

Sustainability Primer Malaysia

Policies And Progress  
Towards Net Zero



Right By You

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# OVERVIEW

## Policies Towards Net Zero



Since Malaysia committed to its Net Zero ambition by 2050, several measures and plans have been announced to accelerate the energy transition journey.

### New Industrial Masterplan 2030 (NIMP 2030)



Malaysia's key national masterplan - had ESG as the overarching theme with the push for net zero as one of its core missions and four new green growth enablers:

- advanced materials
- electric vehicles (EVs)
- renewable energy (RE) and
- carbon capture, utilization and storage (CCUS)

Has identified nine Mission-based Projects (MBPs) that serves as a starting point to work with industries and the private sector:

- transforming 3,000 smart factories
- create decarbonisation pathways
- launch a locally-manufactured EV
- deploy large-scale CCUS solutions.



The country's economic potential can be enhanced by promoting green growth for climate resilience that includes increasing renewable energy generation capacity, installation of solar panels in the public sector infra and building, promote new green growth areas such as EV, hydrogen, and CCUS.

# POLICIES & PROGRESS

## 1. Key Milestones

### Three Key Milestones

**MILESTONE 1**  
Issued guidelines for financial institutions (FI) to incorporate Environment, Social and Governance (ESG).

For FI to incorporate ESG considerations into their strategies, decisions, and operations as well as climate related financial disclosures and climate risk stress testing to enhance the resilience of the financial system against climate risks and biodiversity losses.

**MILESTONE 2**  
Launch of the National Energy Transition Roadmap (NETR) in 2023.

NETR sets the goals and actionable items to accelerate energy transition and change the way energy is generated. The successful implementation of NETR will uplift GDP value from MYR25bn in 2023 to MYR220bn and generate 310,000 jobs in 2050, as well as offer investment opportunities totaling MYR1.2 to 1.3tn.

**MILESTONE 3**  
Launch of the ESG Jumpstart, a one-stop information portal developed to upskill and equip local SMEs to adopt ESG practices.

The portal was designed to be a simple and practical reference guide for SMEs and contains suggested actions that SMEs could take to build up their basic ESG knowledge and capabilities, as well as to identify and respond to key ESG issues, risks and opportunities.

### Key measures announced in Budget 2024

- National Energy Transition Facility (NETF) with an initial fund of MYR 2bn to support energy transition projects
- Funds up to MYR 20bn available for SME entrepreneurs, involved in green economy, technology and halal fields
- Extension of individual income tax relief on EV charging facility expenses and tax deduction for EV rental cost
- Extend the Net Energy Metering (NEM) scheme to encourage more residential households to install solar power panels
- Extension of tax exemptions to fund management companies that manage SRI funds as well as tax deductions on the cost of issuing SRI sukuk
- Income tax exemption expanded to include SRI-Linked Sukuk Grants and bonds issued under the ASEAN Sustainability-Linked Bond Standards (ASEAN SLBS) approved by SC between 1 Jan 2024 until 31 Dec 2025
- Pioneer the issuance of biodiversity sukuk up to MYR1bn
- Additional tax deduction for companies that spend on Measurement, Reporting and Verification (MRV) related to the development of carbon projects, which can be deducted from the income from the sale of carbon credits traded on the Carbon Exchange (BCX)
- Tax deduction given on ESG related expenditures
- Green technology tax incentives extended
- Implementation of Flood Mitigation Projects in 2024
- Tax deductions given to tree planting projects or environmental preservation and conservation

## 2. Progress Timeline



### Oct 2023

Capital Markets Malaysia, an affiliate of the Securities Commission Malaysia, launched the **Simplified ESG Disclosure Guide (SEDG)** for Small to Medium Enterprises (SMEs). It comprises of streamlined and standardised guidelines in relation to ESG disclosures. The aim of this Guide is to support SMEs in their adoption of sustainability by providing guidance on the data requirements of their journey. This is fundamental to start getting SMEs to disclose and understand the expectations from various stakeholders.

JC3 announced **five key initiatives** to expedite the transition of businesses and farmers towards low carbon practices including: 1) greening industrial parks, 2) greening value chain program with Bursa Malaysia, 3) MYR1 bn portfolio guarantee scheme for ESG financing, 4) ESG jump-start portal for SMEs, 5) green agritech program to focus on ESG agenda in agriculture sector.

### Jul-Aug 2023

Launch of **National Energy Transition Roadmap (NETR)** with 10 flagship projects and 50 initiatives outlined under the six energy transition levers and five enablers.

### Mar 2023

First auction on the **Bursa Carbon Exchange (BCX)**, Malaysia's new voluntary carbon market, took place with around MYR7.7 million in carbon credits sold.

### Dec 2022

JC3 issued report on **climate data catalogue** that serves as a source of reference on climate and environmental data for the financial sector. It includes data that are readily available, partially available and unavailable as well as observations on data gaps.

### Nov 2022

Issued **Climate Risk Management and Scenario Analysis** that sets out the principles and specific requirements on the management of climate related risks by financial institutions, with the aim to enhance the resilience of the financial sector against climate-related risks.

### Jun 2022

Issued discussion paper on proposed framework and elements of **the industry-wide climate risk stress testing (CRST)** exercise in 2024. The proposals include the applicability and format of the exercise, and technical elements such as scenarios selection, portfolio scope and granularity.

**Task force on climate-related financial disclosures (TCFD)** application guide for Malaysian financial institutions, which includes recommendations for more effective climate-related disclosures to facilitate more informed financial and business decision-making in addressing climate-related risks and opportunities.

### Apr 2022

Issued the **Joint Committee on Climate Change (JC3) report** on the sustainable finance landscape in Malaysia that provides list of green products and solutions offered by banks, insurance providers, and asset management companies.

### Apr 2021

Issued guidelines for **Climate Change and Principle Based Taxonomy** to facilitate financial institutions in assessing and classifying economic activities that contribute to climate change mitigation and adaptation.

### Nov 2019

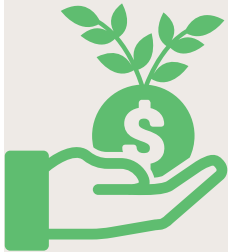
Introduced **value-based intermediation financing and investment impact assessment framework (VBIAF)** that laid the foundation for ESG considerations in the provision of financial services.

While the VBIAF is premised on Shariah tenets, the framework has universal application for FIs seeking to reflect ESG considerations in their governance, business strategy and operations, reporting and risk management systems.

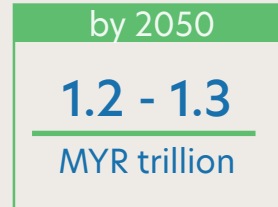
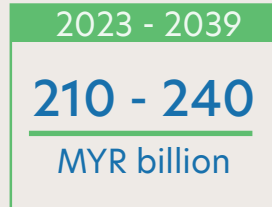
Introduced strategies to generate positive and sustainable impact to the economy, community and environment, consistent with shareholders' sustainable returns and long-term interests.

### 3. Financing Enablers

#### Projected investments required for Malaysia's energy transition journey



The overarching objective is to achieve energy transition targets while ensuring fiscal sustainability. Hence the government plans to offer a series of initiatives to attract capital investments and leverage diverse capital pools to achieve these targets.



In this decade, 18% of funding is required primarily in RE power generation and green mobility. Investment in RE power generation entails the expansion of solar PV and hydropower, and strengthening of grid infrastructure.



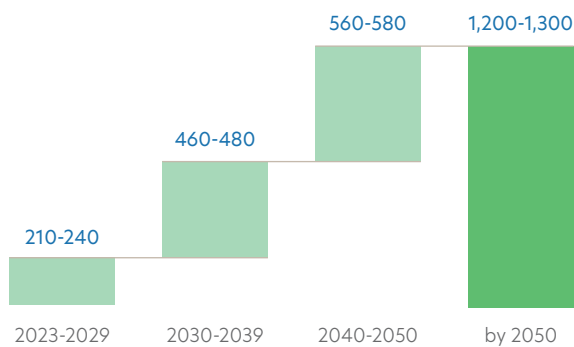
For green mobility, the investments are for the expansion of public transportation, amplification of domestic EV production capacities, and increased manufacturing of EV charging infrastructure.

Energy transition projects are categorised according to their potential financial yields and the nature of funding that could be mobilised. Significant proportion of energy transition projects will be classified as marginally bankable or yielding below-market returns. This is mainly due to significant investments in the EV value chain including hydrogen, CCUS technologies that are at a nascent stage.

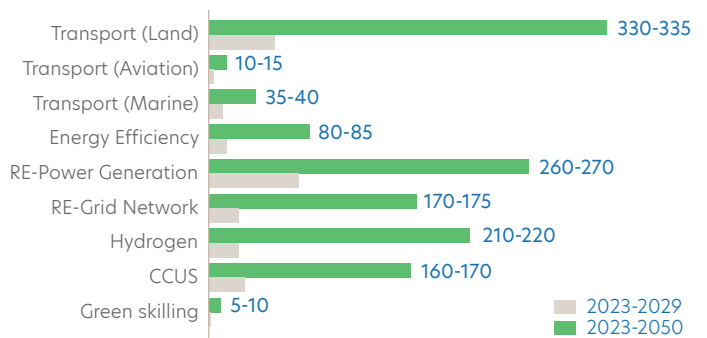
Investments in RE power generation, such as solar PV and hydropower, as well as grid enhancements, are categorised as commercially viable or with market-rate returns.

These projects typically possess the capacity to secure funding from capital markets and domestic financial institutions but require robust policy support to accelerate adoption.

Malaysia's energy transition financing needs (by decade, MYR billion)



Malaysia's energy transition financing needs (by categories, MYR billion)

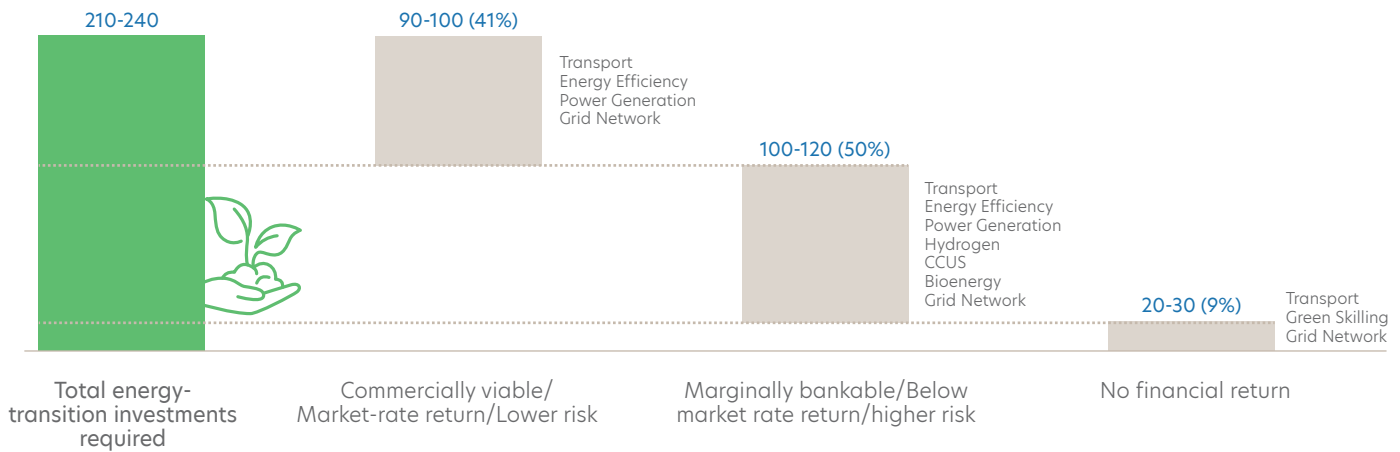


Note: NETR financing needs are additive and do not include business-as-usual investment required or projects already being financed (eg. transmission and distribution, ongoing public transport projects)  
 Source: PLEXOS, NETR team analysis, Global Economics & Markets Research

Projects that yield no financial returns pertain to investments fulfilling public service obligations or those that are aligned with a social-focused mandate. This encompasses initiatives such as upskilling and reskilling programmes aimed at aiding the workforce impacted by the energy transition as well as enhancing nationwide public transportation infrastructure.

Given that energy transition is a capital-intensive endeavour, energy transition projects are still surrounded by apprehensions on the commercial viability of initiatives that are characterized as technologically immature or not reached commercial scale. In the context of Malaysia, the unproven markets refer to CCUS, green hydrogen, BESS and SAF. This translates into higher development costs that directly affect the project developers. Some projects are faced with implementation risks such as construction-related uncertainties, developmental risks, and the vulnerability of offtaker arrangements. Examples include hydropower and bioenergy, which further complicate the projects' roll-out. The last challenge is the scarcity of viable projects.

Short-term national energy transition financing needs  
(estimated investments required, 2023-2029, MYR billion)



	Commercially viable/Market-rate return/Lower risk	Marginally bankable/Below market rate return/higher risk	No financial return
Potential pools of capital	Domestic banks & FIs GLICs/SWFs Green FDI Large domestic corporations VC/Early-stage funding	Public catalytic funding (blended finance, innovation finance) MDBs/DFIs GLICs/SWFs	Public direct funding
Enabling policy initiatives	Sector-specific policy implementation Attract green FDI Mobilize sustainable finance (eg sustainability-linked sukus, green taxonomies)	National Energy Transition Facility MDB/DFI partnerships Rationalise fuel subsidies	Rationalise fuel subsidies Gradual carbon pricing

Financial Institution (FI), Government Link Investment Company (GLIC), Sovereign Wealth Funds (SWF), Foreign Direct Investment (FDI), Venture Capital, Multilateral Development Bank (MDB), Development Finance Institution (DFI)  
Source: PLEXOS, NETR team analysis, Global Economics & Markets Research

## CONCLUSION

### The Importance of Effective Execution

The recent measures announced are positive moves to build a green economy for a sustainable future. However there are ongoing issues to be tackled in ensuring the climate goals are on track. This requires close monitoring of each initiative and target throughout the whole transition journey. The Energy Transition Roadmap is a long-term goal that spans decades and governments. Thus, strong determination among policymakers and effective execution are essential for the transition towards a greener, sustainable and inclusive economy.

Source: UOB Global Economics & Markets Research

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