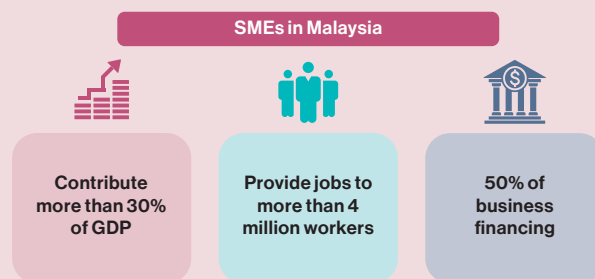


## Supporting SMEs Transition to Greener Practices

In many countries, SMEs are the critical contributors to economic growth. This is true for Malaysia as well, with SMEs accounting for 97%<sup>1</sup> of all business establishments. SMEs provide employment to around 48%<sup>1</sup> of the Malaysian workforce, making them the backbone of the domestic economy (Diagram 1). As key players in the global and domestic supply chain, SMEs are crucial to achieve an orderly transition for Malaysia to a low carbon economy in line with the Paris Agreement goal<sup>2</sup> to mitigate the harmful effects of global warming.

This article outlines the risks and opportunities for SMEs arising from the effects of climate change, ways SMEs can embrace sustainability practices and the support provided by BNM and the financial sector.

**Diagram 1: Significance of SMEs in Malaysia**



Source: Bank Negara Malaysia and Department of Statistics, Malaysia

## Risks and opportunities

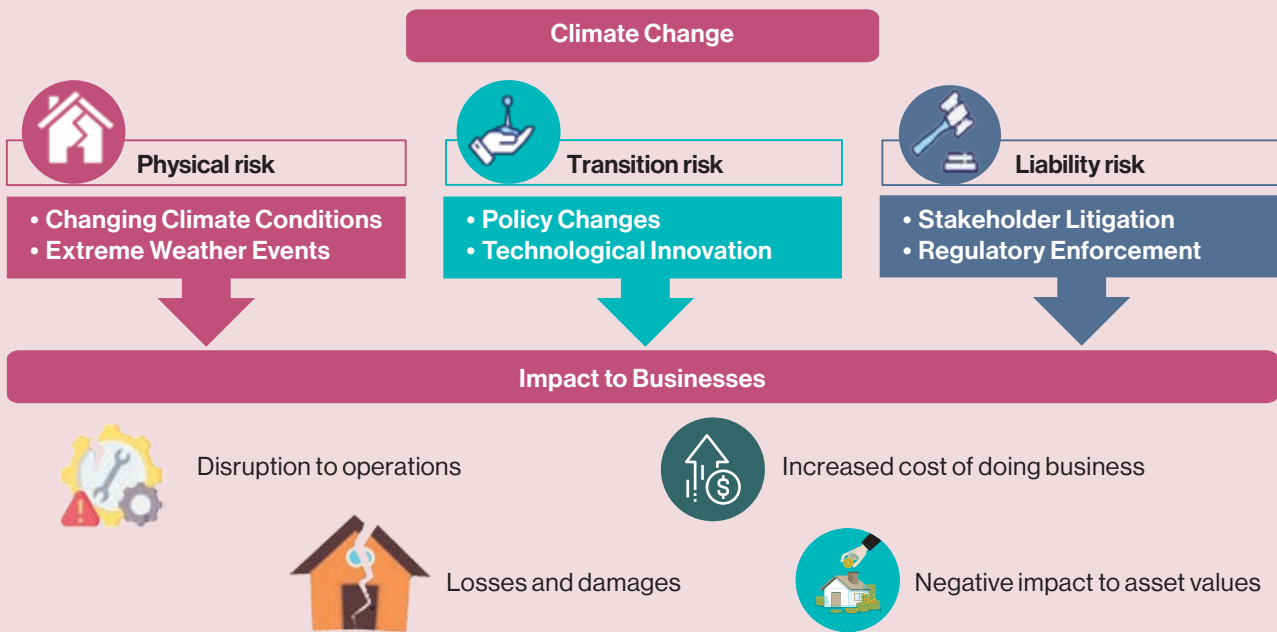
The direct impacts of climate change on the operations of SMEs do not only come from extreme weather events (Diagram 2). SMEs that are part of supply chains can be affected by green and sustainability-related policies of other economies, especially key trading partners as well as domestic producers. For example, mandatory climate-related disclosures have been implemented in more than 15 countries around the world while the European Union Carbon Border Adjustment Mechanism compels businesses, including SMEs, to demonstrate evidence of green and sustainable practices. Large domestic producers are also reducing their carbon footprint and expect suppliers to meet higher standards of sustainable practices. Failure to adopt sustainable practices could therefore put businesses at a significant disadvantage.

Climate change does not only pose risks to businesses. It also presents huge business opportunities from embracing sustainable practices and focusing on green activities (Diagram 3). A survey by UN Global Compact Network Malaysia & Brunei and SME Corporation highlights that 89% of SMEs adopting greener practices are experiencing average cost savings of 39%, with 11% achieving more than 50% cost savings.

<sup>1</sup> Data as at December 2022.

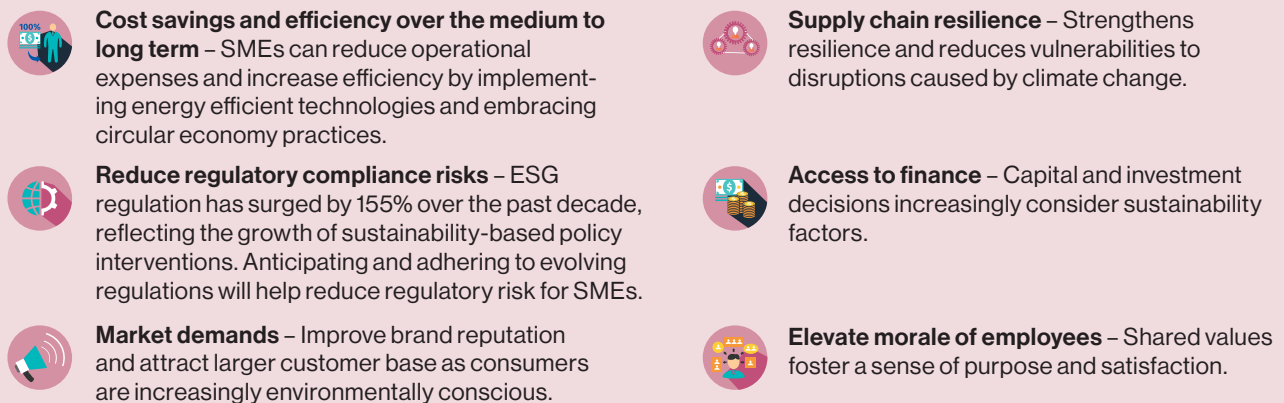
<sup>2</sup> The Paris Agreement is an international treaty under the United Nation Framework Convention on Climate Change (UNFCCC). It aims to limit global temperature rise to well below 2°C above pre-industrial levels.

Diagram 2: Impact of Climate Change on Businesses



Source: Bank Negara Malaysia

Diagram 3: Benefits of Adopting Green and Sustainable Practices



Source: Bank Negara Malaysia

### Kickstarting the green transition journey

Knowing where and how to start is crucial. This allows SMEs to begin on the right footing and optimise the amount they spend and invest, and use of resources. A study conducted by BNM and the World Bank<sup>3</sup> found that even Malaysian SMEs who understand the importance of transition are often unclear on where and how to begin. Diagram 4 outlines five key steps an SME can take to initiate the process.

<sup>3</sup> Managing Flood Risks: Leveraging Finance for Business Resilience in Malaysia.

Diagram 4: Essential Steps to Initiate the Transition Journey



Source: Bank Negara Malaysia

To support Malaysian SMEs on this front, the JC3 ESG Jumpstart portal, a one-stop portal to guide SMEs in transition was launched by the Joint Committee on Climate Change (JC3) in October 2023. This portal houses various resources and tools, including guidance for SMEs to initiate their transition journey.

### Initiatives and toolkits to support SMEs transition

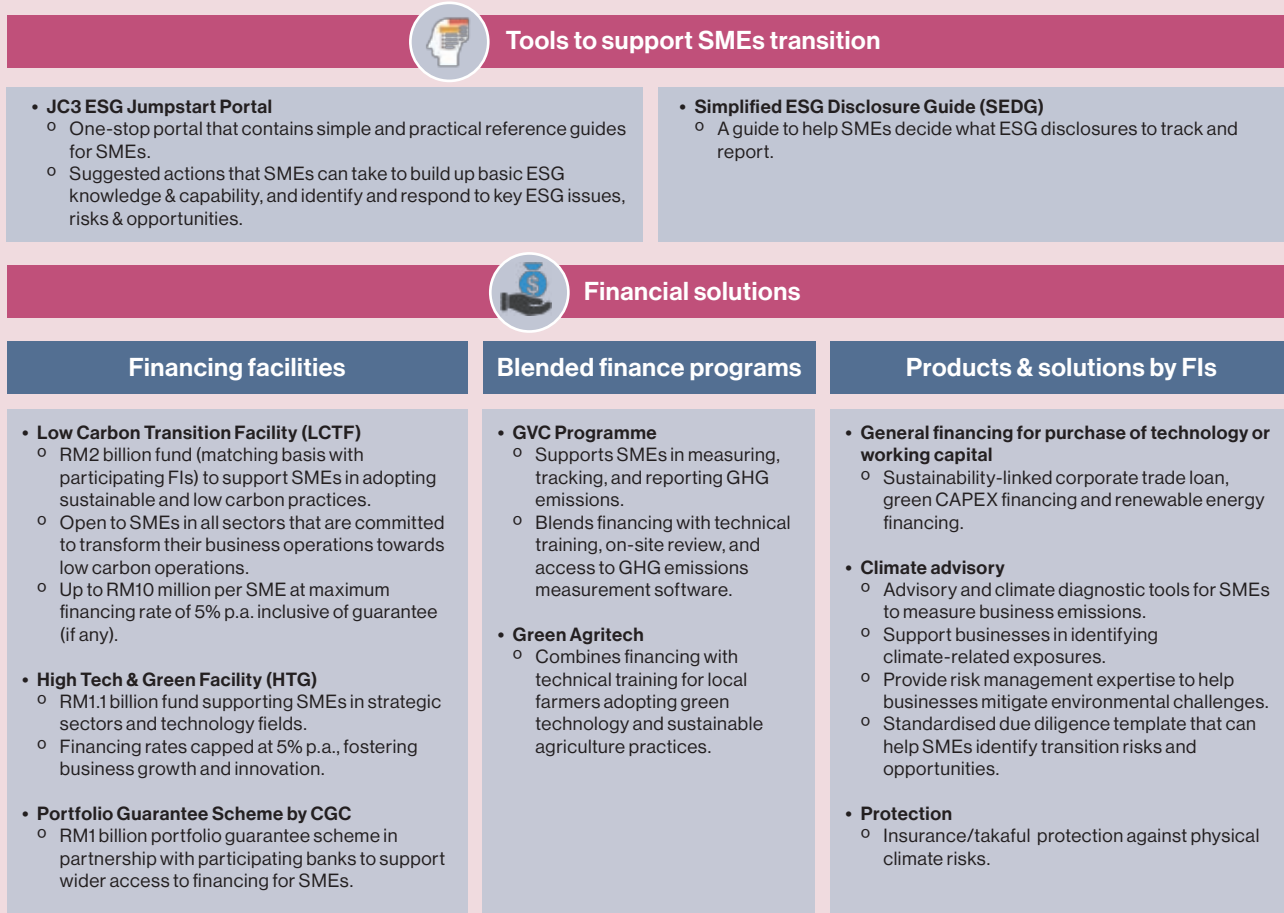
The financial sector plays a pivotal role in supporting businesses especially SMEs in their transition. Towards this end, BNM and the financial sector have introduced several initiatives to help SMEs build their technical capability and improve access to finance, as shown in Diagram 5.

Financing approved by BNM's Low Carbon Transition Facility (LCTF)<sup>4</sup> and High Tech and Green Facility (HTG)<sup>5</sup> increased further in 2023 to more than RM1.2 billion in financing approved to date. Both facilities have enabled more than 550 SMEs to start their transition journey. The Greening Value Chain (GVC) pilot programme introduced last year has also supported more than 330 SMEs that are part of domestic supply chains. Under the GVC pilot programme, SMEs have access to technical training and tools to measure and report their GHG emissions, in addition to financing under LCTF. The cost of training and tools is borne by the participating anchor corporate or the financier. SMEs under the programme have begun to measure their GHG emissions, of which more than 40 have begun reporting emissions.

<sup>4</sup> Launched in January 2022. Total size of RM 2.0 billion equally funded by BNM and participating financial institutions.

<sup>5</sup> Launched in December 2020. Total size of RM 1.1 billion.

Diagram 5: Initiatives and Tools to Support SMEs in their Business Transition



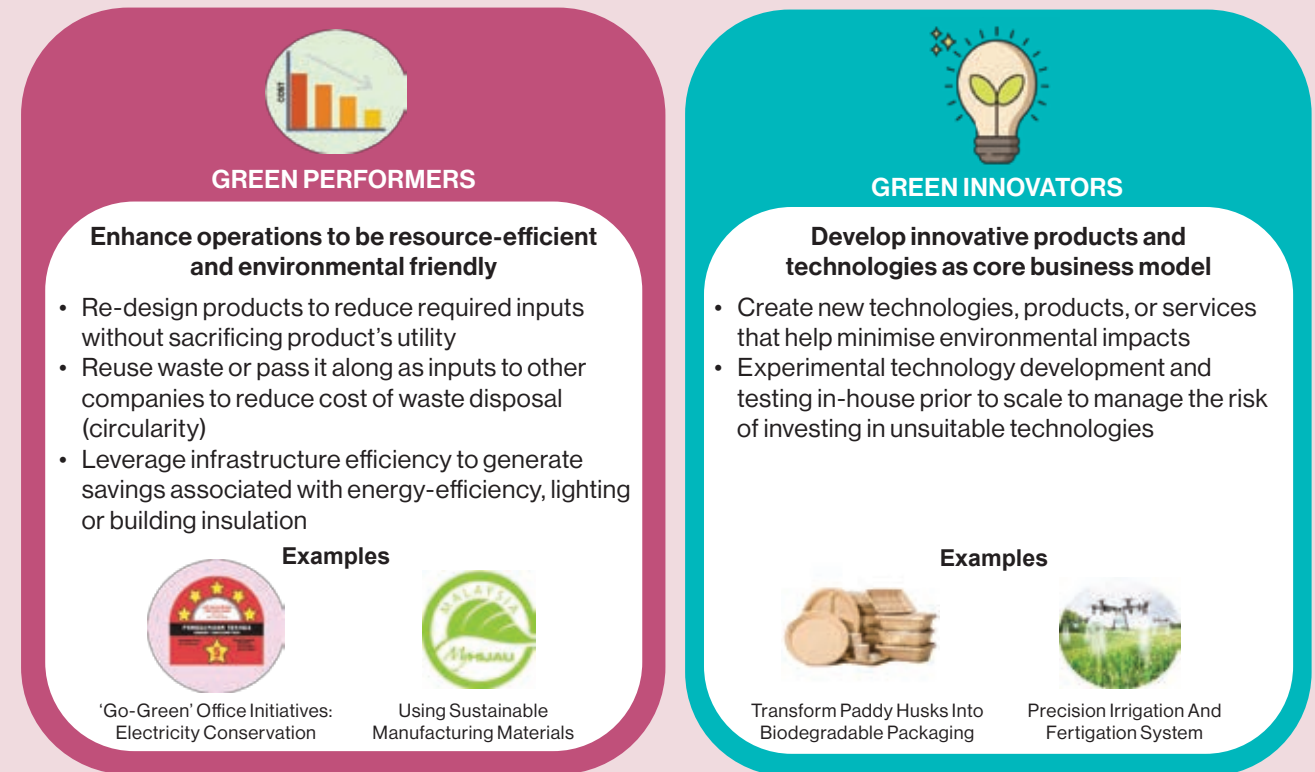
Source: Bank Negara Malaysia, JC3 and Financial Institutions' Websites

### Start Small, Start Now, Do Our Part

There are at least two ways Malaysian SMEs can think about their role along this journey (Diagram 6). First, SMEs can be *green performers*. This means seeking to optimise the way they operate. This is achieved through resource efficiency and practices that are environmentally friendly to enhance business competitiveness. Second, SMEs can be *green innovators*. This means focusing on pioneering innovative green technologies. Both green performers and green innovators have a critical role to support a successful transition.

Greater cooperation and collaboration among SMEs can also contribute to the success of the transition efforts. Platforms and avenues for SMEs to share best practices, pool resources and collectively tackle challenges through networks and partnerships will accelerate the learning of many SMEs.

Diagram 6: Green Performers and Innovators



Source: Adapted from OECD and other sources

Different SMEs will be at different stages in their level of awareness and adoption of sustainability practices. This is natural and to be expected. What is more critical is that SMEs start to take important first steps and progressively intensify their efforts to meet aspirations for higher standards in sustainable practices. SMEs should kickstart their green transition journey now, utilising the available toolkits and solutions provided by the financial sector. Strategies by financial institutions to support the greening of SMEs must also be mainstreamed to secure an orderly and just transition of the economy where businesses regardless of size thrive, whilst contributing to a more sustainable and resilient future.

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