# A SHORT GUIDE TO DEVELOPING GREEN BUSINESS MODELS

## FOR ENTREPRENEURS, RESEARCHERS AND ORGANISATIONS THAT SUPPORT ENTREPRENEURS

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# INTRODUCTION

This paper is intended for those who work with, research, and support green entrepreneurs, as well as for entrepreneurs who are starting a green business. It provides guidance in the process of elaborating a business plan and presenting it to potential partners and investors, based on the understanding of investors' expectations.

The conclusions and recommendations gathered in the present guide rely on the study of Green Business Models (GBMs) as part of the GREEN-WIN project, an international transdisciplinary research collaboration that applied a solution-oriented approach, targeted at increasing the understanding of the conditions under which win-win strategies and green business models work in practice. To gather relevant insights on how entrepreneurs solve climate and sustainability problems while securing a profitable business strategy, the following activities took place in the project:

- ↘ **Literature review on GBMs and the Green Finance Landscape;**
- ↘ **GBM assessment workshop with asset managers, impact investors, entrepreneurs, green finance clusters, and other green business experts;**
- ↘ **Assessment of green projects and businesses that are part of the GREEN-WIN research project via a survey and desk analysis.**

*The study provided a better understanding of what works in the field of initiating and developing green businesses*

The study provided a better understanding of what works in the field of initiating and developing green businesses, how it works and why. Based on the conclusions of the first round of research, the first part of the guide provides an easy-to-use tool to think through, plan and analyse business plans, as well as understand the most important questions an investor may pose to an entrepreneur.

The second part of the guide presents some of the financing sources that can be suitable for green enterprises. Funding is an essential topic for any green business. While the funding sources are summarized based on the findings of the literature review, and aim to provide an overview of available options, the list is non-exhaustive. Investment-readiness – what it means and why it is important – is also addressed.

One of the main factors identified in the course of the research as being critical for the viability of a green business is the level of preparation of the entrepreneur and of his team. We hope that this guide will serve to inform entrepreneurs and those who support them define and develop their businesses and present them in a comprehensive manner.

# 2 DEFINING CONCEPTS

The main notions and relevant concepts as defined in the guide are highlighted below for research purposes:

- ↘ A business is an organization or enterprise engaged in commercial, industrial or professional activities. A company transacts business activities through the production of a good, offering of a service or retailing of already manufactured products. A business can be a for-profit entity or a not-for-profit organization that operates to fulfil a charitable mission.

- ↘ Green Business is an enterprise that has a significantly lower impact on the environment ("1% is not enough") than a similar traditional business, supports the development of products and services with environmental benefits in addition to being economically viable, and does not involve significant environmental trade-offs.

- ↘ The business is considered economically viable if it generates or will be able to generate revenues in the future and demonstrates potential for the income to exceed the costs on a long term.

- ↘ A Green Business Model describes how an enterprise, alongside or through its primary business activity, creates, delivers and captures environmental, economic and social value or benefit. It is considered value any characteristic that makes the product or service preferred by customers over the alternatives.

- ↘ A win-win-strategy is an approach used by a socioeconomic or political actor that describes an undertaking in which, along with creating economic benefits from the primary undertaking, environmental benefits for the actor himself and/or for society in general are created.

# 3 GBM SNAPSHOT TOOL

The GREEN-WIN literature review aimed to identify the most effective methods available for describing a GBM and the essential aspects that must be considered in order to understand the way a business creates value and generates revenue.

To assess the GBMs, a tool is needed to describe how an enterprise creates, delivers and captures economic, environmental, and social value/benefit. For purposes of this study, a simple canvas was designed that captures the essentials of a green business model by combining two well-known tools:

- ↘ Business Model Canvas (BMC) by Alexander Osterwalder: widely used for mapping out the business model concept;

**↘ Flourishing Business Canvas for Strongly Sustainable Business Models (SSBM) by Antony Upward: a tool extending the BMC to highlight the green factor within the business model. Its goal is to describe a "strongly sustainable" business model: one that is sufficiently profitable, while simultaneously creating social and environmental benefits.**

The following structure (Figure 1) was generated as a combination of both tools. Boxes number 7 and 11, Green Impact and Enabling Environment, respectively, were added specifically to facilitate the understanding of green business models. The following canvas resulted:

| 1. VALUE | 2. CUSTOMERS | 3. ACTIVITIES | 4. RESOURCES |
|---|---|---|---|
| The bundle of products and services that create value for a specific Customer Segment | The type of relationship a company establishes with specific Customer Segments | Most important actions a company must take to operate successfully | Most important resources the company must acquire to complete its actions |
| **5. PARTNERS** | **6. CHANNELS** | **7. GREEN IMPACT** | **8. RISKS & OPPORTUNITIES** |
| The network of suppliers and partners that optimize the business model, reduce risk, or acquire resources | How a company communicates with and reaches its Customers Segments to deliver a Value Proposition (communication, distribution and sales channels) | Characteristics and metrics that show the business has a lower impact on the environment compared to a traditional business. | How the business will overcome the challenges it's facing and take advantage of the opportunities |
| **9. COSTS** | | **10. REVENUE** | |
| All costs incurred to operate a business | | The cash a company generates from each Customer Segment (costs must be subtracted from revenues to create earnings) | |
| **11. ENABLING ENVIRONMENT** | | | |
| Social-institutional environment in terms of policy and regulatory context, including both formal and informal institutions, as well as other available finance and incentive mechanisms that foster the discovery, uptake, and transfer of sustainability and climate strategies. | | | |

**Figure 1: Business Model Canvas for Green Businesses**
**Source: The Ground_Up Centre, based on A. Osterwalder, A. Upward**

The basic structure of the canvas defines the main lines of GBM assessment. For the purposes of this study, detailed information on green business models was acquired from participating businesses in the GREEN-WIN research, through a survey form that addressed the canvas domains through relevant questions. The next chapter follows the business model canvas structure presented above and covers the most common aspects that entrepreneurs need to master and be able to describe in a comprehensive manner when presenting their business to potential partners and investors. For each building block of the canvas explanations are provided and a number of guiding questions that were developed as part of the research methodology in the GBM research.

Additional guidance and support questions on how to use the building blocks of the traditional business model canvas developed by Alexander Osterwalder are available online at www.strategyzer.com.

For a better understanding of the social and environmental aspects of a business model, resources explaining the Flourishing Business Canvas for Strongly Sustainable Business Models (SSBM) by Antony Upward can be accessed at www.flourishingbusiness.com.

# 4 DEVELOPING GBMS: GUIDING STEPS

During the GREEN-WIN research we developed a set of specific questions in order to guide entrepreneurs in the reflection process and facilitate the development of GBMs according to the canvas structure. Below we present these guiding questions and provide practical information about the importance of responses and their assessment.

## 4.1 Value

A Green Business Model describes how the enterprise creates, delivers and captures environmental, economic and social value or benefit. It is considered a value when any characteristic makes the product or service preferred by customers over the (traditional) alternatives.

The following questions will help entrepreneurs identify and describe what specific value distinguishes their business from competitors, and what motivates customers to purchase the product/service. It will result in practical information on which the company can rely in the future, e.g. when building a marketing strategy.

Knowing the value that the business provides is an essential first step in developing the business model and it is necessary to be able to complete the next dimensions of the canvas. Moreover, it represents the basic information that investors or partners will want to know not only in order to assess the viability of the business model, i.e. whether there will be demand for the product/service in the future, but also to estimate the entrepreneur's capacity and preparation to sustain the activity.

**↘ What need do you aim to address through your business? Whose need is it?**

A business model is defined by the value delivered to a specific segment of customers. Here, the entrepreneur should explain the need they identified and whether and why target customers would be motivated to acquire what the business offers.

↘ How do you aim to address this need? What is your product/service?

↘ Describe how your products/services provide, or will provide, a solution to your customers' need.

↘ How is this problem/need being solved/addressed today? What product/service do your customers currently use to address the problem/need?

Providing a clear description of the product and/or service that is offered by the business is needed in order to distinguish it from similar products and understand what value it brings to customers. The answer should explain how the product/service will respond to the customer's need, which is the first step in showing that customers may be inclined to buy it. Customers often have other available solutions, either provided by other businesses, or free alternatives. The answer to this question should cover these current alternatives. It must propose a comparison to the solution offered by the business and an assessment of why customers would choose to acquire your product/service instead of one of the alternatives.

Products and services may be offered in specific packages which act as incentives for customers to purchase or commit to a long-term contract; these aspects should also be mentioned here.

↘ What is the market potential for your product / service? Describe your market research or any other resource that helped you learn about the needs of your customers, the potential for your product/service and about the market in general.

Market research elements include size of the current market, competitors, trends, any particular regulation / taxation, price points and other relevant aspects that determine how the product/ service will be positioned on the market. In addition, it is important to be able to quantify the Total Addressable Market (TAM) – the revenue opportunity available for the product/service. This will reflect whether the business has niche or mass market potential.

↘ Why do customers value your product/service?

The response can refer for example to innovation, value for money, financing options, uniqueness, customer support, environmental impact, social impact and other reasons which show why customers appreciate the product and what distinctive aspect makes the product/ service preferred and acquired instead of other options.

↘ What is/will be the impact of your business at the outcome level? Describe the impact of your business beyond delivering the product/service (e.g. number of households provided with electricity, number of children with access to education etc.)

The extended impact of the business means to identify the additional value the business

brings beyond addressing the direct need of the customer. Some customers will appreciate the product/service and choose it above other similar options because of the impact it has at the outcome level. Other times, investors or funders will be looking to maximize outcome-level impact in order to solve a social or environmental challenge.

↘ What is the social impact of your business? Describe any social impact your business has (e.g. equal opportunity, CSR activities, diversity etc.)

In addition to economic benefits and solving environmental challenges, this type of impact can distinguish the business model from others, provide added value to your business, and make it more attractive to impact investors.

## 4.2 Customers

↘ Who are your main customers? How will you reach them?

↘ What is the spending capacity of your customers?

Defining your target customers and understanding their characteristics helps assessing whether the product/service fits their values, lifestyle, income and spending capacity.

For individuals, consider looking at elements such as age, education, consumption habits, values etc. In case the customer is a group, include a description (e.g. whether they are households, small businesses, schools, etc.) and key characteristics, including their average spending capacity.

This information describes who you will target for your sales, explains the connection between the target group and the solution you offer, providing arguments that demonstrate the potential for revenue generation. It is recommended to also describe the research data and information sources used to segment your customers.

## 4.3 Operations

↘ What are your main operations?

↘ Does your business rely on/incorporate any type of innovation? If yes, describe the innovation element(s) from your business

Operations include all activities such as designing the product/service, production or sourcing, management, sales, distribution, customer service etc. At this point, you should also think of how the different functions and people in the business are connected and how they contribute to creating the final product/service and delivering it to the customer.

Knowing the way in which the product/service is made or sourced also shows potential technology, green impact and output trade-offs. Consider and describe any type of innovation in products/ services, resources, input, technology, distribution channel and other. Any Intellectual Property (e.g. patents etc.) is a plus in as much as it can be defended on the market. The value of IP as such quickly deteriorates if the business is not capable of positioning itself and growing quickly.

## 4.4 Resources

**↘ What are the key resources you need for your business? How will you acquire these resources? What are the main challenges in acquiring these resources?**

Include all types of resources needed (e.g. location, materials, equipment, services, know-how, human resources etc.). The list of resources needs to be commensurate with the business operations and costs, and to prove that the company will have the capacity to acquire and administrate the resources it needs. As a general rule, a young business needs a runway of at least 12-16 months to avoid finding itself short on cash. Have a plan as to how you will acquire the resources you need. Keeping an honest record of challenges to acquiring these resources will allow for a better estimation and potential pre-emption of risks to operations.

**↘ How many employees does your business have?**

**↘ What is the composition and track record of the company's management team?**

**↘ If you work in a different country than the one you are registered in, do you employ nationals of the country(ies) in which you operate?**

**↘ What is your gender balance in your team, board, advisory board etc.?**

*The team is your number one asset.*

The team is your number one asset. Any investor or funder will assess the team's track record and decide on whether they believe the team can implement the operational plan and the revenue generation they are forecasting. The team must cover the main competences needed to realize your operational plan and, if there are gaps, you must think of how to fill them. In addition, most impact investors consider gender balance a key positive element in a green business. An advisory board or a board of directors can enhance the credibility of the business and sometimes fill some of the competence gaps that a young team might experience.

**↘ How is or will your business be financed? Did you already raise funding? Does your business model currently require financing? If yes, please specify the amount of financing needed and what type of costs the funds will cover**

Here you should think about how much money your business needs to cover its operations for 12-16 months. Do you need to raise money to cover your costs, or can you already generate revenue and grow organically? Have you already raised some money and if so from which sources? What is the current composition of your shareholders, if you have shared equity? What current debt financing do you already have on your books? What will you fund with the money you raise and how will this help your business get to the next growth milestones? Do you foresee there will be a need to raise more follow-on capital?

For a list of potential funders, look at Chapter 5 below.

One important element to consider is your investment-readiness and preparation for it. Every step of the way, when you raise funds, you should budget for investment-readiness expenses including preparing your financial statements, your modelling, your investment teaser and others. You should also budget for legal and admin expenses which are all too often forgotten but are quite important in the case of a fundraise. For more on investment-readiness, also see Chapter 5 below.

## 4.5 Partners

**↘ List the most important partners for your business and describe their role. Describe the extended circle of stakeholders of your business.**

Well-chosen partners can play an important role in expanding available resources, acquiring knowledge, generating revenue and so on. They may also be important for credibility and positioning. Think about your main partners and how they contribute to your business operations. Partnerships can take many forms and they are reflective of the support system the business has.

Stakeholders are equally important. Stakeholders are people or groups with an interest in your business. They could be the local or national government, your customers, your investors, your employees, peers in the market or other special groups. They can influence the business in positive or negative ways. A clear stakeholder map demonstrates good management of risks and opportunities.

## 4.6 Channels

↘ How are you communicating the value of your product/service?

↘ What are your 3 main distribution channels (how do your customers acquire the product)?

Options to communicate the value of your product/service include direct sales, local stores/ retail units, traditional advertising or digital marketing, exhibitions, fairs, demonstrations or other means of communication that are most efficient and suitable for reaching your specific customer segments. Communicating the value of the product/service and getting the message across is a key element for revenue generation.

Your distribution channels will directly impact your costs and the potential of implementation of your planned operations. Therefore, thinking them through and establishing which ones have the highest potential will allow entrepreneurs to prioritize their spending efforts as a function of potential for revenue generation.

## 4.7 Green impact

↘ What type of environmental impact does your business have? How do/will you measure this impact? How is this impact reflected in your business? What are the potential environmental trade-offs of the business?

A green business model creates and delivers a significant amount of environmental value along with economic and social value. The way a business can create environmental value varies depending on the product/service, technology, distribution and other characteristics. It is important to be highlighted as it is the feature that defines the green identity of the business model. Environmental impact can also have a role in attracting customers and could appeal to funders who are focused on impact investment.

Types of positive environmental impact include: reduced GHG emissions, reduced energy consumption, waste collection, recycling and upcycling, reduced raw material consumption or replacement of scarce raw materials, decreased water consumption, water purification, the distribution chain, positive impacts on biodiversity and conservation, changing patterns of consumption and many others. The environmental impact of a green business has to be significantly lower than that of a traditional business. You should think of using credible and recognized measuring, monitoring and reporting tools or standards – wherever available.

You should also be aware of and note any potential environmental trade-offs. For example, you might help reduce GHG emissions but increase water consumption or reduce GHG emissions in the production phase and increase GHG emissions in the distribution phase. A 360o assessment of your environmental impacts and their inter-connection should help you spot potential trade-offs.

## 4.8 Costs

**↘ What are your business model's recurring costs? What is the total value of these costs each year?**

The easiest way to go about looking at your costs is to split them by type. People (staff) costs, operational costs, marketing costs, other admin costs. You may also incur technology-related costs or partnership costs, as the case may be. When designing your costs, take into account the resource allocation towards achieving various milestones that will generate revenue and help your business grow.

Costs are obviously a key part of mastering your cash-flow, so being able to project 3-5 years ahead may give your funders and yourself confidence over the resources you'll need for the business to develop. As a general rule, financial statements (income statement, cash-flow, balance sheet) for 3-5 years are crucial for fundraising. Audited accounts will be an absolute must for raising debt funding. Grant funding will come with its own requirements and each grant-maker will provide a list of required reporting and monitoring of costs. Be sure to understand them in advance.

## 4.9 Revenue

**↘ How is/will your product/service generate revenue? Does your business model already generate revenue? If yes, how much revenue does it generate each year? If not, when do you expect the business model to start generating revenue?**

Revenue is what defines a business model. Understanding how the product/service generates revenue is essential to assess the viability of the business, its potential for growth and for achieving the positive impact you desire on people and the environment. Revenue is a direct indicator showing whether the business is generating/will generate sufficient income from selling the product/service to operate and self-sustain, or whether subsequent rounds of funding will be necessary. Revenue generation also reflects the evolution of the business valuation over time, as well as the market capture and potential for success of the business. If you are already in business, the response to this question should specify how customers pay, when and how much for each type of product/service delivered, and the total amount of revenue resulting each year. If the business is yet to generate revenue, you can provide an estimate and say when you will achieve break-even and when you will achieve profitability.

## 4.10 Risks and opportunities

↘ What are the main risks to your business? How do you plan to address them?

Types of risk to consider include consumer and market related risks, competition, technological risks, regulatory and other factors that may influence the economic and environmental viability of the business. Each of these should be thought through at the level that is most relevant to your business, on a short- to medium-term basis. A special mention should be made of particular challenges related to setting up a business. You are expected to describe strategies to mitigate each risk you are considering.

↘ What are current and future strategic opportunities for growth? Have you got a "plan B"?

Opportunities are the other side of the coin to risks. When you start, envisage a few key strategic directions that you assume will lead your business to success and the impact you are hoping to realize. Think of them as assumptions you will need to verify as you go along. Think of why they are important, and how you will capture these opportunities. If some of them don't come to fruition, what is your next set of opportunities to build on?

Opportunities can include favourable consumer trends and market development, technological, regulatory and other opportunities, expansion to different geographical regions, key partnerships etc. Some of these opportunities might help mitigate risks you identified.

## 4.11 Enabling environment

Many factors surrounding the business can act as enablers or barriers and have a significant impact on its development. These factors may support or hinder the growth of the enterprise and include aspects related to market, regulation, taxes, social and cultural behaviour, prices, currency evolution, values and trends etc. Entrepreneurs must be aware of how the enabling environment influences the business, what risks it poses and what opportunities it may create.

Questions to think about are:

↘ What are the factors that encourage your business? How likely are they to change over time?

↘ Are there any factors that raise barriers to your business? How do they affect the development of your business?

**↘ In developing your business, are you motivated by any external factors controlled by government or local authorities (regulation, taxation, rising prices etc.)? If yes, please describe these factors and the degree to which your business is dependent on them.**

The impact of external incentives can be highly beneficial on business development, but in some cases, it can also impede the level of autonomy and viability of the business model. The question that arises in these circumstances is whether the business will remain viable in case the incentives or the grant conditions change or cease to exist.

# 4.12 Summary: Business Model Canvas questions

**1. VALUE**

What need do you aim to address through your business? Whose need is it?
How do you aim to address this need? What is your product/service?
Describe how your products/services provide or will provide a solution to your customers' need.
How is this problem/need being solved/addressed today?
What product/service do your customers currently use to address the problem/need?

**2. CUSTOMERS**

Who are your main customers?
How will you reach them?
What is the spending capacity of your customers?

**3. ACTIVITIES**

What are your main operations?
Does your business rely on/incorporate any type of innovation?
If yes, describe the innovation element(s) from your business

**4. RESOURCES**

What are the key resources you need for your business? How will you acquire these resources?
What are the main challenges in acquiring these resources?
How many employees does your business have?
What is the composition and track record of the company's management team?
If you work in a different country than the one you are registered in, do you employ nationals of the country(ies) in which you operate?
What is your gender balance in your team, board, advisory board etc.?
How is or will your business be financed? Did you already raise funding? Does your business model currently require financing?
If yes, please specify the amount of financing needed and what type of costs the funds will cover

**5. PARTNERS**

List the most important partners for your business and describe their role. Describe the extended circle of stakeholders of your business.

**6. CHANNELS**

How are you communicating the value of your product/ service?
What are your 3 main distribution channels (how do your customers acquire the product)?

**7. GREEN IMPACT**

What type of environmental impact does your business have?
How do/will you measure this impact? How is this impact reflected in your business? What are the potential environmental trade-offs of the business?

**8. RISKS & OPPORTUNITIES**

What are the main risks to your business?
How do you plan to address them?
What are current and future strategic opportunities for growth? Have you got a "plan B"?

**9. COSTS**

What are your business model's recurring costs? What is the total value of these costs each year?

**10. REVENUE**

How is/will be your product/service generating revenue? Does your business model already generate revenue? If yes, how much revenue does it generate each year? If not, when do you expect the business model to start generating revenue?

**11. ENABLING ENVIRONMENT**

What are the factors that encourage your business? How likely are they to change over time?
Are there any factors that raise barriers to your business? How do they affect the development of your business? In developing your business are you motivated by any external factors controlled by government or local authorities (regulation, taxation, rising prices etc.)? If yes, please describe these factors and the degree to which your business is dependent on them.

Figure 2: Business Model Canvas questions
Source: own arrangement

# 5 ACCESS TO FUNDING

A major concern for green entrepreneurs is where to look for green business funding opportunities. While it is recognized that funding for early stages of a green business development is hard to come by, in the following chapter we present a few possible sources of funding that a green business could turn to, based on the literature review made for the GREEN-WIN project.

## 5.1 Business development stages and funding

Financing actors and institutions interested in green businesses have specific criteria and objectives when investing. Invested capital must match the development stage of a green business as described by its size, capacity, funding needs or earnings. Thus, different financing actors intervene in the life of a business at different stages of maturity.

A useful staging of a business maturity was defined by Churchill & Lewis (1983):

### ↘ Stage 1: Existence

The main problem of the business at this stage is to acquire customers and to deliver the product or service they contracted. The goal of the company is to remain alive.

### ↘ Stage 2: Survival

At this stage, the business has already demonstrated that it is a workable business entity. It has enough customers and keeps them by satisfying their needs sufficiently through its products or services. The key problem becomes the relationship between revenues and costs. The business is in the phase of testing whether revenues are sufficient to cover costs in the short term and to expand on the long term.

### ↘ Stage 3: Success

Here, the company has attained true financial health and earns average or above-average profits. A key issue is whether to use the company as a platform for growth or as a means of support for the owners as they completely or partially disengage from the company.

### ↘ Stage 4: Take-off (growth)

In the Take-off stage the key problem is finding out how to rapidly grow and how to finance that growth. The owner and the company become more separated, however the company is still under the influence of both the owner's presence and stock control. If the owner can deal with the financial and management challenges of the growing company, the next step will be maturity stage.

### ↘ Stage 5: Maturity

The greatest concerns of a company that enters the Maturity stage are to consolidate and control the financial gains brought on by rapid growth, and to retain the advantages of the small size, including the flexibility of response and the entrepreneurial spirit.

*The greatest concerns of a company that enters the Maturity stage are to consolidate and control the financial gains*

The literature review showed that the main sources of funding for green businesses are entrepreneurs (self-financing), microfinance institutions, peer-to-peer lending, family offices, business angels, venture capital, private equity, banks (conventional banks, investment banks, public and private green banks), national and supranational initiatives (e.g. Multilateral Development Banks), grants, philanthropy, and crowd-funding. Each of them applies best at a certain stage of the company's development, according to their own strategy and constrains.

The following table (Figure 2) illustrates the diversity of types of financing actors available for each business development stage:

<table>
<tr><th>Existence</th><th>Survival</th><th>Success</th><th>Take-off</th><th>Maturity</th></tr>
<tr><td colspan="5">National and sub-national initiatives</td></tr>
<tr><td colspan="5">Banks</td></tr>
<tr><td></td><td></td><td colspan="3">Venture Capital</td></tr>
<tr><td></td><td></td><td></td><td colspan="2">Private Equity</td></tr>
<tr><td colspan="3">Business angels</td><td></td><td></td></tr>
<tr><td colspan="3">Family offices</td><td></td><td></td></tr>
<tr><td colspan="2">Crowd-funding</td><td></td><td></td><td></td></tr>
<tr><td colspan="2">Peer-to-peer lending</td><td></td><td></td><td></td></tr>
<tr><td colspan="5">Non-refundable grants</td></tr>
<tr><td colspan="2">Microfinance</td><td></td><td></td><td></td></tr>
<tr><td>Self-financing</td><td></td><td></td><td></td><td></td></tr>
</table>

**Figure 3: Sources of funding according to business development stage**
**Source: Own arrangement**

## 5.2 Funding sources explained

### ↘ Self-financing: the so-called "family, friends and fools"

It is capital (debt or equity) raised within the entrepreneur's personal and professional networks and traditionally it is the first means available to green entrepreneurs. At this stage, funders invest because they trust the person who is proposing a project. During this phase, the entrepreneur seeks visibility for his/her project and reaches to the broader range of own contacts: social media and Internet websites contribute to spreading the word (Green for All, 2010).

### ↘ Crowdfunding

Crowd-funding is a way for businesses to raise money on the Internet in the form of either donations or investments from multiple individuals. According to the World Bank and InfoDev (2013), crowdfunding is expected to overtake venture capital in the financial markets within 10 years. In fact, a positive regulatory framework is spreading worldwide. It is an alternative to traditional loans because banks invest less and less in small businesses and are highly risk-averse.

Green crowdfunding appeared around 2005 and is a niche for online fundraising that is becoming more popular. Below are some examples of crowdfunding platforms focussed on green initiatives:

- Greencrowd (Netherlands)
- Bettervest (Germany)
- Oneplanetcrowd (Netherlands)
- Republic.co (USA)

### ↘ Microfinance Institutions

They provide financing to borrowers who cannot get a loan from a traditional bank. Micro-lending is targeted toward businesses requiring less than $35,000 start-up capital and with five or fewer employees (Green for All, 2010). Interest rates can be higher than with traditional banks, but the loan is easier to obtain. There are MFIs specialized in environmental and social projects. Microfinance private investment totalled $10 billion in 2014 (ResponsAbility, 2015).

### ↘ Peer-to-peer lending

Peer-to-peer lending is a recently emerging way of financing green business. It connects entrepreneurs with individual lenders who perceive an interest on committed capital. These funding systems can come from social networks who attract people with a common interest and where green projects are promoted. Peer-to-peer loans are more flexible in assessing solvability than bank loans (Glenn Croston, 75 Green Businesses - you can start to make money and make a difference, 2008).

### ↘ Family offices

*Family offices are private wealth management advisory firms that serve ultra-high net worth families.*

Family offices are private wealth management advisory firms that serve ultra-high net worth families. In contrast to traditional wealth management firms, family offices provide a complete suite of financial and investment services for the family. These can include tax planning, budgeting, insurance, charitable giving and philanthropy, property management, family-owned business advisory and wealth transfer services. Moreover, family offices may handle non-financial issues including travel, private schooling and other household arrangements. Family offices are each structured differently from one another due to the particular needs of the families they serve. They will focus their investment strategies on specific types of environmental impact they would like to achieve. Often, they will also bring their skills and other non-financial support to businesses they invest in.

### ↘ Business angels

Business angels are private investors who invest in unquoted small and medium sized businesses. They are often businessmen and women who have sold their business. They provide not only finance, but also experience and business skills. Business angels invest in the early stage of business development filling, in part, the equity gap (UK Business Angels Association).

Angel investors are keenly interested in helping selected businesses succeed, and while they do expect to make profit, they also want to be involved in managing the business. That's why it's important to find an angel investor the entrepreneur gets along with in terms of management. Although they can open doors for the business and give practical advice on running the company, angel investors are probably not the best option if the entrepreneur does not want those things.

*Angel investors tend to operate in networks and follow a very structured procedure to first verify if the company and the funding needed fits with what they are looking for.*

Angel investors tend to operate in networks and follow a very structured procedure to first verify if the company and the funding needed fits with what they are looking for. There are also specialized groups or individual angels who look at certain industries or certain types of financing like straight debt, convertible debt or equity. For start-ups, the main option is to go for convertible debt, which ends up being equity if the company is successful or go directly for straight equity. Even when angel investors don't provide the required funding, they might offer advice to entrepreneurs, which is useful in itself.

Below are a few resources where entrepreneurs can look for financing opportunities offered by angel investors:

- www.angel.co
- www.captable.io
- www.crunchbase.com

### ↘ Venture Capital

Venture Capital (VC) intervenes after the seed phase. VC firms are particularly close to the project they invest in: they have a say about the management team and can make decisions regarding the

company. VC plays a role in the development of a start-up company (Hellmann and Puri, 2000). Green businesses are increasingly gaining the interest of VC firms, especially energy-related companies.

### ↘ Private Equity

The majority of private equity investments are in unquoted companies. Private equity investment is typically a transformational, value-added, active investment strategy. Private equity intervenes once the company has reached the growth stage (Toniic, 2013).

### ↘ Banks: conventional banks, investment banks, public & private green banks

Debt is a means of gathering funds that is more suitable for businesses that have already reached the growth stage. In general, the high risk of failure deters conventional banks from financing green ventures (European Private Equity and Venture Capital Association, 2007).

Recently, Green Investment Banks (GIBs) have emerged as a way to finance climate change related businesses. GIBs are "domestically-focused public institutions that use limited public capital to leverage or crowd-in private capital, including from institutional investors" (OECD, 2015). A number of these banks were created to boost investment in low climate-resilient infrastructure for cities; by setting up these structures, governments anticipated a future policy shift towards green economies. As of the end of 2015, 13 national and sub-national governments have created GIBs (OECD, 2015) as reflected in the following table:

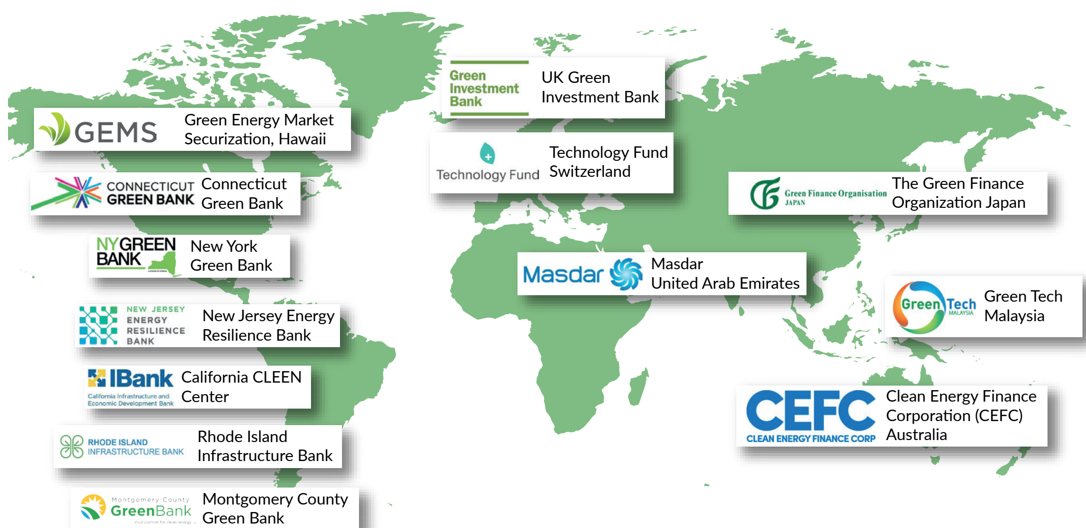


**Figure 4: Green Investment Banks**
**Source: OECD, 2015**

GIBs measure and track their performance: emissions saved, job creation, private investment mobilized per unit of GIB public spending, rate of return. GIBs offer loans, bonds and equity financing instruments to their clients. They rarely invest in early-stage/seed projects, but some are gaining interest in innovative technologies such as offshore wind energy.

*Green Private Banks have emerged in response to the increasing need of green funding that traditional banks cannot satisfy.*

Green Private Banks have emerged in response to the increasing need of green funding that traditional banks cannot satisfy. They are banks providing banking services (loan, investment) to green businesses. Because environmental issues are their core business, they understand the potential of green businesses and their challenges (Global Alliance for Banking on Values, 2015).

The Global Alliance for Banking on Values (GABV) is a network gathering 28 Green Private Banks with over $100 billion in total assets under management, operating across Asia, Africa, Latin America, North America and Europe. Green entrepreneurs can refer to the GABV to locate the nearest green bank: http://www.gabv.org/the-community/find-members

### ↘ National and sub-national initiatives

These initiatives include Multilateral Development Banks (MDBs) and national governments' development finance. Multilateral Development Banks provide essentially loans to green projects (83% according to the World Bank, 2014), the rest being grants, equity, guarantees and other instruments. Examples of MDBs include the:

- European Bank for Reconstruction and Development (EBRD)
- World Bank
- European Investment Bank (EIB)
- African Development Bank (AfDB)
- Asian Development Bank (ADB)
- Inter-American Development Bank (IADB)

Development entities can also invest in funds dedicated to environmental issues. These funds provide what is called "concessional financing" (loans that are less constraining than traditional loans: longer grace periods and lower interest rates, OECD definition created in 2003). Examples include the Climate Investment Funds, the Global Environment facility and the Green Climate Fund.

### ↘ Non-refundable grants

Green growth and green business development are becoming a priority for policy makers, and this is also reflected by the financing programmes of different institutions, governments and foundations.

In the European Union for example, there are several programs that aim at supporting green businesses and eco-innovation:

- Horizon 2020
- European Regional Development Fund (ERDF)
- European Agricultural Fund for Rural Development (EAFRD)
- European Maritime and Fisheries Fund (EMFF)
- Innovation Norway

*Public charities and private foundations are also involved in supporting green initiatives.*

Public charities and private foundations are also involved in supporting green initiatives. Examples include Calvert Foundation, Acumen, W. K. Kellogg Foundation, Rockefeller Foundation, David and Lucile Packard Foundation, Robert Wood Johnson Foundation, New Profit Inc.

Private Foundations also offer grants, for example Grand Challenges (Bill & Melinda Gates Foundation). Usually the target of those grant programs is vast but remains in the scope of tackling development problems and key global health issues. Similarly, corporations give away grants to green projects (e.g. Walmart's Evergreen Green Grants).

Other organizations, such as Ashoka, Echoing Green or the MacArthur Foundation, use fellowship programs to find breakthroughs. They invest in innovative and entrepreneurial leaders, rather than in specific ideas, and provide those leaders with relatively unrestricted support to pursue their interests.

## 5.3 Investment-readiness

The preparation every entrepreneur needs to have in order to raise funding is often overlooked. This refers to:

↘ Questions the entrepreneur needs to be prepared to answer. Most of these questions have been covered in this guide, others will be specific to various investors;

↘ Research on specific investors, their strategies and understanding whether they are or not a fit. This can be easily achieved by speaking to other companies who have raised money with your target funder / investor;

↘ Documentation that needs to be prepared: be it proposals, pitches, term sheets, investor teasers, financial modelling, statements etc. This preparation requires a specific effort, cost and expertise.

The following questions represent guidance provided by investment experts during the GREEN-WIN online dissemination workshop organised in collaboration with Green Cape, South African Renewable Energy Business Incubator (SAREBI) and The Innovation Hub of South Africa in May 2018. These questions address the most frequent topics concerning fundraising and investment readiness, based on the work of The Ground_Up Project's Investment Clinic (www.groundupproject.net):

### ↘ How much funding should entrepreneurs raise and what should it be used for?

Concerning the amount to be raised, the advice is to raise as little as possible, but enough to keep the business going. The entrepreneur should be prepared and know that there is a typical type and range of funding applicable to certain business stages and going outside of that range will question the credibility of the request for funding.

As an indicative benchmark the amount requested should cover 12 to 18-months runway, meaning the amount of funds that are allowing the business to exist and continue to grow for the set period of time, with revenue calculations according to the worst-case scenario. When looking at the amount to be fundraised, the question investors usually ask is how much the company is valued, i.e. how much equity is likely for the business to give for the funding that is requested. There is a benchmark which says that the valuation is between 3 to 5 times the amount of requested funding.

Another aspect is that investors expect the company to be on a growing trend. In every fundraising round the funds to be raised should increase compared to the previous round to the extent of 3 to 5 times. These are average benchmarks, but often are the starting points of negotiation for a particular deal.

The type of capital to be raised depends on the needs of the business. If only funding is needed, debt would be an option. If the entrepreneur is looking for active investors, expertise and connections, then probably equity investment is a better choice. For social enterprises and NGOs, grants are the best and most likely choice.

When planning what to do with the capital once raised, priority goes to product development and market development, building the sales capability, the sales organisation, the infrastructure in terms of assets or people needed to grow the business at the given stage. The administration, salaries, management and overheads in general should be the last to consider from these 3 areas.

### ↘ What signals are the financial projections sending?

In the presentation of the financial projections, the minimum expectation is for entrepreneurs to be using the language and the tools the investor is used to see; these must include an income statement, a balance sheet and a cash flow. The financials have to be put together in a professional way to earn the trust of the capital provider.

Financial projections often overestimate growth and the market size potential without the arguments to back these up, and that can indicate poor management. Investors apply their market knowledge to screen businesses and they are experts in the field they decide to invest, so they will know what is realistic. This applies for overestimating the social and environmental impact, too, and these projections should also be credible and backed up with arguments.

*The financials have to be put together in a professional way to earn the trust of the capital provider.*

Financials in the preselection stage can be either at the summary level, or detailed level, whatever the company feels comfortable to provide, and it has to be adapted to the company's stage of development. A start-up in an early stage could probably go with a summary, but it would have to be backed up by data and the entrepreneur should be ready to answer questions. A company that is in a growth stage needs to demonstrate that they know what financial management is, and that they can master the financials to a higher level of detail.

Revenue projections are considered expectations and ambitions of the entrepreneur and investors will apply their own expertise to assess the estimates made. On the other side, the cost calculations made by the entrepreneurs have to be accurate. If the numbers are fuzzy, it indicates that the management doesn't understand the cost base, which signals to the investor that there is a risk factor. Investors expect to see financial skills in the team, but the financial projections are the responsibility of the management team, not of the financial expert. The entrepreneur has to take ownership of these projections.

### ↘ What should the entrepreneurs know about investors?

An entrepreneur needs to be clear on what an investment cycle means, because that's the way to estimate the type of effort involved and duration of the process. Also, this is the way to define the funding strategy. The entrepreneur can start to prepare in more detail afterwards, looking at particular investors he wants to target. Every investor is different and investment preferences are specific regarding the sector, team and investment strategy. It's essential for the entrepreneur to understand in which sector, industry and subject the investor has defined his mission and vision to invest.

Research of public materials shared by the investor can highlight their expertise and what they are looking to invest in. The entrepreneur should verify if the investor at that time is in a funding stage, the size of funding, and the timeline, at the same time being aware that if the fund is fully invested, then even if the entrepreneur has a great business case, they won't receive funding. It's important to understand also the regional focus, because investors are particular on a regional specialisation for reasons related to their mission, and the recommendation is not to approach them if the business is not located in the country/region they aim to invest in.

### ↘ What do investors expect to see from entrepreneurs?

Investors think in terms of risk, impact and return. The entrepreneur needs to minimize the risks that investors could perceive regarding a potential investment in the business, to present the

impact in detail and accurately, and describe the revenue potential by providing a track record which demonstrates that the entrepreneur understands the implications of investment in their company. If they received investment previously, it should be explained how it was used, how they worked with the previous investors, how the investment helped achieve certain milestones and explain what follows after the current funding stage, i.e. how the company will evolve on a longer term. This will help investors position themselves, understand a potential exit and when the return on the current investment will materialize.

The entrepreneur should think these aspects through well ahead of time, as they will pervade through questions from investors at different moments and stages. However, be aware that the investor has all these data points in mind already when the proposal gets on their table.

### ↘ How to reach out to investors?

*Connections from incubators, personal networks and companies that received funding can provide valuable information*

There is a tendency for entrepreneurs to reach out to as many investors in any kind of event or competition. However, more meetings don't result in more funding. Results are more likely to be obtained if quality introductions are made to investors who are identified to be a good match.

For this purpose, research is needed on the investors that can be approached, the businesses they have previously funded and their current preferences. In this process, connections from incubators, personal networks and companies that received funding can provide valuable information. More effort in preparing and planning the fundraising approach will pay off in faster funding.

### ↘ What should be the size of a pitch deck?

There are likely two possibilities of introducing the business to an investor.

When sending the business information to analysts for screening, it's recommended to prepare a one-pager, a summary with some visual representation of the business model canvas, which should give an overview of the business in about 1 minute.

In case the entrepreneur is invited to have a personal presentation, the pitch deck should have a manageable size and share only the most essential information, keeping it at maximum 10 slides. Many businesses make it 30 - 40 slides, packed with details that are hard to manage.

The advice is to build the investment thesis using a sequence like: problem – solution – opportunity - competition - business model – team – financials. It is also recommended to check some of the top pitch decks that have been successful in raising capital in that specific industry.

### ↘ How to articulate the opportunity and competitive advantage?

About ¼ of pitch decks lack the opportunity sizing. Everyone has competition and the pitch deck should explain what makes the business a better alternative. Competition might consist of lateral products, lateral businesses, but they still need to be revealed. If they are the best alternative or the next best alternative for potential clients, that can cause problems.

Describing the market size is often ignored because it isn't easy to evaluate the market. However, being able to estimate the total market or use a proxy number, as well as set a realistic target for the market share that the entrepreneur intends to capture is a key piece of preparing for investment.

*Everyone has competition and the pitch deck should explain what makes the business a better alternative*

Often, technology-driven businesses can mention partnerships as a competitive advantage or some intellectual property (IP) in the form of patents. IP defensibility can be quite low. IP is costly, and solutions in the market can be easily overtaken by better solutions. The competitive advantage of the IP only materializes if the entrepreneur is able to capture the target market. IPs and partnerships should not be emphasized, unless they are changing the financials of the business.

Additional expert advice and insights on investment readiness are available attached to this guide as Annex 1, representing a workshop summary on how investors assess green business models.

A number of the issues presented above are being addressed via accelerators and incubators that prepare entrepreneurs at various stages. Most accelerators will also be connected to a network of mentors or investors so that entrepreneurs can access investors directly and get to try their pitch.

Some accelerators focusing on green businesses include:

- The Impact Hub network worldwide
- Techstars and their recent partnership with The Nature Conservancy
- Unreasonable Institute
- The Ground_Up Project
- The Investment Clinic

*Investment-readiness is essential, as it provides financial and fundraising capability to entrepreneurs*

Investment-readiness is essential, as it provides financial and fundraising capability to entrepreneurs and brings them up to par with what investors and funders expect, thereby significantly increasing their chances of being funded.

# 6 CONCLUSIONS

This paper has provided a short guide for entrepreneurs on how they can use the Business Canvas Model to think through and prepare the development and funding of their green business. No amount of theory will replace the reality of starting and doing green business in countries around the world.

With the adoption of the Sustainable Development Goals and the extent of countless global environmental challenges, these are exciting and urgent times for entrepreneurs and for organisations who support entrepreneurs to realize long-lasting, deep, green impact via sustainable, viable business models.

Having pre-qualified a pipeline worth US$200 million representing a variety of impact businesses from around the world in 2017, The Ground_Up Project has found that only a very small fraction (between 2 - 5%) of impact ventures were ready to raise the capital they needed to obtain their impact.

Understanding how to plan key aspects of the business as laid out in this paper, along with dedicating resources and time to preparing to become investor-ready, will be key to increasing the number of successful green businesses that will create our better future.

**Have we forgotten something? Let us know at www.groundupproject.org.**

## ANNEX 1

# THE INVESTORS' PERSPECTIVE

**Summary of the Impact Investment Expert Workshop**
**on Assessing Green Business Models**

**organized by The Ground_Up Project with The Ground_Up Centre, IASS and GREEN-WIN**

**Geneva, 27 October 2016**

Participants included equity investors, asset managers, advisors and other green investment experts. Discussions were held under Chatham House rules; individual opinions are not attributed.

Most entrepreneurs will, at some point, reach out to find financing and/or financial partners to grow and advance their work. Green businesses and environmentally responsible entrepreneurs need to be aware of the perspective that investors have when they assess the financial and economic viability and the environmental impact of a green business model.

Under the auspices of the GREEN-WIN research project, The Ground_Up Centre in Geneva (http://www.groundupproject.org) and the Institute for Advanced Sustainability Studies (IASS) in Potsdam (http://www.iass-potsdam.de), in collaboration with The Ground_Up Project (http://www.groundupproject.net), organized a workshop dedicated to expert investors in the green economy.

The discussion topics included experts' point of view on how they assess a business model, the impact of regulation and of the context in which a green business is developed and also, the types of investment a business could access depending on its size and maturity.

The workshop was designed to inform the partner institutions in the GREEN-WIN project, as well as green entrepreneurs themselves, on the key elements that investors analyse when deciding whether to invest in a green business model.

For the purposes of the GREEN-WIN research, the summary below regroups some of the comments made during the workshop by key topics discussed.

## LOOKING AT A GREEN BUSINESS MODEL

When reaching out to specialized investors who are interested in green projects, it is understandable that the first filter is the green filter. It is immediately followed by the analysis of the economic viability, and the decision is based on certain criteria, as is the case for any other investment.

An important aspect, which is often overlooked, is that the description and presentation of a green business model should fit with a certain audience. A government might agree to fund it, if it falls in the line of the 2°C objective, but an investor cannot be approached in the same way.

**IT IS ALL IN THE REVENUES.** From an investor's perspective, a business model is defined by the revenue source of the enterprise or organisation. Therefore, the first question an investor is trying to answer is "what is the revenue source?". Going further in analysing a business model, other important topics come under scrutiny:

- ↘ Where does the funding come from?
- ↘ What is the revenue model? Is it economically viable?

For investors in the green economy, there is no longer a doubt that green growth is possible. Nonetheless, the only condition that will make this a reality is that green businesses MUST be economically viable; they have to have a sustainable model for generating revenues. This means that they have to respond to a need that comes from the market. Being green is not sufficient. If there is no economic viability, there will be neither demand, nor supply on green aspects. One important step for green businesses is to try to get rid of opposition between green business and not-so-green business and work on the idea of being green AND sustainable from an economic point of view.

**THE MARKET OUT THERE.** In order to test the economic viability of a business model, one needs to conduct market surveys. A lot of green growth has been achieved by reaching the consumers and capitalising on their behavioural change: consumers think more and more about the green aspects, which starts new markets and expands the already existing ones.

Investors will come where the market is.

Taking an academic view to business models can hamper the process of making a business viable; in order to move ahead fast, the focus of the research must be put on investors' and entrepreneurs' criteria and expectations.

Concerning the green impact, there is a trend to find and talk about projects with green impact and lots of money goes into doing good deeds. But economic viability has to come from the

market. And no matter how green you are, your product/service does not work on the market, your business will not work in the long run.

**MIND THE RISK.** Entrepreneurs should ask themselves about the risk of their business. They must act and behave the same way investors do and understand this notion of risk before talking to any investor. This is a hard thing to do, but the business should take risk into account. Understanding the entrepreneurs' views of risk also gives the investor a perspective on the team.

*In their words: "Focus first on defining a solid business model, otherwise there will be no funding. The project has to be economically viable in order to attract investors."*

"If entrepreneurs come to you and have not thought about risks, it is a very bad sign". Even at a very early stage, the advice would be to think thoroughly about risks, if maybe not so much of a financial plan yet. Nine out of ten entrepreneurs have not done their homework in the investors' view.

**NON-PROFIT TURNED INTO BUSINESSES.** Some philanthropic models may turn, in time, into business models, for various reasons. Investors are not particularly attracted to philanthropic models adjusting themselves to green for-profit models. In their view, if an entrepreneur turns green, the reason should be an existing demand coming from the market.

If the project is not yet financially viable – but has a potential to be – it is better to find an incubator or accelerator, than to go outside looking for investors.

## ASSESSING THE "GREEN" IN A BUSINESS MODEL

Investors look at a green business model by applying a number of filters. In most cases these are filters developed from the practice and can vary with the investor.

There is an agreement on the fact that standardized criteria could only be applied in the case of a very narrow and well-defined field, in one sector or one technology. Otherwise, when working with a diversified portfolio, it is impossible to standardize it (for investors). In the end, it all comes down to personal feelings, experiences and personal assessment.

Some important aspects related to the assessment of GBM:

**THE CASE FOR GREEN.** Some companies do not define and promote themselves as green but do fall into this category. They do not go for green, but for common business criteria. These companies have green business models, not because of a conviction, but because it would be costly for them not to do so and they integrated green considerations from an economic point of view. It made sense. Those are the best deals, in the eyes of certain investors, especially investment funds.

There is mistrust about self-presented sustainable or green projects in the investors' world (because they made bad bets, they do not know how to invest in the notion of green and consider it less profitable). This is one of the reasons why investors always assess the business itself. And why they look for entrepreneurs who understand the fundamentals of a business model.

**AN "IN-HOUSE" PROCEDURE.** Often the first filter is an environmental and/or social filter and, for many investors, such criteria are often developed "in-house". This step sieves the decision regarding the time spent on a project: no time will be spent if the project does not pass the filter. It is important to note that the filters could change as the investor gains experience and knowledge. Standardized green criteria are only possible when the operation field of a business is very narrow and specific. If the project has passed the filter, then comes the economic analysis. An impact analysis may also be performed.

**MEET THE TEAM.** Investment decision will mostly flow from personal feelings, experiences with people involved in the business and the quality of the team. Therefore, investors will most of the time want to meet the team, as there is no other way to get an opinion of its quality. This is an investment strategy often used by impact investors and venture capital. They follow a case-by-case approach.

*In their words: "For every investment decision, the key is the team. Everything else is going to change, but not them."*

And the reason for this approach is that, in the case of early-stage investments or for unpredictable circumstances, everything with the business model could change: financials, the customers and also the impact. It is more important to go with a solid and knowledgeable team that can weather highly uncertain and changing economic, social and/or environmental conditions.

**REDUCE THE RISK.** When operating in developing markets, the investors will prefer to go for active investment and engagement with the entrepreneur.

In addition, they will prefer to engage other investors (even companies), with different expertise and act together like engaged co-investors with complementary capacities.

*In their words: "The business model has to be successful in impact, hand in hand with the financial sustainability over the time horizon."*

All investors will be actively involved in the company (joint ownership of the capital by investors), by providing expertise and counselling, which are well needed for early-stage impact investments.

**MIND THE TIME.** For investment funds, the impact should usually be embedded in the business model itself. And time horizon is a critical criterion. They will look for answers to questions like: how long is it necessary to invest, when can an exit be made, how long will it take to get back the invested capital?

## CONTEXT AND IMPACT CRITERIA

*In their words: "The preferences of the clients (of an investment fund) come first, before international agreements and own preferences on the ESGs. But there are no compromises on the financial side!"*

Besides the business model itself and the strategies investors apply in choosing an investment and mitigating risks, a number of other considerations will be expected from an organization, enterprise or project.

**THE CONTEXT.** There needs to be some knowledge of the competition, the environmental context for the specific market (for example, if we consider the idea of e-bikes in China, how does it work with the restriction of bikes in towns decided by the government of Shanghai? Could it invalidate the whole business model?).

Life Cycle Analysis is also essential, specifically for businesses that claim to be green.

**MEETING SDGs.** Few investors take sustainable development goals into account when making investment decisions. Usually because they are seen as complicated to implement and considered as a measure more suited for governments than for investment decisions.

Investors usually work with their own framework on filtering and reporting. The process is refined and updated regularly: mapping, defining a framework, criteria for filtering and reporting (asset class, geography, etc.). Some investors want to see selected SDGs in metrics in accordance with their preferences among SDGs.

Investors mainly consider that, for young businesses, the SDGs are too burdensome and too expensive to follow and meet, which is why they usually do not judge an investment according to SDGs.

Public funders and corporations can focus more on SDGs' criteria (for example job creation, carbon savings).

**WHO IS THERE ALREADY?** A critical question when looking at an investment in the broader sense is "who is already in this market or type of investment?".

Where is the money coming from? Is it social money or government money, are there private funds from corporations or individuals? Do they believe in long-term investment return and impact?

## LEVEL OF INVESTMENT GROWTH

The decision to invest or not and the amount of money involved will vary according to the size of the company and its stage of life. There is a common understanding that some green businesses are better staying small than thinking about scaling up. And that the growth model of an enterprise could differ in the case of green business models.

## INVESTMENT PATTERNS.

↘ Over 5 million. The business must better be scalable, with a lot of room for the company to grow, the board level should be sound and there should be three or four investors with different backgrounds.

↘ Less than 5 million. Anything smaller means too much time for analysis from the point of view of an investment fund.

↘ Under 500.000. There must be chemistry between entrepreneurs and investors for them to feel comfortable with investing.

## GROWTH ISSUES.

↘ Future projections. When talking about future growth, investors expect projects to have an idea regarding not only how much money is needed and for what, but also some financial projections for the long run.

↘ Scale. Scalability of green metrics could also be an issue. Sometime scalability does not make sense for a green business. For example, a distribution model may make sense in a local context. Scale must be a target only if there is a benefit streaming from economies of scale.

↘ Replicability. Not really. There could be lots of adjustments needed for the business model to work in a different country/region/context.

*"Choose the target wisely," they say, because some funders are only focused on expansion, such as the venture funds.*

**FINDING AN INVESTOR.** A large fund is not always the best idea for funding. Investors see great benefits in some other approaches, such as getting some feedback from local investors and their feeling about the business using a crowd-funding platform, for example.

## THE ROLE OF GOVERNMENTS AND REGULATIONS

There is a common agreement among interviewed investors that many green businesses are in the difficult quest of developing or uncovering new markets. As a consequence, the role of government and regulations is of a great importance: they could encourage such a venture and create the conditions for it. Or they could distort the conditions and hinder development in the long run. Investors always pay attention to the larger environment of a specific business, before making any decisions.

**LAWS AND REGULATIONS.** Investors will search for special regulations being in place and that could influence a market. It can be a good or a bad thing: they will determine how the regulation factor triggers new markets, new businesses.

If a company waits too long to act after new regulations are passed, the business may be killed before it starts if it bets on being the only one to comply with the new regulation.

**PUBLIC MONEY.** Solar projects got public grants and were very successful. Public money helps to fund research and also intervenes in co-investment. Investors can benefit from public-private partnership as it helps them mitigating the risk.

There are some industries where public funding is the first thing you need, to get things going. But the best use of public money is as equity or to attract other private funding.

# GREEN GROWTH AND WIN-WIN STRATEGIES FOR SUSTAINABLE CLIMATE ACTION (GREEN-WIN)

The GREEN-WIN Project identifies, develops and critically assesses win-win strategies, green business models and green growth pathways that bring short-term economic benefits, while also supporting mitigation and adaptation goals within the broader sustainable development agenda.

## Work programme

**↘ At national levels, GREEN-WIN analyses win-win opportunities that arise through integrating policies across different sectors, and advances state-of-the-art macro-economic models in order to identify green growth pathways.**

**↘ At local levels, GREEN-WIN carries out action research case studies to develop green business models and enabling environments in the following three areas: i) coastal flood risk management in Jakarta, Kiel, Rotterdam and Shanghai; ii) transformations in urban systems in Barcelona, Istanbul, Shanghai and Venice; and iii) energy poverty and climate-resilient livelihoods with case studies in India, Indonesia and South Africa.**

**↘ Cutting across both levels, GREEN-WIN investigates financial products and policies, as well as financial system reforms that redirect financial flows towards sustainability and climate action.**

**↘ All of these activities are embedded in an open dialogue between research institutes, international organisations, business, and civil society that co-develops shared narratives around win-win strategies, business opportunities and green growth pathways**

## Project partners

Global Climate Forum (GCF), Germany (coordinator) | The Institute of Environmental Sciences and Technology, Autonomous University of Barcelona, Spain | E3-Modelling, Greece | Environmental Change Institute, Oxford University, UK | Ecole d'Economie de Paris, France | University College London, UK | The Ground_Up Association, Switzerland | Stichting Deltares, The Netherlands | Institute for Advanced Sustainability Studies, Germany | Global Green Growth Institute, Republic of Korea | Jill Jaeger, Austria | European Centre for Living Technology at Università Ca' Foscari Venezia, Italy | Institute of Environmental Sciences at Boğaziçi University, Turkey | Universtitas Udayana, Udayana University, Indonesia | University of Cape Town, South Africa | 2° investing initiative, France | Sustainability and Resilience, Indonesia

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