

# ESG as the true north in times of change

It certainly has been a whirlwind week for Malaysia, with the tabling of Budget 2023 on Oct 7 followed by the dissolution of parliament three days later on Oct 10. Focusing on the 3R agenda — “Responsive, Responsible and Reformist” — Budget 2023 takes an expansionary approach with an increase in development expenditure, consistent with the government playing a bigger role in driving growth, while ensuring that the baseline issues of helping the B40 and M40 communities are adequately addressed.

With wide-ranging allocations and initiatives to address the nation's short-term needs and long-term targets, Budget 2023 is probably one of the broadest and most overarching budgets I have seen in terms of areas covered. It is certainly a bold attempt to ensure that not a single aspect of Keluarga Malaysia is left behind, despite the clear absence of large-scale reforms that many had speculated upon in the past year, including the re-introduction of the goods and services tax, the introduction of carbon taxes and a comprehensive subsidy reform.

## Sustainable development as a key strategy for reforms

Living through the Covid-19 pandemic these past two years has certainly made us realise that the world has changed and we cannot continue on the same trajectory that we were on before the pandemic. The minister of finance also identifies with this and has made sustainable development a key strategy to the reformist agenda in Budget 2023. In his speech, he reiterated the government's commitment to achieving carbon neutrality by as early as 2050. Indeed, the Environmental, Social and Governance (ESG) agenda should not just be an aspiration or a target but the cornerstone of everything we do as a nation in securing long-term value for the country.

## Environmental initiatives: Refreshing the ones that work and adding new ones

Budget 2023 refreshes some of the initiatives that we currently have in place to encourage green investments and green technology adoption, such as:

- Extension and enhancement of the Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE);
- RM3 billion allocation to the Green Technology Financing Scheme (GTFS);
- Extension of import duty and excise duty exemptions on imported completely built-up (CBU) electric vehicles (EVs).

I have seen first-hand how the initiatives above have prompted businesses to consider embedding green technology in their assets and operations, such as installation of solar panels and rainwater harvesting features, and the integration of green building elements and designs. As for the rakyat, the number of EV launches in 2022 and increasing number of EV-charging facilities popping up in public places within the Klang Valley are testament to the increasing acceptance of EVs by the general public. Without these initiatives, it would have been business as usual. However, we still have a long way to go towards broad adoption and, hence, the above incentives will help in driving this trajectory.

As for new measures, the one that piques my interest the most is the tax incentive for carbon capture and storage (CCS) technology. Surprisingly, this incentive was not mentioned by the minister in his speech, but was instead included in the appendix to his speech. CCS technology involves the capture



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of carbon dioxide (CO<sub>2</sub>) before it is released into the atmosphere, then transporting and storing the captured CO<sub>2</sub> in an underground or seabed storage. CCS is regarded as an essential technology in tackling global climate change.

The proposed tax incentive is quite comprehensive as it covers companies undertaking CCS activities in-house, companies carrying on the business of providing CCS services and companies engaging CCS services. While Petrolim Nasional Bhd has been at the forefront of CCS adoption in Malaysia for the oil and gas industry, I hope this incentive will spur utility companies to do the same for the power generation industry and also spark the development of an ecosystem of

supporting services for the CCS business in Malaysia. A point for consideration is to ensure that this tax incentive is made available under the general income tax regime and the petroleum income tax regime in Malaysia.

## Social initiatives: Assisting the B40 and uplifting the hardcore poor

Budget 2023 continues the trend of using direct cash handouts as the primary measure to assist the B40 community. Unfortunately, this remains the best way to ensure that the assistance reaches those who need it the most, so long as there are proper safeguards to prevent fraud and abuse in the distribution process and the handouts are measured and targeted. Obviously, having the Inland Revenue Board being the party managing this programme goes a long way in achieving this objective, though one can't help but smile about the irony

of the situation, where the tax collection agency is distributing the cash.

Nevertheless, the measure that I am particularly pleased with is the significant increase in allocation for the Keluarga Malaysia Hardcore Poverty Eradication Programme, from RM150 million for 2022 to RM1 billion for 2023, with RM250 million funding being contributed by government-linked companies (GLCs) as part of their corporate social responsibility commitments. This programme provides economic opportunities to the hardcore poor with the goal of uplifting them and moving them out from this category. This would be more sustainable in the longer term as compared to the continuous reliance on direct cash handouts. As the saying goes, “Teach the man to fish and you feed him for a lifetime”.

## Governance initiatives: Promoting sustainable investments

Sustainable investments is the buzzword among the investment communities. Based on a 2022 survey conducted by MICPA and PwC Malaysia among investors, 91% of respondents agree that how a company manages ESG risks and opportunities is an important factor in investment decision-making. This is in line with PwC's Global Private Equity Responsible Investment Survey 2021, which showed that 72% of respondents always screen target companies for ESG risks and opportunities at the pre-acquisition stage.

In this regard, the Budget 2023 proposal for GLCs and government-linked investment companies (GLICs) to establish a sustainability framework for investments, and set targets to achieve a fully ESG-compliant portfolio and carbon-neutral operations is very much welcomed. This would ensure that our capital markets remain robust and competitive from the perspective of sustainable investments.

## What could be enhanced

The government has signalled its intention to introduce a carbon tax in the budget speech by studying the feasibility of a carbon pricing mechanism. While I agree that the current environment may not support the introduction of a carbon tax, I do urge the government to expedite the process in order to establish a clear timeframe for the introduction and implementation of carbon tax. It goes without saying that there is never a good time to introduce new taxes, but a carbon tax is regarded as one of the most effective tools to help countries limit CO<sub>2</sub> emissions and reach net zero targets.

Not only would the introduction of a carbon tax hasten the need for businesses to consider reduction of CO<sub>2</sub> emissions, it can be a source of revenue which can then help subsidise other areas for Malaysia to achieve carbon neutrality by as early as 2050. Singapore, being the pioneer in introducing carbon tax in the region in 2019, expects to collect SG\$1 billion in the first five years. The carbon tax collected by Singapore will be used to support decarbonisation efforts and the transition to a green economy, plus cushion the impact on businesses and households. This could be a model for us to emulate.

In conclusion, with the dissolution of parliament on Oct 10, it remains to be seen whether Budget 2023 will be retabled in its current form. Whichever government the rakyat decides to elect in the upcoming general election, as long as the incoming government sets the ESG agenda as its true north, I firmly believe that the correct path for the future of Malaysia can be charted. ■

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