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ESG disclosure is really about business continuity

The Edge, Malaysia

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BY LIM KOK TIONG

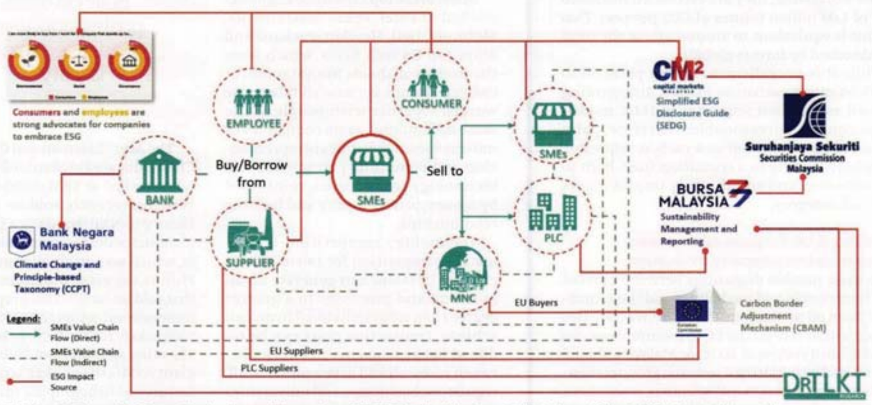
The Simplified ESG Disclosure Guide (SEDG) is an initiative by Capital Markets Malaysia (CMM), a subsidiary of the Securities Commission Malaysia. It is designed as a framework to streamline ESG disclosure specifically for small and medium enterprises (SMEs).

The SEDG is structured around three disclosure pillars: Environmental, Social and Governance. Each pillar is divided into three levels: Basic, Intermediate and Advanced. The Environmental pillar includes 56 disclosure inputs, the Social pillar has 21, and the Governance pillar contains 15.

It is essential to understand the classification of disclosures, such as Scope 1 greenhouse gas emissions, and the units of measurement, like tonnes on CO2 emissions, before scrambling for the data to complete the template in the framework.

At this point, most readers, especially those from SMEs, might be feeling overwhelmed and question why they should bother with SEDG or ESG disclosure. Simply put, providing ESG disclosure, whether simplified or not, may not seem directly relevant to their business operations.

ESG landscape for Malaysian SMEs



The Infographic, illustrated by Dr Thomas Lim, draws from multiple sources (e.g., BNM, SC, EC, etc.) to depict the sustainability landscape of Malaysia's SMEs . It is part of the curated content for the "Sustainability Course | Starter Kit for SMEs". You can use this infographic with a citation to https://www.linkedin.com/in/dr-thomas-l-b4286b11/.

SMEs' rationale and ESG landscape

From a business continuity perspective, it is crucial for businesses to assess and prepare for operations in a sustainable environment. In such an environment, carbon emissions will incur charges through mechanisms such as carbon tax and carbon credit, leading to increased operating costs that can squeeze profit margins. Consequently, consumers and businesses are likely to prefer engaging with companies that are carbon-neutral, maintain a positive social standing, and exhibit strong governance.

Furthermore, banks may stop lending to or impose higher loan premiums on companies that do not meet these sustainability criteria. Similarly, employees will increasingly choose to work for companies with a robust ESG standing.

Therefore, the SEDG serves a dual purpose: it facilitates disclosure while also promoting business continuity by guiding companies towards sustainable practices.

SEDG technicality in brief

With the rationale clarified for SMEs to pursue ESG disclosure using the SEDG frame-

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work, let us shift our discussion to the SEDG disclosure inputs, albeit a high-level overview. First, many of the data points required for the disclosure inputs are readily accessible for most SMEs. For example, information on energy consumption can be obtained from the electricity bill (that is Tenaga Nasional Bhd).

Similarly, most Social disclosure inputs pertain to the employees hired and their employment terms. Regarding the corporate structure, one of the disclosure inputs for the Governance pillar, this is typically outlined in the Memorandum of Incorporation.

Once the data points are sorted out, the next step is to strategise and plan out the three levels of SEDG disclosure. For example, a typical SME might currently purchase 100% of its electricity from Tenaga, which would be reported at the Basic disclosure level.

Subsequently, the same SME might plan to install solar panels, aiming to shift energy consumption to 50% from renewable sources and 50% from Tenaga. This initiative targets at the Intermediate disclosure level. Finally, at the Advanced disclosure level, the SME targets to consume 100% of its electricity from renewable sources.

To achieve these transitions across the three levels of SEDG, SMEs require a structured framework to guide them. This framework should encompass aspects such as capital budgeting, process re-engineering, product redevelopment and more.

Noteworthy incentives

Let us delve into the incentives that come with the ESG disclosure while embarking on the sustainability path, which SMEs should not overlook. The SEDG's early adopter programme, launched by the CMM, has laid a solid foundation for SMEs to reap the benefits of their ESG disclosure efforts. Among the early adopters are companies from various sectors such as Gamuda Bhd (KL:GAMUDA), Nestlé (M) Bhd (KL:NESTLE), and Volvo Car Manufacturing Malaysia Sdn Bhd in the industrial sector; Malayan Banking Bhd (KL:MAYBANK), CIMB Group Holdings Bhd (KL:CIMB), and United Overseas Bank Ltd (UOB) in the financial sector; trade associations like The Associated Chinese Chambers of Commerce and Industry of Malaysia, Federation of Malaysian Manufacturers, Dewan Perniagaan Melayu Malaysia, and Malaysian Dutch Business Council; as well as institutional investors such as Kumpulan Wang Persaraan (Diperbadankan) and Malaysia Venture Capital Management Bhd.

> "To achieve these transitions across the three levels of SEDG, SMEs require a structured framework to guide them."

When it comes to financial incentives for sustainability, there are two noteworthy incentives available for SMEs. First, the Low Carbon Transition Facility (LCTF) offers loans to SMEs at an attractive interest rate capped at 5% per annum, with a maximum loan tenure of 10 years. SMEs could approach most domestic banks to enquire about the LCTF.

Secondly, the Green Investment Tax Allowance enables SMEs to claim tax allowance, with up to 100% on qualifying capital expenditure depending on the investment tiers, from green technology investments or assets. This can offset up to 70% of the statutory income taxation. By leveraging these two incentives, the transition costs for SMEs to adopt a greener operating path could be negligible. For detailed information and technicalities, consult your accountant or reach out to the Malaysian Green Technology and Climate Change Corporation.

Key takeaway

There is certainly much more for SMEs to explore. The supports needed by SMEs to remain as a going concern, including transition to a sustainable path, compliance with the SEDG disclosure and making a positive contribution to the country's nationally determined contribution target of cutting carbon intensity against gross domestic product by 45% by 2030 compared with 2005 levels. The discussions presented in this short article are intended to ignite some thought processes among SMEs.

In essence: "The SEDG is not just for disclosure; it is about business continuity."

In summary, the SEDG serves as a framework for SMEs to assess their current operating processes to prepare for transition towards business operations in a sustainable environment. Many of the required data points for disclosure are readily available. With proper guidance, SMEs can compile them for SEDG reporting. Additionally, there are financial incentives and ESG training programmes that SMEs should capitalise on while they are still accessible.

If SMEs still find themselves in doubt after reading the full SEDG guide, they should consider attending the ESG training courses tailored for SMEs. Gaining a comprehensive understanding of the broader picture is crucial before taking action. Moreover, attending an ESG training course also contributes positively to disclosure under the SEDG framework.

For those concerned about the cost, fees incurred for attending most of the ESG training courses can be reimbursed through the Human Resource Development Corporations under the Ministry of Human Resources. For details on the claim process, please refer to the Human Resource Development Corporation. E

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