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MediaTitle	The Star		
Date	31 Oct 2023	Color	Full Color
Section	Supplement	Circulation	175,986
Page No	A9TOA11	Readership	527,958
Language	English	ArticleSize	3032 cm²
Journalist	N/A	AdValue	RM 152,589
Frequency	Daily	PR Value	RM 457,767

Star ESG

ENVIRONMENTAL SOCIAL GOVERNANCE

Star Media Group Roundtable Findings On ESG In Budget 2024

The recent Star Media Group (SMG) roundtable and survey with industry players highlighted some key ESG drivers for their respective businesses and alignment within the context of Budget 2024

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Budget 2024 measures to aid businesses' ESG journey

Star Media Group roundtable findings on ESG in Budget 2024

SMG's ESG Budget 2024 roundtable discussion, held on Aug 2 at Menara Star, touched on topics such as decarbonisation, EVs, incentives and more.

By StarESG EDITORIAL TEAM
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THE recent Star Media Group (SMG) roundtable and survey with industry players highlighted some key ESG drivers for their respective businesses and alignment within the context of Budget 2024.

Several measures presented in Budget 2024 tabled by Prime Minister Datuk Seri Anwar Ibrahim on Oct 13 indicate an encouraging start in the government's commitment to sustainability and economic resilience – reassuring the business community that they are being heard.

One notable announcement was that financial institutions would provide RM200bil in financing to encourage transition to a low-carbon economy. This reflects the government's initiative to regulate commercial energy rates for clean energy sources.

Budget 2024 introduced incentives such as tax credits, grants and tax deductions for ESG-related expenditures and carbon projects – demonstrating a commitment to incentivise clean energy practices.

Carbon-free future

The emphasis on the sustainability front with the RM2bil allocation in national energy transition funds on top of the RM200bil to encourage industrial shift towards a low-carbon economy "are key to ensure Malaysia is equipped across the value chain to enable a carbon-free future," says DHL Express (Malaysia and Brunei) managing director Julian Neo.

"Budget 2024 strikes a balance between public welfare, fiscal responsibility, and growth considerations.

"The measures tabled are rightly inclusive of high-need communities, while maintaining focus on the country's resilience and longer-term development amidst a backdrop of economic volatility," says Neo who participated in the SMG roundtable on July 28.

Under Budget 2024, companies looking into carbon capture and storage (CSS) will soon see development in tax incentives.

However, this is pending a study by the Finance Ministry, Inland Revenue Board (LHDN) and Petronas.

EV extension

On recommendations from the roundtable and survey for government subsidies on commercial electric vehicles (EVs) and tax benefits for EV investments, Budget 2024 provides for an extension of the RM300,000 deduction on EV rental cost until YA2027.

This incentive aligns with the recommendation to offer tax exemption or deduction for businesses investing in commercial EVs – effectively lowering total cost of ownership over the vehicle's lifespan as well as providing strong financial motivation for companies to transition.

While subsidies were primarily available for individual EV users, the Budget also features tax exemptions for charging infrastructure and vehicles.

SME ESG adoption

Malaysia Retail Chain Association (MRCA) deputy secretary general Dr Afendi Dahlan, a fellow SMG roundtable participant, says: "Budget 2024 shows clear intent and unwavering commitment by the government in addressing some of the issues raised at the roundtable."

On availability of ESG funding for small and medium-size enterprises (SMEs) and tax incentive for ESG tax-related expenditure, Afendi says SMEs require more than just financial assistance in their ESG journey.

"In addition to various incentives to support our net zero carbon emission goal, we are pleased to hear that RM600mil is allocated to help micro-enterprises and low-income entrepreneurs, small contractors for the adoption of sustainable practices and the food security sector.

"The introduction of tax deduction up to RM50,000 for each year of assessment on ESG-related expenditure will incentivise businesses in adopting ESG policies within their organisations," he says.

Residential solar energy

The Net Energy Metering (NEM) programme offer period is extended until Dec 31, 2024 to encourage installation of panels in residential premises, which helps spur the residential solar photovoltaic (PV) market.

The SMG roundtable had proposed to the Government to establish a centralised agency for grant management to offer tailored grants for different industries, as well as provide other supportive mechanisms.

While these proposals have not been addressed in Budget 2024, industry players will continue to push for them to aid their ESG journey.

Other recommendations from the roundtable include education and awareness initiatives particularly for SMEs, carbon tax education, establishing an ESG regulatory authority, creating a strategic roadmap, and harmonising policies and frameworks – which require further detailed policy development and coordination to fully integrate ESG principles into Malaysia's economic landscape.

Empowering MSMEs sustainably

The Government is on track as prior to the Budget 2024 announcement, the National Industry Environmental, Social and Governance framework (i-ESG framework) and the National Energy Transition Roadmap (NETR) were launched.

During the i-ESG framework launch on Oct 2, Investment, Trade and Industry Minister Tengku Datuk Seri Zafrul Abdul Aziz highlighted its importance as it could enable Malaysia tap into the vast US$12tril global ESG-focused opportunities.

Given that almost 98% of business establishments in Malaysia are MSMEs that contribute significantly to the economy, i-ESG is a crucial driver of sustainable economic growth in the country besides being an ESG-focused endeavour.

The framework is divided into two phases – Just Transition (2024-2026) and Accelerate ESG (2027-2030) – and aims to empower and guide companies in developing their sustainability practices.

For MSMEs and even larger companies, the complex nature of ESG policies, regulations, and the additional costs associated with adopting new technology pose challenges in the transition.

The framework is designed to bridge gaps, ensuring that MSMEs can integrate into the global supply chain and meet the expectations of global investors and business partners.

"For entrepreneurs involved in the green economy, technology and halal fields, the RM20bil guarantee fund via Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP) is available to accelerate their business expansion," says Alliance Islamic Bank Berhad chief executive officer Rizal Il-Ehzan Fadil Azim who was also a roundtable participant.

He adds that the allocation addresses businesses' concerns by providing "peace-of-mind to the entrepreneurs who are still building up their business track record."

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Budget 2024: The future of ESG in Malaysia

The government looks to restructure the economy to attract higher investment to the country by improving competitiveness and building long-term resilience of businesses

BUDGET 2024 is a promising one, especially within the environmental, social and governance (ESG) space as sustainability is integrated into economic policies.

Measures were presented to drive sustainable growth to protect as well as empower the welfare of Malaysians, and that includes focusing on strategies to prioritise sectors and initiatives that are investment-intensive. This reflects the government's recognition towards ESG as a "need" today, and the whole-of-nation approach in making Malaysia an investment destination and at the same time achieving carbon neutrality by 2050.

Budget 2024 lays the foundation not only for the National Energy Transition Roadmap (NETR) with a RM2bil allocation, but also a RM200mil startup fund for the New Industrial Master Plan (NIMP) 2030.

This is in addition to the RM200bil financing funds by financial institutions to encourage industries to transition towards a low-carbon economy.

> A RM900mil loan fund has been allocated for small and medium enterprises (SME) to increase business productivity through automation and digitalisation.

Leveraging on this could lead to higher sustainability performance through the optimisation of resources used, waste reduction, streamlining of supply chain and promoting workplace safety.

> Guarantee funds of up to RM20bil will be made available for SME entrepreneurs, particularly for those involved in green economy, technology and *halal* fields.

> Putrajaya will be modelled as Malaysia's low-carbon city through the installation of solar panels on the roof of government buildings and the use of electric vehicles as official vehicles, as the government leads by example in sustainability – further boosting investor confidence as ESG shifts from being just an investment category to mainstream strategy.

Experts share their take on what Budget 2024 means within the ESG realm:

KPMG Malaysia Sustainability Advisory Services head Phang Oy Cheng

How will Budget 2024's emphasis on ESG affect investor sentiment and foreign investment in Malaysia?

Budget 2024 has placed a strong emphasis on promoting domestic direct investments and attracting venture capital for high-innovation start-ups and green growth geared towards climate resilience.

The allocation of RM2bil towards funding Malaysia's National Energy Transition Facility (NETF) and the government's encouragement to financial institutions to provide financing funds of up to RM200bil are solid steps in the right direction as it will encourage foreign climate investors to view Malaysia's energy transition efforts favourably.

Particularly noteworthy is the funding allocated for green investments, which reflects the government's commitment to explore the Third-Party Access System model to enhance the implementation of the Corporate Green Power programmes.

This initiative is expected to stimulate investments, both from foreign and local sources, in our renewable energy sector – thereby drive the momentum towards a low-carbon economy.

In a recent report by BloombergNEF, global investment in low-carbon energy technology has surged to a record level of USD1.1tril in 2022. The biggest share of this spending was directed towards renewable energy and electrified transport.

The Organisation for Economic Cooperation and Development (OECD) has also estimated that an annual investment of USD6.3tril in infrastructure will be required annually on average between 2016 and 2030 to meet the development needs globally.

An additional US$600bil a year over the same period will make these investments climate-compatible, a relatively moderate increase that could yield substantial short and long-term gains in terms of growth, productivity and well-being. Furthermore, the additional investment cost is likely to be offset over time by fuel savings resulting from low-emission technologies and infrastructure.

Does Budget 2024 outline strategies for ensuring the long-term sustainability of ESG programmes and initiatives?

The support for sustainable and responsible investments (SRI) through the provision of tax exemptions and deductions up to 2027 can be seen as a mid-term attempt by the government to encourage local companies to raise sustainable economic instruments and drive long-term ESG programmes.

Similarly, this can be seen in the proposed tax deductions for companies participating in the voluntary carbon market.

Furthermore, the allocation of increased funding for the Ecological Fiscal Transfer for Biodiversity Conservation (EPT) is also encouraging, as is the proposed issuance of a biodiversity sukuk and tax deductions for tree-planting activities or environmental preservation and conservation awareness projects certified by FRIM.

The emphasis on impact investing through the promotion and support of social enterprise in the form of tax exemptions, is also very welcomed, which is essential as the country seeks to gain a better foothold in the impact investing space.

How does Budget 2024 address the balance between immediate needs and future sustainability?

Upon closer examination, Budget 2024 is very much focused on two main aspects of sustainability management within our country:

> Provide structures to promote investments into conservation and the transition towards a low-carbon economy.

> Stimulation of corporate activities, both among large enterprises and small and medium enterprises, to facilitate the transition towards a low-carbon economy.

These initiatives are pivotal for the country's future economic development.

However, the sustainability of these good intentions is questionable because Budget 2024 fails to adequately address the capacity enhancement needs of ESG vis-a-vis climate change risk management and the imperative of progress to a low-carbon economy.

Further, there needs to be greater awareness raised among the SMEs on the necessity of demonstrating sound ESG management – particularly to financial institutions, customers and partners.

There is also a notable lack of address for the country's legal infrastructural needs in light of the accelerating climate change risks. The proposed development of a port in Carey Island is illustrative of this oversight, where projections of rising sea levels indicate that Carey Island is a particular risk.

Moreover, Budget 2024 is primarily centred on providing the necessary economic instruments to facilitate our country's transition towards a low-carbon economy. While this is a commendable goal, it is important to note that the budget does not comprehensively address the other aspects of ESG.

For instance, the legal situation for managing migrant workers in our workforce and how we as a nation need to address the requirements set by the International Labor Organisation (ILO).

To fully realise our national aspiration of developing our capital markets into a prominent regional SRI hub, we must broaden our approach to encompass a more comprehensive spectrum of ESG factors. This broader focus will not only cater to the current needs of SRI investors but also ensure our long-term success in this endeavour.

EY APAC Decarbonisation Solution Leader, Malaysia Climate Change and Sustainability Services (CCaSS) partner Arina Kok

How does Malaysia's Budget 2024 compare to ESG-focused budgets in neighbouring countries or regions?

Compared to ESG-focused budgets in neighbouring countries such as Australia and Singapore, Malaysia's Budget 2024 has taken some initial steps towards ESG goals.

For example, Australia's ESG initiatives in its Budget 2023-2024 include a significant A$2bil allocation for Hydrogen Headstart program to accelerate large-scale renewable hydrogen projects and a further A$4bil to become a RE superpower. In addition, Australia's "Rewiring the Nation" program allocates A$20bil in low-cost finance to expand and modernise Australia's electricity grids to support more renewable power.

Meanwhile, Singapore has announced in its Budget 2023 that it intends to raise the carbon tax progressively over the next few years. Further, Singapore intends to continue harvesting solar energy, transitioning to cleaner energy sources like hydrogen, and working with neighbouring countries (including Malaysia and Indonesia) to develop regional power grids.

In comparison, Malaysia's Budget 2024 included some ESG-focused programs and tax exemptions or deductions such as:

> Improve the implementation of the Corporate Green Power Program under the Third-Party Access (TPA) model to drive investment in RE capacity as Malaysia targets 70% RE capacity by 2050 under the NETR.

> Continue the tax exemption for fund management companies managing SRI funds, and tax deductions on SRI sukuk issuance costs until YA 2027.

> Add a proposed tax deduction of up to RM300,000 for companies that invest in measurement reporting and verification (MRV) related to the development of carbon projects. These expenses can be deducted from the sale of carbon credits traded on the Bursa Carbon Exchange (BCX).

What can Malaysia learn from global ESG trends and experiences?

Key lessons that Malaysia can learn from the developed members of the OECD global community are their waste disposal efforts through industry regulation and guidelines and impactful community education programs to ensure businesses, households and organisations embark on cohesive waste management practices.

Among the policies and practices to consider include *(see table)*.

To further enhance its ESG efforts, Malaysia can learn from global trends and experiences by emphasising waste management, community education programs, and industry regulation to promote cohesive waste management practices.

Ultimately, Budget 2024 demonstrates Malaysia's commitment to embracing ESG principles and its potential to attract sustainable investments while highlighting the need for broader and more comprehensive ESG strategies for the future.

Country	Policies/Objectives/Targets/Achievements
France	➤ Adopted a comprehensive Anti-waste Law in 2020 to accelerate the transition from a linear to a circular economic model. ➤ The first country to ban the destruction of unsold non-food products. The first country to introduce a mandatory repairability index on electronic and electric products.
Japan	➤ Introduced the Basic Act for Establishing a Sound Material-Cycle Society (Basic Recycling Act) in 2000 to ensure implementation of the 3R (reduce, reuse, and recycle) practices. ➤ Incentivised the collection of polyethylene terephthalate (PET) bottles. ➤ Unveiled a Green Transformation (GX) Basic Policy in December 2022: an investment roadmap costing 150 trillion yen (over USD 1.1 trillion) of public-private financing over the next 10 years to help various industrial sectors achieve carbon neutrality and contribute to the energy transition in Asia.
Australia	➤ To reduce total waste generated in Australia by 10% per person by 2030. ➤ To achieve an 80% average resource recovery rate from all waste streams following the waste hierarchy by 2030. ➤ To phase out unnecessary plastics by 2025 and halve the amount of organic waste sent to landfills by 2030.
Sweden	➤ Preparations for reuse, material recycling and the recycling of non-hazardous construction and demolition waste, except for soil and stone, must amount to at least 70% by weight annually until 2025. ➤ The reusable proportion of packaging placed on the market in Sweden for the first time is to increase by at least 20% from 2022 to 2026 and by at least 30% from 2022 to 2030. ➤ Food waste is to be reduced so that total food waste is reduced by at least 20% in weight per capita from 2020 to 2025.

Sources: Ellen Macarthur Foundation, World Economic Forum, Japan Times, Climate Integrate, Australian Government: Department of Climate Change, Energy, the Environment and Water, European Environment Agency