

NOVEMBER 2022

THE PULSE

Monthly Insights 



This is the November-2022 edition of The Pulse, brought to you by ASEAN Business Partners. Our endeavour is to capture the trends and developments in this vibrant region to help you identify business opportunities in Asia.

As we move into the final part of the year, Thailand celebrates Yi Peng Festival in November, a festival to celebrate the start of winter and the transition from obscurity to a promising future. This month's newsletter shines a light on ESG and its promising future while highlighting environmental and SME issues.

We write on the increasing importance of ESG in company goals, SME's accessing capital through fintechs, ABP's Market Research services, ASEAN's need for waste management, and the trends in ASEAN's labour laws.

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ESG IS NOW A BOARDROOM AGENDA

Southeast Asia nations are now paying closer attention to sustainable business practices



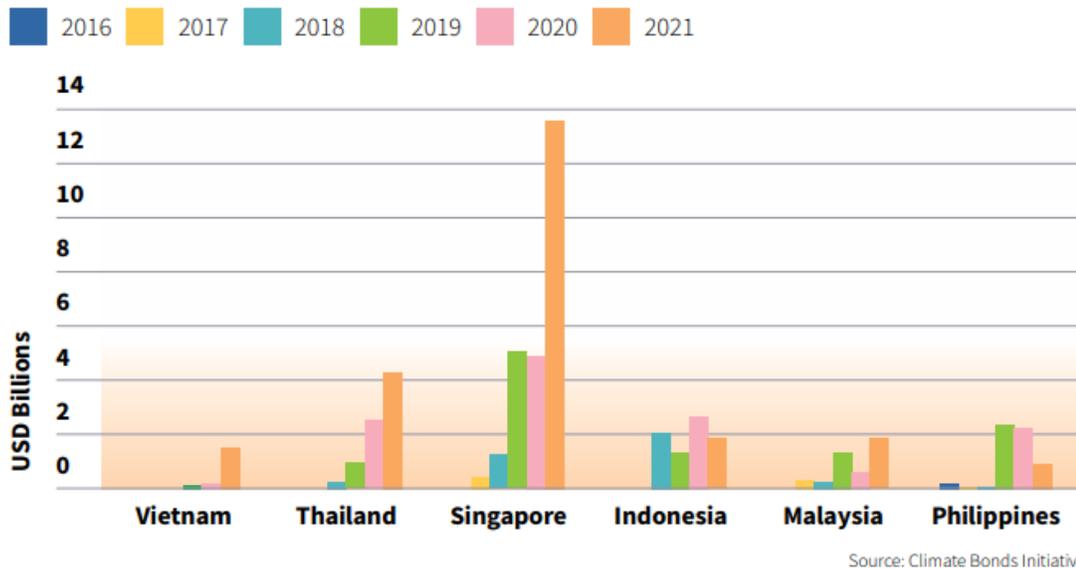
Southeast Asia is growing at a breakneck pace. ASEAN is projected to become the world's fourth-largest economy by 2050. Corporates are getting more ambitious, with rapid expansion in manufacturing and services. However, the growth also has a downside. The region risks losing 35% of its GDP to climate risks caused by rising emissions. Hence, businesses can no longer hold back on their sustainability promise.

Corporates are now paying serious attention to environmental, social, and governance (ESG) disclosures. Clean energy targets are not just on paper. Moving beyond CO2 emissions, newer concepts like sustainable finance are also seeing rapid adoption in the region.

Member nations, including Indonesia, Malaysia, Singapore, Vietnam, and Thailand, have mandatory regulations for ESG disclosures. The Philippines will make it compulsory for listed companies from 2023 onwards. Now, companies are also setting up ESG teams to monitor energy use regularly.

The ASEAN GSS (Green, social and sustainable bonds which are used to finance projects with a positive climate impact) issuance market has grown to a volume of 24 bn\$ in 2021 compared to 13.6 bn\$ the prior year.

Annual GSS issuance from ASEAN-6 countries



WHO LEADS THE CHARTS?

At present, Thailand leads ESG disclosures in Southeast Asia. The corporate governance code by the country's markets regulator mandates sustainability reporting.

The Stock Exchange of Thailand is ranked the ninth-best stock exchange in the world for ESG disclosures. Its 2017 Corporate Governance and Stewardship Code requires disclosures that are proportionate to the company's size and complexity and meet domestic and international standards.

Here is what the other major ASEAN nations are doing:

VIETNAM:

Listed companies and state-owned firms are mandated to publish an ESG report every year. This includes the amount of greenhouse gas emissions, energy, and water consumption, as well as compliance with environmental laws. In addition, the planning ministry has proposed the implementation of an industrial environmental index in Vietnam. This index will measure the level of pollution in each industrial sector.

INDONESIA:

From 2020 onwards, all listed companies were required to publish annual sustainability reports. Apart from this, financial services firms also need to disclose steps taken for sustainable finance. This involves taking the environment into consideration while making investment decisions. Some examples are green bonds, carbon credits, and renewable energy financing.

PHILIPPINES:

ESG reporting will become obligatory from 2023. The current regime follows a comply-or-explain policy. Close to 90% of companies have complied with these regulations. The country has also launched a Sustainable Finance Framework to raise money through green bonds, and other clean instruments.

BRIDGING THE GAP

Understanding their environmental responsibilities, more companies in the region are setting up ESG teams and improving the reporting standards.

As ASEAN transforms into a major economic engine of the globe, its member nations will need to play a key role in improving transparency and identifying new opportunities in ESG. An environmentally friendly future will depend on the business decisions taken today.

FINTECH COULD BE SMES' CREDIT LIFELINE

While access to finances has been a concern for small enterprises, fintech is looking to fill the gap



There are close to 71 million small businesses in Southeast Asia. These enterprises employ over 140 million people and account for almost 99% of the business in the region. But this segment still faces the toughest financial challenge.

Irrespective of their location, access to credit remains a concern. ADB data showed that 60% of these small businesses have expressed difficulty or inability to obtain loans from traditional financial institutions. Fear of bad loans keeps banks away from lending to small businesses, and the lack of credit access impedes growth for these entities.

It is at this juncture that fintech lending has slowly come to the rescue. With quick disbursements and alternate risk models in place, these platforms can enable immediate credit access for small businesses.

PLUGGING THE GAP

In Vietnam, 75% of small businesses are unable to access formal credit. There are 800,000 enterprises operating in Vietnam, of which 97% are small businesses. Government officials stated that the lack of transparency in their documentation reduces the chances of obtaining a loan from banks and allied financial institutions.

A similar situation prevails in Indonesia. About 23 million small business owners in the country do not have access to finance from the banking sector. The government has encouraged these businesses to embrace digitisation for better credit scores.

In Thailand too, about 60% of small businesses have not been able to access credit from banks. The Bank of Thailand said that digital banking will help improve the liquidity situation of the industry.

The pandemic exacerbated the crisis in markets such as the Philippines. Here, only 13% of small businesses could access funding easily.

FINTECH TO IMPROVE ACCESS

Local solutions exist. In Indonesia, for instance, fintech firm Amarnya is connecting urban investors with women entrepreneurs to bridge the demand-supply mismatch. The platform also offers group-based working capital loans for these business owners.

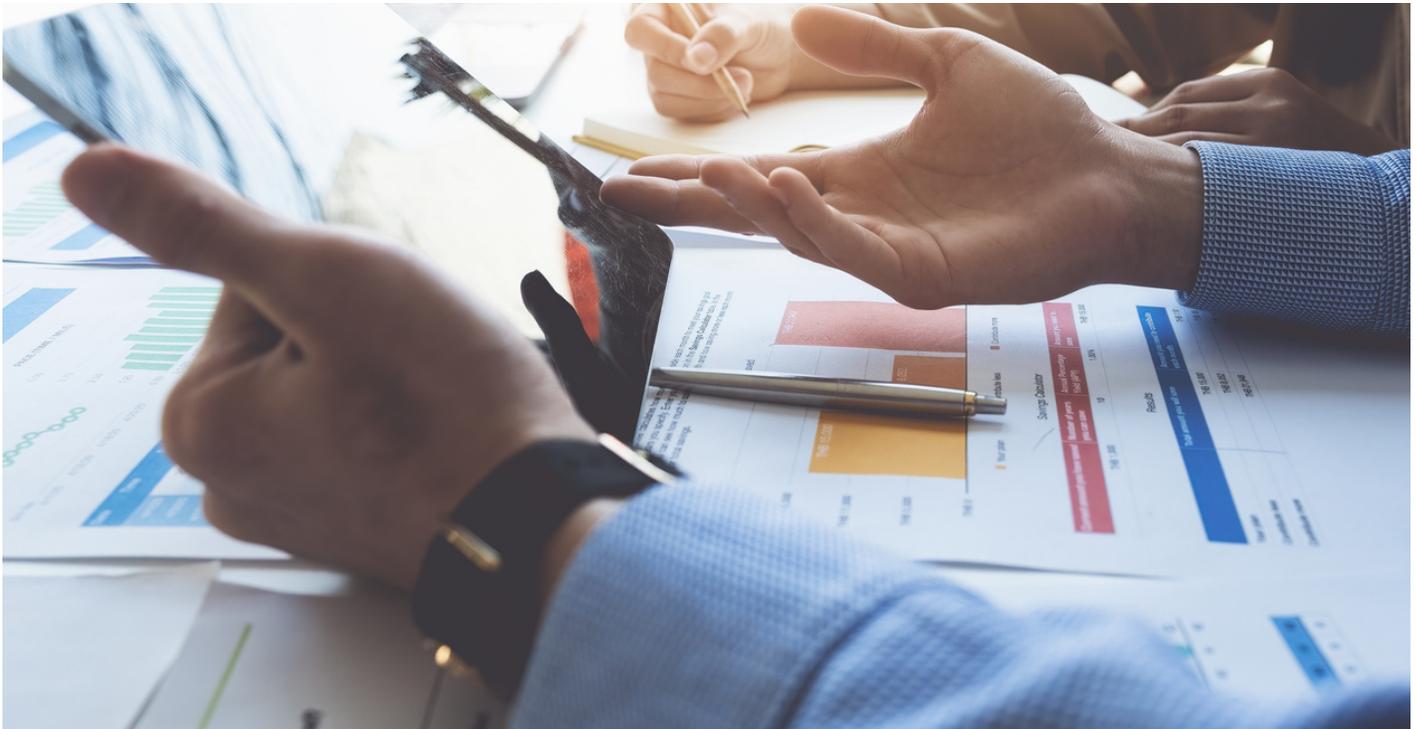
Another platform Funding Societies (called Modalku in Indonesia) raised \$144 million to offer an artificial intelligence-led credit model for small businesses. It has also partnered with HSBC for a \$50 million credit facility for SME digital financing.

Funding Societies operates in Singapore, Indonesia, Malaysia, Thailand, and Vietnam and has disbursed over \$2.5 million in credit to small businesses.

Fintech startups such as Finaxar also partner with local institutions such as Indovina Bank in Vietnam to offer business loans to solopreneurs and entrepreneurs. In the Philippines, SME lender Investree has partnered with technology platforms to offer funds to emerging businesses. With flexible eligibility criteria, the aim is to make credit available to all.

A conscious effort, through enabling regulations and support of fintech platforms, will go a long way in bringing credit within the reach of small business owners.

ABP MARKET RESEARCH: LOCAL PRESENCE AND STRATEGY FOR ASEAN



Have a great product or a service offering, that's perhaps universal enough to fit in markets which are oceans apart from you? You might be right, but first things first, familiarize and study the local market needs and its dynamic trends. Let's not forget detail or derail is a fact of any business. Running a business is all about calculated moves and very rarely about luck. Not their fault or ignorance - however mired with calculations and numbers, entrepreneurs often miss the right window of opportunity to introduce their products or overlook one aspect. Whether planning to expand within Southeast Asia or want to enter the region, ASEAN Business Partners (ABP) is ready to be your manfriday - to be that extra pair of eyes (and hands too!) to spot the gaps and steer companies the optimal product and marketing strategies in the 10 countries that form ASEAN - Association of Southeast Asian Nations. Diversity is the beauty of the region and as a market entry and growth firm ABP has embraced this diversity and is sensitive to these unique idiosyncrasies that every market in SEA poses. Not always a solution meant for a market solve the same issue in another. This is where local knowledge and networks are necessary and it is ABP's strengths.



ABP's Market bouquet of offering includes market sizing and assessment, demographics segmentation, need assessment, market stability, competition analysis, positioning studies, due diligence and overall market understanding. Understanding local political atmosphere, local geography, various demographic segments, local culture & society, and overall legal & regulatory governance among other aspects is important for holistic understanding and projections. With experienced market professionals based in Singapore, Malaysia, Philippines, Vietnam and Indonesia, ASEAN Business Partners (ABP) can provide companies with insights on consumer interests, cultural nuances, social behaviours / habits and product acceptability. Collectively, professionals at ABP have about 200 years of experiences in finance, marketing and sales segments across Southeast Asia. ABP services committed to making the entrepreneurs comfortable with taking the leap.

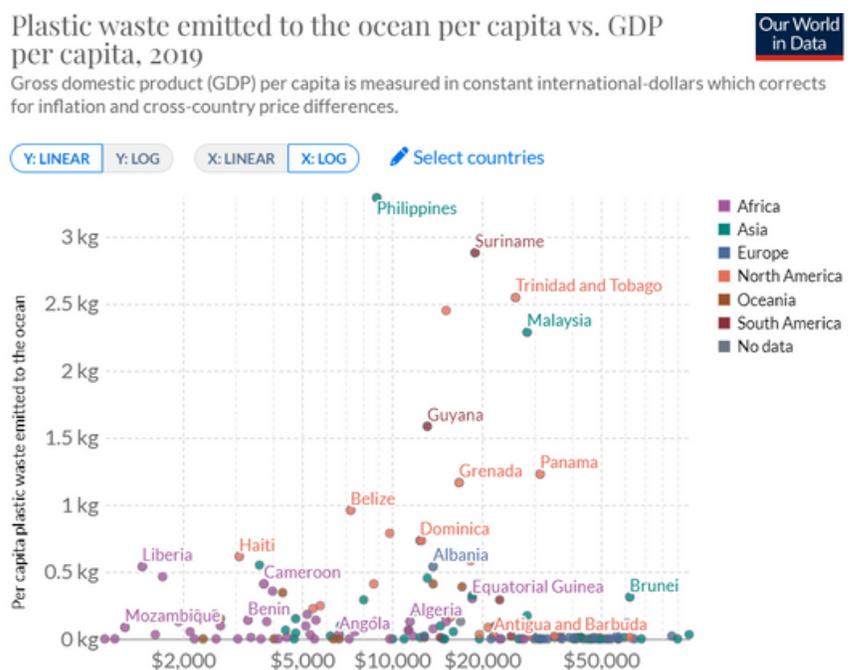
ASEAN NEEDS PROACTIVE WASTE MANAGEMENT

While a slew of initiatives has begun, Southeast Asia needs a concerted effort



Think of Bali's beaches and you picture pristine sands, cloudless skies, and warm waters lapping the shores. You don't want that scene ruined by walking over beaches strewn with 50 tonnes of discarded plastic cups, bags, diapers, and more before you reach the waters.

The waters in the Asean region are among the most polluted in the world. Reports say Asian countries account for 81% of the plastic in the world's oceans. More than a third comes from the Philippines alone, while Indonesia contributes nearly 6%.



THE SITUATION

Marine debris poses a very real threat, not just to ocean life and the environment, but also to the economies of the region. Bali, for instance, gets about 60% of its revenue from tourism. Dirty waters also impact shipping and fisheries, apart from the cost of cleaning up these areas. World Bank estimates place the cost of plastic pollution to ASEAN member states' "blue" sectors at about \$2.1 billion in 2015.

Trouble is, it's not just ocean trash, but also the trash from other countries these nations have to manage. Globally, about 2.12 billion tonnes of waste is produced every year, and processing it is big business. In 2018, when China banned waste imports over concerns over the damage to its environment, the trash-exporting nations (the US and countries in Europe) turned to South East Asia.

WHAT COUNTRIES ARE DOING

But ASEAN member states are now cleaning up their act. Thailand banned e-waste imports in 2018, while Malaysia and Vietnam stopped issuing new permits for plastic waste imports. They are also looking to reduce single-use plastic products and packaging. Malaysia has banned non-biodegradable plastic bags, while Thailand is considering an electronic scrap disposal tax.

Countries are also exploring Waste-to-Energy (WTE) solutions. In July 2022, Vietnam's largest WTE plant, capable of burning 4,000 tonnes of dry waste every day, began operations. The Philippines is considering laws to institutionalize WTE development, while Thailand already offers subsidies and tax incentives for different types of WTE plants.

Indonesia, meanwhile, is turning to technology to provide solutions to the growing waste problem. With a goal to reduce total waste by 30% by 2030, Indonesia's current focus is on recycling solutions. Several startups in the country have gotten into the act as well, creating recycling apps and offering rewards in exchange for recyclables.

TIME TO ACT

With the objective of reducing waste, the World Bank has approved a \$20 million regional grant for ASEAN. The ASEAN nations have been relentless in their efforts to tackle the trash problem. But this is the time to amp up the efforts and strengthen policies and regulatory frameworks governing the production and use of plastics. The time to act is now.

SHIFTS IN ASEAN LABOUR LAWS

Labour laws in Southeast Asia are evolving, but gaps remain in protection and adherence



ASEAN has the third largest labour force globally, amounting to 326 million in 2015, and that number is likely to reach 385 million by 2030. However, the pandemic accentuated high informality in labour across Southeast Asia and the lacunae of social protections in the region. In 2020, the unemployment rate rose to 3.1 percent, compared with 2.5 percent in 2019.

With the Covid-19 shock came job losses and reductions in working hours, and it forced a vast majority of workers to exit the labour force. When they returned to work after restrictions were lifted, it was mostly as informal employees. While most nations extended subsidies to informal workers, with not enough protections, they remain vulnerable.

ECONOMIC RECOVERY AND LABOUR

Following the devastating pandemic, ASEAN nations have been making policy changes to promote ease of business and speed up economic recovery. So far, their approach to inclusive and sustainable growth has been uneven, and efforts are needed to formalise employment and widen the fiscal scope for protection.

In November 2020, Indonesia introduced the Omnibus Law to drive investment and create jobs. However, the law will be revisited to correct procedural flaws, as unions protested against including a cut in mandatory severance benefits, new minimum wage limits and removal of some mandatory paid leave.

To boost output, from 2022, Vietnam raised the number of overtime hours for employees from 40 per month, as stated in the Labour Code 2019, to 60 per month. So, employers—who demonstrate business demand and have their employees' consent—can make workers operate overtime for over 200 hours but not exceeding 300 hours a year.

GAPS IN ADHERENCE

So far, businesses have not uniformly offered social protections. Ride-hailing and food delivery platforms are major employment generators. Yet, in the Philippines, a study said there was no evidence that platform riders get the minimum wage through gig labour. Classified as individual contractors, rather than employees, they do not enjoy social protections under the Philippine's labour laws. Similarly, in Indonesia, which has a large informal economy, Fairwork reported an absence of labour protections and poor working conditions.

Countries will be looking at filling gaps in social protection by investing in human capital, improving access to education and skilling, and closing the digital divide.

ABOUT US



ASEAN Business Partners is an independent, market entry and market growth specialists that helps internationally oriented companies manage and grow their operations in ASEAN sustainably and profitably. We are well-networked, independent of governments, and dedicated purely to serving our clients. Our management and country experts are unrivaled in their ASEAN network, experience, and expertise, with proven credentials.

We are a team of top-class professionals with expertise in different industries. Our executives have worked as CEOs, CFOs and in other senior positions in top multi-national companies and represent the best talent available globally. Our founder, Sumit Dutta, is an ex-HSBC CEO who has worked in Indonesia, Vietnam, Hong Kong, India, and the US. A majority of our team and country experts are former senior-level executives from multinational corporations.

We are passionate about the ASEAN region, one of the highest growth markets in the world, and believe it will be the market of choice for all forward-looking international companies. We seek to create value for our clients and their customers in ASEAN, and so contribute to the prosperity of ASEAN nations and their people.

Please take a moment to review our website. If there is any way we can assist you, please reach out to us.

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