



An unprecedented juncture for ASEAN small and medium businesses

2022



Contents

Introduction	03
The case for more focus on ASEAN SME sustainability	05
- Meeting consumers' sustainability expectations	07
- Propelling inclusive growth	08
- SMEs' financing needs remain unmet	09
- Empowering women-led SMEs	10
- Keeping inclusion alive in times of crisis	11
Lingering misperceptions and challenges for SMEs	12
- Implied costs of sustainability adoption	12
- Knowledge gaps & industry nuances	13
- Measurement & reporting of sustainability efforts	14
Re-orienting the SME sustainability conversation	16

INTRODUCTION

Two of the megatrends that today's businesses face are digitalization and sustainability.

The former has gained so much pace that just trying to keep up with digitalization is a huge challenge. The conversation is now shifting to Web 3.0, while the COVID-19 pandemic has only further accelerated change. The case for businesses of all sizes to harness digitalization is clear: it is a matter of both survival and opportunity.

Sustainability is now a critical issue for economies, societies, and businesses around the world. Consumers' behaviors are changing as they witness and become more educated on the implications of climate change, while governments, investors and corporates are grappling with a balancing act between achieving sustainability goals and economic development. Any previous debate has now become a consensus: like digitalization, integrating sustainability can be proven to bring advantages to businesses and investors by enhancing performance and long-term resilience.

While the significant drive coming from organizations across the public and private sectors is making a vital contribution to the sustainability agenda, an often-overlooked segment within this narrative is small and medium enterprises (SMEs).

¹ <https://www.oecd.org/industry/ind/promoting-productivity-of-SMEs-in-ASEAN-countries.pdf>



SMEs as a force for driving sustainability & innovation

In ASEAN, **SMEs make up 63.3% of employment and 42.2% of gross value added¹** – a colossal proportion of the economy. However, as a cohort, SMEs have not received a proportionate share of the spotlight when it comes to sustainability. This subdued discussion around SME sustainability stands in contrast to the enormous potential for SMEs to make substantial contributions to sustainability goals. The sheer size and potential of this economic segment to have a meaningful impact on nations' sustainability efforts presents a compelling case for SMEs to be placed higher up in the agenda when it comes to achieving a sustainable future.

SMEs themselves can embrace this opportune moment to combine the twin journeys of digitalization and sustainability to realize greater long-term resilience and growth opportunities. At the same time, the broader business ecosystem must also do its part by stepping up its involvement with SMEs, from education, acknowledgement to partnerships. A greater involvement of SMEs in support of reaching sustainability goals could indeed prove of

63.3%

employment
by SMEs

42.2%

gross value added¹
by SMEs

"Stakeholders across the public and private sector - government, policymakers, corporates and banks – all have a role to play in making SMEs understand why sustainability should be part of their agenda going forward."

– Ruth Sy, Regional Product Head, SME, Asia Pacific, Mastercard

This paper highlights some areas in which digitalization and sustainability journeys can be combined, spanning access to capital, financial inclusion, supply chain resilience, talent, innovation, and growth. It also sheds light on the perceived hurdles for ASEAN SMEs around digitalization and sustainability that remain.

The definition of SMEs differs across markets and industries. SMEs referred to in this paper are broadly defined as businesses with under 500 employees. Sustainability refers to the way in which businesses serve as a force for good across their social impact towards communities, ethical practices, how they treat employees and their contribution to a healthy planet. This paper does not address the broader concept of Environmental, Social and Governance (ESG).

THE CASE FOR MORE FOCUS ON ASEAN SME SUSTAINABILITY

As with larger corporations, SMEs are finding their footing in ways they contribute to sustainability. Opportunities abound for public and private stakeholders to explore and deepen engagement with ASEAN SMEs as they embark on their converging sustainability and digitalization journeys.

From harnessing the power of technology in greening operations, to propelling inclusive growth for owners and workers, SMEs are already starting to shed light on areas in which their behaviour and actions could collectively bring about meaningful progress in sustainability. SMEs are also playing a vital role in driving new ways of working and developing new products and solutions for a sustainable future that harness the latest technologies.

"SMEs often lag in the sustainability journey, having historically been sandwiched between consumers and large corporations, the two segments that receive greater shares of focus. But we are starting to turn the corner."

– Ruth Sy, Regional Product Head, SME, Asia Pacific, Mastercard

Greening operations while achieving cost efficiencies and managing risk

Digitalization and technology adoption opens a myriad of ways for SMEs to integrate sustainable practices into their day-to-day operations. As an example, using the cloud and opting for paperless formats of trade or business documentation – such as digitalizing transaction history and offering e-receipts by default – are known but effective ways to reducing waste and emissions, all the while improving customer transparency and the purchasing experience.

The benefits of leveraging the power of digital technology goes beyond waste reduction. For example, solutions exist that harness the potential of digital receipts to reduce customer false claims against merchants, materially contributing to operational efficiency and savings for businesses.

Take digital payments as another example. Adopting soft Point of Sale or QR code payments is not only a way for SMEs to offer alternatives to cash payments for customers, but also reduces the amount of physical accessories needed for mobile payments and paper receipts.

QR codes have gained particularly strong traction in Asia Pacific (APAC) compared to the rest of the world, showing a promising trajectory of increasing adoption. Mastercard New Payments Index shows how APAC consumers perceive new digital payment methods to be cleaner (76%) and more convenient (71%) for in-person payments.



² <https://investor.mastercard.com/investor-news/investor-news-details/2021/Mastercard-New-Payments-Index-Consumer-Appetite-for-Digital-Payments-Takes-Off/default.aspx>

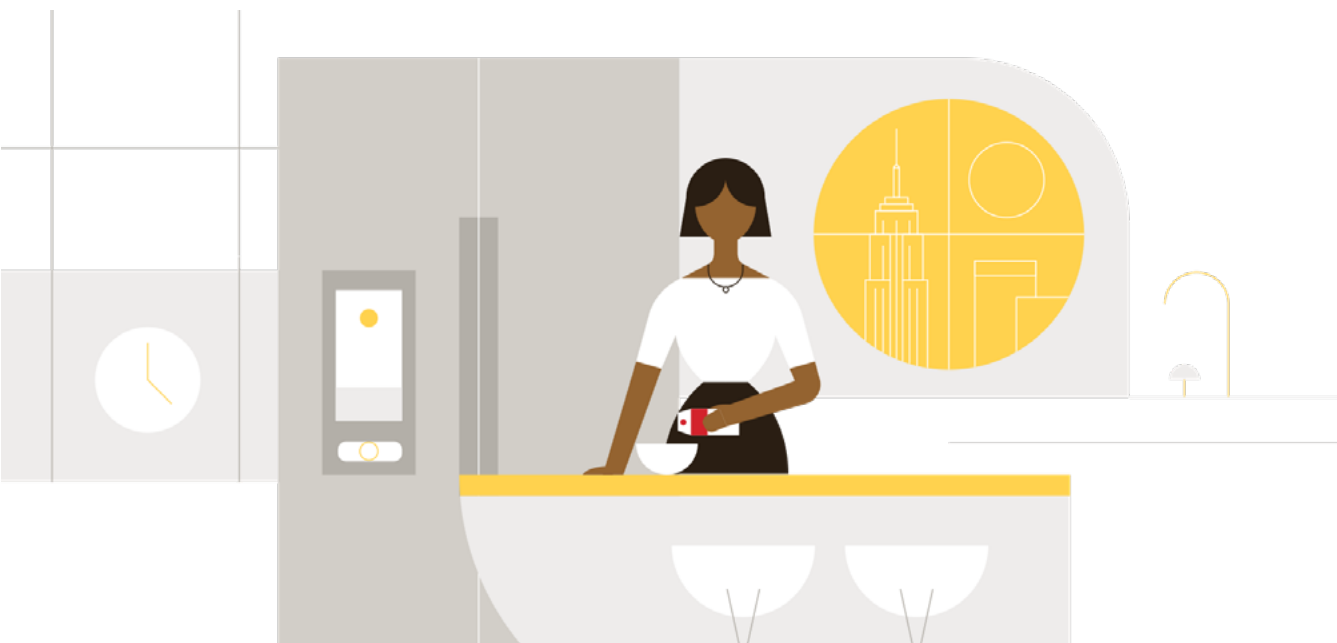
³ National Action Plan on Promoting GPP (2021-2027)

SMEs' supply chains are demanding sustainability integration

Suppliers, partners, investors, and customers each have their own reasons for needing to know if a company's supply chain is sustainable, prompting SMEs to focus on the sustainability performance of not just their upstream suppliers such as components manufacturers, but also those down the chain, including logistics service providers.

An example of this trend in motion is governments now incorporating sustainability credentials as part of supplier qualification considerations amid the growing emphasis on green procurement processes. For example, Thailand's Green Public Procurement (GPP) policy is set to benefit green products and service producers for over 1,400 products sourced by the government, while a draft National Action Plan on Promoting GPP (2021-2027) is currently undergoing approval, setting the scene for green procurement to become the norm.

Such initiatives create clear incentives for SMEs to meet green procurement requirements, in turn accelerating sustainability progress.



SMEs as a source of Innovation

A new breed of green and sustainability "pureplay" SMEs is proving to be an important source of innovative, locally-relevant sustainability solutions and ideas, making the case for stakeholder to deepen and broaden their engagement with the segment in their bids to promote sustainability and digital-oriented growth. SMEs' nimbleness and ability to identify and serve niches neglected by larger players makes them valuable partners to governments and corporates in developing and deploying sustainability solutions.

² <https://investor.mastercard.com/investor-news/investor-news-details/2021/Mastercard-New-Payments-Index-Consumer-Appetite-for-Digital-Payments-Takes-Off/default.aspx>

³ National Action Plan on Promoting GPP (2021-2027)

Meeting consumers' sustainability expectations

"Today's conscientious consumers are not influenced by traditional triggers like price and convenience alone. Customers are clearly displaying more sustainability-oriented purchasing behaviors, which is a trend that SMEs will increasingly respond to."

– Marie Soon, Vice President, Sustainability, Mastercard

A Mastercard survey⁴ revealed how the pandemic has led to an increase in consumers' passion for protecting the environment, a trend that was already in motion. Internet penetration and social media in ASEAN has played a large part in driving greater awareness around environment and climate change, with related social media traffic estimated to have increased by 30% since the beginning of the pandemic.

Buying more carefully and being more aware of purchases (42%) is the top change consumers are planning to make after the pandemic with females (47%) leading this trend compared to men (38%). Additionally, the top three issues consumers think companies should focus on, besides dealing with COVID-19, is looking to reduce waste (37%), air and water pollution (35%), along with tackling the issue of plastic pollution in packaging and products (35%).



Almost **3 in 5** of consumers

are now **more mindful** of their impact on the environment since COVID-19.



85% of adults

across the world state they are **willing to take personal action** to combat environmental and sustainability challenges in 2021



Out of **24** countries surveyed

across the world, **over half (54%) of people** believe it's more important to reduce their own carbon footprint since COVID-19

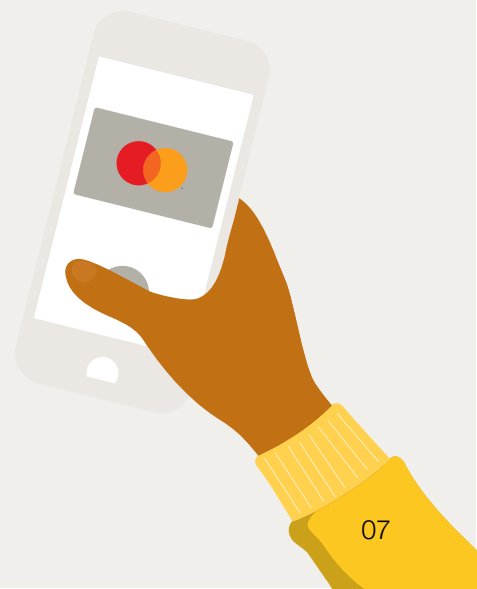


Over **3 in 5 (62%)**

across the globe admit it's more important than before that **companies behave in more sustainable and eco-friendly ways**.

As demonstrated by these findings, our societies are now at an inflection point in both the supply and demand for sustainable options. Given the prevalence of SMEs in consumers' everyday purchases, their role in creating a more sustainability-friendly marketplace is unmistakable.

One way to combine digital technology and sustainability efforts, to create transparency in the marketplace, is by tapping tools such as carbon calculators, which help consumers and businesses quantify the carbon footprint and environmental impact of the buying and selling of goods and services.



⁴ <https://www.mastercard.com/news/research-reports/2021/consumer-attitudes-environment/>

Propelling inclusive growth

A holistic approach to sustainability must go beyond environmental aspects. Inclusive economic and societal growth that accounts for underserved demographics builds resilience into everyday livelihoods of the masses, from SME owners, workers, to consumers.

The accelerated shift to digital has expanded the number of opportunities to promote financial inclusion among ASEAN SMEs – for example by empowering more women to participate in the digital economy - and created more digital avenues for businesses to secure funding and take advantage of training schemes to remain relevant in the digital economy. For ASEAN economies, this not only represents a crucial element within their long-term policy and development goals, but a pressing urgency to ensure a more inclusive recovery and growth for all in the wake of the pandemic.



² <https://investor.mastercard.com/investor-news/investor-news-details/2021/Mastercard-New-Payments-Index-Consumer-Appetite-for-Digital-Payments-Takes-Off/default.aspx>

³ National Action Plan on Promoting GPP (2021-2027)

SMEs' financing needs remain unmet

"Access to capital is at the forefront of SMEs' needs, further exacerbated by the COVID-19 era. Digitalization and the arrival of fintech lenders reinventing the underwriting process is presenting SMEs with emerging opportunities to gain access to financing by using alternative, creative data and metrics to show the value of their business."

– Ruth Sy, Regional Product Head, SME, Asia Pacific, Mastercard

Despite SMEs making up 99% of private sector companies in Southeast Asia, bank loans to them only averaged about 16.9% of total bank lending during 2010 to 2019. Limited access to formal financial services is not helped when financial institutions invoke the argument that SMEs lack the credit data they require to underwrite loans – a key barrier for SMEs when it comes to obtaining credit.

Like many SMEs, the credit underwriting process is now entering as new digital era. Already, SMEs that embrace digitalization and sustainability can present new forms of data to fintech lenders who can look at a broader set of criteria when making lending decisions.

The effects of an uneven digitalisation strategy on society have been well established for years. Unfortunately, a similar process of exclusion exists within the SME demographic group – and the exclusionary effects become even more pronounced when we take into consideration the highly diverse profile of SME businesses in ASEAN. It is therefore important that efforts to promote digitalisation and lower barriers to credit need to cover industries and sectors which do not easily come to mind.

A case in point is the agricultural sector, traditionally associated with low-tech agrarian culture. For agriculture SMEs, the adoption of a technology platform can help migrate existing records of inventory, sales and payments into the digital age, empowering them with the ability to access credit while facilitating greater efficiency in the agriculture value chain.



⁵ https://www.iseas.edu.sg/wp-content/uploads/2020/06/ISEAS_Perspective_2020_79.pdf

⁶ <https://www.adb.org/sites/default/files/publication/646146/asia-sme-monitor-2020-volume-1.pdf>

⁷ <https://www.mastercard.us/en-us/vision/corp-responsibility/social-sustainability/the-mastercard-labs-for-financial-inclusion.html>

Empowering women-led SMEs



Programs that seek to achieve inclusive growth must be specifically designed to ensure digitalization or the promotion of financial inclusion does not exacerbate existing inequalities. In some countries, cultural norms and other barriers mean women business owners have long lagged men in wages, entrepreneurship, and access and use of financial services.

Digitalization has led to a new wave of crucial support to women-led SMEs, including targeted training programs and an array of customized financial tools to help them thrive, accelerating the merging of female empowerment and SME entrepreneurship.

Female-led businesses are deserving of special attention as they navigate the twin journeys of digitalisation and sustainability. As a demographic segment, women contribute significantly to the economy, but are often left struggling with resources, due to structural and historical socio-economic legacies in many economies.

Encouragingly, across Asia, female-focused SMEs are already standing out as first movers in embracing the opportunity to respond to the sustainability agenda. Amru Rice, a woman-focused enterprise in Cambodia that sources sustainable rice from farming families and women smallholder farmers, is an apt example of how female-led SMEs targeting overlooked niches are contributing to food security, economic recovery and female empowerment.⁸

The broader policy and business circles are also lending weight to the agenda. The APEC's Policy Partnership on Women and the Economy ("PPWE") programme has identified innovation and technology as one of the key pillars in strengthening women's economic empowerment, shedding light on a promising way forward to achieving sustainable and inclusive growth. Other initiatives such as Women in Sustainability & Environment ("WISE"), a Singapore-based organization launched in November 2021 to focus on concerted gender action towards Singapore's Green Plan 2030 and the United Nations Sustainable Development Goals (UNSDGs), could spur greater female participation within the sustainability space and channel support into women-led businesses, culminating in more inclusive economic growth and recovery for all.

⁸ <https://www.weforum.org/agenda/2021/03/women-sustainable-finance-capital-markets-covid-recovery-asia-pacific/>

Keeping inclusion alive in times of crisis

Change is the only constant in the digital economy. The impact of digital payments extends far beyond consumers shopping online with a e-wallet – it can bring about profound changes in the realm of financial inclusion.

For example, SMEs operating in the garment industry in Southeast Asia often face disruptions in the form of cancelled orders and delayed payments, leading to the immediate suspension of work and job losses. Factories that digitize their payroll are able to pay workers electronically while operations are suspended, whereas factories with cash payroll need undergo the inefficient and risky process of opening their premises on payday.

SMEs and participants in the informal economy need access to the right kind of skills training, as well as access to expertise that can shed a light on their next steps when it comes to digitalization. This represents an area for further stakeholder engagement efforts.

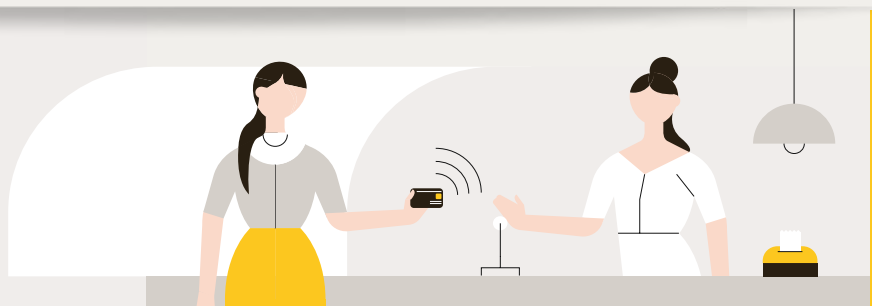
LINGERING MISPERCEPTIONS AND CHALLENGES FOR SMEs

The perceived challenges preventing SMEs from digitalizing further and engaging in sustainability efforts are multifaceted – from high costs, a lack of urgency and knowledge gaps, to the lack of ability to measure, report or be recognized for sustainability practices. These challenges are further complicated by pandemic-induced business disruption that has forced SMEs to focus on near-term survival above all else.

"While misperceptions persist, SMEs are starting to integrate sustainability practices into their business models as part of COVID recovery strategies, recognizing that it can give them an advantage and build in resilience over the longer term."

– Marie Soon, Vice President, Sustainability, Mastercard

Implied costs of sustainability adoption



The perceived costs associated with integrating sustainability remains one of the top barriers for SMEs. Businesses have been under intense pressure to survive the COVID-19 crisis, meaning resources – financial and non-financial – are more scarce than ever for SMEs.

In Southeast Asia, a prevalent view is that sustainability remains a "good to have" and is often conflated with corporate social responsibility or philanthropy, rendering sustainability a non-essential consideration.

Recent economic hardship inadvertently accentuates the long-standing misperception that sustainability is a costly exercise that yields minimal immediate benefits and is typically reserved for larger corporates with the resources to practice it without compromising their cashflow or bottom line.

As solutions proliferate and the costs for sustainability adoption decreases, so will the friction for SMEs in embarking on this journey. This will meaningfully direct SMEs away from the shortsighted view, and towards recognition of the long-term growth and resilience that sustainability can presents.

Knowledge gaps & industry nuances

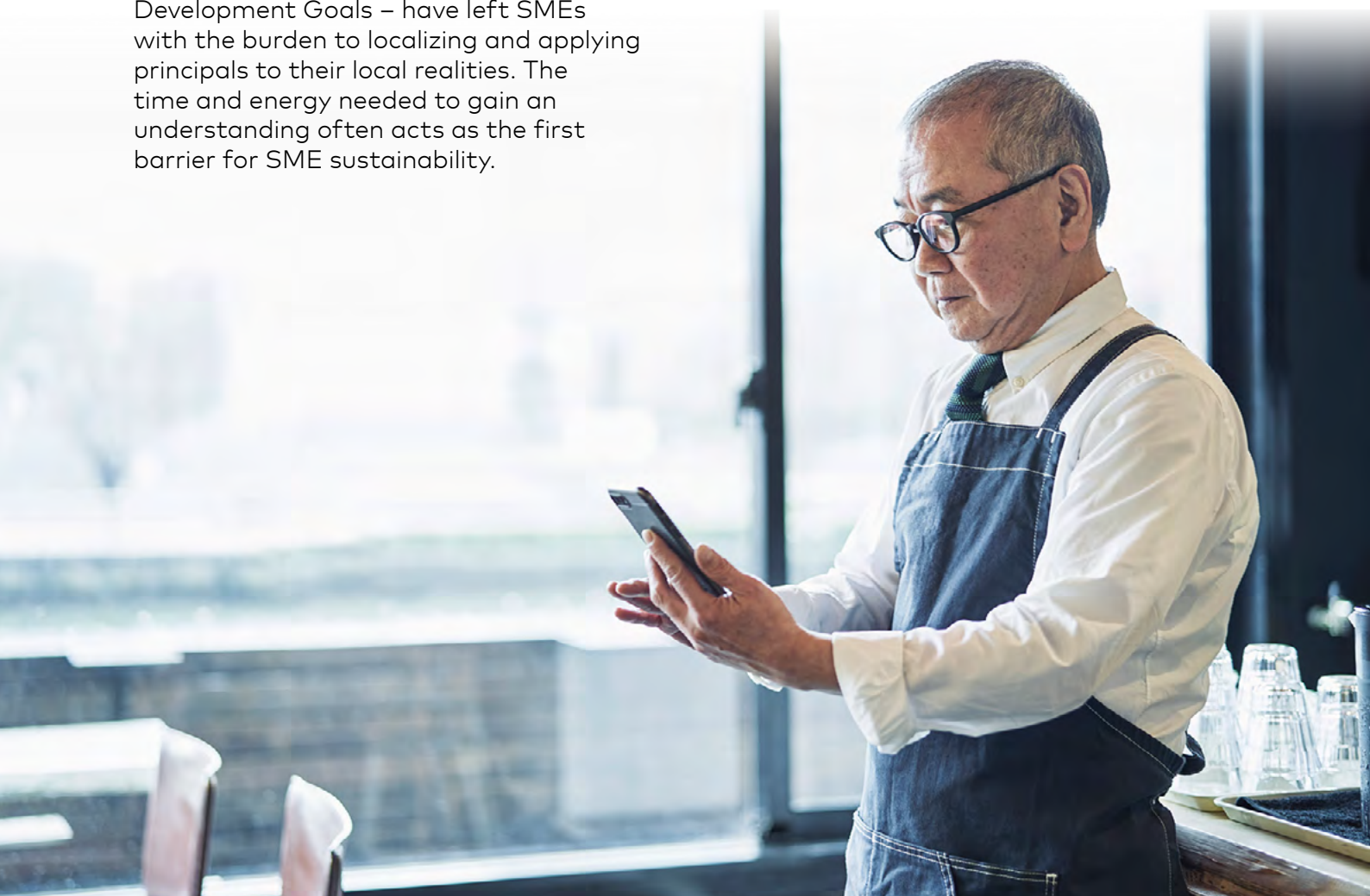
In the wake of the COVID-19 pandemic, sustainability has been singled out as an urgent problem facing businesses and governments now and in the near future, and SMEs are no exception.

When it comes to taking practical steps to integrate sustainability principles and practices as they digitalise, SMEs struggle in at least two aspects: insufficient skills and management-developed practices, and a lack of information around how to implement sustainability along their digitalisation journey.

On well-developed messages and narratives of sustainable practices and frameworks – such as the Sustainable Development Goals – have left SMEs with the burden to localizing and applying principals to their local realities. The time and energy needed to gain an understanding often acts as the first barrier for SME sustainability.

Comparing sustainability adoption between sectors can be apples and oranges. For example, SMEs in the construction sector require vastly different tools and skills to implement sustainability, in comparison to SMEs in the services industry. The former calls for a more resource-focused approach as it involves raw building materials and manpower supply, whereas SMEs in retail are faced with a different set of sustainability issues, including consumer expectations. In short, there is no single, universal pathway to SME sustainability adoption.

Generic, sector-agnostic tools and resources can inadvertently become an additional friction point in sustainability adoption.



Measurement & reporting of sustainability efforts

Navigating the often opaque, complex and ever-evolving landscape of sustainability evaluation and monitoring can be daunting for a business of any size. For SMEs this is only exacerbated by their relative lack of resources to carry out these processes.

This is an area that requires attention, as ineffective sustainability tracking and reporting capacity can limit SMEs' ability to quantify their efforts, which may otherwise be used to track the returns on sustainability investments for the purpose of accessing finance or other incentives. It also reduces the overall visibility of SMEs' sustainability efforts with their stakeholders, such as their customers and supply chains.

According to a survey by Mastercard in 2021⁹, more than half of consumers surveyed across the world (54%) see reducing their carbon footprint as more important now than pre-pandemic, with 42% also highlighting being more aware of purchases as one of the top changes that people will make as a result from COVID-19, reflecting an expectation for businesses to be transparent in their product sustainability and carbon footprint.

The case for strengthening SMEs' ability to report, measure and articulate sustainability is clear. Tools, support and collaboration from the broader business ecosystem and stakeholders could prove to be a crucial first step in helping SMEs overcome the challenge.



⁹ <https://www.mastercard.com/news/press/2021/april/mastercard-unveils-new-carbon-calculator-tool/#ref1>

Improper implementation of digitalization can be counterproductive

While the importance of digitalisation is beyond debate, SMEs often lack the expertise or knowhow in ensuring this is done in a sustainable way. With the growth of cloud technology among SMEs, there is a need to further direct and recalibrate how SMEs approach their adoption of cloud solutions.

The lack of in-house cyber knowledge can also lead to SMEs adopting technology measures that are either inadequate or excessive for their needs. In fact, these two issues are interlinked - the International Energy Agency estimates that the data center industry is expected to hit double digits in terms of electricity consumption by 2030¹⁰, making carbon emissions as a byproduct of increased digitalisation an issue to consider, with SMEs forming a crucial piece of the puzzle.

Fortunately, there are existing platforms that provide ASEAN-based SMEs with access to relevant playbooks offering guidance on incorporating sustainability into their businesses, but there remains a challenge of finding the appropriate resources that meet the specific needs of an industry or niches that businesses operate in. In a similar fashion, while SMEs are faced with an abundance of options in adopting cloud technology, there is a need to further recalibrate and guide how SMEs approach their adoption of cloud solutions in a sustainable and resource-appropriate way.



In this digital age, knowing where to start and who to trust can be overwhelming. Hence, there is a need to continue efforts to enhance the level of outreach to encourage the adoption of good digitalisation practices by SMEs, as well as provide guidance on the right kind of strategies that can be implemented.

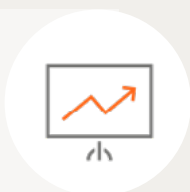
¹⁰ <https://www.channelnewsasia.com/business/new-data-centres-singapore-temporary-pause-climate-change-1355246>

RE-ORIENTING THE SME SUSTAINABILITY CONVERSATION

Ways to accelerate the dual-track digitalization and sustainability drive amongst SMEs include:



Increase sustainability awareness – continue to foster an understanding that digitalization – something that many SMEs have already embarked on – presents a golden opportunity for sustainability integration that, combined, will position them for long-term resilience



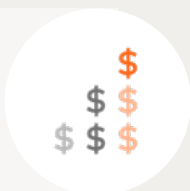
Strengthen the SME narrative – governments and partners could take the lead in championing the case for SME sustainability, in turn drawing attention from the broader business and societal community to encourage innovation and solutions addressing common challenges



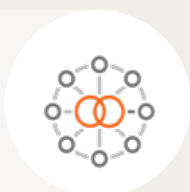
Adopt a local approach - identify local and relevant digital or sustainability partners that understand local and SME nuances



Accessibility of sustainability-focused, digitally-enabled tools for SMEs - partnerships with private sector stakeholders, as well as domestic policy outreach or engagement programmes



Access to capital - Partnerships with SME banks to explore conversations on financial and capital support to encourage SMEs execute projects and ideas that are relevant to the United Nations Sustainable Development Goals



Leverage established platforms – For example the United Nations Global Compact (UNGC) for programs tailored for SMEs, present in 68 countries worldwide including in six ASEAN countries (Malaysia, Brunei, Singapore, Thailand, Philippines and Indonesia).