Green Financing Issues In Malaysia

Financing via carbon trading has been somewhat effective in its early use as part of the Clean Development Mechanism policies. This is essentially financing through other richer countries receiving emission credits in exchange for investments in projects within developing countries that would lower GHG pollution. Examples of this project's success include the Air Hitam Sanitary Landfill power generation which takes advantage of the biogas produced from idle landfills; but more importantly the Takon Palm Oil Mill in Sabah. It has an "annual input capacity" of 129,600 meters cubed/year Palm Oil Mill EFBs. Not only can this amount to a "monetary value" of US$2 million annually on average but will reduce the threat of methane being released as an externality of palm oil production.

In theory, however this does not promote sustainability for the recipient of the emission credits in richer countries as they are purchasing their way out of reducing their own GHG pollution. Barring ethics into consideration, carbon trading can lead to more renewable projects for a green economy. Funding is also derived from the Green Technology Financing Scheme along with support from Islamic banks. The GTFS secures promising green projects by providing 60% of the financial requirements with a low 2% interest rate, to reduce the risk for financial institutions. In addition, this is a serious effort by the Malaysian government as the scheme was planned to allocate RM 3. 5 billion(US$850 million) into sustainable projects, which would also encourage further borrowing from banks.

This was successful as within 3 years of the scheme, there had been 109 projects funded. [24] As an Islamic country, Malaysia can take advantage of Islamic banking to further reduce the risk of green projects by splitting the profits through Mudarabah and Musharakah deals, allowing the bank and the entrepreneur to provide assets with both parties reaping the profits; also using banking expertise for "profit generation and financial management," necessary for green projects that require extended time periods to solidify the value of its returns as an investment. Furthermore, it is a pro-Islamic belief that the environment should be well maintained, which could (although unlikely) influence Islamic banks' decisions. However, the green market is hindered by the lack of coordination with experts in that field with financial institutions causing information asymmetry.

Sustainable projects are relatively still a young industry(especially within Southeast Asia) where financial institutions may be uncomfortable in contrast to funding traditional businesses with expected returns. But, it can be expected that this obstacle can be bypassed as more nations familiarise themselves with methods of reducing CO2. In tandem, funding for green projects can thus be independent of financial problems within the current economy; should it be successful in execution, financial institutions could eventually produce a suitable funding structure for green projects, with enough experience. This proves to be a critical core in sustaining a functioning green economy.