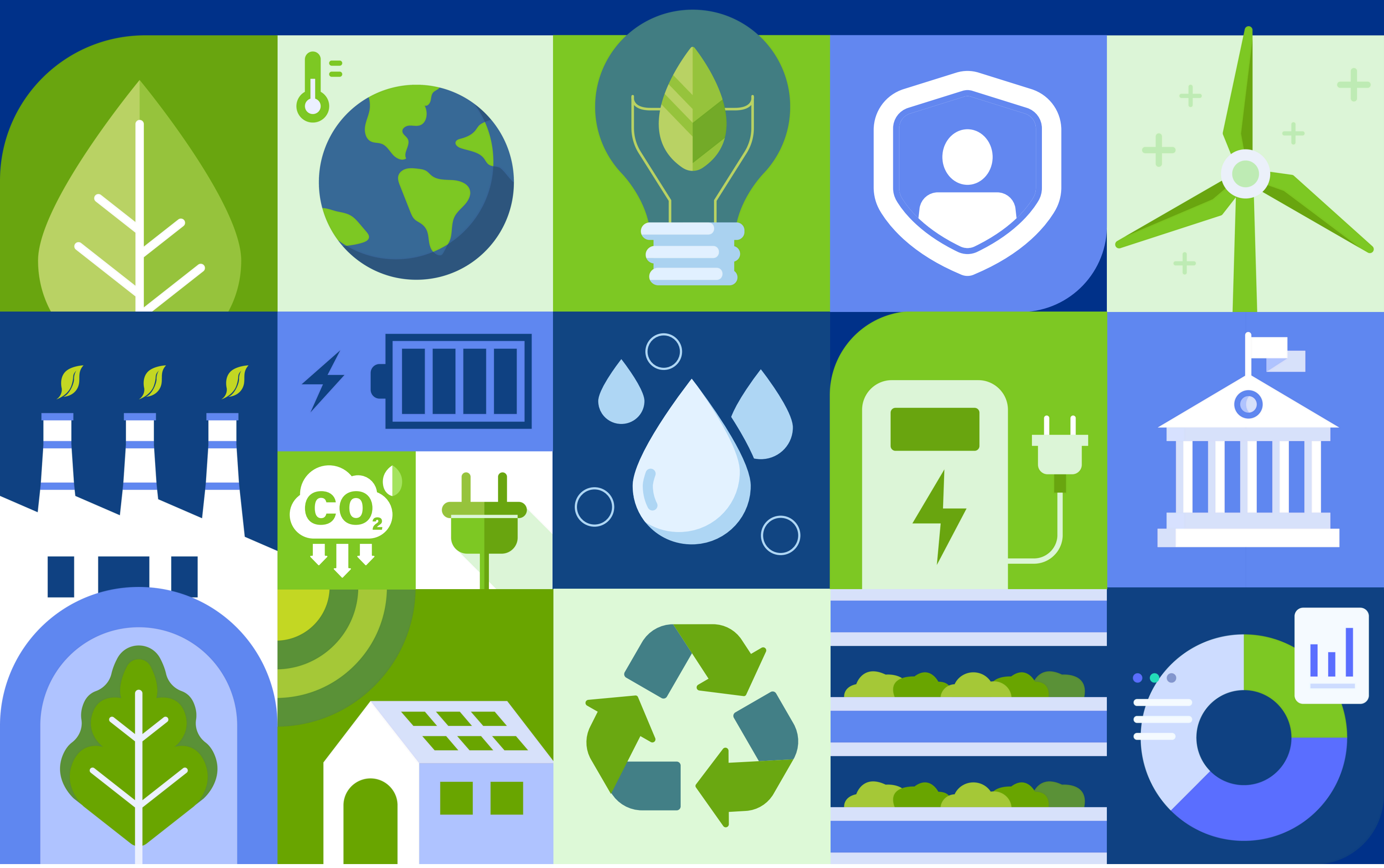
ADVANCING THE GREEN TRANSITION OF SMES

Insights for SME development agencies to support sustainability practices and reporting



Gobierno de Colombia

ESCAP
Economic and Social Commission for Asia and the Pacific

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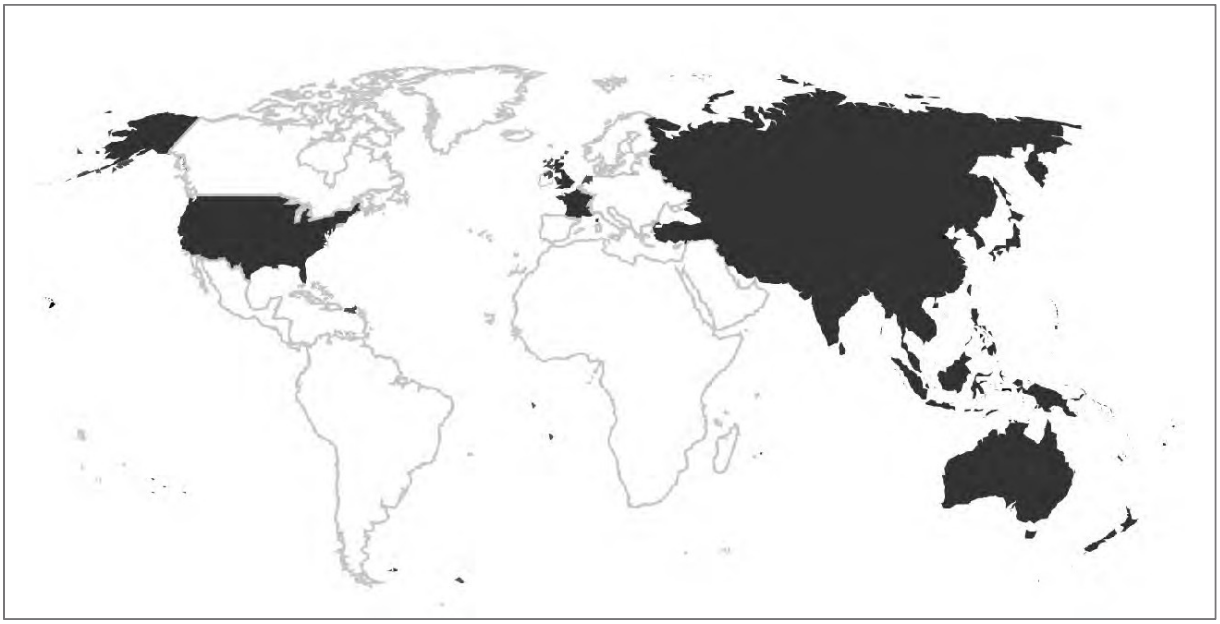

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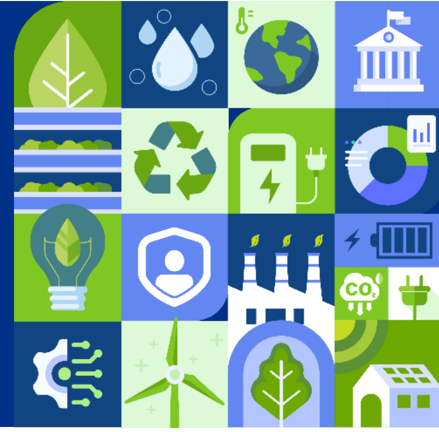
Abstract

Small and Medium Enterprises (SMEs) are essential drivers of economic growth, innovation and employment across the globe. As efforts for the green transition accelerate, it is critical to ensure and facilitate the involvement of SMEs in driving the green transition.

Policymakers and government agencies with a mandate to support SME development can take various policy measures, including regulatory, awareness raising and financial approaches to support SMEs on their green transition journey. One dimension of such support includes the promotion of environmental, social and governance (ESG) practices and reporting among SMEs. Given their scale, SMEs often face challenges in adopting ESG practices. These challenges include limited understanding of the relevance of ESG concepts to their businesses, gaps in the skills needed to incorporate ESG principles in business operations and report on their ESG performance, and obstacles to accessing the practical tools and funding to initiate their ESG journey and support their transition to green business practices.

This report examines strategic programmes and initiatives across the ASEAN region designed to address these challenges and promote the adoption of ESG practices and reporting. It showcases selected case studies from ASEAN countries which illustrate various approaches and programmes supporting SMEs in their green transition, including roadshows, award schemes, digital platforms, capacity-building initiatives and financing mechanisms.

Executive Summary



Small and Medium Enterprises (SMEs) are essential drivers of economic growth, innovation and employment across the globe, representing over 90 per cent of businesses worldwide and providing substantial employment opportunities (World Bank Group, 2019).

As efforts to advance the green transition accelerate, it is critical to ensure that SMEs play their part in driving this shift, and that governments facilitate their engagement. Policymakers and government agencies with a mandate to support SME development can take various policy measures to support SMEs on their green transition journeys, including regulatory, awareness raising and financial approaches. One dimension of such support includes the promotion of Environmental, Social and Governance (ESG) practices and reporting among SMEs.

Given their small scale, SMEs often face challenges in adopting ESG practices, primarily due to:

- limited understanding of the relevance of ESG practices to their businesses;
- skills gaps in incorporating ESG principles in their business operations and reporting on their ESG performance;
- insufficient access to practical tools needed to begin their ESG journey; and
- lack of funding for their transition to green business practices.

While this report focuses on the green transition and the environmental dimension of ESG, the social and governance factors of ESG remain equally essential to ensuring the long-term sustainability and resilience of SMEs.

To inform the actions of policymakers and government agencies that have a mandate to support SME development, this report presents **initiatives implemented by ASEAN member states to support SMEs to overcome challenges in adopting and reporting on ESG practices,** with a focus on four areas:

1. **raising awareness and understanding**
2. **building skills**
3. **providing tools**
4. **facilitating access to finance**

1. Raising awareness and advocating for SMEs to adopt green practices	
Initiatives supporting SMEs with enhanced understanding of the relevance of ESG and the potential benefits of ESG practices and reporting.	
1.1 Small and Medium Industries and Large Enterprises Embracing Sustainability (SMILEES) Roadshow, the Philippines	The SMILEES roadshow, led by the Securities and Exchange Commission of the Philippines, promotes sustainable and green business practices by raising awareness among SMEs in various regions and highlighting the importance of sustainable operations. The roadshow engaged local businesses and stakeholders through interactive discussions, expert-led workshops and knowledge-sharing sessions, covering topics such as climate risk management, green business transitions and sustainability reporting. The events offered practical insights, showcased successful local sustainability efforts and facilitated networking and peer-to-peer learning to encourage businesses nationwide to adopt sustainable practices and contribute to the green transition in the Philippines.
1.2 ESG award & ESG academy, Thailand	An ESG award and a related ESG academy is implemented by a major commercial bank in Thailand to recognize and empower SMEs committed to ESG principles. Launched in 2023, the ESG Award recognizes SMEs that demonstrate strong environmental, social and governance practices, providing awards for "Excellence" and acknowledging "Highly Commended" businesses. In 2024, the bank introduced an ESG Academy, a complementary capacity building programme offering SMEs training on sustainable practices, climate risk management and supply chain sustainability, along with a study visit and project presentation. Through the academy, organizations such as Thammasat University provide SMEs with guidance and support throughout their ESG journeys.
1.3 Cambodia Green Industry Award, Cambodia	The Cambodia Green Industry Award, launched in 2021 by the Ministry of Industry, Science, Technology and Innovation, encourages Cambodian enterprises to adopt sustainable practices. This annual competition recognizes businesses that implement green technologies and environmentally responsible methods in production and supply chains. With comprehensive judging criteria to evaluate environmental impact, resource efficiency and clean production, the award raises awareness on the competitive advantages of sustainable practices. Winners receive national recognition, certificates and support from the Ministry to enhance their green initiatives.

2. Building capacity for green practices and ESG reporting	
Initiatives supporting SMEs with the required skills (including technical, operational and strategic) to successfully implement green business practices and ESG reporting.	
2.1 The Vietnam ESG initiative, Viet Nam	The Vietnam ESG Initiative, launched in 2022 by the Ministry of Planning and Investment in collaboration with USAID, aims to support 300 enterprises, cooperatives and business households in adopting sustainable practices. Aligned with Viet Nam's Green Growth Strategy for 2021-2030, the initiative offers training, technical assistance and resources to help businesses meet international standards and enhance global competitiveness. In 2023, ten finalists received intensive ESG training, with the top three awarded 2 billion Vietnamese dong (approximately US$81,276) in technical support. In 2024, the initiative expanded its offerings, introducing a handbook on ESG regulations and fostering partnerships with investment funds and credit institutions to facilitate access to green finance.
2.2 Skim Insentif Kelestarian, Malaysia	The Skim Insentif Kelestarian initiative, led by Malaysia's Centre for Entrepreneur Development and Research, supports SMEs in integrating ESG principles. The initiative targets businesses in export, manufacturing, professional services and construction sectors. • In Phase 1, 1,500 SMEs participated in e-learning modules on topics such as climate action and anti-corruption. • In Phase 2, 330 selected SMEs received in-person and virtual training on sustainability, carbon accounting and Diversity, Equity and Inclusion (DEI). • Phase 3 focused on creating final ESG reports and sustainability action plans, with 150 SMEs eligible for an ESG Adoption Seed Fund of up to 40,000 Malaysian ringgit (approximately US$10,000) to support their sustainability initiatives.
2.3 Embedding Sustainability in the Value Chain of MSMEs initiative, the Philippines	The initiative, Embedding Sustainability in the Value Chain of MSMEs, launched in 2023 by the Philippines' Department of Trade and Industry in collaboration with the Global Reporting Initiative, aims to train 8,000 MSMEs in sustainable practices and reporting over five years. In 2024, a pilot training programme provided participating MSMEs with guidance on integrating sustainability into their operations, conducting sustainability reporting and accessing finance. The initiative includes the development of the SME-validated Sustainability Practices and Reporting Kit (SPARK) template, a tool to assess and enhance ESG maturity. Additionally, the programme offers training for government officials and includes plans to launch a digital tracker for MSMEs to monitor their sustainability progress.

3. Tools for making ESG practices and reporting accessible for SMEs	
Initiatives providing practical and accessible tools to help SMEs with their first steps in adopting ESG practices and ESG reporting.	
3.1 ESG self-assessment and Quick Guide, Malaysia	The ESG self-assessment and Quick Guide, launched by SME Corporation Malaysia in 2024, helps SMEs incorporate ESG practices into their business models. The initiative includes an online assessment tool for SMEs to evaluate their ESG readiness, covering environmental, social and governance factors. After the assessment, SMEs can download a detailed ESG Quick Guide, available in English and Malay, which provides step-by-step guidance on integrating ESG practices. This initiative is part of broader efforts by the Ministry of Entrepreneur and Cooperatives Development to support SMEs in meeting sustainability requirements and accessing green finance opportunities.
3.2 Gprnt digital platform, Singapore	The Gprnt digital platform, launched by the Monetary Authority of Singapore in November 2023, aims to streamline ESG reporting for businesses, particularly SMEs. Gprnt simplifies data collection and reporting by automating processes such as data integration and report generation, reducing the manual burden on businesses. The platform allows for seamless data sharing with stakeholders and integrates with various business systems for real-time ESG data access. There are also plans to launch a digital marketplace through the platform, connecting SMEs with ESG solution providers, financial institutions and investors, and facilitating access to sustainability-linked financial products and services. The platform is set to go live by the end of 2024.
3.3 ESG-self assessment tool and handbook, Viet Nam	As part of the Vietnam ESG Initiative led by the Ministry of Planning and Investment in partnership with USAID, a toolkit for assessing the level of sustainable business practices provides Vietnamese SMEs with accessible, localized resources to evaluate and improve their ESG practices. The initiative features two core components: a comprehensive handbook introducing key ESG concepts and assessment criteria tailored to Viet Nam's business environment, and an online ESG self-assessment tool that provides businesses with a score of their ESG performance. Unique to this initiative, the ESG self-assessment tool links the SMEs' ESG performance to eligibility for government support.

4. Financial mechanisms and initiatives facilitating access to finance	
Initiatives supporting SMEs access to finance to invest in more sustainable business practices.	
4.1 Bio-Circular-Green (BCG) Loan, Thailand	The BCG Loan initiative, led by Thailand's Small and Medium Enterprise Development Bank (SME D Bank), supports SMEs in adopting sustainable practices as part of Thailand's BCG economic model for national development. The initiative provides preferential loans with competitive interest rates to SMEs, amounting to up to 50 million Thai Baht (approximately US$1.5 million) per enterprise. These loans fund green business transformation measures, such as renewable energy installations and energy efficiency upgrades. In addition to financial assistance, SME D Bank offers training and business coaching through the SME D Coach programme, providing SMEs with tailored guidance on financial management, technology and marketing to enhance sustainability and competitiveness.
4.2 High Tech and Green Facility (HTG), Malaysia	The HTG, launched by Bank Negara Malaysia in collaboration with 19 financial institutions, is an initiative worth 1.2 billion ringgit (approximately US$254 million) to support SMEs and start-ups in high-tech and green sectors. The HTG provides financing of up to 10 million ringgit (approximately US$2.2 million) per enterprise with flexible loan terms and minimized collateral requirements, focusing on sustainable technology and innovation. Loans cover capital expenditures and working capital, supporting investments such as renewable energy innovations and technology upgrades.
4.3 Low Carbon Transition Facility (LCTF), Malaysia	The LCTF, launched by Malaysia's SME Development Bank, is an initiative worth 1 billion ringgit (approximately US$230 million) to support SMEs in adopting low carbon and sustainable business practices. The facility offers targeted financing for green technologies, sustainable raw materials, renewable energy and enhanced waste management. Eligible recipients include SMEs classified as "Climate Supporting" or "Transitioning" as per Bank Negara Malaysia's Climate Change and Principle-based Taxonomy. LCTF provides loans of up to 10 million ringgit (approximately US$2.2 million) per SME, covering up to 100 per cent of working capital and 80 per cent of new machinery costs.

Insights for SME development agencies

The initiatives presented in this report provide a number of valuable insights for SME development agencies seeking to support the adoption of ESG practices and reporting among SMEs to facilitate their green transition:

1. Awareness raising and advocacy: Awareness campaigns, including roadshows and awards, introduce SMEs to ESG principles, promoting an understanding of their relevance to operations and market expectations. By implementing such initiatives across diverse regions and in underserved areas, SME development agencies can expand access to ESG-related information to SMEs outside of urban centres. Awards give visibility to SMEs that perform well on ESG criteria, create incentives for more SMEs to participate, and provide practical examples for other SMEs to follow. Tailored awards that recognize SMEs at different stages of ESG maturity and in different sectors can motivate ongoing improvement and showcase diverse green business practices.

2. Capacity building: Capacity building programmes equip SMEs with practical skills for real-world application of ESG principles. Offering a spectrum of capacity building initiatives, including a combination of introductory and advanced ESG training programmes, as well as personalized coaching, enables SMEs at different levels of maturity and ESG expertise to develop the necessary skills for implementing ESG practices and reporting. Inclusive outreach, such as through partnerships to reach women-led and rural SMEs, can help to ensure that initiatives are inclusive and that a wide range of SMEs can access training offerings. Furthermore, tailoring these programmes to address specific industry challenges and priorities allows SMEs to adopt ESG practices that are closely aligned with their sector's unique challenges.

3. Practical ESG tools: By simplifying the process of collecting baselines, tracking progress and adapting practices, practical tools tailored to SMEs can reduce the barriers to understanding opportunities for ESG-related improvements and reporting among SME owners. Such tools can include: 1) self-assessment tools and 2) ESG management and reporting tools. Self-assessment tools can be integrated in awareness raising campaigns, as they provide immediate feedback and actionable insights, making ESG concepts relatable for SMEs that are new to ESG practices and reporting. ESG management tools can be integrated into tailored coaching programmes to ensure that SMEs work on priority areas to improve their performance. Both ESG self-assessment and management tools can help to continuously track the progress of SMEs.

4. Financial mechanisms: Tailored financing options empower SMEs by addressing common financial barriers, enabling green investments. Such financing mechanisms include grants, low-interest loans, impact-linked financing and blended finance, such as Use-of-Proceed bonds and risk-reducing guarantees, which can all help to remove financial barriers to ESG investments for SMEs. Collaboration between SME development agencies and financial institutions can support the development of targeted products that improve SME access to the financial resources necessary for their green transition.

In summary, to drive the green transition, SME development agencies can leverage a comprehensive suite of initiatives, addressing the core challenges SMEs face in ESG adoption by: 1) raising awareness and understanding; 2) building skills; 3) providing tools; and 3) facilitating access to finance. By linking these areas as part of a cohesive and strategic framework, SME development agencies can create a pathway from learning to practical application, ensuring that SMEs have the knowledge, tools and resources required for impactful and lasting ESG integration. Notably, many ASEAN member states are already implementing valuable initiatives in this area, creating a strong foundation and providing key learnings for further regional efforts.

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Glossary

ESG is defined in this report as a set of environmental, social and governance factors that businesses consider when managing their operations, and that investors can use when evaluating risks, impacts and opportunities, as a strategy to drive sustainable business practices. Further elaboration of the concept is provided in chapter I, section 3.

ESG criteria are the specific standards or benchmarks used to evaluate a company's performance on ESG factors. These criteria are used by investors, rating agencies or internal teams to assess how well a company manages these factors. ESG criteria are detailed and measurable, helping to track progress or compliance.

ESG disclosures involve the sharing of ESG reporting data with external stakeholders, such as investors, regulators or customers, enabling companies to publicly communicate their performance and actions related to ESG criteria. They include detailed information on how a business manages ESG risks and opportunities, and are often required by regulators or provided to investors and customers to meet growing expectations for transparency. Globally, many businesses must now navigate voluntary disclosure requirements, such as those from the Science Based Targets Network (SBTN) and the Taskforce on Nature-related Financial Disclosures (TNFD), alongside mandatory requirements such as the Corporate Sustainability Reporting Directive (CSRD).[1] While SMEs are not typically mandated to provide ESG disclosures, their involvement in the supply chains of larger companies or relationships with financial institutions may necessitate sharing this information. Larger companies, which are mandated to report on their own ESG performance, may require their SME suppliers to disclose ESG practices to comply with sustainability reporting standards or obtain certain certifications.

ESG factors refer to the specific environmental, social and governance aspects that can influence a company's operations, financial performance and reputation. These factors are broad, underlying issues that businesses consider in their efforts to align with sustainable practices.

ESG reporting involves systematically tracking and compiling data on how a company addresses ESG criteria. This process generates performance information that can be used internally by management to improve operations or decision making, and for external reporting. Reporting often involves sharing data on the company's ESG performance according to a prescribed set of standards, often similar to traditional financial reporting formats such as balance sheets, income statements and statements of cash flows. ESG reporting can also take other forms, such as sustainability reports or ESG-focused scorecards, depending on the specific needs of the concerned business or stakeholders.

ESG frameworks are structured systems or methodologies that guide organizations in measuring, managing and reporting on their ESG performance. These frameworks provide high-

[1] For more information, see: https://www.wbcsd.org/actions/roadmaps-to-nature-positive/

level guidance on how to integrate ESG into business operations and typically include principles, criteria and recommended practices. Examples of ESG frameworks include the Ten Principles of the UN Global Compact (UNGC), the Science Based Targets initiative (SBTi), and the Global Reporting Initiative (GRI). These frameworks are voluntary and serve as a blueprint for organizations looking to improve their sustainability efforts, whereas ESG disclosures are more likely to be mandatory. While these tools have improved and evolved, they are still predominantly focused on larger, publicly listed companies. There is no standardized global ESG framework.

ESG practices refer to the specific actions, corporate policies and procedures a business implements to address environmental, social and governance issues. They comprise the operational and strategic steps companies take to align their activities with sustainability and responsible business goals. For SMEs, implementing effective ESG practices involves conducting an in-depth analysis of their operations to identify areas for improvement, ensuring that their business operations are both sustainable and aligned with long-term growth objectives. At present, conversations surrounding ESG are concentrated on reporting, assessments, and the application of taxonomies, standards and frameworks. While these are useful tools that support the fundamental goal of integrating sustainable practices into core business operations, it is important to ensure that ESG principles drive real, operational improvements rather than just meeting reporting requirements.

ESG principles refer to the overarching values guiding a company's commitment to operate responsibly and ethically across environmental, social and governance dimensions, integrating sustainability into all aspects of its operations.

ESG risk management is the process of identifying, assessing and mitigating risks related to environmental impact, social responsibility and corporate governance, and ensuring that businesses address potential risks. Such risks may affect a company's operations, supply chains and regulatory compliance, workforce, consumer base and reputation, which are critical to maintaining stakeholder trust and minimizing legal liabilities.

ESG standards are formalized and often externally established rules or criteria that businesses must adhere to in order to qualify for ESG-related certifications or to fulfil specific requirements. Unlike frameworks, which offer general guidance, ESG standards tend to be more prescriptive and measurable, specifying the performance levels a company must achieve in areas such as emissions reduction, diversity and governance. Examples include the standards developed by the International Financial Reporting Standards Foundation (IFRS) and the Sustainability Accounting Standards Board (SASB), as well as the Sustainability Disclosure Standards.

ESG taxonomies are classification systems that define what qualifies as an environmentally sustainable or socially responsible activity. These systems often include governance criteria, and are used primarily by governments, regulators and investors to ensure consistency and comparability in identifying sustainable investments. For example, the EU Taxonomy sets criteria for what can be labelled as a green or sustainable economic activity. Similarly, the ASEAN Sustainable Finance Taxonomy provides a regional framework to categorize sustainable activities in ASEAN countries, helping to standardize business practices and investment flows based on environmental, social and governance impacts.

Green and sustainable business processes are economic activities characterized by an input of resources, a production process and an output of products or services. Green and sustainable business processes encompass dimensions of the internal operations of a company, including how resources are used, how waste is managed, how energy is used or conserved, and how the business minimizes its overall environmental impact in daily operations.

Green and sustainable business practices are concrete strategies and actions that companies take to reduce their environmental impact and promote environmental sustainability. These practices focus on conserving natural resources, reducing emissions and waste, and improving energy efficiency. They can encompass, but are not limited to, the use of renewable energy, recycling and sustainable sourcing, the adoption of circular economy models, and the implementation of eco-friendly production methods.

Green businesses include firms of all kinds, regardless of size, industry or sector, offering either green products or services or implementing sustainable business processes.

Green business (and industrial) policies are government policies that promote the creation of environmentally friendly products and services, as well as the adoption of resource-efficient and sustainable business processes. These policies aim to minimize negative environmental impacts and enhance resilience to environmental challenges.

Green finance is a form of finance that considers environmental performance as a criterion for financing decisions or determining financing conditions, regardless of the purpose of use of the funds. Green finance refers to the investment and financial flows intentionally directed towards projects that aim to conserve the environment, mitigate climate change and promote sustainable use of resources. It focuses primarily on activities that deliver environmental benefits, such as reducing carbon emissions, enhancing biodiversity, supporting adaptation to climate change, safeguarding biodiversity, and other environmental conservation efforts.

Green products and services are designed, produced or provided with minimal negative impacts on the environment and often focus on energy efficiency, reduced emissions, reduced waste and the responsible use of resources. The manufacturing, usage and disposal of green products and services are designed so as not to harm the environment. Additionally, nature-positive products go a step further by actively contributing to the restoration and regeneration of natural ecosystems, creating a net positive impact on biodiversity and ecological health.

Green transition is a shift towards an economic model that allows for sustainable growth, without negatively impacting the environment.

Green transition of business is the process through which enterprises shift towards becoming green businesses. This may include adopting green products and services or changing their business processes to be more sustainable. It also encompasses the emergence of new green businesses that integrate sustainability into their operations from the very beginning.

Materiality, in the context of sustainability, refers to issues that can have significant effects on the company, whether positive or negative.[2] A material ESG issue is one that has the potential to influence a company's financial performance, reputation or ability to create long-term value. It is based on an evaluation of which ESG factors are most relevant to the company's success and the concerns of customers, employees, investors and regulators. The concept of materiality helps companies prioritize their sustainability efforts by focusing on the issues that matter most to both their business and the wider community. ESG reporting is founded on a clear understanding of this concept.

Materiality Assessment is a process used by companies to identify, prioritize and address environmental, social and governance sustainability issues that are most significant to their business and stakeholders. While there is no one standardized way to conduct a materiality assessment, it typically involves: 1) identifying and categorizing key issues; 2) gathering inputs from internal and external stakeholders; 3) mapping issues based on collected data and using a model or framework to transform the data into a quantitative score that can be used to prioritize issues; 4) aligning and integrating the issues with the company's strategic goals; and 5) regularly reporting on progress in sustainability reports (UNDP, 2023).

Scope of emissions describes the three levels of climate-related disclosure requirements, namely scope 1: direct emissions; scope 2: indirect emissions from energy consumption; and scope 3: all other indirect emissions outside the company's direct control.

Sustainable finance is finance that takes into consideration environmental, social and governance factors in financing decisions.

Small and medium enterprises (SMEs) are non-subsidiary independent firms that are considered small or medium-sized within a national context. SMEs are often defined by the number of employees, annual revenue or asset size, within certain thresholds. The International Finance Corporation (IFC), for example, defines SMEs as businesses that meet two of the following three criteria: 10-300 employees, US$100,000 to US$15 million in assets and US$100,000 to US$15 million in annual sales.

SME development agency describes an organization mandated to support the growth and competitiveness of SMEs. These agencies can provide services such as policy development and implementation, capacity building, financial access and market development. Some agencies are part of the government and are directly linked to the Ministry responsible for economic affairs, industry or commerce, whereas others operate as autonomous entities. Depending on the institutional and operational framework, these organizations may also be referred to as SME promotion agencies. In the context of this report, the term SME development agency refers to

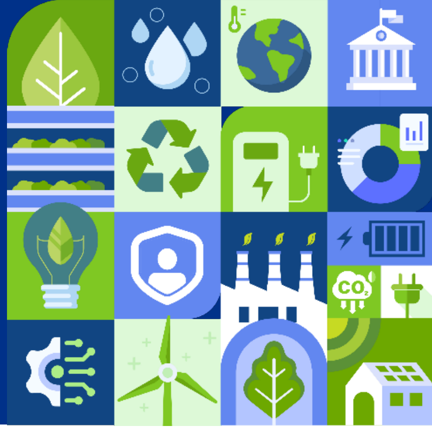
[2] There is a distinction between the concept of materiality as it refers to financial reporting and the concept of materiality as it refers to sustainability reporting. In financial reporting, information is considered material if its omission or misstatement could impact the economic decisions made by users of the financial statements.

government-led agencies mandated to support the growth and competitiveness of SMEs, with specific mandates that vary from country to country (ILO, 2016).

Taxonomy on sustainability describes a classification framework that organizes and defines activities based on their environmental and social impact. While a taxonomy itself is simply a system for naming and categorizing, in the context of sustainability, it refers to frameworks that identify which activities are aligned with sustainable practices, green or sustainable finance or ESG criteria. These taxonomies help to standardize what qualifies as sustainable, enabling businesses, investors and policymakers to make informed decisions and direct resources towards activities that support sustainable development goals.

Chapter 1

ESG practices and the green transition of SMEs



1. Defining and positioning SMEs as catalysts for green transition

SMEs play a crucial role in the global economy, serving as the backbone of economic development in many countries. In Asia, SMEs account for approximately 96 per cent of all businesses and two in three jobs in the private sector (Yoshino and Taghizadeh-Hesary, 2018). SMEs are vital to job creation, innovation and economic resilience. Their ability to adapt quickly to market changes and their role in fostering inclusive growth makes them indispensable in achieving the 2030 Agenda for Sustainable Development. The category of SME encompasses a wide range of sectors and business sizes, necessitating tailored strategies to effectively support them in their diversity. Definitions and thresholds for what constitutes an SME vary. Table 1 reflects the definitions of micro, small, and medium enterprises by the International Finance Corporation (IFC), which is indicative of the types of enterprises that this document focuses on.

Table 1. Classification of small and medium enterprises

		Initiatives presented in this report target small and medium enterprises	
Indicator	**Micro Enterprise**	**Small Enterprise**	**Medium Enterprise**
Employees	< 10	10 - 49	50 - 300
Total Assets (US$)	< $100,000	$100,000 - < $3 million	$3 million - $15 million
Annual Sales (US$)	< $100,000	$100,000 - < $3 million	$3 million - $15 million

Source: IFC (2024). IFC's Definitions of Targeted Sectors. https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/definitions-of-targeted-sectors

This report focuses on SMEs and does not cover micro enterprises. Micro enterprises are the smallest of enterprises (see table 1 for definition), often started out of necessity and to support an entrepreneur's subsistence, rather than due to an opportunity for growth, and they often operate informally (World Bank Group, 2022). Micro enterprises face distinct challenges that require targeted interventions, such as formalization support, which are different from the needs of SMEs. In contrast, SMEs are more likely to be partially or fully formalized and thus better positioned to benefit from the green transition strategies covered in this report.

A growing awareness of the climate crisis has brought increasing attention to the role of SMEs in driving green transitions. More and more SMEs recognize the importance of adopting energy-efficient and environmentally friendly practices, not only to comply with emerging regulations but also to stay competitive in a rapidly evolving market. Moreover, green start-ups offer innovative tools and technologies to assist other enterprises in becoming more sustainable.

SME development agencies play a crucial role in shaping and implementing policies and support initiatives that enable SMEs to adopt sustainable practices and transition towards greener, more environmentally responsible operations. National SME development agencies, in particular, are instrumental in driving the green transition by advocating for and launching targeted initiatives that enhance the capacity of SMEs to adopt sustainable practices, enabling them to transform their operations, products and services in line with green economy objectives.

This report is intended primarily for SME development agencies that are responsible for promoting the growth, resilience and sustainability of SMEs. In addition, it is also relevant for national ministries involved in SME development, SME development banks and financial institutions. The compilation of varied initiatives outlined in this report (see chapter II) can be used as a resource for both SME development agencies and other stakeholders to explore existing approaches being implemented in the ASEAN region to help SMEs on their green transition journey. The goal is to offer actionable insights to help SME development agencies effectively support SMEs.

2. Policy measures to support the green transition of SMEs

At the international, national and local levels, policymakers facilitate the transition of SMEs to the green economy, primarily by adopting coherent regulations, creating enabling market conditions for green products and services and facilitating access to funding and capacity building programmes that support SMEs. Governments have several policy tools at their disposal to support the green transition of SMEs, including regulatory, awareness raising and financial measures. Each approach, while connected, can address unique aspects of the challenges that SMEs face.

Regulatory measures are necessary to set standards that guide SMEs towards sustainable and green practices, yet they must be tailored to the needs and capacities of SMEs. Regulatory frameworks for SMEs can be designed to facilitate compliance rather than penalize non-compliance, with incentives that encourage the adoption of environmental management systems and sector-specific strategies that ease the regulatory burden. Simplified permits, standardized requirements and sector-specific approaches allow SMEs to integrate sustainable practices in a way that is both achievable and impactful.

Information dissemination measures play a crucial role in raising awareness and building capabilities among SMEs. Governments can coordinate and disseminate targeted information through sector-specific certifications, eco-labels and recognition awards. By using diverse communication channels, it is possible to reach a broad audience, advise individual SMEs directly and promote good practices in environmental compliance. Information tools not only make green practices more accessible but also help SMEs understand the potential business benefits of green business practices, such as increased market access and cost savings.

Financial measures can help to make greener practices financially viable for SMEs by supporting access to green finance and creating markets through green public procurement. These tools include grants, low-interest loans and tax incentives, which reduce the financial burden of investing in sustainable equipment and technologies. Since banks may be hesitant to fund SMEs' green investments, government-backed financial programmes can enhance access to funding and support as they navigate green transitions (OECD, 2021).

Together, these policy measures offer a comprehensive set of policy tools to address the regulatory, knowledge and financial barriers that SMEs face throughout their green transition. While not intended as a comprehensive list, table 2 provides an overview with selected examples of such policy measures.

Table 2. Policy measures for the green transition of SMEs

Regulatory measures	Awareness raising measures	Financial measures
• **Simplified permits and standardized requirements**: Streamlined regulatory processes for SMEs to facilitate sustainability or ESG compliance, minimizing manual and administrative work. • **Environmental management system (EMS) incentives**: Incentives for SMEs to adopt EMSs such as ISO 14001, promoting structured environmental management. • **Sector-specific compliance strategies**: Simplified and tailored regulations that consider industry-specific needs, allowing SMEs in high-impact sectors, such as agriculture and food processing, to comply more effectively.	• **Environmental certification and eco-labels**: Governments promote eco-labels and green certifications to recognize sustainable products, services and businesses, enhancing visibility and market access for SMEs. • **Targeted communication and guidance**: Information disseminated via websites, printed materials and workshops to educate SMEs on green practices and ESG reporting. • **Public recognition and awards**: Environmental awards and public recognition programmes encourage SMEs to adopt sustainable practices by showcasing their efforts.	• **Access to green finance**: Government-backed low-interest loans or grants for SMEs to invest in eco-friendly technologies. • **Green public procurement**: Public sector prioritizes purchasing from SMEs that meet environmental standards, creating demand for green products and services. • **Tax and duty incentives**: Tax breaks, accelerated depreciation and duty exemptions for green investments by SMEs.

Source: Adapted from OECD (2021). *Facilitating the Green Transition for ASEAN SMEs: A Toolkit for Policymakers.* https://asean.org/wp-content/uploads/2021/04/Facilitating-Green-Transition-for-ASEAN-SMEs.pdf

3. Relevance of ESG practices for the green transition and SMEs

As efforts to advance the green transition accelerate, ensuring that SMEs are empowered to actively participate is increasingly essential. One avenue to do so is by promoting ESG practices and reporting as a strategy to support their green transition. ESG principles, which provide a structured framework to drive sustainable business practices, address many of the challenges SMEs face in transitioning to greener operations (see section 6 of chapter I). Unlike larger companies, SMEs often encounter significant barriers to adopting sustainable practices, including limited access to financing, technology and relevant skills. These limitations can make it challenging for SMEs to reduce emissions, enhance resource efficiency or adopt eco-friendly production processes. By leveraging ESG practices and frameworks, SMEs can gain access to tools to navigate complex barriers in their green transition such as access to green finance, technology and skills.

The concept of ESG criteria was introduced in 2004 through a joint UN report which urged businesses and investors to incorporate ESG factors into their decision-making processes and capture the potential value created or destroyed by companies (The Global Compact, 2004). Another critical milestone was the launch of the United Nations Principles for Responsible Investment (PRI) in 2006. ESG has since become a cornerstone for assessing a company's long-term environmental and social impact.

In the context of this report, ESG is defined as a set of factors that businesses consider when managing their operations, and that investors can use when evaluating risks, impacts and opportunities (IFC, 2021). These factors are grouped into three areas:

Environmental	This component of ESG focuses on how businesses impact the natural environment, including pollution, carbon emissions, biodiversity and resource usage. For SMEs, this can mean adopting practices that reduce their environmental footprint, such as using energy-efficient technologies, minimizing waste and transitioning to renewable energy sources.
Social	This dimension focuses on the impact of business activities on employees, communities and supply chains. Considerations of social impacts for SMEs may include, for example: implementing health and safety standards, such as the provision proper equipment and training to reduce accidents; upholding diversity and inclusion policies and ethical labour practices, such as the development of grievance mechanisms to allow employees to anonymously report issues such as gender-based violence and harassment; and collaborating with local organizations to address social issues impacting their business and empower the communities they serve.
Governance	This dimension focuses on the corporate structures and processes that steer how a company is managed, such as board diversity, ethical conduct, risk management and transparency in reporting. Good governance is essential to securing trust from investors and stakeholders while ensuring

that environmental and social policies are integrated into business strategies. For SMEs, this may involve, for example, aiming for diversity in their leadership, which can bring a range of perspectives, better decision-making and strengthen oversight and accountability.

When the concept of ESG was first introduced, financial institutions and investors were encouraged to consider ESG dimensions in their risk assessments and decision-making processes. Following the uptake of ESG self-assessments on investments by financial institutions and investors, there has been increased interest in how to strategically integrate ESG practices into core business operations of enterprises across sectors. With growing concerns over green washing, an increasing emphasis has been placed on transparency and accountability, leading to the development of various reporting frameworks and standards. Indicating a broader trend towards formalized and standardized disclosures, governments across the globe are tightening regulations that enforce ESG compliance, compelling companies to adopt more sustainable and responsible practices.

This emphasis on the implementation of ESG practices and the demand for transparency through ESG reporting requires enhanced understanding among SMEs on how to effectively integrate these principles into their operations, reduce their environmental footprint and ensure compliance with emerging reporting standards. This report focuses on:

1. How SMEs can integrate ESG principles into their day-to-day operations, focusing on the environmental component; and
2. How SMEs can implement ESG reporting to track and communicate ESG performance.

Currently, the environmental component is the most commonly discussed dimension of ESG. In many cases, when businesses or investors refer to ESG, the environmental impacts of business operations, particularly climate-related dimensions, are implicitly implied. This focus is driven by the urgency of addressing the global climate crisis and increasing pressure from regulators, investors and consumers for businesses to adopt green business practices. This report and the initiatives discussed focus on the green transition, in relation to the environmental dimension of ESG. However, this does not imply that social and governance factors of ESG are less important. Addressing all three dimensions of ESG is critical for ensuring the long-term sustainability and resilience of SMEs.

4. Challenges faced by SMEs in adopting ESG practices

Due to their scale and relatively limited financial and human resources, embracing sustainability and adopting ESG practices is not an easy endeavour for many SMEs. As part of the journey, entrepreneurs are likely to ask the following questions:

1.	Should ESG practices and reporting be a priority for my business?
2.	How can I implement ESG practices in my business and report on my progress?
3.	What easy-to-use tools exist for implementing ESG assessments and reporting, and how do I find them?
4.	Where can I find funding to make my business more sustainable and implement ESG practices?

Taking these questions as a starting point, this section aims to provide a deeper understanding of the barriers SMEs face, from recognizing the importance of ESG and building the necessary capacity, to navigating complex reporting requirements and securing the financial resources needed for a green transition. This analysis will lay the groundwork for identifying solutions and initiatives that can effectively support SMEs in overcoming these obstacles, which are outlined in chapter II.

4.1 Should ESG practices and reporting be a priority for my business?

Many SMEs lack sufficient knowledge about the benefits and opportunities associated with adopting ESG practices, as well as the risks of inaction. Raising awareness through targeted campaigns and peer learning opportunities is essential to helping SMEs understand the financial, environmental and social advantages of sustainability. This includes highlighting the potential for cost savings through energy efficiency, improved resource management and access to new markets that prioritize sustainability.

Awareness programmes can also educate SMEs about emerging regulatory changes, customer expectations around green practices and the increasing importance of ESG compliance in global supply chains. While reporting according to specific ESG frameworks may not yet be mandatory for SMEs in many countries, this is likely to change as regulatory environments evolve. Additionally, even if SMEs themselves are not directly required to comply, their customers, especially larger corporations, may be mandated to report on the ESG practices of their suppliers, including SMEs. This creates indirect but significant pressure for SMEs to align with ESG standards to maintain business relationships and remain competitive.

4.2 How can I learn to implement ESG practices in my business and report on my progress?

To successfully adopt and implement green practices, SMEs require skills across various areas, including in technical, operational and strategic domains. Box 1 provides examples of the skills required to both incorporate ESG practices and to report on them. While this is not a comprehensive list, it illustrates the broad range of expertise needed for SMEs to successfully navigate and incorporate ESG principles.

Box 1. Technical skills and specialized knowledge required to adopt and report on ESG practices

Technical skills and specialized knowledge to incorporate ESG practices in business operations:

- **Sustainable supply chain management** to ensure responsible sourcing and the management of resilient supply chains.
- **Green and socially responsible procurement** to prioritize sourcing environmentally responsible and ethically produced materials, enhancing supply chain sustainability.
- **Energy efficiency and renewable energy adoption** to lower operational costs and reduce environmental impact.
- **Lifecycle analysis** to assess the environmental impact of products/services from raw material extraction to disposal or recovery.
- **Waste management and circular economy practices** to minimize waste and maximize resource use by strategically recycling and reusing materials.
- **Sustainable product design** to create eco-friendly, recyclable or reusable products.
- **Carbon accounting and emissions management** (Scope 1, 2 and 3) to track and reduce direct (Scope 1 and 2) and indirect (Scope 3) carbon emissions.
- **Water resource management** to reduce water usage and costs, especially for water-intensive industries, addressing sustainability and scarcity issues.
- **Sustainability materiality assessment** to systematically identify and prioritize the most significant sustainability risks for a business while recognizing opportunities for improvement.
- **Strategic financial planning** to align ESG-related investments with business goals.
- **Leadership and change management** to create a sustainability-focused culture and integrate ESG into business operations.

Technical skills and specialized knowledge to report on ESG:

- **ESG data collection and analytics** to track and report sustainability performance. SMEs must be proficient in identifying and measuring relevant ESG metrics, for example carbon emissions, energy consumption, governance and social impact indicators. This involves understanding how to collect data accurately and interpret it effectively.
- **Digital literacy** to effectively utilize software tools to facilitate data collection and analysis.
- **Understanding specific ESG compliance requirements** (including industry and regional, voluntary and mandated) to tailor a company's ESG strategy to meet applicable regulatory frameworks.
- Effective communication, including the preparation of reports that clearly convey the company's initiatives and progress in a manner that meets stakeholder expectations.

In some cases, capacity building programmes on the above-mentioned themes, among others, already exist. However, many SMEs, particularly those in rural areas, are often either unaware of these opportunities, uncertain of the benefits, or find it difficult to access training opportunities. This underscores the crucial role of awareness raising and advocacy in ensuring that SMEs can fully leverage the benefits of available capacity building initiatives, highlighting how the different challenges that SMEs face are interconnected.

4.3 What easy-to-use tools exist for implementing ESG assessments and reporting, and how do I find them?

SMEs face significant challenges in adopting ESG practices and reporting on their ESG performance due to limited financial and technical resources. Unlike larger corporations, SMEs often lack the capacity to build dedicated teams or hire external consultants to guide their ESG efforts. The complexity of ESG frameworks, covering everything from carbon accounting to governance policies, can be overwhelming for SMEs, creating a need for accessible simple tools tailored to their needs.

Large investments in technology may not be necessary in the early stages of the ESG journey. Instead, strategic and consistent changes in behaviour and processes are key. Step-by-step tools that can support these gradual shifts and simplify the effective implementation of sustainable practices are essential. For example, SMEs can benefit from step-by-step guidelines on reducing energy use, managing waste or lowering water consumption. For the social dimension of ESG, tools might include frameworks for improving labour practices, such as setting up fair wage policies, or online self-assessment tools for gender equality. In relation to the governance dimension, SMEs can use templates for establishing clear governance policies, such as developing anti-corruption measures or creating compliance checklists.

SMEs face challenges not only in implementing ESG practices but also in tracking and reporting ESG-related data. Digital tools that automate data collection and simplify reporting can reduce costs by minimizing reliance on third-party services. Publicly available tools that track ESG progress and offer SMEs tailored guidance are essential in helping businesses start their ESG journeys with minimal capital investment and operational strain.

Tools that assist in both implementing practices (such as carbon accounting, lifecycle assessments and renewable energy integration) and tracking progress through baseline analysis and reporting are crucial for helping SMEs to adopt ESG practices incrementally.

4.4 What funding options exist to support my transition to sustainable practices?

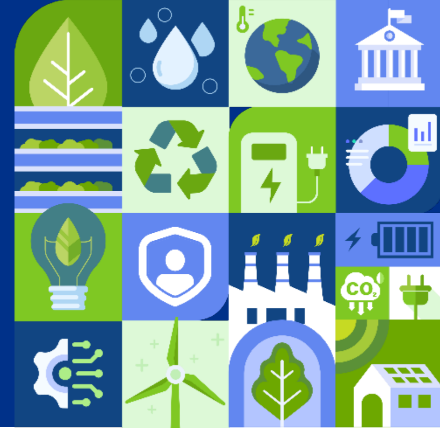
Many SMEs struggle not only with limited expertise relating to sustainability and ESG practices but also lack the resources to implement changes, with practices such as integrating renewable energy or improving waste management seeming to require prohibitively high upfront investments. According to the results of a global survey, 55 per cent of SMEs cited a lack of funds as the primary reason for their limited action on climate change, and nearly 70 per cent indicated that they require additional funding to initiate or accelerate their efforts to reduce emissions (OECD, 2024).

An increase in climate finance and improved awareness of climate dimensions and ESG factors in the financial sector have brought about the development of various financial instruments that support the private sector's transition to a green economy. However, most of these sustainable finance mechanisms currently focus on large or publicly listed companies, rather than SMEs. As these mechanisms often require companies to measure and report on their environmental performance, many SMEs are unable to tap into this growing financing pool (OECD, 2024). Due to their small scale, limited absorption capacity, gaps in skills and lack of awareness of available support programmes, SMEs often face difficulties in accessing financing mechanisms, particularly those that are not tailored to their needs and capacities. As such, dedicated financing mechanisms for SMEs are an important tool for enabling them to embrace sustainability and effectively enhance their ESG performance.

While women entrepreneurs are particularly likely to start businesses in green industries, women-led MSMEs face particular barriers to accessing financing. Therefore, the green transition will benefit from simultaneously increasing green financing options, while addressing gendered barriers in access to business funding.

Chapter 2

Initiatives supporting SMEs in embracing sustainability and ESG reporting and disclosure in ASEAN



Responding to the challenges that SMEs face, this chapter highlights initiatives from several ASEAN Member States that support SMEs to integrate sustainable practices into their business operations and to report on ESG criteria (see table 3).

Table 3. Overview of the initiatives highlighted in this report

Constraint	Awareness	Skills	Tools	Funding
Question	Should ESG practices and reporting be a priority for my business?	How can I implement ESG practices in my business and report on my progress?	What easy-to-use tools exist for implementing ESG assessments and reporting, and how do I find them?	Where can I find funding to make my business more sustainable and implement ESG practices?
Approach	1. Raising awareness and advocating for SMEs to adopt green practices	2. Building capacity and developing skills for green practices and ESG reporting	3. Practical tools and strategies for making ESG implementation accessible for SMEs	4. Financial mechanisms and initiatives facilitating access to finance
Initiatives	1.1 Small and Medium Industries and Large Enterprises Embracing Sustainability Roadshow, the Philippines	2.1 The Vietnam ESG Initiative, Viet Nam	3.1 ESG self-assessment and Quick Guide, Malaysia Gprnt	4.1 Bio-Circular-Green Loan, Thailand
	1.2 ESG award & ESG academy, Thailand	2.2 Skim Insentif Kelestarian, Malaysia	3.2 Gprnt digital platform, Singapore	4.2 High Tech and Green Facility, Malaysia
	1.3 Cambodia Green Industry Award, Cambodia	2.3 Embedding Sustainability in the Value Chain of MSMEs, the Philippines	3.3 ESG handbook and self-assessment tool, Viet Nam	4.3 Low Carbon Transition Facility, Malaysia

Each initiative is presented below as a case study summarizing the initiative and highlighting key actions. Insights and further considerations for replication are summarized in Chapter III. The initiatives were identified through a mix of desk research and stakeholder consultations involving policymakers, financial institutions, development partners and members of a Community of

Practice on the Green Transition of Business convened by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) (see box 2). While some initiatives address multiple constraints, they have been categorized based on the primary barrier they address. Taxonomies, standards or frameworks are not discussed in detail, as they can vary across national contexts and are typically not directly targeted at SMEs.

Box 2. ESCAP's Community of Practice on the Green Transition of Business

Since 2022, the Presidential Agency for International Cooperation of Colombia (APC Colombia), the Ministry of Commerce, Industry and Tourism of Colombia and ESCAP have partnered to promote the green transition of businesses in Latin America and Asia and the Pacific. In 2024, the partnership focused on enhancing the capacity of SMEs to adopt sustainable practices, improve access to green finance and ensure gender inclusivity. This collaboration facilitates knowledge exchange and supports SMEs in addressing the challenges of climate change and gender equity in financing. The initiative builds on a Community of Practice (CoP) on the Green Transition of Business, initiated at the beginning of the partnership in 2022, as a platform for ongoing learning and collaboration. The CoP offers opportunities for engagement through webinars, an online knowledge-sharing platform and discussions with policymakers and industry experts. The network aims to advance green transitions and integrate gender-responsive practices across both regions, fostering more sustainable and inclusive business environments.

Given the diversity of SMEs and the constantly evolving landscape of ESG-related initiatives, the following selection of initiatives is not exhaustive compendium of practices. Instead, the report highlights a variety of approaches from across South-East Asia that can add value for SMEs on their green transition journey, and which SME agencies and other stakeholders can adopt to advance sustainability and responsible business practices among SMEs.

1. Raising awareness and advocating for SMEs to adopt green practices

Becoming greener remains a challenge for most SMEs, as entrepreneurs and SME management teams are often focused on day-to-day business, including securing short-term profitability and ensuring business survival. While the green transition can present significant opportunities for SMEs, many do not recognize its relevance or the benefits it can bring.

SME development agencies play a crucial role in raising awareness among SMEs on the economic benefits of transitioning to greener practices. This section showcases initiatives designed to help SMEs understand the benefits of adopting green business practices. These initiatives highlight the economic and competitive advantages of integrating sustainability into business operations, highlighting how the uptake of green business practices can enhance the business growth and resilience of SMEs in an evolving marketplace.

1.1 Small and Medium Industries and Large Enterprises Embracing Sustainability Roadshow, the Philippines

A notable initiative that aims to expand SMEs' understanding through broader outreach and education is the Small and Medium Industries and Large Enterprises Embracing Sustainability (SMILEES) Roadshow in the Philippines. The programme focuses on communicating on ESG concepts and sustainability reporting directly to SMEs across the country, offering knowledge sharing and collaboration opportunities.

Initiative 1.1. Small and Medium Industries and Large Enterprises Embracing Sustainability (SMILEES) Roadshow	
Lead implementer	The Securities and Exchange Commission (SEC) of the Philippines is the national regulatory agency responsible for overseeing the country's corporate sector, capital markets and the securities industry.
Overview	The SMILEES Roadshow, implemented by the SEC, is a series of nationwide events promoting sustainable business practices and introducing sustainability reporting to SMEs, as well as larger enterprises in the Philippines. The goal is to help businesses embrace sustainability, comply with increasing regulations and gain access to green finance opportunities. The Roadshow was designed to reach businesses across the Philippines, through face-to-face and virtual engagements.
Key activities	1. **Nationwide engagement:** The SMILEES Roadshow provides a platform for national engagement and learning on environmental responsibility for businesses and offers practical guidance on how enterprises can adopt sustainable practices (Securities and Exchange Commission, 2024). The Roadshow began in March 2024 in Cebu, followed by a second event in June 2024 in Davao City, both of which engaged national stakeholders in discussions about sustainability initiatives. The series continued with a third event in September 2024 in Baguio City, which featured a showcase of local sustainability practices and included testimonials from entrepreneurs committed to sustainable business operations. 2. **Expert-led workshops and knowledge sharing:** The roadshow serves as both an educational platform and a collaboration space where participants can share their sustainability journeys and learn from best practices across various industries (Philstar Global, 2024). Participants in the SMILEES Roadshow attend knowledge-sharing sessions and discussions on topics such as climate risk management, green business transitions and ESG reporting guidelines. The programme also facilitates networking opportunities with industry peers and experts.

1.2 ESG award and ESG academy, Thailand

An ESG award implemented by a major commercial bank in Thailand. recognizes SMEs that have incorporated sustainable practices, and supports their capacity development through a related ESG academy.

Initiative 1.2. ESG award and academy, Thailand	
Lead implementer	A major commercial bank in Thailand.
Overview	In 2023 and 2024, the ESG award was implemented to recognize and support SMEs in Thailand that are committed to incorporating ESG principles into their operations. Additionally, in 2024 a related ESG academy was introduced as a capacity-building programme to equip entrepreneurs with the knowledge and tools to develop actionable transition plans towards sustainability.
Key activities	1. **Recognition through the ESG award**: The award was launched in collaboration with key stakeholders, such as the Federation of Thai Industries, the Thai Chamber of Commerce and the Office of SMEs Promotion. The award celebrates Thai SMEs that have demonstrated outstanding ESG practices, recognizing SMEs at two levels: "Excellence" and "Highly Commended." "Excellence" is an award given to businesses that excel in all dimensions, including in aspects of environment, society and governance, while "Highly Commended" is awarded to acknowledge businesses that have initiated and implemented good practices in all three areas. To participate in the ESG awards, businesses must complete five courses in the capacity building programme of the ESG Academy. Additionally, they are required to present a transition plan and to meet specific ESG standards. This recognition not only rewards current ESG-focused businesses but also motivates others to integrate sustainability into their operations. 2. **Capacity building via the ESG academy**: The academy offers specialized training led by national experts, covering topics such as climate risk management, supply chain sustainability and ESG-based business transition planning. The ESG Academy is structured to provide a comprehensive understanding of ESG principles for SMEs. It includes three days of training focused on key topics such as green business practices, climate risk management and sustainable supply chains. In addition, participants complete a one-day study visit to observe ESG practices in action, followed by a one-day project presentation, where they present their ESG transition plans. This structure enables

	participants to both learn practical approaches and demonstrate their commitment to integrating sustainability into their operations. 3. **Partnership network for comprehensive support**: The ESG Academy and ESG award are implemented in collaboration with organizations such as the Thailand Greenhouse Gas Management Organization and Thammasat University to provide SMEs with access to guidance and support in their sustainability journeys.

1.3 Cambodia Green Industry Award, Cambodia

Similar to the private sector-led ESG award and academy in Thailand, in Cambodia, the Government has taken proactive steps to encourage sustainable business activities through the Cambodia Green Industry Awards. This government-backed initiative aims to promote green practices across the industrial sector, recognizing enterprises for their environmental practices.

Initiative 1.3. Cambodia Green Industry Award, Cambodia	
Lead implementer	The Ministry of Industry, Science, Technology and Innovation (MISTI) in Cambodia is the Ministry responsible for formulating and implementing policies related to industrial development, science, technology and innovation.
Overview	First launched in 2021, the Cambodia Green Industry Award is an annual initiative led by MISTI to encourage enterprises across the country to embrace sustainable production and business activities (Construction & Property, 2021). The competition recognizes and rewards enterprises for their efforts in adopting green technologies and environmentally friendly practices within their production and supply chains. By doing so, the award promotes awareness and greater environmental responsibility among businesses in Cambodia.
Key activities	1. **Awareness raising on environmental performance:** The Cambodia Green Industry Award was designed as a tool for advocacy and awareness raising, generating publicity to demonstrate how improved environmental performance can increase business competitiveness, raising environmental awareness among the broader public and bringing visibility to participating businesses (UN Cambodia, 2023). 2. **Comprehensive judging criteria:** The assessment for the award includes various criteria, such as the environmental impact of business activities, resource and supply chain efficiency, clean production measures and the implementation of environmental management systems. This

comprehensive evaluation ensures that businesses are recognized for a holistic approach to sustainability.

3. **Public recognition and support:** Winners are awarded in the categories of gold, silver and bronze, receiving certificates and public recognition. Additionally, they benefit from advice from the Ministry to further refine their green practices and technologies (Cambodia Ministry of Industry, Science and Technology, 2024).

The initiatives highlighted in this section –the SMILEES Roadshow in the Philippines (initiative 1.1), the ESG award and ESG academy in Thailand (initiative 1.2) and the Cambodia Green Industry Award (initiative 1.3) – illustrate the diverse ways in which public and private actors are working to build awareness among SMEs in the region around the green transition. While each initiative serves a unique objective, collectively, they show that fostering sustainable practices within SMEs requires a combination of awareness raising, advocacy and recognition. Developing and communicating a clear business case for green business practices can encourage SMEs to integrate sustainable practices into their operations effectively.

2. Building capacity for green practices and ESG reporting

The ability to adopt and report on green practices is crucial for SMEs on their path towards environmental responsibility. Achieving this requires more than just motivation – it requires specialized knowledge, technical skills and the capacity to implement effective strategies. This section explores various initiatives that aim to support SMEs to build the expertise they need to introduce green practices into their operations.

SMEs often face barriers such as a lack of understanding of climate science and limited access to technology and finance. To overcome these challenges, capacity building is essential. There is a need for SMEs to build their understanding of climate risks and invest in innovative technologies, but this requires training and technical support to successfully adopt sustainable practices and manage ESG responsibilities. For instance, when implementing climate action measures, SMEs often need to build capacity to identify, introduce and operate advanced and potentially costly technologies. Providing SMEs with the necessary training and expertise before investing in these technologies ensures that they can adopt innovative solutions without compromising operational efficiency. Because ESG is still an emerging area, most SMEs do not currently have the capacity to collect, analyse and report ESG data. Therefore, tailored support for SMEs on ESG standards and reporting is needed.

2.1 The Vietnam ESG Initiative 2024, Viet Nam

The Vietnam ESG initiative is designed to enhance the ESG adoption and reporting capabilities of SMEs.

Initiative 2.1. The Vietnam ESG Initiative, Viet Nam	
Lead implementer	The Ministry of Planning and Investment (MPI) of Viet Nam is the Ministry responsible for overseeing the country's planning and investment activities.
Overview	The Vietnam ESG Initiative, launched in 2022, is implemented by MPI and USAID. This initiative, which will continue through 2025, is part of a larger programme that aims to promote sustainable practices among a total of 300 enterprises, cooperatives, and business households, helping them to align with international standards and gain competitiveness in global supply chains. In 2024 the Vietnam ESG Initiative, aligned with Viet Nam's Green Growth Strategy for 2021-2030, offered technical support and helped businesses meet growing market and investor demands for sustainable business models (VnEconomy, 2022; 2024). As part of the initiative, an ESG handbook and an ESG self-assessment tool were developed to assist SMEs in evaluating and enhancing their sustainable practices. The detailed guidance provided and functionality of the ESG handbook and assessment tool are presented in section 3, while this section highlights the initiative's capacity-building component.
Key activities	1. **Training and technical assistance:** In 2023, out of nearly 150 applicants, ten finalists received intensive training and one-on-one coaching on sustainable business, ESG action plans and sustainable development reporting, aligned with international standards. The programme provided hands-on technical assistance to help SMEs understand ESG dimensions and integrate them into their business models. This included workshops and expert-led seminars. 2. **Recognition through awards and resources:** Businesses taking part in the training programme were recognized for their commitment to sustainable practices, with winners receiving technical assistance. The top three winners were awarded 2 billion Vietnamese dong (approximately US$81,276) in technical support to pilot and scale their ESG initiatives (VCCI, 2024). In 2024, the initiative continued with the same financial support structure and introduced additional resources, such as a newly launched handbook on legal regulations related to ESG, aimed at helping businesses align with sustainability standards and enhance competitiveness in global markets (Vietnamplus, 2024). 3. **Partnership and network building:** SMEs were connected with local and international partners, such as investment funds and credit institutions, enhancing their ability to access green finance.

2.2 Skim Insentif Kelestarian, Malaysia

The Skim Intensif Kelestarian programme in Malaysia enhances SME competitiveness through structured sustainability training. By providing a phased and comprehensive capacity building programme, Malaysia aims to help SMEs align with global sustainability standards and strengthen their resilience. Embracing sustainable business practices not only opens access to new markets and financing, but also enhances long-term resilience and innovation potential. Targeted training and support are crucial to enabling SMEs to adopt ESG measures and meet evolving market demands for sustainability.

Initiative 2.2. Skim Insentif Kelestarian, Malaysia	
Lead implementer	The Centre for Entrepreneur Development and Research (CEDAR) is a subsidiary of Malaysia's SME Bank – the Small Medium Enterprise Development Bank Malaysia Berhad. The SME Bank is fully owned by the Ministry of Finance and focuses on providing financial services specifically tailored to SMEs.
Overview	The Malaysian Government has committed to achieving net zero greenhouse gas emissions by 2050 as part of the Twelfth Malaysia Plan (2021-2025). The Skim Insentif Kelestarian is one of the programmes launched as part of this effort. The initiative is a capacity development programme implemented by CEDAR that emphasizes the integration of ESG principles in business operations of SMEs. It provides structured training, business advisory services and access to digital tools for enhancing business efficiency. Companies involved in export, manufacturing, professional services or construction sectors are eligible for the programme.
Key activities	1. **Phase 1 on awareness and capacity building through e-learning:** Training for 1,500 SMEs raised awareness of how ESG factors affect SMEs. Through e-learning modules, participants gained insights into important topics such as anti-corruption, living wages, climate action and the Sustainable Development Goals. The sessions helped SMEs to understand the significance of sustainability and identify gaps in their practices. 2. **Phase 2 on structured in-person and online capacity building programme for selected SMEs:** After the initial training, 330 SMEs were invited to participate in a structured programme to help them adopt sustainability practices. This programme included three days of in-person training during which participants learned about sustainability materiality analysis and objectives, assessing gaps and conducting carbon accounting (Scope 1 & 2). It was followed by virtual coaching sessions to guide SMEs through developing and implementing

	sustainability action plans. Additionally, the programme covered Diversity, Equity and Inclusion (DEI) and Business and Human Rights (BHR) assessments. 3. **Phase 3 on ESG report development and access to finance:** In the final phase, 150 selected SMEs from the prior phase learned to develop their final ESG maturity reports, sustainability action plans and scope 1 & 2 Carbon Accounting Plans. Additionally, participating SMEs were eligible for an ESG Adoption Seeding Fund worth up to 40,000 Malaysian ringgit (approximately US$10,000), allocated based on their readiness. This phase aimed to support SMEs in the practical adoption of ESG practices by offering financial incentives and actionable strategies to enhance their sustainability and carbon management initiatives.

2.3 Embedding Sustainability in the Value Chain of MSMEs, the Philippines

The programme, Embedding Sustainability in the Value Chain of MSME, is a five-year initiative to provide MSMEs with the skills needed to implement sustainability practices and comply with ESG reporting requirements, in line with both national and international sustainability standards.

Initiative 2.3. Embedding Sustainability in the Value Chain of MSMEs, the Philippines	
Lead implementer	The Department of Trade and Industry (DTI) in the Philippines is the executive department responsible for promoting and regulating trade and industry in the country, in collaboration with the Global Reporting Initiative (GRI).
Overview	In 2023, DTI launched a five-year programme in ASEAN, namely, Embedding Sustainability in the Value Chain of MSMEs, which aims to train 8,000 MSMEs on sustainability best practices and reporting (GRI, 2024). The initiative facilitates policy discussions and capacity building for enterprises, addressing key sustainability issues related to supply chain practices and responsible procurement. The programme seeks to increase MSMEs' commitment to sustainable business practices and to support 300 MSMEs to publish sustainability reports (GRI, 2023).
Key activities	1. **Pilot capacity building for SMEs:** In August 2024, a pilot training programme to foster sustainable business practices for 15 MSMEs in the Philippines concluded, following which participants will publish an initial ESG report.[3] The programme examined the economic, environmental

[3] Participating MSMEs were required to complete the publicly available "Empowering ASEAN SMEs through Sustainable Practices" e-learning course in advance.

and social impacts of business activities, highlighting how sustainable practices can mitigate risks and boost MSME competitiveness. Participants received training on integrating sustainability into operations, conducting sustainability reporting, strategic waste management and accessing financing mechanisms for SMEs, in addition to one-on-one coaching from key stakeholders in finance and government.

2. **Development of SME-validated Sustainability Practices and Reporting Kit (SPARK) template**: The SPARK template is a comprehensive tool designed to help SMEs identify so-called key sustainability hotspots, providing businesses with a structured set of criteria to assess and enhance their ESG maturity. It offers 31 basic-level metrics, 19 intermediate-level metrics and 19 advanced-level metrics, approved by DTI and validated through SME stakeholder consultations. Designed in line with national guidelines and regulations, the metrics focus on: economic performance; energy management; emissions management; water and effluents management; solid and hazardous waste management; supply chain management; materials; biodiversity; employee data; training, and development; DEI; occupational health and safety; community engagement; supply chain management; marketing and labelling; and security, data and customer privacy. [4]
3. **Training-of-trainers for government officials**: The initiative includes a training-of-trainers programme for the Bureau of Small and Medium Enterprise Development (BSMED) – the agency under DTI responsible for promoting MSME development in the Philippines.
4. **Comprehensive programme development:** Further planned activities include awareness-raising sessions to highlight the importance of ESG for MSMEs, targeted capacity building workshops and in-depth policy dialogues. Additionally, roundtable discussions will foster collaboration between stakeholders, and white papers will be published to guide strategy and execution. Finally, a digital sustainability reporting tracker will be launched to help MSMEs monitor and report on their sustainability progress, making engagement with ESG more accessible and actionable.

[4] Related guidelines include the Security and Exchange Commission's Reporting Guidelines for publicly listed companies, disclosure requirements for sustainability-linked loans by the Philippines' major banks, GRI Standards, as well as existing local regulations and the Department of Environment and Natural Resources' provisions.

3. Tools for making ESG practices and reporting accessible for SMEs

Financial and technical resource constraints for SMEs complicate the implementation of ESG measures, such as carbon accounting and supply chain transparency. While larger corporations possess the resources and expertise to create custom ESG compliance systems and hire external experts, SMEs often lack the capacity to do so. However, practical and accessible solutions, including checklists, self-assessment tools and pre-configured digital platforms, are emerging to reduce the financial and operational burden on SMEs. Additionally, simplified ESG frameworks and reporting standards tailored to SMEs can reduce the complexity of assessments and reporting against ESG criteria. Tools to apply such frameworks can make ESG reporting more accessible by offering SMEs manageable step-by-step approaches that allow SMEs to assess their baseline sustainability, set realistic goals, track progress and gradually integrate more advanced ESG measures.

3.1 ESG self-assessment and Quick Guide, Malaysia

The ESG self-assessment and Quick Guide initiative in Malaysia is a practical tool to enable MSMEs to initiate their sustainability journey supporting them in developing a baseline understanding of their resource consumption and ESG readiness.

Initiative 3.1. ESG self-assessment and Quick Guide, Malaysia	
Lead implementer	Under the Ministry of Entrepreneur and Cooperatives Development, SME Corporation Malaysia (SME Corp. Malaysia) is a centralized agency that coordinates the implementation of all national development programmes for SMEs, oversees relevant research and data dissemination and provides business advisory services for SMEs and entrepreneurs throughout the country.
Overview	SME Corp Malaysia launched an ESG self-assessment and Quick Guide in 2024 to help SMEs incorporate ESG practices into their business models. This is part of ongoing efforts implemented by the Ministry of Entrepreneur and Cooperatives Development to help MSMEs meet sustainability requirements (SME Corp Malaysia, 2024).
Key activities	1. **Online ESG self-assessment tool:** An online self-assessment is available for SMEs to evaluate their ESG readiness and resource consumption and to identify areas for improvement. It includes questions on the firm's profile, including industry type, business size and location, as well as resource consumption. The assessment then helps firms to understand

their footprint and provides insights into areas where improvements can be made. The assessment tool covers the following factors:

Environmental:

- energy usage
- emissions
- waste management
- resource conservation

Social:

- Labour practices and employee well-being
- DEI
- Community involvement and corporate social responsibility (CSR) programmes

Governance:

- Corporate structure and board diversity
- Policies on ethical conduct and risk management
- Transparency in reporting and accountability

These evaluations give SMEs a clear understanding of their overall ESG performance, assessing their maturity on a scale from 0 ("has not started") to 81-100 per cent ("advanced").

Access the ESG Assessment tool here.

2. **ESG Quick Guide:** After completing the ESG self-assessment, SMEs can download the ESG Quick Guide from the same website. Available in English and Malay, this guide offers step-by-step guidance for SMEs on how to integrate ESG practices into their business operations. It covers essential steps, such as: determining the relevance of ESG to the business; identifying material ESG factors through a materiality matrix; setting ESG goals; and showcasing the integration of environmental, social and governance indicators. The guide also provides insights on reporting ESG progress and effectively communicating ESG measures to stakeholders. This resource is designed to help SMEs make informed, practical improvements, ensuring a structured approach to their green transition journey.

Access the ESG Quick Guide for SMEs here.

3.2. Gprnt digital platform, Singapore

Singapore's Gprnt digital platform streamlines ESG reporting, providing SMEs with automated reports to analyse their status quo and work towards meeting sustainability standards with minimal resource investment.

Initiative 3.2. Gprnt digital platform, Singapore	
Lead implementer	The Monetary Authority of Singapore (MAS) is Singapore's central bank and integrated financial regulator. MAS also works with the financial sector to develop Singapore as a dynamic international financial centre.
Overview	In November 2023, MAS launched the Gprnt digital platform, also known as "Greenprint." The platform is designed to streamline ESG reporting, simplifying the way financial institutions and businesses collect, access and act on ESG data. This platform is part of MAS' Project Greenprint initiative and was introduced to support the financial sector's sustainability goals (Moody's, 2024). Gprnt is particularly relevant for SMEs, as it lowers the barriers to ESG reporting and enables smaller enterprises to engage in sustainability reporting more easily. The platform is not officially live as of October 2024 but is expected to be launched by the end of 2024.
Key activities	1. **Automated ESG reporting processes and integration of existing digital systems:** Gprnt is designed to simplify the ESG reporting process by automating data collection, computation and report generation, alleviating the manual burden otherwise associated with ESG reporting. Gprnt allows businesses to consent to the release of data through application programming interfaces, thereby integrating seamlessly with businesses' existing digital systems, such as bookkeeping software and payment gateways. Grpnt also enables the retrieval of relevant data from trusted government sources, allowing the platform to retrieve data automatically and compute SMEs' basic sustainability metrics in an automated and efficient way. This data is then processed into sustainability metrics and ESG-related outputs. One of the platform's key features is its use of intelligent document processing, which extracts relevant data from uploaded documents and generates reports that align with global ESG reporting standards. This automation reduces the need for businesses to manually input data. In light of resource constraints for SMEs, these features offer a cost-effective automated solution to ESG reporting (Monetary Authority of Singapore, 2023). 2. **Increased data accessibility and transparency:** By integrating with various business systems, Gprnt automates calculations and enables businesses to access their ESG data in real-time, improving transparency

	and the accuracy of sustainability metrics. This accessibility also allows businesses to share their data with key stakeholders, including financial institutions, regulators and platforms such as the Net Zero Data Public Utility. In terms of data collection, Gprnt integrates digital systems used by enterprises in daily activities, such as utility expenditures, payroll solutions and construction management artificial intelligence IoT. These integrations obtain data directly in the form of APIs (Application Programming Interface) and can be verified by trusted data sources.[5] Gprnt's partnerships with national regulatory bodies (such as the Accounting and Corporate Regulatory Authority, Enterprise Singapore, and the Infocomm Media Development Authority) ensures reporting requirements on Gprnt are aligned with national reporting requirements. 3. **Providing SMEs with access to financial services and products:** MAS plans to launch a digital marketplace to connect ESG solution providers with investors, financial institutions and corporates. SMEs can use the marketplace to connect with other ESG fintech companies, ESG solution providers, investors, financial institutions and corporations. For example, MAS is working with financial service providers to encourage the development of financial products linked to the ESG data that is being reported. Ideally, this will lead to an improved offering of financial products for SMEs, such as more tailored sustainability-linked loans. The marketplace will also feature a developer sandbox and software development kits.

3.3. ESG self-assessment tool and handbook, Viet Nam

An online toolkit for assessing sustainable business practices and a related handbook for the assessment tool were developed to support SMEs to evaluate and enhance their ESG practices and reporting, as part of the Vietnam ESG Initiative (see initiative 2.1).

Initiative 3.3. ESG self-assessment tool and handbook, Viet Nam	
Lead implementer	The Ministry of Planning and Investment (MPI) of Viet Nam, in partnership with USAID, leads the development and implementation of this initiative as part of the larger Vietnam ESG Initiative.
Overview	To complement the broader capacity-building aims of the Vietnam ESG Initiative (see initiative 2.1), two tools have been developed to help SMEs evaluate and improve their ESG practices: 1) Online ESG self-assessment tool

[5] For more information, see: https://esg.ssmu.ca/2024/02/29/automating-sustainability-reporting-with-gprnt/

	2) Handbook for the ESG self-assessment tool Designed in line with a localized, accessible framework that aligns with Viet Nam's specific business and regulatory environment, the handbook and assessment tool offer SMEs a cohesive and practical approach to advance their ESG practices.
Key activities	1. **Online ESG self-assessment tool:** The tool to assess the level of sustainable business practices of enterprises according to the ESG Framework provides a detailed evaluation of a business's performance across the three ESG dimensions, represented through a scoring system. Upon completion of the online assessment each business receives an overall score out of 100, along with specific scores for the Environment, Social, and Governance dimensions. A radar chart visually represents these scores, giving businesses an immediate understanding of their ESG strengths and gaps, and enabling the identification of priority dimensions for improvement. Additionally, the assessment tool assigns a combined ranking level to indicate overall ESG compliance and maturity, which can serve as an initial benchmark for businesses on their sustainability journeys. The assessment results also indicate whether the business qualifies for government support under Decision No. 167/QĐ-TTg, which aims to promote sustainable private sector business development from 2022 to 2025. This feature not only helps businesses understand their eligibility for further assistance but also aligns their efforts with national sustainability programmes, providing a pathway to potential financial or technical support. 2. **Handbook for the ESG self-assessment tool:** The handbook for the assessment tool provides SMEs with a foundational guide to understanding and implementing sustainable practices, introducing key ESG concepts and explaining the criteria used to evaluate ESG practices. Tailored to the Vietnamese business context, the handbook serves as an introductory resource for businesses to familiarize themselves with ESG principles and the structure of the assessment tool. The content includes a step-by-step evaluation process that SMEs can undertake using the online ESG self-assessment tool. Register here to access the ESG self-assessment tool.

These initiatives demonstrate how well-designed tools can make ESG adoption feasible and practical for SMEs, bridging the gap between awareness and implementation. Practical solutions such as checklists, guidelines, self-assessments and digital tools lower the barriers to ESG adoption. Simplified ESG frameworks and pre-built online systems specifically designed for smaller businesses make it easier for SMEs to integrate ESG principles into their operations.

4. Financial mechanisms and initiatives facilitating access to finance

SMEs face unique barriers, including high upfront costs and limited resources for complying with environmental standards. Traditional SME financing options often focus on short-term growth and are not well suited to financing sustainability measures, which tend to have longer-term returns or lead to less immediate financial savings. Tailored green financial mechanisms, such as green loans or sustainability-linked financing, which offer more flexible terms, lower interest rates, and incentives tied to measurable environmental impact, are important to help SMEs adopt environmentally sustainable practices.

4.1 Bio-Circular-Green loan, Thailand

The Bio-Circular-Green (BCG) loan in Thailand is an example of an initiative designed to support SMEs in transitioning towards green business practices, while also aligning with Thailand's national BCG economic model. By offering financial support for investments in renewable energy and energy-efficient technologies, the initiative helps SMEs reduce their greenhouse gas emissions.

Initiative 4.1. Bio-Circular-Green loan, Thailand	
Lead implementer	The Small and Medium Enterprise Development Bank of Thailand (SME D Bank) is a state-owned financial institution established to support SMEs in Thailand. It operates under the auspices of the Ministry of Finance and the Ministry of Industry, focusing on enhancing the financial capabilities of SMEs.
Overview	The BCG loan Initiative was developed in response to Thailand's growing need to support SMEs in transitioning towards sustainable and green business practices. The initiative is aligned with the BCG economic model, a key policy for Thailand's national development. This loan mechanism addresses the financial barriers faced by SMEs in adopting green technologies and practices, such as renewable energy use, to help reduce greenhouse gas emissions, improve competitiveness and foster long-term sustainability. In 2023, SME D Bank partnered with a public power company to support SMEs in Thailand in adopting sustainable practices through the BCG loan initiative. By December 2023, loans to over 500 SMEs had been approved under the BCG loan initiative, accounting for over half of the initiative's total funding.
Key activities	1. **Preferential loan conditions**: The BCG loan provides SMEs with loans of up to 50 million Thai baht (approximately US$1.5 million) per enterprise. The interest rates start at 4.75 per cent per annum, with repayment

	periods of up to 15 years. SMEs benefit from a grace period of the first 24 months, during which no principal payments are required. 2. **Focus on green business development**: The loans can be used for green business transformation, such as installing solar panels on rooftops or upgrading to more energy-efficient equipment, as well as in part for improving operations or enhancing cash flow. 3. **Capacity building**: Alongside financial support through the BCG loan, SME D Bank provides training programmes to improve financial literacy and ESG compliance among SMEs, including through workshops and knowledge-sharing activities. Additionally, SMEs applying to the BCG loan programme can request capacity building through the SME D coach programme. In collaboration with approximately 30 partners from the Government, the private sector and educational institutions, the programme provides professional business coaches who offer tailored advice including on marketing, technology, financial management and access to funding. The initiative adds value to the broader BCG loan programme by offering SMEs not only financial support but also access to professional consulting services.

4.2 High Tech and Green Facility, Malaysia

Malaysia's High Tech and Green Facility aims to drive sustainability by fostering innovation in high-tech and green sectors through accessible financial solutions.

Initiative 4.2. High Tech and Green Facility (HTG), Malaysia	
Lead implementer	Malaysia's central bank, Bank Negara Malaysia (BNM), leads the initiative, with the involvement of 19 participating financial institutions, including the Small Medium Enterprise Development Bank Malaysia Berhad (SME Bank), a Malaysian bank fully owned by the Ministry of Finance and focused on providing financial services specifically tailored to SMEs.
Overview	The HTG, worth 1.2 billion ringgit (approximately US$254 million), supports SMEs in high-tech and green sectors through targeted and flexible financing solutions, encouraging sustainable innovation, fostering technology development and driving Malaysia's national investment aspirations.[6]
Key activities	1. **Targeted financing for strategic sectors:** The HTG provides financial support to SMEs and commercially ready start-ups in high-tech and

[6] For more information, see: https://www.smebank.com.my/high-tech-green-facility-htg-

	green sectors, such as green tech, biotech, digital, artificial intelligence, big data analytics, smart manufacturing and circular economy businesses. SMEs and start-ups involved in listed government programmes fostering innovation and sustainability in key economic sectors are also eligible. 2. **Flexible financing solutions:** SMEs can access loans of up to 10 million ringgit (approximately US$2.2 million), with an interest rate of 3.5 -5 per cent per annum for up to ten years. The HTG covers capital expenditures (long-term investments in physical assets including machinery, equipment or technology upgrades, such as solar panels or manufacturing machinery), and working capital needs (day-to-day operational expenses such as payroll, rent and inventory). 3. **Minimized collateral requirements:** Financing at a rate of 3.5 per cent per annum is provided with a guarantee from the HTC, without the need for personal or corporate guarantees or collateral requirements, such as property or equipment. This guarantee provides security for the lender, while making the loan more accessible for SMEs and start-ups (SME Bank Malaysia, n.d.). The requirement for a guarantee on financing under the HTG is based on an assessment by the participating financial institutions. In cases where the borrower is required to add guarantee coverage provided by the Credit Guarantee Corporation Malaysia Berhad or Syarikat Jaminan Pembiayaan Perniagaan Berhad, the HTG offers financing at a rate of up to 5 per cent per annum (inclusive of a guarantee fee). While the guarantee reduces the lender's risk by ensuring repayment in case of default, the financing rate is higher because it includes the guarantee fee, which compensates the guarantee provider for taking on the risk. The additional cost of the guarantee is passed on to the borrower, resulting in a higher rate compared to financing without a guarantee).[7]

4.3 Low Carbon Transition Facility, Malaysia

Complementing the HTG, which focuses on high-tech and green sectors, the Low Carbon Transition Facility (LCTF) supports Malaysian SMEs in other domains in their transition to low-carbon, sustainable business operations.

Initiative 4.3. Low Carbon Transition facility (LCTF)	
Lead implementer	The LCTF is led by Malaysia's central bank, BNM, to encourage SMEs in transforming their business operations into more sustainable and low carbon

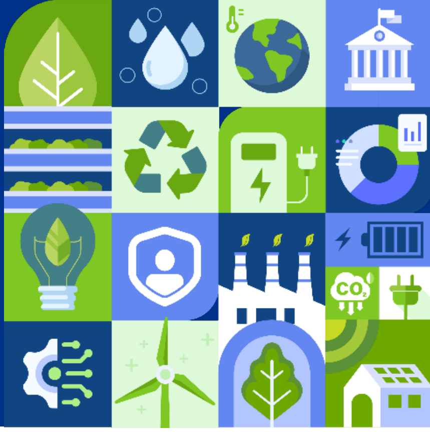
[7] For more information, see: https://www.bnm.gov.my/funds4sme

	business practices. LCTF is implemented in collaboration with the Small Medium Enterprise Development Bank Malaysia, which is regulated by BNM and owned by the Ministry of Finance.
Overview	Aimed at supporting SMEs in their transition to low-carbon and sustainable operations, the LCTF, worth 1 billion ringgit (approximately US$230 million), focuses on financing the shift towards green business practices, enhancing long-term business resilience by enabling the adoption of sustainable solutions (Bank Negara Malaysia, 2022).
Key activities	1. **Supporting low-carbon business models:** The LCTF provides financing for Malaysian SMEs to adopt green technologies and improve their practices, including increased usage of sustainable raw materials, green-certified equipment, renewable energy, enhanced waste management and the completion of sustainability certifications. 2. **Eligibility based on ESG commitment:** The financing is available to qualified SMEs that are classified as "Climate Supporting" and "Transitioning". These categories are defined based on the business's impact compared with environmental sustainability and climate objectives. "Climate Supporting" activities involve businesses already implementing sustainable practices that contribute to climate change mitigation or adaptation, while "Transitioning" businesses are those working towards adopting sustainable practices (Bank Negara Malaysia, 2021). This classification applied by BNM ensures that targeted financing support to businesses is aligned with sustainability goals, and that both established and emerging green businesses can benefit from the facility. 3. **Competitive financing terms:** The LCTF offers up to 10 million ringgit (approximately US$2.2 million), per SME, with financing covering 100 per cent of working capital and up to 80 per cent of new machinery acquisition. The tenure is up to ten years, with an interest rate of 5 per cent, including a guarantee fee where applicable. 4. **No collateral required:** SMEs can access financing without collateral through guarantees provided by the Credit Guarantee Corporation Malaysia or Syarikat Jaminan Pembiayaan Perniagaan. Personal or joint guarantees may still be required on a case-by-case basis, meaning business owners must commit to repaying the loan if the SME defaults.

Through the BGG loan initiative, support is provided to businesses that are transitioning towards sustainable and green business practices. The LCTF also concentrates on helping SMEs green their existing business operations, providing financing for the adoption of low-carbon technologies and practices that enhance sustainability across industries. In contrast, the HTG fosters innovation in specific green and high-tech sectors aiming to support start-ups and foster innovation in small businesses that integrate sustainability from the outset. In other words, while the LCTF and BCG loan prioritize funding the uptake of green business practices by conventional SMEs, HTG encourages the growth of enterprises that are already innovative and green in their approach. Both approaches are useful and necessary to strategically develop the green economy.

Chapter 3

Actionable insights for SME development agencies



SME development agencies can strategically promote the green transition of SMEs by addressing the specific challenges SMEs face and spearheading and supporting ESG practices and reporting among SMEs across a wide range of sectors, helping to drive meaningful change.

Any strategy to promote ESG practices among SMEs will require a comprehensive set of actions in the following four areas:

1. **raising awareness and understanding**
2. **building skills**
3. **providing tools**
4. **facilitating access to finance**

This chapter presents an overview of considerations and practical steps within each area that SME development agencies can take to effectively support SMEs on their ESG journey, synthesizing lessons learned from selected initiatives across the ASEAN region.

1. Raising awareness and advocating for SMEs to adopt green practices

Roadshows across different cities and regions can serve to raise awareness of ESG among a broad audience. Roadshows can be tailored to address the unique challenges and needs of SMEs in different parts of a country, including rural and underserved areas where access to sustainability resources may be limited.

Awareness activities combined with more advanced training activities can ensure that SMEs not only learn about ESG practices and reporting but also acquire the technical skills needed to apply these practices within their businesses.

ESG awards with tiered categories can be introduced to provide recognition for SMEs at different levels of ESG maturity, tailored to specific business sizes, sectors or locations, ensuring inclusivity and relevance. The visibility from such awards may incentivize SMEs to adopt ESG principles and enhance their ESG performance, while raising awareness among other SMEs by offering practical examples to follow. Award criteria should be comprehensive and transparent, covering environmental, social and governance standards relevant to the national context.

Capacity building opportunities linked to ESG awards can be introduced by:

a. **Providing training before award submissions.** General training before award submissions may equip SMEs with foundational ESG knowledge, enhancing their chances of meeting the award criteria and ensuring SMEs report their ESG practices and overall performance accurately. This preparatory training can ensure that more businesses are prepared to compete for ESG awards and increases their understanding of ESG at large.
b. **Offering access to customized coaching for ESG award winners**, helping them continue to advance along their ESG journey by providing targeted guidance in implementing ESG strategies tailored to their business.

Partnerships with universities, research institutions, and business support organizations can be leveraged to give SMEs access to specialized knowledge on sustainability and ESG practices.

2. Building capacity for green practices and ESG reporting

Introductory training to reach a large number of SMEs can be developed and delivered, for example through e-learning programmes. Such courses typically cover fundamental topics (such as the benefits of integrating ESG practices into business operations and conducting a baseline materiality analysis), and provide content relevant to various sectors and business sizes. The format can include a mix of asynchronous (self-paced) and synchronous (live) learning options to accommodate different schedules and learning preferences. Tailored outreach to marginalized and underrepresented groups, such as women-led and rural SMEs through partnerships with local organizations can help to ensure the inclusivity of such programmes. Evaluations are useful in measuring the effectiveness of such trainings and identifying remaining skills gaps to be tackled in follow-up programmes.

Advanced (in-person) training programmes are also essential, with modules that cover:

a. **specialized technical skills for the implementation of ESG practices in SMEs**, such as sustainable supply chain management; and
b. **relevant global or national ESG reporting standards with practical guidance** on how to compile and present ESG data transparently.

For these advanced training programmes, case studies, group discussions and scenario-based learning can be utilized to encourage active in-person participation, along with the provision of resources, including tools and guidelines, to utilize after the programme concludes.

One-on-one coaching sessions for selected SMEs are a useful means of providing tailored guidance on their unique sustainability goals and challenges. The coaching process may begin with an initial assessment to identify the current practices and strategies of each SME, followed by the development of customized coaching plans outlining specific objectives and strategies. Coaching sessions may focus on goal setting, accountability and progress tracking, while providing participants with access to relevant tools and resources to effectively implement their initiatives. Access to technical/industry experts on specific ESG practices and technologies may also be facilitated.

The provision of incentives for SMEs to complete (advanced) training programmes on ESG reporting and practices can enhance uptake of such programmes. These incentives may include the following:

a. **Increased recognition and visibility**, highlighting SMEs that successfully complete the training and apply their learnings and certification.
b. **Access to exclusive resources**, such as advanced toolkits or networking opportunities with industry leaders.
c. **The provision of ongoing mentorship or follow-up coaching sessions**, including for example, technical assistance to help SMEs prepare strong business plans, ensuring that participating businesses have the necessary motivation, support and resources to implement their sustainability strategies effectively.
d. **Access to finance for SMEs that have completed training programmes**, through the provision of grants or subsidies to offset the costs of implementing sustainability measures, partnerships with financial institutions that offer tailored loan products, and access to platforms connecting SMEs with investors and funding opportunities.

3. Tools for making ESG practices and reporting accessible for SMEs

Two distinct tools can be used by SMEs at different stages of their ESG journey:

a. **ESG self-assessment tools:** Designed to provide a quick, initial assessment, self-assessment tools help businesses gauge their ESG status and apply general concepts to their operations and business context. Such tools can be adapted to various formats ranging from online, self-guided or facilitated by an external advisor or trainer. Deciding on the format depends on whether the tools are intended to be introduced and accessed through a complementary training programme, though an external advisor or via other channels. Considering how to match the format and features of the tool to the introduction method can help to ensure greater accessibility and uptake. To enhance the user experience, basic automation features (for example, the ability to upload an energy bill for automated data extraction) can be integrated. This would allow SMEs to complete a preliminary assessment quickly while benefiting from data insights.
b. **ESG Management Tools:** Tools focused on ESG management are more comprehensive, continuous-use tools to facilitate ongoing ESG data collection, analysis and reporting. They can be integrated with core business management systems to enable SMEs to track, update and analyse ESG metrics regularly. Such tools can be developed to support compliance with industry standards and emerging regulations, helping businesses to make data-informed management decisions and produce reports. Integrated automated reporting features that are aligned with regulatory requirements can help streamline the reporting process, allowing SMEs to generate and customize reports for different stakeholders.

Integration of online ESG self-assessment tools (and other tools) into awareness raising and capacity building programmes for SMEs can provide participants with immediate feedback and actionable insights during training sessions, enhancing their learning experience. For example:

a. **in awareness raising programmes**, self-assessment tools can be used to help SMEs apply general ESG concepts to their own business contexts, making the principles more relatable and actionable.
b. **in training or coaching**, the use of tools can serve as a baseline, helping SMEs understand their current ESG performance, gaps and focus areas, and identify needed skills for improved ESG performance.

Connecting tools with trusted data sources ensures interoperability with key business management systems. Where possible, this can streamline data collection and reporting processes for SMEs, making it easier for them to manage their ESG information.

Utilizing data gathered from online tools can inform the design of future support programmes for SMEs. By analyzing trends and common challenges, policymakers can create targeted initiatives that address specific challenges of SMEs and gain a better understanding of progress and changes in the ecosystem.

Clear data privacy policies to protect information collected through ESG self-assessment and management tools are important to establish.

4. Financial mechanisms and initiatives facilitating access to finance

Specialized ESG financial products tailored to SMEs can be developed in collaboration with financial institutions to support SMEs to invest in ESG practices. It is important to ensure that such products are tailored to provide appropriate solutions for the diverse capital needs of SMEs, adaptable to different stages of business and ESG maturity, across various industries. ESG financial products tailored to SMEs may include:

a. **Grants** to fund targeted ESG investments or training. Such grants can lower the barriers of entry for SMEs seeking to initiate ESG measures.
b. **Low-interest/zero-interest loans** that provide more affordable finance. These financing mechanisms minimize or eliminate interest charges, thereby reducing borrowing costs and making them accessible options for SMEs and individuals. Such loans are often provided to support specific goals such as SME growth or green and sustainable initiatives.
c. **Impact-linked loans** tied to specific sustainability targets, which reduce borrowing costs as SMEs meet their ESG-related goals. Such loans are innovative financing products that simultaneously make funding available and create incentives for SMEs to maximize sustainability outcomes.
d. **Blended finance solutions**, such as Use-of-Proceeds (UoP) bonds or guarantees that reduce risks for lenders, specifically designed for SMEs investing in their ESG practices.

- **Use-of-Proceeds bonds**: UoP bonds are debt instruments earmarked to raise money for specific projects, with the raised capital exclusively allocated to initiatives that meet specific predefined criteria. To support the green transition of SMEs, UoP bonds can be made available to fund ESG-related initiatives implemented by SMEs. This dedicated use makes these bonds attractive to impact-focused investors and can effectively channel funds to SMEs.

- **Risk-reducing guarantees**: Guarantees provide a safety net for lenders by covering potential losses. In the case of financing green SMEs, government-backed guarantees can reduce the financial risk and perceived risk associated with lending to SMEs for ESG improvements. When a portion of their risk is covered, this encourages more lenders to provide capital.

Collaborations with financial institutions, for example, by encouraging exchange between SMEs and financial service providers and offering training programmes for bank staff on SME needs, can help to ensure that financing options meet SME needs.

Support for SMEs to understand the range of green finance options available to them can be provided, including financial literacy training, application guidance and tailored advice to help SMEs select suitable financing based on their industry, growth stage and sustainability goals. Additionally, many SMEs benefit from continuous support (such as advisory, mentoring or coaching) linked to financing, to support them in making effective use of funds and progress towards green transitions.

Encouraging financial institutions to monitor financial, as well as ESG-related performance of funded projects, can promote a better understanding among financial institutions of the sustainability footprint of their portfolios. By tracking ESG-specific impacts, financial institutions can refine their product offerings and support services to better meet the evolving needs of SMEs.

In conclusion, SME development agencies have a comprehensive suite of support initiatives they can take forward to promote ESG practices and reporting among SMEs, including awareness raising campaigns, introductory and in-depth capacity-building programmes, practical ESG tools and accessible financing options.

- Awareness raising campaigns lay the groundwork by introducing SMEs to core ESG principles and helping them to understand the relevance of these practices to their business operations and broader market expectations.
- Capacity building programmes build on this foundation, offering SMEs structured learning opportunities that deepen their ESG knowledge and enhance their skills for real-world application.
- The development of ESG tools provides SMEs with easy-to-use resources that simplify the process of adopting and tracking ESG practices, empowering them to monitor their progress and make adjustments as they advance.
- Financing options play a critical role by offering SMEs the financial support necessary to undertake and sustain ESG initiatives. These funding mechanisms, when designed to be

flexible and relevant to SMEs' needs, help to overcome the common financial barriers that smaller enterprises face when investing in sustainability.

Together, these interlinked initiatives create a cohesive support system that enables SMEs to progress confidently through each stage of ESG adoption, ensuring that they have the knowledge, tools and financial resources required for impactful and enduring sustainability practices.

Building synergies between support activities enhances the experience for SMEs adopting ESG practices. For example, linking capacity building efforts with access to finance can create pathways from learning to practical application, and as SMEs develop sustainability skills, they can gain access to tailored financial support, providing an incentive to implement their training effectively. Promoting such synergies creates a system whereby training, tools and finance complement one another, equipping SMEs with the necessary skills and resources to confidently implement and sustain their ESG practices.

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