Renewed SME Agenda in the Context of Green and Just Transition

Business Environment Working Group

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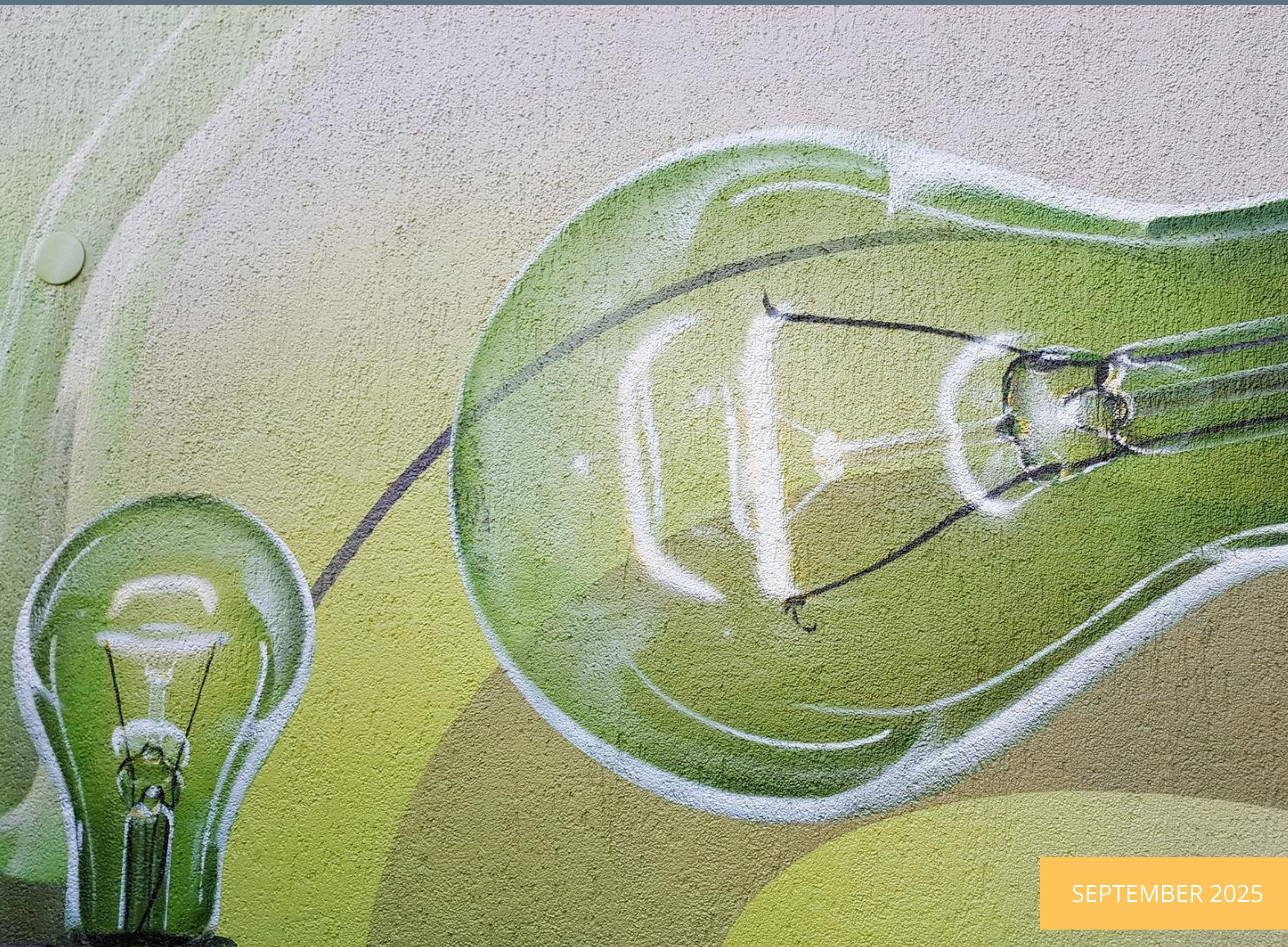

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Introduction

In 2025, the Business Environment Working Group commissioned research to explore how business environment reforms can support small and medium-sized enterprises (SMEs) in advancing green and just transitions in emerging and developing economies. As global climate and sustainability goals accelerate, there is increasing recognition that SMEs, who form the bulk of the private sector and provide the majority of employment, must be included in the transition. Yet many smaller firms, particularly those serving domestic markets, remain outside of formal environmental and social upgrading efforts.

This report investigates how policies, institutions, and support systems that shape the business environment can enable SMEs to adopt greener and more inclusive practices. It responds to growing interest from governments and development partners in aligning economic reform agendas with climate action and social equity, while ensuring that the transition does not leave smaller enterprises behind.

The report is based on a combination of literature review, stakeholder interviews with public and private sector and development partners, and country-level analysis. It seeks to build practical understanding of how public and private actors are working to lower barriers, create incentives, and expand access to opportunities in green and just transition for SMEs.

The report is structured into four parts:

- **Part 1** introduces the relevance of SMEs in green and just transitions, clarifies definitions, and outlines the main barriers SMEs face when attempting to engage in green and just transition.
- **Part 2** focuses on how business environment reforms can create more enabling conditions for SME transitions. It presents a typology of policy instruments and reviews examples from existing literature to illustrate how different tools are being applied in practice.
- **Part 3** features three country case studies, namely Malaysia, Peru, and Iraq, that offer diverse perspectives on institutional and policy approaches to SME greening. These cases offer deeper insights into transition policies are designed and implemented, while highlight lessons from reform efforts in contexts shaped by market pressures, informality, and fragility.
- **Part 4** synthesizes good practices, provides cross-country lessons, and outlines strategic recommendations for development partners. It concludes with a summary of key knowledge gaps that require further exploration to inform future reforms and program design.

Across all sections, the report highlights the importance of context-sensitive approaches. The transition pathways for SMEs differ significantly depending on their sector, size, level of market integration, and the surrounding institutional environment. Many of the current initiatives are still at an early stage or face difficulties in progressing toward more effective and inclusive green policies. As the report shows, supporting SME transitions is still an emerging area that requires ongoing learning and adaptation. At this point, important questions remain about how to best align incentives, improve coordination, expand access to finance, and develop monitoring systems that can support meaningful SME participation in the green and just transition.

1. The Role of SMEs in a Green and Just Transition

This section introduces the relevance of SMEs in the green and just transition, defines key concepts drawing on the ILO's framework, and explains why SMEs must be recognized not only as vulnerable to climate and social risks but also as key actors in driving inclusive and sustainable economic transformation.

1.1 Relevance and Definitions

1.1.1 Framing the Green and Just Transition for SMEs

SMEs are central agents of green and just transition. Representing over 90% of all businesses and approximately 70% of global employment,[1] they form the backbone of both emerging and advanced economies. This category includes a large share of micro enterprises, often with fewer than 10 employees, and own-account workers, who collectively drive local economies, generate livelihoods, and foster innovation.

Yet, despite their importance, SMEs remain an often-overlooked actor in environmental policy. SMEs are responsible for roughly 40% of industrial pollution, commercial waste, and GHG emissions across OECD countries.[2] The ITC further estimates that small firms, defined as those with up to 19 employees, account for as much as 50% of global GHG emissions.[3]

Despite their environmental footprint and economic influence, SMEs often lack the capacity to transition to more sustainable business models. Their ability to engage in the green and just transition is constrained by limited access to finance, skills, information, and enabling regulatory frameworks. Without targeted support, many SMEs risk being left behind, undermining the broader transition's inclusiveness, effectiveness, and scalability.

To realize a truly green and just transition, it is essential to recognize and empower SMEs not only as contributors to climate challenges, but as key agents of sustainable solutions. Unlocking their potential will require integrated policy frameworks, targeted incentives and tools adapted to their specific realities.

1.1.2 Defining Green and Just Transition

A just transition means, as per the ILO, the "greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities, and leaving no one behind – through effective social dialogue and respect for fundamental international labour standards."[4] The basis for this understanding is the ILO Guidelines for a just transition (Box 1), which specifically address SMEs as a key stakeholder in this process. These guidelines emphasize the need to create an enabling environment for sustainable enterprises, support the resilience of micro, small, and medium-sized enterprises (MSMEs), and ensure that they have access to the tools and resources necessary to transition successfully to a green economy.

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[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.

[3] **International Trade Centre (ITC).** SME Competitiveness Outlook 2021: Empowering the Green Recovery. Geneva: ITC, 2021.

[4] How MSMEs can contribute to and benefit from a just transition, ILO Policy Brief (2022) **ILO.** How Micro, Small and Medium-Sized Enterprises Can Contribute to and Benefit from a Just Transition. Geneva: ILO, 2022.

Box 1: The ILO Guidelines for a Just Transition

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.

Source: Guidelines for a just transition towards environmentally sustainable economies and societies for all, ILO (2015)

These measures aim to ensure that SMEs are not left behind in the shift to sustainable economies and are equipped to contribute to and benefit from green and inclusive growth. This understanding has been further reinforced by the 2023 ILO Resolution on a Just Transition, which highlights the urgency of coherent policies that simultaneously address environmental sustainability, social justice, and decent work across all sectors and levels of development.[5]

1.2 Why Green and Just Transition is a Competitiveness Issue for SMEs

For SMEs, green and just transitions are not just environmental imperatives but also competitiveness issues. Competitiveness allows SMEs to keep up with new environmental regulations, respond to customer and investor expectations, and find new market opportunities. The green and just transition needs to be

[5] **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.

understood not just as a compliance issue, but as a strategic SME competitiveness issue that touches on several areas:

- **Market access**: SMEs need to meet growing sustainability requirements of customers as well as those introduced by due diligence and other new environmental regulations, such as those under the EU Green Deal, to continue exporting and participating in global supply chains.[6]
- **Business performance**: Green practices like energy efficiency and circular economy models help reduce costs, manage risk, and improve long-term resilience.[7]
- **Access to finance**: Financial institutions, governments, and investors are increasingly directing capital toward sustainable businesses.[8] SMEs with strong environmental and social performance are more likely to secure funding from private sources or benefit from green incentives introduced by policymakers, although there is still significant room to improve financing options for SMEs.
- **Workforce competitiveness**: Sustainability commitments help SMEs attract and retain talent, while fair labour practices and social responsibility contribute to stronger reputations and customer loyalty.[9]

SMEs that engage in the transition can gain a competitive edge, unlock new markets and finance, and build more resilient business models. Those that don't risk falling behind.

At the same time, SMEs are highly vulnerable to climate change. In sub-Saharan Africa, 68% of SMEs surveyed reported that environmental risks, such as shifting temperatures, water scarcity, and floods, were already affecting their businesses. In the primary sector, this figure rose to 93%. Despite these threats, only 38% of SMEs had taken action to reduce their exposure to climate risks, compared to 60% of large firms.[10] Women-led and youth-led businesses were even less likely to invest in adaptation. These figures underscore the critical role SMEs play in both contributing to and being affected by climate change. Engaging them in climate action is essential for achieving inclusive and effective green transitions.

For these reasons, policies that support a just transition must also help SMEs strengthen their capabilities to transition to greener practices, while creating decent work opportunities, reducing inequality and leaving no one behind. Some development partners use nuanced terms such as green or climate competitiveness of SMEs, as an update version of traditional SME competitiveness agendas that reflects the growing importance of sustainability in shaping SME's economic success. This shift acknowledges that competitiveness today is not just about productivity and market access, but also about the ability to align with climate goals, respond to environmental risks, and deliver social value.

1.3 Barriers to SME Participation in Green and Just Transition of SMEs

1.1.3 General Barriers

While all enterprises often face challenges in transitioning to environmental sustainability, while promoting social justice and creating decent work, SMEs are particularly challenged due to their limited awareness, resources (HR and financial) and capacities, making the shift particularly difficult without support. Table 1 summarizes the most cited barriers that SMEs in developed and developing countries need to overcome.

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[6] 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.
[7] **OECD.** No Net Zero Without SMEs. Paris: OECD Publishing, 2021.
[8] **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.
[9] **OECD.** No Net Zero Without SMEs. Paris: OECD Publishing, 2021.
[10] **International Trade Centre (ITC).** SME Competitiveness Outlook 2021: Empowering the Green Recovery. Geneva: ITC, 2021.

Table 1: General challenges faced by SMEs in green and just transition

Challenge Area	Description
Awareness and Information Gaps	Many SMEs are unaware of the benefits of adopting green and just transition practices. They lack knowledge of regulations, ESG (environment, social, and governance) compliance, and customer expectations. In developed countries, SMEs often struggle to access policy, finance, and skills development information, which is frequently filtered through larger firms.
Skills and Technical Capacity	SMEs often lack the skills to integrate sustainability into their operations. This includes climate literacy, technical expertise, and ESG reporting capacity. Lack of digital tools hinders ESG reporting, innovation, and access to green finance. There is a strong need for upskilling, reskilling, and innovation support to help SMEs remain competitive in green markets.
Financial Barriers	SMEs face limited access to finance due to smaller scale, lack of collateral, and weak accounting practices. High technology costs and the absence of SME-specific financial products present further obstacles. Women-led businesses face additional gender-specific barriers.
Market and Supply Chain Challenges	SMEs encounter difficulties with certification processes, strict market standards, and strong competition from larger firms. Many are unable to meet sustainability criteria set by multinational corporations, risking exclusion from global value chains without targeted support.
Regulatory and Policy Uncertainty	SMEs face unclear and shifting environmental policies, standards, and compliance requirements. This uncertainty makes it difficult to plan and invest in long-term sustainability initiatives.
Informality	Informal SMEs and workers lack legal recognition, are excluded from support programs, and cannot access green financing or policy incentives. Informal and vulnerable SMEs also often lack safety nets (e.g., insurance, health care, land rights), making it riskier to invest in long-term sustainability.
Systemic barriers affecting specific groups	Specific barriers affecting youth, women and minorities/vulnerable groups, such as such as limited access to finance, discrimination in labour markets, restricted access to training and skills development opportunities, underrepresentation in decision-making processes, and various legal or cultural barriers to business ownership and formalization.

Sources: ILO (2021) OECD (2022), ITC (2021), ILO (2022)[11]

[11] Multiple sources: How MSMEs can contribute to and benefit from a just transition, ILO Policy Brief (2022) **International Labour Organization (ILO).** How Micro, Small and Medium-Sized Enterprises Can Contribute to and Benefit from a Just Transition. Geneva: ILO, 2022, **OECD.** No Net Zero Without SMEs. Paris: OECD Publishing, 2021, **United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and Gobierno de Colombia.** Advancing The Green Transition od SMEs, Insights for SME Development Agencies To Support Sustainability Practices and Reporting. Bangkok: UNESCAP, 2024, **ITC.** SME Competitiveness Outlook 2021: Empowering the Green Recovery. Geneva: ITC, 2021, **ILO.** A Double Transition: Formalization and the Shift To Environmental Sustainability With Decent Work. Geneva: ILO, 2022.

1.1.4 Sector-specific Barriers

In addition to these general barriers, Table 2 shows sector-specific barriers facing SMEs reflecting the realities of each sector's environmental footprint, level of informality, value chain structure, and exposure to climate risks. For example, a textile SME will need help meeting certification demands, while a tourism SME may need climate insurance. Table x summarizes examples mentioned across reports.

Table 2: Sector-Specific Barriers to the Green and Just Transition of SMEs

Sector	Key Barriers	Notes on Vulnerable Groups / Additional Insights
Energy (oil, gas, coal)	High emissions, heavy reliance on fossil fuels, slow adoption of renewable energy technologies, high capital costs for transition.	Workers in traditional energy sectors (e.g., oil and gas) face high risks of job displacement without adequate reskilling and social protection programs.
Agriculture and Food Processing	High exposure to climate risks (e.g. droughts, floods), high informality, weak market integration, limited access to finance, infrastructure (e.g. irrigation).	Rural women make up about 40% of the workforce and face additional constraints due to gender norms and sociocultural roles.
Textile and Apparel	High energy and water consumption, pressure to meet international sustainability standards while remaining cost-competitive, limited technical capacity, high cost of cleaner technologies.	Globally employs ~91 million workers, ~50 million are women.[12] High vulnerability to job loss and poor working conditions.
Tourism	High vulnerability to environmental shocks (e.g. storms, coral bleaching), reliance on fragile ecosystems, lack of access to insurance and recovery finance.	SMEs in ecotourism and coastal areas are particularly at risk, recovery after climate events is slow and underfinanced.
Construction	High emissions, low awareness of green building standards, exclusion from green procurement due to informality or inability to meet technical requirements.	Informal SMEs often operate without occupational safety protections and are excluded from state-led green initiatives.
Mining (Artisanal and Small-Scale)	Environmental and health hazards (e.g. mercury use), lack of clean tech, weak regulatory oversight, low formalization.	Workers face significant health risks, SMEs often not covered by environmental laws or formal safety standards.
Waste Management	Legal exclusion of informal workers, poor working conditions, no access to formal recycling markets or safety equipment.	Waste pickers, often women, store recyclables in unsafe conditions and are at risk from floods and extreme weather.

Sources: ILO (2020), ILO (2022), ITC (2021), FAO et al (2020)[13]

[12] **ILO.** COVID-19 and Global Supply Chains: How the Jobs Crisis Propagates across Borders. Geneva: ILO, 2020.
[13] Multiple sources: **ILO.** A Double Transition: Formalization and the Shift to Environmental Sustainability With Decent Work. Geneva: ILO, 2022, **Food and Agriculture Organization of the United Nations (FAO), International Fund for Agricultural**

2. The Role of Business Environment in the Green and Just Transition of SMEs

As mentioned earlier, the shift to a green and just economy requires integrated policy support, which includes a supportive business environment. Despite their economic importance, SMEs are often overlooked in policy design, and existing tools are rarely tailored to their needs. Business environment reforms across regulation, finance, skills, and data are key to scaling SME participation in the transition. This section explores how these reforms are evolving, identifies key policy gaps, and presents a typology of instruments and country examples covered in literature.

2.1 Why Business Environment Policies Fall Short

The role of the business environment in enabling green and just transition of SMEs is an emerging policy area. While SMEs make up the vast majority of enterprises globally, recent evidence, such as the OECD's No Net Zero Without SMEs report,[14] highlights critical gaps in policy support. SME-specific interventions remain limited, with green transition policies often designed for larger firms and insufficiently adapted to the scale, structure, or constraints of small businesses. Implementation is highly fragmented across countries, and very few policies account for the heterogeneity of SMEs, including informal, micro, women-led, or youth-led enterprises.

Several structural barriers continue to undermine effective policy design. A lack of disaggregated data on SME environmental footprints and investment behaviours limits evidence-based decision-making. Access to green finance is a major constraint, with nearly 70% of SMEs reporting the need for additional funding to accelerate climate action.[15] Meanwhile, existing financial instruments often overlook ESG alignment or inclusion criteria. Only a handful of countries have moved toward more integrated approaches that combine finance, regulation, and skills development, and these remain isolated examples rather than the norm.

Despite these challenges, momentum is growing. National and donor-led initiatives are increasingly piloting SME-oriented tools, including targeted regulations, ESG toolkits, green taxonomies, and innovation ecosystems, designed to reflect sector-specific realities. However, for these efforts to deliver real impact at scale, they must be embedded business environment strategies that centre SMEs as essential partners in the transition.

2.2 Typology of Policy Instruments

Table 3 below presents a draft typology of policy instruments used to support SMEs in the green and just transition. It outlines key objectives, practical tools, and country examples, offering a snapshot of how public

Development (IFAD), World Food Programme (WFP), and World Health Organization (WHO). Women and Girls 25 Years after Beijing, Critical Agents of Positive Change. Rome FAO, 2020, **ITC.** SME Competitiveness Outlook 2021: Empowering the Green Recovery. Geneva: ITC, 2021, **ILO.** COVID-19 and Global Supply Chains: How the Jobs Crisis Propagates across Borders. Geneva: ILO, 2020, **ILO.** A Double Transition: Formalization and the Shift to Environmental Sustainability with Decent Work. Geneva: ILO, 2022.

[14] **OECD.** No Net Zero Without SMEs. Paris: OECD Publishing, 2021.

[15] SME Climate Hub. (2023). 2023 SME Climate Hub Survey Report.

and private actors, often working with development partners, are making the transition more actionable for SMEs across different regions.

For this report, green and just transition policies for SMEs are understood as an integrated policy approach that promotes environmental sustainability (*green*) in a way that is inclusive, by creating decent work opportunities, reducing inequalities, and ensuring that no one is left behind (*just*). While often referred to collectively as *just transition policies* in some contexts, the report distinguishes the two dimensions to map more granular objectives and examples of policy instruments of each dimension. Green policy instruments aim to reduce environmental impacts and promote clean innovation, while just policy instruments focus on decent work, equity, and the inclusion of vulnerable or marginalized groups. However, policies can only be considered truly green and just if they take into account who benefits and who may be left behind, and include measures to close those gaps. For example, policies that promote environmental compliance but ignore labour rights or the impacts on vulnerable SMEs do not fully support a just transition.

The typology also reflects that some countries are drawing on international environmental, social, and governance (ESG) standards when designing policies aimed at SME transitions, particularly to raise awareness, build capacity and align business practices with sustainability goals. ESG standards vary widely in scope and purpose.[16] While not designed specifically for SMEs, some have been adapted to meet their needs. For example, the Voluntary Sustainability Reporting Standard for SMEs (VSME) was developed by the European Financial Reporting Advisory Group (EFRAG) under the EU Corporate Sustainability Reporting Directive (CSRD) to help simplify reporting requirements for smaller businesses. Others, such as the GRI Standards can serve as useful reference points for policy frameworks targeting SME transitions. Although evidence is still emerging, ESG standards hold the potential to inform the design of policies aimed at SME transitions, as illustrated in more detail in the Malaysia case study later in this report. That said, there remains a need to strengthen the social ("S") dimension of ESG, which has often received less emphasis than the environmental ("E") component. It could also be more clearly aligned with the ILO's understanding of decent work.

Table 3: Typology of SME green and just transition policy instruments

Policy Instrument Type	Green Transition (GT) Objective	GT Instrument Examples	Just Transition (JT) Objective	JT Instrument Examples	Country Examples of GT/JT Initiatives
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	Vietnam (ESG Initiative), Senegal (CSR Training)

[16] For example, some are more comprehensive and designed for corporate sustainability reporting, such as the Global Reporting Initiative (GRI) Standards and the European Sustainability Reporting Standards, which form the basis of the EU Corporate Sustainability Reporting Directive (CSRD). Others are more topic or issue focused and support investors in assessing various ESG-related risks and opportunities, such as the Task Force on Climate-related Financial Disclosures (TCFD) recommendations (not standards), which focuses on climate-related financial information, or the Sustainability Accounting Standards Board (SASB) Standards, which helps assess sustainability risks and opportunities across 77 industries.

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	Bolivia, Kyrgyzstan, Mauritius (SCORE4Climate), Senegal (CSR Training)
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	Vietnam (Environmental Standards Certification), Brazil (Waste Picker Cooperatives), Zambia (Green Jobs Program)
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), green taxonomies	Enable equitable financial access for marginalized SMEs, support inclusive business models	Grant schemes prioritizing women- and youth-led green businesses, support for informal enterprises to formalize	India (ZED Scheme), Vietnam (ESG-linked Grants)
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	Philippines (PEPP Track 1), Thailand (ESG Awards)
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	Southern Mediterranean (SwitchMed), Rwanda (Investment Policy for Green Start-Ups), Kenya (KCIC)

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	Philippines (ESG Metrics for MSMEs)

2.3 Policy Instruments in Practice: Examples from Literature

The following section describes the policy instruments in more detail, with examples of applications with a focus on emerging and developing economies, which are at the centre of this report. As will be seen, several countries have already bundled policy tools to design more effective reform strategies. These may combine awareness-raising, financial incentives and regulatory adjustments. This kind of bundling is relevant for business environment practitioners seeking to create enabling conditions for sustainable and inclusive SME development.

As a brief chapeau to the examples that follow, it is worth noting that policy emphasis has often leaned more heavily toward environmental dimensions, reflecting the urgency of climate action. Opportunities remain to better integrate social dimensions, especially job creation and decent work, into these efforts as highlighted by the ILO, including in its 2024 contribution to the G20 Sustainable Finance Working Group.[17] This is not a critique of "green" business environments, but an observation that their impact could be expanded through more holistic approaches that deliver both environmental benefits and quality employment outcomes.

2.3.1 Information Tools

Policy frameworks that incorporate or enable such tools play a vital role in lowering knowledge barriers and encouraging broader SME participation in the green economy. As sustainability standards and market expectations evolve, SMEs increasingly require structured, accessible information to support green transition efforts. Information tools, such as **ESG self-assessment platforms, reporting templates, and sustainability planning guides**, are emerging as key mechanisms to raise awareness, build capacity, and facilitate compliance with environmental and social regulations.

According to ESCAP (2024), some governments are also embedding digital toolkits (described later in the report) and ESG frameworks into national SME development strategies. These instruments serve not only as entry points into ESG compliance but also as gateways to financing, procurement opportunities, and technical support.

The following country examples illustrate how these tools are being applied in practice:

- **Vietnam**: The ESG Initiative, led by the Ministry of Planning and Investment with support from USAID and ESCAP, combines online information tools with direct financial and institutional support. In addition to the ESG self-assessment tool and localized ESG Handbook, the initiative offers SMEs grants of up to USD 81,000, delivers ESG training, and links enterprises with green credit providers. ESG performance scores are also used as part of eligibility assessments for further support, helping to integrate ESG readiness into broader financing and competitiveness frameworks.[18]
- **Singapore**: The Gprnt platform, developed by the Monetary Authority of Singapore, automates ESG data collection and reporting for SMEs. It enables integration with internal business systems and

[17] ILO. Enhancing the Social Dimension in Transition Finance: Towards a Just Transition: Input Paper for the G20 Sustainable Finance Working Group. Geneva: ILO, June 2024.
[18] **UNESCAP and Gobierno de Colombia.** Advancing The Green Transition od SMEs, Insights for SME Development Agencies to Support Sustainability Practices and Reporting. Bangkok: UNESCAP, 2024.

facilitates secure data sharing with financial institutions, buyers, and regulators. Future iterations will include a marketplace connecting SMEs to ESG-related services and investors.[19]

These initiatives reflect a trend of embedding digital ESG literacy and reporting infrastructure within the SME support ecosystem. By facilitating awareness and reducing complexity, information tools can enable more inclusive and scalable green transitions.

2.3.2 Capacity Building and Training

Capacity-building initiatives aim to address the skills, knowledge, and institutional gaps that prevent SMEs from complying with environmental regulations, accessing green finance, or participating in low-carbon value chains. Many initiatives combine **technical assistance with coaching, digital tools, and in-factory support**. Key areas of focus include energy and resource efficiency, cleaner production, occupational safety and health (OSH), and environmental management systems.

The following examples illustrate how capacity building and training are being applied in practice:

- **SCORE4Climate (multiple countries):** Developed by the International Labour Organization (ILO), SCORE4Climate is a training and coaching program tailored for SMEs to improve both environmental performance and productivity. Delivered through local training partners in countries such as **Bolivia, Kyrgyzstan, and Mauritius**, it combines classroom sessions with in-factory diagnostics and coaching. SMEs are guided to develop Enterprise Improvement Plans covering areas such as energy, water, material use, and chemical handling. The program has shown measurable reductions in waste and emissions while enhancing workplace practices.[20]
- **Vietnam's ESG Initiative,** led by the Ministry of Planning and Investment with support from USAID and ESCAP, provides structured ESG training, technical assistance, and coaching for SMEs. This activity is linked to the previously mentioned self-assessment tool and ESG handbook, helping businesses evaluate sustainability readiness, and top performers receive grants of up to USD 81,000 to implement ESG plans.[21]
- **Philippines' Embedding Sustainability in MSME Value Chains, a** five-year initiative by the Department of Trade and Industry (DTI), in partnership with the Global Reporting Initiative, aims to train 8,000 MSMEs in sustainable practices and ESG reporting. It includes pilot training, digital self-assessment tools (SPARK), and support for MSMEs to publish sustainability reports.[22]
- **Senegal' CSR and Sustainable Development Training is a** public-private partnership between RSE Senegal, the National Business Council, and the Vocational Training Financing Fund. It supports SMEs in aligning CSR and sustainability strategies with international standards. Training is tailored to company needs and embedded within national employer support systems.[23]

These country examples illustrate the importance of tailored, hands-on capacity-building approaches in enabling SMES meet environmental and social standards. They are frequently connected to ESG self-assessment tools, certification schemes, or access to green finance. The focus is shifting toward practical application, such as enterprise improvement planning, sustainability reporting, or operational upgrades.

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[19] **UNESCAP and Gobierno de Colombia.** Advancing The Green Transition od SMEs, Insights for SME Development Agencies to Support Sustainability Practices and Reporting. Bangkok: UNESCAP, 2024.
[20] **ILO.** Making a Just Transition toward Environmental Sustainability a Reality for SMEs. Geneva: ILO, 2024.
[21] **UNESCAP and Gobierno de Colombia.** Advancing The Green Transition od SMEs, Insights for SME Development Agencies to Support Sustainability Practices and Reporting. Bangkok: UNESCAP, 2024.
[22] **UNESCAP and Gobierno de Colombia.** Advancing The Green Transition od SMEs, Insights for SME Development Agencies to Support Sustainability Practices and Reporting. Bangkok: UNESCAP, 2024.
[23] How MSMEs can contribute to and benefit from a just transition, ILO Policy Brief (2022) **ILO.** How Micro, Small and Medium-Sized Enterprises Can Contribute to and Benefit from a Just Transition. Geneva: ILO, 2022.

2.3.3 Regulatory and Planning Instruments

Regulatory and planning instruments define environmental and social obligations, create enabling legal frameworks, and set the strategic direction for SME transition. Their objective is to reduce compliance burdens, align environmental standards with SME capabilities, and create incentives to go beyond compliance and make strategic investments.

A key dual role of regulatory reform in emerging and developing contexts is also to promote both SME formalization and environmental upgrading, particularly in sectors with high levels of informality and environmental risk. For example, ILO emphasizes that regulatory frameworks should integrate both **environmental and decent work criteria into SME and informal economy strategies**.[24] The OECD reinforces this by recommending **risk-based, simplified and rules-based regulations for low-risk SMEs**, **sectoral approaches to compliance, and alignment between environmental and SME regulatory bodies**.[25] Rules-based regulations are currently more common in developed countries,[26] but could be increasingly relevant for developing country contexts in the future.

Across ASEAN and beyond, countries are also adopting national planning instruments, such as **green taxonomies, ESG strategies, and sector-specific roadmaps**, to operationalize these reforms. These planning instruments help identify sectors where greening efforts can be most impactful, set measurable targets, and align public and private resources toward common goals. By doing so, they also provide greater regulatory clarity for the private sector.

The following examples demonstrate how regulatory and planning tools are being applied in practice:

- **Vietnam** combines regulatory simplification with incentives under **Decree No. 80/2006/ND-CP**, which mandates environmental impact assessments for firms in 144 high-pollution activities. Firms that demonstrate compliance can obtain an **Environmental Standards Certification (ESC),** which both, eases future regulatory obligations and is increasingly required by buyers. ESC-certified firms have shown measurable gains in resource efficiency, highlighting the effectiveness of this incentive-based regulatory model.[27]
- The **Philippine Environment Partnership Program (PEPP),** established by the Department of Environment and Natural Resources – Environmental Management Bureau, uses a two-track regulatory approach. **Track 1** provides regulatory incentives, such as streamlined permitting and public recognition for firms that exceed compliance standards. **Track 2** involves legally binding **Environment Consent Agreements,** which require SMEs to implement Environmental Management Plans, adopt cleaner production, and submit progress reports.[28]
- In **Colombia**, the **Fairmined Certification**, developed by the Alliance for Responsible Mining, acts as a voluntary but de facto regulatory tool for formalizing artisanal and small-scale gold mining cooperatives. Certification requires compliance with environmental, labour, and traceability standards. Only certified cooperatives gain access to premium markets and ethical finance, creating strong incentives for legal registration and sustainable operations.[29]
- **Brazil**'s regulatory support for informal workers includes **municipal ordinances and national solid waste policies** that formally recognize waste picker cooperatives as service providers. In partnership with the Ministry of the Environment and grassroots movements like National Movement of Recyclable Waste Pickers, municipalities contract cooperatives for public waste management. This regulatory recognition allows access to training, contracts, and labour protections.[30]

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[24] **ILO.** A Double Transition: Formalization and the Shift to Environmental Sustainability with Decent Work. Geneva: ILO, 2022.
[25] **OECD.** Facilitating the Green Transition for ASEAN SMEs. Paris: OECD Publishing, 2021.
[26] See for example General Binding Rules in Netherlands. Source: **OECD.** Environmental Policy Toolkit for SME Greening in EU Eastern Partnership Countries. Paris: OECD Publishing, 2018.
[27] **OECD.** Facilitating the Green Transition for ASEAN SMEs. Paris: OECD Publishing, 2021.
[28] **OECD.** Facilitating the Green Transition for ASEAN SMEs. Paris: OECD Publishing, 2021.
[29] **ILO.** A Double Transition: Formalization and the Shift to Environmental Sustainability with Decent Work. Geneva: ILO, 2022.
[30] **ILO.** A Double Transition: Formalization and the Shift to Environmental Sustainability with Decent Work. Geneva: ILO, 2022.

- Through the **Zambia Green Jobs Programme**, the government, in partnership with the ILO and supported by EU funding, reformed the construction sector by updating **building codes,** introducing **green materials standards**, and aligning **occupational safety and health (OSH) regulations.** These reforms were supported by public agencies such as the National Council for Construction and linked to SME access to procurement and skills development.[31]

The general trend in environmental regulation is toward more **streamlined, risk-based approaches** that reduce compliance burdens and support SME participation. While **rules-based systems**, which replace permits with standard requirements, are more common in high-income countries, many developing economies are adopting **simplified procedures, certification-linked incentives, and sector-specific regulation.** These efforts are increasingly embedded in broader planning instruments such as green taxonomies and national ESG strategies to align environmental goals with SME development and formalization priorities.

2.3.4 Financial Incentives

Policy reports highlight how governments and development banks are increasingly using financial instruments, such as **concessional loans, credit guarantees, tax and non-tax incentives, and insurance schemes**, to reduce investment risks and support SME greening. These instruments not only help de-risk green investments but also improve access to capital for SMEs that are often underserved by traditional finance systems to allows SMEs to invest in clean energy, resource efficiency and emission reduction.

Business environment policies support the rollout of green loans, subsidies, and blended finance mechanisms, while also establishing clear taxonomies and frameworks to identify and classify green MSMEs. They also promote coordination across regulators, SME agencies, and financial institutions to standardize eligibility, streamline ESG requirements, and ensure that green finance reaches a broad base of enterprises, including women- and youth-led MSMEs. These efforts are complemented by broader reforms to improve ESG data availability, encourage transparent reporting, and build capacity across the financial ecosystem.[32]

The following country examples illustrate how these policies are being applied in practice:

- **India 's Zero Defect Zero Effect (ZED)** certification scheme, led by the Ministry of Micro, Small and Medium Enterprises and implemented by the Quality Council of India, offers up to 80% subsidies for green certification. Certified SMEs are eligible for a credit guarantee scheme covering up to 85% of loan value. Domestic development banks, such as the Small Industries Development Bank of India (SIDBI), complement the program by offering green credit lines to sustainability-oriented small businesses.[33]
- **Vietnam**: Already mentioned earlier, the ESDG initiative offers ESG training, self-assessment tools, and grants of up to USD 81,000. It also helps SMEs access green credit by fostering connections with sustainable finance providers and integrating ESG performance into eligibility assessments.[34]
- **Palestine**: The Palestine Monetary Authority is taking foundational steps by developing a national green taxonomy to classify environmentally sustainable business activities. Though still in its early phase, this taxonomy sets the groundwork for future policy incentives and financial instruments, with technical support from international partners, including the United Nations and development finance institutions.[35]

These examples illustrate how financial incentives are being used in diverse contexts to support SME greening, ranging from certification-linked subsidies in India, to ESG-linked grants and credit facilitation in Vietnam, to early taxonomy development in Palestine. While the tools and institutional maturity vary, they all

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[31] **ILO.** A Double Transition: Formalization and the Shift to Environmental Sustainability with Decent Work. Geneva: ILO, 2022.
[32] Alliance for Financial Inclusion (AFI). Green Transition Measures for MSMEs. Kuala Lumpur: AFI, 2024.
[33] AFI. Green Transition Measures for MSMEs. Kuala Lumpur: AFI, 2024.
[34] **UNESCAP and Gobierno de Colombia.** Advancing The Green Transition od SMEs, Insights for SME Development Agencies to Support Sustainability Practices and Reporting. Bangkok: UNESCAP, 2024.
[35] AFI. Green Transition Measures for MSMEs. Kuala Lumpur: AFI, 2024.

represent efforts to reduce barriers to green investment and align financial support with sustainability goals. In several cases, financial mechanisms are coupled with technical assistance or broader ESG frameworks, helping SMEs better understand and access green finance. The cases show incremental progress toward more coordinated and inclusive financial support for SME transitions.

2.3.5 Market Access and Recognition

While previous sections have emphasized supply-side enablers like finance, regulation, and skills, expanding market access and gaining formal recognition are important demand-side mechanisms offering commercial incentives for SMEs to adopt green practices.

In the context of the green transition, market access refers to **improved participation of SMEs in lead firm or export value chains, but increasingly also to access to green procurement**. For example**, green public procurement** requires that government agencies purchase environmentally preferable products or services from local SMEs. **Environmental programs and certifications** are examples of how SMEs meet various sustainability standards, often aligned with international norms (e.g. ISO 14001). These and other type can be directly supported by the Government or anchor companies through **supplier development initiatives.**

Recognition can take the form of **eco-labels** or **public endorsement schemes** and **awards**, that enhance the visibility, credibility, and competitiveness of green SMEs. They are government- or industry-led programs that publicly recognize SMEs with strong environmental or social performance, building brand reputation and unlocking access to networks, investors, and contracts.

The following examples illustrate mechanisms are being applied to improve SME market access:

- **Philippines – PEPP Track 1 Recognition Scheme**: Beyond regulatory streamlining, Track 1 of the PEPP improves **commercial positioning** of compliant SMEs by offering public recognition, improving trust with buyers and lenders. [36]
- **Thailand – ESG Awards**: National banks and business associations have launched ESG award programs that include structured training and recognition for top-performing SMEs. These initiatives enhance **visibility and credibility** in buyer networks and connect SMEs to responsible investors.[37]
- **Costa Rica – Chain Acceleration Programme**: provides **tailored managerial and technical training** to SMEs with high potential to become suppliers of export-oriented firms. While not exclusively green, it supports SMEs in meeting international buyer requirements, potentially including sustainability standards.[38]

These examples highlight emerging efforts to use recognition and market access as incentives for SME sustainability. While several countries have introduced promising initiatives, such as ESG awards, certification schemes, and integration into public procurement, policy instruments explicitly designed to support green and just SME transitions through these channels remain relatively limited or are still at an early stage. Linking recognition, procurement, and certification with ESG aims could complement supply-side reforms and create stronger, market-based incentives for SMEs to adopt sustainable practices.

2.3.6 Green Entrepreneurship and Innovation Ecosystem

Some evidence exists from emerging and developing countries, some of which are investing in the development of green entrepreneurship ecosystems to accelerate climate innovation, create green jobs, and transition toward low-carbon economies. These ecosystems go beyond isolated business support to SMEs,

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[36] **OECD.** Facilitating the Green Transition for ASEAN SMEs. Paris: OECD Publishing, 2021.
[37] **UNESCAP and Gobierno de Colombia.** Advancing The Green Transition od SMEs, Insights for SME Development Agencies to Support Sustainability Practices and Reporting. Bangkok: UNESCAP, 2024.
[38] OECD. FDI Qualities Policy Toolkit. Paris: OECD Publishing, 2022.

but link policy, finance, technical and investment readiness capacity to help early-stage ventures move from idea to scale.

The following examples illustrate how some developing countries and regions are fostering innovation through **incubators, investment incentives, and ecosystem-wide partnerships**.

- **Southern Mediterranean – SwitchMed Programme**: SwitchMed has strengthened green entrepreneurship ecosystems across eight countries[39] by creating national partnerships among 110+ business support organizations and training 345 local experts. Its digital platform, the Switchers Toolbox, supports over 6,800 users with tools for eco-design and impact measurement. The program supported 874 green entrepreneurs and incubated 125 start-ups, with a focus on circular economy sectors like sustainable waste, organic food, and blue economy innovation.[40]
- **Rwanda – Investment Policy and Green Start-Up Support**: Rwanda's 2021 investment law promotes green entrepreneurship through a Seed Innovation Fund offering grants, loans, and equity to SMEs for training, tech acquisition, and IP costs. Incentives include a 15% preferential tax rate in Kigali Innovation City and a 150% deduction on internationalization expenses. A two-year entrepreneurship visa is available to attract foreign innovators and skilled graduates.[41]
- **Kenya – Kenya Climate Innovation Centre (KCIC)**: KCIC, launched in 2012 as a public-private partnership, supports early-stage green SMEs in renewable energy, agribusiness, and water. Hosted by Strathmore University and backed by donors, it provides seed funding, business advisory, and market access. It has supported over 3,000 SMEs, created 13,000+ jobs, and serves as a model for climate innovation hubs across Africa.[42]
- **Global – UNIDO Global Cleantech Innovation Programme (GCIP)**: GCIP helps green SMEs in developing countries bring cleantech solutions to market through acceleration, mentorship, and investor linkages. Focused on sectors like clean energy and green manufacturing, the program addresses key barriers such as financing and capacity gaps, while also strengthening national innovation ecosystems and policies.[43]

These initiatives stand out for their ecosystem approach—linking incubators, support services, and policy institutions to sustain green innovation. Strengthening such ecosystems will be key to unlocking the role of SMEs and start-ups in low-carbon growth and green job creation.

2.3.7 Data and Monitoring Systems

Data and monitoring requirements for SMEs are on the rise. As sustainability performance becomes a prerequisite for accessing green finance, supply chains (such as the EU Deforestation Regulation and the Corporate Sustainability Due Diligence Directive), and public procurement, SMEs increasingly need tools to track, report, and communicate their ESG impacts. These systems enable the measurement of sustainability KPIs, help benchmark performance, and increase visibility to investors and regulators.

Importantly, **data infrastructure is emerging as a policy domain in its own right.** As policymakers are developing ESG taxonomies, mandatory and voluntary disclosure frameworks, and digital platforms tailored to SME capabilities, new solutions can support transparency and accountability but also simplify compliance and reduce transaction costs for small enterprises. They are also increasingly linked to financial and regulatory incentives.

Country examples show how governments and partners are localizing ESG frameworks and building digital infrastructure for inclusive SME access:

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[39] Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, and Tunisia
[40] Switchmed
[41] OECD. FDI Qualities Policy Toolkit. Paris: OECD Publishing, 2022.
[42] Kenya Climate Innovation Centre
[43] Global Cleantech Innovation Program

- **Philippines – ESG Metrics for MSMEs:** The Department of Trade and Industry (DTI), in partnership with the Global Reporting Initiative (GRI), is piloting simplified ESG metrics for MSMEs to support sustainability-linked finance and procurement readiness.[44]
- **Viet Nam – ESG Self-Assessment & Reporting Tools:** As part of its national ESG initiative, Vietnam provides SMEs with a self-assessment tool and ESG handbook, aligned with GRI standards, to evaluate sustainability performance and access advisory or grant support.[45]
- **The Singapore Gprnt Digital Platform mentioned earlier goes a step further to** automate ESG data collection and generate reports that help SMEs assess their sustainability status with minimal resource investment.

As ESG standards evolve, the development of accessible, interoperable, and SME-relevant data systems will be increasingly important for ensuring that small businesses are not left behind.

2.4 Concluding Remarks

This review highlights a key insight: although SMEs are essential to the green and just transition, they continue to face major structural and operational barriers that limit their ability to participate fully. Challenges such as limited access to finance, regulatory complexity, gaps in skills and data, and exclusion from key markets hold many small enterprises back. At the same time, growing experience from emerging and developing countries is beginning to show how business environment policies can support SME transitions by addressing these constraints in a more coordinated and inclusive way. Approaches that combine regulation, finance, training, innovation, and recognition are showing potential to strengthen SME participation in sustainability efforts.

To take stock of emerging practices, this section presented a typology of policy tools used to support SME greening and social inclusion. Practitioners are invited to explore, apply, and improve this framework based on their own experiences. As new innovations emerge, continuous learning and feedback will be essential.

The following section presents three country case studies that offer a closer look at how different governments and partners are designing and implementing policy packages to support SMEs through the green and just transition. These examples aim to offer deeper insights into how business environment policies are designed and implemented.

[44] **UNESCAP and Gobierno de Colombia.** Advancing The Green Transition od SMEs, Insights for SME Development Agencies to Support Sustainability Practices and Reporting. Bangkok: UNESCAP, 2024.
[45] **UNESCAP and Gobierno de Colombia.** Advancing The Green Transition od SMEs, Insights for SME Development Agencies to Support Sustainability Practices and Reporting. Bangkok: UNESCAP, 2024.

3. Country Case Studies

The following section presents three country case studies, namely Malaysia, Peru, and Iraq, that illustrate diverse entry points for advancing green and just transitions through SME development. The cases reflect different stages of progress and institutional contexts: Malaysia highlights a market-responsive approach shaped by sustainability demands in global value chains, Peru demonstrates how legal formalization of agricultural cooperatives can unlock pathways to greener and more equitable market participation, and Iraq offers early lessons from participatory, donor-supported efforts to lay the groundwork for a green MSME ecosystem in a fragile, oil-dependent economy.

Each case follows a common analytical framework organized along six dimensions:

1. **Drivers of transition:** what motivates governments and SMEs toward greener practices?
2. **Business environment policy instruments:** what policies and legal frameworks are used to enable green and just transitions for SMEs?
3. **Institutional landscape:** how are responsibilities shared or organized across government actors? How do actors coordinate?
4. **Tools and programmatic interventions:** what delivery mechanisms and support types (i.e. training, finance, technical support) are applied and how?
5. **Public-private engagement and pilots:** how are these interventions piloted and what designed and what lessons do they generate?
6. **Early insights and lessons learned:** overall, what can lesson can be drawn from these early experiences?

In addition, where possible, the case studies will examine approaches for inclusion of informal, rural, or marginalized groups as well as use of data to design and improve policies.

This framework allows the report to trace how different policy levers, institutional arrangements, and support mechanisms contribute to inclusive and sustainable SME transitions in varied development contexts.

Country Case 1: Responding to Market Pressures: Malaysia's Evolving Ecosystem for Greening SMEs

Malaysia's approach to greening its SME sector is defined by responsiveness to global market and regulatory pressures. Driven by demands from the finance sector and evolving regulations like the EU Deforestation Regulation (EUDR) and Carbon Border Adjustment Mechanism (CBAM), the country has adopted a flexible, pilot-based model that allows for iterative learning and adaptation.

Initiatives such as the Green Value Chain (GVC) Program have targeted SMEs, mostly export-oriented or linked to value chains of publicly listed companies, with bundled support, combining training, carbon tracking tools, green finance access, and technical assistance, often in partnership with anchor companies. Meanwhile, broader frameworks like the National Industry ESG Framework (i-ESG) and SME Corp's PKSlestary Program aim to build long-term ESG readiness among domestic-focused micro and small enterprises, though these efforts remain in early stages.

Malaysia's experience highlights the power of bundling interventions focusing on high-pressure supply chains, and leveraging institutional and public-private collaboration. However, it also reveals persistent gaps: high SME drop-out rates, limited follow-up, and insufficient coordination. Strengthening monitoring systems, tailoring ESG criteria, and improving institutional alignment will be critical for transitioning SMEs from awareness to meaningful environmental and technological upgrades.

This case study explores Malaysia's evolving ecosystem of sustainability initiatives, key actors, and lessons learned, offering insights for other countries navigating similar market-driven transitions.

3.1.1 Drivers of Transitions

Malaysia, a middle-income, export-driven economy, is home to over 1.1 million SMEs, representing 96.9%[46] of businesses and contributing 39.1% of GDP, 48.5% of employment, and 12.2% of exports.[47] As climate and ESG pressures grow, both domestically and through international supply chains, Malaysia's green and just transition is being shaped by a proactive financial sector and global regulatory demands.

The domestic momentum has been led by the financial sector, in line with Malaysia's climate goals: reducing GHG emissions intensity by 45% by 2030 and reaching net zero by 2050.[48] Banks, regulators, and investors are embedding ESG considerations into lending and disclosure frameworks, sending clear signals across the economy.

At the same time, Malaysia's trade-dependent sectors, particularly commodities, electronics, and manufacturing, are directly exposed to tightening global regulations. These include the EU's Carbon Border Adjustment Mechanism (CBAM), the EU Deforestation Regulation (EUDR), Corporate Sustainability Due Diligence Directive (CSDDD), and forced labour ban legislations in the EU and U.S. Industries such as steel and rubber gloves face heightened scrutiny due to their emissions intensity and labour practices, with one stakeholder noting these sectors are "a very immediate concern."[49] Palm oil and plantation-linked exports are similarly under pressure due to deforestation and labour compliance requirements.

Together, these dynamics underscore the critical need for clear transition plan for SMEs affected by these regulatory trends. The remainder of this case study explores how Malaysia is evolving its policy, institutional, and programmatic landscape to build an enabling environment for green and inclusive SME development.

3.1.2 Business Environment and Policy Instruments

Malaysia's approach to SME greening has evolved through an iterative set of policies that combine regulatory clarity, financial incentives, capacity-building, and practical tools. Starting with foundational instruments like the Climate Change and Principle-based Taxonomy (CCPT), the policy expanded to include mandatory reporting frameworks involving scope 3 emissions, concessional finance facilities, value chain-based pilot programs, and MSME ESG guidance. As each initiative exposed new challenges, such as low SME readiness, lack of data, or limited technical capacity, policymakers responded with increasingly integrated and inclusive solutions. The following section traces this progression.

Climate Change and Principle-based Taxonomy (CCPT) (2021)

Issued by Bank Negara Malaysia (BNM), the CCPT marked the starting point of Malaysia's formal green transition architecture.[50] It provided a structured classification system for banks to evaluate economic activities based on their environmental impact, embedding ESG considerations in banks' credit assessments and aligning finance with climate goals. This taxonomy created the initial incentive for financial institutions to reorient lending practices and catalyse green investments.

National Sustainability Reporting Framework (NSRF) (2024)

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[46] Profile of MSMEs in 2015-2023, *Source: Department of Statistics, Malaysia. Available at: SME Corp Malaysia.*
[47] MSME Insights Report, Economic Performance and Outlook 2023/24. SME Corp Malaysia.
[48] National Energy Transition Roadmap, Ministry of Economy.
[49] Interview with an official at the Ministry of Industry, Trade and Investment (MITI), May 16, 2025
[50] Bank Negara Malaysia. Climate Change and Principle-Based Taxonomy. Kuala Lumpur: Bank Negara Malaysia, April 2021.

Built on the foundation laid by the CCPT, the NSRF mandates phased GHG emissions disclosures and aligns ESG reporting with International Sustainability Standards Board's standards.[51] Its introduction extended ESG expectations beyond financial institutions to listed and large non-listed firms, thereby cascading ESG requirements down to SMEs embedded in value chains. The framework adopts IFRS S1 and S2 standards,[52] including requirements for Scope 3 emissions reporting. This will be rolled out in phases between 2027-2030, beginning in 2027 for large listed firms, followed by other listed companies (2028), and large non-listed companies (2030).[53]

Low Carbon Transition Facility (LCTF) (2022)

Following CCPT, Bank Negara launched the LCTF to translate classification principles into practice. The facility provides concessional financing to support low-carbon investments by SMEs and catalyse green lending markets. The total funding is RM2.0 billion (approximately USD 450 million) on a matching basis focused on renewable energy, energy efficiency, and emissions-reduction investments. Funding is disbursed through commercial banks with support from BNM. Although intended for a variety of decarbonization actions, the vast majority of uptake was concentrated in solar panel installations, revealing limited SME capacity to diversify green investments.[54]

Greening Value Chain (GVC) Program (2023)

Learning from the LCTF experience, the Joint Committee on Climate Change (JC3) launched the Green Value Chain (GVC) Program to pioneer a more holistic model for SME decarbonization.[55] It successfully integrated ESG training, subsidized access to online emissions tracking tools, and concessional finance through the LCTF. This innovative program is discussed in more detail in the section on Pilots and Public–Private Engagement.

National Industry Environmental, Social and Governance Framework ("i-ESG Framework) (2023)

Alongside financial sector-driven efforts, key agencies involved in private sector development, particularly Ministry of Investment, Trade and Industry (MITI), have introduced enabling policies aimed at facilitating a green and just transition among MSMEs. These policies expand the scope of ESG readiness beyond decarbonization to include social and governance dimensions.

This five-year voluntary policy supports ESG adoption in the manufacturing sector, particularly among SMEs.[56] It introduced practical tools such as the i-ESG Ready assessment and Starter Kit to guide businesses through incremental ESG integration. The framework also aims to position Malaysia to respond to international pressures like the EU CBAM and CSDDD. Key components are as follows:

- **Standards:** provides guidance on ESG reporting using internationally recognized standards (e.g., GRI, ISSB, SASB). Includes the i-ESG Ready and Starter Kit helping firms self-assess and incrementally align with ESG requirements.
- **Capacity building**: offers training, mentoring, and awareness programs to support companies, especially MSMEs, at different stages of their ESG journey. For example, MITI conducted a training for 100 SME suppliers in Honda's supply chain.
- **Financing**: facilitates access to ESG-related funding mechanisms through collaborations with institutions like Bank Negara, JC3 Malaysia (i.e. JC3 ESG Jumpstart Portal**,** which is a "one-stop-shop"

[51] Securities Commission Malaysia. National Sustainability Reporting Framework. Accessed June 12, 2025.
[52] IFRS S1: General requirements for sustainability-related disclosures, IFRS S2 – Climate-related disclosures (aligned with the TCFD framework)
[53] Securities Commission Malaysia. National Sustainability Reporting Framework. Kuala Lumpur: Securities Commission Malaysia.
[54] Interview with a representative of the World Bank in Kuala Lumpur, May 16, 2025
[55] Asian Development Bank. Building Supply Chain Resilience: Insights into Greening Value Chains for ASEAN. A Collective Intelligence Playbook. 2025. Manila: Asian Development Bank, 2025.
[56] Ministry of Investment, Trade and Industry (MITI), Malaysia. National Industry Environmental, Social and Governance (ESG) Framework. Accessed June 12, 2025.

for ESG solutions and incentives[57]), and MIDA, Malaysia's Investment Development Authority, on the ESG Fund available for domestic enterprises.[58]

- **Market mechanisms**: promotes voluntary ESG adoption by exploring tools such as carbon pricing and an emission trading system (currently being developed). These mechanisms are designed to create incentives for market-based ESG action.

Figure 1: i-ESG Framework

Source: MITI (2025)

The framework is implemented through a phased approach. Phase 1 (2024–2026), called "Just Transition", focuses on awareness, initial adoption, and foundational support. Phase 2 (2027–2030), called "Accelerating ESG Practices", emphasizes performance scaling, deeper integration, and alignment with global standards.

During 2023–2024, MITI prioritized building ESG awareness and capacity among SMEs. It reached nearly 4,000 participants through conferences, clinics, and seminars delivered via chambers, industry associations, and anchor firms. It also developed its own sustainability report to lead by example and promoted cross-ministerial adoption of the i-ESG Framework. Uptake of tools like the ESG Self-Assessment and Starter Kit has been broadly positive, with SMEs showing clearer understanding of ESG versus CSR or SDGs.[59]

[57] Joint Committee on Climate Change (JC3). ESG Jumpstart for SMEs. Accessed June 12, 2025.
[58] Malaysian Investment Development Authority (MIDA). Forms and Guidelines: Grants. Accessed June 12, 2025.
[59] Interview with an official at MITI, May 16, 2025.

3.1.3 Institutional Landscape

Malaysia's approach to SME greening is supported by a fairly dense institutional architecture that includes public agencies, private actors, and coordinated multi-stakeholder platforms. While not exhaustive, this mapping highlights some of the key public agencies, private sector actors, and multi-stakeholder platforms actively shaping Malaysia's the enabling environment for green and inclusive SME development.

Public Sector Leadership

Bank Negara Malaysia (BNM) plays a central role in aligning financial sector practices with sustainability goals. The Ministry of Investment, Trade and Industry (MITI) leads ESG policy for manufacturing, while SME Corporation Malaysia (SME Corp), under the Ministry of Entrepreneur and Cooperatives Development (MECD), coordinates SME development. The Joint Committee on Climate Change (JC3), a public-private platform involving BNM, the Securities Commission, Bursa Malaysia, which is Malaysia's Stock Exchange, and financial institutions, mobilizes climate finance, promotes collaboration and develops practical tools for ESG practices in the finance sector, including SMEs.

Other important actors include Bursa Malaysia, which sets ESG disclosure requirements for listed firms, the Malaysian Green Technology and Climate Change Corporation (MGTC), under the Ministry of Natural Resources and Environmental Sustainability (NRES), which advances green investment through validation and incentives, and SME Bank, which offers financing and training through its Centre for Entrepreneur Development and Research (CEDAR).

Coordination across these entities is gradually improving through informal mechanisms and peer learning, although some overlaps and fragmentation remain a challenge for SMEs navigating the support system. The Ministry of Economy is soon launching the National ESG Strategic Plan (2025), through its SDG Centre, which is expected to align national targets, and clarify institutional roles, thereby enhancing system-wide policy coherence.

Role of the Private Sector

Private actors, particularly banks and anchor firms, play a catalytic role by embedding ESG into lending and supply chain practices. Banks are guided by BNM's CCPT Taxonomy, while large firms promote ESG uptake among SME suppliers, such as via the GVC Program. Industry bodies like the Federation of Malaysian Manufacturers (FMM), National Chamber of Commerce and Industry (NCCIM), and Malaysian International Chamber of Commerce and Industry (MICCI) support ESG adoption through training, export readiness programs, and advocacy. Sector-specific associations (e.g., palm oil, plantations) also contribute, with engagement depending on topical relevance. Table 4 summarizes key players.

Table 4: Overview of key public and private sector players relevant for Malaysia's SME ESG

Institution Type	Institution	Role	Examples of SME-ESG Policies / Tools
Public Agencies	Bank Negara Malaysia (BNM)	Central bank, aligns financial practices with climate goals	Climate Change and Principle-based Taxonomy (CCPT), Low Carbon Transition Facility (LCTF)

	Securities Commission Malaysia (SC)	Regulates ESG disclosures in the capital markets and works closely with BNM through the Joint Committee on Climate Change (JC3)	National Sustainability Reporting Framework (NSRF), co-leads JC3 initiatives
	Ministry of Investment, Trade and Industry (MITI)	Leads ESG policy for manufacturing and broader industry policy	i-ESG Framework, ESG Self-Assessment and Starter Kit
	SME Corporation Malaysia (SME Corp)	Coordinates SME development under MECD	PKS Lestari Program, ESG Quick Guide, SME ESG Self-Assessment Tool
	SME Bank / CEDAR	Provides SME financing and capacity-building support	Business advisory services, entrepreneurship and sustainability training
	Malaysian Green Technology and Climate Change Corporation (MGTC)	Promotes green technology adoption, validates and administers green financing	Green Technology Financing Scheme (GTFS), tax incentives for green investments, MyHIJAU Mark Certification Program
	Ministry of Economy / SDG Centre	National planning and coordination, ESG strategic planning	National ESG Strategic Plan (forthcoming, 2025)
Private Sector Actors	Bursa Malaysia	Operates capital market infrastructure, advances ESG standards and disclosure	Supports NSRF implementation, ESG indices and reporting guidelines for listed companies. Operates a Centralized Sustainability Intelligence Platform for climate and ESG disclosures
	Banks and Financial Institutions	Implement ESG-aligned lending practices	ESG-integrated credit assessments, support GVC and LCTF rollout
	Anchor Firms (e.g., MNCs, PLCs)	Enforce ESG standards across supply chains	Nominate SME suppliers to GVC Program, require ESG disclosures

	Industry Associations (e.g., FMM, MICCI, Chambers)	Support awareness, training, and export readiness	ESG seminars, capacity-building workshops, policy advocacy
Multi-Stakeholder	Joint Committee on Climate Change (JC3)	Regulator-industry platform, linking BNM, Securities Commission, and financial sector for climate action (including Bursa Malaysia and 21 financial industry players)	GVC Program, ESG Jumpstart Portal, financing coordination

Development Partner Contributions

Development agencies have played an instrumental role in supporting the diffusion of ESG practices across Malaysia's private sector. The World Bank Group has provided critical support through its policy advisory work, focusing on bridging the financial and real sectors to ensure that ESG policy design is both coherent and actionable. Through its engagement with public institutions and industry stakeholders, it contributes to evidence-based policymaking and the sharing of global good practices. It also supports the design and evaluation of pilot programs, such as the next phase of the GVC program, ensuring that lessons learned translate into scalable, outcome-driven models for SME engagement.

3.1.4 Tools and Programmatic Interventions

To operationalize ESG goals and frameworks at the level of SMEs, in particular micro and small enterprises who make up over 80% of Malaysia's SME base, dedicated programs have been launched to provide simplified, sector-agnostic ESG tools tailored to their needs.

PKSLestari Program (2024)

Launched by SME Corp, it introduces simplified ESG tools for micro and small enterprises, offering entry points into ESG practices.[60] The program emphasizes simplicity, accessibility, and foundational ESG literacy.[61] Key components are as follows:

- **Awareness and education**: offers an ESG Quick Guide (launched Feb 2024) and seminars reaching 2,000 MSMEs to build entry-level understanding.
- **MSME ESG assessment**: presents a 50-question self-assessment tool covering environmental, social, and governance dimensions, helping MSMEs benchmark, develop sustainability reports plan ESG actions.
- **Policy support**: SME Corp provides inputs into the upcoming 13th Malaysia Development Plan and collaboration with the Ministry of Economy on the National ESG Strategic Plan.
- **Market access**: includes engagement with publicly listed companies and supply chain anchors to facilitate SME integration into ESG-compliant value chains.
- **Standards and compliance**: refers to collaboration with SIRIM, Malaysia's national standards and certification body, to develop ESG standards (SIRIM 55/56) tailored for MSMEs.
- **Financing and incentives**: relates to engagements with financial institutions (e.g., Alliance Bank) to improve access to finance for SMEs, and inform ESG finance mechanisms and policy design, including data from SME ESG surveys.

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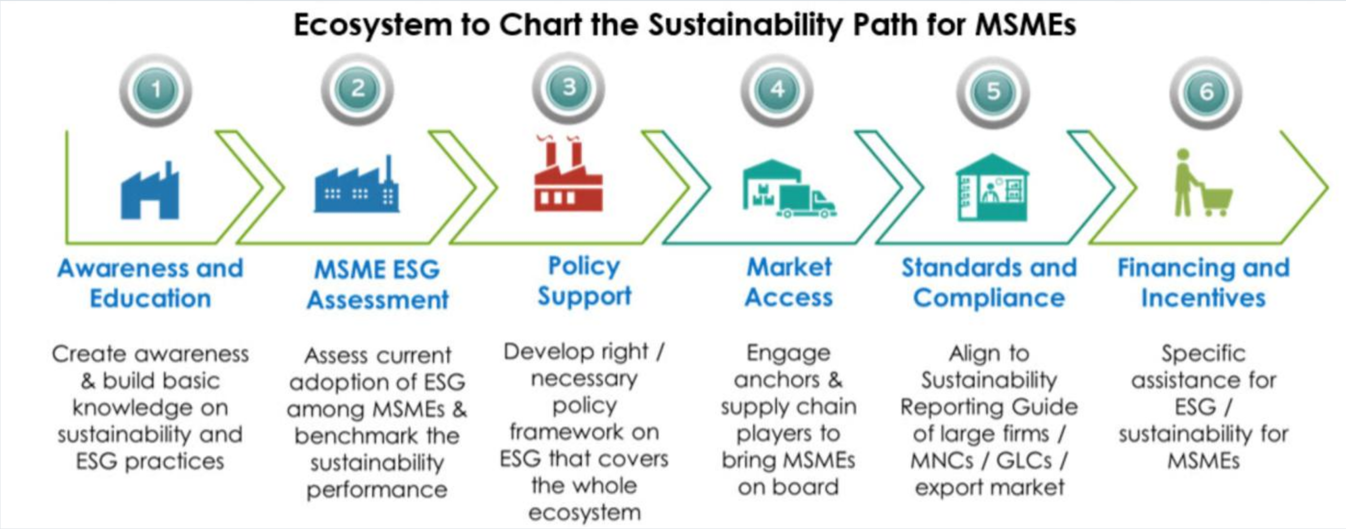
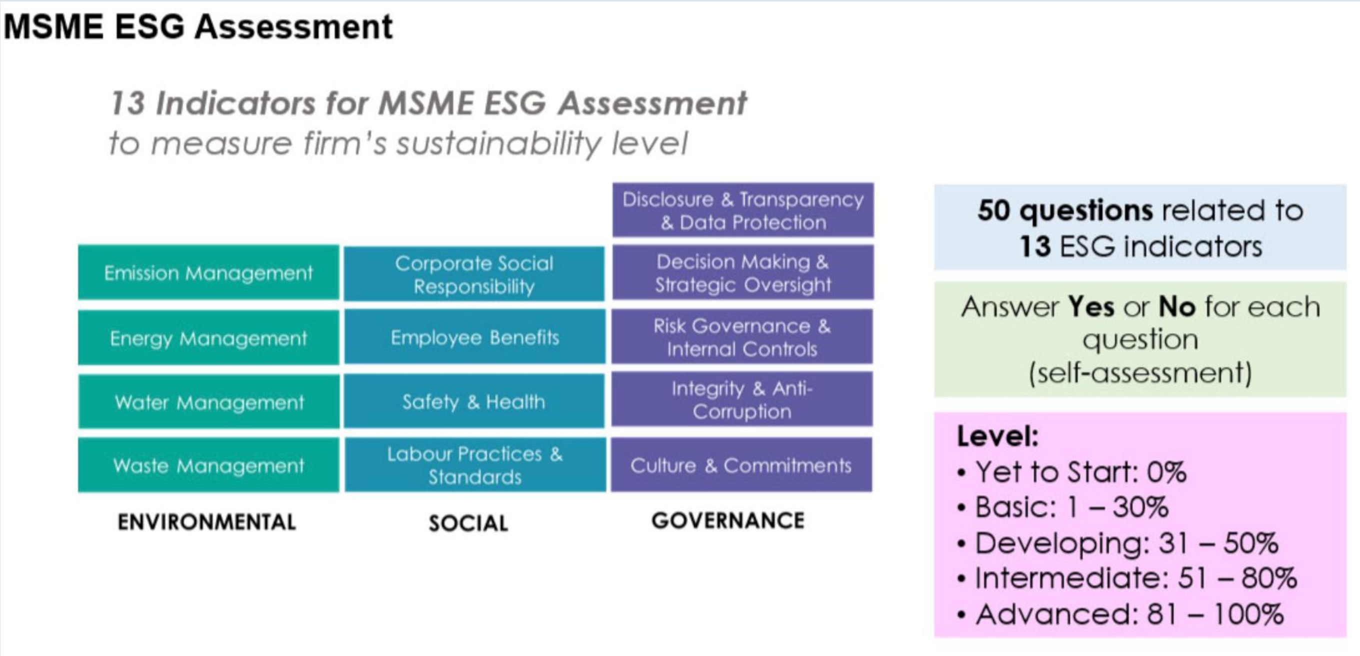
[60] SME Corporation Malaysia. PKS Lestari Programme. Accessed June 12, 2025.
[61] Based on an interview with a representative of SME Corp Malaysia, May 2025.

Figure 2: PKSLestari Program



Source: SME Corp (2025)

Figure 3: MSME ESG Assessment Framework



Source: SME Corp (2025)

SME Corp is continuously building this sustainability ecosystem for SMEs. Its MSME ESG assessment tool provides a starting point to identify gaps in management systems based on 13 ESG indicators, allowing firms to identify strengths and weaknesses. The tool applies to all sectors and industries and was developed based on topics most applicable to SMEs.[62]

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[62] SME Corporation Malaysia. PKS Lestari Programme. Accessed June 12, 2025.

During 2023-24, SME Corp focused on foundational ESG literacy for nearly 2,000 SMEs. It engaged with Alliance Bank, Bursa Malaysia, and tax agencies to align incentives and supported national planning efforts through inputs to the forthcoming 13th Malaysia Plan, integrating stringer focus on SME transitions. The introduction of an ESG category in the SME Corp's 2024 Enterprise 50 Awards further signalled growing recognition of SME sustainability leadership.

3.1.5 Pilots and Public–Private Engagement

Two pilot initiatives in Malaysia are supporting SME transitions in GVCs, namely Bank Negara's Greening Value Chain (GVC) Programme, and Bursa Malaysia's Early Adopter Programme (EAP)**.**

Greening Value Chain (GVC) Program

The GVC Program[63] was a natural continuation of the LCTF where it became clearer that SMEs required structured support to participate in decarbonization and sustainability efforts. It links financial tools, digital tracking systems, and capacity-building in a value chain context. Coordinated by JC3, the program aims to test replicable approaches for SME engagement through partnerships with anchor firms and financial institutions.

- **Phase 1 (2023):** The first phase targeted first SMEs in CBAM-exposed sectors who were nominated by anchor firms.[64] Over time, it expanded to other sectors, in particular services. The first phase onboarded over 650 SMEs. The program saw promising engagement from both buyers and suppliers, and the involvement of major national and multinational companies demonstrated the potential for broader supply chain transformation. However, sustaining SME participation has proven difficult. Nearly two-thirds of participants disengaged after the initial training phase, citing barriers such as unclear reporting standards, limited technical capacity, insufficient follow-up by banks, and the high cost of the carbon tracking software tool. Anchor companies also expressed concern that without regulatory requirements or stronger incentives, SMEs were likely to drift away from ESG commitments over time.[65] However, the program demonstrated a valuable proof-of-concept for supply chain-based ESG diffusion. This feedback was also echoed in interviews with private sector companies called DXN and POS Malaysia, both participants in the GVC Program (Box 2).
- **Phase 2 (2025, under development):** The Greening Halal Business Initiative will likely target 3,000 SMEs across halal sectors, food and beverage, cosmetics, and pharmaceuticals. Still in design, it emphasizes capacity building and decarbonization incentives by helping SMEs measure emissions, develop transition plans, and access green finance. The program aims to offer one month of training followed by 11 months of support, with second-year assistance to improve and implement transition plans, which is a new feature in program design. Its national scope also allows for comparative learning, while pilot testing of training formats and a cost-sharing model, requiring SMEs to contribute a fee, add practical insights. Supported by the World Bank, the initiative focuses on measurable outcomes such as supply chain entry, emissions reduction, and green finance readiness. [66]

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[63] Asian Development Bank. Building Supply Chain Resilience: Insights into Greening Value Chains for ASEAN. A Collective Intelligence Playbook. 2025*.* Manila: Asian Development Bank, 2025.
[64] The Edge Malaysia. "SME Corp to Pilot ESG Sustainability Programme for SMEs." *The Edge Malaysia*, October 17, 2023.
[65] Feedback form GVC Anchor from a large corporation. Source: Asian Development Bank. Building Supply Chain Resilience: Insights into Greening Value Chains for ASEAN. A Collective Intelligence Playbook. 2025*.* Manila: Asian Development Bank, 2025.
[66] Interview with a representative of the World Bank in Kuala Lumpur. May 2025.

Box 2: Private sector feedback from anchor firms to decarbonization of supply chains

DXN[67]

DXN is a listed Malaysian company specializing in Ganoderma-based health supplements and related products across food, beverages, cosmetics, and household categories. With **90% of its revenue from exports**, it is subject to multiple international regulations, including the **EUDR** and Malaysia's National **Sustainability Reporting Framework**. DXN joined the GVC program over **2.5 years ago** as part of its ESG transition and works with **2,000+ suppliers**, many of them SMEs.

Approach & Supply Chain Engagement:
DXN onboarded **80 suppliers** initially and **50 more** in 2024, all with **free access to PANTAS's carbon tracking tool**. However, only **~10% of suppliers** continue regular data reporting.

Challenges & Feedback:
While some SMEs have ESG awareness, most face **capacity constraints, unclear incentives, and limited understanding** of emissions data. DXN finds **voluntary participation insufficient** and advocates for **phased mandatory reporting**. It also plans to promote **peer role model SMEs** to improve engagement.

Future Outlook & Program Continuation:
DXN will **scale up GVC participation**, expand training, and enhance supplier follow-up. It is also updating **procurement policies** to enforce ESG standards and calls for **stronger policy alignment and SME support** to enable Scope 3 compliance and long-term decarbonization.

POS Malaysia[68]

POS Malaysia, the national postal and logistics provider, joined the GVC program in **April 2025**. It works with **~5,000 SME-dominated suppliers**, and began by targeting its **top 100 suppliers**, which account for **~65% of annual procurement spend**. The company aims to **extend internal decarbonization to its supply chain**, starting with building emissions data visibility.

Approach & Scope 3 Emissions Strategy:
POS **mandates supplier participation** in the GVC and offers **free access to a simplified PANTAS tool** to report **Scope 1 and 2 data** (e.g., electricity, fuel use). Training sessions focus on **awareness and capacity-building** to ease reporting burdens for SMEs.

SME Engagement & Program Feedback:
SMEs often view sustainability as **secondary to economic survival**, citing **language, awareness, and incentive gaps**. While large suppliers are more engaged, SMEs require **clear business cases** to sustain participation. POS sees **tangible incentives**, like financing access, as key enablers.

Future Outlook & Support Needs:
To meet its **Scope 3 reporting target**, POS will **expand onboarding** and calls for **greater policy support**, including **subsidies, clearer financing pathways, and low-emission zones**, to drive supply chain decarbonization.

Source: Interviews with company representatives, June 2025

[67] DXN. *Official Website*. Retrieved June 13, 2025.
[68] POS Malaysia. *Official Website*. Retrieved June 13, 2025.

Bursa Malaysia's Early Adopter Programme

Bursa Malaysia's Early Adopter Programme (EAP)[69] indirectly supports SMEs in supply chains by simplifying ESG compliance and enabling access to sustainability-linked opportunities. Publicly Listed Companies are already required to report on scope 1 and 2 emissions through the Centralised Sustainability Intelligence (CSI) platform, which now also includes a module for Scope 3 emissions for SME suppliers to improve ESG disclosures, particularly around carbon emissions. The pilot, which includes companies like Petronas, UMW, and Mah Sing, also connects SMEs to green financing opportunities through collaborations with banks such as Maybank, CIMB, and Alliance Bank.

3.1.6 Lessons Learned and Early Insights

Emerging experiences from Malaysia's GVC Program, i-ESG Framework, and PKSLestari offer lessons learned and useful insights for shaping SME-related business environment reforms. While still early in implementation, these initiatives signal patterns that may help refine approaches to SME transitions.

1. ***Global Regulations as Entry Points for Policy Engagement***

Malaysia's alignment with international sustainability regulations appears to have helped raise awareness and incentivize ESG action by affected companies and some of their SME suppliers. These external demands served as initial motivators for firms to consider sustainability practices. Engagement in awareness and capacity building programs is generally higher in sectors under pressure from external regulations. For example, according to an Alliance Bank ESG 2.0 Survey, pressure in supply chains is one of the reasons why manufacturing sector leads in ESG awareness, compared to less exposed sectors.[70]

2. ***Importance of Clear Regulatory ESG Pathways***

Supply chain leadership Is a powerful lever, but a conducive policy is also needed. The GVC program showed that anchor firms were instrumental in onboarding SMEs, but participation waned without stronger regulatory nudges or sustained incentives.

Field feedback from GVC anchor firms reinforces the need for regulatory clarity and tailored incentives. POS Malaysia found that while 100 SME suppliers were onboarded, only 40% remained active by participating in follow-up workshops. DXN, with 130 suppliers, saw just 10% continuing emissions reporting. Both firms noted that suppliers often viewed ESG tracking as a compliance burden rather than a strategic opportunity, especially in the absence of tangible business incentives. To push the agenda further and set clear selection criteria for vendors, DXN is currently revising procurement policies to set minimum ESG standards and using supplier role models to build momentum. However, the concern is that voluntary initiatives alone are insufficient, highlighting the need for clear ESG expectations and financial or market-based incentives to support meaningful supplier participation.

One of the recommendations for policymakers stemming from the program was to map existing policies and frameworks and assess how they match MSME's ESG journeys at different stages.[71] This would allow to strengthen and tailor incentives at different stages of the journey, starting with heavy SME emitters, and applying incentives such as partial grants for carbon-audits, tax rebates for green upgrades, etc.

In addition, SMEs need ESG guidance that reflects the material issues and compliance pressures of their specific sectors. A uniform approach risks missing sectoral nuances that affect feasibility and impact.

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[69] The Edge Malaysia. "MITI, World Bank to Implement 2nd Phase of GVC Accelerator Programme." *The Edge Malaysia*, April 18, 2024.

[70] Alliance Bank Malaysia. The Path to Sustainable Impact - Sectoral Insights of Malaysian SMEs. Kuala Lumpur: Alliance Bank Malaysia, 2025.

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

According to MITI, "ESG is a very complex topic for a lot of SMEs. What is considered a core ESG issue to you may not be so for another sector. For example, a bank won't talk about migrant workers, but that's a critical issue in plantations."[72]

As one SME noted, *"With a clear playbook for SME or for a sector, say automotive or F&B, we'd know exactly what steps to follow."*[73]

Tailored frameworks can help firms navigate expectations more confidently, especially in sectors exposed to global regulations.

3. *A Case for Tiered and Ongoing Capacity Building*

Across the initiatives, it became evident that capacity building is not a one-time event. SMEs varied widely in their readiness and required tailored support. The GVC's shift to phased capacity building models considering SME readiness (e.g., Greening Halal Business), and the development of simplified tools under PKSLestari, reflect an emerging understanding that capacity develops incrementally. This is key for all SMEs, especially for micro and small firms with limited capacity to engage in complex ESG systems from the outset.[74]

4. *Evolving Coordination Across Institutions*

Malaysia's ESG ecosystem includes multiple agencies and programs, sometimes with seemingly overlapping support instruments and tools. This was also repeated feedback from large companies and SMEs participating in various programs.

As senior executives participating in the GVC program noted: I'm not sure if "misalignment" is the right word, but everyone seems to be doing their own thing with minimal coordination. Regulators and associations need to have better alignment on financing, regulation, and infrastructure."[75]

Another example different frameworks and requirements from SMEs. While SME Corp tries to simplify tools and guidance, financiers and international buyers expressed a need for more robust disclosures, meaning that SMEs had to undergo additional data collection and due diligence checks. Aligning requirements for SMEs remains a challenge.

While active engagement of many institutions reflects strong commitment, it can create complexity for SMEs trying to navigate support options. The National ESG Strategic Plan is expected to clarify roles and improve alignment and coordination of various actors.

5. *Strengthening the Data Base for Policy Design*

Another recurring theme is the limited availability of firm-level ESG data.

In an interview with MITI: "They (SMES) understand the urgency of it (ESG adoption). But the problem now is how to proceed, what is next now for them?" This highlights an upcoming transition challenge**:** many SMEs are aware of ESG, but lack a clear, supported pathway forward.

"We don't have a centralized ESG database right now in the country, especially for SMEs, that is missing. [...] Data can help us identify the overall trend, so we will know as a whole where we stand with regards to specific E, S, or G issues."

Without consistent reporting by SMEs, it is difficult to systematically and consistently assess their current ESG maturity level, benchmark progress, match support to needs or even track whether awareness is translating into real action. However, tools that would generate more consistent ESG data, could help policymakers and financial institutions offer better-targeted, evidence-based support aligned with their ESG journey.

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[72] Interview with an official at MITI, May 16, 2025.
[73] Asian Development Bank. Building Supply Chain Resilience: Insights into Greening Value Chains for ASEAN. A Collective Intelligence Playbook. 2025. Manila: Asian Development Bank, 2025.
[74] Interview with a representative of SME Corp, May 9, 2025.
[75] Asian Development Bank. Building Supply Chain Resilience: Insights into Greening Value Chains for ASEAN. A Collective Intelligence Playbook. 2025. Manila: Asian Development Bank, 2025.

3.1.7 Conclusion

Malaysia's approach to SME greening stands out for several reasons. The launch of the CCPT by Bank Negara provided a strong initial market signal, aligning credit practices with sustainability goals. This was followed by progressively inclusive frameworks such as the i-ESG and PKS Lestari program, which tailored ESG tools and support to SME realities.

Malaysia also demonstrated agility by learning from program implementation, adjusting designs, scaling promising pilots, and gradually aligning tools across ministries and agencies. The GVC Program, for instance, marked an evolution from a finance-first model to a multi-phase, readiness-based approach. Furthermore, efforts to raise awareness and build capacity across thousands of SMEs, combined with growing policy coherence (e.g. through the forthcoming National ESG Strategic Plan), illustrate a commitment to building a long-term ecosystem.

Moving forward, policymakers will face a challenge of gradually shifting from pilot-driven awareness to institutionalized, scalable delivery. Areas, which would benefit from more focus revolve around deepening inter-agency coordination, streamlining support mechanisms, strengthening data systems and monitoring and evaluation of existing programs.

Looking ahead, it will also be important to consider how the green transition can also generate decent work opportunities and support inclusive economic outcomes. While greening initiatives have made significant strides, ensuring that the transition also supports the creation of decent and inclusive employment opportunities remains a key consideration from a just transition perspective.

Country Case 2: Formalization as a Gateway to GVCs and Greening Agricultural Cooperatives in Peru

Peru's experience highlights that formalization is a critical precondition for greening SMEs in an inclusive and equitable way. In highly informal agricultural value chains, such as coffee, cocoa, and banana, small producers face mounting pressure to meet international sustainability standards, yet often lack the legal status, documentation, or institutional access needed to comply.

The 2022 Agricultural Cooperatives Law (Law No. 31335) marked a pivotal step in addressing these barriers by granting cooperatives formal recognition, tax incentives, and procurement access. Developed through a bottom-up process led by producer organizations, the law created new opportunities for smallholder participation in regulated and sustainable markets.

However, legal reform alone is not enough. Without adequate technical, institutional, and financial support, many cooperatives continue to struggle with full formalization, resilience, and compliance. The case study highlights the need for sustained public and donor engagement, stronger institutional coordination, and targeted financial instruments to help cooperatives scale sustainably. Peru's experience shows that while bottom-up legal reform creates the enabling conditions for a green and just transition, success ultimately depends on pairing legislation with the support systems that allow cooperatives to thrive.

3.2.1 Drivers of Transitions

Peru's green and just transition in the agricultural sector is shaped by two intersecting challenges: pervasive informality among small-scale producers and growing pressure from international sustainability regulations.

Agriculture remains the most informal sector in the Peruvian economy, with 98% of rural and 81.6% of urban household production units operating informally.[76] Over 90% of agricultural workers lack formal employment contracts, limiting their access to social protections, finance, and public support programs [77]

Informality is especially prevalent in export-oriented value chains such as coffee, cocoa, banana, and mango. These chains are largely driven by smallholder producers managing fragmented plots, often organized through associations of producers that lack formal legal status. This has created structural barriers to entering global value chains (GVCs) and meeting increasingly strict sustainability and traceability standards in global markets.

In particular, the European Union's evolving regulatory landscape, including the EU Deforestation Regulation (EUDR) and the Organic Regulation (2018/848), is placing new compliance demands on Peruvian exporters. These regulations require evidence of being deforestation-free, being legally produced and in line with organic standards for production and labelling. Meeting these requirements is difficult without formal organizational structures, legal land tenure, data systems and access to specialized knowledge.

This case study examines Peru's evolving approach to agricultural formalization and SME support, focusing on the 2022 Agricultural Cooperatives Law, which redefined the legal status of cooperatives, enabled them to gain formal recognition and access national support systems. Although enacted prior to the EUDR, the law has since become a crucial enabler of compliance and inclusion, lowering barriers to formal market entry, and opening opportunities to sustainability-linked support, including circular economy practices and gender-inclusive governance mechanisms. It also draws on the contributions of programs such as SECO/Helvetas' *Se Competitivo*,[78] which has supported cooperatives through technical assistance, value chain upgrading, and advocacy around the legal framework.

3.2.2 Business Environment and Policy Instruments

Agricultural Cooperatives Law (Law No. 31335)

The **Agricultural Cooperatives Law (Law No. 31335)** addresses multiple challenges that agricultural cooperatives faced under the previous legal framework. Prior to its enactment in 2021, all cooperatives were governed by a general cooperative law overseen jointly by the Ministry of Production and the Ministry of Agrarian Development and Irrigation (MIDAGRI). However, this arrangement created confusion, as the Ministry of Production primarily focuses on agro-industry, fisheries, and non-agricultural value chains, which are areas not aligned with the realities of rural farming cooperatives.[79]

A major shortcoming of the previous law was its failure to recognize the **"cooperative act",** which is the transfer of products from farmers to their cooperatives. As a result, these transfers were taxed as commercial sales, despite not being conventional transactions. Farmers were also unable to access key benefits under the general cooperative law due to this legal ambiguity.

Law No. 31335 created a dedicated legal and fiscal framework specifically for **agricultural cooperatives,** simplifying registration and offering tax benefits such as exemptions and reduced rates. It also strengthened access to public programs, improved institutional oversight, and promoted inclusive governance, while reducing administrative burdens for smallholders.[80] Importantly, the law was developed through a **bottom-**

[76] **Instituto Nacional de Estadística e Informática (INEI).** Production and Informal Employment in Peru: Satellite Account of the Informal Economy 2022–2023. Lima: INEI, 2024.
[77] OECD. OECD Economic Surveys: Peru 2023. Paris: OECD Publishing, 2023.
[78] Swiss Economic Cooperation and Development (SECO). SeCompetitivo Program – Peru. Accessed June 12, 2025.
[79] Interview with a representative of Helvetas, Peru, June 2025.
[80] Government of Peru. Law No. 31335: Law for the Improvement of the Associativity of Agricultural Producers in Agricultural Cooperatives. *El Peruano*, August 23, 2021.

up process that reflected the unique needs of rural producers previously left out of broader cooperative policies.[81]

In 2023, the government issued and **implementing regulation** that introduced administrative procedures and standard templates. These changes operationalized key provisions of the law, including formal recognition of the cooperative act and access to tax exemptions through the national tax authority (SUNAT).

Box 3 What Law 31335 changes for smallholders

Key improvements for farmers in the law include:

- **Legal recognition and simplification**: The law formally defines agricultural cooperatives as user-based, non-profit service organizations. It simplifies legal registration, allows associations to convert into cooperatives without tax penalties, and clarifies that internal cooperative transactions are not subject to commercial tax rules.
- **Tax justice and incentives**: Cooperative members are exempt from income tax on earnings up to 30 UIT (approx. S/. 148,500) and benefit from a reduced rate (1.5%) up to 140 UIT. Cooperative transactions are also exempt from VAT, and services such as fair-trade certification are temporarily tax-exempt, lowering operational costs.
- **State support and preferential access**: Cooperatives are prioritized in public procurement (receiving a 10% evaluation bonus), and granted access to government programs for innovation, irrigation, agrarian insurance, and land allocation. They are also eligible for benefits reserved for micro and small enterprises (MYPEs), including financing and export support.
- **Inclusive governance**: The law mandates the active participation of women and youth in cooperative governance and leadership. Cooperatives are expected to progressively align their leadership bodies with the gender composition of their membership.
- **Institutional support**: The law establishes the National Council for Agrarian Cooperatives (CONACA) and assigns the Ministry of Agrarian Development and Irrigation (MIDAGRI) responsibility for oversight and promotion of cooperatives. This provides continuity and coordination for long-term cooperative development. It also establishes a **public National Registry of Agricultural Cooperatives**, administered by the **Ministry of Agrarian Development and Irrigation (MIDAGRI)**, which formally recognizes cooperatives and is a prerequisite for accessing **state support**, **preferential procurement**, and for fulfilling **traceability and compliance requirements** under both national and international regulations.
- **Administrative simplicity**: Cooperatives assume tax reporting obligations on behalf of their members, easing the compliance burden for small producers. Members earning below 30 UIT are not required to file income tax returns individually.

***Source**: Government of Peru. Law No. 31335: Law for the Improvement of the Associativity of Agricultural Producers in Agricultural Cooperatives. El Peruano, August 23, 2021.*

[81] Junta Nacional del Café. (n.d.). Agricultural Cooperatives Law No. 31335: Tax fairness, business integration, and rural agroindustry. Retrieved June 11, 2025.

Law No. 31335 also introduces specific provisions to promote the **inclusion of women** in cooperative governance and decision-making structures. Article 10 of the law requires cooperatives to actively encourage the participation of women as members, delegates, and leaders on equal terms with men.[82] It also mandates gender-balanced access to training and leadership development programs. Furthermore, the law establishes a timeline: within five years of its enactment, cooperatives are expected to achieve a gender balance in their governance bodies that reflects the proportion of women and men among their active membership. For example, if a cooperative has 20% women members, then women should also make up 20% of its leadership. This rule promotes proportional representation, addressing the historical underrepresentation of women in cooperative decision-making structures.

Another innovation is the recognition of marital partnerships, both legal and de facto, in cooperative decision-making. This means that a spouse can represent the family unit in general assemblies, allowing greater flexibility and potentially increasing women's participation in cooperative governance even if formal land ownership is held by the male partner.

These gender inclusion provisions were pushed forward by women leaders within the cooperative movement. Their advocacy helped ensure that gender was explicitly addressed in the cooperative reform process.[83] This legal requirement marks an important shift toward institutionalizing gender equity within agricultural cooperatives, which have historically been male-dominated, especially in leadership roles.

National Agrarian Policy for 2021–2030

In 2021, the MIDAGRI also approved the National Agrarian Policy for 2021–2030,[84] which identified a specific goal to improve vertical integration in value chains for small producers. The strategy set a medium-term objective to strengthen smallholder integration into value chains, with the main tool for achieving that integration in the agrarian sector being the cooperative model. This means that the cooperative model is now fully aligned with national policy. It also helped channel funding to MIDAGRI to support cooperatives by offering low-interest credit.[85]

National Competitiveness and Formalization Strategy

Furthermore, the improvements introduced by the law are consistent with the broader objectives of Peru's National Competitiveness and Formalization Strategy,[86] which aims to simplify the business environment, promote formal market participation, and strengthen institutional support for micro and small enterprises. While the strategy does not explicitly address agricultural cooperatives, the cooperative law aligns with its goals by facilitating legal recognition, improving access to services, and reducing administrative burdens for small rural producers.

3.2.3 Institutional Landscape

Law No. 31335 has its origins in a more than decade-long push by agricultural producer organizations, beginning in 2009 as a response to punitive tax enforcement by Peru's National Superintendency of Tax Administration (SUNAT). After several failed reform attempts, including a partially repealed 2011 law, the effort gained renewed momentum through the creation of a national platform of cooperative guilds. The law was ultimately approved unanimously by Congress in July 2021 and promulgated in August 2021 as part of

[82] Government of Peru. Law No. 31335: Law for the Improvement of the Associativity of Agricultural Producers in Agricultural Cooperatives. *El Peruano*, August 23, 2021.
[83] Interview with a representative of Helvetas in Peru, May 2025.
[84] **Ministry of Agrarian Development and Irrigation (MIDAGRI), Peru.** Supreme Decree No. 017-2021-MIDAGRI Approving the National Agrarian Policy 2021–2030. Lima: MIDAGRI, 2021.
[85] Interview with a representative of Helvetas in Peru, June 2025.
[86] Government of Peru. Supreme Decree No. 203-2024-EF: Approves the update of the National Competitiveness and Formalization Strategy. Lima: Ministry of Economy and Finance, 2024.

the government's Second Agrarian Reform agenda. It stands out as a bottom-up reform, driven by the demands and proposals of organized producer groups rather than initiated by the state.[87]

Private Sector Role

Agricultural cooperative organizations, including the National Coffee Board (Junta Nacional del Café, JNC), the Peruvian Association of Cocoa Producers (Asociación Peruana de Productores de Cacao, APPCACAO), the National Banana Board (Junta Nacional del Banano, JUNABA), and the National Coordinator of Fair Trade Producers of Peru (Coordinadora Nacional de Productores de Comercio Justo del Perú, CNCJ–Perú), spearheaded the reform. They drafted the legislative proposal, coordinated advocacy through a national platform, and mobilized support from over 500 organizations representing more than 150,000 smallholder families. Their leadership ensured that the law addressed the specific needs of small-scale agricultural cooperatives, which had long been treated under a generic legal framework unsuited to their structure.

Public Sector Role

The Ministry of Agrarian Development and Irrigation (MIDAGRI) played a facilitating role by establishing a multisectoral working group to support the law's design. MIDAGRI is now also responsible for the implementation of the law. Since many cooperatives still struggle with transparency, the Ministry created a new directorate that requires financial statements and information in order to grant financing (for equipment, capital, etc.). It houses two branches: one for Associativity and Enterprise Development, and one for Agricultural Financing and Insurance.

The Ministry of Economy and Finance and SUNAT initially opposed the proposal due to fiscal concerns but engaged in negotiations during the drafting process.[88] Congress, with cross-party backing, approved the law unanimously, and the President of the Republic enacted it in August 2021.

Public–private collaboration

The law's development was grounded in structured dialogue and co-creation between cooperative leaders, public institutions, and technical experts. The *SeCompetitivo* program, funded by SECO and implemented by the Swiss NGO Helvetas, supported this collaboration by providing technical assistance, legal analysis, and facilitating policy dialogue. This inclusive and participatory process ensured the law was both politically viable and reflected the realities of Peru's agricultural cooperatives.

3.2.4 Tools and programmatic interventions

The SeCompetitivo Program,[89] currently in its third phase, supports Peru's broader formalization and sustainability goals in the agricultural sector. The program was launched in 2015 to enhance Peru's competitiveness through public policy support and regional value chain development. It is implemented in collaboration with the Ministry of Economy and Finance and the National Council for Competitiveness and Formalization (CNCF), and facilitated nationally by HELVETAS Swiss Intercooperation, with participation from the Private Competitiveness Council and the Chamber of Commerce of La Libertad.

The program focuses on agroindustry and tourism, with interventions targeting the coffee, cocoa, processed foods, and natural ingredients value chains, particularly in the regions of Piura, San Martín, and La Libertad. The SeCompetitivo program operates through three complementary mechanisms: public policy support, competitive value chain projects, and specialized advisory services delivered through the Swiss Expert Network. Specifically related to formalization and SME transition, the program provides the following support:[90]

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[87] Junta Nacional del Café. (n.d.). Agricultural Cooperatives Law No. 31335: Tax fairness, business integration, and rural agroindustry. Retrieved June 11, 2025.
[88] Junta Nacional del Café. (n.d.). Agricultural Cooperatives Law No. 31335: Tax fairness, business integration, and rural agroindustry. Retrieved June 11, 2025.
[89] Swiss Economic Cooperation and Development (SECO). SeCompetitivo Program – Peru. Accessed June 12, 2025.
[90] Interview with a representative of Helvetas in Peru, April 2025.

Legal and Policy Support

SeCompetitivo played an instrumental role during Phase 2 by supporting the development of Law No. 31335. It contributed technical assistance, legal analysis, and supported structured dialogue between producer organizations and government stakeholders. This input helped ensure that the law reflected the operational realities of smallholder cooperatives and removed fiscal and legal disincentives to formalization.

Support for Formalization and Organizational Strengthening

While not exclusively focused on the formalization of cooperatives, SeCompetitivo requires that all participating organizations be formally registered. This condition promotes formalization indirectly by making legal recognition a prerequisite for accessing program support. Once formalized, cooperatives and producer associations receive grants, technical assistance, and organizational development services aimed at improving productivity, upgrading value chains, and increasing market access.

Advancing Sustainable Agricultural Practices and Compliance

The program actively promotes sustainable agricultural practices, including the adoption of organic production, the use of bio-inputs, and circular economy models. In San Martín, for instance, SeCompetitivo supports cocoa cooperatives in transitioning to organic methods to meet compliance standards such as the EU Organic Regulation and the EUDR. In other value chains, such as banana and mango, the program encourages the transformation of non-exportable produce into value-added products like jams, helping reduce waste and increase incomes.

Institutional Capacity Building

SeCompetitivo works with public institutions such as SENASA to modernize Peru's organic certification systems. This includes upgrading outdated digital platforms, aligning regional inspection protocols, and building institutional capacity for consistent enforcement. In parallel, the program partners with the Ministry of Trade to support the implementation of national sustainability and circular economy policies. Pilot initiatives with SMEs are used to introduce tools for measuring water and carbon footprints and for promoting resource efficiency.

In combining legal reform, institutional support, and hands-on assistance for producers, SeCompetitivo strengthens the enabling environment for agricultural SMEs to formalize and transition toward greener production models.

3.2.5 Early Insights and Lessons Learned

Law No. 31335 has been pivotal for several reasons. First, it centralized all matters related to smallholder farmers under **MIDAGRI**, streamlining institutional responsibility. The reform shifted MIDAGRI's institutional focus back to **smallholder farmers**, rather than just infrastructure or agricultural products. New directorates, such as the **Directorate for Associativity and Finance**, were created to strengthen support for the cooperative model and its connection to rural financing.

Second, it increased transparency and oversight by requiring cooperatives to register with the **National Cooperative Registry**, managed by MIDAGRI. Previously, the government lacked even basic data on how many agricultural cooperatives existed. The law established the **National Cooperative Registry**, which now provides visibility into the number of agricultural cooperatives, the sectors they operate in, and the nature of their activities. This registry is being continuously updated and serves as a valuable tool for policy planning and oversight. Today, over **630 cooperatives**, mostly from major supply chains, are now formally registered and beginning to declare taxes appropriately.

Third, the law has helped policymakers and institutions like MIDAGRI better understand **associativity as an entrepreneurial model,** rather than merely a form of social organization. Registration under the law also enabled **SUNAT,** the national tax authority, to formally recognize cooperatives as such, whereas previously, they were taxed like standard commercial entities.

Additionally, a complementary article in the law has facilitated the transformation of many farmer associations into fully recognized cooperatives, broadening access to the legal, fiscal, and institutional benefits offered under the new framework.[91]

The formal recognition of cooperatives and clarification of the cooperative act allowed members to commercialize jointly without being taxed as individual sellers. This strengthened their collective market presence and negotiating power, especially in export markets.

According to the National Coffee Board (JNC), this law represents a significant policy shift, expected to enable the formalization of 250,000 small producers over the five years following its adoption.[92] Although too early to evaluate the results of the law, the implementation process, alongside programmatic interventions such as SeCompetitivo, offers valuable insights into the evolving business environment for agricultural cooperatives and small producers. These early lessons can inform the design and implementation of similar reforms.

1. ***Scaling and Institutional Alignment Remain Central Challenges***

A key challenge emerging from the early implementation of Law No. 31335 is the difficulty cooperatives face in scaling their operations. While legal recognition has improved, many cooperatives remain too small to operate competitively or meet the compliance requirements of international markets. A promising solution lies in enabling the development of second-tier or central cooperatives that can aggregate smaller organizations, share infrastructure, and coordinate exports. However, current tax policy does not extend the same benefits to these entities, creating a disincentive for integration. Addressing this gap could unlock economies of scale, strengthen the sustainability of the cooperative model, and broaden the impact of formalization, particularly for smallholder producers participating in green and value-added value chains.

2. ***Implementation Gaps and Institutional Capacity***

Although the legal framework has improved, implementation is uneven. Public institutions such as SUNAT, SUNARP, and regional governments vary in their understanding and application of the new law. Registration delays, inconsistent tax treatment, and limited technical knowledge among local officials hinder cooperative formalization. Strengthening institutional capacity, especially through training and procedural harmonization, is essential for consistent application of the law across the country.

3. ***Internal Capacity of Cooperatives***

Many cooperatives still lack the internal technical and administrative capacity to comply with legal requirements, manage finances, or access public support. Without improvements in governance, digital tools, and financial literacy, even formally recognized cooperatives struggle to function sustainably. Targeted technical assistance remains key to unlocking the full benefits of the legal framework.

4. ***Access to Finance and Working Capital***

Despite allocation of budget to MIDAGRI, access to finance remains a challenge. Cooperatives often face liquidity shortages, particularly during the harvest season, which prevents them from competing with informal intermediaries. Without reliable credit mechanisms tailored to their needs, cooperatives may remain legally formalized but financially constrained. Addressing this gap will require customized financial instruments and public–private financing models.

5. ***Sustainability and Policy Coherence***

While some cooperatives engage in sustainable practices, such as organic farming and circular economy models, these efforts remain limited in scope and scale. Supporting cooperatives in circular economy initiatives or broader environmental efforts still remains a challenge. There are some cooperatives benefiting

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[91] Interview with a representative of Helvetas in Peru, April 2025.
[92] Junta Nacional del Café. (n.d.). Agricultural Cooperatives Law No. 31335: Tax fairness, business integration, and rural agroindustry. Retrieved June 11, 2025.

from rules intended for SMEs, but those are under the Ministry of Production and available only to some cooperatives. A better alignment of cooperative formalization and green transition goals is needed.

6. ***Progress with Registration and Support Mechanisms***

The creation of the National Registry of Agricultural Cooperatives is a notable step forward, enabling cooperatives to access support programs and participate in traceability systems. However, bottlenecks in the registration process, such as lack of awareness, technical barriers, and slow regional implementation, continue to limit the law's reach. Some cooperatives managers still resist to follow the new law. Further outreach and convincing about the benefits of the new model will be essential to ensure that eligible cooperatives can formalize and benefit from state support.

3.2.6 Conclusion

The formalization of agricultural cooperatives in Peru represents a strategic entry point for improving the business environment for smallholder producers, enhancing market access, legal protection, and alignment with international sustainability standards. Law No. 31335 provides a robust legal foundation, but realizing its full potential will require continued institutional strengthening, cooperative capacity-building, and improved access to finance.

Programs such as SeCompetitivo have demonstrated the importance of combining legal reform with technical assistance, public–private dialogue, and targeted sustainability support. Going forward, stronger integration of cooperative support into national development strategies, alongside financial instruments and capacity-building tools tailored to green SMEs, will be essential. This will help ensure that cooperatives are not only formally recognized but also equipped to scale and thrive within a green and inclusive economy.

Country Case 3: Laying the Foundations for Green SMEs in a Fragile Context in Iraq

Iraq's efforts to green SMEs across various sectors are at an early stage, but foundational work is progressing through data-driven and participatory approaches. Supported by the ILO and development partners, initiatives such as the Green Business Survey (with over 700 stakeholders) have identified key barriers, including the absence of clear green business definitions, complex registration procedures, and low awareness. Pilot activities like the Green Business Camp have shown how targeted awareness-raising and capacity-building can catalyse green entrepreneurship, even in fragile settings.

A defining feature of Iraq's approach has been broad stakeholder engagement, involving government agencies, youth organizations, private sector actors, and donors. International partners have played a pivotal role in introducing global tools (e.g., SIYB and Green Business Guidelines) and training facilitators to support early-stage ecosystem development.

While challenges such as institutional fragmentation and regulatory gaps persist, Iraq's experience illustrates that data, dialogue, and coordinated support are essential building blocks for a more inclusive and climate-resilient SME landscape.

3.3.1 Drivers of Transitions

Iraq faces a convergence of structural economic and environmental challenges that underscore the urgent need for a just transition. The country's economy remains overwhelmingly dependent on oil, which accounts for 99% of exports and 85% of public revenue.[93] This reliance has stifled private sector development, limited economic diversification, and exposed the economy to global price volatility. Most SMEs operate informally in low-productivity sectors such as agriculture, retail, and services, with limited access to finance, skills development, or institutional support.[94]

At the same time, Iraq is increasingly vulnerable to climate shocks, including **chronic drought, extreme heat, and water scarcity,** which are degrading infrastructure, displacing communities, and weakening livelihoods, particularly in southern governorates like Basra and Muthanna. With **40% of electricity imported** and growing climate-induced migration, building a climate-resilient and inclusive economy has become an urgent policy priority. [95]

In this context, **green SME development** offers a critical, yet still underutilized, opportunity to address both economic and environmental vulnerabilities. A greener SME sector could contribute to **economic diversification, climate adaptation, and green job creation,** especially for youth and marginalized groups. However, the potential remains constrained by structural barriers, including **complex registration procedures, fragmented regulations, and weak access to finance.**

This section largely draws on the ILO-led project *"Towards More and Better Employment through Enhanced Support to Private Sectors in Southern Iraq",[96]* funded by the Italian Agency for Development Cooperation. It highlights **early efforts to build the foundations for a green SME ecosystem** through participatory policy dialogue, piloting initiatives, and local capacity-building, which are critical first steps in shifting toward a more inclusive and climate-resilient private sector.

3.3.2 Business Environment and Policy Instruments

Transitioning SMEs to green practices relies on a supportive business environment, which remains challenging in Iraq. High levels of informality, limited access to finance, and complex regulations continue to obstruct sustainable enterprise growth. Iraq is still in the early stages of developing this ecosystem and prioritizes participatory policy design, donor-backed pilot projects, and localized reforms over top-down approaches. This section explores how initial policy measures are beginning to tackle these foundational barriers.

National MSME Development Policy

This national framework is designed to formalize, support, and expand the MSME sector across Iraq, with one of its pillars dedicated to green business and sustainability. The policy aims to coordinate scattered SME support interventions across sectors and regions and serve as a foundation for building a centralized institutional mechanism, drawing on models from Egypt, Turkey, and Jordan. The development of the policy is led by the Ministry of Planning and requires coordination with multiple public, private and civil society actors, namely the Ministries of Labour and Social Affairs, Trade, Finance, Environment, Youth and Sport, Industry, Higher Education, and Agriculture, the Workers' Union, Iraqi Federal of Industries, Federation of Iraqi Chambers of Commerce, and NGOs.

The policy's core objectives include strengthening the legal and regulatory framework, improving access to finance, enhancing skills and capabilities, boosting communication and outreach, and promoting innovation and transition, including environmental sustainability. Social inclusion serves as a cross-cutting pillar. The policy is currently under consultation[97], with implementation responsibilities distributed among key ministries, and monitoring and evaluation led by the Ministry of Planning.

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[93] World Bank. Iraq Overview. Accessed June 12, 2025.
[94] World Bank. Iraq Country Climate and Development Report. Washington, DC: World Bank, 2022.
[95] World Bank. Iraq Country Climate and Development Report. Washington, DC: World Bank, 2022.
[96] ILO. (2024). Italy and ILO support private sector development for Southern Iraq's green transition. Retrieved June 13, 2025.
[97] July 2025, at the time of writing this case study.

National Action Plan for Expanding Green Businesses

The National Action Plan for Expanding Green Businesses, also known as the Green Business Plan, is led by the Ministry of Trade's Private Sector Development Department, in collaboration with the Ministries of Planning, Environment, Labour, and other partners. The plan is supported by the ILO and other development actors and seeks to enable the growth of environmentally friendly enterprises through a series of integrated policy actions. These include formulating green enterprise policy, building entrepreneurial capacity, particularly for women, expanding access to green finance, and raising awareness of sustainable business opportunities. The draft plan is expected between July and August 2025 and is based on extensive stakeholder input gathered through a national survey conducted by ILO, Ministry of Trade and the Ministry of Environment, and involving over 700 participants.

The plan's pillars, still under development, include institutional and regulatory reform, business environment tools, and the development of youth human capital and green culture. Gender equality, social inclusion, and fundamental labour rights are mainstreamed throughout. The Green Business Plan is positioned as a key implementation tool within Iraq's broader Green Growth Strategy, providing a roadmap for embedding green enterprise into national development planning.

3.3.3 Institutional Landscape

Public Sector Roles

Green and inclusive SME development involves several Iraqi ministries, notably Planning, Trade, Environment, and Labour and Social Affairs. The Ministry of Planning (MoP) oversees national development policy and coordinates with other agencies on SME growth. The Ministry of Labour (MoLSA) supports employment and entrepreneurship. The Ministry of Trade (MoT) handles business registration and private sector development. The Ministry of Environment (MoEn) plays a key role in aligning enterprise development with environmental goals.

Coordination is evolving, but fragmented. While multiple ministries play important roles in enterprise support, Iraq is still in the early stages of developing a coherent business environment for SMEs. The absence of a centralized SME authority and overlapping mandates contribute to regulatory fragmentation, which can undermine efforts at promoting green businesses. Climate coordination sits with the Council for Environmental Adaptation under the Prime Minister's Office, though it does not directly address SME issues.

Private Sector and Public-Private Dialogue

Private sector actors, including SMEs and large firms, are beginning to engage in public-private platforms. Through ILO-led initiatives like the Basra Supply Chain Linkage Initiative and Green Business Camp, discussed later in this section, companies are shaping SME transition efforts.

Development Partner Contributions

Development agencies, such as ILO, have played a critical role in shaping the emerging green and just transition agenda. Their contributions span policy development, evidence generation, pilot interventions, and facilitating inter-ministerial coordination and public-private dialogue. For example, the ILO has supported the formulation of the Green Business Plan and promoted access to green finance for MSMEs. UNDP has contributed through its Green Growth Strategy, while the World Bank and IFC have focused on investment climate reform. Evidence generation has been a core input, with tools such as the ILO's Green Business survey, the World Bank's Country Climate and Development Report (CCDR), and UNDP's studies on informality providing the analytical foundation for reform. These efforts have been complemented by pilot initiatives, many led by the ILO team, including the Green Business Camp and green microfinance training, which aim to demonstrate practical entry points for enterprise-level transformation.

3.3.4 Tools and Programmatic Interventions

The ILO project works on three levels: strengthening MSME-related policies (macro), building the capacity of financial and support institutions (meso), and providing training and finance access directly to youth and

SMEs (micro). It applies a suite of its global tools tailored to the Iraq's fragile and decentralized governance context. These tools target multiple levels of the policy ecosystem, from national policymakers and "World of Work" institutions to grassroots entrepreneurs and civil society actors. The tools served to diagnose barriers, support policy development, social dialogue and build practical skills.

Diagnostic Tools

At the core of this effort was the *Enabling Environment for Sustainable Enterprises (EESE)*[98] diagnostic, which identified systemic constraints and policy gaps limiting SME development. This was complemented by a national *Green Business Survey* (Box 4), implemented in Iraq the first half of 2025, which provided evidence critical to shape a coherent green enterprise agenda linking policy, regulation, and support services to the needs of Iraq's small business sector.

Box 4: Green Business Survey to address key data gaps

A core barrier to enabling a supportive environment for green SMEs in Iraq has been the absence of reliable, disaggregated data. To address this, the ILO project supported Iraq's first Green Business Survey, conducted in early 2025 with responses from over 700 stakeholders across public institutions, private firms, youth organizations, and civil society.[99]

The survey filled a critical data gap by highlighting key constraints to green business growth and setting a baseline for policy development. Respondents pointed to cumbersome registration processes, low awareness of sustainable practices, the absence of green incentives, and underutilized green finance tools as persistent obstacles. It also flagged the lack of legal definitions of green business and weak enforcement of environmental regulations as fundamental impediments to building a viable green business ecosystem.

Crucially, the survey prioritized reform areas raised directly by SMEs themselves, including improved access to green finance, stronger compliance and technical support, and enhanced inclusion in supply chains (e.g., oil firms). Inclusion featured prominently: 40% of respondents were women, offering insights into gender-specific barriers and shaping the design of more equitable and responsive support systems. These findings have already informed the draft Green Business Plan and National MSME Development Policy, currently under review by government counterparts.

Social Dialogue and Stakeholder Consultations

A central example of inclusive policy design is the ILO-led tripartite-plus consultation process, conducted in partnership with the Ministry of Planning and other relevant ministries. This process engaged a wide range of stakeholders, including government agencies, employers' organizations, trade unions, private sector actors, and civil society, to co-develop key policy instruments. These consultations directly contributed to shaping the pillars of the National SME Development Policy and advancing the draft Green Business Plan. The ILO also facilitated a national conference and several technical meetings to align priorities and validate findings from the Green Business Survey. This participatory approach has proven instrumental in building stakeholder consensus and offers a potential model for inclusive policy design in fragile and fragmented institutional settings.

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[98] ILO. Enabling Environment for Sustainable Enterprises (EESE). Accessed June 12, 2025.
[99] Based on interview with a representative of ILO Iraq, May 2025.

Guidelines, Manuals and Capacity-Building Tools

The ILO *Green Business Guide*[100] aims to support policymakers, institutions, and entrepreneurs in promoting environmentally sustainable and decent work-oriented SMEs by providing practical guidance on defining, identifying, and enabling green business development. It was translated into Arabic and localized to Iraq's environmental and business realities. It became a central tool in capacity-building efforts targeting both public institutions and entrepreneurs.

Entrepreneurship training was delivered through a localized version of ILO's *Start and Improve Your Business (SIYB)*[101] curriculum, enhanced with green modules and adapted for Iraqi MSMEs (Box 5). These trainings were rolled out in Basra and Muthanna and extended through certified trainers from the Ministries of Labour, Youth, and Environment via employment centres.

Box 5: Building Entrepreneurial Skills for SME Growth in Iraq

The ILO's "Start and Improve Your Business" (SIYB) programme is strengthening Iraq's entrepreneurial ecosystem by equipping public and private actors with tools to support micro, small, and medium-sized enterprises (MSMEs). Implemented in partnership with national ministries, banks, universities, and NGOs, the program has trained 41 national trainers to deliver tailored entrepreneurship support, including to youth, women, refugees, and internally displaced persons (IDPs).

Adapted to Iraq's cultural and linguistic context, SIYB training is now available in Arabic and Kurdish and incorporates local legal and economic realities. Through workshops and follow-up coaching, the program supports both new and existing entrepreneurs, helping them improve business planning, management, and job creation capacity. As part of the Iraq Decent Work Country Programme, this initiative promotes long-term sustainability by embedding entrepreneurship training within national institutions.

Source: International Labour Organization (2025)[102]

In addition, the ILO guide "*How to Work in the Green Economy*?" was adapted to the Iraqi context to equip youth with knowledge on green career paths and entrepreneurial opportunities. Delivered through ministries and universities, the guide helped young participants explore roles in renewable energy, waste management, and sustainable agriculture and empowered them to share this knowledge in their communities.

The Green Microfinance Toolkit ("*Making Green Microfinance Work*")[103] was introduced to the Central Bank of Iraq and its partner institutions to support the development of green loan products and promote environmental integration in financial services for micro and small businesses.

Finally, the ILO project delivers a *Business Registration Manual*,[104] developed specifically for Iraq to simplify the registration process for small enterprises and clarify procedures, especially for informal businesses looking to formalize. Intended to reduce bureaucratic barriers and improve regulatory transparency.

[100] ILO. Green Business Guide. Accessed June 12, 2025.
[101] ILO. Start and Improve Your Business (SIYB). Accessed June 12, 2025.
[102] International Labour Organization (ILO). Building Entrepreneurial Skills to Support MSMEs and Job Creation in Iraq. Accessed June 12, 2025.
[103] Based on interview with a representative of ILO Iraq, May 2025.
[104] Based on interview with a representative of ILO Iraq, May 2025.

3.3.5 Pilots and Public–Private Engagement

The ILO piloted several initiatives to demonstrate practical models for green enterprise development and foster collaboration between public institutions and private actors in fragile, informal settings.

Green Business Camp

This flagship program supported 28 youth-led microenterprises in Basra and Muthanna, operating in agriculture, solar energy, and waste management. Participants received training and mentoring using the localized ILO Green Business Guideline and SIYB curriculum. Nine enterprises were selected as winners based on the viability and environmental impact of their business plans. The camp also trained public-sector facilitators from the Ministries of Labour, Youth, and Environment to cascade knowledge through employment centres and youth networks. Key lessons included the need for sector-specific targeting and longer training to deepen technical support. The pilot demonstrated strong interest in green entrepreneurship despite operating in a challenging context.

Basra Supply Chain Linkage Initiative

This initiative aimed to connect local SMEs with large oil companies to explore greener subcontracting and procurement. Activities included assessing working conditions, identifying barriers such as heat stress and CSR misalignment, and facilitating dialogue on contracting processes. Though integration challenges remain due to stringent standards, the initiative opened communication channels and highlighted opportunities for linking CSR funding to local climate resilience. Supported by the ILO Basra office, local government, and parliamentarians, it marked an important step toward bridging MSMEs and major value chains.

3.3.6 Early Insights and Lessons Learned

Initial efforts to promote green enterprise development in Iraq offer encouraging signs of progress but also highlight areas that require continued attention. These early lessons reflect the realities of working in a fragile, decentralized context and point to practical ways forward.

1. ***Need for Legal and Regulatory Clarity***

One emerging challenge is the lack of a formal, nationally recognized definition of what constitutes a "green business." While the ILO's working definition has provided helpful guidance, the absence of a standardized framework makes it difficult to identify eligible enterprises, structure incentives, and track progress. Establishing a shared definition could improve clarity for both SMEs and policymakers and help guard against greenwashing.

2. ***Addressing High Informality***

Recent surveys by the Government of Iraq and UNDP show that 60–83% of businesses across governorates operate informally, often due to complex registration procedures, unclear requirements, and limited support.[105] This widespread informality not only restricts access to finance, training, and green support schemes, it also has significant implications for decent work. Informal enterprises often lack mechanisms to ensure workers' rights, social protection, and safe working conditions. While the development of a simplified Business Registration Manual is a first step, further streamlining and targeted outreach, especially to youth- and women-led enterprises, will be helpful to encourage formalization and improve worker protections.

3. ***Improving Incentives and Access to Green Finance***

Iraq's green SME transition is constrained by a lack of both enabling incentives and accessible green finance. The business environment does not yet offer regulatory or fiscal incentives, such as tax breaks, procurement preferences, or environmental compliance rewards, that would encourage green practices. This absence limits market signals for SMEs to shift toward sustainability.

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[105] World Bank. Understanding Urban Informality in Iraq: Findings from the Informal Sector Enterprise Survey. Washington, DC: World Bank Group, 2023.

In parallel, while the Central Bank of Iraq has introduced a promising green lending scheme, offering USD 763 million in interest-free loans for renewable energy investments, uptake has remained low. Contributing factors include limited awareness among SMEs, strict loan conditions, restricted supplier options, and the absence of a green business classification system. Better alignment between financing mechanisms and SME needs, including clearer eligibility criteria and streamlined application processes, will help unlocking demand. Integrating financial and non-financial incentives as part of a coherent green enterprise strategy could help catalyse wider adoption.

4. ***Toward More Coordinated Institutional Mandates***

Support for green SMEs in Iraq is currently spread across several ministries. The lack of a centralized SME agency leads to overlapping mandates and inconsistent messaging to entrepreneurs. This fragmentation also makes it harder for businesses to navigate the system and find the right support. A dedicated SME authority, something that authorities are already working on, could play a key role in strengthening programs, coordinating donor efforts, and consolidating data to improve impact and oversight.

5. ***Addressing Institutional Capacity Needs***

Many ministries and public institutions are in the early stages of engaging with green economy issues and may require additional resources and technical support to fully implement new policy frameworks. Continued collaboration with development partners remains important to bridge short-term capacity gaps while building longer-term institutional resilience.

6. ***Positive Impact of Participatory, Localized Approaches and Inclusion***

One of the clear strengths of Iraq's early experience has been the use of inclusive and locally adapted methods. Participatory consultations such as tripartite-plus consultation process, targeted training for youth and women, and pilot initiatives have shown strong potential to raise awareness, spark innovation, and build capacity from the ground up. These efforts provide a promising foundation for scaling future interventions.

The commitment to inclusion was also reflected in program delivery. For example, women accounted for 55% of participants in financial education training and 43% in the SIYB program.[106] Youth were a primary focus in initiatives like the Green Business Camp, where youth-led enterprises were prioritized and youth centres acted as recruitment and dissemination hubs. Disability inclusion is at an early stage but growing, between 5% and 15% of training participants in two major programs self-identified as persons with disabilities, indicating meaningful first steps toward broader accessibility.[107]

3.3.7 ILO Perspective and Recommendations

Building on the lessons learned, the ILO additionally highlights key areas to strengthen Iraq's green SME transition while promoting decent work and inclusion:

- **Promote Decent Work and Social Dialogue**
  Embed decent work principles alongside environmental goals. Strengthen social dialogue among government, employers, and workers to ensure policies reflect diverse interests and enhance implementation.
- **Link Formalization to Green Incentives**
  Encourage SME formalization by linking registration and compliance with access to green finance, technical support, and market opportunities, making formalization both feasible and rewarding.
- **Enhance Institutional Capacity and Coordination**
  Expand capacity-building beyond pilot initiatives to equip ministries and institutions with resources and expertise. Support the creation of a centralized SME authority to coordinate green and decent work efforts and improve regulatory coherence.

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[106] Based on interview with a representative of ILO Iraq, May 2025.
[107] Based on interview with a representative of ILO Iraq, May 2025.

- **Integrate Labour Standards into Green Finance**
  Design green financing schemes that include criteria for decent work, gender equality, and disability inclusion to ensure sustainable and equitable job creation.
- **Scale Inclusive Skills Development**
  Broaden the reach of entrepreneurship and green business training (SIYB) by embedding them in national institutions. Prioritize monitoring and evaluation focused on youth, women, and persons with disabilities to ensure meaningful inclusion.
- **Formalize Public-Private Partnerships with Labour Representation**
  Establish formal multi-stakeholder platforms to coordinate efforts, align green SME development with decent work objectives, and foster innovation.
- **Develop Comprehensive Impact Measurement**
  Implement monitoring systems that track environmental outcomes, job quality, social inclusion, and SME formalization to guide policy adjustments and demonstrate impact.

3.3.8 Conclusion

Early efforts to promote green businesses in Iraq reveal both the promise and the challenges of advancing a just transition in fragile, conflict-affected settings. Participatory approaches, such as inclusive consultations, localized training, and targeted pilot initiatives, have proven effective in raising awareness and building initial capacities among policymakers, entrepreneurs, and financial institutions. However, systemic barriers persist, including the absence of an operational definition of green business, fragmented institutional mandates, low uptake of green finance, and limited inclusion of informal, youth, and women-led enterprises.

Iraq's context adds further complexity as it is both, highly vulnerable to climate change and heavily dependent on fossil fuel revenues. This dual challenge means that the just transition imperative in Iraq is closely tied to the need for economic diversification. The experience underscores the importance of clear policy frameworks, centralized coordination, and continued donor support to build capacities of public and private actors and sustain momentum. It also highlights the need to align green enterprise efforts with broader economic reforms to ensure that environmental sustainability contributes to inclusive development and resilience in Iraq.

4. Good Practices and Recommendations

This section summarizes key findings from three country case studies covering Malaysia, Peru and Iraq, highlighting how each country is shaping its business environment to support SMEs in green and just transitions. It presents a cross-country comparison of policy approaches and instruments, offers strategic lessons for development partners, and identifies remaining knowledge gaps. Together, these insights attempt to illustrate what is working, where challenges persist, and which areas require further exploration.

4.1 Cross-Country Summary of Business Environment Approaches

Table 5 synthesizes key insights from three country case studies covering Malaysia, Peru, and Iraq and examining how different contexts are shaping the business environment for a green and just transition among SMEs.

All three cases contribute valuable lessons, yet it is worthwhile noting that the emphasis in each country varied. The Malaysia case focused more on the roll-out of its ESG framework to SMEs, with additional valuable lessons in the decarbonization of value chains ("E"), while the Peru case placed greater emphasis on the social dimensions of SME transitions, especially in relation to formalization and cooperative development ("S"). Iraq combined both environmental and social objectives, with social dialogue playing a central role in shaping policy direction (E+S).

These different focus areas reflect varied policy and institutional contexts, but also the distinct transition pathways each country has chosen in response to its own drivers and challenges, whether climate risks, export market pressures, informality, or socio-political fragility. As such, the case studies illustrate the diversity of approaches governments are taking to support SME transitions based on their national priorities and realities.

While the coverage of the dimensions varied across the cases, the comparative analysis reveals several recurring themes in how business environment reforms are being used to engage SMEs in green and just transitions.

4.1.1 Common Patterns in Business Environment Reforms

Formalization as a Pathway to Green and Just Transition

Across contexts, SME formalization is emerging as a foundational step toward green transition. Legal recognition enables access to environmental incentives, compliance frameworks, and public procurement systems. In some contexts, such as Peru, formalization efforts, particularly through cooperative legislation, are also helping integrate social objectives like gender equality and representation. This intersection of environmental and social priorities highlights how formalization can enable both, greening and inclusion of vast numbers of informal businesses, supporting broader just transition goals.

The Role of Anchor Firms and Value Chains

In countries where export-oriented or ESG-conscious industries are prominent, anchor firms serve as key intermediaries. These companies help cascade sustainability expectations to smaller suppliers, often providing access to training, reporting tools, or green finance pathways. This value chain-based approach supports environmental performance, but also has the potential to improve labour standards, linking value chain upgrading to green and just transition outcomes. Anchor firms shows promise as an entry point for engaging SMEs already integrated into formal markets, though its reach remains limited for enterprises outside these structures.

Piloting, Sequencing, and Capacity Development

Many countries are testing new approaches through pilot programs that introduce ESG toolkits, green finance schemes, or capacity-building platforms. These pilots often serve dual purposes: introducing sustainability concepts to SMEs and helping institutions refine delivery mechanisms. Over time, some governments are moving toward phased approaches that align support with SME readiness levels and sector-specific needs. In addition, this approach opens new possibilities to go beyond environmental goals and integrate social considerations related to decent work, inclusion and social dialogue.

4.1.2 Shared Implementation Challenges

Institutional Coordination Gaps

One of the most frequently observed challenges is fragmented implementation. While many reforms are initiated with strong policy intent, coordination across ministries, agencies, and financial actors is often a challenge. This results in duplication, inconsistent messaging and confusion among SMEs. A related issue is the insufficient integration of sustainable enterprise development and just transition considerations into broader climate and environmental planning. Ensuring alignment between economic, social, and climate goals, particularly through national climate plans, is critical to align policy implementation.

Capacity Delivery Constraints

While national-level strategies or legal frameworks may be in place, implementation often stalls due to limited institutional capacity. National and regional agencies often lack technical expertise, dedicated staff, or the necessary tools to support SMEs in navigating ESG compliance or accessing green opportunities. These constraints are somewhat more evident when it comes to the social ("S") dimension of ESG, which is often less clearly defined and operationalized than the environmental component. As a result, issues such as decent work, inclusion, and social protection may receive less focus in practice. Addressing these delivery gaps is essential for equitable outreach and long-term scalability.

Data and Financial Access Limitations

SMEs frequently operate in data-poor environments, which complicates both policy targeting and access to finance. Inconsistent ESG reporting, limited use of digital tools, and poor visibility of SME environmental performance undermine progress tracking and risk assessments. Access to finance remains among key challenges for SMEs, while misalignment of financing instruments and unclear or complex eligibility criteria serve as barriers even when financing is available.

Table 5: Key observations from case studies

Dimension	Malaysia	Peru	Iraq
Drivers of Transition	Market and finance pressures (EU, ESG) drive change, responses are pragmatic and private-sector-led, not under a unified strategy.	Formalization barriers and EU compliance needs (e.g., EUDR, organic) drive reform, especially in export value chains.	Climate risks, oil dependence, and youth unemployment push green MSME interest, focus on diversification and stability.

Business Environment & Policy Instruments	CCPT, NSRF, i-ESG, and PKSlestari embed ESG in SME finance/reporting, GVC Program supports formal export-oriented SMEs.	Law 31335 defines agri-coops, enables tax/procurement benefits, aligned with agrarian policy, developed bottom-up.	Green Business Plan and MSME Policy under development, tackle informality, weak incentives, and lack of definitions.
Institutional Landscape	Initially led by finance regulators, now includes multiple agencies from finance and trade/enterprise development sector, coordination via pilots and informal groups, overlaps persist.	MIDAGRI leads via registry and new directorates, improved smallholder focus, limited green coordination, donors key.	Multiple ministries involved, no central SME body, donors support coordination through working groups and dialogue.
Tools & Programmatic Interventions	GVC Program bundles decarbonization training, carbon tools, and green finance, accessible via lead firms in formal chains.	SeCompetitivo delivers TA, finance, and environmental practices, legal reforms enable eligibility for public support.	ILO tools include SIYB, Green Business Guide, microfinance toolkit, and registration manual, focus on capacity-building.
Public–Private Engagement & Pilots	Pilots link anchor firms and SMEs, show impact but SME retention and coordination remain challenges.	Strong cooperative ownership, reform shaped by producers, donors (e.g., SECO) support pilots and scaling.	Pilots like Green Business Camp and CSR supply chains show high local interest, donors enable outreach and design.
Inclusion Aspects	GVC Program and PKSlestari Program target formal and micro SMEs, but growingly focus on outreach to rural firms.	Law mandates gender-balanced governance, registry enables rural/women-led coop access.	Pilots target women, youth, IDPs, persons with disabilities, participatory design ensures alignment with needs.
Data & Monitoring Systems	Data from ESG tools and Centralised Sustainability Intelligence emerging, but not yet used for policy, GVC Phase II to include indicators (supported by World Bank Group)	Registry tracks coop formalization, limited green data or traceability in place.	Green Business Survey (2025) filled major gaps, set planning baseline, data systems still donor dependent.
Early Insights & Lessons	Flexible, learning-based model, needs better SME targeting, stronger coordination, and M&E.	Formalization key to green market access, challenges include capital, scaling, and implementation.	Data, participation, and donor support are key, need for green definitions, finance access, and institutional alignment.

4.2 Strategic Lessons and Recommendations for Development Partners

As mentioned earlier, the country experiences reviewed in this report are highly context-specific, yet they reveal several lessons learned relevant for development partners and practitioners working on business environment reforms topics. These insights are not evaluations of the cases nor are they prescriptive, but may inform future strategy design, piloting, and implementation support in similar contexts.

1. ***Identify Practical Entry Points Grounded in Local Transition Drivers***

Lesson learned: Rather than attempting to green the entire SME landscape from the outset, reform efforts benefit from targeting sectors or value chains where strong transition pressures already exist. Reform efforts grounded in real pressures, such as climate risks, regulatory changes, or market access threats, are more likely to gain buy-in from SMEs and institutions alike. For example, in Malaysia, external drivers such as EU sustainability regulations and financial sector disclosure requirements catalysed finance and programmatic initiatives in export-facing sectors.

Anchor companies, such as large manufacturers or exporters directly exposed to ESG regulations or buyer expectations, can serve as critical enablers and transmission channels for greening efforts in a just way. By embedding sustainability practices into their procurement and reporting systems, these firms can help extend incentives and support to SMEs in their supply chains, as seen in the first phase of Malaysia's GVC Program as well as efforts in Iraq's Basra Supply Chain Linkage Initiative. Supporting these anchor-SME linkages early on helps ensure incentives of all partners are aligned.

What partners can do: support diagnostics to identify where pressure is most acute and where reform incentives for environmental and social improvements are aligned.

2. ***Address Market Failures Through Bundled, Targeted Instruments***

Lesson learned: The case studies show that no single policy instrument is sufficient. Barriers such as low awareness, weak incentives, and unclear definitions often coexist, requiring integrated solutions. Bundling training, technical assistance, legal support, and finance access helps overcome these market failures more effectively. Malaysia's GVC Program bundled decarbonization tools, training, and access to green finance to achieve tracking and reporting on Scope 3 emissions in anchor firm's value chains. In Peru, legal reform created the enabling conditions for formalization, but follow-on support through awareness raising, capacity building and access to finance is necessary to ensure that such important reform achieves its objectives. The Iraq's ILO-led efforts demonstrate how early-stage interventions, such as surveys, capacity-building, manuals, and youth entrepreneurship camps, can be integrated to build an ecosystem from the ground up.

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. Integrating decent work dimensions into the design of these tools may represent a critical next stage in green and just transition policies for SMEs. The ILO's 2024 contribution to the G20 Sustainable Finance Working Group offers useful direction on how to embed job creation and social inclusion within transition finance and policy instruments.

What partners can do: support a diagnostic approach to understand the specific barriers facing MSMEs, in terms of awareness, capacity, and incentives, as well as their ability to create decent jobs in a low carbon economy. Explore how bundled interventions can align both environmental and social objectives from the outset.

3. *Pilot With Purpose, While Planning for Scale*

Lesson learned: Piloting is essential for testing tools, coordination mechanisms, and to test various SME engagement strategies. However, it is equally important to design pilots with scale and sustainability in mind. The GVC Program in Malaysia highlighted how anchor firms can be critical partners, but also how their buy-in coupled with financial incentives (e.g., free carbon software tools) are not enough if SMEs see no post-pilot pathway. This learning highlighted the risk of SME dropout without sustained post-pilot support for SMEs who might be genuinely interested in technology adoption.

What partners can do: support embedding strong sustainability features in pilots, such as M&E frameworks from the outset, including realistic KPIs, SME-level tracking, identify institutional champions early, and design for integration into national systems. To ensure that transitions is truly just, explore both, environmental and social metrics in pilot designs.

4. *Tailor Support to The Diversity of The SME Landscape*

Lesson learned: SMEs constitute the vast majority of firms in all three countries. By definition, they vary widely in capacity, market orientation, and exposure to sustainability risks. A one-size-fits-all approach is rarely effective. In Malaysia, feedback from both **MITI** and **SME Corp** emphasized that while awareness-raising programs like i-ESG and the PKSlestari have successfully mobilized interest and increased ESG literacy among SMEs, awareness alone is not translating into action at scale. Many SMEs, especially smaller or domestically oriented ones, struggle to move from awareness to implementation, particularly when it involves technology adoption or compliance with technical standards. In Peru, a sector-specific legal reform targeting agricultural cooperatives was a key enabler of formalization.

What partners can do: support differentiation of policy bundles based on factors such as:

- **Readiness and size** (e.g., micro and small enterprises often need simplified tools and less ambitious targets).
- **Market orientation** (e.g., export firms may respond to EU regulations, while domestic SMEs might benefit from public procurement incentives).
- **Sectoral issues** (e.g., carbon in manufacturing, deforestation in palm oil, or labour rights in rubber gloves). Each sector requires tailored support aligned with material ESG risks.

5. *Engage SMEs in Policy Design, Not Just Implementation*

Lesson learned: Inclusion of SME voices and representative organizations is key to aligning policies with real needs. All three cases demonstrate the value of participatory design. In **Peru,** agricultural cooperatives actively shaped the legal reform process. In **Iraq,** youth- and women-led SMEs participated in surveys and dialogues that informed national plans. In **Malaysia,** SMEs were consulted in frameworks such as the i-ESG and SME Corp's initiatives.

What partners can do: support a "with SMEs, for SMEs" approach, particularly with underserved segments like women, youth, and informal businesses, in order to enhance uptake and relevance.

6. *Strengthen Institutional Capacity and Coordination Mechanisms*

Lesson learned: Successful green SME transitions require both, capacity to deliver and coordination across ministries. In all three countries, limits in technical expertise and implementation capacity within public institutions were bottlenecks. In Iraq, ministries are engaging with green enterprise for the first time, donor support (e.g. ILO) has been crucial. In Peru, legal reform clarified mandates but MIDAGRI lacks resources to fully implement, train, and monitor cooperatives. In Malaysia, institutions are more advanced, but sustained collaboration among many agencies form finance, trade and enterprises sectors is still evolving.

What partners can do: support public sector training, adapt existing tools to local context and foster and strong institutional links to ensure reforms move from policy to practice. Play role in convening stakeholders and testing coordination approaches in pilots before embedding them into national strategies.

7. ***Support Data Systems and Monitoring Tools from The Start***

Lesson learned: A recurring challenge is the lack of SME-level environmental data to guide and evaluate policy. This was particularly evident in Malaysia, where interviewees noted that ESG adoption often stalls without reliable data on actual performance. Stakeholders such as MITI underscored the urgent need for better ESG data infrastructure to help track progress, tailor support, and move Malaysia's ESG strategy from awareness to measurable action. This requires measuring outcomes, including GHG emissions baselines and ESG performance metrics, both to combat greenwashing and to better target policy support. In Peru and Iraq, early-stage data efforts (Peru's National Cooperative Registry and Iraq's Green Business Survey) helped fill information gaps and inform emerging policy directions.

What partners can do: play a key role in supporting lightweight, scalable data systems that prioritize actionable indicators, align with SME capacity, and are embedded into pilot and program design from the outset.

4.3 Conclusion and Knowledge Gaps

This report highlights a range of policy tools, institutional arrangements, approaches and pilot initiatives aimed at mobilizing SMEs for climate and sustainability goals. It also confirms that this is a **highly complex and context-dependent agenda.** There is no single pathway or blueprint for enabling SMEs to engage in greener practices in a just way.

Several important questions remain open and could be addressed by research:

- **What sector-specific transition pathways** are feasible and desirable across sectors, industries and value chains? How can public policy best respond?
- **What incentives work best** to motivate SMEs and entrepreneurs to adopt greener practices, while also ensuring decent job opportunities, inclusion and other aspects of just transition? The lack of incentives is even more pronounced among SMEs outside global supply chains among companies serving the domestic market. A **better understanding of regulatory levers and how they shape behaviour,** differentiated by market orientation, would be useful.
- **What institutional models are most effective** in coordinating the many actors involved, from ministries to development partners to private intermediaries?
- **What kinds of data and monitoring systems** can best inform policymakers in different contexts and how can they track environmental and social outcomes without placing an undue burden on SMEs?
- **What are the financing needs** of SMEs to invest in greener technologies and practices in different stages of their ESG journey?
- **What are the employment impacts** of SME greening efforts, and how can green transitions also lead to decent, sustainable jobs?
- **How can the transition be made more inclusive** beyond inclusion particularly for informal, women-led, youth-led, and rural enterprises?

Addressing these gaps will require ongoing collaboration between governments, the private sector, and development partners. It will also require a commitment to experimentation, learning, and adapting, and sharing best practices as the knowledge base continues to evolve.

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