Green Bond Market Survey for Malaysia
Insights on the Perspectives of Institutional Investors and Underwriters

This publication provides an overview of institutional investors’ interest in green bonds issued in Malaysia, along with an assessment of the perspectives of local arrangers and underwriters on their clients’ interest in green bond issuances. It presents the results of a survey to help identify drivers, impediments, and development priorities for Malaysia’s sustainable finance market. The findings and insights presented in this publication are intended to inform how the Asian Development Bank and other partners could further support the market’s development.

About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.
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<table>
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<th>Full Form</th>
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<td>ABMI</td>
<td>ASEAN+3 Asian Bond Markets Initiative</td>
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<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>ASEAN+3</td>
<td>ASEAN plus the People’s Republic of China, Japan, and the Republic of Korea</td>
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<td>BNM</td>
<td>Bank Negara Malaysia</td>
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<tr>
<td>EPF</td>
<td>Employees Provident Fund</td>
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<td>ESG</td>
<td>Environmental, social, and governance</td>
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<td>Capital Markets Malaysia</td>
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<td>Joint Committee on Climate Change</td>
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<td>Local currency</td>
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<td>NGFS</td>
<td>Network of Central Banks and Supervisors for Greening the Financial System</td>
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<tr>
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<td>Securities Commission Malaysia</td>
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<td>SRI</td>
<td>Sustainable and Responsible Investment (Sukuk Framework)</td>
</tr>
<tr>
<td>TA</td>
<td>Technical assistance</td>
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<td>USD</td>
<td>United States dollar</td>
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SUMMARY AND KEY FINDINGS

SURVEY HIGHLIGHTS

- The online survey was conducted in January–February 2022 and received a total of 65 responses from 59 institutional investors representing the demand side and 6 financial advisors and underwriters representing the supply side. Institutional investors include 9 asset management companies, 1 development financial institution, 1 hedge fund, 33 insurance companies, 2 investment banks, 12 commercial banks, and 1 state-owned bank.

- While all investor and underwriter respondents expressed interest in either investing in or underwriting green bonds, some may be more prepared to do so than others. This is an area where development partners can potentially assist interested entities with technical assistance and capacity building.

- Renewable energy, energy efficiency, water management, and waste management are viewed as the most promising sectors for growth in Malaysia’s green bond market.

- While there is a strong preference for small ticket sizes (less than USD10 million) from investors’ point of view, underwriters and advisors are hoping for much bigger deals (more than USD50 million).

- The lack of a pipeline for eligible projects and an insufficient supply of green bonds are the two biggest barriers to the growth of the green bond market in Malaysia, according to both investors and underwriters.

- Most investors said that more policy guidance and clarity from regulators is needed to support the growth of Malaysia’s green bond market, while underwriters said that a larger pipeline of green projects is the most important factor in spurring more issuances.
Malaysia’s green bond market has enormous potential for growth. The majority of institutional investors who took part in the survey said they were creating action plans to include environmental, social, and governance (ESG) pillars in their investment strategies, and half of the underwriters who responded said they were creating plans to encourage clients to issue more green bonds. While investors and underwriters are both making the necessary preparations to expand their green bond portfolios, 14% of institutional investors do not yet have any exposure to green investments, and 17% of underwriters reported that their clients are not currently interested in the issuance of green bonds.

Renewable energy, energy efficiency, water management, and waste management are the sectors with the highest growth potential. Institutional investors and underwriters who represent both the supply and demand sides of the question agreed that renewable energy, energy efficiency, water management, and waste management have the greatest growth potential (Table). In fact, the majority of investor portfolios in the Malaysian green bond market already consist of investments in these sectors.

| Table: Sectors with the Most Potential for Green Bond Issuances and Investments (%) |
|-------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Investors                                       | Underwriters        |
| 29                                              | 19                  | 16                  | 23                  | 19                  | 14                  |

Source: Survey details.

Unlike underwriters, investors have a strong preference for smaller issuance amounts. Nearly 41% of investors are looking for investment transactions totaling less than USD10 million, and 36% are interested in transactions with investments of up to USD50 million. In contrast, almost 33% of underwriters prefer issuance sizes of between USD11 million and USD50 million, while another 33% prefer issuance sizes of more than USD100 million. The majority of investors have stated that when making investment decisions, they give the most significant weight to credit rating, potential ESG impacts, and the company profile.

Demand from investors is extremely important. Underwriters believe that increased demand from investors is crucial to driving more issuance of green bonds and to encouraging potential issuers to integrate ESG considerations into their operations. In fact, preferential buying by public pension funds and central banks would demonstrate leading by example. Underwriters also believe that tax incentives and/or subsidies for issuers are equally important.

An insufficient supply of green bonds and the lack of a green project pipeline are the two most critical obstacles to the market’s development. Institutional investors and underwriters emphasized two main barriers preventing Malaysia’s green bond market from growing. The most important factor from the perspective of investors is the scarcity of green bonds. The majority of underwriters stated
that the main obstacle preventing their clients from issuing green bonds is the lack of a pipeline of green projects. Another major barrier cited by both investors and underwriters is the lack of obvious advantages to investing in and issuing green bonds, which was followed by a lack of knowledge and resources. Investors have consequently suggested that clear government guidance and definitions of what constitutes “green” could facilitate greater issuance, while underwriters concurred that the most important policy option is to increase the pipeline of green projects.
INTRODUCTION

Background and Objective

The Asian Development Bank (ADB) is collaborating closely with the Association of Southeast Asian Nations (ASEAN), the People’s Republic of China, Japan, and the Republic of Korea—collectively known as ASEAN+3—to promote the development of local currency (LCY) bond markets and regional bond market integration through the Asian Bond Markets Initiative (ABMI). The ABMI was established in 2002 to bolster the resilience of ASEAN+3 financial systems by developing LCY bond markets as an alternative source to foreign-currency-denominated, short-term bank loans for long-term investment financing.

ADB, as Secretariat for the ABMI, is implementing a regional technical assistance program to promote sustainable LCY bond market development with support from the People’s Republic of China Poverty Reduction and Regional Cooperation Fund. This technical assistance was developed and is being implemented with guidance from ASEAN+3 finance ministers and central bank governors, and in accordance with the ABMI Medium-Term Road Map for 2019–2022.

This survey report, conducted in collaboration with the Global Green Growth Institute, aims to assess institutional investors’ interest in green bonds issued in Malaysia, as well as the perspectives of local arrangers and underwriters on their clients’ interest in green bond issuance. The survey aims to identify market drivers, impediments, and development priorities for Malaysia’s sustainable finance market to assist development partners in identifying potential areas of support to accelerate the development of Malaysia’s sustainable finance market.

Methodologies

ADB and the GGGI conducted the survey via an online platform in January–February 2022 and received a total of 65 responses from 59 institutional investors representing the demand side and 6 financial advisors and underwriters representing the supply side. Institutional investors included 9 asset management companies, 1 development financial institution, 1 hedge fund, 33 insurance companies, 2 investment bank, 12 commercial banks, and 1 state-owned bank.
The Sustainable and Responsible Investment (SRI) Sukuk Framework, introduced by the Securities Commission Malaysia (SCM) in 2014 to facilitate the financing of sustainable and responsible investment initiatives, marked the start of Malaysia’s sustainable finance market. Since then, the sustainable finance market has developed rapidly due to the joint efforts of relevant regulators and industry players.

As co-chair of the Association of Southeast Asian Nations (ASEAN) Capital Markets Forum’s Sustainable Finance Working Group, the SCM is playing a critical role in the development of the ASEAN Green, Social, and Sustainability Bond Standards. In fact, after the ASEAN Green Bond Standards (AGBS) were launched in Malaysia in 2017, the first green bond issued under the AGBS was a sukuk (Islamic bond) issued by a Malaysian entity in the same year.

The total outstanding amount of green, social, and sustainability bonds in Malaysia was approximately USD6.1 billion at the end of June 2022, with private sector issuances leading the way (Figure 1).

The green bond market in Malaysia grew significantly following the announcement of the AGBS in 2017. This trend continued when the ASEAN Social Bond and Sustainability Standards were launched. As of June 2022, the total outstanding amount of green, social, and sustainability bonds in Malaysia amounted to approximately USD6.1 billion, with private sector issuances leading the way.

Figure 1: Sustainable Bonds Outstanding by Issuer Type

USD = United States dollar.

Note: Data were obtained using Bloomberg LP’s SRCH function. The SRCH criteria include green bonds, social bonds, sustainability bonds, sustainability-linked bonds, and transition bonds.

Sources: AsianBondsOnline and Bloomberg LP.
Bond Standards were launched in 2018. In 2021, sustainable bond issuance expanded significantly, led by the Government of Malaysia’s USD1.3 billion Sustainability Sukuk issuance, which was oversubscribed by 6.4 times (Figure 2). Malaysia’s maiden Sustainability Sukuk issuance was the world’s first USD-denominated sustainability sukuk issued by a sovereign, with proceeds going to eligible social and green projects aligned with the United Nations’ Sustainable Development Goals.¹

Relative to the green and sustainability bond market, the social bond market in Malaysia is relatively insignificant. The sukuk issued in 2015 and 2017 by Khazanah Nasional Berhad, Malaysia’s sovereign wealth fund, under the SRI Sukuk Framework were considered social sukuk as the use of proceeds were for educational purposes. A majority of Malaysian issuers prefer the sustainability label for their bonds and sukuk because this gives the issuer greater flexibility regarding the use of proceeds. According to the Sustainability Bond Guidelines published by the International Capital Market Association, sustainability bonds are bonds in which the proceeds are exclusively applied to finance or refinance green and/or social projects. Certain social projects may also have environmental co-benefits, and certain green projects may have social co-benefits. The classification of a use-of-proceeds bond as either a green, social, or sustainability bond should be determined by the issuer based on the primary objectives of the underlying projects. For example, a sustainability bond can be used to finance or refinance the development of energy-efficient affordable housing projects, such as the sustainability bond issued by Thailand’s National Housing Authority.²

In terms of the currency, most sustainable bonds outstanding from Malaysian issuers at the end of the second quarter of 2022 were denominated in ringgit. Slightly more than 40%

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of sustainable bonds and sukuk were issued in a foreign currency, with the majority of these denominated in United States (US) dollars, including the Government of Malaysia’s maiden sustainability sukuk (Figure 3).

Financial institutions in Malaysia are the largest issuers of sustainable bonds, followed by the government and the real estate sector (Figure 4). As one of the pioneering regulatory leaders in Southeast Asia in pursuit of a standardized classification system for climate-related exposures, the Bank Negara Malaysia encouraged financial institutions to issue sustainable bonds with the release of the *Climate Change and Principle-based Taxonomy* in April 2021.3

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Despite its rapid expansion in 2021, the LCY corporate sustainable bond market remains small in comparison to the country’s overall LCY corporate bond market (Figure 5). LCY sustainable bonds from corporate issuers accounted for only about 2% of LCY corporate bonds outstanding at the end of June 2022. However, this share has rapidly increased from a very low base, demonstrating the opportunity to promote more issuances of LCY sustainable bonds in Malaysia, especially from corporate issuers.

**Figure 5: Local Currency Corporate Sustainable Bonds Outstanding and as a Share of the Local Currency Corporate Bond Market**

LCY = local currency, LHS = left-hand side, RHS = right-hand side, USD = United States dollar.

Note: Data were obtained using Bloomberg LP’s SRCH function. The SRCH criteria include green bonds, social bonds, sustainability bonds, sustainability-linked bonds, and transition bonds.

Sources: AsianBondsOnline and Bloomberg LP.
RECENT INITIATIVES IN SUSTAINABLE FINANCE

SRI initiatives began in 2014 when the Securities Commission Malaysia (SCM) introduced the SRI Sukuk Framework to facilitate the financing of sustainable and responsible investment initiatives. The launch of the SRI Sukuk Framework in 2014 signaled the initiation of the SCM’s sustainable and responsible investment initiatives in line with its existing Capital Market Masterplan 2 to promote socially responsible financing and investment.4

Development of the sustainable finance market in Malaysia is being undertaken through a coordinated approach led by the Joint Committee on Climate Change (JC3). The JC3, co-chaired by the BNM and the SCM, was established in 2019 and comprises senior officials from Bursa Malaysia and 21 industry players.5 The JC3 is guided by three key mandates:

(i) building capacity through the sharing of knowledge, expertise, and best practices in assessing and managing climate-related risks;
(ii) identifying issues, challenges, and priorities facing the financial sector in managing the transition toward a low-carbon economy; and
(iii) facilitating collaboration between stakeholders in advancing coordinated solutions to address emerging challenges and issues.

Following the JC3’s inaugural meeting in September 2019, subcommittees were formed covering the following areas: (i) risk management, (ii) governance and disclosure, (iii) products and innovation, and (iv) engagement and capacity building. In 2021, another subcommittee on bridging data gaps was established to identify crucial data and relevant data sources and to explore potential solutions to minimize data gaps for the purpose of managing climate- and environment-related risks within the financial sector and of strengthening the structure of green finance solutions.6

In March 2022, the JC3 released for public consultation the draft Task Force on Climate-related Financial Disclosures’ Application Guide for Malaysian Financial Institutions to provide key recommendations and assist financial institutions in preparing for climate-related disclosures. This followed the earlier announcement that financial institutions would be required to make mandatory climate-related financial risk disclosures aligned with the Task Force on Climate-related Financial

Disclosures beginning in 2024. In addition, the JC3 plans to develop a climate disclosure guide for Malaysian companies. This guide aims to improve the quality and accessibility of information on business resilience to climate-related risks. This would encourage financial flows to climate mitigation and adaptation actions, including among small and medium-sized businesses. JC3 members also agreed to identify cross-cutting and strategic issues arising from the International Sustainability Standards Board’s draft Sustainability Disclosure Standards and to consider providing a collective response, especially from the perspective of a developing economy.

In April 2022, the JC3 also released a Report on the Sustainable Finance Landscape in Malaysia to understand and assess the current state of sustainability practices and readiness within the financial sector. The survey was conducted in November 2021 and focuses on four key aspects of sustainability practices:

(i) sustainability commitment and strategy,
(ii) governance and risk management,
(iii) green products and solutions, and
(iv) climate disclosure.

The year 2021 was also significant for the development of sustainable finance in Malaysia with the issuance of sustainability sukuk by the Government of Malaysia. The sukuk were offered via two tranches: USD800 million of 10-year trust certificates and USD500 million of 30-year trust certificates. The sukuk were so well received by investors that the government decided to increase the issuance size from USD1.0 billion to USD1.3 billion. This sukuk issuance was unique because its underlying assets are sustainable, consisting of travel vouchers for Malaysia’s Light Rail Transit, Mass Rapid Transit, and KL Monorail networks.

The BNM was among the first central banks in ASEAN to release the Climate Change and Principle-based Taxonomy for financial institutions in April 2021. The taxonomy (i) assists financial institutions in assessing and categorizing economic activities that meet climate objectives and promote transition to a low-carbon economy, and (ii) facilitates standardized classification and reporting of climate-related exposures to support risk assessments at the transactional and institutional levels.

As an active member of the Network of Central Banks and Supervisors for Greening the Financial System’s (NGFS) Steering Committee, the BNM pledged its support to the NGFS Glasgow Declaration for COP26. The BNM also committed to undertake the six NGFS recommendations published in A Call for Action: Climate Change as a Source of Financial Risk.

The SCM announced the expansion of the Green SRI Sukuk Grant Scheme in January 2021 to encourage more companies to finance green, social, and sustainability projects through SRI sukuk and bond issuance. The new grant scheme, known as the SRI Sukuk and Bond Grant Scheme, will be applicable to all sukuk issued under the SRI Sukuk Framework and

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8 Footnote 5.
10 Footnote 1.
12 BNM. COP26 Pledge: Our Commitment to Greening the Financial Sector.
bonds issued under the ASEAN Green, Social, and Sustainability Bond Standards. Under the new scheme administered by Capital Markets Malaysia (ICM), an affiliate of the SCM, eligible issuers can claim the grant to offset up to 90% of the external review costs incurred, subject to a maximum of MYR300,000 per issuance. Furthermore, income tax exemptions are provided for issuers who received support from the SRI Sukuk and Bond Grant Scheme for a period of 5 years (until 2025) as announced in Budget 2021.14

In September 2021, the SCM launched the third Capital Market Masterplan, which will serve as a strategic framework for the growth of Malaysia’s capital market over the next 5 years. Among the six key development and regulatory thrusts, the third Capital Market Masterplan focuses on long-term value creation by (i) promoting responsible businesses with good corporate governance and (ii) facilitating the intermediation of capital to sustainable and responsible businesses through the SRI Sukuk Framework and ICM to cater to needs of the Malaysian economy. Strategic initiatives under the masterplan to promote sustainable finance include the following.15

**Mobilizing Capital toward Sustainable and Responsible Businesses**

(a) explore approaches for transition financing in Malaysia;
(b) facilitate wider options across the funding escalator for companies embarking on net-zero commitments;
(c) promote greater transparency in the market through disclosures; and
(d) evaluate approaches for investor protection in relation to the management of disclosures, data, ESG investment decision-making, and greenwashing risks.

**Expanding the Reach of ICM to the Broader Stakeholders of the Economy**

(a) enable greater access to Sharia-compliant fundraising for micro, small, and medium-sized enterprises, focusing on those in the halal economy;
(b) develop guidance to facilitate the assessment of unlisted companies for Islamic fundraising activities;
(c) develop guidance to incorporate Sharia requirements and ESG best practices for public limited companies; and
(d) leverage and strengthen relevant ICM frameworks to enhance the Islamic social finance ecosystem.

**Embracing Collaboration and Innovation for Growth**

(a) position Malaysia as a hub for SRI by developing thought leadership, catering to regional capacity-building needs as well as championing innovation and research;
(b) enhance ICM global thought leadership to promote greater alignment of capital market activities with *maqasid al-Sharia* (objectives of Sharia);
(c) build capacity for ICM by strengthening the capabilities of practitioners in the area of Sharia governance and by developing talents for Islamic wealth management; and
(d) facilitate innovation in Islamic fintech through regulatory guidance and accelerator programs.

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14 SC. 2021. Media Release. SRI Sukuk and Bond Grant Scheme to Encourage Capital Market Fund Raising for Sustainable Development. 21 January.
15 SC. Capital Market Masterplan 3.
In 2020, the first green bond verifier in Malaysia, RAM Sustainability, was accredited by the Climate Bonds Initiative. Having a local green bond verifier with a good understanding of the local market environment and practices is an important factor in the sustainable finance ecosystem. The ESG service offerings provided by RAM Sustainability include second-party opinions on issuers’ sustainability frameworks and ESG ratings for corporates and issuers (Box 1).

**Box 1: RAM Sustainability—Supporting Climate Integrity in the Green Bond Market through Climate Bonds Standard Verification**

RAM Sustainability, a wholly owned subsidiary of Malaysia’s RAM Holdings Berhad (the group), commenced its sustainability services in 2016 offering second-party opinions, as well as sustainability ratings and environmental, social, and governance analytics for the financial market, leveraging the group’s more than 30 years of experience in providing independent credit rating services, economic research and consultancy, and data analytics.

Since the launch of the Sustainable and Responsible Investment Sukuk Framework in 2014 and the Association of Southeast Asian Nations (ASEAN) Green, Social, and Sustainable Bond Standards in 2018, there has been increasing interest in the issuance of sustainable bonds and sukuk (Islamic bonds) in the domestic market. While these framework and standards provide guidance on the broad categories of eligible green projects, there is a need to further define the eligibility of green projects and their climate alignment as the market develops.

To support market needs and green finance market development in Malaysia, RAM Sustainability became an approved Climate Bonds Standard and Certification Scheme verifier in 2020. RAM Sustainability’s application to become an approved verifier was primarily motivated by its goal to improve access to sustainable finance for ASEAN issuers by helping them demonstrate to the market that their green bonds, sukuk, and loans meet global best practice standards for climate integrity, management of proceeds, and transparency.

RAM Sustainability worked closely with the Asian Development Bank to deliver its climate bond verification service as part of the bank’s developmental role in improving the sustainable finance ecosystem. RAM Sustainability is currently able to provide verification for up to seven out of the 15 sectors available for certification under the Climate Bonds Standard, including renewables, low-carbon transport, and low-carbon buildings, among others. The verifiable sectors are based on RAM Sustainability’s experience in providing second-opinion and sustainability services in the relevant sectors.

Source: RAM Sustainability.

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The survey was conducted in January–February 2022 among local institutional investors—including fund managers, financial institutions, and insurance companies—as well as local underwriters and advisors. A summary of the survey’s findings is given below.

Institutional Investors

The survey began by asking respondents about their firms’ interest and/or current investment in green bonds. The majority of respondents indicated there was interest in green bonds and that their respective firms are currently developing an action plan, while others were exploring this field but with limited awareness and resources (Figure 6). None of the respondents indicated a lack of interest in green bonds. One asset management company reported having launched two SRI equity funds at the end of 2021 with plans to launch more sustainability-focused funds to cater to investors’ preference for these products. Further, four insurance companies expressed a strong interest in green bonds, with one having already established a green investment mandate.

Almost 80% of respondents are still exploring and developing an action plan, with green bonds representing less than 5% of investor portfolios on average. Only two respondents, an asset management firm and an insurance company,
reported that green investments made up between 11% and 20% of their portfolios, while one insurance company reported that green investments made up between 21% and 30% of its portfolio (Figure 7).

When asked about ticket size, 41% of respondents indicated a preference for investments of less than USD10 million, while 36% indicated a willingness to invest up to USD50 million per transaction (Figure 8).

Meanwhile, around 13% of respondents indicated that investment size depends on the credit profile, investment type, credit quality, and issue size of the bond.

Renewable energy (35%), water management (16%), and energy efficiency (12%) are the top sectors in terms of comprising a share of respondents’ investment portfolios, while only 8% of respondents have invested in green bonds issued to finance green buildings (Figure 9).
While 14% of respondents have no exposure to green investments, this clearly indicates that the green bond and sukuk market in Malaysia has significant potential to expand further. While none of the respondents stated they had zero interest in investing in green bonds, there is still a need for local institutional investors to build their capacity and develop an action plan for making ESG investments. This can be an area where development partners collaborate with local regulators and industry associations to carry out more capacity-building programs for domestic capital market stakeholders, particularly local institutional investors.

The majority of investors believe that having a Sustainable Development Goals mandate in their institution’s investment strategy is essential to investing in green bonds (Figure 10). A mandate can also contribute to the organization’s public image. Institutional investors believe that investing in green bonds could result in a more efficient diversification of investment portfolios and higher returns.

The survey asked local institutional investors to identify any significant barriers to investing in green bonds. Almost 50% of respondents stated that the primary impediment is the inadequate supply of green bonds and limited green bond issuances in the local market. This clearly indicates that Malaysia’s current supply of green bonds is insufficient to meet demand. As a result, there is a significant opportunity for issuers to consider green bond issuance as a means of diversifying their investor base (Figure 11). All of the underwriters participating in the survey indicated that attracting new investors is among the top motivations for issuers to consider a green bond issuance.

Additionally, around 15% of respondents indicated that the absence of clear benefits from investing in green bonds and the lack of internal guidance and resources for such investments are two of key inhibiting factors, while only 9% indicated that the absence of regulatory guidance on green bonds is also an impediment. As a result, it appears that local regulatory agencies have been very successful in encouraging local institutional investors to make sustainable and responsible investments.

As the majority of green bonds are issued by corporations, the majority of investors prioritize credit rating when making investment

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**Figure 10: Key Motivations for Investing in Green Bonds**

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Most Relevant</th>
<th>Relevant</th>
<th>Not Relevant</th>
</tr>
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<tbody>
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<td>Diversify the investment portfolio</td>
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<td>75</td>
<td>8</td>
</tr>
<tr>
<td>Generate excess return (alpha)</td>
<td>24</td>
<td>99</td>
<td>6</td>
</tr>
<tr>
<td>Greater transparency</td>
<td>12</td>
<td>80</td>
<td>8</td>
</tr>
<tr>
<td>Improve the green image of the organization</td>
<td>36</td>
<td>61</td>
<td>3</td>
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<tr>
<td>Mandated or demanded by the investor</td>
<td>19</td>
<td>46</td>
<td>34</td>
</tr>
<tr>
<td>Opportunities to embed SDGs in investment strategy</td>
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<td>46</td>
<td>2</td>
</tr>
<tr>
<td>Perceived to be more stable and liquid</td>
<td>48</td>
<td>46</td>
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<td>Regulatory requirement</td>
<td>59</td>
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</tr>
</tbody>
</table>

SDG = Sustainable Development Goal.
Source: Authors’ compilation based on survey results.
decisions (Figure 12). Investors also consider the ESG impact of the bond and how the issuer intends to use the proceeds to benefit the environment as the second most important consideration. The majority of investors also believe that valuation and pricing are critical, and can aid them in making investment decisions. An external review of green bonds is one of the most crucial factors for investors to consider when making an investment decision, according to almost 95% of respondents. Since 2020, RAM Sustainability has served as the Climate Bonds Initiative-accredited green bond verifier for Malaysia and the ASEAN region.

To address these concerns, respondents were asked to select up to three options that, in their opinion, could promote the growth of Malaysia’s green bond market. Nearly 22% of responses recommended that the government

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**Figure 11: Main Obstacles Preventing Investors from Investing in Green Bonds**

Source: Authors’ compilation based on survey results.

**Figure 12: Key Considerations for Investing in Green Bonds**

Source: Authors’ compilation based on survey results.

ESG = environmental, social, and governance.

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implement a standardized green taxonomy to entice investors to hold more green bonds (Figure 13). Meanwhile, over 21% of respondents indicated that implementing tax incentives and/or subsidies would significantly assist investors in making green investment decisions. As previously stated, investors believe that the current domestic supply of green bonds issued in Malaysia is insufficient to meet demand, and there are numerous opportunities for prospective issuers to expand their investor base. The survey also explored which types of green bond issuers respondents would like to invest in. Local institutional investors indicated that they are most interested in sovereign green bonds, followed by issuances from financial institutions and corporate issuers (Figure 14).

**Figure 13: Policy Mechanisms That Would Increase Green Bond Investments**

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand from stakeholders</td>
<td>9</td>
</tr>
<tr>
<td>Promoting ESG reporting on stock exchanges</td>
<td>6</td>
</tr>
<tr>
<td>Requirement by law to allocate portfolio to green assets</td>
<td>6</td>
</tr>
<tr>
<td>Regulatory support and guidance from regulator</td>
<td>3</td>
</tr>
<tr>
<td>Penalties for investing in high-carbon assets</td>
<td>5</td>
</tr>
<tr>
<td>Preferential treatment of low-carbon assets by regulators</td>
<td>0</td>
</tr>
<tr>
<td>Tax incentives or subsidies for investors</td>
<td>2</td>
</tr>
<tr>
<td>Independent reviews of green bonds issuance framework</td>
<td>7</td>
</tr>
<tr>
<td>Standardization of green taxonomy</td>
<td>22</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
</tr>
</tbody>
</table>

ESG = environmental, social, and governance.
Source: Authors’ compilation based on survey results.

**Figure 14: Level of Local Investor Interest by Issuer Type**

<table>
<thead>
<tr>
<th>Issuer Type</th>
<th>Highly Interested</th>
<th>Interested</th>
<th>Low Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development bank</td>
<td>17</td>
<td>61</td>
<td>22</td>
</tr>
<tr>
<td>Financial institution</td>
<td>37</td>
<td>42</td>
<td>20</td>
</tr>
<tr>
<td>Municipality (provincial government)</td>
<td>7</td>
<td>61</td>
<td>32</td>
</tr>
<tr>
<td>Nonfinancial institution</td>
<td>36</td>
<td>48</td>
<td>17</td>
</tr>
<tr>
<td>Sovereign (government)</td>
<td>48</td>
<td>48</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation based on survey results.
For corporate issuers, nearly 30% of respondents believe that the renewable energy sector offers the greatest investment potential in Malaysia, followed by energy efficiency and water management (Figure 15). The sector breakdown of the respondents’ current portfolios of green assets is consistent with this finding.

All respondents emphasized the critical importance of government and regulatory policy clarity to increase private financing. Nearly 66% of respondents believed this to be the most important factor. Nonetheless, respondents indicated that a lack of policy clarity is not one of their primary obstacles (Figure 16).

Figure 15: Sectors with Most Potential for Green Bond Investments

![Figure 15: Sectors with Most Potential for Green Bond Investments](image)

Source: Authors’ compilation based on survey results.

Figure 16: Policy Options for Green Bond Market Development

![Figure 16: Policy Options for Green Bond Market Development](image)

Source: Authors’ compilation based on survey results.
When asked about their intention to invest in the region, approximately 50% of respondents indicated that they would like to do so. Singapore, Indonesia, and Thailand are the preferred investment destinations for those interested (Figure 18). When asked about...
the underlying currency, almost 75% of respondents prefer hard currencies such as the United States dollar, euro, and Singapore dollar (Figure 19).

**Advisors and Underwriters**

This section examines the interest of potential green bond issuers, the most promising economic sectors, and the various types of potential issuers based on responses from local advisors and underwriters.

The survey began by inquiring about clients’ interest in issuing green bonds. The responses indicated that their clients are generally interested in green bond issuance and are developing plans in this regard. Several clients have already issued green bonds, while others are exploring the possibility but lack the necessary resources or awareness. This may be an area where development partners such as ADB can assist interested entities with technical assistance and capacity building. This would help fill the void by increasing market issuances, thus enabling issuers to apply for the SRI Sukuk and Bond Grant Scheme. However, almost 20% of respondents indicated that their clients are not currently interested in issuing green bonds (Figure 20).
In terms of issuance size, 33% of respondents indicated that the optimal issuance size for green bonds ranges from USD51 million to USD100 million, and another 33% of respondents answered more than USD100 million. Meanwhile, 17% of respondents shared that the optimal deal size should be less than or equal to USD10 million and another 17% of respondents indicated USD75 million and above (Figure 21). More than 67% of respondents mentioned that their clients prefer issuance of green bonds in Malaysian ringgit.

Respondents indicated that renewable energy, energy efficiency, water management, and waste management and the circular economy are the sectors with the greatest potential for green bond market growth over the next 3 years (Figure 22). This finding is consistent with the perspectives of institutional investors, the current composition of their green asset portfolios, and the future investment potential of these sectors.

When asked why clients should issue green bonds, all respondents believe that it could improve the green image of the organization, attract new investors, and provide an opportunity to incorporate ESG as part of the corporate DNA (Figure 23). This is consistent with the motivations of institutional investors to invest in green bonds, particularly the opportunity for greater investment diversification. Additionally, more than 80% of respondents believed that (i) investor or lender mandates and (ii) an increase in corporate disclosure are the key drivers to increasing issuance of green bonds.

Concerning obstacles to growth, the majority of respondents identified a lack of eligible project pipelines as a clear impediment to their clients’ issuing green bonds (Figure 24). This could...
partly be due to a lack of understanding of eligible projects, assets, or expenditures that align with international and regional green bond standards and practices. Advisors and underwriters may be able to assist clients in identifying potential green projects for green bond issuance if they have a deeper understanding of how green projects are identified. Other significant impediments include the lack of awareness about green bonds as well as the absence of any clear benefit of green bonds over conventional bonds such as lower funding costs. Nonetheless, a few issuers in Malaysia have pioneered the issuance of green bonds and sukuk, setting a good example for other issuers to follow. For example, Cagamas Berhad, Malaysia’s largest corporate bond issuer, has issued a series of sustainability bonds in the local market. Box 2 summarizes Cagamas’ experience, challenges, and observed benefits.
Cagamas Berhad (Cagamas), the National Mortgage Corporation of Malaysia, was established in 1986 by the Bank Negara Malaysia and a consortium of financial institutions as shareholders to support the national agenda of increasing home ownership and affordability through the provision of competitively priced liquidity in the secondary mortgage market in Malaysia.

Cagamas issues highly rated corporate bonds and sukuk (Islamic bonds) to finance the purchase of eligible housing loans from financial and nonfinancial institutions. The company is one of the largest corporate bond and sukuk issuers in Malaysia’s capital market.

In 2019, Cagamas established the Sustainability Bond and Sukuk Framework under its MYR60 billion Medium-Term Note Programme as part of an initiative to spearhead the development of Malaysia’s debt capital market and promote Islamic finance through the issuance of ASEAN Sustainability Bonds and ASEAN Sustainability SRI Sukuk. Cagamas also recognized its responsibilities to the environment and Malaysian society as affordable housing in relation to sustainable development has always been Cagamas’ core priority. Hence, Cagamas’ sustainability framework is a step toward reaffirming and deepening Cagamas’ mission and raising awareness among the community about the importance of sustainable development—that is, development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Cagamas faced various challenges in working toward the issuance of sustainability bonds and sukuk. Among the early major challenges it faced were

- building awareness and changing the mindset of internal and external stakeholders,
- breaking down the complexity and eliminating misperceptions of issuance requirements and processes,
- establishing and implementing operational and reporting processes for sustainability initiatives,
- lack of industry tagging of assets to identify and secure sustainable assets,
- lack of standardized definitions of green housing and affordable housing, and
- potential noncompliance with sustainability standards that could pose reputational risk.

These challenges helped to raise awareness of sustainability among Cagamas’ internal and external stakeholders. In response, Cagamas developed a Corporate Sustainability Framework to embed sustainability across its business model, operations, and planning.

To date, Cagamas has issued a total of MYR1.25 billion (USD280 million) of sustainability capital market instruments—comprising MYR700 million of ASEAN Sustainability Bonds, MYR400 million of ASEAN Sustainability SRI Sukuk, and MYR150 million of ASEAN Social SRI Sukuk—to fund the purchase of loans and financing related to affordable homes, small and medium-sized enterprises, renewable energy, and wastewater management.

From investors’ perspective, asset managers are adapting and incorporating impact investing and environmental, social, and governance factors to measure investment performance, which creates growing demand for sustainability bonds and sukuk. Cagamas’ sustainability bond and sukuk issuances have offered an alternative option for investors to meet their sustainable and responsible investment objectives. This can potentially result in better pricing for sustainability bond and sukuk issuances in the future.

Source: Cagamas.
Respondents were then asked to identify the policy mechanisms that would increase green bond issuance in Malaysia. The majority of respondents indicated that increased investor demand as well as tax incentives or subsidies for green bond issuers and investors would be the primary factor to consider, followed by preferential treatment of low-carbon assets by investors and lenders (Figure 25). While standardizing green taxonomies could provide clarity for green projects, only 10% of respondents identified this as a critical issue.

When asked about potential investors, nearly 70% of respondents believed that local financial institutions, fund managers, and development partners could significantly contribute to the development of the local green bond market by investing in green bonds issued by their clients. Meanwhile, all respondents agreed that insurance companies and the social security fund could also invest in green bonds (Figure 26).

**Figure 25: Key Drivers for Green Bonds Issuance**

- Availability of local reviewer or verifier: 5%
- Demand from investors: 25%
- Demand from stakeholders: 5%
- Preferential treatment of low-carbon assets by investors and lenders: 20%
- Promoting ESG reporting on stock exchanges: 10%
- Standardization of green taxonomy: 10%
- Tax incentives or subsidies for green bond issuers: 25%

ESG = environmental, social, and governance.
Source: Authors’ compilation based on survey results.

**Figure 26: Preferred Investors in the Green Bond Market**

- Asset managers: 33%
- Development bank: 33%
- Financial institutions: 33%
- Insurance companies: 67%
- Pension funds: 83%
- Social security fund: 17%

Source: Authors’ compilation based on survey results.
In contrast to institutional investors, underwriters and advisors believe that an increased pipeline of eligible projects for green bond issuance and preferential purchasing by central banks, pension funds, and insurance companies are necessary to further develop Malaysia’s green bond market (Figure 27). These distinctions could be explained by the fact that local regulators, most notably the SCM and BNM, have promulgated clear regulations and guidelines to facilitate green bond issuance in Malaysia, as well as the introduction of a principle-based taxonomy that sets out guidance for financial institutions to identify green assets that may be subject to climate risks. On the other hand, underwriters and advisors may believe that local institutional investors—particularly pension funds, social security funds, and insurance companies—should communicate their commitments clearly. One good example is the introduction of the Sustainable Investment Policy of the Employees Provident Fund (EPF) in March 2022. The policy explains the EPF’s overall approach to sustainable investing and the integration of ESG factors into its investment processes.\(^{17}\) As part of this initiative, the EPF will introduce a sustainable savings option to allow members to manage their investments according to their personal values.\(^ {18}\)

All respondents agreed that the SRI Sukuk and Bond Grant Scheme established by the SCM to encourage the issuance of SRI sukuk and sustainable bonds is highly relevant to the growth of the green bond and sukuk market in Malaysia.

In terms of capacity building, all respondents believe that investors and asset managers would benefit from training to better understand green bonds and the reason for them to be included in their investment strategy (Figure 28). In addition, all respondents believe that board members of state-owned enterprises should

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**Figure 27: Preferred Policy Options for Green Bond Market Development among Advisors and Underwriters**

<table>
<thead>
<tr>
<th>Policy Option</th>
<th>Most Relevant</th>
<th>Relevant</th>
<th>Not Relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centralized information platform</td>
<td>33</td>
<td>67</td>
<td>0</td>
</tr>
<tr>
<td>Clear “green” definition</td>
<td>50</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Default choice for new pension fund account holders</td>
<td>50</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Increase pipeline of eligible projects for green bond issuance</td>
<td>83</td>
<td>17</td>
<td>0</td>
</tr>
<tr>
<td>Policy clarity from governments and regulators</td>
<td>83</td>
<td>17</td>
<td>0</td>
</tr>
<tr>
<td>Preferential buying by institutional investors</td>
<td>67</td>
<td>33</td>
<td>0</td>
</tr>
<tr>
<td>Streamlined cross-border fundraising framework</td>
<td>50</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Subsidy for transaction costs for labeled bonds or loans</td>
<td>50</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Tax incentives for issuers and investors</td>
<td>50</td>
<td>50</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation based on survey results.

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receive training, as state-owned enterprises could serve as a leading example in promoting green bond issuances in Malaysia, thereby increasing the domestic market’s supply of green bonds. All respondents agreed that deal teams within investment banks and securities firms, as well as CFOs of large corporations and listed companies, require training as well.
Respondents identified several ways in which ADB could assist the Malaysian green bond market’s development. These beneficial recommendations can be classified as follows.

### As a Knowledge Partner

The majority of respondents indicated ADB could provide technical and knowledge support to potential green bond issuers, including with the preparation of the framework, identification of projects, and development of an internal control system for monitoring of proceeds allocation and impact reporting purposes (Box 3).

In addition, respondents indicated that ADB should continue promoting the importance and benefits of green bonds, not only in Malaysia but throughout the region. ADB could compile successful green bond case studies and share them with potential issuers so they can consider these cases when preparing to issue a green bond.

One respondent suggested that ADB help provide clarity on the green bond issuance process and increase knowledge and awareness among relevant stakeholders in Malaysia—including potential issuers, capital market intermediaries, institutional investors, and the general public—by organizing capacity-building events in collaboration with local stakeholders in Malaysia such as relevant industry associations. In addition to organizing Malaysia-specific events, a number of respondents proposed the organization of knowledge-sharing events across ASEAN so that they can also learn from the experiences of regulators and issuers in other economies.

Information accessibility was emphasized by a number of respondents. For example, ADB could provide details on current green bond issuers and their green bond features on a centralized platform in cooperation with local regulators. Additionally, respondents suggested that ADB provide regular updates on the regional green bond market’s development.

One respondent shared that ADB can help governments to design financing solutions that make infrastructure projects more bankable and accessible for private sector capital. Moreover, the respondent suggested the adoption of Islamic financing principles in green finance, which would widen the investor base for infrastructure projects.
Box 3: The Asian Development Bank’s Technical Assistance to Support Malaysian Issuers and Underwriters

The Asian Development Bank (ADB) is implementing a regional technical assistance (TA) program to develop an ecosystem for sustainable local currency bond market development in Association of Southeast Asian Nations plus the People’s Republic of China, Japan, and the Republic of Korea (ASEAN+3). Under the guidance of ASEAN+3 finance ministers and central bank governors, this TA was developed and implemented in accordance with the ASEAN+3 Asian Bond Markets Initiative’s (ABMI) Medium-Term Road Map for 2019–2022.

The TA project’s objective is to improve a sustainable finance ecosystem in the ASEAN+3 region, including Malaysia, and advance Malaysia as a regional sustainable finance hub. One of the main activities is to increase awareness of sustainable bonds among key capital market participants. In 2021, the Securities Commission Malaysia was invited to share its perspective in the keynote address at a regional webinar on scaling up sustainable finance co-organized by ADB and RAM Sustainability. The webinar aimed at creating greater awareness of green finance among local stakeholders and disseminating information on RAM Sustainability’s verification service under the Climate Bonds Standards.

Another key TA activity is to provide hands-on support to prospective issuers and underwriters to facilitate the issuance of sustainable bonds in Malaysia—from identifying eligible projects, assets, and expenditures to preparing green, social, and sustainability bond frameworks and conducting discussions with external reviewers.

ADB would be happy to provide free consultation and technical hands-on support to Malaysian companies wishing to issue sustainable bonds in Malaysia or to expand fundraising opportunities around the region using green, social, or sustainable bonds.

Source: ADB.

As an Investor, Issuer, and Guarantor

ADB can also serve as an anchor investor to spur the growth of the green bond market. The respondents suggested that in addition to serving as an anchor investor, ADB should offer credit guarantees on green bonds issued by their clients. This would greatly enhance credit ratings and enable issuers to draw in new investors. One respondent mentioned the Credit Guarantee and Investment Facility as an additional potential mechanism for assisting smaller businesses with small-scale projects and limited track records in issuing green bonds.

Finally, in addition to investing in green bonds, ADB could consider providing loans to entities as a way to improve their creditworthiness before accessing the bond market.
Survey respondents were asked to give some final words on green bond market development in Malaysia. The following are a few highlights:

Supply

- A regional green bond fund that invests in renewable energy across ASEAN would be a good starting point for this region.
- There is a lack of green bond supply in the market now. The governments should encourage potential bond issuers to issue green bonds by providing them with various incentives.
- The green bond market is still very much nascent and requires a lot of effort to convince issuers to opt for green bonds (especially corporates), considering the additional cost involved and no real savings on yield in relation to conventional bonds.
- Bond market growth has been rather slow due to a lack of incentives from regulators as well as a lack of interest among the private sector.

Demand

- Regional cross-border investments should be encouraged for medium-sized banks, not just the major banks and bigger institutional funds.
- The demand side is progressing faster, which creates a mismatch between the demand for and supply of green bonds.

Market Development

- The region is starting at a low base and there are tremendous opportunities and low-hanging fruit to pluck to expand the market as a proportion of total debt and capital markets. Stakeholders in both the supply and demand for green, social, and sustainability instruments will have to level up their agendas and move in tandem with stronger commitments to accelerate activities in sustainable financing.
- The market needs increasing support, for example, by encouraging issuance of more quality rated green bonds, ensuring some liquidity (tradability), and developing a robust governance framework.
- The government’s determination and contributions are very much needed in the beginning stage of stepping up a systemic and investor-friendly framework to access green and ESG issuer information.
- We need a top-down approach (i.e., clear guidelines and ESG compliance at the issuance level and a standardized rating approach for ESG compliance) if possible.
- More tax incentives are needed for the issuance of green bonds. In addition, the bond issue must have a good credit rating.
- Governments and regulators should prioritize green bonds with the benefit reflected in optimized capital charges below that of conventional bonds.
- Green bonds are the future as ESG is no longer optional; companies need to be ready for the issuance of green bonds.
- A more collaborative approach is needed to align the interests of all stakeholders, regulatory commitment, and policy options to incentivize green investment.
- A standardized taxonomy and disclosures for green bonds is necessary, including having an external reviewer for green labeling, as well as enhanced information on green bonds via common bond platforms.
- We need to work together to expedite the practice of sustainable finance for future generations.
This survey revealed that the majority of respondents are committed to becoming more environmentally friendly, both from an investor and underwriter perspective. Meanwhile, some investors are yet to have exposure to green bonds. Thus, additional efforts are required to create more awareness and technical expertise among local stakeholders, particularly in terms of capacity building and expansion of the eligible project pipeline and issuer base. This is where development partners can play a role to support sustainable finance market development in Malaysia.

The renewable energy, water management, and energy efficiency industries currently dominate Malaysia’s green bond market. In addition to having sizable positions in investor portfolios, these industries have the potential to accelerate the development of Malaysia’s green bond market over the next 3 years. It is essential to assist businesses from other sectors to provide issuers with more funding options and investors with more investment opportunities.

As Secretariat of the ABMI, ADB will continue to work closely with local regulatory bodies to establish and strengthen the ecosystem necessary for Malaysia’s sustainable finance market development, including capacity building, the publication of guidance notes and handbooks, and technical assistance to issuers on their sustainable finance journey.
Green Bond Market Survey for Malaysia
Insights on the Perspectives of Institutional Investors and Underwriters

This publication provides an overview of institutional investors’ interest in green bonds issued in Malaysia, along with an assessment of the perspectives of local arrangers and underwriters on their clients’ interest in green bond issuances. It presents the results of a survey to help identify drivers, impediments, and development priorities for Malaysia’s sustainable finance market. The findings and insights presented in this publication are intended to inform how the Asian Development Bank and other partners could further support the market’s development.

About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.