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Strengthening Malaysia's climate finance architecture
The Edge, Malaysia

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MY Say



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Budget 2027 was an opportunity to raise the ambition of climate action as an urgent matter of fiscal resilience, energy security, food security and economic competitiveness. There were signs of incremental progress, including increased allocations for preserving planetary health through the Ecological Transfer Fund's support for ecotourism, and additional support for flood mitigation, repair and relief for households. There were further announcements seeking to repackage government enterprise (government-linked companies and government-linked investment companies) energy transition projects as government expenditure; which they are not. But there was a distinct lack of urgency or ambition despite the West Asia crisis providing a clear and tangible reminder to policymakers of the perils of fossil fuel dependency.

While budget money may have been earmarked already, there are three relatively low-cost priority reforms that would correct the missed opportunity. These are to develop a pipeline of bankable climate and resilience projects; to introduce comprehensive climate and disaster budget tagging; and to mainstream climate adaptation and disaster-risk reduction across government.

Develop a transparent project pipeline

Malaysia's climate investment requirements are substantial and severely underfunded. The National Energy Transition Roadmap (NETR, 2023) claimed that at least RM1.2 trillion to RM1.3 trillion is needed for energy transition investment by 2050. The World Bank puts Malaysia's mitigation and adaptation needs between 2025 and 2050 at an even higher US$1.23 trillion (RM4.08 trillion) to US$1.53 trillion. Budget 2027 announced less than RM20 billion in government enterprise investment and just RM8.9 billion of taxpayer funds for energy transition projects and climate adaptation. The budget spent much more than that on fuel subsidies alone.

Part of the shortfall comes from the sizeable gap between national climate ambitions and the tangible policies and projects needed to demonstrate determination to implement them. The quality and quantity of projects presented to public, private and international financiers need to increase considerably to mobilise private investment alongside public.

The federal government — not Tenaga Nasional Bhd (KL:TENAGA), UEM Lestra, Kumpulan Wang Persaraan (Diperbadankan) (KWAP) and others — needs to develop and publish a pipeline of bankable renewable energy and grid enhancement projects. A detailed pipeline that the government demonstrates its commitment to, including through its own funding contributions, is essential to generating the socially optimal level of private investment on competitive terms. The budget could have signalled the beginning of such a vision, but instead provided an incomplete billboard for government enterprise projects whose own transparency and reporting need considerable uplift.

Building a credible pipeline with routine reporting against clear targets would have wide and self-reinforcing competitiveness benefits. Investors respond positively to predictability and a strong transition signal would attract the sustainable industries central to Malaysia's future.

The pipeline can be supported by the Green Climate Fund's (GCF) Project Preparation Facility, which provides a relevant example of how grants and technical assistance can support the development of credible climate funding proposals. The Asean Power Grid, for example, under the Asian Development Bank's Asean Catalytic Green Finance Facility is funded by the GCF.

More resilient and sustainable supply chains will grow around reliable renewable power, water, transport and industrial infrastructure. Malaysia's National Climate Adaptation Plan (NCAP) — funded by the GCF and expected to be implemented in the second quarter of 2027 — would focus initial efforts on food security and agriculture, blue economy, infrastructure and forests and biodiversity.

Introduce climate budget tagging

Budget 2027 again missed an opportunity to present sustainability-related spending in an accessible and prominent manner. Malaysia has not yet implemented comprehensive climate-budget tagging, which makes calculating the budget for climate activities difficult. Climate-related spending is spread across ministries and programmes, so it is hard to determine how much public spending supports mitigation, adaptation or disaster-risk reduction. Just as clearer pipelines can mobilise investment, more transparent and focused budgets can communicate government priorities to shape commercial decisions.

The Madani government should embrace and commit to launch a phased climate-budget-tagging framework, coordinated by the Ministry of Finance (MOF) and with a mission to raise accountability. The framework should distinguish between mitigation expenditure, climate-adaptation expenditure, disaster risk-reduction expenditure, expenditure with both mitigation and adaptation benefits, and expenditure with no material climate relevance. Applying the framework across the public financial management cycle would maximise its impact. Tagging should be integrated into all stages of budget formulation, classification, execution and procurement, performance reporting, and audit and review.

Green budget tagging beneficially identifies the climate relevance of expenditure but does not determine whether spending is cost-effective, aligned with climate targets or capable of producing meaningful emissions reductions. That is where the project pipeline comes in, providing project appraisal, climate-risk screening, cost-effectiveness analysis and outcome indicators.

Mainstream adaptation and disaster risk

In the challenging global environment and uncertain climate future facing Malaysia, reducing economic volatility is as important as raising growth. Efforts to reduce the risk and severity of shocks need to be elevated alongside continued efforts to increase prosperity.

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Achieving this would be supported by tracking indicators of adaptation and resilience alongside growth. Examples include: the proportion of farmers adopting climate-resilient practices; the number of critical assets screened and upgraded; the population or economic activity protected from flood risk; water system reliability during drought conditions; renewable energy and grid-performance indicators; and the time required to restore essential services after a disaster.

Ministries should report such risk and resilience outcomes alongside conventional spending and delivery indicators. An inter-agency steering mechanism on climate adaptation mainstreaming involving MOF, the Ministry of Agriculture and Food Security, Ministry of Works, Ministry of Housing and Local Government, Ministry of Investment, Trade and Industry, Ministry of Economy, Ministry of Natural Resources and Environmental Sustainability, Ministry of Energy Transition and Water Transformation, and relevant sectoral agencies should oversee implementation. Its role should be to coordinate standards, resolve overlaps, publish progress and ensure that policies reinforce each other.

Less directly than would be evident from reporting these outcomes, the rising costs and impacts of climate change are increasingly evident in Budget 2027. Hundreds of millions more is being spent on flood mitigation and disaster relief, the infrastructure repair and maintenance bill is also rising, and financial assistance for disaster-affected households has been doubled to RM10,000. Sustainability comes from an increasing share of this funding going to prevention rather than repair and relief.

As part of prevention efforts, Malaysia could also usefully develop sector-specific risk and resilience standards to support both green public procurement and private investment. These could cover design thresholds for drainage and transport infrastructure, water-security requirements, climate-resilient agricultural practices, critical-energy infrastructure and the protection of essential public services. Standards should be updated alongside changing climate projections and risk information.

A practical post-budget agenda

With a backdrop of global oil market shocks and El Niño highlighting energy and food security risks, Malaysia's 2027 budget again lacks urgency on climate action. Accelerating the clean energy transition and climate adaptation is an environmental, economic, energy, food, and sociopolitical security imperative that Malaysia's fiscal planners continue to dedicate too little attention to. The proposed reforms would institutionalise climate action as a cornerstone of sound fiscal management and long-term economic competitiveness, making climate adaptation a non-negotiable and supported priority at the centre of a future in which the rakyat live in dignity. E

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