on the global economy. The Presidency also recognized that the pandemic has added its burden onto other systemic problems, from climate change to inequality.

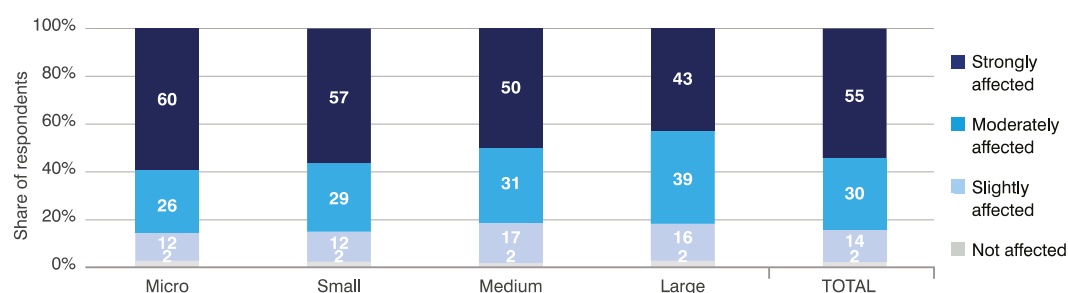
The Presidency thus called on G20 members to use the G20 platform “to work together to recover from this crisis and seize the opportunity to build back better, learning from shared experience and ensuring that efficient, innovative tools and technologies become the basis for a more resilient, sustainable and greener growth” ([Italian G20 Presidency: Priorities](#)).

These objectives informed the workstream on trade and investment, and the preliminary consultations between the Presidency and the international organizations’ support team stressed the need to focus on paving the way to rebuilding differently in the aftermath of the crisis, including through better protection of our climate and environment, and by harnessing the main drivers of growth and innovation.

In light of the global context described above and the decision by the G20 Italian Presidency to develop a policy toolkit for supporting small entrepreneurs and MSMEs, the facilitators proposed “green and digital” as two key policy entry points and put forward a conceptual framework for reshaping a new generation of entrepreneurship and MSMEs. Hence the phrase/motto: “Born green via digital”, a two-pronged trajectory for transformation. The rationale is mainly based on four factors: recovery needs, technological revolution, sustainability imperative and systemic continuity.

Recovery needs. MSMEs, which are the backbone of the global production system, accounting for 99% of firms, 70% of jobs and over 50% of value added worldwide, were disproportionately affected by the pandemic. A survey by ITC across 123 countries showed that the smaller the firm, the stronger it felt the negative impact of COVID-19, as nearly two out of three micro- and small enterprises reported that their business operations had been strongly affected, compared with less than half of large companies (Fig. 1). Small companies were also over-represented in the sectors most impacted by the crisis, as supply chain disruptions affected demand for trade in the goods they produce. The most vulnerable groups were particularly affected, with women- and youth-led companies reporting higher difficulties and shutdown risks. Any post-pandemic recovery thus requires policy focus on these actors.

Figure 1. COVID 19: Stronger impact on smaller firms



Source: [ITC Competitiveness Outlook 2021](#)

Technological revolution. The pandemic has intensified the role of ICT in every aspect of human life, and IT services have become increasingly pervasive, ranging from communication to teleworking, e-commerce, digital education or entertainment. The digital gap between smaller and bigger companies remains important, particularly in developing countries, where many SMEs have yet to switch to digital technologies. The technologies and tools of the new industrial revolution, however, also open a range of opportunities which were previously inaccessible or very difficult to seize for MSMEs, such as instant access to international markets, low-cost service delivery, as well as affordable manufacturing solutions (through additive manufacturing/3d printing). This digital revolution, coupled with increased awareness of and action on climate change, has also paved the way for another class of MSMEs, startups and entrepreneurs which can play a vital role in the transition to a low-carbon economy by developing new green business models for different industrial and services sectors. These “born green via digital” entrepreneurs combine environmental performance with market targets and profit outcomes, thus contributing to the expansion of green markets.

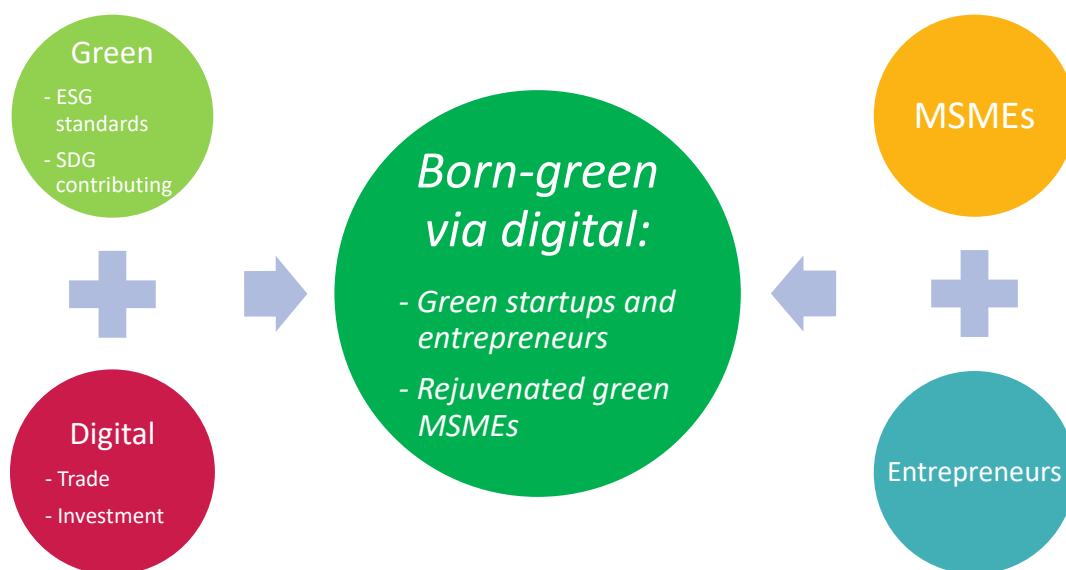
Sustainability imperative. The big push for the green and blue agenda by markets and governments is changing products and processes along the value chains in the direction of sustainability (Zhan, 2021). According to UNCTAD’s latest estimates, the value of sustainability-themed investment products in global capital markets amounted to \$3.2 trillion in 2020, up more than 80 per cent from 2019. These products include sustainable funds (over \$1.7 trillion), green bonds (over \$1 trillion), social bonds (\$212 billion) and mixed-sustainability bonds (\$218 billion). The global effort to mobilize and channel investment to realize the Sustainable Development Goals (SDGs) will also change the future pattern of FDI, including the sources of financing, sectoral distribution and geographical location. Investment in SDGs is expected to grow in trillions in the coming years (UNCTAD, 2021). This transition towards sustainability should involve and integrate smaller firms and entrepreneurs if a new type of “sustainability divide” is to be avoided.

Systemic continuity. In light of their role and relevance in economic and social development, MSMEs have been a traditional focus of G20 initiatives. Developing a policy toolkit to support the green and digital transition of MSMEs ensured synergy and continuity with recent G20 initiatives focussed on MSMEs, including the G20 Non-binding Policy Guidelines on boosting MSMEs' International Competitiveness, the G20 High-Level Policy Guidelines on Digital Financial Inclusion for Youth, Women and SMEs, the G20 High-Level Principles on SME

Financing. The new policy toolkit for green and digital MSMEs and entrepreneurship can also be complementary to the G20 Guiding Principles for Global Investment Policy Making (Zhan, 2016).

Hence the need for policies that help MSMEs become more resource-efficient and invest in R&D, technology upgrading, and employee training to ensure that the digital transformation benefits the low-carbon transition. Any *born green* support framework therefore requires a broader emphasis on investment, trade, MSME and environmental policies that support the business case for green entrepreneurship and lower the additional entry costs associated with ensuring compliance with green standards and production processes (Fig.2).

Figure 2: A new generation of digitally-empowered green MSMEs and entrepreneurs: a conceptual framework



Source: Authors

The concept of “born green via digital” refers to those entrepreneurs and MSMEs that invest and trade in green products and services and integrate ESG and responsible business conduct into their business model. It encompasses not only those entrepreneurs and MSMEs that do so from the outset (*born green*), but also those that successfully adapt their traditional business model and production techniques by utilizing modern technologies to produce environment-neutral (or positive) goods and services for the domestic and international markets (*reborn green*).

Born-green MSMEs present a strategic opportunity to build back better in the post-pandemic era by employing the tools of the new industrial revolution (such as the platform economy, distributed production and additive manufacturing) to support the greening of the economy. They also pose a number of strategic challenges to policymakers with regards to identifying the optimal *born green policy support framework*. This includes addressing issues that affect the entrepreneurial ecosystem in all its dimensions, including in terms of regulatory

environment, education and skills needs, facilitation of technology exchanges and innovation, access to finance and the promotion of networking.

G20 countries have a unique opportunity to lead the way in devising and implementing entrepreneurship, trade and investment policies and initiatives that support the *born green* revolution and set the agenda for a more resilient and sustainable economic recovery. The formulation of a checklist of measures to promote *born green via digital* MSMEs, in the form of a policy toolkit, aimed to inform and support those goals.

3. Policy framework and core components of the toolkit

Promoting *born green via digital* MSMEs involves assisting entrepreneurs overcome the traditional range of challenges that all MSMEs face, e.g. access to finance, to technology and innovation systems, to value chains and markets as well as gaps in the entrepreneurial ecosystem. These are more severe as a country’s income and development level decrease. But it also poses a range of new policy challenges, including assisting MSMEs close the digital gap and undertake innovation for the low-carbon transition. While many MSMEs are digitally aware and use ICT tools, the diffusion of more sophisticated digital technologies (e.g. enterprise resource planning systems, customer relationship management and supply chain management software) or their presence in online marketplaces is still more restricted than for larger companies. Similarly, the green transition will require MSMEs to adapt to, adopt and comply with certification requirements, standards and other regulatory mechanisms related to the green and inclusive aspects of their production (table 1).

Table 1. Challenges and opportunities for born green via digital MSMEs and entrepreneurs

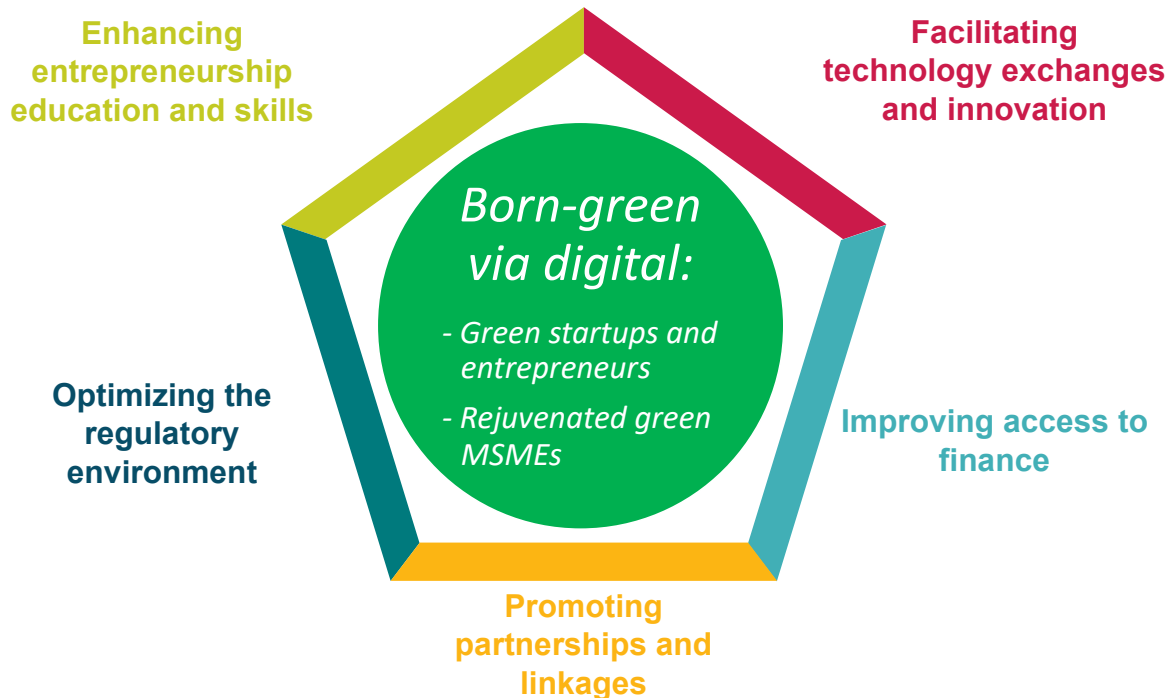
| Traditional | New |
|---|--|
| Access to finance | Low-carbon transition and access to green finance |
| Access to basic technology and innovation systems | Access to sophisticated digital technologies |
| Access to value chain and markets | Access and presence in online marketplace |
| Compliance with the regulatory regime | Compliance with <i>green</i> regulations and standards |
| Access to traditional entrepreneurial skills | Access to specific knowledge and skills |

Source: Authors

In preparation for the first meeting of the G20 trade and investment workstream in March 2021, the facilitators, supporting the Italian Presidency and G20 member States, proposed a policy framework to guide the policy discussion and experience sharing by member States. The policy framework draws on UNCTAD’s work in the area of entrepreneurship development and its [Entrepreneurship Policy Framework](#) (UNCTAD, 2012).

The core components of the optimal *born green policy support framework* endorsed at the TIWG include 5 issues-areas (fig. 3):

Figure 3. A fresh policy support framework: Core elements for born green via digital



Source: Authors

At the first meeting of the TIWG and in the ensuing months, G20 members shared their policy experience and initiatives in each of these areas. UNCTAD compiled their inputs into a rich policy compendium and assisted the G20 Presidency in extracting those policy practices, initiatives and lessons learnt which could be usefully translated into a coherent policy toolkit that would specifically foster the green and digital transition of small entrepreneurs and MSMEs. The resulting policy toolkit reflected these elements as follows:

1. **Optimizing the regulatory environment** – with respect to trade, investment, environment etc. Many countries have adopted different strategies and policies on investment, trade and the environment and some have also developed entrepreneurship development strategies. But all too often, MSME strategies lack coordination and synergy. Creating a dynamic and supportive ecosystem for *born green via digital* entrepreneurship requires a multi-dimensional approach and coordinated efforts towards trade, investment, innovation and environmental policies. Among others, the toolkit thus encourages policies aimed at:
 - Promoting an open, inclusive, non-discriminatory, transparent and predictable legal and regulatory environment and ensuring that any legal and regulatory requirements for the transition to a green and digital economy do not constitute unnecessary barriers to trade and investment for MSMEs.
 - Fostering the use of e-Government solutions and encouraging the adoption of digital technologies at all levels of government and business;

- Respecting internationally recognized guidelines and principles on responsible business practices; and
- Providing stimulus for MSMEs and entrepreneurs engaged in the green and digital transition, with a special focus on MSMEs in developing countries and LDCs, as well as vulnerable and marginalized segments of the population, including women, youth, indigenous and geographically-disadvantaged communities.

2. Enhancing entrepreneurship education and skills development. *Born green* entrepreneurs will need specific knowledge and skills which go beyond traditional entrepreneurial ones, such as persistence and self-confidence or business planning and financial literacy. They will, for instance, need to comply with specific certification related to the green and inclusive aspects of their production, distribution and export processes. In this regard, the toolkit recommends countries to adopt a range of actions aimed at:

- Providing MSMEs and entrepreneurs with training tools and facilitation to embrace digital solutions and acquire the skills needed to promote sustainable production models and business practices;
- Developing tailored entrepreneurship education (including specific programs for women and youth entrepreneurs of MSMEs), and supporting and accelerating programs on green and digital business models for promoting access to global markets;
- Supporting the establishment of knowledge networks among MSMEs and other stakeholders to share information, skills and best practices on achieving the green and digital transformation; and
- Rewarding MSMEs for initiatives towards digital skill development and employment generation.

3. Facilitating technology exchanges and innovation. Innovation is not just a key enabler of the *born green via digital* MSME, which often relies on the tools of the new industrial revolution, but also a core element of its business model. Policymakers should ensure that regulations promote innovation, rather than hinder the introduction of new and environmentally friendly ideas, products and business models. The toolkit's recommendations focus on policies aimed at:

- Supporting R&D and the emergence of innovative green technologies by MSMEs, including by encouraging technology development centers and clusters, and strengthening the links and synergies with technology and applied research needed for the green transition;
- Encouraging industry adoption of digital technologies to increase voluntary traceability to support the further integration of MSMEs into the global supply chains;
- Promoting tailored resources for MSME's transition towards green and digital manufacturing, such as AI, IoT, big data, blockchain, broadband connections and internet-enabled programs for MSMEs; and
- Supporting voluntary licensing of green and efficient technologies to MSMEs.

4. Improving access to finance. Inadequate access to finance remains a major obstacle for many aspiring entrepreneurs, particularly in developing countries. As recent studies confirm, the global financing gap for MSMEs remains enormous. Entrepreneurs of all

types and sizes require a variety of financial services, including facilities for making deposits and payments as well as accessing credit, equity and guarantees. *Born green via digital* entrepreneurs risk facing additional entry costs associated with ensuring compliance with green standards and production processes. To respond to these challenges, the toolkit supports efforts aimed at:

- Improving access to finance for the development, adaptation and adoption of greener, more circular solutions, such as technologies that enable renewable energy, sustainable mobility, solid-waste treatment, GHC treatment programs, etc;
- Encouraging investment in low carbon growth pathways and energy efficiency schemes developed by MSMEs;
- Developing specific financing mechanisms and incentives for MSMEs, aligned with the implementation of sustainable business practices and sustainability standards; and
- Encouraging further development of the Sustainable Stock Exchange Initiative to promote innovative ways and means for financing MSMEs and entrepreneurs in their transition to more sustainable business models.

5. Promoting partnership and linkages. Government and private support networks are key to fostering an effective entrepreneurial culture. Partnerships and linkages between MSMEs and larger companies as well as foreign investors are also one of the most effective channels for MSMEs to access international value chains. Additional benefits often include the spillovers in terms of access to know-how, technology and business processes, as larger companies are increasingly under pressure to comply with ESG standards and to ensure that these are respected along the value chain. Action areas highlighted by the toolkit include, among others:

- Assisting MSMEs and entrepreneurs in the green and digital economy to connect to national, regional and global markets, including through enhanced international regulatory coherence to facilitate data flows and interoperability of technology.
- Improving the quality and availability of information on access to the growing international markets for green and digital products and services for entrepreneurs and MSMEs.
- Developing policies and programmes to support linkages between MSMEs and MNEs as well as large domestic firms and help green and digital MSMEs and entrepreneurs to serve global customers.
- Ensuring that trade policy instruments to achieve green standards and production process do not constitute unnecessary barriers to MSMEs engaged in the green transition.

4. G20 deliberation

The draft of the *Policy Toolkit for Promoting Born Green via Digital MSMEs and Entrepreneurship in Global Supply Chains* which emerged from the stocktaking of country practices, policy experiences and lessons learnt was enriched with additional inputs received from international organizations active in this domain and submitted to G20 Members for validation.

The reaction of the G20 membership to the draft toolkit was overwhelmingly positive, and all responses by G20 members contained concrete suggestions to further enrich the toolkit, which were reflected in the final version. However, several G20 members also raised concerns regarding the use of the term “green” in the overall context of G20’s work in trade and investment, and requested to replace it with “sustainable”, reflecting similar concerns raised by the same members in other fora, including the WTO and UNCTAD. The concern was grounded on the need to promote “sustainability” in its economic, social and environmental pillars in a balanced and integrated manner, without prioritizing “green” over economic development.

The need to ensure the “voluntary” nature of any policy toolkit that would emerge from the G20 on this issue-area was also stressed by several members, concerned about the introduction of additional commitments that may in any way restrict their policy space.

In light of the above, it was decided that the toolkit would be presented as a G20 outcome under the Italian Presidency’s responsibility. This is reflected in the final [G20 Ministerial Statement on Trade and Investment](#) adopted on 12 October 2021 (paragraph 26).

5. Policy implications and way forward

Regardless of the negotiation dynamics and the form in which the toolkit was presented and adopted, it represents an exceptional resource which blends the concrete policy experiences of the world’s major economies with the expertise of the international organizations in enterprise development. In essence, the toolkit is an outcome of collective efforts in the context of the G20.

Within the G20 ecosystem, the toolkit can inform further discussions and exchanges on best practices, as well as experiences in implementation and lessons learned not only for future G20 Trade and Investment workstream discussions and presidencies, but also in the context of other G20 engagement groups, particularly the dialogue forums with business (B20), think tanks (T20), women (W20), and youth (Y20).

The toolkit also provides a reference for non-G20 countries looking to support both existing and new entrepreneurs and MSMEs in the green and digital transformation. It can help guide countries as they consider the package of policy measures to promote sustainable MSMEs and entrepreneurs in their participation in international trade, investment and global supply chains.

Finally, the toolkit can inform effective policy support and technical assistance by international as well as regional organizations and development partners in their support to MSMEs and entrepreneurship development in the areas of regulatory environment, education and skills development, facilitation of green technology exchanges and innovation, access to finance and the promotion of partnerships.

Acknowledgements:

The [Non-binding Policy Toolkit for Promoting Born Green via Digital MSMEs and Entrepreneurship in Global Supply Chains](#) is the result of the collective efforts by experts from the G20 members and international organisations. It was prepared by UNCTAD under the guidance of the G20 Italian Presidency, based on extensive inputs on national policy practices provided by the G20 member States and in close collaboration with ITC, OECD, WTO and World Bank.

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