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## Leading towards sustainable future

COMMENT by Dr Katherine Anne Francis

### Leading towards sustainable future

MALAYSIA'S initiative to launch the National Industry Environmental, Social and Governance framework (I-ESG) for the manufacturing sector elevates the country's position in its pursuit of sustainable goals.

The framework aims to promote and nurture green manufacturing as green businesses are expected to offer an estimated US\$200 billion (RM950 billion) opportunity by 2030.

The introduction of the framework comes at a time when Tesla announced its intention to invest in Malaysia. This is a positive development and a boost for the country's ESG goals.

However, many Malaysians may be confused with the many jargons used as we move towards sustainability, namely Sustainable Development Goals (SDGs) and now, ESGs.

The Malaysian population may be familiar with SDGs, a set of 17 interlinked global goals established by the United Nations towards achieving a sustainable future. The SDGs are said to be interlinked as any action or outcome in one area would affect outcomes in other SDGs.

In Malaysia, the SDGs are monitored by the National SDG Council, which the prime minister chairs. The Council is responsible for developing and implementing the national SDG strategy, and for monitoring and reporting on progress towards the SDGs.

The National SDG Council is supported by a National Steering Committee, chaired by the director-general of the Economic Planning Unit (EPU).

The EPU is the focal point for the SDGs in Malaysia and is responsible for coordinating the implementation and monitoring of SDGs across government agencies.

In addition, SDGs are also monitored by several other stakeholders in Malaysia, including civil societies, the private sector and academia. These stakeholders play an important role in supporting the government to implement the SDGs and in holding it accountable for its progress.

ESG, on the other hand, is a framework or a set of criteria used by investors and stakeholders to evaluate and improve a company's sustainability practice.

The consensus is that ESG-aligned companies are more resilient and can manage risks better, hence, a preference for investors.

ESG encompasses three key pillars: Environment, Social and Governance. The Environment pillar involves a company's impact on the environment, including factors

such as carbon emissions, energy consumption, waste management and biodiversity.

The Social pillar focuses on a company's relationships with stakeholders, addressing concerns related to labour practices, human rights and community engagement.

Lastly, the Governance pillar covers aspects such as corporate management, transparency, anti-corruption measures, board diversity and compensation.

There are many questions as to how ESG adoptions can be beneficial to Malaysia. Malaysia's adoption of ESG practices is still in its infancy but we are steadily gaining momentum.

On the environmental aspect, we need to first look at Malaysia's pledge during the Conference of the Parties (COP) 26, where Malaysia reiterated its pledge to reduce GHG (Green House Gas) emissions by 45% by 2030 and subsequently achieve net-zero GHG emissions by 2050.

This pledge was reaffirmed at the COP28 in Egypt. For the upcoming 28th COP in Dubai, Malaysia's focus will be on energy transition and the reduction of GHG emissions towards achieving net-zero GHG emissions by 2050.

Through the implementation and adoption of ESG strategies by companies and investors, Malaysia's goal of achieving the pledged targets can be expedited.

Industrialisation has led to deforestation and a compromise in biodiversity, an asset to Malaysia. Hence, ESG adoption and investment in this regard can encourage companies to prioritise environmental sustainability, thus promoting sustainable development. This, in turn, can improve the appeal of Malaysian companies seeking foreign investors.

With Malaysia's diversity and growing young population, ESG can move the nation to become a more inclusive and equitable society.

From the governance aspect, ESG promotes good governance practices that can contribute to the prevention of corruption. One way to exemplify the adoption of

effective governance strategies is by establishing, implementing and upholding an anti-bribery management system within a



Green businesses are expected to offer an estimated US\$200 billion (RM950 billion) opportunity by 2030. - REUTERS/PIIC

company, such as the ISO 37001 Anti-Bribery Management Systems.

Malaysia does have its share of success stories on ESGs. Numerous Malaysian businesses have implemented ESG practices and reporting.

A report by PwC (PricewaterhouseCoopers) in December 2021 showed that 94% of the top 50 Malaysian publicly listed companies have ESG plans in place.

According to a recent survey conducted by the Global Sustainable Investment Alliance, the Asia region witnessed a 17% growth in sustainable investing assets, reaching a total of US\$83.2 billion. This represents a burgeoning market that Malaysian companies can explore and tap into.

On the global front, several countries have adopted ESG investing practices and are developing their niche of global investors. Norway is a pioneer in ESG investing, and its sovereign wealth fund is one of the largest ESG investors in the world.

Sweden is committed to making all public investments ESG-aligned by 2025. France has passed a regulation that requires companies to disclose their ESG performance.

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The Stock Exchange of Hong Kong published a consultation paper seeking feedback on proposals to enhance climate-related disclosures under the ESG framework.

With that in mind, it is worth considering how many investors and companies in Malaysia are aware of the advantages associated with incorporating ESG practices, and know how to effectively integrate ESG aspects into their investment decisions.

There are companies that claim to have adopted ESG principles, yet the key question is whether they are truly practising more comprehensive and sustainable practices or merely making unsubstantiated assertions.

Therefore, to encourage ESG investments in Malaysia, a clear regulatory framework for ESG investments should be established. This framework will assist investors seeking to invest in Malaysian companies that are committed to being transparent and accountable for their environmental, social and governance actions.

The adoption of ESG is still in its nascent phase in Malaysia. However, by promoting transparency and raising awareness on ESG, more companies can adopt ESG practices, ultimately enhancing their corporate reputation with investors.

Through sustainable collaboration, we can build a more sustainable and equitable future for Malaysia.

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