

11 SMEs in a green economy (Dimension 9) in the Western Balkans and Turkey

This chapter assesses the provision of policies that promote green behaviour among small and medium-sized enterprises (SMEs) in the Western Balkans and Turkey. It starts by outlining the assessment framework and progress since the last cycle in 2019. It then presents the two sub-dimensions of Dimension 9: 1) framework for environmental policies targeting SMEs, which considers the greening aspects in national SME, sectoral and innovation policy frameworks; and 2) incentives and instruments for SME greening, which looks at the various tools and instruments in place – such as regulatory and information-based instruments, financial incentives, and green public procurement – to support SMEs in their greening efforts. Each sub-dimension makes specific recommendations to tackle the challenges identified and help to facilitate SME greening in the region.

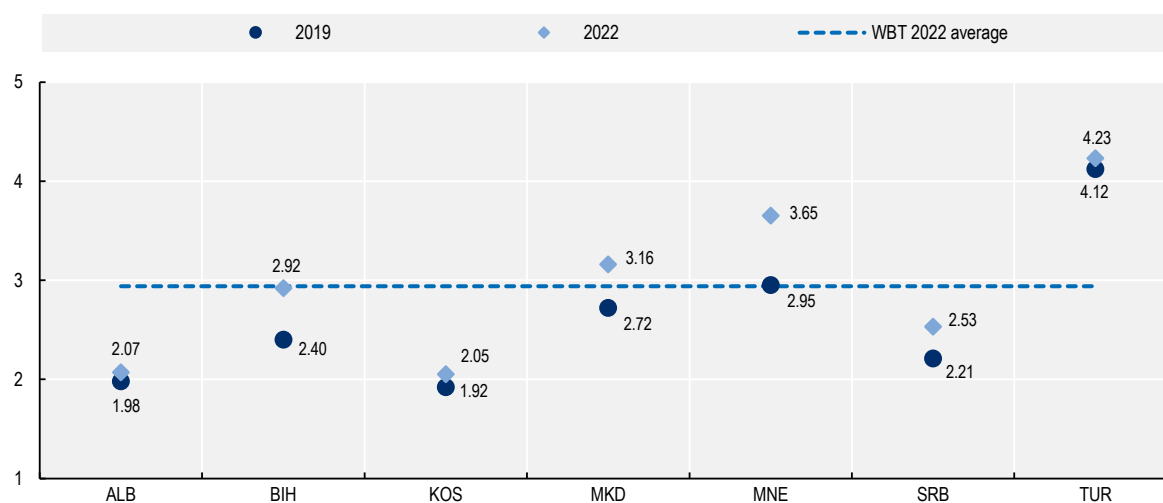
Key findings

- **SME greening policies have continued to gain momentum in the region and have been integrated into several strategic documents**, with energy efficiency and eco-innovation lying at their forefront. These strategies have clearer targets and dedicated budgets compared to previous legislation and include awareness raising and technical and financial support.
- **Effective cross-sectoral co-ordination of greening measures is lacking in the majority of the economies**, hampering the proper implementation of policies. Only Montenegro and Turkey have made progress in adopting a whole-of-government approach to strengthen the co-ordination of environmental policies targeting SMEs.
- **Implementation of SME greening policies has advanced unevenly across the region**, primarily due to limited budgetary allocations for the envisaged greening measures, high dependence on support from external partners and the reallocation of funds due to the COVID-19 pandemic. Nevertheless, Bosnia and Herzegovina, Montenegro, and Turkey have been the most successful in implementing greening measures.
- **There are no systematic monitoring and evaluation mechanisms for SME greening policies in the Western Balkans**. Moreover, the collection of specific SME greening data is lacking in all Western Balkans and Turkey (WBT) economies, which hampers proper evaluation of the measures introduced.
- **Significant progress has been achieved in introducing financial incentives for SME greening**, in particular in Bosnia and Herzegovina, Montenegro, North Macedonia, and Turkey, the majority of which target energy efficiency and renewable energy projects.
- **Information-based tools for the greening of businesses have been scaled up in the region**. Several activities are envisaged to raise SMEs' awareness of environmental practices, while chambers of commerce and business associations have become increasingly involved in the provision of green advice and guidance to SMEs.
- **Other tools remain scarce in the WBT economies and there is no evidence as to whether SMEs have benefited from such schemes as of yet**. While green public procurement measures and regulatory instruments have been introduced in legislative frameworks to support SMEs in their greening efforts, their implementation remains insufficient.

Comparison with the 2019 assessment scores

All WBT economies have progressed in Dimension 9, albeit at uneven rates (Figure 11.1). Turkey continues to be the best performer in this dimension, reflecting its comprehensive and well-designed government approach to SME greening. Bosnia and Herzegovina, Montenegro, and North Macedonia have made the most progress compared to the previous assessment by introducing a number of measures to enhance the environmental performance of their SMEs. The three remaining economies (Albania, Kosovo and Serbia), continue to score below the WBT average of 2.94, highlighting the need for governments to step up their efforts, particularly in implementing their policy frameworks and scaling up incentives and instruments for SME greening.

Figure 11.1. Overall scores for Dimension 9 (2019 and 2022)



Notes: WBT: Western Balkans and Turkey. Despite the introduction of questions and expanded questions to better gauge the actual state of play and monitor new trends in respective policy areas, scores for 2022 remain largely comparable to those of 2019. For a detailed overview of policy changes and to compare performance over time, the reader should focus on the narrative parts of the report. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index's 2019 recommendations

Across the WBT region, progress has been achieved in implementing the majority of the recommendations outlined in the 2019 assessment. Table 11.1 summarises progress on the key recommendations for this dimension since the previous assessment.

Table 11.1. Implementation of the SME Policy Index's 2019 recommendations for Dimension 9

Regional 2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Regional progress status
Ensure effective cross-sectoral co-ordination	<p>Progress in ensuring effective cross-sectoral co-ordination of greening measures was achieved in Montenegro and Turkey, where specific working groups were established.</p> <p>The Republika Srpska (RS) Chamber of Commerce in Bosnia and Herzegovina has established a co-ordination body to support the private sector in the field of industrial energy efficiency.</p> <p>Cross-sectoral co-ordination, on the other hand, continues to be limited in the remaining WBT economies, hampering proper implementation of greening measures.</p>	Limited
Facilitate partnerships among businesses to support SME greening activities, such as increasing resource efficiency	<p>The Chamber of Commerce and Industry of Serbia has implemented some initiatives to enhance best-practice sharing and networking between SMEs (such as the Academy for Circular Economy and the Digital Platform for Circular Economy). Several initiatives were also undertaken in Turkey, in particular as part of green organised industrial zones, where programmes that link firms to local universities and research institutes are planned to be introduced to help SMEs introduce or commercialise eco-innovative ideas. To some extent, the recently opened Aarhus Centre¹ in North Macedonia will also act as a platform to engage the private sector in a dialogue on environmental challenges.</p> <p>Facilitating partnerships among businesses to support SME greening is part of both of Bosnia and Herzegovina's entities' SME strategies, with Republika Srpska introducing a specific measure on creating and expanding energy efficiency networks based on the learning energy efficiency networks.</p>	Moderate
Step up efforts to provide advice and guidance to SMEs on green practices	<p>All economies have scaled up their efforts to provide advice and guidance to SMEs on green practices. Several activities have been conducted to raise SMEs' awareness on environmental practices in Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Turkey.</p> <p>Chambers of commerce and business associations are increasingly involved in this regard, in particular in Montenegro through its Committee on Energy Efficiency, and Serbia through its web-based guidance tools and digital platforms. Turkey remains the regional frontrunner in this regard, as business associations often have their own policies when it comes to SME greening.</p>	Strong
Introduce regulatory instruments into the SME greening policy mix	<p>Regulatory instruments remain largely non-existent in the Western Balkans. Nevertheless, Turkey stands out for its performance standards which set requirements for recycling with the aim of incentivising SMEs to adopt greener practices. Some performance standards, in particular those concerning waste management, have been introduced in Republika Srpska, but relevant data or evidence confirming that they benefit SMEs are lacking.</p>	Limited
Address financial barriers to SMEs' greening efforts	<p>Important steps have been taken to multiply financial incentives available to SMEs for their greening efforts since the last assessment, in particular in Bosnia and Herzegovina, Montenegro, and North Macedonia, with Turkey remaining the regional leader in this regard.</p> <p>Green funds have been established in Montenegro and North Macedonia and the funds of both entities in Bosnia and Herzegovina increasingly target SMEs.</p> <p>Governments and public financial institutions have offered reduced interest loans or grants to assist SMEs in making investments to improve their greening efforts in Montenegro, North Macedonia, Serbia, and Turkey.</p> <p>Financial support programmes for SMEs, financed by by external partners are common in the region and increasingly focus on green development, in particular in Kosovo, Montenegro and Serbia.</p>	Strong
Fill the funding gap through the support of state investment banks to SME greening	<p>The Development Bank of North Macedonia has become an important actor in fostering lending to SMEs' green projects, including as part of the COVID-19 recovery programmes.</p> <p>As part of its new strategy, the Federation of Bosnia and Herzegovina plans to finance a credit line targeted at SMEs through its Development Bank to provide funding support for greening measures. The RS Strategy for Industrial Development (2021-2027) also plans to increase credit support from its Investment and Development Bank for green projects.</p> <p>However, progress remains limited in the other economies in this regard.</p>	Limited

1. Aarhus centres are established in line with the Aarhus Convention. The United Nations Economic Commission for Europe Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters (Aarhus Convention) was adopted on 25 June 1998 in the Danish city of Aarhus (Århus) at the Fourth Environment for Europe Ministerial Conference and aims at empowering the role of citizens, civil society organisations and the private sector in environmental matters. The Aarhus Convention establishes a number of rights for individuals and civil society organisations with regard to the environment.

Introduction

While climate change and environmental degradation are increasingly affecting people's lives, disrupting economies and transforming ecosystems, they have taken on a new urgency and impetus in the wake of the COVID-19 pandemic. Although mitigating climate change and preserving the environment are among the most central issues on the global policy agenda, small and medium-sized enterprises (SMEs) and entrepreneurs have only received attention in analysis and in the policy debate in recent years. Historically, the key focus has been on large emitters, mostly because the environmental footprint of SMEs was considered scarce. However, SMEs in the aggregate have a significant environmental footprint as small firms make up for 50% of greenhouse gas emissions in the world (ICT, 2021^[1]) and 63% in the EU (European Commission, 2022^[2]). It is hence essential that all governments, including in the Western Balkans and Turkey, include SMEs in their environmental considerations to achieve the net zero goal for greenhouse gas emissions and ensure that economic growth does not come at the cost of the environment, especially in the post-COVID context.

Environmental issues are important from an SME perspective as well for several other reasons. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation and are exposed to energy-price volatility and uncertainty, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address these challenges. New green markets, such as those created through circular economy, can also create new business opportunities for SMEs (OECD, 2021^[3]). Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions through the greening of their products, services and processes. In fact, in the EU, 89% of SMEs are already taking at least one action to become more resource-efficient, for example, by using predominantly renewable energy, recycling or minimising waste (European Commission, 2022^[2]).

In this regard, tailored policies, incentives and instruments are necessary to enable SMEs in the WBT economies to participate in the green transition, as SMEs face more barriers (financial, informational, etc.) in their greening efforts than large enterprises. In addition, the COVID-19 pandemic has exposed SMEs' vulnerabilities, and has put additional pressures on their greening efforts, primarily due to issues with liquidity maintenance and access to finance. In this regard, well-co-ordinated and targeted financial and technical support will be required to overcome challenges in adopting sustainable practices.

Assessment framework

Structure

The assessment framework for this dimension is divided into two sub-dimensions:

- **Sub-dimension 9.1: Framework for environmental policies targeting SMEs** considers the greening aspects in national SME, sectoral and innovation policy frameworks.
- **Sub-dimension 9.2: Incentives and instruments for SME greening** evaluates the various tools and instruments in place to support SMEs in their greening efforts.

Figure 11.2 shows how the sub-dimensions and their fundamental indicators make up the assessment framework for this dimension. For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Compared to the 2019 assessment, small adjustments have been made to the framework to enhance the importance of digital aspects of policies and measures, which in the context of SMEs in a green economy relate specifically to policy frameworks and information-based tools to enhance SME greening efforts. The

assessment also takes into consideration COVID-19 response measures, although no evaluation has been made in this regard.

Figure 11.2. Assessment framework for Dimension 9: SMEs in a green economy

SMEs in a green economy					
Outcome indicators Share of SMEs that adopted/use an environmental management system Share of SMEs with green certificates Share of SMEs that have taken resource efficiency measures Share of SMEs with a turnover of more than 50% generated by green products or services Share of SMEs that offer green products or services					
Sub-dimension 9.1: Framework for environmental policies targeting SMEs			Sub-dimension 9.2: Incentives and instruments for SME greening		
Thematic block 1: Planning and design	Thematic block 2: Implementation	Thematic block 3: Monitoring and evaluation	Thematic block 1: Planning and design	Thematic block 2: Implementation	Thematic block 3: Monitoring and evaluation
Quantitative indicators Share of SMEs that have benefited from public support measures for their green production methods Share of SMEs that have benefited from public support measures for their resource efficiency actions					

Analysis

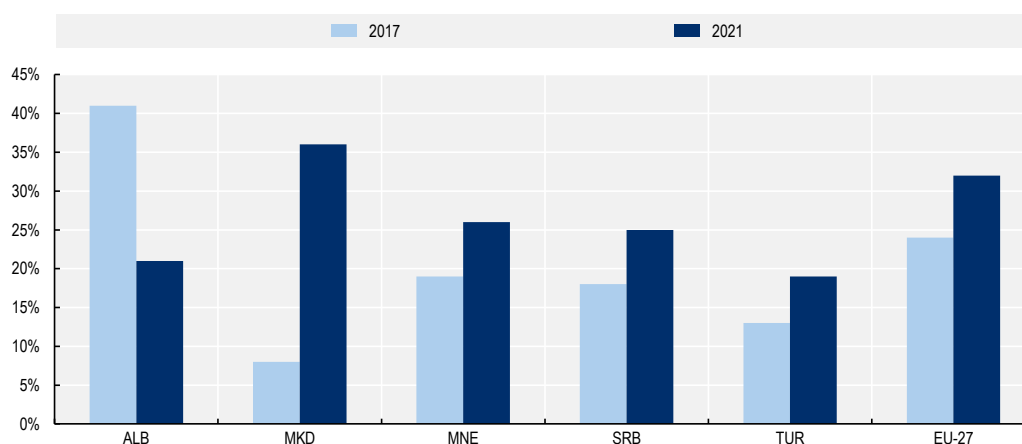
Performance in SME greening

Outcome indicators assess the performance of overall framework conditions for enabling SMEs to take environmental concerns into account. The indicators chosen in this dimension (see Figure 11.2) help policy makers track whether policies are achieving the desired outcomes in creating the conditions that make SMEs' transition into a green economy easier. This section starts by drawing on these indicators to describe the level of greening among SMEs in the WBT region.

While SME greening in the WBT economies still lags behind EU and OECD countries, the topic has gained momentum in the region in recent years. This is particularly the case for the six Western Balkan economies, as Turkey remains the regional frontrunner in this regard. Since the last assessment, policy frameworks targeting SMEs have increasingly taken into account greening aspects and now particularly focus on resource efficiency, eco-innovation and circular economy principles. The European Commission's (EC) 2021 Eurobarometer illustrates how SMEs in the WBT economies perform with regards to resource efficiency measures and offering green products as well as the progress that has been achieved since 2017.

The share of SMEs offering green products or services has increased in all of the WBT economies assessed, with the exception of Albania (Figure 11.3). North Macedonia has advanced the most in this regard, with 36% of its SMEs offering green products or services, an even higher proportion than the EU average. This demonstrates that developing new products and services and eco-innovation in general has been recognised as a valuable business opportunity.

Figure 11.3. Share of SMEs offering green products or services(2017 and 2021)



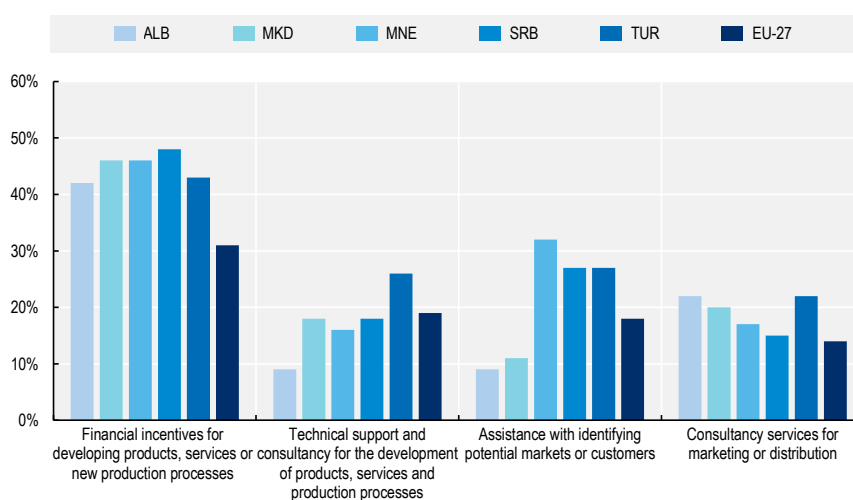
Notes: Data for Bosnia and Herzegovina and Kosovo are unavailable. EU-27 is the average, as the data are collected after 1 February 2020, after the United Kingdom left the European Union.

Sources: EC (2018^[4]; 2022^[2]).

StatLink  <https://stat.link/jk93so>


When asked which support measures would help their company the most in launching green products or services, between 40% and 50% of all SMEs in the assessed economies indicated financial incentives would be of most assistance, a larger share than in the EU (31%), pointing to the need for more available financial support to SMEs for their greening efforts in the region (Figure 11.4). Although the majority of WBT economies have advanced in making more green financial incentives available to SMEs, there is still room for improvement when it comes to guidance and advice on funding possibilities.

Figure 11.4. Type of support that would help SMEs launch green products or services (2021)



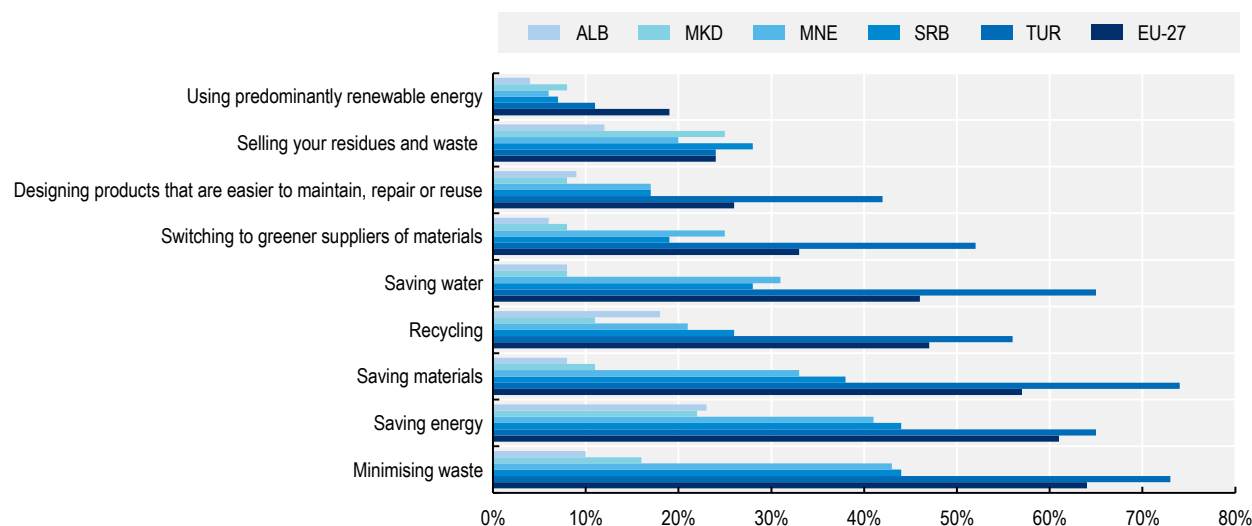
Note: Data for Bosnia and Herzegovina and Kosovo are unavailable. EU-27 is the average, as the data are collected after 1 February 2020, after the United Kingdom left the European Union.

Source: EC (2022^[2]).

StatLink  <https://stat.link/nq19la>

The majority of SMEs took at least one of the actions listed in the survey to become more resource-efficient, in particular minimising waste or saving energy or water (Figure 11.5). While all Western Balkan economies performed well below the EU average on all actions, Turkey's SMEs performed better than those of the EU in undertaking resource efficiency measures, in particular by saving materials (74%), minimising waste (73%), and saving water and energy (65% each). Turkey's performance in this regard reflects the government's long-term commitment to SME greening.

Figure 11.5. Resource efficiency measures undertaken by SMEs(2021)



Note: Data for Bosnia and Herzegovina and Kosovo are unavailable.

Source: EC (2022^[2]).

StatLink  <https://stat.link/dhn5f2>

Framework for environmental policies targeting SMEs (Sub-dimension 9.1)

To accelerate SMEs' transition to a green economy and their uptake of greening measures, governments need to mainstream the topic in broader SME, sectoral and innovation policy frameworks, and ensure that climate and environmental policies (including the circular economy) better take into account the perspective of SMEs and entrepreneurs (OECD, 2021^[3]). Efforts to encourage SMEs' green transition need to be harmonised in particular with energy policies¹, because the subsidisation of coal-fired power generation across the Western Balkans, which lowers energy prices, cancels out and even reverses efforts to reduce GHG emissions (OECD, 2021^[5]). Systematic co-ordination across several levels of government is also necessary to ensure alignment, proper implementation and monitoring of greening policies. An integrated whole-of-government approach to SME and greening policies can help mitigate the potential trade-offs between improving environmental and business performance.

This section analyses the extent to which strategic documents target SME greening in the WBT economies. It examines whether current environmental policies include SME-specific targets and whether national SME strategic documents cover environmental issues. The assessment considers the level of co-ordination between relevant stakeholders and evaluates the speed of implementation of green policies. Lastly, it focuses on monitoring and evaluation mechanisms that follow the execution of environmental policies in SMEs.

The average score in this sub-dimension has slightly improved since the last assessment, from 2.85 in 2019 to 3.06 (Table 11.2). While the WBT economies' performance for planning and design is high, implementation remains rather limited across the region. With important progress having been achieved in co-ordinating SME greening policies, Montenegro and Turkey rank as regional leaders in this sub-dimension.

Table 11.2. Scores for Sub-dimension 1: Framework for environmental policies targeting SMEs

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	3.82	3.55	2.70	3.70	4.32	4.11	4.87	3.87
Performance	2.00	2.60	2.55	2.62	3.40	2.35	4.15	2.81
Monitoring and evaluation	1.75	2.25	1.58	1.89	3.86	1.95	4.00	2.47
Weighted average	2.50	2.82	2.40	2.80	3.77	2.80	4.34	3.06

Note: See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

SME greening policies are mainstreamed in strategic documents across the region, whereas implementation and monitoring have progressed unevenly

SME greening policies have continued to gain momentum in the region and have been integrated into several strategic documents, with energy efficiency and eco-innovation lying at their forefront. Environmental policies are included in SME strategies in Albania (2021-2027), Republika Srpska (2021-2027), the Federation of Bosnia and Herzegovina (2021-2027), Montenegro (2018-2022), and North Macedonia (2018-2023), and are planned to be integrated into Serbia's revised strategy for the upcoming period. Compared to the previous assessment, these strategies have clearer targets and budgets and now include awareness raising and technical and financial support.

Green policies targeting SMEs, including those aimed at boosting a circular economy (with Montenegro, Serbia, and Turkey standing out in this regard; see Box 11.1), have also been increasingly recognised in several strategic documents since the last assessment. Turkey's recently adopted horizontal strategies (the Eleventh Development Plan [2019-2023] and Medium-Term Programme [2022-2024]) recognise the importance of green growth and the role of SMEs in the green economy. Moreover, Montenegro's Smart Specialisation Strategy (2019-2024) and North Macedonia's Plan for Accelerated Growth (2022-2026) pave the way for future green investments, including in the post-COVID economic recovery. In Serbia, the Strategy of Industrial Policy (2021-2030) and the Programme for the Introduction of Cleaner Production (planned to be adopted for the 2023-2025 period), the RS Strategy for Industrial Development (2021-2027), and Turkey's Industry and Technology Strategy (2019-2023) should respectively provide a stronger impulse to sustainable and resource-efficient industrial production. While Kosovo's policy framework remains underdeveloped in this regard, the revised National Development Strategy, under preparation at the time of writing, in accordance with the Government Programme (2021-2025), is planned to have a special focus on environmental policy.

While the region's green policies targeted at SMEs are increasingly integrated into strategic documents, implementation of the envisaged measures has remained rather limited in the majority of WBT economies since the last assessment. Limited budgets allocated for SME greening measures represent a major impediment in this area. Several economies are highly reliant on funding from external partners, putting the long-term sustainability of these initiatives into question. Moreover, dedicated funds were reallocated during the COVID-19 pandemic in several economies, delaying the implementation of greening measures. While Kosovo and North Macedonia report having dedicated specific budgets to awareness-raising activities and trainings in relation to the green economy (EUR 400 000 and EUR 125 000 respectively), they have seldom materialised into concrete activities during the assessment period.

Due to, for the most part, progress achieved in terms of cross-sectoral co-ordination (see next section), greening measures have been implemented at a good pace in Turkey, and to a lesser extent in Montenegro, in comparison to their regional peers. Significant progress in implementing greening measures in both entities in Bosnia and Herzegovina since the last assessment should also be highlighted. In all three economies, the majority of measures implemented have been in relation to the promotion and financing of energy efficiency measures.

However, there are almost no systematic monitoring and evaluation mechanisms for SME greening policies in the Western Balkans. In Turkey, while all strategies are regularly monitored and evaluation mechanisms exist with specific indicators to measure green targets, an impact analysis of SME greening policies has not yet been conducted. Moreover, the collection of specific SME greening data is lacking in all WBT economies, which hampers proper evaluation of the measures that have been introduced.

Box 11.1. The circular economy in the Western Balkans and Turkey

The circular economy is a model of production and consumption, which involves sharing, leasing, reusing, repairing, refurbishing and recycling existing materials and products as long as possible. In this way, the life cycle of products is extended (EU Monitor, 2020^[6]). Small and medium-sized enterprises (SMEs) are important for achieving objectives regarding the circular economy, both by making their business operations more circular and by contributing to the innovation that can strengthen circularity across economies. As the concept of the circular economy is gaining momentum in the Western Balkans and Turkey, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

Since the last assessment, incremental progress has been achieved in developing a **circular economy framework** in most economies. Serbia was the first economy of the region to prepare its Roadmap for the Circular Economy in 2020, an important document that sets the guidelines for the transition towards a circular economy. Following the adoption of the roadmap, further actions are being taken on this front through the drafting of the Programme for the Circular Economy Development (2022-2024), ongoing at the time of writing, with one of its objectives being to support SMEs in the transition to a circular economy. The circular economy framework is being developed in Montenegro through the Roadmap Towards the Circular Economy in Montenegro, launched in April 2022, which is expected to serve as a guiding document for the development of the Strategy for Circular Transition and its Action Plan, planned for the end of 2022. Both are harmonised with EU recommendations and aligned with the European Union's guidelines on the circular economy (the Green Deal and the new Circular Economy Action Plan). Turkey also has a solid framework, with most strategies adopted since the last assessment having a special emphasis on zero waste and the transition to a circular economy. In Republika Srpska, the Strategy for Industrial Development (2021-2027) aims to develop an efficient waste management system, with a special focus on waste recycling and reusing, energy recovery of waste, and safe disposal of waste. Moreover, waste management strategies adopted since the last assessment in Albania (2020-2035), Republika Srpska in Bosnia and Herzegovina (2019-2029), Kosovo (2020-2029), and North Macedonia (2021-2031) also have a specific focus on the circular economy, although they do not target SMEs specifically.

The **promotion of circular economy concepts** has varied widely between WBT economies. Turkey and Serbia are the frontrunners in this regard. For instance, in Serbia, the Digital Platform for Circular Economy (<https://circulareconomy-serbia.com>), launched in 2021, contains a Circular Economy HUB which serves as a virtual classroom on the topic of the circular economy. It aims to improve companies' knowledge on the circular economy potential, activities in the EU, available grants and financial support. The HUB also includes a "green alliance", a virtual space intended for companies to network, connect and create new business collaborations as well as share good practice examples. The HUB currently has 42 business members. In Turkey, circular economy workshops are regularly organised by

KOSGEB, the Small and Medium-sized Enterprises Development Organisation. The most recent one, organised in 2021 within the framework of the COSME Turkey project, gathered 115 SMEs.

Some **financial incentives** have been introduced to support SMEs in their circular transition, although their uptake by SMEs has remained limited in Montenegro (through the Programme for Improving the Competitiveness of the Economy for 2021 and 2022), North Macedonia (through the Programme for Competitiveness, Innovation and Entrepreneurship 2021) and Turkey (as part of green organised industrial zones). The circular economy was also promoted via **non-financial incentives**, such as performance standards in Turkey and environmental management systems in Bosnia and Herzegovina, Montenegro, North Macedonia, and Turkey.

Sources: OECD (2021^[3]; n.d.^[7]; 2021^[5]).

Effective cross-sectoral co-ordination is lacking in most WBT economies

Several institutions are in charge of developing and implementing greening measures targeted at SMEs in the region, ranging from ministries of environment, economy and finance to agencies in charge of SMEs, environment or energy. Efficient co-ordination of their work and dedicated budgets are necessary to facilitate the implementation of greening measures.

Montenegro and Turkey stand out for the significant progress achieved in adopting a whole-of-government approach to strengthen the co-ordination of SME greening measures. In Montenegro, a Green Economy Working Group was formed in April 2021 (Box 11.2). Moreover, a specific working group has been formed within the Central Bank to co-ordinate existing green projects and contribute to the greening of the financial system in accordance with the bank's competencies, available instruments and resources. In Turkey, two working groups have been established since the last assessment. The Green Reconciliation Working Group was created in 2020 to enhance co-ordination and harmonise Turkey's policies with the EC's Green Deal and in 2021, KOSGEB established an SME-specific Working Group, focusing on green economy, energy and environmental issues. No similar developments have been undertaken to strengthen co-ordination and efficient division of competencies across institutions in the other WBT economies, hampering proper implementation and monitoring of greening measures.

Box 11.2. Montenegro's Green Economy Working Group

In Montenegro, the Ministry of Ecology, Spatial Planning and Urbanism; the Ministry of Economic Development; and the Environment Protection Agency are in charge of environmental policies targeting small and medium-sized enterprises (SMEs).

As recommended in the previous cycle, successful co-ordination has been established through the **Green Economy Working Group** (GE WG), formed in April 2021.

Members of the GE WG are representatives of relevant institutions, international organisations and business associations and non-governmental organisations. The government plans to include other relevant stakeholders in the future, such as representatives from MONSTAT.

Its role is to promote green development, through awareness-raising activities and co-operation with business associations, co-ordinating greening programmes between relevant stakeholders, and developing relevant policy documents.

The GE WG has the obligation to report to the government on its work programme and past activities every three months. It co-ordinated its first projects in 2021, in collaboration with the Eco Fund, which provided grants for solar panels to households and private companies.¹

1. Public calls were held in 2021 for two energy efficiency financial support programmes: 1) public competition for the award of subsidies for the purchase and installation of a photovoltaic system; and 2) procurement of electric and hybrid vehicles. Funds for these calls were donated by the United Nations Development Programme (UNDP) (EUR 100 000) as part of the “Development of Green Jobs in Montenegro” to encourage SMEs and agricultural farms to implement energy efficiency measures.

Source: Information provided by the Government of Montenegro.

The private sector is increasingly being involved in developing and implementing SME greening policies

In most WBT economies, the private sector is regularly consulted when developing green strategies and action plans targeted at SMEs. For instance, the Union of Chambers of Commerce and Industry of Albania (UCCIAL) has been a part of roundtable discussions on all policies regarding the environment and working groups in Kosovo are regularly appointed by the government for the drafting and planning of strategic documents. In Montenegro, the new Eco Fund was established through a broad consultation process aimed at defining its priorities and scope of funding, which included SMEs both directly and indirectly via business association representatives. The WBT governments also co-operate with chambers of commerce and local councils on providing advice and guidance to SMEs (see sub-dimension 9.2).

Turkey remains the regional frontrunner in this regard, where business associations are consulted in the development of all relevant strategies, involved in the implementation of measures and often have their own green policies targeting SMEs (Box 11.3).

Box 11.3. The role of business associations in developing and implementing green policies in Turkey

The Turkish government recognises the value of business associations and regularly engages in dialogue with them. Business associations are increasingly involved in public affairs, represent the private sector’s interests and provide inputs into the development of environmental policies for small and medium-sized enterprises (SMEs).

For instance, **the Business Council for Sustainable Development (SKD Turkey)**, comprised of 13 private sector entities, contributes to policy development through a platform which enables interaction and partnership among enterprises of all sizes, in particular on the transition to a low-carbon economy and resource efficiency.

Moreover, a number of business associations have their own policies (including on greening aspects) and are increasingly becoming leaders in implementing greening measures, in particular by providing advice and guidance to SMEs.

The **Turkish Exporters’ Assembly (TIM)** has been active in promoting greening measures for SMEs through several programmes. TIM runs several (digital) mentoring and training programmes on the minimisation of waste, the acquisition of energy from waste, the development of waste management business models for exporters and the corporate carbon footprint. For instance, TIM’s Ecological Export Academy facilitates partnership and best-practice exchange between firms.

TIM is also involved in the implementation of circular economy measures, such as through the “Zero Waste Project”,¹ which started in 2017 and aims at reducing waste by recycling and repurposing through

evaluation of waste capacities and creation of a waste inventory of enterprises under a common platform.

1. The Zero Waste project was established in Turkey by the first lady, Emine Erdoğan, in 2017. The project added EUR 2 billion to the Turkish economy due to a large amount of material and food saved reducing waste. The goals of the Zero Waste project in Turkey are to reduce waste by recycling by-products of agriculture activities and repurposing hazardous waste.

Source: Information provided by the Government of Turkey.

The way forward for environmental policies targeting SMEs

- **Ensure effective implementation of SME greening measures through cross-sectoral co-ordination.** Given the cross-cutting nature of SME greening policies, effective co-ordination among the relevant stakeholders is essential for their successful implementation as well as to create a synergy between the various financial instruments and avoid overlaps between the different initiatives. Montenegro and Turkey, which have already established relevant working groups, should ensure that their co-ordination does not stop at policy design and implementation, but continues for regular monitoring and evaluation.
- **Strengthen evaluation tools to ensure efficient implementation of SME greening policies, green certification and support programmes.** WBT economies need to improve their approach to monitoring the impact of different measures and tools to support the greening of SMEs. Cross-sectoral and systematic evaluation of greening measures targeting SMEs would help identify bottlenecks hindering SME greening and assess the impact of the financial support programmes offered by different institutions. Moreover, evaluation mechanisms will be necessary to ensure the efficiency of green certification awarding procedures. To ensure appropriate evaluation of measures, WBT economies should also improve SME-specific greening data collection of energy efficiency, green products, environmental management systems (EMS) and beneficiaries of public support measures. For more information on data that WBT governments could consider collecting in this area, please see Annex C.
- **Support SMEs' transition to a circular economy,** through awareness raising, capacity building and best-practice sharing. Facilitating partnerships and peer-to-peer learning between businesses of all sizes could encourage SMEs to engage in green and circular practices (OECD, 2020^[8]). Building on the work of these activities, WBT governments should adopt circular economy roadmaps to reflect and shape circular economy approaches at the national level (as undertaken in Montenegro and Serbia). WBT governments could facilitate circular economy initiatives, such as the "Circular Glasgow", led by the Glasgow Chamber of Commerce. Even though this is a city-level project, it could easily be scaled up to the national level (Box 11.4).

Box 11.4. "Circular Glasgow": Capacity building on the circular economy

Since 2015, the Glasgow Chamber of Commerce has hosted the Circular Glasgow initiative and is responsible for delivering this scheme alongside Zero Waste Scotland, the Glasgow City Council (United Kingdom) and key stakeholders.

Circular Glasgow aims to build best practices and capacity on the circular economy across Glasgow businesses, helping them identify opportunities to support and implement circular ideas.

This is done by: workshops and events – a series of knowledge-sharing business-to-business networking events; Circle Assessment – a tool which helps businesses understand opportunities to

become more circular; and the Circle Lab – an online hackathon event to find a circular solution to local challenges. The Circle Lab sought solutions to make Glasgow's event industry more circular.

Following the 2020 edition, ways to turn the winning ideas (namely a deposit-based reuse system for food and drink containers, circular designs for event marketing and branding, and a scheme that will repurpose organic waste into energy and fertilisers) into pilot projects were explored.

Building on the work of Circular Glasgow, the city of Glasgow adopted its Circular Economy Route Map (2020-2030) to reflect and shape a circular economy approach at a city-wide level to continue this momentum.

Sources: OECD (2019^[9]; 2020^[10]); City of Glasgow (2020^[11]).

Incentives and instruments for SME greening (Sub-dimension 9.2)

A wide range of tools are available to governments to support SME greening. Such instruments comprise broad support for SME development, such as access to finance and assistance when entering new markets, while others are specific to environmental concerns, such as regulatory incentives and eco-labelling initiatives. Information-based tools are also a vital component for influencing attitudes and encouraging the uptake of green practices. These tools include guidance on different communication approaches, from advising individual businesses directly to disseminating guidance on environmental compliance and good practices to a wide audience.

This sub-dimension examines financial incentives available to SMEs, information-based and other tools introduced to encourage greener practices. It assesses WBT economies on these incentives and instruments, as well as their progress on implementation, monitoring and evaluation.

The overall score for Sub-dimension 2 is higher on average than in the previous assessment (which stood at 2.42), but individual scores underline that there are still notable differences among the economies. Significant progress has been achieved by Bosnia and Herzegovina, Montenegro, and North Macedonia, with Turkey remaining the regional frontrunner in this regard. There is significant room for improving the monitoring and evaluation of incentives and instruments introduced in the majority of the WBT economies (Table 11.3).

Table 11.3. Scores for Sub-dimension 2: Incentives and instruments for SME greening

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Planning and design	1.90	3.10	1.90	4.40	3.44	2.85	3.80	3.06
Performance	1.90	3.44	2.00	3.23	3.67	2.13	4.75	3.02
Monitoring and evaluation	1.00	1.80	1.00	2.60	3.40	1.91	3.10	2.12
Weighted average	1.72	3.01	1.77	3.46	3.55	2.30	4.14	2.85

Note: See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

A range of financial incentives has been introduced to support SMEs in their greening efforts, although they remain mainly dependent on support from external partners

Many SMEs are willing to invest in more energy-efficient and environmentally friendly processes, but they require reliable partners for financing their investments. In general, SMEs face greater challenges with respect to access to finance than larger enterprises. SMEs may find interest rates and collateral

requirements of bank loans prohibitive and may not be familiar with other sources of financing that are available (OECD, 2021^[12]).

Important steps have been taken – albeit unevenly across the region – to multiply financial incentives available to SMEs since the last assessment. Bosnia and Herzegovina, Montenegro, and North Macedonia have made the most progress while Turkey remains the regional leader in this regard.

Green funds can play an important role in providing technical and financial support to SMEs in their greening projects. Both the RS Fund for Environmental Protection and Energy Efficiency and the FBiH Environmental Protection Fund are operational and have increased the scope and outreach of their programmes to target smaller enterprises, in particular for their energy efficiency and renewable energy projects. Moreover, Montenegro and North Macedonia have both established green funds since the last assessment. Montenegro's Eco Fund was established in 2020 and provides financial support, such as tax incentives and grants, for greening projects. The fund's budget for 2021 was EUR 1.6 million and financial support was provided for the purchase of hybrid and electric cars and the installation of solar systems. As foreseen in North Macedonia's Plan for Accelerated Growth (2022-2026), a Hybrid National Green and Digital Fund for SMEs, Start-ups and Innovative Enterprises was recently established with the aim to invest in the greening and digitalisation SMEs, with a total portfolio of EUR 27 million.² A Green Investment Fund is also being developed by the government and international partners to specifically accelerate investments in renewable energy sources and energy efficiency solutions with an expected budget of EUR 36.3 million. Meanwhile, Kosovo's National Energy Efficiency Fund, established in 2019, and Serbia's Green Fund, re-established in 2017, focus on large and mainly infrastructural projects and do not yet target SMEs. In Turkey, where green financial incentives were introduced several years ago, KOSGEB provides financial support, along with training and technical assistance to SMEs and several of its current programmes support SMEs in their energy efficiency and eco-innovation projects.

Governments and public financial institutions may offer reduced interest rate loans or grants to assist SMEs in making investments to improve their greening efforts. The Development Bank of North Macedonia's credit line "Financing Sustainable Energy Sources Projects" was developed to finance SMEs' projects related to renewable energy and energy efficiency. Montenegro's Ministry of Economic Development has established a programme credit line for stimulating the circular economy in 2021 and 2022, by co-financing the costs for wastewater treatment and waste management for SMEs and entrepreneurs. In Turkey, the Ministry of Energy and Natural Resources has an energy efficiency grant programme for establishments that consume more than 500 tonnes of oil equivalent (toe)/year. SMEs in Serbia have had access since 2020 to two *ad hoc* programmes of the Ministry of Economy which provide non-refundable capital for the purchase of solar panels and solar power plants. The Federation of Bosnia and Herzegovina also plans to finance a credit line targeted at SMEs through its Development Bank to provide funding support to foster the development of energy service companies markets.³

Credit lines extended by international financial institutions and disbursed through local commercial banks can be a good approach to improving access to green finance for SMEs. Financial support programmes for SMEs, financed by international development co-operation partners, are common in the region and increasingly focus on green development. For instance, the French Development Agency has extended a EUR 50 million credit line and a EUR 400 000 technical assistance grant to support investments in green projects. The credit line is targeted at SMEs and municipalities, particularly in the most vulnerable regions of Montenegro. The European Bank for Reconstruction and Development (EBRD) provided a EUR 20 million loan to UniCredit Leasing Serbia in 2021 to support the greening and competitiveness of local SMEs by requiring more than half of each loan to finance investments and technical assistance in green technology and energy efficiency. In Kosovo, the recently established Credit Guarantee Fund (KCGF) signed an agreement with the KfW in November 2021 to support micro, small and medium-sized enterprises for green investments (EUR 6 million grant), in particular energy efficiency, resource efficiency and investments in renewable energy. Millennium Foundation Kosovo launched the "Women Energy Entrepreneurs Programme" in 2020, which combines technical assistance with investment grants to

support the growth of women-owned businesses in Kosovo through efficient energy use. In Albania, while some guarantee funds cover green investments, such as the KfW-supported Rural Credit Guarantee Fund, which has a dedicated “green window”, their uptake by SMEs for greening projects remain limited.

Taking into account the deep and continuous impact that COVID-19 has had on SMEs in the WBT economies, taking an SME perspective into account in greening measures in recovery packages is essential for enabling progress on preserving the environment and reaching climate mitigation objectives. Financing SMEs’ renewable energy equipment or energy efficiency products could become crucial for their recovery in the post-COVID recovery phase if they are provided with the necessary incentives (UNECE, 2021^[13]). However, green aspects have rarely been included in post-COVID economic recovery programmes in the region. North Macedonia stands out in this regard as its Development Bank’s credit line “KCOVID3” offers SMEs affected by the pandemic the possibility to apply for grants of up to 30% of project costs related to the green economy.

Information-based tools are becoming increasingly available to SMEs to encourage engagement in greener practices

Information-based instruments aim to address SMEs’ barriers related to their lack of awareness of green opportunities and obligations stemming from the economies’ commitment to reaching the net zero goal. Policy instruments aimed at information provisions and technical assistance have an important role to play in modifying environmental behaviour and influencing attitudes, and should be targeted at SMEs to maximise their effectiveness (OECD, 2021^[3]).

WBT economies have scaled up their informational tools on greening policies since the last assessment. Awareness-raising campaigns have been organised by the governments in co-operation with international partners to highlight the benefits of greening to SMEs. In Montenegro, awareness-raising activities were undertaken on green entrepreneurship with the support of the UNDP and the Foundation for the Development of Northern Montenegro (FORS) while in Albania, campaigns have been organised with the support of the Food and Agriculture Organization to present green practices in the agriculture, forestry and other land-use sector. Republika Srpska in Bosnia and Herzegovina has also organised an online workshop on energy efficiency measures for SMEs with the support of the EBRD. Several WBT economies organise conferences and forums as a means to raise awareness on green practices and inspire businesses to invest in a greener economy. This is the case of the Energy Efficiency Forum and Fair in Turkey organised every year by the Ministry of Energy and Natural Resources and “Green Days” run annually in Montenegro. Competitions are also organised to recognise green best practices and encourage SMEs’ eco-innovation. North Macedonia’s annual National Corporate Social Responsibility award includes environment as one of its categories and Albania’s “Green Businesses” award competition aims to promote small-scale green development ideas.

Chambers of economy and business associations have also been active in providing information and guidance to SMEs in adopting environmental practices. The chambers of economy of Montenegro and Serbia are vigorously involved in advocating and implementing measures for SME greening. The Montenegrin Chamber of Economy has a committee on energy efficiency that organises regular roundtables on opportunities and instruments available to SMEs. The Chamber of Commerce and Industry of Serbia’s (CCIS) digital platform for a Circular Economy launched in 2021 is also a useful tool to enhance best-practice sharing and networking between SMEs (see Box 11.1). The CCIS also provides web-based guidance, such as brochures and guidelines on green tools (such as audit schemes, carbon footprint of products or eco-labelling). Moreover, in Bosnia and Herzegovina, both entities’ respective chambers of commerce were active in promoting energy efficiency measures through the implementation of a joint project in 2021.⁴ On top of guidance on complying with environmental regulations provided by government authorities and KOSGEB, SMEs in Turkey also benefit from advice and guidance on carrying out green practices from business associations (see Box 11.3). Furthermore, the government has increased its

technical support and guidance on environmental policies through the “Development of the Green Organised Industrial Zones Framework for Turkey Project” (Box 11.5).

Box 11.5. Green organised industrial zones in Turkey

In addition to energy management units in organised industrial zones (OIZs) reported in the previous assessment, work to increase energy efficiency and the provision of advice and guidance on environmental sustainability has been carried out in Turkey within the framework of the “Development of the **Green Organised Industrial Zones Framework for Turkey Project**”. The project, which started in 2020, is implemented by the Ministry of Industry and Technology and funded by the World Bank (for an amount of EUR 275 million).

At the time of writing, 18 of the 346 OIZs present across 81 cities had been transformed into green zones, in line with circular economy principles. OIZs were established to provide all infrastructural necessities (such as energy supplies, solid waste elimination facilities and water purification systems) to industrial enterprises with an energy consumption of below 1 000 toe/year. They contribute to more than one-third of Turkey’s exports and employ 2.1 million workers – approximately one-third of total industrial employment in the economy.

Along with investments in “green” infrastructure, green OIZs will directly benefit the private sector, in particular small and medium-sized enterprises (SMEs), in scaling up clean production, resource and energy efficiency. The project will support investments in OIZs’ innovation centres, including model factories, to demonstrate new technologies and new practices, skills upgrading, standards, and testing services for SMEs. Programmes that link firms in the OIZs to local universities and research institutes will also be introduced to help them introduce or commercialise eco-innovative ideas. A special focus will be put on clean production in the textile and leather industries, which consume large quantities of water. Moreover, promotion and technical assistance on the use eco-labels will be provided.

Sources: Information provided by the Government of Turkey; World Bank (2021^[14]).

In addition to contributing to an increased demand for green business practices, EMS⁵ and certification of green practices can be useful for SMEs when dealing with business licensing and administrative requirements (OECD, 2021^[3]). While EMS, green certification (of business practices) and eco-labels (of products) that support SMEs in their greening efforts have been introduced in several economies’ legislative frameworks, their implementation remains insufficient.

Albania, both entities in Bosnia and Herzegovina, North Macedonia, Serbia, and Turkey’s environmental legislative frameworks contain provisions governing the system of eco-labelling and EMS which aim to encourage the production, marketing and use of products with a reduced impact on the environment. Moreover, programmes to promote EMS (in particular International Organization for Standardization [ISO] 14001 and the Eco-Management and Audit Scheme) have been introduced and standards have been adopted by SMEs in Bosnia and Herzegovina, Montenegro, North Macedonia, and Turkey. Rulebooks on eco-labels are available in North Macedonia, Serbia and Turkey and to a lesser extent in Albania (only one guideline on textiles has been developed so far). However, almost no evidence exists on how many SMEs have adopted eco-labels and if they have benefited from such schemes as of yet.

Other tools for SME greening have been introduced, but their implementation remains limited

Besides financial incentives and information-based instruments, governments have the possibility to introduce a range of other tools to encourage greener practices and eco-innovation.

Green public procurement 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. Green public procurement policies can support SMEs by ensuring that requirements to qualify are accessible and clear, providing assistance to meet requirements, and targeting sectors of the economy in which SMEs predominate (OECD, 2021^[12]).

Laws and strategies on public procurement envisage the introduction of environmental impact criteria, such as life-cycle costs, in Montenegro, North Macedonia, Serbia and Turkey. Nevertheless, this option has been insufficiently used in practice and limited activities have been organised in North Macedonia and Turkey in this regard. Promisingly, activities to encourage the use of green public procurement have been conducted in Montenegro and Serbia. The government of Montenegro has been implementing a project since 2021 dedicated to increasing awareness and capacities for public administrations and enterprises to facilitate green public procurement. In the case of Serbia, a specific training was organised in 2021 by the Public Procurement Office to educate contracting authorities and equip them with practical tools and examples to facilitate the application of green public procurement.

Regulatory instruments aim to reduce the administrative burden on SMEs when complying with environmental standards and rules. Their objective is also to set incentives for actors to green their activities or standards for environmental performance, providing incentives for innovation (OECD, 2021^[3]). In this regard, energy taxes, including emission trading schemes (ETS)⁶ could be one of the main policy instruments to reduce energy consumption and associated carbon emissions by encouraging cleaner investment and consumption choices (OECD, 2021^[15]). Environmental regulatory tools should be approached from a perspective of helping SMEs adopt greener practices rather than punishing non-compliant activities (OECD, 2021^[12]).

Regulatory instruments, such as performance standards, privileges in the permitting process or reduced inspection frequency for low-risk facilities, remain scarce in the Western Balkans. Like in the previous cycle, Turkey stands out in the region for its regulatory instruments, in particular its waste management performance standards, which set requirements for recycling and should lead SMEs to adopt greener practices. The Regulation on Packaging Waste Control was revised in 2021 and stipulates that until 2026, 70% of glass, 55% of plastic, 60% of metal, 75% of paper and 25% of wood should be recycled by the manufacturer. Some performance standards, in particular waste management standards, are introduced in Republika Srpska, but relevant data or evidence confirming they benefit SMEs are lacking. In North Macedonia, the Long-Term Climate Action Strategy (2021) prescribes permits for stationary installations with simplified requirements for facilities with minimal environmental impact, which should mainly benefit SMEs by minimising unnecessary costs.

The way forward for incentives and instruments for SME greening

- **Step up awareness-raising activities and the provision of advice and guidance to SMEs on adopting environmentally sound practices.** Activities to disseminate guidance on good practices and outreach programmes should be undertaken region-wide to promote eco-friendly practices. Workshops, training, industry fairs, distributing successful case studies and fostering co-operation over environmental issues could be particularly successful in circulating information and generic advice on how to apply green practices. Targeted advisory services could also be provided directly to SMEs by a relevant public agency or in collaboration with business associations for a more direct outreach, to help them identify greening possibilities and access resources. The Irish Green for Micro programme provides an example of such policies (Box 11.6).

Box 11.6. Climate advice to small and medium-sized enterprises in Ireland

The **Irish Green for Micro programme** is an initiative from the government business support agencies (local enterprise offices with support from Enterprise Ireland) and was rolled out nationwide in March 2021 to help prepare small businesses for the low-carbon, more resource-efficient economy of the future.

With the help of a green consultant, small businesses with up to ten employees can get free advice and technical support on resource efficiency, how to better understand their carbon footprint, and how to implement an environmental management system to reduce costs and lower greenhouse gas emissions.

The programme, launched in the midst of the COVID-19 pandemic, aims at a green recovery for small businesses. It is particularly suited for small businesses in the sectors of construction, retail, manufacturing, textiles, food, electronics, plastic and packaging. It raises awareness on the many benefits developing a “greener” policy can offer businesses (increased cost savings, improved resource efficiency, reduced environmental footprint, opportunities for higher and additional value on products and services, increased access to customers, improved corporate image, etc.). The programme also shares best practices among small businesses in the economy.

Sources: Local Enterprise Office (2021^[16]); OECD (2021^[3]).

- **Consider introducing regulatory instruments into the SME greening policy mix.** First, Western Balkan governments could envisage the introduction of performance standards as part of their energy, waste management or cleaner production strategies. For instance, the Fit for 55 proposals by the European Commission, designed to help member states reduce emissions by at least 55% by 2030, include performance standards for building and transport sectors, among others, which are of relevance to SMEs (European Commission, 2021^[17]). (UNDP, 2021^[18])

Second, the governments could introduce special regimes for low environmental risk installations (such as frequency and scope of inspections), the vast majority of which relate to SMEs, in particular for those SMEs that have adopted EMS. This would involve a shift from permitting requirements to standardised regulatory requirements, where activities that remain under certain thresholds are exempted from notification or face simplified and more standardised requirements for this. For instance, some countries use “general binding rules”, which ensure standard conditions specific to a type of activity or a sector, either with obligatory notification of environmental authorities before engaging in an activity (such as in the Netherlands) or without such a requirement (such as in the United Kingdom) (OECD, 2021^[3]). The frequency and scope of inspections, monitoring and reporting could also be reduced for those SMEs with a more successful environmental record.

- **Enhance financial support to SME greening, particularly in the context of the COVID-19 pandemic.** Despite some positive developments observed in this regard, financial support for SME greening remains uneven across the region. WBT governments could step up greening efforts by offering direct subsidies to SMEs to introduce environmentally friendly technologies or fiscal measures such as favourable tax policies and exemptions on import charges for investments in green equipment. For example, the Netherlands has been operating two tax reduction schemes to promote the purchase of new environmental technologies: the Arbitrary Depreciation of Environmental Investments (VAMIL) allows accelerated depreciation of newly purchased environmental technologies listed by the government; the Environmental Investment Allowance (MIA) allows a partial write-off of an investment in environmental technology against tax (OECD, 2018^[19]).

In addition, policy makers could also develop programmes that would allow loans to be converted into grants when the expected environmental performance is demonstrated. For instance, North Macedonia's Development Bank's credit line "KOVID3" offers SMEs the possibility to apply for a 30% grant if they plan to implement projects related to the green economy. In this regard, banks could also require an environmental checklist for loan approval, and insurers may demand a statement of environmental risk identification and control. Moreover, banks and insurers can offer better loan or insurance policy conditions to businesses with green credentials (OECD, 2021^[12]).

- **Introduce green public procurement measures to impose a direct supply chain pressure on environmentally friendly goods and services.** Introducing green public procurement measures would boost the demand for resource-efficient, durable, recyclable, repairable products, and promote new business models based on offering functionalities and services instead of selling products. By using their purchasing power to choose goods and services with a lower environmental impact, WBT public authorities can help drive down the costs of such purchases and make them more affordable (OECD, 2021^[3]). To reach SMEs to enter the public market, green public procurement needs to be designed to address certain barriers that may limit their participation (such as dividing contracts into lots by default, encouraging larger firms to form partnerships with smaller suppliers and increasing access to relevant information on green purchasing policy) (see Dimension 5b on public procurement). Green public procurement can be used as a tool to further promote and implement SMEs' green practices, as done by Denmark (Box 11.7).

Box 11.7. The Danish model of green public procurement

As part of Denmark's 2018 Circular Economy Strategy, several initiatives have been developed to promote green purchasing:

- **The Forum on Sustainable Procurement** – a national network which is a knowledge-sharing forum where procurers from both public and private organisations can remain up-to-date on best practices, methods and tools for green procurement, through a website, newsletters and various events.
- **The Partnership for Green Public Procurement** – a collaboration between frontrunner municipalities, regions and other public organisations that are committed to making extra efforts in partnership with other organisations to reduce their environmental impact from their procurement actions and drive the market in a greener direction.

These two initiatives appointed a joint secretariat for procurement to ensure co-ordination. Soon after, an additional task force on green procurement was developed to focus on the circular economy and has expanded to aim – in addition to public institutions – at private enterprises, including SMEs. Moreover, the Ministry of Environment has established an annual event on green purchasing, called Green Procurement Week.

One of the main initiatives developed by the task force was the creation of an online portal called "The Responsible Procurer", where procurers can find green criteria ready to copy and paste into tender documents for a number of product areas and total cost of ownership tools for selected product areas.

The Danish government is set to prepare a number of new total cost and life-cycle tools and will incorporate costs or revenues from waste management and resale into existing and new tools.

Sources: Ministry of Environment of Denmark (2022^[20]); OECD (2020^[8]).

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Notes

¹ In this regard, energy taxes, including emission trading schemes (ETS) could be one of the main policy instruments to reduce energy consumption and associated carbon emissions.

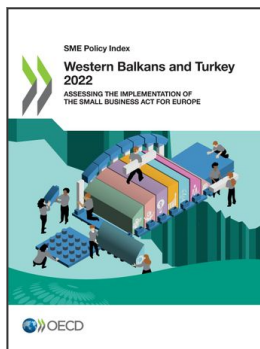
² EUR 10 million will be financed by the government and the rest by private investments.

³ Energy service companies offer services for implementing and financing energy efficiency projects, including energy auditing, design and engineering, equipment procurement, construction, installation, commissioning, measurement and verification of energy and cost savings, operations and maintenance, facility management, and energy services.

⁴ The project “Energy Efficiency Network in Industry of BiH”, conducted in 2021, has promoted energy efficiency measures and created networks among different enterprises. As part of the project, energy audits were conducted in 16 enterprises and best practice examples were shared with all participants.

⁵ An environmental management system (EMS) is a framework that helps an enterprise achieve its environmental goals through consistent review, evaluation and improvement of its environmental performance. The most widely used EMS are the ISO 14001 or the Eco-Management and Audit Scheme in the European Union.

⁶ An ETS – or cap-and-trade program – is managed by a governing jurisdiction that sets a limit or a cap on the total level of covered GHG emissions – including CO₂. The allowances to emit are distributed to liable entities (direct emission sources or others) that must redeem allowances for every emitted ton of CO₂, with the possibility to buy additional allowances or sell unused ones (World Bank, n.d.^[22])



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