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ESG Efforts in Budget 2024

In Budget 2024, the Malaysian government continues its dedicated efforts towards sustainable development and energy transition, implementing a range of Environmental, Social, and Governance (ESG) initiatives. Certainly, there are numerous initiatives outlined in the Budget, but in this write-up, we only emphasise a few of them.

1. Sustainable Finance

One of the pioneering initiatives is the issuance of biodiversity sukuk, totalling MYR1b. This initiative, in collaboration with state governments, aims to replant degraded forests, generating carbon credits in the process. Separately, there are tax exemptions for fund management companies managing Socially Responsible Investment (SRI) funds and tax deductions on SRI sukuk issuance costs until 2027. Furthermore, there are efforts to promote Islamic finance and halal industry, including tax exemptions on income derived from Islamic Securities Selling and Buying (ISSB) and extension of tax deductions on the issuance of Sustainable and Responsible Investment (SRI) Sukuk.

2. Energy Transition and Net Zero Carbon Emission

After the launch on National Energy Transition Roadmap (NETR) in July this year, the government is allocating significant funds totalling RM2b to facilitate the country's low carbon aspiration. On top of that, investments are being made in renewable energy capacity, such as the installation of electric vehicle (EV) charging stations and the introduction of an Electric Motorcycle Usage Incentive Scheme. Separately, Prasarana Malaysia Berhad has agreed to acquire 150 electric buses and build 3 bus depots at a cost of RM600m.

The Net Energy Metering (NEM) program is being extended to promote the installation of solar panels in residential premises. The government is also encouraging companies to adopt a "Zero Capital Cost" subscription model for solar panels in residential housing. Additionally, there are plans to install solar panels on government buildings and introduce electric vehicles for official use. Finally, tax incentives will be extended for green technology, and additional incentives will be offered for specific investments such as green hydrogen, integrated waste management, EV charging stations, biomass, mini-hydro, solar, and wind energy projects.

3. Preservation of Natural Treasures

There is a noticeable increase in the allocation for the Ecological Fiscal Transfer for Biodiversity Conservation (EFT), raising it from RM150 million to RM200 million. The government aims to enhance the enforcement of permanent forest reserves by doubling the number of community rangers to 2,000 individuals, allocating RM60 million for their recruitment, particularly from military veterans, police personnel, Orang Asli, and local communities.

To address human-wildlife conflicts, RM10 million will be allocated to support affected citizens. Additionally, the government will pioneer the issuance of biodiversity sukuk, generating up to RM1 billion to replant degraded forests and produce carbon credits. To encourage private sector participation, tax deductions will be provided to entities sponsoring certified tree planting and conservation projects. Furthermore, the tax exemption application period for social enterprise income will be extended until 2025. These initiatives reflect the government's commitment to biodiversity preservation and engaging diverse stakeholders in environmental conservation efforts.

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4. Readiness to Face Disasters

A total of 33 High Priority Flood Mitigation Projects, costing RM11.8 billion, will be initiated to reduce flood risks. Additionally, RM20 million will be allocated to 150 local authorities for repairing damaged sewers and drains, mitigating stagnant water and flash flood threats. The government will provide RM563 million for nationwide slope repair efforts, which include monitoring, prevention, and early warning programs for over 2,000 high-risk slopes. Furthermore, RM300 million is designated for the National Disaster Management Agency (NADMA) to strengthen flood preparedness as the primary coordinating body.

5. Empowering SMEs

RM8b in loan funds under BNM are provided to support SME companies. From this, RM600m is dedicated to help micro-enterprises and low-income entrepreneurs, small contractors, the application of sustainability practices and food security related sectors. Additionally, Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP) will guarantee up to 80% of SME entrepreneurs' loans, especially those involved in the green economy, technology and halal fields with the availability of a guarantee fund of up to RM20b.

Our View

Within the ESG context, the Construction sector stands to benefit the most from this Budget due to the retendering of Flood Mitigation projects and higher allocation spillover, while the Renewables and Utilities sectors will also benefit from the implementation of Electric Vehicle and EV Motor initiatives and the rollout of Renewable Energy and solar projects.

In summary, Malaysia's budget for 2024 focuses on sustainable finance, energy transition, flood mitigation projects and supporting SMEs in adopting sustainable practices. These initiatives reflect the government's commitment to environmental conservation, renewable energy adoption, and promoting sustainable economic growth in the country.

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