

## Consultation Workshop: Building Capacity for Climate Action by SMEs in ASEAN

### SUMMARY

On 26 October 2021, the UNFCCC-IGES Regional Collaboration Centre for Asia and the Pacific based in Bangkok (RCC Bangkok) and the International Development Research Centre (IDRC), in collaboration with the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the United Nations Industrial Development Organization (UNIDO) co-organized a virtual workshop titled “**Consultation Workshop: Building Capacity for Climate Action by SMEs in ASEAN**”. The workshop gained from the participation of 24 speakers at the panel and the breakout sessions.

This workshop built on a study conducted by the UN Climate Change Secretariat and the International Development Research Centre (IDRC) to identify capacity-building gaps and needs on climate action by SMEs in South-East Asian countries. This workshop served to provide an avenue for SMEs and diverse stakeholders to identify capacity and/or knowledge gaps and needs where support is urgently required or is available in regard to climate action. Areas of capacity building for climate action by SMEs is manifold and includes but is not limited to: developing climate strategy, reducing own emissions and the emissions in the value chain, assess and manage current or potential climate change risks to the business, learn about green finance opportunities that are available, as well as share good practices on Climate Action. This workshop also serves as an avenue to identify areas of cooperation between government officials, private sector stakeholders, development partners, academia and research institutions.

The workshop gained from the experience of 24 speakers from their respective organizations at the panel and the breakout sessions.

Drawing from the UN Climate Change Secretariat and IDRC’s initiative to conduct a Mapping study, this workshop aimed:

1. To understand the challenges, capacity gaps and needs faced by the SMEs to engage more actively in climate action
2. To identify areas of actions and cooperation between development partners and other stakeholders to address these gaps and support SMEs and countries as regards engagement of SMEs in Climate Action

Several key messages emerged from the experience sharing at the plenary or the break-out sessions, as summarized below.

## A. Initiatives to support Climate Action for SMEs

In this session representatives from several regional institutions elaborated their support programs to SMEs related to addressing capacity and knowledge gaps, needs and challenges on undertaking support for Climate Action. This session focussed on sharing available information on ongoing projects, capacity building initiatives, knowledge platforms, training programmes, government policies and strategies to enhance the understanding of SMEs on what is available in this region and to help them identify key stakeholders to engage with in future. Some of the highlights from this session include:

1. ***It is urgent that the business sector and SMEs need to adapt to the climate crises now*** - Low carbon sourcing and social responsibility in the business sector cannot be emphasized enough as the trend of trade continues to shift progressively towards sustainability was the key message in the Opening session. Several research in recent years conclude that the Environmental and Social Governance (ESG) footprint of the supply chain is usually much higher than the direct impact of companies. Hence, as corporates increasingly talk about net zero and 1.5°C climate ambition, they will demand that SMEs are starting to look and be aligned to the corporate's climate aspirations as well. Climate credentials will be an added value for SMEs to be competitive and relevant in a sustainable trade domain. Impact of climate change will have dramatic impact on business and hence SMEs should urgently look for finding new business opportunities to minimize the unforeseen risks from climate impact. “UNGC Climate Action Accelerator”<sup>1</sup> - a programme for UN Global Compact's members, helps accelerating the climate actions of SMEs through capacity-building activities, including either through self-learning or peer-learning. Capacity building is of prime importance. For example, when talking about climate action, SMEs need to build their capacity to operate expensive innovative technology before investing in such technologies. Undergoing necessary training on such innovative technologies will help SMEs to minimize the negative impact on their overall operational efficiency. Another initiative to support the achievement of climate goals by SMEs is the “Science-based target Initiative (SBTi)” which is also included in the UN Global Compact Network online courses.

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<sup>1</sup> the modules and materials are produced by WR

2. ***It is important to enhance the understanding of the impact analysis of Climate change and co-benefits arising from adaptation and mitigation measures*** -SMEs don't understand the science and the concepts related to Climate Change and therefore cannot link the Global reports/news such as the IPCC Report to the business decisions and climate action. One example of such a case at the national level was presented from Philippines at the session. Capacity building of SMEs for Climate Action was underlined within the context of understanding the key concepts of “mitigation” and “adaptation” as explained in the IPCC Report. Global sciences as laid down in this report are not well understood by SMEs and this is a core problem for them to take Climate Action. To address such challenges, the National Resilience Council of Philippines has four core partners: local government agencies, national government agencies, private sector and academe. In this experience from Philippines, they work with the partners to (i) link climate hazard to differentiated exposure and vulnerability of SMEs; (ii) advance SME's understanding of building resilience; and (iii) linking building resilience activities to the co-benefits of investing in climate actions. Hence, capacity building on the linkages of climate action and resilience is a must for SMEs. The “Resilience Framework” of the National Resilience Council Philippines is an example which addresses the challenges around understanding global climate change concepts. It commits to building a resilient nation (i) using science and technology-based public-private partnerships, (ii) enhancing internal capacities of local government units (LGUs) with evidence-informed risk governance, (iii) strengthening high-level collaboration between national government agencies and industries (including SMEs), and (iv) implementing the resilience program within a systemic approach.
  
3. ***There is a need to instill due diligence for taking Climate Action by SMEs through entrepreneurial learning*** – The three main barriers that SMEs face when it comes to taking climate action are: access to technology which is getting increasingly difficult in the digital economy; access to finance; and, capacity/knowledge gap considering that many ASEAN SMEs are home-grown<sup>2</sup> industries. With nearly 30% of the ASEAN SMEs part of the Global Value Chains, another 30% working in the clusters as a part of the industrial sector and the other 30% linked to the social fabric, instilling the due diligence for taking Climate Action becomes urgent. They have abstract understanding of the significance of building resilience to climate risks. However, their capacity needs to be built around efficiency, sustainability including climate actions and environmental protection, and competitiveness. Economic Research Institute for ASEAN and East Asia (ERIA) has been working on the Capacity building programmes of SMEs to enhance the understanding of the policy coherence - policies and incentive mechanisms should be in place to accommodate SMEs to take climate actions. Based on several years of research at ERIA and pilot testing, the Industry 4.0 and Circular Economy Readiness Self-Assessment

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<sup>2</sup> By home-grown industries we mean industries that have limited access to international technology/finance/capacity building

Tool has been developed. In addition to this tool, entrepreneurial learning can help ASEAN SMEs in understanding the key performance indicators for SMEs to optimize their resources and knowledge on Climate Action Agenda.

4. ***SME Climate Hub is a one-stop shop to help SMEs to take climate action, build business resilience, and gain a competitive advantage*** – The SME Climate Hub is a global collection of SMEs (small-medium enterprises) that have committed to halve emissions by 2030 and become net-zero by 2050. SMEs make up 90% of businesses worldwide and employ over two billion people; 40% to 60% of such small businesses never reopen after a disaster and hence it is a priority that SMEs are informed of climate and disaster risks and understand the urgency of taking Climate Action. This collaboration between a few organizations helps SMEs to approach climate action in the best way - reduce cost by increasing resource efficiency, and by managing risk and future proof business by getting ahead of regulation that will come down the line. There are 4 main action-based tools and resources available in the Hub for SMEs to take actions and help them to make a business plan, that are being continuously improved building on SMEs expertise. For example, there is a carbon calculator available for SMEs, so they are able to calculate their scope 1, 2 and 3 emissions for a specific sector. Another example is the training course in partnership with the University of Cambridge to support small businesses in reducing their carbon emissions. This includes tools and resources that can help all SMEs take concrete steps towards climate action. More tools are available for SMEs that have joined the SME Climate Hub. After making the commitment, SMEs gain access to a personalized user profile, equipped with free tools and resources tailored to support their net zero journey. With additional tools for climate education, measurement and reporting, SMEs can make strategic and impactful emissions reductions, track their progress, and demonstrate climate leadership. Yet another example is of the 1.5°C Supply Chain Leaders wherein multinational companies work with their supply chain SMEs to take climate action and towards net zero commitments.
5. ***ESCAP Sustainable Business Network*** - Consisting of executives and representatives of leading businesses in a wide range of industries and sectors from across the Asia-Pacific region, the ESCAP Sustainable Business Network (ESBN) is set up to drive businesses in working towards the 2030 Sustainable Agenda and associated Sustainable Development Goals (SDGs). The ESBN actively engages in promoting inclusive, resilient, and sustainable development through public-private partnerships, launching, and implementing activities/projects to enable the adoption, practice, and implementation of SDGs, particularly those in relation to their Task Forces. The ESBN consists of the five Task Forces: (i) Sustainable and inclusive finance; (ii) Digital economy; (iii) Disaster and Climate risk reduction; (iv) Green Economy; and (v) Youth and women entrepreneurships. A number of opportunities lies for SMEs to work along those fronts. For example, the textile & garment sector accounts for a significant proportion of global carbon emissions, estimates range between 6 and 8 per cent of global totals, while the cement industry is responsible for approximately

7 per cent of global anthropogenic carbon emissions. Together they have large emissions profiles that need to rapidly decarbonize. SMEs need to build their capacities on the available low carbon technologies, how to use them and accessing finance for such investments

6. ***Asian Development Bank Ventures (ADB) invests and support early-stage technology companies that contribute to climate mitigation and climate adaptation impact in developing Asia*** – It is obvious that SMEs want to adopt and invest in climate-friendly technologies. One of the important challenges in this regard is access to finance. So, ADB would invest in technology companies, and then these companies will support and work together with SMEs. Through this endeavor, ADB provides risk capital for the early-stage and start-ups including SMEs –There are currently 3 companies in the investment portfolio;
- A. **SatSure** → use satellite technology to gather information with data analytic platform to enable financial institution to optimize credit decision making in the agricultural sector. Increased access to financial services, including insurance products, helps SMEs and farmers to adapt to climate change.
  - B. **FairBanc** → offer digital microcredit to SMEs for inventory purchases. SMEs can buy now and pay later, which stabilize their stock inventories. FairBanc has a financial literacy component in their platform
  - C. **EGG** → world’s first mass production platform for commercializing high-quality virus free potato microtubes. In addition, this results in higher yields and income for agricultural SMEs and farmers thereby increasing their climate resilience.

For example, ADBV Labs leverage ADB’s public and private sector networks to connect climate impact startups with large local early adopters and help them de-risk and accelerate market entry for climate impact technology solutions. ADBV Labs have implemented 3 Labs generating 14 pilots and 5 commercial partnerships till date.

7. ***The role of Chambers of Commerce to provide platforms for peer-to-peer learning by SMEs on Climate Action*** – Netherlands-Thai Chambers of Commerce (NTCC) works by joining hands with other foreign chambers of commerce in Thailand. One such example is the Annual Sustainable Business Forum to highlight environment-friendly solutions amongst their members. An integrated approach is always helpful and hence academia and public sector are also invited to share experiences on different sustainable topics. Another example is that the NTCC also organizes annual gala and give awards as motivation to companies who performs well on their environmental and sustainability targets. One of the interesting activities from NTCC is to organize site visits where members could visit other member’s factories to see and get inspired by resource efficiency approaches such as solar panel, circular economy as well as getting opportunities to learn from one another.

## B. Breakout sessions provide hands-on experience on addressing capacity gaps and needs for the SMEs

The study that was conducted by RCC Bangkok and IDRC in the ASEAN Region to map the capacity-building gaps of SMEs to better engage in climate action had identified fifteen different thematic areas. These different thematic areas could be grouped under the following three broader categories:

- ***A business case for climate action***; SMEs in general will engage in climate action opportunities if they have a clear business case to improve performance in processing and manufacturing goods and services with a clear win/win scenario. Hence, it is a fact that SMEs need to enhance their capacities for understanding and assessing climate risks.
- ***Economic recovery packages of support should consider strengthening resilience concepts for SMEs***; the current ASEAN COVID pandemic recovery packages for SMEs have the opportunity to also introduce resilience building through climate action as a pathway to recovery of business in light of the economic downturn
- ***Access to finance – Green Entrepreneurship***; financing climate action for SMEs will need to be incentivized through policy/regulations or cost sharing. SMEs are in dire need of a range of financial services and products that will increase profitability in addition to a net positive climate benefit for the environment and society. Understanding the socio-economic-environmental benefits of climate action is a priority and capacity building activities should be made available for SMEs to enhance their understanding on this front

These breakout sessions provided an avenue to continue discussions on identified gaps and needs for SMEs from the previous panel sessions and presentation of the initial results of the study. Three breakout sessions revolved around discussions on the above-mentioned broader topics. Some of the highlights from this session include:

### ***I. Breakout Session 1: Climate-risk informed strategies and investment plans by SMEs***

It is of utmost importance that leaders such as city Mayors play a key role by bringing together different stakeholders such as the academia, corporate leaders and finance institutions, as well as formulate legal frameworks and supportive incentives that can help SMEs both, in enhancing their understanding of climate actions as well as taking such actions. The first step is to advance the understanding of SMEs about adaptation and mitigation actions or a coherent approach to help them in exploring new business opportunities by integrating climate action into their investment plan. Many a times, lack of data is associated with SMEs' limited understanding of key climate change aspects. Hence, the second step would be to share evidence-based data of climate impacts - with facts and figures from their country or locality – to help raising their awareness of the climate impacts and the urgency to take action. The third aspect would be a training about cost-benefit analysis of climate action, access to finance and make SMEs well-equipped about relevant concepts to design climate-risk informed strategies and investment

plans tailored to their needs and business targets. Peer-to-peer learning is a helpful tool to understand the challenges faced by peers and how these could be overcome to advance climate action. Another constraint that is often identified by SMEs is time. However, often the case is that once SMEs' capacity is built about existing incentives, policies, available finance opportunities, technologies and cost-benefit analysis of climate action, SMEs are usually better positioned to take actions than big corporates, as their decision doesn't call for a lengthy and elaborate procedure. Leadership at all levels is an important criterion for SMEs to take climate action.

## ***II. Breakout Session 2: Climate actions in the time of the pandemic – voice from the SMEs***

This session highlighted the importance of sustainability in the day-to-day operations of SMEs, including adapting and being resilient to climate change. The ongoing pandemic brought a number of unforeseen challenges and disbalanced their operational sustainability. However, this is an opportunity for SMEs in their effort to understand both the “associated risks” and “safety measures” from disasters and climate. Moving forward into the future, SMEs will be impacted by the reminiscence of COVID-19 and taking advantage of the new economic landscape can stimulate engagement in climate actions. Keeping in mind how innovative SMEs are in finding ways in handling obstacles and challenges, government policies should aim at navigating SMEs into greener operations. These should include both incentivized policies for SMEs in greener operations as well as help SMEs find finance for green investments. Besides, governments should formulate supportive policies for SMEs to help them flourish their innovative ways including moving towards a climate resilient world.

## ***III. Breakout Session 3: SMEs Climate Action in the ESCAP region***

This session highlighted the importance of corporate leadership and the need to attract finance. It was recognised that more commitments for SMEs and companies to go greener and cleaner as a cost-effective way to do business is an urgency. In this regard, there are 2 approaches (i) making SMEs aware of the associated co-benefits of greener and cleaner production and thereby reducing emissions and (ii) aligning their understanding with the achievement of SDGs and drawing a roadmap for them to take action. For example, cleaner production is a cost-effective way to do business, helps to reduce emissions and increases occupational safety and health. It is through such measures that green technology can act as a catalyst to attract green finance. Another observation, that followed from the discussions, was of making SMEs aware of carbon pricing which can bring a drastic change in the region in reducing emissions. In this regard, SMEs from different sectors have different options. The Fashion Charter for the garment industry aims not only for emissions reduction but also creation of decent work and thereby creating an opportunity for new jobs and advance sustainable development. The major highlight from the session was to educate all actors across the value chains on climate action and get the whole ecosystem of enterprises engaged in advancing climate actions.

## C. Wrap-up discussions

Building on the key points from the panel and the breakout sessions, in this wrap-up session, key organizations shared updates about their work. Possibilities on how to engage in a forward-looking scenario to address the identified gaps, building on what is available in the region and how best to capitalize on it was also discussed.

Canada has delivered \$2.65 billion in climate finance to developing countries, from 2015 through March of 2021. The programs and projects supported under this commitment are expected to reduce or prevent greenhouse gas emissions by over 222 mega tonnes – the equivalent of removing about 47 million cars from the roads for one year – and helping at least 5.9 million people adapt to the effects of climate change. This commitment has helped developing countries achieve cleaner economic growth and build climate resilience. Canada's investments have also mobilized important climate finance contributions from the private sector. Private sector actions, including from SMEs, will be critical in addressing climate change. It was emphasized that climate change mitigation is also a responsible business conduct. As companies integrate mitigation and adaptation actions into their strategies and investments, they address material risks and “future-proof”, but also lessen their negative impacts on societies. Keeping in mind SMEs’ importance to economies and livelihoods, SMEs are a key part of successful adaptation to climate change. As part of a just transition, choices with the funding should be able to push in the direction of greater equality in these millions of new jobs and continue to find ways to integrate gender equality considerations. So, a climate rationale needs to guide both climate finance efforts, and how the climate finance can address inequalities, particularly gender inequalities as women get more and more engaged in the SMEs.

ESCAP’s Asia Pacific Sustainable Business Forum (APSBF) focuses on climate action including reducing GHG, CO<sub>2</sub>, plastic use, etc. It is critical for SMEs to be able to connect to mechanisms that can take forward climate action and this Forum can encourage SMEs to join in. Through the regional work with Governments, the APSBF created opportunities for governments to guide SMEs to become greener and link to green financing opportunities.

UNIDO has invested more than 50 USD million in the private sector to take climate action. From UNIDO’s observation, although climate financing is significant, SMEs don’t have the available economy of scale. For example, to reduce 1M ton of CO<sub>2</sub>eq, it requires a lot of resources for SMEs to take that approach. Hence, engaging SMEs in climate action should include both mitigation and adaptation measures. UNIDO is working with SMEs and farmers to help them adopt digital solutions to reduce impacts of climate change.

The discussions at the sessions brought to the forefront a number of opportunities for research, data gathering and partnerships in the region. Finding ways to bring together some of these initiatives with researchers, in order to build ways to measure progress and impact, to understand integrated social and environmental goals of business plans would be a clear contribution towards the achievement of global development goals. This can create more learning for other organizations to follow and will help scaling up successful tools. In this regard, International Development Research Centre



(IDRC) shared that there is a clear space for research organizations like them to find collaborators - bridging research and private sector action, creating accessible data and knowledge, and bringing together both social and climate objectives. IDRC's approach to climate change-focused research, in Asia and the Pacific region and globally, recognizes that the private sector absolutely has a critical role to play.

At this session, it was highlighted that by building capacity of SMEs, in the process of these major economic transitions, inequality can also be addressed, and the process can be inclusive. SMEs in this region are the main drivers of jobs, and many of those jobs are for women and youth. With enhanced understanding of how climate action, and new areas of innovation can be job creators for these often underrepresented and excluded groups, instead of presenting new threats to livelihoods, the shift can be inclusive. In this regard, circular economy is an approach to the low-carbon transition in specific sectors or in specific areas, like cities, or within value chains. SME readiness to adopt circular principles, or to innovate and create new jobs and areas of work will be central to that. Further understanding on what SMEs need in order to adopt circular principles, to change their ways of working and of designing and using materials, to create decent jobs, and again in accessing the financing to a low-carbon economy was underlined. It was brought into the discussions at the session that skills needs will change as economies change, as new jobs are created and new sectors grow. And this is the area where collaborative efforts need to come in, so research could be used to understand what those skills needs are, and how more women and young people can be equipped with skills to be part of a low-carbon economy.

IDRC informed at the session that they have launched about 12 projects globally, including 3 in Asia, looking at women's economic empowerment in the low carbon transition. Many of those projects will be looking specifically at women-led SMEs or SMEs that employ women, in agricultural or forest product value chains. Many of them will be looking at the kind of ecosystem of support for the enterprises, including training, access to finance, access to new technology, energy and so on.

As a way forward, the organizations participating in this workshop will continue to discuss concrete areas of collaboration building on the findings of the UNFCCC/IDRC Study and the discussions held in the workshop. Some of these include:

1. Initiatives on SMEs and their role in creating a low-carbon and inclusive society, aligning with the NDCs of the countries in the region
2. To develop concrete plans around specific knowledge gaps and exploring opportunities to work together and add value to the ongoing initiatives.
3. To bring gender into the mainstream conversation around SMEs and climate action and build their capacities
4. To share evidence-based data generated widely with SMEs and advance their understanding in assessing climate risks and taking climate-risk informed decisions urgently.
5. To organize training workshops for the SMEs on accessing finance for greener investments and to help them transition to circular economy