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# Guide for Malaysian Banks Supporting SMEs in the Sustainable Recovery from COVID-19

This guide aims to assist Malaysian banks in helping SMEs to embed sustainability/ESG practices as business-as-usual and suggests practical steps and examples

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# Acknowledgements

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# List of acronyms & abbreviations

<b>ACMF</b>	ASEAN Capital Markets Forum
<b>API</b>	Application Program Interface
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>BNM</b>	Bank Negara Malaysia
<b>BRSFP</b>	Bank Rakyat Sustainability Framework & Policy
<b>CCPT</b>	Bank Negara Malaysia's "Climate Change Principles-based Taxonomy"
<b>CGC</b>	Credit Guarantee Corporation
<b>CIMB</b>	CIMB Group
<b>CoP</b>	Community of Practitioners
<b>covid</b>	Coronavirus disease COVID-19
<b>ESG</b>	Environmental, Social and Governance
<b>ESRM</b>	Environmental & Social Risk Management
<b>EV</b>	Electric vehicle
<b>GDP</b>	Gross Domestic Product
<b>GFANZ</b>	Glasgow Financial Alliance for Net Zero
<b>GHG</b>	Greenhouse gas
<b>GRI</b>	Global Reporting Initiative
<b>GSPF</b>	Standard Chartered Green and Sustainable Product Framework
<b>GSSIPS</b>	CIMB Green, Social, Sustainable Impact Products and Services
<b>ICMA</b>	International Capital Markets Association
<b>JC3</b>	Joint Committee on Climate Change
<b>LCTF</b>	Low Carbon Transition Facility
<b>MAS</b>	Monetary Authority of Singapore
<b>MEDAC</b>	Ministry of Entrepreneur Development and Cooperatives
<b>MGTC</b>	Malaysian Green Technology and Climate Change Corporation
<b>MIHAS</b>	Malaysia International Halal Showcase
<b>MIND</b>	Measuring Impact on National Development
<b>MOC</b>	Movement Control Order
<b>MSMEs</b>	Micro, Small and Medium-sized Enterprises
<b>PRB</b>	Principles for Responsible Banking

<b>RAC</b>	Risk Acceptance Criteria
<b>SDGs</b>	Sustainable Development Goals
<b>SEDA</b>	Sustainable Energy Development Malaysia
<b>SJPP</b>	Syarikat Jaminan Pembiayaan Perniagaan
<b>SMEs</b>	Small to Medium-sized Enterprises
<b>TCFD</b>	Task Force on Climate-Related Financial Disclosures
<b>the Banks</b>	Malaysian and international banks interviewed in the development of the Guide
<b>UN</b>	United Nations
<b>VBI</b>	Value-based Intermediation
<b>VBIAF</b>	VBI Financing and Investment Impact Assessment Framework

# Executive summary

Small to Medium-sized Enterprises (SMEs) play a vital role in the Malaysian economy, representing 97.2%<sup>1</sup> of total business establishments in 2020 and 48% of total employment<sup>2</sup> as well as contributing 38.2% of Gross Domestic Product (GDP).<sup>3</sup> SMEs in Malaysia, and across the globe, have been negatively impacted by the coronavirus disease COVID-19 (covid) pandemic. As Governments commit to 'build back better' the recovery from covid provides an opportunity to align spending and initiatives to build a more sustainable future and start taking action to combat pressing issues such as climate change.

SMEs in Malaysia are at an early stage of embedding sustainability as business as usual, their main focus during the pandemic primarily has been survival. While many corporates have made headway on sustainability initiatives, especially around net-zero commitments, there is a risk that SMEs are left behind.

Banks are uniquely positioned to support SMEs in taking action on sustainability, both through finance related activities such as developing sustainability products as well as through broader activities such as capacity building. During the covid pandemic, Malaysian banks primarily supported SMEs through the disbursement of Government funding and ensuring continuity of business through digitalisation. There has been some wider activity to date but as we recover from the covid pandemic, momentum is building amongst Malaysian banks to further support SMEs on their sustainability journey and progress areas such as product development, capacity building, offering a one-stop-shop for sustainability initiatives and accelerator programmes.

Part 1 of this Guide provides a framework for action that Malaysian banks can take in supporting SMEs in the sustainable recovery from the covid pandemic in three key areas, namely:

1. Bank Wide Approach
2. Supporting SMEs
3. Product Development

The framework identifies 19 key suggestions for bank wide approach and supporting SMEs and provides a step-by-step guide for product development. Each of these areas is supported by a number of practical steps augmented with examples of work already being undertaken by Malaysian and international banks, found in Appendix 1 and 2 of this Guide.

The framework has been developed within the international, Malaysian, local banking and SME environment, detailed in Part 2 of this Guide. The framework is intended to supplement existing sustainability tools, frameworks and initiatives rather than replace them.

There are a number of Islamic banks as well as conventional banks offering Islamic finance products in Malaysia. There is a natural alignment between Islamic finance and sustainability and Malaysian banks are using initiatives such as Value-based intermediation (VBI) to develop their sustainability practices, this is covered in further detail in Part 3 of the Guide.

Banks can play a significant role in supporting SMEs on their sustainability journey and there is appetite among Malaysian banks to further assist SMEs in progressing their sustainability journey. Further support could be through assisting SMEs in measuring greenhouse gas (GHG) emissions, educating internal staff, capacity building for SMEs, further development of sustainability products and a greater consideration of the social and governance aspects of sustainability, these are covered in more detail in Part 4 of this Guide.

The responsibility for assisting SMEs on sustainability should not lie with banks alone and support is also required from Government and other industry players to incentivise action.

# Definitions

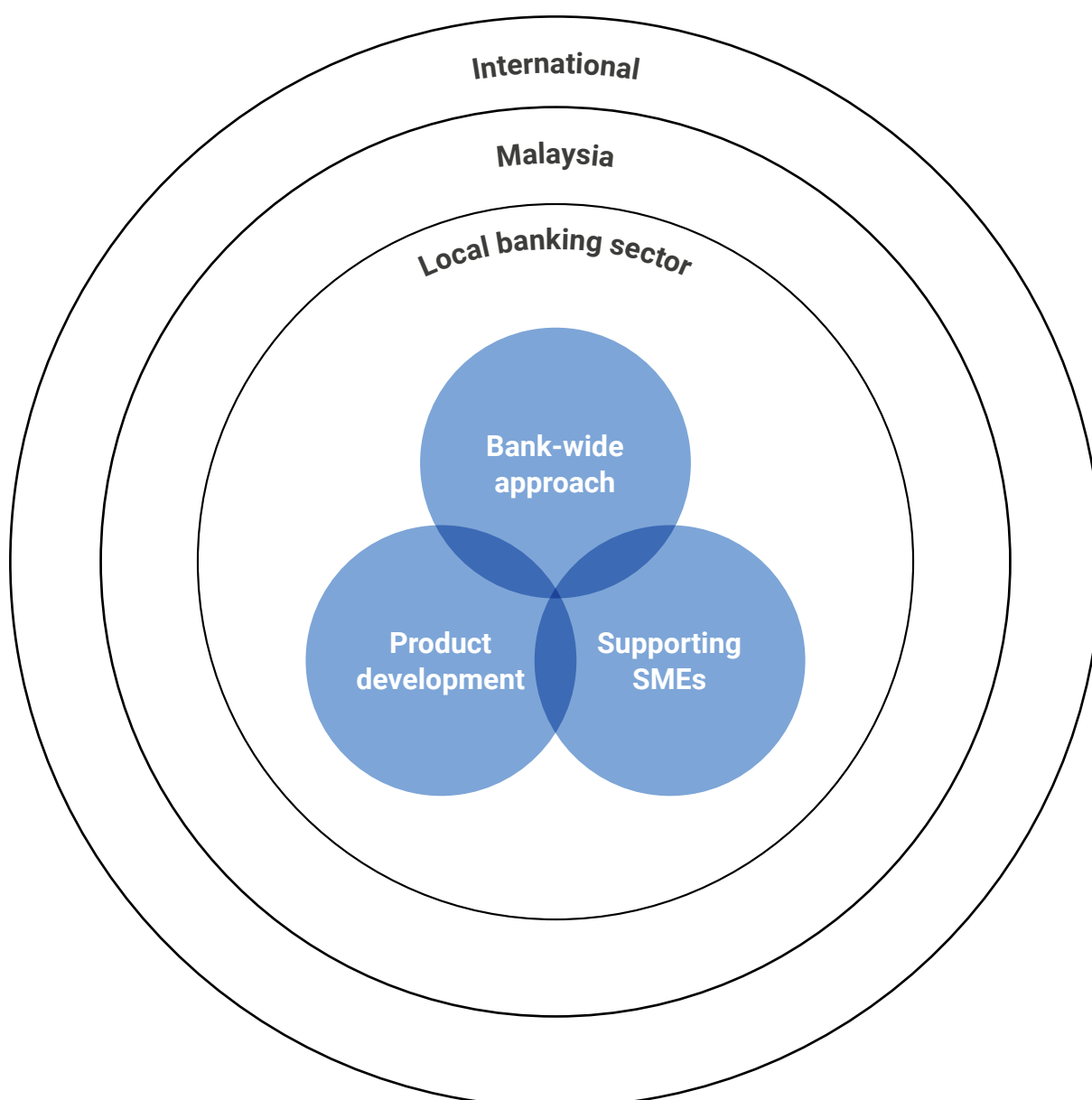
SMEs in Malaysia are defined by SME Corp Malaysia as “firms with sales turnover not exceeding RM20 million or number of full-time employees not exceeding 75 for the services and other sectors” and “firms with sales turnover not exceeding RM50 million or number of full-time employees not exceeding 200 for the manufacturing sector”.<sup>4</sup>

Sustainability is understandably a complex and relatively new concept and there is no one standard definition in Malaysia for what sustainability means for SMEs. Therefore, this Guide refers to SMEs being on a “sustainability journey”; for the purposes of this Guide we are viewing sustainability as taking Environmental, Social and Governance (ESG) considerations into account when making business decisions. As per the European Commission’s definition for sustainable finance “Environmental considerations might include climate change mitigation and adaptation, as well as the environment more broadly, for instance the preservation of biodiversity, pollution prevention and the circular economy. Social considerations could refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities, as well as human rights issues. The governance of public and private institutions—including management structures, employee relations and executive remuneration—plays a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process.”<sup>5</sup> The Guide aims to assist Malaysian banks in helping SMEs to embed ESG practices as business-as-usual. Relevant sustainability topics for SMEs may include renewable energy, energy efficiency, tracking and reducing GHG emissions, circular economy, plastic usage, water usage, labour certification, human rights and diversity. The use of the term journey is in acknowledgement that SMEs are at different stages in integrating ESG considerations depending on their size and industry sector.

Based on conversations with the Banks on how they can support SMEs on sustainability, especially in relation to product development, this Guide has focused primarily on environmental aspects i.e. greening finance and financing green, rather than social or governance factors as the Banks, to date, are predominantly focused on solar energy. There was some discussion around social and governance considerations by banks when working with SMEs i.e. human rights, labour etc in ESG due diligence questionnaires but further work should be considered in this area.

# Part 1. The framework

The framework sits within the context of the international and Malaysian, local banking sector and SME environment. The framework is intended to build on existing global and national initiatives rather than replace or duplicate them.



GEFI conducted a desk-based review and spoke to several Malaysian and international banks to inform the development of the framework. The Malaysian banks were selected by the United Nations (UN) as they represent a cross-section of development, commercial and Islamic banks. They include Principles for Responsible Banking (PRB) signatories and

local banks and international banks. Structured interviews were held with each organisation and the key findings are noted in the Guide either in direct reference to a specific bank or amalgamated anonymously into general themes and conclusions. Further details on the methodology can be found in Appendix 4.

This section of the Guide outlines specific actions that banks can take in three key areas to support SMEs on their sustainability journey, these areas are:

1. Bank Wide Approach
2. Supporting SMEs
3. Product Development.



These areas have been identified based on action already being undertaken by the Banks as well as leading market practice. Practical examples of how these actions are being used by the Banks can be found in Appendix 1 and 2 of this Guide.

# 1.1 Bank-wide approach

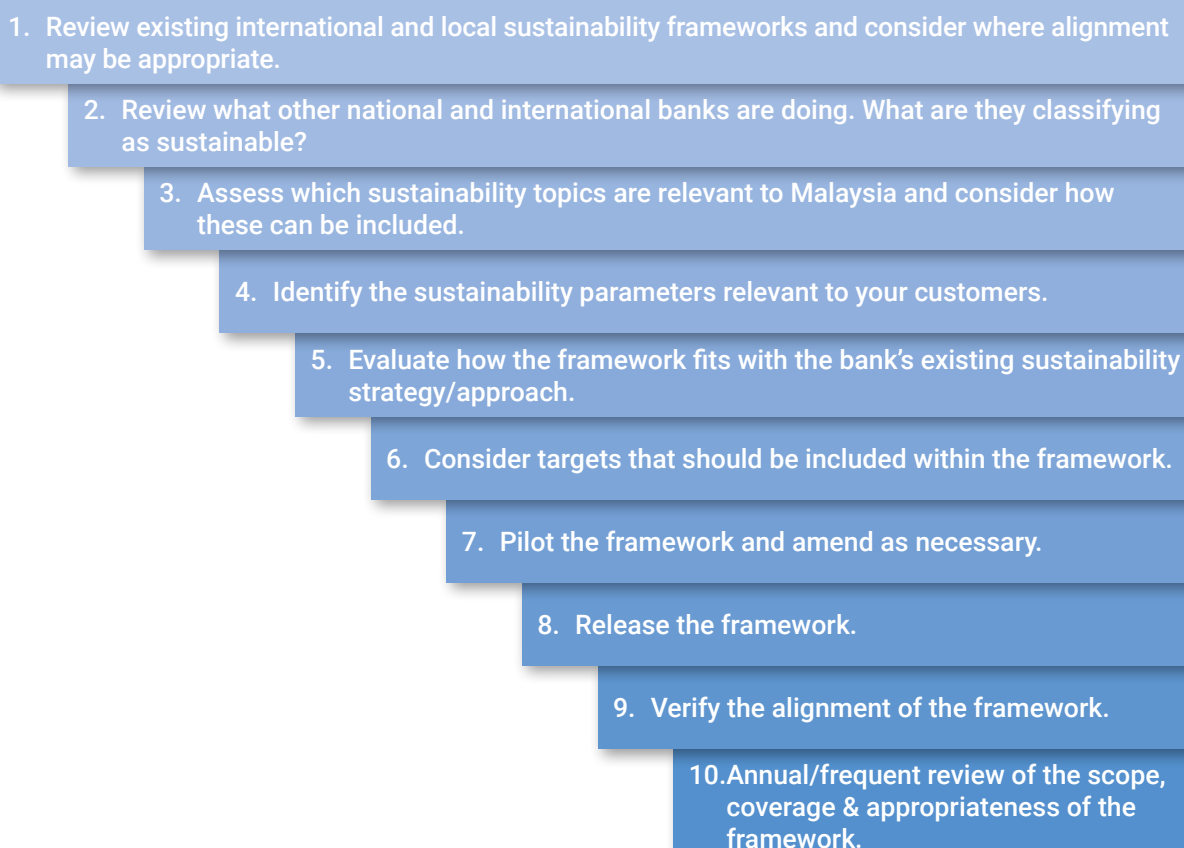
Understanding and codifying overarching sustainability ambitions and approaches can assist banks in supporting SMEs in their sustainability journey. This can be done through developing formalised policies, processes, ambitions and procedures and embedding these within the organisation. The following action can be taken:

## Internal processes

1. **Formalise approach to sustainability** this could be done in the following ways:
  - 1.1 Establish overarching guiding sustainability principles, themes and strategies and design roadmaps and action plans to achieve these.
  - 1.2 Align approach to local and internationally recognised frameworks, many of the Banks interviewed noted using frameworks such as the UN Sustainable Development Goals (SDGs), PRB, Task Force on Climate-Related Financial Disclosures (TCFD), Value-based Intermediation (VBI) and the Bank Negara Malaysia's "Climate Change Principles-based Taxonomy" (CCPT).
  - 1.3 Make public sustainability commitments around net zero and amounts of the portfolio aligned with sustainability.
  - 1.4 Incentivise senior staff to deliver on sustainability-linked targets and include targets on sustainability for relationship managers to ensure that sustainability performance is viewed as being equally important as financial performance e.g. include sustainability-linked KPIs in remuneration, set target to deploy x amount of sustainability lending to SMEs.
2. **Establish sustainability governance** within the organisation to guide the sustainability approach and embed this from the Board to the transactional staff. This will help to strengthen the bank's overall integration of sustainability within its business strategy. Initiatives could include setting up groups with representatives from across the business to:
  - 2.1 Implement sustainability frameworks and strategies.
  - 2.2 Develop sustainability targets, monitor progress, and ensure these are met.
  - 2.3 Provide clarity on sustainability ownership, roles, responsibilities, and reporting requirements.
  - 2.4 Focus on material sustainability topics and identify risks and opportunities.
  - 2.5 Work with relationship managers to embed requirements of sustainability policies.
3. **Develop internal sustainability frameworks** to provide guidance and a standardised, formalised processes and approach for sustainability products and services. Many of the frameworks have been designed to make it simple for SMEs to access sustainable financing without having to establish their own in-house frameworks. Frameworks typically include content such as:
  - Exclusion sectors that will not be financed.
  - Minimum thresholds for sustainability objectives.

- Key themes/focus areas covered—these can be linked to other relevant frameworks such as the SDGs, the EU Taxonomy external sustainability accreditations.
- Guidance on management of proceeds.
- Impact indicators to be reported.

The Banks identified the following operational steps in developing an internal sustainability framework.



4. **Report and disclose** key sustainability information publicly and in line with international sustainability leading market practice i.e. Global Reporting Initiative (GRI), TCFD to provide transparency.

## Working with stakeholders

5. **Undertake staff training on sustainability issues from industry experts** such as the Malaysian Green Technology and Climate Change Corporation (MGTC) and GreenTech Malaysia etc. Sustainability training could initially include a general introduction to sustainability followed by more in-depth content on specific topics such as the green technology market, sector specific sustainability challenges, how to calculate GHG emissions and using the banks in-house sustainability tools e.g. ESG questionnaire used for on-boarding new customers. Educating relationship managers is key as those that are well-informed on sustainability can more effectively speak to customers about it.

6. **Conduct customer research and surveys** to understand where customers are on their sustainability journey, what's driving them, what is relevant to them and where they want to get to.
7. **Collaborate with other stakeholders** such as other banks (through PRB working groups), civil society (through events and surveys), public finance and investors and engage them on sustainability topics.
8. **Seek guidance from industry experts** on key sustainability topics to ensure staff are well informed and the pertinent and bespoke sustainability issues for different sectors are clearly understood. This could be done through external engagement with organisations such as Sustainable Energy Development Malaysia (SEDA), Universities or through the development of an in-house team.
9. Provide a **one-stop shop for sustainable solutions** to make it straight-forward and simplify the process for SMEs to purchase and install sustainability products e.g. one place where customers can access everything they need to install a solar product, from a feasibility study through to financing and installation and then on to after sales support and warranties.

## 1.2 Supporting SMEs

10. **Embed sustainability in standard credit assessment processes** to understand the SMEs sustainability starting point. This can be done through a sustainability questionnaire, focused on high-impact areas, and reviewing the impact date of potential investments.
11. **Complete a baseline assessment and provide recommendations to transition** to understand where customers are now on their sustainability journey, where they need to get to and how they are going to get there.
12. **Engage with SMEs through capacity building** to increase awareness on what sustainability is, why it is important and what action they need to take to be more sustainable. Sustainability training can include information on renewable energy, transition, tracking GHG emissions, circular economy, plastic usage, labour certification, human rights and diversity etc. Training can be delivered to large groups of customers or one-to-one. Several banks have delivered training in collaboration with external partners such as CM2 Capital Markets Malaysia, Climate Governance Malaysia and SEDA.
13. **Share insights from larger corporate customers** who are more advanced on their sustainability journey with SMEs, this could be sharing leading market practice on use of technology, methodologies and/or approach for sustainability practices.
14. **Report SME sustainability successes** to provide proof of concept to other SME customers to increase confidence in the products and approach. Highlight the positive impact of embedding sustainable practices e.g. cost savings or winning international supply chain contracts.

15. **Organise a roadshow to promote sustainability products** to SMEs to raise awareness of what is available and its benefits.
16. **Accelerate sustainability solutions** by championing green SME businesses and helping them to thrive through accelerator programmes. Partners to the programme may benefit from one-to-one coaching, peer to peer support, advice on how to scale their businesses and the opportunity to access networks. These programmes could be done in collaboration with local Universities and/or aimed at students.
17. **Facilitate collaboration** to help SMEs navigate the climate action landscape and connect businesses to relevant partners, resources and insights. Partners may include industry bodies, government-linked companies or large businesses, connections to industry peers and ecosystem partners.

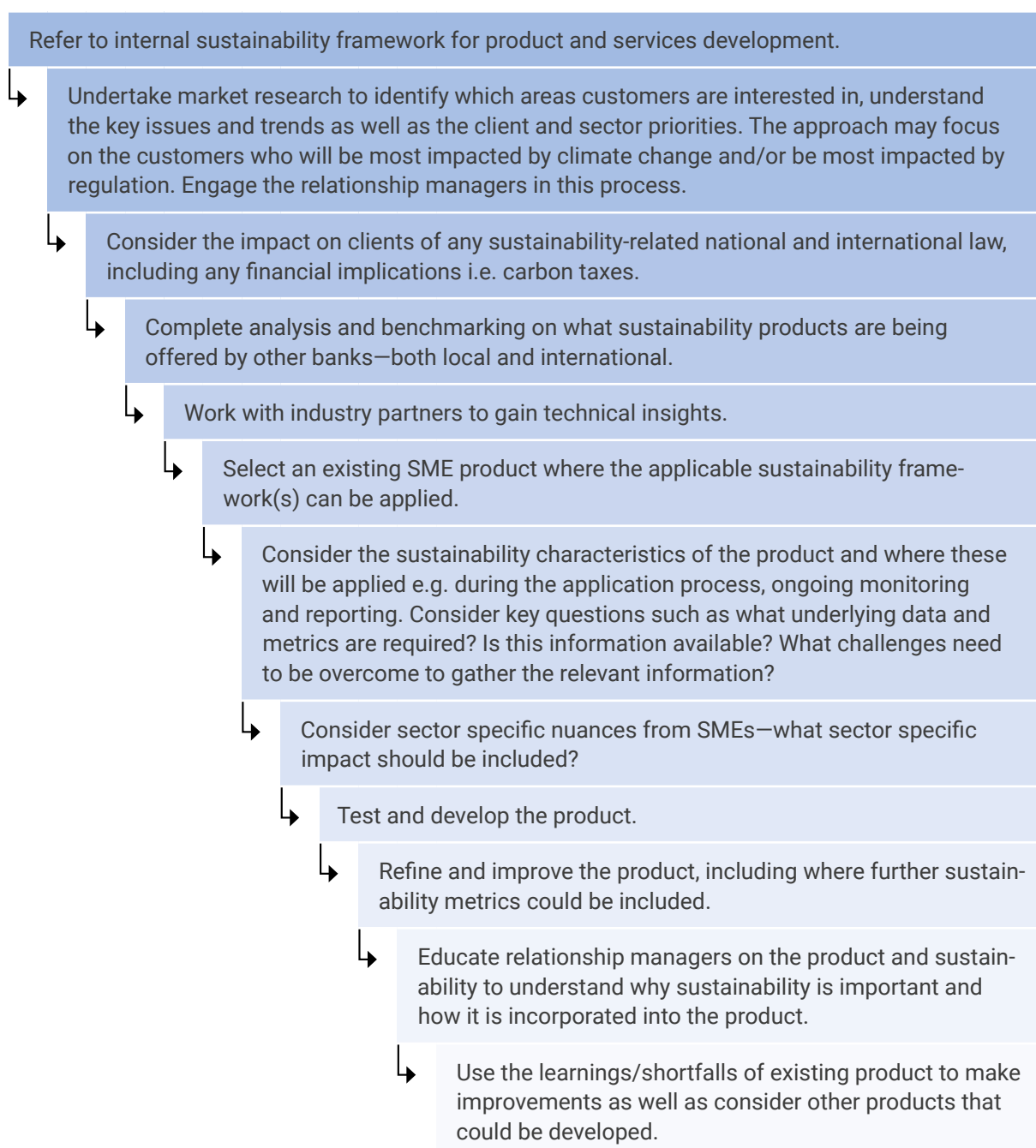
## Other

18. **Digitalisation**—this was noted as a key focus for the Banks during covid to ensure survivability of SMEs. Banks have set up digital programmes help SMEs run the day-to-day operations digitally and scale up their businesses through easier access to customers, suppliers and finance.
19. **Supply-chain financing**—sustainability requirements placed on large corporates is driving sustainability action in SMEs, this is especially relevant if your supply chain is likely to be impacted by environmental legislation e.g. an emissions tax. Many SMEs will be required to engage with sustainability to participate in global supply chains. Banks can play a role in sustainable supply chains through capacity building in SMEs on sustainability or financing whereby sustainability compliant SMEs access faster payment or lower rates.

## 1.3 Product development

Banks can take different approaches to developing sustainability products for SMEs including layering sustainability aspects onto existing SME products or simplifying corporate sustainability products to make them appropriate for SMEs. Many of the banks interviewed noted that they took the former approach of layering sustainability considerations onto an existing SME product. The operational steps noted below are based on this approach as well as the use of an internal sustainability framework. Several banks noted the difficulties in using sustainability-linked corporate products for SMEs due to the complexities being too challenging for SME customers, e.g. the monitoring and reporting requirements for sustainability linked loans.

## Operational steps:



The operational process above covers key sustainability considerations during product development only and need to be considered alongside the Bank's usual procedures for the development of new products e.g. investment feasibility, risk and compliance, internal processes.

The focus of sustainability SME lending by Malaysian banks to date has been predominantly around solar energy financing while benefitting from the Syarikat Jaminan Pembiayaan Perniagaan (SJPP) Government Guarantee and Credit Guarantee Corporation (CGC) programme. Typically if Malaysian banks are only offering one sustainability product it is geared towards solar energy, see Appendix 2 for more examples. Banks in Malaysia are also considering transition financing and sustainable supply-chain financing as well as use of proceeds loans for sustainability areas such as energy efficiency, renewable energy, waste reduction & management, water (utilisation & management), buildings, transportation, manufacturing and activities or financing for a purpose undertaken by a company in other business sectors which provide positive impact to the environment.

# Part 2. Foundations of the framework

This section of the Guide provides insights on the international and Malaysian perspectives as well as the local banking sector and SME environment, the foundations on which the framework is based.

## 2.1 International perspective

### International government policy and the sustainable recovery from covid

The covid pandemic has caused widespread disruption across the globe. Governments have responded swiftly to the pandemic and allocated rescue spending to the areas where it was needed most, to support healthcare and protect businesses and households from the immediate shocks<sup>6</sup>. As we move on from the pandemic Governments have a choice on how to allocate recovery spending. This presents an opportunity to address the existential threat posed by climate change and developing and implementing a vision for a more sustainable future.

Recent figures from the OECD Green Recovery Database show that of the US\$ 3,200 bn of covid recovery spending across 44 OECD countries and partner economies, c.21% (US\$ 677 bn) has been focused on green recovery measures. This represents c.4% of total rescue and recovery spending.<sup>7</sup> Aligning recovery spending to combatting climate change and achieving the SDGs provides an opportunity to rebuild the economy whilst securing a more sustainable future.

Countries across the globe have taken varying approaches to the covid recovery and the integration of sustainability factors. The leaders in 2020 for green recovery spending, as a percentage of total recovery expenditure, were Finland, Denmark, Norway, Germany, France and Poland with over 30% of recovery spending being considered green.<sup>8</sup>

### International examples: Sustainable covid recovery packages

Certain economic recovery plans include aspects of green and sustainable funding:

- **South Korea** announced in July 2020 the Korean New Deal, with a US\$144 bn recovery package where over one-third is allocated to the 'Green New Deal' funding projects around infrastructure, renewables, energy efficiency and green technology as well as US\$5.6 bn to support green technology SMEs and innovation.<sup>9</sup>
- The **European Commission** where 30% of the c.€800 bn EU Recovery Fund (Next Generation EU) and the 2021–27 EU budget will be targeted towards climate change-related spending.<sup>10</sup>
- The economic recovery plan for the **United States** includes a US\$2 tn investment with US\$555 bn for climate change programs, making it the largest climate change law in United States history. Most of the climate change funding is in relation to tax incentives for producers and purchasers of renewable energy but also includes funding for electric vehicles (EVs), energy-efficiency, climate-friendly farming and forestry research and other renewable energy initiatives.<sup>11</sup>

## Climate risks and net zero

### Global perspectives

In addition to the opportunity to commit covid recovery spending to green and sustainable initiatives, Governments have also been aligning to a more sustainable path through net-zero commitments, mandatory carbon taxes and the introduction of regulation around climate reporting. As of April 2022, over 130 countries have set or are considering a net-zero target, some of which are enshrined in law.<sup>12</sup>

### International examples: Climate risks and net zero and supporting SMEs

#### Singapore

Singapore has an aim to halve its emissions from their peak in 2030 by 2050.<sup>13</sup> Singapore has a number of initiatives to promote a green and sustainable future: it implemented the first carbon pricing scheme in Southeast Asia in January 2019, the carbon tax level has been set to S\$5/tCO<sub>2</sub>e until 2023 with the view to reaching \$50–80/tCO<sub>2</sub>e by 2030.<sup>14</sup> As part of its 2022 Budget, the Singapore Government announced that it will issue \$35 billion of green bonds by 2030 to fund green infrastructure projects as well as publish a Green Bond framework in late 2022.<sup>15</sup> Singapore has a Green Plan to 2030 which includes programmes around the development of green spaces, reduction of waste and water usage, increase in public transport, renewable energy, green buildings and EVs<sup>16</sup>.

Specifically in relation to SMEs, the Singapore Enterprise Sustainability programme, launched in October 2021, is a S\$180 million programme to support workshops, capacity building and product development for enterprises on their sustainability journey.<sup>17</sup> In November 2020, the Monetary Authority of Singapore (MAS) launched the world's first grant scheme to support green and sustainability-linked loans. The grant covers costs for banks engaging sustainability assessment and advisory services for the development of frameworks, external reviews and reporting as well as funding specifically for frameworks targeting SMEs.<sup>18</sup>

### **United Kingdom**

The UK has a legally binding net-zero target by 2050<sup>19</sup> and, as well as interim targets, the UK has shown significant leadership in introducing regulations to embed climate risk in organisations and will be the first G20 country to make TCFD disclosures mandatory for large businesses and financial institutions.<sup>20</sup> The UK Government is also moving towards making the publication of net-zero transition plans mandatory<sup>21</sup> and has also launched its 'Together for our Planet' Business Climate Leaders' campaign to encourage micro, small and medium enterprises (MSMEs) to commit to half emissions by 2030 and achieve net zero by 2050. The commitment can be made through the [UK Business Climate Hub](#).

Regulations on climate risks for large businesses and financial institutions are expected to trickle down to small corporates and SMEs as large businesses understand the climate risk presented by supply chains and financial institutions through their loan book. Financial institutions must engage with internal and external stakeholders on climate as well as develop climate-linked financial products if they are to comply with these regulations.

## **SME Focus on Survival**

In recent years there has been significant momentum from financial institutions and large corporates around sustainability, including net zero. In November 2021, Mark Carney, UN Special Envoy for Climate Action and Finance, announced \$130 trillion of assets committed to net zero by 2050 from 450 banks, insurers and asset managers in 45 countries as part of the Glasgow Financial Alliance for Net Zero (GFANZ).<sup>22</sup> As of April 2022, 683 of the 2,000 largest publicly-traded companies in the world by revenue had made a net-zero commitment.<sup>23</sup>

In contrast, research completed by Lloyds Banking group in the UK found that although nine out of ten SMEs (91%) see sustainability as an important consideration, 40% did not know how a net-zero goal would affect their business. When looking at the progress made towards net zero so far, almost half (47%) of the smallest businesses surveyed (10–19 employees) said they have no commitment, nor any current plans to commit to net zero, compared to just 5% of the largest SMEs.<sup>24</sup> SMEs have been focused on survival during the covid pandemic and there is a risk they may be left behind in the sustainability journey. There are some initiatives underway by international banks such as HSBC Group, Lloyds Bank and NatWest to support SMEs on sustainability.

## International examples: International banks supporting SMEs on sustainability

The focus of international banks in supporting SMEs in sustainability to date has been through capacity building, developing frameworks, understanding customers baseline position, guiding them on the transition and providing products. A few noteworthy initiatives being undertaken by international banks include:

- HSBC has a £500m Green SME fund offering 1% cashback loans to SMEs to invest in green activities, loan size starts at £1,000 and is available to businesses with a turnover of less than £25m.<sup>25</sup> This fund was the first green offering for small businesses with a cashback proposal in the UK. Loans must meet HSBC's eligible criteria<sup>26</sup> for green activities to qualify for cashback, this criteria has been independently reviewed by Sustainalytics.<sup>27</sup> HSBC has a Sustainability Assessment Tool which helps businesses assess where they stand, plan next steps and take action.<sup>28</sup> HSBC also has a Sustainability Hub including information on how to get started on sustainability, sector information, a Guide to net zero, sustainability insights and products offered.<sup>29</sup>
- Lloyds Bank has a hub of information for SMEs on their journey to net zero including a Practical Guide for SMEs and case studies on sustainability success stories. The hub includes specific resources and guidance for businesses at different stages of their sustainability journey from 'Getting Started' to 'Products and Services'.<sup>30</sup> Lloyds offers term loan (£50k min) and asset finance (£25k min) facilities to customers with £3–25m turnover. Eligibility for the funding includes reduction in GHG emissions, energy efficiency, renewables, environmental sustainability as well as investment in low carbon vehicles and sustainable actions around water. The benefits of the sustainability loan for term lending is 0% arrangement fee and for asset finance is up to a 25 bps reduction on the all in fixed rate.<sup>31</sup> Lloyds also has a Green Buildings tool to help customers understand their properties and make them more sustainable and energy efficient.<sup>32</sup> Lloyds is currently partnering with Net Zero club to pilot the use of carbon calculators for SME clients.<sup>33</sup>
- NatWest Group has several initiatives to support SMEs on sustainability, including green loan and green asset financing products, a climate hub, a climate accelerator and a carbon tracker App (in pilot), further details of which can be found in Appendix 1.

## 2.2 Malaysian perspective

### Government sustainability policy in Malaysia

As of 2020, Malaysia was one of several countries where no covid recovery spending was focused on the green recovery.<sup>34</sup> However, the Government of Malaysia has recently released its US\$ 80 bn 2022 budget which includes a number of sustainability initiatives.<sup>35</sup>

#### Malaysian government sustainability funding: 2022 budget

- Exempting import duty, excise duty and sales tax for EVs.
- Establishing a platform under the Voluntary Carbon Market.
- Providing a c.US\$ 240m\* Low Carbon Transition Facility (LCTF) through the Bank Negara Malaysia (BNM), for MSMEs to adopt sustainable and low-carbon practices.
- Outlining an intention to issue a Ringgit Malaysia denominated sustainability sukuk (c.US\$ 2 bn)\*.
- Funding for various environment and biodiversity projects (each < US\$ 36m)\*.<sup>36</sup>

\*Budget quoted in Malaysian Ringgit, converted to US\$ at a rate of 1 MYR RM = US\$ 0.24

The Banks noted a few Government plans and financing support that were driving action in Malaysia around sustainability, these are predominantly around green technology.

#### Malaysian government: Green technology plans and support

- The Malaysian Government's Green Technology Masterplan—sets out the strategic plans for green technology development to create a low-carbon and resource efficient economy.<sup>37</sup>
- The Malaysian Government's Green Technology Financing Scheme—a special financing scheme introduced by the government to support the development of Green Technology in Malaysia.<sup>38</sup>
- The Malaysian Government's Tax Incentives—investment tax allowance for purchasing green technology equipment/assets and an income tax exemption for providing green technology services.<sup>39</sup>

### Malaysia's commitment to net zero

As of April 2022, few Malaysian banks had made net-zero commitments although many were engaged with the topic and, following the Malaysian Government's commitment to be net zero by 2050 or sooner, acknowledged that making a net-zero commitment was likely to be a matter of when not if. The commitment to net zero from the Malaysian Government is especially pertinent to development finance institutions (DFIs) which are wholly owned by Government Ministries as net-zero commitments made by the Government will flow down to these DFIs.

Malaysia has also been forward-looking in the development of its climate regulations, overtaking many other countries in the consideration of climate stress-testing. Guidance and funding provided by the Bank Negara Malaysia demonstrate a trajectory for Malaysia in embedding climate risk into business practice and pushing banks to act.

### **Bank Negara Malaysia: Climate funding and guidance for financial institutions**

#### **Financing facilities**

- Bank Negara Malaysia's LCTF—capital expenditure finance for SMEs to adopt sustainable practices for business resilience. To apply for special pricing for funding SMEs must meet sustainability KPIs. This is seen as positive as it will increase familiarity of measuring and reporting on sustainability targets within SMEs.<sup>40</sup>

#### **Guidance**

- Value-based Intermediation—a set of guidelines for the Islamic finance industry in Malaysia.
- Bank Negara Malaysia's CCPT—guides financial institutions on how to classify their economic activities into three broad climate categories.<sup>41</sup>
- Bank Negara Malaysia's Climate Risk Management and Scenario Analysis—published in December 2021 for public consultation setting out the proposed requirements for financial institutions on climate risk management and scenario analysis.<sup>42</sup>

## **SMEs in Malaysia**

SMEs are a fundamental part of Malaysia's economy, representing 97.2%<sup>43</sup> of total business establishments in 2020 and contributing 38.2% of GDP.<sup>44</sup> In 2020, there were over 1 million SMEs in Malaysia employing 7.25 million workers (representing 48% of total employment).<sup>45</sup> The largest SME sector in Malaysia is the services sector, accounting for over 85% of SMEs in 2020.

SMEs in Malaysia have been significantly impacted by the pandemic. A series of surveys conducted by the Ministry of Entrepreneur Development and Cooperatives (MEDAC) and SME Corp found that under the Malaysian Government's Movement Control Order (MOC) 72.4% had to temporarily close business operation and 58.6% recorded no sales.<sup>46</sup>

SMEs play a vital role in Malaysia's economy and to preserve this, and protect jobs, it is important that they are supported as part of the recovery from covid, and this should be done in a sustainable manner.

According to data produced by Bank Negara Malaysia in Q1 2022, the disbursement of lending to SMEs has varied during the covid-pandemic with the lowest monthly disbursement in April 2020 and the highest since 2014 in March 2021.<sup>47</sup>

## Financial challenges faced by SMEs

SMEs face many financial challenges, both during covid and as we recover, the Banks highlighted the following as being key:

1. **Loss of customers**—SMEs were impacted by having to close during the MOC. To mitigate the impact of this, digitalisation strategies were employed during covid to enable SMEs to gain access to customers through ecommerce platforms.
2. **Limited cash availability**—SMEs used their savings for survival during covid and now have limited cash to pay day-to-day expenses and service loans.
3. **Staffing shortages**—Malaysia is facing a labour shortage problem which can make staffing challenging and costly for SMEs.
4. **Increased cost base**—inflation increases are making materials increasingly more expensive for SMEs.
5. **Lack of track record for credit**—especially micro-SMEs do not have a documented trading history or proven track record which makes it difficult access finance, this especially pertinent as many SMEs are now more in need of finance to assist with their recovery from covid.

## Malaysian government covid-recovery support for SMEs

To ease the burden of the covid pandemic the Malaysian Government introduced a moratorium for SMEs and individual borrowers in Malaysia.<sup>48</sup> Bank Negara Malaysia, also, in Q1 2022, had several facilities to support SMEs.

### Bank Negara Malaysia: Financial support for SMEs

- **Targeted Relief and Recovery Facility**—for services sector businesses affected by reintroduction of containment measures (except for tourism and tourism-related subsectors).
- **Agrofood Facility**—to support the increase agrofood production for Malaysia and exports.
- **Business Recapitalisation Facility**—equity or blending debt/equity financing to support growth without increasing indebtedness.
- **Low Carbon Transition Facility**—to support the adoption of sustainable practices for business resilience. Used to fund capital expenditure or working capital to initiate or facilitate the transition to low carbon and sustainable operation.
- **High Tech Facility—National Investment Aspirations**—for high-tech and innovation-driven SMEs.
- **SME Automation and Digitalisation Facility**—support to automate processes and digitalise operations to improve productivity and efficiency.
- **Micro Enterprises Facility**—for microenterprises including gig workers on digital platforms and the self-employed.
- **All Economic Sectors Facility**—to enhance access to financing for SMEs and to support growth.
- **PENJANA Tourism Financing**—dedicated fund for businesses in the tourism sector still affected by the pandemic under the PENJANA initiative.

To date, covid support for SMEs has primarily focused on assisting with short-term liquidity needs and digitalisation to ensure the survival of SMEs. Moving forward support for SMEs needs to concentrate on a long-term sustainable recovery and resilience building.

## Sustainability and Malaysian SMEs

The consensus amongst the Banks indicates the key focus for Malaysian SMEs during the covid pandemic has been survival and the majority of them are in the early stage of their sustainability journey. There is no clear definition of what sustainability means for Malaysian SMEs and many banks interviewed noted limited interest and awareness from SMEs around sustainability, highlighting that SMEs engaged in global supply-chains were more aware due to engagement from larger corporates. Customers are also becoming increasingly impacted by the effects of climate change i.e. flooding and are looking to banks to support them.

## Reasons for lack of engagement by Malaysian SMEs on sustainability

The following reasons were given by the Banks for the limited engagement to date:

1. **Focus**—the emphasis for SMEs is survival, they are reluctant to consider sustainability unless there is a proven financial benefit.
2. **Awareness**—SMEs do not know what sustainability means or what their material environmental and social risks are. There is also generally a lack of training for SMEs on sustainability in the wider environment.

3. **Capacity**—unlike some large corporates that have whole departments dedicated to sustainability, SMEs do not have the capacity to investigate and progress their sustainability journey.
4. **Data and resources**—SMEs do not know which sustainability data to use or how to gather it e.g. how do I measure sustainability of materials produced? There is a lack of standardised sustainability data, methodologies and technologies for SMEs and they do not have the capacity to develop these in-house.
5. **Clarity on cost implications**—if SMEs cannot see the financial benefit of the sustainable approach or product they are unlikely to proceed on the basis of sustainability alone. Many SMEs have engaged with solar products due to the savings through capital allowances and energy savings.
6. **Standards, policies or regulations**—there are limited compliance requirements in Malaysia for SMEs around sustainability that is forcing them to act. There is no carbon tax for the country and the enforcement of environmental laws can be limited.
7. **Cost of sustainability accreditation**—the cost associated with subscribing to certain green standards/certifications can be prohibitively high for SMEs.

## 2.3 Local banking sector

The local banking sector in Malaysia is being influenced to act on sustainability through Government and Bank Negara Malaysia plans, guidance and funding, as noted in the previous section. In addition, there are groups dedicated to facilitate collaboration amongst financial institutions.

### Malaysian Banks: Collaborative groups

- Association of Banks in Malaysia—established an ESG committee that has recently proposed ESG commitments which has seven principles that they have requested every bank to evaluate and commit towards, number one is achievement of net zero by 2050.<sup>49</sup>
- Joint Committee on Climate Change (JC3)—collaboration among financial industry players and regulators towards building climate resilience within the industry. JC3 comprises of Bank Negara Malaysia, Securities Commission, Bursa Malaysia and 19 industry players.<sup>50</sup>

Similar to their global counterparts' Malaysian banks are being driven to take action on sustainability to remain competitive due to the global megatrend on sustainability within financial institutions. Individuals within the bank, both employees and Board members, are becoming more aware of sustainability and are pushing for banks to act.

## Malaysian banks' approach to sustainability

The Banks had a broadly similar approach to sustainability, typically referring to long-term economic, social and environmental sustainability. The Banks often viewed supporting SMEs as being a sustainable activity and many referenced the SDGs as well as green and renewable energy solutions. For development banks such as AgroBank, Bank Rakyat, BPMB and SME Bank sustainability may be implicit in their business model due to the requirements placed upon them from the Government. Sustainability is also being adopted by the commercial banks and some have now set specific sustainability targets for their lending portfolio i.e. X% of the portfolio to be labelled as sustainable by 20XX. Further detail on the approaches taken by the Banks on sustainability can be found in Appendix 1 and 2.

## Malaysian banks role in the sustainable recovery from covid

The terms sustainable and survival were sometimes used together by the Banks when referring to their role in supporting SMEs in the recovery from covid. Most talked about administering Government schemes to support SMEs during the pandemic, typically short-term cash assistance and payment moratoriums.

## Digitalisation

Digitalisation was highlighted as a focus area for building resilience with the Banks assisting SME customers to access online markets as well as supporting them in their business operations. Covid has expedited the transition to digital banking to ensure business continuation, the importance of transitioning to digital platforms is conveyed succinctly in this quote from SME Bank's Integrated Annual Report 2020 which notes that "the strength and agility of our digital platforms have enabled us to pivot quickly to assist the businesses, while ensuring their survivability and sustainability."

## Supporting SMEs in their sustainability journey

The desk-based review showed action being taken by the Banks in supporting SMEs in their sustainability journey was typically around use of proceeds sustainable financing products, primarily solar, and some capacity building. Interviews highlighted the enthusiasm of the Banks to support SMEs more on their sustainability journey and action being taken in areas such as capacity building, developing sustainability frameworks, staff training and embedding sustainability considerations into the credit approvals process. Although the Malaysian banks interviewed are at different stages in their journey's most, if not all, are either currently working with SMEs or had plans to support SMEs on sustainability. It was acknowledged that a lot of SMEs are in the infancy stage of thinking about sustainability and there is still a long way to go until sustainable practices are embedded as business as usual.

## Challenges faced by banks in progressing sustainability lending for SMEs

In progressing sustainable lending for SMEs, the Bank noted the following challenges:

1. **Identification of new products**—the complexity and nuances of sustainability for different SME sectors can make it challenging to develop new products.
2. **Measurement of sustainability metrics**—lack of data and standardised methodologies make it difficult to track sustainability performance.
3. **Resource intensive**—the size of SME customers and their lack of awareness on sustainability can make the promotion and processing of sustainability loans time consuming.
4. **Staff buy-in**—without getting relationship managers onboard it will be difficult to promote sustainability products for SMEs.

# Part 3. Islamic finance and sustainable SME lending

## Differentiated approach from Islamic finance

The Malaysian Islamic finance institutions interviewed noted the natural alignment between Islamic finance, sustainability and ESG and how the implementation of a sustainability approach may be easier for Islamic finance institutions as the consideration of more than profit already exists as well as frameworks such as VBI and governance structures such as the Shariah committee.

Islamic banks have the option of raising capital funding through a Sustainability Sukuk, the capital raised can be on-lent to SME customers with back-to-back terms including use of proceeds for sustainable practices.

## How are banks using VBI in relation to SME lending?

Whilst VBI was originally developed as a tool to promote risk-sharing structures it has evolved to incorporate a broader ESG perspective. VBI was described by one of the banks as ESG with an Islamic finance label/Shariah principles over it. VBI could be adopted beyond Islamic finance but it needs to be viewed through a universal principle lens rather than exclusively Islamic finance lens.

Malaysian banks noted using VBI in the following ways:

1. **Sectoral Guides**—there are six VBIAF Sectoral Guides that have been released to date, namely on palm oil, renewable energy, energy efficiency, oil & gas, manufacturing, construction and infrastructure.<sup>51</sup> These Sectoral Guides include content such as definitions and scope, commercial propositions and impact-based risk management systems.
2. **Impact frameworks**—indicators from VBI can be used in impact frameworks.
3. **Internal framework and policies development**—VBI can be used to develop sustainability frameworks and inform policies such as group ESG risk acceptance criteria.
4. **Credit Approval Process**—ESG questionnaires and customer onboarding processes can be informed by VBI, including Sectoral Guides.

5. **Triple-bottom line classification**—VBI Guidelines and scorecard can be used to classify portfolios in accordance with sustainability criteria e.g. “triple-bottom line”.
6. **Collaboration**—several banks participate in the VBI Community of Practitioners (CoP) to share leading market practice and collaborate.
7. **Wider sustainability considerations**—the wider scope of VBI being sustainability more broadly than just environmental considerations helps banks to take a more holistic approach to sustainability.

## How are banks using other Malaysian initiatives in SME lending?

Malaysian banks noted using the Bank Negara Malaysia CCPT in credit approval processes and ongoing monitoring and tracking, including the C1 to C5 classification of economic activities, and observed that this will force banks to act on climate change. It was noted that there was a push from the Governor for Malaysian Banks to embed CCPT.

# Part 4. Next steps, additional Support, and conclusion

## 4.1 Next steps

Feedback from Malaysian banks during interview and at a Workshop held on 22 March 2022, to share the framework with the Banks and seek feedback, identified the following next steps:

- **Measurement of GHG emissions**—work should be done with SMEs to enable them to track their GHG emissions as this will be necessary to help them understand their impact on climate change and the development of certain sustainability-linked loans (SME Corp Malaysia is already completing work in this area). A select number of SMEs in each industry could be given a GHG calculation methodology to test.

Empowering SMEs to measure their GHG emissions will assist them in setting a baseline and developing a transition plan. Malaysian Banks could utilise tools such as the Business Carbon Calculator a free tool for SMEs accessed through the UK SME Climate Hub (endorsed by the UN's Race to Zero Campaign) or develop an App for SME customers. NatWest (in partnership with the FinTech Cogo) is currently piloting an App that provides customers with an opportunity to see CO<sub>2</sub> emissions associated with spending as well as advice on how to go greener and Lloyds (in partnership with Net Zero club) is piloting the use of carbon calculators with SME clients.

- **Education of relationship managers** is key as they act as a bridge between the bank and SME customers. If relationship managers recognise the importance of sustainability and are equipped with the requisite knowledge they are better positioned to engage with and support SME clients. Relationship managers should be trained to understand the relevance of sustainability, the need to track sustainability metrics, the various sustainability technologies as well as any relevant regulations impacting SMEs e.g. carbon tax.
- **Further capacity building for SMEs** is fundamental as SMEs are still early on their sustainability journey. Training for SMEs could be tailored to a specific industry e.g. palm oil or construction, and this could be done in collaboration with the relevant SME Industry Associations. The UK SME Climate Hub includes details of ClimateFit, free online training for SMEs on sustainability.

- **Further development of products**, including:
  - Supply chain finance—reduced rate of financing or early payment based on the achievement of certain sustainability requirements from the supply chain.
  - Green loans—use of proceeds loans for products wider than solar, for example energy efficiency, sustainable palm oil initiatives and biomass.
  - Sustainability-linked loans—increased rates of lending for not achieving sustainability objectives or decreased rates of lending for fulfilling them. These could be used to fund the transition to reduce GHG emissions.
- **Greater consideration of the social and governance aspects of sustainability** in addition to the environmental aspects.

## 4.2 Additional support

Insights from Malaysian banks during interview and at a Workshop held on 22 March 2022 highlighted the following additional support:

### Government Regulation

- **Regulation**—clear Government policies are fundamental to push the sustainability agenda. For example, the Government could mandate that a certain level of the Bank's portfolio must be in relation to sustainable SME funding or undertake wider initiatives such as the introduction of a carbon tax. There should be transparency for Malaysian banks on any wider Government regulations, such as a carbon tax, including the timing and the implications for SMEs.

### Financial Support

- **Funding for assisting SMEs in sustainability**—banks noted the need for external funding to support them in assisting SMEs on their sustainability journey. This could be from the Government or other institutions and potential uses include:
  - Sustainability capacity building for SMEs—Malaysian banks could be given a special, dedicated training fund for SMEs.
  - Accreditation costs associated with sustainability-linked loans—accreditation costs can be prohibitively high for SMEs, sometimes higher than the financial benefit from the loan. The LCTF can be used to finance acquiring a sustainability certification.<sup>52</sup>
  - Guarantee or subsidies on sustainability-linked financial products to mitigate the risk for banks and bring down the cost of financing.
- **Blended finance**—Multilateral development banks or Bank Negara Malaysia could issue a sustainability-linked bond and utilise this funding to support Malaysian banks providing sustainable funding for SMEs.
- **Tax incentives**—Banks could be rewarded with tax/other financial incentives from the Malaysia Government for assisting SMEs in their sustainability journey.

## Collaboration

- **Working with SME industry/certification bodies**—to guide SMEs on their sustainability journey, as noted above. Engaging with SMEs from different angles may encourage them to act. Industry partners could call SMEs to join the path towards sustainability or make pledges towards certain sustainability objectives. Working with sustainability certification bodies could also encourage wider adoption of the relevant standards.

## Capacity Building

- **Raising awareness**—further education of the public on topics such as the importance of sustainability and approach to waste management could be done by the Government through media channels.

## Standardisation

- **Standardised definition for sustainability across banks**—different banks have different definitions of sustainable finance which is confusing for SME customers. A standardised approach/definition for sustainable finance, especially tailored to different sectors, would be helpful including how to measure and report on environmental impact as well as reduce the risk of greenwashing.
- **Further guidance on the implementation** of key initiatives such as CCPT to ensure consistent application.

## 4.3 Conclusion

Malaysian and international banks have a critical role to play in supporting SMEs in the sustainable recovery from covid and build a more sustainable future for all. A recovery from covid with a focus on sustainability will not only help economic revival but also drive social and environmental benefits.


This Guide has highlighted the good work being done by Malaysian and international banks in supporting SMEs on their sustainability journey and has provided a framework for action, identifying 19 key suggestions and providing a step-by-step guide for product development.

Amongst the Malaysian banks interviewed there is a real enthusiasm to assist SMEs in their sustainability journey and Malaysian banks can demonstrate leadership in this area. Drawing on international best practice, working collectively and building on the example shown by Bank Negara Malaysia, in embedding climate considerations, Malaysian banks can position Malaysia as a regional leader in supporting SMEs in sustainability.

The Malaysian Government can support banks through regulation and funding and action from industry partners can build on the existing momentum and enable SMEs, en masse, to embed more sustainable practices into their business models. Many of the Malaysian banks interviewed have plans to deliver more capacity building, further educate relationship managers on sustainability, develop/expand sustainability frameworks and develop more complex sustainability products for SMEs. These initiatives need to be deployed promptly and effectively and developed further to grow the ecosystem of SME's focused on sustainability in Malaysia.

# Appendix 1. Deep-dive case studies

## International case study

 <b>NatWest Group</b>	
<p>NatWest is the UK's leading business bank serving 19 million customers across every region of the UK.</p>	
<b>Key sustainability focus areas</b>	<b>NatWest Group champions potential, helping people, families and businesses to thrive. Its sustainability approach is based on three key pillars: learning and financial capability, climate change and enterprise.</b>
<b>Sustainability-linked products for SMEs</b>	<p><b>Green Loan for SMEs</b></p> <ul style="list-style-type: none"> <li>▪ Funding between c.£50k–£10m.</li> <li>▪ Fixed or variable interest rate.</li> <li>▪ No arrangement fees (benefit to customers in comparison to non-green loan).</li> <li>▪ Use of proceeds requirement: clean buildings, clean energy, clean transport and agriculture.</li> <li>▪ Monitoring through spot checks on use of proceeds.</li> </ul> <p><b>Green Asset Financing</b></p> <ul style="list-style-type: none"> <li>▪ Funding between £25k–£10m.</li> <li>▪ Tax reliefs (as per current legislation).</li> <li>▪ For zero emissions vehicles and other assets e.g. anaerobic digestion, biomass boilers etc. that may help businesses to be more sustainable (full list found here).</li> </ul>

<b>Motivations for product development</b>	<ul style="list-style-type: none"> <li>▪ <b>Organisation alignment</b>—NatWest made its own operations net zero in 2020 and are now focused on becoming net positive by 2025 Beyond that NatWest has an ambition to halve its financed emissions by 2030 and to be net zero by 2050.</li> <li>▪ <b>Customer need</b>—help SMEs mitigate risks and leverage opportunities from climate change (e.g. corporate supply chain requirements, regulation, access to new markets, attract consumers, command price premium etc.).</li> <li>▪ <b>Environmental Impact</b>—SMEs in the UK contribute c30% of all carbon emissions but have the ability to influence c50% of emissions reductions through their own footprint but also through the role that they play in the broader ecosystem (e.g. installation of heat pumps and charging points, delivery of building retrofits etc.).</li> </ul>
<b>Approach to product development</b>	<ul style="list-style-type: none"> <li>▪ Addition of sustainable features to existing SME products.</li> <li>▪ Spent time with customers to understand their key challenges and issues, the development of the Green Loan product was anchored in customer insights.</li> </ul>
<b>Wider sustainability support for SMEs</b>	<ul style="list-style-type: none"> <li>▪ <b>Climate Hub**</b>—digital content providing education to SMEs on the financial benefits of the net-zero transition.</li> <li>▪ <b>Climate Accelerator**</b>—program of events, 1-2-1 coaching and leadership training for businesses working on climate solutions.</li> <li>▪ <b>Carbon Tracker App</b>—provides customers with an opportunity to see CO<sub>2</sub> emissions associated with spending as well as advice on how to go greener (in pilot).</li> </ul> <p>**open to customers and non-customers</p>
<b>Further support/ product development</b>	<ul style="list-style-type: none"> <li>▪ Integrated transition finance solution—assisting customers in developing net-zero transition plans and providing the required funding to support these.</li> </ul>
<b>Challenges for SMEs in engaging on sustainability</b>	<ul style="list-style-type: none"> <li>▪ Lack of funding, bandwidth and capabilities to engage with sustainability.</li> <li>▪ Lack of clarity on future regulatory changes.</li> </ul>
<b>Challenges for Banks that inhibit sustainable SME lending</b>	<ul style="list-style-type: none"> <li>▪ Lack of data to assess SMEs sustainability baseline, set targets and measure progress against.</li> <li>▪ Cost to track progress makes it challenging for more complex products e.g. sustainability-linked loans (SME sustainability solutions need to be simple and cheap for SMEs to engage).</li> <li>▪ No universal framework for the development of SME sustainability products.</li> <li>▪ Limited customer appetite—for some customers sustainability is secondary to financial concerns, they need to understand the financial implications.</li> <li>▪ Lack of clarity around timing and details of Government Regulation that will force SMEs to act on sustainability.</li> </ul>
<b>Support for SMEs and the covid recovery</b>	<ul style="list-style-type: none"> <li>▪ Accelerating SME recovery to unlock a £140bn boost to the UK economy. <a href="https://natwestgroup.com/news/2021/03/accelerating-sme-recovery-to-unlock-p140bn-boost-to-uk-economy.html">natwestgroup.com/news/2021/03/accelerating-sme-recovery-to-unlock-p140bn-boost-to-uk-economy.html</a></li> <li>▪ Range of support provided to SMEs <a href="https://natwest.com/business/support-centre/service-status/coronavirus.html">natwest.com/business/support-centre/service-status/coronavirus.html</a> <a href="https://natwestgroup.com/content/dam/natwestgroup_com/natwestgroup/pdf/natwest-sme-recovery-report-infographic.pdf">natwestgroup.com/content/dam/natwestgroup_com/natwestgroup/pdf/natwest-sme-recovery-report-infographic.pdf</a></li> </ul>

# Malaysian case study



# CIMB

CIMB Group (CIMB) is a leading ASEAN universal bank and one of the region's foremost corporate advisors. CIMB is headquartered in Kuala Lumpur, Malaysia, and offers consumer banking, commercial banking, investment banking, Islamic banking and asset management products and services. CIMB has c.500k SME customers, representing one-third of the SME population in Malaysia.

<b>Key sustainability focus areas</b>	<p>CIMB's sustainability approach focuses on maximising positive impact and minimising negative. CIMB has a five-pronged philosophy for sustainability:</p> <ul style="list-style-type: none"> <li>▪ Proactively integrate economic, environmental and social considerations</li> <li>▪ Engage actively and openly with stakeholders</li> <li>▪ Create net positive impact, adopting an inclusive approach</li> <li>▪ Respect human rights and exercise a precautionary approach</li> <li>▪ Recognise and be guided by internationally-recognised principles</li> </ul> <p>CIMB's sustainability approach started in the Islamic bank.</p>
<b>Sustainability-linked products for SMEs</b>	<p>SME Renewable Energy Financing</p> <ul style="list-style-type: none"> <li>▪ Enables SMEs to finance 100% of their solar PV system with an industrial hire purchase facility</li> <li>▪ Max loan amount of RM500k</li> <li>▪ Tenure 10 years</li> <li>▪ CIMB has committed RM100 million to assist SMEs</li> <li>▪ This product guaranteed under the Government guarantee via SJPP but packaged with a guarantee from CGC.</li> </ul>
<b>Motivations for product development</b>	<ul style="list-style-type: none"> <li>▪ Renewable energy is one of the CIMB's key sustainability themes—CIMB recognised the problem of lack of adoption of renewable energy financing and wanted to address this. CIMB engaged with SEDA to work together to overcome the challenges of limited uptake of solar panels.</li> <li>▪ Push from Government policies (The Malaysian Government has a Green Tech Master Plan) and demand from customers.</li> </ul>
<b>Approach to product development</b>	<ul style="list-style-type: none"> <li>▪ The Green, Social, Sustainable Impact Products and Services (GSSIPS) framework provides a guide and an internal taxonomy for the Group to deliver impactful sustainable finance. It is a living document that allows for emerging sectors, technologies, and financing instruments, where we can support clients to transition to a low-carbon and sustainable future.</li> <li>▪ Have worked with Malaysia PV Association to undertake a nationwide roadshow to promote the product.</li> </ul>

<b>Wider sustainability support for SMEs</b>	<ul style="list-style-type: none"> <li>▪ <b>GreenBizReadyTM</b> programme includes capacity building on green and sustainable topics for SMEs as well as regular mentorship. Under the GreenBizReadyTM programme CIMB has partnered with Impacto on an SME adoption programme, customers complete a sustainability self-assessment, Impacto then provides the SME with a tailored summary recommendation report and follows up with one-to-one sessions about operations and strategies resulting in a customised report with check-lists and templates for implementation for the SME.</li> <li>▪ <b>SME Sustainable Exporter Programme</b> is a webinar series to help export-ready SMEs with the objective to strengthen the SMEs understanding of sustainability and for the SMEs to continuously grow beyond borders and embrace sustainability as a long-term business growth strategy. Since the launch of the programme, 250 SMEs have participated in a 10 webinar series. The SMEs came from various sub-sectors including food and beverage, machinery parts and components, medical equipment, furniture and fashion (garments and cosmetics) and underwent over 2 hours per series of online orientation on various economic, environmental, social and governance aspects that could potentially create new opportunities for resilient growth. After completing each session, SMEs will have a designated contact person to help them plan the next steps of their sustainability journey by assessing their readiness and providing recommendations for implementation.</li> </ul>
<b>Further support/product development</b>	<p><b>Products</b></p> <ul style="list-style-type: none"> <li>▪ Wider renewable energy offering</li> <li>▪ Financing for sustainable materials</li> <li>▪ Sustainable supply-chain financing</li> </ul> <p><b>Other support</b></p> <ul style="list-style-type: none"> <li>▪ Capacity building</li> <li>▪ Working with SMEs to do self-assessment and improving capabilities—where do they need to improve and create awareness, likely areas include financial management, human resource and digitisation.</li> </ul>

<b>Challenges for SMEs in engaging on sustainability (as noted by CIMB in relation to their customers)</b>	<p><b>General</b></p> <ul style="list-style-type: none"> <li>■ Main focus out of the pandemic is survival—SMEs have limited capacity to think about sustainability.</li> <li>■ Lack of understanding/transparency on the benefits—SMEs will only do something if they see the cost benefits. i.e. does installing solar result in a cost saving?—sustainability alone is not viewed as a sufficient reason to do something by SMEs.</li> <li>■ Lack of awareness—many SMEs do not know what sustainability means—the awareness is greater in certain segments—these need to be identified as the right target segments for sustainability products.</li> <li>■ Insufficient resource, skills in-house and technology to engage as well as monitor and report on sustainability metrics.</li> </ul> <p><b>Solar Specific</b></p> <ul style="list-style-type: none"> <li>■ Cost was initially a barrier with the payback period being too long, payback was 8 years, this has now been reduced to 4 due to reduced cost of financing from BNM.</li> <li>■ Logistical challenges during Movement Control Order meant SMEs clients could not get solar installed.</li> <li>■ Electricity demand fell during the pandemic so that payback of the solar panels is less appealing.</li> <li>■ Lengthy and complex application process.</li> <li>■ No evidence of tangible benefits—SMEs are unlikely to engage if they cannot see clear demonstrable benefits.</li> </ul>
<b>Challenges for Banks that inhibit sustainable SME lending</b>	<p><b>General</b></p> <ul style="list-style-type: none"> <li>■ Identification of products and measurement of the sustainability attributes e.g. if looking at supply chains—how do I measure sustainable material use?</li> <li>■ Lack of standardised metrics and certification on sustainability—i.e. how do I know if material used in a garment is sustainable?</li> </ul> <p><b>Solar Specific</b></p> <ul style="list-style-type: none"> <li>■ Lack of appetite from customers as payback was too long.</li> <li>■ Lack of infrastructure in the country initially i.e. insufficient installers available.</li> <li>■ Issues with processes—lengthy and complex application process and onboarding of customer.</li> </ul>
<b>Support for SMEs and the covid recovery</b>	<ul style="list-style-type: none"> <li>■ <b>Targeted Relief and Recovery Facility</b>—a financing facility established by BNM to provide relief and support recovery for SMEs in the services sector affected by reintroduction of containment measures since June 2020, except for tourism and tourism-related subsectors.</li> <li>■ <b>CIMB MicroBizReady</b>, a programme with an objective to help micro-SMEs to scale up their businesses with training in digitalisation, business strategy and finance and improving the skills of small entrepreneurs in B40 segment of Malaysia in order to take their business to the next level. Supporting through enhanced business coaching and mentorship from CIMB team and its partners. The programme is only for selected underprivileged B40 Micro SME Segment which they need to undergo an interview with Taylor' Community, a CSR platform, before qualified for the MicroBizReady programme.</li> </ul>

# Appendix 2. Illustrative examples from the framework

## 1.1 Bank-wide approach

### Internal Processes

#### 1. Formalise approach to sustainability

- 1.1 Overarching guiding sustainability principles, themes and strategies and associated roadmaps and action plans.

United Overseas Bank Ltd (UOB) has five guiding sustainability principles around 1) regulatory compliance, 2) business strategy and stakeholder interests, 3) being pragmatic and progressive, 4) customer-centric and 5) values-driven. UOB has a Group Sustainability Framework that was formalised in 2019 and provides guidance on the management of sustainability-related risks and business opportunities in the context of its direct and indirect impact to the environment, society and the economy. It is the responsibility of all UOB employees to comply with the Group Sustainability Framework.

AmBank Group embeds ESG considerations into its strategies, business and operations, to contribute to the greater good of its stakeholders, and ensuring the longevity of its relevance and profitability. AmBank has key sustainability themes of responsible banking, conscious self-conduct and positive social impact. AmBank next steps is to build a green/sustainable product roadmap which will support transitioning into a lower carbon economy.

2021 marked the first phase for SME Bank's (the Bank) 3-Year Sustainability Roadmap (Sustainability Roadmap/Roadmap), the Bank is now embarking on the future of its sustainability journey with clear approach and guidelines. The approaches being "Responsible Business Practices", Responsible Banking" and "Creating Social Impact".

The Roadmap outlines SME Bank's near-term objectives and longer-term goals and commitments, segregated into 3 phases as follows:

- Phase 1 (2021) : ESG initiation & streamlining business focus.
- Phase 2 (2022): ESG Implementation & streamlining non-business focus.
- Phase 3 (2023): ESG adoption & continuous Improvements towards sustainability.

In the 1<sup>st</sup> Phase, the Bank has reached a key milestone in its sustainability journey evidenced by the establishment of RM3B Sustainability Sukuk Programme, the Bank's 1st Non-Government Guarantee Sukuk Wakalah Programmes which has been accorded AAA ratings by Malaysian Rating Corporation Berhad (MARC). The Bank had in August 2021 successfully issued its maiden RM500m Sustainability Sukuk which was oversubscribed by 3.56 times (bid-to-cover) at a very competitive pricing. In 2022, the focus will be on ESG Institutionalisation across the Bank and establishment of its own Sustainable Development Goals Framework (SDG Framework) covering financing and non-financing activities.

### 1.3 Public Sustainability Commitments

HSBC Group, Standard Chartered Group and CIMB Group all have an ambition to be net zero by 2050.

Some of the Malaysian banks also have portfolio sustainability targets, for example:

- CIMB target of RM30 billion of sustainable investment by 2024.
- AmBank has a long-term target that at least 70% of its loan/ financing portfolio would constitute exposures with Low ESG-RG by 2030. (based on its internal rating and classification system, detailed later in the Guide).
- Alliance Bank has committed to growing RM 5 billion in new sustainable banking business (exceeded RM 500 million target for 2022 with RM 2.5 billion in new sustainable financing) and reduce the Bank's GHG emissions (aiming to disclose commitments on carbon emissions reduction by the first quarter of FY23).
- OCBC Bank had earlier established a target of building a S\$25 billion sustainable financing portfolio by 2025. By end-2021 however, it had achieved total sustainable financing commitments of S\$34 billion, surpassing its S\$25 billion by 2025 target four years ahead of schedule. OCBC Bank has set a new target to grow its sustainable financing portfolio to S\$50 billion by 2025.
- UOB has a sustainable finance target for 2025 of S\$30 billion.

## 2. Sustainability Governance

Upon the development of Bank Rakyat Sustainability Framework & Policy (BRSFP), a Sustainability Task Force was established with representatives from various business units to ensure the sustainability implementation at Bank Rakyat will achieve its targets and to ensure clarity of sustainability ownership, roles, responsibilities, and reporting structure.

Alliance Bank established its Sustainability Steering Committee in 2020 which led the rollout of its Sustainability Framework. A Group Sustainability Committee followed in 2021 to assist the Board of Directors in providing oversight on sustainability matters and promoting sustainability through appropriate ESG considerations in the Group's business strategies.

UOB has a group Sustainability Committee with senior members from across all business units and control function that reviews material ESG topics, identifies risks and opportunities, sets goals and targets, evaluates emerging issues, collates and assesses relevant data, and monitors the progress of sustainability-related programmes and initiatives. The Sustainability Committee reports to the Management Executive Committee and Board of Directors.

Standard Chartered has both a Sustainable Finance and an Environmental & Social Risk Management (ESRM) team, part of its wider Sustainable Finance offering, comprised of industry specialists and bankers who work with Relationship Managers and clients to support them in embedding the requirements of SCB own and industry standard sustainability policies.

## 3. Internal Sustainability frameworks

### **Standard Chartered—[Green and Sustainable Product Framework \(GSPF\)](#)**

Based on the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, Green Loan Principles, EU Taxonomy and Climate Bonds Standard and aligned to the SDGs. The GSPF was developed by the team at Standard Chartered Bank and has been verified by Sustainalytics.

The GSPF states activities that Standard Chartered will not finance activities in certain sectors e.g. oil and gas, palm oil etc. It also sets out minimum thresholds and climate change objectives e.g. will only provide financial services to clients who "by 2024, are less than 80 per cent dependent on thermal coal (based on % revenue)." Standard Chartered also has [Positions Statements](#) that set out minimum criteria for sectors with high environmental and social impact e.g. extractive industries, chemicals & manufacturing.

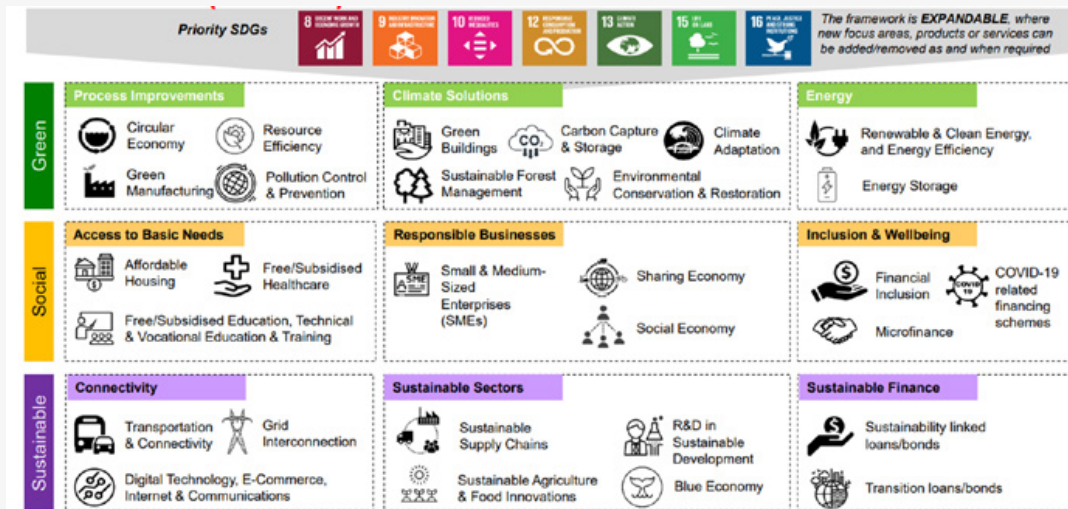
The GSPF includes details of Standard Chartered's approach to impact and notes some high-level achievements e.g. "Over 885,000 microfinance loans enabled" and "Nearly 20,000 SME loans disbursed". It references that more detail can be found in its [impact reports](#), first published in 2009.

The main content of GSPF details 20 key themes, sub-themes, eligible assets, exclusions and associated SDG goal. The GSPF notes which themes are aligned with the EU Taxonomy as well as relevant external certificates. Four of the themes in the GSPF are explicitly related to covid—covid healthcare, covid sanitation, covid food security, covid socio-economic impact mitigation. 90% of the company's revenues must be derived from the activities in the GSPF to be defined as Sustainable Assets.

An extract from the GSPF can be seen below:

Themes	Sub Themes	Eligible Activities	Exclusions	SDG Goal
<b>COVID healthcare</b>	<b>Healthcare services</b>	<ul style="list-style-type: none"> <li>Financing to equip, operate and add capacity and efficiency to essential healthcare facilities such as hospitals, clinics, healthcare centres, acute care, emergency care, diagnostics, laboratory facilities, nursing home and rehabilitation facilities</li> <li>Manufacturing, logistics and distribution of medical products and supplies essential to medical response, disease control services and vaccinations</li> <li>Financing to equip, operate and add capacity to facilities for healthcare training</li> <li>Financing to equip, operate and add capacity to facilities that house healthcare professionals</li> <li>Hiring and training of medical personnel to assist in the prevention and/or treatment of COVID-19</li> </ul>	<ul style="list-style-type: none"> <li>Banking that directly finances: <ul style="list-style-type: none"> <li>Cosmetic facilities</li> <li>Aesthetic medical facilities</li> <li>Chiropractic facilities</li> <li>Acupuncture facilities</li> </ul> </li> <li>Hospital greenfield construction</li> </ul>	    

## CIMB—Green, Social, Sustainable Impact Products and Services (GSSIPS) Framework



CIMB's GSSIPS Framework was developed following a review of several international frameworks including the EU Taxonomy and it is aligned to the SDGs. CIMB also took aspects and ideas from VBI in the development of GSSIPS but it is not specifically based on this.

The GISSP framework categorises activities as Green, Social or Sustainable and covers 24 key focus areas these can be seen below:<sup>53</sup>

CIMB is currently developing an internal taxonomy to provide more clarity to business units on the principles and criteria for each focus area of the GSSIPS Framework. Further information can be found on page 66 of the Sustainability Report 2020, found [here](#).

## OCBC—SME Sustainable Finance Framework

Recognising that SMEs' participation is crucial for sustainable development, OCBC Bank provides SMEs with access to climate financing solutions through its unique SME Sustainable Finance Framework, which has benefited more than 200 SMEs in the region. The Framework is designed to make it simple for SMEs to access sustainable financing of up to S\$20million for their businesses and projects, without the complexity and cost of establishing a customised framework for each company. The sustainable financing provided to SMEs can be in the form of solutions such as green loans, green letters of credit and green banker's guarantee. Eligible SMEs must be involved in sustainable activities across any of the nine green projects categories below:

1. Clean transportation
2. Eco-efficient and/ or circular economy adapted products, production technologies and processes
3. Energy efficiency
4. Green buildings
5. Environmentally sustainable management of living natural resources and land use
6. Pollution prevention and control
7. Renewable energy
8. Sustainable water and wastewater management
9. Climate adaptation

The framework has been reviewed by V.E in accordance with the Green Loan Principles developed by the Loan Market Association.

## UOB—Sustainable Finance Frameworks

UOB has four sustainable finance frameworks, all of which are mapped to the SDGs, including:

1. Green and Sustainable Trade Finance and Working Capital.
2. Smart City.
3. Green Building Developers and Owners.
4. Circular Economy.

UOB's sustainable finance frameworks for:



The motivation for developing these frameworks was to simplify access for customers to sustainable finance without the requirement for them to have to build their own sustainable financing framework.

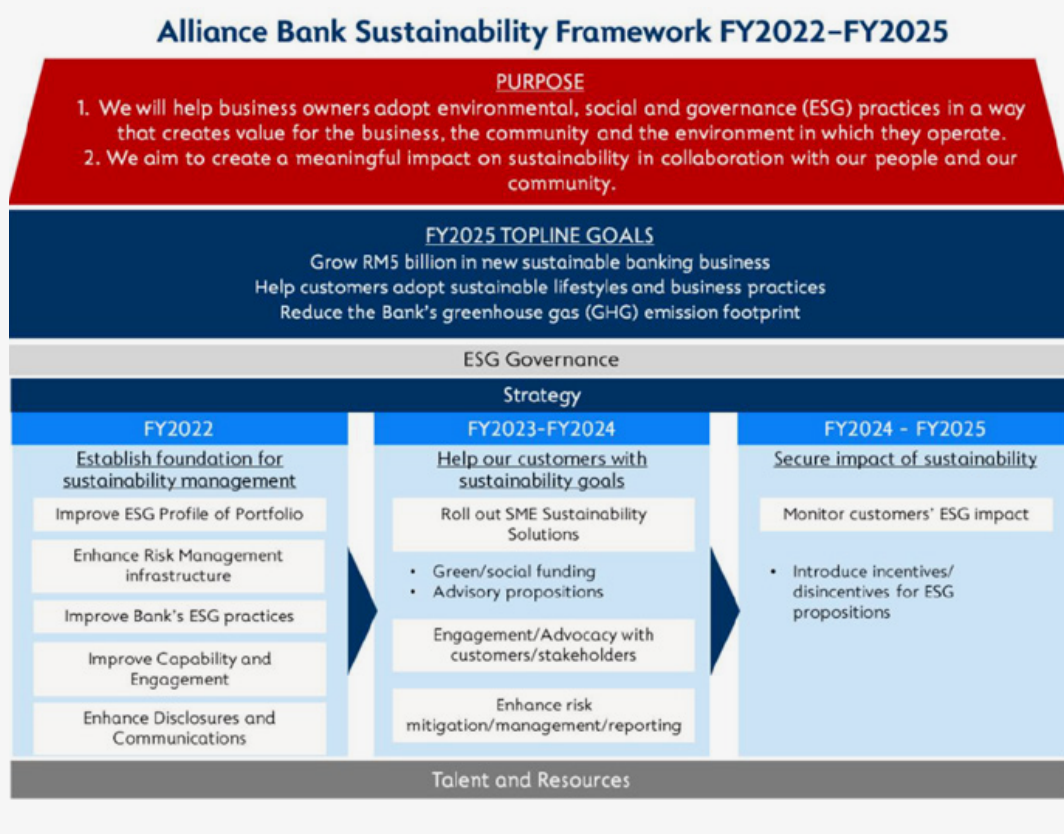
These frameworks have been developed in alignment with Loan Market Association/Asia Pacific Loan Market Association (LMA/APLMA) Green Loan Principles and Sustainability Linked Loan Principles. Companies applying for financing under these frameworks must meet criteria such as having a clear sustainability strategy and objectives, achieving sustainability performance targets and using the proceeds to further the sustainability agenda. The use of loan proceeds loans and the social and environmental impact of business activities are monitored by UOB on an annual basis.

The frameworks have been verified by external third-party verifiers such as Carbon Trust and Moody's ESG Solutions (Vigeo Eiris).

UOB's pipeline of new frameworks include one focussed on transition finance.

## Alliance Bank—Sustainability Framework

Alliance Bank focuses on helping SMEs with sustainability risk and opportunities by providing financial and non-financial assistances to ensure long-term business viability. The Bank adopts a nurturing approach for SMEs and business owners to transition towards sustainable practices.



## Bank Rakyat—Bank Rakyat Sustainability Framework & Policy (BRSFP)

Bank Rakyat has developed the BRSFP as part of its vision and mission to build a sustainable future for the bank and its stakeholders. By operationalising the BRSFP, Bank Rakyat will embrace sustainability as a growth driver for the organisation which places emphasis on generating measurable positive and sustainable impact to the economy, community and environment in banking practices, conduct and offerings.

The BRSFP was developed in accordance with regulatory requirements, as well as referenced to external initiatives, standards and guidelines such as BNM Implementation Guide for VBI, BNM CCPT and TCFD recommendations.

## SME Bank

SME Bank is in the process of developing its own SDG Framework which is intended to be unique, integrative and practical towards becoming a sustainability-driven organisation. This is in the early stages of development but will likely include an overarching sustainability plan with goals, strategies, vision and missions and include guidance on the assessment of GHG emissions. The SDG Framework will facilitate the Bank to strengthen not only its primary role in supporting the development of SMEs via financing but also non-financing activities that is pivotal in contributing towards global goals while creating long-term value for its key focus stakeholders; including customers, investors/agencies, regulators, vendors, employees and society.

## Working with Stakeholders

### 5. Sustainability training for staff

Standard Chartered has a voluntary finance sustainability and leaders champions network of c.1,000 people across the organisation, employees have access to mandatory and voluntary training and thought-leadership on sustainability topics.

CIMB ran a training session with MGTC to familiarise relationship manager's with the green technology market in Malaysia.

NatWest ran a series of tailored, sector specific sustainability training sessions for its relationship managers. Some of its relationship managers are specialists in certain areas e.g. agriculture, manufacturing, healthcare, real estate and retail.

AmBank will be rolling out "Know your Carbon Footprint" series which require staff personal involvement in exercises and periodic use of GHG calculator. AmBank's internal capacity initiatives include Sustainability 101 e-learning for all staff and Climate Change 1-1 for Board and Senior Management. With the implementation of the ESG-risk assessments and climate change risk assessment for financing and investment, specific training was conducted for RMs, Credit Risk officers and relevant sales teams in retail banking to guide them on updating the sectoral ESG questionnaires. This will also assist RMs to nurture companies on their sustainability journey. Green Financing training for business teams at AmBank has also been conducted in collaboration with GreenTech Malaysia.

### 6. Customer research and surveys

Agrobank has a training and advisory arm that works to understand what customers want through programs on entrepreneurship, marketing, business planning, financial management etc., in collaboration with various agencies. These programs are designed to equip the customers and potential banking customers on essential skills required in business.

UOB has a dedicated Sector Solutions Group who are subject matter experts in ESG and sustainable financing and engage with clients to identify trends and understand sectoral perspectives to develop new sustainable financial products.

## 8. Guidance from industry experts

NatWest has a partnership with Warwick University to look at clean transport and the Sustainable Food Trust to look at a global farming metric carbon calculator.

Standard Chartered has a four-year partnership with Imperial College London on climate change risk management. The bank is also a founding member of the Net Banking Zero Alliance and whose Chief Executive is Chairperson of the Taskforce for Scaling Voluntary Carbon Markets.

## 9. One-stop-shop

Standard Chartered Saadiq has partnered with Plus Xenergy and Solarvest to provide customers with a one-stop shop for solar solutions including the project feasibility, documentation necessary to get approvals, the solar panel infrastructure, after sales support and warranties.

UOB has two integrated financing platforms available in Malaysia, namely U-Solar (solar panels) and U-Energy (energy efficiency). The platforms provide connections to service providers who will assist in the delivery of the necessary infrastructure such as energy service companies, installation and maintenance technicians, as well as financing to support the installation and implementation.

# 1.2 Supporting SMEs

## 10. Credit Assessment

BPMB embed impact considerations in main part of its credit assessment through the use of its Measuring Impact on National Development ([MIND](#)) Framework, based on VBI and BNM Climate Change and Principle-based Taxonomy, which is centred around six SDGs and measures 35 development indicators, BPMB may not invest if a positive impact cannot be proven.

AmBank has embedded ESG Risk assessment and Climate change assessment to overlay its credit assessment for its business customers by developing eight sectors specific ESG questionnaires. The eight sectors specific questionnaires cover seven high impact sectors (Palm Oil, Oil & Gas, Forestry, Infrastructure & Construction, Logistics, Mining, Quarrying) and one general questionnaire to address the remaining sectors.

Alliance Bank has developed policies and tools to evaluate ESG risk of customers upon on-boarding and annual review:

1. an ESG Screener to categorise all accounts according to BNM's Climate Change and Principle-based Taxonomy.
2. ESG Risk Acceptance Criteria (RAC) . On top of a General RAC, specific RACs were developed for sectors identified as ESG sensitive: Palm Oil, Mining & Quarrying, Fisheries and Forestry & Logging. Elements from the VBI sectoral guides are incorporated into the RACs.

## 11. Baseline Assessment and Transition Advice

AmBank's ESG questionnaire, used as part of the credit assessment process, results in an internal ESG risk grade rating as well as a climate change classification in accordance with the BNM Climate Change and Principle-based Taxonomy. The intention is that the questionnaire and rating will be used to nurture companies on their sustainability journey. There may also be scope for better financing rates based on ESG rating improvements. The questionnaire was guided by the BNM Climate Change and Principle-based Taxonomy , VBI Sectoral Guides and sectorial best practices.

Alliance Bank partnered with MGTC and Bursa Malaysia to provide a holistic Sustainability assistance proposition covering advisory, solutions and banking support for businesses. As part of Alliance Bank's commitment to promoting the adoption of sustainability practices it works with partners to conduct gap analysis and develop sustainability roadmaps for customers as well as offer sustainability solutions and financing.

## 12. Capacity Building

CIMB has the following initiatives:

- GreenBizReady™ programme includes capacity building on green and sustainable topics for SMEs as well as regular mentorship.
- [Cooler Earth summit](#)—conference on conservation and sustainability practices for clients, suppliers, the public, employees and customers.

UOB's innovation accelerator, [The FinLab, has a Sustainability Innovation Programme](#) that provides training for business leaders looking to transform their companies into sustainable businesses. Focus areas include energy efficiency, clean energy, electric vehicles and food sustainability.

AmBank is working with [CM2 Capital Markets Malaysia](#) to build awareness for SMEs on sustainability and also provide technical workshops on how to calculate their GHG emissions. This is expected to be launched in April/May 2022.

HSBC Malaysia including HSBC Amanah hosted the first Joint Sustainability webinar in partnership with [Climate Governance Malaysia](#) on Transitioning into a Sustainable Future to guide Malaysian Corporates in discovering their potential in implementing sustainability at the core of their business model. A series of business sustainability webinars was also hosted in collaboration with Climate Governance Malaysia, government agencies and prominent industry leaders.

RAKYATpreneur and Bank Rakyat UNIPreneur (Bank Rakyat Entrepreneur Leadership Series), is the Bank Rakyat's philanthropic initiative to assist entrepreneurs & small businesses from underserved background with high potential of growth to progress across the business value chain via seed funding, coaching, mentoring and monitoring session.

Alliance Bank offers a range of resources to SMEs free of charge such as webinars, information/news and a financial health calculator (i.e. a financial health assessment tool). The Bank has jointly organised over 45 complimentary webinar sessions to upskill SMEs and their employees. Alliance Bank has other initiatives such as Ringgit My Way, a series of educational social media posts that promotes financial literacy awareness and management.

SME Bank, in collaboration with its subsidiary, Centre for Entrepreneur Development and Research (CEDAR), has developed an educational awareness video on sustainability that is shared with its new/existing customers. Following the video, SME Bank customers are required to answer a survey on whether they have already started in their sustainability journey and/or whether they are willing to embrace ESG/Sustainability in their business operations. The initial engagement by SME Bank with its new/existing customers also includes discussions on how they can make their business more sustainable and align to the nation's aspiration to be net zero.

## 14. Reporting SME Sustainability Success Stories

CIMB noted that the aggregator produces reports that demonstrate the benefits of solar panels to customer—this has helped increase confidence.

## 16. Accelerate Sustainability Solutions

NatWest has a climate accelerator programme for customers who are providing sustainable solutions. Participants in the programme benefit from one-to-one coaching, peer to peer support, advice on how to scale their businesses and the opportunity to access the reach of the NatWest network.

In collaboration with MGTC, Alliance Bank's EcoBiz 4 challenges university students to develop a green social business with the environmental objective of steering Malaysians towards a zero-waste society. Since EcoBiz's inception, we have reached more than 5,000 students from 157 universities across Malaysia.

## 17. Facilitate Collaboration

CIMB partners with the following organisation as part of its GreenBizReady programme:



## 18. Digitalisation

[UOB BizSmart](#) and the [FinLab Online](#) provides assistance to SMEs on their digital journey.

HSBC Malaysia including HSBC Amanah has implemented the Digital Service Request which allows customers to create, authorise and submit service requests directly through its online banking platform, deployed LiveChat on HSBC Amanah's public website and HSBCnet to provide additional channels for customers to contact HSBC team as well as enhanced onboarding and credit and lending journey through Application Program Interface (API) and robotic process automation.

AmBank launched an online marketplace for SMEs, in partnership with SupplyCart. The eCommerce platform enables SMEs to digitalise their supply chain by helping businesses connect with buyers. AmBank has developed a user-friendly system that addresses the day-to-day operational needs of its business clients. AmAccess Biz caters specifically to SMEs whilst AmAccess Corp meets the needs of larger SMEs and corporate customers. AmBank has also enabled SME Digital Onboarding and Retail Onboarding, which provide a full end-to-end digital account opening for SME and retail customers for a contactless experience.

BizSmart® Solution portal is Alliance Bank's one-stop portal for businesses to get latest insight, market updates and partner promotions. Through the BizSmart® Solution portal, clients gain brand visibility among the business community with over 1,400 new business referrals for the participating SMEs generated so far. Alliance Digital SME allows businesses to apply online for a collateral-free financing in a convenient, fast, and secure way. It provides a collateral-free financing up to RM500,000.

## 19. Sustainable supply-chains

HSBC Amanah have been looking at supply-chain financing through corporate credit, the corporates require the SMEs to meet certain sustainability KPIs and in return benefit from a lower rate of financing.

Standard Chartered Saadiq offers comprehensive suite of Sustainable Trade products including sustainable suppliers programme which complements Halal360 initiative to connect Halal trade and provide access to Islamic supply-chain solutions. As part of commitment to support the Sustainable Finance initiative and furthering the agenda across Malaysian Corporate and SMEs, Standard Chartered Saadiq jointly with Malaysia International Halal Showcase (MIHAS) held the MIHAS-Standard Chartered Sustainability Conference: "Achieving Resilience through Sustainable Supply Chains".

## 1.3 Product development

Alliance Bank's sustainability themed products include:

- Solar panel financing program for businesses (in development) with portfolio guarantee provided by CGC and SJPP.
- Portfolio guaranteed sustainability financing program for SMEs (in development.)
- Solar panel financing scheme for households in collaboration with major solar panel system providers.

Alliance Bank will be rolling out the above sustainable loans and investment proposition in 2022. To maximise efficiency, the Bank will leverage its existing product development framework and adapt current products to meet sustainability requirements.

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- Portfolio guaranteed sustainability financing program for SMEs (in development.)
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SME Bank does not have a specific SME sustainability product offering. Fund from the Sustainability Sukuk proceeds is allocated to ESG compliant customers, as defined by SME Bank's Sustainability Sukuk Framework. For 2022, SME Bank has set a target of minimum 1/3 of its financing approvals to come from customers that comply to its ESG criteria.

Bank Rakyat in its Business Plan, had included the target for the following:

1. Environment & Social Financing
  - a. Green Financing—Focus on green sector i.e. energy efficiency/renewable energy, waste reduction & management, water (utilisation & management), Building, Transportation, manufacturing and activities or financing and/or investment purpose undertaken by a company in other business sectors which provide positive impact to the environment.
  - b. Social Financing—Affordable homes and Program Financing to assist SME and Micro Business's sustainability.
2. Financing Program for MSME, Micro and Cooperative—Financing programs that aim to help in reviving the affected businesses post covid pandemic recovery

AmBank next steps is to build a green/ sustainable product roadmap which will support transitioning into a lower carbon economy. AmBank will assess developing products to support transition in the sectors as captured under Malaysian Green Technology and Climate Change (Note: MGTC capture 6 sectors: Energy, Water, Buildings & Township, Transport, Waste and Manufacturing).

For SMEs, HSBC Amanah provide a range of sustainable products in terms of lending and trade financing. The core consideration behind these products is centred around HSBC Amanah's greater passion on collectively meeting its net-zero ambition. Its Green Loan Financing proposition offers core banking facilities such as Term Financing and Revolving Facilities to fund green activities such as renewable energy, green buildings, eco-efficient ventures and waste prevention. HSBC Amanah also offer Green Trade Financing to fund sustainable trade activities in adherence to Green Loan Principles. HSBC Amanah is committed to supporting customers of different sizes transition their businesses towards a more sustainable and resilient future.

For SMEs, HSBC Amanah is guided by the Green Loan Principles (GLP) published by the Loan Market Association. For a financing to be recognised as GLP-compliant, there are 4 green pillars for the business to adhere to:

- i. Use of proceeds**—the financing extended as a green loan should only be used to support eligible green projects/activities (see below)
- ii. Project Evaluation and Selection**—the evaluation and selection process should document the borrower's agreed objectives, the project's environmental sustainability objectives, how the borrower determined that the project/activity is green and the type of green standards or certifications they seek to conform to
- iii. Proceeds Management**—proceeds of a green financing are typically credited into a designated account to ensure transparency, and that use of proceeds are used for the intended purpose
- iv. Reporting**—borrowers are required to keep up-to-date information regarding the use of proceeds and will be required to sign off on a green facility compliance certificate annually for the life of the financing.

For an activity to qualify as green, it must fall under any of these categories:

- Sustainable natural resources management
- Renewable energy production and transmission
- Pollution prevention and control
- Climate change adaptation
- Green buildings
- Biodiversity conservation

# Appendix 3. Illustrative examples for Islamic finance

Bank Rakyat noted that it is mandated to include “Maqasid Shariah” elements i.e. to promote sustainable and inclusive development (environmental-friendly & no harm principle) that are aligned with sustainability.

HSBC Amanah referenced the importance of Islamic banks use of VBI.

SME Bank noted and strictly follows the sustainability alignment of the prohibitions within Islamic finance that are harmful to the environment and social good and fit with sustainability.

CIMB’s sustainability approach was borne out of its Islamic banking sector and Alliance Bank’s sustainability strategy approach is championed and driven out of the Islamic bank, the various ESG initiatives and propositions are driven by relevant Group heads.

## Islamic Bank’s use of VBI

- 1. Sectoral Guides**—CIMB noted its use of VBI Sector Guides and its involvement in the development of the O&G Sectoral Guide and in the earlier Renewable Energy and Energy Efficiency VBI Assessment Framework. Agrobank has also been involved in the development of policies and sectoral guides such as CCPT and VBIAF Sectoral Guide (Palm Oil) and took part as pilot bank in CCPT.
- 2. Impact Frameworks**—BPMB uses 6 indicators from the Bank Negara Malaysia that come from VBI in its MIND impact Framework.
- 3. Internal Framework and policies development**—Bank Rakyat’s BRSFP was developed in accordance with regulatory requirements, as well as referenced to external initiatives, standards and guidelines such as BNM Implementation Guide for VBI amongst others. At Alliance Bank VBI has helped to inform the group ESG Risk Acceptance Criteria and as such is applied beyond Islamic finance.
- 4. Credit Approval Process**—AmBank’s ESG questionnaire was guided by the VBI Sectoral Guides. Agrobank has embedded VBI in aspects of its customer onboarding process whether there is potential for the customers to create positive impact towards the economy, social and environment. VBI is also embedded during the development stage of product and programs in the Bank.

5. **Triple-bottom line classification**—HSBC is building a methodology, based on VBI Guidelines and scorecard, to classify its portfolio as ‘triple-bottom line’ in terms of activities that do not cause harm whilst ensuring positive impact from an economic, environmental and social perspective. This is in line with an exercise to transform HSBC Amanah into a sustainable banking entity in accordance with triple-bottom line principles.
6. **Collaboration**—Agrobank, one of the pioneering banks during the formulation of VBI, noted the value of collaboration through the VBI CoP and use the platform to exchange views and share best practices with the members.
7. **Wider sustainability considerations**—Alliance Bank noted that VBI helps the Group look beyond climate change considerations only and through a wider sustainability lens.

## Islamic Bank’s use of other Malaysian Initiatives in SME lending

Agrobank noted abiding by the BNM Performance Management Framework (PMF) which consists of four additionalities, namely Financial, Demonstration, Design and Policy. “Additionalities” is defined as a positive impact attributable to a DFI beyond what is delivered under a fully commercial or a profit-driven environment.

# Appendix 4. Methodology

The findings presented in this Guide and the development of the framework has been based on the findings of a desk-based review, interviews and a Workshop held on 22 March 2022 with Malaysian and international banks. The banks listed below were included in the desk-based review and all were invited to participate in the Workshop and an interview, interviews were held with those banks with an asterisk next to them.

## Malaysian Banks

Affin Bank	HSBC Amanah*
Agrobank*	Maybank
Alliance Bank*	OCBC Bank Malaysia*
AmBank*	Public Bank
Bank Islam Malaysia	RHB Bank
Bank Rakyat*	SME Bank*
BPMB*	Standard Chartered Saadiq*
CIMB*	UOB*
Hong Leong Bank	

## International Banks

NatWest\*  
Standard Chartered\*

GEFI was directed by the UN to use the Malaysian banks shown in the list above as they:

- Represent a cross-section of development, commercial and Islamic banks.
- Include PRB signatories.
- Include local banks and international banks with a local presence.

NatWest was selected as it is a UK bank leading on sustainability that has produced several thought-leadership pieces about SMEs. Standard Chartered was selected as a global leader on sustainability with a Malaysian presence.

GEFI did contact a few other international banks to ask them to participate in the study but they either declined or did not respond.

The banks selected are intended to provide an indicative sample, GEFI acknowledges that the list of banks is not a comprehensive list of all of the banks in Malaysia or all international banks assisting SMEs on their sustainability journey.

The desk-based review included a review of publicly available information such as the bank's website, annual reports, sustainability reports and press releases. The information was reviewed for references to sustainability themes especially in relation to SMEs.

During the interview banks were asked a series of pre-prepared questions on sustainability topics such as:

- Strategy and approach
- SME products and initiatives
- Challenges in supporting SMEs
- frameworks
- Islamic finance (including use of VBI)
- Supply-chain financing
- Next steps

The questions were designed to obtain an understanding of how banks were approaching sustainability and what practical steps they were taking to support SMEs on their sustainability journey. The questions were not focused specifically on one specific theme i.e. net zero or tracking greenhouse gas emissions, but these themes were highlighted by the banks when discussing their sustainability approach. Further research could be completed to dig further into specific sustainability themes or topics.

Findings from the desk-based review and interviews is included in the Guide either in direct reference to a specific bank or amalgamated anonymously into general themes and conclusions. The Guide reflects the findings from interviews with Banks and desk-based review only, the Banks may be completing additional relevant sustainability activities with SMEs that is not reflected in this Guide.

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The world depends on global finance making the right choices to deliver positive change and achieve the UN’s Sustainable Development Goals.

The Global Ethical Finance Initiative (GEFI) has become the hub at the centre of the ethical finance movement. We undertake advocacy through curating independent conversations across a broad coalition of financial services stakeholders, as well as research and delivering practical projects. We are the part for action on ethical finance.

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