

ASEAN FOR BUSINESS

Monthly Bulletin

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In Focus: Mitigating and Adapting to Climate Change Guidelines for SMEs



About the Bulletin

ASEAN for Business is a bulletin published by the Enterprise and Stakeholder Engagement Division of the ASEAN Secretariat.

This monthly bulletin provides quick updates on specific topics related to the ASEAN Economic Community (AEC) for businesses operating in the region.

For those who are interested in receiving the bulletin and collaborating with the ASEAN Secretariat may contact:

Rifki Weno
rifki.weno@asean.org
ASEAN Secretariat

Rahma Lestari Anggraini
rahma.anggraini@asean.org
ASEAN Secretariat

The role and contribution of MSMEs are crucial to support ASEAN's transition to a more sustainable economy. MSMEs are the backbone of the ASEAN Economy, making up 85% of employment and contributing 44.5% to GDP in the region. MSMEs can support ASEAN Member States (AMS) in their sustainability efforts by reducing carbon emissions of their business activities and developing new products or services that contribute to climate mitigation and adaptation. At the same time, involving MSMEs in national strategies is crucial to prepare them to mitigate the challenges posed by climate change and adapt to the changing market landscape due to shifts in consumer preference and policies in respective AMS to reduce greenhouse gas emissions and transitioning to a low-carbon economy.

Against this backdrop, the Climate Change Guidelines for Small and Medium-sized Enterprises was endorsed by the ASEAN Committee on Science, Technology, and Innovation (COSTI) on 15 June 2023. The Guidelines were developed through a project led by Thailand Institute of Scientific and Technological Research (TISTR) with support from the ASEAN Secretariat, delivered by The Carbon Trust and Connecting Founders with funding support from Global Affairs Canada through the Canadian Trade and Investment Facility for Development (CTIF).

The guidelines aim to empower SMEs in reducing their own carbon footprint, mitigating their own risk, and driving positive change throughout their industry and seizing new opportunities. The guidelines support climate change adaptation and mitigation opportunities for the business sector that actively engage women and have both gender and climate-related targets and milestones.

Mitigating and Adapting to Climate Change Guidelines for SMEs

The Mitigating and Adapting to Climate Change Guidelines for SMEs (hereafter: the guidelines) highlight the various climate risks and opportunities that SMEs should consider in their business planning, and provide tools such as checklists, carbon calculator, and links to other resources that SMEs can tap into to support their preparation in mitigating and adapting to climate change. The specific perspectives, needs and concerns of women-owned businesses have been incorporated to determine priority areas for potential support. The guidelines outline the following step-by-step climate actions on how SMEs can prepare for climate change:

Step 1. Assessing Climate Impacts on SME's Business

The guidelines propose a set of questions to guide SMEs' climate impact assessment. The assessment of climate impact includes studying disaster mappings and considering disaster risks in the planning of business operation. It recommends SMEs to include a disaster recovery plan should the business location exist in disaster-prone zones to ensure that the business can continue to operate or resume critical functions if disaster occurs. The recovery plan can include emergency preparedness measures, business continuation and building repair plans, and insurance programme.

Step 2. Reviewing Insurance Policies for Coverage against Physical Impacts of Climate Change

The guidelines suggest SMEs to have adequate coverage to pay for indirect costs of the disaster such as the disruption to business and the cost of repair or rebuilding. Several insurance products that may be suitable for SMEs to insure against risk of climate change are, among others, (i) property

insurance, (ii) business interruption insurance, (iii) flood insurance, and (iv) transportation insurance.

Step 3. Role of the Management as Agent of Change

SMEs are suggested to have a governance mechanism to address climate risk and opportunity which are aligned with its existing risk management and investment management governance approaches.

Step 4. Exploring Technological Solutions to Address Impacts of Climate Change

SMEs can access climate technologies that are widely available in the market while also ensuring that the technologies are commercially viable and proven. Several AMS such as Malaysia and Singapore provide official verifiers' sources of proven technologies in MyHIJAU Mark Platform and Singapore Green Labelling Scheme Directory. SMEs are also recommended to consider the capital expenditure and the level of disruption brought by the technological investments to their business.

Step 5. Understanding Business Impact on Climate Change

Several AMS have set their carbon reduction targets and have either implemented or are planning to introduce carbon pricing mechanisms which inevitably will also impact SMEs. On this note, SMEs should be equipped with tools to help them understand their organisation's impact on climate change, such as the amount of greenhouse gas emitted by the business. The Greenhouse Gas (GHG) Protocol provides requirement and guidance for companies preparing a corporate-level GHG emissions inventory. The standard reporting template covers the accounting and reporting of seven greenhouse gases namely: carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆), and nitrogen trifluoride (NF₃). The GHG emissions can be categorized into three scopes: (Scope 1) direct GHG emissions from owned and controlled sources, (Scope 2) indirect GHG emissions from the generation of purchased utilities, and (Scope 3) indirect GHG emissions that occur in a company's value chain. The [carbon footprint calculator](#) is available on the guidelines' website to help SMEs estimate their GHG emission.

Support for SMEs

Some support from government and international organisations for SMEs in ASEAN are available in the form of fiscal and financial support, transaction enablers, human capacity development, technical assistance grants from international organisations, and feedback and engagement channels. Such existing support schemes are listed in the full guideline, and will be updated periodically.

More Information



Scan the QR Code to read the full text of the guidelines.

Opinion: Empowering ASEAN MSMEs to Embrace Circular Economy

By: **H.E. Dr. Kao Kim Hourn, Secretary-General of ASEAN.**

This Op Ed was first published in several news outlets in ASEAN on June 27 to mark MSME Day

Mark Sultan Gersava was a peace development worker from Mindanao, the Philippines, who decided to act on what he saw as a critical challenge: transforming his ordinary products to become environmental-friendly to help mitigate the effect of climate change while empowering his local community with sustainable and long-term livelihoods. His enterprise, Bambuhay, produces bamboo straws and toothbrushes to replace plastic-based products.

To date, his ambition has brought real positive impact for 13,910 farmers, providing them with an increased sustainable source of income and brought 68 families out of poverty. Their work has helped remove around 1,100 tons of plastics from the environment and planted nearly 40,000 trees and bamboo. His products are wholeheartedly welcomed by consumers and recognised by multinational companies, having supplied bamboo straws for Coffee Bean and Tea Leaf in the Philippines.

As we celebrate United Nation's MSME Day on June 27 in recognition of the tremendous contributions of micro, small and medium-sized enterprises (MSMEs) to the achievement of the United Nations Sustainable Development Goals (SDGs), Bambuhay's story is a remarkable example of how MSMEs can play a significant role in transforming ASEAN towards a circular economy and prepare the region for a sustainable future.

Shift Towards Circular Economy

The recovery and rebuilding efforts from COVID-19 ushered in the focus on circular economy and sustainable development. Restricted mobility due to the pandemic disrupted the traditional business model, prompting every firm to adapt and seek alternative supply networks. The surge in consumers' reliance on online shopping and food delivery has led to an upsurge in packaging waste, thus exacerbating the imminent crisis in waste

management in the world. The World Bank estimated that global waste generation will see a 70% increase between 2016 to 2050. The World Economic Forum reported that by 2030, ASEAN is expected to see 140 million new consumers, representing 16% of global increase. Fortunately, a remarkable change has unfolded in consumer behaviour, heralding a careful reevaluation of the consumption patterns that impact their health and the environment. Demand has shifted towards more sustainable products, which consumers were willing to pay premium costs.

The COVID-19 pandemic also triggered a strong sense of community and preference to support socially responsible enterprises, evident from intensified collaboration and coordinated efforts to purchase from local businesses. These shifts paved the way for innovations that promote waste reduction, resource conservation as well as self-sufficiency through locally sourced and produced goods.

MSMEs in Circular Economy: An Economic Imperative

Deeply rooted as part of local society, MSMEs are frequently regarded as vital enablers of socio-economic development. In ASEAN, MSMEs account for 85% of employment and 44.8% of the region's GDP. They provide primary sources of income and livelihoods for a significant number of individuals and households. Through partnerships with other local businesses, MSMEs are an integral part of the value chain, enabling access to a variety of products for their customers and servicing the local community.

Due to their lean structure and versatile business model, MSMEs have the ability to embrace new developments, such as the circular economy and digital technologies. In the last three years, we witnessed many businesses, particularly MSMEs, rapidly adopting innovative technologies and practices to remain relevant and competitive. Like Bambuhay, many MSMEs have considerably sharpened their competitiveness by differentiating their offerings and catering to the burgeoning demand of socially conscious consumers. Additionally, in building a circularity ecosystem, technology adoption also plays a crucial role in enabling better tracking and traceability while supporting innovative business models. This model seeks to establish a

sustainable and inclusive supply chain for agricultural products, ensuring food security for the region and economic security for farmers. These developments resulted in reduced physical resource requirements, decreased commuting-related emissions and sharing economy being enabled through digital platforms. The development illustrates how an MSME sets sail on their journey towards the circular economy.

Nevertheless, the transformation of MSMEs is not without challenges. Shifting in business approach and mindset of MSMEs could be one of the first and foremost obstacles. The transformation involves substantial investment in research and development to redesign products and processes. Furthermore, adopting a new business model often necessitates changes in the supply chain and partnerships with suppliers. Ultimately, these alterations would have financial and operational implications. Most MSMEs often struggle with limited capital and constrained budgets. With the scarcity of resources available at their disposal, it becomes even more critical for MSMEs to embrace circularity in ensuring their survival. Therein lies the need to facilitate and support their adoption of sustainability practices which in the end, will benefit all.

In building an enabling environment for MSMEs to thrive in a circular economy, governments must put in place a long-term strategy and implement balanced actions that create strong economic incentives. This endeavour should be supported by good governance and close stakeholder engagement, investment in infrastructure and technology, as well as human resource development.

ASEAN: Working Together to Achieve MSME Circularity

In ASEAN, we are committed to promoting circularity in MSMEs across the region. Through collaborative efforts, ASEAN member states are working towards achieving a circular economy that is inclusive and bring benefits to all sides. One of the key approaches is to promote MSME understanding and upskill them to embrace circular business practices through various initiatives and activities.

One important initiative is the Framework for Circular Economy for ASEAN Economic Community (AEC) which was adopted in 2021, that created a structured pathway for a supportive ecosystem for circular business models. It builds upon existing initiatives and introduces new activities to accelerate the region's transition to circular economy.

A number of engagements involving the government and the private sector are also taking place this year, offering a platform for sharing best practices and ensuring inclusivity as part of the policy-making process. Recently, the Policy Dialogue on Enhancing Green Practices for MSMEs was conducted in May 2023, the 9th AEC Dialogue which focused on the development of the ASEAN Strategy for Carbon Neutrality was held in June 2023 and a policy dialogue on MSMEs' participation in the circular economy is scheduled in July 2023. Such events would align interests and foster effective communication between multiple actors with diverse priorities and perspectives.

Through public-private collaboration, a variety of instruments have been developed to raise awareness and capacity building for both policymakers and enterprises. The Climate Change Guidelines for ASEAN SMEs provide a great resource on why MSMEs should be concerned about climate change and how to better prepare them for climate-related risks.

In addition, the ASEAN SME Academy's Business Continuity and Resilience Tab offers tools to help MSMEs prepare for the future, including by implementing sustainable approaches. Providing content in local languages and having direct outreach to local businesses would accelerate the spread of information and knowledge to many MSMEs in the region.

Finally, building partnerships between businesses, innovators, service providers and investors is imperative. Through ASEAN's flagship platform for MSMEs to internationalise, ASEAN Access, business matching opportunities are provided to enable circular MSMEs to promote their offerings and meet potential buyers from within and beyond the region.

Seizing the Opportunity to Compete Globally

Bambuhay's success in balancing the need to address climate change and poverty while being able to secure

partnerships with multinational companies proved how sustainable business models can provide MSMEs with a competitive economic edge. Businesses should capitalise on the changes in consumer behaviour regarding environmentally and socially responsible products, by creating brand differentiation, which will set the business apart from its competitors and create unique selling propositions.

Furthermore, sustainable products can be cost-effective for both producers and consumers. The innovation in the process to produce these products allows for reduced use of resources, increased product durability and longevity, reduced waste and packaging, as well as lower maintenance costs which in the end, will benefit the consumers by increasing affordability. Therefore, it is imperative that ASEAN, across all

sides, whether public or private sector, work closely together to support and nurture more MSMEs, for our economies to grow in tandem with our efforts to conserve the environment.

As we honour the importance of MSMEs and the role that they play in the economy, let us also recognize the challenges that they face, particularly in accessing financing and technology. By addressing these challenges and creating a conducive environment for MSMEs to thrive, we can unlock their full potential and contribute to sustainable economic growth.



H.E. Dr. Kao Kim Hourn
Secretary-General of ASEAN

Upcoming Events

2nd Special Coordinating Committee on Services Meeting on ASEAN Services Facilitation Framework (2nd Special CCS on ASFF)

Singapore,
5-7
July 2023

27th ASEAN Trade Facilitation Joint Consultative Committee (ATF-JCC) Meeting

Surabaya, Indonesia
8-10
July 2023

Senior Economic Officials Meeting (SEOM) 3/54 and SEOM – Dialogue Partner Consultation

Surabaya, Indonesia
11-16
July 2023