



# MAPPING STUDY ON CAPACITY-BUILDING NEEDS OF MSMES TO ENGAGE IN CLIMATE ACTION IN THE SOUTHEAST ASIA REGION

## EXECUTIVE SUMMARY



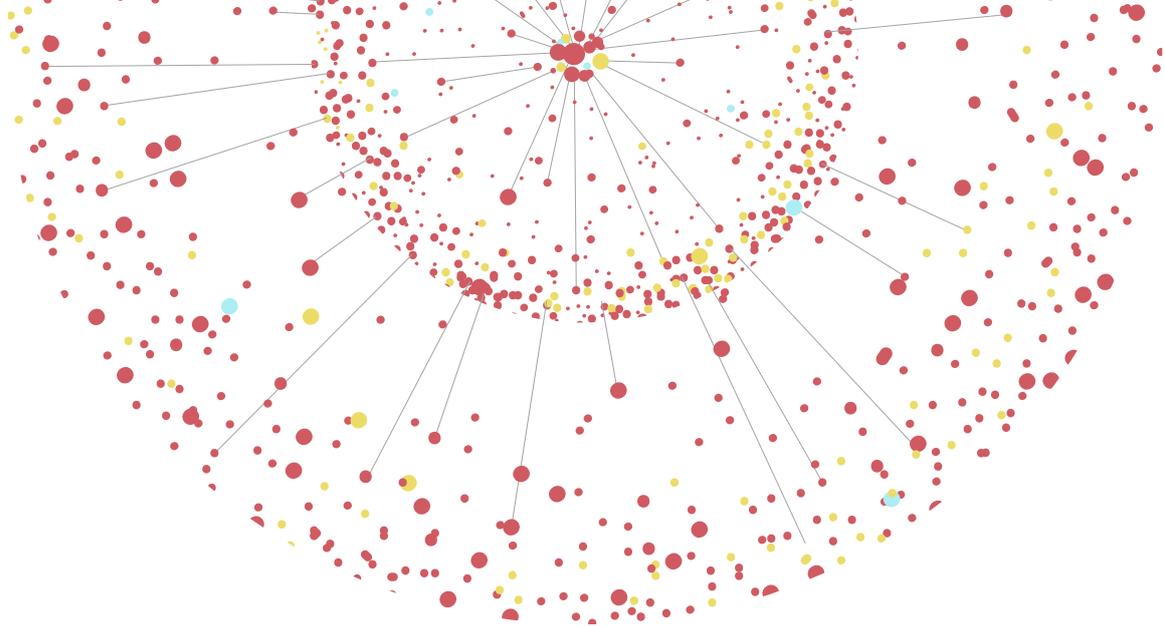
United Nations  
Framework Convention on  
Climate Change



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Regional Collaboration Centre – Bangkok  
Promoting Climate Action in Asia and the Pacific



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This mapping study aims to determine the type of capacity-building required by private sector micro, small and medium-sized enterprises (MSMEs) to help address the needs and gaps on climate action faced by countries in Southeast Asia.

The findings and recommendations increase understanding of the region and provide an evidence-based foundation to develop actionable strategies and approaches to enhance private sector capacity-building aimed at the implementation of the Paris Agreement. These recommendations can promote greater private sector engagement in national climate plans, such as National Adaptation Plans (NAPs) and Nationally Determined Contributions (NDCs). They hold potential to increase collaboration with research organizations and academia to

support capacity-building efforts towards low carbon and resilient development. The mapping assessment should inform future strategies to:

1. Improve private sector, and particularly MSMEs, capacity to contribute to higher climate ambition and collective action.
2. Enhance resilience in collaboration with academic and research organizations, particularly through NDCs and NAPs.
3. Identify potential platforms and other means to engage the private sector in capacity-building initiatives for climate action.
4. Develop specialist leaders to engage the private sector in climate action, with emphasis on SME representatives.
5. Provide recommendations for enabling private sector engagement in implementation of NDCs and NAPs.

# Methodology and Scope

The mapping study is comprised of a survey and a desk-based review, including a gap analysis of the available information on climate action capacity-building needs and gaps for MSMEs in the southeast Asia region. The findings include information on MSMEs in each country, numbers and sectors of activity summarized in country profiles, the state of play on carbon pricing mechanisms and existing climate change programmes or initiatives for the private sector and MSMEs in the region.

The desk-based review and the analysis of the survey results show that capacity-building should be structured around three pillars:

- Knowledge of existing financial opportunities to implement climate action
- Climate change risks and opportunities and benefits from climate action
- Climate policies, institutional frameworks and regulatory frameworks

Following the assessment, recommendations were drafted based on capacity-building gaps identified in the survey and desk-based review. The recommendations are structured around five building blocks of a strategy currently in development to increase private sector climate action engagement and action in the Southeast Asian region.

## Results of the Desk-based Review

Several barriers hinder or prevent MSMEs from engaging in climate action or investing in climate resilience. The available literature on MSMEs and climate change in the Southeast Asia region is quite limited, but examining available studies shows capacity building is needed for:

### Financial opportunities to implement climate action measures

Given their size, limited financial resources and human capacity, MSMEs must often choose between climate action measures and profit margins. Many MSMEs lack financial means to invest in or prioritize climate action. Some investments for climate risk management have large upfront costs and relatively long payback times as well as other uncertainties. MSMEs also lack knowledge on how to access alternative types of financial instruments for adaptation and mitigation measures. The OECD Southeast Asia Regional Programme shows that MSMEs in Southeast Asia want to improve their performance in this area, despite the possible added cost.

### Technical climate risk assessment and implementation of climate action

There is a need to support MSME assessment of climate risk on assets and supply chains. MSMEs need support to take action to reduce the risk through structural and non-structural measures.

MSMEs often lack technical skills and expertise needed to adopt new business processes to green the supply chain, develop innovative products or services, and deploy climate friendly technologies. A perceived lack of technical expertise to implement adaptation solutions can also hinder external investors from investing in MSMEs without climate risk management plans.

### Identification and evaluation of cost-effective adaptation and mitigation

MSMEs need support to better assess and prioritize available adaptation and mitigation measures and options. Adaptation should be in focus as there is no standard “menu” of measures from which enterprises can choose, there is no ‘one-size-fits-all-solution’, unlike mitigation measures. MSMEs can benefit from guidance on specific tools or adaptation measures tailored to their businesses.

### Climate policies for MSME climate-friendly measures and adaptive solutions

Some sectors where MSMEs are active may be regulated by present or future climate policies such as carbon taxes, energy efficiency standards or other cost-intense measures. A sound understanding of relevant climate policies, laws and regulations is crucial to pro-actively engage with new requirements. Governments also need to create or strengthen the wider enabling

environment to support MSMEs in building resilience through provision of climate risk data,

investing in resilience and enabling participation in carbon pricing initiatives.

# Results of the Survey

## Climate knowledge, sustainability reporting, training and action

Lack of knowledge about existing climate change mitigation opportunities is the main barrier to MSME engagement (69%), ahead of not seeing climate change as a priority, mainly due to lack of financial resources (29%). In accessing climate finance, MSMEs face two major challenges:

- Lack of financial products specifically designed for them instead of large-scale investors
- Lack of clarity about the range of financial service providers that MSMEs could work with.

Guidance how to access funding such as credit lines, programmes and existing funds to implement climate change measures is reported as one of the main benefits from capacity-building standards (47%), as MSMEs tend to prioritize long-term profitability.

Other reported benefits are environmental benefits (20%), cost saving opportunities (19%) and the potential new business opportunities (12%) for MSMEs.

The survey results stress the need to raise awareness of climate impacts, risks posed to MSMEs and the functioning and importance of a business continuity management plan. Few MSMEs have a good understanding and uncertainty remains regarding their business plans. Most of the respondents were only moderately aware of the existing national climate change policies and adaptation plans.

## Regulatory frameworks and incentive mechanisms

The governments need to provide the right enabling institutional, legislative and financial environment to support the transition of MSMEs towards climate-friendly measures or adaptation solutions. Approximately 66% of respondents reported not being aware of existing training programs related to climate change. The survey shows lack of legal and regulatory frameworks in countries as and lack of private sector

knowledge on laws, regulations and incentives. This underlines the outcomes of the desk-based review, which highlighted the limited knowledge of MSMEs on the existing business-relevant climate policies and regulatory frameworks.

The results suggest that there should be a regulatory difference between MSMEs and larger companies, making use of opportunities and incentives given MSME size and resource constraints.

## Climate policies, targets and carbon pricing

The survey did not reveal anything about the knowledge MSMEs have on existing carbon pricing policies and mechanisms or opportunities to transform their business to more climate-friendly or -neutral businesses. However, the desk-based review shows that some countries in Southeast Asia (Indonesia, Vietnam or Singapore) are implementing carbon trading schemes or carbon pricing instruments to incentivize GHG emission reductions.

## Training

The survey showed that MSMEs are aware of the long-term environmental and financial benefits and are willing to invest in climate change measures if they can access the right sources of funding. Some MSMEs may need training on how to access financial support and the benefits of investing in climate action. Acquiring new skills to address climate change is important according to respondents (79%). However, MSMEs have limited knowledge on the financial opportunities from engaging in climate mitigation, such as trading carbon credit units (66% unaware of any). Therefore, awareness about programs or training to help MSMEs manage risk of climate impacts needs to increase to inform MSMEs about different measures to make business operations more resilient, including support to identify available adaptation measures. The capacity of companies to use climate data in business continuity plan should also be strengthened.

## Information requirements

Three areas emerged regarding information or support needed by MSMEs to react to climate

risks, take climate action and benefit from related financial opportunities:

1. Access to reliable information on climate change trends and policies to strengthen decision-making and planning capacities
2. Technical knowledge on climate action including information on the existing measures and practical solutions
3. Knowledge on existing financial opportunities, including information on accessing financial resources and support for implementing such measures

Most training needs arise in areas of technical capacities for risk assessment, proposal writing and product development – making business processes and products more resilient or better positioned for mitigation contributions. Sound data and figures are needed as a basis for strategic planning and risk-assessment to identify feasible climate measures. Understanding the domestic climate change policies, targets, and regulatory context and information on access to finance options need to be strengthened. When developing training, it is important to keep in mind that MSMEs have different needs compared to larger corporations given their size and limited resources.

# Recommendations: Towards a Regional Strategy

## Key knowledge creation pillars for MSME climate action in Southeast Asia

This mapping study clearly identified three knowledge creation needs that should be addressed to support Southeast Asia MSMEs engagement in climate action. Training and capacity-building should be addressed by fundamental offerings from academia and research organizations as part of three key knowledge creation pillars:

### 1. Knowledge creation on climate action policies and regulations

Knowledge creation includes understanding existing regulatory frameworks and incentives and how businesses can benefit. Therefore, action in two areas is recommended:

- Thorough, deep, and comparative review and analysis of international, national and local policies, strategies, programmes, and initiatives should be established. MSMEs need to know what governments offer in the region in terms of support programmes and initiatives. Knowledge creation in general should prepare the ground for MSMEs to benefit,
- Dedicated modules specifically looking at how more advanced sectoral strategies, programmes and actions can integrate and incentivize use of Article 6 market

mechanisms in the short run. This should also look ahead to integrating and supporting carbon budgets, taxes, or emissions trading systems. Integration of carbon pricing instruments into policies, programmes and sectoral strategies should be reviewed and analysed, looking at countries in Southeast Asia and the wider Asian region next to the EU, North or Latin America with regard to showcases and lessons learned.

### 2. Knowledge creation on climate action adaptation and mitigation measures and practices – analysing, measuring, and benefitting

MSMEs need the technical capacity and knowledge to assess climate risks, tailored adaptive measures and deploy technologies. These recommendations can build resilient businesses and help MSMEs contribute to climate change mitigation:

- MSMEs need to know how to collect sound data and figures as basis for risk and opportunity assessments, strategic planning and risk management to identify and plan for feasible climate action. Basic knowledge of GHG accounting, carbon pricing systems, trading mechanisms and related protocols and standards better position MSMEs to reduce emissions in supply chains. Analysis of these systems in different sectors and different countries should be offered so MSMEs can integrate participation into operations.

- Simpler in-house solutions as well and partly or fully outsourced solutions should be outlined with MSME limitations for complex IT solutions in mind.
- Approaches to measure progress in climate change adaptation should be reviewed and analysed, such as measuring the use of climate information in business planning or the capacities of businesses to anticipate, absorb and adapt to climate risks.

### 3. Knowledge creation on accessing climate finance

It is recommended that knowledge creation about climate finance opportunities and how to access finance includes two key aspects:

- Knowledge needed includes thorough reviews and analyses of climate-relevant or related funds, programmes and facilities by public and non-state actors, and instruments such as loans, subsidies, grants, carbon finance, innovative finance, microfinance and small businesses loans with particular attention to the MSME needs.
- Knowledge about national and international climate finance landscapes and how they function should be offered to link specific MSME situations to related funding streams and investments, e.g. via supply and value chains and collaboration with other actors.

## Building partnerships and bringing actors together

A strategy to improve Southeast Asia MSME engagement in climate action requires building partnerships and bringing actors together. Actioning knowledge created in research organizations and academia quickly requires many different actors. Synergies with MSMEs can be realized via bundling that scales up impact of MSME climate action and delivers benefits to MSMEs from financial incentives. Three building blocks are recommended for actioning knowledge:

### 1. Position the players to provide the support MSMEs need

Stakeholder groups should collaborate with a view to combine academic knowledge with practical experiences and translate private-sector knowledge into measurable climate action.

These recommendations can create an enabling environment to support MSMEs:

- Academia and research organizations, including specialized organizations, NGOs and private institutions – Should offer dedicated modules for MSMEs covering regulatory frameworks and incentive mechanisms, climate policies and sectoral strategies, programmes and actions, technical skills on product and service development, financing proposal writing and climate finance, carbon pricing systems and mechanisms, and mitigation, resilience and adaptation targets.
- Trade and industry associations and umbrella organizations at national and regional level – Link businesses in their respective sectors with increased knowledge and capacity to help implement government strategies, programmes and actions, including NDCs and NAPs. They can also contribute to organization of sector-specific measures at scale.
- UN or international organizations, such as UN Climate Change, RCC Bangkok, UN Global Compact and CDP – In addition to facilitating formal processes and convening stakeholders, these organizations can provide technical and financial assistance and practical experience and expertise, often considering the needs of MSMEs as part of inclusive participation.
- Governments – Connecting with government-led processes and contributing to national and local level targets can require coordination and collaboration with ministries, related national agencies and local governments.

### 2. Champion countries and organizations within the region for showcasing increasing MSME engagement in climate actions

Championing countries and organizations taking action showcases what is possible with potential to increase MSME engagement in climate action. Recommend looking at these examples:

- Examples include capacity-building initiatives in Singapore, Thailand and the Philippines.
- The Asian Institute of Technology in Thailand and the ASEAN Center for Energy in Indonesia are regional research centers that may be able to provide general capacity-building training on climate risks and impacts, finance and mitigation measures for the energy sector.

- National research institutes that are sector specific like the Forest Research Institute in Malaysia can provide training for MSMEs that operate in a specific sector.

Several countries can act as champions for emissions reductions, with a recommendation to explore and engage what works so that it can be replicated and improved on:

- There are countries in the region where a carbon tax has been introduced (Singapore), an emissions trading scheme (ETS) is under consideration (Indonesia) and an ETS or a carbon tax is considered (Vietnam, Thailand, and Malaysia).
- Partnerships between associations, research organizations and the UN or other international organizations, including the Asian Development Bank, should investigate how MSMEs can benefit from the financial incentives that will materialize through Article 6 of the Paris Agreement and the voluntary carbon market. Such studies should investigate how MSMEs can integrate into programmes developed around supply and value chains and be used to create model approaches and pilot programmes in the Southeast Asian region.

### 3. Establish coalitions and consortia for increased private sector climate action in the economic sectors in the Southeast Asia region

Coalitions and consortia accelerate implementation by combining theoretical knowledge with the promotion of action on the ground, whilst considering or focusing on the specific needs of MSMEs. These recommendations can tap the potential of consortiums:

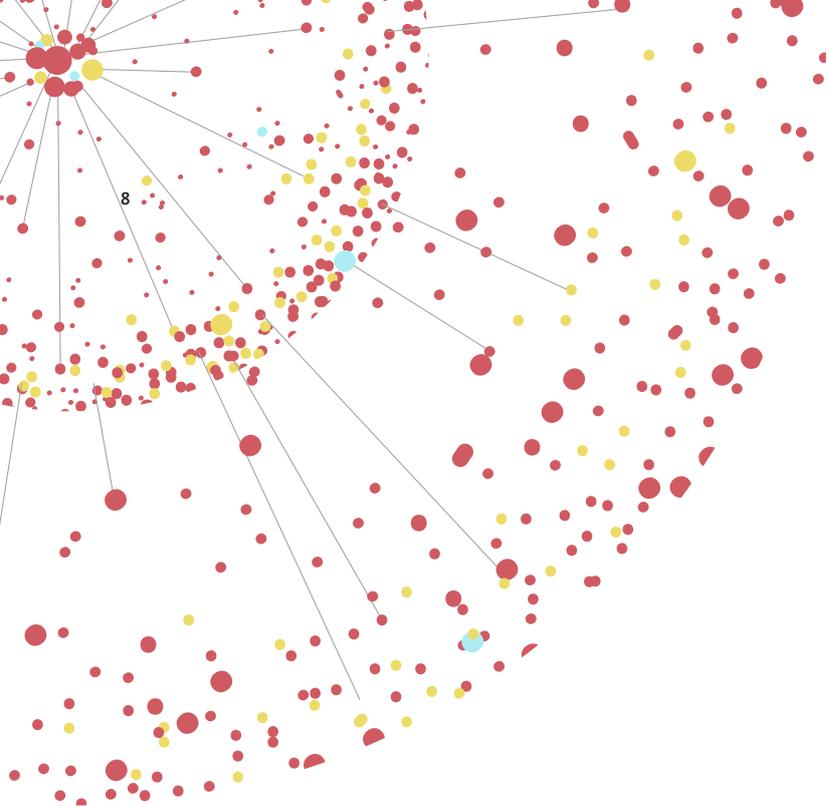
- Model approaches and pilot projects at the national and regional level should be initiated at the same time. Making this a manageable effort in the beginning such undertaking may focus first on certain sectors in each country determined by assessments of the situation and involved actors to find opportunities for action.
- Coalitions and consortia should be created to organize training, workshops and exchange meetings at the national and regional levels with support by the UN and international organization. These action-oriented measures can complement academia and research organization offers by sharing successes and lessons learned from the region and elsewhere.
- Existing regional forums like the Asia Clean Energy Forum can serve as a platform for collaboration or a new forum with a specific focus on private sector climate action by MSMEs may be created. Through coalitions and consortia, pressure can be exerted on governments to create an enabling environment for increased private sector climate action.

## Acknowledgement

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This summary is produced to provide an overview of findings and speed implementation of the Paris Agreement through SME engagement.



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