

Social and Environmental Enterprises in the Green Economy: Supporting sustainable development and poverty eradication on the ground

Analysis of a 3 year study for policy makers



SEED Initiative

supporting entrepreneurs for sustainable development

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The SEED Initiative is a global partnership for action on sustainable development and the green economy. Founded by UNEP, UNDP and IUCN at the 2002 World Summit on Sustainable Development in Johannesburg, SEED supports innovative small scale and locally driven entrepreneurs around the globe which integrate social and environmental benefits into their business model. SEED is hosted by the UNEP/World Conservation Monitoring Centre. Current partners include the United Nations Environment Programme (UNEP), the United Nations Development Programme (UNDP) and IUCN (International Union for Conservation of Nature); European Union; the governments of Germany, India, the Netherlands, South Africa, Spain, the United Kingdom and the United States of America; Conservation International; and Hisense.

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International Institute for Sustainable Development

161 Portage Avenue East, 6th Floor
Winnipeg, Manitoba Canada R3B 0Y4
Tel: +1 (204) 958-7700
Fax: +1 (204) 958-7710
E-mail: info@iisd.ca
Web site: <http://www.iisd.org/>

The SEED Initiative,
Email: info@seedinit.org
Web: www.seedinit.org

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Acronyms

CBO	Community Based Organisation
EGS	Ecological Goods and Services
EU	European Union
GEF	Global Environment Facility
GIS	Geographic Information System
GRI	Global Reporting Initiative
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICT	Information and communication technology
IISD	International Institute for Sustainable Development
IP	Intellectual property
IUCN	International Union for Conservation of Nature
LAC	Latin American and Caribbean Countries
MSE	Micro and small enterprise
NGO	Non-Governmental Organisation
SMART	Specific, Measurable, Attainable and Realistic within a clear Timeframe
SMME	Small, micro and medium sized enterprise
TBL	Triple bottom line
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
WCMC	World Conservation Monitoring Centre

1. Introduction

The SEED Initiative is a partnership of the United Nations Environment Programme (UNEP), the United Nations Development Programme (UNDP) and the International Union for the Conservation of Nature (IUCN), hosted by the UNEP-World Conservation Monitoring Centre (UNEP-WCMC). SEED identifies and supports promising, locally-driven enterprises working in developing countries to improve livelihoods and manage natural resources sustainably.

The following *Analysis for Policy Makers* provides new insights into the role of micro and small social and environmental enterprises as essential actors in building green economies. It is designed to:

- Present the evidence base for the contributions these enterprises make and the enabling conditions required to succeed, drawing from three years' of SEED's survey, case study and field research with over 1300 enterprises in developing countries;
- Incorporate views from national and international experts and decision makers on the place of entrepreneurs in driving economic, social and environmental change, drawing from SEED's international Symposia on Entrepreneurship and the Green Economy in 2011 and 2012;
- Derive major factors of relevance for both national and international policy makers to inform their efforts to strengthen and support social and environmental micro and small enterprises.

The awareness of the potential of these social and environmental entrepreneurs and barriers they face is now fairly widespread, and some individual countries are beginning to respond with supportive policies and actions. But more work is needed to ensure these enterprises can effect real, long term change on the ground.

2. Current views on small, micro and medium enterprises (SMMEs) and the Green Economy

2.1 SMMEs and social and environmental entrepreneurship

Globally, the small, micro and medium sized enterprise (SMME) sector generates substantial employment and economic output. These dynamic enterprises contribute to economic development in several ways: converting innovative ideas into economic opportunities, revitalizing social and productive networks, and increasing productivity. Research has shown that countries which have high start-up rates of such enterprises benefit from higher economic growth.¹

In both developed and developing countries, SMMEs, and in particular small and micro enterprises, account for the vast majority of enterprises. For example, approximately 97% of enterprises in Mexico and Thailand fall into the small and micro category, and over 96% of enterprises in the United-States have fewer than 50 employees.² Because developing countries are typically more focused on small-scale production, the share of overall employment by small and micro enterprises tends to be higher. Studies in five African countries found that these small scale businesses generate nearly twice the level of employment that registered large scale enterprises and the public sector do.³

The development community has recognised that there may be opportunities to leverage the ingenuity and drive of entrepreneurs to reduce poverty in developing countries. In “Making Poor Nations Rich: Entrepreneurship and the Process of Economic Development,” eminent scholars argue that entrepreneurship may well contain the answer to eradicating poverty.⁴ In a chapter dedicated to the theory of entrepreneurship, its author concludes that “incorporating entrepreneurship into the framework of economic growth adds to growth theory by showing the nature of increasing returns to scale, knowledge externalities, and the role of human capital. These processes appear as a black box in mainstream growth theory, but when they are depicted as a part of the entrepreneurial process, it becomes apparent that the engine of economic growth is entrepreneurship, not technological advances or investment in human capital per se (p. 73).”

For example, the International Labour Organisation (ILO) believes that small enterprise development contributes to poverty reduction when it creates employment either through the start-up of new enterprises or the expansion of existing ones; job creation provides income for the poor, and; poverty is reduced when the conditions of work and representation are improved.⁵ Whereas the poor often lack employment, those who start small enterprises create employment and generate income for themselves and those they hire. Operating in competitive environments, small scale enterprises must produce goods and services at low costs, and thereby help keep the costs of living down. Other known benefits from entrepreneurship may include the reallocation of resources from low productivity uses towards higher productivity uses, assuming risk, providing a diversity of goods and services, and providing an environment for learning, experimentation, innovation, and competition.⁶ Entrepreneurs are also seen as ‘knowledge filters’ that commercialize innovations, providing a conduit for the spillover of knowledge that might otherwise have remained uncommercialised.⁷

However, there remain various barriers to unleashing the power of entrepreneurship, particularly in developing countries. Above all, SMMEs in general are subject to high costs of capital and a lack of adequate training and skills to scale-up or compete.⁸ In addition, in developing markets, evidence suggests that it is not entrepreneurship that kick-starts growth, but rather carefully crafted policies by governments that aim to attract

¹ OECD (Organisation for Economic Cooperation and Development). 2001. *Entrepreneurship, Growth and Policy*. Paris: OECD.

² Kantis, H., Angelli, P., & Koenig, V. M. (2004). *Desarrollo emprendedor— America Latina y la experiencia internacional*. Washington, DC: Inter-American Development Bank. Simmons, E. (2004). The role of microenterprise assistance in US development policy. *Economic Perspectives*, 9(1). United States Small Business Administration (2006). *Statistics of US businesses and nonemployer statistics*. Washington, DC: United States Small Business Administration.

³ Mead, D. C., & Liedholm, C. (1998). The dynamics of micro and small enterprises in developing countries. *World Development*, 26(1), 61–74.

⁴ Powell, B. (2008). *Making Poor Nations Rich: Entrepreneurship and the Process of Economic Development*. Oakland: The Independent Institute.

⁵ Vandenberg, P. (2006) *Poverty reduction through small enterprises: Emerging consensus, unresolved issues and ILO activities*. International Labour Organisation (ILO). SEED Working Paper No. 75.

⁶ Estrin, S., Meyer, K. E., and Bytchkova, M. (2006). ‘Entrepreneurship in Transition Economies’, in M. Casson, B. Yeung, A. Basu, and N. Wadeson (eds), *The Oxford Handbook of Entrepreneurship*. Oxford: Oxford University Press.

Sternberg, R., and Wennekers, S (2005). ‘Determinants and Effects of New Business Creation Using Global Entrepreneurship Monitor Data’. *Small Business Economics* 24 (3): 193–203.

⁷ Audretsch, D. B., Keilbach, M. C., and Lehmann, E. E. (2006). *Entrepreneurship and Economic Growth*. New York: Oxford University Press.

⁸ Ardic, O. P., Mylenko, N. and Saltane, V. (2011) *Small and Medium Enterprises A Cross-Country Analysis with a New Data Set*. The World Bank (January 2011). Policy Research Working Paper No. 5538.

Kanits, H. Ishida, M. and Komori, M. (2002) *Entrepreneurship in Emerging Economies: The Creation and Development of New Firms in Latin America and East Asia*. Inter-American Development Bank (March 2002).

private capital. One important distinction is between “necessity entrepreneurship,” which is becoming an entrepreneur (self-employed) because you have no better option, and “opportunity entrepreneurship,” which is an active choice to start a new enterprise based on the perception that an underexploited opportunity exists. Research has found that necessity entrepreneurship has no effect on economic growth, while opportunity entrepreneurship has a significant positive effect.⁹ Therefore, supporting “opportunity entrepreneurship” can boost economic growth. Moreover, entrepreneurship empowers. For example, encouraging women entrepreneurship has been shown to reduce gender disparities in education and human capital investments, may encourage secondary school enrollment, and can bring more women into leadership positions in society.¹⁰

The notion of empowerment is important. The World Bank has maintained in the past that services to satisfy basic human needs, particularly those that contribute to health and education are failing poor people in terms of access, quality and affordability.¹¹ At the local level, inspired entrepreneurs have shown that they can marry their drive, desire and ingenuity to create local solutions that meet local needs more effectively and efficiently than centralized institutions. Because of the scale and complexity of the challenges of sustainable development, it is important that entrepreneurship be harnessed and promoted towards those productive outcomes. Social entrepreneurship creates new models for the provision of products and services that cater directly to the basic human needs that remain unsatisfied by current economic or social institutions.

Like business entrepreneurship, social entrepreneurship exploits opportunities that are missed or underexploited by others. Traditional business entrepreneurship sees the creation of social wealth as a by-product of economic value created by entrepreneurs. In contrast, creating social value is the primary objective of social enterprises, and economic value is a by-product that allows the organisation to be sustainable and self-sufficient.¹² Often, the ability of a social enterprise to create economic value is difficult to capture in terms of profits for the business because local customers are often willing but unable to pay for the service or product that is being provided. These enterprises must create novel business models and strategies that broker between very limited and disparate resources in order to create social value. Social entrepreneurs are thought to be the result of personal traits that are shared only by a small percentage of the population, marked by a determination to change society for the better.¹³ They must also be especially skilled at mobilizing human, financial and political resources.¹⁴

2.2 Strategies for the Green Economy

A key theme of priority for the United Nations Conference on Sustainable Development in 2012 (Rio+20) is “green economy in the context of sustainable development and poverty eradication.”¹⁵ The “Green Economy” is a concept that has emerged prominently in numerous intergovernmental forums such as UNEP’s Green Economy Initiative, OECD’s Green Growth Strategy and discussions among G20 leaders. The green economy is described as an economy in which economic growth and environmental responsibility work together in a mutually reinforcing fashion while supporting progress on social development, simultaneously improving human well-being and social equity, and significantly reducing environmental risks and ecological scarcities.¹⁶ As part of this strategy, UNEP has made a compelling economic and social case for investing two percent (2%) of global GDP in greening ten central sectors of the economy in order to shift development and unleash public and private capital flows into a low-carbon, resource efficient path.

The overarching intent of the green growth strategy is to “catalyze economic activity of at least a comparable size to business as usual, but with a reduced risk of the crises and shocks increasingly inherent in the existing [socio-economic] model (p. v).”¹⁷ It proposes that the green economy, which provides economic development without eroding a country’s natural assets, is particularly necessary in developing countries where ecosystem goods and services are a large component of their livelihoods. For example, greening agriculture in developing countries can reduce poverty while preserving the natural capital on which the poor depend. Several countries such as China and the Republic of Korea, which have employment-focused plans for fiscal stimulus

⁹ Acs, Z. (2006). How is entrepreneurship good for economic growth? *Innovations* 1, 97-107.

¹⁰ Chamlou, Nadereh. 2008. *The Environment for Women’s Entrepreneurship in the Middle East and North Africa*. Washington, DC: The World Bank.

¹¹ The World Bank. (2003). *World development report 2004: Making services work for poor people*. Washington7 Oxford University Press.

¹² Seelos, C. and Mair, J. (2005) Social entrepreneurship: Creating new business models to serve the poor. *Business Horizons*. 48: 241-246.

¹³ Drayton, B. (2002). The citizen sector: Becoming as entrepreneurial and competitive as business. *California Management Review*, 44(3), 120-132.

¹⁴ Seelos, C. and Mair, J. (2005) Social entrepreneurship: Creating new business models to serve the poor. *Business Horizons*. 48: 241-246.

¹⁵ See: <http://www.uncsd2012.org/rio20/index.php?menu=62>.

¹⁶ UNEP (2010) *Driving a Green Economy Through Public Finance and Fiscal Policy Reform*. Working Paper v. 1.0, Available at: http://www.unep.org/greeneconomy/Portals/88/documents/ger/GER_Working_Paper_Public_Finance.pdf

¹⁷ UNEP (2011) *Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication – A Synthesis for Policy Makers*. Available at: www.unep.org/greeneconomy.

with significant “green” components, are already seeing significant employment creation.¹⁸ Since small, micro and medium enterprises account for such a large share of employment in developing countries, policies targeting these hold particular promise.

Shifting to a green economy implies a shift in employment, and it is thought that, at minimum, it will create as many jobs as a business as usual scenario, with the sectors of agriculture, buildings, forestry, and transport seeing job growth in the short, medium and long term significantly exceeding business as usual.¹⁹ The green economy thus holds particular promise for social and environmental enterprises in developing countries. However, the ILO has noted that there are important social dimensions that should be addressed in the process of shifting towards a green economy.²⁰ It argues for an analysis of the opportunities and challenges that the transition process poses for the labour market, the identification of the changes that enterprises and workers will have to face and suggestions on the course of action needed to protect workers, their families and communities in the transition.

2.3 The nexus of local-level entrepreneurship and the Green Economy in developing and middle income countries

Given that small, micro and medium sized enterprises (SMMEs) account for the largest share of enterprises and employment across the world, it is necessary that “Green Economy” and “Green Growth” strategies consider fully the production, technology and management practices of these enterprises. SMMEs account for a large share of pollution and resource use (as much as 60 percent in many countries).²¹ Therefore, their transition to sustainable practices is key to the large scale uptake of the green growth model.

Furthermore, SMMEs can be key drivers of eco-innovation and key players in emerging green industries.²² Creative and innovative SMMEs in the service industry such as design, architecture and bio-energy solutions, contribute increasingly to eco-innovation which can facilitate transformation across a broad range of industries. In particular, opportunities exist in the services associated with green manufacturing, and SMMEs participate actively in the sectors that are the focus of the green economy like renewable energy production, smart metering, building refurbishment, cleaner cars, wind and solar installations and battery development.²³ Stimulating “green” entrepreneurship will be particularly important for radical environmental innovations because new and young enterprises often have the drive and capacity to exploit technological and commercial opportunities that are neglected by more established companies, sometimes challenging the business models of existing firms. OECD’s Green Growth Strategy which was delivered at the 2011 OECD Ministerial Council Meeting emphasized a mix of policy instruments, including market-based measures that target market failures and aim at internalizing externalities (i.e. tradable permits), and support to green technologies and innovation, especially where entry costs are high.

The ILO has stated that the transition to a green economy should result in a positive net balance in employment since job creation is expected to offset the employment loss in the transformation process by substituting carbon-intensive and polluting jobs. They expect this balance to be significantly positive in developing countries which have low levels of “legacy industry and infrastructure” and thus “relatively minor substitution of ‘brown jobs’ by green ones (p. 6).”²⁴ A market-based instrument such as an eco-tax, which UNEP’s Green Economy Report highlights to promote ecologically sustainable activities via economic incentives (i.e. putting a price on carbon), would also stimulate enterprise development and employment creation if revenues from the tax are used to reduce the cost of labour in the form of taxes and social security contributions.²⁵

To provide support for green technologies and innovations, the African Development Bank’s Private Sector Strategy is setting-up SEFA, the Sustainable Energy Fund for Africa, which will provide grants and equity support to smaller-size renewable energy and energy efficiency enterprises. The fund is aimed at “exploiting the potential of the emerging ‘clean energy’ market in Africa as a source of growth and innovation for SMMEs as

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ ILO (2011) Promoting Decent Work in a Green Economy. ILO Background Note to Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication. February 2011.

²¹ The World Bank. (2012) Inclusive Green Growth: The Pathway to Sustainable Development. Available at: http://siteresources.worldbank.org/EXTSDNET/Resources/Inclusive_Green_Growth_May_2012.pdf

²² OECD (2010) SMEs and Green Growth: Promoting sustainable Manufacturing and eco-innovation in small firms. OECD Working Party on SMEs and Entrepreneurship. Bologna+10 High-level Meeting on lessons from the global crisis and the way forward to job creation and growth. November 2010, Paris.

²³ IEA (2009), World Energy Outlook, IEA, Paris

²⁴ ILO (2011) Promoting Decent Work in a Green Economy. ILO Background Note to Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication. February 2011.

²⁵ ILO 2009, World of Work Report 2009: Global Jobs Crisis and Beyond.

producers, distributors, suppliers, and consumers of climate-friendly energy... as a means to achieve higher employment and induce competitive job creation throughout Africa.”²⁶ There is growing political will in Africa to implement green growth, whether as a national strategy (like Ethiopia) or as a component of development projects (like Rwanda).

There are similar developments in APEC countries. In an effort to encourage research and development activity in green technology start-ups, the government of South Korea said it will cover up to 90 percent of their R&D spending, from an R&D budget of 3 trillion in 2012.²⁷ It was also announced that the government would form a Green Technology Center and a Global Green Technology Award to help the country move toward a green growth era. In 2012, the Korean government unveiled a policy package to stimulate youth start-up activities, highlighting the incubation of 30,000 youth start-up enterprises in the creative industries, technology, knowledge and IT applications.²⁸ In 2010, the Malaysian government introduced the “Green Business Start-up Fund” as a seed fund to promote and assist entrepreneurs to start green businesses, nurturing more than one thousand ventures by 2013.²⁹ Malaysia’s green initiative also increases the proportion of tax allowance for green technology R&D investment; gives preferential treatment of green technology-based companies that need financial support; increases of investments by venture capitals in new, green, innovative SMMEs, and; increases national green R&D programs for SMMEs. It focuses on the energy, building construction, water and waste management, and transportation sectors. Another Asian example, the Asia Development Bank has been promoting entrepreneurship in the bioenergy sector by supporting the installation of over 7,500 biogas digesters in rural villages in China and suggesting potential models for agri-business ventures in the Greater Mekong sub-region.³⁰

Despite the opportunities for SMMEs, the ILO has stated that, compared to large companies, small businesses have a lower capacity to adjust to government environmental policies, regulations and incentives because they usually do not have enough information about the negative impact of climate change and resource degradation on their activities.³¹ Studies suggest that most SMMEs have little awareness of the impact of environmental regulation in their industry and future needs for new green skills.³² Even when they are aware of forthcoming changes, they are subject to higher costs regarding investments towards greening their operations, due in part to limited access to financing. Globally, about 70 percent of all SMMEs lack access to credit, with a particularly daunting picture in Asia and Africa.³³ Governments and development agencies can provide support for SMMEs by: raising their awareness of the scale and implication of the transition towards a green and low carbon economy; tackling SMME knowledge and skills gaps in relation to green technologies, practices and business models, and; enhancing SMME access to the emerging markets for environmental goods and services.³⁴ For example, learning networks played a critical role in the development of China’s solar panel industry³⁵ and Mexico’s Green Supply Chains Program,³⁶ which highlight ways in which eco-efficiency techniques can be diffused to SMMEs.

Much of the economic research and policy guidance, however, focuses either on how mainstream SMMEs can move into new opportunities in green industries, or can “green” their own operations to be more environmentally – and socially-- responsible. Less is available on those social and environmental enterprises already involved at the local level in creating social and environmental change, and are using business and entrepreneurship operating models to do so.

The following sections present the evidence gathered by SEED over the past three years, complemented and supported by the views of national and international experts and decision-makers at SEED’s annual international Symposium.

²⁶ See: <http://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/sustainable-energy-fund-for-africa/>

²⁷ See: http://www.koreatimes.co.kr/www/news/nation/2012/01/116_103471.html

²⁸ APEC (2010) APEC SME: Innovation Briefing. APEC SME Innovation Centre. December 2010. No. 10.

²⁹ Ibid.

³⁰ Owens, G. M. (2009) Analysing impacts of bioenergy expansion in China: using strategic environmental assessment. *Management of Environmental Quality: An International Journal*, 18(4): 396-412.

³¹ ILO (2011) Promoting Decent Work in a Green Economy. ILO Background Note to Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication. February 2011.

³² European Commission 2012 SMEs, Resource Efficiency and Green Markets. Flash Eurobarometer 342 – TNS Political & Social.

³³ Global Partnership for Financial Inclusion. 2011. “Report to the Leaders of the G20.” G20, Cannes. Available at : http://www.mofa.go.jp/policy/economy/g20_summit/2011/pdfs/annex06.pdf.

³⁴ OECD (2010) SMEs and Green Growth: Promoting sustainable Manufacturing and eco-innovation in small firms. OECD Working Party on SMEs and Entrepreneurship. Bologna+10 High-level Meeting on lessons from the global crisis and the way forward to job creation and growth. November 2010, Paris.

³⁵ Popp, D. 2012. “The Role of Technological Change in Green Growth.” Paper presented at the Green Growth Knowledge Platform inaugural conference, Mexico City, January 12–13.

³⁶ Lyon, T. P., and B. van Hoof. 2010. Evaluating Mexico’s Green Supply Chains Program. Ann Arbor, MI: University of Michigan, Ross School of Business.

3. SEED's research and consultations on the social, environmental and economic contributions of SMMEs

SEED has worked closely with the International Institute for Sustainable Development (IISD) since 2007 on a programme of research to increase technical knowledge and understanding about these small-scale social and environmental enterprises. From 2009 to 2012, SEED and IISD undertook a three year study of the performance of these small and micro enterprises, with two key questions in mind:

- Is it possible to determine whether and how social and environmental enterprises are making a contribution to social, environmental and economic progress within their communities; and
- What are the enabling factors and barriers to making that contribution?

The survey research is based on over 1300 enterprises that have applied for recognition from the SEED Initiative and those that have received a SEED award. In the third year, a set of in-depth case studies was also conducted to field test the findings emerging from the survey data, and to obtain a perspective on how these types of enterprises can change and grow over a short period of time³⁷.

SEED has also instituted an annual international Symposium to explore the role of local, small scale entrepreneurship in shaping the Green Economy. These annual events bring together the entrepreneurs themselves and the policy makers who can improve conditions for enterprise success. The central questions for the Symposium series complement the research: whether and how these enterprises – often with only one or two owners or employees – support the Green Economy, and what they might need in the way of support and enabling conditions from their governments.

Based on the research and Symposia consultations, SEED offers the following observations on social and environmental micro and small enterprises and their role in supporting sustainable development and poverty alleviation on the ground.

³⁷ See Creech et al, A Three Year Investigation into the Triple Bottom Line Performance of Small and Micro Social and Environmental Enterprises in Developing Countries. SEED and IISD (in press).

4. Fourteen major findings

- 1. There is a need to bridge macro strategies with implementation at the local level:** The many frameworks, strategies, policies and implementation mechanisms being developed for the Green Economy need to bridge actions at the national level with what is being implemented by SMMEs on the ground. There is a disconnect between the macro level approach to building the Green Economy and the micro level actions of social and environmental enterprises.

The green economy can and should have its roots at the local level, in small, micro and medium sized socio-environmental enterprise. Governments have an important role in setting clean energy policy, in creating programs for skills development and training, in supporting the research sector, and in addressing policy coherence and building institutional relationships with other governments and international agencies. But they should add to this a careful consideration of policies, regulations and programmes for support to the SMME sector, as well as consideration of perverse subsidies and taxes, so that social and environmental enterprises will have the space to grow and thrive, building the green economy from the ground up.

- 2. The Green Economy must be people centered and have poverty alleviation as a prime goal:** a Green Economy must be a “pro poor” approach. SEED’s international experts at its Symposia advise that in developing green economy policies, governments will need to consider the impact of those policies on the poor. Green economy financial mechanisms may be warranted that will ensure economic benefits are realized by the poor and negative economic impacts are mitigated. These pro poor considerations should be supported with research and aid coordination. Efforts in particular are needed to define indicators for the Green Economy that are sensitive to measuring pro poor outcomes.

The social and environmental enterprises recognised by SEED are committed to providing economic benefits to the poor at the community level, directly or indirectly. Winners are focused on creating decent jobs from activities such as ecotourism, recycling and waste management, and organic agriculture; others look to improving productivity within communities in various ways – helping women with more efficient and environmentally friendly cookers and washing tools; providing better lanterns for household lighting, and so forth. Measuring the value of these contributions to national economic development, however, continues to be a challenge.

- 3. The contributions of social/environmental enterprises to poverty alleviation and economic development may be undervalued:** Over half of the respondents in the last two years of SEED’s research indicate that they are supplementing the income of members of the communities in which they are working. It is difficult, however, to quantify and validate this contribution to economic development. Most enterprises in the case study group are able to estimate the amount of income the enterprise is able to generate within the community. Blue Ventures in Madagascar, for example, notes that their sea cucumber and seaweed aquaculture farms are providing 23 families with approximately US\$540 at each harvest, netting over \$3,000 to date for each participating household. MicroSow in Burkina Faso suggests that solar power charging installations can provide the franchise owners with regular incomes well over the poverty line of \$2 a day. Other enterprises note economic benefits such as increased crop yields through improved water management and reduction in post harvest losses through better storage techniques. Bearing in mind that many of these enterprises see themselves as not-for-profit entities, it may be that their contribution to the creation of new or enhanced income streams within the communities is being overlooked by national economic planners. Certainly it warrants more attention, with consideration given to methodologies to capture and report on this data in national economic analyses.

- 4. The social issues addressed by these enterprises are wide ranging and complex:** Many of the enterprises recognise that in order to meet environmental and economic objectives, deeper systemic problems must be addressed, such as population pressures, illiteracy, infectious diseases, and widespread poverty, effectively turning environmentalists and entrepreneurs into specialists in local community management, networking, training, institution building, and policy influencing. Consequently the social benefits identified by the enterprises range widely from improving access to health and education, strengthening food security, building community cohesion and institutions through participatory approaches, improving the status of marginalized groups and developing technical competencies locally.

In particular, the research highlights the critical role of social and environmental enterprises in strengthening resilience. In every year of the survey, enterprises demonstrated a significant investment in strengthening the social structures of their communities. In addition to providing alternative income streams, these enterprises are establishing community groups, building skills and contributing to improving community members’ sense of self-worth. In particular, helping communities to agree on rules

and codes of practice within the community has increased in importance over the years of SEED's study. These activities are all important for increasing resilience – the resources and capacities to adapt to major impacts, such as climate change.

- 5. These enterprises are front-line environmental service providers:** The enterprises in the case study group all have clear environmental outcomes at the heart of their enterprises, although they vary with respect to how they measure and monitor those environmental outcomes. Some are very specific, with respect to measuring the restoration of a resource base, while others note the potential for CO₂ emissions reductions. Several pay particular attention to environmental health issues – the exposure of workers to toxic chemicals and pesticides in their respective industries, although these types of outcomes are more difficult to measure.

What is interesting within the case study group is the general recognition of the role of the enterprise in not only working towards specific environmental improvements, but also towards improvements in national and local environmental policy and governance. Natural Justice in South Africa, Oro Verde in Columbia, Blue Ventures in Madagascar, Village Cereal Aggregation Centres in Kenya and others report on their efforts in seeking new legal frameworks and legislative reforms that are needed to support their work at the local level.

The presence of national environmental legislation and regulations is in fact one of the top four enabling factors identified in the overall study. While the case study participations work to improve legislative frameworks, nearly two thirds of all respondents stated that at the national level at least, there are environmental laws and rules in place. But, one of the most significant barriers for these enterprises is the absence of local level environmental monitoring and enforcement. As a result, the majority of all respondents across all three years find themselves investing heavily in community environmental education. There is a clear role here for policy makers to help these small and micro enterprises with community awareness-raising, and to focus on monitoring and enforcement to improve the conditions under which social and environmental SMMEs can more likely achieve their goals.

- 6. Public environmental education is not just values driven – it is a business issue for SMMEs.** Public demand for social and environmental enterprise goods and services must be fostered. Changing consumer purchasing choices through public awareness raising will be a necessary lever to help social and environmental enterprises grow their businesses. People's mindsets need to shift to increase demand for social and environmental goods and services.
- 7. Innovation and investment are essential components for moving to the Green Economy.** Research into new processes, the development of intellectual property (IP) and the use of IP as assets to attract investment need enabling policy environments.

The importance of research to start-up social and environmental enterprises cannot be underestimated. SEED winners have highlighted how important having a strong research partner is to their enterprises.

- Research institutes can provide the scientific basis for a product or service, such as identifying active healing compounds in traditional plants or inventing new processes for biofuel production
- Research institutes can test and validate products and services, providing evidence of the viability of a product for potential investors
- Universities are often looking for partners on the ground to test new technologies and processes, creating intellectual property that could have market value. They may not have the capacity to take a new product to market and need entrepreneurs to work with them.
- Strong scientific backing provided by research and technical support partners helps to build trust and credibility with community stakeholders.

A number of the SEED winners have secured patents for their products; these patents are assets and increase the value of the enterprise. This value chain of research, intellectual property development, entrepreneurship and investment is part of the DNA of the green economy. It should be noted, though, that SMMEs are concerned about protecting their innovation: Social and environmental entrepreneurs value open source approaches and innovation networks, in which new ideas and solutions can be recognised and protected through group rules and standards. But at the end of the day, access to advice on registering patents may also be needed.

Nearly half of the respondents in the overall study rely on relationships with technical and research partners as a means to monitor and manage their environmental impacts; some also develop their products or services hand-in-glove with a research partner. What is particularly striking is the emergence of the lack of access to such expertise as one of the most significant barriers to success: The seriousness of this gap is equal to the absence of financing.

The introduction of technologies for renewable energy, water and waste management, as well as new production processes for agriculture, forestry and manufacturing, are a central feature of these enterprises. Eighty per cent of respondents in the study have introduced a technology or production process that is new to the community. Moreover, of all the skills being developed in the community, respondents reported that, after business skills, technology skills were being developed more than any other.

- 8. The green economy requires a wide variety of skills** – public sector management skills, business skills, technology skills. Government participants in SEED’s Symposia have noted that although countries may have unemployment rates as high as 25%, there are even higher rates of job vacancies in the public sector –as much as 40%. “Green jobs” should be “good jobs”, but the skills base for a green economy may be lacking.

The need for having access to skilled people at the local level cannot be underestimated. The lack of technical knowledge in particular is a significant barrier in getting products to a certain quality to be competitive in the marketplace. The investment that SMMEs make in skills development and training at the local level is significant. SEED’s research highlights that a leading barrier for SMME success is the lack of skilled people at the local level. Nearly all respondents across all three years provide some type of training support to people within their communities; and at least a third are training 50 or more people. Training is being provided across all sectors and all skills needed, including small business management, in technical skills necessary for the enterprise (solar power, irrigation, biogas, crop storage, and so forth), in land and resource management, in hospitality services (ecotourism) and so forth. However, half of the respondents in year three indicated that the skilled people within the community were either absent or only partially available, and that the single most significant barrier to success was lack of access to funds for training.

- 9. New hybrid entities and business models are emerging, and reliance on traditional development assistance is shifting to a mix of revenue streams:** Over the three years of the study, there has been a demonstrable shift in whether these SMMEs consider themselves “for profit” or “not-for-profit”. In the first year of the study, many respondents struggled just with the use of the term “enterprise”. The single most important source of revenue was grants from foundations and other donors. In the second year, nearly three quarters of the group explicitly noted that they considered themselves “not for profit”, but the reliance on grants fell to 20%. Of the respondents in the third year, only half stipulated that they were not for profit. In addition, a higher percentage of this final group considered that they were something other than either a traditional not for profit or for profit entity. Many took the time to describe themselves as “hybrids”, as social enterprises and conservation businesses, and their reliance on grants fell to its lowest point in the study, to only 10% of the respondents.

This data is reinforced through the in depth case studies of nine enterprises. This group demonstrates a flexibility in operating models, ranging from those that are registered as not for profit entities, to those that are clearly established as for profit businesses; as well as those that are hybrids, with not for profit status in some jurisdictions but with specific business ventures the success of which will require mainstream investment, business planning and marketing skills. Within the case study group, no enterprise relies solely on development assistance grants from government, international agencies or foundations. All have at least a mix of revenue sources (usually from the sale of products and services, or licensing equipment and methodologies) and are seeking new ways to secure loans, lines of credit and investors to expand their operations.

Across all years of the study, respondents still identify lack of access to international aid or project financing as a barrier to success. Nevertheless, there is clearly a growing trend towards new operating models. Each year, increasing percentages of respondents appear to be using business approaches – sales of new products and services and other revenue generation mechanisms - in order to sustain the delivery of social and environmental benefits to their communities, and indeed to sustain their enterprises.

- 10. However, the financial viability and sustainability of these enterprises is uncertain.** There continues to be a gap in capacity for these small and micro enterprises to adopt more business oriented approaches for managing and financing their work. Respondents in the study are least able to express clear and measurable business targets, calling into question limitations in their ability to sustain their enterprises in spite

of the social and environmental benefits being delivered. Only 5% of the respondents report that their financing is in place; major challenges for nearly all respondents include lack of, or only partial access to investors; and lack of access to funds for business management training.

What is promising from the year three results is that 50% of the respondents believe they will be able to make a living from their enterprise within three years. These enterprises are also looking to ways to secure loans and lines of credit, but reiterate that a lack of access to these financial services is one of their most significant barriers to success. The SEED Winners share these concerns, noting even more strongly through the case studies the importance of access to investors, and loans and lines of credit from financial institutions. While all the enterprises in the case study group continue to operate, only a few report significant growth in terms of jobs within the enterprise itself, due to these barriers. Not-for-profit entities in particular face real barriers in the lack of legal frameworks that define social entrepreneurship, and allow non-profits to access not only traditional grants, but also loans and investments for for-profit initiatives.

The case studies provide more insight to this challenge, noting that start-up social enterprises do not meet typical requirements for loans (holding assets or demonstrating other income streams that can provide surety for loans or lines of credit). An operational track record of four to five years is also often required. The challenge can extend to the community stakeholders: even the SMMEs that have achieved sustainability in their own operations still report an on-going challenge in helping their beneficiaries to obtain credit. It is important to highlight that all nine SMMEs in the case study group report that winning an award has helped the enterprise to gain credibility with those in positions to provide financial resources. However, even with significant recognition and a proven concept, these enterprises still spend significant efforts raising revenues to maintain and expand their operations.

- 11. Monitoring, reporting and adaptive learning are essential mechanisms for building the Green Economy:** SEED's Symposium experts acknowledge the importance of continuous learning and improvement for all working in the Green Economy, and in particular for social and environmental enterprises. All those contributing to the Green Economy should not be working in isolation, regardless of size of the enterprise. But it is often difficult for SMMEs to know whether and how they are making a difference, let alone share those insights with others. Social and environmental enterprises need to learn how to set clear targets for the social, environmental, and business dimensions of their work – and monitor and report publically on how they are doing. Just like larger corporations, SMMEs need to be open and transparent about their work, both positive impacts and mitigation of potential negative impacts. Investors need to know what the social and environmental footprint of an enterprise will be before investing. Triple Bottom Line (TBL) planning and reporting will be an important tool for these enterprises.

Triple Bottom Line planning, at its simplest, is the ability for an enterprise to set goals and monitor progress across all three dimensions - social, environmental and business. The small and micro enterprises in this study, while all have passionate aspirations for making a difference in the world, can be challenged on the question of setting clear and measurable targets across all the dimensions of their work. Without clarity, and without realistic and measurable ways to assess whether they are in fact making a difference, many of these enterprises will not be able to engage their communities, investors, markets or decision makers.

However, the case studies reveal that successful enterprise managers will work to sharpen these targets over time, when the appropriate capacity building support is provided to help with triple bottom line planning. In all cases, the targets have become much clearer and more measureable from the start of the enterprise to the present; and in many of the cases, the targets have been expanded (to reach more people and affect a wider span of the surrounding ecosystem) or diversified to address additional social or environmental concerns. All of the enterprises stay focused on delivering a range of triple bottom line benefits: setting social and environmental targets and outcomes, and, at the same time, creating livelihoods and income diversification for the enterprise managers and employees and/or for people in its surrounding communities.

- 12. Organisations seeking to promote the scale up and replication of success need to understand the necessary preconditions and critical factors for success:** Central to the success of any enterprise is its leadership and its ability to focus. The majority of respondents across the three years of the study indicated that their leadership is secure, and that they know what they want to do for their communities. Respondents also indicated that their partnerships and networks are being developed. The strongest enabling factor for enterprises in the SEED study has been the collaboration with organisations that have good standing in the community, following closely by the endorsement of local governments. This speaks to the importance for SMMEs of working in communities where there are other organisations that they can collaborate with, and building relationships with those organisations and with local authorities

The case studies bring out more clearly specific critical success factors. Regardless of the focus of the enterprise or the operating model, the enterprises in the case studies group share common success factors in their growth. In efforts to put in place more enabling frameworks for social and environmental entrepreneurs, and creating the conditions for replicating successful social and environmental ventures elsewhere in the developing world, these factors should be taken into consideration:

- **The innovative product or approach must be appropriate for the needs and capacities of the local communities:** All of the winners in the case study group have built their success upon innovations that are community relevant – a new product or approach, or a new application or adaptation of an existing technology or service, such as the provision of renewable energy in areas that are not connected to the grid, improving agricultural market linkages through the creation of technology centres or a marketing brand; creating environmentally-friendly products and empowering women through recycling waste products; developing community-run conservation and sustainable resource extraction activities and/or frameworks. It is important to note that the innovative product or approach by itself is usually not sufficient for success: lessons from several winners indicate that the original product or approach often needs to be modified to suit better the needs and capacities of the surrounding communities.
- **Research and development should be based directly in the community:** Research and development is critical to the success of all enterprises, and is often carried out with an independent research or technical partner institution; but it is also consistently tested and refined within the communities, with community members fully engaged.
- **The enterprise must demonstrate strong leadership and an innovative leadership style:** Leadership qualities that contribute to success include: being visionary; adherence to participatory management styles; and having the ability to build a cohesive team and engage partners.
- **The enterprise must have the ability to network:** The ability to engage in and harness a network of stakeholders and others is a clear success factor. These networks can help achieve funding and important project inputs, such as research and technical support. Creating solid networks and partnerships are important in terms of achieving financing and a range of social, environmental and economic outcomes. Social enterprises in developing countries are often faced with deeper systemic challenges (such as a lack of a healthy, literate workforce). Networks are extremely important in this context, in order to support the micro/small enterprise where it does not have expertise.
- **A long term commitment must be evident:** Winners have alerted that gaining trust and credibility requires time and perseverance, as well as a visible commitment to the community to “be in it for the long haul.”
- **The enterprise must have the ability to harness or foment strong community governance and obtain community buy-in:** understanding how to work with and enlist the support or acceptance of communities is a key skill enabling scale up. A key strategy to this end is to begin project implementation with communities or leaders who have significant influence or established governance structures and local authorities. Main techniques to ensure community buy-in are capacity building events and awareness-raising activities.

13. Partnerships across institutions, sectors and states are essential to achieve the necessary policy coherence to support SMMEs; and partnerships at the local level are essential for implementation on the ground. Public policy is a key lever for the green economy, and there are now examples of countries starting to implement policies to support the emergence of a green economy. However, in most countries, there is a need to strengthen capacity for policy development at the environment and economy nexus: this can be achieved through interdepartmental coordination, institutional relationships and partnerships between states.

SEED Symposium participants have highlighted the need for policy coherence at the national level as an important enabling factor for the success of their enterprises at the local level. On the one hand, one government department might support small enterprise; but if the small enterprise grows and creates a larger market, another government department might step in, and in the process of passing regulations or other controls, undermine the enterprise.

Partnerships are also key at the local level, but very much for implementation rather than policy influence. SEED winners in particular often describe a wide range of relationships necessary for their en-

terprises, from international marketing partners, international NGOs with skills and technology, local partners who could assist with social components of an enterprise (youth training, etc.) and community level partnerships for running cooperative enterprises.

- 14. Potential gender based barriers in the Green Economy must be recognised:** Policy makers will need to find ways to remove gender based barriers in the Green Economy. If new jobs are created, particularly those involving new energy and agriculture technologies, they should not just be going to men; and that old jobs are not being removed in ways that adversely and disproportionately affect women.

The SEED research has identified three notable differences between SMMEs led by women and those led by men.

- a. **On working with new technologies and production practices:** A slightly higher percentage of women-led enterprises than men are not involved at all in the introduction of new technologies and processes. More significantly, although about half of both groups provide technology-related skills, a lower percentage of women-led enterprises do this compared to men. If the introduction of new technologies and processes is considered to be an enabling factor for small and micro sustainable development enterprises to achieve their goals, then potential gender biases towards access to and deployment of technologies warrants further research.
- b. **On access to external expertise:** The same percentage of men and women-led enterprises rely on external expertise – research and technical partners – to help them develop their product or service and to ensure that there are no negative impacts from their enterprise. Half of the women indicated that they had only limited access to such expertise. How to provide access to such expertise to women-led enterprises is a matter worth further attention.
- c. **On strengthening business skills:** Women-led enterprises appear to be more concerned than the men that they do not have all the enabling factors in place for a successful small business: awareness of business regulations and government programs for SMMEs appears to be lower among the women-led enterprise, and many suggest that they do not yet have many of the necessary building blocks in place, such as business management skills, business plans, marketing strategies and access to markets.

5. Relevance of findings for policy makers

Based on these 14 major findings from three years of research and consultations, the SEED Initiative would like to bring forward the following issues.

5.1 National level policy makers

1. The “green” economy is also a knowledge-based economy: small and micro social and environmental enterprises need access to the technology, skills and research and technical partners that they need, and support for their efforts to take innovation to market.

- Undertake a more in-depth review of the types of technologies and processes in demand by small and micro enterprises in order to determine:
 - a. whether channels for information and communications about technology and processes to the small and microenterprise sector exist at national levels
 - b. whether there are barriers to the importing or transfer of technology to small and microenterprises for use at the local level and how these might be overcome.
- Support small and microenterprises in the development of skills within their communities:
 - by further exploring the skills gaps at the local level and reviewing current development programmes to strengthen the skills base at the local level, in particular with respect to new, more environmentally friendly technologies and production processes.
 - by providing programmes for small and microenterprises to improve their own capacity to deliver a range of training and skills development activities on the ground.

2. Policies to support research and development (R&D) and innovation tend to target large scale industries. Consider means for supporting the research and development needs of micro and small enterprises.

- Review national innovation strategies and incentives and support for R&D to ensure that micro and small enterprises benefit from national programmes.
- Consider how these local level actors might be connected to the innovation, research and development bodies in their countries is a matter worth further attention.

3. In building the green economy, provide NGOs and CBOs with training and other services and support for developing more business approaches to their work, including support for monitoring and reporting on progress, and communicating success. Consider appropriate legislation and regulations that will allow not for profit organisations to adopt profit making ventures in support of their mission.

- The increased interest in business approaches by not-for-profit organisations suggests new windows of opportunity for policy makers to build business and entrepreneurship capacities in the NGO and CBO sectors. National small business development offices could consider targeting NGOs and CBOs to use their services, in addition to reaching out to the more traditional small business sector. This would serve not only to strengthen the financial sustainability of these entities that are starting up small enterprises; it would also serve to increase their contribution to economic development in the communities in which they work.

4. Policies and incentives are needed to stimulate and support the green economy, including more flexible access to loans, lines of credit and investors for the micro and small enterprise, particularly impact investors.

- Invite banks and other financial institutions to work on new approaches to providing financial resources in support of start-up and growing social and environmental enterprises which may not have traditional assets and sureties to guarantee loans and lines of credit. The ‘missing middle’ of financing for SMMEs is well documented and it is at least as great a burden for social and environmental as for mainstream

enterprises. New approaches and models need to be developed to deal with investors' understandable caution as regards enterprises that do not have a long track record. But impact investors are starting to see opportunities in this area and should be encouraged to do more.

5. Recognise and address possible gender based barriers to the success of small and micro social and environmental enterprises.

- National programmes for small business development need to ensure that they are reaching out to women-led enterprises, and in particular to those women-led NGOs and CBOs that are beginning to adopt business practices. Whether there are barriers to women-led enterprises to access and use technologies should be also explored. Finally, particular attention should be paid to linking women's enterprises with research and technical experts.

6. Strengthen efforts around local level environmental communications, monitoring of local environmental conditions and monitoring and enforcement of environmental laws and regulations, to create an enabling environment for local actors to achieve their goals.

- Consider how to:
 - help these small and micro enterprises with community awareness raising of the value of social and environmental goods and services;
 - work with these enterprises to identify and monitor key locally relevant environmental indicators
 - focus on monitoring and enforcement, in order to improve the conditions under which social and environmental SMMEs can achieve their goals and grasp potential competitive advantages through compliance with prevailing rules.

7. Consider establishing national councils, "sector councils" or associations of leading social and environmental enterprises, to provide more opportunities for dialogue and guidance on changes and improvements to national policies and programmes that will be responsive to local interests. These could champion and so help to stimulate and garner support for social and environmental entrepreneurship and provide a forum for exchange with national 'conventional' business associations. They might also usefully build links with councils in other sectors and regions.

- These enterprises have a first-hand understanding of key issues and can advise on how national objectives can be met more effectively at the community level.
- Such mechanisms can also provide the foundation for social and environmental SMMEs to build their own channels to communicate their successes and their challenges, to each other, to their communities, to investors and to policy makers.

5.2 International agencies, including finance and development institutions

1. Incorporate Triple Bottom Line planning into capacity building programmes for small and micro social and environmental enterprises.

- There continues to be a real challenge for small and micro enterprises in setting clear and measurable targets, even with the most ambitious and innovative start-ups. Simple tools for Triple Bottom Line planning could be incorporated into capacity building programmes developed and offered by the multilateral financial institutions (such as the World Bank and International Finance Corporation), development agencies (such as UNDP) and international NGOs working with small and micro enterprises on the ground (such as IUCN and World Wildlife Fund).

2. Together with national institutions, strengthen efforts to promote local level public environmental awareness, to create an enabling environment for local actors to achieve their goals. In particular, work with national authorities to emphasize the need for compliance with regulatory requirements.

- International agencies also have a role to play in raising public awareness and providing tools for monitoring environmental challenges at the local level in order to create conditions that are more receptive and enabling for small and micro enterprises. In particular, agencies such as UNEP can work with national authorities and MEA Secretariats to emphasize the need for compliance with regulatory requirements.

3. Explore how to connect international research and technical institutions with local level social and environmental enterprises, and how to strengthen the effectiveness of those partnerships.

- Small and micro enterprises consider partnerships with research and technical experts to be one of the most significant factors in their success. How international agencies can connect these local level actors with the innovation, research and development bodies internationally is a matter worth further attention.

4. Together with national institutions, explore how to recognise the contribution of the not-for-profit sector to income enhancement and local economic development in national and international economic analyses; develop and expand programmes that will support the financial sustainability of social and environmental enterprises, including helping not for profit organisations adopt business approaches where those might be of real benefit.

- Over half of the respondents indicated that they have been able to supplement the income of members of the communities in which they are working. It is difficult, however, to quantify and validate this contribution to economic development. Bearing in mind that most of these enterprises still see themselves as not-for-profit, it may be that their contribution to the creation of new income streams within the communities is being overlooked by national economic planners. Certainly it warrants more attention, with consideration given to methodologies to capture and report on this data in national economic analyses.
- With such data and analysis in hand, the importance of investing in strengthening the financial viability of the not-for-profit sector will be even more apparent. A pro-poor approach to the Green Economy can be grounded in supporting and documenting the real economic value that local entrepreneurs contribute to poverty alleviation in their communities.

5. Establish mechanisms for national institutions and entrepreneurs to share their experience and provide easier access to information that can support the growth of social and environmental entrepreneurship.

- Such efforts may help to bridge macro strategies at the national and international levels with implementation at the local level. Creating the channels for mutual learning will serve to strengthen input to, and more effective response by, policy makers to the needs of SMMEs. Good use of communications mechanisms and platforms can support the transfer of that understanding and experience into other regions and countries.

6. Final observations

The Green Economy is not an alternative economy but a new global approach to diversifying opportunities for economic development and poverty alleviation while protecting and restoring the earth's natural capital. Green economy thinking and planning need to be fully integrated into how the world approaches all economic development. Work is needed to strengthen public perceptions on the green economy: it is not an either/or approach ("green jobs are good; all other jobs are bad"), and it should not be seen to be a commodification of nature. Rather, it is a strategy to facilitate entry into the economy of innovative, environmentally friendly services, goods and technologies.

There is little doubt from SEED's research that the majority of enterprises within this community of social and environmental entrepreneurs are changing the model of how to deliver sustainable development on the ground, through setting and working towards a combination of social, environmental and business targets and identifying a diverse range of benefits that they are delivering to their communities. These entrepreneurs have emphasized that they need not only access to skilled people at the local level, but also access to research institutions to help develop and test products and technologies; access to information; access to advisors and mentors who can add value to the enterprise; access to impact investors; access to communications channels to promote their success. Governments and national and international institutions need to open many different doors to support the emergence of social and environmental enterprises as the foundation of the Green Economy.