



Steven Tee
Partner

Energy, Projects &
Infrastructure
E: syt@lh-ag.com



Joyce Ong Kar Yee
Senior Associate

Energy, Projects &
Infrastructure
E: oky@lh-ag.com



Toh Kerryn
Associate

Energy, Projects &
Infrastructure
E: ryn@lh-ag.com

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MITI i-ESG Framework (Phase 1.0): What's New?

Recently, the Ministry of Investment, Trade, and Industry (“MITI”) has published the i-ESG Framework (Phase 1.0) (“**Framework**”), which offers a guideline to support Malaysia’s manufacturing sector in achieving their environmental, social and governance (“**ESG**”) goals. The launch of the Framework signifies the start of the first phase of MITI’s plan (known as “**Just Transition**”, scheduled from 2024 to 2026) to encourage the adoption of ESG requirements and goals. It lays the groundwork for manufacturers to embark on their ESG journey to help ensure their readiness to shift towards and embrace the second phase, “**Accelerating ESG Practices**”, scheduled from 2027 to 2030.

Key Outcomes

The Framework was crafted to achieve these central outcomes¹:

1. Seamless integration of sustainable production and consumption within the manufacturing sector;
2. Empower and initiate sustainability reporting;
3. Attract a bigger influx of ESG-compliant investments;

¹ Chapter 3.1.2 of the i-ESG Framework.

4. Increase export competitiveness and accelerate market expansion; and
5. Achieve net-zero greenhouse gas (“GHG”) emissions by 2050.

Pillars and Strategies

The Framework is built upon 4 pillars and 6 key enablers, as illustrated below:



Based on these pillars and enablers, the Framework introduced 17 strategies to facilitate a just transition.

Key Pillars	Description	Strategies	Objective
Standards	Specific and detailed quality requirements for reporting or broad framework relating to ESG information	i-ESGReady: Design and conduct ESG readiness assessment to gauge the extent of companies' readiness in their ESG engagement	Facilitate effective preparation for ESG performance and the adoption of appropriate sustainability reporting

		<p>i-ESGStart: Devise a clear, consistent, and coherent sustainability reporting guideline for manufacturers at the start of their ESG journey</p>	<p>Establish a well-structured, step-to-step guideline to enable efficient sustainability report generation that aligns with recognised standards</p>
		<p>Utilise digital tools for the gathering and assessment of sustainability reporting data</p>	<p>Facilitate the transformation of raw data into complete reports that display ESG advancement</p>
		<p>Transition to net-zero industrial parks</p>	<p>Counter carbon footprint, ensure adequate governance on workers' welfare and business conduct, and to meet the requirements of leading companies that have commenced plans towards carbon-neutral operations</p>
		<p>Introduce a carbon price certificate as a proactive measure to warrant compliance with the Carbon</p>	<p>Allow importers to benefit from the deduction from their final bill if they can prove that a carbon price has already</p>

		Border Adjustment Mechanism (CBAM)	been paid during the production of the imported goods, allowing them to continue trade without facing trade barriers or related-tariffs
		Develop carbon footprint for products	Enable consumers to make more informed and sustainable choices by providing them with information of the carbon footprint of products
Capacity Building	Involves 5 key elements: (1) awareness; (2) attitudes, values and belief; (3) skills, knowledge and expertise; (4) resources; and (5) access to information within each business organisation	KenalESG: Conduct awareness programme across regions, with a specific focus on reaching out to micro, small and medium enterprises (“ MSME ”)	Encourage companies to adopt sustainable practices that consider the long-term impacts of their operations on ESG, leading to a more resilient business model
		GSEP²: raise awareness among ministries and government agencies including state	ESG ratings by prominent credit rating and investment research agencies

² GSEP refers to the “Government Sustainability Engagement Programme”. It is a programme which involves a series of customised mini conferences organised by MITI and Malaysia External Trade Development Corporation (MATRADE) to foster awareness and understanding among government officials. For further details, see https://www.miti.gov.my/miti/resources/IESG/ESG_Newsletter_Feb_2023.pdf.

		and local councils	exert a direct influence on government's credit ratings, its capacity to secure financing, and the expenses associated with borrowing
		Promote ESG training programme tailored for MSMEs, involving internationally recognised ESG certification courses	Enable MSMEs to improve their capacity to recognise and respond to the opportunities and challenges resulting from a shifting business environment by helping them engage effectively with various stakeholders, and ensuring that they comprehend their legal obligations relating to ESG
		ESG training programmes for government officers	Ensure that policies are designed to promote ESG practices, as government officers play a vital role in policy-shaping that impacts various industries and sectors, allowing them to prioritise

			projects which align with ESG goals and promote effective cross-sectoral collaborations
		Establish a CSRMatch platform	Enhance public awareness and understanding of the intricacies of Corporate Social Responsibility (CSR), and serve as a nexus to accommodate the needs of the vulnerable communities through CSR programmes
Financing	Sustainable finance, which involves the expansion of green financing alternatives and advancement of low-carbon, and green technologies	Establish financing marketplace	Enhance the prospects of ESG projects to secure funding and investment opportunities by connecting individuals seeking funding, and facilitating the process of raising capital for various projects
		Provide outcome-based incentives (e.g., access and improve the existing	Foster and sustain a high level of commitment among companies when integrating

		GITA ³ and GITE ⁴ schemes)	ESG initiatives into their operational frameworks
		Promote Green Financing / ESG Financing Options	Reduce pollution, conserve natural resources and mitigate climate change as green financing products often come with preferential terms to encourage businesses and individuals to adopt green practices
		Encourage net-zero technologies	Set up a controlled environment that facilitates the development, testing and refinement of innovative solutions, serving as an experimental space where businesses, researchers,

³ GITA refers to the “Green Investment Tax Allowance”, which is a government-backed incentive programme designed to encourage the development of green technology for the purchase of green technology equipment/assets. For further details, see <https://www.mgtc.gov.my/wp-content/uploads/2022/07/REC-GTGT-007-GUIDELINES-FOR-GREEN-TECHNOLOGY-TAX-INCENTIVE-GITAGITE.pdf>.

⁴ GITE refers to the “Green Income Tax Exemption”, which is a government-backed incentive programme to provide green technology service providers with a tax exemption of up to 70% of the statutory income derived from providing qualifying green services. For further details, see <https://www.mgtc.gov.my/wp-content/uploads/2022/07/REC-GTGT-007-GUIDELINES-FOR-GREEN-TECHNOLOGY-TAX-INCENTIVE-GITAGITE.pdf>.

			start-ups and stakeholders can join forces on net-zero technologies
Market Mechanism	Focuses on the supply and demand dynamics, with the emphasis on the role of carbon pricing mechanisms and other emerging market trends	Design Carbon Pricing Instruments	Create financial incentives for businesses to reduce GHG emissions
		Launch Sustainable Development Goals (SDG) Investor Map	Create a market intelligence tool that helps private sectors to identify investment themes in emerging markets that could advance SDGs that are aligned with development needs and government policies

Conclusion

As Malaysia head towards a renewable energy-driven future, ESG practices are shifting from being a discretionary choice to an essential one for most business, trades and investments. It is a welcome sight to see that MITI recognises that many businesses are struggling to keep up with the ever-changing ESG-standards and trends. The Framework provides manufacturers initiating their ESG journey or are facing challenges along the way with an easy and useful guide to realign their priorities and focus towards developing more robust measures to establish an ESG-friendly business ecosystem. However, given that these measures could put a strain on resources, especially in the case of MSMEs, feasibility is likely to be a significant concern for companies and businesses.

Head Office

Level 6, Menara 1 Dutamas
Solaris Dutamas
No. 1, Jalan Dutamas 1
50480 Kuala Lumpur
Malaysia
Tel: +603 6208 5888
Fax: +603 6201 0122

Johor Office

Suite 21.01
21st Floor, Public Bank Tower
No.19, Jalan Wong Ah Fook
80000 Johor Bahru, Johor
Tel: +607 278 3833
Fax: +607 278 2833

Penang Office

51-12-E, Menara BHL Bank,
Jalan Sultan Ahmad Shah,
10050
Penang
Tel: +604 299 9668
Fax: +604 299 9628

Email

enquiry@lh-ag.com

Website

www.lh-ag.com

Further details in relation to the Framework can be viewed [here](#).

If you have any queries, please contact Senior Associate, **Joyce Ong** (oky@lh-ag.com), Associate, **Kerryn Toh** (ryn@lh-ag.com) or their team Partner, **Steven SY Tee** (syt@lh-ag.com).