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Focus on Enterprises  
in Southeast Asia  
Supporting SMEs  
to Sustainability





# Introduction

Small and medium-sized enterprises (SMEs) make up the majority of Southeast Asian economies and account for nearly half of the region's GDP. Together, they play an important role in job creation, innovation and economic growth. As Southeast Asian economies continue to grow and develop, SMEs have become key drivers of economic growth. However, the green process in the SME region remains a challenge. Most SMEs focus on survival and short-term profitability and day-to-day operations rather than long-term sustainability and opportunities in a green economy, citing a lack of strong leadership to drive the business case, expertise, resources and funding as the as key barriers.



“Supporting SMEs to Sustainability” is written for enterprises in Southeast Asia looking for support in their green transition. Focusing on three key areas, we aim to encourage and support the green transition of more businesses in the region.

## 1. Why Focus on Sustainable Business Models

SMEs that are early adopters of sustainable business models will gain first-mover advantages as well as new revenue streams from sustainable development.

The spotlight is increasingly on local enterprises as awareness of climate change continues to be a focus with calls for accountability.



### Adapt to ensure supply chain sustainability

Increasingly evaluating companies based on their environmental and social impact. Many companies require suppliers to meet and set their own ESG targets; many SMEs in Southeast Asia supplying US and EU multinationals may be at a disadvantage as suppliers in markets with more stringent ESG criteria and a strong focus on the green supply chain market.



### Environmental responsibility, Reporting and disclosure are increasingly being introduced

More and more countries are implementing green financing, renewable energy, pollution, and recycling policies. SME practices must be adjusted as soon as possible to comply with environmental laws and standards, or risk legal sanctions, license cancellation and reputational damage. While multinationals and listed companies have made sustainability reporting the norm over the past decade, few SMEs have reported their sustainability performance. However, we can expect disclosures and reporting on sustainability to gather pace as stakeholders such as investors, commercial partners, and governments are increasingly expecting companies of all sizes to disclose their sustainability data. As financiers and investors increasingly rely on sustainability reports to make funding decisions, SMEs that do not disclose transparent and reliable information risk losing significant funds, hindering growth and innovation. Instead of making sudden, disruptive adjustments, SMEs can gradually implement sustainability. For example, SMEs can start by defining key ESG topics and industry standards to develop an ESG reporting and communication framework.



### Southeast Asia is already affected by climate change

Extreme temperatures are occurring on a larger scale in the region; the high temperature index in Bangkok and Krabi rose above 50 degrees Celsius on April 9, 2023 due to climate change. Coastal communities and islands in the region are threatened by increasingly stronger storms, prolonged drought, flooding and rising water levels. SMEs need to review the impact of climate change on their workforce and business risks, develop scenario tests and develop risk mitigation plans to maintain their productivity and profitability.



### Emergence of “sustainable consumption” in Southeast Asia

Continues to gain ground in the region despite persistent challenges such as inflation and unemployment. There is a marked increase in sustainable e-commerce businesses where e-commerce businesses have had to communicate more clearly and transparently sustainable practices within their business processes. From reducing and/or using biodegradable packages to ethical sourcing and using recyclable materials in production, a new generation of consumer base is geared towards sustainable and responsible and expects businesses to match in levels of sustainable production patterns and communication.

## 2. Quantifying the Impact of Sustainability Efforts

Sustainability impact quantification is an important step for SMEs in their sustainability reporting process. By taking the first steps, an SME can identify its impact on sustainability, report it and map its sustainability performance over time.

Quantifying the impact of sustainability requires an investment of time, resources and skills. Southeast Asian SMEs may struggle in this area, but there are also several ways to begin to quantify sustainability efforts and chart progress.

### 01 Energy consumption

Energy consumption contributes significantly to the emission of greenhouse gases. Small and medium-sized businesses can calculate their energy consumption based on their monthly electricity and fuel bills. They can identify specific areas where they can reduce their overall energy consumption and therefore their monthly overhead. Seemingly insignificant changes, like turning off lights and systems when not in use, can have a significant impact.

### 02 Carbon footprint

A timely and accurate assessment of a company's environmental impact can be made by calculating its 'carbon footprint'. This is the total amount of greenhouse gas emissions the company generates from energy consumption, freight transportation and waste disposal. SMEs have the option of using online carbon footprint calculators or hiring a specialist to carry out a comprehensive analysis of their environmental impact.

### 04 Stakeholder engagement

In this case, an SME asks its customers, employees and suppliers, as well as all other relevant stakeholders, for feedback on its sustainability efforts. This is done by conducting surveys of relevant stakeholders, from which the company can identify specific areas where it can expand its positive impact and strengthen its relationships with its various stakeholders.

### 03 Waste reduction

A good starting point is to conduct a waste audit to determine the types and amount of waste generated, understand the source of the waste and prioritize efforts to reduce it. SMEs can implement a waste reduction program that includes policies and procedures to reduce waste and increase recycling. This can include training employees, setting waste reduction goals, and tracking progress. Fostering a culture of sustainability and encouraging employees to find ways to reduce waste can include small incentives or recognizing employees who contribute significantly to waste reduction.

### 05 Financial results

A company's finances are one area that can be significantly impacted by sustainability efforts. SMEs can identify the financial benefits of their sustainability efforts, such as lower energy costs and better sales of sustainable products, by assessing their financial performance. Tracking a company's financial performance over time can help identify the long-term impact of its efforts to increase sustainability.

### 06 Supply chain audit

A supply chain audit helps identify potential risks and vulnerabilities in the supply chain, including disruptions caused by natural disasters, political instability or other unforeseen events. By identifying these risks, SMEs can take steps to mitigate them and maintain business continuity.

The audit often includes an assessment of the entire supply chain, including suppliers, manufacturers, distributors and retailers. It examines aspects such as sourcing, inventory management, transportation, logistics and delivery.

An in-house supply chain audit can be a daunting process, but it can be a worthwhile investment for an SME looking to improve supply chain management and competitiveness. It is crucial to have a dedicated team with the necessary skills and resources to conduct the audit and implement the recommendations or consider outsourcing the audit to external specialists.

### 07 Employee engagement

This is an often overlooked area for SMEs; Nonetheless, investing in employee engagement programs is crucial for SMEs in the battle for talent and progress towards sustainability. This will foster a positive and productive work culture which will benefit the company in the long run. The level of involvement can be easily assessed through surveys, focus groups and other forms of feedback on SMEs' work practices, policies and worker health and safety efforts.

### 3. Bridging the Funding Gap

Exploring funding sources enables SMEs to launch larger initiatives with a higher potential impact towards transition to a more sustainable model.

Research on SMEs in Southeast Asia highlight limited or lack of access to finance as a challenge they face in their sustainability efforts or transition to greener business models.

We highlight some of the more common ways SMEs can overcome the lack of funding.

#### 01) Environmental loans related to sustainability

Banks and other financial institutions are issuing more loans to finance environmental projects or offering lower interest rates to borrowers if certain sustainability goals are met. SMEs have the opportunity to benefit from these for projects such as the adoption of renewable energy, green building upgrades, sustainability certifications, and other similar endeavors. For example, a Singapore bank revealed an increase in loans totaling more than SGD\$3 billion to 600 SMEs in Singapore, Malaysia, and Hong Kong, with the number of borrowers increasing threefold year on year relating to the built environment, renewables and energy efficiency. Banks and insurers are also offering better loan or insurance policy conditions to SMEs that have started on green initiatives without necessitating green certifications.

#### 02) Investments with an impact

Impact investors are individuals or organisations that invest capital in businesses or projects that, in addition to financial returns, generate positive social and/or environmental impacts. A significant number of impact funds concentrate their efforts on developing environmentally friendly solutions in fields such as renewable energy, green buildings, recycling, and ecotourism. For high-impact, environmentally responsible projects, impact investing can be a beneficial option.

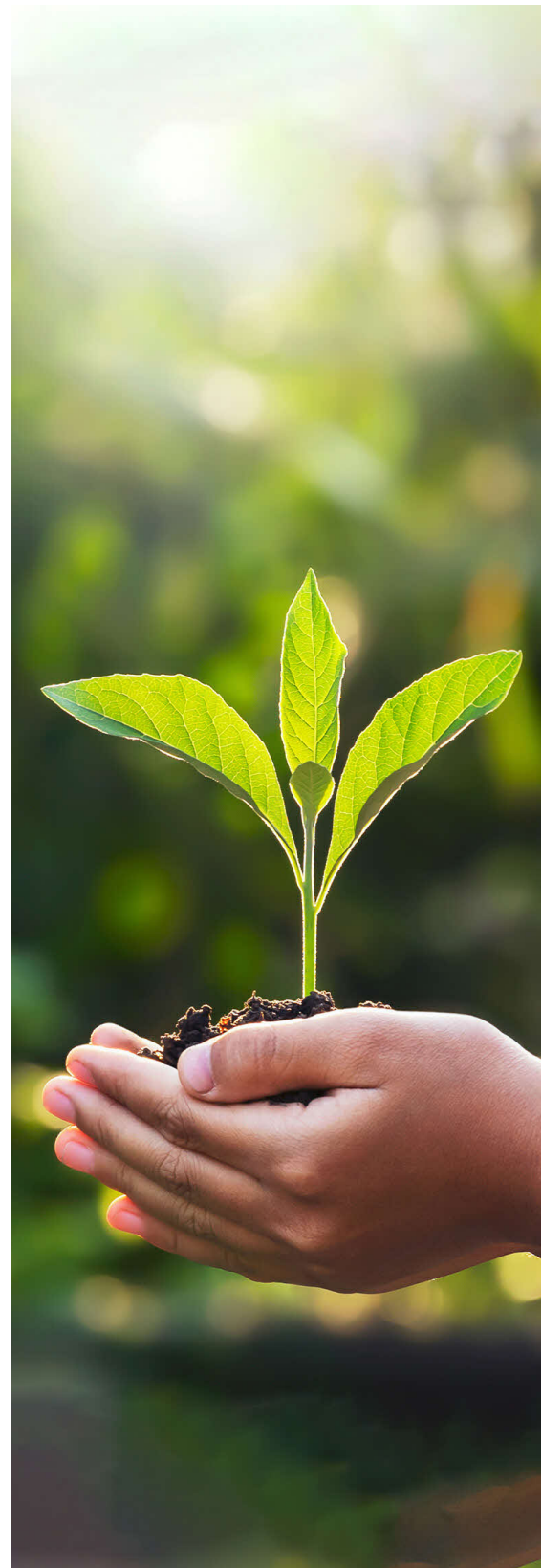
#### 03) Venture Capital

Several venture capital firms have made it their area of expertise to focus on eco-innovation and green startup companies. They offer startups and SMEs access to equity funding so that they can develop ground-breaking technologies, products, and business models in industries such as renewable energy, clean technology, sustainable agriculture, environmental services, and so on. Venture capital funds, despite their competitive nature, support the development of innovative and sustainable solutions.

#### 04) Financial aid and incentives from the government

Grants, rebates, and other forms of financial support are offered by some governments to SMEs to encourage them to participate in sustainability initiatives. Researching the various grants that are available and exploring how they might help their projects should be a priority for SMEs.


The [Enterprise Sustainability Programme \(ESP\)](#) supports Singapore companies, especially SMEs, to build capabilities and capture new opportunities. It includes subsidies on sustainability courses and grants to support various capability and product development projects.



# SMEs in Singapore can get funding for support in the following areas:



SMEs that embrace sustainability efforts can increase their competitiveness, create resilience, future-proof their businesses, and uncover new growth drivers, thereby contributing to a prosperous, equitable, and habitable Southeast Asia for future generations.

 SMEs in Southeast Asia may contact us for advisory and support in your sustainability journey.

 SMEs in Singapore may contact us for advisory and support on the subsidies in sustainability courses and EDG grants on developing core capabilities in different aspects towards sustainability.



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