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The race to get MSMEs on the green curve

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Page 1 of 2

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Everywhere in the world, businesses big and small are coming under increased pressure from investors, consumers and even employees to incorporate environmental, social and governance (ESG) reporting into their operations.

From an environmental standpoint, 2021 saw a rapid rise in the number of governments and large companies setting ambitious net zero targets. But the same cannot be said for the majority of micro, small and medium enterprises (MSMEs) that dominate the value chains of most industries.

Our analysis estimates that MSMEs can represent more than 90% of organisations in any given supply chain. So, unless small enterprises are on board, the ESG metrics of governments and large corporates are unlikely to reflect the real state of play.

There are huge benefits for MSMEs to embrace ESG-led operations and reporting, from catalysing innovation to increasing operational efficiency, risk mitigation and employee engagement. All of these can help build competitive advantage and strengthen resilience in the face of external shocks. A World Economic Forum report found that their smaller size makes MSMEs more agile in producing and integrating innovations, as well as in enabling, constraining and shaping the nature of innovation in their respective markets.

Yet for most of them, going green is a real hindrance. In Asia, a report by the Organisation for Economic Cooperation and Development (OECD) — *Facilitating the green transition for Asean SMEs* — outlines a range of impeding factors from low awareness of environmental requirements to high costs associated with change of business processes and technology adoption. Seeing as it is in their interests to do so, what can the public and larger private sector corporates do to help MSMEs overcome these challenges?

All hands on deck to support the greening of Malaysia's MSMEs

Malaysia is among the many Asian countries committed to carbon neutrality by 2050, with the country's top government-linked companies such as Petroliaam Nasional Bhd (Petronas), **Tenaga Nasional Bhd**, Sarawak Energy Bhd, Maybank Group and the Employees Provident Fund, and large private sector entities among others, driving the transition. The country's latest development roadmap, the 12th Malaysia Plan (12MP) 2021-2025, has been designed to incorporate ESG-led decision-making.

But these targets and plans can only be fully realised by bringing on board the country's MSMEs, which contribute 37.4% (RM518.1 billion) to the gross domestic product and employ 47.8% of the workforce. Thankfully, Malaysia's existing business and regulatory ecosystems have all the makings to support the widespread greening of these enterprises through greater public-private sector collaboration.

The Asean SME Policy Index 2018 in collaboration with the OECD places Malaysia, alongside Singapore and Thailand, in the "advanced stage" in terms of its MSME support infrastructure. The ranking is based on the country's sound policy frameworks and presence of implementation institutions that offer extensive support services for MSMEs across specific industries, often in partnership with the private sector. Malaysia has in place substantial MSME innovation infrastructure such as science and technology parks, innovation centres and incubators.

But there is a potential disconnect between programmes supporting MSMEs and those supporting greener practices. Bridging this gap calls for a three-pronged approach that involves greater alignment between the government, external accelerators and internal enablers.

More green policies are required within existing MSME policy frameworks to facilitate cohesive strategies that include regulatory incentives, technical assistance and access to finance and new markets. Financial, information and regulatory tools can be adopted to develop green markets through green public procurement, certifications and eco-labels.

External green accelerators including green financing facilities, education programmes, green innovation partnerships and platforms for green vendor collaborations must be made accessible at a greater pace. Over the next decade, green vendor development programmes would help seed and accelerate the growth of new ser-

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BY CHING-FONG ONG AND NURLIN MOHD SALLEH



vices within the ecosystem through new opportunities such as professional services on ESG, green technology development, testing and certification, and the building of new talent pools.

Internal enabling capabilities such as data, processes and systems must be simplified as MSMEs may lack the capacity and knowledge to implement the changes required to improve environmental performance with appropriate technologies. With the right resources, they will be better equipped to incorporate green practices into their core business planning.

Malaysia's green journey off to a sound start, but there's work to be done

Although there is still some way to go, Malaysia's green journey is making good headway, with three national policies — the National Green Technology Policy (NGTP), the National Climate Change Policy (NCCP) and the Green Technology Master Plan (GTMP) — regulated by the Malaysian Green Technology and Climate Change Corporation (MGTC).

MyHILJAU Mark, Malaysia's official green recognition endorsed by the government, continues to bring together certified green products and services that meet local and international environmental standards under one single mark. The Green Technology Tax Incentive, introduced in 2014, provides tax incentives and exemptions. Meanwhile, the Green Technology Financing Scheme 2.0 (GTFS) helps to provide financial aid to companies, with the government guaranteeing 60% of the loan amount and providing a 2% rebate on the interest or profit rate charged.

The Low Carbon Transition Facility by Bank Negara Malaysia and participating financial institutions, with a fund value of RM1 billion, aims to help MSMEs adopt sustainable and low carbon practices such as increasing the use of sustainable raw materials and renewable energy. And while the government is not quite ready to introduce carbon taxes, it is part of the country's 12MP framework. This is especially important as the European Union introduces, as early as 2023, its carbon border adjustment (CBAM), which is a tariff on carbon intensive products exported to the EU. And with Malaysia being the EU's fourth largest trading partner, Malaysian exporters, including MSMEs, will need to accelerate their green transition to circumvent these export tariffs.

On the private sector front, HSBC Malaysia has signed a memorandum of understanding (MoU) with Climate Governance Malaysia (CGM) to educate the wider business community, in particular MSMEs, on the "how and why" of greening. In our report, *Delivering Net Zero Supply Chains*, in collaboration with HSBC, we outlined several principles for businesses in their roadmap to transition towards emissions-free supply chains. They include rethinking product design, embracing collaboration, building the capabilities needed for change, investing in technological solutions and developing better data structures.

Like elsewhere in the world, the journey to green is one of the most important journeys that the Malaysian government and companies will need to take in this century. Our estimates suggest that as much as US\$25 trillion (RM112.4 trillion) to US\$50 trillion — between a quarter and half of the total global investment — will need to be directed to MSMEs to help them make the switch. But with MSMEs remaining a primary driver of Malaysia's economic growth, an investment in a comprehensive green vendor development programme will be well worth it, with payoffs across the entire business ecosystem. Bringing MSMEs on board the green curve will strengthen the country's international economic competitiveness and enhance access to export markets and global value chains. ■

Ching-Fong Ong is managing director and senior partner and Nurlin Mohd Salleh is managing director and partner at Boston Consulting Group