

Chapter 6

Institutional aspects of greening SMEs in EaP countries

This chapter looks at the institutional structures that EaP countries need to establish in order to support the greening of SMEs. It begins with a discussion of the need to build the capacity of government actors, especially local and regional government administrations, to help signpost SMEs to where they can get appropriate resources and information (if it is not available at the local level). The role of national environmental authorities in overall co-ordination of efforts to promote green activity of SMEs is also noted. The chapter then discusses the vital place of trade associations and other industry groups in supporting greening efforts, as they are most likely to have effective communication channels with both their members and government authorities. Finally, the chapter addresses the potential role of financial advisors such as accountants, banks and insurance companies. SMEs are regularly in contact with them, and they are a trusted source of information; they could potentially increase awareness of changes to environmental requirements as well as sources for further information.

Introduction

The best planned environmental regulatory regimes, support programmes, and green economic incentives will not be effective if they are not supported by a strong institutional foundation. This means a clear delineation of who is responsible for supporting greening SMEs, and central anchors that can pull together other information sources and help SMEs navigate through it. It also implies having strong links with industry and non-governmental organisations, which are often vital in supporting greening initiatives. This chapter will explore how OECD countries have been approaching these issues, and how EaP countries can strengthen institutional support for greening SMEs.

Building capacity of government actors in environmental outreach to SMEs

Small businesses get environmental advice and guidance from a multitude of sources, including regulatory agencies, local authorities, special business support organisations, trade or professional associations, consultants, banks and accountants, other business owners and even personal networks (which is especially true for micro-businesses).

A survey of Scottish businesses (NetRegs, 2009) found that almost 70% of businesses managers contact their local government to discuss environmental issues, while less than 30% turn to the national environmental authority. Less than 15% of businesses tend to turn to consultants, trade bodies, business support organisations or a compliance assistance website. These results are similar to those obtained by another UK research (SNIFFER, 2008), which concluded that SMEs looking for information on environmental issues would most likely contact the local authority in the first instance, followed by trade associations, the internet, and professional advisors.

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 efforts of other public and private actors to promote green behaviour of SMEs* because this role is complementary to their main regulatory function (Box 6.1). To be effective in this co-ordinating role, the environmental authority should:

- build better understanding among its own staff of the diversity, needs and most effective ways to work with SMEs;
- conduct staff training programmes on promoting compliance and resource efficiency;
- better integrate advice into its core compliance monitoring and enforcement activities;
- establish partnerships with other government agencies, local governments, publicly funded business support organisations and business associations to increase its credibility with SMEs and reduce their mistrust;
- explore ways to co-ordinate and leverage resources of other government agencies for developing and implementing innovative approaches to assist the SME community
- enhance interaction with business associations to develop plain language guidance documents and factsheets on environmental compliance and green practices and create opportunities for small businesses to comment on proposed regulations.

While many environmental authorities in OECD countries see developing the ability of their staff to understand the nature and needs of the SMEs that they regulate as a priority area in improving SME compliance, others, especially in EaP countries, have reservations about their role in assisting the regulated community. This is why in the EaP region this

role is increasingly being assumed by ministries of economy and the business support organisations created under their auspices.

It is very important that one governmental authority take the lead in establishing a network of actors engaged in helping SMEs improve their environmental performance. Once such a network has been created, its member institutions should perform the crucial “signposting” function of providing businesses with references to direct operators of multiple governmental and non-governmental programmes promoting different aspects of green business. One example of such effort is the “Green Who?” guide for businesses on green supports on offer that has been developed by the Irish EPA. Environmental inspectors should have checklists and reminders to refer operators to appropriate assistance providers as part of their compliance monitoring routine.

In countries where local governments play an important role in regulating small businesses, *the national government should work with local authorities so that they in turn engage the SME community*. Local authorities in small neighbouring communities may benefit from pooling resources for compliance promotion activities. This could be one of the functions of inter-municipal environmental agencies (also known as joint environmental services) – a model increasingly used in several European countries (e.g. in the Netherlands, Sweden and the UK) for local environmental inspection and enforcement programmes. Ireland represents an example of horizontal collaboration between local authorities in providing compliance assistance: each local authority has an environmental awareness officer who participates in a national network.

Box 6.1. Institutional network for SME environmental compliance assistance in the United States

The US Environmental Protection Agency (EPA) has over the years established an extensive network of thousands of public and private compliance assistance providers in different states and industrial sectors. The EPA Office of Compliance has provided technical and financial support to compliance assistance providers which include federal and state regulators, trade associations, as well as universities, non-profit organisations and consulting firms.

In an effort to help encourage better communication around the country between the EPA and state technical assistance programmes, a National Steering Committee (for the state Small Business Ombudsman and Small Business Environmental Assistance Programs) and a National Compliance Advisory Panel (for the state compliance advisory panels, or CAPs) have been formed. Through these co-ordinated efforts, state programmes are able to tackle issues relevant to their purpose and share information to help avoid duplication of effort.

States commonly receive federal grants for compliance promotion activities but use them in accordance with their own priorities. Each state CAP reviews and renders advisory opinions on its state’s assistance programme, ensures that information affecting small businesses is written in a clear and understandable style, and serves as an information bridge between small businesses and the state’s environmental regulator. Some states (such as California, New Jersey and Pennsylvania) have a separate, high-level compliance assistance office.

Source : OECD (2009), *Ensuring Environmental Compliance: Trends and Good Practices*, www.oecd.org/env/tools-evaluation/ensuringenvironmentalcomplianceandgoodpractices.htm.

Involvement of trade associations and other business groups

Business and trade associations tend to have well-established communication channels with their members and with governments, and an understanding the regulatory challenges faced by their members and the approaches that work best for them. Most OECD country governments work with business and trade associations to explain new environmental regulations to their members, as well as to provide regulators with practical support in designing regulatory approaches to address sector-specific needs. However, only in a few countries do they use trade associations to stimulate directly the adoption of green practices.

At the same time, evidence suggests the potential value of increased engagement of business and trade associations in promoting green behaviour of small businesses. In a recent survey of European SMEs (EC, 2013), businesses indicated that external support for green practices was much more likely to come from the private rather than the public sector (75% vs. 35%). Advice and other non-financial assistance from private companies (43%) and business associations (36%) were quoted as the most common forms of external support.

Working in partnership with business groups can be particularly useful as SMEs can be apprehensive about outreach activities from regulatory agencies. ***Business and trade associations have a role to play in “signposting” different web-based information and guidance sources*** and communicating their usefulness for small businesses given SMEs’ reluctance to proactively seek such information on the internet. Feedback from businesses groups is extremely useful in developing and improving compliance assistance programmes.

Business associations can help small businesses to improve profitability through environmental management, e.g. by ***developing marketing and promotional materials*** which a business could use to display to its customers its “green credentials” and practices. For example, the Bright Green Business Network – a Scotland-wide organisation with fee-based membership – helps its members (mostly SMEs) to find green suppliers, to develop growth opportunities on the basis of good environmental performance.

Business organisations can also have a role in providing ***sector-specific technical assistance to companies introducing green practices*** (through information dissemination, training and referral to sources of expertise). This role in France is played by 21 Technical Industrial Centres (www.reseau-cti.com) covering 32 industry sectors (primarily dominated by SMEs), working with support from different trade associations and funded through fees paid by businesses. However, they face strong competition from private service providers. When a private sector market for environmental assistance services becomes strong enough, it makes sense for such business organisations to phase out direct assistance and keep signposting as the only promotion function.

At the same time, there are certain constraints in engaging business associations in promoting green practices among SMEs. Many membership associations are focused more on defending their members’ interests in the design of regulatory requirements and much less on providing them with environmental information and guidance. ***Given the institutional weakness of business associations in EaP countries, they should be a primary target for building capacity in promoting green practices.***

Furthermore, the extensive use of trade associations may be unfeasible if the majority of small businesses do not belong to any such association, which is the case in EaP countries. The initial step would then be to ***explain to SMEs, through a public relations campaign, the benefits of trade associations to their members*** (Box 6.2). In the meantime,

the government should rely primarily on state-funded business support organisations, work with trade associations with an already established SME audience, and try to engage other sector groups in more active environmental outreach.

Box 6.2. Potential benefits of trade associations to SMEs

There are many potential benefits for businesses to join trade associations, especially for SMEs. Of course, not all trade associations are created equal, and they may themselves require support to develop their capacities. Depending on the level of development, associations can provide:

- free advice on many technical, legal and commercial nature issues, reports on market conditions and trends in the sector, and reduced-rate consultancy services, among other services
- a stronger voice for the sector than individual businesses. As the membership base grows, so does the trade association’s authority
- peer networking opportunities for members at conferences, exhibitions and other events while they are learning about issues which may affect their business
- updates regarding changes in industry technical standards, policy and news which are disseminated to members and provide an early warning system with advice on how to deal with the issues which may be encountered as a result
- enhancement of a company’s reputation. For many industries, membership of the industry association is seen as a badge of quality, particularly for those industries which are heavily regulated.

Source : Trade Association Forum (2015), www.taforum.org.

Companies willing to improve their environmental performance may also want to create “eco-industrial networks” – partnerships outside the framework of trade associations. An eco-industrial network is more than an informal association of companies: it is intended to be a lasting arrangement in which participating businesses share environmental and cost-effectiveness information. Eco-industrial networks vary greatly in scale and purpose: some may simply share information on new technologies, legislation or training opportunities; others may create functional links among participating companies (e.g. waste management facilities). Such networks are often managed by steering committees which include representatives of national and local government authorities.

Ireland’s “Saving Money through Industry Links and Exchanges” (SMILE) Resource Exchange (www.smileexchange.ie) is one such network. It a free service for businesses that encourages the sharing and exchange of resources in order to reduce costs and help the environment. Based on the concept “one’s waste could be another’s resource”, businesses have opportunities to identify potential partnerships through networking exchange events and an online exchange facility. This service is funded by the Irish EPA, Cork County and City Councils, as well as county and city enterprise boards. Eco-industrial networks are also quite popular in Canada, Germany and a few other OECD countries (O’Regan and Moles, 2009). In addition, environmental trade fairs and exhibitions are important venues for networking between small businesses.

A network can also bring together publicly and privately funded business support organisations. The Enterprise Europe Network (EEN) funded by the European Commission brings together close to 600 member organisations, including chambers of commerce and industry, technology centres, universities and development agencies. Focusing on eight industry sectors, it promotes partnerships between public and private organisations as well as SME associations in order to raise SMEs' awareness of their environmental impact, existing and new environmental legislation, and the benefits of environmental management systems (Miller, 2011).

Enhancing the role of banks, accounting and insurance companies

Most SMEs have frequent interaction with accountants, banks and insurance companies and rely on them as credible sources of information. These communication channels provide opportunities for using respective institutions both to disseminate information and to exert pressure on SMEs to pursue environmental improvements to achieve greater business success.

Several studies conducted in the UK have shown that the “most trusted adviser” for SMEs is their accountant (Spence et al., 2012). Accountants routinely give advice to their SME clients on a wide range of topics, including taxation and financial management, but also organisational issues, marketing and strategic planning. There is potential for further widening advice provision to include green practices. To build on this potential, *the government should work with professional bodies such as accounting associations* to provide their members with:

- awareness of potential information sources on green practices (including relevant regulatory requirements)
- education to understand specific environmental issues for business, such as the benefits of resource efficiency
- knowledge of the SME aspects of environmental management systems and industry-specific voluntary environmental standards
- training in specific environmental accounting techniques (e.g. environmental auditing skills).

Banks and insurance companies also play an increasingly important role in greening business behaviour. At the international level, the United Nations Environment Programme has published high-profile policy documents to promote sustainability in the banking and insurance sectors (UNEP, 2011, 2012). On the ground, the growing number of large financing institutions follow the Equator Principles for assessing environmental and social risks of project finance transactions (Box 6.3). Banks increasingly require an environmental checklist for loan approval, while insurers demand a statement of environmental risk identification and control.

Governments should actively encourage banks and insurers to offer better loan or insurance policy conditions to businesses with green credentials. Many insurance companies have recognised their own benefits in having client firms that proactively manage their environmental performance, as this leads to reduced levels of risk of insurance claims based on environmental damage. For example, the Irish EPA has started discussions with the Irish Insurance Federation to try to make sure that insurance companies introduce environmental requirements for their clients. Similarly, insurance companies in Korea are considering the differentiation of insurance premiums depending on the level of environmental risk.

Box 6.3. The Equator Principles

The Equator Principles (EPs) are a credit risk management framework for determining, assessing and managing environmental and social risk in project financing. The first three Principles lay down the fundamentals of environmental and social assessment:

Principle 1: Review and Categorisation. When a project is proposed for financing, the financing institution (FI) will, as part of its internal environmental and social review and due diligence, categorise it based on the magnitude of its potential environmental and social risks and impacts.

Principle 2: Environmental and Social Assessment. For all projects with a potential adverse environmental and social impact, the FI will require the client to conduct an assessment of environmental and social risks. The assessment documentation should propose measures to minimise, mitigate, and offset adverse impacts in a manner relevant and appropriate to the nature and scale of the proposed project.

Principle 3: Applicable Environmental and Social Standards. The assessment process should address compliance with relevant host country laws, regulations and permits that pertain to environmental and social issues.

The EPs are adopted voluntarily by FIs and are intended to serve as a common baseline and framework for the implementation by their own internal, social and environmental policies, procedures and standards related to their project financing activities.

Source : Equator Principles (2015), www.equator-principles.com.

Conclusion

It is important that a national government body such as the environment ministry or the ministry of economy take the lead in establishing a network of actors engaged in helping SMEs improve their environmental performance. Once such a network has been created, its member institutions should perform the crucial “signposting” function of providing businesses with references to direct operators of multiple governmental and non-governmental programmes promoting different aspects of green business. Working in partnership with business groups can be particularly useful in developing and improving compliance assistance programmes. Business associations can also help small businesses to improve profitability through better environmental management. Other more general business service providers, such as insurance agents, accountants, and banks, can also act as important conduits for information. They are in regular contact with SMEs.

Overall, the through line in this chapter is the multifaceted nature of institutional support for greening SMEs, and the need to ensure co-ordination and communication among disparate actors. Government support is important, but responsibility for different aspects of environmental regulation sometimes dispersed over different agencies, a national body needs to act to co-ordinate. At the same time, with SMEs often seeking out information from local government, capacity at the local level needs to exist to at the very minimum direct SMEs to where useful resources and information can be found. Finally, as noted above, business associations and private service providers also need to be involved as vital conduits for information.

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