How MSMEs can contribute to and benefit from a just transition

Key messages

- Climate change impacts the resilience, productivity and profitability of micro, small, and medium-sized enterprises (MSMEs), thus, enabling them to green their business processes, products and services is critical for securing future economic and decent jobs growth.

- MSMEs in all sectors can benefit from and contribute to a just transition towards environmentally sustainable economies and societies for all, through elevating their capacity to change, connect, and compete with the involvement of social partners on decarbonization and decent job creation.

- Supporting MSME participation in the just transition is a complex task which is closely linked to the existing intrinsic barriers and challenges for sustainable business growth and productivity. Solutions will require a multipronged and systemic approach to not only uplift but empower MSMEs to access the resources and market opportunities that allow them to thrive in the Just Transition.

- Access to finance, limited technical skills (including digital, technological, and management), and insufficient information on how to leverage market opportunities continue to be major constraints for MSMEs to both enter green markets and green their business processes, trapping MSMEs in low productivity cycles and limiting their growth. Services, information, and programmes targeted at and catered to green MSMEs can incentivize and support MSMEs to transition.

- Governments and social partners must work together to enhance MSME productivity and resilience, and to create an enabling environment for inclusive and green MSME business growth.
Background

The ILO Guidelines for a Just Transition towards Environmentally Sustainable Economies and Societies for All (hereafter the Just Transition Guidelines), adopted by representatives of governments, employers’ and workers’ organizations in 2015, provide a policy framework and an operational tool to address environmental change in a way that advances social justice and promotes decent work creation. This policy brief is part of a series of briefs that seek to deepen the technical and policy understanding of the application of the Just Transition Guidelines. They are mutually reinforcing and together form a body of policy guidance on the Just Transition Guidelines.

The just transition briefs are intended for use by policymakers and practitioners at all levels to provide practical information and guidance, fostering a common understanding of what is meant by a just transition in specific topic areas and providing recommendations for implementation by countries, international institutions and other actors in academia and civil society. The briefs seek, in particular, to provide guidance on just transition to ILO constituents, including workers’ organizations, employers’ organizations, and governments and relevant line ministries.

The briefs cover the following thematic areas: macro-economic and growth policies; industrial and sectoral policies; active labour market policies; enterprise policies; skills development; green works; occupational safety and health; social protection; rights; social dialogue and tripartism; collective bargaining; labour migration and human mobility; indigenous peoples; gender and labour; youth employment; persons with disabilities; persons with HIV/AIDS; and financing a just transition.

This policy brief is intended to present the linkages between just transition and MSMEs, providing stakeholders with information and recommendations for implementation. The broad implementation of just transition across all policy areas and cross-cutting thematic topics requires careful consideration of the guidance provided in the ILO Just Transition Guidelines, taking into account the needs, priorities and circumstances of each country.
1. Introduction

While it is widely known that climate change and global warming are radically changing the environment, there is growing recognition in the private sector that climate change poses considerable short- and long-term risks to businesses too. Research shows that climate change and extreme weather conditions affect 70 per cent of the world’s economic sectors. Similarly, environmental risks continue to be the top global risks for business both in likelihood and severity.

The Intergovernmental Panel on Climate Change (IPCC), the most authoritative scientific body on climate change, finds that keeping global warming below 1.5°C compared to preindustrial levels is critical for global societies to be able to cope with the impacts on both environmental and human systems. The 2021 report confirmed that unless significant reductions in CO₂ and other greenhouse gases take place, the world will exceed global warming of 2°C during the 21st century.

In economic terms, average global temperature rises of around 4°C can lead to an estimated US$23 trillion of associated global economic losses by 2050. This would harm all economies, asset classes and industries, whether directly or indirectly, with escalating consequences for all financial market actors.

Meanwhile, some markets have experienced a steady increase in the demand for green products and services. Sustainability-marketed products grew by 54 per cent between 2015 and 2019 in developed countries, with nearly 40 per cent of consumers willing to pay a price premium for sustainable products. Similarly, sustainability-marketed products grew 7.1 times faster than products not marketed as sustainable.

The Guidelines for a Just Transition towards Environmentally Sustainable Economies and Societies for All serve as a policy framework and tool to guide countries to manage a transition to low-carbon economies, and are the principal instrument of the ILO to shift to green and inclusive economies. While the Guidelines include policies to support micro, small, and medium-sized enterprises (MSMEs), in practice, MSMEs are not transitioning as quickly as their larger counterparts. Therefore, understanding the unique challenges that MSMEs face in the transition is pivotal for advancing the Decent Work Agenda and ensuring a more equitable and inclusive future economy.

This policy brief seeks to inform ILO constituents, in particular MSME stakeholders, on how to understand and act in alignment with the Just Transition Guidelines to support a just transition for all. It is based on stakeholder interviews and secondary research from Africa, Asia and the Pacific, and Latin America, highlighting cases of policies, public–private partnerships, and private sector initiatives that have enabled or may inspire MSMEs to advance their green business strategies and operations towards a just transition that supports decent work opportunities for all.

Ultimately, there is still an additional need for further work and guidance on how to support companies’ role in decarbonization and decent job creation, ensuring that no one is left behind in a just transition. This goes beyond the sole focus on MSMEs, but this brief aims to address the particular need for further guidance amongst MSME stakeholders.

6 NYU Stern Center for Sustainable Business, Sustainability Market Share Index, 2020, 7.
7 ILO, Guidelines for a Just Transition towards Environmentally Sustainable Economies and Societies for All, 2015.
2. How does climate change affect MSMEs?

MSMEs are heterogeneous and diverse, yet, while they form the backbone of the economy in terms of job creation, they are also highly vulnerable to climate-related risks. MSMEs generally face challenges in reaching a minimum efficient scale and economic viability, particularly in developing and emerging-market economies. An inability to raise productivity hinders savings and investment rates, capital accumulation, decent job creation and competitiveness.

With the onset of climate change impacts, MSMEs must now also cope with a changing natural environment, as well as the political and business implications of a global shift towards decarbonization and a more environmentally sustainable economy, which can be quite costly for MSMEs to participate in.

These challenges prove even greater for the informal sector, where companies and workers are not protected by environmental or other laws, and thus may prove less resilient to climate change.

Further, companies that fail to demonstrate how they will implement policies or programmes to manage the social consequences of transitioning are likely to face greater scrutiny from investors amplifying the economic as well political implications of climate change for MSMEs.⁹

Increased risk, mitigation and adaptation costs

According to the WEF Global Risk Perception Survey 2021, four out of five most likely long-term global risks both for economies and societies were environmental: extreme weather, climate action failure, biodiversity loss, and human-made environmental disasters. More frequent and more severe climate change risks require businesses to invest in insurance plans that protect them from climate-related loss. However, rising insurance costs in climate-vulnerable countries and industries drive up fixed costs for companies, ultimately squeezing often already thin profit margins.

The burden on MSMEs to mitigate the immediate risks of climate change further inhibits their ability to make long-term business investments in equipment, technical and business management training and resting assets that not only allow them to plan for and sustain business growth in the future but enable them to participate in the just transition.

However, MSMEs that manage to incorporate adaptation and mitigation measures into their business model ultimately fare better than those that do not. Mitigating climate risk not only helps to protect business assets but also reduces the risk of job losses. In fact, the International Trade Centre

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⁸ ILO, Small Matters: Global Evidence on the Contribution to Employment by the Self-employed, Micro-enterprises and SMEs, 2019. While the authors recognize that the needs and contexts of these sub-groups differ, the research and conclusions focus on the most prominent findings which are relevant for MSMEs as a whole.

⁹ Moody’s ESG Solutions, Rising Focus on Just Transition Will Raise Risks for Most Exposed Companies, 13 December 2021.
ITC found that resilient companies are five times less likely to lay-off workers.\(^\text{10}\)

**Expanded regulation and compliance costs**

Accelerated climate action will inevitably result in stronger environmental regulations ultimately changing the business environment in which companies operate. Markets like the European Union (EU), for example, are launching carbon border tax adjustments to impose higher taxes on carbon-intensive goods, which could have heavy implications for those enterprises working in steel, cement, chemicals, aluminium and electricity by making them more costly to import.

But as regulations increase, so will the need for MSME-targeted assistance measures. Rapidly changing policies and increased compliance measures can be hard for MSMEs to navigate, and an unconducive enabling environment may prevent them from accessing relevant services and investment opportunities.

Meanwhile, MSMEs may experience increased value chain pressure to comply with the same standards as customer-facing companies, such as greater compliance with environmental, social and governance requirements (consider, for example, the ILO MNE Declaration and the UN Global Compact\(^\text{11}\)). Ultimately, such pressure is linked to a strong reputational risk related to environmental and working conditions. However, those who are successful in greening their businesses in alignment with new rules and regulations can achieve competitive advantages that put them ahead of the curve.

While COVID-19 has proven how vulnerable the economy is to disruptions to workforces and supply chains, similar disruptions are expected from climate change. In fact, globally, there is a lack of preparedness among companies for the coming disruptions to workforces, supply chains,

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\(^\text{10}\) ITC, *SME Competitiveness Outlook 2021: Empowering the Green Recovery*, 2021. Resilience is based on the strength of a company’s business processes, its internal and external connections and its ability to pivot. It signals how a company will fare when crisis strikes and its chances of long-term success.

communities and consumers caused by the transition to net zero.\textsuperscript{12}

**Employment and productivity loss**

Climate change threatens the quality and safety of jobs. For example, ILO research found that by 2030, the equivalent of 2 to 5 per cent of total working hours worldwide is projected to be lost every year due to climate change.\textsuperscript{11} Temperatures above 24–26°C are associated with reduced labour productivity. Thus, global warming and heat stress do not only invoke occupational safety and health hazards, but also reduce labour productivity.

On balance, measures for greening business practices and processes can reduce costs and improve productivity: nearly 60 per cent of African companies found that greening their enterprise led to higher quality products, lower input costs and access to new markets and green finance.\textsuperscript{14}

However, a transition away from carbon-intensive industries will naturally result in job losses, such as in coal mines and oil and gas sectors, as countries move to renewable energy. Therefore, if policies are not in place to support those workers and communities adversely affected by job and revenue loss, then increased unemployment and poverty become risks for those groups.

3. **What is meant by a just transition?**

Within the climate change debate, a just transition is the ILO response to the sustainable development challenges that decarbonization would imply. This is the recognition that the process and the outcome of the transition has to take into account the economic, social, and environmental dimensions of sustainability in an integrated way and with equal importance.

A just transition is a transition towards environmentally sustainable economies that contributes to decent work, social inclusiveness, and poverty eradication. Managed well, transitions to environmentally and socially sustainable economies can become a strong driver of job creation, job upgrading, social justice and poverty eradication. Greening all enterprises and jobs by introducing more energy and resource efficient practices, avoiding pollution and managing natural resources sustainably leads to innovation, enhances resilience and generates savings which drive new investment and employment. For a just transition to happen, a planned decarbonization strategy which aims to maximize climate action and positive social impact and minimize social hardship from said transition is necessary.

The ILO Just Transition Guidelines were adopted in 2015 by a tripartite body of experts and are therefore applicable to governments and workers’ and employers’ organizations alike. They are systemic and multi-faceted and were founded on social dialogue with Governments and social partners with the intention of being an integral part of the institutional framework for policymaking and implementation at all levels, with adequate, informed, and ongoing consultation with other relevant stakeholders.

Specific actions to advance the just transition agenda, therefore, look different depending on the stakeholder, their relative capacity and their specific function in the economy. Given the importance of MSMEs in both job creation and greenhouse gas emissions across countries, a just transition plan must also respond to the needs and realities of MSMEs.

The Just Transition Guidelines offer a unique policy framework and a practical tool to guide the transformation to carbon-neutral and climate-resilient economies in a way that addresses the social, enterprise and employment-related dimensions of the transition. Guiding principles include strong social consensus, gender dimensions and responsiveness to countries’ context (as opposed to one-size-fits all).

**Key policy areas of the ILO Just Transition Guidelines are**

- Macroeconomic and growth policies
- Industrial and sectoral policies

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\textsuperscript{12} Moody's ESG Solutions, 2021.
\textsuperscript{14} ITC, 2021.
4. Just transition drivers and challenges according to MSMEs

The challenges that MSMEs face because of climate change are complex and manifold. However, because supporting decent job creation is central to a just transition, MSMEs not only play a key role, but stand to benefit from participation. It is therefore important to understand the unique challenges that prevent them from transitioning, as well as the drivers that persuade them to do so.

Based on the literature review and the interviews for this study, MSMEs’ motivation for taking part in a just transition may generally be categorized as:

1) **Market driven**: in the pursuit of new market opportunities, wherein MSMEs possess the means or receive assistance to serve new profitable markets while increasing productivity, reducing costs and growing their business. These may be supported through preferential benefits, like tax and duty privileges.

2) **Compliance driven**: in order to avoid penalties from punitive policies such as a carbon tax and environmental laws governing air pollution or biodiversity preservation.

3) **Resilience driven**: to mitigate the negative impacts of climate change on business. MSMEs investing in greening their business indicate improved resilience both in terms of business operations and retaining employees.

Meanwhile, this study found the primary barriers preventing a transition by MSMEs to be market access, limited access to knowledge and information, technical skills gaps and limited access to finance, all of which also contribute to persistent productivity gaps. These constraints not only prevent MSMEs from shifting to greener processes and markets, but largely inhibit productivity and prospects for enterprise growth. This suggests that by targeting these issues, MSMEs can position themselves on growth pathways in decarbonized economies.

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Market access: As market opportunities open in the low carbon economy, barriers to entry remain a persistent issue for MSMEs in an increasingly competitive environment, both internationally and nationally. Without strategies to ensure MSMEs can capitalize on opportunities to enter new markets, they may be quickly left behind. While public and private procurement preferences can help, they are only able to do so if requirements are feasible for MSMEs to comply with them. For example, in Colombia, there is a national legal framework that mandates the inclusion and remuneration of waste-picker organizations in public tendering processes. However, waste pickers still experience challenges in complying with the formal requirements, such as acquiring specific types of infrastructure for delivering recycling services and possessing a certain level of managerial and accounting skills.18

Information: MSMEs struggle to access information on policies (such as regulations and government services), resources (for example, finance, training and networks), and best practices (such as innovation), which often only trickle down through larger businesses. For example, some MSMEs in South Africa found the regulatory environment to be so complex and difficult to navigate that those who could preferred to invest their own money in decarbonization initiatives rather than to try to access financial assistance through government programmes.19 Moreover, as the global economy digitizes and the speed at which information is shared increases through digital tools and platforms, MSMEs that are unable to adopt digital technology are even further disadvantaged. According to the OECD, digital adoption gaps have grown for smaller enterprises over the past decade, compared to larger enterprises.20 Because digitalization is a driver of productivity, these gaps also further contribute to increased inequalities. The Just Transition Guidelines specifically address the need to provide information on green management practices, green technologies, eco-innovation, regulatory systems, and compliance to MSMEs in making the transition.

Technical skills: A lack of an adequately skilled workforce, which suppresses labour productivity and inhibits growth, is one of the most frequently mentioned challenges for MSMEs. At the managerial level, climate literacy is an issue, as is a limited capacity to effectively minimize the negative impacts of climate change and leverage new opportunities. Both result in an inability to raise productivity, compete in green markets, upgrade production processes or adopt new resource-efficient technology. Bridging this gap requires mechanisms to skill, upskill and reskill the workforce, facilitate innovation and a technology transfer, as well as a means of validating or certifying prior learning.

Access to finance: Limited access to finance remains one of the largest barriers for MSMEs, preventing them from greening their own operations or from scaling up green products and services. Poor access to finance may arise from low productivity, poor capital accumulation and lack of collateral. Similarly, some MSMEs’ accounting practices may not meet the banks’ financial information requirements, which is a serious barrier to obtaining commercial loans. Moreover, banks and financial institutions lack the data and strategy to respond to green transition-related needs of smaller businesses. The limited availability of dedicated green financial products and services compounds the already difficult challenge.

20 OECD, The Digital Transformation of SMEs, 3 February 2021, 3.
for MSMEs to obtain finance since they are typically perceived as higher-risk investments. **Productivity gaps**: In large part due to the above-mentioned constraints, MSMEs struggle to improve productivity, which prevents them from realizing enterprise growth, generating greater profits and creating employment. This makes it significantly more challenging for MSMEs to upgrade, including making investments towards a just transition. Unless the underlying constraints that hinder smaller businesses’ ability to realize sustainable growth are overcome in ways that support decarbonization in line with productivity growth and job creation, MSMEs will continue to lag behind or be unable to transition all together. In this regard, governments and social partners (including workers’ and employers’ organizations) play an integral part in supporting an enabling environment for just that. The next section addresses the various stakeholders and their roles and responsibilities in promoting green and decent job growth for MSMEs.

5. Key MSME stakeholders in a just transition

According to the Just Transition Guidelines, the key stakeholders of a just transition include governments, employers’ and workers’ organizations. However, the guidelines explain that “institutional arrangements must be adapted to ensure the participation of all relevant stakeholders at international, national, regional, sectoral and local levels in the building of an appropriate policy framework”. In this context, this study has identified additional stakeholders that play critical support functions for MSMEs. This section will address the roles of those stakeholders regarding a just transition, and how they can address the challenges outlined above.

**Government**

According to the Just Transition Guidelines, governments should develop policy frameworks and an enabling environment for sustainable enterprise development and decent work for all, social inclusion, and the eradication of poverty in the transition to sustainable economies. They can do this through national planning and policymaking, coordinating agendas with line ministries, improving access to labour market data, creating, supporting or implementing programmes and fostering social dialogue.

Targeted fiscal policies can leverage investment incentives to support smaller businesses to enter green markets. Market-based instruments, public procurement, subsidies, tax reforms in line with environmental taxes, and risk guarantees help MSMEs to transition to new activities, sectors or markets. Green public procurement policies, including labour clauses, can facilitate the participation of MSMEs in public procurement, and support the green recovery of smaller businesses post-pandemic. Previous studies of MSME barriers in regard to public procurement processes indicate that governments and their procurement agencies must focus on access to information, transparency of procedures, training and additional simplification measures based on e-procedures.21 The ILO Labour Clauses (Public Contracts) Convention, 1949 (No. 94) provides a strong legal and policy framework to make sure that procurements are also providing decent work.

Social protection systems help those directly impacted by climate change, like floods and drought, but they also support those in industries that are phasing out, such as fuel-intensive industries as well as promote the formalization of MSMEs and jobs. According to the Just Transition Guidelines, governments should invest public funding in greening the economy and “direct fiscal revenue towards social protection and active labour market policies”.

A stable and transparent policy framework will encourage innovation and enable governments and social partners to “provide targeted business information and advice on green business practices, eco-innovation, and regulatory systems and on how to achieve compliance, with particular attention to MSMEs and in easily accessible formats such as user-friendly toolkits” to support the decarbonization and resilience of the private sector.

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21 Sylvia Aguilar, “Promoting the Participation of Small and Medium Size Enterprises (SMEs) in Green Public Procurement”, Working Group 3C of the 10YFP Sustainable Public Procurement Programme, 2016.
The box below summarizes one example of how the ILO Enabling Environment for Sustainable Enterprises process (EESE) and tool helped create an enabling environment and policy framework for green and sustainable business growth in Mozambique.

Creating an enabling environment for sustainable business growth in Mozambique

In Mozambique, the EESE process aided tripartite constituents to develop specific action plans for greening enterprises across three key conditions: access to finance, peace and political stability and good governance. As a response to natural disasters in 2019, the ILO supported its constituents in updating the action plans, in view of favouring the emergence of more climate-resilient small and medium-sized enterprises. The enterprises that successfully completed the training also received seed funding to implement improvements in their business models, which made them more resilient to future disasters as well as the disruptions caused by COVID-19.


Social partners

The role of social partners is well described in the Just Transition Guidelines. Employers’ organizations can support MSMEs by providing guidance on how to access public and private business advisory and capacity development services (such as managerial skills, digital upgrading, resilience measures and climate literacy), facilitate matchmaking, advise on responsible and sustainable workplace management practices, support cooperative structures and the wider social and solidarity economy (SSE), and share lessons learned and best practices. Employers’ organizations are also key actors in representing business needs in the social dialogue processes, ensuring the relevance and coherence of policy initiatives and frameworks.

For example, the European-based employers’ organization SMEunited developed a position paper on the EU Just Transition Fund emphasizing the need to create a business environment in which SMEs can flourish. They argued that authorities at all levels must guarantee the necessary infrastructure is in place to allow further development of e-commerce, digital services and digitalizing processes. Moreover, SMEs should get equal access to data to be able to continue providing services and to develop new ones. The position paper serves as one example of how employers’ organizations can represent the interest of SMEs when policymakers develop just transition instruments, such as the Just Transition Fund.

Similarly, workers’ organizations must play an active role in the formulation and development of sustainable development policies. Social dialogue is not only limited to national dialogue and may also take place through continuous consultation and cooperation between workers and management at the company level, serving as an important tool to promote decent work. According to a global poll of workers, 69 per cent are worried about climate change. This suggests that workers may support MSMEs by encouraging social dialogue and advocating for the inclusion of decarbonization practices or environmental provisions in collective agreements.

For example, the Work in a Warming World research programme compiled a collection of “greening” clauses from Canadian collective agreements that are publicly available. The dissemination of this information is intended to aid unions that want to fight climate change by bringing environmental issues into their collective bargaining priorities.

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22 The Social and Solidarity Economy (SSE) can be defined as “a concept that refers to enterprises and organizations, in particular cooperatives, mutual benefit societies, associations, foundations and social enterprises, which specifically produce goods, services and knowledge while pursuing economic and social aims and fostering solidarity”. From: ILO, “Social and Solidarity Economy: Our Common Road towards Decent Work”, in support of the second edition of the Social and Solidarity Economy Academy, 24–28 October 2011, Montreal, Canada.


24 The ITUC Global Poll 2020 poll was conducted in February and March 2020 and was commissioned by the International Trade Union Federation (ITUC) from global market research company YouGov. It covers 16 countries (Argentina, Belgium, Brazil, Bulgaria, Canada, Chile, China, France, Germany, India, Japan, Republic of Korea, Russian Federation, South Africa, United Kingdom and United States) representing 56 per cent of the global population.


26 Green Collective Agreements Database, Greening the Workplace through Collective Bargaining: Green Clauses in Collective Agreements, n.d.
While research suggests the importance of setting up specific environmental protection bodies within companies, climate change and environmental clauses are unfortunately still rare in collective agreements.\(^\text{27}\)

Another important tool to address climate change and other environmental challenges is the use of joint union/worker-management occupational safety and health (OSH) committees at the workplace. In some countries, these committees have also addressed environmental challenges in addition to addressing OSH challenges. Occupational Safety and Health Recommendation, 1981 (No. 164), which includes guidelines to joint safety and health committees, could be useful in this regard.

The box below summarizes an example of unions and companies working to promote climate action and decent job creation through social dialogue.

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**Company level social dialogue for a just transition**

In North America, a private energy company signed an agreement with the North American trade union to move construction workers into the offshore energy industry.

According to the labour union, workers have been wary of a rapid transition to renewable energy over concerns it will lead to a net loss of middle-class, career-sustaining jobs. However, the employer and workers have jointly agreed on a plan to transition the workers into the new jobs ensuring decent pay and social protection. The company and union collaborated to help train workers and expand career pathways in offshore renewable energy.

While the energy company is a large multinational company rather than an MSME, the company-level social dialogue may serve as an inspiration to other companies, including MSMEs.

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**Downstream companies**

Downstream companies can support MSME suppliers to improve, for example, management practices and quality of products and/or services, through the provision of training and knowledge exchange to ensure suppliers have the necessary skill sets and knowledge, meet requirements related to product and service quality, consistency, capacity and delivery, as well as the contractual obligations reflected in supplier codes of conduct, through the provision of training and information. MSMEs can also benefit from investments and other support from downstream companies participating in value chains, as well as longer-term contracts and upfront capital that allow MSMEs with limited resources to make necessary investments in inputs or equipment.

Many service providers, including entrepreneurs, enterprises, and cooperatives can also help to streamline services for MSMEs in areas such as certification schemes and other financial and non-financial services.

Larger companies can also support MSMEs and their workers along their supply chains by, together with their employers’ organizations, calling on governments to develop policies that support MSME development and to implement and enforce national labour laws.

**Training and education providers**

Training and educational institutions help develop the capacity of MSMEs and their workers. This includes developing technical skills to improve business practices and move into green industries, providing advisory services on financial and informational resources and networks, and facilitating a technology transfer for MSMEs.

Incubators and business accelerators are specially designed to support early-stage and start-up enterprises to grow and improve their business practices and have become particularly relevant in, for example, Africa. The box below summarizes two ILO initiatives promoting skills development and green entrepreneurship through business competition challenges.
Green business growth, employment and formalization in Tanzania

In Tanzania, the ILO supported green business development of smaller start-ups and entrepreneurs via green business challenges. The four winning companies were social enterprises, which developed green business services or products with high growth potential. A year after the training was completed, the companies experienced business growth, formalized or were in the process of formalization, and most saw an increase in full-time employees of between 1.5 and 4 times. The employment growth was even larger when accounting for part-time employees.

Entrepreneurship and business development in South Africa

In South Africa, Partnerships for Action on Green Economy (PAGE) worked with the government and a national business member organisation to run a challenge call for sustainable business ideas. The challenge aimed to incubate and nurture innovation and technology, and equip youth with the necessary skill sets, so that their businesses would have a positive impact on the environment.

The finalists were chosen under four themes: climate change adaptation, climate change mitigation, biodiversity and ecosystems and waste management solutions. The business winners addressed a range of sustainability issues including energy poverty, youth unemployment, quality jobs, and livelihoods etc.

Financial service providers

Financial service providers (FSPs) can supply MSMEs with capital, which can be used to invest in improving the sustainability performance of their operations or to launch new green activities. To ensure and maximize the contribution from the MSMEs to a Just Transition, it is necessary to resolve the issues relating both to the supply of capital and the demand from individual MSME sector actors.

From the supply side, the FSPs can support businesses in a just transition by developing a portfolio of financial products and services that are explicitly designed to help them achieve net-zero and resource-efficiency in a socially inclusive manner and provide the necessary flexibility to address the front-loaded nature of the transition investments.

The product offering can be linked with broader policy action, for example, providing dedicated solutions for businesses belonging to the most affected or underserved groups such as women-owned and youth-owned MSMEs, or enterprises active in targeted development areas such as innovative green technologies. It can also be connected with territorial socio-economic transition and development plans as well as alternative sources of public and private funding.

The capital that FSPs provide can be coupled with additional financial incentives to transition. They can take the form of preferential financial conditions which reward activities with a positive transitional impact such as offering solutions that enable a green and just transition or decarbonizing of the MSMEs’ operations as opposed to high-emitting activities that are exposed to the transition risks.

On the demand side, FSPs and national development banks can contribute to bridging the MSMEs’ knowledge gap by offering sustainability consulting services to MSMEs to raise awareness of their net-zero, resource-efficiency and other obligations and funding mechanisms as well as building in-house capabilities to act as lenders and evaluators of small-scale green investments. They can collaborate with employers and business membership organizations (EBMOS), workers, and training- and educational providers to develop the capacity of MSMEs in project design and processes to apply for green financing.

The support of the companies’ decarbonization journey can be articulated in the FSPs’ sustainability strategy and accompanied by setting relevant environmental, social and governance (ESG) targets with a particular focus on decent work and social dialogue objectives and embedding them in client relations.
6. Case examples of a just transition in practice

Different actors have distinct capacities and incentives to support MSMEs to transition. However, effective mechanisms require collaborative effort between different MSME stakeholders in order to address persistent constraints and to provide adequate support for MSMEs to succeed. The following sections highlight how policies, private sector initiatives and public-private partnerships can effectively strengthen the just transition engagement with MSMEs.

Public policies

If transitions and policies are not properly planned, developed and implemented, there is a real risk of significant disruption in markets and industries, with considerable negative effects. The scale and economic and political nature of the required changes need to be further assessed and the loss of existing jobs, assets, and investments have to be taken into account.

Public policies can assist MSMEs in a just transition by improving the business environment, facilitating an upskilling and reskilling of the workforce and removing regulatory barriers such as tax exemptions. Similarly, public policies can incentivize greening of MSMSEs through subsidies or public procurement preferences and promote decent job growth by establishing social protection mechanisms to ensure MSMEs are protected from risks encountered in the transition.

Public policies must be evidence-based and consider environmental as well as employment and economic impacts of policies when promoting a just transition. Public policies should aim towards creating an enabling environment for MSMEs to grow in a sustainable and inclusive manner. In fact, smaller businesses are often hit harder by an unconducive enabling environment. Improving it and policy frameworks helps MSMEs to access new services to perform better, reduce their cost of doing business, unlock investment opportunities and create more decent and productive employment.

The Just Transition Guidelines highlight how public procurement policies can help MSMEs to gain access to government contracts. However, MSMEs still struggle to access information regarding such contractual opportunities, to handle the typically large contract size and to meet financial requirements.

Research by the Donor Committee for Enterprise Development (DCED) found that good practices for supporting SMEs through public procurement include establishing a coordinated legal framework, minimizing discriminatory processes that inherently favour larger companies, implementing e-procurement platforms and understanding the specific sectors in which SMEs tend to operate and how preferential treatment would actually be beneficial.

Regulations need to be clear, practical and not overly restrictive since no one-size-fits-all policy will work for all companies. MSMEs need different types of support and tools to transition than large enterprises, and this support should also cater to the specific sectors that they operate in. Moreover, regulations need to inspire confidence and a willingness to implement them. The ILO Just Transition Guidelines correspond to these requirements, include employers’ and workers’ perspectives and priorities and can be adapted to different contexts.

Finally, the Just Transition Guidelines underline the need to align policies across several areas, including macroeconomic and enterprise policies, with environmental objectives in a holistic manner. In fact, the coordination across ministries is particularly important in order to ensure a holistic approach to climate change while fostering an enabling environment for businesses to grow sustainably.

The following are examples of public policy initiatives that support decarbonization and decent job creation in MSMEs.

Improving the environmental performance of SMEs in the Philippines

The Philippine Environment Partnership Program (PEPP) was established in 2003 by the Environmental Management Bureau of the Department of Environment and Natural Resources (DENR-EMB) to improve environmental performance through self-regulation and includes incentives and technical
assistance for SMEs to achieve pollution prevention and cleaner production standards.

SMEs and industry associations that are not yet compliant with environmental regulations but are committed to improving their environmental performance may apply to receive support to implement environmental management plans within an environmental management system, attain waste reduction targets, adopt cleaner production, and develop environmental performance reports. This helps bridge the gap for SMEs to become compliant with regulations that may otherwise hinder their market performance.29

A social protection instrument for a smallholder farm transition in Ethiopia

The Managing Environmental Resources to Enable Transition (MERET) project in Ethiopia, implemented through the Natural Resource Department’s extension system, developed a mechanism to support communities to participate in labour-intensive conservation activities and better manage their natural resources. Food assistance was provided to compensate for a reduction in food production due to resting a certain percentage of farmland. This support helped transition these food insecure communities and smallholder farms to more regenerative techniques in the short run in order to improve soil health that would increase soil productivity and water holding capacity and provide more income-generating opportunities in the long run.30

Private sector initiatives

While the public sector can create incentives for shifts in the market for a new inclusive green economy to emerge and thrive, the green economy will need to be market-driven in the long term. Therefore, private sector initiatives that set the building blocks for a future economy built on MSME participation can accelerate a just transition. Employers’ and business member organizations in particular play an important role in developing and facilitating these initiatives. This section will present examples from private companies, financial service providers, an NGO, and an EBMO promoting just transition initiatives in companies.

Company partnerships and smallholder farm suppliers

As a part of its sustainable sourcing strategy, a large multinational company specialized in consumer goods developed a code to further its ambitions to source agricultural products only from farms that use sustainable farm practices and promote biodiversity, animal welfare and improved livelihoods. To help its smallholder farmers adapt to the change in sourcing requirements, the buyer company works with farmers through local service providers and NGOs to increase their compliance capacities. Concretely, it set goals to enable access to services for 746,000 farmers and improve agricultural practices and increase the income of 1.73 million small-scale retailers. Key components of the plan also include promoting more women into management positions—now at 49 per cent—and reducing workplace accidents.

Decarbonizing credit for SMEs in Panamá

A private bank in Panamá has been providing specialized financial products and services for SMEs, which make up 63 per cent of its clients.31 Backed by the Interamerican Development Bank (IDB), the bank provided loans for enterprises to green their production lines. As a part of the programme, the National Center for Cleaner Production and Environmental Technologies provided free energy audits and training services. One of the largest farmers’ cooperatives in Panamá has over 50,000 members. Through an eight-year bank loan of US$1,100,000 with a 5 per cent interest rate, the cooperative invested in a solar farm to reduce operational costs for farmers. A reduction of 600 TN CO2e in emissions is expected in its first year, covering 100 per cent of its energy costs.32 In 2019, the private bank also announced a social bond with a gender focus, also backed by IDB, to specifically support women entrepreneurs.

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31 IDB Invest, "Banistmo II", n.d.
32 Proyecto-GREENPYME-Panamá, Case de Éxito: Cooperativa Juan XXIII Planta Procesadora Avícola, n.d.
Benchmarking company initiatives on a just transition

Launched in 2021, the World Benchmarking Alliance (WBA) developed a set of six indicators to measure companies’ just transition efforts. The indicators were developed with input from, among others, the ILO, the International Employers Organization and the International Trade Union Confederation.

WBA’s methodologies and benchmarks serve as roadmaps for companies, setting out the steps they can take to meet the needs and expectations of their stakeholders. In the first benchmark, 180 companies were assessed: 100 oil and gas companies, 50 electric utilities and 30 automotive manufacturers. While the initial benchmark was of primarily large companies, the six just transition indicators may serve as an inspiration for smaller companies on how to measure and track their just transition efforts.

An employers’ organization that promotes SME and green growth in Kenya

In Kenya, an employers’ organization for manufacturing companies established an internal service for member companies promoting circular economy and green growth in line with the Government’s commitment to green manufacturing and national climate change plans. In this way, the public and private sectors work towards common objectives in line with shared strategies.

The employers’ organization offers firm-level support to improve resource efficiency through energy, water and wastewater audits. It also offers capacity building to develop human capital on energy efficiency, process optimization, and compliance; facilitates green finance; and organizes expositions to increase awareness on the benefits of and opportunities in greening business.

Public–private partnerships

There is no doubt that climate action – including efforts for a just transition – requires significant investment in the coming years to reap longer-term economic and social gains. Exploring how a just transition is financed – and by whom – must now be a key area of focus for countries, businesses, financial institutions and the international community, including identifying innovative solutions such as public–private partnerships (PPPs). PPPs can support the ways in which MSMEs contribute to and benefit from a just transition by combining available
resources and capacities to meet shared objectives. Public funds, for example, can be leveraged to incentivize investments through grants or beneficial loans. They can also be used to build market linkages, enabling new and existing services to support green or greening MSMEs through capacity development, finance, information access, etc. The following section will highlight two such examples.

Public-private partnership on CSR and sustainable development services in Senegal

In Senegal, MSMEs face a variety of challenges that include limited technical and professional capacities, access to finance and organizational capacity. The business association, RSE Senegal, was founded in 2008 with the mission to promote corporate social responsibility (CSR), including sustainable development principles, along the value chains of companies in Senegal and West Africa.

In 2021, RSE Senegal partnered with the National Business Council and the Vocational Training Financing Fund (3FPT) to support the access of small and large businesses to training services to help them align their CSR policies with international management standards. In association with an employers’ organization, public funds financed private training services that addressed the specific needs, capacities and objectives of its members.

EU Just Transition Fund for SME transitions

The Just Transition Fund (JTF) is a part of the European Green Deal to create a climate-neutral economy in Europe by 2050. The JTF aims to reduce the social and economic costs resulting from the transition to the EU’s 2030 climate target and the EU climate neutral economy by 2050, to make sure that no region is left behind. It supports a diversification of economic activity, creating new business opportunities and helping people adapt in a changing labour market. The JTF support measures include investment in SMEs and start-ups, research and innovation, transfer of advanced technologies, affordable green energy, as well as the decarbonization of local transport. This is to assist in the long-term process of phasing out production and use of coal, lignite, peat and oil shale and transforming carbon-intensive industries.

7. How the ILO can further support MSMEs and a just transition

The ILO occupies a unique position in its ability to bring together governments, employers’ and workers’ organizations through social dialogue, coupled with its vast experience of supporting MSMEs across the globe and its leadership role in promoting a just transition. As such, the ILO can help facilitate solutions to better support MSMEs and MSME stakeholders in a just transition by promoting the utilization of its assessments tools and methodologies. These include the Value Chain Development for Decent Work; Enabling Environment for Sustainable Enterprises Assessments; Green Jobs Assessments; Skills for Green Jobs; and Productivity Ecosystem Assessments. They can help MSMEs identify solutions for addressing underlying constraints to a just transition – and ensure that representatives of MSMEs play a meaningful role in co-creating those solutions.

Moreover, the ILO is well placed to support the strengthening of constituents’ technical capacity and to work with them to implement evidence-based and analysis-driven systemic solutions. Programmes like Start and Improve Your Business (SIYB), tailor-made business development support and challenge funds have also become well-calibrated and adaptable tools for facilitating knowledge and capacity development.

MSMEs face a variety of challenges that are multi-faceted and context specific. There is no particular template for addressing them, but by looking at these challenges systemically and engaging governments and social partners in developing the solutions, the prospects are high for MSMEs to empower themselves to take part and even become leaders in a just transition.

34 Interview with RSE Senegal (2021).
35 For more information go to European Just Transition Fund - EU Funds, Just Transition Fund (JTF) - Just Transition Mechanism | EU Funding Overview and Just Transition Fund (europa.eu)
Green MSME promotion in Zambia's construction sector

The Zambia Green Jobs Programme was a multi-UN agency project (2013–2018) that aimed to create green jobs and improve working conditions in Zambia’s building construction sector. The project took a market systems approach to address the underlying causes to different market constraints preventing decent job creation and sector growth.

The project worked with business development service (BDS) providers and financial service providers (FSPs) to better cater their service offers to MSMEs. These include providing entrepreneurship and small business management training, business linkage support, technical and vocational skills for green jobs, financial literacy and access to finance and occupational safety and health training.

At the same time, the project worked to improve social security coverage by partnering with the National Pension Scheme Authority and the Workers Compensation Fund Control Board to improve access to pension and work injury schemes among MSMEs and workers in the sector.

Finally, the project worked with the National Council for Construction to facilitate dialogue among government, BDS providers, FSPs, sector associations of small scale and women contractors, and workers’ organizations, to develop regulatory reform for green building practices among private and public housing developers.

As a result, the project created 5,000 decent and new green jobs and improved the quality of over 2,000 jobs through the extension of social protection and improved OHS services for the MSME workers. Similarly, annual income rose by at least 10 per cent compared to the baseline across more than 2,500 MSMEs. Lastly, retrofitted houses used 10 per cent less energy and water compared to non-retrofitted houses.


8. Conclusions

This brief outlines several reasons for why MSMEs are less likely to be able to make the necessary business investments in decarbonization and decent jobs creation to participate in a just transition. Governments, workers’ and employers’ organizations can find guidance in the ILO Just Transition Guidelines on how to support a just transition for all, including for MSMEs.

Strategies for supporting MSMEs and a just transition

Access to markets: Regulations must be clear, not overly restrictive, and consider the additional pressures that they put on MSMEs that may otherwise inhibit compliance and investment. Preferential treatment in public procurement tenders for green projects need to consider the relative capacities and resources of MSMEs if smaller bidders will be able to compete for public contracts. Public contracts can support MSMEs to meet requirements through facilitated technical or financial support for small contractors that otherwise demonstrate strong potential.

MSMEs can benefit from supplying to large or global value chains through improved market access and technology transfer. Downstream companies can support their suppliers’ ability to integrate through technical training and necessary capital investments in adapting to new standards of practice or requirements.

Access to finance: National financial institutions, including national development banks with MSME client bases, can be supported to reorient their loan portfolios towards environmental and social objectives through risk guarantee programmes. This unlocks financial services and products for MSMEs, including those that are underserved, that allow them to transform their business operations to be both more productive, resilient and environmentally sustainable.
Skills gaps: Capacity development initiatives should focus on both green skills for workers and on the climate resilience and transitioning capacity of management. This includes sector-specific skills required to participate in emerging sectors like renewable energy, but also the overall capacity to manage and work with new technology and to embrace digitalization, which are critical for MSMEs to improve resource efficiency, productivity, and access to market information. Public, private, and public-private initiatives can facilitate capacity development for MSMEs and their workers to help bridge this gap.

Business development: Beyond direct business development training services, incubators and accelerator programs are powerful tools to help early-stage businesses and start-ups access the necessary resources (finance, training, networks) to compete in green markets. Such services not only help enterprises to start and grow but guide them in the formalization process as well, further enabling them to access additional services and leverage market opportunities.

Social and solidarity economy (SSE): The promotion of cooperatives and the wider SSE can help foster the provision of many of the above-mentioned services – including financial, capacity development and business development services – by identifying and responding to the evolving needs of MSMEs in adapting to a changing economy and in transitioning to green markets. Given its relevance in the African region, the ILO Abidjan Declaration of the 14th African Regional Meeting (2019) considered the promotion of SSE alongside a just transition a priority in achieving inclusive sustainable economic development and growth within the overall African Decent Work Agenda.

Key actors and roles in supporting MSMEs in the just transition

Governments should ensure a transparent, concise, and responsive enabling business environment and may deploy a mix of environmental, social, financial, and economic policies for a just transition based on social dialogue and in line with the Just Transition Guidelines.

Employers’ organizations can support their members through facilitating access to relevant information, financial and non-financial support services, including technical and management training, catered financial products and services, market information, and public programmes, as well as by representing MSME interests in social dialogue processes.

Workers and employers should promote institutionalized workplace cooperation by fostering a culture of dialogue, knowledge sharing and mutual advice aimed at improving resource and energy efficiency, reducing waste, and applying safe and clean technologies and working methods that promote productive employment and decent work.

Social partners should promote the inclusion of specific environmental provisions through collective bargaining and collective agreements at all levels, where appropriate, as a concrete way of facilitating cooperation between employers’ and workers’ organizations and encouraging enterprises to comply with environmental regulations, including but not limited to emission reductions, to meet enterprise objectives regarding sustainability and develop the training of workers and managers.

MSME actors, including policymakers, employers’ and workers’ organizations, as well as other public and private stakeholders, should develop programme, tools and information targeting MSMEs, to help companies comply with environmental regulations, increase productivity and resilience and to decarbonize business operations.

Collaboration between government agencies and environmental and MSME agencies, as well as local government, will enhance the effectiveness of policies and programmes to cater to the specific needs of MSMEs.

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