

## Executive summary

Although the individual environmental footprint of small and medium-sized enterprises (SMEs) may be low, they constitute the vast majority of businesses and their aggregate impact is considerable.

Many OECD countries have addressed this challenge by implementing information-based tools and regulatory and economic incentives to encourage SMEs to improve their environmental performance, to comply with regulatory requirements and adopt broader green practices that are beyond what is required by law. However, EU Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) have so far 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 is a great variety of strategies and instruments that should be used as part of a policy mix to promote environmental compliance and green business practices, including:

- **regulatory tools:** simplification of regulatory requirements for SMEs through standardised permits or general binding rules as well as other better regulation initiatives; offering regulatory incentives for the establishment of environmental management systems; moving towards sector-specific strategies for compliance assurance
- **information-based instruments:** advising individual businesses directly or disseminating guidance on environmental compliance and good practices to a wide audience in the printed and, increasingly, electronic form; introducing sector-specific certifications and eco-labels as well as other environmental recognition awards
- **economic incentives:** grants, low-interest loans and tax incentives for businesses willing to go beyond compliance and invest in greener technologies; encouraging supply chain pressure from larger companies and exerting it through green public procurement.

Based on the analysis of OECD countries' good practices, this *SME Greening Toolkit* suggests several ways to effectively design and implement these tools with respect to the SME community.

### Improving regulation of SMEs with low environmental risk

**Replace bespoke environmental permitting with standardised requirements.** For specific activities with low environmental risk that are practiced by a large number of operators and employ similar technologies, replacing bespoke environmental permitting with standardised requirements (e.g. general binding rules) can greatly simplify regulation. Rules that require operators to notify or register with the competent environmental authority before engaging in an activity are preferable in terms of the regulator's knowledge of the regulated community and control over its potential environmental impacts.

***Ensure collaboration between environmental and non-environmental regulators.*** Environmental and non-environmental regulators can work together to identify opportunities to reduce duplication in paperwork and conduct joint or delegated inspections in selected sectors. Introducing elements of compliance self-assessment by operators of low-risk facilities (e.g. as part of an environmental management system) can both reduce the administrative burden and improve the efficiency of compliance monitoring.

***Take a sectoral approach to outreach.*** Environmental enforcement authorities should work to strengthen their own staff's capacity to regulate and advise small businesses in specific sectors. Environmental regulations tend to refer to activities rather than sectors. However, businesses, particularly SMEs, respond primarily to messages adapted to their sector. The sectoral approach to outreach is part of a larger customer service perspective that environmental regulators should adopt in their relationship with small businesses.

## **Providing information, advice and guidance**

***The right message is crucial for the effectiveness of communication tools.*** Business benefits of improved environmental performance (in terms of increased efficiency and competitiveness) should be the main “selling point” of environmental outreach to SMEs.

***Online outreach need to be complemented by traditional communication channels.*** Although web-based guidance is a cost-effective communication tool, only a minority of small businesses has rated the internet as their favourite way of receiving environmental information. While in the long term web-based guidance is likely to become the primary source of support for SMEs, in the short and medium term online tools need to be complemented by more traditional instruments such as paper mailings, brochures and workshops.

***The instruments of environmental outreach should be tailored to the nature and needs of small businesses.*** Guidance should be concise and clearly distinguish between legal requirements and good practices in order to avoid excessive efforts by small businesses to achieve compliance. It should contain a simple message about the problem, its solution (step-by-step guidance) and where to go for more information. The most appropriate communication channels are likely to be sector-specific, reflecting the different business models and activities within different sectors. Government bodies, including ministries of economy and environment, should work in partnership with trade associations and business support organisations to elaborate and disseminate environmental guidance, which would add to its credibility.

Non-government actors (including business associations and consulting companies) can provide direct capacity building support to businesses through audits of different aspects of their environmental management, demonstration projects and their follow-up.

***Key success factors of capacity building activities*** include:

- involving multiple public sector organisations and industry associations in programme design, implementation and strategic oversight
- affordability of the support services, which has a major influence on their uptake by SMEs
- consideration of economic impacts of green practices (on companies' profitability, employment, competitiveness, etc.)

- promoting the programme’s achievements, including through publicising success as case studies
- using local delivery partners to enable capacity building programmes to gain local knowledge, credibility and accountability
- regular, independent and impartial evaluation.

## Recognising green practices

***Sector-specific green certification (of business practices) and eco-labelling schemes (for products) can contribute to an increased demand for green business practices.*** They should be designed in a way that the business benefits to SMEs outweigh both the direct costs in terms of fees that must be paid to obtain certification and the indirect costs of staff time to be spent complying with their requirements. It is important to communicate to a broad audience to raise the recognition of the certification or eco-label, starting at a very early stage of the scheme’s development. Trade associations should design marketing and promotional materials which a business could use to display to its customers its “green credentials”.

***It is important to focus on simple, accessible improvements in management practices.*** Small businesses face serious obstacles in implementing environmental management systems (EMSs), including a lack of resources, knowledge and technical capacity, high upfront costs, and low public visibility. The challenge is to tailor EMSs, both in terms of their content and delivery, to the particularities of SMEs. With regard to SMEs, EMSs with varying degrees of complexity and low on paperwork as well as sectoral green label schemes are more likely to be attractive to small businesses than formal ISO 14001 certification, which is relatively complex and costly.

## Creating financial incentives

***As a matter of principle, governments should not provide direct subsidies to businesses for achieving compliance with environmental requirements.*** Instead, governments may introduce tax privileges (accelerated amortisation, reduced property or corporate taxes) and favourable loan policies through public financial institutions to SMEs willing to invest in green technologies. Such indirect subsidies and free technical assistance to SMEs can help to increase their awareness and secure their initial engagement in green practices. However, given the limited availability of public funding for promoting compliance and green business practices, ***any form of assistance should be time-bound and measurable while a gradual transition toward a fee-based system for technical assistance would improve its long-term sustainability***

## Supporting access to green finance

***Government authorities should encourage private banks and insurance companies to provide incentives for good environmental performance of small businesses.*** Banks may require an environmental checklist for loan approval, and insurers may demand a statement of environmental risk identification and control. Banks and insurers can also offer better loan or insurance policy conditions to businesses with green credentials.

## **Sending right market signals**

*Governments should exert direct supply chain pressure by developing and implementing green public procurement policies* as a way to encourage potential SME suppliers to offer environmentally friendly goods and services. To reach SMEs, government agencies responsible for public procurement should communicate their green purchasing policy to a wide range of stakeholders, including present and future suppliers, service providers or contractors, so that they can take account of the new requirements. Governments should encourage larger firms to form partnerships with smaller suppliers on improving their environmental performance and provide public recognition to those who do so.

## **Building institutional partnerships**

*A national government body should take the lead in establishing a network of actors engaged in helping SMEs improve their environmental performance.* Environmental authorities have regulatory competency over only part of the SME community, and they are not the primary interlocutors of small businesses. However, in OECD countries they often co-ordinate the efforts of other public and private actors to promote green behaviour of SMEs. In EaP countries, this role is increasingly being assumed by ministries of economy.

Working in partnership with business groups can be particularly useful as many SMEs do not respond to outreach activities conducted by regulatory government agencies due to suspicion and fear. Feedback from businesses groups is extremely useful in developing and improving compliance assistance programmes.



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