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**Enhancement of the Business Environment in the
Southern Mediterranean**

National Seminar for Egypt

**Turning Environmental Challenges into Commercial
Opportunities for Egyptian SMEs**

**Challenges and Recommendations for Greening
SMEs**

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TABLE OF CONTENTS

1.	INTRODUCTION	4
2.	SUSTAINABLE DEVELOPMENT IN EGYPT	4
3.	OPPORTUNITIES FOR GREENING SMES IN EGYPT	5
4.	MAIN CHALLENGES FOR GREENING SMES IN EGYPT	5
5.	SURVEY OF A SAMPLE OF EGYPTIAN COMPANIES	5
6.	RECOMMENDATIONS FOR GREENING BUSINESSES	6
7.	RECOMMENDATIONS FOR PROMOTING GREEN ECONOMY AT COMPANY'S LEVEL	7
	BIBLIOGRAPHY	9

1. Introduction

In response to the financial and economic crisis that broke in 2008, the United Nations Environment Programme (UNEP) launched the Green Economy (GE) initiative in October of the same year. The initiative advocates investing in the environment as a means to address the financial and economic crisis countries are facing. Following this path contributes towards revitalizing and diversifying the economy, promoting the efficient use of resources, reducing waste and pollution, enhancing competitiveness and market access, creating jobs, while at the same time conserving the environment, and promoting health and human welfare. In order to promote investing in the environment, it is essential to make and communicate a strong and convincing economic and business case for greening economies for both the public and private sector. Greening of businesses, including SMEs enhances resource efficiency, promotes competitiveness, creates new and innovative businesses and market opportunities and consequently increases profits.

Rio+20 acknowledged that green economy provides one of the tools that can be used to achieve sustainable development and poverty eradication. Moreover, governments acknowledged the important role the private sector and civil society could play to support government efforts to achieve sustainable development. There has been an increased recognition in Egypt to the need to actively involve the private sector and civil society to support Government efforts to move on to a more sustainable path.

Egypt currently faces a number of challenges represented in the high rate of unemployment exceeding 13.3% in 2014 (The World Factbook Africa, CIA: Egypt, 2014) increased external debt reaching US\$ 45,3 trillion by end of March 2014 (The Central Bank of Egypt, 2014), and declining exports and investments. According to the World Competitiveness Report for 2014-2015, Egypt ranked 119 out of 144 countries in the world competitiveness index (The Global Competitiveness Report, 2014-2015).

Transitioning to a green economy in Egypt is expected to offer a non-conventional way of addressing current challenges including water, energy, and food shortages. Green Economy provides a tool that can assist in transitioning the country into a sustainable development path that revitalizes and diversifies the economy, enhances market access and competitiveness, creates new jobs, while at the same time improves human welfare and protects the environment.

2. Sustainable Development in Egypt

There have been efforts during the last decade to implement sustainable development policies in Egypt. These included the issuance by the Council of Ministers of a decree in 2006 to create a Sustainable Development Committee (SDC) with the membership of all Ministries, and with the Ministry of Environment serving as the Secretariat. There are currently attempts to revitalize this institutional set up by attaching the SDC to the Prime Minister's Office, with the Ministry of Planning taking a more prominent role together with the Ministry of Environment. Other activities and initiatives include the creation of a Sustainable Development Unit within the Ministry of the Environment and the creation of a Working Group on Green Economy at the Ministry of Planning. Other related activities include the adoption by the Higher Council for the Environment, Egyptian Scientific Academy of Research of a "Green Economy" road map. Following a UNEP funded project on the greening of four sectors in Egypt: Water, Energy, Agriculture, and Solid Waste, the Ministry of environment with the support of CEDARE is undertaking a project under the SWITCH Med programme aimed at developing an Action Plan for the four sectors. The Government is

currently engaged in the development of a sustainable development strategy for the year 2030 to be launched in the next nine months.

3. Opportunities for greening SMEs in Egypt

As referred to above, opportunities offered in greening SMEs, include increased competitiveness and market access resulting from the efficient use and allocation of resources, reduced waste, and increased productivity. Green investments in resources such as water, energy, and waste management offer both a challenge and an opportunity. At the same time investing in these sectors enhances the sustainability of enterprises by securing resources necessary for their operations, and by reducing their environmental footprints through reduced emissions and waste. Moreover, greening of sectors such as agriculture, building and construction, including urban development, transportation, industry, and tourism offer new opportunities for businesses, including SMEs.

4. Main Challenges for greening SMEs in Egypt

Main challenges facing the effective engagement of SMEs in greening their activities, include lack of information and awareness to the benefits of green investments, lack of expertise, lack of access to appropriate technologies, and insufficient financial resources to be directed towards green investments. The development of a green model is one of the main requirements needed to support and facilitate the green transition of companies. As far as public action is concerned, there is currently a lack of clear vision and policy by the Government to green the economy. Moreover, weak institutions and good governance represent a serious impediment for adopting green economy as a tool to achieve sustainable development.

5. Survey of a sample of Egyptian Companies

A survey commissioned by the United Nations Economic Commission for Africa in 2014, which included a sample of companies in Egypt revealed that most companies were aware of the “Green Economy” concept. However, several companies or about 60% of the companies surveyed were not entirely aware of the opportunities offered by transitioning to “Green Economy”. While few companies or about 35% have indicated that “Green Economy” is a reality, several have indicated that it is yet to be further developed and well understood in the future. A large number of companies representing about 85% of the respondents have indicated that “Green Economy” strengthened the social and environmental responsibility of the company. A number of companies representing about 25% of the respondents stated that the full potential of “Green Economy” remains uncertain. Moreover, a number of companies representing about 35% of the respondents have started “Green Economy” research, while several companies representing 25% of the respondents have identified the development of training programmes and the undertaking of actual training as a necessary requirement to enhance capacities of its staff develop and implement green and sustainable strategies and activities. Furthermore, a number of companies representing about 45% of the respondents have reported their plans to put in place measures to promote the efficient use of natural resources in the next couple of years, while about 85% of the respondents have reported the lack of necessary expertise and human resources needed at different levels managerial and technical expertise. Share of investments directed towards green business were limited, with companies surveyed giving a high share of financial allocations towards investments necessary to meet environmental standards. One company gave training with respect to environment and or green economy the highest percentage (80%), while another company reported 100% share of investment directed towards R&D.

6. Recommendations for greening businesses

A number of recommendations are proposed to encourage the greening of businesses. These include: Political commitment on the part of Government; the introduction of regulatory reform, market-based incentives and finance package to encourage investment in green infrastructure; remove market distortions and environmentally damaging subsidies; launching a communication campaign to raise awareness to the benefits of greening businesses; facilitate access to green and environmentally sound technologies; develop and implement a capacity building programme based on a needs assessment to provide the necessary expertise at all levels; enhance the capacities of enterprises to use sustainability and CSR tools and guidelines; invest in innovative technologies and R&D; engage the private sector and civil society in policy formulation and implementation; and promote collaboration with the private sector and Public-Private-Partnership.

It is essential that the Government develops a long-term vision and strategy that clearly defines the future path the country is taking, hence provide a clear and predictable investment environment for private businesses. In order to implement the Government's vision, a regulatory framework needs to be developed to direct, control and monitor activities in the different sectors. Regulations would need to be designed to encourage green investment and increased role of businesses and the private sector in greening their operations. They also need to be designed in a harmonized manner in order to ensure consistency and complementarity between regulations related to the different sectors, and between them and other policy measures and tools.

Indicators that measure benefits from the public sector perspective derived from greening businesses to the economy at large in terms of contribution to gross domestic product (GDP), poverty alleviation, and employment generation, enhanced competitiveness, resource efficiency, environmental conservation, and human welfare should be developed. From the private sector perspective, it is essential to identify green business opportunities resulting from transitioning to a green economy from the purely financial perspective of companies resulting from environmental and social benefits; provide training and career development programmes for technical and professional staff; encourage patenting of new technologies and innovative ideas; encourage finance through public as well as private institutions and through concessional lending arrangements; promote networking and exchange of information and knowledge between SMEs; and promoting research and development in innovative green and environmentally friendly technologies.

The Government's regulatory framework should be supported by a package of incentive measures. This includes introducing a subsidy reform process to phase out perverse energy and water subsidies. It also includes providing incentives in the form of tax breaks for green investments, and innovation and research in green technologies. Instruments such as charges, fees, and carbon taxes should also be introduced to discourage environmentally harmful operations and encourage a shift to a green and sustainable investments and operations. Prices should be set to reflect real costs of resources and products, including social and environmental costs. Moreover, sufficient budgetary allocations and finance, including concessionary financing should be facilitated to encourage green investment, research and development, and training. Micro finance should also be promoted in order to encourage the engagement of SMEs and civil society in green and sustainable related activities. Increased collaboration between the public and private sector, including an increased role of SMEs in green and sustainable related activities can also go a long way in enhancing private sector and civil society engagement in green investments and sustainable related activities.

Moreover, trade policies should be designed to facilitate access to environmentally sound technologies and equipment for public as well as private entities. It should also be designed to encourage businesses export environmentally sound products and equipment. Incentive measures such as tax cuts and subsidies can be used as tools to promote green investments, market access and trade.

Raising awareness to the market opportunities and benefits resulting from green business transformation should be promoted. The Government should therefore develop a communication strategy in order to raise awareness to the benefits and opportunities provided by greening businesses, provide information about appropriate technologies, tools, and potential markets for green products.

An essential requirement for the transitioning of enterprises to green economy is the availability of necessary expertise at all levels. Without the necessary expertise needed to support green activities it would be difficult to support the greening of companies and businesses. This includes managerial skills, entrepreneurs, professional cadres that are in a position to develop and apply green and sustainability tools. In order to meet this requirement, capacity-building needs should be identified based on a needs assessment determining immediate and long-term requirements for the public as well as the private sector. While the Government should take the lead in identifying those needs and directing training and academic institutions to satisfy them, companies should also incorporate as part of their strategic planning, the relevant capacity development programmes that meets their current and future staff needs.

A long-term research and development strategy for green economy is needed to direct research to support the greening of sectors in Egypt. This includes directing research, innovation and technology development towards areas such as renewable energy, wastewater recycling and seawater desalination, sustainable agriculture, green industry and technologies, eco and sustainable tourism, green public procurement. Research and development should not only be confined to the public sector. Businesses and the private sector should also be encouraged to invest in green R&D through a package of regulatory and incentive measures.

7. Recommendations for promoting green economy at company's level

Main recommendations to encourage corporate and social responsibility (CSR) and greening of their businesses include the following:

- Government commitment to greening the Egyptian economy
- Raise awareness about the benefits of greening businesses and the adoption of sustainable production and consumption practices
- Provide tax incentives through tax breaks to companies greening their businesses
- Start-up incentives for pioneering commercially viable solutions
- Provide financial support and incentives
- Introduce Government regulations to limit impact on the environment
- Mapping of potential business opportunities for green economy
- Enhance the role of the informal sector and its integration with formal sector
- Develop indicators and measures regarding benefits derived from greening businesses to the economy at large in terms of employment, contribution to GDP, poverty alleviation, and employment generation and for the private sector in terms of enhanced competitiveness, resource efficiency, and financial gains
- Identify green business opportunities from the purely financial perspective of companies followed by the benefits from the environmental and social aspect

- Adapt solutions to private partners needs and capabilities
- Provide training programmes for technical and professional labour
- Provide funding tools and access to environmentally sound and green technologies
- Increase taxes and charges on products with high environmental impact
- Introduce regulations to encourage the engagement of businesses, particularly SMEs in green and sustainable activities. Considerations should be given to the development of environmental regulations to existing capabilities, available expertise and technologies
- Propose codes, and standards for the efficient use of resources, particularly water and energy
- Promote national integrated and harmonized policies as the main driver for a successful green transition
- Develop guidelines for greening businesses
- Coordinate with technology departments at universities and research institution to fund research in “Green Economy”
- Encourage patenting of new technologies and innovative ideas
- Encourage the adoption of an ecosystem approach for the efficient management of natural resources needed to support businesses
- Encourage finance through public as well as private institutions
- Social community development must go always hand in hand with economic value creation
- Promote cultural, traditional, and aesthetic values as a means to build and strengthen appreciation for the sound management of natural resources and the environment
- Decrease or remove energy subsidies on fuel, chemical fertilizers and pesticides
- Provide green financing schemes for renewable energy such as for solar pumping units for off-grid farms
- Increase water pricing to reflect water scarcity
- Provide concessional lending arrangements by financial institutions for environmental friendly activities
- Promote Public-Private-Partnership

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