



Renewed SME Agenda in the Context of Green and Just Transition

Policy Brief



SMEs employ 70% of the workforce yet are often left out of greening strategies.



Green and just transition is an essential competitiveness issue for SMEs in the context of compliance with sustainability standards.



Well-designed business environment reforms for greening SMEs:

- prioritise sectors or value chains under strong transition pressure e.g. from climate risks or changing market access requirements.
- are bundled, targeted instruments that integrate finance, skills, legal, and institutional support to overcome market failures.
- ensure that SME voices, including those from underserved groups, are part of the design, not just implementation of reforms.

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Definitions and relevance for SMEs

Small and medium-sized enterprises (SMEs) are central to the global economy. They make up over 90% of businesses and employ roughly 70% of the global workforce.¹ Yet their role in environmental sustainability and climate resilience remains under-recognized. SMEs account for as much as 40% of industrial pollution and 50% of global GHG emissions.² As climate policies, consumer expectations, and market standards evolve, SMEs must become key actors in the transition to greener, more inclusive economies.

The International Labour Organization (ILO) defines a **just transition** as the process of greening the economy in ways that are fair, inclusive, and rooted in decent work. The ILO Guidelines for a Just Transition emphasize the need

¹ International Labour Organization (ILO). "Small and Medium-Sized Enterprises (SMEs)." *ILO InfoStories*. Accessed June 12, 2025.

² Organisation for Economic Co-operation and Development (OECD). *Which SMEs Are Greening and Why? Evidence from 32 Countries*. Paris: OECD Publishing, 2024, International Trade Centre (ITC). *SME Competitiveness Outlook 2021: Empowering the Green Recovery*. Geneva: ITC, 2021.

to create enabling environments that provide SMEs with access to finance, skills, information, and supportive regulation.³ They call for targeted measures, such as financial incentives, technical assistance, and green public procurement, that help SMEs adopt sustainable practices and avoid exclusion from emerging green markets. These Guidelines have been reaffirmed by the ILO's 2023 Resolution, highlighting the urgency of coherent policies that simultaneously address environmental sustainability, social justice, and decent work across all sectors and levels of development.⁴

The ILO Guidelines for a Just Transition ³

The guidelines offer a central reference for policymaking and a basis for action on a just transition. The Guidelines identify nine policy areas to address environmental, economic and social sustainability simultaneously. These include macroeconomic and growth policies, industrial and sectoral policies, enterprise policies, skills development, occupational safety and health, social protection, active labour market policies, rights, and social dialogue and tripartism. With a focus on sustainable enterprises, including SMEs, the ILO Guidelines note some key considerations:

- providing an enabling environment for sustainable enterprises based on social dialogue and national assessments,
- enhancing the resilience of MSMEs to avoid disruption of economic activity, job loss, and income insecurity,
- assisting MSMEs, cooperatives, and entrepreneurs in making the transition through targeted support,
- offering financial incentives such as grants, low-interest loans, and tax benefits to adopt environmentally sound practices,
- supplying accessible information, user-friendly toolkits, and technical advice on green practices, eco-innovation, and compliance,
- supporting skills development, technology transfer, and peer learning to build MSME capacity for green entrepreneurship,
- facilitating inclusion in green public procurement and ensuring access to local content opportunities,
- promoting formalization, particularly in sectors like recycling and waste management, where informal enterprises are prevalent.

For SMEs, the green and just transition is not just a policy goal, but an essential competitiveness issue. Compliance with sustainability standards, including those under the EU Green Deal, is increasingly required for access to global markets and supply chains.⁵ Green practices such as energy efficiency and circular production help reduce costs and boost resilience.⁶ Strong environmental and social performance can also improve access to finance, as investors and lenders prioritise sustainable businesses.⁷ In

³ ILO, [Guidelines for a Just Transition Towards Environmentally Sustainable Economies and Societies for All](#) (Geneva: ILO, 2015).

⁴ ILO, [Resolution Concerning a Just Transition Towards Environmentally Sustainable Economies and Societies for All](#). Adopted at the 111th Session of the International Labour Conference, Geneva, 2023.

⁵ Multiple sources: Krajcovicova, Jana. [Implications of New Environmental Regulations](#). Donor Committee for Enterprise Development (DCED), 2025, **OECD**. [No Net Zero Without SMEs](#). Paris: OECD Publishing, 2021.

⁶ **OECD**. [No Net Zero Without SMEs](#). Paris: OECD Publishing, 2021.

⁷ **OECD**. [Financing SMEs for Sustainability: Financial Institution Strategies and Approaches](#). Paris: OECD Publishing, 2023, **OECD**. [OECD Platform on Financing SMEs for Sustainability: Activity Report 2024](#). Paris: OECD Publishing, 2024.

addition, fair labour practices and sustainability commitments enhance talent attraction, employee retention, and customer trust.⁸ Yet many SMEs, particularly informal, women-led, or youth-led enterprises, face barriers including limited awareness, weak access to finance, and regulatory challenges.

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Challenges in current BER for SMEs

Despite their central role in economies, SMEs are often sidelined in green transition efforts. Most Business Environment Reform (BER) policies still target larger firms and rarely reflect the realities of small, informal, or women- and youth-led enterprises. Implementation is fragmented, and few strategies consider the diversity of SME needs. Data on SME environmental impact and investment behaviour is scarce, making tailored policy design difficult. **Nearly 70% of SMEs say they need more funding for climate action**, yet green finance tools often lack ESG or inclusion criteria. Integrated approaches that link finance, regulation, and skills remain rare.

However, several governments in emerging and developing economies have begun piloting SME-focused reforms introducing targeted regulations, ESG toolkits, green taxonomies, and innovation ecosystems, designed to reflect sector-specific realities.

In this context, **business environment reforms present a strategic opportunity.** When designed holistically, they can create the conditions SMEs need to engage in sustainable and inclusive growth. Emerging evidence highlights those **integrated approaches blending financial incentives, regulatory simplification, capacity-building, and inclusive procurement, are more effective in accelerating SME participation in green and just transitions.**

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An SME-Led Green and Just Transition

The table below outlines a typology of such policy instruments, illustrating how **both environmental (e.g. reducing environmental footprints) and social objectives (e.g. promoting decent work, social inclusion, and formalization) can be pursued through well-designed business environment reforms.** So far, policy emphasis has often leaned more heavily toward environmental dimensions, reflecting the urgency of climate action. Going forward, opportunities remain to better integrate social dimensions, especially job creation and decent work, into SME greening efforts making sure that business environment reforms deliver both environmental benefits and quality employment outcomes.



Policy Instrument Type	Green Transition Objective	Examples	Just Transition Objective	Examples
Information Tools	Raise SME awareness of environmental risks, resource efficiency, and sustainability opportunities	Climate/ESG reporting/ measurement toolkits, self-assessment platforms, green award schemes	Ensure SMEs and workers are informed of decent work principles and inclusion in transition	Toolkits highlighting decent work standards, inclusive environmental education, including ESG toolkits
Capacity Building & Training	Strengthen SME business and technical skills to adopt green practices	SCORE4Climate, eco-innovation coaching, sustainability reporting training	Build skills for green jobs, ensure workplace safety, support vulnerable workers	OSH training, skills upgrading for informal workers, entrepreneurship support for women/youth
Regulatory & Planning Instruments	Simplify green compliance, enable adoption of sustainable practices	Environmental certification programs, green taxonomies, climate-smart SME policies	Ensure legal protections for vulnerable workers, link formalization with environmental upgrading	Simplified licensing for informal SMEs, inclusive standards combining environmental and labour goals
Financial Incentives	De-risk green investments, scale SME access to green finance	Green loans, blended finance, sustainability linked subsidies, guarantees and insurance, climate funds (e.g. GCF)	Enable equitable financial access for marginalized SMEs, support inclusive business models	Grant schemes prioritizing women- and youth-led green businesses, support for formalisation of enterprises
Market Access & Recognition	Facilitate SME integration into green value chains and procurement	Eco-labels, green procurement eligibility, sustainability certifications	Empower disadvantaged SMEs to access new markets, public procurement opportunities	Recognition schemes favoring women/youth/ informal SMEs, inclusive eco-certifications
Innovation & Entrepreneurship Ecosystem	Accelerate green start-ups and SME-led climate solutions	Incubators, green tech accelerators, cleantech competitions	Promote inclusive green entrepreneurship and job creation in emerging sectors	Green innovation programs with gender and youth focus
Data & Monitoring Systems	Enable SMEs to benchmark sustainability and attract green investment	Digital ESG reporting platforms, SME green scorecards	Track social inclusion indicators, ensure vulnerable groups are not excluded from green finance	SME ESG data platforms capturing both environmental and social KPIs

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Insights from Malaysia, Peru & Iraq

Three country experiences, namely **Malaysia, Peru, and Iraq**, offer concrete insights on how business environment reforms can accelerate SME participation in green and just transitions. Each case highlights distinct facets of SME transitions shaped by specific policy contexts, institutional capacities, and national priorities.

Malaysia has pursued a pilot-driven, value chain-oriented model. Initiatives like the Green Value Chain (GVC) Program⁹ target mainly export-oriented SMEs, bundling ESG (environment, social, and governance) training, carbon tracking tools, and access to green finance in partnership with anchor firms. Broader programs like i-ESG¹⁰ and PKSlestari¹¹ aim to build ESG capacity among smaller domestic firms. The experience shows how regulatory drivers in the finance and sustainability realms and public-private collaboration can mobilize change. **Peru** illustrates how legal reform can support inclusive greening in informal sectors. The 2022 Agricultural Cooperatives Law,¹² co-designed with producer organizations, gave formal status and tax incentives to smallholder cooperatives in agricultural sectors. This legal recognition enabled greater access to sustainable markets and procurement. It also highlights the importance of follow-up support to ensure formalization leads to resilience and growth. **Iraq's** early efforts to promote green businesses show both the potential and challenges of pursuing a just transition in a fragile, climate-vulnerable and fossil fuel dependent economy. With economic diversification a key priority, policymakers are using participatory and data-driven tools such as the Green Business Survey and youth entrepreneurship camps to identify barriers and build a supportive ecosystem. While institutional gaps remain, inclusive dialogue and local ownership are helping lay the groundwork for greener SMEs.

While each country has pursued distinct transition pathways in response to its own drivers and challenges, whether climate risks, export market pressures, informality, or socio-political fragility, the case studies reveal a set of common patterns shaping business environment reforms for a green and just transition. **Across all cases, formalization, value chain engagement, and piloting emerged as core mechanisms.**

First, **formalization** consistently emerges as a foundational enabler. Legal recognition allows SMEs, especially informal and micro-enterprises, to access green incentives, participate in public procurement, and benefit from compliance support. In Peru, for example, cooperative legislation not only served as a key precondition for environmental compliance among smallholder producers, but also advanced social objectives such as gender equality and member representation, demonstrating how legal reform can serve dual environmental and social goals.

Second, **anchor firms and value chains** play a pivotal role in catalysing SME engagement, particularly in export-oriented sectors where environmental and social standards are embedded in buyer requirements. As seen in Malaysia's GVC Program, lead firms can extend ESG expectations and provide SMEs with access to training, reporting tools, and green finance. Similarly, in

⁹ Asian Development Bank. [Building Supply Chain Resilience: Insights into Greening Value Chains for ASEAN. A Collective Intelligence Playbook](#). 2025. Manila: Asian Development Bank, 2025.

¹⁰ Ministry of Investment, Trade and Industry (MITI), Malaysia. [National Industry Environmental, Social and Governance \(ESG\) Framework](#). Accessed June 12, 2025.

¹¹ SME Corporation Malaysia. [PKS Lestari Programme](#). Accessed June 12, 2025.

¹² Government of Peru. [Law No. 31335: Law for the Improvement of the Associativity of Agricultural Producers in Agricultural Cooperatives](#). *El Peruano*, August 23, 2021.

Iraq, supply chain initiatives are helping SMEs improve work conditions through partnerships with large buyers, offering a model for gradual ecosystem building even in fragile contexts.

Third, **pilot programs** are increasingly being used to test and refine ESG toolkits, financing models, and capacity-building approaches. These pilots often act as entry points to familiarize SMEs with sustainability requirements while enabling governments and partners to develop delivery mechanisms suited to different levels of SME readiness. In many cases, such as Malaysia and Iraq, pilot sequencing is being adjusted based on sectoral priorities and feedback loops, creating space to integrate social considerations, like decent work and inclusion, alongside environmental targets.

However, many challenges remain. Weak institutional coordination, often across ministries of environment, labour, and enterprise, leads to **fragmented implementation and inconsistent messaging**, leaving SMEs uncertain about compliance or support options. **Limited implementation capacity** is another major barrier: many public institutions lack technical expertise, human resources, or tools to support SMEs, particularly in navigating ESG requirements. This is especially pronounced on the social dimension of the transition, where issues like decent work, inclusion, and informal enterprise support are often under-prioritised or poorly integrated into environmental planning. **Data and finance access gaps** further constrain progress. Many SMEs operate in low-data environments, making it difficult to design targeted policies or monitor impact, while green finance instruments remain misaligned with SME needs, particularly for informal or underserved groups. Bridging these institutional, financial, and informational divides is essential to scale successful pilots and translate policy ambition into outcomes.

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Recommendations for development partners

Drawing on expert interviews, country case studies, and a review of recent literature, a number of cross-cutting insights can be drawn to inform the design, piloting, and implementation of future reforms. These lessons are not prescriptive but offer practical guidance for development partners and policymakers seeking to create more inclusive, climate-responsive business environments.

➔ **Recommendation 1. Support diagnostics that identify sectors or value chains under strong transition pressure to prioritise reform entry points.**

Reforms are more effective when anchored in real-world drivers such as climate risk, changing regulations, or market access requirements. The Malaysia case shows how finance regulations like the Climate Change and Principle-based Taxonomy and National Sustainability Reporting Framework, and global regulations like the EU's CBAM or EUDR spurred domestic policy and programmatic innovation. Engaging anchor firms with sustainability mandates, such as exporters or large buyers, has proven especially catalytic, extending incentives and tools to smaller suppliers. Iraq's Basra linkage initiative provides another example of how supply chain connections can be leveraged to align incentives.

➔ **Recommendation 2. Invest in bundled, targeted instruments that integrate finance, skills, legal, and institutional support to overcome market failures.**

No single intervention can drive SME greening. Bundled tools, such as Malaysia's GVC Program, which paired decarbonization tools with training and finance are more likely to succeed. In Peru, legal reforms around cooperatives required complementary technical and financial support to become operational. In Iraq, ecosystem-building combined awareness-raising, capacity-building, and entrepreneurship support. These integrated packages address the layered barriers SMEs face and offer more comprehensive pathways to green and just outcomes. Looking forward, there is also growing opportunity to ensure that instruments such as green taxonomies and ESG frameworks are not only climate-aligned but also employment-oriented.

➔ **Recommendation 3. Design pilots with long-term scale-up and institutional integration in mind.**

Pilots serve as valuable testbeds, but their full potential is only realized when embedded in broader national strategies. In Malaysia, while anchor firm engagement was a strength, lack of follow-up after pilots limited SME uptake. Planning for sustainability from the outset through KPIs, monitoring systems, and early engagement of institutional champions is essential for scale and continuity. Iraq's ecosystem development approach also shows the value of testing tools in participatory, real-world settings.

➔ **Recommendation 4. Tailor policy support to the diversity of SMEs, considering differences in size, market orientation, and sectoral context.**

SMEs are not a homogenous group. Smaller and domestically focused firms face very different challenges compared to export-oriented suppliers. Malaysia's experience with i-ESG shows that while broad awareness is growing, implementation still lags, particularly among micro-enterprises. Peru's sector-specific reforms targeting cooperatives show how targeted design can promote uptake. A segmented approach allows interventions to be better matched to capacity and opportunity.

➔ **Recommendation 5. Ensure that SME voices, including those from underserved groups, are part of the design, not just implementation of reforms.**

Participatory policy development increases relevance and legitimacy. In Peru, agricultural cooperatives helped shape the cooperative law. In Iraq, youth and women-led businesses provided direct input into policy processes. In Malaysia, SME feedback helped shape ESG programs. Co-design not only improves uptake, but strengthens trust and equity, particularly for informal, women-led, and youth-led enterprises.

➔ **Recommendation 6. Support institutional capacity-building and inter-ministerial coordination to bridge delivery gaps.**

Even strong policy frameworks stall without adequate institutional capacity. Iraq's early-stage engagement required donor technical assistance to navigate new green economy concepts. In Peru, limited capacity in MIDAGRI has slowed cooperative reform implementation. In Malaysia, cross-agency alignment on ESG remains a work in progress. Building capacity for planning, coordination, and delivery is essential to ensure that reforms reach SMEs effectively.

➔ **Recommendation 7. Invest in simple, scalable data systems to track environmental and social outcomes for SMEs.**

The lack of reliable data on SME performance undermines targeting, support, and accountability. Malaysia's ESG efforts highlighted the challenge of monitoring SME-level improvements without adequate tracking systems. Peru's Cooperative Registry and Iraq's Green Business Survey provide early models for addressing information gaps. Scalable and user-friendly monitoring tools integrated into reform design can help align policies with outcomes and avoid undue reporting burdens on SMEs.

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Areas for
further
research &
policy learning

What sector-specific transition pathways are most feasible for SMEs?

SMEs across sectors face different market, environmental and social pressures. Understanding which green and social practices are realistic and beneficial can help design tailored, sector-specific transition strategies that link environmental goals with job creation.

How can incentives drive both greening and decent work? Many SMEs act only when motivated by clear benefits. More insight is needed into which incentives, such as regulatory, financial, or market-based, work best to encourage sustainable practices, especially among firms outside export chains. Linking these to social outcomes like formalization or skills development is critical.

How can SME data systems support both policy and business decisions?

SMEs often lack the tools to collect ESG or labour data, while policymakers struggle to track impact. There is a need for simple, scalable monitoring systems that support both SME decision-making and policy design without adding burdens on small firms.

What are the financing needs of SMEs at different stages? SMEs differ in their green transition journeys. Some need basic awareness and microgrants, while others require blended finance or ESG-linked loans. Understanding financing gaps and tailoring instruments accordingly can improve uptake and align green finance with social inclusion.

How can we measure and improve employment outcomes from SME greening? The employment effects of green transition policies are not well tracked. More evidence is needed on job creation, quality, and access, especially in sectors where SMEs dominate. Integrating labour indicators into green policy monitoring and evaluation frameworks is a key step.

How can we better support informal, women- and youth-led SMEs?

These groups face distinct barriers to greening and formalization. More work is needed to identify inclusive delivery models that take the specific constraints of these groups into consideration.

For links to more resources on this topic see the [DCED's Business Environment Reform webpage](#).

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