Bloomberg Media Studios × DBS

Catalysts of Sustainability

Small and Medium-Sized Enterprises (SMEs) present one of the biggest sustainability opportunities. They account for 90% of businesses and more than half of employment worldwide.[1] Yet many lack access to the financing, technology and expertise required to embrace sustainability.

DBS partnered with Bloomberg Media Studios to find out how financial institutions can help. Together, we conducted a study covering 937 decision makers from small (22%), medium-sized (67%) and the minority from large (11%) companies, who are involved in Environmental, Social and Governance (ESG) decisions. We also conducted in-depth interviews with 11 decision makers from SMEs to further understand barriers and opportunities around sustainability. The study covered over 150 decision makers each across China, Hong Kong, India, Taiwan, Indonesia and Singapore. They represented the Real Estate, Mobility, Power, Agriculture and F&B/Hospitality industries.

This e-book captures key learnings from the quantitative and qualitative study and suggests next steps to help SMEs progress in their sustainability journeys.

[1] World Bank

Foreword

The steady drumbeat of warnings that the world is not on a trajectory to achieve net zero emissions by 2050 has never been louder.

It is crystal clear that we, as corporate citizens, need to change our way of doing business, accelerate investments in technologies that will help us address sustainability issues across the global economy, and mitigate the impacts of climate change.

As Southeast Asia's largest bank by assets, we recognise the responsibility we have in supporting a just transition. That also means protecting those at risk of devastation from the effects of climate change, while supporting sustainable and inclusive economic growth.

It is a role that is especially appropriate to what the bank stands for. After all, it is embedded in our founding name – The Development Bank of Singapore – and aligns with our approach to sustainability, which is anchored on three pillars: (i) responsible banking, (ii) responsible business practices, and (iii) impact beyond banking.[2]

In September 2022, we were the first bank in Southeast Asia to announce a landmark set of decarbonisation commitments, with interim targets set for 2030. The commitments represent one of the most comprehensive sets of decarbonisation targets in the global banking industry and reinforce our commitment to net zero by 2050.

When it comes to SMEs, we understand the many challenges they face transitioning to more sustainable business models. But given that they are the lifeblood of economies, it is imperative that SMEs successfully make the transition.

The results of this study done together with Bloomberg Media Studios provide valuable insights into how the region's SMEs are thinking about ESG matters. It sheds light on challenges faced by SMEs in sustainability and opens up potential opportunities to further their journey. At DBS, we want to play a part in supporting our SME clients by building sustainable finance and ecosystem solutions for SMEs to tap into. Collectively, we can accelerate the pace of transition to a net zero world.

Piyush Gupta
Chief Executive Officer
DBS

[2] DBS' approach to sustainability

Introduction

SMEs are the backbone of our economies, representing 96% of businesses across Asia and 90% globally.[3]

With their immense contributions to world economies, their potential to drive positive social and environmental impact cannot be overlooked. They will be instrumental in our desire to transition to lower carbon societies, and hence, need our strong support in their decarbonisation journeys.

SMEs are increasingly facing pressure to turn 'greener' as their supply chain ecosystem often includes large corporates, many of which have adopted or are increasingly compelled to adopt ESG strategies and standards.

Having worked with Bloomberg Media Studios to interview more than 800 SMEs across the region, one thing is clear: SMEs acknowledge the need for more sustainable business models and supply chains but struggle to develop and implement ESG strategies. This has been further exacerbated by the current macroeconomic environment, which means that keeping business afloat is the core focus.

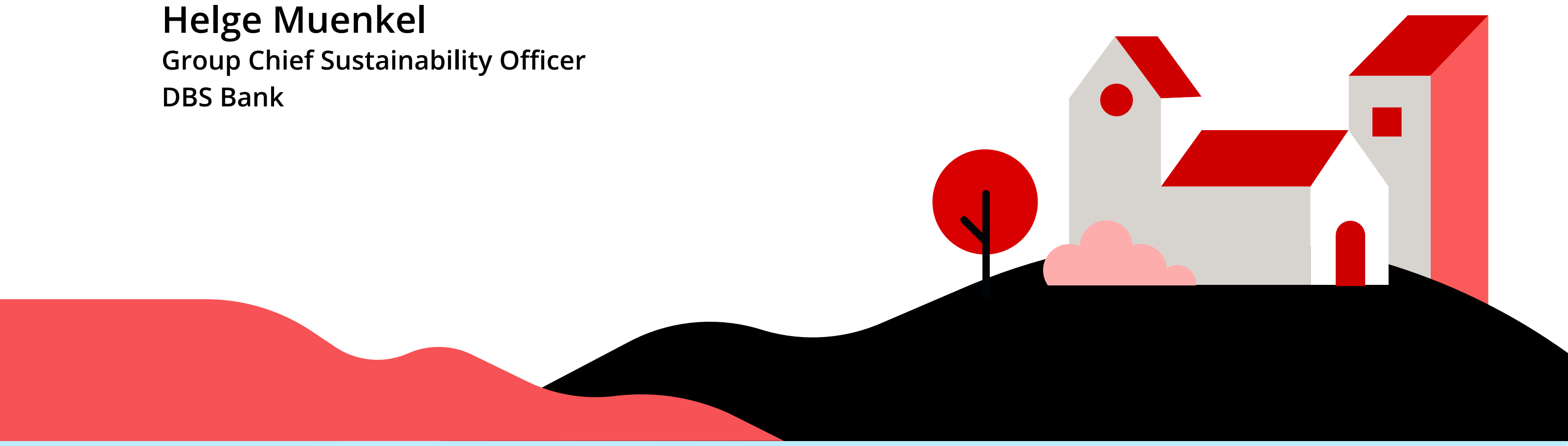
SMEs do not have the same human or financial resources as large corporates do to tackle complex sustainability challenges. For instance, SMEs often struggle to source and process relevant ESG data to develop ESG strategies and make informed decisions.

Unsurprisingly, with their deeper pool of resources, large companies typically lead the way in transitioning towards more sustainable business models.

Banks have a critical role to play in helping SMEs address this.

At DBS, we are ready to support SMEs in their decarbonisation efforts, whether it is via knowledge transfer, in partnering them to identify and deploy digital solutions to address the ESG data challenges, or in financing their transition journeys.

Helge Muenkel
Group Chief Sustainability Officer
DBS Bank



[3] World Bank

Trends & Barriers

The drive to marry purpose and profit has never been greater. Particularly salient since the Covid-19 pandemic, companies have been forced to scrutinise their responsibilities and role in society beyond business bottom-line, as consumers are also engaging businesses with more sustainable practices.

Increasingly, companies, investors and consumers are uniting in a common ambition for the future. To preserve our environment, empower those in need, and build a transparent, inclusive, equitable future for all.

In Asia, 87% of large companies studied listed ESG as a high priority, while 85% of medium-sized and 75% of small companies felt the same.

“Being ethical is most important,” said a leader at a F&B company in Taiwan. “You basically do what is morally right as a business.”

This further reflected on positive attitudes from business leaders towards sustainability, with over 8 in 10 agreeing on:

85% AGREE Diversity, Equality, and Inclusion policies are important

84% AGREE It’s important for me to incorporate sustainability values when selecting investment projects instead of just thinking about profits

84% AGREE I participate in high-level meetings and actively work to influence company policies to adopt ESG

84% AGREE I believe that our company’s operations should gear toward protecting the environment

82% AGREE ESG metrics are an important part of financial reports

81% AGREE Adopting ESG will provide the best ROI as the ‘right thing to do’

ESG Trends: An Industry View

SHARE OF SMES IMPACTED BY ENVIRONMENTAL, SOCIAL AND GOVERNANCE

TOP TWO AREAS AFFECTING EACH INDUSTRY

	REAL ESTATE	MOBILITY	F&B/HOSPITALITY	POWER	AGRICULTURE
E 91%	Waste management	Carbon footprint	Waste management	Carbon footprint	Waste management
	Carbon footprint	Climate Change	Zero Waste	Climate Change	Climate Change
S 85%	Employee health and safety	Employee health and safety	Employee health and safety	Employee health and safety	Employee health and safety
	Product safety and quality	Diversity, inclusion and equality	Diversity, inclusion and equality	Product safety and quality	Work life balance
G 41%	Responsible investment	Responsible investment	Responsible investment	Responsible investment	Responsible investment
	Data security and privacy	Data security and privacy	Compliance to laws and regulation	Risk management	Compliance to laws and regulation

Focus is on the ‘E’

On average, Asian companies that considered ESG a high priority allocated 18% of their budget to ESG projects. They expect that allocation to reach 19.8% within the next three years, with the lion’s share going towards environmental projects. Decision makers from all five industries studied said the ‘E’ had the greatest impact on their industries, citing *waste management*, *climate change* and their *carbon footprint* as key focus areas.

Incidentally, environmental initiatives are also low-hanging fruits that companies can demonstrate to investors and other stakeholders. Access to funding and know-how likewise makes focusing on the ‘E’ easier. At the SME level, having access to green funding motivates them to start planning and engaging in ESG initiatives.

“The ‘E’ is more quantifiable,” says Koh Kar Siong, Group Head of SME Banking, DBS. “For instance, a business can readily quantify its water usage, wastewater discharge and air pollutant emissions. Like anything else, when it is quantified, it can be managed in a systematic manner over time. In comparison, social parameters are often not as clearly defined, certainly not as regulated as other labour practices and can be ambiguous.”

With regard to the ‘S,’ *employee health* and *safety* was unsurprisingly the chief area of social concern across all industries studied, as it is typically regulated by law which naturally makes it a key focus. *Responsible investment* was top of mind in relation to the ‘G.’ Governance took a lower priority for some SMEs given the perception that large, listed corporates needed governance more.

“For SMEs, the ‘G’ is usually attached to environmental and social governance,” Koh says. “They focus more on how they manage environmental, health and safety, as well as social areas, as compared to corporate governance and anti-corruption.”

While environmental factors had the biggest impact at the industry level, governance was most likely to influence business decision making. *Data security, privacy, transparent decision making, corporate risk management* and *transparent financial reporting* were among the most common factors that nudged decisions in one direction or another.

Financial Concerns and Unclear Reporting Standards Are Common Barriers to ESG Adoption

Complying with regulations, attracting talent, boosting revenue, pleasing stakeholders and simply doing the right thing, were among the incentives that led SMEs to embrace ESG, yet a host of obstacles remained. With cashflow being especially critical for these smaller businesses, financial barriers were the most common. Over a third of SMEs pointed out challenges around return on investment, cost of deployment and meeting growth targets.

"If the result of using clean energy and materials do not immediately translate to revenue, SMEs will find it challenging to comply with government regulations," said a leader at a new materials company in China. "We simply do not have the extra resources to sustain our businesses for the next five to 10 years."

The lack of clarity on ESG standards presented another challenge. A third of SMEs said the issue was compounded by not having ESG specialists onboard, while nearly a third struggled with unclear reporting standards. Without a single platform to harmonise standards, implementing ESG projects and measuring their progress was tough. This also made it difficult to demonstrate success to stakeholders and investors.

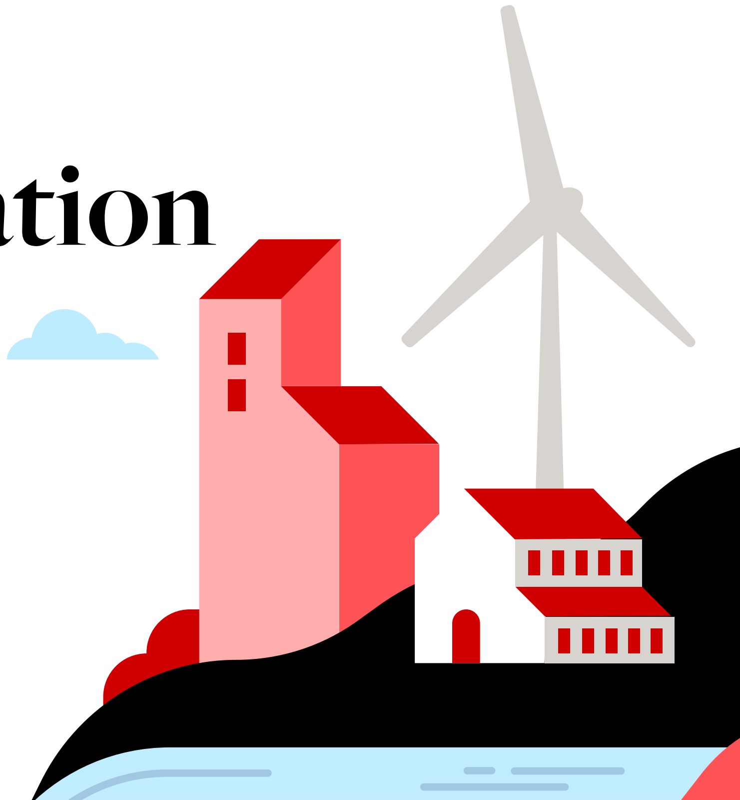
"It's very hard for us to find the right criteria to measure our ESG performance," said a leader at a logistics and supply chain company in India. "Currently, we base our progress on energy savings compared to last year to see how well we've done."

Simplified and standardised KPIs will go a long way to enable SMEs to measure their environmental and social impacts clearly and objectively, along with ESG metrics that are based on the individual capabilities and profiles of these companies. Assessing them by the same criteria as larger companies that have more resources will make it difficult for SMEs to achieve their KPIs.

Top 10 Challenges SMEs Face in ESG Implementation

- **39%** Balancing ESG with growth targets
- **34%** Lack of ESG specialists
- **34%** Difficult to assess the future valuation and potential ROI
- **35%** Cost of deployment
- **33%** Need to transition business operations to meet ESG requirements
- **31%** Lack of clarity from governing bodies on reporting standards
- **32%** Lack of buy-in from external stakeholders
- **30%** Difficult to drive employee involvement and mindset changes towards sustainability
- **30%** Lack of buy-in and collaboration across internal stakeholders
- **29%** Lack of technical know-how on planning implementation

Strategies & Implementation



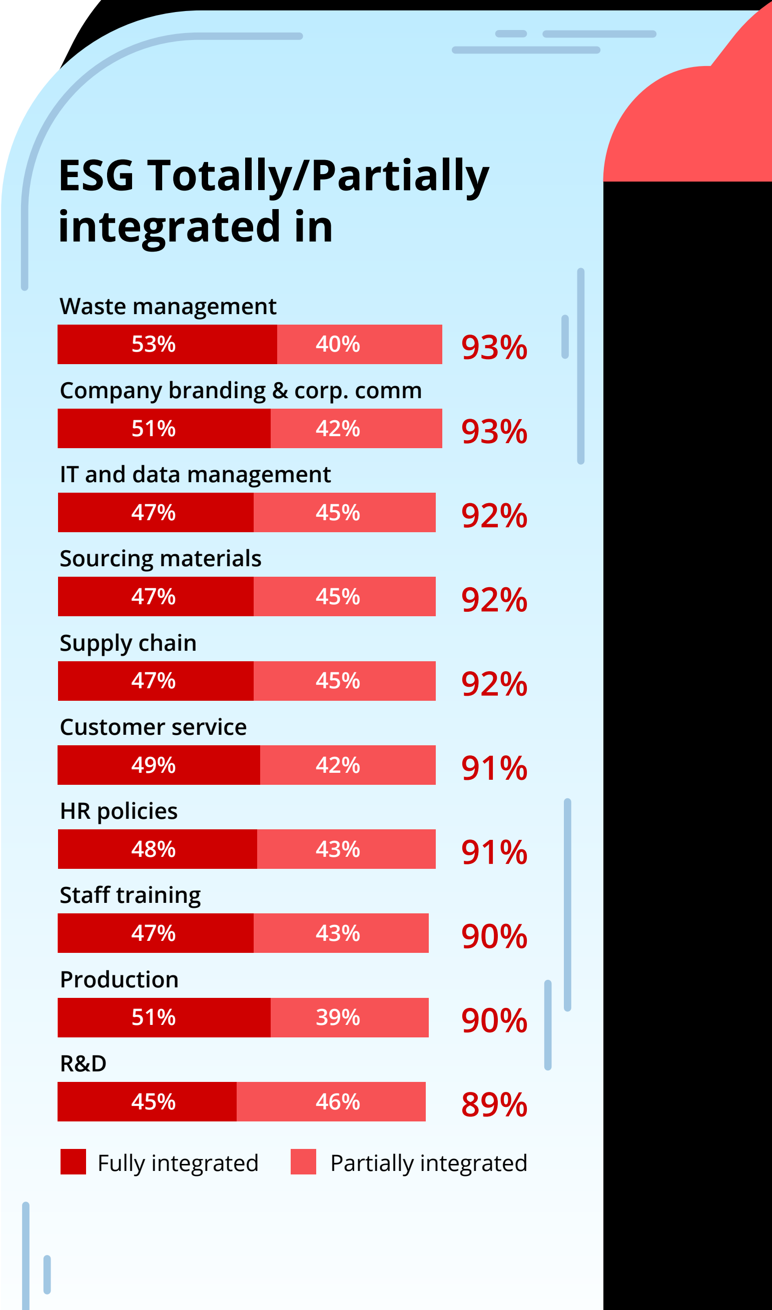
SMEs are serious about ESG and plan to make it an integral part of their business, though many are still in the early stages of their journey. Around 83% of small companies, 92% of medium companies and 93% of large companies have a strategy in place or are creating one, but only 37% have a clear roadmap on how to achieve their goals.

Most SMEs prioritised initiatives that might improve their bottom line and those that can be immediately actioned. Currently, they are focusing more on identifying sustainability issues that are affecting their businesses rather than formulating ESG frameworks and long-term strategies that would take years to fulfil.

"We have our long-term mission but not strategies," said the leader of a Chinese real estate and construction company. "We just don't have resources to investigate and plan ESG initiatives for the next ten years down the road."

While long-term planning may be difficult, Yulanda Chung, Head of Sustainability, Institutional Banking Group, DBS, suggests practical steps: "SMEs can start by identifying material ESG elements to focus on and then evaluate whether these elements could improve their bottom line. For example, an energy-intensive SME could reduce energy costs by using energy-efficient equipment to support decarbonisation. Meanwhile, a labour-intensive SME could consider focusing on the social aspect, and improve the health and safety or diversity, inclusion and equality of its workforce. In this way, SMEs can realise synergies by integrating ESG into their business strategies."

"Analysing industry trends and best practices is another important step to take early on." Chung adds. "SMEs can use the learnings to conduct risk analysis and understand the accompanying consequences if they do not align to industry standards and government guidelines. These exercises can also help them identify opportunities and begin to plan a course of action. Over time, they can turn this into a timebound, actionable and quantifiable roadmap."

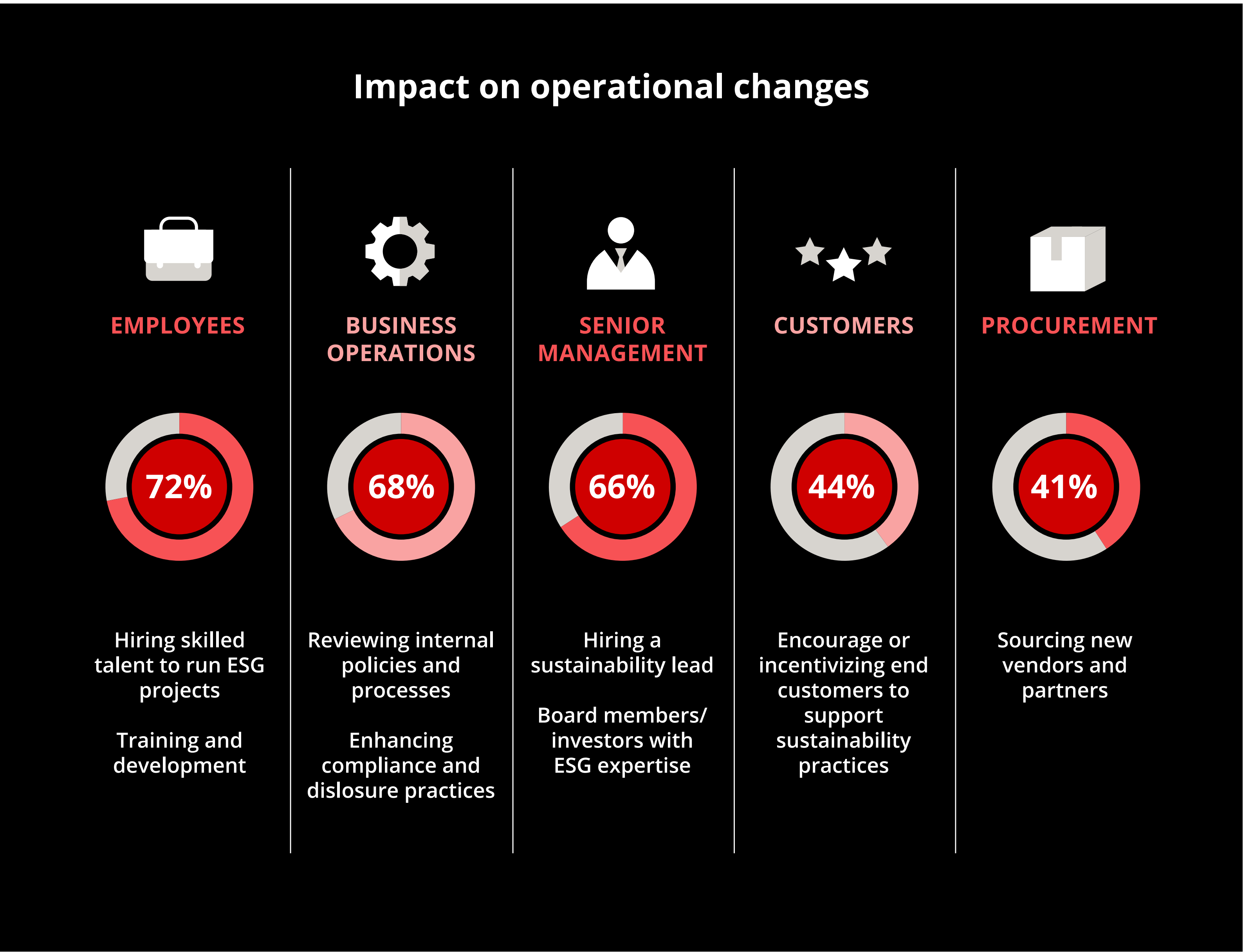


Consistent Definitions and Measurements Drive Success

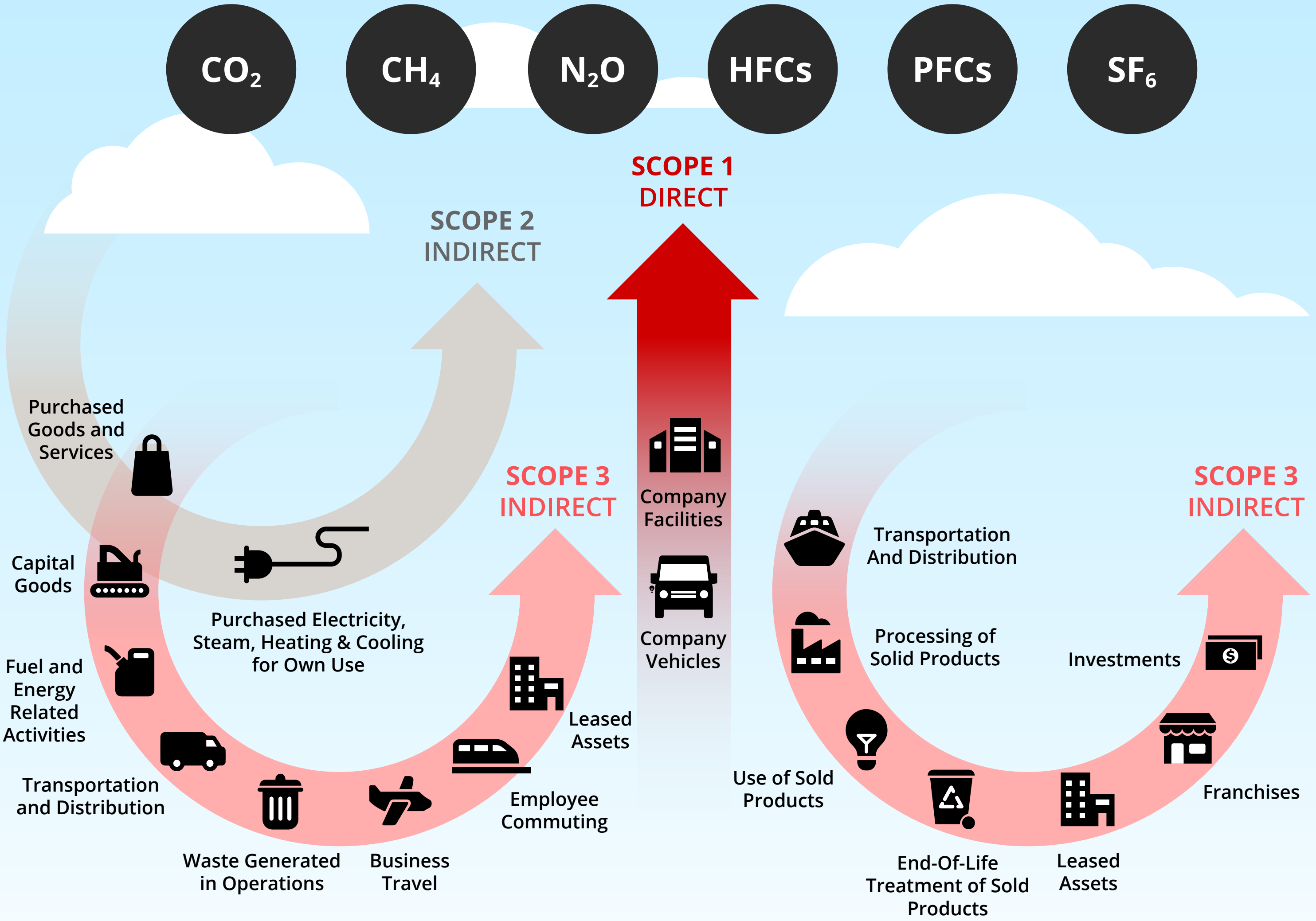
Reporting requirements can hinder the ESG journey for SMEs. For example, institutions use the same criteria to measure SMEs as they do for large corporations, as early-stage companies do not have the equivalent resources to embark on ESG reporting. In terms of expertise, some SMEs engage advisors or consultants to help them realise their ESG value, while others rely on self-monitoring. The lack of a homogenous framework or standardised guidelines also leads to wide inconsistencies in measuring success and performance.

Regardless of size, 72% of companies saw the need to hire skilled talent to run ESG projects, 66% needed to hire a sustainability lead or staff with ESG expertise and 68% required review of internal policies and processes. Where larger companies can shift resources to make that happen, SMEs often cannot.

“Obviously you would want to measure your ESG progress. Otherwise how would you make the effort to improve?” a leader at a construction and engineering firm in Singapore said. “But there are a lot of challenges in agreeing on what measurements to use.” The leader of a mobility company in Indonesia agreed. “There are so many standards out there, you don’t know which ones apply best to your industry.”



Green House Gas Protocol Scope of Emissions Overview



Source: Green House Gas Protocol

With regard to improving their environmental footprint, Chung suggests SMEs can take a big step forward by first calculating their Scope 1 and 2 carbon emissions. Scope 1 emissions refer to direct emissions from operations such as fuel consumption and equipment use. Scope 2 emissions are those generated indirectly by a company's operations such as the consumption of purchased electricity and heating.

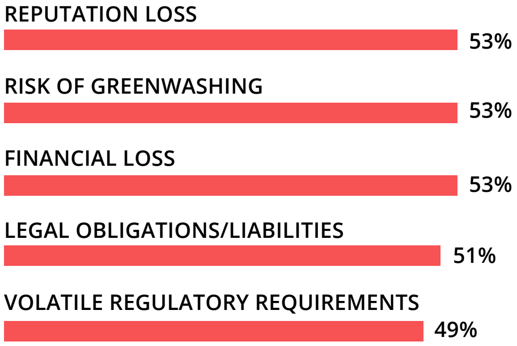
"While this might sound challenging, there are readily available AI and machine learning tools that can help simplify measurement of emissions and provide insights for preventive or predictive measures to bring emissions down. With a data-driven approach towards their current environmental impact, SMEs can develop realistic sustainability goals and identify KPIs to track their progress," she says.

Supporting SMEs in their ESG journey

SMEs may risk reputational and financial loss and be accused of greenwashing if their ESG strategies are not well-designed or properly implemented. To fully tap on the value of sustainable opportunities and minimise potential risks, they need help in areas such as identifying what to measure and monitor, which standards and principles to use that apply most to their industries, availability of transparent regulations, as well as obtaining stakeholder buy-in. Collective support from external parties including banks, government agencies and consultancies will ensure their success.

"SMEs are very different from large corporations in terms of their corporate structure, pace, needs and resources," Koh says. "When guiding SMEs on ESG strategy, advisors not only need to understand what stage they are at before proposing the steps to be taken. They must partner them closely in establishing the fundamental systems, measurements and processes that are important for executing on those ESG ambitions."

Risks if ESG projects are not executed properly — Quantitatively



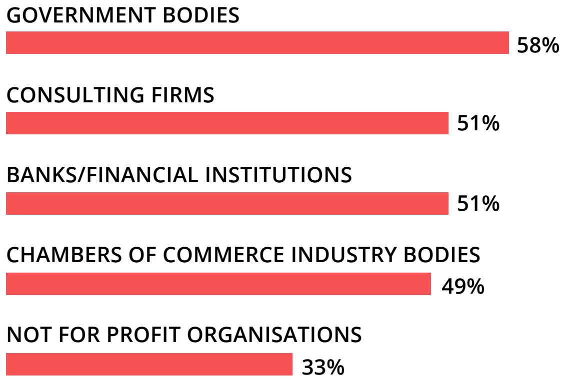
Five Areas to Support SMEs on Their ESG Journey

- Develop consistent and SME-customised measurement standards for easy adherence
- Ensure regulations are transparent, clear and easily accessible to SMEs
- Help SMEs provide a long-term view on the ROI linked to ESG initiatives to better inform stakeholders about the risks and returns
- Manage greenwashing and corrupt practices to ensure level playing field for all SMEs vs. larger corporates
- Be open to provide financial support specifically for ESG. SMEs with ESG support expect an edge when it comes to funding

The Role of Banks

Regardless of size, 75% of companies felt that banks and financial institutions were important in helping them achieve ESG goals. Yet only half currently seek guidance from banks.

Source of ESG Guidance for SMEs



For SMEs who did not seek guidance from banks, there were two underlying reasons: Many were unaware that banks offered green financing. Others thought that sustainable banking solutions did not apply to them.

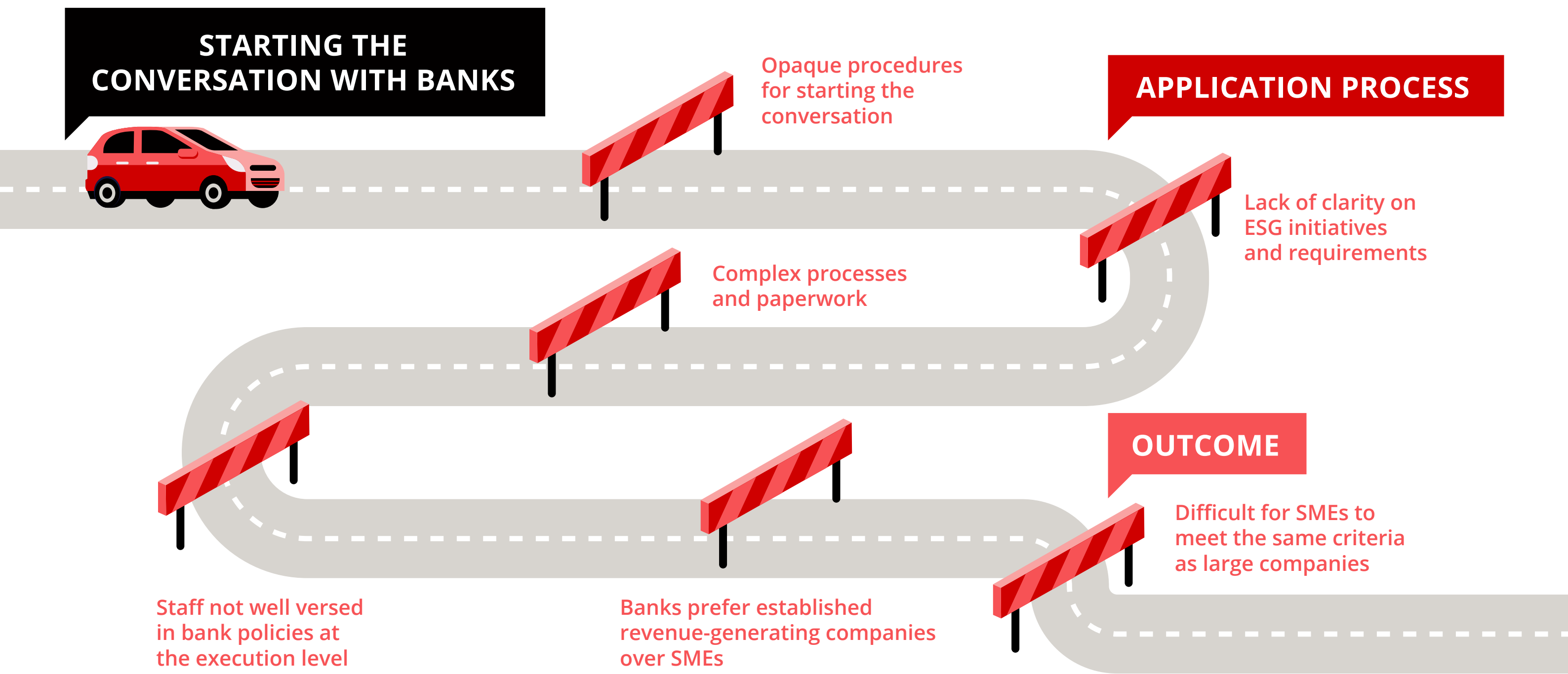
"We don't know which banks offer green financing," said a leader at an auto company in Indonesia. "We inquired at the bank we normally use. The manager there was not familiar with it and didn't know who or where to redirect us." A leader at a retail and consumer goods company in Taiwan agreed: "In Taiwan, banks are very traditional. I'm not aware of any bank that offers green products to SMEs."

Other SMEs found it difficult to work with banks in their ESG journey. In some cases, banks that were initially enthusiastic did not respond after initial contact, while others demanded information that was difficult for SMEs to produce.

While pain points are not uncommon, Koh reminds us that DBS stands ready to partner with SMEs: "Our sustainability team has been sharing ESG know-hows, including decarbonisation opportunities and exploring how DBS can support SME clients in their ESG journeys beyond just sustainable financing."

"When evaluating a potential banking partner, SMEs will look for a bank that demonstrates credibility and commitment in aligning with climate goals. We aim to embed SMEs in the wider ecosystem, connecting them to other relevant players that can help facilitate opportunities in their sustainability journey."

Common Pain Points SMEs Face When Dealing With Banks



Clear Requirements and Transparent Terms and Conditions of ESG Financing

Regardless of size, companies expect banks to first and foremost provide overall ESG consultancy, followed by financial assistance, then thought leadership. Many companies, SMEs in particular, are unsure if their ESG initiatives qualify for green financing. They need help in defining what these initiatives encompass and struggle with vague requirements as well as terms and conditions from banks pertaining to these types of loans, including unclear evaluation criteria for such projects.

"I would appreciate if banks could put information on their websites regarding requirements to access the different types of ESG funding," said a leader at an auto company in Indonesia. "This way, businesses can do their own initial research and analysis to see if they qualify to avoid wasting time."

Added on are the complex processes and paperwork required for certain types of ESG financing, exacerbating the cumbersome interactions with banks.

"While the application process for ESG financing is simple, the requirements for information or supporting documents are rather vague," said a leader at a new materials company in China. "Samples or templates should be provided to companies as reference to help us in our submission and so we know the areas of focus and which items require more detail, to meet the conditions of the financial institutions and relevant departments.

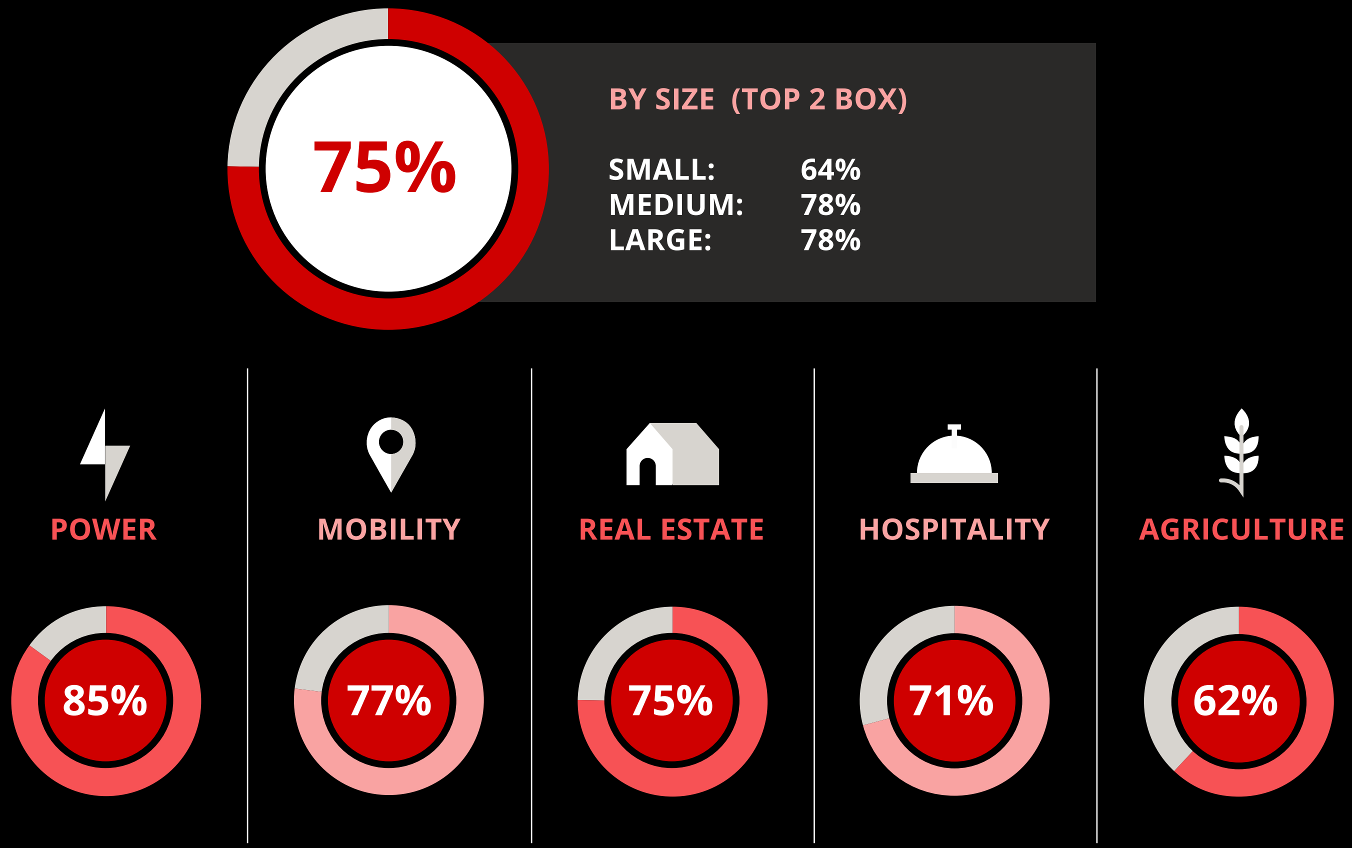
After an ESG project has been identified with the required financing in place, SMEs want banks to help them monitor and evaluate the progress and develop financial strategies to optimise the funding. Based on common SME pain points and barriers to adopting ESG, they require advice on the best measures to use and the accompanying global standards that align with widely recognised certifications.

"If banks are familiar with the financing aspects of ESG, maybe they can also give us advice on standards to use for measuring success of our ESG strategies," said a leader at a construction and engineering firm in Hong Kong.

What SMEs Expect From Banks and Financial Institutions

- **51%** Overall ESG consultancy
- **42%** Lack of ESG specialists
- **41%** Thought leadership on ESG
- **36%** ESG ROI projections
- **36%** ESG Seminars/Webinars

Importance of Banks/Financial Institutions helping Companies in achieving their ESG Goals



Diverse Solutions for Diverse Needs

SMEs expect banks to cater to their diverse profiles and needs, not just their size, such as developing different criteria when evaluating their progress in achieving ESG goals, as compared to large corporations.

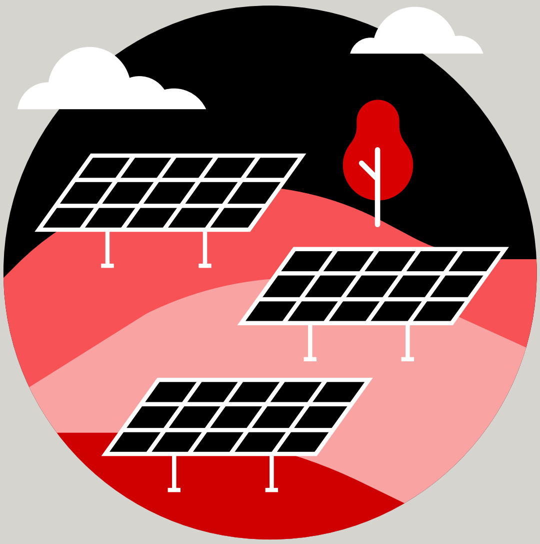
"Most financial institutions have standard tools and measures for ESG ratings and risk assessments," said a leader at a new materials company in China. "It is difficult for SMEs to meet the conditions and requirements of these ratings. Banks should set differentiated policies for SMEs based on wider criteria such as those related to human resources and company performance."

Banks have the opportunity to partner with SMEs in their ESG journey by providing financing and advisory, while guiding them on policies, regulations, certifications and measurement. With that support, SMEs will be better placed to pursue ESG strategies and play their role in building a more sustainable, transparent and equitable future for all.

"Decarbonisation is a business opportunity for DBS," Chung says. "We see net zero as one of the key investment themes of the future. In fact, many of our clients share this same philosophy and are developing and implementing robust plans to decarbonise and transition. This paradigm shift will affect all industries in the coming decades. To thrive in a world that is steadily marching on a path towards net zero, businesses large and small will need to urgently turn their ESG commitments to action, or risk being left behind."

Case Studies

The four case studies that follow reflect the sustainability efforts of four large corporations in Southeast Asia. While much larger than most SMEs, they face many of the same sustainability challenges. SMEs can use these case studies as a source of inspiration and a guide for best practices on how they can embrace their own sustainability journey.



Sembcorp Industries[4]

Industry: Energy

Headquarters: Singapore

Employees: 5,000+

Revenue: S$7.8 billion ($5.6 billion)

The Sembcorp Tengeh Floating Solar Farm is the epitome of ambition in renewable energy. Spanning a space equivalent to 45 football fields, the more than 122,000 floating solar panels form one of the world's largest inland floating solar plants.[5] The plant generates enough energy to offset around 32 kilotonnes of carbon emissions annually – the equivalent of taking approximately 7,000 cars off the road.

Acting as the sole financier, DBS provided Sembcorp with a SGD40 million loan facility in 2020 to fund the project.[6] The deal underscores the importance of not only working with a like-minded banking partner in sustainability but one with extensive experience in the sector to provide the required knowledge and expertise.

It also showcases the incredible decarbonisation possibilities of a small city-state harnessing renewable energy despite limited land resources.

"Enabling renewable energy financing is at the core of DBS' agenda and is one of the key tenets of our sustainability strategy," says Kelvin Wong, Deputy Head of Energy, Renewables and Infrastructure, DBS. "It builds on our recent financial advisory roles in Taiwan's largest floating solar project to date and the market's then-largest ground-mounted solar project. This is where we seek to differentiate ourselves – by capturing financial advisory opportunities at the start of renewables projects so we can shape and influence early to achieve optimal sustainable outcomes."

[4] Sembcorp
[5] DBS
[6] DBS

ReNew Power[7]

Industry: Energy

Headquarters: India

Employees: 1,675

Revenue: INR 69.1 billion ($912 million)

India has committed to power half of its electricity supply from clean sources by 2030[8] but wind and solar projects alone are insufficient to meet the baseload demand due to intermittency challenges. Although this could potentially be overcome by hybrid power projects developed by the country's Independent Power Producers (IPPs), it would be difficult to raise debt as these projects have not been tried and tested and lenders prefer a high degree of certainty in debt serviceability.

Despite this, ReNew Power – one of India's largest IPPs – recently secured a $1 billion loan from a consortium of international lenders including DBS, that were similarly committed to driving sustainability. The loan is the largest-ever finance facility for a single Indian renewable energy project.[9] ReNew will use the loan to fund its 1,300MW Round-the-Clock (RTC) battery-enabled project that addresses intermittency. The project will consist of three wind farms and one solar-plus-battery-storage farm with up to 100 MWh storage capacity across three states. Together, they will provide 400 MW electricity to SECI, an Indian central government-owned entity.

"Our partnership with ReNew demonstrates DBS's commitment to provide capital for green and sustainable financing," says Niraj Mittal, MD & Country Head, Institutional Banking Group, DBS Bank India. "DBS continues to work with players in wind energy, solar energy and battery storage to help develop solutions for uninterrupted renewable power."

[7] ReNew Power
[8] Press Information Bureau, India
[9] ReNew Power

Indika Energy[11]

- Industry: Energy
- Headquarters: Indonesia
- Employees: 7,593
- Revenue: $3.06 billion

Traditional power companies like Indika Energy are making progress by investing in low- and no-carbon solutions in Indonesia, which has historically been heavily reliant on coal. Indika subsidiary Jaya Bumi Paser (JBP), for instance, recently set its sights on developing a 23,590-hectare biomass plantation in East Kalimantan. It would turn Calliandra trees into wood pellets as a carbon-neutral renewable fuel for biomass power plants – a cost-effective, interim way of reducing emissions before the eventual retirement of coal plants.[12]

JBP faced challenges securing funding amid uncertainty over whether the market would be receptive to biomass. The company eventually partnered with DBS Indonesia, which provided a $27.5 million loan facility, consisting of both short- and long-term financing.[13] The funds will be used to finance the development of biomass fuels that comply with the Forest Stewardship Council standards.

"We can only achieve net zero in two ways: either we stop banking carbon-intensive customers or we help them transition toward low carbon," says Kevin Tanuwidjaja, Executive Director of the Institutional Banking Group at DBS Indonesia. "We believe the latter is critical. Where Indonesia stands, transition finance is a hugely important theme. Indika Energy is a very good case study for other energy companies that are actively supporting Indonesia's pledge to unconditionally reduce its national emissions by 29% by 2030."

[11] Indika Energy
[12] Nikkei
[13] DBS

Far Eastern New Century[14]

- Industry: Materials
- Headquarters: Taiwan
- Employees: 32,736
- Revenue: NT$238.8 billion ($7.69 billion)

Taiwanese materials maker Far Eastern New Century Corporation (FENC) has the capacity to produce 320,000 tons of polyester from recycled PET bottles and aspires to reach 1.5 million tons by 2030. To get there, FENC must expand its recycling and production operations at home and overseas.

In June 2022, DBS Bank Taipei Branch extended a NT$1 billion ($33.65M) blue loan to FENC. A first in Taiwan, the proceeds were certified and tracked exclusively for projects that support a blue economy. They will also enable FENC to recycle more marine waste as part of its expansion plans and implement ocean protection projects.

"The first-in-market blue loan with FENC not only supports its continuous development of blue projects but also drives greater awareness on ocean and water resource sustainability," says Tony Luo, Head of Institutional Banking Group at DBS Taiwan. "This ties in with DBS' sustainability agenda, reflecting our ambition to create a more sustainable planet in innovative ways."

[14] FENC