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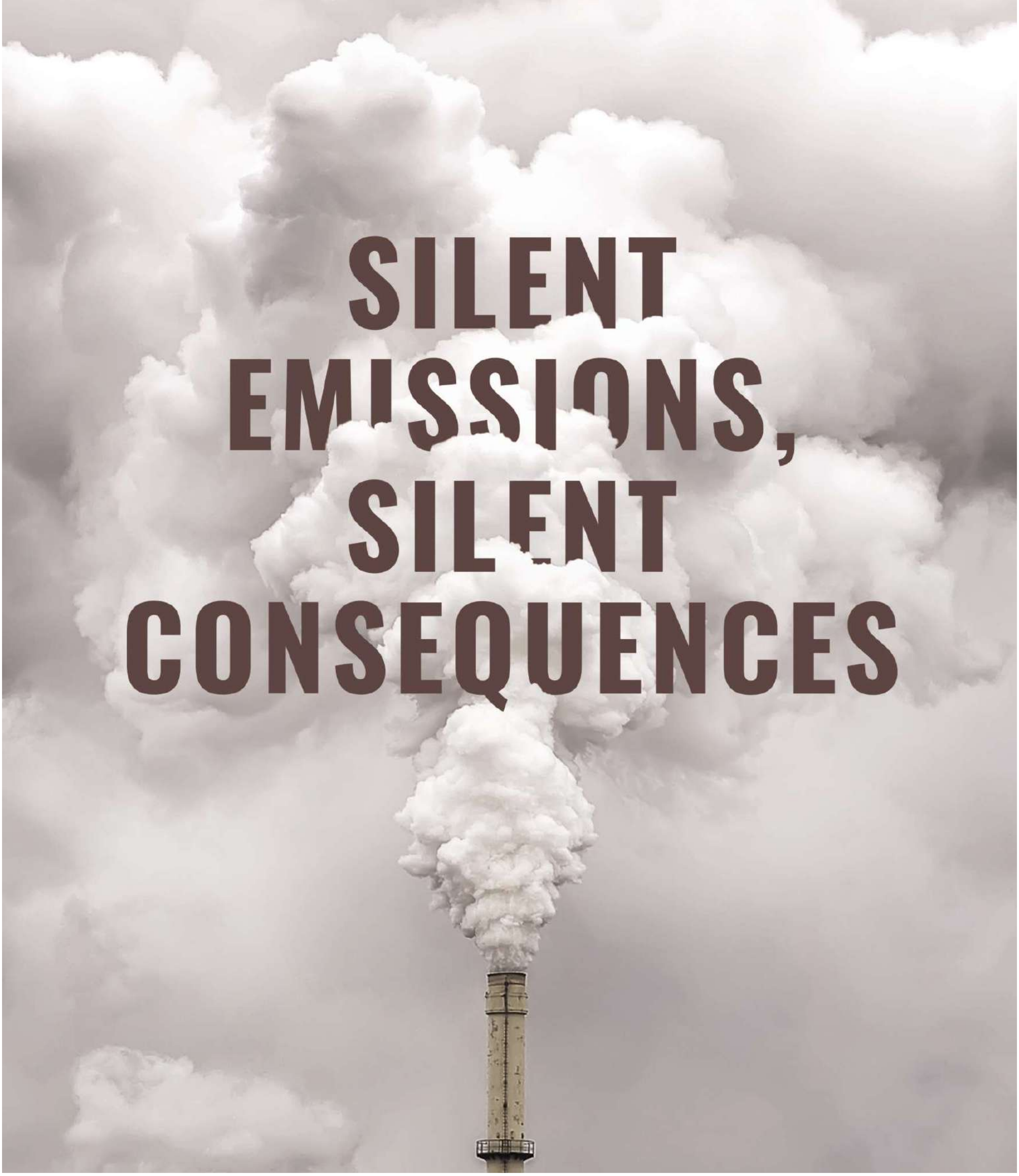
Star ESG
ENVIRONMENTAL SOCIAL GOVERNANCE

SILENT EMISSIONS, SILENT CONSEQUENCES



Greener supply chains, Scope 3 ready

AS global markets and local regulatory environments increasingly prioritise sustainability, Malaysian companies, particularly those operating within the supply chains of large local and multinational organisations find themselves under increasing pressure to be able to disclose and report on their ESG practices.

Adopting ESG practices and adhering to global disclosure requirements is not without its challenges but companies willing to invest in their sustainability efforts will find that these will unlock various strategic, financial and operational benefits.

Access to global markets

An estimated 80% of emissions globally are classified as Scope 3. This means that for many companies, the bulk of their emissions are coming from the operations of their suppliers. As more corporations globally commit to net zero targets by 2030 or 2050, they are relying on their suppliers to help them meet these commitments.

A global study by Standard Chartered several years ago revealed that 78% of multinationals (MNCs) will remove suppliers that endanger their carbon transition plan by 2025.

While this poses challenges to suppliers, there are significant competitive advantages. Corporations globally are seeking suppliers that meet not only quality and cost criteria, but also those that are able to demonstrate emissions reduction.

A report by CDP and HSBC released in November 2024 analysing 23,000 companies globally, highlighted that 13% of corporate buyers include climate-related requirements in their supplier contracts and 41% reported engaging their suppliers on climate-related issues.

There is a definite first-mover advantage - companies that are actively reducing emissions, adopting other environmental practices and are effectively communicating these measures will have an edge over their competitors in attracting environmentally conscious customers and end consumers.

Leveraging national policies and incentives

Malaysia has set an ambitious net zero target, aiming to achieve carbon neutrality by 2050. As part of the government's efforts to achieve this goal, two important frameworks were launched in 2023: the National Industrial Masterplan 2030 (NIMP) and the National Energy Transition Roadmap (NETR). The NIMP's overarching goals are to enhance the nation's competitiveness, ensure long-term economic resilience and address global challenges, such as climate change and energy sustainability. Meanwhile, the NETR lays out flagship catalyst projects crucial for navigating the country's shift from traditional fossil fuels to a green economy.

Importantly for SMEs, both frameworks carve out opportunities for SMEs to participate and benefit in Malaysia's energy transition plans.

The conscious consumer

We are living in a time where consumers are increasingly environmentally conscious, and social media trends spread rapidly. In highly competitive sectors, the ability for companies to offer differentiation to attract conscious consumers can lead to increased brand loyalty and market share.

A strong corporate sustainability reputation can be a powerful tool in attracting talent, partners and customers. However, it is equally important to understand and avoid greenwashing, as this

will have the opposite effect on brand reputation.

Growing investor demand

Investors play a critical role in driving accountability and supporting businesses on their decarbonisation journey.

Through their capital, influence and engagement with investee companies, Malaysian institutional investors, private equity and venture capital firms are helping steer businesses towards adopting decarbonisation strategies.

There is also pressure from investors for companies to disclose their environmental performance, including their carbon emissions and strategies for addressing Scopes 1, 2 and 3 emissions.

Several of Malaysia's largest institutional investors have set ambitious aspirations to invest into green and transition assets and made commitments to significantly increase their ESG portfolio allocation.

With growing awareness of climate risk, these investors are paying close attention to how their investee companies are managing their environmental footprint.

Malaysian companies that are demonstrating their ability to measure and reduce emissions, are signalling their attractiveness to global investors, which can enhance their market valuation and access to capital.

The role of the capital market

As large corporations and SMEs navigate the complexities of Scope 3 emissions, the capital market can play a pivotal role in the offering of innovative financial solutions to support companies in meeting the cost of transition.

In Malaysia, large companies have long looked to the debt market to fund sustainability projects, by issuing Sustainable and Responsible Investment (SRI) sukuk and bonds.

To support Malaysian issuers and encourage further issuances, the Securities Commission Malaysia (SC) established the SRI Sukuk and Bond Grant Scheme in 2018 which covers up to 90% of the costs incurred by issuers on independent expert reviews of sustainable sukuk and bond issuances aligned with SC's SRI Sukuk Framework and the Asean Green, Social and Sustainability Bond Standards respectively.

For micro, small and medium enterprises (MSMEs) seeking to fund their transition or to decarbonise, the capital market offers alternative funding options such as equity crowdfunding (ECF) and peer-to-peer financing (P2P).

In this regard, the government's Malaysia Co-Investment Fund (MyCIF), introduced in 2019 to co-invest in MSMEs through ECF and P2P platforms invests on a 1:2 ratio for ECF and P2P campaigns by MSMEs that create an impact in the environment and social impact projects.

Recognising the support needed by Malaysian SMEs operating within global supply chains to decarbonise and to meaningfully report on their sustainability measures, SC affiliate Capital Markets Malaysia published the *Simplified ESG Disclosure Guide for SMEs in Supply Chains (SEDG)* in October last year.

This makes Malaysia the first country globally to provide SMEs within global supply chains with a streamlined and standardised set of guidelines in relation to ESG disclosures.

The SEDG comprises 35 priority disclosures that are aligned with local and global sustainability guidelines, categorised into Basic, Intermediate and Advanced, to cater to the different levels of sustainability maturity of each SME.

Supporting SMEs in their sustainability journey is not just an investment in their future, but a step toward a more resilient economy. Governments, larger corporations, and financial institutions must continue to provide the necessary tools, resources, and incentives to help SMEs overcome the barriers they face.

SMEs can become powerful drivers of change, contributing to a low-carbon economy while reaping the benefits of improved efficiency, innovation, and reputation.

Navina Balasingam
General Manager, Capital Markets Malaysia

ESG IN THE NEWS

DEC 17

- **Ningbo Deye Technology Co**, a Chinese inverter producer, plans to invest up to US$150mil (RM668mil) in building a solar equipment manufacturing base in Malaysia. The company will set up a subsidiary in the country and plans to make photovoltaic equipment and energy storage products in Malaysia.
- **Gamuda Bhd**'s wholly-owned subsidiary in Australia, **DT Infrastructure Pty Ltd** has secured a RM1.8bil engineering, procurement and construction (EPC) in Australia. DT Infrastructure's role in the delivery of the Goulburn River Solar Farm will include the civil, structural and electrical infrastructure required for the 585MW solar farm.

DEC 19

- The outlook for the renewable energy (RE) sector remains positive, driven by the rollout of new projects and ongoing initiatives to support the country's green transition.

According to **Hong Leong Investment Bank (HLIB)** Research, among the coming catalysts for the RE sector include the 2,000MW large-scale solar five (LSS5) programme, 190MW feed-in-tariff (FiT) 2.0 scheme and various floating solar projects.

DEC 23

- The Sarawak government, in partnership with Japan's **ENEOS Corp**, is advancing efforts to jointly develop a competitive supply chain for clean hydrogen production in the form of methylcyclohexane (MCH).

The joint development of **MCH** in the hydrogen supply chain is expected to reduce hydrogen production costs, according to Sarawak Premier Tan Sri Abang Johari Tun Openg.

DEC 24

- **Telekom Malaysia Bhd (TM)** has entered a strategic partnership with Perusahaan Otomobil Kedua Sdn Bhd (Perodua) to drive advancements in electric vehicle (EV) development, digital innovation and sustainable growth.

The move is said to be in line with the nation's vision to create a high-value, competitive automotive sector under the New Industrial Master Plan (NIMP) 2030.

- **Coastal Contracts Bhd**'s wholly-owned subsidiaries, **Coastal Solar Sdn Bhd (CSSB)** and **Pleasant Engineering Sdn Bhd**, as well as **Bina HT Sdn Bhd**, have received a letter of notification on acceptance of offer from the Energy Commission Sabah for the development of a 15.00MW alternating current, large-scale solar photovoltaic plant in Sabah.

DEC 25

- The outlook for Malaysia's power and utilities sector remains positive, underpinned by developments in the RE space, including updates to the Net Energy Metering 3.0 (NEM 3.0) programme.

Under NEM, the energy produced from rooftop solar photovoltaic (PV) installations will be consumed first, and any excess will be sold to **TNB** at the prevailing cost.

DEC 27

- **Bank Islam Malaysia Bhd** has achieved a significant milestone by surpassing its initial target of RM4bil in green financing, achieving RM4.8bil in September 2024, well ahead of its 2025 goal. The bank said this achievement highlighted its key role in advancing Malaysia's green economy.

DEC 30

- Analysts are positive on the power and utilities sector as RE-related engineering, procurement, construction and commissioning (EPCC) works are expected to result in record high order books and revenues in 2025.

According to TA Research, this will be underpinned by the rollout of the 800MW of Corporate Green Power Programme (CGPP) projects and a record 2,000MW in the upcoming fifth large scale solar (LSS5) projects, which is due for commissioning by end of financial year 2025 (FY25), and in FY26 and FY27, respectively.

DEC 31

- RE solutions provider **Samaiden Group Bhd**'s wholly-owned subsidiary, **Samaiden Sdn Bhd (SSB)**, has been shortlisted for the development of a 99.99MW large scale solar PV plant in Pasir Mas, Kelantan.

Samaiden said the project will be developed under a 21-year Solar Power Purchase Agreement with **Tenaga Nasional Bhd**, ensuring a stable and long-term revenue stream for the company.

JAN 1

- **CelcomDigi Bhd**'s post-merger journey has been developing well, particularly in its ESG aspect.

Kenanga Research said the telecommunication group has focused on a dynamic approach for its ESG priorities as things are rapidly shifting.

JAN 3

- **Maybank Investment Bank** said **Cypark Resources Bhd**'s Large Scale Solar 2 (LSS2) projects in Kelantan are expected to obtain its commercial operation date either in January or February – ensuring the RE provider will have scheduled and confirmed payments from **Tenaga Nasional Bhd** for the sale of electricity.

JAN 7

- **Aizo Group Bhd** has been shortlisted to develop a 99.99MW large scale solar (LSS) plant in Kampar, Perak.

"The plant is expected to have an export capacity of 99.99MW and is expected to be a key milestone in advancing Malaysia's renewable energy agenda.

"The project will be executed under a solar power purchase agreement with a tenure of 21 years and is scheduled to achieve its commercial operation date by Oct 30, 2027," it said.

JAN 8

- **Cypark Resources Bhd** has announced that the Danau Tok Uban (DTU) project, which consists of two interconnected floating solar plants, has officially achieved its commercial operational date (COD) for one of the water bodies known as DTU2 with a generation capacity of 30MW alternating current.

JAN 9

- **HSS Engineers Bhd** has announced that the partnership between its wholly-owned subsidiary **HEB Energy Sdn Bhd** and **Unique Fire Holdings Bhd** has secured a contract for the development of a 95MW large-scale solar PV power plant in Hilir, Perak.

The engineering and project management services company said the consortium will incorporate a special-purpose vehicle (SPV) to undertake the award from the Energy Commission (EC).

JAN 10

- **Malaysia External Trade Development Corp (Matrade)** has signed a solar power purchase agreement (PPA) with **Kejuruteraan Cahaya Abadi Sdn Bhd (KCASB)** for electricity consumption savings worth RM500,000 a year.

Matrade chief executive officer Datuk Mohd Mustafa Abdul Aziz said KCASB would implement the solar energy system and maintenance project at the Matrade and Malaysia International Trade and Exhibition Centre (Mitec) buildings.

JAN 11

- **Sime Motors**, the automotive arm of **Sime Darby Bhd**, has partnered with **Malaysia Stadium Corp (PSM)** to promote green mobility by improving EV accessibility and charging infrastructure at Kuala Lumpur Sports City (KLSC).

As a part of the partnership, Sime Motors will supply PSM with two EVs to serve as official vehicles for stadium operations for 24 months. Additionally, an EV charging station will be installed at Bukit Jalil National Stadium, providing convenient charging access to visitors and the surrounding community.

JAN 14

- The ESG Positive Impact Awards is back for its third instalment, with **OCBC Bank (Malaysia) Bhd** returning as the main sponsor.

During the sponsorship announcement at Menara Star, **Star Media Group (SMG)** group chief executive officer Chan Seng Fatt said OCBC's support is a testament to its belief in promoting ESG principles and inspiring positive changes across the business community.

OCBC head of wholesale banking Jeffrey Teoh Nee Teik said sustainability is a shared commitment across all shareholders.

"ESG principles are becoming increasingly vital in shaping the world. In **OCBC**, we hold on to the power of collective action.

"Responsible business practices are no longer optional, they are essential. Each of us has pivotal roles to play in driving positive change and together we can make a profound difference," he said.

- **Solarvest Holdings Bhd** is acquiring three parcels of land totaling 48.86ha in Kuala Muda, Kedah from **Aziho Trading Sdn Bhd** RM19.99mil.

In a filing with **Bursa Malaysia**, **Solarvest** said the proposed acquisition is in line with the company's five year strategic roadmap (2022-2026) to maintain its market leader position in the solar engineering, procurement, construction and commissioning segment and expand its renewable energy asset development business, through securing strategic lands for renewable energy asset development projects.

- **Eden Inc Bhd**'s fully-owned subsidiary, **Daya Cipta Sdn Bhd**, has received a notification letter from the Energy Commission for the development of a 29.99MW large-scale solar PV plant on a site owned by the company in Gebeng, Kuantan, Pahang.
- **Bursa Malaysia** has added a "renewable energy" subsector under its "energy" and utilities classifications to better categorise public-listed companies operating in the RE space.

In a statement, the stock exchange operator said that by segmenting the broader energy and utilities sectors into a specific subsector like RE, investors can gain clearer insights into opportunities within the rapidly growing sector.

JAN 15

- Demand for RE is on the rise following the announcement of the 2025-2027 Regulatory Period 4 (RP4) and the launch of a new RE subsector by the local bourse, says **RHB Research**.

The introduction of the base electricity tariff of 45.62 sen per kilowatt hour, which will be implemented starting in the second half of 2025, is said to have factored in an average three-year demand growth of 4% to 5%.

A total capex of RM42.8bil has been allocated, including RM26.6bil base capex and RM16.3bil contingent capex, which has been earmarked for additional demand and energy transition-related projects.

JAN 16

- **SC Estate Builder Bhd**, via its joint venture with **Anjung Meriah Sdn Bhd**, has been shortlisted by the Energy Commission to develop a 4MW large-scale solar photovoltaic plant in Arau, Perlis.

The company said the award aligned with its mission to build 2,000MW to 3,000MW solar power plants, as well as up to 3,000 units of affordable houses with solar power on the roofs.

Streamlining the path to green financing

Get certified with OCBC's energy efficiency tool for SMEs to access eco-friendly loans more easily

SMEs are allowed to share their SMEEA results with stakeholders, including suppliers and investors, to foster transparency, strengthen relationships, and promote collaboration, which can drive growth and improve their market reputation.

> Through our SME Energy Assessment (SMEEA) tool, we empower businesses to identify and implement energy-efficient practices. OCBC Bank is dedicated to facilitating sustainable financing at every stage of this journey, including the often-overlooked area of transition financing.
>
> **Jeffrey Teoh Nee Teik**
> *OCBC Bank (Malaysia) Bhd head of wholesale banking*

A JOURNEY of a thousand miles begins with one step, Lao Tzu once said. However, that "one step" is often the hardest to take because it requires moving from inaction to action, or even more challenging, shifting from one direction of action to another.

For small and medium enterprises (SMEs) starting their sustainability journey, the first step is often hindered by uncertainties and a lack of resources or expertise to implement changes.

To ease this process, OCBC Bank (Malaysia) Bhd has launched its SME Energy Assessment (SMEEA) tool to enhance SMEs' operational performance and sustainability efforts.

By using the SMEEA, SMEs can identify energy inefficiencies, leading to significant cost savings.

The tool also provides comprehensive education on Scope 1, 2, and 3 emissions, helping SMEs understand their carbon footprint and the importance of addressing these emissions in their sustainability strategies.

By educating businesses on these concepts, OCBC empowers them to take actionable steps toward reducing their environmental impact, which is crucial for long-term sustainability and compliance with emerging regulations.

The insights from the tool not only reduce the carbon footprint but also improve market competitiveness and align with global sustainability goals.

Ultimately, the SMEEA empowers SMEs to make informed decisions, strengthening their business resilience and contributing to a more sustainable future.

Utilising the SMEEA enhances an SME's understanding of energy efficiency and sustainability practices, providing a clear entry point into their sustainability journey. It also serves as a valuable advantage for SMEs seeking green loans.

Zero cost to begin

SMEs should take note that the SMEEA requires data on energy consumption, operations, and sustainability practices, including electricity bills, equipment usage, and existing initiatives.

The more accurate the data, the more tailored and effective the recommendations. The assessment measures key metrics like energy consumption, peak demand, and carbon emissions.

By analysing these, it provides a clear view of energy efficiency and highlights improvement opportunities.

The SMEEA report takes between one to two weeks to generate, depending on the business's complexity and data provided. The initial assessment is free, making it accessible to all SMEs.

While implementing recommended actions later on may involve some costs, the energy savings and efficiency gains typically outweigh these investments.

With a few simple steps, SMEs can easily embark on their sustainability journey and make informed decisions to enhance energy efficiency.

1. Gather property information: Compile essential details about the property, including its size, type, and location.
2. Collect utility bills: Provide electricity bills from the past six months to offer insights into energy consumption.
3. Identify energy-efficient features: List any energy-efficient appliances or features, such as LED lighting, energy-efficient HVAC systems, or smart thermostats.
4. Submit your information: Send the gathered details to OCBC to generate results using the SMEEA tool.

Skeptics of data-sharing can be reassured, as OCBC prioritises the confidentiality and security of SME information.

The bank employs strong data protection measures, including encryption, access controls, and compliance with regulations, to ensure all assessment data remains secure.

Positive outcomes

SMEs can benefit from the SMEEA tool through reduced energy costs, improved sustainability practices, and enhanced operational efficiency.

The tool helps identify energy inefficiencies by analysing energy bills and operational data, providing tailored recommendations to lower costs and boost efficiency.

OCBC Bank's success stories show how SMEs have reduced expenses and enhanced brand reputation. For example, Yongyang Sdn Bhd, a leader in roofing and green building solutions, used the SMEEA tool to access green financing in partnership with the Building and Construction Authority of Singapore (BCA).

Yongyang's director Regine Choo said: "OCBC Bank has supported our sustainability initiatives by offering tailored financing solutions that helped us scale projects effectively.

"Their expertise in green financing has been invaluable in managing costs and investing in new technologies."

After results are generated, SMEs are allowed to share their SMEEA results with stakeholders, including suppliers and investors, to foster transparency, strengthen relationships, and promote collaboration, which can drive growth and improve their market reputation.

Sound advice and guidance

The SMEEA provides practical, tailored recommendations for energy improvements that are achievable for businesses of all sizes.

Each solution is customised to fit the specific needs of the business, ensuring they are realistic and scalable.

Whether upgrading equipment, optimising processes, or adopting renewable energy solutions, the recommendations are designed to be easily implemented by SMEs.

OCBC offers follow-up services to help SMEs track their progress after the assessment. The dedicated team provides ongoing guidance and resources.

Additionally, OCBC is actively exploring financial incentives and subsidies to make it easier for SMEs to invest in energy efficiency improvements.

OCBC steadfast in sustainability

OCBC Bank (Malaysia) Bhd returns as the main sponsor of Star Media Group's ESG Positive Impact Awards (ESG PIA) for the third consecutive year, reinforcing its commitment to a sustainable future.

This sponsorship aligns with OCBC's focus on ESG principles, promoting sustainability, social equity, and responsible governance, while encouraging SMEs and organisations to adopt sustainable practices.

OCBC Bank's head of wholesale banking Jeffrey Teoh Nee Teik said sustainability is a shared commitment across all shareholders.

"ESG principles are becoming increasingly vital in shaping the world. In OCBC, we hold on to the power of collective action.

"Responsible business practices are no longer optional, they are essential. Each of us has pivotal roles to play in driving positive change and together we can make a profound difference," he said in his speech.

Teoh added that participation of businesses in the ESG Positive Impact Awards 2024 demonstrates their commitment in achieving greater change to the environment.

As an enabler of ESG principles, OCBC integrates sustainability into its lending and investment strategies, offering resources like the SMEEA tool to assist SMEs with energy efficiency assessments.

Moving forward, OCBC plans to expand its involvement in ESG initiatives, developing innovative solutions to support sustainable growth and collaboration within the ESG space.

Silent emissions, silent consequences

Turning Scope 3 from adversary to ally

IT is soft yet supportive, moisture-wicking, breathable, and flexible – offering a second-skin feel that provides freedom with every movement.

The fit of each piece of athleisure from this renowned brand flatters and streamlines the body, boosting confidence for anyone who wears its products.

Whether for workouts or casual wear, the brand's gear offers the perfect balance of comfort, performance, and style, making anyone feel ready for any activity.

However, this "luxury" comes at a steep price for both consumers and the environment. To produce its athleisure wear, which has amassed a cult-like following, the brand has accumulated significant Scope 3 emissions.

According to its 2022 impact report, its Scope 3 emissions – indirect emissions from its supply chain – have grown to 1.2 million tons of carbon dioxide. These 2022 emissions are nearly double the company's 2020 Scope 3 emissions.

This has led to environmental advocacy group Stand.earth filing a legal complaint against the Canadian brand, specifically targeting its ESG strategy outlined in October 2020. Part of this strategy included promises to ensure that at least 75% of the company's products would contain sustainable materials and to reduce freshwater use by 2025.

The legal complaint argues that the brand's marketing misrepresents its environmental efforts, implying that the brand has a net positive impact on the planet. The company had claimed that "our products and actions avoid environmental harm and contribute to restoring a healthy planet" and "by adopting and evolving practices and mindful solutions, we enhance the products we offer and contribute to restoring the environment."

It was also highlighted that the company's climate and environmental footprint—particularly from its value chain—is both significant and growing. This could lead to a loss of customer trust and loyalty, ultimately impacting sales and revenue.

Does it matter?

Scope 3 emissions have come under greater scrutiny in recent years. This term, introduced by the Greenhouse Gas (GHG) Protocol, refers to indirect emissions generated beyond a company's direct control. Unlike Scope 1 and Scope 2 emissions, Scope 3 emissions encompass both upstream and downstream activities across 15 distinct categories. Thus, making it notoriously difficult to measure and manage.

Harvard Business Review had reported that Scope 3 emissions are the "fatal flaw" in GHG reporting as companies have been encouraged to exert influence over emissions that they don't control directly. It was stated that the difficulty of tracking emissions from multiple suppliers and customers across multitier value chains makes it virtually impossible for a company to reliably estimate its Scope 3 numbers.

However, ignoring Scope 3 can tarnish a brand's reputation, particularly when customers are becoming more conscientious of the environmental footprint of the products they buy. According to KPMG's Unlocking the Scope 3 Opportunity study, tackling Scope 3 emissions will be critical to achieving any kind of climate goal as they typically make up 70% to 90% of a company's carbon footprint.

Without a robust Scope 3 reporting practice, organisations cannot obtain accurate emissions data necessary to fully decarbonise its supply chains.

Waging war against emissions

Addressing Scope 3 emissions is essential for achieving sustainability goals, as these often account for the majority of a company's carbon footprint. A critical first step is engaging leadership by ensuring the C-suite and board understand the implications of Scope 3 emissions and their impact on business areas. Establishing cross-functional steering committees can help align efforts across the organisation.

Measuring emissions is equally important, with a focus on identifying hotspots within the value chain and prioritising decarbonisation initiatives in those areas. Companies should also model supply chain risks to understand how climate change and other disruptions may pose specific vulnerabilities, enabling swift action to address these challenges.

Opportunities for low-carbon initiatives, particularly in product design, sourcing, and production, can help manufacturing companies build resilient value chains. Collaboration with suppliers is another critical component, as helping them measure emissions and assess the return on investment for decarbonisation supports broader sustainability goals.

Lastly, exploring partnerships with external organisations, such as NGOs, industry associations, or educational institutions, can deepen research and innovation, accelerating the development of sustainable solutions.

Meanwhile, KPMG recommends that once a company has set the necessary targets and the corresponding framework to measure, assess and monitor its Scope 3 emissions, the next step towards decarbonisation will require changes that can tangibly reduce GHG production within the organisation as a whole.

Best practices that can help companies focus on specific themes include establishing organisational ESG governance; setting up an ESG or Sustainability Committee; utilising emissions KPIs or scorecards; linking sustainability progress to executive incentives; and establishing dedicated climate-related taskforces or working groups.

Advancement through collaboration

Collaborating with external organisations can provide a crucial edge for companies aiming to accelerate their decarbonisation efforts, particularly when specialised expertise is required. Key partners may include NGOs, industry associations, universities, government entities, and external consultants, each offering unique benefits.

KPMG's study demonstrates that companies in the Asia Pacific region show a strong preference for partnerships with NGOs (40%) and industry associations (36%), while engagement with government entities (14%) and universities (11%) remains relatively low.

These choices often reflect the environmental and cultural dynamics of specific countries. For example, businesses in China and Japan gravitate toward government partnerships due to the central role of policymakers in shaping environmental regulations.

Conversely, companies in Australia and South Korea favour NGOs, indicative of a robust civil society driving climate advocacy. Australia also stands out for its reliance on external consultants, signaling a strong demand for independent expertise.

However, the study points out that the region's limited collaboration with universities and research institutes suggests missed opportunities. Tapping into these institutions' deep knowledge of climate science could significantly enhance Scope 3 emissions measurement and decarbonisation strategies.

Reduce from within

To successfully decarbonise, companies are recommended to address the core drivers of their environmental impact, particularly their Scope 3 emissions, which stem from the purchase of inputs and the sale of outputs.

The KPMG report stated that these emissions often represent the largest share of a company's carbon footprint. To tackle Scope 3 emissions, companies need to retool several aspects of their operations, such as product design and innovation; product energy efficiency; sustainable sourcing, sustainable packaging

In Asia Pacific, 48% of companies prioritise sustainable product design and innovation, as they have more control over these processes compared to sourcing sustainable materials (41%) and packaging (41%).

Japanese and South Korean companies lead in decarbonisation due to factors like resource scarcity, a focus on technological innovation, and government regulations promoting energy efficiency. These efforts, combined with sustainable design, sourcing, and packaging, will be key to achieving significant decarbonisation in the region.

Downstream versus upstream

Reducing Scope 3 emissions hinges on a company's ability to engage stakeholders across the entire value chain, including suppliers, distributors, and consumers. A robust supply chain engagement strategy builds trust and facilitates effective communication, which is critical for accurate emissions monitoring and implementing meaningful change. Common engagement themes include transparency, incentives, capacity building, and governance.

In the downstream supply chain, companies can cut emissions by optimising logistical networks, such as relocating production sites closer to key consumption centers. Customer engagement also plays a significant role, whether through direct efforts like educational campaigns and reward systems or indirect approaches such as policies and marketing. Companies in Asia Pacific show a preference for direct customer engagement over methods like surveys.

In the upstream supply chain, companies wield significant influence, particularly over tier-1 suppliers. Many multinationals now require suppliers to adhere to strict sustainability standards, a trend extending deeper into supply chains.

For Asia Pacific companies, 66% have integrated environmental and social criteria into their supplier onboarding process, showcasing growing ESG awareness in procurement.

Continuous engagement is vital, as compliance at onboarding may wane over time. While 63% of companies regularly assess or audit suppliers, only 26% prioritise those demonstrating sustainability certifications or actions.

This suggests a tendency toward punitive measures rather than collaborative strategies. Leading practices include phased ESG requirements, training programmes, and active supplier engagement to build capabilities.

In Asia Pacific, 57% of companies have invested in supplier training to improve environmental and social performance reflecting a growing recognition of the need for a supportive, partnership-based approach.

What will happen?

As businesses confront the challenges of the next two decades, addressing Scope 3 emissions will be critical. Companies will need to balance dual roles as both suppliers and customers, necessitating accurate and transparent emissions measurement and reporting.

Evolving regulations and increasing customer demand for verified carbon footprints underscore this urgency. However, these shifts present opportunities for businesses to improve operations rather than just meeting compliance demands.

Investing in advanced data collection and analysis capabilities will enhance emissions tracking and enable smarter decision-making across supply chains. Such digitalisation efforts can drive operational efficiencies, strengthen reputations, and yield benefits beyond sustainability.

By engaging deeply with their value chains, companies can better understand their full GHG impact and implement strategic solutions that contribute to meaningful climate action.

Forward-thinking organisations adopting best practices in operational excellence will not only ensure compliance but also create lasting value and help shape a sustainable future. Tackling Scope 3 emissions is both a responsibility and a strategic advantage.

By addressing Scope 3 emissions, businesses can demonstrate their commitment to sustainability, enhancing their reputation and building loyalty with eco-conscious consumers.

10 industry best practices for Scope 3 emissions reporting

1 Set science-based targets with intermediate milestones that enable progress tracking towards long-term sustainability goals, while also addressing the challenge of maintaining momentum and accountability in the short-to-medium term. Embed these targets into organisations' risk management frameworks to ensure governance on ESG issues and alignment with overall business strategies.

2 Engage in environmental assurance practices to validate the accuracy and credibility of emissions reporting.

3 Link executive incentives to sustainability metrics to foster a culture of accountability and motivation towards environmental goals. Also consider how environmental and Scope 3 reporting skills can be embedded into the existing workforce and roles.

4 Prioritise sustainable product design including energy efficiency, sustainable packaging and sustainable sourcing.

5 Invest in green initiatives to demonstrate a commitment to sustainability in operational and product offerings while also reflecting a strategic approach to environmental stewardship. Identify areas to adopt the right technology to support emissions data capture, measurement and reporting.

6 Monitor environmental supply chains both upstream and downstream to manage and mitigate carbon footprints beyond immediate operations.

7 Conduct consumer engagement in sustainability to better align products and services with environmental goals.

8 Adopt Life Cycle Assessments methodologies to gain a comprehensive map of a product's environmental footprint.

9 Practice strategic supplier engagement by embedding environmental and social criteria in the onboarding processes and emphasising the importance of sustainability from the start of the supplier relationship. Encourage and support suppliers to build capacity for better environmental management and reporting.

10 Apply environmental certifications and targets for suppliers to encourage compliance with environmental standards and promote collective action towards sustainability goals.

Source: KPMG – Unlocking the Scope 3 opportunity

Encouraging sustainable adoption among SMEs

Alliance Bank ESG 2.0 report reveals latest insight on sluggish boarding

SMALL and medium sized enterprises have even more reasons to embrace ESG within their business framework in order to remain competitive in the future.

This point was stressed in the SME ESG Start Symposium 2025, which was held on Jan 21 at Auditorium 1, Monash University, Petaling Jaya.

It was organised by the United Nations Global Compact Network Malaysia and Brunei's (UNGCMYB) in partnership with Alliance Bank Malaysia Bhd and Monash University Malaysia, featuring the launch of the *SME ESG Report: The Path to Sustainable Impact - Sectoral Insights of Malaysian SMEs* by Alliance Bank.

This report, called ESG 2.0 in short, is a collaboration between the bank with Monash University and Zurich Malaysia. It uses both qualitative and quantitative approaches to deep dive into current ESG trends, practices and adoption across four key sectors in Malaysia – services, manufacturing, construction and agriculture.

The symposium was officiated by Natural Resources and Environmental Sustainability (NRES) minister Nik Nazmi Nik Ahmad, in the presence of UNGCMYB executive director Faroze Nadar and Monash University Malaysia president and pro vice-chancellor Prof Datuk Dr Adeeba Kamarulzaman.

With the theme for the forum being "Forward faster: scaling SME sustainability through supply chains", the goal was to empower SMEs by addressing the growing importance of integrating ESG practices into their operations.

This event focused on the SMEs' role as sustainable supply chains and emphasises the need for collaboration with larger corporations, policy makers, financial institutions and other stakeholders, to drive meaningful change.

In her welcome remarks, Prof Adeeba said that in the country's quest to implement ESG, often the SMEs were forgotten, as larger institutions like the banks and other financial institutions, as well as conglomerates are able to comply to the requirements that the Securities Commission Malaysia, Bursa Malaysia and others have put into place.

"But SMEs are having trouble in complying to the requirements of ESG. The findings of this report will help us better understand the importance of supporting the SMEs," she added.

In his special address, Faroze pointed out that most ESG practitioners would agree that while sustainability started as a foreign demand, it has now shifted to become a domestic need.

"In fact, regionally China and India are also ramping up their sustainable practices expectations.

"[This] a good time for SMEs to think and act sustainably as there are many partners corporations looking to reward them and their suppliers who are acting sustainability," he said.

From left: Greentech Malaysia Alliances, under Malaysian Green Technology and Climate Change Corporation (MGTC) CEO Elina Jani, Dr Adeeba, Kam, Nik Nazmi, Faroze, Zurich Malaysia country CEO Junior Cho, SME Corp CEO Rizal Nainy and INCEIF University Deputy President Research Dr Marjan Muhammad after the launch of the ESG 2.0 report.

In his keynote address, Nik Nazmi shared that SMEs comprise 97.2% of business establishments, contributing 37.4% to the country's GDP, and amounting for 48% of employment, according to the SME Corporation Malaysia, making it the backbone of Malaysia's economy.

"Also, it has been estimated that there are 70 million micro SMEs in Asean, accounting for between 97.2%–99.9% of total establishments of the Asean member states."

He stressed that regulations are tightening at the international level and Malaysia, as a trading country, does not have a domestic market large enough to sustain the nation and is reliant on foreign trade.

He further added that by integrating sustainability criteria into procurement practices, larger corporations and policymakers can provide SMEs with the necessary incentives, resources and guidance to accelerate their ESG journeys.

"Additionally, the National Trade Blueprint 2021–2025 identifies sustainable trade practices as a critical enabler for SMEs to remain competitive globally."

Alliance Bank group chief executive officer Kellee Kam said ESG considerations and adoption can provide SMEs with an advantage, not just in Malaysia.

"We did see that [SMEs are] able to help larger corporations in their Scope 3 compliance by being part of the supply chain, and helping the suppliers through this journey."

Rise of eco-conscious entrepreneurs

Star Media Group and OCBC Bank join forces again to drive meaningful change through recognition

Clockwise from top:

Zalina (third right), Chan (fourth right) and Star Media Group chief business officer Lydia Wang (third left) and guests posing for a photo during the power breakfast event at Menara Star. Photos by AZHAR MAHFOF/The Star

Zalina expressed hope that the ESG PIA would inspire more companies to integrate sustainable practices into their operations.

Chan (left) and Teoh sealing another year of partnership for the third instalment of the ESG Positive Impact Awards at Menara Star.

AS organisations increasingly prioritise sustainability, knowledge-sharing fosters essential discussions that inspire actionable strategies for driving meaningful change in businesses.

Recognising this, Star Media Group (SMG), in partnership with OCBC Bank (Malaysia) Bhd, hosted the ESG Positive Impact Awards (ESG PIA) 2024 Power Breakfast to bring together a network of businesses committed to advancing as agents of green change.

The event, which is a lead up to the ESG PIA 2024, featured talks and sharing sessions, including ESG Bytetalks on Responsible Consumption and Production; Good Health and Wellbeing; and Diversity, Equity and Inclusion (DEI).

Emphasising the importance of inspiring positive transformation across the business community, SMG group chief executive officer Chan Seng Fatt expressed his anticipation for the promising ESG journey ahead in Malaysia.

Chan also said businesses that strive for ESG excellence would be able to elevate their operations, contribute to industry progress and build stronger communities.

"In line with this vision, we are excited to announce the introduction of a new award category this year (ESG PIA 2024) : Sustainable Products and Services.

"This addition reflects the growing importance of innovation in developing solutions that contribute to a sustainable future.

"The awards ceremony goes beyond recognition as it is also a call to action for Malaysian businesses to contribute to a harmonious coexistence between people, planet and profit."

He added that OCBC's support as a main sponsor for the third consecutive year is a testament to its belief in promoting ESG principles.

"OCBC's support reflects the bank's strong values and belief in promoting ESG principles and inspiring positive changes across the business community," he said.

OCBC Bank (Malaysia) Bhd's head of wholesale banking Jeffrey Teoh Nee Teik said sustainability is a shared commitment across all shareholders.

"ESG principles are becoming increasingly vital in shaping the world. In OCBC, we hold on to the power of collective action.

"Responsible business practices are no longer optional, they are essential. Each of us has pivotal roles to play in driving positive change and together we can make a profound difference," he said in his speech.

Teoh added that participation of businesses in the ESG PIA 2024 demonstrates the bank's commitment in achieving greater change to the environment.

Malaysian Investment Development Authority (MIDA) deputy chief executive officer Zalina Zainol highlighted that the ESG PIA serves as a catalyst for change, encouraging businesses to prioritise sustainability.

She expressed hope that the awards would inspire companies to adopt sustainable practices and position Malaysia as a regional sustainability leader.

As a working partner of the ESG PIA, Zalina emphasised MIDA's active role in supporting businesses, particularly SMEs, through initiatives like the Domestic Investment Accelerator Fund (DIAF), which provides grants and technical expertise to integrate ESG principles.

She also noted MIDA's alignment with key policies such as the National Climate Change Policy 2.0, the i-ESG Framework 2023, and the Green Investment Strategy, which strengthen ESG integration through mechanisms like carbon pricing and mandatory reporting.

"MIDA envisions sustainability becoming as integral to businesses as financial reporting," she told StarESG.

OCBC Bank (Malaysia) Bhd executive director Chan Mei Ling shared with the guests about the bank's SME Energy Efficiency Assessment (SMEEA) tool to calculate energy usage in companies.

Meanwhile, RentalWorks Sdn Bhd marketing group head Mathilda Lai shared the company's strategies for becoming an agent of change in driving the green agenda within the business sector.

Lai explained that the company drives sustainability through its circular economy model, focusing on the 3R framework – rent, refurbish, and repurpose.

"By offering cost-effective leasing programmes with 0% interest and promoting device lifecycle management, RentalWorks helps businesses reduce their carbon footprint and e-waste while optimising device usage," she said.

Over the past 18 years, RentalWorks has deployed 60,000 devices, reduced carbon emissions by 1.3 million tonnes, and saved 15,000 kg of e-waste. The company also provides AI-powered solutions, endpoint protection, and secure data erasure, ensuring compliance with regulatory requirements and offering device circularity reports to support ESG goals.

Additionally, RentalWorks fosters global and social impact through initiatives like the Climate Impact Act, device donations, and gender diversity, while striving for long-term goals such as achieving net-zero emissions by 2050.

It won Gold for Responsible Production and Consumption in the ESG PIA 2023.

E-Health Sdn Bhd managing director Ker Chin Keong emphasised on the company's strong focus on sustainability and community impact that aim to improve health outcomes, reduce medical costs, and inspire innovation in the healthcare industry.

He said: "Excelife actively supports community health through free health screenings, educational programmes, and resources for pharmacists to enhance customer care and service. During the Covid-19 pandemic, we provided essential support by donating supplements, PPEs, and organising food banks."

Ker also shared about the company's innovative and high-quality offerings such as organic turmeric and European Black Elderberry C-Plus, and more – all of which are developed using advanced technologies and stringent quality controls, ensuring purity, potency, and therapeutic value.

Excelife is a research-based health supplement company committed to ESG principles and delivering high-quality, safe, and effective products. It won Gold for Good Health and Wellbeing in the ESG PIA 2023.

Meanwhile, UEM Edgenta Bhd ESG head on diversity, equity and inclusion (DEI) Sharifah Bakar Ali shared about the company's strong commitment to sustainability and DEI.

She pointed out that UEM Agenda integrates human rights and labour standards into its operations, having learned from challenges during the Covid-19 pandemic.

Sharifah adds that UEM Edgenda is developing a human rights policy and continues to further drive positive change in the ESG space through awareness, education, and strategic initiatives.

"We have achieved gender equality at senior levels, with equal participation of women in senior membership, women CEOs in subsidiaries, and 30% female representation on the board.

"Through our sustainability roadmap, with 11 material matters, including human rights, we have focused on creating awareness, enhancing policies, and engaging both employees and supply chains on sustainability as well as human rights and labour matters."

UEM Edgenta's efforts, including gender-inclusive practices and sustainability initiatives, earned them a Gold in championing DEI efforts at the ESG PIA 2023.

Nurturing self-sustaining small business communities across Malaysia

THOUGH ESG is relatively new in the local corporate scene, some organisations, like Payments Network Malaysia Sdn Bhd (PayNet), are moving beyond eco-friendly practices and corporate social responsibility to focus on lasting social impact. PayNet does this through its flagship PayNet Cambah programme.

Part of a two-pronged approach, the other being PayNet Akar, which aims to nurture digital payments-ready talents, PayNet Cambah programme aims to foster self-sustaining small business communities within underserved segments who lack access to formal financial services.

PayNet collaborates with private sector partners – social enterprises, fintechs, or impact start-ups – to provide essential skills in living, digital and financial literacy.

Once equipped, these businesses undergo digitalisation, opening up new market opportunities through e-commerce, live commerce and online presence.

PayNet's ecosystem of banks and major e-wallets supports these initiatives initially as part of CSR programmes, eventually integrating these businesses into the formal customer segment once they fulfil the requisite financial track record.

Public sector collaborators provide ongoing on-the-ground support and monitoring to ensure sustained growth.

Serving the underserved: nano and pico SMEs

As Malaysia's retail digital payments infrastructure provider, PayNet is the backbone of the nation's transition to a cashless society. Its mandate is to empower Malaysia's digital economy inclusively.

"This means PayNet cannot leave anyone behind in fulfilling our mandate, hence the reason for PayNet Cambah," explains PayNet senior director Azleena Idris, who is also the head in strategy and ESG office.

"At PayNet, we view ESG through the lens of opportunity. Our ESG strategy is rooted in the UN Principles of Responsible Digital Payments and Sustainable Development Goals.

"Our ESG strategy is rooted in the UN Principles of Responsible Digital Payments and Sustainable Development Goals," says Azleena.

"PayNet Cambah takes its name from the Malay word meaning 'to sprout,' capturing the programme's essence: nurturing communities within underserved segments to sprout, grow out of poverty, and achieve self-sustainability," she added.

Ironically, all PayNet Cambah projects – two in Langkawi and one in Batu Pahat – focus on fostering eco-friendly businesses, a direction that emerged organically from the communities themselves due to increasing awareness of environmental conservation.

Project highlights

> **Langkawi Projects:** the first emphasises strategic lead project, serving as a proof-of-concept, aimed to empower 100 mothers from marginalised groups in Langkawi by providing them with sewing, digital and financial literacy skills.

These women transformed discarded bed linens and furnishings from high-end resorts in Langkawi into "zero waste" fashion items, supporting the resorts' ESG principles. Through the social enterprise Suri, the mothers sold their creations online via an enhanced Suri website sponsored by PayNet, at the resort's boutiques or in their own stores. The acquired skills also enabled them to become small business owners.

Today, Suri has secured long-term collaborations with eight high-end resorts in Langkawi, saving nearly six tonnes of discarded fabric from landfills and providing steady income streams to these communities. Additionally, the PayNet-sponsored Suri Kilim Hub is evolving into a sustainably sourced batik production hub through public sector partnerships.

> **Second Langkawi Project:** focused on small tourism businesses with a sustainability mindset, this project trained 34 small businesses in digital skills and financial literacy, equipping them with digital payment capabilities. It culminated in a cashless event called Pasar Kitar Cashless, where PayNet sponsored reusable booths made of sustainably sourced bamboo and screw pines (mengkuang). "We had several key learnings," Azleena explained. "The most important is that the digital payments adoption journey and sustained usage for this segment are very different.

"Additionally, the form factor is crucial. Although enabled with the affordable DuitNow QR to accept digital payments, small roadside businesses in Langkawi cannot accept international card payments, and tourists from countries without QR payments face challenges in making digital payments to them. We solved this by creating MyTouristPay app, which allows tourists to link their international cards and pay by scanning DuitNow QR, the Malaysian National QR code."

Expanding PayNet Cambah projects

Building on the success in Langkawi, PayNet Cambah expanded to the southern region, selecting Batu Pahat for its high concentration of B40 communities.

PayNet partnered with a female student-led social enterprise from Universiti Tun Hussein Onn and three additional public sector agencies, including a royal foundation.

The goal is to create "10-minute towns" there, whereby small businesses and farming communities can produce their own food requirements within a 10-minute reach.

Selected small business beneficiaries received training in digital skills, food packaging, financial management and live commerce sales, as well as being equipped with the "halal cottage" certification status for wider market access.

The key learnings from Langkawi were applied, yielding faster results – with one in four businesses achieving improved sales after just two weeks in the programme.

Four additional projects are planned for Sabah, focusing on expanding their organic food market to live commerce.

Training will commence once infrastructure damaged by recent floods is restored.

By the second quarter of next year, PayNet Cambah will expand to the East Coast, partnering with another local university and a student-led social enterprise.

Trust and collaboration are key

PayNet aims to establish one PayNet Cambah project in every region, with the ultimate vision of operating in every state.

"The rationale is clear: if PayNet does not do this, communities will be left behind, and our mandate will remain unfulfilled," emphasised Azleena.

"We are a 'for-purpose' organisation, and our raison d'être is to serve the rakyat inclusively and innovatively.

"To achieve this, we need more like-minded collaborators. This is not a solo act."

Additionally, PayNet is nurturing fintechs focused on inclusion to support this mission.

With PayNet's cross-border payment presence across 15 major payment corridors, beneficiaries of PayNet Cambah can expect an expanded market reach, unlocking significant opportunities for them to grow and access a broader customer base, and enhance their potential for sustained growth and success.

Photo taken at the Suri Mothers Graduation Ceremony. Suri is a social enterprise that lets mothers sell their creations online via a website sponsored by PayNet, at boutiques in selected Langkawi resorts, or in their own stores.

The PayNet Cambah programme aims to foster self-sustaining small business communities within underserved segments who lack access to formal financial services.

PayNet sponsored reusable booths made of sustainably sourced bamboo and screw pines during the Pasar Kitar Cashless event.

Looking at the bright side

Scope 3 emission reporting may lead to a discovery in opportunities

By BENJAMIN SOH

IN ASEAN, where economies and societies are deeply reliant on interconnected supply chains, reducing Scope 3 emissions is a strategic necessity to build resilience against climate change. These emissions, which stem from indirect activities such as transportation, supplier operations, and product use, make up the majority of carbon footprints for companies in the region.

For economies like Malaysia, addressing Scope 3 emissions helps mitigate risks associated with climate-related supply chain disruptions, such as extreme weather or resource scarcity.

Mitigating climate change impacts

As a major exporter, the country is particularly vulnerable to shifting global trade dynamics, including policies like the European Union's Carbon Border Adjustment Mechanism (CBAM). By decarbonising supply chains, businesses can remain competitive in low-carbon markets and avoid increased costs or loss of market access.

Singapore's initiatives in green shipping and Indonesia's renewable energy goals showcase how Asean economies are tackling emissions linked to key industries. Thailand's push for sustainable agriculture, for example, demonstrates efforts to reduce emissions from land use, aligning with regional decarbonisation targets.

Recently, Malaysia's National Energy Transition Roadmap (NETR) outlined actions to decarbonise sectors like energy and transportation, projecting to deliver a 32% reduction in emissions by 2050 from 2019 levels.

Achieving this requires scaling renewable energy to 23% of the energy mix while addressing challenges such as reliance on natural gas and the growing energy demand from industries like data centres. By prioritising Scope 3 reductions, businesses not only address climate risks but also support inclusive and sustainable growth across Asean, benefiting both economies and societies.

Regional challenges

Scope 3 emissions present some of the most significant yet challenging areas to address for businesses across Asean.

One key obstacle is the lack of standardised data and reporting frameworks. Many businesses, especially small and medium sized enterprises (SMEs), struggle with insufficient resources and expertise to measure emissions across their value chains.

This makes it hard to set realistic reduction targets or comply with international standards. In the Malaysian and Asean context, SMEs dominate the market and supply chains, making this challenge is particularly pronounced.

While the NETR underscores the country's decarbonisation efforts, gaps persist in scaling solutions for high-emission sectors like logistics and agriculture.

Indonesia's reliance on agriculture and forestry poses challenges for mitigating emissions from deforestation and land use. Efforts like its deforestation moratorium show promise but require stricter enforcement and incentives for sustainable practices.

Singapore focuses on leveraging innovation and technology to decarbonise supply chains, particularly in aviation and maritime logistics through initiatives under its Green Plan 2030. While Thailand emphasised sustainable agriculture to reduce upstream emissions, a critical step given its role as a regional food exporter.

Balancing economic growth with sustainability goals adds further complexity. Rising trade pressures, such as the CBAM, compel companies to decarbonise supply chains quickly. At the same time, investments in energy-intensive industries, like data centres across Asean, risk increasing emissions unless renewable energy is scaled appropriately.

To overcome such challenges, businesses must invest in capacity-building, improve supply chain transparency, and leverage collaborative regional platforms to share resources and innovation.

These steps can enable the region to reduce Scope 3 emissions while maintaining global competitiveness.

Present opportunities

Amid the rise in sustainable procurement, addressing Scope 3 emissions not only meets regulatory demands but also unlocks opportunities for Asean businesses to innovate and thrive in a low-carbon economy.

Companies can capitalise on regional shifts towards sustainable trade practices by rethinking value chain processes. This aligns with Malaysia's increasing focus on energy transition and sustainable development, and aims to support green technologies like renewable energy and carbon capture solutions.

Collaborations within Asean offer another avenue for growth. The Asean Power Grid, which aims to enhance cross-border energy trade, allows companies to tap into regional renewable energy sources, reducing carbon footprints while lowering operational costs. Such collaborative platforms provide shared benefits that strengthen collective climate action.

Benjamin Soh is the founder and managing director of ESGpedia. The platform powers the ESCAP Sustainable Business Network (ESBN) Asia-Pacific Green Deal digital platform and the Asia-Pacific Single Accesspoint for ESG Data (SAFE) initiative, and is part of the Singapore-Australia Go-Green Co-Innovation Programme. It serves as the nexus of ESG, digitally empowering corporates, SMEs and the financial sector to ensure compliance towards ESG regulations and attain their ESG goals.

A growing demand for green products and services also creates new market opportunities. For example, sustainable supply chain practices in agriculture and manufacturing allow companies to cater to environmentally conscious consumers. Thailand's focus on sustainable agriculture and Singapore's advancements in green logistics demonstrate how regional efforts can build globally competitive industries.

Moreover, these exercises can lead to improved transparency and stakeholder trust, with businesses that embrace clear and measurable carbon reduction strategies deemed to be better positioned to secure green financing and sustainability-linked loans.

This is particularly advantageous for SMEs, which form the backbone of Asean economies and stand to gain from such incentives.

Technology as strategy

The rapid advancement of digital technologies is transforming how Asean businesses address sustainability challenges, including tracking and managing emissions in their value chains.

Innovations like AI are starting to empower companies to navigate the complexities of Scope 3 emissions with greater efficiency and transparency.

Platforms such as ESGpedia provide comprehensive GHG emissions calculation and digital solutions for businesses across Asean to accurately measure, monitor, verify and gather Scope 3 emissions data effectively.

It provides an extensive base of more than 280,000 emission factors hyper-localised to all Asia Pacific countries, covering over 1,100 product categories, allowing for accurate, localised, and credible emissions calculations for Asean businesses. These tools support compliance with global and regional regulations, fostering transparency in interconnected regional supply chains.

AI-powered solutions are particularly impactful in agriculture, manufacturing and logistics – key sectors for most Asean countries.

Optimising resource use in fertiliser, water and energy can aid in streamlining transportation networks, reduce emissions and improve operational efficiency in the long term. Digital solutions are also being adopted to improve data accuracy and traceability in supply chains. Advanced emissions tracking systems and IoT-enabled sensors let companies gather real-time data on production processes, ensuring emissions reporting is reliable and aligned with international standards.

Across the region, governments and organisations are encouraging the adoption of digital tools to align with Asean's collective sustainability objectives, in addition to cross-border initiatives, to leverage these technologies to better integrate renewable energy and reduce carbon intensity across borders.

Although Scope 3 emissions present several obstacles for many companies, especially the SMEs, there are ways to flip the coin and consider the many possibilities of doing good, while gaining greater attractiveness to attract investors.

This is the first of a two-part series on Scope 3 reporting. Part two will be featured next month.

Clearing the fog on Scope 3 carbon emissions

Compiled by ONG HUEY ERN
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In today's world, where sustainability is key, understanding carbon emissions—especially Scope 3 emissions—is crucial. Scope 3 refers to all indirect emissions across a company's value chain, including activities like product design, material sourcing, manufacturing, marketing and sales. Unlike Scope 1 (direct emissions) and Scope 2 (indirect emissions from purchased energy), Scope 3 covers a broader range of emissions. There are 15 categories, such as emissions from purchased goods, business travel, waste disposal and even the use of sold products, extending to end-user energy consumption.

The Greenhouse Gas (GHG) Protocol was established by the World Resources Institute and the World Business Council for Sustainable Development. It provides a globally recognised framework for measuring and managing these emissions as well as tools and resources to help organisations understand and calculate their carbon footprint.

Understanding Scope 3 is vital as it often constitutes the largest share of a company's total greenhouse gas emissions, accounting for 70% to 90%.

Various climate change and sustainability studies support this, with the GHG Protocol suggesting an impact closer to the latter figure. These emissions significantly influence operational and strategic business decisions and consumer choices, as companies are increasingly assessed on their sustainability practices.

Challenges

1. Data availability
There is difficulty obtaining transparent, traceable data across the value chain, as many suppliers have not yet implemented standardised emissions tracking systems.

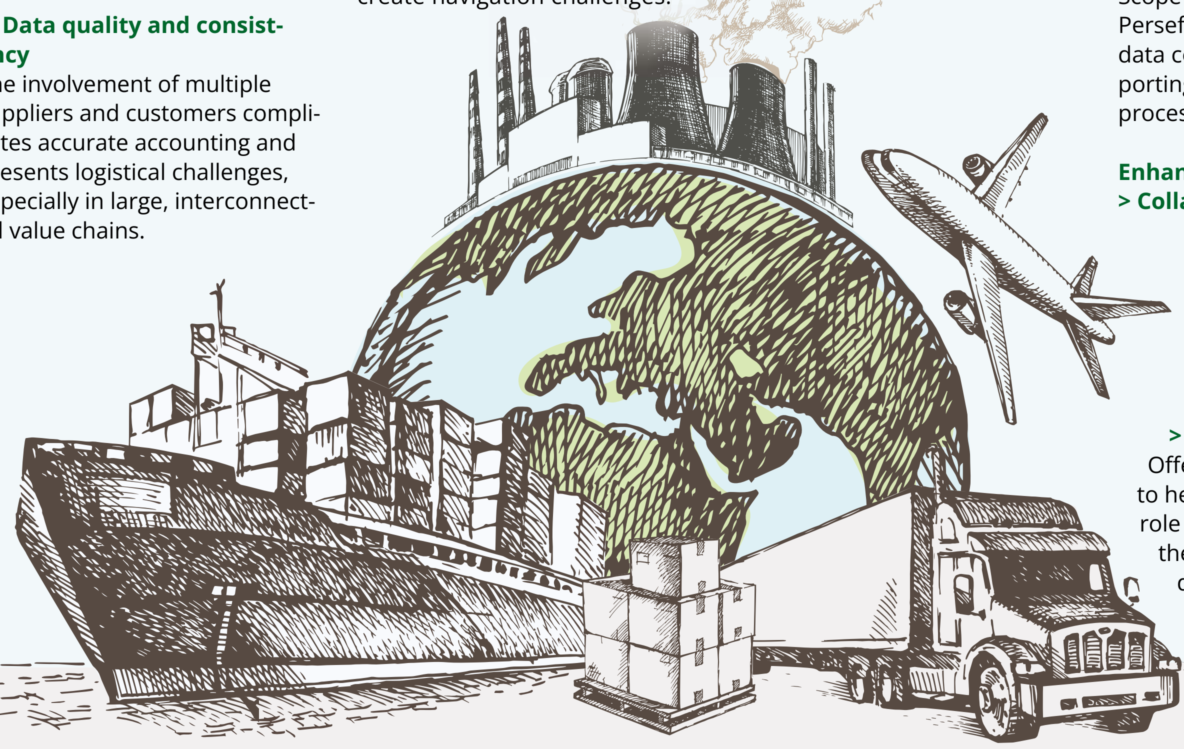
2. Complex value chains
The involvement of multiple suppliers and customers complicates accurate accounting and presents logistical challenges, especially in large, interconnected value chains.

3. Data quality and consistency
The involvement of multiple suppliers and customers complicates accurate accounting and presents logistical challenges, especially in large, interconnected value chains.

4. Stakeholder engagement
Difficulty gaining cooperation from stakeholders due to confidentiality concerns and varying transparency levels.

5. Resource constraints
Smaller companies often lack financial and human resources, making it challenging to manage large volumes of data.

6. Regulatory complexity
Evolving international standards and varying regulations create navigation challenges.



Recommendations to improve Scope 3 emissions

Develop a robust reporting framework
> Comprehensive data collection: Use digital tools to gather accurate, comprehensive data across all Scope 3 categories, enhancing transparency.

> Standardised reporting: Adopt frameworks like the GHG Protocol Corporate Value Chain (Scope 3) Standard for consistent reporting.

> Software adoption: Use Scope 3 reporting software like Persefoni to integrate emission data collection, analysis and reporting, simplifying an arduous process.

Enhance supplier engagement
> Collaboration: Work closely with suppliers to collect precise emissions data and encourage them to adopt similar sustainability practices and reporting standards.

> Training and support: Offer training and resources to help them understand their role in reducing emissions and the importance of accurate data collection.

Leveraging on technology
> Emissions tracking: Use blockchain to track emissions across the supply chain, improving transparency and ensuring accurate data recording.

> Internet of Things sensors: These sensors provide real-time data on energy usage, fuel consumption and emissions levels, which can be useful in sectors like manufacturing and logistics.

> Big data analytics: Utilise tools from carbon management solution companies like Carbmee to analyse large volumes of emissions data and track supplier sustainability performance.

> Artificial intelligence (AI): Employ AI for pattern analysis and predictive insights on emission reduction opportunities.

Implement strategic changes
> Lifecycle assessments: Assess product lifecycles to identify emission hotspots and implement reduction strategies.

> Circular economy practices: Encourage recycling and repurposing to lower overall emissions.

The impact on ESG Reporting

Scope 3 emissions provide a comprehensive view of a company's environmental impact and play a crucial role in assessing sustainability performance, risk management, and long-term viability.

Many reporting frameworks, such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), require companies to disclose their Scope 3 emissions. This transparency allows stakeholders to assess a company's true environmental impact and sustainability performance.

Under Malaysia's National Sustainability Reporting Framework (NSRF), which mandates sustainability reporting for large companies, businesses will be required to report their Scope 3 emissions by 2027.

The NSRF adopts the International Sustainability Standards Board (ISSB) framework for standardised reporting. Companies must also comply with the International Financial Reporting Standards (IFRS) S1 and S2, which include Scope 3 disclosures. This framework ensures that Malaysian companies adopt best practices for environmental reporting and transparency.

By identifying and reducing key sources of Scope 3 emissions, companies can align with global standards and regulations, enhancing their ESG profiles and minimising their environmental impact.