

ADB



## Southeast Asia Development Symposium

**Innovation through Collaboration Planning for an Inclusive Post-COVID-19 Recovery**

17-18 March 2021 | Virtual Meeting

## ADB and EU SWITCH-Asia Programme Deep Dive Workshop Report:

Scaling up SMEs Sustainable Consumption and Production (SCP) Actions

18 March, 3:30pm to 6:00pm (GMT+8/ Manila Local Time)

# CONTEXT

In Asia as worldwide, SMEs are important players in mainstreaming SCP Actions across economies. Despite there being many examples of SCP actions among SMEs, these practices are far from being dominant, and there are numerous obstacles to consider.

At the same time SCP-relevant SMEs or technologies are often excluded from formal financing through banks or investors. They need to search for alternative financing options – often unsuccessfully. This hinders the transition to more sustainable modes of consumption and production.

The workshop discussed the main issues that SMEs, but also financial institutions and policymakers, currently face with regard to SCP Actions. The replication and scaling-up effect of project results together with access to finance and public-private investments for green products, services and technologies will be key elements within SWITCH-Asia in the coming years. As a programme that aims at promoting and delivering green economy and green recovery towards sustainability, this replication and scaling up is a prerequisite for creating greater impact in the region, to protect its resources and ecosystems and achieve shared prosperity among its population.

Working at all levels, by bringing in the EU experience, by providing support to Governments and by implementing local projects in support to SMEs in various development sectors, the EU SWITCH-Asia programme promotes green recovery solutions. Its experience demonstrates the importance of systemic and multi-stakeholder approaches to respond to today's challenges, which require inclusive policies and innovative actions as well as appropriate resources to be resolved.

The workshop focused on two key aspects, two sides of sustainability coin: innovative SCP solutions by SMEs and financing solutions for SMEs to scale up their activities for an impactful delivery.



The Moderator, **Mr. Arab Hoballah**, Team Leader of the EU SWITCH-Asia SCP Facility welcomed participants to the Workshop. He highlighted how the coronavirus pandemic has demonstrated the importance of prioritising SCP to address unsustainable consumption and production patterns, which are among the root causes of ecosystems destructions and climate change, resulting in disruptive consequences on health, economies and societies. Given the enormous funding currently mobilized to tackle economic recovery, it is required to use this window of opportunity for transformative change along value chains.

Mr. Hoballah gave an overview over the SWITCH-Asia Programme which aims at providing support to the transition in Asian countries to a low-carbon, resource-efficient and circular economy, while promoting SCP patterns within Asia and green supply chains between Asia and Europe.

He then introduced the two eminent speakers from the EU and ADB.

## The EU Green Deal and SWITCH-Asia: how to accelerate green solutions in SMEs and support the green recovery



**Mr. Micha Ramakers**, the Deputy-Head of Unit, Directorate for Middle-East, Asia and Pacific, Director-General International Partnerships, European Commission, highlighted the possible opportunities for synergies that could be further explored with the SEADS programme in the region as both ADB and the EU’s programmes support the transition of countries to greener and more circular economies in Asia through the uptake of innovative solutions.

He emphasised the impact of the COVID pandemic, particularly on the private sector. According to a recent ADB publication, COVID-19 generated losses to the region’s GDP of around USD160 billion (equal to almost 4.5% of the region’s GDP). The pandemic disrupted Global Value Chains on which most Asian countries have built a large part of their economies over the last few decades. He stated that this can also be viewed as an opportunity: as part of the recovery, SMEs should engage in adopting greener and more sustainable production practices. This would reduce their impacts on the environment and minimize risk(s) of future shocks. The private sector could thus become one of the motors for the recovery. Mr. Ramakers stressed that companies and in particular SMEs need to be assisted by national recovery plans and supported with adequate investments. The EU has put in place several tools to support the recovery, including “Next Generation EU” and the “Just Transition Mechanism” under the umbrella of the European Green Deal – but also strategies such

as the Circular Economy Action Plan. The EU seeks to encourage European SMEs, but also SMEs around the world, to shift their business models to consider the efficient use of natural resources and promoting the use of secondary raw materials.

He mentioned that the first panel discussion will be on SMEs’ role in the green recovery process by learning from various projects that is currently being done in Asia, also with the support of the EU SWITCH programme, such as the project in Cambodia that deploys solar solutions to improve the sustainability of SMEs working in the agri-fishery sector and the IREET project in Pakistan, which is helping local SMEs in adopting energy efficiency practices. He mentioned that other partner organisations were also invited to provide the workshop with further examples on how the green transition of enterprises is supported in the region.

The second panel’s focus lies on the financial opportunities towards green transition of SMEs and the importance of aligning public and private funds to support this shift. Mr. Ramakers highlighted that there is a need to search for alternative financing options to transition to more sustainable modes of consumption and production as SCP-relevant SMEs or technologies in Asia are often excluded from formal financing through banks or investors. He mentioned that the EU is now preparing its new European Fund for Sustainable Development (EFSD), which will make guarantees and blending opportunities available to help countries to respond to the impact of the pandemic. Mr. Ramakers concluded with the importance of finding alignment between public and private financing streams.



## ADB, policies for green recovery and the support to SMEs



**Ms. Preeti Bhandari**, Director of Climate Change & Disaster Risk Management Division from ADB mentioned the green, resilience, and inclusive ADB strategy 2030. ADB also launched the Green recovery program in the ASEAN, which includes addressing environmental and social risk and enhancing capacity of the banks. It also includes addressing supply chain risks related to climate change.

She highlighted the challenges and opportunities to interact with SWITCH-Asia towards green, resilience and inclusive recovery. Taking into account the economic impacts of the pandemic in the region, she mentioned that development gains in recent decades affected.

Ms. Bhandari emphasised the window of opportunity on including green, resilience, and inclusiveness in the plan for economic recovery by ensuring investments towards climate actions and prioritising green recovery choices in some sectors that can create more green jobs such as in energy efficiency and nature-based solutions. She highlighted ADB's perspective on recent development channelling in that direction, which relates to strategy 2030, which embedded resiliency even before the pandemic. She mentioned the risks and impacts particularly to the poor and SMEs. She also stated that there is an operational priority regarding climate action, building resilience and enhancing environment sustainability through climate financing.

She stressed the need to balance between the COVID responses and green resilience and inclusive recovery by having a package of measures to improve livelihood, stimulate economies, and in the long term provide structural reforms towards transformative shift to sustainable societies.

She mentioned the launching of ADB's green recovery program in the ASEAN financing facility, the private sector led and trade and supply chain finance program, and the community partnership program. She highlighted the opportunity for synergies with SWITCH-Asia to scale up grant projects through lending, which can be explored further together.



# PANEL SESSIONS



## Panel 1: SCP Solutions by SMEs, Innovation and Collaboration for Green Recovery

**Ms. Loraine Gatlabayan**, SCP Senior Advisor from the SWITCH-Asia SCP Facility moderated Panel 1 session that discusses how other institutions or projects are supporting SMEs on the ground through technology solutions, innovations and collaborations, which hopefully will also contribute towards green recovery.

**Mr. Oliver Greenfield** who is the Convenor of the Green Economy Coalition (GEC) provided his response on the question, "What are the challenges and opportunities that the COVID crisis brings and how is GEC addressing these and are supporting businesses including SMEs?" He provided an overview about GEC which works in the global and local level and he mentioned later how it is both connected. In the global level, he stated 3 distinct level on green recovery: stabilisation phase, stimulus phase, and structural phase. He highlighted the importance of structural transformation or the stimulus and gains will be lost. Mr. Greenfield also mentioned the need for parameters on fund stabilisation towards green recovery. In the local level, he stated that the GEC dialogues with countries in Asia and brings together small businesses in dialogue regarding access to market, finance, skills, and tools. He mentioned the GEC's green economy tracker.

**Mr. Greenfield** also highlighted the importance of providing

policy support to small businesses. In connecting the local to global level from stabilisation to stimulus and to structural, it is important to have support policies to small businesses on social enterprise, green enterprise and tax for green investments. It is also important to define what is green investment which will start to connect and improve investment perspective and see funds coming in. He also highlighted the need for legal recognition of social enterprise, training and support schemes to SMEs, and providing to them access to market and access to finance, which includes small bags providing smaller investments. Lastly, he stated the importance for policy makers not to exclude small businesses, which are mostly informal, and give them recognition and the opportunity to engage, including them in the conversation that works for them.

**Dr. Giulia Ajmone Marsan**, who is the Director on Strategy and Partnership at the Economic Research Institute for ASEAN and East Asia (ERIA) provided the key messages that emerged from the November ERIA webinars that discussed key issues, challenges, and opportunities for ASEAN MSMES towards post pandemic economic recovery. She mentioned the importance in supporting SMEs and providing them the opportunities to access

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to finance, skills, and networks towards green transition and intervention towards sustainable development. She particularly mentioned the struggle of micro-SMEs as they often lack the connections. She also mentioned the lack of eco-systemic approach, which can happen in the government level where there is lack of synergies between different ministries in terms of coordination of policies enacted by different agencies. She also stressed the important role of different stakeholders. In South East Asia, she mentioned the consumption patterns are changing where the younger generation are more conscious on environmental issues and sustainability and this can influence the demand in the years to come on large and small companies to adopt and explore this market opportunities. She also highlighted the interesting partnership between large and small firms, where larger firms are more pro-active in providing support such as training to ASEM SMEs on digital related skills, which can be replicated towards green and sustainable transition.

**Mr. Mirko Zürker**, SEED Green Recovery Specialist and Head of SEED Asia provided an overview on SEED that is turning 20 years providing support to more than 300 SMEs through its global incubator and accelerator programme in the field of eco-inclusive enterprise development. He mentioned that SWITCH-Asia also support SMEs on the ground, and this is critical from green recovery perspective. He mentioned the Covid Resilience Study they conducted contacting 30 SMEs. Most SMEs mentioned in going through the pandemic, those helping them are partners along the value chain and investors providing funding. There is little assistance from government. He also highlighted that the existing financing schemes on climate funds of international banks only account for 3% of funded projects from 2018-2019. This does not support the policy statement that SMEs are the backbone of economies because of the funding disconnect. He agreed with Mr. Greenfield on taxonomy and the need for recognition of enterprises to move forward. Mr. Zürker also highlighted how the SEED's Green Recovery Ecosystem Builder programme is supporting SMEs to pursue eco-innovation practices and eco-design and access to finance. They have 60 individuals and organisations from South East Asia and Africa developing this program where they provide support in providing market access, certification of enterprises. Lastly, he mentioned that on capacity building and financing, innovative market development for these enterprises is crucial.

**Mr. Qazi Sabir**, Project Manager of the EU SWITCH-Asia Project - Implementation of Resource and Energy Efficient Technologies in the Sugar Sector of Pakistan (IREET) introduced the IREET project, which is a 4-year project that started in 2018.

The project aims to promote sustainable production of sugar through reduction in specific energy consumption of the sugar mill. In addition, it aims to promote

sustainable consumption of bagasse (renewable sugar mill waste) by supporting sugar mills in the adoption of energy efficient (technical innovations), and resource efficient (resource efficiency) technologies through technology standardisation, enabling access to finance, and mobilising of relevant public sector authorities for the formulation of a conducive regulatory regime for the promotion of R&EE in the sugar sector. On challenges, he highlighted that most sugar mills in Pakistan use outdated technologies and practices for sugar production, resulting in high inefficiencies, wastage of resources and increased cost of production. There is also lack of access to finance to provide capacity and technologies. There is lack of focus on sugar sector and there is a need to address policy reforms, access to finance (working on development finance loans), and the technical side, which is to develop the facility, and for technical capacity building to be provided. On regulatory side, he mentioned that they are working with government revising the policy – regulatory review of sugar sector. On access to finance, they are actively working on development of refinance facility to assist sugar mill sector. They provided training and capacity building as part of the project.

**Mr. Hugo Agostinho** who is the lead of the EU SWITCH-Asia Project, the Switch to Solar in Cambodia provided an overview on the project, which is in its early stage in terms of implementation. Their objective is to change consumption patterns in the agri-fisheries sector and for them to lower production cost by lowering their energy bills through switching to solar. They work with different SMEs from the supply side (solar technology providers) and the end users (agri-fisheries SMEs). They support on business development and access to market by establishing sales network in Cambodia. The project has become a platform to provide information on solar technologies to SMEs in the agri-business and linking financial institution to provide access to finance to SMEs. He agreed with the other speakers that access to micro-finance is important which is a key point in the Switch to Solar project. They discuss with financial actors and making business case on micro-finance institutions to prove that there is a large market in Cambodia, whether from supply or demand side. He agrees with the speakers on the importance of access to micro-finance, which is a key point in the project. The project will assist SMEs on the supply side to have financial access to invest on research and development and have good quality products to the market. Due to the crisis, they are having difficulty implementing the activities but at the meantime, they are investing time on better building the business case with solar providers and financial institutions.

**Mr. Guy Halpern**, Policy Analyst at the Environment Directorate from the OECD, highlighted the importance of having a whole government approach, which the OECD finds vital to support green SMEs. In the ASEAN region, the OECD has a collaborative project, Caucasus Canada-



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OECD project on ASEAN SMEs where they a guidance for supporting policy makers in facilitating green transition to SMEs, which will be published soon. This recognised 3 areas where government can support SMEs: Regulatory tools, Financial tools, and communication tools. He mentioned that government regulatory tools can be a way to facilitate the green transition. To do that, there has to be a whole govt approach. He highlighted the importance of access to information for SMEs to create a business case to become greener and government can support SMEs on this. This can be facilitated if guidance is within the overall support the government provides for supporting SMEs. H provided an example in Moldova where an online tool is developed to support SMEs to create a business case to enhance their cleaner production approach and to determine the savings that can be achieved through green practices. He also highlighted the need to connect SMEs to local sources to access to finance and means to give a business case. To support green recovery, he highlighted the need to go beyond support to eco innovation and green SMEs but also to reach vast SMEs to become greener.

**Questions from participants** include information on Green Economy as address by **Mr. Greenfield**.

## Final Statements From Panelists

**Mr. Arab Hoballah** requested the panelists to provide suggestion for SWITCH-Asia to focus on to support SMEs (except mentioning access to finance):

**Mr. Greenfield** highlighted the importance of recognition and legal entity questions, including the definition on what is “small” and “green”. **Ms. Ajmone Marsan** pointed to the importance of building skills that make transition possible, as well as awareness to being able to recognise emerging opportunities. **Mr. Zuerker** asserted that market access is a decisive issue for SME and mentioned SWITCH-Med’s switch product platform, which facilitate market access in case to sell to Europe or Asia. **Mr. Sabir** indicated that capacity building and awareness raising on aspects of circular economy and green recovery need to be prioritised. In **Mr. Agostinho’s** perspective, branding of green SMEs needs to be strengthened, so that green SMEs can be clearly distinguished. **Mr. Halpern’s** recommendation to SWITCH-Asia is to both focus on awareness raising of economic opportunities and to provide capacity and tools targeted to SMEs to support them in “going green”.

## Panel 1 Key Messages

**Policy support to SMEs** is needed by giving them the recognition in the policy level. There is a need for integration of policies as governments sometimes work in silos, which can be addressed through integrated SCP policies. Policy support to SMEs on recovery resilience is needed that build resilience nationwide looking at the long term. There is a need to distinguish different needs of SMES linked to global value chain and SMES working in the local level.

**Market access and finance** is critical to support not only green SMEs but for vast SMEs to apply cleaner and greener technologies in the value chain. Access to information is also important for SMEs to get the information needed to create a business case towards green transition to have market access and receive financing;

**SMEs benefit from partnerships** that provides them access to information, capacity building opportunities, and finance towards transition to greener technologies and cleaner production. These partnerships also provide the platforms for their participation in consultation processes for country policy-making decisions. Building trust through partnerships is fundamental and access to information through platforms are needed where SMES can have access to certain technologies to help them to make next steps and access to finance.



## Panel 2: Financing for SMEs, Innovative Mechanisms for Green Entrepreneurship

The second panel focused on challenges and solutions that enable the greening of SMEs and eco-enterprises. The questions to panelists first focused on challenges of green SME finance, followed by contributions regarding investment tools and programmes that seek to facilitate its success. In a lightning round, all participants presented their ideas on how the SWITCH-Asia programme can effectively move forward on the topic.

When defining challenges, **Mr. Sanjoy Sanyal**, SME Finance Expert and Senior Associate, adelphi, focused on the issue of collateral, that is hard to supply for the oftentimes first-generation entrepreneurs of the region. Their small balance sheets mean that they cannot take up too much debt. Mr. Sanyal made the distinction between greening of SMEs, such as in the textile and agrifood sector. This allows SMEs to reduce their environmental impact. Eco-entrepreneurs, on the other hand, have built their business case itself on sustainability. The former are more established than eco-entrepreneurs, and for their “greening” the prefer to use pay as you go services; this means shifting the requirement for a transformation on small enterprises. A second distinction Mr. Sanyal made is between SMEs as part of global supply chains and SMEs catering to the Asian market. Their sustainability ambitions are different and need to be treated differently.

**Mr. Guntur Sutiyono**, Indonesia Country Lead of ClimateWorks Australia stated that SMEs have faced great challenges, despite the Indonesian government

supporting them with nearly 8 Billion USD in the form of tax subsidies, interest subsidies, loan guarantees and cash assistance. For him, the solution for how to make the recovery greener lies in combining the priority issues of the Indonesian government with international commitments. Specifically, this means to demonstrate that lowering urban poverty and creating employment are not only achievable in line with climate goals, but that their achievement can be facilitated by climate finance and technical support.

A regional approach to financing is an effective approach in **Mr. Yossef Zahar's** perspective. As Senior Climate Finance Expert, the SEI Affiliated Researcher stated that this would give SMEs more opportunities to scale up, naming the The ASEAN Catalytic Green Finance Facility (ACGF) as an example. At the same time, making SME-solutions bankable is crucial – as well as showing and discussing with investors, on what they require to be involved. He pointed to the support provided by SWITCH-Asia projects, which often work with and connect both stakeholders.

**Ms. Melanie Kengen**, Blending and Investment Operations, Bangkok Office, European Commission, DG International Partnership (INTPA), Unit C3 East Asia and the Pacific elaborated on the EU's External Investment Program (EIP), that allows to flexibly support the greening of SMEs in Asia. She pointed to several challenges, including reaching small businesses, and that their oftentimes



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small investment requirements can be a barrier for local partner financial institutions to get involved. It is also important to build knowledge on SMEs and local banking sector for each country.

Speaking from her experience with the ElectrIFI Investment Programme, **Ms. Gemma Verhofen**, Regional Manager East Africa and Asia at EDFI Management Company (EU) made important points on how to promote green investment. For green finance to succeed, she highlighted that incentives and the market framework need to be aligned, allowing business cases to reliably build on this alignment and trajectory. Simultaneously, capacity building is needed to help FIs understand the risk and return of investments in new fields. This includes renewable energy and energy efficiency, but also goes beyond these areas.

Summarising previous points made by the panelists, **Ms. Cosima Stahr** pointed to the previous examples and connected these with the experience of the SWITCH-Asia grant projects. Those successful in acquiring financing for the SMEs to scale-up their solutions were responding to new regulatory frameworks, for example environmental regulations. This shows that a systemic approach is required – and a regulatory framework that fosters the creation of new “green” business opportunities.

## Final Statements From Panelists

In the following lightning round, hosted by **Mr. Hoballah**, panellists each highlighted different areas to focus on for SWITCH-Asia in order to strengthen the Green Finance ecosystem. For **Mr. Sanyal**, a key issue to solve for investors is how to effectively move the small amounts of capital required by SMEs. New mechanisms need to be created – selecting institutions that do this effectively is not trivial. For **Mr. Sutiyono**, the main challenge lies at policy level – how can it be assured that South East Asian governments truly take ownership of the topic. He recommended to involve the leadership of countries and making use of the existing priorities, thereby developing effective narratives to work with. In **Mr. Zahar**'s eyes, a long-term financing ecosystem needs to be built, and through incentives for demand and product creation this needs to also align short-term investment. The involvement of private investors is important, as well as finding solutions in channeling debt capital market finance to Asian SMEs. **Ms. Verhofen** pointed to the need of Development Financial Institutions to work with local institutions and develop products that they can offer; business model needs to be found, larger customer base or worthwhile to invest into sustainability. **Ms. Kengen** recommended for SWITCH-Asia to make access to higher-level funding, to capital markets, to blending facilities a high priority for its future activities, and to continuously assess the needs of SMEs.

## Panel 2 Key Messages

On **SME level**, panellists raised the issue that “greening” of SMEs and SMEs that have a green business case need to be distinguished. SMEs need reliable legislative frameworks and long-term perspectives – if both are aligned to promote SCP, SMEs are in a great position to act on this.

For **financial institutions**, panellists declared that a better understanding of SMEs’ needs, including their obstacles for accessing finance, is required to develop targeted programmes. These should not just entail financing opportunities, but also capacity building, both for the FIs as well as for SMEs for the sector to take up SCP activities at scale. Regional and sector-specific financing facilities, like ElectrIFI, can bundle experiences and expertise of SME finance and develop targeted programmes.

On the **policy level**, it is urgently necessary for policymakers to align long-term priorities, like the Paris agreement commitments, with short-term investment horizons of public and private investors. From a transformation standpoint, it is also critical to not just flag the issues of climate change and unsustainable business practices for governments to act on, but to work with narratives that consider the importance of national approaches and leadership.

# CONCLUSION

**Mr. Hoballah** summed up the most important messages by panelists and connected these with SWITCH-Asia's mission and activities. For him, a key issue of the discussion is that the importance of SMEs in South East Asia's economies needs not only to be recognized, but also acted on. This means that dedicated support in the context of pandemic relief and recovery needs to be made available specifically to support SMEs, and it needs to integrate a policy-level shift to transformative change.

He emphasized that at the heart of any "green" SME activity must lie a business case, and that this is shaped by market demand and policy frameworks. Local ownership of green topics is a key prerequisite for these business cases to flourish, but this requires new skills and new partnerships. Green policies are oftentimes perceived as a burden by SMEs, and this shows that their needs have to be better considered by policy-makers. In this regard, trust-building and access to information for SMEs is of high importance. He reiterated that the distinction between SMEs that are part of global value chains and those catering to local markets is a vital one.

As a further point on the financing side, access to green finance for SMEs can be strengthened by building sample pipelines of projects; this could be further promoted by regional SME financing programmes and facilities. A new generation of entrepreneurs would be encouraged to integrate SCP considerations, thereby propelling eco-innovation and strengthening resilience.

Mr. Hoballah proposed that a high-level SWITCH-Asia event be held in the last quarter of 2021 to move forward the discussion and activities, including financing, for SCP actions by SMEs. Thanking all contributors for their insightful contributions, Mr. Hoballah concluded the workshop.

