3rd Working Group Session of the
Facilitative, Multilateral Consideration of Progress at SBI64

10, 12 and 13 June 2026

Written responses by Malaysia

Question by the Philippines

Can you share what are the institutional, technical, or regulatory challenges Malaysia has encountered in developing its national carbon market policy, and what lessons have emerged from the process?

Response

While developing its National Carbon Market Policy (DPKK) and broader climate strategies, Malaysia has navigated several critical institutional, technical, and regulatory challenges, which have led to important strategic lessons.

Institutional and Technical Challenges

- The sheer complexity of establishing a compliance carbon market and implementing the carbon market frameworks, which balance both compliance and voluntary markets, requires a level of capability that Malaysia's key institutions (banking, regulators etc.) and industry partners (project owner, developers) had not yet fully accounted for. Thus, the readiness of these key stakeholders may vary. For the finance sector especially, Malaysia realized it cannot finance this transition without banking professionals who truly understand project bankability and transition asset financing (moving from conventional financing to one that employs low-carbon technology, which also involves using carbon credits).
- As a developing nation, Malaysia's economy remains reliant on energy-intensive sectors, complicating the timeline for peak greenhouse gas emissions and overall planning to deploy carbon market;
- Establishing a credible system for both voluntary and compliance carbon markets requires a robust, data-backed ecosystem to ensure that every single tonne of carbon traded or reduced is built on integrity and trust. This element involves the registry, tracking system etc.
- Achieving the country's most ambitious conditional emission reductions (an additional 10 million tonnes of carbon dioxide equivalent) remains technically and financially challenging without international partnerships for finance, technology transfer, and capacity building. Although Malaysia has signed with ROK and Singapore, the implementing agreement is still in process. For PACM and CORSIA, it is the first time for Malaysia to undergo the process to authorize.

Regulatory Challenges

- Ensuring that national policies like the National Climate Change Policy 2.0 (DPIN 2.0) and the carbon market frameworks under the National Carbon Market Policy are actually enforceable requires the landmark legislation Climate Change Bill, which is still being finalised.

Lessons Emerged from the Process

- Success ultimately comes down to whether stakeholders fully understand the carbon market and how to implement it on the ground. Through the engagement process and dialogue, issues are discussed, and actions are taken.
- The government recognized that no single institution can build national capability in isolation. This led to strategic collaborations, such as integrating the Malaysia Green Technology and Climate Change Corporation (MGTC) and Malaysia Forest Fund (MFF) as the interim agency to review applications while Malaysia establishes its own specific climate change entity to regulate the climate change bill.
- To guarantee accountability and transparency, Malaysia learned it must enshrine its climate and carbon market commitments into law. This realization drove the ongoing finaization of the Malaysia Climate Change Bill, which acts as the regulatory backbone to enforce these initiatives.