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Environmental Policy Toolkit for **Greening SMEs**

in the EU Eastern Partnership countries

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Environmental Policy Toolkit for Greening SMEs in EU Eastern Partnership countries

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The “Greening Economies in the European Union’s Eastern Neighbourhood” (EaP GREEN) programme aims to support the six Eastern Partnership countries to move towards green economy by decoupling economic growth from environmental degradation and resource depletion. The six EaP countries are: Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova and Ukraine. The programme is structured around three components: (1) Governance and financing tools for sustainable consumption and production (SCP) and green economy; (2) Strategic Environmental Assessment and Environmental Impact Assessment accompanying SCP policy implementation; and (3) demonstration projects. Governments and the private sector are the key target groups of EaP GREEN.

The programme is financially supported by the European Union and other donors, and is jointly implemented by four international organisations – OECD, UNECE, UNEP, and UNIDO. The total EaP GREEN budget for a period of implementation of 48 months is 12.5 million Euros. Although the programme is regional, many of its activities will be implemented nationally and the results shared in various regional forums.

Disclaimer

Foreword

Reducing the environmental impact of small and medium-sized enterprises (SMEs) in both manufacturing and services is a key success factor in greening the economy. Improving the environmental performance is also a significant business opportunity for SMEs themselves as important suppliers of goods and services.

However, the willingness and capability of SMEs to adopt sustainable practices and seize green business opportunities generally face size-related resource constraints, skill deficit and knowledge limitations. SMEs are often unaware of many financially attractive opportunities for environmental improvement. There is a widespread misperception that protecting the environment is associated with technical complexity, burdens and costs. Even when they are aware of the potential of better environmental performance to improve a firm's competitiveness, a lack of appropriate skills and expertise commonly prevents firms from acting upon win-win opportunities. At the same time, the lack of resources often leads to SMEs being risk-averse and less willing to invest in new technologies, partly because of the uncertainly about the payback period.

The objective of this *Environmental Policy Toolkit for SME Greening* is to help governments in the European Union's Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) to design and implement key instruments to promote environmental compliance and green business practices among SMEs using the existing good practices in EU and other OECD countries. It has been developed within the framework of the initiative "Greening Economies in the Eastern Neighbourhood" (EaP GREEN) funded primarily by the European Commission (EC) and implemented by the OECD in partnership with the UNEP, UNIDO and UNECE. Besides key government stakeholders (first of all, ministries of environment and economy), the target audience of this document includes business associations as well as non-governmental and academic institutions in EaP countries.

The Toolkit focuses predominantly on environmental policy instruments to promote green behaviour of SMEs. It covers three categories of instruments: regulatory simplification and incentives, information-based tools (which comprise both providing advice and guidance to businesses and providing their customers and the public at large with information about their green practices), as well as financial and economic incentives. These instruments should be complemented by appropriate industrial development, regional development and science and technology policies that lie outside the scope of this Guide. The Guide draws on the past OECD analysis on SME-related policies, the extensive work that the EC has done to implement the 2008 Small Business Act for Europe, as well as other relevant literature.

The interim draft of the *Environmental Policy Toolkit for SME Greening* was discussed by EaP country experts at a regional meeting in Kiev, Ukraine on 12 February 2015.

Table of contents

Foreword **3**

Acronyms **6**

Executive summary **9**

Improving regulation of SMEs with low environmental risk 9
Providing information, advice and guidance 10
Recognising green practices 11
Offering financial incentives 12
Sending right market signals 12
Building institutional partnerships 12

1. SME greening: Opportunities and challenges **15**

1.1 Definition of SMEs 15
1.2 Role of SMEs in greening the economy 16
1.3 Obstacles to improving environmental performance of SMEs 17

2. Current environmental policies targeting SMEs in EaP countries **21**

2.1 Regulatory regimes 21
2.2 Existing policy incentives 22
2.3 Technical and financial support for green practices 23
2.4 Institutional challenges 24

3. Regulatory tools **27**

3.1 Simplified permitting and general rules 27
3.2 Better regulation initiatives for small businesses 29
3.3 Incentives for environmental management certification 30
3.4 Sectoral approach to compliance assurance 31

4. Information-based instruments **33**

4.1 Advice and guidance 33
4.1.1 Designing effective messages 33
4.1.2 Proactive information dissemination 36
4.1.3 Web-based guidance tools 37
4.1.4 Direct capacity building 40
4.2 Recognition of green practices 42
4.2.1 Simplified environmental management systems 42
4.2.2 Sector-specific green certifications 44
4.2.3 Eco-labels 45
4.2.4 Environmental recognition awards 47

5. Economic incentives 48

5.1 Tax privileges 48
5.2 Soft loans 49
5.3 Grants and free consultancy services 50
5.4 Role of supply chain management and public procurement 51

6. Institutional aspects of greening small businesses 55

6.1 Building capacity of government actors in environmental outreach to SMEs 55
6.2 Involvement of trade associations and other business groups 57
6.3 Enhancing the role of banks, accounting and insurance companies 59

Bibliography 61

Tables

Table 1. Internal barriers in SMEs that prevent the adoption of environmental improvements 19
Table 2. Cost savings from environmental improvements in SMEs 34

Figures

Figure 1. Percentage of SMEs receiving support for resource efficiency actions 23
Figure 2. Manufacturing of certified green products in Korea 46
Figure 3. Size of the green product market and public procurement in Korea 54

Boxes

Box 1. Policy initiatives for SME greening in the EU 17
Box 2. Examples of financing sources for energy efficiency and renewable energy in Armenia 24
Box 3. General binding rules in the Netherlands 28
Box 4. NetRegs – an internet-based compliance assistance tool in the UK 39
Box 5. GreenEcoNet: The first pan-European website for SME greening 40
Box 6. Green Offer by Enterprise Ireland 41
Box 7. Environmental certification of SMEs in Norway 43
Box 8. Financial incentives for environmental investments in the Netherlands 48
Box 9. Low-interest loans for green investments: Examples from selected countries 49
Box 10. Subsidies for environmental technology investments in Belgium 50
Box 11. OECD Recommendation on the Environmental Performance in Public Procurement 53
Box 12. Institutional network for SME environmental compliance assistance in the United States 56
Box 13. Benefits of trade associations to SMEs 58
Box 14. The Equator Principles 60

Acronyms

ACFCI	Association of French Chambers of Commerce and Industry
ADB	Asian Development Bank
ADEME	Environment and Energy Management Agency (France)
CSR	Corporate social responsibility
Defra	Department of Environment, Food and Rural Affairs (UK)
DG	Directorate-General
EA	Environment Agency (UK)
EaP	European Union's Eastern Partnership
EaP GREEN	Greening Economies in the Eastern Neighbourhood initiative
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECAP	Environmental Compliance Assistance Programme
EDTP	Enterprise Development and Training Programme
EEN	Enterprise Europe Network
EIA	Environmental impact assessment
EIB	European Investment Bank
EMAS	Eco-Management and Audit Scheme
EMS	Environmental management system
EPA	Environmental Protection Agency
EPD	Environmental product declarations
EPs	Equator Principles
EU	European Union
FI	Finance institution
GBR	General binding rule
GPP	Green public procurement
IFC	International Finance Corporation
IFI	International finance institution
KfW	German public bank "Kreditanstalt für Wiederaufbau"

KRW	South Korean won
MIA	Environmental Investment Allowance, the Netherlands
NGO	Non-governmental organisation
NIEA	Northern Ireland Environment Agency
ODIMM	Organisation for Small and Medium Enterprises Sector Development (Moldova)
OECD	Organisation for Economic Co-operation and Development
SEPA	Scottish Environment Protection Agency
SME	Small and medium-sized enterprise
SME DNC	SME Development National Center (Armenia)
UK	United Kingdom
UNECE	United Nations Economic Commission for Europe
UNEP	United Nations Environment Programme
UNIDO	United Nations Industrial Development Organization
VAMIL	Arbitrary Depreciation of Environmental Investments, the Netherlands
VIBES	Vision in Business for the Environment of Scotland initiative

Executive summary

Although the individual environmental footprint of small and medium-sized enterprises (SMEs) may be low, they constitute a vast majority of businesses, and their aggregate impact is considerable. At the time when a growing number of large companies worldwide recognise the advantages of cleaner production in terms of reduced costs of resources, environmental compliance, and customer relations, most SMEs lack the understanding that higher environmental performance can be a competitive advantage. Most importantly, they have limited capacity to interpret and respond to relevant regulatory requirements and policy incentives.

Many EU and other 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 not mandated by the law (*i.e.* go beyond compliance). 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

There is a marked trend in OECD countries to simplify environmental regulatory requirements for SMEs that are characterised by a low level of environmental risk. This

simplification generally involves ***replacing bespoke environmental permitting with standardised requirements*** (*e.g.* general binding rules) for specific activities with low environmental risk that are practiced by a large number of operators and employ similar technologies. 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.

Another way to reduce the administrative burden on SMEs is to ensure collaboration between environmental and non-environmental regulators to identify opportunities to reduce duplication in paperwork and conduct through 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) would not only contribute to the reduction of the administrative burden but also improve the efficiency of compliance monitoring.

While environmental regulations tend to refer to activities (which may or may not correspond to a specific economic sector), efforts to promote compliance with them should generally be sector-based because 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.*** Environmental enforcement authorities should work to strengthen their own staff's capacity to regulate and advise small businesses in specific sectors.

Providing information, advice and guidance

The government's environmental outreach to SMEs includes compliance promotion and larger efforts to encourage green business practices. The rapid expansion of web-based guidance, an undoubtedly modern and cost-effective communication tool, does not yet dominate to the preferences of SMEs: 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 other, more traditional instruments such as paper and electronic mailings, brochures and workshops***.

Packaging the information and formulating 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. In making the "business case", it may be particularly useful to present examples of other similar companies receiving commercial benefits as a result of the environmental management improvements in question.

The instruments of environmental outreach should be carefully 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. Capacity building and support for enterprises may also cover activities such as development and dissemination of methodological materials and case studies, as well as the implementation of training programmes. ***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; and
- Regular, independent and impartial evaluation.

Recognising green 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, ***it is important to focus on simple, accessible improvements in management practices***. 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.

Sector-specific green certification (of business practices) and eco-label schemes (for products) also contribute to an increased demand for green business practices. ***Green certification and eco-labelling schemes 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".

Offering financial incentives

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. ***As a matter of principle, governments should not provide subsidies to businesses for achieving compliance with environmental requirements.***

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.

Direct subsidies and free technical assistance to SMEs 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, ***a gradual transition toward a fee-based system for technical assistance would improve its long-term sustainability***.

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

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 ***coordinate 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. It is important that a national government body 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. The government (ministry of economy or industry) may also provide assistance with the creation of eco-industrial and similar business networks promoting green business behaviour.

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. 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. Business organisations can also have a role in providing sector-specific technical assistance to companies introducing green practices.

1. SME greening: Opportunities and challenges

1.1 Definition of SMEs

The legal definition of SMEs varies by country and by industry. In addition to the number of employees, methods used to classify small companies include annual sales (turnover), value of assets and net profit (balance sheet), alone or in a mixed definition. The definition in the European Union (EU) is that an SME is an enterprise of less than 250 employees, with a turnover below EUR 50 million or balance sheet total not exceeding EUR 43 million. A small business is defined as having less than 50 employees with a less than EUR 10 million balance sheet, and a micro-business would have less than 10 employees and less than EUR 2 million balance sheet.

Among EaP countries, the definition of an SME in terms of the number of employees is identical to that of the EU in Armenia, Moldova and Ukraine (in the former two countries the turnover thresholds have been adjusted to the average income levels, which are much lower than in the EU). Belarus defines micro-enterprises as having up to 15 employees, small companies have up to 100 employees, and medium-sized firms up to 250 (there is no turnover criterion). Georgia has set lower thresholds: 20 employees for small enterprises and 100 for medium-sized ones. In Azerbaijan, the thresholds for "small enterprises" (a single category) vary depending on the economic sector: 50 employees in industry, 25 in agriculture, 10 in services, *etc*.

At the same time, environmental regulatory regimes are designed around environmental risk and not to address any particular company size. No environmental regulation specifically targets SMEs, instead distinguishing low-risk activities and installations, although regulatory guidance usually keeps in mind particular features of small businesses. Environmental enforcement authorities are not systematically aware of the number of SMEs they regulate and do not collect this information.

It is not easy to define low risk to human health and the environment. Environmental regulators in different countries have very different risk tolerances, driven in part by their mandate and the institutional context. In practice, low-risk installations are usually defined "by exclusion", *i.e.* as those that are not considered high-risk. Risk assessment criteria typically relate to the environmental hazard of a regulated facility (its complexity in terms of impacts on different environmental media, location with respect to urban and environmentally sensitive areas, volume of pollution releases and potential for accidents) and to its operator's performance (compliance record and environmental management practices). Low-risk installations are generally eligible for a simplified regulatory regime.

The environmental legislation of EaP countries defines an enterprise as having low, medium or high environmental risk depending on their economic activity and potential environmental impact. For example, in Georgia and Belarus economic activities with high environmental impact are defined in relation to the requirement to undergo an environmental impact assessment (EIA). Low environmental impact may also be defined

with respect to certain environmental media: in Belarus, no air emission limits are set for low-impact facilities.

This Guide uses the term 'SMEs' as a more widely accepted term, particularly in the context of greening the economy and in recognition of the specific regulation and compliance challenges related to small businesses. However, it focuses on those SMEs that are considered by relevant environmental regulators to be low-risk installations.

1.2 Role of SMEs in greening the economy

SMEs account for approximately 99% of all enterprises (of which over 90% of enterprises are micro-enterprises) and two-thirds of employment across the OECD area. Although small businesses' individual environmental footprint may be low, their aggregate impact can, in some respects, exceed that of large businesses. For example, SMEs account for 60-70% of industrial pollution in Europe (Miller, 2011). The key sectors where SMEs have a significant environment impact include livestock farming, construction, metal finishing, waste treatment, food and drink industry, textile and leather manufacturing, *etc*.

Reducing the environmental impact of SMEs through achieving and going beyond environmental compliance in both manufacturing and services is a key success factor in greening the economy. SMEs are important for green growth as key drivers of eco-innovation and key players in emerging green industries. Growing opportunities exist in the services associated with greener manufacturing. Highly creative and innovative SMEs in the service industry, such as design and architecture firms or bio-energy solution providers, contribute increasingly to eco-innovation across a broad range of industries. New and young firms are particularly important for radical green innovations, as they often exploit technological or commercial opportunities which have been neglected by more established companies or even challenge the business models of existing firms.

The "green transformation" is also a significant business opportunity for SMEs themselves as important suppliers of goods and services. Indeed, the principal drivers for SMEs to adopt green practices are non-regulatory and include:

- The rising price of commodities and key raw materials;
- Potential cost savings and competitive advantage; and
- Market pressure from customers.

However, the willingness and capability of SMEs to adopt sustainable practices and seize green business opportunities generally face size-related resource constraints, skill deficit and knowledge limitations. SMEs are often unaware of many financially attractive opportunities for environmental improvement. There is a widespread misperception that protecting the environment is associated with technical complexity, burdens and costs. Even when they are aware of the potential of better environmental performance to improve a firm's competitiveness, a lack of appropriate skills and expertise commonly prevents firms from acting upon win-win opportunities. At the same time, the lack of resources often leads to SMEs being risk-averse and less willing to invest in new technologies, partly because of the uncertainly about the payback period.

The UK Carbon Trust poll found that 65% of consumers want to purchase products from environmentally responsible companies. Yet more than half of SMEs see a greener

economy as a threat, about half of small businesses believe that benefitting from the green economy requires a lot of investment capital, and only 22% think that investing in green products and services will lead to higher profits (Carbon Trust, 2011).

For SMEs, going green is largely a voluntary action dependent upon the vision and conviction of one or a few individuals. Many SMEs are willing to invest in more energy-efficient and environmentally friendly processes, but they require reliable partners in financing their investments and the right regulatory framework. However, they often face obstacles in getting access to finance, with banks being reluctant to fund such investments and lacking the specialised staff needed to evaluate SME projects.

The increasing number of business associations in OECD countries (for example, the UK Forum of Private Businesses[1]) are asking their governments to provide support to SMEs in the transition to the green economy by making sure that regulations are easy to understand and take account of the needs of small businesses; providing clearer information on the range of green choices available and their practical and financial aspects; and using financial incentives to give small businesses confidence to invest in green technologies and management systems. In order to address these needs, the EU has undertaken a number of policy initiatives to support the green transformation of SMEs (Box 1).

Box 1. Policy initiatives for SME greening in the EU

The concerns of small businesses have become a priority as governments across the EU introduce better regulation initiatives. The Small Business Act for Europe (2008) was developed to establish the "Think Small First" approach to policy making and regulation and to promote SMEs' growth. One of its ten high-profile principles is "enable SMEs to turn environmental challenges into opportunities" – a paradigm which lies at the heart of the transition to green growth. The European Commission has committed itself to "rigorously assessing the impact of forthcoming legislation and administrative initiatives on SMEs ("SME test") and taking relevant results into account when designing proposals".

The European Commission has recently prepared a Green Action Plan for SMEs, which aims to:

- Improve resource efficiency of European SMEs;
- Support green entrepreneurship;
- Exploit the opportunities of greener value (supply) chains; and
- Facilitate market access for green SMEs.

Source: EC, 2008; EC, 2014b

1.3 Obstacles to improving environmental performance of SMEs

Recent research has shown that while SMEs account for approximately 64% of the industrial pollution in the EU, only very few of them proactively engage in actions to reduce their environmental impact: 3-4% of micro-businesses, 7-8% of small companies and 6-7% of medium-sized companies (Calogirou et al., 2010).

For the government, the environmental regulation of SMEs represents a major challenge due to the diversity of SMEs' activities and respective environmental issues,

the substantial number of operators, and the lack of information available to the regulator about their levels of compliance. The majority of SMEs are "vulnerably compliant" (EC, 2002), in the sense that they do not know enough about environmental requirements to ensure that they always comply with all of them.

What motivates SMEs and their owners is likely to be very different from what motivates large corporations. Despite their heterogeneity, SMEs have many common characteristics that influence their approach to environmental issues and the implementation of green practices; both in achieving and going beyond compliance (see also Table 1):

- Ownership and management are concentrated on the same hands. The entrepreneur plays a key role in the enterprise and his personal preference is usually the most influential factor when deciding about investments and business strategies.

- This entrepreneur is very likely to suffer from important time and task pressure, which leaves him with little time to reflect strategically on future activities beyond the core business of the company. This could imply that investments that are not related to core business are regarded as secondary and suffer from the lack of attention.

- SMEs have a limited capacity (lack of resources, time and expertise) to absorb environmental requirements and to comply with them, as well as a low awareness of the need to address their environmental impacts.

- The entrepreneur himself usually is not well informed about opportunities of the relevant green practices, their costs and benefits. Given this time and task pressure, SMEs usually rely heavily on the opinion of their professional surrounding (trade associations, suppliers, clients, accountants, *etc*.), which often have the same lack of information.

- The entrepreneur is often risk-averse given the relatively small economic size of the enterprise. Uncertainty may be associated with operational issues within companies, such as the capacity to absorb and implement the change required to improve environmental performance. These include uncertainty about the most appropriate technology to be used and the lack of knowledge on how to incorporate green practices into the core business planning.

- The required pay-back for new investments is often as short as two-three years (it is also a function of the cost of capital). Generally, environmental technologies encompass higher costs in the short term whereas the extra benefits are realised in the longer term, which hinders their adoption by SMEs. Limited access to finance is also a key limitation. The most common environmental issues for SMEs, such as resource and energy savings, which usually are not related to the core business of the company, are only addressed if actions are likely to result in a substantial cost reduction in the short term.

- SMEs experience little external pressure to behave in a more environmentally friendly manner. It is difficult for NGOs or customers to assign specific negative environmental consequences to one or more SMEs, while it is much easier to

target large well known enterprises. Furthermore, governments in general avoid increasing external pressure on SMEs by environmental legislation.

Table 1. Internal barriers in SMEs that prevent the adoption of environmental improvements

Resources	Attitudes and company culture	Awareness
• Lack of time to investigate issues or locate support or tools • Severe time pressure in small enterprises • Lack of resource allocation to address environmental issues • Lack of investment in training • Cost constraints on investment • No employee allocated responsibility for environmental issues	• Belief that SMEs have a low environmental impact and have no environmental issues to consider • Mismatch between beliefs and actions: positive attitude toward the environment is not translated into actions • Perception that environment has no relevance to the business: environment given no status as a business issue • Scepticism about the potential cost savings and market benefits • Prevalence of short-term business planning; belief that costs of environmental measures arise quickly while benefits accrue slowly	• Low awareness of environmental legislation • Low awareness of support organisations and information sources

Source: EC, 2002

The latest Eurobarometer survey of EU SMEs (EC, 2013) looked at reasons for inaction on resource efficiency. Approximately 26% of European SMEs said that administrative or legal procedures were complex, and 24% said that the cost of environmental actions was a barrier. In addition, 20% indicated that they were hampered by a lack of specific environmental expertise, and 17% experienced problems in choosing the right actions for the company.

Half of SMEs in the EU (51%) do not wish to go beyond compliance with applicable regulatory requirements, while 22% are contemplating doing more than required by the legislation, and 19% are doing so already (for 11% of respondents, environmental concerns are part of the company's priority objectives). The larger the SMEs, the more likely it is to define environmental concerns as a priority. Still, over 90% of SMEs in the EU are taking at least some actions to be more resource-efficient for purely economic reasons. Most common actions relate to minimising waste, saving energy and raw materials.

2. Current environmental policies targeting SMEs in EaP countries

2.1 Regulatory regimes

In all EaP countries, the same ***regime for setting environmental requirements*** applies regardless of the facility's level of environmental risk, which creates a heavy administrative burden for SMEs as well as for regulators. The regulatory system is heavily 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 enterprises with represent the highest risk. 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 2004-2007 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.

The differentiation of regulatory regimes also concerns compliance monitoring. 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.

2.2 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.

The 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.

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.

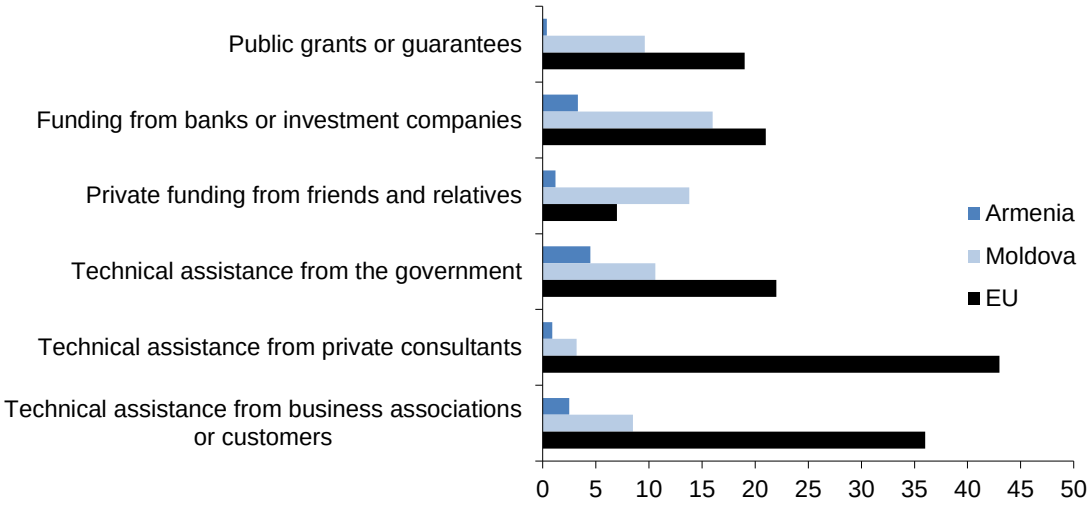
2.3 Technical and financial support for green practices

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[2].

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 1). 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 1. Percentage of SMEs receiving support for resource efficiency actions



Source: OECD, 2015a; OECD, 2015b; EC, 2013

Compared to public grants and loan guarantees private financing plays a somewhat bigger role in supporting resource efficiency and in the production of green goods and services in EaP countries. However, the existing private financing mechanisms are generally limited to credit lines provided by international finance institutions (IFIs) (Box 2). Almost all IFIs active in EaP countries have opened such credit lines. These include the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC), the European Investment Bank (EIB), the Asian Development Bank (ADB), the German public bank *Kreditanstalt für Wiederaufbau (KfW)*, and the Development Bank of Austria. EBRD is by large the most significant financier in the region. A number of IFIs finance relevant environmental activities through credit lines primarily dedicated to SMEs, such as EIB and ADB. In addition, there are a number of

multilateral facilities and donor financed platforms that have also issued environmental credit lines to local financial institutions in the region that target SMEs (*e.g.* the Green for Growth Fund and the Global Climate Partnership Fund). In the Lviv region of Ukraine, the regional government subsidises interest rates of commercial loans for energy efficiency projects in partnership with five private banks.

Box 2. Examples of financing sources for energy efficiency and renewable energy in Armenia

- Inecobank and Araratbank are providing "green loans" for energy saving projects, including energy-efficient lighting, heat insulation, installation of thermal solar systems, *etc*. These loans are provided with the support of the Green for Growth Fund for Southeast Europe.
- Ameriabank (since 2012) and Anelik bank (since 2010) are providing "renewable energy loans" under the Armenian Sustainable Energy Financing Facility initiated by the EBRD, aiming to support financing of energy efficiency and renewable energy projects of private business in Armenia.
- IFC provided $15 million financing to HSBC Bank Armenia to help the bank support sustainable energy projects and provide loans to SMEs interested in investing in energy efficient technologies and promoting the efficient use of resources.

Source: SME DNC, 2013

International donor-sponsored initiatives to promote SME green development play a substantial role in improving access to finance and know-how for SMEs in the region. While they are not sustainable in the long term, they contribute to building social and environmental responsibility in private banks. In Georgia, a few banks have established environmental management units, and the Bank of Georgia has formally adopted an environmental and social policy and respective procedures.

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.

2.4 Institutional challenges

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 the principal institutional challenges in this domain in the EaP region.

Environmental authorities in EaP countries do not have a specialised unit which would be in charge of promoting environmental compliance. The inspectorate is 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 in working with SMEs. Specialised SME support organisations under the auspices of the ministry of economy have been established in several EaP countries. 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 coordinated 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.

3. Regulatory tools

3.1 Simplified permitting and general rules

Regulators do not usually have strategies that apply only to low-risk facilities – they simply have fewer resources to spend on them than on high-risk sites. However, an increasing number of environmental regulators in OECD countries establish special regimes for low-risk installations, the vast majority of which are SMEs.

While permitting remains a dominant regulatory regime in most OECD countries, there is a rapid expansion of standard rules, from simplified permitting to activity-based requirements without mandatory notification of the regulator, to a large number of SME sectors. Smaller businesses, usually having few or no in-house regulatory resources, usually welcome a standardised, rules-based approach to setting environmental requirements, which gives them more certainty about the most effective way to achieve compliance than do individual, bespoke permits. Most SMEs prefer to be told what they need to do clearly and concisely. Rule-based regimes also have other benefits, including reduced bureaucracy and costs to the regulator and the absence of impact on the level playing field within an industrial sector.

The trend to simplify regulatory requirements for SMEs is well illustrated by the introduction in 2009 in France of a new environmental regulatory regime – registration – for installations that present risk significant enough to justify its prior evaluation but that can be addressed through standardised regulatory requirements[3]. By the end of 2014, 35% of installations previously covered by permitting requirements are planned to be transferred to the registration regime. This is done for specific activity sectors (*e.g.* warehouses, petrol stations, drycleaners, small distilleries), activity volume thresholds being applied where necessary. The introduction of this new regime was the result of a gap between the administrative formality of a declaration and the extremely rigorous process of authorisation (permitting). The registration still requires the submission of an application and a simplified public consultation, but it has increased the predictability of the requirements and reduced the application processing time.

Another example of simplified permits is found in England and Wales, where local authorities issue air pollution permits to small businesses. The Department of Environment, Food and Rural Affairs (Defra) produces guidance notes for each of the 80 sectors regulated by local authorities. Developed in collaboration with business organisations by technical working groups, these guidance notes contain the descriptions of relevant best available techniques and emission limit values. They are generally quite prescriptive so as to maintain a level playing field between local authorities across the country.

Regulatory regimes for setting environmental requirements are usually organised in tiers, depending on the level of a facility's risk. In Scotland, SMEs that are not subject to integrated permitting can be regulated by simple licences/permits (with template conditions), a registration regime (involving a notification with information on who is

engaging in relevant activities), or general binding rules (GBRs) where lower-risk activities (discharge into a surface water drainage system, storage and application of manure and fertilisers, *etc*.) do not need to be notified to the environmental regulator.

While the simplified permitting procedure always involves a formal application from the operator, which is approved by the regulatory authority at the sub-national or local level (although agencies in many countries increasingly use straightforward online application forms tailored to individual sectors), rules-based regimes may or may not require notification of, or registration with, the competent authority. ***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.

There is no standard terminology to describe rules-based regulatory regimes across OECD countries. Terms such as 'registration' and 'general binding rules' mean different things in different systems. For example, in some countries (in the Netherlands for Type B installations, Box 3) GBRs are defined as standard conditions specific to a type of activity or a sector with obligatory notification of environmental authorities before engaging in an activity, whereas in others (*e.g.* in the UK) they do not impose such a requirement. In the latter case, the system is similar to that of exemption from permitting, where the regulator does not know who is engaging in an activity to which the rules apply and how much low-risk activity is being conducted overall.

Box 3. General binding rules in the Netherlands

In the Netherlands, there are different requirements for three categories of installations (defined in a 2008 government decree):

- Type A facilities, characterised by minimal environmental impact, are regulated by general, not activity-specific provisions; they do not need to notify the competent authority of their operations;
- Type B installations have a moderate environmental impact, are covered by activity-specific GBRs and are required to notify the competent (local or provincial) authority of the nature and size of its activities four weeks before starting operations;
- Type C installations have a potentially important impact and require an environmental licence which they have to comply with along with applicable activity-specific GBRs (this category includes large installations which are subject to the EU Industrial Emissions Directive and need an integrated permit/licence).

GBRs establish "quantitative target-based provisions" (*i.e.* emission limit values) that can be achieved by any "recognised" measure without prior consent from the competent authority as well as "qualitative" provisions that require certain specific techniques or management practices that can be modified only with the competent authority's consent.

GBRs have been developed for activities related to hazardous substances, plastics, metals, paper and textiles, food products, vehicles and other motorised equipment, *etc*. The range of activities subject to GBRs is expanding every year until 2016.

Source : Ministry of Infrastructure and the Environment, responses to the OECD questionnaire, January 2012

The following principal criteria should be applied when the use of GBRs or other rules-based regimes is considered for a segment of the regulated community:

- Rules must cover a sufficiently large number of regulated entities in a particular sector to make this regulatory regime effective;
- The state of technology and techniques in that sector must not be fast moving, as rules cannot be updated frequently; and
- The facilities must have a similar, low-risk environmental impact.

Even a GBR regime with mandatory notification does not always give enough information to the regulator. Installations under the "declaration" regime in France are subject to GBRs that are laid out in standardised ministerial orders (*arrêtés-types*). These requirements are attached to the formal acknowledgement of receipt of a declaration which is sent by the prefect to the operator. In some cases, they may be made more stringent by an order of the prefect to reflect local conditions. However, the inspection services do not usually have an opportunity to review a declaration or recommend rejecting it. There is a consequent problem of the lack of knowledge of low-risk SMEs by environmental regulatory authorities.

The notification issue can be addressed by requiring operators to regularly assess their own compliance with the rules and submit a respective statement to the competent environmental authority. For example, the Small Quantity Hazardous Waste Generator Education and Self-Certification Program in the US state of New Hampshire (in place since 2003) requires the state's approximately 3,700 enterprises to conduct a facility assessment every three years and provide a declaration to the New Hampshire Department of Environmental Services that the company is in compliance with the applicable rules.

3.2 Better regulation initiatives for small businesses

Small businesses often complain that keeping up to date with environmental requirements is burdensome, particularly in relation to understanding which requirements apply in their individual context. Finding guidance and advice explaining what they have to do to comply with given regulations is difficult. SMEs often feel that they are not supported enough and are unreasonably expected to cope with the same levels of paperwork and obligations as larger companies. Businesses generally express support for a customer-focused relationship between regulators and the regulated with the primary goal of compliance rather than enforcement. Improved information for regulated entities has been consistently identified as the most important factor for reducing the administrative burden on businesses (EA, 2011).

A recent UK survey (Defra, 2011b) suggests that micro-businesses spend more time on activities associated with demonstrating compliance (preparing for inspections, completing paperwork, record-keeping) than actual activities to comply with regulations. Despite efforts to reduce unnecessary duplication of inspections, business are still often required to provide the same information more than once in demonstrating compliance with regulations.

Similarly, the first of the UK Government's five principles of better regulation[4] is the proportionality of regulation, which presumes regulating small businesses only where

necessary and with practical exemptions. For rules that will have a significant impact on small businesses, soliciting their input at the drafting stage reduces eventual adverse effects. The US Small Business Regulatory Enforcement Fairness Act (1996) provides SMEs with an expanded opportunity to participate in the development of certain regulations. Some European countries require regulatory agencies to prepare special statements on the potential impact of proposed regulations on small businesses.

Listing the full range of regulations that have an impact on small businesses in selected sectors helps to identify opportunities to reduce duplication in paperwork and/or processes among regulatory authorities. Among different ways to simplify the administrative requirements for reporting on environmental issues and avoid duplication of requested information are the creation of nationwide information registration systems accessible by all competent government authorities, the introduction of e-government to replace paperwork documentation, and the implementation of the "one-window" approach for issuing appropriate permits and licences to businesses (*e.g.* through local authorities). Offering compliance-related information to businesses (Section 4.1) also contributes to better regulation by reducing their transaction cost of compliance.

3.3 Incentives for environmental management certification

While the main driver for businesses to have a certified environmental management system (EMS) is market demand from customers and clients (the adaptation of EMSs to the specifics of small businesses is addressed in Section 4.2.1), environmental authorities may offer additional regulatory incentives:

- The adoption of an ISO 14 001 EMS or a similar standard may entitle operators to certain ***privileges in the permitting process***. In the Netherlands, EMS-certified operators can apply for licences that are less detailed and prescriptive. Several EU countries (*e.g.* Italy, Slovakia) issue permits with longer validity periods and with reduced reporting requirements to EMAS-certified companies (EC, 2004b).

- The US EPA's Small Business Compliance Policy allows small businesses to obtain ***reductions in monetary penalties*** if violations are discovered by any voluntary means, including government-sponsored on-site compliance assistance activities or environmental audits[5], EMSs, use of online compliance assistance tools, *etc*. In Austria, administrative fines are waived for businesses with a certified EMS if they detect non-compliance during an internal audit.

- ***The inspection frequency*** may also be directly or indirectly linked to the presence and quality of the operator's EMS. Companies with a certified EMS enjoy reduced inspection frequency in Norway, and in France installations registered with EMAS (there were only 17 such installations in April 2011) are exempted from routine compliance inspections. In Korea, "green companies" designated by the Ministry of Environment are exempted from routine environmental reporting, and their inspection frequency is reduced.

Still, while there is some reliance on EMSs to facilitate compliance, the experience of many regulators (*e.g.* in the UK and the US) is that an EMS is far from being a guarantee of compliance (especially since ISO 14 001 does not account for compliance). Therefore, there may not be sufficient reason for special treatment of EMS-certified businesses in compliance monitoring.

3.4 Sectoral approach to compliance assurance

Regulatory requirements (such as GBRs) are usually driven by the type of environmental impact, although they tend to affect specific sectors. However, compliance assurance in general and particularly compliance promotion are predominantly sector-based. Small businesses typically respond only to messages adapted to their activity sector, as is further discussed in Section 4.1.1, which makes the sectoral approach crucial in promoting compliance and green practices among SMEs.

A growing number of environmental enforcement authorities produce sectoral strategies that seek to optimise the balance between the three pillars of compliance assurance – compliance promotion, monitoring/assessment and enforcement – in relation to the needs and challenges of a specific segment of the regulated community. As a result, a significant share of compliance monitoring/assessment activities is becoming sector-based, although it continues to rely on impact-based regulations.

In many sectors, themed and special inspections (inspection campaigns) have been increasingly used to monitor low-risk sites or activities. ***Rotating sector-specific campaigns could be a strategy for maximising the impact of limited agency resources.*** Such campaigns can create the impression of a substantial regulatory capability and threat of enforcement, with a very limited regulatory resource commitment. It is advisable to ***link awareness campaigns and inspection campaigns***: the former give businesses information to comply while the latter, after a certain period, seek to establish a level playing field through compliance monitoring and enforcement. However, inspectors taking part in such an inspection campaign should not focus exclusively on thematic risks but also pay attention to site-specific risks and requirements.

Reliance on complaints and reports from the public remains a necessary and even, given the resource constraints, inevitable part of compliance monitoring of SMEs. However, while complaints have the potential to uncover new risks and risk-posing businesses, they are often driven by immediate concerns that may not be related to the regulators priorities or even fall under its mandate, thus dissipating agency resources.

In order to optimise compliance monitoring of non-complex, low-risk installations, it is advisable for environmental enforcement authorities to cooperate with non-environmental regulators and private sector organisations in their inspection activities. For example, Scotland's Environmental and Rural Services (SEARS) partnership of eight Scottish regulators with competencies over the farming and forestry sectors ensures coordinated inspections and streamlined reporting procedures. SEARS partners arrange joint visits or entrust one or two of the partners to inspect the aspects that are normally under the other organisations' jurisdiction. They also share information provided by the farmers and other relevant businesses, thereby reducing the administrative burden on the regulated community, and coordinate the handling of customer enquiries. The Scottish Environment Protection Agency (SEPA), the environmental regulator, trains staff of other partner agencies that conduct regular site visits according to their own mandates but also perform certain environmental regulatory responsibilities delegated by SEPA.

Outsourcing of compliance monitoring to non-government bodies may be more appropriate at the local level, where competent authorities often lack capacity to properly exercise this function. In Ireland, Dublin City Council has appointed a contractor to implement its Fats, Oils and Grease programme to reduce grease discharges from food service establishments (pubs, restaurants, hotels, *etc*.), thereby preventing blockages in the public drainage network. The contractor's role is to identify premises that require an

effluent licence, to advise the operator on best management practices, and to inspect the premises four times a year to ensure compliance with licence conditions. In putting in place such an arrangement, the competent governmental authority should set clear requirements for the contractor's performance and review it periodically.

4. Information-based instruments

4.1 Advice and guidance

SMEs, particularly micro-businesses, have limited ability to understand and interpret regulations, leaving them feeling confused. Businesses are told that they have a duty to act in an environmentally responsible way, but it is often unclear what this actually means, how a business can do it and at what cost. Going beyond compliance represents an even bigger challenge, where the lack of awareness of cost-effective opportunities is the key bottleneck.

Governments, in collaboration with business groups, can address these challenges by providing SMEs with information on green practices. Among information dissemination tools, one can distinguish between advice and guidance. Advice is active, direct engagement with a business face-to-face during inspection visits or audits, answering telephone, e-mail or website help requests, as well as addressing business representatives at seminars and similar events. Guidance is the provision of information to regulated entities, typically in the written (printed or electronic) form. Guidance includes, among others, e-mail updates, website free-access guidance pages, leaflets, brochures and other publications.

4.1.1 Designing effective messages

The majority of European SMEs act to become more resource-efficient in order to reduce costs (63%), while 23% are driven by the customer demand. The growing number of SMEs taking resource efficiency actions says that their production costs have decreased as a result: 42% in 2013 compared to 35% just a year earlier. More than two-thirds of SMEs are satisfied with the return on their investments in resource efficiency (EC, 2013).

In addition to financial benefits (Table 2), implementing green practices may result in commercial benefits (new business opportunities, preferred supplier status, *etc*.), organisational benefits (derived from improvements in the quality of management), communication benefits (positive public image, better relationships with customers, investors and regulators), and increased employee motivation and morale. These benefits are confirmed by small businesses themselves: Scottish SMEs named reduced operating costs, a more motivated workforce, reduced risk of prosecution or fines, and improved customer relationships as key business gains from improving their environmental performance (NetRegs, 2009).

For micro-businesses, improved local image, increased number of customers and staff morale appear to be the main incentives for better environmental practices (Defra, 2011b). At the same time, most small businesses are concerned that improved image or increased sales are unlikely to result from compliance with environmental requirements because customers are not aware of a business's operational practices and, therefore, this does not influence their customer choice.

Table 2. Cost savings from environmental improvements in SMEs

Areas of improvement	Sources of savings
Process efficiency	Optimising the performance of existing processes (or introducing more efficient new ones) minimises the use of raw materials, energy and water and the production of waste. Proper maintenance of equipment minimises costly downtime and resource waste associated with shutdown and start-up periods.
Product design	It may be possible to re-design a product so as to reduce the amount of resources it contains while still maintaining the level of service it provides.
Waste disposal	Improving process efficiency reduces the amount of waste that a process produces. Once waste has been generated, it is often possible to reuse it or pass it on to other companies that can use it, and thus avoid the costs of its disposal.
Source of raw materials	Changing the source of raw materials in a particular process by switching to recycled materials can result in cost savings.
Infrastructure	It is possible to generate savings by making efficiency changes in the company's infrastructure: installing energy-efficient lighting, insulating buildings, improving the efficiency of heating systems.
Packaging and transport	The reduction of packaging volume and finding local suppliers and customers to decrease transportation distances can be major sources of cost savings.

Source: Starkey, 1998

Despite numerous empirical studies which have demonstrated that improving the environmental performance of a firm also improves its financial performance, many SMEs still fear that improving their environmental performance will cost money and that there will be a conflict between their desire to protect the environment and the need to keep down costs and run a successful business. The challenge is to ***convince SMEs that green practices actually reduce costs and make for better business***.

Since by far the biggest concern of SMEs is the short-term financial profitability, selling the idea that environmental management can save money, reduce costs and increase efficiency is usually well received by business owners. Therefore, regardless of whether the objective is to improve compliance, influence the uptake of environmental technologies or increase the adoption of EMSs, environmental information targeting small businesses should make the "business case" and illustrate the financial benefits of environmental improvements.

Most small businesses seek clear and consistent information on the minimum requirements for compliance. Interpretation of text-heavy guidance can be difficult for an SME: ***there should be a simple message about the problem, its solution (step-by-step guidance) and where to go for more information***. The most efficient way of providing advice and guidance to businesses is to take into account the full suite of regulations that apply to them, not just environmental regulations. Regulatory requirements that are communicated to small businesses should be well coordinated across government.

To avoid excessive or unnecessary costs for businesses, ***guidance should clearly state the minimum legal requirements***. As the volume and complexity of both mandatory and voluntary (good practice) guidance grow, businesses are concerned that it is becoming

more difficult to differentiate between the two and that voluntary guidance can sometimes be treated as mandatory in practice. Misleading advice could lead to over-compliance and an unnecessary increase in the regulatory burden. To avoid this, ***compliance and good practice guidance should be clearly distinguished***.

Businesses like compliance guidance to be legally defensible (exonerating them of potential sanctions if the guidance is accurately followed). Poor guidance which is not adapted to the needs of small businesses leaves business owners worrying that they are doing something wrong and that when they try to do the right thing, they can be penalised for not getting it absolutely right. On the other hand, too much advice and guidance may restrict innovation in finding solutions that are cost-effective for the operator's specific circumstances, potentially putting smaller businesses at a competitive disadvantage.

It is crucial to emphasise that what is good in environmental terms may also be good for the financial bottom line. For example, the best practices guide for garages produced by the Irish EPA's National Waste Prevention Programme is called "Smart Garage Guide: Save money and improve the performance of your garage". Using the same approach, the EPA's Green Business Initiative (www.greenbusiness.ie) launched in 2006 seeks primarily to enable businesses to assess their own resource use efficiency, particularly with respect to waste and water, by using web-based audit/assessment tools. The Green Business web pages also offer tips and case studies on how to save money by reducing resource use.

In making the "business case", it may be particularly useful to present examples of other similar companies receiving commercial benefits as a result of the environmental management improvements in question. Case studies should preferably be local in order to increase the acceptance of their conclusions by small businesses. However, the experience shows that case studies lose their importance as the promotion programme matures.

How such information is packaged, what message it presents, and how and who delivers it, is critically important to its positive impact. The key sector-specific factors affecting the choice and implementation of promotional tools include the following:

- The degree of uniformity in size and management practices of the industry – the greater the diversity, the greater the need to develop different strategies and instruments for different sub-categories of businesses;

- The level of technological sophistication in the industry, which may determine the need for detailed guidance;

- The existence of a well-organised industry association representing the sector, which affects the mode of communication with individual businesses; and

- The public profile of the industry, which may determine the extent to which SMEs may be susceptible to public pressure.

The most appropriate communication channels are likely to be sector-specific, reflecting the different business models and activities within different sectors. Public authorities tend to be best suited to delivering "one-way" information, whereas hands-on support is better delivered by business associations or private organisations (the institutional aspects are further discussed in Chapter 6). When guidance comes from a private sector organisation, it is generally perceived by small businesses as reliable, while

information received from governmental bodies is often regarded with suspicion. At the same time, encouraging as many businesses as possible across all sectors to access centrally available web-based resources can contribute to the cost-effective, consistent delivery of regulatory guidance.

To make sure the information directed at SMEs is relevant, ***working with industry in formulating sector-specific guidance and codes of practice is of primary importance***. Giving businesses a say in the structure and content of environmental guidance increases the likelihood that the material is understandable and resonates with business owners. The extent to which SMEs are willing to participate in the design of information tools and other incentives largely depends on the existence of established business organisations.

It may be difficult to persuade SMEs to act upon environmental information, even when it is obviously in their own financial interest. Information generally has an impact on companies which already have an environmental interest but often does not reach those who are not interested in green practices. Evidence from the literature suggests that raising business awareness by providing them with more information on their environmental impact will not automatically lead to changes in behaviour (Defra, 2011b). Other considerations are at least as critical, primarily the need to strengthen market incentives for environmental improvements by directly (supply chain pressure, green public procurement) and indirectly (green certifications and eco-labels) increasing the demand for environmentally friendly products and services.

4.1.2 Proactive information dissemination

The simplest tool to disseminate regulatory information is a ***"regulatory watch"*** – a (paid or free) subscription service sending regular e-mail or mobile phone updates on relevant legislative developments and new applicable regulatory requirements. One example of such a service, usually established by trade or business support organisations, is *Enviroveille* in France, managed by the Assembly of French Chambers of Commerce and Industry.

Several environmental authorities organise ***help desks*** to respond to compliance questions from businesses and other stakeholders. The Swedish EPA operates a so-called "legal support service" available by telephone for two hours every working day, which offers advice and interpretation on legal issues. The US EPA's Asbestos and Small Business Ombudsman answers technical and regulatory questions coming from small businesses on a toll-free hotline, in addition to developing other compliance assistance tools. Some agencies in OECD countries are exploring the possibility of tapping into social networks to provide compliance assistance.

Many regulators find providing ***direct compliance assistance to operators during inspection visits*** to be an effective strategy for dealing with particular types of regulated entities, particularly SMEs that are generally willing to comply but who are not aware of the regulatory requirements or who lack the organisational capacity to comply (SNIFFER, 2011). The aim is for operators to see the regulator as not only a "good policeman" but as a "good advisor" and to save on costs of working out what they are supposed to do and how. Such "advise and assist" visits can be formally distinguished from compliance inspections in an enforcement agency's plan of activities. In Finland, inspectors have regular discussions with operators on existing and potential compliance problems and possible solutions; and the results of such discussions are recorded in the electronic compliance monitoring system (OECD, 2009). However, this instrument has an

associated risk of "capture", as inspectors may start to see the world through the eyes of the firms they are advising. Such advisory visits are also quite resource-intensive.

Industry magazines, newsletters and business or community events are seen to be helpful methods of advertising regulatory requirements and enforcement cases[6], particularly to some small or rural businesses which may not have access to the internet. ***Workshops, training seminars and industry fairs*** (particularly those organised by trade organisations and other business groups) can also be effective in conveying information or generic advice on how to comply with the requirements. They can facilitate positive relations between regulators and regulated businesses, help share good practices and foster cooperative approaches to addressing environmental issues.

Non-governmental organisations such as Cleaner Production Centres can also provide information on green practices, targeted at specific audiences – industry as well as national and local governments. Other tools that the Centres can use include seminars, workshops and conferences focusing on information dissemination and exchange. However, most SME operators are unlikely to be able or inclined to take the time to attend such sessions, as they usually do not have dedicated environmental personnel. In addition, these events are not necessarily helpful in seeking meaningful feedback on the content of environmental guidance.

On the other hand, ***targeted, concise, user-friendly guides*** can be very useful in delivering a message that adhering to environmentally friendly practices (and thereby complying with the law) is a smart way to do business. ***Such guides should illustrate the "business benefits first" approach to promoting good environmental behaviour.***

The dissemination of compliance assistance information to the regulated community is best achieved in partnership with multiple stakeholders. For example, the pocket-size "Small Environmental Guide for Construction Workers" prepared jointly by the Scottish EPA and the Construction Industry Research and Information Association targets professional contractors working on all types of construction sites. It advocates that "working in an 'environmentally friendly' way can help to improve business performance and save you money in the process. "Getting it right […] helps you to stay in business". There are also examples of cross-sectoral guides for SMEs, including the "Environment and Energy Guide for SMEs" issued by the Assembly of French Chambers of Commerce and Industry (ACFCI, 2010).

4.1.3 Web-based guidance tools

The key feature of comprehensive information-based assistance programmes is that enterprises can get advice, informational and methodological materials in one place. Over the last decade, in many OECD countries there has been rapid proliferation of ***government-sponsored business advisory websites, especially targeting SMEs***. Government authorities like online guidance tools because they offer regulatory consistency of advice, time and cost savings on face-to-face advice as well as anonymity which facilitates communication with the regulated community.

Environmental guidance can be delivered through environmental regulators' own websites, specialised sites funded by governmental authorities (those could also be ministries of economies, industry or agriculture) and generic business portals which direct users to information on environmental compliance and good practices. However, the development and operation of such programmes require significant funding, mostly from public sources.

The US EPA's online National Compliance Assistance Centers (www.assistancecenters.net, created in 1998) deliver information through websites for 16 manufacturing and services sectors, federal facilities and local governments. The EPA also runs a Small Business Gateway (*www.epa.gov/smallbusiness*) which, among others, provides information on environmental assistance and technical help available from the Agency. In addition, the US Small Business Environmental Home Page (*www.smallbiz-enviroweb.org*) is intended to be a "one-stop shop" for small businesses and assistance providers who seek information on a wide range of environmental topics. It directs users to compliance information (including links to state websites), fact sheets on environmental best management practices in ten SME sectors (bakeries, service stations, retail stores, *etc*.), key small business publications, information on upcoming events, *etc*.

NetRegs (Box 4), a web-based tool created in partnership between the UK environmental regulators (for England and Wales, Scotland, and Northern Ireland), provided between 2002 and 2011 free environmental guidance to small and medium-sized businesses throughout the country. Since 2012 this service has been run in Scotland and Northern Ireland only by the Scottish Environment Protection Agency (SEPA) and the Northern Ireland Environment Agency (NIEA). Sector guidelines are tailored to provide specific guidance on environmental legislation and good practices applicable to the processes in each sector, but distinguishing between the two. A library of environmental topics contains practical explanations of issues such as packaging, waste, clean air and effluent management which are relevant to all businesses regardless of their industry sector. Regular surveys of user businesses contributed to the distinct customer service focus of this tool. A Business Advisory Group comprising business representatives helps ensure than user needs are met.

Box 4. NetRegs – an internet-based compliance assistance tool in the UK

NetRegs, launched in 2002, is a web-based tool created in partnership between the UK environmental regulators (for England and Wales, Scotland, and Northern Ireland), now running in Scotland and Northern Ireland only, provides free environmental guidance to small and medium-sized businesses. The content is developed jointly by the regulatory authorities but is customised for Scotland's and Northern Ireland's context. NetRegs includes:

- Guidance by business type for 112 sectors in agriculture, construction, offices, *etc*.;
- A searchable library of environmental topics;
- Guidance on existing and forthcoming national and EU legislation and a free e-update service, which provides regular updates on changes in the environmental legislation;
- A self-assessment questionnaire that enabled businesses to discover more about what they must do to fully comply with environmental legislation;
- Interactive learning modules (*e.g.* on more complex pieces of legislation);
- Video case studies illustrating good practice;
- A postcode-driven "waste directory" containing a matrix of waste recycling and disposal contacts; and
- Links to trade associations and other sources of environmental guidance and business support.

NetRegs undertakes biennial telephone surveys to understand how SMEs perceive their environmental performance and the assistance they get in improving it. In the last UK survey (2009), a total of 7,000 businesses were interviewed across the four UK countries and 10 business sectors. According to the survey, small businesses' reasons for using NetRegs were: to find out how to comply with the law (56.4%), to find all the relevant information in one place (23.4%), to build the business's green credentials (10.2%), and to find out how to reduce waste (7%).

NetRegs had over 470,000 unique monthly visitors in 2011, about 60% of which were SMEs (the rest being larger businesses, consulting firms, local authorities, *etc*.) It was estimated that by using the NetRegs service, UK SMEs were saving an estimated GBP 58 million annually, an average of GBP 2,600 per business. The project's start-up costs were GBP 3.5 million and the operating cost for the UK-wide service was about GBP 1 million per year (it is now GBP 250,000 per year).

Source: www.netregs.gov.uk (2011), www.netregs.org.uk (2015)

As part of the UK Transformational Government Agenda, England's Environment Agency had to withdraw from the NetRegs partnership as well as move its own website to a single gov.uk portal. The idea was to facilitate user navigation to different types of business-related advice and to save government resources. However, much of the environmental content has been removed in the process.

Environmental assistance to European SMEs is also available from the European Commission (EC). An SME portal created on its DG Environment website (ec.europa.eu/environment/sme) provides access to relevant legislation, information, tools and available training. The Environmental Compliance Assistance Programme (ECAP)

established in 2007 maintains a website which offers an online best practice database which helps businesses implement European environmental legislation and minimise the environmental impact of their activities. The EC also supports the recently created GreenEcoNet green practice information platform (Box 5).

Box 5. GreenEcoNet: The first pan-European website for SME greening

Launched in June 2014, GreenEcoNet is the first pan-European website aiming to connect SMEs and support them in finding green business solutions and tools as well as sources of finance. It displays real life case studies from SMEs across Europe that have successfully gone "green", profiles a library of tools and guidance, and supports discussion forums and news updates tailored for smaller businesses.

Funded by the European Commission, the website is part of a wider programme of workshops and networking opportunities co-ordinated by the GreenEcoNet consortium, including the Green Economy Coalition (London), Stockholm Environment Institute, Ecologic Institute (Berlin), Centre for European Policy Studies (Brussels), and others.

Source: www.greeneconet.eu

Designing and launching an online guidance tool is not enough: ***there needs to be an effective communication strategy to ensure that businesses continue to use and benefit from it***. Web-based tools should be supplemented by other instruments (such as mailings, brochures, workshops) which can add significant value. At the same time, while mail and face-to-face contact may continue to be an important route for outreach to small businesses in the short term, improving access to, and use of, the internet among small businesses is likely to be a more sustainable and cost-effective form of communication in the longer term.

4.1.4 Direct capacity building

A recent review of SME support initiatives on resource efficiency in EU member states (EC, 2014a) identified about 230 technical assistance programmes supporting businesses in the identification and implementation of resource efficiency measures. Over half of those programmes provide general access to information, self-assessment tools, case studies, *etc*. Others offer tailored, face-to-face services to individual companies. While general programmes also provide assistance with resource efficiency audits and setting up EMS schemes, these tend to operate mostly on one-to-many basis (for example, through workshops or training events) and address general approaches and methodologies rather than deal with individual companies.

The role of government authorities in providing technical assistance to businesses is not as extensive as in the implementation of other policy instruments. The practical implementation of these activities is mainly carried out by special business support organisations established by the government (Box 6). NGOs such as Cleaner Production Centres as well as consulting companies may also play this role, while the government may provide them with financial support.

Box 6. Green Offer by Enterprise Ireland

Enterprise Ireland is the government organisation responsible for the development and growth of Irish enterprises in world markets, with particular emphasis on SMEs. In addition to efforts to enhance environmental awareness and improve performance in Irish industry through its environmental information portal, Envirocentre.ie, Enterprise Ireland's Green Offer aims to increase the adoption of green business principles by its clients. The Green Offer comprises three programmes:

- The Green Start programme helps SMEs, at no cost to them, to establish a simple environmental management system by conducting a site audit and providing advice on regulatory compliance issues, green market positioning, preparation of an environmental policy, *etc*.
- Green Plus is meant to build on Green Start and to assist companies to develop products and services to a level where they comply with specific green procurement requirements. This may involve the implementation of an accredited EMS, improvements in products or processes or applying for eco-labels.
- Finally, Green Transform is designed to further improve the competitiveness and market access of those companies who have maximised their energy efficiency or reduced their carbon footprint.

Source: www.envirocentre.ie

Hands-on, direct resource efficiency support programmes seek to bridge the gap between providing general knowledge and applying it to specific circumstances of individual businesses by assisting companies to identify both opportunities and means for implementing resource efficiency measures, as well as their potential costs and benefits.

Non-government actors such as National Cleaner Production Centres can provide ***face-to-face advice to businesses through audits of different aspects of their environmental management***, demonstration projects and their follow-up. Capacity building and support for enterprises may also cover activities such as ***development and dissemination of methodological materials and case studies, as well as the implementation of training programmes***.

To ensure sustainable application of resource efficiency and other green practices, there is a need to educate company mangers. Long-term on-the-job training, combined with train-the-trainer courses, is the most effective way to build professional capacity among small businesses. Senior managers may be targeted through short sessions focusing on the basics of environmental management and its benefits and challenges, enabling them to motivate their staff. An overall aim of such training programmes should be to integrate environmental concerns into the mainstream business strategy.

An innovative way of advising small businesses has been developed by the Green Business Partnership (Scotland), whose popular Bright Green Placements programme has been organising for already over 15 years two-three month student placements in SMEs to follow up on environmental audits and work with the company's management to implement the recommended measures (and achieve related savings). A similar initiative was to offer an "ad hoc environmental manager" for one day per month to a small business that cannot afford a dedicated environmental manager in order to help it with environmental management activities.

The number of firms likely to engage in implementing good practices as a result of direct, hands-on capacity building activities, as well as the potential economic and environmental benefits that may arise from these programmes are likely to be influenced by the following factors:

- ***Involving multiple public sector organisations and industry associations*** in programme design, implementation and strategic oversight can provide a broader perspective and better co-ordinated support to SMEs. For example, the Danish Green Network is run jointly by public and private sector representatives. The regional *Performance Bretagne Environnement Plus* (PBE+) programme in France is funded jointly by the Regional Council, the central government, the local employers' union and the Chamber of Commerce and Industry.

- ***Affordability*** of the support services has a major influence on their uptake by SMEs. The services should be provided free of charge or at reduced fee rates (subsidised by grants, see Section 5.3).

- Programmes that provide ***long-term support*** allow fine-tuning of their services and have a longer-lasting impact.

- ***Consideration of economic impacts*** of green practices (on companies' profitability, employment, competitiveness, *etc*.) can be expected to increase the uptake of the programme.

- ***Promoting the programme's achievements***, including by publicising success as case studies, can encourage other companies to implement green practices.

- ***Using local delivery partners*** enables capacity building programmes to gain local knowledge, credibility and accountability.

- ***Regular, independent and impartial evaluation*** of the programme as a whole and the benefit to individual companies can lead to continual improvement.

4.2 Recognition of green practices

4.2.1 Simplified environmental management systems

A recent EU-wide study (Calogirou et al., 2010) has shown that despite government incentives (Section 3.3) only 0.4% of European SMEs have a formally certified EMS. According to a British survey (NetRegs, 2009), just under 4% of the SMEs surveyed stated that they had an EMS in place. Around a quarter of all businesses had an environmental policy, and the likelihood of this increased with the size of the business. Just about one-tenth of small businesses considered that an EMS would be "quite useful" or "very useful", and the fewer employees they had, the less favourably they viewed the benefits of such a system. Although supply chain pressure in some sectors is a powerful driver for some SMEs to adopt an EMS, small businesses face serious obstacles, including a lack of resources, knowledge and technical capacity, the fact that most EMS-related costs are upfront and benefits are medium-term, as well as low public visibility.

The challenge is to tailor EMSs, both in terms of their content and delivery, to the particularities of SMEs. The key, at least for smaller businesses, is to focus on simple,

accessible improvements in management practices, rather than the introduction of a formal, administratively complex EMS.

There are initiatives in several OECD countries, mostly coming from the private sector, to design simplified EMSs suitable for small businesses. *Econcertive* is an Irish company which provides environmental support to businesses and organisations in all sectors, primarily by means of the EcoCert scheme (www.ecocert.ie). The requirements for achieving EcoCert certification are the same core requirements as for any recognised EMS standard, but the paperwork is minimal. In addition, the certification process includes the identification of energy, waste and water-related savings (with a money-back performance guarantee).

The Association of French Chambers of Commerce and Industry (ACFCI) leads two initiatives on "EMS-light", with substantial technical, methodological and financial assistance from the public Environment and Energy Management Agency (ADEME). The "1.2.3 Environment" programme is designed to facilitate step-by-step ISO 14001 certification. *EnVol* is a special environmental management programme for small businesses (with less than 50 employees) that do not aspire fully fledged ISO 14001 certification but would like to get recognition for their basic EMS, which roughly corresponds to the first level of "1.2.3 Environment" (ACFCI, 2010).

The "green tick" logo launched by Scotland's Green Business Partnership in February 2011 is another example of making corporate environmental management accessible to SMEs. One tick demonstrates that the company has an environmental policy, assessed its legal compliance and is committed to making continual environmental improvements. The accreditation with two ticks means that the business, in addition, manages its compliance and has an environmental action plan. Three ticks signify the existence of a fully-fledged environmental management system.

There are also examples of SME-focused national environmental certification programmes conducted with active involvement of local governments, such as the Eco-Lighthouse Programme in Norway (Box 7).

Box 7. Environmental certification of SMEs in Norway

The Eco-Lighthouse Programme is a programme for environmental certification of SMEs in Norway. With this programme, companies are supposed to reduce their impact on the environment, reduce costs and make use of an environmental profile in their marketing. The Programme is supported by the Norwegian Ministry of the Environment.

The Eco Lighthouse Office is responsible for marketing at the national level and the continuous development of the programme (including developing and improving trade demands in co-operation with consultants, companies and branch organisations). The office also arranges training courses for consultants who conduct environmental audits and local government staff responsible for certifying companies.

The municipalities recruit new companies, establish contacts between consultants and companies, make use of the media and carry out inspections before the environmental certificate is awarded. The municipalities also issue the certificates when the companies have implemented the action plan to satisfy the established requirements.

Source: Eco-lighthouse, www.miljofyrtarn.no/eindex.htm

Improved environmental management is also in line with the concept of corporate social responsibility (CSR), which is defined by the European Commission as "the responsibility of enterprises for their impacts on society". To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders. CSR guidelines are part of the ISO 26000 standard, which was published in 2010.

SMEs may have lower business incentives to engage in CSR, mainly because there are typically smaller reputational risks for SMEs than for large companies. Still, SMEs have many of the same reasons for engaging in CSR that large companies have. The CSR process for SMEs will depend on the size of the enterprise and the nature of its operations and is likely to be informal.

4.2.2 Sector-specific green certifications

The primary goal of green certification programmes is to increase the market share of their members. In order to make environmental management credentials more relevant to specific economic sectors, business associations in many OECD countries collaborate with environmental authorities to develop green certification brands, many of which target SMEs. The environmental regulator (and, sometimes, local authorities) work jointly with trade bodies to produce ***"green standards" for the sector as well as guidelines on how businesses may "earn" the right to display appropriate signs*** (stickers, posters, *etc*.) to highlight their environmental practices to their customers. Examples of such programmes can be found in a very wide range of economic sectors, most of which are characterised by direct interface between business and retail customers, allowing SMEs to benefit directly from their improved environmental image.

For example, Ireland's Green Hospitality Programme (under the National Waste Prevention Programme) has been developed to act as an umbrella brand for hospitality-related environmental initiatives, including the Green Hospitality Award, Green Restaurants, Green Festivals, *etc*. Formal resource efficiency audits, resource consumption benchmarks, workshops, training and guidance are provided to each participating hotel or restaurant to enable them to develop their own environmental programme and prepare for the different levels of award. Hotels pay for membership, but the fee is partly subsidised by the government.

A similar programme for print shops has been quite popular in France. Created in 1998 by a regional Chamber of Trade and Crafts and since rolled out nationwide, the *Imprim'Vert* label has been awarded to over 1,800 print shops that adhere to a set of good environmental practices such as not using toxic products and secure storage and appropriate disposal of waste. However, environmental compliance is not among the label award criteria.

A "green standard" can also be part of a larger self-regulatory business initiative. One such initiative, the Red Tractor Assurance scheme in England and Wales, is administered by Assured Food Standards – a company owned by the UK farm unions and several agro-industry trade bodies. Originally focused on the food safety issue, Red Tractor Assurance has been extended to cover many environmental aspects of food production (management of pesticides, fertilisers, manure runoff, *etc*.) across about 80,000 participating farms. Under the "environmental compliance module" for pig and poultry producers, certification bodies collect data on compliance with environmental permits when carrying out audits for the Red Tractor scheme. This helps to decrease the number of Environment

Agency visits to farms (to just once every three years) and to cut annual permit charges for farmers.

The green certification scheme should be designed in a way that the business benefits to SMEs outweigh its costs: 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, 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".

4.2.3 Eco-labels

Whereas green certifications apply to businesses, eco-labels have the same function with respect to products. ***Eco-labelling schemes seek to enable producers to harness consumer demand for environmentally friendly goods*** by displaying a legally protected symbol or logo. If the label has this effect, other producers may respond by improving the environmental performance of their products in order to obtain a label in an attempt to regain the market share. This results in a reduced environmental impact from the products within the product group. The impact of reputational incentives among SMEs is typically lower than among larger enterprises, but they can be effective if they are relevant to local supply chains or customers.

Eco-labelling schemes are generally voluntary: a firm that wishes to have an environmental label awarded to its product may apply to the labelling scheme, and the label will be awarded if the product meets the relevant criteria. ***Eco-label criteria can be based on a single parameter or on studies that analyse the environmental impact of a product or service throughout its life cycle***.

As part of its ISO 14000 series of environmental standards, the International Standards Organisation has drawn up a group of standards specifically governing environmental labelling. The ISO 14020 family covers three types of labelling schemes: Type I is a multi-attribute label developed by a third party; Type II is a single-attribute label developed by the producer; and Type III is an eco-label based on a full life-cycle assessment. Environmental product declarations (EPD) providing quantitative information about a product in a standardised form may also be considered a form of eco-labelling. EPD systems are relatively costly to establish and operate, making SMEs' participation in them unlikely.

Single-attribute labels represent an environmental declaration by an enterprise about a particular environmental characteristic of a product, which in some schemes has to be verified by a third party. Such eco-labels can be related to energy efficiency (for example, the US "Energy Star"), sustainable management of a particular natural resource (*e.g.* forestry eco-labels), the percentage of recycled material in a product, *etc*. The simplicity of single-attribute eco-labels makes them particularly attractive to SMEs.

A key feature of lifecycle eco-labels is that an independent third party is involved in assigning the eco-label. Since a product is assessed against a number of approved criteria, the producer is forced to collect and analyse a lot of information that could be used to improve product characteristics through the entire life cycle. The EU Ecolabel, the Scandinavian "Nordic Swan" and the German "Blue Angel" are examples of lifecycle eco-labels.

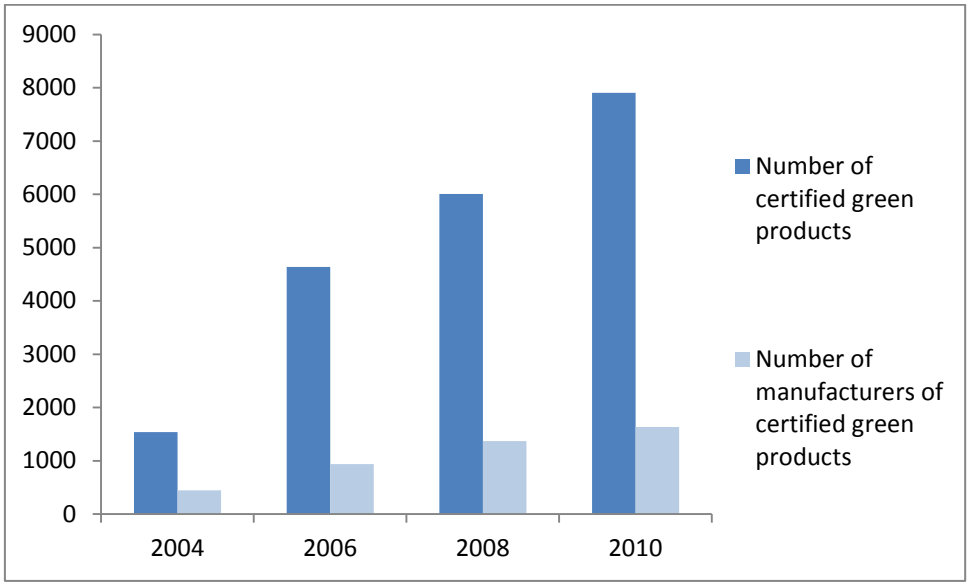
The effectiveness of eco-labels in motivating enterprises to improve environmental performance depends on criteria defined for a particular product group. ***The environmental criteria need to be updated and made more stringent regularly so that only best products are able to meet them***, thereby ensuring that the eco-label remains a mark of excellence within a product group. Labelling schemes should combat misleading claims by manufacturers about their products.

The proliferation of green labels may create confusion among firms and consumers, particularly since the verification of claims of environmental friendliness is difficult. Sometimes industries create eco-labelling schemes simply to sell themselves to customers, which leads to significant "greenwashing". Therefore, ***the criteria and process for determining whether a product merits an eco-label or green certification should be transparent.*** It is necessary to ensure that labels are not awarded too easily, without rigorous scrutiny of each company's practices.

Eco-labelling schemes are usually run by non-profit organisations (including governments) without commercial interests. To cover their costs, scheme operators commonly an application fee as well as an annual charge, depending on the turnover of the labelled product. The EU Ecolabel scheme, managed by the European Commission since 1992, provides preferential treatment for SMEs, with considerably reduced application and annual fees.

National eco-label schemes may, however, be costly for SMEs to participate in. In Korea, for example, the number of eco-certified products is very large and continues to grow, but the growth of the number of companies producing such products is much slower, which demonstrates the predominant share of larger firms and not of SMEs in the green products market (Figure 2). An SME should consider applying for an eco-label if it feels that the expected benefits of doing so (maintaining or increasing its market share) outweigh the costs (those of meeting the eco-label criteria and the scheme charges).

Figure 2. Manufacturing of certified green products in Korea



Source: Ministry of Environment of Korea, responses to the OECD questionnaire, February 2012

Another point that should be stressed that establishment of national eco-label schemes in small countries often does not pay-off because of a limited market and relatively high cost for companies. However, it could be economically and practically feasible to establish a simplified national product certification scheme for particular products widely produced in the country.

4.2.4 Environmental recognition awards

Governments can also use positive public relations incentives to promote environmentally friendly business behaviour. ***Environmental awards are help raise environmental awareness through businesses and the community and help companies gain recognition for their good environmental performance.*** For example, the "Vision in Business for the Environment of Scotland" (VIBES) initiative recognises businesses of all sizes and sectors employing environmental best practices in their daily activities. The award programme is supported by the Scottish Environment Protection Agency and run in partnership with other government bodies. It is supported financially through private sponsorship and has in-kind support from a number of business associations. There are several award categories, including Best Environmental Management, Best Environmental Product or Service, Best Co-operation for the Environment, and Best Micro-business Award. A case study is produced for each winning business and published on the VIBES website. The VIBES awards are also used as a mechanism for providing direct advice to applicants via site visits, and further environmental improvements are encouraged via feedback and wide information dissemination.

To be effective, environmental awards need to be widely promoted in business and industry media. However, some SMEs may not have the financial or labour resources to enable them to complete the application process, which may dissuade them from entering environmental awards.

Environmental awards can also recognise the role of different stakeholders in greening small businesses. The US National Steering Committee for the Small Business Ombudsman/Small Business Environmental Assistance Programs has established four Small Business Recognition Awards. Among them, the Trade Association Environmental Leadership Award recognises exemplary performance and leadership by an industry trade organisation in enhancing members' compliance with environmental regulations. There is also an award for a small business environmental assistance programme. The European Enterprise Promotion Awards recognise public bodies and public-private partnerships that support the development of green markets and resource efficiency (EC, 2014b).

5. Economic incentives

5.1 Tax privileges

In many OECD countries, entrepreneurs are allowed to take ***tax exemptions*** – deduct certain categories of environment-related investments (going beyond environmental compliance) from the taxable corporate income, for a clearly defined period of time. This incentive is usually developed in the context of economic policy in order to promote innovation, research and development. Similarly, the government may offer ***tax incentives – accelerated depreciation, reduced property or corporate taxes*** – for the purchase of new environmental technologies and other environmental investments. Tax reductions or exemptions can also be differentiated based on the actual environmental impact of the investment.

For example, the Netherlands has been operating two tax reduction schemes to promote the purchase of new environmental technologies (Box 8): the Arbitrary Depreciation of Environmental Investments (VAMIL) allows accelerated depreciation of newly purchased environmental technologies listed by the government, and the Environmental Investment Allowance (MIA) allows a partial write-off of an investment in environmental technology against tax.

Box 8. Financial incentives for environmental investments in the Netherlands

MIA and VAMIL are two separate measures to promote the use of environmental technologies by Dutch companies. Although MIA and VAMIL have been introduced separately in the Netherlands, these measures have many similarities.

VAMIL is a measure enabling a company to freely determine the depreciation period of up to 75% of the cost of the invested environmental technology that is on an official environment ministry listing. Consequently, VAMIL can offer entrepreneurs a financial advantage, as technologies can be depreciated more quickly. Although it is difficult to determine the precise advantage that is gained by using a VAMIL technology – the benefits depend largely on the specific conditions under which the entrepreneurs apply for VAMIL – generally the advantage is estimated between 3 to 8% of the investments made.

MIA enables companies to deduct environmental investments up to 36% of the investment cost. The benefits that can be gained via the MIA scheme depend on the investment and the applied tax scheme (corporate tax or income tax). The percentages of the investment that can be deducted from taxes are explicitly determined and mentioned in the "Environment list". Depending on the investment and applied technology, entrepreneurs can deduct 15, 30 or 40%.

Both schemes are accessible for all business. Yet, 93% of applicants are SMEs, and most of them work in the agricultural sector, as trade associations in this sector are particularly active in encouraging businesses to use this fiscal instrument.

Source: Lindblom and Delgado, 2007; ECAP, 2011

The French government uses accelerated depreciation and reduced property and professional taxes to stimulate purchases of renewable energy and energy efficient

equipment. The Japanese government provides industry with tax preferences (*e.g.* reductions in the local corporate tax) for cleaner and climate-friendly technologies (OECD, 2009). However, environmental tax incentive schemes tend to benefit larger companies, which are better informed about the existence of such instruments.

These tax reduction instruments should be complemented by the taxation of negative environmental impacts. Taxes on environmentally harmful products clearly dominate environmentally related taxation in OECD countries[7] and should provide an additional stimulus for SME greening. At the same time, pollution taxes only have an incentive impact if the real pollution is monitored at the source (while under simplified regulation SMEs usually do not have self-monitoring requirements); and the administrative cost of collecting environmental taxes from the multitude of small companies is excessive.

5.2 Soft loans

Public financial institutions may offer reduced interest loans for environmental investments by SMEs. Such loans are usually conditional on the planned measures going beyond regulatory requirements and the use of best available techniques and/or best environmental management practices, and applications need to be certified by the competent environmental authority (Box 9). There are programmes that allow loans to be converted into grants (*i.e.* do not have to be paid back) upon demonstration of expected environmental performance.

Box 9. Low-interest loans for green investments: Examples from selected countries

France: OSEO public investment bank offers loans at favourable rates and without collateral from EUR 50,000 to EUR 3 million for up to seven years for SMEs who adopt environmentally friendly technologies (with the share of capital costs exceeding 60%) or develop new ones.

UK: The Energy Saving Trust (a UK-wide non-profit organisation) provides zero-interest small business loans of up to GBP 100,000 to help businesses install renewable energy technologies or measures that reduce energy consumption.

USA: In the US state of Virginia, a cooperative agreement between the Department of Environmental Quality and the Department of Business Assistance has allowed the state's small businesses, since the year 2000, to obtain loans of up to USD 50,000 to finance the purchase of equipment to implement voluntary pollution prevention measures or to introduce agricultural best management practices. These loans have an interest rate of 3% with favourable repayment terms based on the borrower's ability to repay and the useful life of the equipment being purchased.

Sources: www.oseo.fr; www.energysavingtrust.org.uk; ECOS, 2011.

There are no comparable domestic public finance institutions in EaP countries that can provide targeted soft loans for environmental investments by SMEs. Instead, credit lines extended by international finance institutions (IFIs) and disbursed through local commercial banks are the main source of long-term financing for environmental investments in the region. Local banks on-lend to private sector clients, including to SMEs. Such credit lines facilitate access to longer-term finance and make it more feasible to borrow. This does not mean the funds are necessarily cheaper than ordinary loans (*i.e.* the interest rates are not subsidised), but the end user and the local bank can often benefit from grant-funded consultancy services and training to develop feasible projects. This

helps to reduce the risk to the local banks, making them more willing to lend, and also improves the overall effectiveness of the investment.

Important factors of successful implementation of a soft loan programme for environmental investments include:

- ***Early definition of the environmental goals*** to be achieved by each project;
- ***Inclusion of environmental requirements in the loan agreement*** with a clear definition of environmental measures to be taken and adequate monitoring processes; and
- ***Close monitoring and follow-up by the lending institution*** of the use of funds and of progress in achieving its environmental goals.

5.3 Grants and free consultancy services

Grants may be offered by public agencies for the purchase of environmental technologies (Box 10), but more often they ***subsidise a share of consultancy costs for the identification and implementation of resource efficiency and other environmentally oriented measures***. Sometimes the government reimburses SMEs the full cost of an initial environmental audit.

For example, Enterprise Ireland, a public industrial development agency, provides grants to SMEs as a percentage (up to 50%) of consultancy costs for the identification and implementation of resource efficiency and other environmentally oriented measures (as long as they go beyond compliance with legal requirements). One enterprise can get up to EUR 200,000 over three years. Grants are associated with compliance audits, which also serve as a compliance assistance tool. France's Environment and Energy Management Agency (ADEME) subsidises up to 50% of the costs of environmental audits, which cover both compliance and resource efficiency. The German public bank *Kreditanstalt für Wiederaufbau* (KfW) has a "Special Fund for Energy Efficiency in SMEs" which covers up to 80% of costs for SMEs to receive professional advice on energy efficiency improvements (Miller, 2011).

Box 10. Subsidies for environmental technology investments in Belgium

The Ecology Premium programme in Flanders, Belgium is a subsidy provided to enterprises that invest in environmental technologies. Investments that are considered environmentally friendly are eligible for support as long as they concern purchases from third parties under market conditions.

The size of the subsidy depends on the environmental performance of the technology, measured by an environmental performance factor. This performance factor is a qualitative indication that ranges between 0.6 and 1. The Flemish Department of Economic Support Policy has composed a list of environmental technologies and their performance factors. When a company applies for a subsidy to finance a technology that is not on the list, its potential environmental impact must be assessed.

SMEs can receive a subsidy with a maximum of 35% of the investments made (it can be higher if the company is certified according to ISO 14001 or EMAS) but cannot exceed EUR 3.6 million.

Source: Lindblom and Delgado, 2007

In the late 1990s and the early 2000s, many OECD governments provided direct financial support and extensive technical assistance to businesses, especially SMEs, for the establishment and certification of an EMS. For example, the Bavarian Environmental Agreement, launched in 1995 between the *länder* (state) government and industry, allowed SMEs to receive subsidies for an audit by an environmental consultant and the establishment of an EMS (SNIFFER, 2008). Some of these support programmes have now been phased out (*e.g.* in the Netherlands) as their primary mission to jump-start the market demand for corporate environmental management has been accomplished. Others, like the Green Offer by Enterprise Ireland (Box 6), have made the increased competitiveness of national industry an explicit focus of their EMS promotion activities.

Direct subsidies and free technical assistance to SMEs helps 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, ***a gradual transition toward a fee-based system for technical assistance would improve its long-term sustainability***. This transition would also mean transferring the delivery of technical assistance to trade associations which often charge businesses cost recovery fees for compliance audits, assistance with EMS implementation, training of environmental managers and similar services (see also Section 4.1.4). At the same time, the dilemma with having small businesses pay for technical assistance is that they may not be able to afford the fees (and often feel that the provision of environmental help and support should be free) but are suspicious of free services, particularly when they are provided by government agencies.

5.4 Role of supply chain management and public procurement

Supply chain pressure offers a valuable means of influencing the environmental behaviour of SMEs. Environmental awareness in global supply chains also affects which suppliers a firm is willing to use, so suppliers receive pressure from buyers to reduce impact. Meeting green quality standards can be challenging for SMEs which face growing pressures to reduce costs, but they also offer SMEs access to environmentally conscious large firms, knowledge flows and global markets.

There are several motivations for large companies to engage in greening the supply chain. Firms with global supply chains and outsourcing strategies are forced to monitor environmental impact to reduce risk: a supplier closed down for poor environmental performance could both disrupt the supply chain and cause serious reputational damage. In addition, better "upstream" environmental performance generates cost savings for larger firms from more efficient production practices.

Increasingly complex supply chains make it difficult to implement and sustain green practices because production is increasingly dispersed across multiple sites and autonomous partnerships. So the whole supply chain needs to engage in green initiatives to gain competitive advantage. ***Supply chain pressure is particularly important and effective in sectors dominated by business-to-business transactions***.

Larger firms often not only require good environmental performance from their suppliers but also work with them to facilitate the improvements. They invest in the environmental capacity of smaller suppliers because without it their own environmental goals cannot be met. The examples include the US retail giant Wal-Mart and Marks & Spencer in the UK. Big Korean companies sign "voluntary green purchasing pacts" with

smaller suppliers. Larger companies may also audit their suppliers for resource and energy efficiency, this being primarily a cost-driven measure.

Less formally, sustainable supply chain management may serve to influence suppliers in a more indirect way, if these suppliers improve their production processes in anticipation of gaining new business from a different or broader set of customers demanding sustainable products. Buyers' pressure and support are especially important for small suppliers who lack internal capabilities to proactively define their own greening strategy (OECD, 2012).

The government should encourage larger firms to form partnerships with smaller suppliers and provide public recognition to those who do so. For example, a Business-to-Business Green Mentor Programme was launched in 2003 by the Limerick/Clare/Kerry Regional Waste Management Office in Ireland. It urges larger good practice companies to provide guidance on waste prevention to SMEs. Programme activities include an informational visit by SMEs to a volunteer "mentor" company, with follow-up guidance for individual SMEs on how to identify and implement ways of reducing waste generation or energy or water consumption. In another example, Zero Waste Scotland concludes voluntary agreements with retail companies that then pass on the resource efficiency requirements down the supply chain.

Governments can exert its own supply chain pressure through its procurement policies. Green public procurement (GPP) can play a significant role in creating demand for green products and services and boosting the market where private consumer demand for them is insufficient. By using their purchasing power to choose goods and services with lower environmental impact, public authorities can help to drive down the costs of such purchases and make them more affordable generally. Green public procurement also increases market acceptance of green products (*e.g.* by demonstrating their commercial feasibility). Countries increasingly recognise that GPP can also be a major driver for innovation, providing industry with incentives for developing green products and services, particularly in sectors where public purchasers represent a large share of the market (*e.g.* construction, health services and public transport).

GPP makes it a condition of tendering for government contracts that the applicant commit to maintaining specified environmental standards up and down the supply chain. Green procurement may also take the form of exclusion criteria, where only firms certified to a recognised environmental standard are allowed to be considered, or assessment criteria, where a firm's environmental performance is scored on a scale, and the result if part of the procurement decision.

GPP guidelines often require that particular products contain a minimum amount of recycled content or achieve specified levels of energy efficiency. Purchasing guidelines may also favour – through price preferences, explicit set-asides, or other mechanisms – suppliers who comply with environmental requirements, obtain green certification, qualify for environmental labels, or otherwise demonstrate their environmental credentials. GPP most often covers areas such as the purchase of energy-efficient computers and appliances, environmentally-designed buildings, recycled paper, electric cars, electricity from renewable energy sources, *etc*. Ireland's National Action Plan on Green Public Procurement went even further and targeted several additional areas: food and catering services, cleaning products and services, and uniforms and other textiles (DECLG, 2011).

OECD governments at the national, regional and local levels increasingly include environmental criteria in their purchasing decisions. The 2002 OECD Council recommendation to improve the environmental performance of public procurement (Box 11) reflected their commitment to such practices. The European Commission has proposed that 50% of all public tenders in the member states be "green", *i.e.* compliant with common core Green Public Procurement criteria.[8] The 2010 OECD Survey on Public Procurement found that 26 out of 34 OECD member countries have introduced practical guides on green public procurement, and 19 countries have developed training materials for public officials on green procurement (OECD, 2011).

For example, the Scottish Government's "Public Procurement and Sustainable Development: Guidelines for Public Purchasers" [9] states that "those who fail to comply with environmental legislation may be excluded from selling to the Scottish Government" and that "development of environmentally preferable goods and services and use of recycled/renewable materials is likely to offer a competitive advantage". The Scottish Government also seeks evidence that suppliers have in place appropriate environmental management policies and systems. In addition, suppliers are encouraged to take advantage of eco-labelling schemes to be able to provide evidence of their good environmental practices. UK Defra has gone even further, encouraging suppliers to provide product-level lifecycle greenhouse gas data using emission factors from relevant inventory databases.

Box 11. OECD Recommendation on the Environmental Performance in Public Procurement

As part of the Recommendation on the Environmental Performance in Public Procurement, OECD countries committed taking steps to:

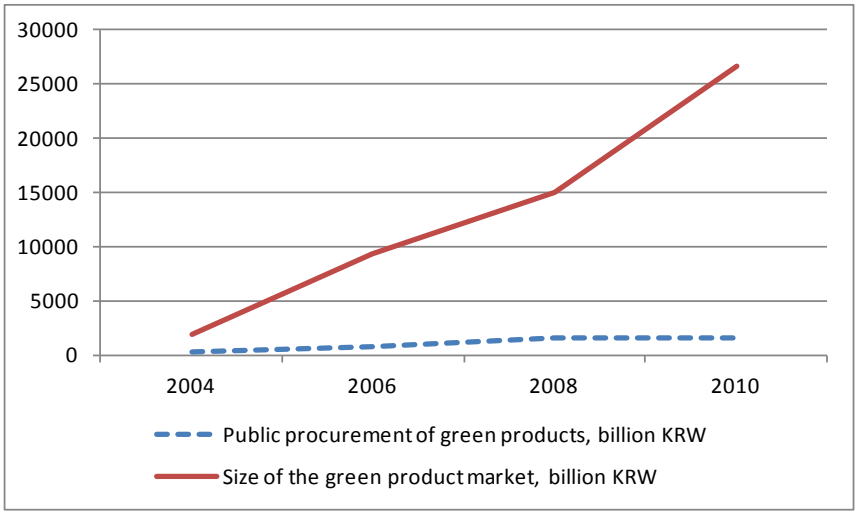
- Provide the appropriate policy framework to incorporate environmental criteria into public procurement of products and services, along with price and performance criteria;
- Introduce financial, budgeting, and accounting measures to ensure that public procurement policies and practices consider the environmental costs of products and services;
- Provide information, training and technical assistance to officials involved in the public procurement and use chain, including those who set the performance criteria of products and services, those who are responsible for procurement, and those who use the products and services;
- Make information and tools that facilitate greener public purchasing available to all levels of government;
- Disseminate the information needed to facilitate and encourage greener public purchasing decisions, as well as the results and benefits derived from their adoption;
- Establish procedures for the identification of products and services which meet the objectives of greener public purchasing policies;
- Encourage the development of indicators to measure and monitor progress made in greener public purchasing;
- Assess and evaluate greener public purchasing policies in order to ensure that they are economically efficient and environmentally effective.

Source: OECD, 2002

The US Federal Government requires that 95% of all government contracts meet sustainability requirements. Its ambition is that environmental considerations become part of normal procurement practice along with such traditional factors as product safety, price, performance and availability (OECD, 2013).

Procurement policies coordinated across all levels of government may directly affect, on average, up to 20% of purchases in a targeted market (OECD, 2003). As shown in Figure 3, public purchasing of environmentally-friendly goods and services in Korea helped jump-start the private sector market for them, whose growth rate has quickly outstripped the expansion of green public procurement.

Figure 3. Size of the green product market and public procurement in Korea[10]



Source: Ministry of Environment of Korea, responses to the OECD questionnaire, February 2012

Although the vast majority of public sector contracts go to large firms, public procurement is a big issue for SMEs because for many of them public contracts represent a significant share of business. Several OECD countries (*e.g.* Australia, France, Korea and the US) give preference to SMEs in public procurement (OECD, 2011). Still, only one out of ten EU SMEs bid for public procurement contracts that include environmental requirements versus 16% of large companies (EC, 2012). In a recent Eurobarometer SME survey, just 12% of SMEs in the EU report to have bid for a public procurement tender that included environmental requirements. More than half of SMEs have never been confronted with such a tender (EC, 2013).

To reach SMEs, governments 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. They should also educate procurement officials on how to implement these policies. The target group for educational activities can be contracting authorities of central administration bodies and their subordinated organisations, at the level of regional governments and local authorities. These activities should include dissemination of technical information on GPP and related issues, such as eco-labelling, environmental management systems, energy labelling, *etc.*

6. Institutional aspects of greening small businesses

6.1 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 12). 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; and
- 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.

Box 12. 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 programs, 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 coordinated 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

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.

6.2 Involvement of trade associations and other business groups

On a strategic level, business and trade associations have well-established communication channels and, therefore, a good understanding of common barriers faced across the regulatory system and the approaches that best meet their members' needs. Most OECD country governments take advantage of business and trade associations' favourable position to explain new environmental regulations to their members and 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 many SMEs do not respond to outreach activities conducted by regulatory government agencies due to suspicion and fear. ***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 13). 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 13. Benefits of trade associations to SMEs

Companies, especially smaller businesses, should join trade associations because…

- In the long term, it is in their financial interests to do so. Trade associations offer many benefits to members, including free advice on many technical, legal and commercial nature issues, reports on market conditions and trends in the sector, reduced-rate consultancy services, *etc*.
- Associations are seen as the voice of their sector and able to represent all their members at every level. As the membership base grows, so does the trade association's authority.
- Associations facilitate the opportunity for members to network with their peers at conferences, exhibitions and other events while they are learning about issues which may affect their business.
- Associations provide immediate 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 often follows joining a trade association. For many industries, membership of the industry association is seen as a badge of quality, particularly for those industries which are heavily regulated.

Source: 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).

6.3 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 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 14). Banks increasingly require an environmental checklist for loan approval, while insurers demand a statement of environmental risk identification and control.

Box 14. 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: www.equator-principles.com

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.

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Notes

[1] "Government asked to help SMEs going green", by Jamie Lawrence, 20 September 2011, www.inspiresme.co.uk

[2] Website: www.greengeorgia.ge

[3] In this case, the term 'registration' refers to a simplified permitting regime.

[4] PACTT principles of better regulation: proportionate, accountable, consistent, targeted and transparent (BRE, 2010).

[5] The EPA Audit Policy prescribes, among others, an audit protocol which summarises key statutory requirements and contains a regulatory checklist with detailed procedures for conducting an audit of facility operations.

[6] Businesses acknowledge the value of hearing about enforcement action taken against other businesses in their sector (Defra, 2011a).

[7] Creating Market Incentives for Greener Products: Policy Manual for Eastern Partnership Countries (OECD, 2014), www.oecd.org/environment/outreach/economic-instruments.htm

[8] www.ec.europa.eu/environment/gpp/gpp_criteria_en.htm

[9] www.sustainablescotland.com

[10] EUR 1 equalled approximately KRW 1,480 in February 2012.

The objective of this Environmental Policy Toolkit for SME Greening is to help governments in the European Union's Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) to design and implement key instruments to promote environmental compliance and green business practices among SMEs using the existing good practices in EU and other OECD countries.

The Toolkit covers three categories of environmental policy instruments: regulatory simplification and incentives, information-based tools (which comprise both providing advice and guidance to SMEs and providing their customers and the public at large with information about their environmental performance), as well as financial and economic incentives.

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