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22 September 2022

YBhg. Dato' Shahrol Anuwar bin Sarman,
Director, National Budget Office
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BY EMAIL

CPA Australia's submission to the Malaysian Government's 2023 Budget – Sustainable Financing Framework

CPA Australia is one of the largest professional accounting bodies in the world, with more than 170,000 members in over 100 countries and regions, including more than 10,500 members in Malaysia. We make this submission on behalf of our members and in the broader public interest.

As an organisation with a presence of over 65 years in Malaysia, CPA Australia is invested in contributing to the nation's long-term success.

We appreciate the government's efforts to improve the transparency of the annual budget preparation process through its and open consultation. In this submission, we highlight several policy considerations to aid the development of the 2023 Budget in regards to the consultation on Sustainable Financing Framework.

If you have any questions about this submission, please contact me at priya.terumalay@cpaaustralia.com.au or Azfar Asa'ad, Technical Advisor at azfar.asaad@cpaaustralia.com.au.

Yours sincerely,

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1. **The government is looking to restructure its spending to support financing for sustainable development to achieve its SDG, net zero/carbon neutral goals. What other initiatives/improvements on current initiatives that can be done to achieve this goal?**

   We support the government's approach to align its spending with the sustainability development goals. We however note that achieving these goals would require a collaborative and joined-up approach between various stakeholders including government, the business sector and society more broadly.

   When looking at pursuing net zero / carbon neutrality, we urge the government to ensure that a deep understanding of these concepts is provided. This is in recognition of the fact that, although broadly the same, net zero would require a focus on abatement, whereas carbon neutrality would allow a much broader use of offsetting. This is an important distinction, as it would require different approaches and different corporate and individual decision-making.

   We also recognise that a move towards a lower carbon state would potentially lead to a decline or phasing out of certain industries, while at the same time providing enormous opportunities for growth and development in others. Where industries are negatively impacted provision should be made for re-training and up-skilling with a view towards potential re-deployment and the safeguarding of livelihoods.

   We also believe that technology would be invaluable in delivering a lower carbon world. Some of these technologies already exist, whereas others would require substantial investment and rapid development. Development costs may be high, and given the innovation required, may command higher risk premiums. This would require government to work alongside investors to provide a sufficient stream of funding to enable delivery.

   The transition to a lower carbon state would also not be linear, and allowance should be made for the fact that, although in the short to medium-term, there may be some variability in pursuing carbon reductions (within reasonable limits), the longer-term trajectory should be front of mind when gauging the true progress towards a net zero or carbon neutral state.

2. **What other sources of financing (internally/externally sourced) that can be proposed to improve financing for the sustainable development of the nation?**

   We acknowledge that the amount of financing required for new technology would not necessarily match availability of investment in any particular jurisdiction. This is unfortunately the result of several years of global inaction or lack of movement. It is our view that international cooperation may be of critical importance and jurisdictions would need to position themselves as attractive, from an investment perspective, on an international stage.

   However, we also acknowledge the global economic inequalities and disparities between the actions taken by the largest emitters. Against this reality we are of the opinion that emerging economies could potentially benefit substantially from a move towards economies that derive competitive advantage from lower carbon states. We are also aware that Southeast Asia possesses some of the largest carbon sinks in the world. The importance of this region towards limiting global warming to below 1.5o should not be understated.

   We are aware that other developing economies utilise structured products such as green bonds to support investment. Considerations with respect to the use of such products are complex, least of which being the impact on the sovereign risk of governments, regulation and the creation of a robust marketplace.

3. **What areas should the government focus on to ensure the success of the financing program or other projects linked to SDG, net zero/carbon neutral goals of the nation?**

   As a professional accounting body we support fair, responsible and transparent investment. Without providing detailed explanations of our views on individual metrics and measures of success, we highlight some key considerations.

   - Transparency: We are aware that although sustainable investments are highly sought after, the nature of these investment vehicles to support acting for the greater good would arguably require an even higher level of transparency and reporting.

Risk: Where governments utilise bond markets as a funding mechanism this would require prudent, credible, and verifiable onward investment of the capital generated through such vehicles. The systemic risk of an investment failing to stand up to assurance or other external scrutiny should not be underestimated.

Returns: We note that irrespective of the desire to invest for the greater good, investors would ultimately desire a return that compensates them for the corresponding level of risk that they have taken on.

Diversity: We also note that investing should not follow a 'one size fits all' approach. Investments in projects such as carbon sinks, for example, and their appeal for global offsetting may be more suitable for certain investment vehicles such as carbon credits or green bonds. Investments in emerging technologies, given their uncertainty, may be more attractive to venture capital. Striking an appropriate balance for a national portfolio of investments would therefore be key.