



ALLIANCE BANK



ESG INSIGHTS FROM MALAYSIAN SMEs BUILDING A BETTER FUTURE TOGETHER

In partnership with



Global Compact
Network
Malaysia & Brunei



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CREATING MEANINGFUL IMPACT

ON SUSTAINABILITY WITH OUR PEOPLE, CUSTOMERS AND COMMUNITY

As part of Alliance Bank’s commitment to bring about a positive change to the SME community in Malaysia by advocating good environmental, social and governance (ESG) practices, the Bank has collaborated with UN Global Compact Network Malaysia and Brunei (UNGCMYB) as well as SME Corporation Malaysia (SME Corp. Malaysia) to jointly commission a report that provides insights into the collective views of local businesses and SMEs on the adoption of ESG practices and its significance to business resilience.

The report explores:



Current **ESG trends** among SMEs



Issues and challenges faced by SMEs to become **sustainable-trade ready** through the adoption of ESG practices



The readiness of SMEs to **adopt ESG practices** in Malaysia



Opportunities to **improve the current banking ecosystem** to facilitate the adoption of ESG practices by SMEs



REPORT INITIATORS



Alliance Bank Malaysia Berhad and its subsidiary, Alliance Islamic Bank Berhad, offer banking and financial solutions through its consumer, SME, corporate, commercial and Islamic banking, and stockbroking business. The Bank provides easy access to its broad base of customers throughout the country via multi-pronged delivery channels that include retail branches, Privilege Banking Centres, Business Centres as well as mobile and Internet banking.



United Nations Global Compact (UNGC) is a strategic policy initiative for businesses that are committed to take action to advance broader societal goals. UN Global Compact Network Malaysia & Brunei (UNGCMYB) is the official local network of UNGC, that supports Malaysian & Bruneian companies in enabling them to contribute towards the Sustainable Development Goals (SDGs) and achieve business excellence via its 10 principles, programmes and tools while providing access to strategic engagements and partnerships with a range of stakeholders – to share best practices and emerging solutions. UNGCMYB also seeks to position Malaysian and Bruneian businesses as a benchmark in ASEAN and primary change agents in driving a sustainable world.



SME Corporation Malaysia (SME Corp. Malaysia) is the central coordinating agency (CCA) under the Ministry of Entrepreneur Development and Cooperatives Development (KUSKOP) that coordinates the implementation of development programmes for small and medium enterprises (SMEs) across all related Ministries and agencies. It acts as the central point of reference for research and data dissemination on SMEs and entrepreneurs, as well as provides business advisory services for SMEs and entrepreneurs throughout the country.

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Preface



FOREWORD

I am delighted to present to you ‘ESG Insights from Malaysian SMEs: Building a Better Future Together’, our inaugural Environmental Social, and Governance (ESG) survey report.

As a bank that has a long-standing relationship with the SME sector, we understand the unique needs and challenges that businesses face. We recognise that SMEs require support, guidance, and innovative solutions to navigate today’s ever-changing business landscape, especially with growing pressure to operate sustainably and responsibly.



Towards this end, this report aims to share key insights into the current state of ESG adoption among SMEs. It also provides a better understanding of how embracing sustainable practices can help SMEs to be competitive and relevant. Whether you are just beginning to explore opportunities to incorporate ESG or seeking ways to further enhance it, we hope that the findings of this report will serve as a valuable resource in your journey towards sustainability.

Most importantly, the report has been jointly commissioned with subject matter experts and so, I would like to take this opportunity to thank our report participants as well as UN Global Compact Network Malaysia & Brunei (UNGCMYB) and SME Corporation Malaysia (SME Corp. Malaysia), for their invaluable contribution and support in making this report a success. We truly appreciate their shared vision of promoting sustainable and responsible business practices among SMEs in Malaysia.

With that, I thank you for taking the time to read this report. I trust that you will find it to be insightful and informative.

KELLEE KAM

*Group Chief Executive Officer
Alliance Bank*

THE BUSINESS CASE FOR ESG: WHY IT MATTERS

ESG stands for Environmental, Social, and Governance, which are three key factors that measure the sustainability and ethical responsibility of a business. Businesses that adopt ESG practices can improve their performance, reduce risks, and create positive impacts for society and the environment.



ENVIRONMENTAL: A company's impact on the natural environment

- Carbon emissions
- Energy efficiency
- Waste management
- Resource conservation

Example: A business that uses energy-efficient technologies and implements recycling programmes is seen as environmentally responsible.

SOCIAL: A company's impact on society

- Labour practices
- Employee relations
- Diversity and inclusion
- Community engagement

Example: A business that provides a safe and healthy work environment and treats workers fairly is considered socially responsible.

GOVERNANCE: A company's management practices

- Board diversity
- Executive compensation
- Risk management
- Transparency

Example: A business with clear ethical policies and transparent communication with stakeholders is considered to have good corporate governance.

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About the Study

“We realise that in order to make the ESG journey work, it is not asking businesses to adapt to a single ‘one fits all’ ESG roadmap, rather we want to help develop the most effective ESG roadmap for each SME.”

RIZAL IL-EHZAN FADIL AZIM

Chief Executive Officer, Alliance Islamic Bank



ABOUT THE STUDY

This report is based on 3 key methodologies used in the process of information gathering and is jointly commissioned by Alliance Bank, UNGCMYB and SME Corp. Malaysia to provide insights from the SME community on the awareness, adoption and challenges of inculcating ESG practices in Malaysia.

Results from this survey have been carefully reviewed and analysed, common trends were identified and discussed to extract meaningful interpretations. The purpose of this document is to summarise relevant themes and findings from local businesses as well as ESG practitioners and financial professionals on the topic of sustainability.



IN-DEPTH INTERVIEWS

- **SME ESG Champions**
(Understand the journey of ESG adoption, pain points & motivations)
- **SME Industry Representatives**
(Industry-level view on SME ESG adoption, drivers, barriers, & interventions that are deemed effective)
- **ESG Knowledge Experts**
(Current ecosystem supporting SMEs on ESG adoption, status quo, emerging trends, etc)
- **Financial Institutions**
(SME attitudes and behaviours on finances)



SME SURVEY 610 PARTICIPANTS

- **43%** Service Industry
- **33%** Manufacturing Industry
- **16%** Construction
- **8%** Others (includes agricultural, mining and quarrying)



SECONDARY RESEARCH

- Reference from literature reviews
- Reference from benchmarking on innovative green offerings by financial institutions for businesses

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Key Findings

“Malaysia is aiming to achieve net-zero greenhouse gas emissions by as early as 2050. With this race to net-zero, there is a clear urgency to establish adoption of SDG and ESG frameworks. With financial institutions like Alliance Bank supporting SMEs and connecting their clients to our solution providers (e.g., solar, electric vehicles, waste management, green buildings and biogas), we are confident that we can make a very positive impact on the environment.”

ELINA BINTI JANI

*CEO of Greentech Malaysia Alliances,
a subsidiary under Malaysian Green Technology and Climate Change Corporation (MGTC)*



ESG INSIGHTS FROM MALAYSIAN SMEs: BUILDING A BETTER FUTURE TOGETHER

EXECUTIVE OVERVIEW

HIGHLIGHTS

ESG adoption among SMEs in Malaysia:



3 out of 5 SMEs believe practicing ESG will ultimately create long-term value, a strong workforce and increase business opportunities.



Among ESG adopters, 3 out of 4 started their journey within the last 5 years, with **80% recognising the value and planning to continue pursuing it.**



Among non-ESG adopters, **~60% are open to adopting ESG in the near future**, with close to half likely to do so within the next 1-2 years.



The Social or “S” pillar was the most popular and implemented initiative among SMEs.

KEY TAKEAWAYS

ESG Adopters: SMEs that have adopted elements of ESG or have included ESG practices into their strategy.

i. Key challenges:

- Resource constraints
- Lack of visionary directives or framework/guidance on ESG
- Lack of technical and operational know-how

ii. Initial motivation to adopt:

- Improve productivity
- Obtain cost savings
- Enhance brand reputation

28%

Non-ESG Adopters: SMEs that have yet to implement ESG practices into their business.

i. Key barriers:

- Uncertainty about the impact of ESG
- Limited knowledge of ESG
- Financial constraints

ii. Support to incentivise ESG adoption:

- Financial support from banks
- Private or government sector-sponsored training/learning opportunities
- Tax Incentives

72%

RECOMMENDATION

Ultimately, adopting ESG practices can benefit SMEs’ bottom line, competitiveness, and enhance their long-term sustainability. Sustainable practices can lead to cost savings, improved customer loyalty, and new market opportunities. To help SMEs navigate their sustainability journey, Alliance Bank works together with various partners to offer an ecosystem of support, guidance, and innovative solutions.

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A Global & Malaysian Perspective on ESG

“With a buying trend moving towards eco-friendly alternatives, many companies are realising the importance of adopting sustainable practices in their operations. Early adoption puts them ahead of their competition and better equips them for success in the long run.”

RIZAL IL-EHZAN FADIL AZIM

Chief Executive Officer, Alliance Islamic Bank



TODAY, THERE IS GREATER AWARENESS ABOUT ESG ISSUES ACROSS VARIOUS INDUSTRIES

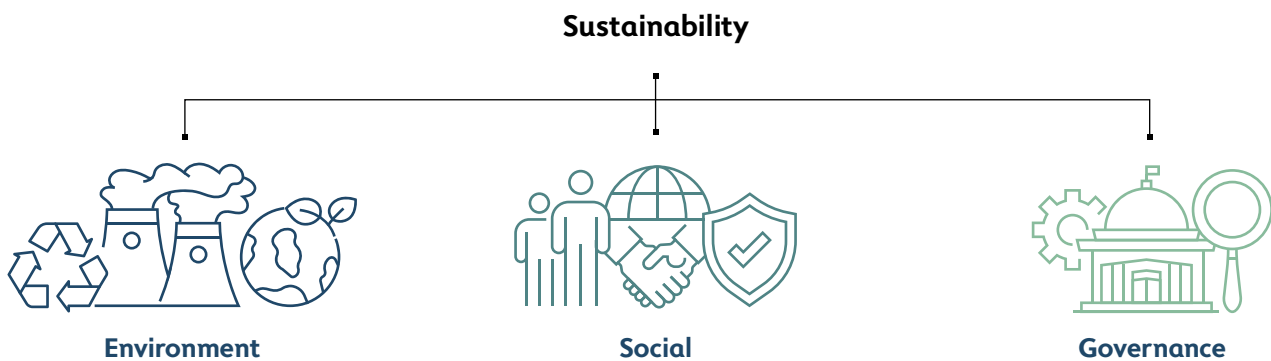
ESG has become a leading trend in many industries due to climate change, changing societal expectations, and external shocks. Consumers and investors are more aware of the importance of sustainability, leading to increased demand for sustainable goods and services.

To date, over 70 countries and 1,200 multinational corporations have committed to science-based targets for net-zero emissions. Similarly, businesses are progressively prioritising inclusivity in the workplace, such as diversity training, flexible work arrangements, and employee wellness programmes.

All across the world, governments are revising regulatory frameworks on ESG, which will affect supply chains and potentially pose challenges for SMEs.

These trends demonstrate that ESG considerations are not slowing down and are becoming integral to modern business practices.

ESG AT THE CORE OF SUSTAINABILITY

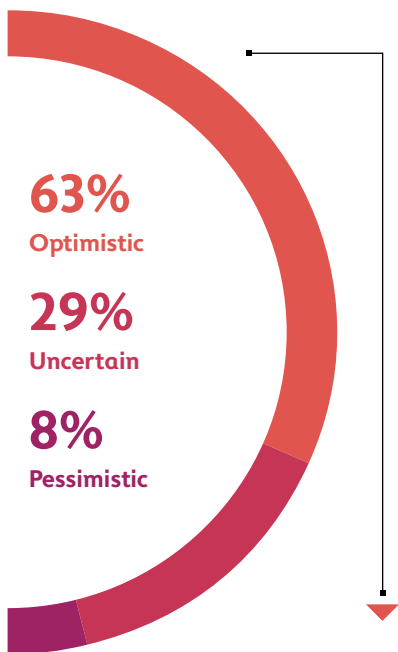


GLOBAL ESG TRENDS

<p>01</p> <p>NET-ZERO ACTIONS & PLEDGES</p>	<p>02</p> <p>ESG INVESTING & SUSTAINABLE FINANCE</p>	<p>03</p> <p>UNIFICATION OF GLOBAL SUSTAINABILITY FRAMEWORKS</p>	<p>04</p> <p>PROMINENCE OF ESG ACTIVISM <i>(i.e. Social Justice, Diversity)</i></p>	<p>05</p> <p>SUSTAINABLE SUPPLY CHAIN</p>
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THE COVID-19 PANDEMIC HAS ACCELERATED THE ESG AGENDA

ESG is evolving in response to global changes, highlighting its growing importance for innovation, business resilience, and sustainable growth.



Despite the adverse impacts of Covid-19 on businesses across all industries, SMEs surveyed in Malaysia carried an optimistic business outlook with **63% indicating optimism for the next 6-12 months.**



Shifting Consumer Attitudes

78%

of consumers are changing their purchase preferences based on the social or environmental impact of their purchase.

Consumers are

4X

more likely to purchase from companies with strong brand purpose.



Commitment to International Pacts & Pledges

193

UNITED NATIONS

member states have committed to the 2030 Agenda for Sustainable Development.

137

COUNTRIES

committed to net-zero emissions by 2050.

63

COUNTRIES

agreed to phase out coal and transition to clean energy.



External Shocks

The COVID-19 Pandemic has highlighted the **gap in social equity in income and healthcare.**

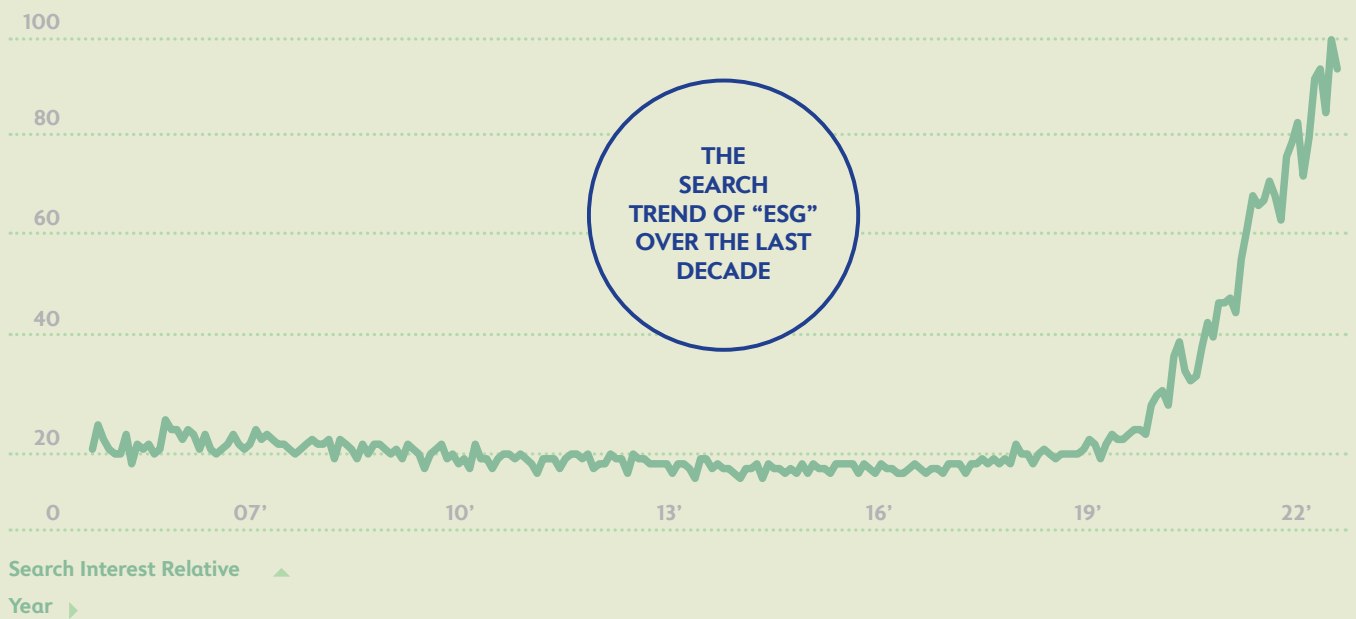
Intensifying climate issues and increasing social activism (i.e. black lives matter) demand for greater social justice.

Source: UN, JPMorgan, Zeno Group, Economic Times

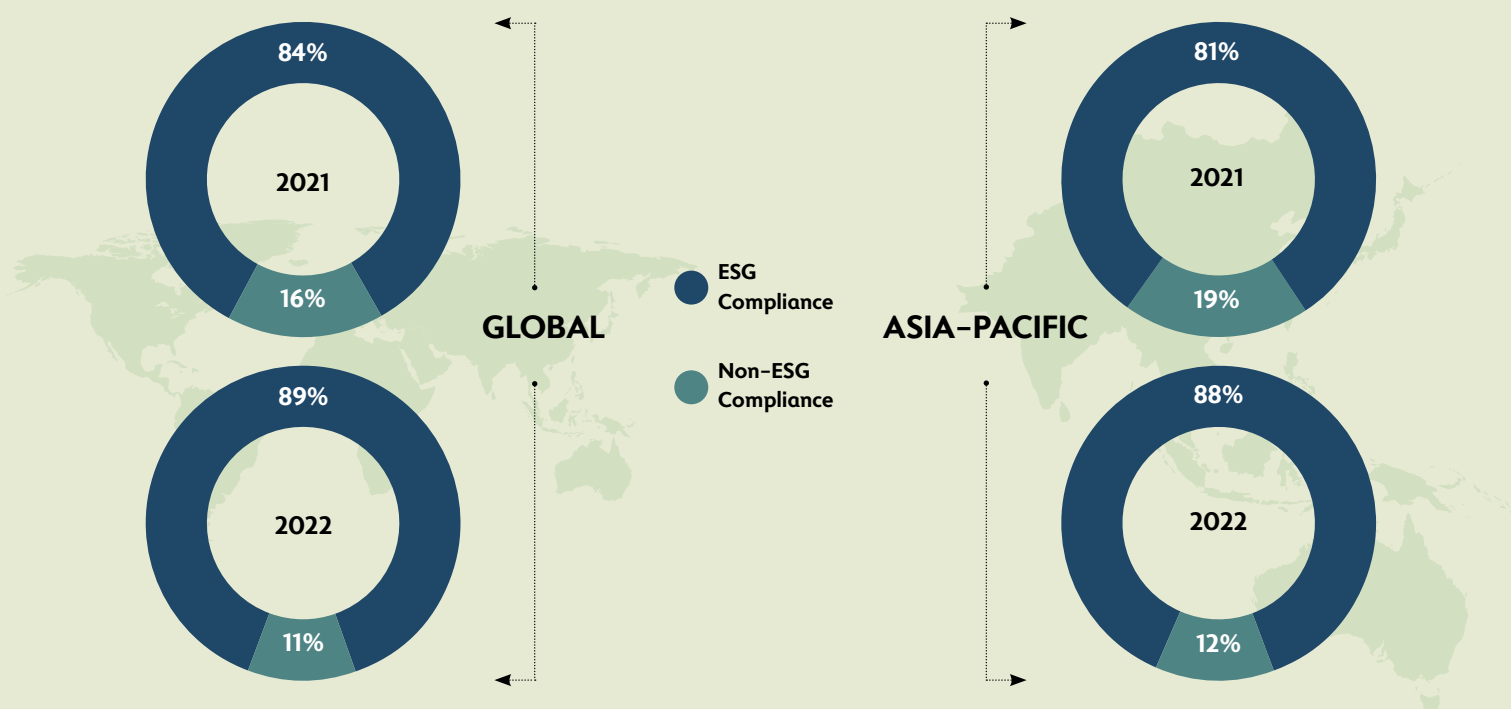
Q12 - Thinking about the pandemic and its impact on the economy so far, are you optimistic / uncertain / pessimistic for your business in the next 6-12 months? (N=610)

THE IMPORTANCE OF ESG IN APAC IS IN LINE WITH GLOBAL TRENDS

Environmental, social and governance criteria is growing in popularity among investors worldwide, and in the Asia-Pacific region specifically, over the past decade.



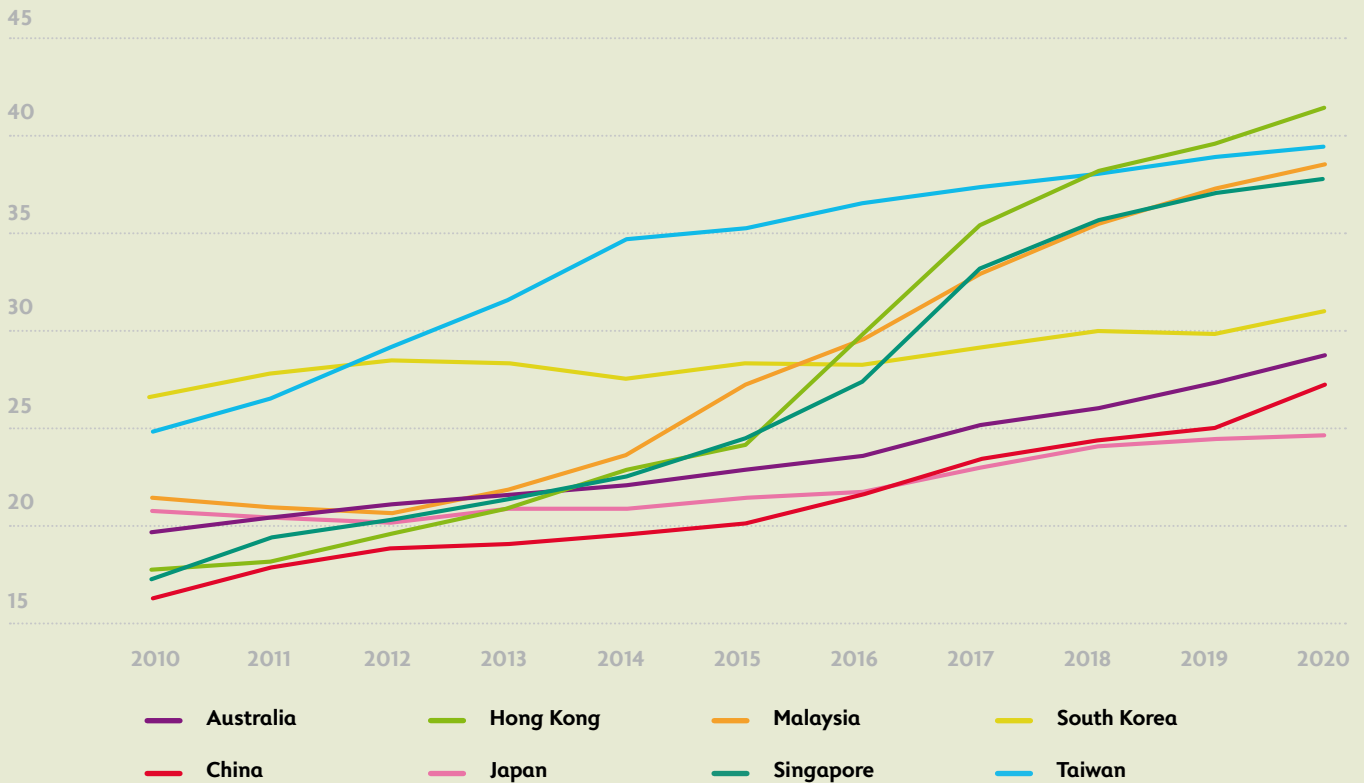
ESG ADOPTION LEVEL AMONG CAPITAL MARKET PARTICIPANTS



Source: Harvard Law School, 2021 G7 Summit, Bloomberg

THE TREND TOWARDS INCREASED ESG DISCLOSURE IS EXPECTED TO CONTINUE ACROSS THE APAC REGION

ESG Disclosure Trends by Country / Region (2010 - 2020)



Disclosure of ESG data has increased in all countries and regions in APAC over the past 10 years.

ESG adoption among SMEs in APAC



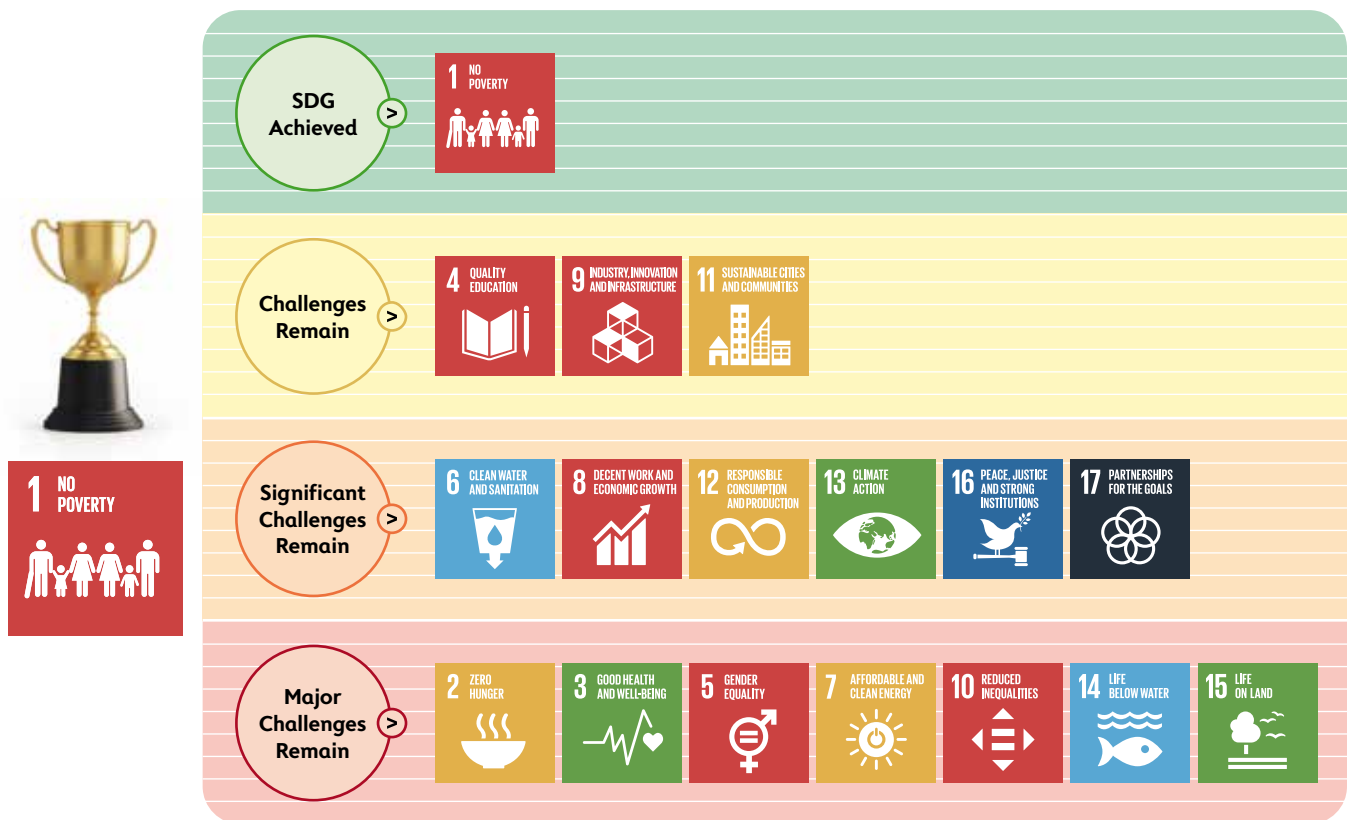
APAC
(Singapore, Hong Kong, India, Indonesia, Mainland China, and Taiwan)

83%
of SMEs surveyed consider ESG as a high priority for their business.

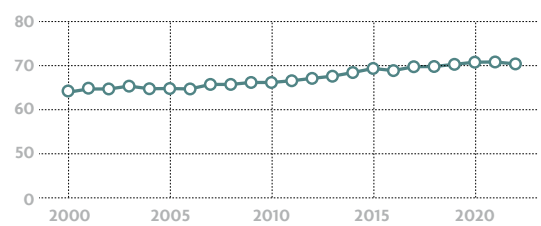
Source: Harvard Law School, 2021 G7 Summit, Bloomberg, Yahoo Finance

ALTHOUGH MALAYSIA IS MODERATELY IMPROVING ACROSS ITS SDG TARGETS, THERE IS STILL ROOM FOR GROWTH

According to the Sustainable Development Report 2022 published recently, Malaysia ranked 72 out of 163 countries with an SDG Index of 70.4 per cent, indicating that there is still room for improvement, especially involving environmental sustainability and well-being of the vulnerable groups.



Score: 70.4/100



Source: UN Sustainable Development Report 2022

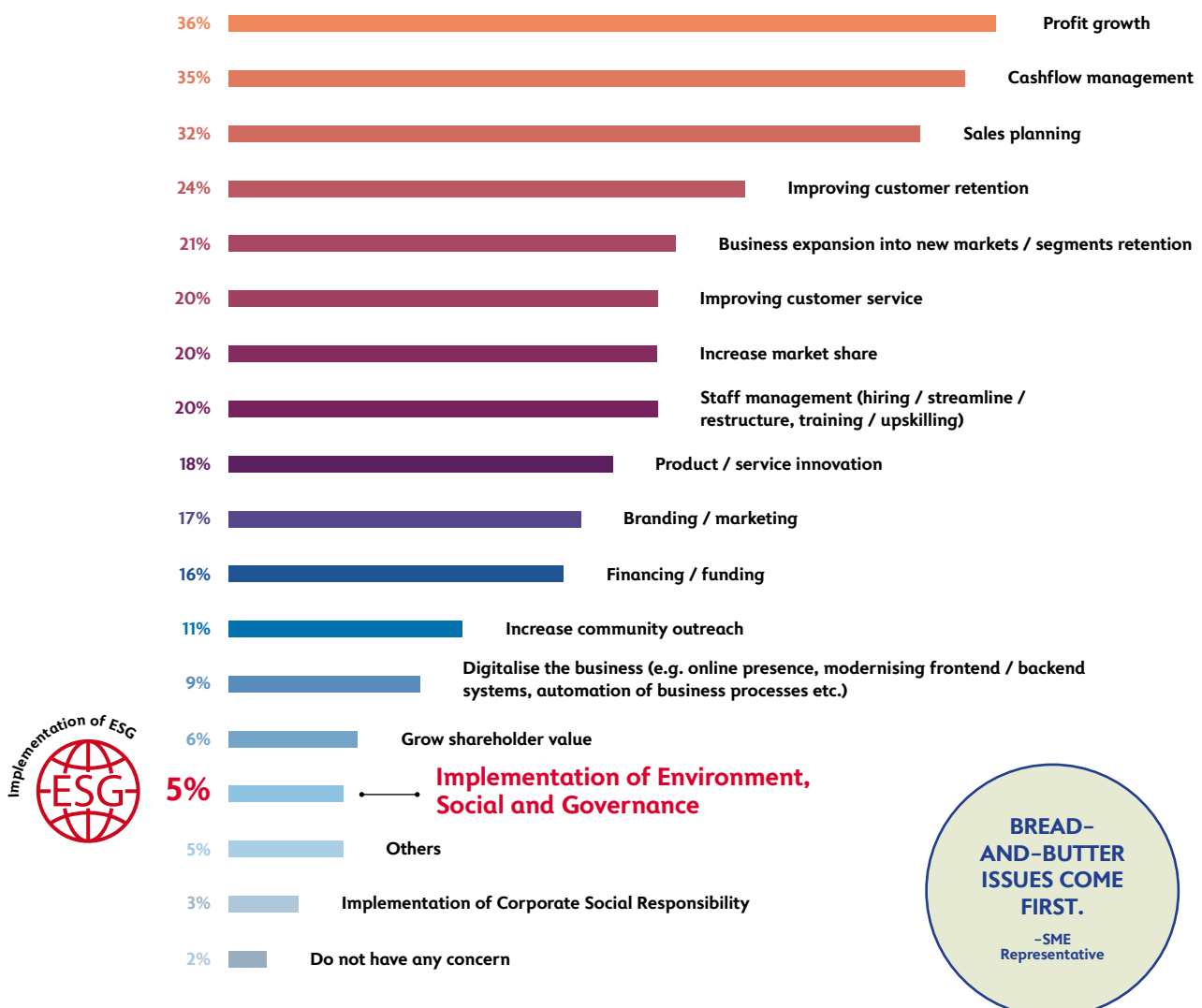
DESPITE THE OPTIMISM, SMEs' TOP CONCERNS IN THE NEXT 6-12 MONTHS REMAIN FOCUSED ON SURVIVABILITY

Many SMEs remain cautious due to pandemic-related uncertainty. Income stability is the top priority with profitability, cash flow, and sales as key concerns.

Implementation of ESG and Corporate Social Responsibility (CSR) initiatives ranks as the bottom 4 priorities.

Growth measures such as improving customer service and innovating to increase market share is second priority.

Top concerns in the next 6-12 months among SMEs



05

ESG in Malaysia

“As the backbone of our economy, serving as key drivers of job creation and economic development, SMEs can serve as change agents helping to achieve a sustainable future for all. Alliance Bank is a valued partner in pushing forward the ESG agenda in Malaysia. Through our collaboration, we have been able to provide much needed support to companies, especially in helping SMEs transition to a more sustainable future. Together, we are taking a pragmatic approach by providing tools that will help SMEs to better navigate today’s ESG landscape.”

FAROZE NADAR

Executive Director, UN Global Compact Network Malaysia & Brunei (UNGCMYB)



THE SIGNIFICANCE OF ESG IS INCREASINGLY RECOGNISED AMONG MALAYSIA'S PUBLIC LISTED COMPANIES

In Malaysia, the Government and regulatory bodies actively promote ESG adoption and encourage investing in companies with strong ESG performance.

However, the lack of local, SME-centric ESG guidelines and information makes it difficult for companies to implement ESG practices. To address this, the Securities Commission Malaysia is developing the ESG Disclosure Guide which is tailored to SMEs.



2016

Bursa Malaysia introduced Sustainability Reporting as a mandatory requirement for all public listed companies.



2021

Bursa Malaysia and FTSE Russell launched the FTSE4Good Bursa Malaysia (F4GBM) Index to cater to investor demand for ESG.



2022

Economic Planning Unit, Prime Minister's Department, published the 'National Energy Policy' under the 12th Malaysia plan, in addition to conducting feasibility studies on carbon pricing, carbon tax and an emissions trading scheme.

Example of ESG initiatives in Malaysia

► Carbon Market

“E” pillar

Bursa Malaysia launched Malaysia's pioneer voluntary carbon market on 9 December 2022.

► Maternity Leave



Parents look forward to paternity and extended maternity leave

“S” pillar

Malaysia passed an employment bill on paid paternity leave for seven consecutive days (for up to five births) for married male employees, and increased the maternity leave from 60 to 98 days in 2022.

ESG IS A FAMILIAR CONCEPT TO SMEs, BUT ITS APPLICATION CAN BE IMPROVED WITH FURTHER EDUCATION

Unsurprisingly, “E” is the pillar which emerged as the most customised (as it is often industry-specific) and familiar to SMEs across various industries, while the “S” pillar tends to be more focused on regulated metrics under labour law and workplace regulation such as diversity, gender equality, fair wages and health & safety. “G” is largely embedded within company policies and culture.

SMEs are more familiar with **environment-related initiatives** such as solar roof top.

- Financial Institution



▶ “E” would be the easiest one that we can start with, because many SMEs are already required to comply into it by the **wider supply-chain participants’** regulatory requirements.

- SME Representatives

For Good Environmental Choice Australia (GECA), they have a set of guidelines, criteria that we have to follow. In terms of social and governance, our company is focusing on **fair pay and employee health and safety**.

- SME-ESG Champion



Social

▶ In terms of Governance, we draw from UNGC’s ten principles. We also have our own **anti-bribery & corruption policy and various CSR policies** - such as the do’s and don’ts in the company to ensure that everything is in accordance with all those governances.

- SME-ESG Champion



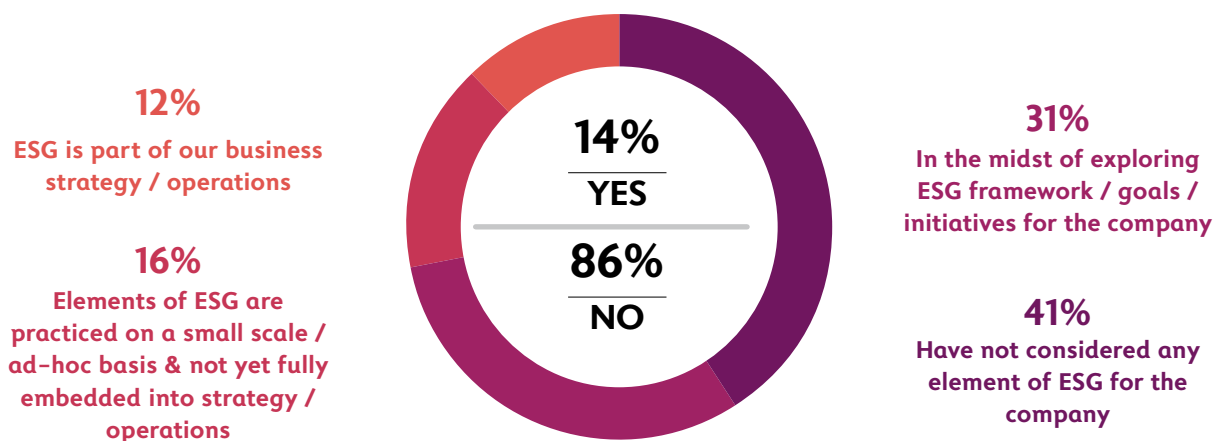
Governance

Source: DOSM, SME Masterplan 2012-2020, In-depth Interviews

MORE THAN HALF OF SMEs ARE UNCONSCIOUSLY ADOPTING ESG DESPITE ONLY 14% BEING FAMILIAR WITH THE TERM

While SMEs in Malaysia show a lack of awareness regarding the importance of ESG principles and disclosures for sustainability performance, it was found that 59% of SMEs have already implemented or are exploring ESG practices on their own terms.

PRIOR TO TODAY, HAVE YOU COME ACROSS OR HEARD OF THE TERM ESG?



ESG Stakeholders believe a majority of SMEs are still in the early stages of ESG adoption.

“Generally, awareness is quite low and some SMEs do not see the importance of ESG... it depends on which industry, certain industries is very much market driven. For example, SMEs in the semiconductor industries have very high awareness levels because they have the RBA (Responsible Business Alliance)*.

- SME Representative

“Generally ESG adoption is still at its infancy and this is especially true for SMEs... Certain industries are often linked to negative social and environmental issues such as poor labour conditions and mass deforestation. Hence, awareness could be higher in such industries.

- Knowledge Expert

“Awareness amongst SMEs is still low... the percentage of SMEs considered to be “advanced” in their ESG practices are definitely way below 20%.

- Financial Institution

*Note: *Responsible Business Alliance is a nonprofit coalition of leading electronics companies dedicated to improving social, environmental and ethical conditions in their global supply chains. RBA has a code of conduct for its member to adhere to.*

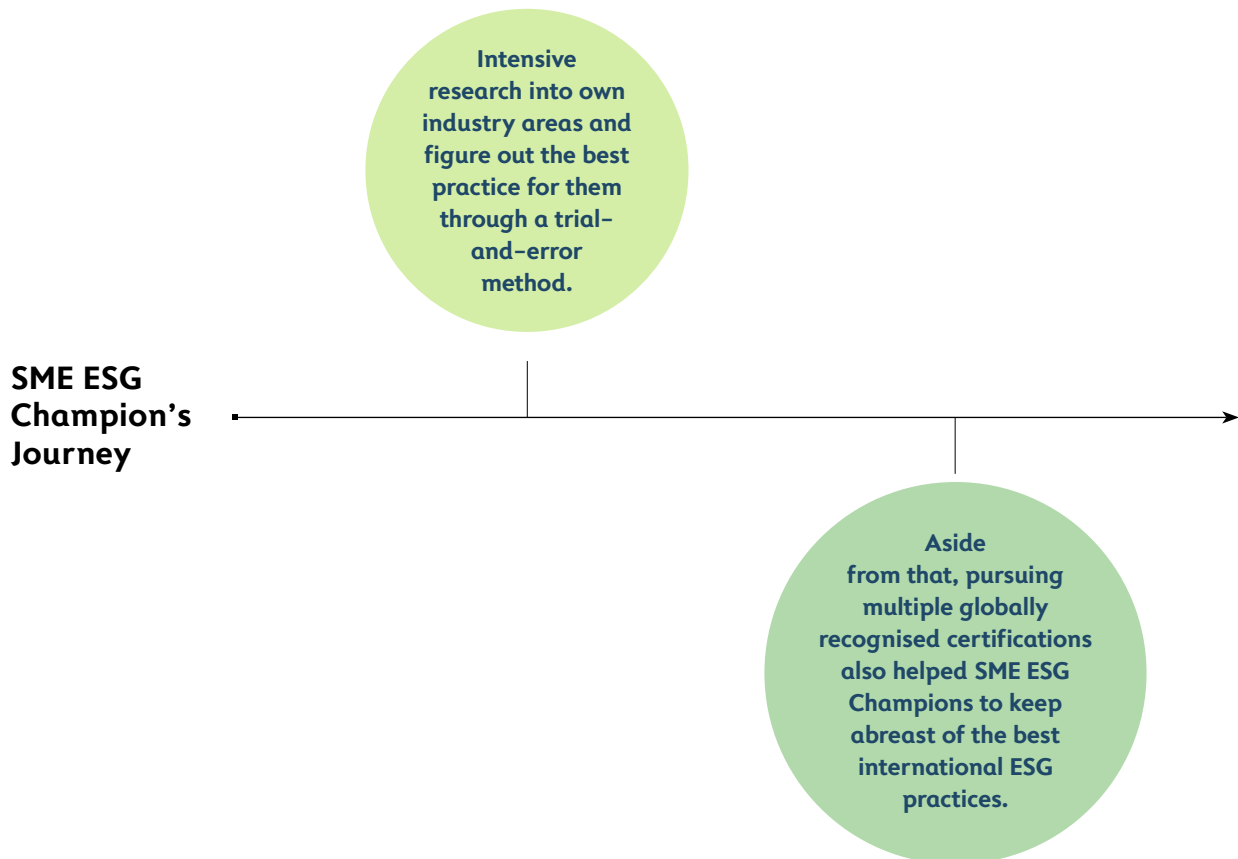
Q20 -Prior to today, have you come across or heard of the term ESG? (N=610)

Q25-Keeping in mind the ESG definition earlier, is your company currently practicing any ESG-related initiatives? (N=610)

PUBLIC DISCLOSURE OF SME AND INDUSTRY ESG DATA CONTRIBUTES TO ADOPTION OF ESG

Although there are many ESG guidelines and frameworks publicly available, they are mostly designed for larger organisations, not SMEs. Interviews with SME ESG champions revealed that they took the initiative to seek advice from sustainable advisors and study ESG disclosures in the annual reports of publicly listed companies to learn how to start their own ESG journey.

Using frameworks such as the United Nations Global Compact (UNGC) to gain preliminary ideas for ESG adoption was crucial for SME ESG champions.



“ Looking back, guidance for what we as a company can do in terms of ESG would have helped start our journey faster. But each industry is different, and each company is different, so there is no one set of guidance to be used for every company.

– SME ESG Champion

“ There are all kinds of standards and so many requirements from customer. We really need a guiding hand or materiality index to help filter out the noise.

– SME Representatives

“ Currently, there is no one framework or methodology for SMEs. A tailored framework to facilitate ESG adoption amongst SMEs needs to be developed.

– Knowledge Expert

06

ESG Adopters in Malaysia

“At Alliance Bank, we understand the challenges faced by SMEs in implementing ESG practices, which is why we are committed to supporting our customers every step of the way. From offering financing solutions to expert advice and resources, we aim to help SMEs adopt sustainable business practices. Together, we can create a more sustainable future for businesses and communities alike.”

DR AARON SUM WEI WERN

Group Chief Strategy, Marketing & Business Development Officer, Alliance Bank

SMEs ANALYSIS: ESG ADOPTER

1 in 4	SMEs' BEHAVIOUR:	ESG is part of our business strategy	Elements of ESG are practised
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76% OF ESG ADOPTERS STARTED THEIR JOURNEY WITHIN THE LAST 5 YEARS

Q27b-How long has your company had ESG practices in place? (N=169)

THE RANGE OF IMPLEMENTATION CHALLENGES FOR ESG ADOPTERS CAN BE CATEGORISED INTO THREE KEY THEMES

RESOURCE CONSTRAINT

Many of the ESG initiatives require financial support, such as changing current equipment to environmentally friendly equipment and digitalisation of business operations.

- Knowledge Expert

LACK OF VISIONARY LEADERSHIP DIRECTIVES

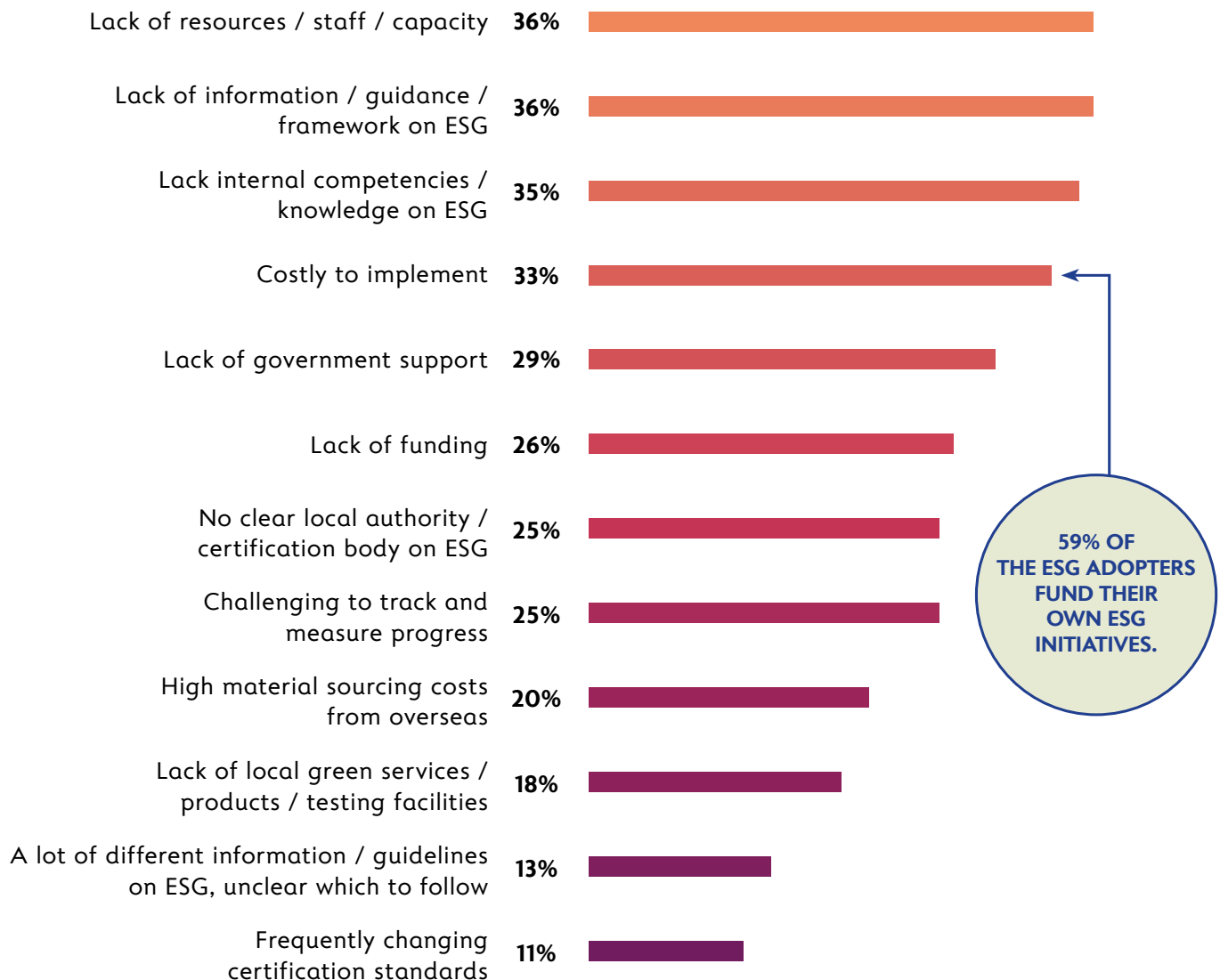
The challenge is, there's no framework, there's no KPI for you to set a certain time or what you need to achieve. It's just doing what you can, as you can.

- SME ESG Champion

LACK OF TECHNICAL AND OPERATIONAL KNOW-HOW

Our framework is mostly internal and based on our limited experience. We refer to other overseas policies and see what other big companies do, then we adopt some practices.

- SME ESG Champion



Q28 ADD2 - What are some challenges that your company has faced in implementing ESG practices thus far? (N=169)

HOWEVER, SMES ARE MOTIVATED TO ADOPT ESG PRACTICES TO MAINTAIN EDGE IN THE MARKET

Against the backdrop of the post-pandemic environment and an increasingly competitive market, SMEs must ramp up measures to improve their productivity and increase their chances of survivability.

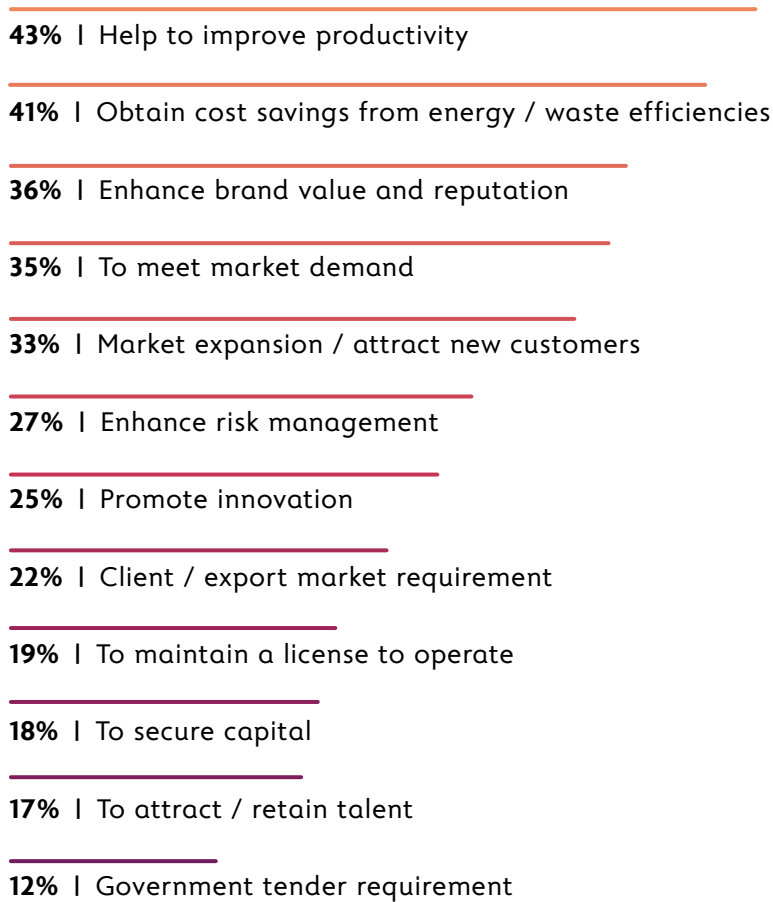
Any company that is very export oriented will have to spend money and put resources in because they need to comply to survive, or they will not be able to win the bid.

- SME Representatives

Greater operational efficiencies, both from a cost and cultural perspective will help maintain a competitive edge in the market.

For example, if I have 5 competitors selling the same product or services, how can we outshine competitors? Adopting ESG could be the advantage.

- SME ESG Champion



Top 3 Reasons for Adoption

43%
Help to improve productivity
 The company is providing a healthy work environment for its employees, which includes a safe space for them to speak up and share their thoughts.
 - SME ESG Champion

41%
Obtain cost savings from energy / waste efficiencies
 We installed a rainwater harvesting system and a high-power low velocity fan. That actually saves a lot of energy.
 - SME ESG Champion

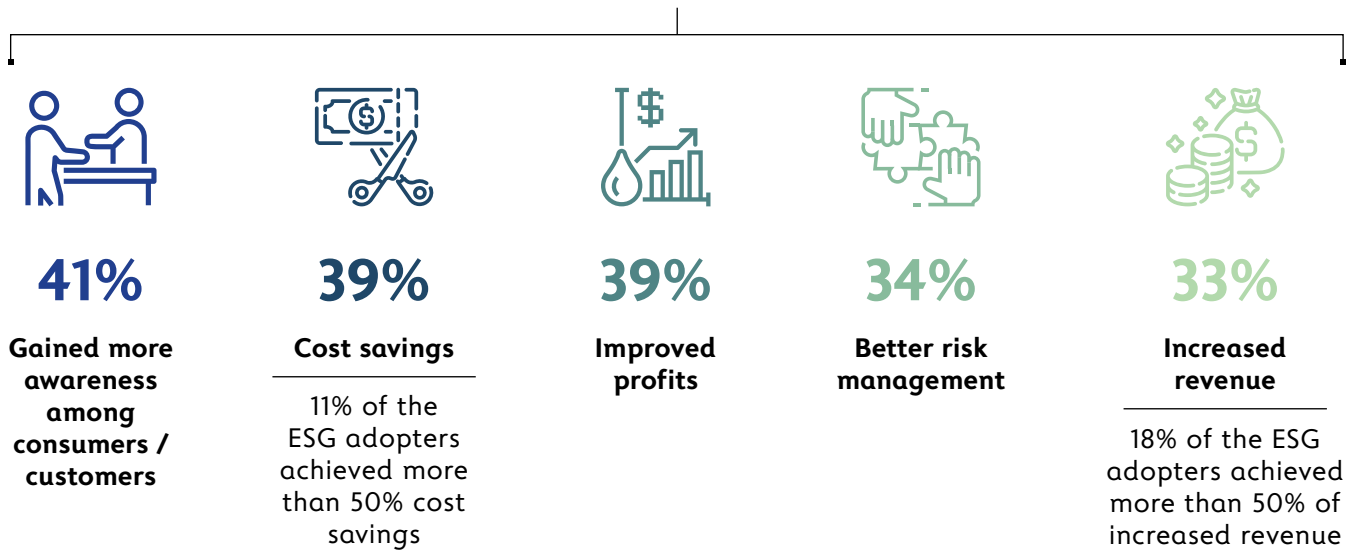
36%
Enhance Brand Value and Reputation
 Anything that can help their business, company branding, and marketing will motivate SMEs.
 - SME ESG Champion

Additionally, SMEs are keen to address environmental issues and implement ESG initiatives as a way to contribute to society and the community.

Q26 -You mentioned that your company is currently practising / setting up / exploring ESG. What are the key reason(s) that made your company do so? (N=169)

80% OF ESG ADOPTERS RECOGNISE THE VALUE OF ESG ADOPTION, AND PLAN TO CONTINUE PURSUING SUSTAINABLE BUSINESS PRACTICES MOVING FORWARD

TOP 5 BENEFITS GAINED BY SMEs THAT HAVE ADOPTED ESG PRACTICES



- On average, 60% of SMEs believe that adopting ESG principles can enhance their business performance by improving financial standing and productivity, despite perceiving it as costly and requiring additional resources.
- Three out of five SMEs believe that ESG practices will create long-term value, a strong workforce, and increase business opportunities.

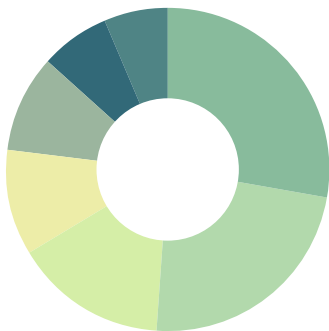
Q32a -What are the benefits that your company has gained from practicing ESG? (N=169)

Q34 -How likely will your company continue practicing ESG? (N=169) ; (*N=33)

Q53 - Below are some of the statements related to ESG in general. Please indicate how much do you agree or disagree with the following statements. (N=610)

THE SOCIAL OR “S” PILLAR EMERGED AS THE PRIMARY FOCUS AREA FOR SME ESG ADOPTERS

SMEs focus on the social pillar of ESG as it can impact their bottom line by attracting and retaining quality employees. This pillar is also more relatable to SMEs, who may view ESG as a form of Corporate Social Responsibility (CSR).



Environment 81%

- 44% Energy efficiency
- 37% Waste management
- 24% Air and water pollution
- 17% Deforestation
- 15% Climate change and carbon emissions
- 11% Water scarcity
- 10% Biodiversity

A company with infrastructure such as high-power, low-velocity fan helps to reduce electricity usage.

- SME ESG Champion

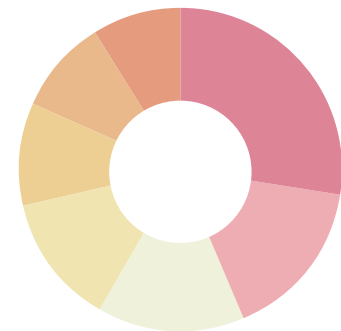


Social 84%

- 43% Employee training & engagement
- 41% Health & safety
- 30% Labour standards
- 28% Community relations
- 24% Human rights
- 18% Gender and diversity

Giving more opportunity and training to the employee would likely improve employee retention.

- SME ESG Champion



Governance 73%

- 38% Compliance
- 22% Cybersecurity
- 20% Bribery and corruption
- 18% Audit committee structure
- 14% Board independence
- 13% Whistleblower schemes
- 12% Political contributions

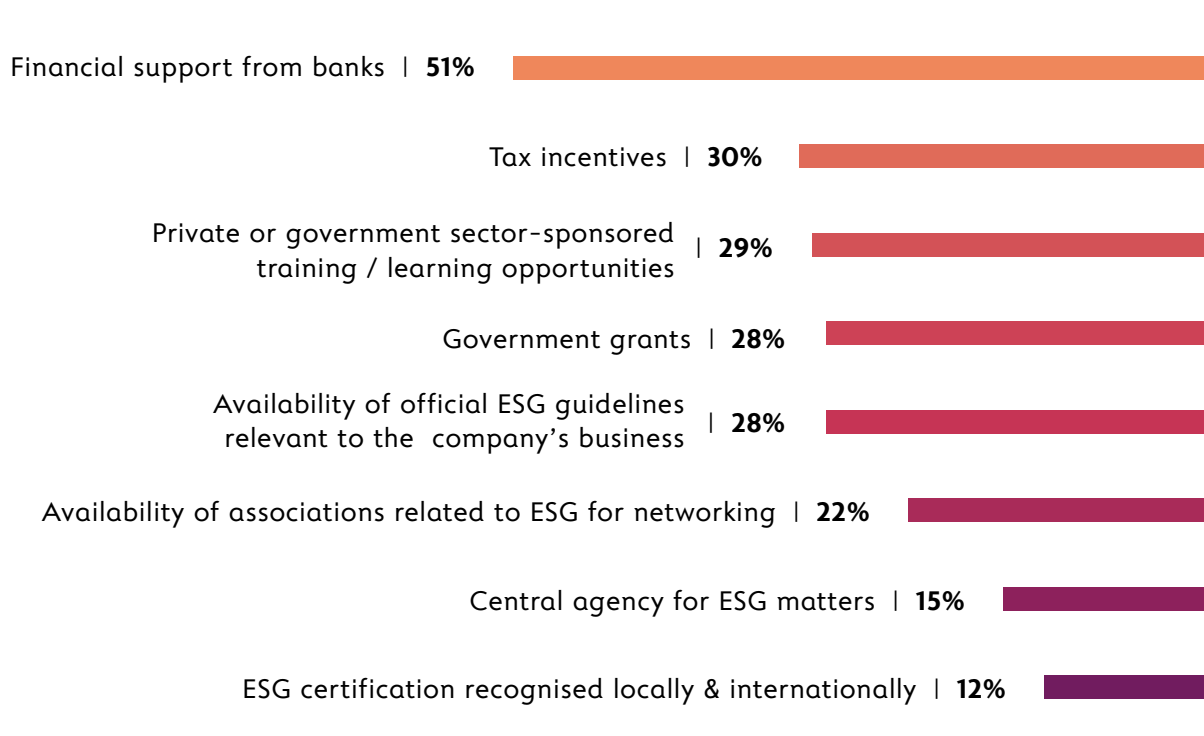
The company actively communicates to employees about our policies.

- SME ESG Champion

Q27 - What specific areas of ESG is your company focusing on? (N=169)

NONETHELESS, ESG ADOPTERS REQUIRE CONTINUED SUPPORT TO ENHANCE THEIR ESG JOURNEY

Although general support for ESG adoption, such as green financing, financial grants, capacity building, and tax exemptions, are available to SMEs, the survey results indicate that SMEs may consider them inadequate or insufficiently communicated.



Top 3 factors incentivising SMEs to embark on ESG

51%

Financial support from banks

Banks and financial institutions can come up with more financial packages to help SMEs to adopt ESG-related initiatives.

- SME Representatives

30%

Tax incentives

Purchasing of green products to enjoy tax incentives such as green investment tax allowance (GITA) or % rebate for ESG financing cost can be done to encourage ESG adoption.

- SME ESG Champion

29%

Private or government sector-sponsored training / learning opportunities

We do have certain programs that build capacity specific to SMEs. This would stir up their interest and create an easier path for them to adopt ESG. SMEs also mentioned that assistance is very helpful to help them to convince their senior management in this matter.

- Financial Institution

Q57 -What would encourage you to adopt / continue practicing ESG for your company? (N=169)

07

Non-ESG Adopters in Malaysia

“Operating sustainably is not just a responsibility, it is an opportunity for SMEs to innovate and grow. By prioritising ESG practices, businesses can build a competitive advantage and enhance their brand image. It is imperative for Malaysian SMEs to embrace ESG in order to remain relevant and competitive in the domestic and global market.”

RIZAL BIN NAINY

CEO of SME Corp. Malaysia

SMEs ANALYSIS: NON-ESG ADOPTER

72%

**SMEs’
BEHAVIOUR:**

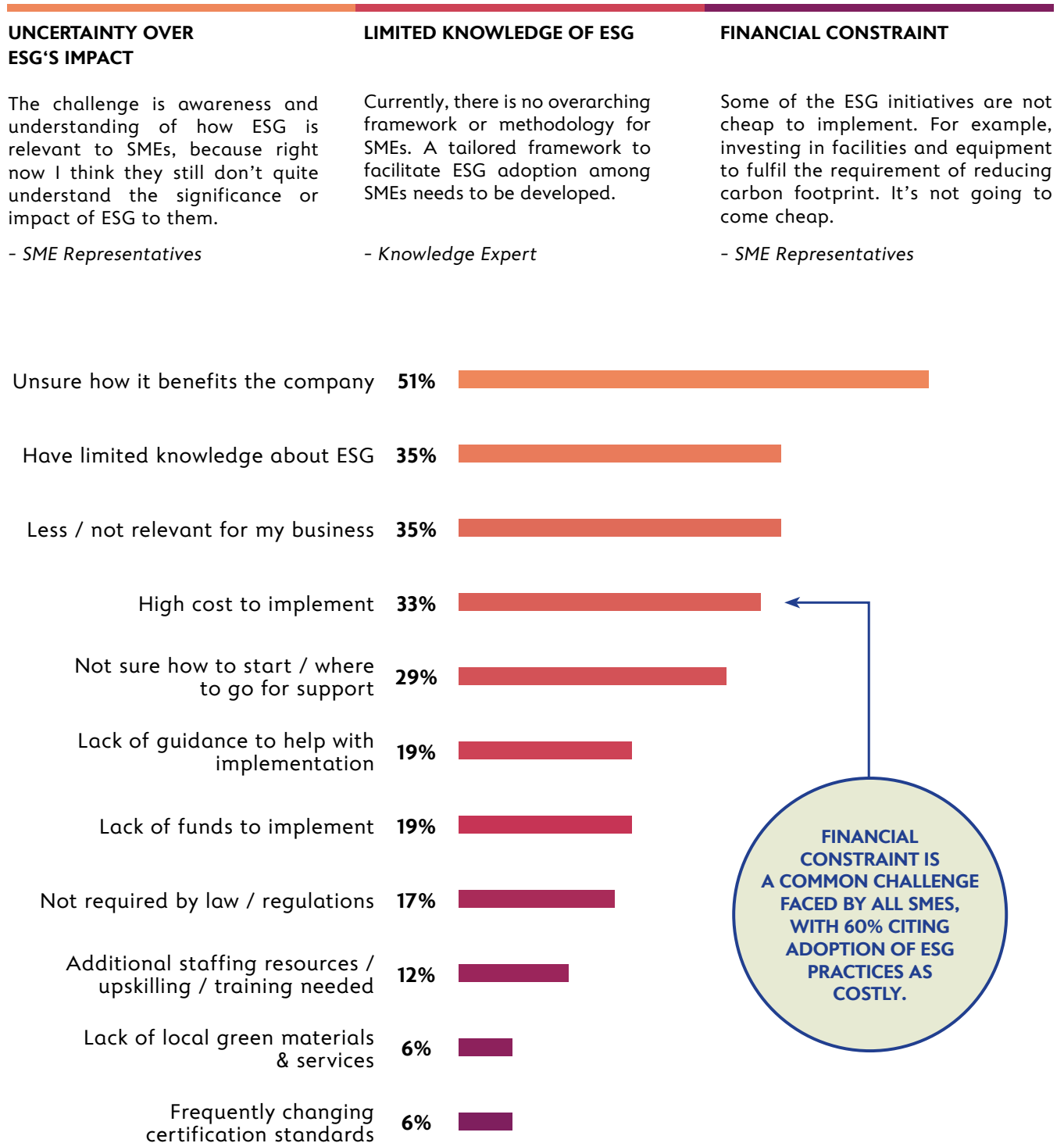
In the midst of exploring
ESG framework / goals /
initiatives for the company

Have yet to consider
elements of ESG for their
companies



Q28 - When would your company be likely to consider ESG practices, if at all? (N=441)

FOR NON-ADOPTERS, 3 KEY THEMES ARE IDENTIFIED ON SMEs’ HESITATIONS TOWARDS ADOPTING ESG PRACTICES



Q30 - You mentioned that your company is not considering ESG. What are the key reasons for this? (N=156)

STILL, 58% OF NON-ADOPTERS EXPRESS INTERESTS IN INCORPORATING ESG PRACTICES FOR BUSINESS BENEFITS

For non-ESG adopters who expressed an interest in adopting ESG in the future, the primary motivation is the belief that ESG practices can enhance productivity.

Other factors driving interest in ESG adoption include meeting market demand, expanding their customer base, and enhancing their brand value and reputation.

Interestingly, more than half of the SMEs in the construction sector cited “promoting innovation” as one of the key reasons for ESG adoption.

SMEs that adopt ESG will better position themselves to target a larger market and increase their market share.

- Knowledge Expert

Top 3 Motivations for Adoption

52%

Help to improve productivity

SMEs who do not adopt ESG may lose out opportunities on cost saving and increased productivity.

- Knowledge Expert

50%

To meet market demand

If SMEs want to be an OEM in the European or U.S. market, they need to have some elements of sustainability.

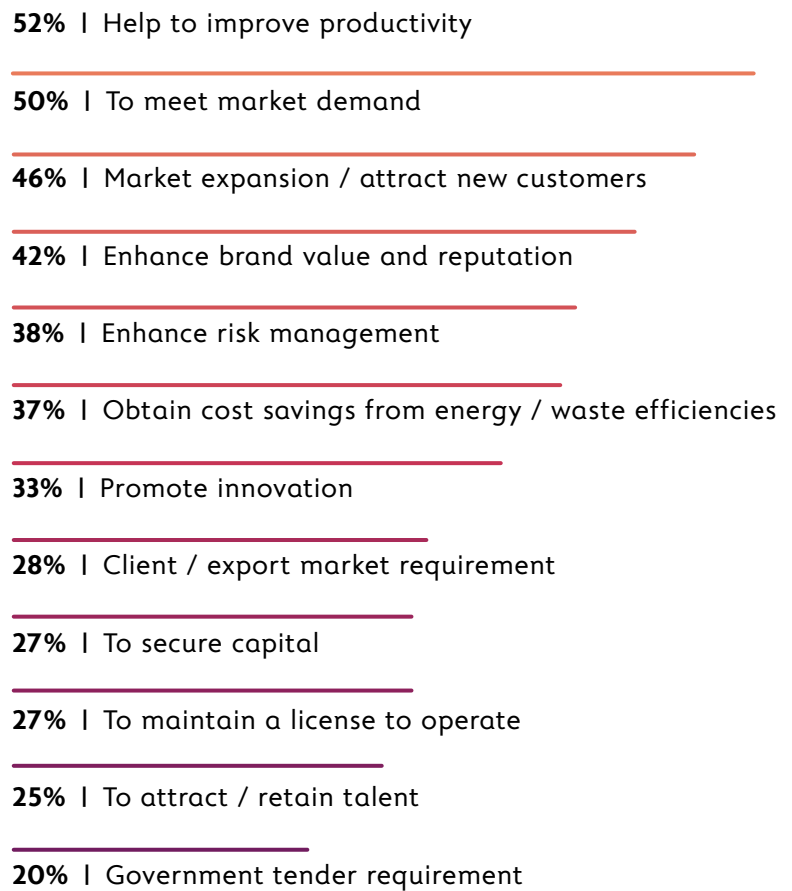
- SME Representatives

46%

Market expansion / attract new customers

In a bidding process or tendering process or when talking to big customers, you would definitely stand out... it is definitely an advantage.

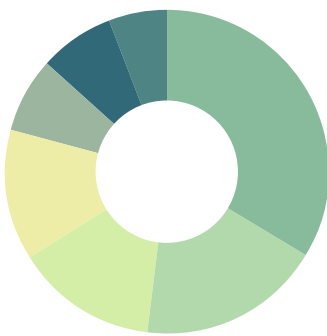
- Financial Institution



Q29 - You mentioned that your company will likely adopt ESG. What are the reasons for wanting to adopt ESG? (N=252)

AREAS OF INTEREST FOR SMEs WHO HAVE YET TO ADOPT ESG PRACTICES ARE SIMILAR TO THOSE OF ESG ADOPTERS

Among the 3 pillars of ESG – Environmental, Social and Governance, the top area of interest for non-ESG adopting SMEs is the social pillar – particularly community relations. Community engagement is important to these SMEs, and they prioritise management and administrative ethics with a “customer-first” mindset as their key business strategy to achieve their goals.



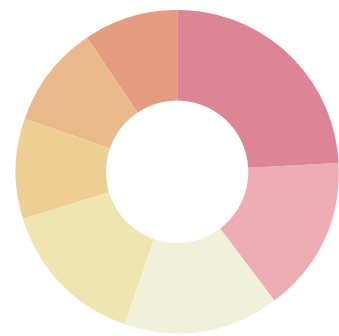
Environment 67%

- 41% Energy efficiency
- 22% Waste management
- 17% Air and water pollution
- 16% Climate change and carbon emissions
- 9% Water scarcity
- 9% Deforestation
- 7% Biodiversity



Social 71%

- 43% Employee training & engagement
- 38% Health & Safety
- 28% Community relations
- 24% Human rights
- 23% Labour standards
- 15% Gender and diversity



Governance 62%

- 31% Compliance
- 20% Whistleblower schemes
- 20% Audit committee structure
- 19% Cybersecurity
- 13% Board independence
- 13% Political contributions
- 12% Bribery and corruption

Q27a - What specific areas of ESG would be of interest / relevance to your company? (N=441)

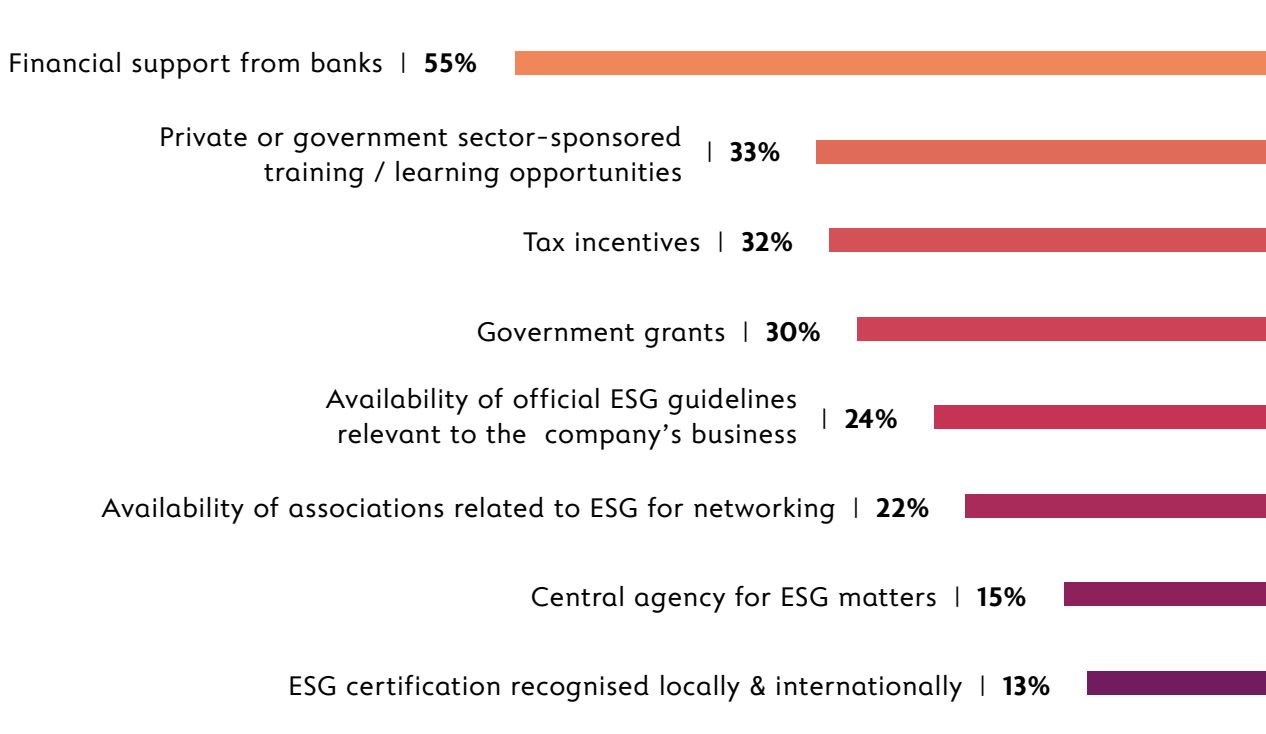
35% OF NON-ESG ADOPTERS EXPRESSED THE NEED FOR FINANCIAL AND CAPACITY-BUILDING SUPPORT TO ENCOURAGE THE ADOPTION OF ESG

Due to the perception that ESG initiatives require significant resources and investment, SMEs find it challenging to prioritise ESG initiatives over their core business operations.

Additionally, SMEs may lack the knowledge, expertise, and awareness of ESG and its benefits, making it difficult for them to adopt these practices. SMEs also face limited access to capital markets, which further discourages them from investing in ESG initiatives.

The number one issue for every SME's mind is business survival.

- SME Representatives



Top 3 supports to motivate SMEs to embark on ESG

55%

Financial support from banks

Banks and financial institutions need to come up with more financial packages to help SMEs, for example, with a better rate of financing.

- SME Representatives

33%

Private or government sector-sponsored training / learning opportunities

Guide and teach SMEs how to kick start their sustainable journey.

- SME Representatives

32%

Tax incentives

The Government can have a way of rating SMEs based on SME's adoption of ESG and provide tax incentives based on the rating to incentivise SMEs to do it.

- SME Representatives

Q57 -What would encourage you to adopt / continue practising ESG for your company? (N=156)

08

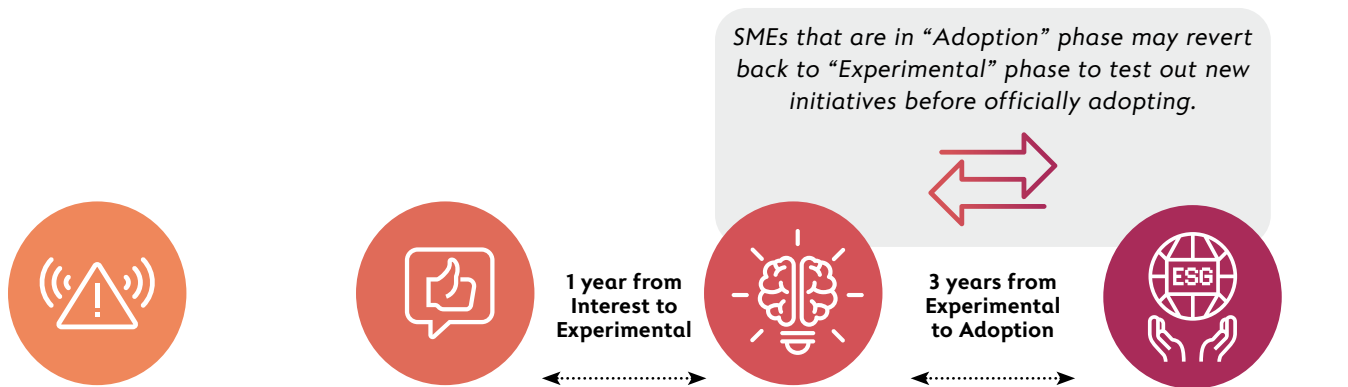
Key Challenges

“Yes, ESG can make a difference. Whether you have adopted ESG or are looking to take that first step towards ESG, Alliance Bank is here to help you. We believe that ESG can be your competitive advantage, so let’s work together to build a profitable yet meaningful proposition that gives back to our community and the planet.”

RIZAL IL-EHZAN FADIL AZIM
Chief Executive Officer, Alliance Islamic Bank



IDIS (IN-DEPTH INTERVIEWS) IDENTIFIES THE TYPICAL JOURNEY FOR ESG ADOPTION AMONG SMEs IN MALAYSIA AND THEIR CHALLENGES



1. Awareness

DESCRIPTION: SMEs are aware of the concept of ESG, but lack information and proper understanding.

- CHALLENGES:**
- Inability to access and assess meaningful information.
 - Lack of industry exposure on advancement and implications of ESG adoption.
 - Lack of knowledge to seek / select relevant ESG professional advice.

2. Interest

DESCRIPTION: SMEs start to develop in-depth knowledge on ESG and explore ways of incorporating ESG into their business plans.

- CHALLENGES:**
- Inability to connect ESG goals / benefits with company objectives and values.
 - Limited technical knowledge to develop an implementation plan.
 - Management lacks clear direction and will to implement ESG initiatives.

3. Experimental

DESCRIPTION: SMEs embed elements of ESG into their business operations on an ad-hoc basis or small scale to assess the best method to track the results.

- CHALLENGES:**
- Lack resources to coordinate and instil company-wide appreciation for ESG.
 - Difficulty in innovating ESG initiatives for different departments / functions to achieve common objectives.
 - Limited financial resources to fully implement across the company, vertically and horizontally.

4. Adoption

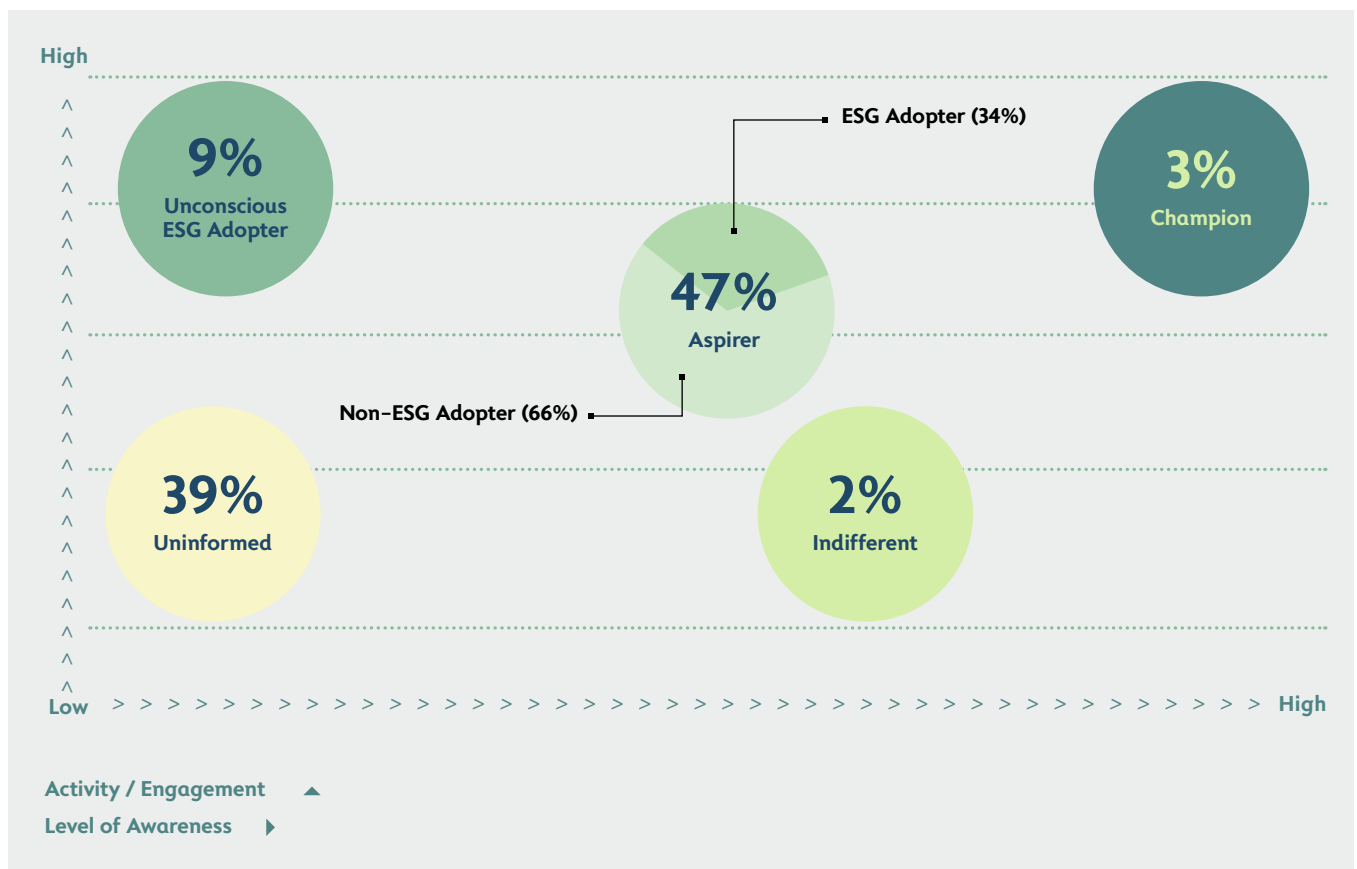
DESCRIPTION: SMEs have ESG strategies in place and all elements of ESG are embedded into their business operations and monitored for continuous improvement.

- CHALLENGES:**
- Lack knowledge in monitoring and impact reporting.
 - Senior management without adequate foresight may drop out before reaping tangible benefits.
 - Limited access to financial resources to continuously push ESG initiatives at company-wide level and supporting stakeholders along the supply chain.

Source: In-depth Interviews, Ipsos Analysis

REGARDLESS OF THE JOURNEY, FIVE DISTINCT SEGMENTS CAN BE OBSERVED AMONG MALAYSIAN SMEs IN RELATION TO ESG ADOPTION

28% of SMEs in Malaysia are already at different stages of ESG adoption. Interestingly, 32% of these SMEs are implementing ESG-related practices unintentionally and without reporting ESG metrics.



SMEs and their level of ESG exposure

<p>U</p> <p>Uninformed</p> <p>Not aware or exposed to any ESG-related matters. Intense awareness programs are required to raise their awareness of ESG matters and initiatives.</p>	<p>UA</p> <p>Unconscious ESG Adopter</p> <p>Unaware of the ESG agenda but unconsciously practises ESG for other reasons such as cost savings or productivity measures.</p>	<p>A</p> <p>Aspirer</p> <p>Aspires to adopt ESG but has reservations to embark fully on the journey due to a lack of guidance and framework.</p>	<p>I</p> <p>Indifferent</p> <p>Possesses some understanding of ESG but is not motivated to take any action towards ESG adoption. May have some misconceptions about ESG principles.</p>	<p>C</p> <p>Champion</p> <p>Drives ESG initiatives voluntarily, with a clear direction and action plan in place. Often associated with early adopters or pioneers in ESG matters.</p>
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09

Recommendations

“As part of our commitment, the Bank will continue to champion ESG adoption among the community and make a positive impact to society, the economy and the planet. Our approach is defined by our 3 As approach – Advocacy, Advice and Answers – where we create awareness and encourage consumers as well as businesses to adopt ESG practices.”

DR AARON SUM WEI WERN

Group Chief Strategy, Marketing & Business Development Officer, Alliance Bank



FROM UNDERSTANDING TO ACTION: SMEs JOURNEY TOWARDS SUSTAINABILITY

The ESG journey for SMEs primarily consist of 3 main stages – Awareness, Experimental and Adoption. Through this ESG roadmap, there are multiple areas of further learning and support that can help SMEs on their journey towards sustainability.

C UA A I U
01 AWARENESS / INTEREST

• Fiscal incentives i.e. Income tax reduction and allowance, duty exemption, etc.

• Acquire knowledge and able to identify information relevant to company.

C UA A
02. EXPERIMENTAL

• Adoption grants i.e. full or partial

• Development of internal expertise at every level of the organisation

• Allocation of internal resources for ESG adoption



C UA **03. ADOPTION**

• Green financing i.e. loans, bonds, equity etc.
• Internal funds set aside as investments – tangible or intangible

• Build internal expertise for implementation, monitoring and communication

• Continued interest to improve strategy and implementation of ESG initiatives
• Endorsement of company-level ESG goals as part of the company's mission towards a greener vision

Continuous refinement of ESG adoption strategy and relevant support are crucial to ensure SMEs remain competitive and ESG-compliant.



FINANCIAL: To help SMEs reduce their financial burden, green financing is available in Malaysia to support sustainable projects, businesses, and initiatives by providing financial support to SMEs to adopt sustainable practices.



CAPACITY BUILDING: Involves developing and strengthening the skills, knowledge, and resources necessary for organisations to effectively integrate ESG considerations into their operations and decision-making.



MANAGEMENT COMMITMENT: The direct participation involving endorsement and visible involvement by the highest-level management (top management) taking active part in developing, improving and championing organisational ESG targets.

C Champion **UA Unconscious ESG Adopter** **A Aspirer** **I Indifferent** **U Uninformed**

SUPPORTING SMEs ON THEIR JOURNEY TOWARDS SUSTAINABILITY

As one of the advocates that drives the adoption of ESG in Malaysia, Alliance Bank is committed to creating a sustainable community by promoting environmentally responsible actions, positive social ethics and good governance. With that, the bank uses its “3A” Approach, to support various stakeholders in their journey towards sustainability.

Alliance Bank’s 3 A’s Approach was designed to support our customers’ journey through sustainability



ADVOCACY

Driving awareness through relevant and impactful events and activities to encourage adoption of ESG practices among our customers, partners, employees and the community.



ADVICE

Providing valuable advice and guides to stakeholders by partnering with subject matter experts as well global certification bodies (UNGCMY) and other influential ESG drivers in the country (i.e. BURSA, SME Corp. Malaysia etc)



ANSWERS

Offering suitable solutions that meets the needs of our stakeholders through the Bank or our network of ESG-friendly merchants and service providers

SUPPORTING SMEs ON THEIR JOURNEY TOWARDS SUSTAINABILITY

Alliance Bank is proud to partner with key ESG experts and solutions providers to aid and assist SMEs on this journey. Beyond funding, Alliance Bank's ecosystem supports SMEs' sustainability journeys. Our partnerships include:

ACCESS SME Sustainability Training & Development Programme



Our partnership with United Nations Global Compact Malaysia & Brunei (UNGCMYB) provides SMEs access to the UNGCMYB Action Centre for Sustainable SMEs (ACCESS) Programme so they can adopt ESG practices in their business. ACCESS offers sustainability-related initiatives such as an SME ESG assessment, ESG-related learning modules and capacity building to help SMEs become sustainable-trade ready and integrate better into the supply chain.

Green SME Nurturing and Development Programme



In partnership with MGTC, customers have access to training, green certification, and business matching opportunities. It aims to help SMEs structure their sustainability roadmap through consultation, training sessions, briefings and workshops.

MGTC will also help SMEs that are ESG solution providers obtain the MyHIJAU certification and be listed on the MyHIJAU Directory, an online resource for certified green products and services. The MyHIJAU Mark is the official green recognition endorsed by the Malaysian Government.

#financing4ESG



Collaborating with Bursa Malaysia Berhad, #financing4ESG aims to improve Malaysian Public Listed Companies' (PLCs) ESG adoption practices.

PLCs eligible for the sustainability financing under this collaboration are those in the FTSE Bursa Malaysia EMAS Index, which forms the FTSE4Good ESG assessment universe. This universe comprises companies of various sizes and industries, ranging from large cap PLCs, GLCs and conglomerates to mid and small SMEs and Shariah-compliant enterprises.

Alliance Bank Sustainability Assistance Programme

- We help businesses transition to more sustainable practices through financial and advisory services.

FUNDING PROGRAMMES

Low Carbon Transition Facility (LCTF)

- Bank Negara Malaysia's LCTF is a financing facility created to encourage and support SMEs to adopt sustainable practices for business resilience. LCTF can be used to finance capital expenditure to install equipment to generate renewable energy, such as solar system.

CGC's Portfolio Guarantee Scheme

- In partnership Credit Guarantee Corporation Malaysia Berhad ("CGC"), the Bank provides fast and simple financing to help Malaysian SMEs accelerate growth.
- Alliance Bank can help eligible SMEs that lack adequate collateral or credit track record, obtain hassle-free, working capital financing to grow their businesses. The process requires minimal documentation and CGC covers up to 70 per cent of the principal financing amount on a portfolio basis.

OTHER SOLUTIONS FOR YOUR ESG JOURNEY

	<p>BizSmart® Solution</p> <p>Our one-stop online business community portal that enables business owners to reach out to new customers and access relevant solutions and resources at preferential rates to manage their business more efficiently.</p>
	<p>#SupportLokal</p> <p>Helps local businesses widen their customer reach by taking their businesses online. Our #SupportLokal page also lists social enterprises that offer products and services to consumers.</p>
	<p>Halal in One Programme</p> <p>Offers end-to-end halal certification support, advisory, Shariah-compliant funding and global market access to businesses seeking to expand their customer reach in the halal segment.</p>
	<p>Digital SME (“DSME”)</p> <p>Offers digital solutions catering to customers’ needs. DSME provides up to RM1,000,000 collateral-free financing via a simple online application requiring minimal documents. Clients will receive an approval-in-principle within 24 hours.</p>

Embracing ESG can help SMEs improve their bottom line and competitive advantage as well as be more sustainable in the long run. Sustainable practices can lead to cost savings through more efficient resource use, as well as increased customer loyalty and new market opportunities. At Alliance Bank, we are committed to helping SMEs and that is why we offer a range of support, guidance, and innovative solutions to help SMEs navigate their sustainability journey.

Whether you are just starting your sustainability journey or looking to enhance it further, we are here to help. Through our ESG solutions and support as well as partnerships with organisations such as the UN Global Compact Network Malaysia & Brunei (UNGCMYB) and SME Corp. Malaysia, we can provide SMEs with the necessary resources to develop their sustainability strategy.

Together, we can build a more sustainable future for Malaysian SMEs. Let us help you make a positive impact on the environment, society, and your bottom line.



Scan here to contact our representatives or for more information on available ESG solutions that meets your business needs today!

 **ALLIANCE BANK**



For The Future

 **ALLIANCE BANK**

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