

Enhancing Corporate Governance in MSMEs

Micro, Small, and Medium Enterprises (“MSMEs”) are the backbone of the Malaysian economy, comprising over 97% of the country’s business enterprises. Given their pivotal role in the Malaysian economy, and in light of the increasing global awareness of ESG principles, it is crucial for MSMEs to adopt good governance practices to improve transparency and integrity, and ensure a competitive business environment.

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On 11 March 2024, the SME Governance Working Group [1], chaired by the Securities Commission and formed with the support of the Ministry of Entrepreneur and Cooperatives Development (MECD), issued the draft Governance Code for Malaysian MSMEs for public consultation [2]. The draft Governance Code highlights:

- The Governance and Sustainability Matrix that provides an overview of the principles and practices of good governance and sustainability for each category of MSMEs; and
- The best practices that MSMEs can adopt to foster long-term sustainability, attract investment, and navigate the complexities of today's business landscape effectively.

The Governance Code, which focuses specifically on governance practices within the MSME business ecosystem, aims to assist MSMEs in fostering long-term sustainability, attracting investment, and navigating the evolving business landscape. It will complement other existing guidance available for MSMEs, including the ESG Quick Guide for MSMEs [3] unveiled by SME Corporation Malaysia earlier in February, as well as the Capital Market Malaysia's Simplified ESG Disclosure Guide [4].



[1] Members comprising representatives from MECD, SME Corporation Malaysia, and the Malaysian Institute of Corporate Governance (MICG)

[2] <https://www.sc.com.my/resources/media/media-release/sc-seeks-feedback-on-draft-of-governance-code-for-msmes>

[3] <https://www.facebook.com/smecorpmalaysia/posts/767947698691270/>

[4] <https://sedg.capitalmarketsmalaysia.com/#:~:text=The%20SEDG%20is%20a%20guide,chains%20to%20disclose%20on%20ESG.>

Although the adoption of the Governance Code will be voluntary, it is worthwhile for MSMEs to leverage the draft Governance Code and seek professional or legal assistance in reviewing and understanding how it can aid them in adapting to evolving regulatory standards. This proactive approach will give MSMEs a head start towards aligning with and keeping up with larger market players in embracing ESG principles. Interested parties can submit their feedback before 30 April 2024 [here](#).

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