

# THE PATH TO SUSTAINABLE IMPACT SECTORAL INSIGHTS OF MALAYSIAN SMEs



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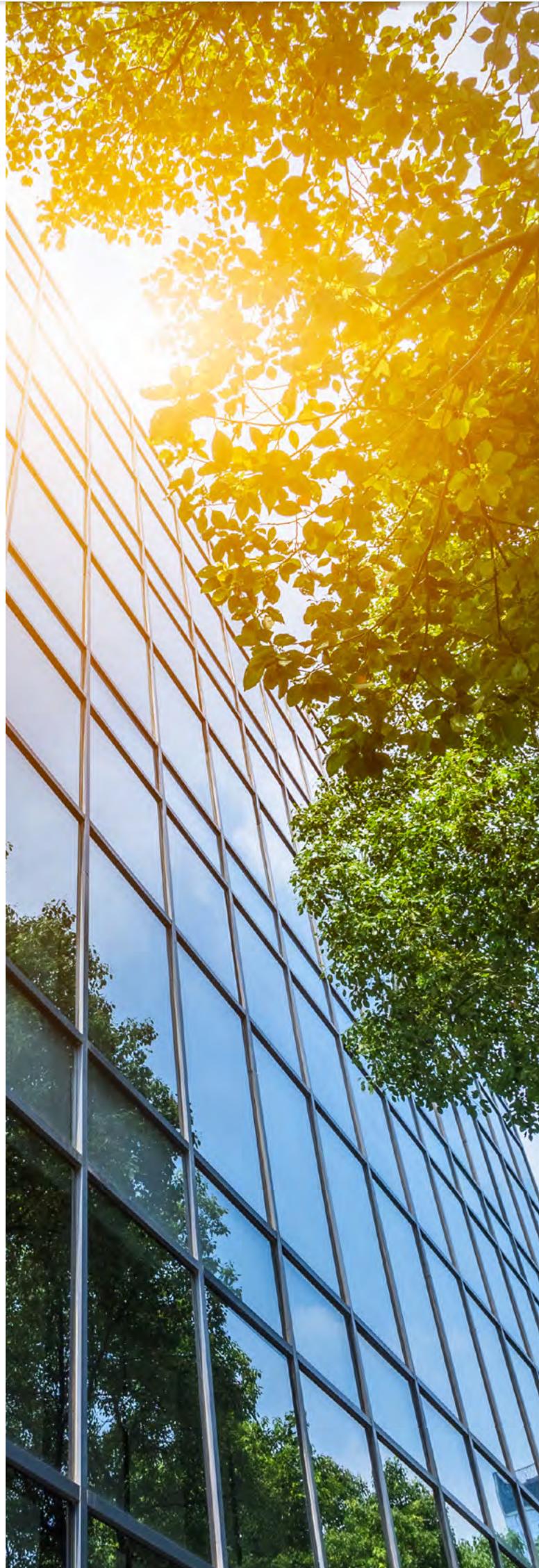
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to view the online version of this report at our website <https://www.alliancebank.com.my/esg-sme-survey-2025>



## FOREWORD BY MINISTER OF NATURAL RESOURCES AND ENVIRONMENTAL SUSTAINABILITY



MINISTRY OF NATURAL RESOURCES  
AND ENVIRONMENTAL SUSTAINABILITY

Climate change is upon us, and countries around the world are racing to build a sustainable, resilient future. Malaysia, too, is taking decisive steps to meet this challenge, guided by a shared ambition to secure a greener tomorrow for future generations.

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**NIK NAZMI NIK AHMAD**

*Minister of Natural Resources  
and Environmental Sustainability*

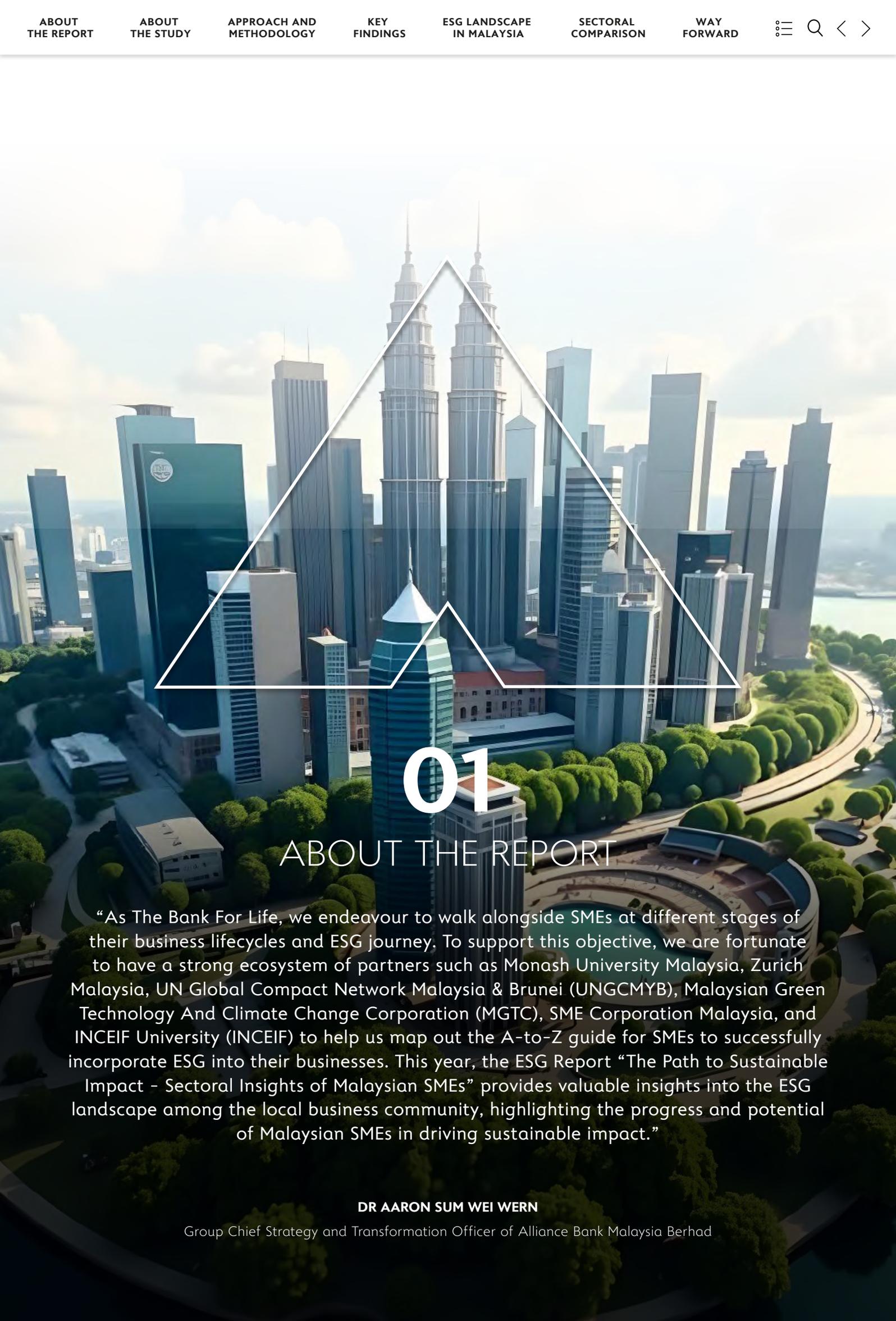
Our National Climate Change Policy 2.0 represents a critical roadmap for this journey, accelerating our nation's progress towards achieving net-zero greenhouse gas emissions by 2050.

In light of this, I am pleased to commend Alliance Bank Malaysia Berhad, in partnership with Monash University Malaysia, Zurich Malaysia, the UN Global Compact Network Malaysia & Brunei (UNGCMYB), SME Corporation Malaysia, INCEIF University, as well as the Malaysian Green Technology and Climate Change Corporation (MGTC) and other key partners, for spearheading this latest Environmental, Social, and Governance (ESG) research report focused on Malaysian SMEs. The insights provided in this ESG Report are invaluable for both public and private sectors as we work together to shape informed decision-making and progressive policies.

SMEs are the backbone of the country's economy, and their ability to integrate sustainable practices into their operations is pivotal to our national ESG aspirations. This report is a timely and crucial resource, providing actionable insights and strategic guidance to help SMEs manage ESG risks effectively, differentiate themselves in competitive markets, and thrive on both local and global stages. This publication is especially welcome considering Malaysia is assuming the Chair of the Association of Southeast Asian Nations (ASEAN) in 2025, given how crucial SMEs are likewise to the region's economy as well as its ESG agenda.

Malaysia's commitment to its Nationally Determined Contributions (NDC) under the Paris Agreement is unwavering. The decisions we make today will define the legacy we leave for our children and grandchildren. I encourage all stakeholders – business leaders, policymakers, and civil society – to reference and embrace the findings of this report as we collectively navigate the path towards sustainability.

Let us work together to create a Malaysia that not only meets the needs of the present but also safeguards the prosperity of future generations.



# 01

## ABOUT THE REPORT

“As The Bank For Life, we endeavour to walk alongside SMEs at different stages of their business lifecycles and ESG journey. To support this objective, we are fortunate to have a strong ecosystem of partners such as Monash University Malaysia, Zurich Malaysia, UN Global Compact Network Malaysia & Brunei (UNGCMYB), Malaysian Green Technology And Climate Change Corporation (MGTC), SME Corporation Malaysia, and INCEIF University (INCEIF) to help us map out the A-to-Z guide for SMEs to successfully incorporate ESG into their businesses. This year, the ESG Report “The Path to Sustainable Impact - Sectoral Insights of Malaysian SMEs” provides valuable insights into the ESG landscape among the local business community, highlighting the progress and potential of Malaysian SMEs in driving sustainable impact.”

**DR AARON SUM WEI WERN**

Group Chief Strategy and Transformation Officer of Alliance Bank Malaysia Berhad

## Chapter 1 - About The Report

## ABOUT THE REPORT

At Alliance Bank, our commitment to fostering positive change within the SME community in Malaysia is unwavering. This is the second year we are advocating for robust environmental, social, and governance (ESG) practices, aiming to drive sustainable growth, resilience through an extensive study among local businesses.

In collaboration with Monash University Malaysia and Zurich Malaysia, we have commissioned a comprehensive report that seeks to provide valuable insights into the collective perspectives of local businesses and SMEs regarding the adoption of ESG practices and their crucial role in enhancing business resilience.

### This report explores:



#### ESG Awareness and Adoption

Analysing the current levels of ESG awareness and adoption among SMEs, with a focus on the progress made since the introduction of our inaugural ESG survey report, “ESG Insights from Malaysian SMEs: Building A Better Future Together”.



#### Sectoral Differences

Highlighting the unique challenges and opportunities faced by different sectors, including manufacturing, services, and construction, and offering tailored strategies for each.



#### 3 Steps ESG Adoption Framework

Detailing the Alliance Bank 3A’s Approach; Advocacy, Advice and Answers to assist SMEs navigate their ESG journey and the structured phases to ESG integration.



#### Future Outlook

Providing an outlook on the future of ESG adoption among SMEs in Malaysia, including emerging trends, potential challenges, and opportunities for growth.

**Overall, this report aims to provide SMEs with practical insights and strategies to help them navigate their journey towards sustainability.**

## FOREWORD BY GROUP CHIEF EXECUTIVE OFFICER OF ALLIANCE BANK MALAYSIA BERHAD

The ESG 2.0 Report stands out by delivering targeted ESG strategies and tools specifically designed for various industries. I am confident that you will find this report beneficial for your business and the broader community.

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### **KELLEE KAM**

*Group Chief Executive Officer  
Alliance Bank Malaysia Berhad*



## Chapter 1 - About The Report

As we navigate the ever-evolving landscape of environmental, social, and governance (ESG) considerations, this year's report sheds light on significant shifts in ESG profiles across various sectors. These sectoral analyses offer invaluable insights, allowing us to craft tailored strategies that drive further improvement and sustainable growth.

The ESG 2.0 Report stands out by delivering targeted ESG strategies and tools specifically designed for various industries such as manufacturing, services, and construction. This focus makes the report not only practical but also highly relevant to the unique challenges and opportunities each sector faces.

Our study reveals a remarkable rise in ESG awareness among small and medium-sized enterprises (SMEs). Since the release of our inaugural report - "ESG Insights from Malaysian SMEs: Building A Better Future Together", ESG awareness has increased nearly sixfold, now encompassing 80% of SMEs, particularly within the manufacturing and service sectors. Furthermore, ESG adoption has doubled, with the manufacturing sector demonstrating the most notable progress.

While there is encouraging progress in both ESG awareness and adoption among businesses in the country, ESG guidelines and frameworks are constantly evolving and this may be overwhelming for many SMEs in terms of knowing which guideline or approach is best for their organisation as they embark on their journey towards sustainability.

Therefore, this year's report goes further to guide businesses in their ESG journey by:-

- 1) Providing deeper sector-specific insights
- 2) Highlighting key opportunities that SMEs can seize from ESG adoption
- 3) Offering key guidance in strategy planning and implementation

With that, I am confident that you will find this report beneficial for your business and the broader community.

## FOREWORD BY PRESIDENT AND PRO-VICE CHANCELLOR, MONASH UNIVERSITY MALAYSIA



**PROFESSOR DATO' DR  
ADEEBA KAMARULZAMAN**

President and Pro Vice-Chancellor,  
Monash University Malaysia

I would like to offer my sincerest congratulations to colleagues from Monash University Malaysia's School of Business, Dr Mohan Avvari and Dr Karren Khaw, for this timely and welcomed report. This report offers valuable insights into ESG adoption among SMEs in Malaysia, and I am confident that it will benefit not only businesses but also the government, education institutions and the wider community—key players in supporting Malaysian SMEs in their sustainability journey. These findings are a result of the collaborative efforts between universities, industry and civic society, and I am excited to witness such meaningful progress as we continue to shape a more sustainable future together.

Adopting environmental, social and governance (ESG) practices is crucial for small and medium enterprises (SMEs) to remain competitive in an increasingly responsible and regulated economy. We are pleased that the report highlights a growing awareness of ESG principles among SMEs and shows that adoption is increasing. SMEs continue to face challenges such as high implementation costs and confusion stemming from varying guidelines issued by multiple stakeholders. These challenges hold significant implications for policymakers and supporting organisations. It is encouraging, however, to see that more SMEs are finding value in initiatives like the Simplified ESG Disclosure Guide by Capital Markets Malaysia (an affiliate of the Securities Commission Malaysia) and the Sustainability Reporting Guide by Bursa Malaysia.

The study also reveals sectoral differences in ESG adoption with SMEs in the manufacturing sector demonstrating stronger adoption than the services sector. This underscores the importance of sector-specific policies and the need for tailored approaches by regulators. To ensure successful ESG integration, collaboration among key stakeholders—including government, business associations, educational institutions and civic society—is essential.

As an institution deeply committed to supporting local communities through our anchoring approach, Monash University Malaysia looks forward to working closely with different stakeholders to help Malaysian SMEs navigate their ESG journey and ultimately thrive on the global stage.

## FOREWORD BY COUNTRY CEO / HEAD, ZURICH MALAYSIA



### JUNIOR CHO

Country CEO / Head,  
Zurich Malaysia

As a global insurer with a long-standing presence in Malaysia, Zurich Malaysia is deeply committed to supporting the growth and sustainability of businesses of all sizes. We are thrilled to partner with Alliance Bank to bring you this Environmental, Social, and Governance (ESG) 2.0 Report. This comprehensive guide is designed to help Small and Medium Enterprises (SMEs) seamlessly integrate ESG considerations into their operations.

From our perspective as an insurer, ESG has become a crucial factor in risk assessment and underwriting. Companies that embrace robust ESG practices tend to be more resilient, financially stable, and less exposed to potential risks. By investing in ESG, SMEs can enhance their reputation, improve their brand image, and ultimately create long-term value for their stakeholders.

At Zurich Malaysia, ESG is not just a strategy; it's a core part of our mission to prepare our customers and clients for the future. We have a rich history of supporting meaningful, sustainable initiatives, including green investment-linked funds and community climate resilience programmes. Our commitment to achieving net-zero outcomes, reducing our environmental footprint, and promoting responsible business practices reflects our purpose to 'Create a Brighter Future Together.' We aspire to be one of the most responsible and impactful businesses in the world.

We are dedicated to supporting SMEs on their ESG journey. Our range of insurance and takaful solutions can help SMEs address ESG-related risks and opportunities. Additionally, we actively participate in various public and private partnerships, enabling ecosystems to promote sustainable development and social responsibility.

We look forward to continuing our partnership with Alliance Bank and supporting the growth and success of SMEs in Malaysia.

## REPORT INITIATORS



Alliance Bank is dedicated to offering differentiated financial and non-financial solutions across consumer, SME, corporate, commercial, and Islamic banking sectors. Embracing its 'The Bank For Life' brand purpose, Alliance Bank is committed to meeting the ever-evolving needs of its customers, serving as a dependable banking partner throughout their lifetime.

With a vision of community-centric banking, Alliance Bank deeply engages with the community through an omni-channel approach. Customers can interact with Alliance Bank through an extensive network of retail branches, Privilege Banking Centres, Business Centres, and Digital banking services. The Bank aims to foster meaningful connections within the communities it operates in.



Monash University Malaysia, established in 1998, is the third-largest campus of Australia's largest university and the first foreign university campus in Malaysia.

The premier research-intensive Australian university ranked among the top 50 universities globally by the QS World University Rankings 2024 and is a member of Australia's prestigious Group of Eight (Go8).

Monash University is also ranked 54 in the latest Times Higher Education World University Rankings. A self-accrediting university, the university offers a distinctly international and culturally rich environment with approximately 9,300 students from 79 countries.

Monash University Malaysia, including the Jeffrey Cheah School of Medicine and Health Sciences, is wholly owned and operated by Monash University since 2020.



Zurich Malaysia is a collective reference term for the Zurich Insurance Group (Zurich) business subsidiaries operating in Malaysia: Zurich General Insurance Malaysia Berhad, Zurich Life Insurance Malaysia Berhad, Zurich General Takaful Malaysia Berhad and Zurich Takaful Malaysia Berhad.

Zurich Malaysia offers a broad range of comprehensive insurance and takaful solutions; helping individuals as well as business owners understand and protect themselves, their businesses, and their assets from risk. Zurich Malaysia has an integrated branch network in major cities nationwide as well as dedicated agency and distribution channels nationwide to serve the needs of its customers.



# 02

## ABOUT THE STUDY

“The School of Business at Monash University Malaysia is dedicated to making a meaningful impact on how business is conducted, and we are very glad to be part of this nationally important project on the adoption of ESG practices among Malaysian SMEs. This initiative is a collaborative effort involving members from academia, business, and civic society, with the research component focusing on a nationwide study of ESG adoption by SMEs. The report from this study provides valuable insights, highlighting opportunities for policymakers to develop supportive measures and strategies that enable SMEs to integrate sustainability and ESG practices, helping them become more resilient and gain a competitive edge.”

**DR AVVARI V. MOHAN**

Professor (Innovation & Strategy) and Deputy Head (Engagement & Impact)  
at the School of Business, Monash University Malaysia

## ABOUT THE STUDY

Positive sustainable transition is a collective effort and a matter for the society, as a whole. SMEs, as the backbone of Malaysia’s economy, also have a key role to play. As of 2023, MSMEs make up 97% of all businesses in Malaysia, with 30% of them being SMEs, that contribute to 39% of the country’s gross domestic product<sup>1</sup>. The reality is that all SMEs will need to adapt and even transform their current business as economies at large go through significant restructuring to better account for the climate impact and new expectations on social and governance issues. Whilst the ‘ecopreneurs’ and a growing number of ‘proactive SMEs’ have already taken the climate urgency seriously, there is still more to be done to assist SMEs in their sustainability transition.

### Helping SMEs To Kick-start Their Sustainability Journey Early

It is critical to note that early awareness and proactive planning enable businesses to better adapt to and adopt ESG practices, enhancing their overall resilience and performance in the face of emerging sustainability-related risks, expectations, and opportunities.

With the availability of comprehensive studies, insights and guides, SMEs can utilise these resources to plan their business sustainability journey to gain a competitive advantage and attract new clients as well as employees and secure the long-term future of their businesses. Hence, in this study, we have provided a holistic assessment on sustainability matters within the SME landscape and identified key issues below that may impact ESG adoption among businesses in Malaysia.



ENVIRONMENTAL	SOCIAL	GOVERNANCE
<p><b>A company’s impact on the natural environment</b></p>	<p><b>A company’s impact on society</b></p>	<p><b>A company’s impact internally</b></p>
<ul style="list-style-type: none"> <li>• Energy usage and efficiency</li> <li>• Climate change strategy</li> <li>• Waste reduction</li> <li>• Resource conservation</li> <li>• Air and water pollution</li> </ul>	<ul style="list-style-type: none"> <li>• Employee labour compensation</li> <li>• Diversity and inclusivity</li> <li>• Employee relations</li> <li>• Workplace health and safety</li> <li>• Data protection and privacy policies</li> <li>• Community engagement</li> <li>• CSR programmes</li> <li>• Support for human rights</li> </ul>	<ul style="list-style-type: none"> <li>• Company leadership and management</li> <li>• Board composition, including diversity and structure</li> <li>• Executive compensation policies</li> <li>• Financial and organisation transparency</li> <li>• Ethical business practices</li> </ul>

<sup>1)</sup> MSME Statistics (2020, February 11). Profile & Performance of MSMEs in 2023. SME Corporation Malaysia. <https://www.smecorp.gov.my/index.php/en/policies/2020-02-11-08-01-24/sme-statistics>

## Assessing The Current ESG Landscape Of SMEs In Malaysia

In 2023, our inaugural ESG survey report, “ESG Insights from Malaysian SMEs: Building A Better Future Together” (“ESG 1.0 Report” or “ESG 1.0”), revealed encouraging insights from Malaysian SMEs regarding ESG practices. The report revealed that three out of five SMEs believed that embedding ESG practices into their business created long-term value, built a resilient workforce, and unlocked new business opportunities. It also highlighted that 80% of ESG adopters experienced cost savings, enhanced brand reputation, and improved profits and productivity. As for non-ESG adopters, they cited three key challenges such as uncertainty of ESG’s impact on their businesses, limited knowledge of ESG practices, and financial constraints among their top three barriers to ESG adoption. Nevertheless, two-thirds of non-ESG adopters were keen and open to adopting ESG practices in the future, emphasising that financial support from banks, sponsored training, and tax incentives would significantly ease their transition towards sustainability.

Building on the positive impact of the ESG 1.0 Report, the second edition “The Path to Sustainable Impact - Sectoral Insights of Malaysian SMEs” (“ESG 2.0 Report” or “ESG 2.0”) unveiled a sixfold increase in ESG awareness among Malaysian SMEs. The awareness rate surged from 14% to 80% over the past two years, reflecting the growing recognition among SMEs of the importance of sustainability in today’s competitive business landscape.

This year, we delved deeper into four key sectors: Services, Manufacturing, Construction, and Agriculture. The ESG 2.0 Report went beyond general insights, providing an in-depth sectoral analysis of the awareness levels among SMEs, adoption rates of ESG practices, and challenges in meeting sustainability-related regulatory and operational demands. Through this lens, we explored the progress of Malaysian SMEs in their sustainability journey, evaluated their readiness to meet evolving regulatory, market, and financial expectations, and identified emerging opportunities for growth. By equipping SMEs with actionable insights and recommendations, we aim to empower businesses to achieve sustainable impact, operational efficiency, and long-term success.



**SCAN HERE**  
to learn more about  
ESG 1.0 Report

## Key Questions Addressed In The ESG 2.0 Report

1  
What is the current adoption level towards ESG among SMEs in targeted segments and sectors?

2  
What are the similarities and / or differences in ESG adoption among SMEs in targeted segments and sectors?

3  
What challenges does each targeted SME segment and sector encounter when adopting sustainability practices?

4  
What kind of assistance does each targeted SME segment and sector need to adopt sustainability practices?

5  
What can service providers and / or financial institutions do to assist each targeted SME segment and sector to adopt sustainability practices?

←  
In this ESG 2.0 Report, we have listed these key questions to be answered to obtain a clearer picture of the current situation in Malaysia.



# 03

## APPROACH AND METHODOLOGY

“SMEs have the power to drive significant change, and by embedding ESG principles into their DNA, they can catalyse a ripple effect that transcends borders and industries. The future is in our hands, and with unwavering commitment, we can achieve a net zero impact that secures a thriving, sustainable world for generations to come.”

**TERESA WONG**

Chief Risk Officer - General Segment / Head of Sustainability Risk at Zurich Malaysia

## A: The Study Approach

This ESG 2.0 study adopted a comprehensive three-step methodology to assess and evaluate the current landscape of SMEs in Malaysia. These steps included:

1. Establishing the context by meticulously reviewing and framing existing literature and studies;
2. Directly engaging with stakeholders to measure the pulse of Malaysian SMEs; and finally
3. Leveraging our data-driven insights and proposing strategies to enable SMEs to make well-informed decisions.

The objective of this study was to gather insights on how prepared SMEs are to meet new regulatory, market, and financial demands. If Malaysian businesses were to adopt ESG practices, where would they start? What would be their concerns? Would they face challenges in specific sectors? Would there be gaps and areas for improvement in terms of policies? What other types of targeted support would best suit their needs?

## B: The Methodology

To answer these questions, this study focused on three ways of obtaining valuable data. They were: online surveys as the main methodology, supported by secondary research and stakeholder engagement.



- **Online surveys** refer to targeted surveys towards SME owners. We conducted the survey online, achieving a total of 382 responses. Among the respondents, the SMEs surveyed were in these fields:
  - 40% in services
  - 35% in manufacturing
  - 16% in construction
  - 6% in agriculture
  - 2% in mining and quarrying

The survey took about 20 minutes to complete and covered a variety of topics pertaining to real-life experiences, constraints, emerging trends, and the future direction of SMEs. The survey was conducted in English, Bahasa Melayu, and Mandarin.



- **Secondary research** refers to the collection of existing data. We conducted an exhaustive review of existing materials relating to ESG and the Malaysian SME landscape, including publications, statistical records, academic papers, industry reports, previous studies, and more.



- **Stakeholder engagement** refers to discussions with internal key stakeholders. We championed these discussions at the SME ESG Symposium 2023 in Kuala Lumpur and ESG & Climate Action Workshop for SMEs held in Sarawak, Malaysia.



# 04

## KEY FINDINGS

“The ESG 2.0 Report highlights a promising rise in ESG awareness among Malaysian SMEs, yet underscores a pressing need to transition from awareness to action. In an era where sustainability shapes competitive advantage, this report serves as a critical tool for stakeholders to drive the accelerated adoption necessary for our collective future. At UNGCMYB, we stand by our commitment to empower businesses with the knowledge and tools to become ESG-ready. We sincerely thank our partners for their invaluable contribution to this pivotal work.”

**FAROZE NADAR**

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

# ESG INSIGHTS FROM SMES: AWARENESS, ADOPTION & KEY MOTIVATORS



### Key Takeaways

The awareness has increased nearly six times since ESG 1.0 Report. This was particularly driven by a focus on sustainable business practices and efforts by the government, corporates, and NGOs in Malaysia.

[Please refer to page 27](#)



### Key Takeaways

The adoption level among SMEs in Malaysia has doubled since ESG 1.0 Report. The increase in the adoption level was mirrored by a significant decline in the number of SMEs not considering ESG practices since ESG 1.0.

[Please refer to page 28](#)

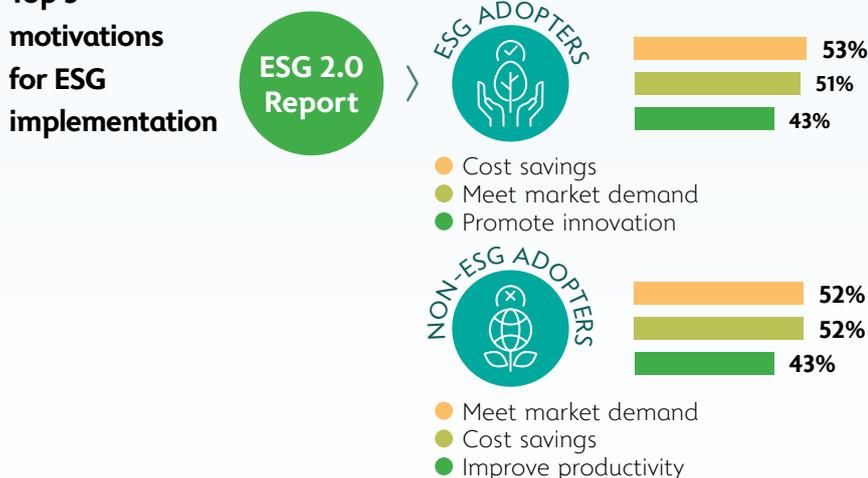


### Key Takeaways

For adopters, cost savings and meeting market demand remained the primary motivations for ESG adoption. Additionally, innovation gained importance as it offered various alternative avenues for profitability as well as helping to drive growth while aligning with ESG goals.

Whereas for non-ESG adopters, the focus has shifted slightly from the previous year, with meeting market demand and cost savings also emerging as the main drivers for improving competitive advantage.

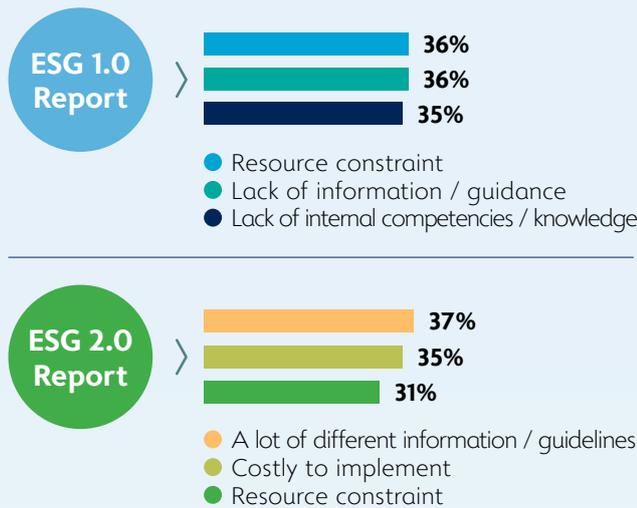
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Chapter 4 - Key Findings



**Top 3 challenges when adopting ESG**



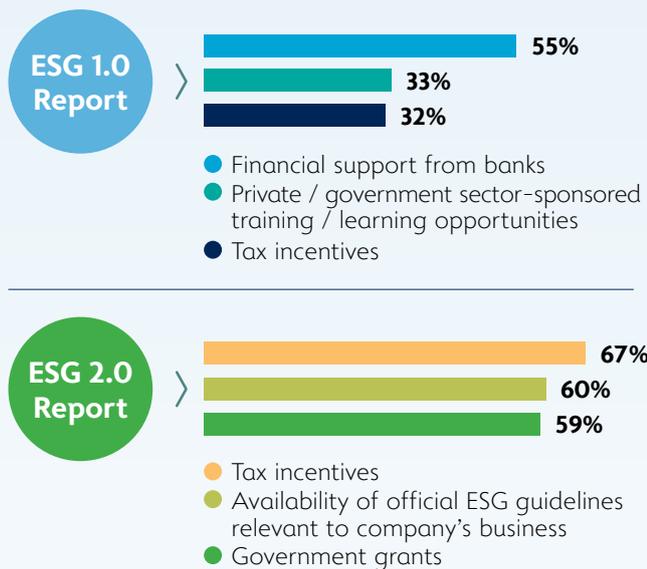
**Key Takeaways**

While resource constraints remained a key challenge for ESG adopters, SMEs have shifted their opinions from lacking ESG information as reported in the ESG 1.0 Report to being inundated with an overwhelming amount of information about ESG today.

[Please refer to page 42](#)



**Top 3 key support required to encourage ESG implementation**



**Key Takeaways**

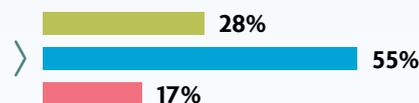
As more than half of SMEs have expressed interest in adopting ESG within the next two years, this creates a timely opportunity to provide financial support to facilitate ESG adoption among these non-ESG adopters. As SMEs are also overwhelmed by an extensive amount of information about ESG, having clear and concise guidelines that are relevant to them and their business sectors will help them navigate the ESG landscape more effectively.

[Please refer to page 43](#)

**Adoption Level of Three ESG Pillars**



**Environmental**



**Social**



**Governance**



● Practising ● Exploring ● Have not considered / Not relevant to business

**Key Takeaways**

SMEs demonstrated a higher focus on governance and social practices compared to environmental initiatives, but there remains room for growth across all three pillars, particularly in transitioning from exploration to full implementation.

[Please refer to page 36](#)

# SECTORAL COMPARISON



		Overall	Services	Manufacturing	Construction	Agriculture
 <b>General ESG Awareness Level</b>	ESG 1.0	14%	12%	18%	12%	19%
	ESG 2.0	80%	78%	84%	77%	61%
 <b>General ESG Adoption Level</b>	ESG 1.0	28%	30%	28%	23%	31%
	ESG 2.0	60%	50%	69%	60%	48%

## Key Takeaways

Among all key sectors, SMEs in the manufacturing sector took the lead in ESG awareness and adoption. This is driven by a global market push for ESG compliance and sustainability, stringent regulatory compliance, and an increased need for transparency across supply chain.

*📖 Please refer to page 46*

## Recommendation

Adopting ESG practices enhances SMEs’ competitiveness and supports long-term sustainability and growth. It is evident that sustainable practices can drive cost savings and unlock new market opportunities. To assist SMEs in their ESG journey, Alliance Bank has collaborated with key partners to provide a comprehensive ecosystem of support, guidance, and innovative solutions to help businesses embark on their own path towards sustainability.



# 05

## ESG LANDSCAPE IN MALAYSIA

“With this ESG 2.0 Report, the ESG ecosystem readiness provides an indication of baseline understanding levels, and the gaps that need to be fulfilled by all stakeholders to support the nation’s net zero goals. In line with the government’s upcoming policy formulation for ESG under Ministry of Economy and supported by other government agencies such as MGTC, the findings from the research report certainly provides deep insights into various sectors for informed decision making. MGTC is committed to facilitating all the industry players from various sectors through government green incentives, supporting abatement initiatives through green technology adoption, and nurturing SMEs in their ESG reporting needs.”

**ELINA BINTI JANI**

CEO of Greentech Ideaslab

a subsidiary under Malaysian Green Technology and Climate Change Corporation (MGTC)

## LOOKING AT THE CURRENT ESG LANDSCAPE – MALAYSIA’S COMMITMENT TO SUSTAINABILITY

Across the globe, SMEs are the critical contributors to the world’s economic growth, and this is evident in Malaysia as well. As the backbone of our domestic economy and key players in the global and domestic supply chains, SMEs are crucial in helping Malaysia transition to a low carbon economy that supports the global effort to mitigate the harmful effects of climate change. In its continuous effort to help SMEs future-proof their businesses and integrate ESG practices into their operations, the Malaysian government, along with its related agencies, regulatory bodies, and NGOs, is one of the strongest advocates for sustainability within the SME community. These efforts include establishing guidelines, enforcing ESG disclosures, supporting the development of climate assessment tools and sustainability frameworks, and encouraging green solutions, sustainability financing, and other initiatives to help businesses on their ESG journey.



**MINISTRY OF INVESTMENT, TRADE AND INDUSTRY**

1

The Ministry of Investment, Trade and Industry (MITI) launched the New Industrial Master Plan 2030 (NIMP 2030) on September 1, 2023. This policy aims to transform manufacturing and related services by enhancing economic complexity, creating high-value jobs, fostering domestic linkages, promoting cluster development, advancing inclusivity, and supporting ESG practices.



**MINISTRY OF INVESTMENT, TRADE AND INDUSTRY**

2

In 2023, MITI also introduced the National Industry Environmental, Social, and Governance Framework (i-ESG Framework), which phases in ESG adoption. The first phase, ‘Just Transition’, aims to help SMEs implement ESG principles nationwide from 2024 to 2026.



3

In 2024, SME Corp. Malaysia, an agency under Ministry of Entrepreneur and Cooperatives Development (MECD) has published the ESG Quick Guide for MSMEs in dual language, namely Bahasa Malaysia and English to assist MSMEs in implementing ESG practices.



4

Capital Markets Malaysia launched the Simplified ESG Disclosure Guide (SEDG) for SMEs in Supply Chains in 2023, which consolidates and simplifies many complex global and local ESG-related frameworks to address challenges that businesses face with Scope 3 reporting and comply with global supply chain ESG standards.

Source: MITI; SME Corp. Malaysia and Capital Markets Malaysia

Chapter 5 - ESG Landscape in Malaysia



5

Bursa Malaysia rolled out the ESG Reporting Platform for mandatory ESG reporting for listed companies in December 2023. The initiative includes a revision to Main Market and ACE Market Listing Requirements, incentivising all listed companies to push for improved sustainability reporting and provide critical data. Bursa Malaysia also introduced the Bursa Illustrative Sustainability Reporting Guide (BISRG) in 2023, which provides a visual conceptualisation of disclosure requirements and complements the enhanced BSRG (3rd Edition) and related Sustainability Toolkits as an additional form of guidance for listed issuers.



6

The PKSlestari is an initiative by SME Corp. Malaysia that aims to accelerate ESG adoption by developing a sustainability ecosystem for MSMEs. It supports their sustainability journey through training and guidance across six stages - from ESG awareness, policy support, market access to financing.



7

The Malaysian Investment Development Authority (MIDA) has various initiatives aimed at helping SMEs and mid-tier companies transition to ESG practices, such as the Domestic Investment Accelerator Fund, a matching grant programme. MIDA also launches various forms of assistance in conjunction with SME Corp. Malaysia to encourage ESG adoption within SMEs such as tax incentives, ESG readiness tools, and comprehensive assessments.

Source: Bursa Malaysia; SME Corp. Malaysia and MIDA



**SME ESG HUB**

8

The SME ESG Hub is a one-stop ESG Resource Platform for MSMEs developed by the UNGC in conjunction with supporting partners Sarawak Energy, Malaysia Productivity Corporation (MPC), and Malaysia Aviation Group (MAG). It offers various online resources to help SMEs to: Inspire, Act, Plan, Communicate.

**ASIA  
ESG  
POSITIVE IMPACT  
CONSORTIUM**

9

The Asia ESG Positive Impact Consortium is an alliance of influential media both locally and abroad to foster influence that promotes sustainability principles as the main driver of green economic growth across the Southeast Asian region. Named A-EPIC, this group comprises Star Media (SMG) from Malaysia, Kompas Garmedia (KG Media) media group from Indonesia, and Inquirer Group of Companies (IGC) from the Philippines.

Source: SME ESG Hub and Asia ESG Positive Impact Consortium

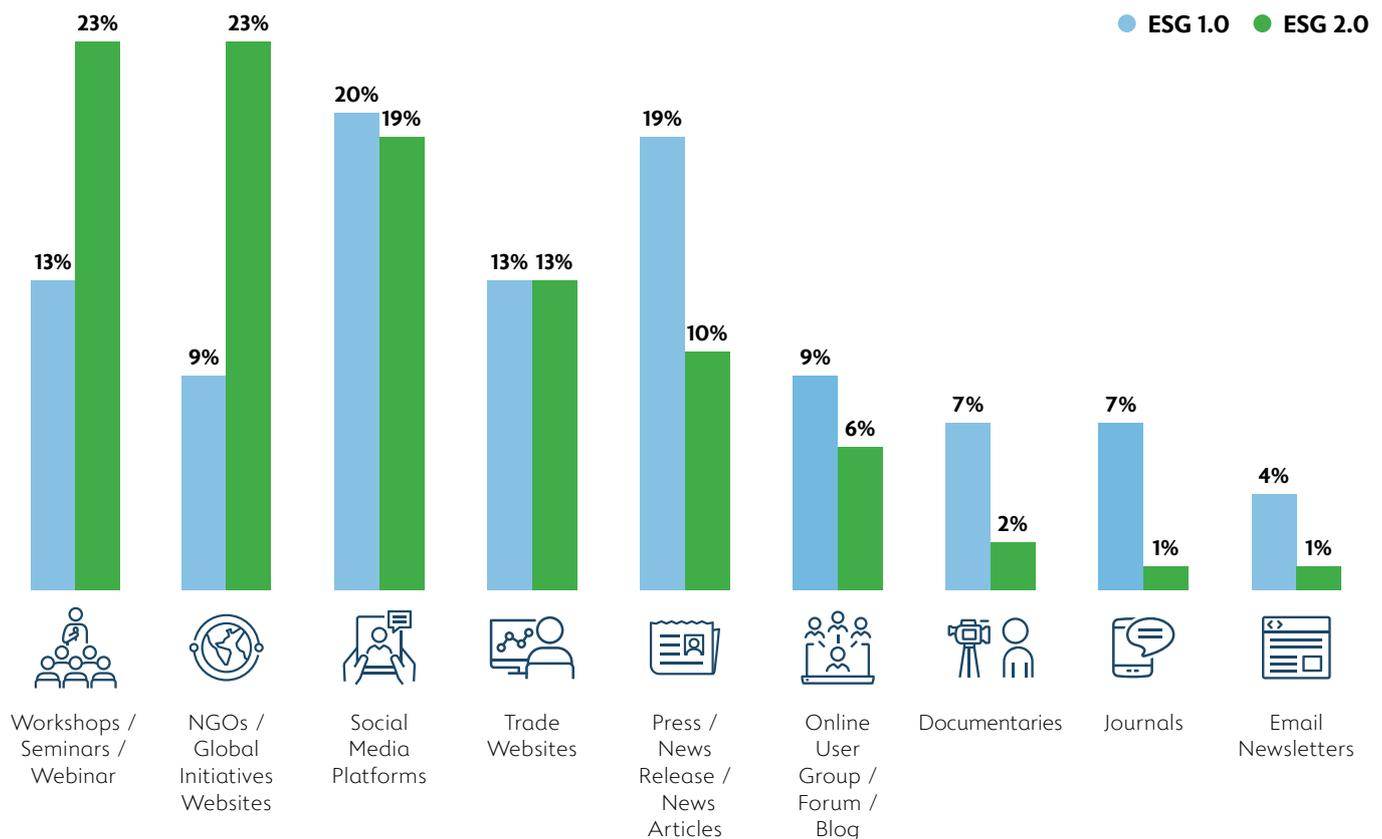
## SMEs Turning To Workshops and NGOs / Global Initiatives Websites For ESG Information

Today, there is plenty of information about sustainability and ESG readily available to SMEs. The crucial point is whether SMEs know where and how to source relevant information and how to use this information to make informed decisions for their respective businesses.

In 2023, the ESG 1.0 Report highlighted that the top source of information on ESG was social media platforms, with as many as 20% of SMEs relying on this platform for information. Meanwhile, 19% of SMEs cited other media avenues, such as press coverages, news releases, and news articles, websites and educational sites (including workshops, seminars, and webinars) accounted for 13%, while NGOs, global initiative websites, and online forums made up 9%. Documentaries and journals accounted for 7%, with email newsletters contributing 4% to the overall statistic.

The ESG 2.0 Report showed a marked difference, as businesses have shifted from a broad-focused general awareness of ESG to a more focused approach to information sourcing. As they begin taking ESG practices into consideration, more relevant and specialized information is required, such as in-depth industry or sector knowledge, as well as a better understanding of policies and regulatory requirements.

Source of information for ESG



Q24: Where do you usually get information on ESG?

Chapter 5 - ESG Landscape in Malaysia

Educational sites and sessions surged to 23%, alongside NGOs and global initiative websites. Social media saw a slight decline to 19%, while trade websites remained at 13%. Traditional media dipped to 10%, and the use of online forums, documentaries, and email newsletters decreased further to 6%, 2%, and 1%, respectively. This shift reflects SMEs' evolving phases as they begin to transition towards becoming more sustainability-driven.

While social media contributed to raising initial awareness, it has become less effective over the past year as it struggles to provide in-depth understanding and consultation that SMEs require to successfully embark on their own ESG journey. Today, SMEs are turning to more official sources of information with real-world impact and policy implementation frameworks that can help them plan for more tangible change.



**Workshops**

*Example:*  
**CMM Sustainability Workshops, ESG Reporting and Carbon Management by StarESG Academy**



**Seminars**

*Example:*  
**PKSlestari Programme: Seminar & Workshops to Accelerate ESG Adoption among SMEs**



**NGO Websites**

*Example:*  
**UN Global Compact Malaysia & Brunei (UNGCMYB)**

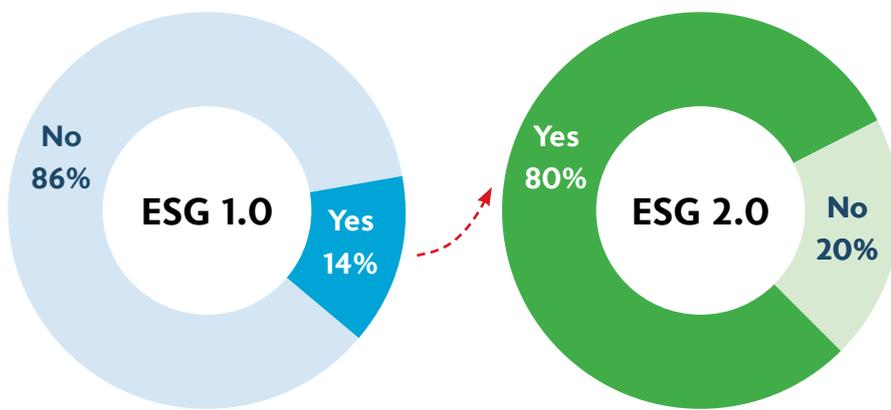


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## Growing Interest, Support And Information Availability Have Significantly Increased ESG Awareness Among SMEs

Within the span of two years, the general ESG awareness among SMEs has increased sixfold. Previously, only 14% of SMEs at the time had ESG awareness as cited in the ESG 1.0 Report. In contrast, an impressive 80% of awareness level among SMEs were recorded in the ESG 2.0 Report.

Overall ESG Awareness



This proves that strengthening the focus on sustainable business practices, with amplification through media, corporate, and government efforts, did result in a significant rise in ESG awareness the past two years.

Across all sectors, it is evident that there was a big leap in terms of ESG awareness. The services sector awareness jumped from 12% in ESG 1.0 to 78% in ESG 2.0, an increase of 66%. The manufacturing sector rose from 18% to 84%, also seeing a 66% increase. The construction sector rose from 12% to 77%, a 65% increase. Whilst the agricultural, mining, and quarrying sectors saw a raise from 13% to 72%, which equates to an increase of 59%.

Services



ESG 1.0 | 12%  
ESG 2.0 | 78%



+66% increase

Manufacturing



ESG 1.0 | 18%  
ESG 2.0 | 84%



+66% increase

Construction



ESG 1.0 | 12%  
ESG 2.0 | 77%



+65% increase

Others



ESG 1.0 | 13%  
ESG 2.0 | 72%



+59% increase

Q22: Are you aware of the term ESG (Environment, Social, Governance)?

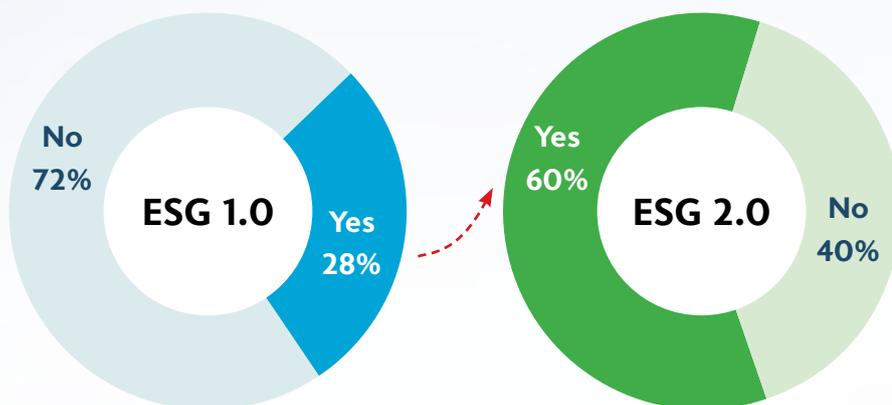


## The SME Community Recorded A Positive Increase In The Adoption Of ESG Practices Across All Sectors

The substantial rise in awareness of ESG principles has also led to an increase in the adoption of ESG practices among businesses in Malaysia. This positive trend is mirrored by a significant decline in the number of SMEs that were previously uninterested in implementing ESG practices in their businesses.

As reflected in the ESG 1.0 Report, 28% of companies surveyed had adopted ESG practices overall. However, in the ESG 2.0 Report, this figure has increased to 60%.

### Overall ESG Adoption



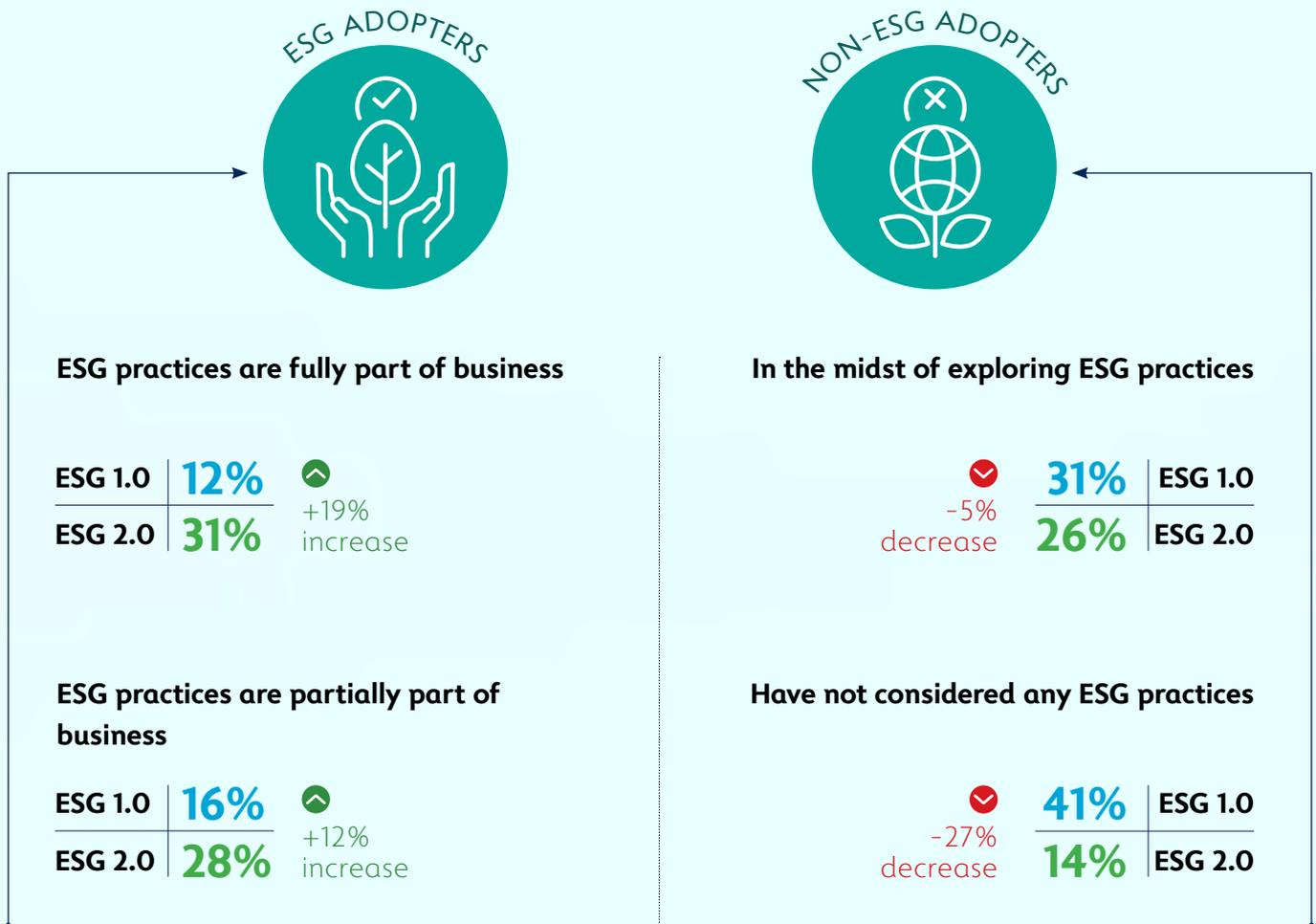
The overall increase in the adoption of ESG practices is an optimistic indication that SMEs are recognising the long-term benefits of ESG practices. These benefits include direct advantages to SMEs themselves, such as significant cost savings, promotion of innovation, and meeting market demand.

Q26: Is your company currently practising any ESG-related initiatives?

## SMEs Are Moving Towards ESG Integration

Among ESG adopters, only 12% of companies noted that ESG practices were fully integrated into their business strategy in the ESG 1.0 Report, while 16% claimed that ESG practices were partially incorporated into their operations. In the ESG 2.0 Report, these numbers increased, with 31% of companies reporting that ESG practices were fully integrated into their business strategy and 28% claiming partial implementation—a rise of 19% and 12%, respectively.

### ESG Adoption Categories



Companies that were previously in the exploratory phase have shown a slight decline from 31% to 26%. This suggests that a portion of these businesses is moving beyond the planning phase and taking concrete steps to integrate ESG into their operations.

The category of businesses that have not considered any ESG practices has also seen a significant drop from 41% to 14%. This demonstrates a clear shift in mindset, as fewer SMEs are ignoring ESG practices altogether.

## Among All Sectors, Manufacturing Takes The Lead In ESG Adoption

Within the overall improvement in ESG adoption by SMEs, the manufacturing sector showed the most significant progress compared to other sectors. In ESG 2.0, the manufacturing sector experienced the highest increase in adoption, rising from 28% to 69%, a total increase of 41%. Other sectors also demonstrated notable improvements.

The agriculture, mining, and quarrying sector recorded a 38% increase, from 22% to 60%. Following closely is the construction sector, with a 37% increase, rising from 23% to 60%. The services sector also experienced growth, with a 20% increase, climbing from 30% to 50%.



\*Others include Agriculture, Mining and Quarrying

Q22: Are you aware of the term ESG (Environment, Social, Governance)?



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## Growing Trend Towards ESG Adoption With Manufacturing Sector Taking The Lead

In ESG 1.0, the manufacturing sector reported that 38% of SMEs did not consider ESG practices at all. This number dropped sharply to a mere 7% in ESG 2.0. Similarly, businesses that reported being in the midst of exploring ESG practices decreased slightly, from 34% in ESG 1.0 to 24% in ESG 2.0. This trend indicates a positive shift towards the practical adoption of ESG practices, as seen in the increase in the number of SMEs fully and partially adopting ESG practices.



This trend of shifting adoption—from not considering ESG practices to exploring them, to partial adoption, and finally to full adoption—is similarly reflected across all other sectors, as the number of businesses not considering ESG practices has decreased, while those adopting them partially or fully have significantly increased.



## Increased Adoption Levels Driven By Regulatory Demands

It is observed that sectors with the highest rate of ESG adoption were compelled by external factors, including, but not limited to, regulatory requirements from parent companies and clients.

Since manufacturing, construction, and other sectors often operate in international markets, adherence to international standards and policies is necessary to participate in these markets.



**Malaysian SMEs have to rapidly adopt ESG practices to adhere to international regulation as well as to compete effectively in the market**

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## Services, Construction And Agriculture Also Achieved ESG Adoption Gains

	<b>Services</b> 	<b>Construction</b> 	<b>Others</b> 														
ESG practices are fully part of business	<table border="0"> <tr><td>ESG 1.0</td><td>ESG 2.0</td></tr> <tr><td>14%</td><td>29%</td></tr> </table>	ESG 1.0	ESG 2.0	14%	29%	<table border="0"> <tr><td>ESG 1.0</td><td>ESG 2.0</td></tr> <tr><td>10%</td><td>21%</td></tr> </table>	ESG 1.0	ESG 2.0	10%	21%	<table border="0"> <tr><td>ESG 1.0</td><td>ESG 2.0</td></tr> <tr><td>7%</td><td>22%</td></tr> </table>	ESG 1.0	ESG 2.0	7%	22%		
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14%	29%																
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10%	21%																
ESG 1.0	ESG 2.0																
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ESG practices are partially part of business	<table border="0"> <tr><td>ESG 1.0</td><td>ESG 2.0</td></tr> <tr><td>16%</td><td>21%</td></tr> </table>	ESG 1.0	ESG 2.0	16%	21%	<table border="0"> <tr><td>ESG 1.0</td><td>ESG 2.0</td></tr> <tr><td>13%</td><td>39%</td></tr> </table>	ESG 1.0	ESG 2.0	13%	39%	<table border="0"> <tr><td>ESG 1.0</td><td>ESG 2.0</td></tr> <tr><td>15%</td><td>38%</td></tr> </table>	ESG 1.0	ESG 2.0	15%	38%		
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ESG 1.0	ESG 2.0																
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In the midst of exploring	<table border="0"> <tr><td>ESG 1.0</td><td>ESG 2.0</td></tr> <tr><td>26%</td><td>31%</td></tr> </table>	ESG 1.0	ESG 2.0	26%	31%	<table border="0"> <tr><td>ESG 1.0</td><td>ESG 2.0</td></tr> <tr><td>41%</td><td>20%</td></tr> </table>	ESG 1.0	ESG 2.0	41%	20%	<table border="0"> <tr><td>ESG 1.0</td><td>ESG 2.0</td></tr> <tr><td>24%</td><td>25%</td></tr> </table>	ESG 1.0	ESG 2.0	24%	25%		
ESG 1.0	ESG 2.0																
26%	31%																
ESG 1.0	ESG 2.0																
41%	20%																
ESG 1.0	ESG 2.0																
24%	25%																
Have not considered	<table border="0"> <tr><td>ESG 1.0</td><td>ESG 2.0</td></tr> <tr><td>43%</td><td>19%</td></tr> </table>	ESG 1.0	ESG 2.0	43%	19%	<table border="0"> <tr><td>ESG 1.0</td><td>ESG 2.0</td></tr> <tr><td>36%</td><td>20%</td></tr> </table>	ESG 1.0	ESG 2.0	36%	20%	<table border="0"> <tr><td>ESG 1.0</td><td>ESG 2.0</td></tr> <tr><td>54%</td><td>16%</td></tr> <tr><td>✓ -38% decrease</td><td></td></tr> </table>	ESG 1.0	ESG 2.0	54%	16%	✓ -38% decrease	
ESG 1.0	ESG 2.0																
43%	19%																
ESG 1.0	ESG 2.0																
36%	20%																
ESG 1.0	ESG 2.0																
54%	16%																
✓ -38% decrease																	

\*Others include Agriculture, Mining and Quarrying

A key initiative driving this transition is the introduction of the National Agrofood Policy 2021-2030 (NAP 2.0). This policy has significantly encouraged stakeholders to integrate ESG principles into their operations.

Additionally, Malaysia’s National Agrofood Policy 2021-2030 (NAP2.0) was a key initiative in driving the adoption of ESG practices. This policy particularly impacted the agricultural, mining, and quarrying sectors, which showed a significant increase in the consideration and actual adoption of ESG practices in their businesses. Most of these companies were able to incorporate either partial or full implementation of ESG practices into their operations.

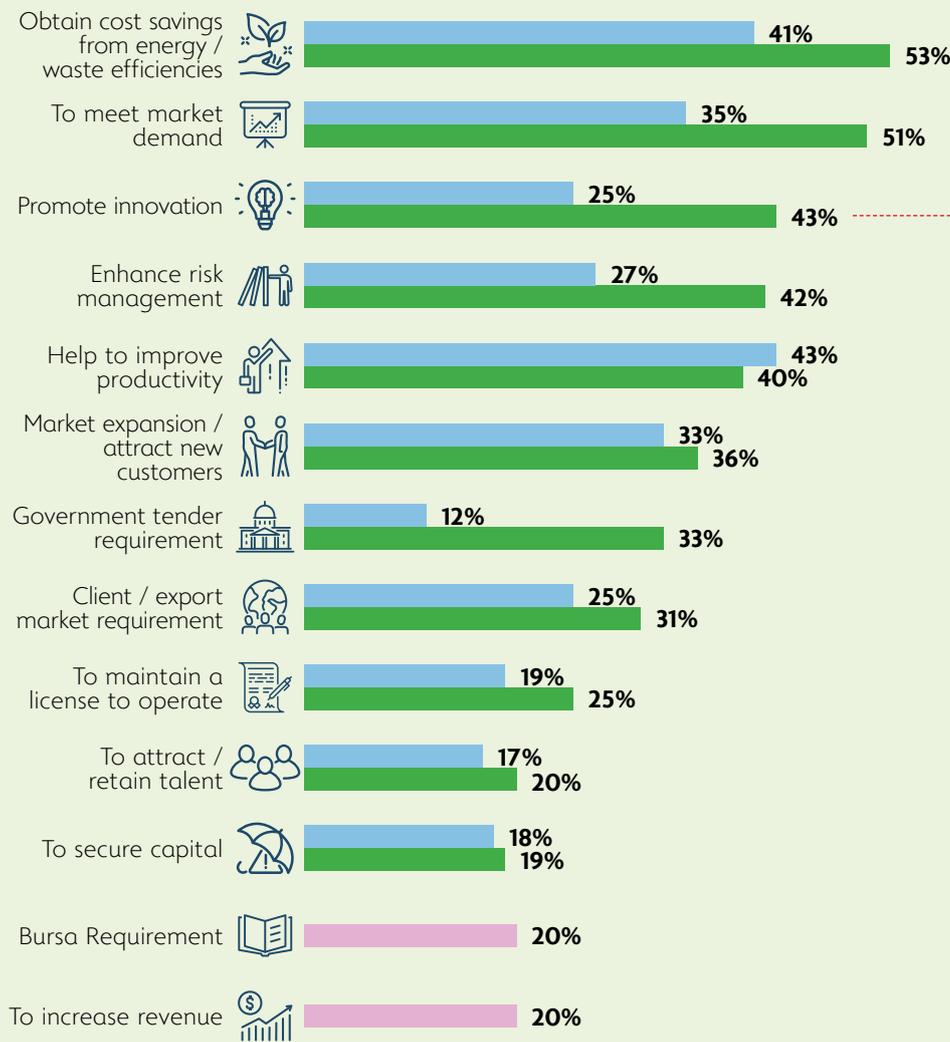
The services sector also saw a positive shift in the adoption of ESG practices, as the number of businesses that previously did not consider adopting ESG practices dropped by 24%, from 43% in ESG 1.0 to just 19% in ESG 2.0. The majority of SMEs in the services industry also partially or fully integrated ESG practices into their operations.

## Cost Efficiency, Market Demand And Innovation Drive ESG Adoption Among SMEs

Businesses are always seeking better ways to enhance performance and profitability. Hence, familiarity with ESG practices comes with the recognition that effective implementation can yield both financial and non-financial benefits.

These advantages offer tangible gains that directly impact a company’s profitability and competitive position in the market, adding further motivation for industries to adopt sustainable practices.

### Key Reasons For Adopters To Implement ESG



While cost savings and meeting market demands remain a prevalent reason to adopt ESG practices, there is a growing importance towards innovation, as it could provide alternative avenues for profitability and sustainability. Integrating ESG can foster a culture of innovation by encouraging SMEs to develop sustainable solutions that address challenges while driving long-term growth, such as optimising processes to minimise waste and resource consumption or investing in clean technologies to reduce environmental impacts.

● ESG 1.0 ● ESG 2.0 This is only available in ESG 2.0: ● ESG 2.0

Q30: What are the key reasons for implementing ESG in your company?

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## ESG Adoption Is Bolstered By Government Support And Revenue Growth Potential

Earlier in this chapter, we explored the various types of support provided by the Malaysian government to help SMEs adopt ESG practices in their business. Bank Negara Malaysia, in particular, has allocated a RM900 million loan fund to boost overall productivity by encouraging SMEs to digitalise and automate their operations. The government recognises that the financial investments required to adopt ESG practices could deter SMEs, even if they understand the potential future gains. Therefore, the funding provided by the government aims to alleviate some of these financial burdens, enabling and encouraging businesses to adopt more sustainable practices.



Additionally, Bursa Malaysia mandates that all listed companies adhere to its sustainability reporting standards. These requirements have, in turn, encouraged SMEs within the supply chain of listed companies to adopt ESG practices. The ESG 2.0 Report found that SMEs implementing ESG practices have experienced increased revenue.

Q30: What are the key reasons for implementing ESG in your company?

## ESG Adoption Is Growing, But Varies Across Pillars

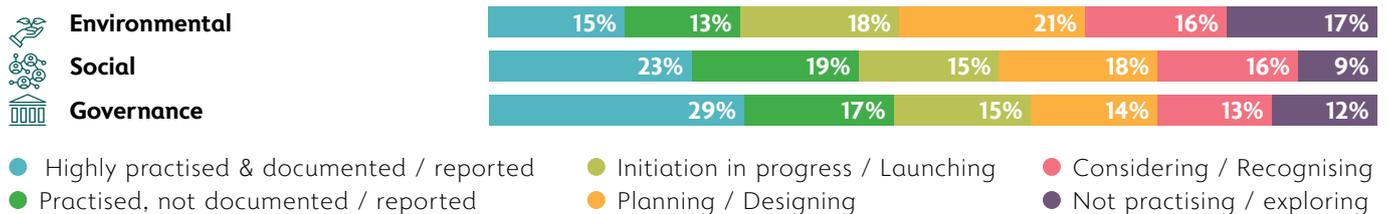
In response to the key reasons for adoption, SMEs are beginning to incorporate ESG practices into their business operations. While the motivations for ESG adoption are clear, the implementation degree still varies across the three (3) ESG pillars, reflecting differences in priorities among SMEs.

The adoption level for environmental practices was the lowest, with only 28% of SMEs implementing these practices. That being said, 55% of SMEs were in the exploratory phase, suggesting that environmental practices were widely acknowledged and could hold potential for future adoption.

Social practices showed better adoption level, with 42% of SMEs practising. Additionally, 49% of them were in the exploratory phase, suggesting that social practices were also gaining significant traction and were increasingly recognised as important areas of focus among SMEs.

Governance was the most mature pillar among SMEs in Malaysia, with 46% of SMEs already implementing them. 42% of them were in the exploratory phase, suggesting continued interest and progress in this pillar.

### Overall ESG Adoption Across Three (3) ESG Pillars



Note: Exploratory phase refers to the combination of “Initiation in progress / Launching”, “Planning / Designing”, and “Considering / Recognising”



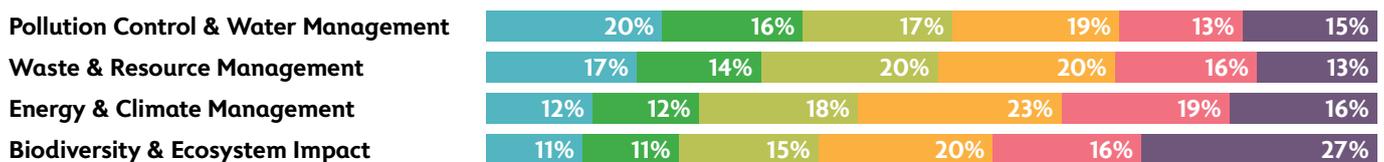
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## Pollution Control And Water Management Are Top Environmental Priorities

Many SMEs have started implementing pollution control and water management, as well as waste and resource management, with 36% and 31% of SMEs practising, respectively. Reduced resource consumption could potentially lead to energy efficiency improvements and lower utility costs. Applying these environmental-friendly practices will put a business in good stead and help avoid any potential reputational or negative publicity risk associated with poor environmental practices by the company.

Despite having low adoption level, more SMEs were exploring energy and climate management, with 60% of them within the exploratory phase. This could be due to support and assistance provided by government such as the Green Investment Tax Allowance (GITA) for the purchase of green technology equipment or assets. The adoption level for biodiversity and ecosystem still has much potential and opportunity for increased awareness and action.

### Adoption Across The Environmental Pillar



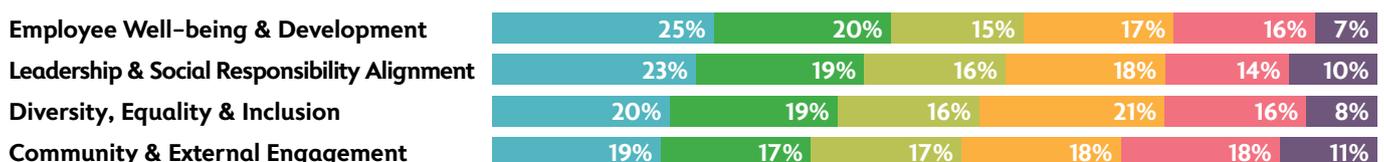
- Highly practised & documented / reported
- Practised, not documented / reported
- Initiation in progress / Launching
- Planning / Designing
- Considering / Recognising
- Not practising / exploring

## SMEs Promoting Employee Well-being And Development Foster A Positive Workplace Culture

Employee well-being and development was the highest with 45% adoption level among SMEs. These practices could help companies to attract and retain top talent by fostering a supportive and growth-oriented work environment. Closely followed behind is the leadership and social responsibility alignment with 42%, which is seen as a positive action by SMEs to create an inclusive work environment to inspire trust and loyalty among employees.

The adoption level for diversity, equality and inclusion (DEI) was at 39% among businesses in Malaysia, with SMEs appearing to focus on positioning themselves as potential employers of choice for top talent in the country. Despite lower adoption level in community and external engagement, SMEs aspired to explore the possibilities as it is seen as an important part of a company's overall social responsibility strategy in meeting the local community's social needs.

### Adoption Across The Social Pillar



- Highly practised & documented / reported
- Practised, not documented / reported
- Initiation in progress / Launching
- Planning / Designing
- Considering / Recognising
- Not practising / exploring

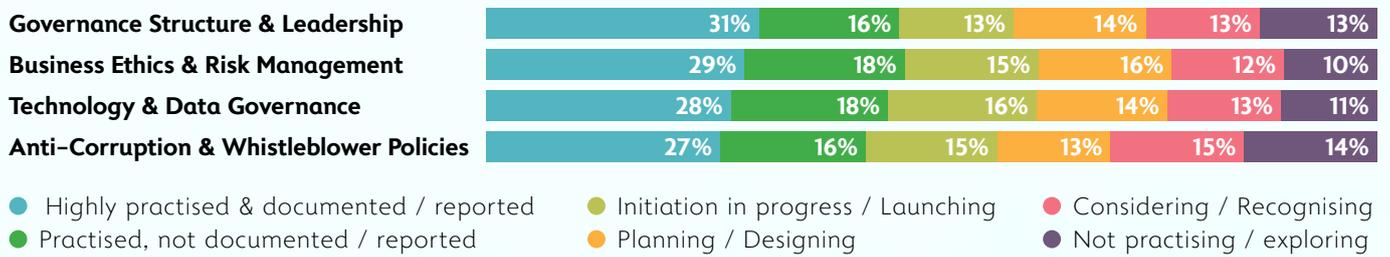


## High Adoption Of Governance Practices Is Likely Driven By Regulatory Demands

Many SMEs have started implementing governance structure and leadership practices such as proper board structures and financial audits, which may be mandated by regulations, thus influencing 47% of them to adopt these practices to meet legal obligations. They also implemented business ethics and risk management initiatives, such as privacy laws and ESG reporting standards, to comply with local and international laws.

Technology and data governance were also adhered to by almost half of the SMEs, in particular those involved in the management of personal or sensitive customer data. To ensure compliance, SMEs also reported practising anti-corruption & whistleblowing policies, both of which are mandated by Malaysian law, such as the Malaysian Anti-Corruption Commission Act 2009 and Whistleblower Protection Act 2010.

### Adoption Across The Governance Pillar



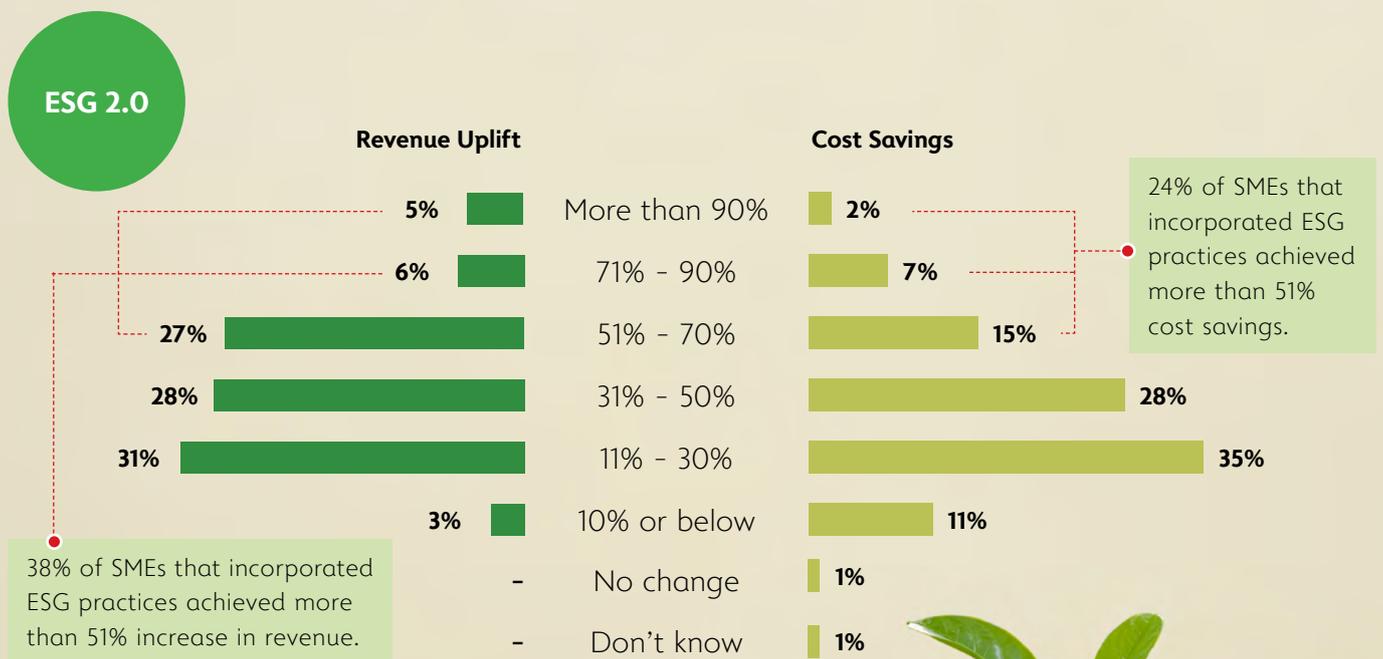
Note: Please refer to the [Appendix](#) for the adoption progress of initiatives within each ESG pillar.



Chapter 5 - ESG Landscape in Malaysia

## ESG Drives Revenue and Cost Savings for SMEs

By adopting ESG practices, SMEs across industries can unlock substantial financial benefits, including revenue growth and cost savings. The ESG 2.0 Report showed that 38% of SMEs incorporating ESG practices achieved more than 51% revenue uplift, demonstrating the potential for sustainable practices to drive profitability. Additionally, 24% of SMEs reported over 51% in cost savings, showcasing the operational efficiencies that can result from implementing energy-efficient technologies and sustainable strategies. As ESG practices gain traction, businesses are not only enhancing their financial performance but also strengthening their resilience and competitive edge in the evolving marketplace.

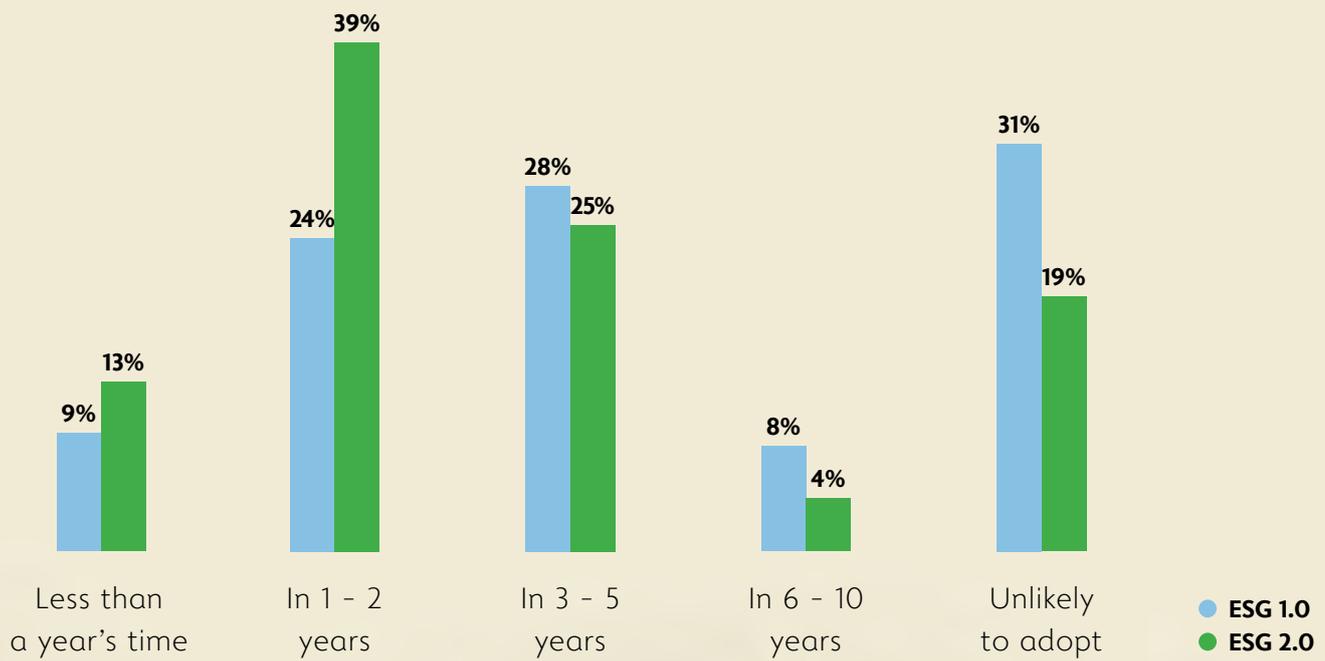


## Non-ESG Adopters Are Changing Their Minds

Non-ESG Adopters are showing a growing interest in exploring sustainability practices and ESG principles for their businesses. In fact, in ESG 2.0, 52% of SMEs expressed interest in adopting ESG within the next two years, compared to only 33% in ESG 1.0.

This presents a timely opportunity for financial institutions and other key stakeholders to offer financial support, along with industry-specific resources and training programmes, to help SMEs adopt ESG practices.

**ESG Adoption Timeline For Non-ESG Adopters**



Q31: When would your company be likely to consider ESG practices, if at all?

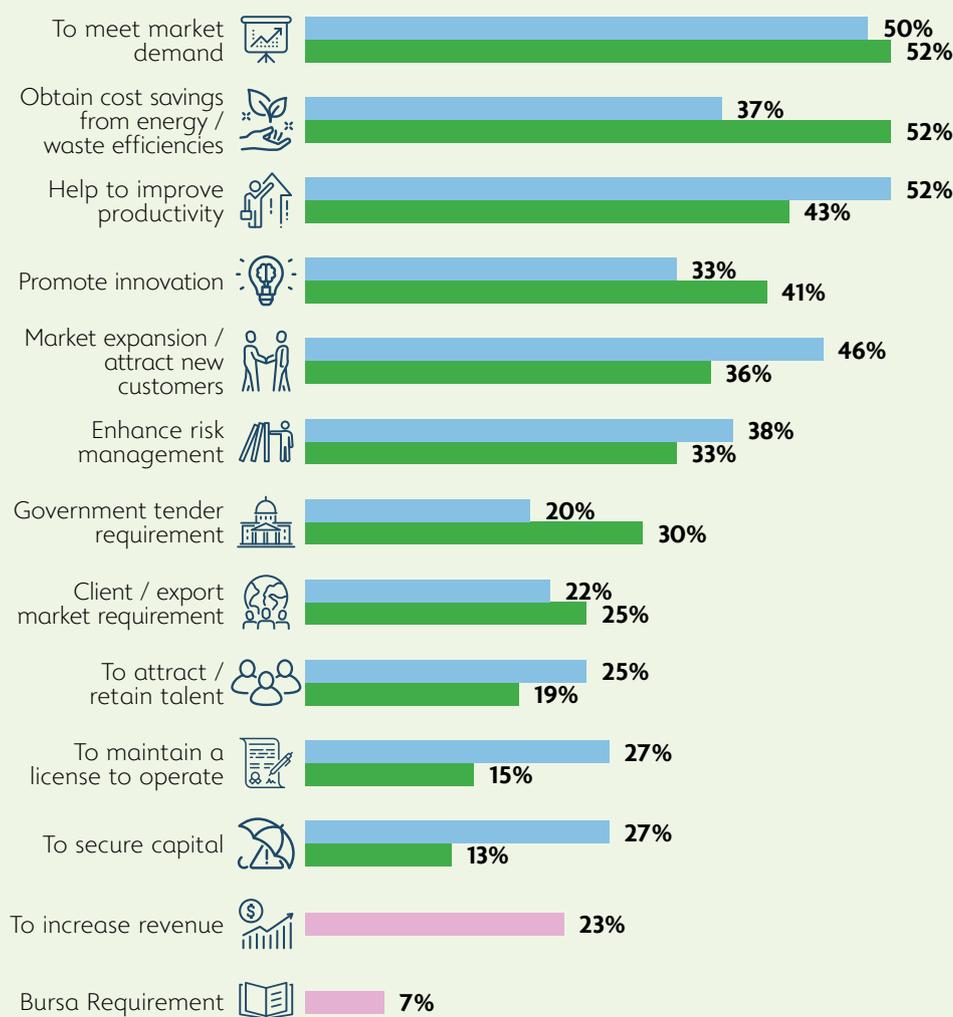


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## Non-ESG Adopters Also Recognise Cost Savings And Market Opportunities As Key Motivations For ESG Adoption

Besides cost and market opportunities, another factor driving interest in ESG adoption is its ability to promote innovation by encouraging new sustainable solutions, offering competitive advantages, and attracting investment, leading to long-term growth and stability.

### Key Motivations For Non-ESG Adopters To Implement ESG



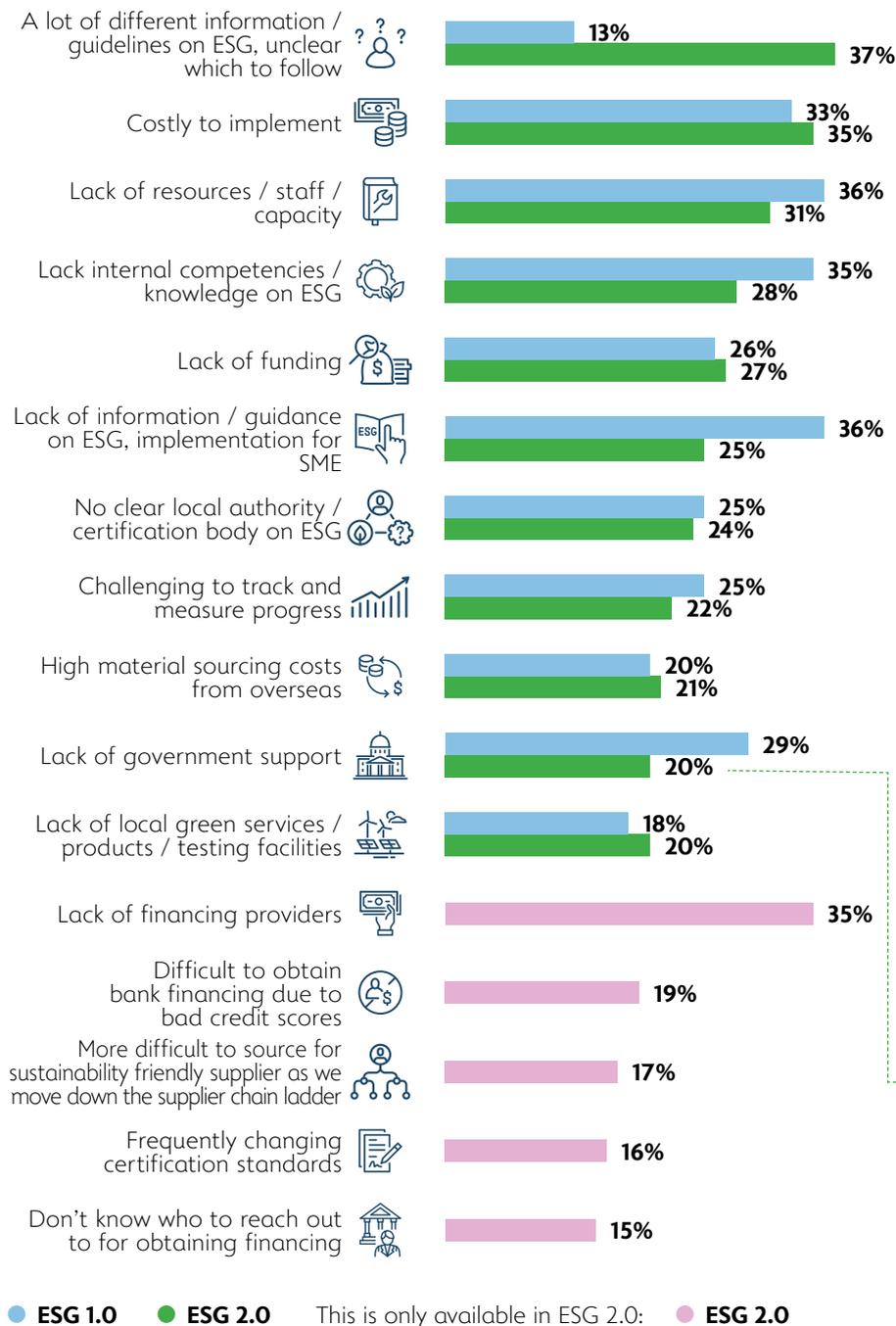
This shift is largely due to the recognition that sustainable practices can lead to reduced operational costs, such as energy savings and waste reduction.

● ESG 1.0 ● ESG 2.0 This is only available in ESG 2.0: ● ESG 2.0

Q32: What are the key reasons for intention to implement ESG in your company?

## SMEs Face High Cost, Complex Guidelines And Resource Limitations In ESG Adoption

As the positive drivers of ESG adoption within the SME landscape were covered in this report, we must also examine the challenges businesses faced that prevented, hindered, or delayed their efforts to incorporate sustainable practices.



### 1. Too Much Information on ESG Implementation

In the ESG 1.0 Report, 36% of SMEs highlighted a lack of information and guidance on ESG implementation. This led to a strong push towards raising awareness and sharing information.

However, the ESG 2.0 Report revealed a shift, with 37% of SMEs now reporting an overload of ESG information, leaving them without a clear framework to follow. Consequently, many SMEs have transitioned from relying on social media to more structured, policy-driven platforms such as webinars for ESG guidance.

It seems that, despite these efforts, most businesses may still be uncertain about which sustainability standards and frameworks might best suit their needs.

### 2. Government Support No Longer Found Lacking

In ESG 1.0, 29% of SMEs identified a lack of government support as a key challenge to adopting ESG practices. By ESG 2.0, this figure decreased to 20%, reflecting a notable 9% improvement.

This decline suggests that government initiatives, such as i-ESG framework and ESG Quick Guide, are addressing many pain points faced by SMEs.

Q68: What are the challenges that your organisation is currently facing in your ESG adoption journey?

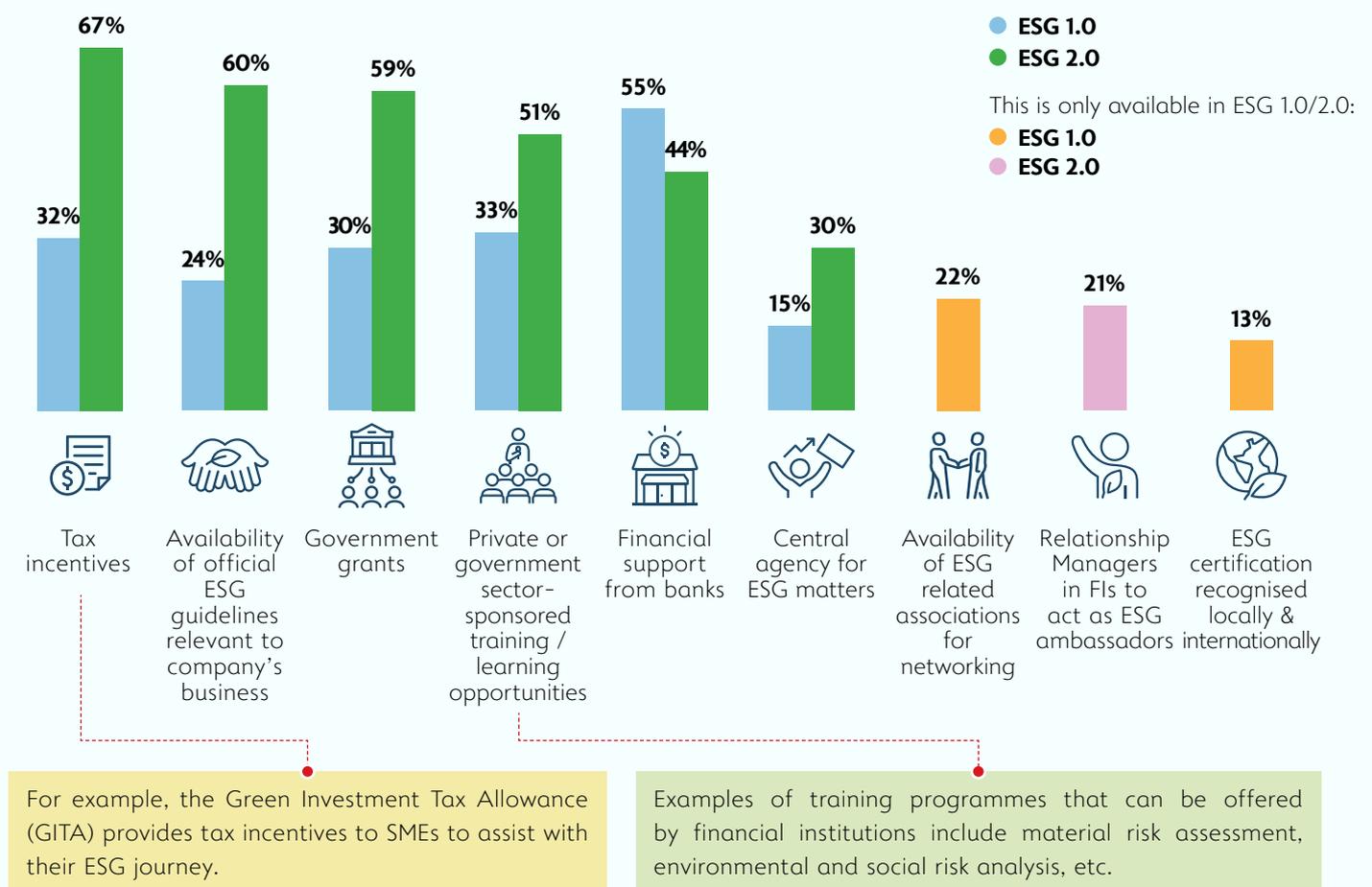
Chapter 5 - ESG Landscape in Malaysia

## Funds Are Still The Main Concern For Non-ESG Adopters

One of the biggest concerns for SMEs is the financial burden of implementing sustainable practices. 67% cited the need for tax incentives from the government to reduce the financial burden and encourage investment in eco-friendly technologies and operations.

59% of SMEs stated that it would be encouraging if more grants were available to support their ESG initiatives. In this regard, the government currently provides many funding avenues and grants for SMEs, such as the Domestic Investment Accelerator Fund (DIAF), among others. However, additional efforts on the financial aspect from local authorities, corporations, or financial institutions would be greatly welcomed by the SME community.

### Expected Support For ESG Adoption From Non-ESG Adopters



Q83: What support do you expect / require to help your company to embark on ESG journey?

## SELF-FUNDING LEADS ESG FINANCING FOR SMEs

The cost of transitioning to more sustainable business practices is evidently a major concern for SMEs, and there are still many opportunities and potential in this space for the government and private sector to assist and support local businesses.



### SME Financing



#### Self-Funded / Personal Source

• Self-Funded	59%	48%
• Other private sources	9%	24%

1 in 2 of SMEs are relying on their own resources for ESG initiatives



#### Institutional Financing

• Development Financial Institutions	16%	36%
• Banks	17%	22%
• Peer-to-Peer (P2P)	7%	19%



#### Government ministries / agencies

11% 27%

Banks and government have been providing more support to SMEs as observed in ESG 2.0



#### Equity Financing

• Venture capital	22%	22%
• Business partner	16%	16%



#### Crowdfunding

5% 5%

Sub-sectors funded by bank	<b>22%</b>	<b>Services</b> 25%	<b>Manufacturing</b> 24%	<b>Construction</b> 11%	<b>Others*</b> 21%
		Wholesale & Retail Trade <b>35%</b>	Consumer Goods <b>27%</b>	No sub-sector for Construction	Agriculture <b>18%</b>
		Food & Beverages <b>30%</b>	Metal Processing & Manufacturing <b>24%</b>		
			Electronic and Electrical Equipment <b>10%</b>		

Q29: How is your company's ESG practices / initiatives funded?

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### Almost Half Of SMEs Rely On Self-Funding For ESG Initiatives

That said, there is a drop in self-funders by 11% since ESG 1.0, which could be due to government and bank intervention in SME financing.



Self-funder

ESG 1.0	ESG 2.0
59%	48%



### A Symbiotic Relationship Emerges Between SMEs And The Government

SMEs are recognising the growing importance of ESG, and they are seeking government funding to support their sustainability efforts.



Government ministries / agencies

ESG 1.0	ESG 2.0
11%	27%

Government is also simultaneously ramping up its support for ESG adoption.

### Banks Gear Up On Financing ESG Adoptions

Bank support increased by 5%, rising from 17% to 22%. Banks provided the most funding to the services sector, which received 25% of total bank financing, with the majority of beneficiaries in the Wholesale & Retail Trade businesses.



Bank Support

ESG 1.0	ESG 2.0
17%	22%

The manufacturing sector received 24% of total bank funding, mainly for Consumer Goods and Metal Processing & Manufacturing. Additionally, 21% went to "Others", with 18% to agriculture, and the remaining 11% to construction.



Services  
25%



Manufacturing  
24%



Construction  
11%



Others  
21%





# 06

## SECTORAL COMPARISON

“The findings of this ESG 2.0 Report underscore the growing recognition among businesses that sustainability is not just a moral imperative but a strategic necessity. Embracing ESG unlocks transformative benefits for SMEs, from enhancing operational efficiency to building trust with stakeholders and accessing new growth opportunities. SME Corp. Malaysia will continue to play a crucial role in guiding and empowering SMEs on this journey, offering the tools, insights and support required to align sustainability with profitability and resilience.”

**RIZAL BIN DATO' NAINY**

Chief Executive Officer of SME Corp. Malaysia

Chapter 6 - Sectoral Comparison

## UNDERSTANDING THE SECTORAL DIFFERENCE IN ESG

This report highlights differences across the services, manufacturing, construction, and agricultural sectors in all three dimensions of ESG: Environmental, Social, and Governance.

### Services Sector



The services sector in Malaysia is seeing a positive growth in ESG awareness, with 78% of SMEs familiar with ESG. The rise can be credited to the combined efforts of the government, NGOs, and the private sector for promoting ESG among the local business community through communication across various platforms. Social media and training workshops were identified as the primary source of ESG-related information for SMEs. The ESG 2.0 Report highlights that the increase of 20% in ESG adoption rates among SMEs can also be credited to various assistance provided by the government and organisations. For example, the Malaysia Sustainable Development Goals Trust Fund (MySDG Fund) was established to help support ESG efforts in the services sector.

## F&B, Wholesale & Retail Trade Drive High ESG Awareness And Adoption



### Key Takeaways



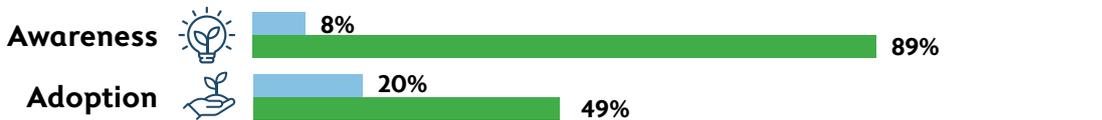
Given the pivotal role of the Halal industry in Malaysia’s economy, there is a strong impetus for the Food and Beverage sector to adopt ESG practices.

The significance of Halal practices in Malaysia drives SMEs to integrate ESG principles, reflecting both the growing demand for ethical consumption and Malaysia’s leadership in the global Halal economy. This alignment not only meets consumer expectations but also bolsters trust and confidence in the industry.

Services Sector



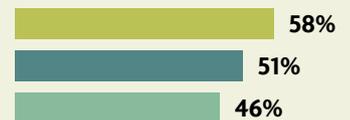
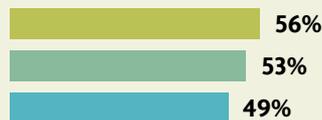
Key Takeaways



The wholesale and retail sub-sectors are increasingly driven to adopt ESG practices primarily due to rising market demand to focus on and adhere to sustainability. This growing demand for environmentally responsible and ethical practices is compelling these sectors to align with sustainability goals, despite facing challenges such as implementation costs and the need for more robust regulatory frameworks.

Key Insights of Services Sector

01 > Key Reasons to Adopt ESG



- To meet market demand
- Promote innovation
- Help to improve productivity
- Enhance risk management
- Obtain cost savings from energy / waste efficiencies

Young consumers in Malaysia are reportedly willing to pay for sustainable products<sup>1</sup>. Hence, incorporating ESG practices can help SMEs to attract these consumers who prioritise sustainable and ethical way of living. It also opens a myriad of opportunities in markets and sectors that prioritises ESG or SDG such as collaborations with global entities or ESG-driven investors.

Adopting ESG practices can also drive innovation by pushing SMEs to rethink traditional approaches and develop more sustainable, efficient, and socially responsible solutions. For example, developing eco-friendly or socially responsible services, or innovating processes that reduce waste, energy, and resource consumption can meet the growing demand for sustainable choices.

<sup>(1)</sup> Rogers, K. (2022, November 9). Future Consumer Index: Five consumer types you need to understand. Ernst & Young. [https://www.ey.com/en\\_my/insights/consumer-products/five-types-of-consumer-that-you-need-to-understand](https://www.ey.com/en_my/insights/consumer-products/five-types-of-consumer-that-you-need-to-understand)

Chapter 6 - Sectoral Comparison

Services Sector

02 >

Benefits of ESG Adoption & Reporting

Not applicable for Non-ESG Adopters



71%

Increased transparency



65%

Better risk management

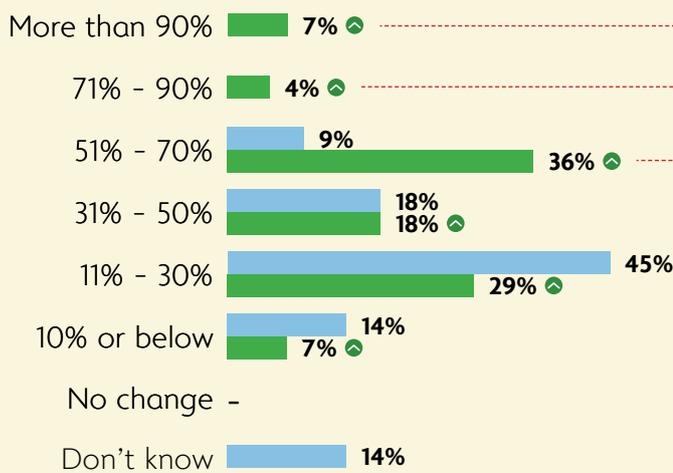


61%

Increased brand loyalty

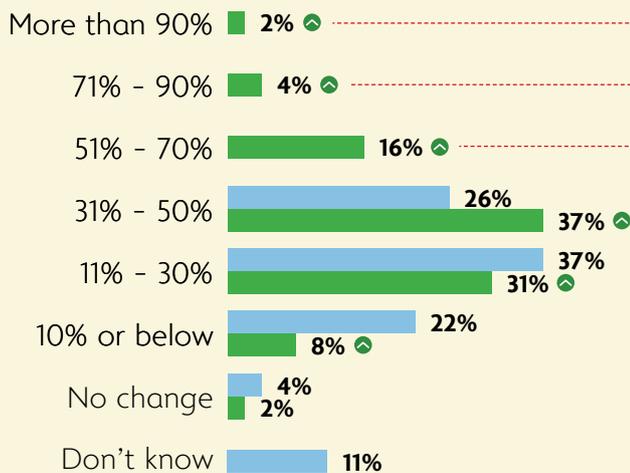
ESG adoption and reporting enhance transparency and strengthens a company's risk management practices, both of which are critical factors in influencing firm performance, driving long-term value creation, and building trust and loyalty among stakeholders.

Revenue Uplift



47% of ESG adopters observed more than 51% of revenue uplift after incorporating ESG practices.

Cost Savings



22% of ESG adopters observed more than 51% of cost savings after incorporating ESG practices.

● ESG 1.0 ● ESG 2.0

Services Sector

03 >

Source of Funding

Not applicable for Non-ESG Adopters

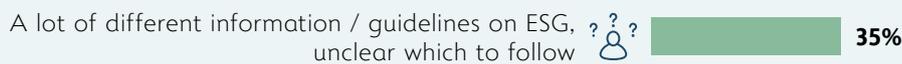


53% of SMEs were more inclined to self-fund their ESG initiatives, while 35% have turned to available development financial institutions and 25% sourced funding from banks.

04 >

Challenges

Not applicable for Non-ESG Adopters



The cost of implementing ESG practices is high due to the significant financial investment at the initial stages of an ESG journey.

05 >

Key Support



Key Support to Continue ESG Journey



Key Support to Embark on ESG

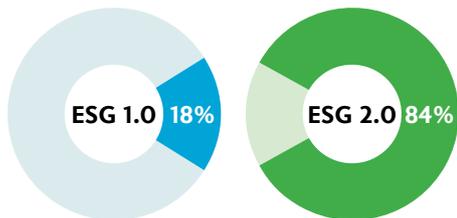


Having too many different ESG guidelines or information is a challenge, and SMEs may struggle with understanding and complying with complex ESG regulations. Having clear and official guidelines that are relevant to SMEs' businesses can make it easier for them to navigate the landscape. Tax incentives can also help reduce the financial burden associated with implementing sustainable measures, such as reducing initial investment costs or encouraging ESG training and capacity building.

Chapter 6 - Sectoral Comparison

**Manufacturing Sector**

  
**Awareness Level**



  
**Adoption Level**



The increase in ESG adoption reflects the government’s concerted efforts to transform the manufacturing sector, notably through initiatives such as the introduction of the New Industrial Master Plan (NIMP) 2030 and the i-ESG Framework. Compliance with ESG standards enhances supply chain resilience and maintains global competitiveness of SMEs, especially as many of these adopters are B2B exporters to global MNCs and markets. The rise in full ESG adopters within the manufacturing sector can be credited to these external factors, including regulatory compliance and targeted government support<sup>1</sup>.

**ESG Awareness And Adoption Soar, Driven By Metal, Consumer Goods And E&E Sub-sectors**



**Key Takeaways**



The metal industry plays a significant role in industrial process and product use (IPPU) emissions. To align with Malaysia’s 2050 Net Zero target, it is critical for this sub-sector to enhance energy efficiency and pursue decarbonisation efforts, leveraging strategies such as carbon audits, taxation policies, and ESG criteria in manufacturing licensing<sup>2</sup>.

<sup>(1)</sup> Ministry of Investment, Trade and Industry (MITI). iESG. MITI. <https://www.miti.gov.my/index.php/pages/view/9849>

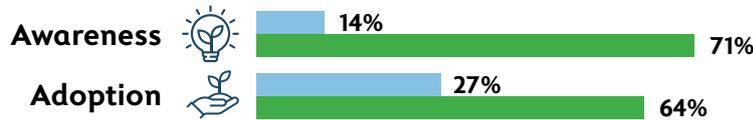
<sup>(2)</sup> New Industrial Master Plan (NIMP) 2030. Missions. NIMP 2030. <https://www.nimp2030.gov.my/index.php/pages/view/317>

**Manufacturing Sector**



**Key Takeaways**

● ESG 1.0  
● ESG 2.0

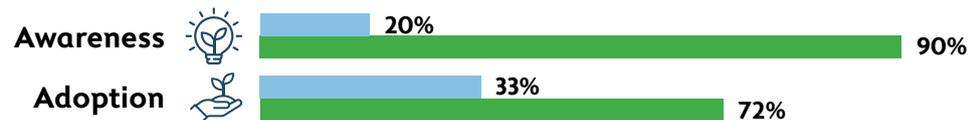


More customers, particularly the younger generations are reportedly shifting their purchasing behavior towards trusted brands that prioritise sustainable practices in their businesses<sup>3</sup>. As a result, SMEs within this sub-sector are exploring ways to enhance sustainability to meet these growing demands.



**Key Takeaways**

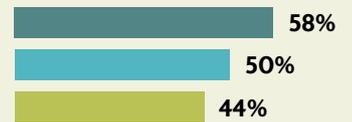
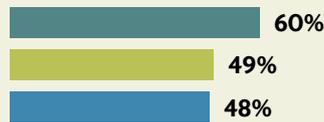
● ESG 1.0  
● ESG 2.0



Sustainable investment in the E&E industry gained greater recognition for its environmental benefits, contribution to employee satisfaction and positive impact on societal progress. To remain competitive in today's global supply chain, local players must adopt more environmentally friendly and ethically oriented approaches<sup>4</sup>.

**Key Insights of Manufacturing Sector**

**01 > Key Reasons to Adopt ESG**



- To meet market demand
- Enhance risk management
- Help to improve productivity
- Obtain cost savings from energy / waste efficiencies

ESG practices not only align manufacturers with sustainability goals, but also lead to tangible cost savings. For example, implementing energy-efficient machinery, lighting, and processes can help lower electricity bills. Transitioning to renewable energy sources, such as solar panels, can help stabilise energy costs in the long term. By incorporating ESG practices, SMEs can also cater to consumer groups that demand for environmentally friendly and socially responsible products.

<sup>(3)</sup> Rogers, K. (2022, November 9). *Future Consumer Index: Five consumer types you need to understand*. Ernst & Young. [https://www.ey.com/en\\_my/insights/consumer-products/five-types-of-consumer-that-you-need-to-understand](https://www.ey.com/en_my/insights/consumer-products/five-types-of-consumer-that-you-need-to-understand)  
<sup>(4)</sup> Malaysian Investment Development Authority (2022, December 31). *OUTLOOK FOR THE E&E INDUSTRY IN MALAYSIA*. MIDA. <https://www.mida.gov.my/outlook-for-the-ee-industry-in-malaysia/>

Chapter 6 - Sectoral Comparison

**Manufacturing Sector**

02 >

**Benefits of ESG Adoption & Reporting**

*Not applicable for Non-ESG Adopters*



**69%**

**Increased transparency**



**52%**

**Better risk management**



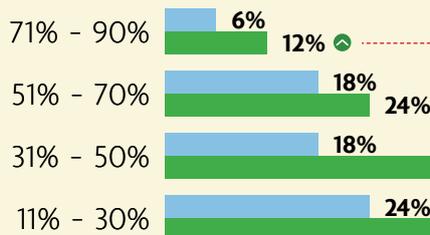
**49%**

**Increased brand loyalty**

ESG adoption and reporting transform risk management for manufacturers by providing them with data-driven insights, fostering greater transparency and enabling execution and improvement of ESG strategies.

**Revenue Uplift**

More than 90% -



10% or below 12%

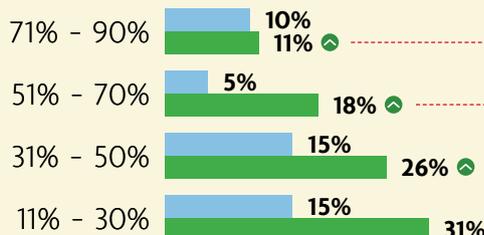
No change -

Don't know 24%

Increase in revenue overall as a result of ESG adoption.

**Cost Savings**

More than 90% 2%



10% or below 30%

No change 5%

Don't know 20%

Cost savings increased across all groups (from 11%) as SMEs are able to quantify these savings. SMEs that previously cited "Don't know" have also reduced significantly.

● ESG 1.0 ● ESG 2.0

**Manufacturing Sector**

03 >

**Source of Funding**

Not applicable for Non-ESG Adopters

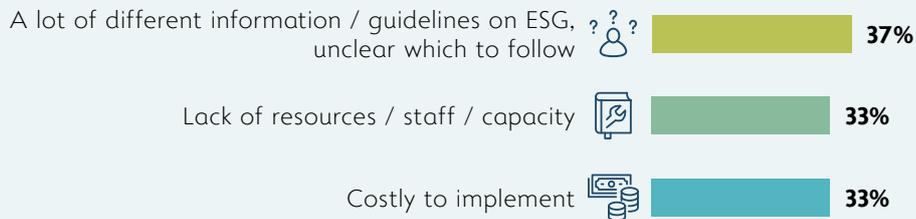


43% of SMEs were more inclined to self-fund their ESG initiatives, with 41% from Development Financial Institutions and 30% from the government, ministries or agencies.

04 >

**Challenges**

Not applicable for Non-ESG Adopters



05 >

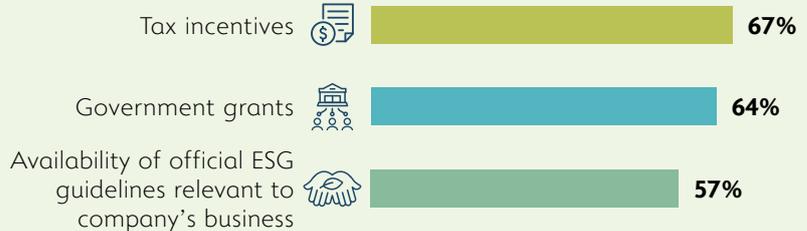
**Key Support**



**Key Support to Continue ESG Journey**



**Key Support to Embark on ESG**



The abundance of ESG guidelines or information can be overwhelming, making it difficult for SMEs to understand and comply with ESG regulations. Providing clear and standardised guidelines tailored to the sector and their businesses can simplify this process. Additionally, tax incentives can ease the financial strain of adopting sustainable practices by offsetting investment costs, such as implementing energy-efficient technologies or purchasing eco-friendly equipment.

Chapter 6 - Sectoral Comparison

Construction Sector

  
**Awareness Level**



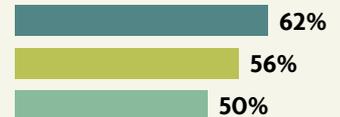
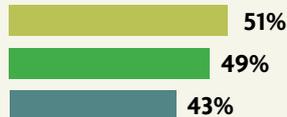
  
**Adoption Level**



The higher conversion rate in ESG adoption reflects efforts in the construction industry to address growing sustainability concerns. These efforts include using renewable and recyclable materials, adopting sustainable construction technologies, green building and minimising energy consumption<sup>1</sup>.

Key Insights of Construction Sector

01 >  
**Key Reasons to Adopt ESG**



- To meet market demand
- Help to improve productivity
- Government tender requirement
- Promote innovation
- Obtain cost savings from energy / waste efficiencies

Since the launch of NCP 2030 in 2021, the government has introduced several strategic initiatives to enforce more stringent quality assessments, such as QLASSIC for construction quality and SHASSIC for safety. These initiatives have intensified quality control, ensured product compliance, and promoted Government Green Procurement<sup>2</sup>.

Promoting innovation is a key motivation for non-ESG adopters to embrace ESG, fueled by government initiatives such as those from MGTC. These initiatives encourage the use of sustainable construction materials, energy-efficient technologies, and waste-to-energy conversion, driving interest in ESG practices<sup>3</sup>.

<sup>(1)</sup> Construction Industry Development Board (2023, November 14). *Advancements in Construction: Energy-Efficient Building Materials for Sustainable Future*. CIDB. <https://www.cidb.gov.my/eng/advancements-in-construction-energy-efficient-building-materials-for-sustainable-future/>

<sup>(2)</sup> Ministry of Works (2022, October). *National Construction Policy 2030*. <https://www.kkr.gov.my/sites/default/files/2022-10/Dasar-Pembinaan-Negara-NCP2030.pdf>

<sup>(3)</sup> Malaysian Green Technology & Climate Change Corporation (2023, October). *Green Practices Guideline for Construction Sector*. MGTC. <https://www.mgtc.gov.my/wp-content/uploads/2023/10/6-MGTC-GP-CONSTRUCTION.pdf>

Construction Sector

02 >

Benefits of ESG Adoption & Reporting

Not applicable for Non-ESG Adopters



71%

Increased transparency



57%

Better risk management

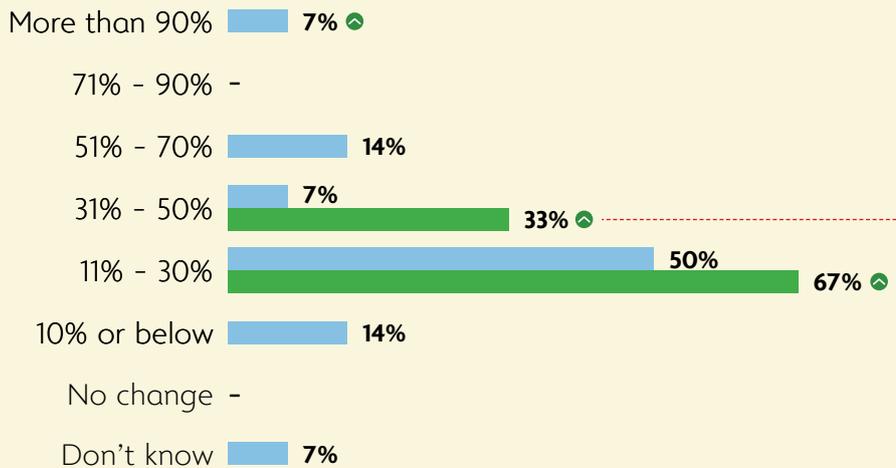


52%

More competitive advantage

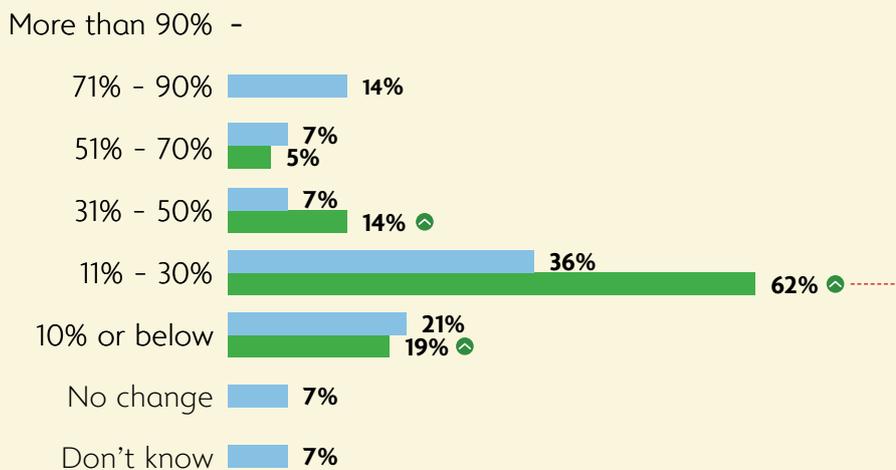
ESG adoption and reporting help ensure transparency about ESG practices, i.e., use of ethical suppliers, waste management sustainable materials, energy consumption, and regulatory compliance.

Revenue Uplift



All ESG adopters within this sector have experienced a revenue uplift between 11% and 50%.

Cost Savings



Similarly, all adopters have achieved cost efficiencies, with the majority realising between 11% and 30% cost savings.

● ESG 1.0 ● ESG 2.0

Chapter 6 - Sectoral Comparison

Construction Sector

03 >

Source of Funding

Not applicable for Non-ESG Adopters

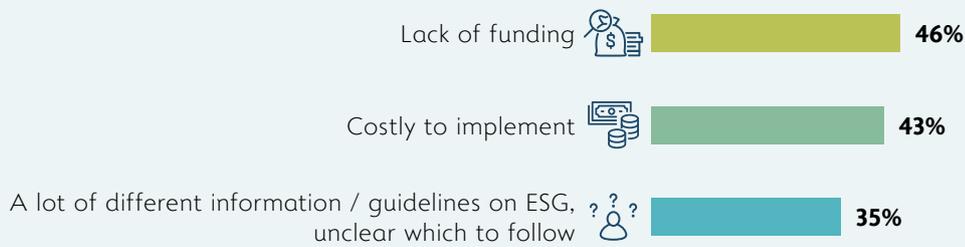


41% of SMEs were more inclined to self-fund their ESG initiatives, and 32% sourced funding from Development Financial Institutions and the government, ministries or agencies.

04 >

Challenges

Not applicable for Non-ESG Adopters



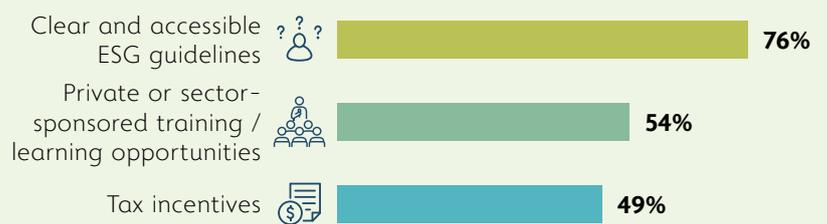
The lack of funding is the primary challenge faced by SMEs when adopting ESG practices. This may be largely due to the substantial upfront costs associated with implementing energy-efficient equipment and renewable energy systems.

05 >

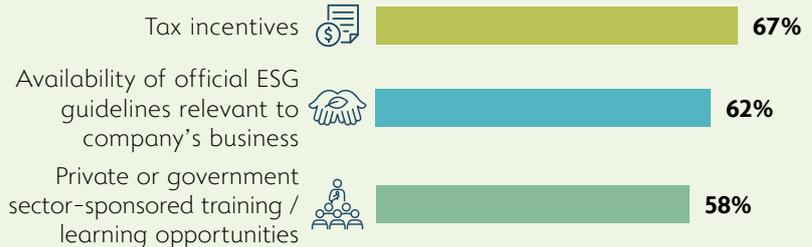
Key Support



Key Support to Continue ESG Journey



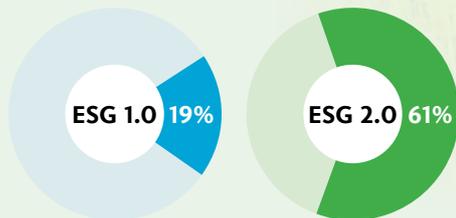
Key Support to Embark on ESG



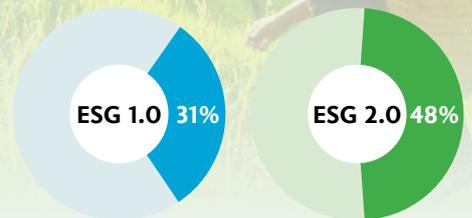
The wide range of ESG guidelines and information poses challenges for SMEs. Developing clear, construction-specific guidelines can help these SMEs integrate sustainable practices more effectively. Since a lack of access to funding is also a challenge, tax incentives can support SMEs in adopting ESG practices, such as the adoption of green construction materials and technologies.

**Agricultural Sector**

**Awareness Level**



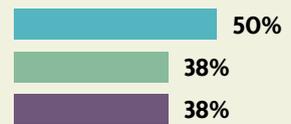
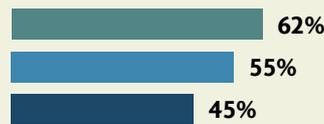
**Adoption Level**



The agricultural sector plays a vital role in global food security and has immense potential to drive sustainability through practices that promote environmental stewardship, boost productivity, and uphold ethical standards. The rise in ESG awareness and adoption could be driven by initiatives that enhance these standards, improve efficiency, and expand market access.

**Key Insights of Agricultural Sector**

**01** >  
**Key Reasons to Adopt ESG**



- Promote innovation
- Help to improve productivity
- Enhance risk management
- Market expansion / attract new customers
- Client / export market requirement
- Obtain cost savings from energy / waste efficiencies

Incorporating sustainability practices in agriculture can result in cost savings and improved efficiency. Employing practices, such as efficient farming techniques, optimising resource utilisation, and adopting efficient irrigation systems can help reduce input costs and enhance resource efficiency.

Using technology to increase productivity and minimise labour-intensive work is essential to attracting more young people to agricultural activities. By adopting advanced technologies, innovation and ESG practices, the agricultural sector can become more efficient, innovative, and appealing to the younger generation. This will address the challenges of an ageing workforce and ensure the industry's future sustainability<sup>1</sup>.

**02** >  
**Benefits of ESG Adoption & Reporting**



**67%**

**Increased transparency**



**50%**

**Better risk management**



**50%**

**Increased brand loyalty**

*Not applicable for Non-ESG Adopters*

By committing to ESG practices i.e., organic farming, integrated pest management, and responsible water usage, SMEs can tap into growing market demand to boost customer engagement and advocacy<sup>2</sup>.

<sup>(1)(2)</sup> Malaysian Green Technology and Climate Change Corporation (2023, October). Green Practices Guideline for Agriculture & Plantation Sector. MGTC. [https://www.mgtc.gov.my/wp-content/uploads/2023/10/5-MGTC-GP\\_AGRICULTURE-PLANTATION.pdf](https://www.mgtc.gov.my/wp-content/uploads/2023/10/5-MGTC-GP_AGRICULTURE-PLANTATION.pdf)

Chapter 6 - Sectoral Comparison

**Agricultural Sector**

**03** >  
**Source of Funding**

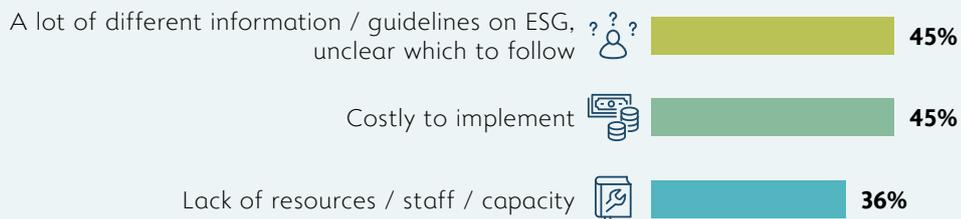
Not applicable for Non-ESG Adopters



55% of SMEs were more inclined to self-fund their ESG initiatives, while 27% preferred peer-to-peer lending and investments from business partners.

**04** >  
**Challenges**

Not applicable for Non-ESG Adopters



With too many ESG frameworks in the market, SMEs find it difficult to choose the one that best aligns with their business, leading to confusion and inconsistencies. ESG practices also require costly investments, such as solar panels, irrigation systems, or organic farming equipment.

**05** >  
**Key Support**



Tax incentives can play an important role to encourage SMEs to adopt ESG practices, such as adopting environmentally friendly farming methods or purchasing eco-friendly farming equipment like drip irrigation systems and solar pumps. As statistics from the Muda Agricultural Development Authority (MADA under the Ministry of Agriculture and Food Security) revealed that the agricultural sector was still dominated by the elderly, with an average age of 60 years, Relationship Managers play a crucial role in educating these SMEs on the financial benefits of ESG practices.



# 07

## WAY FORWARD

“ESG has helped Malaysian SMEs to compete effectively within global supply chains and to advance the national goal of increasing SMEs exports to 25% by 2025. This ESG 2.0 Report provides a comprehensive update, highlighting progress while pinpointing areas where Malaysian SMEs can enhance their ESG practices. With an expanded focus on key segments, including halal SMEs, INCEIF is committed to be the thought leader in positioning sustainability within the Islamic finance industry and halal economy.”

**DR MARJAN MUHAMMAD**

Deputy President Research of ISRA Research Management Centre, INCEIF University

Chapter 7 - Way Forward

## Overall, ESG Awareness And Adoption Among SMEs In Malaysia Have Increased Since ESG 1.0

It is crucial for SMEs to know where and how to start their ESG journey, as it helps them optimise the time, cost, and resources required for their sustainability efforts. Today, there is clear progress among businesses in Malaysia as they transition steadily towards a more sustainable operating environment, with the manufacturing sector leading the way.



		Overall	Services	Manufacturing	Construction	Agriculture	
<b>General ESG Awareness Level</b>	ESG 1.0	14%	12%	18%	12%	19%	
	ESG 2.0	80%	78%	84%	77%	61%	
<b>General ESG Adoption Level</b>	ESG 1.0	28%	30%	28%	23%	31%	
	ESG 2.0	60%	50%	69%	60%	48%	
<b>Key Trends / Motivators</b>	>	Ramped up efforts by the government to increase awareness and adoption through various initiatives (e.g., NIMP, i-ESG, etc.)	Changes in consumer demand and appealing government initiatives motivate SMEs to adopt ESG frameworks and practices	The global market's push for ESG compliance and sustainability, along with stringent regulations and an increased need for supply chain transparency, etc.	Increased emphasis on sustainable practices in the construction industry (e.g., the use of renewable and recyclable materials, green building etc.	Growing consumer awareness and demand for sustainably produced food are encouraging agricultural SMEs to integrate ESG practices; the need for long-term sustainability practices	
<b>Segment Change (ESG 1.0 vs. 2.0)</b>	<b>Full Adopters</b>	>	+19%	+15%	+30%	+11%	+6%
	<b>Partial Adopters</b>	>	+12%	+5%	+11%	+26%	+11%
	<b>Midst of Exploring</b>	>	-5%	+5%	-10%	-21%	+20%
	<b>Have Not Considered</b>	>	-27%	-24%	-31%	-16%	-36%

To further boost adoption rates among businesses that have yet to embrace ESG, or motivate adopters to continue their sustainability journey, the way forward is to provide resources and guidance to support ESG integration.

## Services Sector

Despite having only **50% of SMEs currently adopting ESG**, the services sector presents a significant opportunity for growth in sustainability practices. To encourage higher adoption in the future, these types of support are required for businesses in this sector:



### 01 | Enhance ESG Education

To improve awareness and adoption, it is essential to develop more targeted workshops and online courses focusing on practical tailored ESG applications (e.g. targeted to F&B and Retail SMEs).



### 02 | Financial Incentives

To provide tax incentives and grants for SMEs adopting ESG practices, particularly for those in high-consumption sectors like F&B.



### 03 | Simple ESG Guidelines

To create clear, sector-specific ESG guidelines to reduce confusion and assist SMEs in efficient ESG reporting and adoption.



Chapter 7 - Way Forward



## Manufacturing Sector

Compared to the other three sectors, the report shows the **manufacturing sector as having the highest rates of adoption at 69%**. Despite this high adoption rate, there is still room for further improvement within the sector. This can be achieved through targeted initiatives that provide better support and expedite progress.



### 01 | Sector-Specific Training

To offer specialised training programmes such as for metal processing, consumer goods, and E&E manufacturing sectors, aimed to help these SMEs navigate ESG compliance both locally and abroad.



### 02 | Streamlined Reporting

To develop a streamlined ESG reporting framework tailored to the manufacturing sector to address confusion from multiple guidelines.

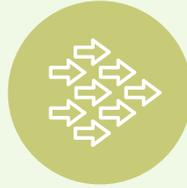


### 03 | Enhanced Financial Support

To increase access to government grants and tax incentives to offset the high costs of ESG implementation, particularly for B2B exports.

## Construction Sector

The construction sector saw an **improvement in the adoption of ESG practices, and is now standing at 60%** from 23% (2023). However, there is also still room for further adoption within the sector, which requires specific support.



### 01 | Targeted Guidelines

To develop clear, accessible ESG guidelines specifically for the construction sector to streamline adoption and reporting.



### 02 | Financial Incentives

To provide more substantial tax incentives and grants to support the financial burden of adoption of green technologies and sustainable practices.

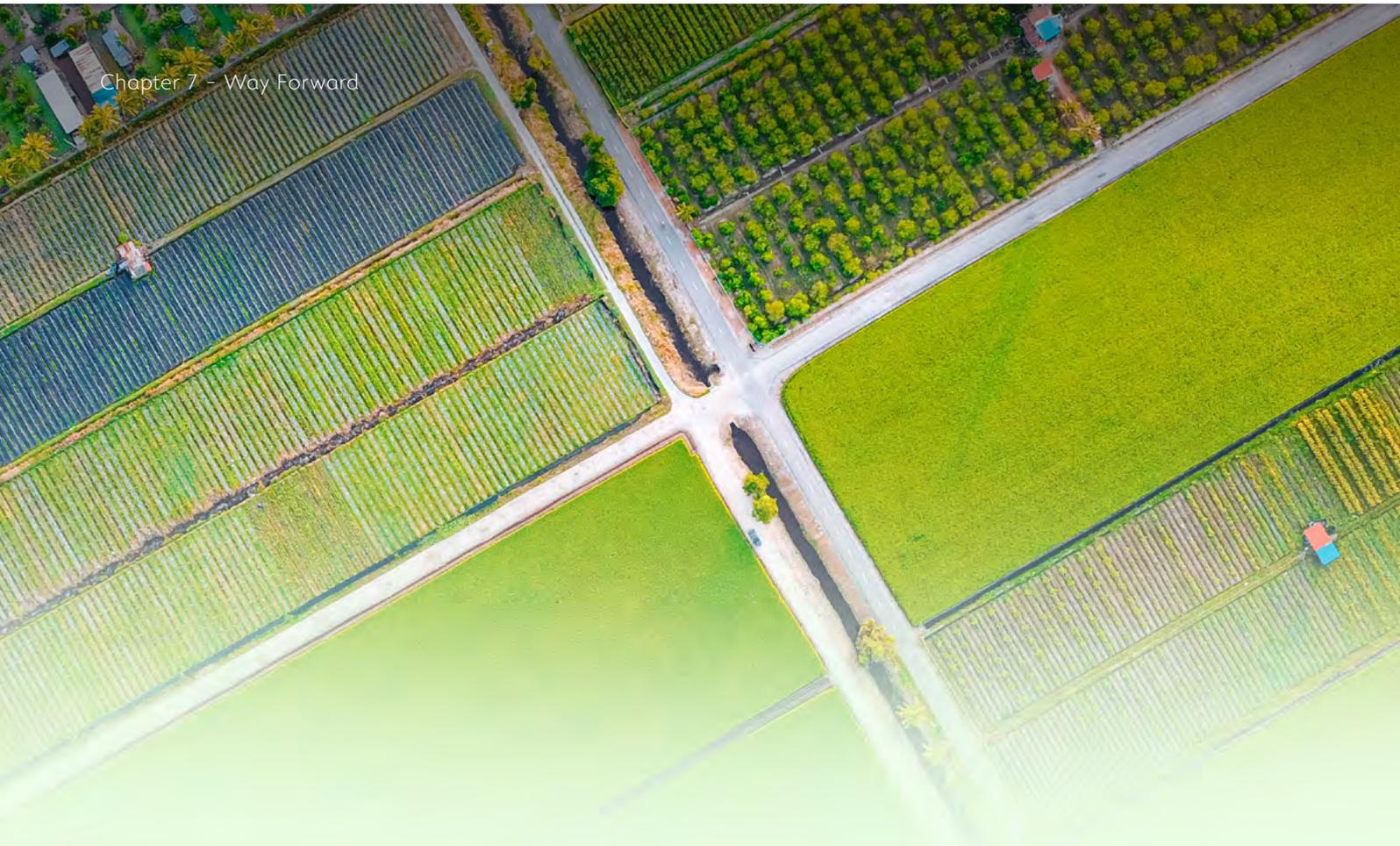


### 03 | Sector-Specific Training

To expand government-sponsored training programmes focused on sustainable construction practices and ESG compliance.



Chapter 7 - Way Forward



## Agricultural Sector

ESG 2.0 showed the agricultural sector has slightly **improved in adoption rates, with 48% of the sector having adopted ESG practices** from 31% (2023). Yet, the sector as a whole will require more support to ensure further adoption.



### 01 | Technological Integration

Promoting advanced technologies like AI, drones, and robotics enhances agricultural productivity, aligning with ESG goals by fostering innovation, sustainability, and attracting younger generations.



### 02 | Sector-Specific Training

To implement comprehensive training programmes on sustainable agricultural practices and ESG reporting tailored to the agricultural sector.



### 03 | Enhanced Financial Support

To increase tax incentives and government grants to facilitate the adoption of green technologies and sustainable practices, ensuring long-term viability and competitiveness.

## SUPPORTING SMEs ON THEIR JOURNEY TOWARDS SUSTAINABILITY

In helping to create a sustainable community that inculcate environmentally responsible actions, positive social ethics and good governance, Alliance Bank designed and launched its 3A's Approach, to support various stakeholders in their journey towards sustainability.



### Advocacy

where we create awareness through ESG surveys and relevant thought leadership resources such as ESG Survey Reports, ESG Barometer, Sectoral Playbooks and others to encourage adoption of ESG practices among SMEs.

### Advice

where we offer practical consultations and diagnostic tools such as the PROGRESS Climate diagnostic tool, co-developed with UNGCMYB to help businesses develop their own climate reports and sustainability roadmaps. The Bank provides incentives in the form of preferential financing rates as businesses transition or improve on their climate maturity levels as determined by the tool. To date, we have helped over 1,000 businesses kick-start their ESG climate journey.



### Answers

where we provide relevant banking and non-banking solutions to support businesses on their journey. To date, we have exceeded RM12 billion in new sustainable banking business and is on track to achieve the RM15 billion goal ahead of time.



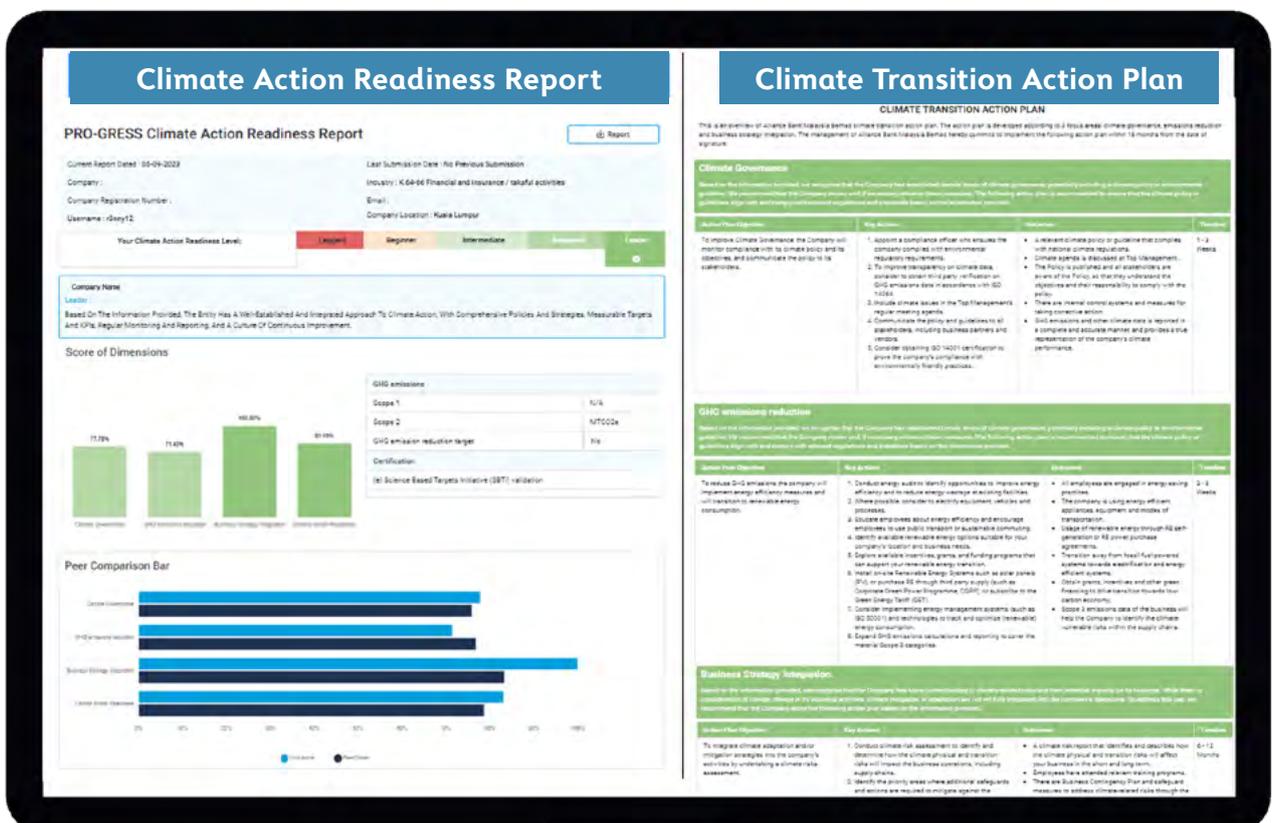
Chapter 7 - Way Forward



# Specially Designed Tool To Help SMEs Assess, Adopt And Integrate ESG Principles

In partnership with UNGCMYB, Alliance Bank is proud to introduce a free and simple climate assessment tool for SMEs - **PROGRESS** (PROmoting Green Resilient & Sustainable SMEs). The tool provides a peer benchmark and generates a tailored climate transition action plan for business owners. The assessment measures climate performance across three dimensions: climate governance, GHG emissions and business integration. The questions are simplified and curated for corporate supply chain, state ESG programme, and sector focus for SME usage and in a yes / no format. It is optional to key in qualitative data on your carbon footprint.

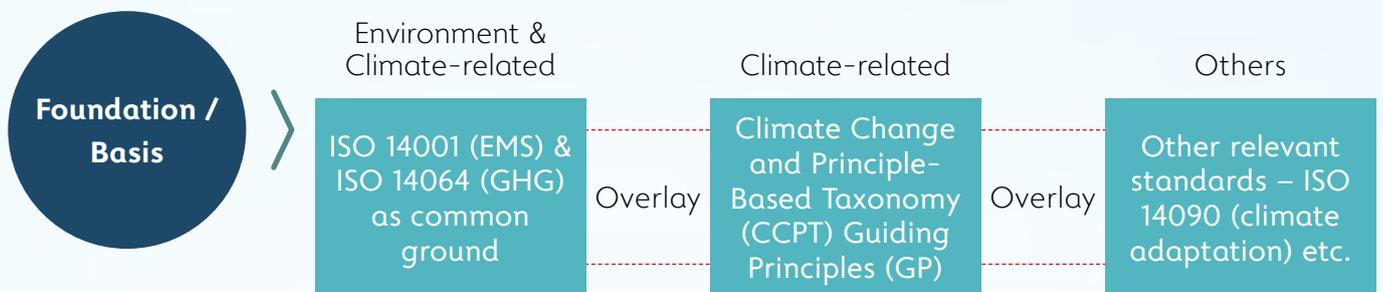
The generated report is a practical guide for SMEs on their sustainability journey. Additionally, based on their climate maturity, SMEs can enjoy preferential financing rates from Alliance Bank for green loans and other working capital needs.





PROGRESS is built based on accepted Environment and Climate related methodologies which will lead to climate improvements.

**PROGRESS is aligned with standards such as:**



**1. Assessment Questionnaires**

- Mandatory binary question (Y/N) with additional / optional open questions for some 'Y' answers
- The questions are to be linked to score; hence classifications as follows:-
  - 80% and above – **Leader**
  - 60% - 79% – **Advanced**
  - 40% - 59% – **Intermediate**
  - 20% - 39% – **Beginner**
  - 19% and below – **Laggard**
- Recommended action plans (1-year) will be generated automatically, based on the climate readiness level

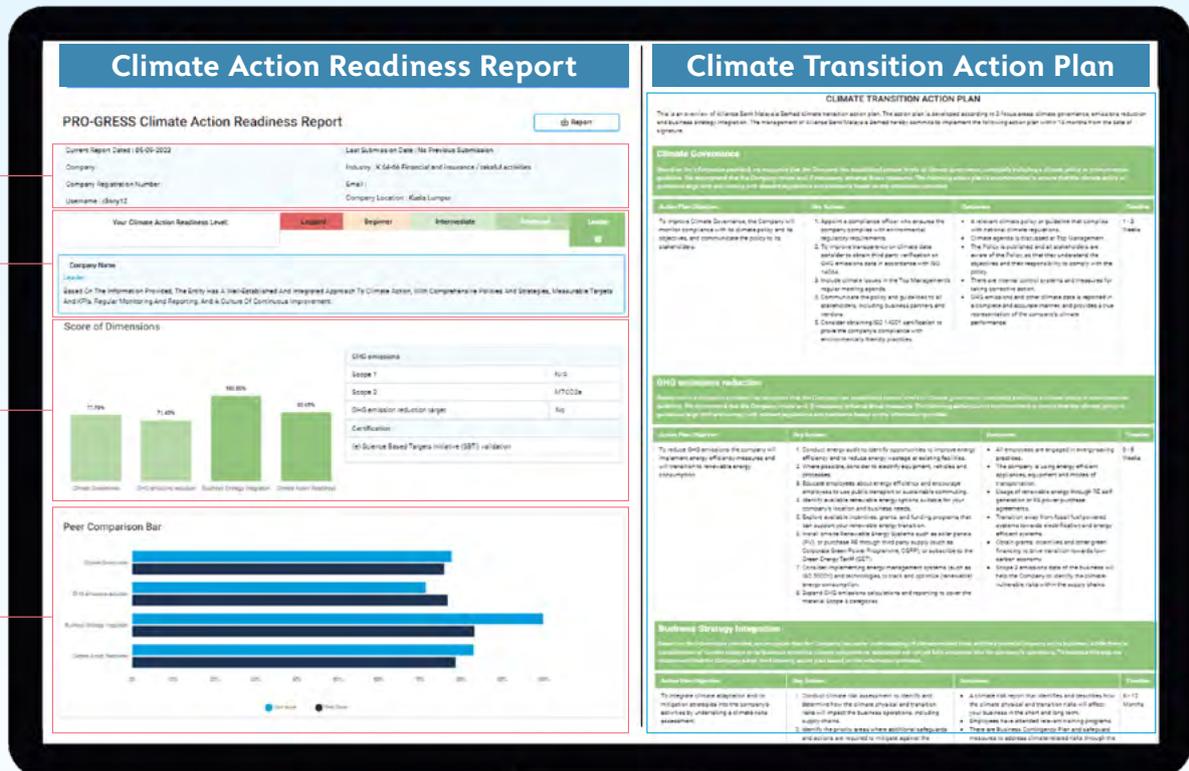


**SCAN HERE**  
for more information about our PROGRESS Tool

Chapter 7 - Way Forward



2. Assessment Outcome



- 1 Your credentials and company details.
- 2 Your climate action readiness rating.
- 3 Your business's climate performance in different dimensions.
- 4 Comparison of scores between your company and others that have completed the assessment.

Learn more about the Key Action steps for improvements that your company can take across the three dimensions of your business.

Timelines are provided as a guide / example of how long it typically takes to complete each action.

3. Tracking

- Completed vs Uncompleted action plans
- Increase vs. Decrease in key indicators

Key Benefits to Corporate User	Key Benefits to SME User
<ul style="list-style-type: none"> <li>• <b>Data dashboard</b> to facilitate annual review of clients / vendors</li> <li>• Assist in decision making and necessary interventions</li> </ul>	<ul style="list-style-type: none"> <li>• Put in place a descriptive climate action transition plan</li> <li>• Access financial incentives</li> </ul>

Alliance Bank will incentivise supplier's transition to sustainability by providing better financing rates as their PROGRESS climate score improves



## Driving Sustainable Change And Empowering The Community Through Education, Research And Leadership

As the largest school at Monash University Malaysia, the School of Business is a leader in innovation, entrepreneurship, and sustainability-driven education. It aligns with the UN Sustainable Development Goals (SDGs) and the Principles for Responsible Management Education (PRME), fostering responsible management practices and creating a positive societal impact through education, research, and engagement.

### Education: Integrating Sustainability into the Curriculum

The School's curriculum incorporates social, environmental, and ethical principles, preparing students to address real-world challenges. Courses such as MGW2991 Leadership in Asia, BEW3001 Ethics and Sustainability in a Business Environment, and ACM5903 Accounting for Business engage students with sustainability practices and responsible leadership. It also offers a minor in Sustainability and Responsible Management, broadening students' understanding of environmental stewardship and social responsibility.

### Research: Advancing Sustainable Business

The School's research focuses on addressing sustainability challenges across multiple sectors. Its Sustainable Business research cluster investigates ESG, green finance, energy justice, and sustainable consumption. Key research projects include:

- **Enhancing Sustainable Growth among Malaysian SMEs**, exploring ESG adoption challenges and financial institutions' roles (funded through a joint industry-academia matching grant with Alliance Bank).
- **Blockchain in Malaysia's Energy Industry**, developing a legal framework for peer-to-peer energy trading (funded through a Ministry of Higher Education grant).
- **Sustainable Consumption through Voluntary Hostage Posting**, promoting eco-friendly behaviours (funded through a Monash Seed Grant).

### Executive Education: Empowering Tomorrow's Leaders

The SDG Innovation Accelerator for Young Professionals programme, in collaboration with the UN Global Compact Network Malaysia & Brunei, empowers professionals to develop sustainability-driven innovations within their organisations. Over five months, participants from top Malaysian companies, including Prasarana Malaysia Berhad and Yinson Holdings Berhad, tackle critical SDG challenges for their businesses through innovation camps at Monash.

### Looking Ahead

The School of Business of Monash University Malaysia remains committed to driving sustainable business practices through impactful education, research, and professional development, supporting SMEs and business leaders on their ESG journey.



### SCAN HERE

for more information on initiatives by Monash University Malaysia School of Business

Chapter 7 - Way Forward



## Empowering SMEs To Drive Sustainable Growth And Create A Brighter Future Together

Zurich, founded 150 years ago, is a leading multi-line insurer serving people and businesses in more than 200 countries and territories. As the only global brand in the market authorised to hold all four insurance and takaful licenses, Zurich Malaysia offers diverse coverage tailored to individual needs. With a commitment to safeguarding and caring for what matters most, Zurich Malaysia stands as your trusted partner, ensuring peace of mind and financial security, allowing Malaysians to embrace living for an optimistic future.

Zurich’s Sustainability Framework clusters its reporting into three focus areas: **Planet, Customer and People** reflecting its aim to achieve positive outcomes that benefit the planet, customers and people for the longer term.



### Planet Sustainability

Zurich will focus on achieving net-zero outcomes, while also helping to improve the resilience of our planet and society. Reducing emissions lies at the heart of its efforts.

As an investor, since 2019, Zurich has achieved a reduction in emission intensity of 43%<sup>1</sup>. Zurich’s absolute financed emissions declined over the same period by 52%<sup>2</sup>, mainly driven by portfolio activities and structural emission reductions of its investee companies. In 2023, its impact investing portfolio of USD7.9 billion helped avoid a total of 4.5 million metric tons of CO<sub>2</sub>e emissions and benefited 4.6 million people<sup>3</sup>.

<sup>1)</sup> Compared to Zurich’s 2019 baseline

<sup>2)</sup> Compared to Zurich’s 2019 baseline

<sup>3)</sup> Please see [www.zurich.com/sustainability/customers/investing-responsibly/impact-investment](http://www.zurich.com/sustainability/customers/investing-responsibly/impact-investment) for more details on impact investing approach. Impact numbers for 2021 and following include methodology upgrade, as explained in its impact measurement methodology paper: [www.zurich.com/-/media/project/zurich/dotcom/sustainability/docs/zurich-impact-measurement-framework.pdf](http://www.zurich.com/-/media/project/zurich/dotcom/sustainability/docs/zurich-impact-measurement-framework.pdf)



### Customer Sustainability

To meet its customers' changing needs, Zurich is constantly growing its range of sustainable products and services. They are designed to support activities that generate a positive environmental or social impact and contribute to the mitigation of climate risks.

Zurich is determined to handle customer data responsibly as gaining and retaining customer trust is a critical part of how it does business. Zurich strengthened its privacy management capabilities and further deployed Artificial Intelligence (AI) to improve customer service, while mitigating risks through its own AI Assurance Framework.

### People Sustainability

As a global employer and provider of protection solutions to millions of people, Zurich is actively supporting its people to remain employable for the long-term, while addressing customer and societal needs.

Zurich provides its employees with a range of opportunities to grow and to develop their skills and careers. Zurich also supports employees to protect their physical, mental, financial and social well-being. Zurich has received a number of awards and certifications across its Group, recognising its commitment to diversity, equity, inclusion and belonging.

### Looking Ahead

Sustainability is an integral part of Zurich's value system, and Zurich is committed to making its own business more resilient as well as helping its customers prepare for the future. Zurich has integrated sustainability across its Group's strategy, both globally and locally.

To bring its sustainability ambitions to life, Zurich Malaysia will continue to use technology, innovation, learning, partnerships and governance as key enablers of implementation and scaling impact. Every part of its business has a role to play. As an advocate, adviser and role model, Zurich wants to empower individuals, SMEs and organisations to act today and create a brighter tomorrow.



#### SCAN HERE

for more information on initiatives  
by Zurich Malaysia

Chapter 7 - Way Forward



## Championing Malaysia’s Transition To A Green And Sustainable Economy

Malaysian Green Technology and Climate Change Corporation (MGTC) is an agency under the Ministry of Natural Resources and Environmental Sustainability (NRES) mandated to accelerate green growth, advance climate action and inculcate a green lifestyle. By 2030, through its various programmes and initiatives, MGTC aims to facilitate RM100 billion in green investments, create 230,000 green jobs and help Malaysia achieve its net-zero GHG emissions as early as 2050 target.

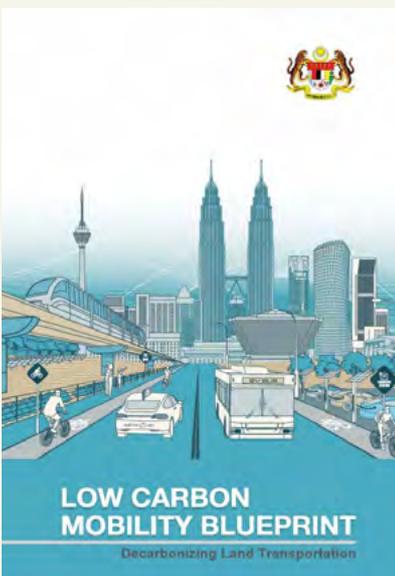
SMEs can leverage few resources provided by MGTC to adopt sustainable practices, improve competitiveness, and contribute to Malaysia’s green transition:

### International Greentech & Eco Products Exhibition and Conference Malaysia (IGEM)



A green technology exhibition and conferences, it links entrepreneurs and investors as well as showcasing the latest innovations to policy makers, government organisations, investors and the general public to create sustainable economic development and inspiring impactful climate action across the region.

### Low Carbon Mobility Blueprint (LCMB)



The policy framework seeks to reduce emissions from the transportation sector, which currently ranks as the second-largest CO<sub>2</sub> emitter in the nation after the energy sector, contributing 25% to 30% of the nation’s GHG emissions with predominantly internal combustion engines (ICE) vehicles on the road. The blueprint deploys a policy framework to mainstream the shift towards electrification in the transportation industry as a key strategy to diminish our emissions and contribute towards the achievement of our national Paris Agreement GHG target.



Green Technology Master Plan Malaysia 2017 – 2030



This document outlines the strategic plans for green technology development to create a low-carbon and resource efficient economy, and sets out the immediate course for the country to embark on a green growth journey. It lays the foundation for the cultivation of mindset and behavioural change, to inculcate green lifestyle among the rakyat. This Master Plan is essential to facilitate the Transformasi Nasional 2050 (TN50), which is an initiative to position Malaysia amongst the top countries in the world in economic development, citizen well-being and innovation by the year 2050.

Looking Ahead

MGTC is committed to supporting Malaysia’s transition to a low-carbon, resource-efficient, and sustainable economy while addressing climate change and ensuring that economic growth goes hand-in-hand with environmental protection and social well-being.



SCAN HERE

for more resources provided by MGTC



## Empowering Sustainability And Ethical Growth For SMEs

Established by Bank Negara Malaysia as a key thought leader in Islamic finance and the halal economy, INCEIF University is committed to advancing ethical and sustainable business practices. Through education, consultancy, research, and beyond, it integrates sustainability and ethical principles into every aspect of its mission, consistently setting new benchmarks for impact, innovation, and global leadership.

### Research: Holistic ESG-I Assessment for SMEs

Dedicated to addressing the unique challenges businesses face in today's complex sustainability landscape, INCEIF University has embarked on a mission to empower the backbone of Malaysia's economy—the MSMEs—ensuring no one is left behind. In partnership with Ficus Capital, the world's first ESG Islamic venture capital firm, they have developed the ESG-i Assessment Framework, a transformative tool that integrates Environmental, Social, and Governance (ESG) principles with Islamic values.



With the support of the Ministry of Higher Education Prototype Research Grant Scheme (PRGS), the framework evolved into an online tool with interactive dashboards where SMEs can assess, track, and download reports on their sustainability performance with recommendations tailored to guide them in their sustainability journey. Through this initiative, supported by strategic collaborators with Alliance Bank, Yayasan Hijau Malaysia, and The Noor, INCEIF is not only facilitating real-world impact but also championing SMEs as drivers of sustainable and responsible growth.

### Research: Advancing Sustainable Business

The MBA in Sustainable Business at INCEIF University is a transformative programme designed to equip professionals with the knowledge and skills to lead in the evolving ESG landscape. With a curriculum that integrates sustainable practices into advanced management techniques, courses such as Sustainability Management and Investment, Social Finance, and Ethics and Governance prepare students to balance financial sustainability with impactful ESG dimensions. Graduates benefit from learning directly from industry leaders and academics with real-world expertise through hands-on projects, case studies, Action-Based Learning, and professional coaching.



### Executive Education: Empowering Professionals in Sustainability

The Masterclass on Sustainability, hosted by INCEIF University, empowers professionals to navigate the complexities of ESG integration and sustainable business practices. Designed to foster impactful leadership, the programme delves into critical areas such as achieving net-zero emissions, leveraging carbon markets, and aligning corporate strategies with Environmental, Social, and Governance (ESG) principles. Through engaging discussions and actionable frameworks, the programme equips tomorrow's leaders with the tools to drive meaningful change in their organisations and beyond.

### Looking Ahead

INCEIF University remains committed to integrating ESG principles into Islamic finance, preparing the next generation of leaders to shape sustainable and ethical economies. By fostering innovation, education, and partnerships, the university is building pathways for businesses to align with global sustainability goals while adhering to Islamic ethics.



### SCAN HERE

for more information on  
initiatives by INCEIF University

## Chapter 7 - Way Forward

## CONCLUSION

With Malaysia's Nationally Determined Contribution (NDC) target of 45% in reduction of economy-wide greenhouse gas (GHG) emission intensity by 2030 and the nation's ambition to achieve net zero ambition by 2050, it is evident that, collectively, we have much work to do.

As businesses play a crucial role in advancing Sustainable Development Goals (SDGs), SMEs must accelerate their action and collaborate in new ways to make a significant impact or drive meaningful change to move the ESG needle. We at Alliance Bank are committed to playing our part. As the time for increased commitment and action is now, we're proud to collaborate with Monash University, Zurich Malaysia, the United Nations Global Compact Network Malaysia & Brunei (UNGCMYB), Malaysian Green Technology and Climate Change Corporation (MGTC), SME Corporation Malaysia, and INCEIF University in raising awareness of ESG among the SMEs in Malaysia and supporting their adoption of sustainable practices to create a positive

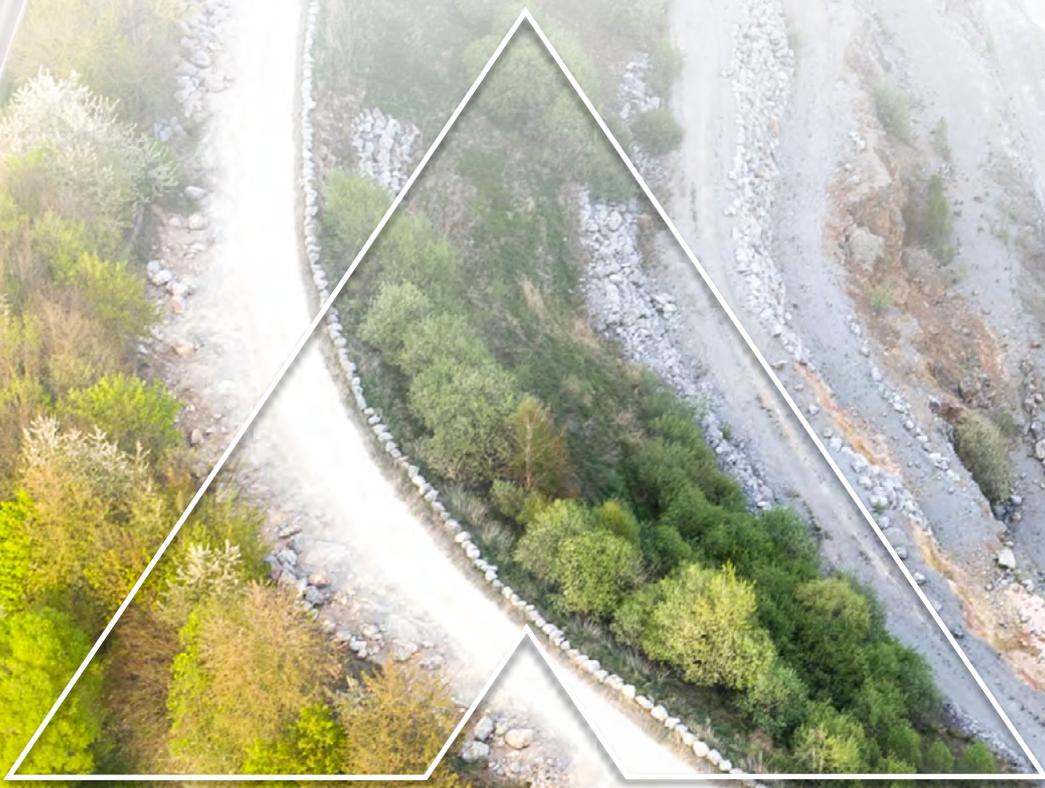
impact to their businesses, local communities and the environment.

This joint research supports our strategy to spearhead ESG adoption among businesses as it provides crucial insights into the current landscape of SMEs in Malaysia, revealing their state of readiness in meeting evolving regulatory, market, and financial demands as well as potential benefits derived from unlocking new market opportunities.

Looking ahead, we aspire to continuously support companies in integrating ESG principles into their core businesses and make shared success a reality among our key partners and members within the ESG ecosystem.

In closing, we would like to thank all our partners, respondents and supporters for their valuable contributions to this report and for their on-going support in collaborative efforts that make progress possible in creating a sustainable future for all Malaysians.





## APPENDIX

“The ESG 2.0 Report highlights an optimistic shift in SME ESG awareness and adoption. Our goal at Alliance Bank is to continue supporting SMEs in navigating the complex ESG ecosystem through simple solutions focused on managing risks and tapping into the growing green market opportunities. At the same time, we believe in leaving no one behind and are excited to continue this journey with our esteemed partners to ensure a just and inclusive transition for all.”

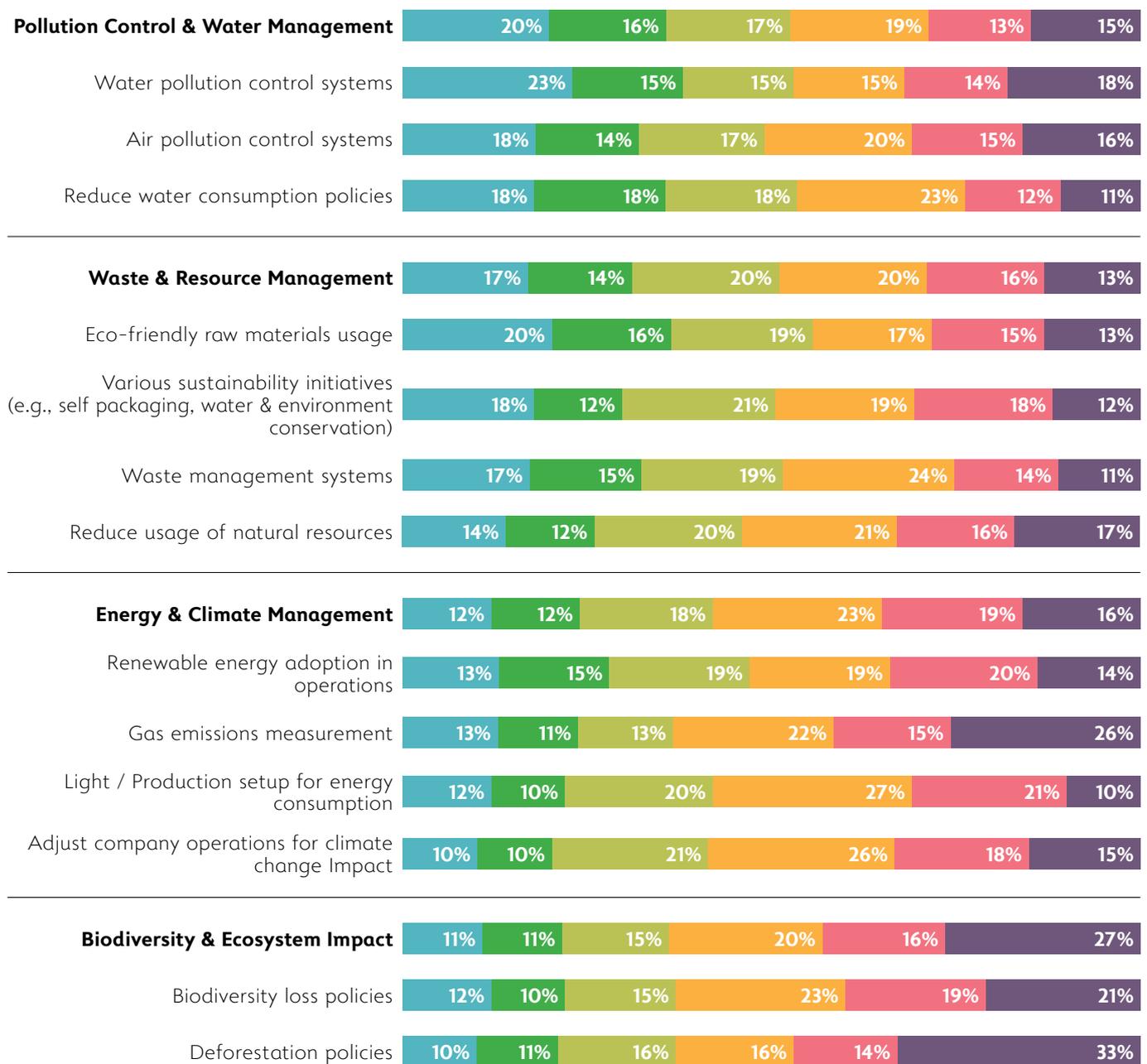
**RIZAL IL-EHZAN FADIL AZIM**

Chief Executive Officer of Alliance Islamic Bank Berhad



## Adoption Level of Environmental (E) Practices

Pollution control and water management are the top environmental priorities, with more than 30% of SMEs already implementing initiatives to control water and air pollution, as well as to reduce water consumption. Additionally, 68% of SMEs were in the exploratory phase of implementing systems like lighting to reduce energy consumption and improve efficiency.

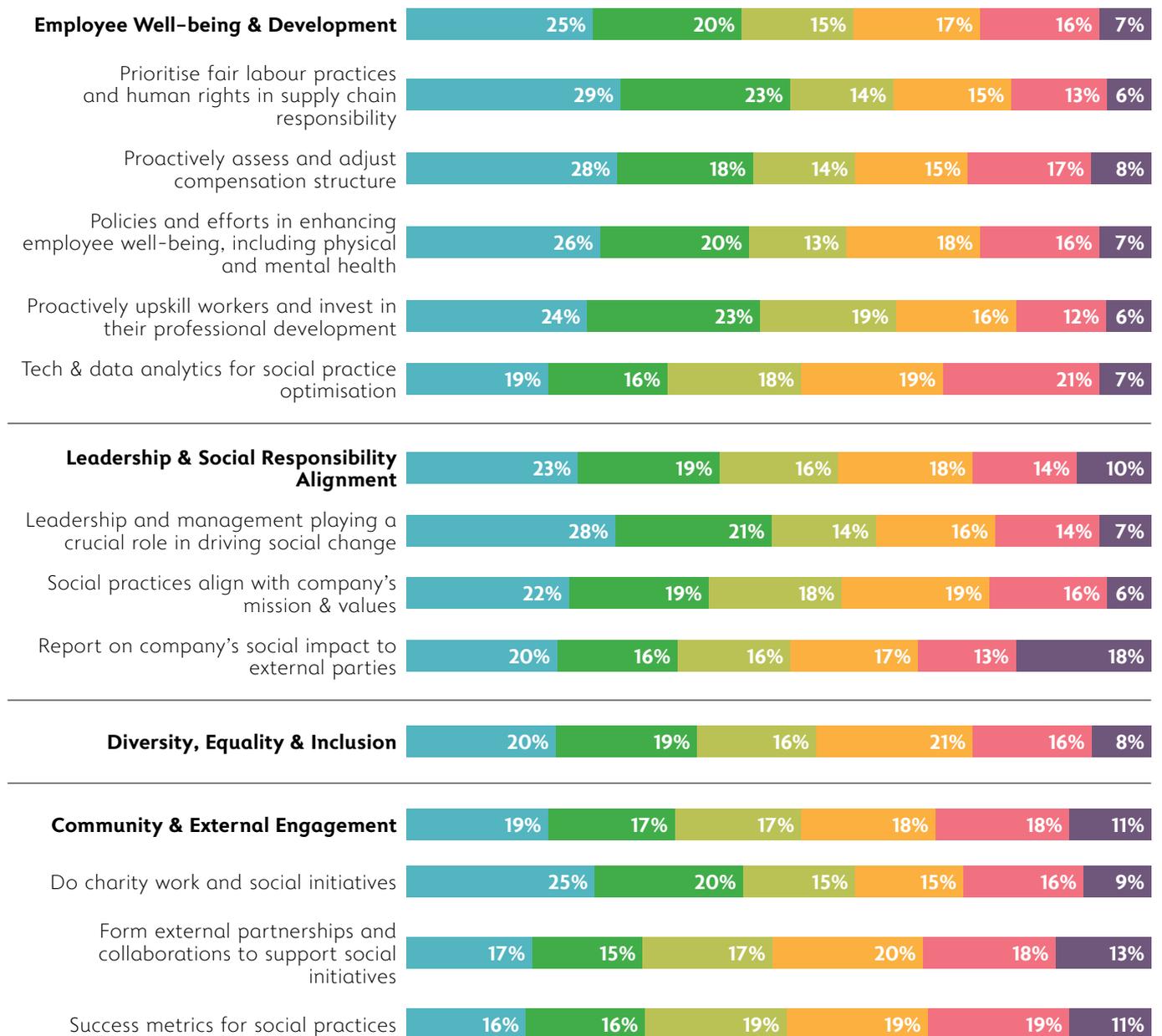


● Highly practised & documented / reported    
 ● Initiation in progress / Launching    
 ● Considering / Recognising  
● Practised, not documented / reported    
 ● Planning / Designing    
 ● Not practising / exploring



## Adoption Level of Social (S) Practices

Within the social pillar, employee well-being and development had the highest adoption rate, with 52% of SMEs prioritising fair labour practices and human rights in supply chain responsibility. Nearly 60% of SMEs were keen to utilise technology and data analysis to evaluate and optimise social practices—for example, to identify critical factors influencing social issues or to predict future trends and outcomes.

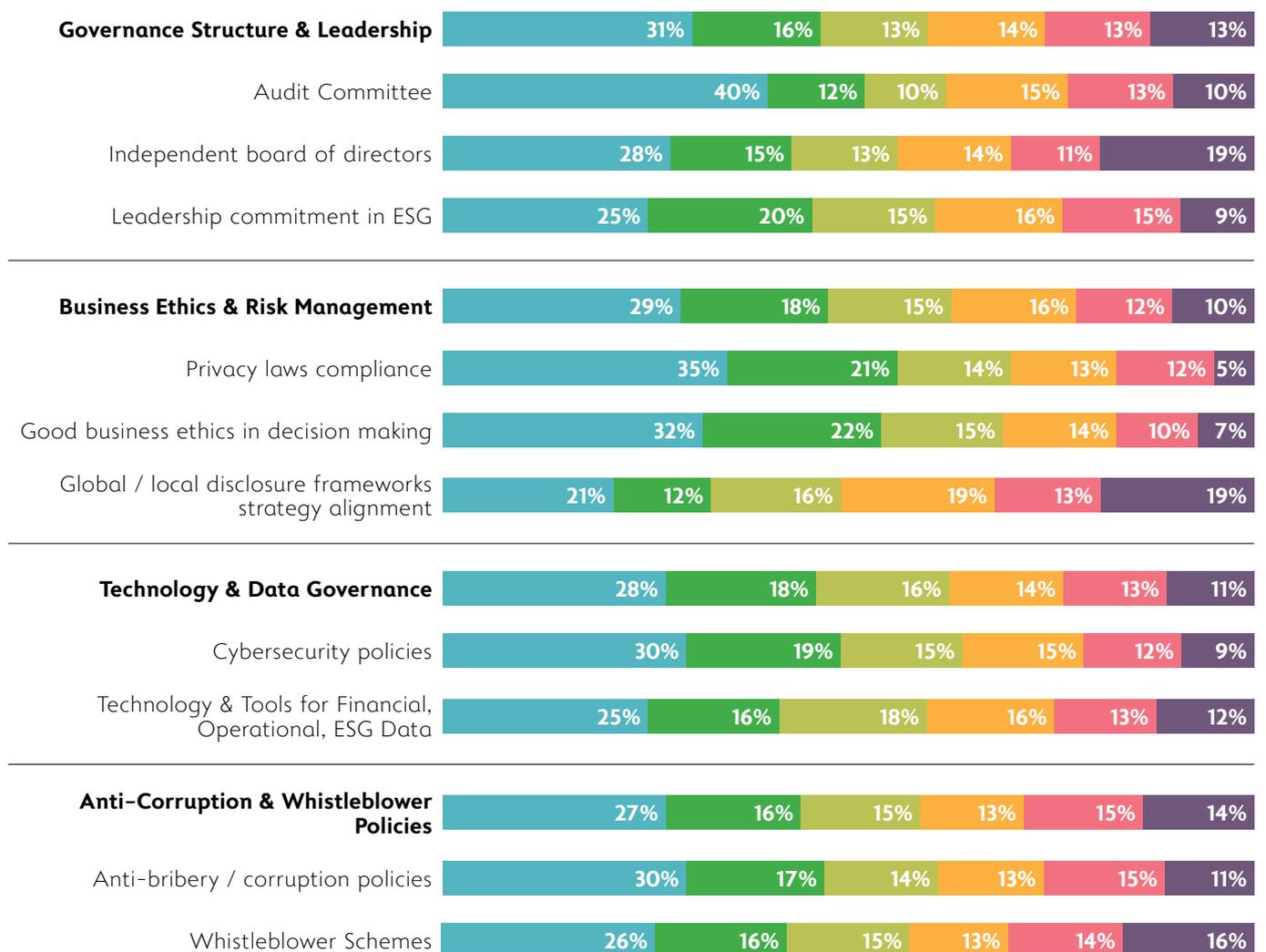


● Highly practised & documented / reported    
 ● Practised, not documented / reported    
 ● Initiation in progress / Launching    
 ● Planning / Designing    
 ● Considering / Recognising    
 ● Not practising / exploring



## Adoption Level of Governance (G) Practices

SMEs prioritised governance practices the most, with more than 50% of SMEs setting up audit committees to help their companies foster transparency, accountability, and strategic alignment with ESG principles. These SMEs also complied to privacy laws and regulations, and incorporated business ethics and strong values into their companies’ operations and decision-making processes.



- Highly practised & documented / reported
- Initiation in progress / Launching
- Considering / Recognising
- Practised, not documented / reported
- Planning / Designing
- Not practising / exploring



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