

Chapter 2

Environmental compliance progress and challenges for SMEs in EaP countries

This chapter looks at the challenges facing EaP countries on greening SMEs, and the progress that has been made so far. It begins with an examination of existing regulatory regimes in EaP countries, highlighting ongoing proposals to move away from uniform application of single-medium permitting. The chapter examines some of the environmental considerations that have been introduced into strategic documents from EaP countries on SME support activities, and highlights survey data on how SMEs are informed about regulatory requirements. The chapter notes that EaP SMEs that do undertake efficiency measures mostly do so for economic reasons. The importance of shifting to new regulatory regimes that lessen enterprises' regulatory burden and are calibrated based on the level of environmental risk is highlighted. In conjunction with that, policy gaps in EaP countries are explored, in particular around technical and financial support for green practices, and effective communication and information tools.

Regulatory regimes

In all EaP countries, the same regime for setting environmental requirements applies regardless of the facility's level of environmental risk, creating a heavy administrative burden for SMEs as well as for regulators. The regulatory systems are dominated by single-medium permitting (for air emissions, wastewater discharges and waste disposal) which applies to every enterprise which has respective environmental impacts. Where general binding rules ("technical regulations") with environmental norms exist, they are not sector-specific and do not distinguish between facilities with different levels of impact.

However, the situation is starting to change as environmental regulators are starting to focus their efforts on higher risk enterprises. For example, Armenia is taking a first step in the diversification of environmental regulatory regimes: the draft law "On environmental impact assessment and expertise" envisages the classification of regulated entities into three categories (A, B and C) with different assessment procedures for each category. Armenia is also developing a law on environmental self-monitoring which would differentiate self-monitoring and self-reporting requirements based on the operator's environmental impact. Likewise, in Ukraine only operators with higher environmental impact are subject to air emissions self-monitoring and self-reporting.

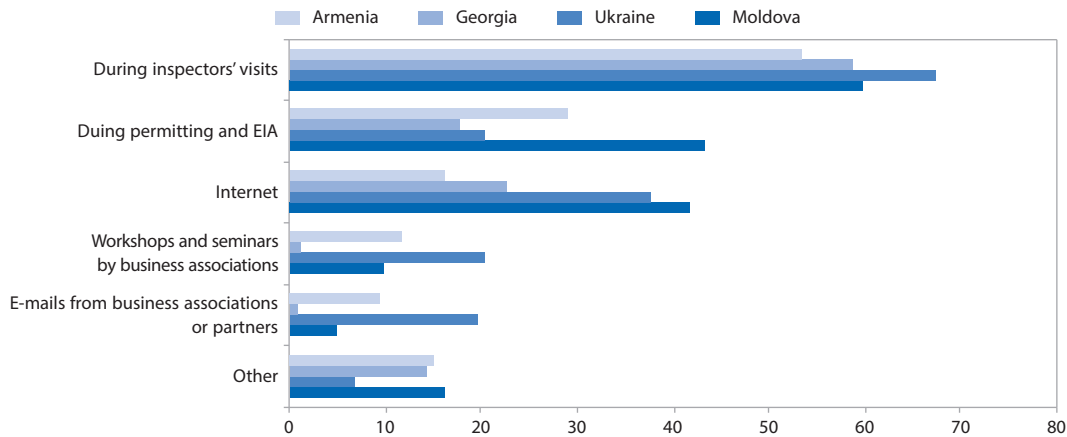
In Azerbaijan, the draft new Law on Environmental Impact Assessment the differentiation of permitting requirements for enterprises based on their environmental impact, sector and type of economic activity. In Georgia, the regulatory reforms made during 2004-07 significantly simplified the administrative procedures for all enterprises, including SMEs, by drastically cutting the number of licences and permits, reducing the licence determination period to less than a month, and introducing "one-stop shopping" for all permits and licences.

Other EaP countries are also planning to take similar measures. Moldova's Small and Medium Enterprise Sector Development Strategy for 2012-2020 envisages adjusting the regulatory framework to match SME needs. Belarus's National Strategy on Environmental Permitting for 2009-2020 provides for the simplification of the administrative procedures related to environmental permitting of enterprises with low environmental impact by 2015.

Environment ministries and their associate institutions provide regulatory information to the regulated community. Specialised environmental information centres, usually associated with environment ministries, provide assistance in understanding environmental requirements through telephone advice, workshops, and guidelines. For example, in Georgia, the Ministry of Environment and Natural Resources Protection has set up an Environmental Information and Education Centre in 2010 to provide compliance advisory services to companies and individuals. A similar Environmental Information Centre exists within Moldova's Ministry of Environment. However, these information services rarely reach smaller businesses.

When asked how they learn about environmental requirements, over 50% of SMEs in four EaP countries that have environment-related permits indicated direct contact with environmental inspectors during their site visits as a key source of regulatory information (Figure 2.1). This means that businesses realised that they had to comply with certain requirements when they were already inspected for compliance. Less than 20% of respondents rely on information provided through workshops or electronically by relevant business associations, while many more (from 16% in Armenia to 42% in Moldova) draw it from the Internet.

Figure 2.1. How SMEs learn about environmental requirements, percentage of respondents



Sources: OECD (2016a), *Promoting better environmental performance of small and medium-sized enterprises in Ukraine*, www.oecd.org/env/outreach/Ukraine%20pilot%20project%20report%20EN.pdf; OECD (2016b), *Promoting better environmental performance of small and medium-sized enterprises in Georgia*, www.oecd.org/env/outreach/Georgia%20pilot%20project%20report%20final%20EN.pdf; OECD (2015a), *Promoting better environmental performance of small and medium-sized enterprises in Armenia*, www.oecd.org/environment/outreach/SME-greening-country-pilot-report-Armenia-en.pdf; OECD (2015b), *Promoting better environmental performance of small and medium-sized enterprises in Moldova*, www.oecd.org/environment/outreach/Binder%20English.pdf.

The differentiation of compliance monitoring regimes is also affecting SMEs. In some EaP countries, the frequency of environmental inspections has been differentiated between broad risk categories. For instance, Armenia is implementing a risk-based system of compliance monitoring. The 2011 amendments to the Law on “Organising and carrying out inspections in the Republic of Armenia” (No. 60 of 2000) and Government Decree No. 1562-N of 2012 stipulated that the frequency of inspections should be based on the assessed level of the enterprise’s environmental risk. The level of risk is determined through a scoring system taking into account the enterprise’s sector-specific and individual risks. The inspection frequency for low-risk facilities is set at once every five years.

Existing policy incentives

EaP countries have generally given little consideration to the greening of small businesses, and lack the legal, policy and institutional means to enhance the environmental performance of SMEs.

There are a few examples of regulatory incentives for getting certified to an environmental management system (e.g. in Azerbaijan and Belarus). In Belarus, companies deploying an EMS certified in accordance ISO 14001, benefit from financial incentives when calculating environmental tax on air emissions, wastewater discharges and waste disposal. Overall, however, compliance promotion activities are underdeveloped in EaP countries.

At the same time, governments in EaP countries increasingly realise the importance of SME support policies in the context of greening the economy. Ministries of Economy in both Moldova and Armenia are planning to introduce environmental considerations into their strategic documents on SME support activities, but have not yet started the development of specific policy measures.

When a strategy does not have institutional ownership, it is likely to remain a dead letter. In Georgia, a “Green Business Support Strategy for Georgian Private Business Organizations”

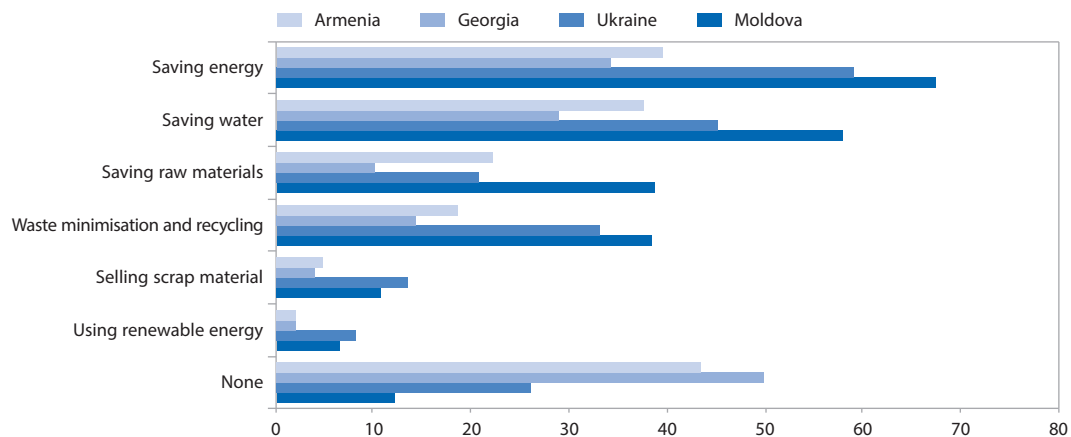
was developed in 2011 by the Georgian Entrepreneurs Confederation with support from the German government. It recommended establishing an “Information centre for green business”, promoting environmental management systems, disseminating of best practices, developing appropriate financing instruments, etc., but has been implemented only partly. The Georgian Green Business Award was announced by the Ministry of Environment and Natural Resources Protection in October 2013. The award is made in the green company, green product and green building categories and seeks to raise motivation of entrepreneurs in environment protection and social responsibility. However, many other policy tools are still lacking.

All EaP countries except Georgia have extensive pollution tax/charge schemes covering dozens of pollutants. These taxes are payable by all enterprises with respective pollution releases, but the tax rates are too low to provide desired incentives for environmental improvements. All EaP countries impose taxes on environmentally harmful products (such as motor fuels and vehicles), but only several of them (notably Armenia and Moldova) have product taxes mandated by environmental legislation. The environmental incentive impact of these product taxes is equally negligible.

Current implementation of green practices

According to the Eurobarometer, over 90% of SMEs in the EU are taking at least some actions to be more resource-efficient. Most common actions relate to minimising waste, saving energy and raw materials. A similar situation can be observed in EaP countries. Despite the lack of government incentives, the vast majority of the surveyed SMEs undertake some resource efficiency measures, mostly to save energy, water or raw materials, or plan to do so in the future (Figure 2.2).

Figure 2.2. Resource efficiency actions undertaken by SMEs in EaP countries, percentage of respondents



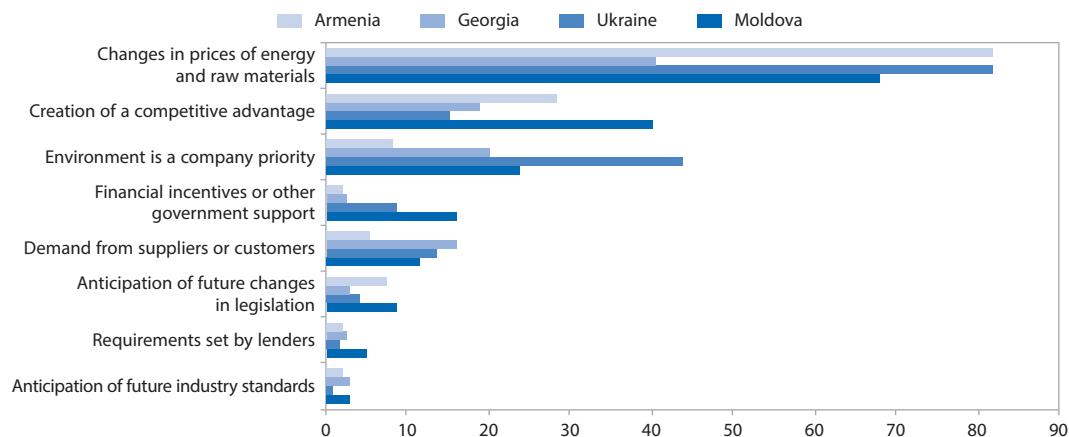
Sources: OECD (2016a), *Promoting better environmental performance of small and medium-sized enterprises in Ukraine*, www.oecd.org/env/outreach/Ukraine%20pilot%20project%20report%20EN.pdf; OECD (2016b), *Promoting better environmental performance of small and medium-sized enterprises in Georgia*, www.oecd.org/env/outreach/Georgia%20pilot%20project%20report%20final%20EN.pdf; OECD (2015a), *Promoting better environmental performance of small and medium-sized enterprises in Armenia*, www.oecd.org/environment/outreach/SME-greening-country-pilot-report-Armenia-en.pdf; OECD (2015b), *Promoting better environmental performance of small and medium-sized enterprises in Moldova*, www.oecd.org/environment/outreach/Binder%20English.pdf.

The main driver for such actions is purely economic: businesses already experience and anticipate further increases of prices of these resources, which is reflected in over 80% of the survey responses in Armenia and Ukraine (Figure 2.3). The smaller the business, the more it feels the impact of resource price changes. Almost 40% of Moldovan SMEs actively pursuing resource efficiency see this as an opportunity to gain a competitive advantage. Environmental awareness, making it a priority for the company, is also a significant factor, especially among medium-sized companies.

Very few SMEs in EaP countries have a certified ISO 14001 EMS, with some opting for a less onerous national environmental management standard. Many of those businesses quote commercial reasons for doing so: for example, in Ukraine it is demand from suppliers and customers (42.3%) as well as efforts to improve the company's image in the eyes of clients, business partners or the general public (26.9%). Almost 30% of surveyed Ukrainian SMEs see an EMS as a useful management tool to improve the company's performance (OECD, 2016a).

The majority of SMEs which have not adopted any EMS signal a variety of barriers, pointing to the lack of capacity, excessive time and cost burden of EMS implementation. Above all, there is a lack of information about EMSs and their advantages, which contributes to the uncertainty regarding market benefits of investing into an EMS. The lack of domestic demand and high certification and implementation costs also play a role in dissuading SMEs from seeking EMS certification.

Figure 2.3. Reasons to undertake resource efficiency measures, percentage of respondents



Sources: OECD (2016a), *Promoting better environmental performance of small and medium-sized enterprises in Ukraine*, www.oecd.org/env/outreach/Ukraine%20pilot%20project%20report%20EN.pdf; OECD (2016b), *Promoting better environmental performance of small and medium-sized enterprises in Georgia*, www.oecd.org/env/outreach/Georgia%20pilot%20project%20report%20final%20EN.pdf; OECD (2015a), *Promoting better environmental performance of small and medium-sized enterprises in Armenia*, www.oecd.org/environment/outreach/SME-greening-country-pilot-report-Armenia-en.pdf; OECD (2015b), *Promoting better environmental performance of small and medium-sized enterprises in Moldova*, www.oecd.org/environment/outreach/Binder%20English.pdf.

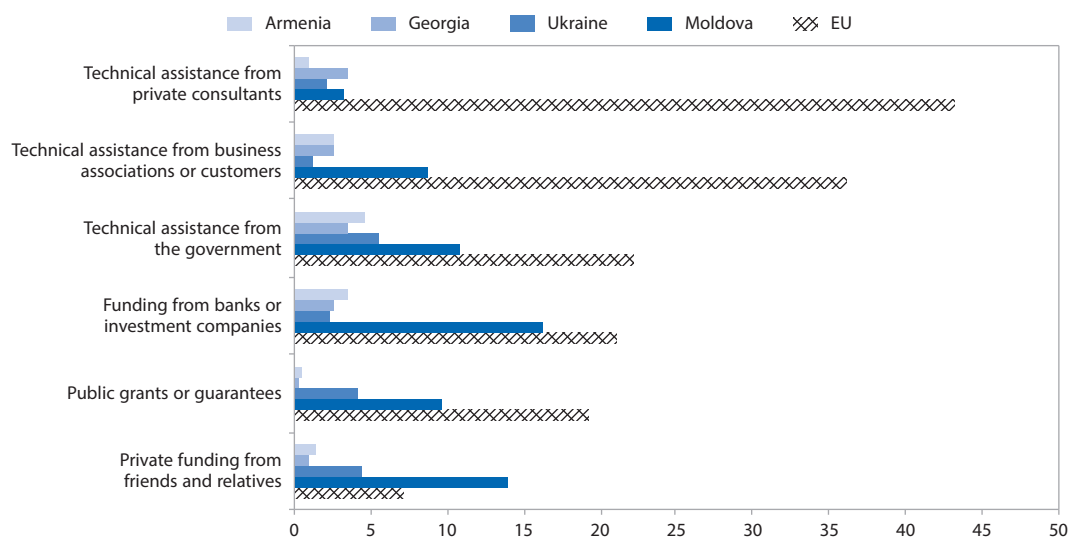
Technical and financial support for green practices

The situation with government support for SMEs in EaP countries is still very patchy. Governments most often play a passive role in promoting environmental sustainability and best practices and their involvement is generally limited to hosting international donor-funded projects.

Ministries of economy in several EaP countries implement various information and training programmes for small businesses, but they rarely get institutionalised. A positive example can be found in Georgia, where the Ministry of Economy and Sustainable Development has been providing private companies with reliable and actionable industry data and analysis, and making them aware of opportunities, among others, related to the implementation of sustainable business practices.

According to 2014 SME surveys in Armenia and Moldova (OECD, 2015a; 2015b), only 12% and 23.5% of the companies that undertake resource efficiency measures in the respective countries receive some technical or financial support (Figure 2.4). The larger the enterprise, the more likely it is to receive some support, which almost never reaches micro-businesses. The lack of government support appears to represent the biggest gap, in stark contrast with the extent of public support activities in the EU (EC, 2013).

Figure 2.4. Percentage of SMEs receiving support for resource efficiency actions



Sources: OECD (2016a), *Promoting better environmental performance of small and medium-sized enterprises in Ukraine*, www.oecd.org/env/outreach/Ukraine%20pilot%20project%20report%20EN.pdf; OECD (2016b), *Promoting better environmental performance of small and medium-sized enterprises in Georgia*, www.oecd.org/env/outreach/Georgia%20pilot%20project%20report%20final%20EN.pdf; OECD (2015a), *Promoting better environmental performance of small and medium-sized enterprises in Armenia*, www.oecd.org/environment/outreach/SME-greening-country-pilot-report-Armenia-en.pdf; OECD (2015b), *Promoting better environmental performance of small and medium-sized enterprises in Moldova*, www.oecd.org/environment/outreach/Binder%20English.pdf.

The positive role of the private sector also manifests itself through greening the supply chain initiatives. Azerbaijan is a good example of how larger companies can assist smaller companies to improve their environmental performance. In 2007, the Enterprise Development and Training Programme (EDTP) was launched with funding from British

Petroleum (BP) and its co-ventures. EDTP helps companies to develop their business and become a more competitive and environmentally friendly supplier to BP, its partners and the oil and gas industry as a whole.

Institutional challenges

The principal institutional barriers to enhancing green SME policies in the EaP region include the lack of capacity in environmental authorities to develop and implement sector-specific policies, the neglect of environmental compliance promotion activities, the weakness of the “green” component of SME support policies and institutions, and the shortage of resources (besides the limited donor funding) for the support of green business practices constitute.

Environmental authorities in EaP countries do not have specialised units in charge of promoting environmental compliance. Inspectorates are generally not responsible for compliance promotion activities. These functions are sometimes performed by an information centre within the environment ministry, which elaborates and disseminates environmental literature, educational guides, newsletters, digests and other informational materials.

Ministries of economy are the leading actors in the region working with SMEs. In several EaP countries, specialised SME support organisations have been established under the auspices of these ministries. The SME Development National Center of Armenia (SME DNC) was created in 2002 to provide state support to SMEs as well as to implement projects on SME sector development using state budgetary resources as well as contributions from international donor organisations. The SME DNC has a well-developed network of regional branches and representative offices covering all regions of Armenia and is co-ordinated by the central office in Yerevan. The SME DNC provides businesses with information, consulting services and training sessions. It also runs export promotion programmes, supports innovation and effective business models as well as administers financial loan guarantees to start-ups and operating businesses. However, it is only starting to develop activities to promote resource efficiency among SMEs.

In Moldova, the Organisation for Small and Medium Enterprises Sector Development (ODIMM) was created in 2007 as a special office with the main objective of fostering sustainable development of the SME sector. Enterprise Georgia was established in 2014 with a similar mandate.

Local governments can also stimulate SMEs to improve their environmental performance. Thanks to their local knowledge, they are often better placed than central governments to offer tailored measures for local SME development. However, due to financial constraints and other priorities, local governments of EaP countries are not always in a position to use this potential to the fullest. In Armenia and Moldova, local governments have statutory responsibilities in the field of environmental protection and the use of natural resources, but they are not implementing any specific programmes focused on improving SME environmental performance and compliance.

Another major institutional challenge in the region is the weakness of business associations. The existing business organisations, such as chambers of commerce and industry and employers’ associations, are dominated by larger companies, do not give priority to serving the needs of small businesses, and have little knowledge of sustainable production issues. There are very few sector-specific trade associations (especially compared with their abundance in most OECD countries), and their SME membership is quite limited. Small businesses do not see the benefit of collaborating with their competitors and do not receive enough practical

support from business associations in exchange for membership fees that they are asked to pay. This makes it much harder for the government to reach out to individual SMEs.

Conclusion

Although governments in EaP countries increasingly realise the importance of greening SMEs, and have introduced environmental considerations into their strategic documents on SME support activities, they have not yet introduced significant policy measures. Environmental regulatory regimes (such as permitting and inspections) are only starting to be more flexible based on the enterprises' level of environmental risk, still leaving a heavy administrative burden for SMEs. Environment ministries and their associate institutions provide regulatory information to businesses, but these information services rarely reach SMEs.

Governments in EaP countries generally play a passive role in promoting environmental sustainability and best practices among SMEs, and their involvement is generally limited to hosting international donor-funded projects. The lack of technical and financial government support for resource efficiency measures represents an important policy gap in promoting green practices.

References

- EC (2013), *SMEs, Resource Efficiency and Green Markets*, Flash Eurobarometer 381, conducted by TNS Political & Social at the request of Directorate-General Enterprise and Industry, European Commission, Brussels, https://data.europa.eu/euodp/data/dataset/S1086_381.
- OECD (2016a), *Promoting better environmental performance of small and medium-sized enterprises in Ukraine*, Pilot project report, Organisation for Economic Co-operation and Development, Paris, www.oecd.org/env/outreach/Ukraine%20pilot%20project%20report%20EN.pdf.
- OECD (2016b), *Promoting better environmental performance of small and medium-sized enterprises in Georgia*, Pilot project report, Organisation for Economic Co-operation and Development, Paris, www.oecd.org/env/outreach/Georgia%20pilot%20project%20report%20final%20EN.pdf.
- OECD (2015a), *Promoting better environmental performance of small and medium-sized enterprises in Armenia*, Pilot project report, Greening Economies in the Eastern Neighbourhood programme, Organisation for Economic Co-operation and Development, Paris, www.oecd.org/environment/outreach/SME-greening-country-pilot-report-Armenia-en.pdf.
- OECD (2015b), *Promoting better environmental performance of small and medium-sized enterprises in Moldova*, Pilot project report, Greening Economies in the Eastern Neighbourhood programme, Organisation for Economic Co-operation and Development, Paris, www.oecd.org/environment/outreach/Binder%20English.pdf.
- OECD (2007), *Small Businesses and Environmental Compliance: Review and Possible Application of International Experience in Georgia*, Organisation for Economic Co-operation and Development, Paris, <https://www.oecd.org/countries/georgia/42072908.pdf>.



From:
**Environmental Policy Toolkit for SME Greening in
EU Eastern Partnership Countries**

Access the complete publication at:
<https://doi.org/10.1787/9789264293199-en>

Please cite this chapter as:

OECD (2018), “Environmental compliance progress and challenges for SMEs in EaP countries”, in *Environmental Policy Toolkit for SME Greening in EU Eastern Partnership Countries*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264293199-5-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.