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Legal Assessment of Environmental, Social, And Governance Integration for Renewable Energy Success in Malaysia

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ABSTRACT

The shift towards renewable energy is vital for sustainable development and addressing climate change. Integrating Environmental, Social, and Governance (ESG) criteria into renewable energy policies is pivotal in facilitating this transition. This study analyses the legal and regulatory impact of ESG criteria on renewable energy policy frameworks of Malaysia and elsewhere, offering policymakers, stakeholders, and investors essential insights for promoting effective renewable energy transitions. Moreover, it examines the implementation of ESG practices within Small and Medium-sized Enterprises, contributing to sustainable energy initiatives and corporate accountability towards achieving long-term environmental sustainability, enhancing social responsibility, and ensuring adherence to governance standards in line with both national regulations and international commitments, such as the United Nations Sustainable Development Goals. Findings show that despite having a sufficient National ESG Framework, enforcement mechanisms and comprehensive integration remain weak. While corporate ESG has made investments to align with ESG principles, resource limitations, insufficient expertise, and weaker compliance requirements still hinder integration progress.

Keywords: Renewable Energy Policies; Environmental, Social, and Governance; Sustainable Development Goals; Legal and Regulatory Frameworks; Corporate Accountability.

INTRODUCTION

There has been a rise in the interest in integrating Environmental, Social and Governance (ESG) considerations owing to the growing requirement of sustainability concerns from both big companies and small/ medium enterprises (Segal & Segal, 2024). Adopting the Simplified ESG Disclosure Guide (SEDG) is a tactical measure to overcome Malaysia's former ad-hoc reporting regimes (Capital Markets Malaysia, 2023). Nevertheless, even though remarkable achievements have been made in the formulation of policies on sustainable development, issues still exist (United Nations Development Programmed, 2021; United Nations, 2021). However, most of these issues are expected of small and medium enterprises, and such problems might be due to the lack of clarity in the law and brittle enforcement aspects (Malaysian Investment Development Authority, 2023; Convents Law, 2024). Furthermore, the shortage of capital, human, and financial resources restricts strategies enabling SMEs to adopt the sustainable practices and technologies necessary for achieving the ESG standards and the ultimate goals of SDGs to promote environmental protection, decrease greenhouse gas emissions and increase climate change response.

Global warming has become readily recognisable in social discourse as a phenomenon brought about by the inefficient use of energy resources worldwide. Greenhouse gas emissions have further contributed to the climate crisis due to increased industrial activity. While ending energy generation and consumption is not a reasonable consideration, developing and enforcing solid measures that guarantee enterprises will utilise energy efficiently is a more practical alternative. A significant element that guides this rationale in this case is ESG criteria, which, through its introduction, evolve into ESG principles, which become integral to policy making, particularly within the European Union (EU) (European Commission, 2021a; European Commission, 2021b).

This integration was pioneered in the EU through the Corporate Sustainability Reporting Directive (CSRD), which requires most EU and non-EU companies to report on sustainability and financial results (Council of the European Union, 2022). These reports contain information that complies with the European Sustainability Reporting Standards, the development of which was handled by the European Financial Reporting Advisory Group. The CSRD intends to provide participants with information about companies' environmental and social performance consistently and reliably to enhance accountability in reporting and build on the earlier Non-Financial Reporting Directive, which CSRD is designed to strengthen.

In Malaysia, the policies of ESG are being addressed to all sectors, not only large corporations but also SMEs, as is the trend with the Simplified ESG Disclosure Guide (SEDG) that strives to bring about a more manageable way for smaller enterprises to adopt ESG principles (Capital Markets Malaysia, 2023). However, empirical evidence is lacking regarding the efficiency of energy usage even when there are many policies due to the absence of awareness, application and enforcement. This calls for the practical and effective introduction of ESG policies in all business sectors. Still, more focus should be given to enforcing compliance by large corporations and SMEs in Malaysia (Malaysian Investment Development Authority, 2023).

Corresponding to Malaysia’s pledges to achieve net zero emissions by the year 2050, ESG approaches in Malaysia stand as one of the significant alternatives for global energy practices, focusing more on renewable sources rather than the traditional electricity overemphasis (Malaysian Investment Development Authority, 2023). This also highlights the need for the necessary environmental measures to be developed and embedded in these policies from as early as the formulation of these policies.

For Malaysia, ESG is integrated into national policy through the National Industry ESG Framework, which aims to align the country with international sustainability trends (Ministry of Investment, Trade and Industry, 2023). The integration enables policymakers to facilitate coherence and synergy across sectors in the transition to renewable energy, maximising comparative advantages while minimising trade-offs and conflict. A critical tool in these endeavours is the SEDG, a roadmap for companies on what ESG information to track and disclose (RDS Law Partners, 2024).

Reflecting on the global ESG considerations does impact renewable energy technologies, and they also have sound environmental practices towards big corporations and SMEs (Kandal et al., 2024). Companies in Malaysia, like Tenaga Nasional Ber had, have committed to invest in renewable energy projects to contribute to the nation's sustainable energy transition. For example, TNB initiated hazardous waste management practices according to the Environmental Quality Act 1974 (EQA) and the Environmental Quality Regulations 2005 of Malaysia (EQR) under the Department of Environment (DOE) control.

The introduction of ESG frameworks has significantly changed Malaysia's commitment to achieve its sustainable goals, particularly on renewable energy and environmental commitments. Globally, ESG factors contribute to responsible corporate behaviour, and Malaysia is increasingly committed to this global drive, as reflected in the activities of major companies like TNB. As one of Malaysia's leading energy suppliers, TNB's proactive participation in renewable energy initiatives underlines the nation's prospective strategy to harmonise economic development with environmental responsibility.

TNB’s compliance with the EQA and EQR, implemented by DOE, reveals a comprehensive system concerning hazardous waste management. TNB's contribution toward the environmental protection goals goes beyond compliance with the laws, as it has become one of the largest energy companies in Malaysia (Tenaga Nasional Berhad, 2023a, 2023b). The company has established various strategies utilising renewable energy resources such as solar and hydroelectric projects to advance the realisation of the country’s targets on sustainable energy sources through implementing ESG policies (Tenaga Nasional Berhad, 2023; The Star, 2024).

Nevertheless, the situation is different regarding challenges that relate to the broader adherence and practice of the principles of ESG in Malaysia, especially as it relates to small and medium-sized enterprises. The TNB case is expected for large organisations equipped with resources and structure to fulfil the ESG requirements as opposed to SMEs with limited access to capital, human resources and expertise. This gap provides a rationale for why there is a need for government intervention and incentives such as grants, tax incentives, and programs that aim to build the capacity of these SMEs to enable them to meet ESG standards.

It is promising that the SEDG was developed to work on these inequities. The SEDG targets smaller enterprises by removing barriers to ESG integration and creating a precise framework through which SMEs can monitor and report their ESG-related activities. However, for Malaysia to fully tap into the potential of ESG in promoting sustainable development, the enforcement structures need to be bolstered, and the relevant advocacy needs to be stepped up to make sure that all spheres of the economy, irrespective of the size, comply with the sustainability goals of the country.

Accordingly, while in Malaysia, significant strides have been registered in implementing ESG frameworks, especially for large corporations such as TNB, this is not enough, as the country still has to tackle issues concerning SMEs to achieve a holistic and robust ESG landscape. Through a trinity of regulatory enforcement, governmental assistance and corporate diligence, Malaysia can be at the forefront of sustainable energy and environmental governance in the region.

REVIEW AND ANALYSIS

In the last few years, there has been a rapid progression towards the global assimilation of ESG principles, and the convergence of numerous factors accelerated this development (Diana, 2024; Prodanova & Ilieva, 2020; Poonam & Aggarwal, 2024). Most notably, investors demand exemplary business practices, consumers purchase products that do not harm the environment or society, and laws such as environmental protection and social responsibility are increasingly being implemented. This worldwide movement has made significant strides in Malaysia, whereby SMEs are beginning to appreciate the relevance of ESG compliance. Nevertheless, despite this increasing recognition, many issues have upset SMEs' utilisation of ESG practices, particularly the absence of concrete legal instruction and warrant for enforcement.

Malaysia’s regulatory environment has improved with the SEDG introduced by Capital Markets Malaysia in 2023. SEDG aims to improve the complicated and disjointed system of ESG reporting frameworks, especially for SMEs. However, weak legal enforcement and ambiguity in the guide’s regulatory framework contributed to the guide's ineffectiveness. Even though there are reasonable policy initiatives, there is no legal provision to uphold adherence, especially when dealing with matters that do not reflect vigorous ESG governance systems. SMEs do not have the legal expertise to navigate the ESG compliance process, which causes serious disadvantages, mainly when considered against the Malaysian Quality Act 1974 provisions and corporate responsibility or environmental regulations.

Another issue would be the inability to secure needed resources like capital, labour, and even funding for ESG initiatives. This lack of support inhibits SMEs' capabilities to engage in critical sustainable technologies, renewable technology or any energy efficiency system. Without this technological support, meeting the ESG obligations, especially those set up by the Paris Agreement, is not feasible. This will eventually adversely impact SMEs.

Malaysia’s ESG regulatory framework started to take form with the launching of the Sustainable and Responsible Investment (SRI) Sukuk framework in 2014 under the auspices of the Securities Commission Malaysia (Meo et al., 2025). The framework provides legal guidelines embedded within the SRI Sukuk framework, requiring industry stakeholders to comply with the UN Sustainable Development Goals (SDG) in their respective businesses. The Green Sukuk Framework of Malaysia has extended Islamic finance to include the principles of sustainable development through the SDGs (Ezzuddin, 2024). These frameworks have enhanced legal accountability for large corporations, yet the legal mechanisms for enforcing ESG principles in SMEs remain weak.

To close this gap, the Malaysian government has extended the ESG mandate to include SMEs through the SDG Alignment Framework, aligning Malaysia's National Development Plan with international sustainability goals (Braun et al., 2024). While this framework provides a legal obligation for all businesses, regardless of size, to operate in concert with sustainability objectives, firm mechanisms for enforcement and monitoring remain limited. Although the Companies Commission of Malaysia (SSM) has been actively promoting corporate governance best practices through its Malaysian Code on Corporate Governance to encourage companies to adopt ESG principles, it has not taken a severe legal stance to make ESG reporting mandatory for SMEs, thus leaving some legal grey areas where compliance with disclosure remains voluntary or inconsistent.

Notwithstanding the challenges SMEs face, the 2023 SEDG has provided the path needed to assist SMEs in adopting ESG more practically and effectively. Capital Markets Malaysia's control enables more focus on environmental sustainability, energy efficiency and good governance. By the ability to focus on energy efficiency, SMEs can help reduce their impact on the environment and comply with the Energy Efficiency and Conservation Act 2024 (EECA), which offers legal incentives for adopting energy-saving technology and helps SMEs to be able to align themselves with EQA and take advantage on Malaysian Government incentives that include tax deductions and grants in their fight to support their sustainable growth.

The relationship between ESG principles and renewable energy policies is seen in legal cases like Massachusetts v EPA (2007), whereby the U.S. Supreme Court recognised the authority of the Environmental Protection Agency in regulating greenhouse gas emissions under the Clean Air Act (Massachusetts v EPA, 2007). This case set a precedent for emission governance and highlights how ESG principles align with environmental law. In Malaysia, the adoption of ESG criteria is increasing in legal importance as Malaysia advances its commitment to reducing greenhouse gas emissions and fulfilling its obligations towards international frameworks such as the Kyoto Protocol and the Paris Agreement.

Before the project, development can take place within the renewable energy sector, and the legal and regulatory framework can be modified to include ESG principles. For example, before development, solar farms or wind farms must ensure environmental impact assessments mandated by the laws of Malaysia, which aim to prevent harm and destruction to wildlife within a given area. This is a mandated assessment per the Environmental Quality (Prescribed Activities) (Environmental Impact Assessment) Order 2015, where a breach of such provisions renders the offending parties sanctioned by the DOE. This is welcomed by investors who favour projects that adhere to ESG principles whenever extending financial support to less risky projects that ensure sustainability in the future. The Securities Commission can also provide organisations with full disclosure regarding ESG issues in implementing their projects through regulations.

Bursa Malaysia has also pioneered sustainable practices by adopting its Sustainability Reporting Framework, which requires publicly listed companies to report on their efforts at sustainability following international standards, among them the Global Reporting Initiative (GRI). Bursa Malaysia also encourages the adoption of ESG principles through its FTSE4Good Bursa Malaysia Index, which identifies and recognises companies that meet internationally accepted criteria on ESG (Lim, 2022; Wong, 2023). However, their focus is mainly targeted at companies listed in the stock exchange market, which is the purview of Bursa Malaysia and the Securities Commission.

Looking at Bank Negara Malaysia (BNM), which is fundamental to adopting ESG principles in Malaysia's financial system. It is tasked to promote economic sustainability by integrating climate risk into its portfolio. The key initiative is the integration of Climate Change and Principle-based Taxonomy 2020, which gives financial institutions a guide to classify economic activities based on their negative impact on the environment, whereby they are to support environmentally sustainable lending and investment decisions (Bank Negara Malaysia, 2021). Furthermore, Value-based Intermediate initiatives aim to achieve social and ecological objectives through Islamic banking, motivating financial institutions to practice and invest in sustainable development. Therefore, combining these approaches shows BNM's vision to help Malaysia achieve a healthy and balanced financial environment.

On the other hand, the Energy Commission (EC), at the forefront of the energy supply for Malaysia, is directly responsible for improving the environmental aspect of ESG. They were mandated to oversee the implementation of renewable energy and its related technologies, plus advocate for energy efficiency to achieve the growth of Malaysia's sustainable development. The EC regularly ensures the RE targets are achieved per the Renewable Energy Act 2011 aim, which is to enhance renewable energy development and encourage industries and the whole nation to transform and use renewable energy sources. Similarly, the Net Energy Metering (NEM) program is an effort of the commission to allow businesses to pay low electricity charges when utilising solar energy in their operations in line with NEM scope (SEDA, 2021). All the activities aim to reduce carbon emission levels and achieve a faster transition to a cleaner energy source in Malaysia.

In addition, the Companies Act 2016 imposes legal duties on all directors of companies to act in the best interest of the companies under their care to include decisions that would have a positive environmental and social impact (Companies Act 2016, section 213(1)). Directors who fail to adhere to this would breach their fiduciary duties. These legal provisions align with the need for companies to comply with national environmental laws and uphold corporate governance standards, thus reinforcing ESG adoption as part of corporate accountability.

In addition, the Ministry of International Trade (MITI) supports ESG implementations by adopting comprehensive policies and frameworks that engage international corporations to assist in Malaysia's sustainability program. MITI complies with any trade and industrial policies that align with Malaysia's goal of fostering the industrial sector to be responsible towards the environment and society. It increased green investment by attracting FDI in renewable energy and green technologies and provided a Green Investment Tax Allowance to encourage sustainable industrial practices. Understanding the barriers that SMEs encounter while trying to integrate ESG principles, MITI offers financial assistance and technical support and conducts the SEDG to facilitate compliance. In addition, MITI assists Malaysia's compliance with international ESG standards of industries through trade agreements, particularly the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, while endorsing Malaysia's Nationally Determined Contributions under the Paris Agreement by supporting low-carbon technologies and cleaner production approaches. In light of these initiatives, MITI improves corporate governance by emphasising business ethics, which in turn helps Malaysian companies adopt ESG principles both inside and outside the country (MITI, 2024).

Thus, while ESG principles in Malaysia are receiving legal recognition, the adoption of much stronger laws and their enforcement mechanisms are urgently required to provide guarantees of widespread compliance, particularly by SMEs. The government should focus on legal reforms that make ESG reporting mandatory, incentivise sustainable practices, and make companies accountable for environmental and social damage. As the legal framework around ESG continues to take shape, the system being put in place by the policymakers must meet the global standards and address specific challenges that SMEs face in the country's journey toward a sustainable future.

Challenges In ESG Implementing for SMEs

As the focus on sustainability and responsible behaviour grows, stakeholders are pressuring businesses of all sizes to adopt ESG principles. That said, these principles remain more challenging to implement within SMEs. Unlike more giant corporations, SMEs often operate with limited financial, human and technical resources, making applying ESG principles difficult (DLRC Group, 2023). Additionally, implementing ESG principles poses a challenge for SME owners as ESG standards are complex and require high expertise and solid data requirements (Lempel, 2023).

The lack of capital is one of the significant difficulties many companies face when implementing these principles (Barua, 2019). Due to limited budgets, many SMEs find it impossible to invest in clean technologies, energy-efficient procedures, and the necessary resources to fulfil laws like the Malaysian Environmental Quality Act 1974. Despite applying to all businesses, such environmental laws are typically disproportionately heavy for SMEs. Elsewhere, SMEs that expand beyond the local markets are available under the Connective Intercontinental System Business Model but are often subject to compliance hassles due to the EU's Corporate Sustainability Reporting Directive (CSRD).

Another crux in SME operations is related to human resources. Smaller teams make it challenging for SMEs to spend time on various activities, including ESG reporting, sustainability compliance, and community engagement activities. This emptiness in human resources limits their ability to target ESG objectives. It puts them at a competitive disadvantage against more prominent firms legally obliged to pursue ESG initiatives.

Furthermore, SMEs cannot access information and communication technology (ICT) as they are to acquire sustainable growth management tools and software as they are technical and expensive, plus they lack qualified employees. Some of the issues, however, are addressed and brought down by Malaysia SEDG in promoting the reporting of SMEs. However, the absence of resources towards a similar level of competence continues to be a limitation in enabling them to meet world standards.

Comparative Analysis OF ESG Impact

In the global effort to address climate change and transition towards sustainable energy, integrating ESG criteria into renewable energy policies has become essential. As nations worldwide strive to mitigate the climate crisis, reliance on renewable energy sources becomes increasingly critical. However, this transition requires more than technological advancements; it necessitates comprehensive and robust policy frameworks that prioritise sustainability, social responsibility, and governance. These frameworks are governed by principles of procedural justice, ensuring that decision-making processes are fair, transparent, and inclusive.

Across the continent, substantial and sustained momentum exists towards assimilating ESG considerations into the planning and development of the renewable energy sector, spearheaded by enacting several essential policy measures. One such measure is the CSRD, which compels corporations on a larger scale to balance their financial reports with sustainability reporting disclosures (European Commission, 2023). Enhancing transparency and promoting accountability in this regard is the focal point of the CSRD in addressing the environmentally and socially adverse effects of companies. Furthermore, the EU Sustainable Finance Action Plan facilitates climate-friendly endeavours and investments towards projects such as renewable energy through capital deployment and directing finance towards climate-oriented objectives (European Commission, 2018).

In addition, growing evidence of the EU’s commitment comes from legal and policy structures that integrate ESG principles, such as the EU Taxonomy Regulation, which classifies economic activities based on their associated level of sustainability by the European Commission. (2021). This classification provides a consequential system that dictates the parameters that help decide which activities are more environmentally sustainable, giving a unified approach for investors and business enterprises to work in support of climate objectives. Policy-wise, the Green Deal for Europe combined with the Paris Agreement would bind the continent into a promise of zero net emissions by the year 2050, thereby setting the agenda for the policy requirements to improve renewable energy sources and their application areas.

The European regulatory governance framework further provides a perspective on the importance of procedural justice in promoting transparency, involvement, and accountability (European Parliament, 2017; European Parliament, 2019). In this case, the Aarhus Convention facilitates the public's participation in making environmental decisions and ensuring their protection through access to justice on environmental issues. This is a vital instrument in avoiding adopting ESG policies and ensuring that these policies are implemented in a way that civil society participates in and erects environmental justice.

On the other hand, Malaysia has taken steps towards embedding ESG principles into its national policies but confronts problems quite different from those experienced in Europe. Instruments like the Sustainable and Responsible Investment (SRI) Sukuk framework enhance sustainable investment by promoting the issuance of securities by businesses that adhere to moral and UN SDG requirements. The SRI Sukuk framework provides investments concerning environmental and social responsibility. It thus allows both public and private companies to help achieve Malaysia’s renewable energy targets.

Furthermore, the SEDG aims to make it easier for all stakeholders to report on their ESG performance, especially for SMEs, which have specific hurdles in adopting an all-encompassing ESG approach. Malaysia's SMEs often lack the human, technical, or legal capabilities to address complicated ESG norms and standards (Convents Law, 2024). Hence, while Malaysia’s framework is promising, it is still developing in terms of the critical aspects of reporting, accountability, and engagement of the stakeholders.

Malaysia is also said to have updated its approach as regards the global standard, signing the Paris Agreement in 2016. Malaysia’s initiatives to develop a more balanced energy mix are demonstrated through the National Renewable Energy Policy and Action Plan (2010) and later modifications. However, the enforcement mechanisms needed to ensure the business's compliance, especially SMEs with such targets, remain weak compared to Europe. The Environmental Quality Act of 1974 set the country's legal basis for environmental management. Still, its applicability to ESG issues requires further refinement, especially regarding corporate governance and social equity.

A key pillar within any practical ESG framework is stakeholder engagement. For example, in Europe, large corporations are required by law under the Non-Financial Reporting Directive to provide information regarding their activities' impact on employees, communities, and the environment (European Parliament, 2014). These laws help keep corporations accountable for their social and environmental responsibilities, which would increase stakeholder confidence and help achieve sustainability.

Despite SRI Sukuk and SEDG frameworks purporting to address stakeholder engagement, i.e., incorporating their concerns, Malaysia still has shortfalls. Most of these SMEs are engaged in different communities in the Malaysian context, where communities experience gross human rights violations, such as labour exploitation and social inequality (SUHAKAM, 2022). The principles of transparency and accountability in governance are of primary importance for protecting human rights and preventing social disorder. However, human rights violations and social grievances will likely be ignored without solid and endurable policies regulating stakeholder engagement.

For the ESG frameworks to be effective in the context of human rights protection, the legal framework of Malaysia needs to be enhanced to be on par with international human rights standards. The government may seek inspiration from international frameworks such as the UN Guiding Principles on Business and Human Rights (UNGPs) or ILO conventions that underline the role of businesses in protecting labour rights and social justice. By strengthening laws that govern transparency, accountability, and stakeholder engagement, Malaysia can reduce the risk of social conflicts and create a more inclusive and responsible business environment.

European and Malaysian practices demonstrate that procedural justice and fair and open decision-making are crucial to successful ESG integration. European countries have developed mechanisms to include energy policy and corporate governance processes within which all relevant parties, including the disadvantaged, are included. For instance, the Aarhus Convention accords a legal framework enabling the public to engage quickly in environmental issues and hold corporations responsible (Ho, 2019).

In Malaysia, however, such practices are developing. There are frameworks like the SRI Sukuk and SEDG, but ensuring that multi-stakeholder engagement processes are fair and inclusive remains challenging. Distributive justice, or bias-free distribution of resources and chances, offers another concern as Malaysia strives to harness economic development while preserving the environment. Malaysia’s transition to renewable energy will heavily depend on legal reforms that guarantee equal access to renewable energy resources, especially among the disadvantaged and small and medium-sized enterprises (SMEs).

The two regions have successfully embedded ESG principles within their renewable energy policies, but the degree of embeddedness and stakeholders’ uptake of policies are very different. Europe has robust frameworks that can ensure that ESG principles are embedded within business processes by providing stakeholders with transparency, accountability, and structured engagement.

While advancing through initiatives like the SRI Sukuk and SEDG, Malaysia faces hurdles in creating a similarly robust ESG landscape, particularly transparency and human rights.

PATHWAY FORWARDS

The role of ESG principles in Malaysia’s renewable energy policies was critical in supporting sustainable development and fulfilling global climate change commitments. However, implementing ESG criteria remained a significant challenge, particularly for SMEs, due to a lack of effective enforcement mechanisms. In comparison to Europe, several strategies emerged that could have enhanced the effectiveness of ESG criteria within Malaysia’s renewable energy legislation.

Strengthening Stakeholder Engagement and Transparency

Applying the ESG criteria achieved optimal effectiveness when the concerned stakeholders had sufficient involvement and decisions were made openly. In Malaysia, some mechanisms would have ensured that all concerned parties, SMEs, were also efficiently involved in the policy devising and implementation processes. However, they were not fully advocated. Such lack of dedication made pursuing active engagement around

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human rights, social justice, and community disputes difficult. Engaged stakeholders were able to place their trust in decision-makers, so the good practices should have included the reliance on transparent procedures since the lack of such practices reduced the effectiveness of ESG initiatives.

In Europe, the realisation of such practices was guaranteed by the Aarhus Convention, which provided greater access to the people and participation in environmental decisions. Although Malaysia was not a member of the Aarhus Convention, it is evident that if such a practice were adopted, it would contribute significantly towards increasing the transparency and accountability of the decisions related to ESG variables. The unavoidable absence of such frameworks in Malaysia meant that there were minimal possibilities for such dialogue and cooperation amongst government, business and civil society actors.

Enhancing Accountability Measures and Enforcement Mechanisms

Effective enforcement mechanisms have been essential in ensuring that the required level of attention was paid to the factors of ESG in the companies' business and investment decisions. In the case of Malaysia, the lack of solid regulatory frameworks meant that enforcement of the ESG standards was weak. Although some penalties, like fines or operational bans, were supposed to be imposed, such measures were not upheld most of the time. On the other hand, those who complied with the ESG requirements were not rewarded sufficiently with benefits like tax waivers, subsidies, or priority in government contracts.

Within Europe, the CSRD created a template regarding the enforcement of ESG measures as there was a legal requirement for firms to report in detail information related to sustainability (European Parliament, 2022). In countries like Malaysia, where ESG disclosures are not legally binding (Boardroom, 2023), many businesses do not report their environmental and social effects, making them unaccountable. This accountability gap left the stakeholders, including investors, without crucial information resources about the sustainability efforts of a particular company.

Moreover, adopting ESGs also seemed difficult for SMEs in Malaysia due to a lack of finance and knowledge. Large corporations had access to resources that would enable them, while smaller corporations had limited access to finance and the expertise needed to meet the standards. The government of Malaysia initiated some actions to assist through programs like the Green Technology Financing Scheme (GTFS). These policies, however, did minimally assist the cause. The absence of robust financial incentives, such as grants, subsidies, and organisational development services, compounded SMEs' difficulty in integrating sustainable practices into their operations.

Aligning With International Standards and Best Practices

The discourse of ESG expects investors to have a comprehensive understanding of a global perspective of a company's activity, which was not observed in the Malaysian context. Particularly, Malaysia was not positioned positively compared to Europe, as the latter also efficiently integrated the legislation of EU Taxonomy Regulation, Sustainable finance action plan and other regulations into their economic activity, creating construction for investments and aligning businesses with global sustainable development goals.

Malaysia's attitude, however more advanced than others, was still lagging behind Europe in terms of global competitiveness. Federal Initiatives within the context of the SEDG or SRI Sukuk framework were positive steps; however, they still had challenges generating the interest of foreign investors whose primary focus was ESG conformity. Without that jurisdictional congruence in principles and policies, Malaysia risked being perceived as an unattractive emoji bomb investment jurisdiction for ESG investors.

The research grouped these issues into rather broad categories, areas in which Malaysia could have done better in embedding these ESG principles within its renewable energy policies. Such factors as the participation of stakeholders and transparency of processes and outcomes, accountability measures, and international regulations were the critical determinants of success in modulating Malaysia's ESG framework. Compared to Europe, where robust legislative frameworks and enforcement mechanisms were well-established, Malaysia's ESG initiatives remained underdeveloped, particularly for SMEs.

Malaysia needed to address these gaps in its ESG policy framework to achieve long-term sustainability goals

and attract foreign investment. By drawing from international best practices and enhancing the participation of all stakeholders, Malaysia could have strengthened its renewable energy sector and contributed more effectively to global efforts in combating climate change.

CONCLUSIONS

To fulfil the country's effective leap to alternative renewable energy and address the global climate change issue, incorporating the ESG factors in Malaysia's renewable energy framework is of utmost importance. Regulatory frameworks like the CSRD and the EU Taxonomy Regulation have been developed in Europe. Still, thus far, Malaysia has only moved forward with frameworks such as the SRI Sukuk and the SEDG. At the same time, some barriers still exist, primarily for SMEs, which suffer from inadequate funds, lack of technical resources, and poor systems of law enforcement performance.

Even though the Malaysian context of ESG has been supportive and progressing, this area could be described as a work in progress with additional focus on implementation and monitoring. In contrast to Europe, where there are fully developed legal arrangements enabling enforcement, in terms of implementation of ESG policies in Malaysia, there are still issues related to low stakeholders' interest, non-transparency, and weak penalties for violators. Thus, there must be legal backing for any chances of success in Malaysia resigning the renewable energy policies to incorporate the ESG principles.

The significant areas of improvement are in enhancing the engagement of stakeholders, mainly of the SMEs, so that they are well-resourced and positioned to be actively involved in developing ESG guidelines and the commitment of such thresholds. Increased transparency in the decision-making mechanisms and greater accountability enforced through effective statutes are necessary to ensure that businesses adhere to the ESG metrics regardless of size. ESG issues could be essential to companies if there were incentive structures such as tax advantages or sanctions for failure to comply with those practices.

Additionally, because ESG is a significant consideration, competing with global standards and best practices is necessary to make Malaysia attractive to foreign investment, especially among investors who prioritise ESG. By adopting principles like the CSRD, the Paris Agreement, and the Aarhus Convention, the country would enjoy an uplift in competitiveness while furthering environmental protection, as the documents aim to promote such principles around the globe.

In conclusion, applying the principles of ESG within the legal framework of renewable energy in Malaysia requires comprehensive measures. All three elements, such as legal strengthening of mechanisms, developing collaboration with non-state actors, and emphasis on global standards, could enable Malaysia to achieve its sustainability aspirations.

As the country continues to refine its ESG framework, ensuring that it is legally enforceable and inclusive will be vital in supporting a sustainable energy transition, benefiting both the environment and the economy.

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