

YEPA Workshop 2
Green entrepreneurship for young entrepreneurs
Discussion Note | 16 October 2023 | Group A

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Green entrepreneurship for young entrepreneurs

Why is green entrepreneurship for young entrepreneurs a priority policy issue?

Addressing climate change is a key global policy priority area. Many national as well as sub-national governments have committed to ambitious policy targets for moving towards more green and sustainable economies. With the adoption of the Paris Agreement at the UN Climate Change Conference in December 2015, 196 Parties made commitments to hold the increase in the global average temperature to below 2°C above pre-industrial levels. Moreover, many Parties committed to reach net zero greenhouse gas (GHG) emissions by 2050. The current and future climate and environmental challenges highlight the need for more green entrepreneurs to innovate and create new green solutions. Policy should aim to empower and support more young people to create new sustainable and green businesses that make a difference in achieving these climate targets and push the frontier of green innovation. Moreover, policy must encourage all entrepreneurs to become greener in their business practices and offerings.

Young people are integral in the efforts to achieve net zero not only through their advocacy and activism around climate issues but also through introducing innovations and green solutions. They are highly motivated to address environmental issues and achieve these goals. For example, a recent Eurobarometer report found that 87% of young Europeans (15-24 years old) indicated that they think it is important to make Europe the world's first climate-neutral continent by 2050 (European Union, 2021). This was 6% higher than reported rates among those aged 40-54 years old and 13% higher among those aged 55 years of over. Moreover, the same report found that young people are also more likely to agree that tackling climate change can help improve their own health and well-being – 91% of 15–24-year-olds relative to 84% of those aged 40-54 years old (European Union, 2021). Moreover, young people were the most likely to indicate that it is important to increase the share of renewable energy in the European economy and have greater energy efficiency to reduce GHG emissions.

Opportunities in the green economy have been growing in recent years as global markets for climate-friendly businesses and technologies have been growing in recent decades, driven by the increased demand for green products and services. Recent evidence suggests that younger people (i.e. Millennials and Generation Z) are more active in moving towards sustainable lifestyles and consumer habits. For example, about one third of Millennials indicated that they had shifted their purchasing behavior towards being more sustainable in the last five years and choose a sustainable alternative when available relative to less than 25% among Baby Boomers and Generation X (Simon-Kucher & Partners, 2022). The same report found that younger generations are also more willing to pay a premium for sustainable products, showing an overall shift in consumer attitudes and preferences related to sustainability and the green market.

As the demand for more green products and solutions grows, green entrepreneurship will play a pivotal role in facilitating green growth and the transition to a more sustainable economy (see [Box 1](#) for more information on green entrepreneurship and green growth). It is estimated that the Paris Agreement will lead to up to USD 23 trillion [approximately EUR 21.7 trillion] in climate-smart investment opportunities in emerging markets and create 24 million new jobs by 2030 (International Labour Organisation, 2018), in which green entrepreneurship will be a key contributor to future growth in this area. Young people are motivated to be part of the solution and to participate in the green economy in the years ahead – 57% of young people (15-39 years old) in Europe aspire to work in the green economy in the next ten years (52% in the United States and 77% in the Asia Pacific) (Accenture, 2022). Policy must play a strong role in boosting more sustainable behavior of businesses and people, supporting innovation and increasing investment to develop new green technologies in order to achieve these climate targets.

Box 1. What is green entrepreneurship ?

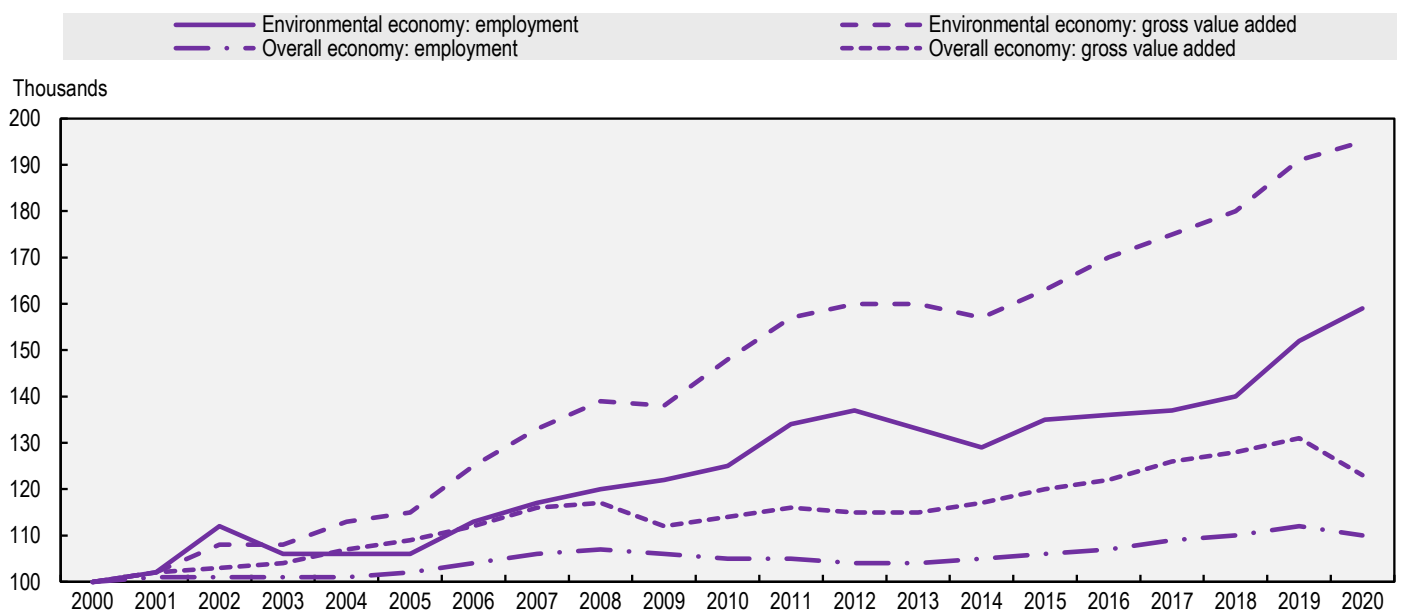
There are a number of concepts used to discuss green and sustainable economic and social goals, including green growth, sustainable development and green entrepreneurship. The OECD Green Growth Strategy defines green growth as economic growth and development that ensures that natural assets continue to provide resources and environmental services on which overall well-being relies (OECD, 2011). Green growth is not synonymous with sustainable development; rather it has a narrower scope. Green growth focusses on fostering the necessary conditions for innovation, investment and competition that facilitates new sources of economic growth that are consistent with resilient ecosystems. Part of achieving green growth is supporting green entrepreneurship.

Many governments use terms and definitions that are based on specific activities and/or sectors instead of a broad approach to green entrepreneurship, including cleantech, greentech, climate tech. These definitions are often too narrow and do not include the full range of green entrepreneurs, who are creating and commercialising products and/or services that address environmental challenges. Green entrepreneurship, however, are distinct from than the broader population of environmentally conscious or eco-friendly entrepreneurs who are environmentally aware and are taking steps to reduce their businesses' environmental footprint (OECD, 2022). Overall, there is no consensus on how to define green entrepreneurship in academic literature, research or by governments despite the large discourse on this topic. This has led to an array of terminology used inter-changeably to describe green entrepreneurship and green enterprises, resulting in ambiguity around who they are and how they operate.

See [Policies to Support Green Entrepreneurship: Building a Hub for Green Entrepreneurship in Denmark \(2022\)](#) for a more detailed discussion on green entrepreneurship

Over the last two decades, the environmental economy has grown faster than the overall economy, particularly in its impact on job creation and GDP (Figure 1). This highlights the policy priority of EU Member States in taking action to support more sustainable and green growth. Employment in the environmental economy in the EU increased by more than one million jobs between 2000 and 2020, increasing from 3.1 million to 5.1 million (Eurostat, 2023). Overall, the gross value added of the environmental economy was EUR 341 billion in 2020, up from EUR 127 billion at the beginning of the century, and the contribution of the environmental economy to EU GDP increased from 1.6% in 2000 to 2.5% in 2020 (Eurostat, 2023).

Figure 1. The environmental economy is growing significantly faster than the overall economy

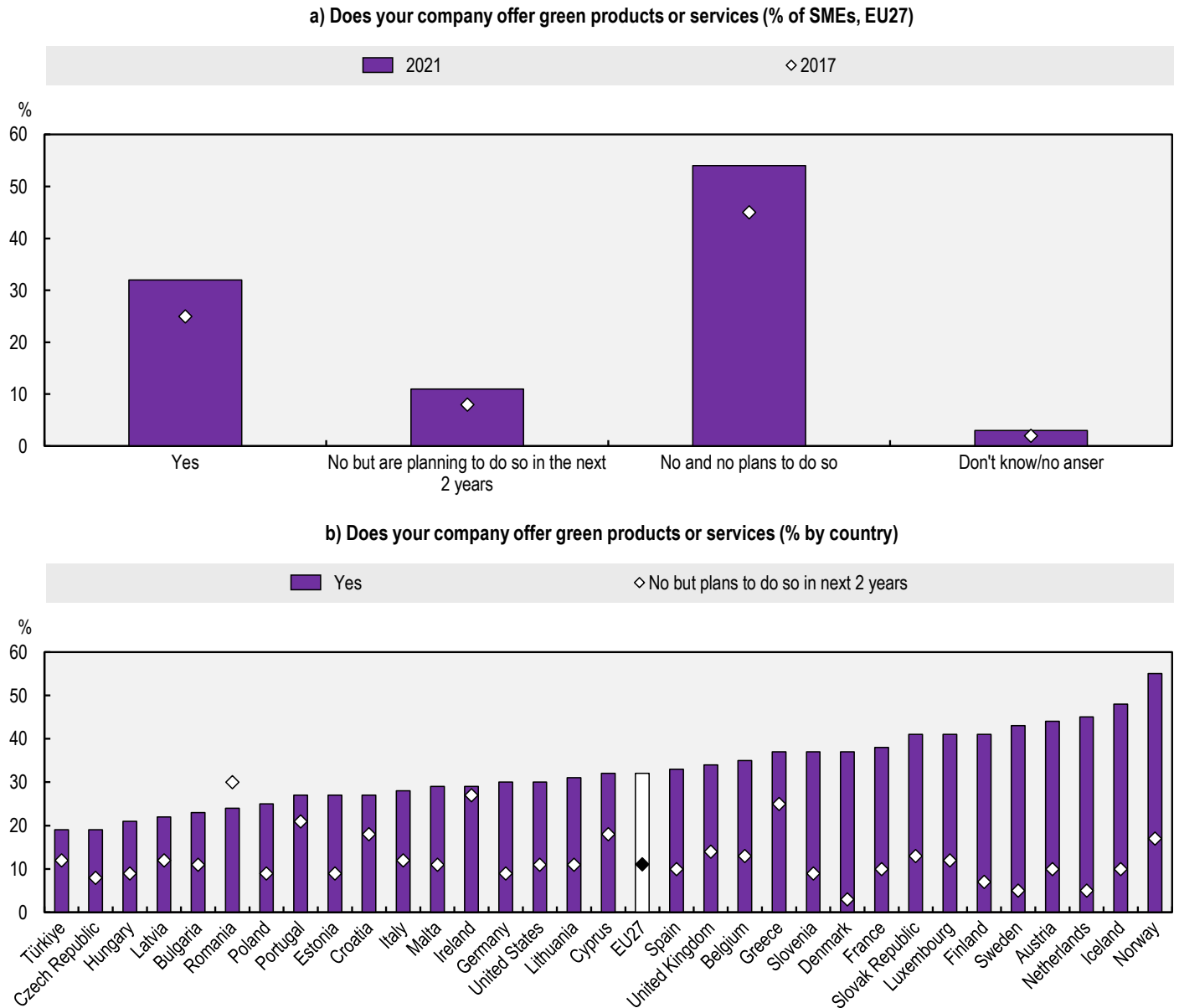


Note: The environmental economy by employment is measured in full-time equivalents. The gross value added and gross domestic product are chain-linked volumes data in EUR million with 2010 as the reference year (at 2010 exchange rates). The overall employment is measured in thousands of people.

Source: Eurostat (2023)

There has been an increase in the share of businesses offering green products or services. According to a Flash Eurobarometer report (2022), about one-third of all SMEs offer a green product or service, which was 7 percentage points (p.p.) higher than in 2017 (Figure 2). In addition, another 11% of SMEs are planning to introduce green solutions in the next two years. Moreover, 10 EU Member States increased the share of SMEs offering green products and services by at least 10 p.p. over the same period. The countries with the largest increases include Luxembourg (16 p.p.) and France (15 p.p.).

Figure 2. One-third of businesses offer green products or services in the EU



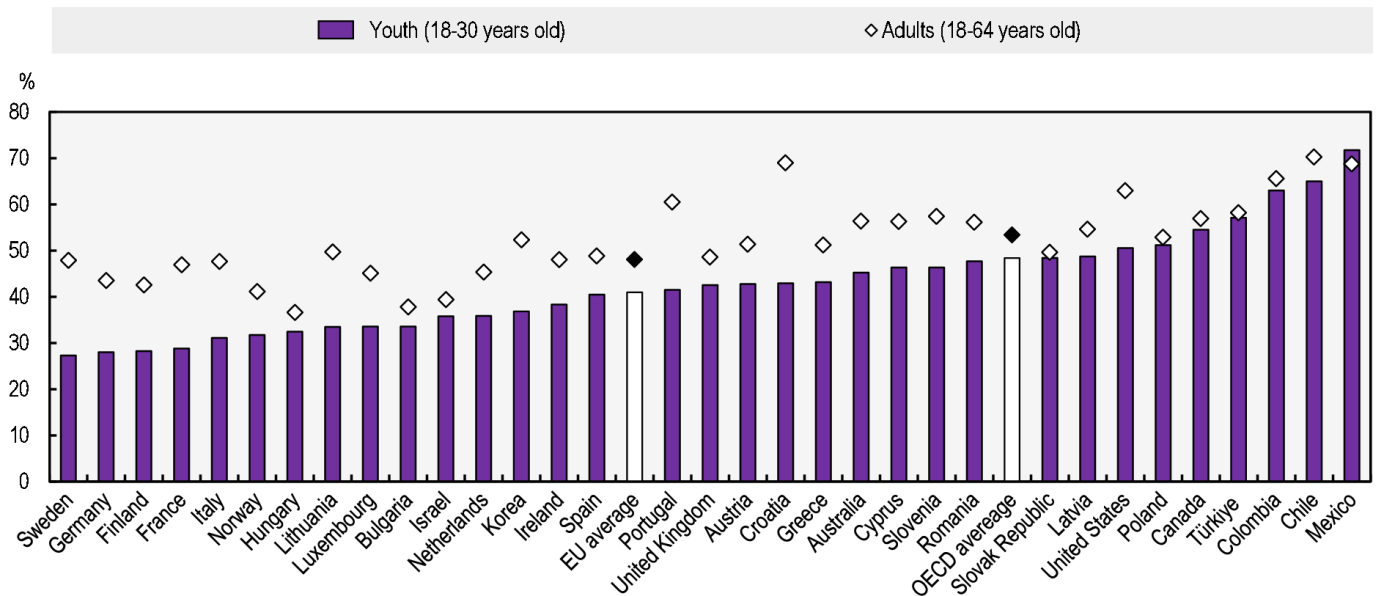
Source: Flash Eurobarometer #498 (2022)

What challenges do young entrepreneurs face in green entrepreneurship?

It is important to note that many young entrepreneurs overestimate their business management abilities and underestimate the challenges that they will likely encounter. They often lack the business and management skills, the financial capital, and networks to scale their businesses. Moreover, young people tend to self-report lower levels of entrepreneurship skills than adults (Figure 3). Only 40% of youth in the EU reported that they had the needed skills to start a business. This was slightly higher than in OECD countries, where about half of youth believe that they have the skills to start a business. Furthermore, young green entrepreneurs must have the entrepreneurship skills to start and operate their businesses in addition to technical skills and green skills (e.g. the skills needed to adapt projects, services and processes to climate change). They must also have awareness and knowledge of environmental requirements and regulations. Research suggests those working in green fields often use more intensively high-

level cognitive and inter-personal skills relative to people in non-green professions as the work tends to be less routinised (Consoli et al., 2016).

Figure 3. Young people are less confident in their entrepreneurial skills compared to adults, 2018-22



Source: GEM special tabulations (2023)

Young green entrepreneurs face additional challenges as their products usually are more capital-intensive, hardware-based and often have long development timelines. Moreover, green products and services are often more uncertain and depend on unpredictable factors (e.g. future policy landscape, the development of complementary technologies, the evolution of customer preferences). Young green entrepreneurs must also confront regulatory burdens, which are often high and are evolving. While all new green entrepreneurs face difficulties compared to established companies, young entrepreneurs are particularly disadvantaged when it comes to having the know-how and resources needed to navigate complex regulatory environments.

While access to finance remains a key barrier to young entrepreneurs in general, financing for green projects can be particularly difficult to receive. Young green entrepreneurs also face challenges due to information asymmetries between themselves and lenders/investors. For example, they might share different environmental objectives and ideals than the lenders/investors as well as have different levels of knowledge about the green economy and markets (OECD, 2013). Moreover, green entrepreneurial projects tend to be capital-intensive and involve high risk for lenders and investors (e.g. the long time horizons needed for green start-ups to become profitable, the unpredictability of future demand due to green start-ups commonly serving new markets). The time horizons are particularly challenging as an eco-innovation usually requires 5-10 years from product development to market breakthrough, while venture capital firms aim to exist from their investment in a shorter time period (e.g. 2-3 years) (OECD, 2013). Moreover, many green start-ups rely on largely intangible assets (i.e. intellectual capital), which can also deter investors.

Box 2. The green generation and empowering more young green innovators: A panel discussion

Who are the panellists?

- **Marc Vetter** (4QT) - Co-founder of 4QT – a company focused on high power electric drives for heavy equipment.
- **Tereza Pažinová** (Fluf) - Co-founder and President of Fluf – a student company offering sustainable biomass briquettes. They have recently won several national and international awards for their work. She was joined by other members of the Fluf team – **Jakub Matusák**, **Rebeka Hubková** and **Lea Benčová**.

What did they say?

The young entrepreneurs on the panel highlighted how their entrepreneurial journeys began while they were still in school. Pažinová represented Fluf, which is a sustainable company founded by students at the Gymnázium Poštová in Košice (Slovak Republic). The team participated in a Junior Achievement programme and later placed third in the category JA Europe Company of the Year. The start-up went on to win several other national and international awards for their entrepreneurship project. Pažinová discussed the experience of participating in the initiative, developing the idea and the experience of turning a student project into a business with her team. She highlighted how the programme helped to strengthen their business management

skills, their ability to pitch and provided a platform to launch their business. Similar to the Fluf team, Vetter also began his entrepreneurial journey as a student where he opened a food truck on campus. He went on to pursue several other degrees that led him to multiple positions in innovative and technological sectors before he decided to become an entrepreneur again by establishing his current company 4QT.

One of the primary obstacles to green entrepreneurship for young people identified by the panel was funding. Green entrepreneurship often requires innovations and technologies that are expensive and take a long time to develop, ranging from a few years to decades. Therefore, the funding gap in green entrepreneurship is large, notably for young people who tend to have more limited networks, more obstacles in obtaining financing as well as less experience than older entrepreneurs. Vetter highlighted his experience with grants and how there was a learning curve for his team on which grants aligned with their projects and needs. Often times the grants were too small, the process was too time consuming, or their project did not fall under the grant description. Moreover, it took multiple rounds of applications before receiving a grant, which posed a considerable challenge and burden for a young team. He stressed the need for young entrepreneurs to look to mentors for guidance on how to navigate funding opportunities and the need to focus on opportunities (grants or investors) that align the best with the project and team.

Moreover, both panellists highlighted the unique position of being an entrepreneur offering green products and solutions instead of more traditional ones seen on the market. It has required them to invest more time, effort and resources into developing their pitch for potential investors and consumers. They have found that it has been essential to have dedicated outreach campaigns to inform the public about the need for the product, including educating people on what issue the product/solution is addressing, why the solution is better than the existing ones, how it is beneficial for them to switch to a more sustainable option and the long-term positive benefits derived from the switch.

The panellists offered several suggestions for future action to promote green and sustainable practices in new businesses. This included starting early in promoting green skills and promoting innovation among young people through programmes, activities and school curriculum. They also highlighted the need for regulations and updated targets in green and sustainable industries. Lastly, they stressed the importance for green and sustainable innovations to not be limited to green entrepreneurship, rather all businesses should be considering these issues and implementing new and greener practices in their business models.

What are governments doing?

Governments across EU Member States and OECD countries have introduced a wide range of policies and programmes to support green entrepreneurship in recent years (Box 3). These include dedicated financial instruments, dedicated networks, entrepreneurship and green skills training programmes, incubator programmes and accelerator programmes.

Box 3. Supporting sustainable and green start-ups, Finland

Country Host: Jani Lehto, Ministry of Economic Affairs and Employment

Lehto provided an overview of the importance of supporting innovations and the development of green technologies and solutions on a global level as well as the emphasis placed on supporting youth entrepreneurship and green entrepreneurship at a national level in Finland. One of the key priorities in Finland is to support start-ups and businesses to reduce CO2 emissions and to foster a more supportive administrative and regulatory environment for these businesses to innovate. He emphasised the role young entrepreneurs are and will continue to play in developing the innovative solutions that address the problems of today and tomorrow. While the private sector is a primary investor in green technologies, he called on more public initiatives to incentivise and promote green entrepreneurship, notably among young people.

Case Study: Reijo Munther, Business Finland

Munther is Head of EU Initiatives at Business Finland, which is a public organisation under the Ministry of Employment and the Economy that provides funds for innovation, including green innovations. He briefly presented the Finnish start-up scene, which has a highly developed entrepreneurship culture. By 2030, the start-up community aims to achieve EUR 10 billion in net sales by Finnish start-ups. Moreover, green start-ups, especially those focussed on the circular economy, have been growing in recent years. He highlighted several key aspects of the entrepreneurial ecosystem. The first is the collaboration among entrepreneurs and start-ups, which helps to foster a positive environment and leads to further innovation. The second is that entrepreneurs have a strong public support system in the case of business failure that allows them to recover and potential start again.

He presented several different sources of funding the Business Finland offers to start-ups that are less than five years old:

- Tempo – aims to support start-ups that wish to export their products. Start-ups can receive grants of up to EUR 60 000.
- R&D – targets start-ups that are developing a service, product, process or a business model. The funding is given through loans and grants.
- Young Innovative Company Funding – financial measures targeting business that wish to grow and scale rapidly, particularly on a global scale. Funding is offered through grants up to EUR 500 000 and loans up to EUR 750 000 in 3-4 phases.
- BFVC – government-owned investment company that invests in early-stage venture capital funds. The fund makes approximately 1-3 new investments per year with a maximum ticket size of EUR 25 million. Finland has committed EUR 82 million to date.

Munther also highlighted other programmes in Finland that are designed to encourage more innovative and greener entrepreneurship. The first being the start-up permit, which aims to attract talent and innovative entrepreneurs from outside the EU/EEA countries to start their businesses in Finland. Lastly, Finland is developing a Sustainable Growth Programme that aims to support ecological, social and sustainable growth. While the programme overall seeks to reduce greenhouse gas emissions and increase productive, it aims to achieve these goals in a more inclusive manner, namely by promoting more regional, social and gender equality.

Supporting the development of green skills

A main area of policy intervention to support the development of green skills among young entrepreneurs is through tailored training programmes. These courses often cover topics such as future of energy, zero waste approach to food, carbon neutral building, retrofitting, waste management in addition to more traditional topics in entrepreneurship (e.g. business management skills, networking, etc.). These programmes often are integrated with other supports, such as expert guidance, coaching and mentoring. However, this approach is limited as there have only been some small-scale training programmes that have been implemented across OECD countries to support the development of green skills (OECD, 2022). An emerging approach is to provide integrated support packages through dedicated green incubator and accelerator programmes. Currently, there are few specialised programmes – as of 2017, estimates suggest that there were approximately 2 000 technology incubators and 150 accelerator programmes around the world (United Nations, 2018).

Overall, evidence suggests that young entrepreneurs benefit more than adult entrepreneurs from business incubation programmes as young people tend to lack experience, skills and networks (Albort-Morant and Oghazi, 2016). Therefore, young green entrepreneurs could greatly benefit from specialised incubation and acceleration services that are tailored to green activities and technologies (Box 4). These programmes often are linked to universities and/or science parks, which improves the potential for commercialisation of new green innovations and technologies.

Box 4. Incubation and acceleration services

Business incubation programmes typically combine training programmes with other integrated support services, such as networking opportunities, consultancy, mentoring, coaching, workspace, and introductions to investors (OECD/European Commission, 2023). Support can last for several years and may include pre-incubation as well as post-incubation support once youth entrepreneurs have completed the programme. However, incubation differs from business acceleration programmes as accelerators focus on managing accelerated growth in a shorter timeframe (i.e. less than 12 months). Moreover, many accelerator programmes take ownership stakes in the companies that use their services, whereas this is not the case with business incubation services.

Another approach to supporting the development of green entrepreneurship skills is to instil green entrepreneurship curriculum and support services into universities. By incorporating courses and support services, such as incubation and acceleration programmes, into the university, it helps to promote a more positive perception of innovation, entrepreneurship and sustainability among students' but also helps to provide students the knowledge, resources and tools to develop innovations and start-ups, notably green entrepreneurship activities (Box 5).

Box 5. Fostering green skills among young people, Denmark

Case Study: Carina Lomborg, Denmark Technical University (DTU)

Carina Lomborg is an Associate Professor at DTU Entrepreneurship and Academic Director of the MSc Technology Entrepreneurship programme. DTU aims to create a dynamic and supportive entrepreneurial ecosystem where education, research and start-ups can work together to create innovative solutions. She presented DTU's approach to fostering innovation and supporting young people in pursuing entrepreneurship, notably in how the university supports the development of green entrepreneurship skills. DTU offers various programmes to students including the MSc Technology Entrepreneurship, which is a two-year course where students receive academic support and hands-on training aimed at developing their idea into a start-up. The MSc programme fosters collaboration among students from different backgrounds (e.g. engineering, business, design and humanities students) with the intention of creating innovations, resulting in prototypes, business plans and an entrepreneurial team equipped with the knowledge and skills to launch their business. A core course in the programme (open to all students from DTU), is the X-Tech Entrepreneurship course, which is an accelerated learning programme and hybrid incubator. The aim of X-tech is to create linkages and partnerships among students, researchers and key industry actors.

Carina Lomborg also touched upon other programmes available through the university that promote and foster innovation among young people, including Green Challenge, DTU Science Park (focussed on deep tech), PreSeed Ventures (early-stage venture capital), Earthbound, AFRI (IPR, licensing and partnerships) as well as DTU Skylab. The ecosystem offers a range of resources for start-ups, including funding opportunities (DTU Discovery grants, Proof of Concept Grants, SkyLab Funding, InnoExplorer Grants), incubation, mentoring, networking opportunities with industry leaders and investors, and programmes to scale businesses.

DTU Science Park also is home to the GreenUp Accelerator, which supports climate tech start-ups working to reduce CO2 emissions. The accelerator offers a 20-month programme that includes group workshops, individualised support, mentoring (MIT-based mentorship programme), coaching, workspace (in Futurebox – a leading incubator and accelerator for deep tech start-ups in Denmark) and funding up to DKK 1 million (EUR 134 000) in convertible loans. The accelerator has supported 150 start-ups, which have raised DKK 1 billion (EUR 134 million). About 90% of the supported start-ups are still operating.

Addressing the gaps in access to green and sustainable finance

Green entrepreneurs like non-green entrepreneurs rely on different types of financial support to fund their start-ups. All sources of financing are relevant for green entrepreneurs, but there are some approaches that are more common in the green economy and at different stages of their development (see [Box 6](#) for the most common sources of funding for green entrepreneurs). Governments provide direct financial support to early-stage green innovation projects and climate technologies by providing grants, matching funding, as well as subsidising university research and R&D projects. Many countries have implemented grant programmes to incentivise and financially support young people interested in pursuing green entrepreneurship activities.

All sources of financing are relevant for green entrepreneurs, including private financing and investment opportunities. For example, technology-based start-ups rely heavily on venture capital (Bocken, 2015), while business angel investment and crowdfunding are also important sources of funding for (young) green entrepreneurs (Wallmeroth, Wirtz and Groh, 2018).

Box 6. Potential sources of funding for green entrepreneurs

Public financial institutions (PFIs)

PFIs have a multi-faceted role in supporting green entrepreneurs through direct lending and investment, which can allocate capital to projects deemed too risky for private markets. They can also help to mobilise private capital through co-investment schemes and provide non-financial support to green entrepreneurs.

Private risk capital markets

Risk capital is equity finance aimed at emerging high-potential, high-growth start-ups. Equity investments are an important source of funding for green entrepreneurs. There are three main forms of equity finance: 1) business angels or informal equity finance, 2) venture capital finance, and 3) growth equity. Many consider venture capital to be the most suitable form of finance for green start-ups.

Green bonds

The role of debt markets in the green financing has grown since 2006 when the EIB and World Bank issued the first green bond. Since then, the cumulative issuance of the global green bond market has reached USD 2.2 trillion [approximately EUR 2.1 trillion] across 85 countries (Climate Bonds Initiative, 2022).

Impact investors

Impact investing is an investment strategy seeking to generate positive and measurable environmental and social impacts while gaining financial returns (EIF, 2020) and one priority of impact investors is to address environmental challenges. Early-stage green entrepreneurs often work with impact investors as they can provide debt, equity or equity hybrid financing that can be adapted to the green entrepreneurs' needs (UfM Secretariat, 2018).

Source: OECD (2022)

In addition, green public procurement has great potential to drive innovation and the development in the green entrepreneurship, including among young entrepreneurs. It can also help to expand new markets for (young) green entrepreneurs. Some governments have implemented public procurement policy that promotes the source of green products (e.g. climate-friendly options receive preference). While this approach remains under-developed, public procurement measures can help to drive public demand for green products and services by green entrepreneurs and accelerate the green transition.

Fostering networks for green entrepreneurs

Governments can play an important role in building entrepreneurial ecosystems and supporting the development of innovative communities of knowledge. Governments can directly support the creation of networks and platforms that aim to stimulate innovation and place an emphasis on finding green solutions. Networks facilitate access to specialised knowledge, knowledge-based capital and technological resources as well as promote collaboration and create opportunities for connection with innovation support organisations (e.g. incubation programmes, acceleration programmes, digital innovation hubs).

Another approach used by governments is to facilitate multi-stakeholder collaborations such as open innovation labs that bring together industry leaders, entrepreneurs, researchers, investors and regulators to work on selected challenges. These collaborations often last for 2-4 years but could be longer-term when more permanent structures are developed (e.g. joint organisations, centres for innovation/excellence).

Questions for discussion

- How can governments encourage more young entrepreneurs to start more sustainable businesses and build a pipeline of young green entrepreneurs and leaders?
- What can governments do to ensure that green entrepreneurship policies and programmes are inclusive, notably for young people?
- What skills are necessary for young people interested in green and sustainable entrepreneurship and how can policy support the development of these skills among young entrepreneurs?
- What are some strategies to increase public awareness and consumer demand for products and services offered by green entrepreneurs?
- What financing options are available for young green entrepreneurs, and how can access to financing be improved?
- How can young green entrepreneurs ensure their entrepreneurship activities are financially sustainable in the long-term?

Takeaway messages

- There is a large funding gap for green entrepreneurship due in part to misalignment with current financial mechanisms. As many green innovations and start-ups have much longer development and piloting phases, they do not align with the shorter timelines of traditional investors. This is particularly true among venture capital investment as most investors wish to see a return on investment within a few years. Moreover, many of the grant and loan schemes are too limited to provide the funding needed for these innovations, which tend to be more expensive than non-green start-up projects. This leads to many young entrepreneurs not having access to the funding needed to develop their product and to launch their business.
- Policy makers could look to support the development of green innovations through increasing support for specialised incubation and acceleration programmes for green and sustainable start-ups. They could also introduce dedicated

programmes for young green entrepreneurs within existing incubators and accelerators to promote green entrepreneurship and the need for more sustainable innovations.

- Policy makers could consider developing green entrepreneurship strategies that align public and private actors in the entrepreneurial ecosystem to support green entrepreneurship, particularly among young people.
- It is important to invest in the development of a pipeline of green entrepreneurs by fostering interest among students, bolstering their entrepreneurial intention, expanding green entrepreneurship education and training to develop their capabilities. This could be done through introducing dedicated courses at the university level as well as introducing more programmes and activities for students in primary and secondary school.
- Policy makers could look to foster the development of networks within the green entrepreneurship ecosystem, bringing together entrepreneurs, established businesses, research institutions, support organisations, investors and other key actors (public, private, non-profit) to support green start-ups in overcoming gaps in skills, resources and finance as well as to promote innovation, collaboration and partnerships.

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