EUWATER 4i-SD

Research, Analysis & Strategy INSTITUTE

Facilitation tools for joint venture between environmental SMEs wanting to go international in non-EU countries



Executive Summary

Human pressures on water resources are increasing unsustainably. At the same, time climate change impacts are being amplified. Water demands are increasing to feed growing populations, meet our energy needs, service expanding urban areas and satisfy industrial demands.

At UN level, the 2030 Agenda through its SDG6 - Clean water and sanitation, recognizes the centrality of water resources to sustainable development and the vital role that improved drinking water, sanitation and hygiene play in progress in other areas, including health, education, and poverty reduction.

In 2023, at the UN 2023 Water Conference, the EU presented 33 commitments[1] for concrete and transformative actions to address global water challenges which are currently being implemented. Among them, point 6 on improvement of transboundary cooperation across water basins and point 27 on support to countries in the East European Neighbourhood and in the Southern

[1] List of voluntary commitments for the Water Action Agenda to be presented by the European Union for the UN 2023 Water Conference (New York, 22-24 March 2023), https://data.consilium.europa.eu/doc/document/ST-7443-2023-INIT/en/pdf

[2] Green diplomacy: Council conclusions reaffirm the EU's commitment to work closely with partners to accelerate a global just and inclusive green transition, https://www.consilium.europa.eu/en/press/press-releases/2024/03/18/green-diplomacy-council-conclusions-reaffirm-the-eu-s-commitment-to-work-closely-with-partners-to-accelerate-a-global-just-and-inclusive-green-transition/

Neighbourhood illustrate the international angle of the EU intervention.

In 2024, the Council Conclusions on Green Diplomacy[2] recognised that the stability of the global water cycle is a global concern that underpins the achievement of all SDGs and reiterated the importance of a strategic EU approach to water resilience and security and underlines the need for enhanced diplomacy in this regard.

With 2.3 billion people living in water stressed countries, improvements in the way we use and manage our water are urgently needed to sustain our development and to ensure security[3].

To meet these challenges, the European smart water industry has an important role to play.

By investing in its smart water sector including by supporting internationalization of SMEs, the EU has the chance to turn water challenges into new technological, societal, and business opportunities.

'The EU's 'traditional' water sector includes a large number of players, including 9000 active SMEs, and provides almost 500,000 full-time equivalent jobs' functioning in 'a global market with an estimated value of circa €62.9 trillion'[4] In Europe only, the overall billed amount in 2021 was €108 billion while the annual investment in water infrastructure amounted to €45 billion a year.[5]

There is a direct link between internationalisation and increased performance of SMEs. International activities reinforce growth, enhance competitiveness and support the long-term sustainability of companies.

Internationalization of SMEs in the smart water sector contributes to Europe's competitiveness by expanding market reach, driving innovation, and fostering economic growth. By accessing international markets, SMEs can diversify their customer base, mitigate risks associated with domestic market fluctuations, and leverage global opportunities for growth and collaboration.

By leveraging financial support and clustering initiatives, SMEs can contribute to addressing global water challenges and driving sustainable development.

In its Communication on SME Strategy for a Sustainable and Digital Europe, 2020, the European Commission recognises the important role clusters play in supporting the globalisation of SMEs together with the inclusion of dedicated SME chapters in all its trade agreements [6]

Clusters provide SMEs in the smart water sector with access to specialized resources, networking opportunities, and support services essential for internationalization. By clustering, SMEs can collaborate on joint ventures, share market insights, and access funding opportunities, thus enhancing their competitiveness.

Funding clusters active in the smart water sector is paramount in order to support a cost effective and speedy internationalisation of SEMs. Such funds have been made available at EU level through programs like the Single Market Programme or through Operational Programs under the ERDF. However, the budget for internationalisation partnerships has been relatively low and split between many parties, making it difficult to create a lasting impact. Also, the awareness of SMEs regarding the existing opportunities needs to be improved.

Recognising the importance of the smart water sector[7] and strengthening the support available for clusters is paramount if the sector is to play its key role in addressing global water challenges. Such support should include opportunities to access easy funding for new value chains identified by the clusters in their activities[8].

SMEs benefit more from rule-based trade opening than large companies, which have more resources for overcoming trade barriers. Therefore, the practice of Agreements on Clusters and giving visibility to the smart water sector in the negotiation of new trade and investment agreements is paramount for the internationalisation of the sector.

[3] *SDG6_Indicator_Report_651_Progress-on-Integrated-Water-Resources-Management_2021_Executive-Summary_EN.pdf (unwater.org), https://www.unwater.org/sites/default/files/app/uploads/2021/09/SDG6_Indicator_Report_651_Progress-on-Integrated-Water-Resources-Management_2021_Executive-Summary_EN.pdf

[4] WE-Water-Vision-2023_online.pdf (watereurope.eu), https://watereurope.eu/wp-content/uploads/2023/11/WE-Water-Vision-2023_online.pdf

[5] EUREAU_Figures_Report_2021_final.pdf (iawd.at), https://www.iawd.at/files/Image/library/vod/images/EUREAU_Figures_Report_2021_final.pdf

[6] SME Strategy (europa.eu)

[7] Policymakers at all levels need to recognise the value of clusters as effective intermediaries for accelerating the green transition

[8] See part 4 -Tools for facilitating the internationalisation of SMEs in the smart water sector for more details on value chains identified under the euWater4i-SD project



Introduction

This paper develops on the specifics of the smart water sector before going into the details of the barriers to international trade encountered by the SMEs active in this field. Using different sources including the wealth of information produced under the 3 years project funded under the COSME Clusters Go International - European Water-Smart Initiative for Fostering International Sustainable Development (EuWater4i-SD). The project demonstrates that clusters are key to internationalisation by providing specific support to SMEs to address barriers to trade such as identifying business partners and defining new value chains.

The paper also aims to showcase the lesson learned and good practices (such as the e-market place initiative). It also raises issues linked to the uncertainties around availability of support for clusters and makes clear policy recommendations in this regard. Predictable and consistent funding for clusters is paramount if the EU smart water sector is to play its key role in addressing the global water challenges.

At the same time policymakers at all levels need to recognise the value of clusters as effective intermediaries for accelerating the green transition and to raise

awareness about the importance of the smart water sector in tackling water issues and addressing climate change.

Case Study - the euWater4i-SD project

The European Water-Smart Initiative for Fostering International Sustainable Development (EuWater4i-SD) was funded under the 4th generation of COSME Clusters Go International for a duration of three years (16th of September 2021 to 15th of September 2024).

The main objective of the project was to help SMEs to go international in Latin American and Eastern African countries. Four target countries have been identified: Kenya, Uganda, Bolivia and Peru.

The key results illustrated below prove the efficiency of clustering in speeding up the internationalisation of SMEs in the smart water sector:





1. The Water- Smart Sector

Environmental SMEs play a crucial role in addressing global sustainability challenges. Among their subsectors, the water-smart sector stands as the cornerstone of Sustainable Territorial Development.

Water plays an indispensable role in all industrial, economic, and social activities. Consequently, the Water-Smart sector emerges as essential in addressing global water-related risks, including safe water access, increasing demand, water quality issues, and climate change impacts. Water-Smart solutions are characterized by their adaptability to local conditions and water availability, technological and economic feasibility, sustainability across social, ecological, and economic dimensions, and integration of key stakeholders and innovative approaches within a dynamic value chain.

The SMEs working in the field encompass vital sectors such as agriculture, construction, energy as a service, industries, and water resources management and supply. These sectors collectively face a common crit-

[1] euWater4i-SD, Mapping of resources and capacities in the partnering territories D 3.1

[2] The creation of a new European Smart Specialization Platform (S3) "Water Smart Territories" (WST) focused on Industrial Modernisation was approved by the European Commission in 2019. Three European Regions are leading this S3 "Water Smart Territories" Partnership: Aragón (Spain), Centre-Val de Loire (France) and Friesland (Netherlands).

ical challenge: the reliance on sufficient water quantity and quality for various purposes like irrigation, industrial processes, and energy production [1].

Within the Water- Smart Territories S3-platform[2], 21 EU regions have pinpointed the subsequent cross-cutting challenges, where EU SMEs demonstrate notable proactivity: saving water resources; water footprint reduction; ecological source of energy; resources recovery (incl. nutrients); water reuse systems; water-related risks management.

Hence, the Water-Smart sector endeavours to confront these challenges by advocating for integrated solutions that blend financial mechanisms, innovation, infrastructure, and support, prioritizing outcomes over methods. This approach involves the development of three categories of Water-Smart solutions: services: nondurable goods (e.g., consulting, engineering, etc.); technologies: machinery or equipment adapted to the local context (i.e., autonomous, robust, etc.); Funding: new business model and sources of revenues generated by applying circular economy principles to cover partially or fully the operational and maintenance costs. However, the internationalization efforts of SMEs in the field especially outside of the EU often face obstacles.

The euWater4i-SD project addresses these challenges through tailored facilitation tools and financial support, aiming to enhance the competitiveness and global reach of environmental SMEs.



2. Gaps and New Value Chains Identified

As outlined by the OECD and further analysed by the EC[1], key barriers to opening to non - EU markets reported by SMEs include: insufficient working capital for export financing, challenges in identifying foreign business opportunities, limited access to market information, difficulty in reaching potential overseas customers, obstacles in securing reliable foreign representation, managerial time constraints for internationalization, and insufficient or untrained staff. In addition, trade agreements need to be adapted to the specific demands and new challenges faced by the sector.

Furthermore, enterprises not yet engaged in international markets may underestimate certain barriers while overestimating others, underscoring the importance of considering companies' international experience levels when designing and implementing business support services.

Further barriers perceived by SMEs within companies encompasses factors such as product or service pricing, the high costs associated with internationalization, product quality and staffing deficiencies, product specifications, and language barriers.

[1] Supporting the internationalisation of SMEs, https://op.europa.eu/en/publication-detail/-/publication/dd69f968-fea2-4034-90d5-7a648574618f

In the smart water sector, the euWater4i-SD project, has identified various obstacles impeding the internationalization endeavors of environmental SMEs. These challenges encompass a shortage of skilled human resources, restricted opportunities for capacity building, and inadequate financial resources. Identification of new value chains encompass all the processes, organizations, and individuals involved in adding value to a product or service as it moves through various stages of production and distribution.

Global markets and value chains have changed significantly due to Covid-19 crisis which requires a more strategic and long-term approach to international collaborations. Public authorities should promote more sustainable partnerships and enable SMEs access to global value chains with a long-term impact.

As an example of the efficacity of clusters in this area, the euWater4i-SD defined during the three years of its activity six new value chains to be taken into account in their internationalization strategy by smart water SMEs. They are: the water purification value chain; the urban water cycle value chain; the irrigation water consumption value chain; the hydropower value chain; the water management in the agri-food industry value chain; and the water role in the construction sector value chain.[2]

Additionally, SMEs gain greater advantages from trade liberalization based on rules compared to larger corporations, which possess greater resources to surmount trade obstacles. Hence, prioritizing the incorporation of Agreements on Clusters and highlighting the smart water sector in the negotiation of new trade and investment agreements becomes crucial for the sector's international expansion.

It is imperative to address these gaps and new value chains to effectively support SMEs in their pursuit of international expansion.

[2] euWater4i-SD, Deliverable 3.3.



3. Benefits of Clustering Together

Clusters bring together all kinds of companies, research and knowledge institutions, science and technology parks, financial service providers, non-profit organisations and related public bodies. By doing this, they create vital networks at regional, cross-regional national and EU level.

Their importance is growing. There are over 3,000 clusters in the EU, employing over 50 million people and accounting for almost one in four jobs in Europe'.[1] Policymakers at all levels need to recognise the value of clusters as effective intermediaries for accelerating the green transition.

Participating in clusters facilitates the internationalization of environmental SMEs, offering manifold benefits. They help them facing the barriers identified. These include access to international networks, funding, and investments, as well as opportunities for knowledge sharing, collaboration, and access to resources and support services. Clusters often extend their networks beyond national borders, providing SMEs with access to international contacts, partners, suppliers, and distrib-

[1] European Expert Group on Clusters - Recommendation Report, DocsRoom - European Commission (europa.eu), https://www.iawd.at/files/Image/library/vod/images/EUREAU_Figures_Report_2021_final.pdf

utors, easing their entry into foreign markets. Moreover, clusters may attract foreign investors and venture capitals keen on supporting international expansion initiatives. By affiliating with a reputable cluster, SMEs can access funding and investment capital that may not be available to them individually. Clusters also provide help in writing proposals for tenders and other open opportunities available.

Within clusters, SMEs benefit from knowledge exchange, fostering innovation, efficiency, and productivity. Shared resources such as infrastructure, facilities, and support services further enhance their capabilities. Networking opportunities abound within clusters, connecting SMEs with potential customers, suppliers, and research institutions, leading to partnerships, joint ventures, and new business prospects. Economies of scale and scope are achievable through clustering, resulting in cost savings, increased competitiveness, and improved bargaining power.

Clusters also serve as collective advocates for SMEs, influencing policies and regulations in their favor. Enhanced visibility, credibility, and reputation accrue to SMEs associated with recognized clusters, attracting stakeholders and fostering growth opportunities. Importantly, clustering mitigates individual risks by fostering collaboration and resource-sharing, thereby enhancing resilience in the face of market fluctuations or disruptions.

Relevant evidence was generated by the euWater4i-SD project. A survey with SMEs in the smart water sector was conducted as a part of the project euWater4i-SD. All participants were members of clusters in Bulgaria, Czech Republic, France, Germany, and Spain[2]. According to the results, strategic information and business opportunities are the areas where SMEs need most support in their internationalization efforts.

[2] The survey The SME GoInt questionnaire was conducted between 6/12/2021 and January 31/01/ 2022 with the help of all project partners, mainly in five countries of the EU i.e., Bulgaria, Czech Republic, France, Germany, and Spain. A questionnaire was distributed through the clusters herein. One SME from Switzerland also participated in the study. In total 95 answers were received



4. Transferable Good Practices

Utilizing lessons learned from successful initiatives like the eMarket place, transferable best practices such as export coaching, market readiness, and networking events can be leveraged to support environmental SMEs in their journey toward internationalization. Originating from the euWater4i-SD project, the eMarket place serves as a platform facilitating access to international markets. It enables SMEs to showcase their offerings, arrange virtual meetings between EU and non-EU entities, and foster international business collaborations. Open to SMEs, cluster representatives, and stakeholders globally, with a focus on target countries such as Kenya, Uganda, Bolivia, and Peru, the ”Water-Smart Market Place” prioritizes user-friendly features and aims to attract 700 members by September 2024. While it does not facilitate online transactions or inventory management, the platform serves as a vital hub for connecting European SMEs with each other and with international actors, particularly in Latin American and East African markets.



5.
Existing Support

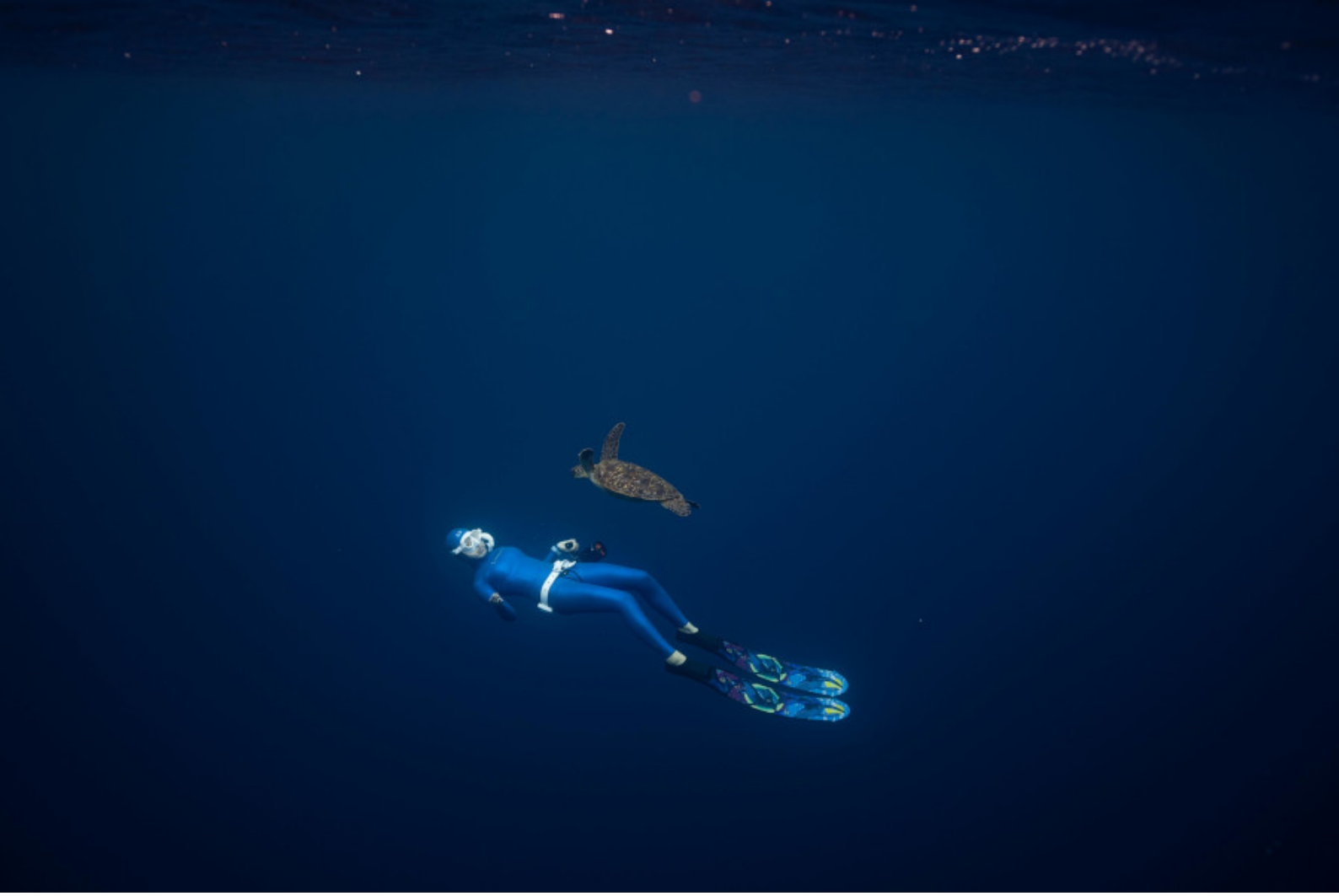
For its internationalization environmental SMEs require access to a range of financial support services, including insurance solutions and risk management, financing short-term exports, pre and post-shipment financing, loans, credit guarantee schemes, tax preferences, cascade funding for clusters.

Among the existing EU support for environmental SMEs to be highlighted are the Single Market Programme, the EU Strategy for Sustainable and Digital Europe, European Innovation Council Accelerator, Horizon Europe programs, European Regional Development Funds.

However, despite the existence of supporting mechanisms, the budget for internationalisation partnerships has been relatively low and split between many parties, making it difficult to create a lasting impact.

In addition, although many programmes to support SME internationalisation are already in place, they are largely unknown: the percentage of EU SMEs aware of these opportunities ranges from 15% for micro-enterprises to 27 % for medium-sized enterprises, and from only 10 % for enterprises that are not internationally active to 22% of SMEs with international activities.[1]

[1] Supporting the internationalisation of SMEs, https://op.europa.eu/en/publication-detail/-/publication/dd69f968-fea2-4034-90d5-7a648574618f



6. Conclusions and Recommendations

In conclusion, this project underscores the importance of tailored facilitation tools and financial support mechanisms in empowering environmental SMEs to expand internationally. Recommendations include investing in capacity building, promoting collaboration within clusters, and leveraging existing funding opportunities to support SMEs' internationalization efforts.

In particular, it would be beneficial to:

- Enhance the dissemination of information regarding available EU funding;
- Strengthen support for clusters as a means to facilitate the internationalization of environmental SMEs;
- Provide targeted support for the new value chains identified by the euWater4i-SD project in regard to the EU Water-smart sector internationalization of SMEs outside of the EU: the water purification value chain; the urban water cycle value chain; the irrigation water consumption value chain; the hydropower value chain; the water management in

[1] euWater4i-SD, Deliverable 3.3.

the agri-food industry value chain; and the water role in the construction sector value chain;[1]

- Offer additional assistance in shaping international trade regulations tailored to the unique requirements of European SMEs;
- Extend support services through EU delegations outside of the EU.


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