Domestic small and medium enterprises lack about 10.1 billion dollars for further development, which is over 27% of Serbia's GDP, according to the UNDP in its research on the future of green finance. Nevertheless, of the total number of SMEs investing in green projects, only 5% finance such investments exclusively from external sources. Owners of small and medium-sized companies are reluctant to opt for loans, because they claim that the conditions are especially unfavorable with such commercial arrangements, which banks perceive as very risky.

When it comes to investing in green technologies in general, and this is most often the case in our country, as a rule, small and medium enterprises are named as that part of the domestic economy that is not sufficiently "aware" of how urgent it is to reach green branches as soon as possible. The truth, as always, is not so simple, nor one-sided. It is true that green investments are not a priority for small and medium enterprises, but it is not true that they do not exist. On the contrary, over two-fifths of the nearly 1,500 small and medium-sized enterprises surveyed by UNDP for its study on the future of green finance in Serbia have invested in energy efficiency and better waste management.

Citing the motives for such investments, the owners of smaller companies primarily point out economic reasons. Their main goal is to reduce operating costs, primarily electricity and transportation costs, which threaten to become even greater with the current disruptions in the energy market and in transport. Businessmen are also trying to raise the value of their products in exports with such investments, and a smaller part of them wants to increase the credit rating of financial institutions.

On the other hand, research shows that SMEs are primarily focused on replacing old machines with more advanced technology, and less often on installing solar panels and waste management, but what they have in common is that such investments are mostly smaller. The reason is that they are usually financed from their own funds.

Depending on the purpose of green investments, 65% to 85% of SMEs set aside their funds, between 11% and 31% combine their own money and loans, and only 4% to 5% use only external sources of funding for these purposes. The largest number, as many as 84% of small and medium enterprises use their money to invest in reducing the amount of waste in production, 77% in reducing pollution during production, and the most favorable ratio in combining own funds with loans is when investing in improving energy efficiency and only a third finance such projects exclusively with their own money.

A guarantee is more important for banks than landscaping

An additional problem is that most of those who use loans resort to the most expensive options, such as short-term loans or even exceeding the account limit, while only 30% opt for long-term loans. Most do not know how to use financial instruments such as leasing or factoring, which is shown by the fact that only 3% of respondents used leasing to finance green investments. Respondents do not show much interest in external sources of financing such as issuing green bonds or raising funds by selling shares in share capital.

In addition to the already known pain that the domestic financial market is bank-centric and that entrepreneurs use the few alternative financial sources poorly, the difficulties of smaller companies to collect their own claims, especially in the current crisis, and the lack of collateral are a big obstacle to larger investments.

Problems with guarantees occur especially with banks, for which, according to businessmen, a loan guarantee is more important than the potential profitability of a green project for which funds are being sought. Domestic entrepreneurs mostly believe that banks are far from being as green-minded as they are in public, as they seek significant guarantees for green projects under very unfavorable conditions (1: 2), and treat them as "specific" projects with great risks.

As for the regulations, the respondents state that the biggest problem is that the regulations are not clear enough, especially the tax obligations that change every hour. For example, instead of establishing and implementing a polluter pays system, environmental taxes are prescribed based on the size and activity of the company, and not on how much a company really pollutes the environment with its business. The inspection services work on the principle of "find and fine" and very selectively, and businessmen cite a very small number of green public procurements in state institutions at all levels as an argument that the state does not encourage such investments.

It is interesting that, unlike primary business, where the lack of qualified staff has been highlighted as the biggest problem for further development for years, most respondents do not see it as a major obstacle to green investment. The three most sought-after professional profiles in this field in SMEs are mechanical engineers, electrical engineers and general engineers, which was difficult for about a third of the respondents, so they solved this problem by employing pensioners, internal trainings and retraining programs. The finding that only 27% of respondents think that greater investment in green projects in the SME sector will create additional employment opportunities is also indicative.

Conflicting interests in long-term loans

The research estimates that small and medium-sized small businesses here lack about 10.1 billion dollars for further development, which is over 27% of Serbia's gross domestic product (GDP), and that 45% of SMEs have very pronounced financial constraints.

Therefore, most of them, as many as 90%, believe that subsidies and financial assistance are the most important form of support for further "greening" of business. Given that such support is mostly given to improve energy efficiency in the business of small and medium enterprises, this is one of the reasons why most is invested in this area, with the added benefit that the savings in energy consumption can be used to repay loans.

The survey shows that the largest number of small and medium business owners, if they could, would opt for a combination of financial resources in which subsidies and financial

assistance would participate with 25%, internal funds with the same percentage, and the remaining share would be bank loans. As the most important condition for such financial support, businessmen state that when approving a loan, interest rates are low, that they have long repayment periods and acceptable collateral. In particular, they prefer interest rates below 3%, a repayment period of up to ten years and a grace period of at least one year, in order to generate income from new equipment before the loan repayment begins.
The authors of the study estimate that long-term conditions preferred by small and medium enterprises may be contrary to the interests of banks, especially when it comes to limited amounts of deposits available to banks in the long run, but also due to the perception that longer repayment periods increase risks no billing. Hence, money for long-term loans mainly comes from credit lines and donor development programs.
To reduce the risks often associated with lending to SMEs, research suggests that risk-sharing may be an acceptable option in certain situations. In the case of classic credit products, the financial and commercial risks are borne by the party raising the loan. However, there are also models where risks are shared between project stakeholders, including – in addition to borrowers – contractors as well as equipment and energy suppliers. The suitability of different risk-sharing instruments depends on the financial strength and creditworthiness of the company, as well as on the predictability of revenues, regulatory frameworks, the commercial financing environment and the nature of the project, including its capacity to implement, BiF reports.