



MSME ESG and Sustainability Framework

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Introduction

Following the report to ABAC on the results of the **MSME ESG and Sustainability Survey**, comes a proposed **framework** to facilitate MSME's transition to improved ESG and sustainability practices

Micro, Small and Medium Enterprises (MSMEs) from 20 of the 21 APEC economies responded to the survey released by the ABAC Sustainability and Inclusion Taskforce seeking to understand more about MSME practices and sentiments about Environmental, Social and Governance (ESG) and sustainability practices in their enterprises. Their responses and feedback were summarised in the ABAC report "Yes, but how?" in September 2023.

Key finding?: There is a gap that exists between MSME-owners' interest to embrace ESG practices in their business activities and the availability of funding, resources and know-how that would support this transition. The survey highlighted that overall MSMEs see a) ESG and sustainability as contrary to enterprise survivability particularly in enterprises in the early stages of growth, b) action sits with the big companies first and c) governments are not doing enough to support MSMEs to adopt ESG in pragmatic, accessible or meaningful ways.

This belief, that these mutually dependent factors of sustainability and growth, are pulling MSMEs in opposite directions is where the education and enabling policy changes need to start in order to shift MSME-owner mindsets' towards 'born sustainable'. There is a real and immediate need to educate the MSME sector that possibilities exist with respect to managing sustainability and growth as twin priorities as opposed to seeing them, and treating them, as existential trade-offs.

This proposed MSME ESG and Sustainability framework is intended to define a standardised and foundational set of standards and requirements that allow MSMEs to commence a pragmatic, efficient and streamlined journey towards more sustainable practices. It is intended that the framework evolve with time and with the MSMEs themselves, gaining greater industry specificity over time and with the increased engagement and innovative contributions of the MSMEs.

Accordingly, this version of a proposed ESG and Sustainability Framework for MSMEs is not intended to be exhaustive or definitive. It is intended to give MSMEs what they have asked us for; that is, a pragmatic and achievable set of requirements that can help them to implement, realistically and affordably, relevant sustainability initiatives into their enterprises, starting today.

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MSME ESG and Sustainability Framework: Rationale and Benefits

As consumers, investors and governments increasingly prioritise ESG, MSMEs that adopt ESG practices can enhance their reputation, attract responsible investors and customers and gain a competitive edge in the market. There is growing evidence that consumers and investors are increasingly considering ESG factors when making financial decisions. MSMEs that align with these expectations are commercially better positioned particularly in some high volume industries like fashion and food.

The ABAC Sustainability and Inclusion Taskforce survey on MSME ESG and sustainability practices and sentiments highlighted that while many MSMEs are ideologically aligned to sustainability and seek to embrace enhanced ESG practices, material barriers remain in the ability of these enterprises to commit to ESG action.

These issues were covered at length in the survey's report, "Yes, but how?", with a key finding being that MSMEs cannot see a commercially viable path to better sustainability practices and that they seek a simplified, pragmatic, accessible and achievable ESG framework that would allow them to formulate a strategy and plan to transition towards ESG compliance over the longer term.

While there are many ESG frameworks that have been previously developed that aim to define, capture and measure MSME sustainability practices, as our survey report highlighted, the broad limitations of these frameworks include:

- *Complex array of standards, measurements, frameworks make it too onerous for MSMEs to devote time and resources to understand and respond especially given most MSMEs have intensive yet scarcely resourced day of operations priorities*
- *Not obvious rationale for ESG participation and a belief that there are bigger fish to fry, for example, large corporations*
- *Bureaucratic rather than commercial lens has framed the MSME ESG data capture and reporting – the focus has been on compliance to regulation as opposed to commercial benefits of moving to more compliant ESG practices*

Additionally, compliance with complex ESG requirements can be costly for MSMEs, as they may need to invest in systems, data collection, and expertise, which can strain limited

human and financial resources. Keeping up with ever-changing and diverse ESG regulations and reporting requirements, especially across different regions or industries, creates a regulatory burden that can be overwhelming for MSMEs. Further non-standardisation of ESG requirements results in different pressure and expectations from suppliers or customers to meet their specific ESG requirements, which can be both complex and costly to implement and maintain. The complexity of these different ESG requirements and expectations usually does not align with the scale of MSMEs' operations, making compliance feel disproportionate to the value outcome and difficult to manage. These challenges increase the risk of greenwashing, with the pressure to comply with complex ESG requirements creating the risk that some MSMEs exaggerate their ESG efforts to meet expectations without substantive change.

It is therefore essential that for an alternative framework to be useful and successful, it must establish some clear guidelines aligned to MSME benefits and demonstrate that the investment in ESG yields commercial returns for the MSME and makes undertaking ESG initiatives within the MSME more worthwhile than simply virtue-based. Such benefits include educating MSMEs in the following areas:

Competitiveness: As consumers, investors, and governments increasingly prioritise ESG, MSMEs that adopt ESG practices can enhance their reputation, attract responsible investors, and gain a competitive edge in the market.

Innovation and Efficiency: Implementing ESG practices can drive innovation, improve operational efficiency, and lead to cost savings. For example, reducing energy consumption not only benefits the environment but also reduces utility expenses.

Sustainable Supply Chain: ESG practices in MSMEs can positively impact their supply chains by promoting ethical sourcing, responsible manufacturing and the adoption of sustainable materials.

Access to Capital: MSMEs with established ESG frameworks may have better access to ESG-focused financing options, investments and loans, providing opportunities for growth and expansion.

Improved Stakeholder Relations: ESG practices can enhance relationships with customers, suppliers, employees and local communities by demonstrating a commitment to responsible business conduct.

Social and Community Benefits: ESG practices can have positive social impacts by fostering fair labour practices, diversity and inclusion and community engagement. A framework helps articulate to MSMEs how they can contribute to local development and social well-being.

Global and Local Regulatory Compliance: Adopting ESG practices can help MSMEs comply with local and international regulations related to sustainability, potentially avoiding legal issues and fines.

Mitigating Reputation Risks: MSMEs are vulnerable to reputation risks that can arise from negative environmental or social incidents. ESG practices can help prevent such incidents and minimise reputational damage as well as reducing the potential for negative impacts to employees, communities, and the environment.

Long-Term Sustainability: ESG practices promote the long-term sustainability and resilience of MSMEs, making them better equipped to adapt to changing market conditions and regulatory environments.



Enhanced Reporting and Transparency: ESG frameworks provide a structured way for MSMEs to collect, report and communicate their sustainability efforts, making it easier to meet reporting requirements and provide transparency to important stakeholders.

As MSMEs play a significant role in the global economy, creating an ESG framework for MSMEs is essential to help these businesses navigate the evolving business landscape, address societal challenges and contribute to a more sustainable and responsible global economy. By adopting ESG practices, MSMEs can unlock numerous benefits, mitigate risks and play a role in advancing a more sustainable and equitable future.

By encouraging ESG practices among MSMEs, substantial progress toward achieving broader sustainability and development goals, such as the United Nations Sustainable Development Goals (SDGs) can be made. It will be difficult to achieve them while more than 95% of all businesses remain outside the ESG and sustainability challenge.



VS



Source:McKinsey & Company; ReThink 2023: Sustainability Labels that Prompt Consumers to Buy

83%

Consumers believe businesses should be active in ESG practices

60%+

Consumers are basing their purchasing behaviours on sustainability and ethical criteria and are prepared to pay more for ethically sourced, sustainably made products*



Digitalisation and ESG

Creating a simplified ESG framework that is easy for MSMEs to apply to their operations is crucial for these businesses to start, maintain and mature their sustainability journey. Without use of current and emerging digital capabilities, adopting, labelling and reporting ESG practices will be challenging.

Transitioning to ESG involves a systematic approach that considers sustainability, ethical practices, and responsible governance in all aspects of the business, including product creation, supply chain management and sales.

Digitalisation plays a pivotal role in integrating commercial activities with ESG compliance. It offers the tools and technology necessary to streamline ESG efforts and embed sustainability practices into every aspect of a business.

Closing the digital gap for MSMEs is crucial for their competitiveness and growth in the digital age. While many MSMEs face challenges in adopting digital technologies and integrating them into their operations, there is an established body of evidence that doing so leads to improved efficiency, increased competitiveness, and greater resilience in a rapidly evolving business landscape.

The same rationale applies to ESG and sustainability, wherein the digital medium materially enables more seamless adoption of ESG practices and provides a vital real time mechanism to share standards, information, education, certifications, tools, access to partnerships and access to valuable data that supports an MSME to transition to sustainability whilst reducing the cost and effort of doing so.

Using digital capabilities, the collection of extensive data related to ESG factors is possible. This data can include environmental impact, social responsibility and governance practices. Data analysis helps in identifying areas where an MSME business can improve ESG compliance through benchmarking their own measurable practices against industry standards.

Digitalisation allows for supply chain transparency and optimisation through real-time tracking of products and materials throughout the supply chain. This transparency is crucial for ensuring ethical sourcing and sustainability. Blockchain technology can be used to verify the authenticity and ethical sourcing of products and materials. Use of IoT (Internet of Things) sensors and smart devices can be deployed to monitor energy usage, water consumption and resource management in real-time. This data can help businesses identify energy-saving opportunities and reduce resource waste.

Digital tools can automate ESG reporting, making it easier to compile and share sustainability performance with both internal and external stakeholders. Through digital modelling and simulations, businesses can assess the environmental impact of their activities, allowing for informed decision-making, identifying ways, for example, to

minimise their carbon footprint, optimise transportation routes, and reduce emissions.

Digital platforms and software solutions can help businesses manage governance, risk, and compliance (GRC) requirements efficiently. This includes tracking and ensuring adherence to ESG regulations and standards, such as use of sustainable packaging solutions.

Digital platforms and social media provide channels for businesses to communicate their ESG efforts to customers. Customer feedback and preferences can be monitored digitally to align products and services with ESG expectations. Businesses can also use digital platforms to educate consumers about responsible sustainability practices, for example, the best ways to dispose of a product that is end of life.

Data analytics and digital dashboards enable businesses to monitor ESG performance in real-time. Businesses can use predictive analytics to identify trends and make proactive improvements.

Digitalisation not only streamlines ESG compliance but also enhances the ability of businesses to track, measure, and improve their performance in real-time. It simplifies reporting and transparency, making it easier for stakeholders to understand and trust a business's ESG efforts. Ultimately, it helps businesses to make data-driven decisions that support their ESG goals while aligning with their commercial activities.

Use of Blockchain in MSME ESG Practices

Blockchain technology offers several promising applications in the context of ESG by enhancing transparency, traceability and accountability. Following are examples of how blockchain can be used in ESG:

Supply Chain Traceability: Blockchain can be used to create immutable records of products' origins and journeys throughout the supply chain. This can help verify the authenticity of sustainable and ethical claims made by companies. Consumers can scan QR codes or use apps to access detailed information about a product's ESG attributes, such as its carbon footprint, fair labour practices, or sustainable sourcing.

Carbon Credits and Emissions Tracking: Blockchain can be used to track and verify carbon emissions and carbon credits, providing a transparent and auditable ledger for carbon-related transactions. This technology can enable companies to accurately measure, report and verify their carbon footprint, making it easier to achieve emissions reduction targets.

Renewable Energy Trading: Blockchain can facilitate peer-to-peer trading of renewable energy. Producers of clean energy can sell excess energy directly to consumers through blockchain-based smart contracts. This promotes the adoption of renewable energy sources and reduces reliance on fossil fuels.

Responsible Sourcing and Supply Chain Ethics: Blockchain can ensure that materials used in products are ethically sourced by creating an immutable record of the entire supply chain, from raw materials to finished products. This can help combat issues like conflict minerals and child labour.

Corporate Governance and Shareholder

Voting: Blockchain can improve corporate governance by enabling secure and transparent shareholder voting processes. Shareholders can vote on ESG-related matters directly through blockchain, ensuring their voices are heard and reducing the risk of manipulation.

Impact Investing and ESG Tokens: Blockchain can tokenise ESG-related assets, such as green bonds or impact investment opportunities. This allows investors to track the impact of their investments in real-time and ensures that funds are allocated as intended.

Environmental Credits and Conservation:

Blockchain can support conservation efforts by enabling the creation and trading of environmental credits for activities like reforestation, water conservation or wildlife protection. Smart contracts can automate credit issuance and ensure funds are directed to conservation projects.

Transparency in Donations and Philanthropy:

Blockchain can increase transparency in charitable donations by recording and verifying donations and tracking their impact. Donors can see exactly how their contributions are being used for ESG-related causes.

Water Management and Conservation:

Blockchain can be used to monitor and manage water resources more efficiently by tracking water usage and quality data. This can be especially important in areas facing water scarcity or contamination issues.

Eco-Friendly Supply Chain Financing:

Blockchain-based financing can provide incentives and financing options for suppliers who meet ESG criteria, helping them adopt sustainable practices.

While blockchain holds great promise in ESG applications, it's important to recognise that its implementation may also face challenges related to scalability, interoperability, and regulatory compliance. However, as the technology continues to evolve, it has the potential to play a pivotal role in advancing ESG efforts and improving sustainability across MSMEs in all industries.

Use of the Internet of Things (IoT) in MSME ESG Practices

Internet of Things (IoT) technology can play a significant role in helping MSMEs achieve ESG compliance by enhancing sustainability, social responsibility, and governance practices. IoT enables MSMEs to explore innovative business models such as subscription services or direct-to-consumer sales, which may align with ESG principles.

Environmental Initiatives: IoT sensors can monitor and control energy usage within the MSME's operations, helping reduce energy waste and lower carbon emissions. For example, smart thermostats and lighting systems can optimise energy consumption in facilities. IoT devices can also track resource consumption, such as water usage, helping MSMEs manage resources more efficiently and reduce environmental impact. IoT devices can collect real-time data on environmental factors, such as air quality and emissions, to ensure compliance with environmental regulations and standards and to assist MSMEs to record and report sustainability accurately.

Social Initiatives: IoT-enabled tracking and tracing can provide visibility into the supply chain, ensuring that ethical sourcing and fair labour practices are upheld. IoT sensors can monitor and report on product quality and safety, which is critical for ESG compliance,

especially in industries like food and pharmaceuticals. IoT technology also enables remote work opportunities, promoting inclusivity and accommodating a diverse workforce.

Governance Initiatives: IoT systems can be designed with robust data security measures to protect sensitive information and ensure compliance with data privacy regulations. IoT can help MSMEs track compliance with various regulations and standards, ensuring ethical governance in all business activities.

Furthermore, IoT data can be used to generate transparent reports that show the MSME's commitment to ESG principles and governance standards and to avoid risk of greenwashing or false or inaccurate reporting on ESG action..

IoT can be used to enhance customer engagement by providing real-time data on product origins, quality, and sustainability. This transparency aligns with ESG principles and attracts conscious consumers. In product development, IoT can assist in developing eco-friendly products and services, contributing to environmental responsibility.

IoT is also used to optimise supply chains, reducing transportation emissions and ensuring products are ethically sourced and delivered.

Implementing IoT technology with a focus on ESG compliance requires a strategic approach that considers the specific needs and goals of the MSME. Key attributes like KPI automation facilitate ease of reporting and enable ESG practices to become efficient and seamless within day to day operations.

Closing the digital gap for MSMEs is not only important for their competitiveness but also for their ability to benefit from technologies like blockchain and IoT. These technologies can improve efficiency, reduce costs, enhance supply chain management and open up new business opportunities.

Ensuring that MSMEs have the means and knowledge to embrace these digital tools, combined with inclusive digital policies that promote affordable and accessible digital use, is a key step toward MSME success and long-term sustainability.

MSME ESG Framework: 8 Step Approach

This simplified framework provides a starting point for MSMEs to integrate ESG considerations into their operations without overwhelming complexity. MSMEs can gradually expand their efforts as they become more comfortable with ESG practices and realise the benefits of sustainability, including improved reputation, reduced costs, and enhanced competitiveness in the market. It is proposed that this framework evolve over time to meet the increasing needs of MSMEs as they move along the ESG roadmap.

1

1. Start by performing an ESG scan of the enterprise by answering key questions that provide an initial analysis of the ESG and sustainability practices. See Appendix for Options. Ultimately, ESG needs to be measured at the product level and not the enterprise level, but starting at the enterprise level is a positive first step.

2

2. Identify and implement some key achievable initiatives to improve ESG and sustainability practices. For example:



Environment

- Energy Efficiency: Identify areas where energy consumption can be reduced. Implement energy-efficient lighting, equipment, and practices.
- Resource Conservation: Minimise waste generation, encourage recycling, and reduce water usage.
- Green Sourcing: Choose suppliers and materials that align with eco-friendly principles and sustainability.



Social:

- Employee Well-being: Ensure fair wages, safe working conditions, and opportunities for skill development.
- Community Engagement: Support local communities through initiatives like volunteering, donations, or partnerships.
- Customer Relations: Focus on customer satisfaction, ethical marketing, and product safety.



Governance:

- Transparency: Practice open and honest communication with stakeholders. Publish financial statements and business practices.
- Compliance: Adhere to all relevant laws and regulations.
- Ethical Conduct: Establish and follow a code of ethics that guides decision-making.

3

3. Set achievable goals and implement a process to track progress to goals:

Set Clear Objectives:

- Define specific, measurable, achievable, relevant, and time-bound (SMART) ESG goals.

Regular Monitoring:

- Continuously track progress toward ESG goals and make adjustments as needed.

4

4. Implement a simple reporting approach that is as automated as possible

Simple Reporting:

- Develop a straightforward ESG report or dashboard that highlights key achievements and improvements.

Stakeholder Communication:

- Share your ESG progress with employees, customers, and suppliers.

5

5. Implement review mechanisms and make improvements where relevant

- Conduct periodic ESG reviews and identify areas for enhancement. Iterative
- Use feedback and lessons learned to refine your ESG initiatives. .

6

6. Ensure the value chain is part of the ESG approach and the MSME's ecosystem are engaged, measured

Sustainability Criteria:

- Encourage suppliers to adhere to sustainability criteria and practices.
- Long-Term Partnerships: Foster relationships with suppliers who share your ESG values.
- Employee Engagement: Educate employees on ESG principles and how they can contribute including through ideas or concerns



7. Ensure the approach is cost effective for the business

Affordable Changes:

- Focus on ESG initiatives that provide cost savings or efficiency improvements.

Small Steps:

- Start with manageable projects and gradually expand your efforts.



8. Seek local support

Local Initiatives:

- Explore local ESG programs, incentives, or partnerships that align with your objectives.

The ABAC MSME ESG and Sustainability survey report of September 2023 highlighted that many MSMEs are not aware of ESG or if they are, do not have a clear understanding of how to adopt ESG and sustainability practices.

Raising ESG awareness and implementing simple measures and actions as above may still require time and resources, but the benefits include enhanced brand reputation, access to ESG-conscious markets, improved operational efficiency, and a positive impact on society and the environment. Until there is a simple, clear and pragmatic path for them to get started, the contributions MSMEs can make to sustainability will continue to be delayed.

Lastly, the framework currently imposes no suggested metrics or KPIs as a framework standard. It's too early in the MSME approach to set targets against criteria that today is not even understood, let alone defined and measurable. Each MSME in their respective industries and stages of maturity will know where they enter this proposed framework.

In time, metrics can emerge bottom up from the MSMEs themselves as they engage in activities in their digital commerce that produces data that is specific to and valuable to them. Until then, let's just get them thinking about what needs to change.

Case Study: EcoFab



EcoFab Textiles serves as an example of an ESG compliant fabric manufacturer by incorporating sustainability, social responsibility and ethical governance into its core business operations. Such companies are increasingly sought after by consumers who prioritise environmentally and socially responsible fabric choices.

EcoFab uses the following Environmental Initiatives:

- **Sustainable Materials:** EcoFab Textiles primarily uses organic and recycled materials for fabric production. This reduces the environmental impact associated with conventional fabric production.
- **Water Management:** The company employs innovative water management techniques, including water recycling and reduced water consumption in the dyeing and finishing processes.
- **Renewable Energy:** The manufacturing facilities are powered by renewable energy sources, such as solar panels and wind turbines, to reduce carbon emissions.
- **Minimal Waste:** EcoFab Textiles minimises waste by reusing and recycling materials during the manufacturing process and sending minimal waste to landfills.
- **Eco-Friendly Dyeing:** The dyes used in fabric production are non-toxic and eco-friendly, reducing harmful chemical discharge.

Their Social Initiatives emphasise community wellbeing:

- **Fair labour Practices:** The company ensures that all employees in its supply chain are paid fair wages and work in safe and ethical conditions.

- **Local Sourcing:** EcoFab Textiles actively sources materials and production from regions with strong sustainability and ethical practices, supporting local communities and employment.
- **Inclusivity:** The workforce is diverse, with equal opportunities for employees of all backgrounds, promoting inclusivity and diversity within the organisation.
- **Community Engagement:** The company supports local communities by investing in educational and social development projects, contributing to social well-being.

EcoFab's Governance Initiatives include:

- **Transparency:** EcoFab Textiles is transparent about its sourcing and manufacturing processes, allowing customers to trace the origin of materials and production methods.
- **Ethical Governance:** The company follows ethical governance standards, with a strong commitment to compliance and responsible business practices.
- **Compliance and Certification:** The manufacturer adheres to various international environmental and social standards and holds certifications such as OEKO-TEX Standard 100 and GOTS (Global Organic Textile Standard).
- **Supply Chain Responsibility:** The company conducts regular audits of its suppliers to ensure they meet ethical and environmental standards.

Additional ESG Considerations:

- **Recycling and Upcycling:** EcoFab Textiles offers recycling and upcycling programs to reduce fabric waste and encourage responsible disposal.
- **Product Longevity:** The fabrics produced are designed for durability and long-lasting use, reducing the need for frequent replacements.
- **Educational Initiatives:** The company educates its customers about the importance of sustainable and ethical fabric choices, promoting awareness and responsible consumer behavior.
- **Charitable Giving:** A portion of the proceeds from fabric sales is donated to charitable initiatives, such as supporting reforestation efforts or community development projects.

Applying the Framework: Compliant ESG Product Examples

- Organic and Fair Trade Chocolate Bar
- SustainaBrew Organic Coffee
- Organic and Cruelty-Free Facial Moisturiser
- Ethical Diamond Engagement Ring
- Organic Cotton and Fair Trade T-Shirt
- Reclaimed Wood Dining Table
- Sustainable Urban Commuter Bicycle



Product: Organic and Fair Trade Chocolate Bar

By creating an organic and fair trade chocolate bar that aligns with ESG principles, the chocolate brand ensures that the product not only aligns with high sustainability and ethical standards but also appeals to consumers who prioritise ethical and environmentally conscious food choices.

1. Environment Initiatives:

- **Organic Ingredients:** The chocolate bar is made from organic cocoa beans and other organic ingredients, reducing the use of synthetic pesticides and promoting soil health.
- **Sustainable Farming:** The cocoa beans are sourced from farms that employ sustainable farming practices, which protect biodiversity and minimise environmental impact.
- **Eco-Friendly Packaging:** The product is packaged in recyclable and biodegradable materials, minimising plastic waste.

2. Social Initiatives:

- **Fair Trade:** The cocoa beans are sourced through fair trade agreements, ensuring that the farmers receive fair prices for their products and work in ethical conditions.
- **Community Support:** The chocolate brand invests in community development projects in cocoa-producing regions, improving social well-being and living conditions.
- **Inclusivity:** The company promotes inclusivity within its workforce and supports diversity in the cocoa supply chain.

3. Governance Initiatives:

- **Transparency:** The chocolate brand is transparent about its sourcing, production processes, and adherence to ESG principles, allowing consumers to trace the origin of the cocoa and the manufacturing methods.
- **Ethical Governance:** The company follows ethical governance standards and ensures that its leadership adheres to responsible business practices.

Additional ESG Considerations:

- **Carbon Footprint Reduction:** The company employs strategies to reduce its carbon emissions in both sourcing and production.
- **Water Management:** The brand tracks and manages water usage in its production process to minimise water waste and environmental impact.
- **Ethical Supply Chain:** The chocolate brand ensures that all suppliers in its production chain adhere to fair labour and sustainability practices.
- **Customer Education:** The brand educates customers about the importance of ethical and sustainable food choices, promoting awareness and responsible consumer behavior.
- **Product Quality and Safety:** The chocolate bar adheres to the highest quality and safety standards, ensuring consumers receive a premium product.
- **Reducing Food Waste:** The company actively works to reduce food waste in its production and encourages consumers to minimise food waste.
- **Charitable Giving:** A portion of the proceeds from each chocolate bar sale is donated to charitable initiatives, such as supporting reforestation, education, or community development projects.

Product: "SustainaBrew" Organic Coffee

An ESG compliant coffee product demonstrates a commitment to sustainability, ethical sourcing, and responsible business practices throughout its production and supply chain.

1. Environment Initiatives:

- **Sustainable Coffee Farming:** The coffee beans are sourced from farms that use environmentally-friendly practices, such as organic farming, shade-grown coffee, and agroforestry to promote biodiversity and protect ecosystems.
- **Certified Organic:** The coffee is certified organic, ensuring it's grown without the use of synthetic pesticides or fertilisers, which reduces environmental impact.
- **Carbon-Neutral Production:** The company has invested in carbon offset programs to make the coffee production process carbon-neutral, addressing the carbon footprint associated with production and transportation.
- **Eco-Friendly Packaging:** The coffee is packaged in biodegradable or recyclable packaging materials, minimising waste and reducing the environmental impact.

2. Social Initiatives:

- **Fair Trade:** The coffee brand is committed to fair trade principles, ensuring that coffee farmers receive fair wages and work in safe and ethical conditions.
- **Ethical labour Practices:** The coffee supply chain promotes ethical labour practices, which includes fair wages, worker safety, and social benefits for employees.
- **Community Support:** The brand invests in the well-being of coffee-growing communities by supporting education, healthcare, and infrastructure development.
- **Inclusivity:** The company promotes inclusivity in its workforce, providing equal opportunities and respecting diversity.

3. Governance Initiatives:

- **Transparency:** The coffee company is transparent about its sourcing practices, allowing consumers to trace the origin of the beans and understand the supply chain.
- **Ethical Governance:** The company adheres to ethical governance standards, with a strong commitment to compliance and responsible business practices.
- **Quality Control:** The coffee is carefully sourced and rigorously tested for quality and safety to meet stringent governance standards.

Additional ESG Considerations:

- **Educational Initiatives:** The brand educates consumers about the importance of responsible coffee consumption, including recycling coffee packaging and supporting sustainability.
- **Reduced Food Waste:** The coffee brand encourages responsible consumption by offering various packaging sizes and options to reduce food waste.
- **Charitable Giving:** A portion of the proceeds from each coffee sale is donated to charitable initiatives, such as supporting reforestation projects or coffee-farming community development.

Product: Organic and Cruelty-Free Facial Moisturiser

By creating an organic and cruelty-free facial moisturiser that aligns with ESG principles, the cosmetic brand ensures that the product meets high sustainability and ethical standards while also appealing to consumers who prioritise clean and responsible beauty products. Such products are increasingly popular as consumers seek environmentally and socially responsible options in the cosmetics industry.

1. Environment Initiatives:

- **Ingredients:** The moisturiser is made from organic and sustainably sourced ingredients, reducing the use of harmful chemicals and pesticides.
- **Packaging:** The product is packaged in eco-friendly, recyclable, or biodegradable materials to minimise plastic waste.
- **Carbon Footprint:** The company tracks and offsets its carbon emissions related to production and transportation.

2. Social Initiatives :

Cruelty-Free: The product is not tested on animals, and the company adheres to cruelty-free practices.

Fair labour Practices: The cosmetic brand ensures that all suppliers and manufacturers uphold fair labour practices and pay fair wages to their workers.

Inclusivity: The brand offers a diverse range of shades and products, promoting inclusivity and representation in the beauty industry.

3. Governance Initiatives:

Transparency: The company provides transparency about its sourcing and manufacturing processes, as well as its commitment to ESG principles.

Ethical Governance: The company's leadership follows ethical governance standards, with a strong commitment to compliance and adherence to business ethics.

Additional ESG Considerations:

Sustainable Sourcing: The brand uses responsibly sourced ingredients, such as organic botanicals, which are harvested in a way that protects the environment and supports local communities.

Chemical-Free and Clean Formulation: The product is free from harmful chemicals like parabens, sulfates, and phthalates, providing a clean and safe formulation.

Minimal Water Usage: The manufacturing process of the product minimises water usage, contributing to water conservation.

Support for Women's Empowerment: The company supports women's empowerment initiatives, both in its supply chain and through charitable contributions.

Customer Education: The brand educates customers about the importance of clean beauty and the impact of their choices on the environment and society.

Product Lifecycle and Recycling: The packaging includes information on how to recycle the container and offers a recycling program, encouraging customers to reduce waste.

Philanthropy: A portion of the proceeds from the product sales goes toward charitable initiatives, such as supporting environmental conservation or social causes.

Product: Ethical Diamond Engagement Ring

The jewellery industry is often overlooked in terms of ESG priorities however there are good reasons to address ESG issues in this high volume industry. By creating an ethical diamond engagement ring that meets ESG criteria, the product not only meets high sustainability and ethical standards but also reduces political conflicts, fair trade non-compliance and human rights abuses.

1. Environment Initiatives:

Conflict-Free Diamonds: The diamonds used in the ring are sourced from conflict-free regions, ensuring they do not contribute to violence or human rights abuses.

Recycled Metal: The ring is made from recycled precious metals, such as recycled gold or platinum, to reduce the environmental impact of mining.

2. Social Initiatives:

Fair labour Practices: The jewelry is produced by skilled artisans in a workshop that upholds fair labour practices, including fair wages, safe working conditions, and respect for workers' rights.

Ethical Sourcing: The gemstones used are sourced from suppliers who adhere to ethical labour standards, ensuring that workers are treated fairly and work in safe conditions.

3. Governance Initiatives:

Transparency: The jewellery brand is transparent about its sourcing and production processes, allowing customers to trace the origin of the diamonds and metals used.

Anti-corruption Policies: The company has strict anti-corruption policies and adheres to international business ethics standards.

Additional ESG Considerations:

Packaging and Materials: The jewelry is packaged in sustainable and recyclable materials, minimising plastic use.

Waste Reduction: The production process minimises waste and recycles materials whenever possible, reducing the environmental footprint.

Local and Artisanal Support: The jewelry brand supports local communities and artisans by sourcing materials and labour locally, contributing to social and economic development.

Customer Education: The brand educates customers about the importance of ethical and sustainable jewelry choices, promoting awareness and responsible consumer behavior.

Product Lifecycle and Warranty: The product is designed to last a lifetime, with a warranty and repair service, reducing the need for replacement and minimising waste.

Giving Back: A portion of the proceeds from each sale goes toward supporting a charitable cause or community development project, contributing to social well-being.

Product: Organic Cotton and Fair Trade T-Shirt

This organic cotton T-shirt exemplifies ESG compliance by using sustainable and eco-friendly materials, ensuring fair labour practices throughout the manufacturing process, maintaining supply chain transparency and adhering to ethical business conduct. By choosing this clothing product, consumers can support sustainable and responsible practices in the fashion industry and contribute to positive environmental and social impacts.

1. Environment Initiatives:

Organic Cotton: The t-shirt is made from organic cotton, which is grown without harmful pesticides and synthetic fertilisers, reducing the environmental impact of cotton farming.

Eco-Friendly Dyeing: The dyes used in the t-shirt's production are eco-friendly, minimising water pollution and chemical waste.

Sustainable Packaging: The product is packaged in recyclable and biodegradable materials, minimising plastic usage.

2. Social Initiatives:

Fair Trade: The t-shirt is produced under fair trade conditions, ensuring that the workers involved receive fair wages and work in safe and ethical environments.

Inclusivity: The fashion brand promotes inclusivity by offering a wide range of sizes and promoting body positivity.

Diversity: The company's workforce and leadership are diverse, promoting diversity and inclusion within the organisation.

3. Governance Initiatives:

Transparency: The fashion brand is transparent about its sourcing and manufacturing processes, allowing customers to trace the origin of the cotton and the production methods.

Ethical Governance: The company follows ethical governance standards, with a strong commitment to compliance, sustainability, and responsible business practices.

Additional ESG Considerations:

Sustainable Supply Chain: The brand sources materials and production from regions with strong sustainability and ethical practices, supporting local communities.

Reduced Waste: The production process minimises waste and recycles materials whenever possible, reducing the environmental footprint.

Animal Welfare: The brand ensures that no animal-derived materials are used in the t-shirt's production, making it vegan-friendly.

Customer Education: The brand educates customers about the importance of sustainable and ethical fashion choices, promoting awareness and responsible consumer behavior.

Product Longevity: The t-shirt is designed to be durable and long-lasting, promoting a longer product lifecycle and reducing the need for replacements.

Charitable Giving: A portion of the proceeds from each t-shirt sale is donated to a charitable cause, contributing to social and environmental well-being.

Product: Reclaimed Wood Dining Table

The furniture and home goods industry has become one of the most disposable industries globally with decades long trends away from utilising natural materials and instead using human-made materials manufactured in non-sustainable ways. Reversing this trend back towards long product lifecycle using recycled and up-cycled materials aligns with ESG principles.

1. Environment Initiatives:

Reclaimed Wood: The dining table is crafted from reclaimed wood, which reduces the demand for virgin timber and helps mitigate deforestation.

Eco-Friendly Finishes: The finishes and coatings used on the table are low-VOC (volatile organic compounds) or water-based, reducing air pollution and harmful emissions.

Sustainable Packaging: The product is packaged using recyclable or biodegradable materials to minimise plastic waste.

2. Social Initiatives:

Fair labour Practices: The table is handcrafted by artisans who are paid fair wages and work in safe and ethical conditions.

Local Craftsmanship: The furniture brand supports local artisans and craftspeople, contributing to local employment and communities.

Inclusivity: The brand promotes inclusivity and diversity in its workforce, ensuring equal opportunities for all.

3. Governance Initiatives:

Transparency: The furniture brand is transparent about its sourcing and manufacturing processes, allowing customers to understand the origin of the reclaimed wood and the production methods.

Ethical Governance: The company follows ethical governance standards, with a strong commitment to compliance, sustainability, and responsible business practices.

Additional ESG Considerations:

Sustainable Sourcing: The brand ensures that the reclaimed wood is sourced from verified and certified sustainable sources, promoting responsible forest management.

Waste Reduction: The production process minimises waste, with any wood scraps being repurposed or recycled.

Local and Artisanal Support: The brand supports local communities and artisans by sourcing materials and labour locally, contributing to social and economic development.

Customer Education: The brand educates customers about the importance of sustainable and ethical furniture choices, promoting awareness and responsible consumer behavior.

Product Durability: The dining table is designed to be durable and long-lasting, reducing the need for frequent replacements.

Recycling and Repurposing: The brand offers recycling or repurposing programs for old furniture, reducing waste and encouraging responsible disposal.

Charitable Giving: A portion of the proceeds from each dining table sale goes toward charitable initiatives, such as supporting reforestation efforts or community development projects.

Product: Sustainable Urban Commuter Bicycle

Such bicycles are increasingly popular as consumers seek to make responsible and sustainable choices in urban mobility.

1. Environment Initiatives:

Sustainable Materials: The bicycle frame and components are made from sustainable materials, such as aluminum or steel from recycled sources.

Energy-Efficient Production: The manufacturing process uses energy-efficient techniques, minimising the carbon footprint.

Eco-Friendly Finishes: The bicycle is finished with low-VOC (volatile organic compounds) or water-based paints, reducing harmful emissions.

2. Social Initiatives:

Fair labour Practices: The bicycle is produced under fair labour conditions, ensuring that workers are paid fair wages and work in safe and ethical environments.

Inclusivity: The company promotes inclusivity within its workforce, ensuring equal opportunities for all.

Safety and Comfort: The bicycle design emphasises safety and comfort, catering to various riders' needs and abilities.

3. Governance Initiatives

Transparency: The bicycle brand is transparent about its sourcing and manufacturing processes, allowing customers to understand the origin of materials and the production methods.

Ethical Governance: The company follows ethical governance standards, with a strong commitment to compliance and responsible business practices.

Additional ESG Considerations:

Packaging and Transportation: The bicycle is packaged with minimal waste and using eco-friendly materials. The company seeks to reduce emissions associated with transportation.

Longevity and Repairability: The bicycle is designed for longevity and ease of repair, minimising the need for replacements and reducing waste.

Local Manufacturing: When possible, the bicycle is manufactured locally, reducing transportation emissions and supporting local communities.

Customer Education: The brand educates customers about the benefits of sustainable transportation and responsible consumer behavior.

End-of-Life Recycling: The company provides information on proper disposal methods and encourages recycling programs for the bicycle at the end of its life.

Safety and Traffic Education:

The brand promotes safe cycling and educates customers about sharing the road responsibly.

Charitable Giving:

A portion of the proceeds from each bicycle sale is donated to charitable initiatives, such as supporting cycling infrastructure development or community well-being projects.



~0% Tolerance

Consumers abandon brands when they believe the company is greenwashing their sustainability practices

1 in 3

Customers rate ESG in Top 3 decision criteria when making purchases

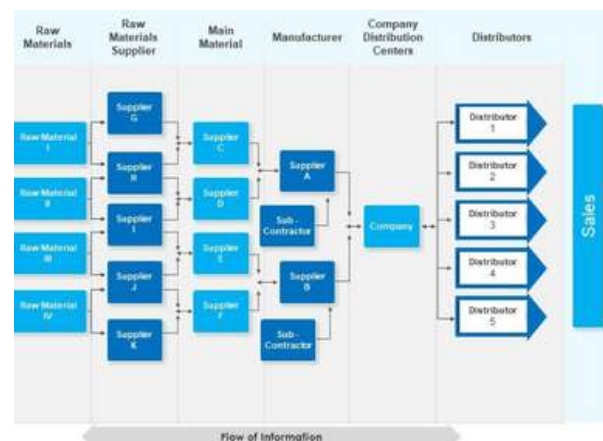
Applying the Framework: Compliant ESG Supply Chains

Ensuring that a supply chain is ESG compliant is essential for promoting sustainability, mitigating risks, and meeting the expectations of consumers and investors who prioritise responsible business practices. Key actions include:

Supplier Selection and Evaluation: Develop clear ESG criteria for supplier selection. Assess potential and existing suppliers against these criteria, considering their environmental impact, social practices, and governance. Prioritise suppliers with a shared commitment to ESG principles.

Transparency and Disclosure: Require suppliers to provide transparent ESG data, such as emissions, labour practices, and governance policies. Implement a system for regular reporting and disclosure of ESG performance. Even if in the early days suppliers are not tracking this data, requesting it increases awareness and helps engage more businesses in ESG practices.

Supply Chain Mapping: Create a comprehensive map of the supply chain, including all tiers of suppliers. Identify ESG risks and opportunities at each level and prioritise actions accordingly.



Audit and Assessment: Conduct regular audits and assessments of supplier facilities and practices to ensure ESG compliance. Establish corrective action plans for non-compliant suppliers.

Contractual Agreements: Include ESG clauses in supplier contracts that outline specific ESG requirements, responsibilities and performance metrics. Define consequences for non-compliance, such as penalties or termination of contracts.

Collaborative Partnerships: Foster collaborative relationships with suppliers by providing ESG guidance and support. Share best practices and resources for improving ESG performance.

Risk Management: Develop a risk management strategy that addresses potential ESG-related risks in the supply chain. Diversify sourcing when possible to reduce reliance on high-risk suppliers or regions.

Training and Capacity Building: Offer training and capacity-building programs to suppliers to help them meet ESG standards. Provide guidance on improving environmental sustainability, labour conditions, and governance practices.

Monitoring and Tracking: Implement a robust monitoring system to track ESG performance across the supply chain. Utilise technology and data analytics to identify trends and areas for improvement.

Certifications and Standards: Encourage suppliers to obtain relevant ESG certifications (e.g., ISO 14001 for environmental management, Fair Trade for social responsibility). Ensure that certifications are valid and maintained.

Continuous Improvement: Regularly review and update ESG standards and practices in line with evolving regulations and industry best practices. Celebrate and reward improvements in ESG compliance.

Engage Stakeholders: Engage with stakeholders, including consumers, investors, and advocacy groups, to demonstrate your commitment to ESG compliance. Seek feedback and respond to concerns to enhance transparency and accountability.

Supplier Incentives: Provide incentives, such as longer-term contracts or preferential treatment, to suppliers who consistently meet or exceed ESG standards.

Public Reporting: Research shows that consumers are increasingly making purchasing decisions based on the ESG and sustainability practices of the business. Publishing sustainability or ESG data or reports that highlight the supply chain's compliance efforts gives customers transparency and confidence.

Systematically integrating ESG principles into supply chain management processes and maintaining a strong commitment to sustainability ensures the supply chain is ESG compliant, reduces risks and contributes to a more responsible and sustainable business ecosystem.

Any MSME can feasibly action some of the above activities to assess ESG practices in their supply chain and gain an awareness and understanding of areas in which they can improve their practices to align to better ESG and sustainability outcomes.

Levelling Up

Creating a 5-tier ESG classification system for MSMEs to help them level up their ESG efforts provides a structured pathway for continuous improvement. A proposed classification system with increasing levels of ESG maturity would include:

Tier 1: Foundational At this level, MSMEs are just beginning their ESG journey and are focusing on basic steps to establish a foundation for sustainable practices.

Environment: Implement basic energy efficiency measures and waste reduction.

Social: Comply with labour laws, ensure employee safety and promote diversity and inclusion.

Governance: Establish transparent financial reporting and adhere to legal requirements.

Tier 2: Developing At this stage, MSMEs are actively working to expand their ESG initiatives and integrate sustainability more deeply into their operations.

Environment: Set clear goals for reducing environmental impact, such as carbon emissions and water usage.

Social: Begin employee training on ESG, engage in local community initiatives, and improve stakeholder communication.

Governance: Establish a formal code of ethics, implement risk management practices, and involve employees in decision-making.

Tier 3: Intermediate MSMEs in this tier have made significant progress and are now focusing on more advanced ESG practices to enhance their sustainability.

Environment: Expand efforts to reduce waste, source sustainable materials, and invest in renewable energy.

Social: Develop employee wellness programs, engage in supply chain responsibility, and measure social impact.

Governance: Enhance board diversity, adopt sustainability reporting standards, and implement anti-corruption measures.

Tier 4: Advanced These MSMEs are leaders in ESG, demonstrating a strong commitment to sustainability throughout their operations.

Environment: Achieve carbon neutrality, implement a circular economy model, and innovate in sustainable product development.

Social: Foster a culture of inclusion and equity, actively engage with communities, and measure social outcomes rigorously.

Governance: Establish a dedicated ESG committee, actively involve stakeholders in decision-making, and lead in ESG reporting and transparency.



Tier 5: Exemplary At this top tier, MSMEs are setting industry standards for ESG excellence, often serving as models for larger enterprises.

Environment: Innovate in sustainability practices, actively influence industry standards, and drive significant environmental conservation efforts.

Social: Spearhead community development projects, set benchmarks for employee well-being, and advocate for social justice.

Governance: Champion governance best practices, set the highest standards for transparency, and engage in ESG policy advocacy.

This 5-tier ESG classification system allows MSMEs to evaluate their current ESG maturity and provides a roadmap for progressing to higher levels of sustainability.

MSMEs can use this framework to set goals, track their progress, and communicate their ESG achievements to stakeholders. Comparative tiers can also create greater momentum for MSMEs to focus more on their ESG efforts and to ensure they do not lag behind other businesses in their industries.

It's important to note that the journey towards higher ESG levels requires commitment, resources, and continuous improvement, but the benefits in terms of reputation, competitiveness, and long-term sustainability are significant.

Role of Gamification in Mobilising ESG

Gamification is a powerful tool for driving MSMEs towards ESG practices by making the adoption of sustainability measures engaging and rewarding. For example, strategies to implement gamification in this context include:

ESG Score and Leaderboards: Create an ESG scoring system that rates MSMEs based on their sustainability efforts. Display a leaderboard showing where each business stands in comparison to others. Award badges, trophies, or recognition to top performers to encourage competition.

Challenges and Missions: Design ESG-related challenges or missions where businesses can complete. Examples could include reducing energy consumption, minimising waste or community giveback initiatives. Offer rewards, such as discounts on ESG-related products or services, for completing challenges.

Progress Tracking: Develop a platform or app that allows MSMEs to track their ESG progress in real-time. Use visual representations like progress bars or graphs to make it easy for them to see their improvement.

Collaborative Initiatives: Encourage collaboration among MSMEs by organising team-based challenges. Teams can compete against each other to collectively achieve ESG goals.

Recognition and Awards: Establish an annual ESG awards program for MSMEs. Recognise and reward businesses that demonstrate outstanding commitment to ESG practices.

Incentives and Prizes: Offer tangible incentives like grants, subsidies, or access to ESG-related funding opportunities for high-performing MSMEs. Sponsorship opportunities or partnerships with ESG-focused organisations can also serve as prizes.

Feedback and Improvement: Encourage businesses to gather feedback from employees and customers on ESG initiatives. Use feedback to improve the gamification elements and the overall ESG program.

Social Sharing: Allow businesses to share their ESG achievements on social media. Implement social sharing features within the gamified platform to increase visibility and inspire others.

Transparency and Reporting: Provide MSMEs with detailed reports on their ESG performance. Transparency can boost motivation as businesses can see the impact of their efforts.



Educational Games: Create interactive educational games or quizzes that teach businesses about ESG principles and practices. Offer rewards or points for completing these games, which can be redeemed for ESG-related resources or services.

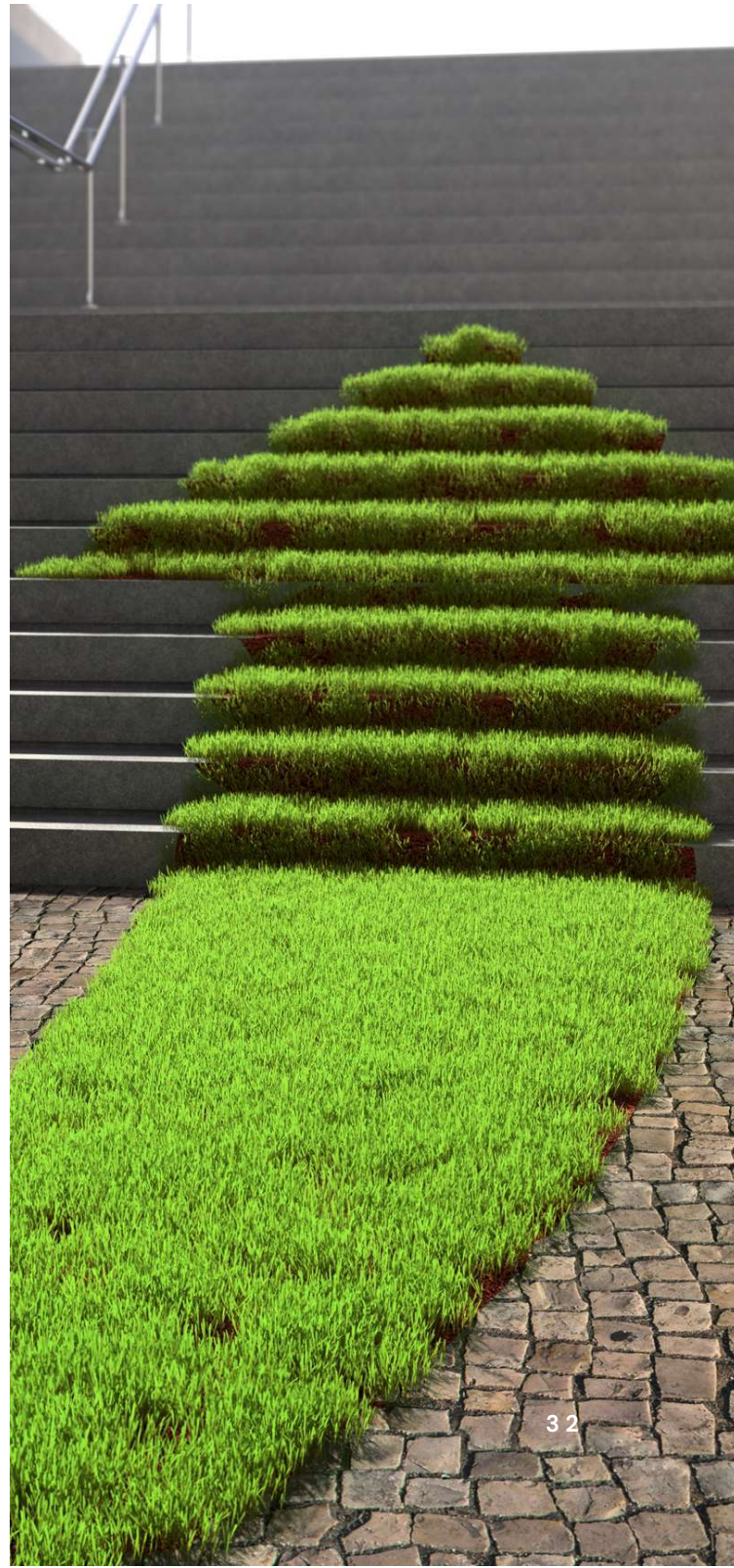
Continuous Learning: Offer ESG-related webinars, workshops, or resources that businesses can access to enhance their knowledge and skills.

Remember that the key to successful gamification in driving ESG practices among MSMEs is to keep it engaging, relevant, and aligned with their goals. Regularly update and evolve the gamification elements to maintain interest and encourage long-term commitment to sustainability practices. Additionally, provide clear communication on how ESG efforts contribute to a business's growth, reputation, and long-term sustainability.

Roadmap for APEC Leaders

Governments play a critical role in enabling ESG policies for MSMEs. These policies can foster sustainability, ethical practices, and responsible governance among MSMEs. The following recommendations arising from the 2023 ABAC Sustainability and Inclusion Taskforce survey provide a basis for action by APEC economies:

- **Policy Development and Implementation:**
 - Develop and implement clear ESG policies that define expectations and standards for MSMEs in areas such as environmental impact, social responsibility, and corporate governance and that start with a simplified mandate for change, reducing burdensome compliance requirements in the early stages of the policy cycle
- **Incentives and Subsidies:**
 - MSMEs in the ABAC 2023 survey told us that they de-prioritise ESG actions on the basis that it is expensive to implement and reduces the time and focus they need to provide to their commercial, revenue-generating activities. If Governments can offer financial incentives, subsidies, grants, and tax breaks to encourage MSMEs to adopt and integrate ESG principles into their operations – such as incentives could include support for energy efficiency, waste reduction, and sustainable sourcing practices – and utilise digital media to communicate the incentives, then it is probable that MSMEs would use the incentives to action ESG changes to their enterprises.
- **Capacity Building:**
 - Provide training programs, workshops, and resources to help MSMEs understand and implement ESG practices effectively. This includes educating business owners and employees about the importance of ESG as well as creating localised ESG



networks MSMEs can access to gain more information and better knowledge.

- **Technical Assistance:**
 - Offer technical assistance and advisory services to guide MSMEs in the development and implementation of ESG strategies. This could involve ESG experts or sustainability consultants that MSMEs can call, for example, to prioritise key ESG actions that are aligned to local government sustainability priorities.
- **Digital Infrastructure and Technology:**
 - Invest in digital infrastructure and technology to help MSMEs integrate ESG practices more efficiently. Digital tools can facilitate tracking, reporting, and implementation of sustainability initiatives.
- **Market Access:**
 - Help MSMEs access markets that prioritise ESG-compliant products and services. Support initiatives that connect ESG-compliant suppliers with buyers.
- **Certification and Recognition:**
 - Promote ESG certification programs and awards for MSMEs, which can provide validation and recognition for their ESG compliance efforts.
- **Supply Chain Support:**
 - Encourage ethical and sustainable practices in supply chains and partnerships by providing resources and guidance. This includes support for fair labour practices and responsible sourcing.
- **Financial Support and Access to Finance:**
 - Facilitate access to ESG-linked financing and loans. Encourage financial institutions to offer favorable terms for businesses that demonstrate ESG compliance.
- **Reporting and Disclosure Requirements:**
 - Introduce regulations that require MSMEs to report on their ESG performance and disclose relevant information transparently. Create standardised reporting frameworks or align with international standards.
- **Research and Development:**
 - Invest in research and development programs that drive innovation in ESG-related technologies and practices, benefiting MSMEs in adopting sustainable solutions.
- **Inclusivity and Diversity:**
 - Promote policies that encourage inclusivity and diversity in the workforce of MSMEs, fostering an environment where all employees have equal opportunities.
- **Governance and Ethical Practices:**
 - Advocate for ethical governance and compliance with ESG standards in MSMEs, ensuring that corporate governance practices are transparent and responsible.
- **Monitor and Evaluation:**
 - Establish mechanisms for monitoring and evaluating the effectiveness of ESG policies. Adapt policies based on feedback and outcomes to ensure continued improvement.
- **Public Awareness:**
 - Run public awareness campaigns to educate MSMEs and consumers about the importance of ESG, sustainability, and ethical practices.
- **Legislation and Regulation:**
 - Implement legislation that enforces ESG principles and creates penalties for non-compliance. Ensure that regulations are enforceable and aligned with international best practices.
- **Collaboration and Partnerships:**
 - Collaborate with industry associations, NGOs and other stakeholders to create a supportive ecosystem for ESG adoption among MSMEs.
- **Sustainability Reporting Standards:**
 - Develop or adopt simplified and where pragmatic, automated and standardised sustainability reporting frameworks that MSMEs can use to track and disclose their ESG performance.

Enabling ESG policies for MSMEs requires a multi-faceted approach involving a combination of regulatory, financial, educational, and support measures. Governments can create a favorable environment that motivates and supports MSMEs in embracing ESG practices, fostering responsible business operations and contributing to sustainable development.



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