



# Regulatory framework for greening SMEs in the EaP countries, including Azerbaijan

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# SME Policy Index: Eastern Partner Countries 2024

## Building Resilience in Challenging Times

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<https://www.oecd.org/innovation/sme-policy-index-eastern-partner-countries-2024-3197420e-en.htm>

### Sub-dimension

#### Framework for environmental policies targeting SMEs

- All countries acknowledge the importance of **supporting green economic growth in high-level planning documents**, with some including specific provisions for SMEs (Georgia, Moldova)
- **However, SME agencies do not have strong focus on greening initiatives**, which limits SME considerations in overall guidance and support on environmental policy for businesses (except Moldova's)
- Most countries have not committed significant budget to supporting the greening of SMEs, and with **many programs remaining heavily reliant on donor funding**
- All countries have **limited statistical production of SME-related environmental indicators**, as well impact evaluation practices

#### Incentives and instruments

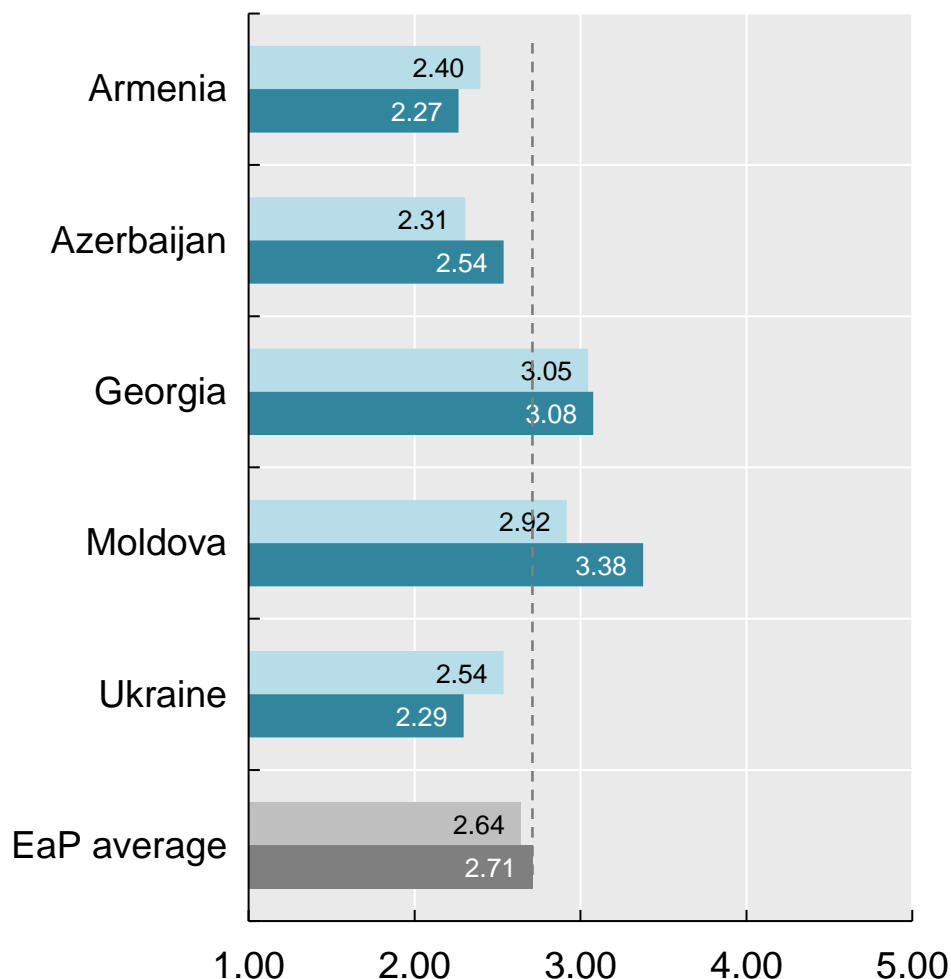
- Environmental regulatory reforms and incentives are being introduced in the region, mainly through **risk-based environmental assessment/permitting and to disincentivize environmentally harmful practices** (Armenia, Moldova, Ukraine)
- Adoption of **Environmental Management Systems (EMS)** is being promoted in most countries, mostly through information but without financial support for SMEs
- **Dedicated support programmes for greening SMEs** are still rare (except Moldova), although most countries are providing support for specific sectors (i.e. tourism, logging) that contain significant numbers of SMEs
- **Green public procurement** is either planned or already operational in a number of countries (Georgia, Moldova, Ukraine), but implementation levels and accessibility for SMEs remain unclear

# Green economy policies for SMEs

## Regional scores

### Dimension scores

■ 2020 ■ 2024 --- EaP average 2024



### Country highlights

- **(Little) promotion of green practices among SMEs** in SME Strategy 20-24 and Program on Energy Saving and Renewable Energy 22-30
- **Plans to introduce green bonds and tax incentives to reduce pollution and resource use** as part of the NDC Financing Strategy
- Social & Economic Develop. Strategy includes chapter to promote a "clean environment & green growth country", without SME specific actions/targets
- **ESG criteria adopted by Entrepreneurship Development Fund**
- "Green Economy for SMEs" as dedicated chapter of new SME Strategy, but 4<sup>th</sup> National Environmental Action Programme 22-26 misses SME focus
- **Introduction of Sustainable Finance Taxonomy by NBS** and rules for certificates of origin of electricity generated from renewables by NEWSRC
- Increased focus on SME greening in national strategic documents
- **Important progress in implementation**, two new initiatives managed by ODA: Greening Program for SMEs and Energy Efficiency Program for SMEs
- Both strategic update and implementation challenged by Russia's war, no specific provisions/targets for SMEs in national strategic documents
- Progress in greening public procurement, with **introduction of "life cycle cost"** as tender assessment criteria

# Green economy policies for SMEs

## Outstanding challenges in Azerbaijan

- Azerbaijan's Social and Economic Development Strategy 2022-26 includes a chapter on promoting a "clean environment and green growth country". However, there are no specific references to actions targeting SMEs
- Regulatory and financial instruments for promoting greening practices among SMEs have started to become available in Azerbaijan, e.g.:
  - tax and other incentives for SMEs in the Balakhani eco-Industrial Park,
  - provision of soft loans to local SMEs by the Entrepreneurship Development Fund and since 2021 consideration of ESG criteria in its financing decisions
- Overall, Azerbaijan lacks a focus on supporting green SMEs, or green enterprises more broadly, beyond those involved in the green energy sector
- The SME Development Agency is ideally positioned to reach out to SMEs and provide information on the benefits of adopting resource-efficient practices.
- On the monitoring side, the lack of SME greening-specific policies and instruments makes it difficult to assess the impact of environmental policies on the SME sector.

1. Adapt national green economy policies and targets to SMEs, as they have different needs and capacities than larger firms, and mainstream SME greening within broader SME policies
2. Strengthen institutional capacity to provide guidance to SMEs and emphasise the business case for improving environmental performance
3. Enhance outreach to SMEs through a diversity of intermediaries (sectoral business associations, local governments, financial service providers)
4. Facilitate partnerships and best practice sharing among businesses to support SME greening activities (e.g. resource efficiency, circular economy)
5. Ensure public procurement policies adopt green/sustainable assessment criteria and are accessible to SMEs
6. Develop green financing instruments and increase capacity of commercial banks to report on sustainable financing
7. Improve statistical production of environmental indicators and strengthen tools to evaluate SME greening policies, certification and support programmes

1. Incorporate an SME focus into targeted actions for green initiatives and aligned with environmental goals.
2. Create implementation plans tailored to SMEs' size and capabilities to support green practices in a wide range of sectors.
3. Increase focus on supporting green SMEs beyond the energy sector and leverage KOBIA's reach to promote resource-efficient practices.
4. Enhance regulatory and financial incentives for greening practices among SMEs, to target businesses beyond the energy sector.
5. Strengthen environmental monitoring tools that specifically address SMEs, facilitating a more accurate assessment of the impact of environmental policies on the SME sector.