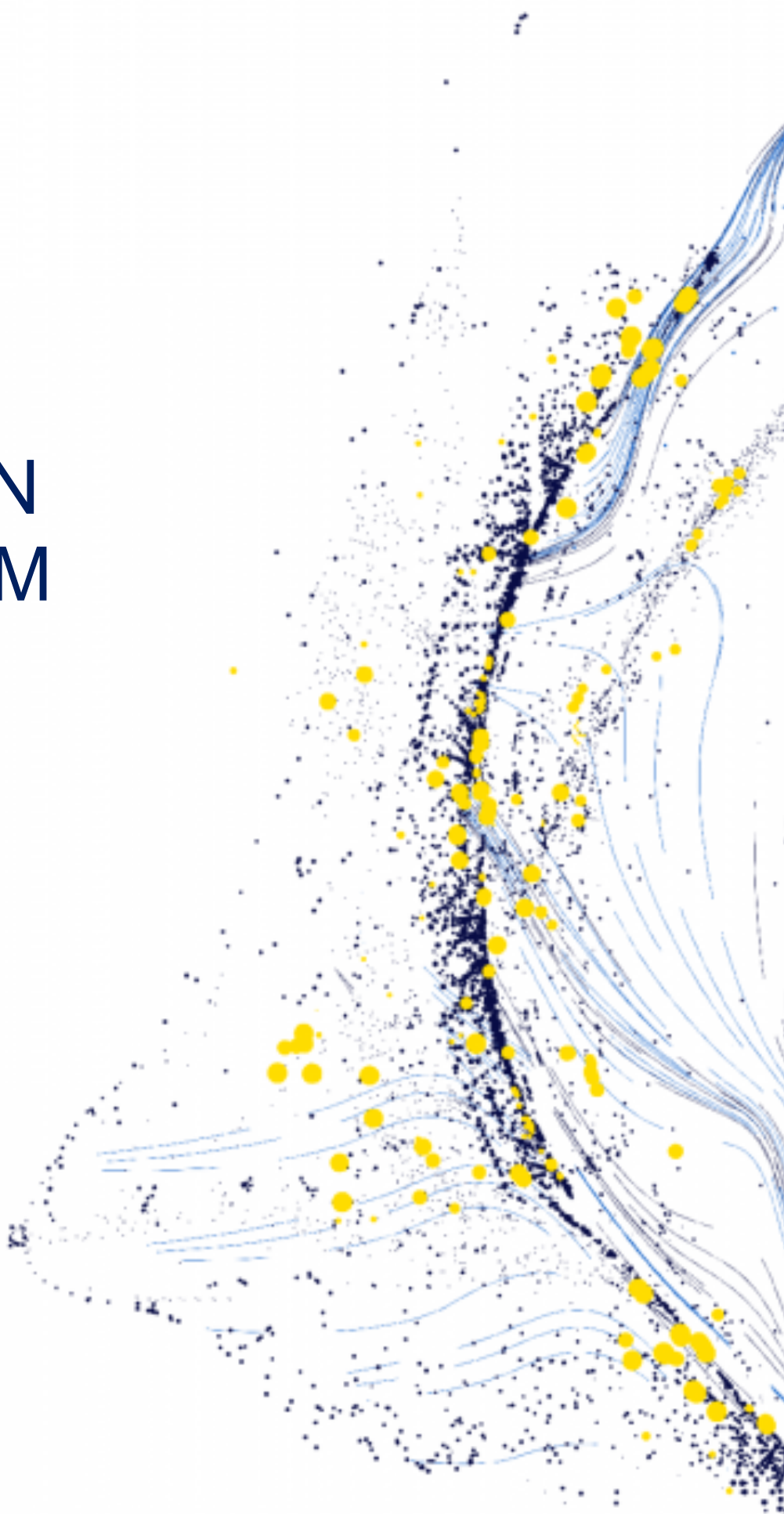


# 2024 ASEAN ESG FORUM REPORT



# Acknowledgements

We extend our sincere gratitude to all the participants for their generous contributions during the discussion sessions and their willingness to share their valuable insights.

CPA Australia and the ASEAN Federation of Accountants (AFA) recently collaborated to organise its second ASEAN ESG focus group discussion. This collaborative effort brought together a diverse panel of ESG experts from across the region to engage in meaningful dialogue about Environmental, Social, and Governance (ESG) considerations for Small and Medium Enterprises (SMEs) in South East Asia.

The focus group participants were:

- Edward Tanujaya, Executive Director, ASEAN Federation of Accountants
- Janet Maneenak, Executive Director of the Thailand Federation of Accounting Professions
- Luthfyana Larasati, Indonesian Sustainability Standards Board
- Mohan Awari, Deputy Head, School of Business, Monash University of Malaysia
- Navina Balasanger, Senior Manager of Sustainability, Malaysian Institute of Accountants.
- Patrick Viljoen, ESG Lead, CPA Australia
- Richard Baker, PwC Malaysia
- Terrence Lam, Director of Advocacy and Professional Standards of Institute of Singapore Chartered Accountants
- Yuliana Sudjonno, Indonesian Sustainability Standards Board

Their valuable contributions enriched our understanding of the dynamic landscape of ESG and SME in the ASEAN region, and we are deeply appreciative of their participation.

# Introduction

SMEs are crucial to the economic vitality of the ASEAN region. They are significant contributors to employment, GDP, and international trade. As global standards around ESG practices become more stringent, SMEs in ASEAN are increasingly under pressure to align with these evolving norms.

This report summarises key themes and challenges related to ESG adoption among ASEAN SMEs and the various aspects of ESG integration and its impact on these enterprises.

## Importance of ESG for ASEAN SMEs

The importance of ESG considerations for SMEs in ASEAN cannot be overstated. SMEs constitute 97% of the private sector in the region, significantly driving economic activity and employment.

According to the OECD ASEAN SME Policy Index, SMEs account for 85% of the labour force and contribute 45% of the regional GDP. Additionally, they are responsible for 10-30% of exports from ASEAN.

As global expectations for sustainability and corporate responsibility intensify, ESG considerations have become increasingly vital. The discussion highlighted a notable rise in sustainability reporting within the Asia-Pacific region,

underscoring the growing emphasis on ESG principles among businesses.

The integration of ESG practices is particularly crucial for SMEs operating in sectors affected by international regulatory frameworks.

Social responsibility is an important aspect of ESG, and SMEs in ASEAN are encouraged to align their social initiatives with their business goals.

Contributing positively to social development, ensuring fair labour practices, and supporting community engagement are key elements of social responsibility. SMEs should integrate these social aspects into their business strategies while balancing practical considerations and operational realities.



# CPA Australia's footprint across ASEAN

CPA Australia has a strong and diverse membership representing a multitude of business and industry sectors in more than 100 countries and regions around the world.

Members work in a broad spectrum of accounting, finance and related roles in businesses of sizes, accounting practices, not-for-profit organisations, academia and the public sector.

This strength and diversity allows CPA Australia, through its members, to make a positive contribution to business, organisations, the accounting profession and the broader

community. The retention of our existing members and attraction of new members reflect member and community trust in CPA Australia and those who hold the CPA designation.

CPA Australia has over 20,000 members across ASEAN. CPA Australia's long history of existence in Southeast Asia (SEA) dates back 70 years with established engagements with the region's accounting profession. It is a testament of our commitment and investment in supporting the growth and development of professionals across SEA.



# Drivers of ESG adoption

Several factors are driving ESG adoption among SMEs in ASEAN:

## Regulatory Pressure

One of the primary drivers is regulatory pressure. In several ASEAN countries, regulations require Public Listed Companies (PLCs) to disclose their sustainability practices. This requirement cascades down to SMEs, as PLCs often demand compliance from their suppliers.

For example, SMEs must adapt to new sustainability reporting requirements imposed by larger companies or face challenges in accessing markets like the European Union (EU), which enforces stringent ESG regulations.

### The EU Carbon Border Adjustment (CBAM)

The EU regulation on CBAM was adopted on 17 May 2023, with a transitional period commencing 1 October 2023. The introduction of the CBAM has significant impacts on businesses that import goods into the EU.

CBAM is a carbon tariff on carbon intensive products (including steel, cement etc.) imported into the EU.

Participants highlighted that CBAM adds a layer of complexity for SMEs to comply with these standards to maintain market access.

## Supply Chain Pressures

Supply chain dynamics are also a significant factor. Larger corporations are increasingly enforcing ESG compliance throughout their supply chains, pushing SMEs to adhere to sustainability standards.

This pressure is not only about meeting current requirements but also about adapting to evolving expectations from major clients and partners.

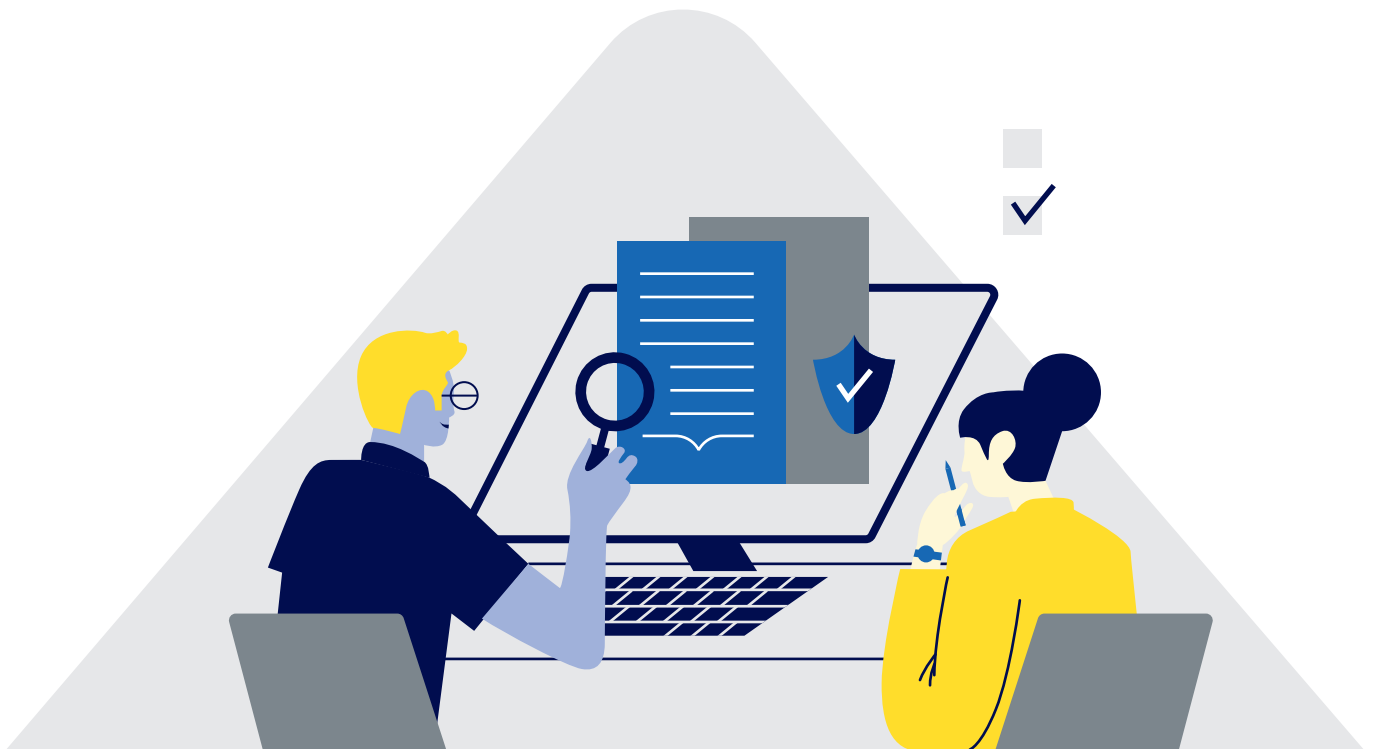
## Access to Green Finance

Financial institutions are now incorporating ESG criteria into their loan and investment decisions. Green financing opportunities are available for SMEs that meet certain sustainability criteria, offering a potential pathway for growth and development.

# Challenges in ESG integration

**Table 1: Challenges to the integration of ESG practices for SMEs in ASEAN**

| Challenge               | Description   |
|-------------------------|---|
| Awareness and Education | Many SMEs lack a clear understanding of ESG requirements and how to implement effective strategies. This knowledge gap hinders their ability to comply with regulations and leverage ESG for business growth. Effective education and training programs are needed to bridge this gap.  |
| Capacity and Resources  | SMEs often lack the human resources and expertise necessary for managing ESG initiatives. The scarcity of qualified personnel in sustainability roles and the high costs associated with hiring such talent pose significant barriers. Additionally, SMEs must balance long-term climate risks with short-term operational challenges.                |
| Regulatory Complexity   | Navigating the complex and fragmented regulatory landscape across ASEAN countries is a major challenge for SMEs. Different markets have varying ESG requirements, which can be confusing and costly for SMEs that operate regionally or internationally. Harmonising standards and providing clear guidance can alleviate some of these difficulties. |
| Cost                    | Implementing ESG practices often involves substantial costs, which can be a significant burden for SMEs. The initial investments required for compliance, reporting, and sustainability initiatives can impact SMEs' financial stability, particularly in competitive markets.  |



# Regulations, compliance and the role of government

## Regulatory and compliance concerns

Regulatory challenges are a significant barrier to ESG integration for ASEAN SMEs. The fragmented nature of regulatory frameworks across the region creates compliance difficulties, especially for SMEs engaged in cross-border operations.

The varying standards and requirements, coupled with international regulations, can lead to confusion and increased costs.

Efforts to harmonise ESG standards within ASEAN are underway but face several obstacles. Language barriers and inconsistencies in frameworks hinder the development of a unified approach.

As a result, SMEs often struggle with the complexity of adhering to diverse regulations. Addressing these challenges requires a concerted effort to streamline standards and provide clearer guidance to SMEs.

## Government Incentives and Support

Governments across ASEAN have introduced various incentives to promote ESG adoption among SMEs. These include:

### Green Financing Schemes

Several countries have developed green financing programs to support SMEs in aligning with sustainability goals. These programs offer financial assistance and resources to help SMEs implement ESG practices.

### Monetary Authority Singapore

The Monetary Authority in Singapore (MAS) frames its approach to credible finance for the transition to net zero around four strategic outcomes.

Central to the plan is a focus on green and transition solutions and markets. This focus in turn highlights four key requirements.

- Blended finance for transition projects with public, private and philanthropic partnerships.
- Financing for decarbonisation of carbon-intensive sectors.
- Green and transition financing solutions e.g. bonds and loans.
- Markets and platforms to mobilise financing e.g. Carbon services and carbon credit markets.

### Sustainability Tools and Grants

Governments are providing tools and grants to assist SMEs in collecting and reporting sustainability data. These initiatives aim to reduce the financial and administrative burden associated with ESG compliance.

### Bursa Malaysia

Bursa Malaysia has produced a range of support materials to support listed entities with their reporting requirements. Although the focus is on larger organisations, the principles have broader applicability beyond bourse participants.

The reporting guide is in turn supported by toolkits dealing with:

- Governance
- Materiality assessments
- Stakeholder engagement

### Certifications and Capacity Building

Certification programs and capacity-building initiatives are designed to help SMEs meet ESG standards. For example, green certifications can enhance SMEs' credibility and marketability, while training programs aim to improve knowledge and skills in ESG practices.

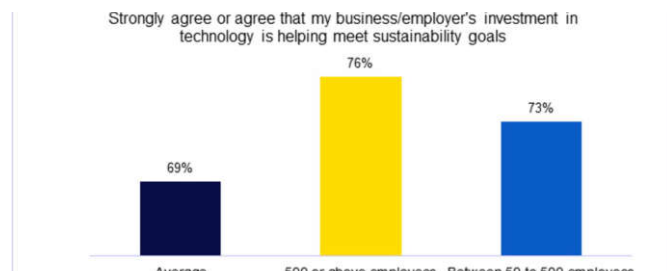
Despite these efforts, there is often a mismatch between the incentives provided and the needs of SMEs. The availability of support may be uneven, with larger companies sometimes benefiting more than smaller SMEs.

To address this, governments should ensure that incentives are accessible and tailored to the specific needs of SMEs.

# Technology and innovation

Technological advancements are playing an increasingly important role in assisting SMEs with ESG tracking and reporting.

**Figure 1: Investment in technology to meet sustainability goals.**



According to CPA Australia's 2024 Business Technology Report, almost 70% of respondents found that their business/employer's investment in technology has helped them to meet their sustainability goals. Larger businesses were much more likely to use technology to meet their sustainability goals.

However, participants shared that SMEs face several challenges:

## **Cost and Accessibility**

Many ESG software solutions are designed for larger enterprises and come with high costs, making them less accessible for SMEs. There is a need for affordable and user-friendly technology tailored to the needs of smaller businesses.

## **Data Management**

SMEs often face challenges with data management and reporting. The reliance on manual data input and limited infrastructure can affect the accuracy and reliability of ESG data. Investments in technology that improves data collection and reporting processes are essential.

## **Emerging Technologies**

Innovations such as blockchain technology offer potential benefits for ESG tracking. However, these technologies are primarily used by larger corporations and are not yet widely adopted by SMEs. Efforts to make such technologies more accessible and relevant to SMEs could support broader ESG adoption.



# Financing and investment

Access to ESG-related financing is crucial for SMEs, but several barriers persist:

### Standardised Metrics

Financial institutions often lack a standardised framework for evaluating ESG performance, complicating the financing process for SMEs. Developing common metrics and guidelines could simplify the process and make it more accessible.

### Investor Expectations

Investors are increasingly seeking transparency regarding how companies manage sustainability risks and opportunities. SMEs that fail to integrate climate considerations into their business plans may face challenges in securing investment.

### Loan Conditions

The requirements for green financing can be demanding for SMEs, particularly regarding data and metrics. Simplifying these requirements and providing clearer guidelines could support greater ESG adoption among SMEs.

However, many small businesses across the region expect to encounter barriers in securing financing, potentially limiting their growth and financial stability. This funding gap poses challenges for SMEs aiming to implement sustainability-focused initiatives, as many of these efforts depend on access to financing.

Without adequate support, SMEs may struggle to meet both national and global sustainability goals, underscoring the importance of targeted financial solutions and support for small businesses in ASEAN economies.

Figure 2: Expectation of requiring external finance.



Figure 3: Perceived ease of securing external finance.



According to CPA Australia’s 2023/24 APAC Small Business Survey Report, ASEAN small businesses are expected to have high demand for external financing this year.

# Recommendations

**Table 2: Recommendations to enhance ESG adoption among SMEs in ASEAN.**

| Recommendation             | Description   |
|----------------------------|---|
| Increase Awareness         | Collaborate with governments, industry bodies, business advisers such as accountants and larger corporations to raise awareness about the benefits and requirements of ESG. Educational programs and resources should be developed to support SMEs in understanding and implementing ESG practices. |
| Leverage Technology        | Develop and promote affordable, SME-friendly ESG software solutions to facilitate tracking and reporting. Investments in technology should focus on improving accessibility and usability for smaller businesses.   |
| Simplify Financing         | Streamline the ESG financing process and provide clear guidelines for SMEs. Financial institutions should work to make green financing more accessible and less complex for smaller enterprises.  |
| Enhance Government Support | Ensure that government incentives and support programs are well-targeted and accessible to all SMEs. Tailored initiatives should address the specific needs and challenges faced by smaller businesses.   |
| Tailor Strategies          | Develop sector specific ESG adoption strategies to address the unique challenges faced by SMEs in different industries. Customised approaches can help SMEs navigate their specific ESG requirements more effectively.  |

The integration of ESG practices presents both opportunities and challenges for SMEs in ASEAN. While regulatory pressures, supply chain demands, and access to green financing drive SMEs towards sustainability, obstacles such as awareness gaps, capacity limitations, and high costs remain significant.

Addressing these challenges through enhanced support, technology, and streamlined processes will enable SMEs to better align with ESG standards, contributing positively to their communities and the environment.

With the right strategies and support, SMEs can navigate the complexities of ESG adoption and achieve sustainable growth.