



# Renewables in the post- COVID-19 recovery package of Malaysia



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THIS ANALYSIS IS PART OF A [COMPILATION OF RECOVERY PACKAGE ANALYSES](#) AND AIMS AT EXPLORING THE ROLE OF RENEWABLES IN POST-COVID19 RECOVERY SCHEMES. AS A SERIES, THIS RESEARCH IS CONDUCTED CONTINUOUSLY AND WILL BE ADDED TO, ONCE INFORMATION IS AVAILABLE.

## Introduction

Malaysia was one of the earliest countries to have witnessed the outbreak of the COVID-19 pandemic. Being a global tourism hub, the disruption, the global lockdown and restrictions on travelling have severely hit the Malaysian economy. The Malaysian GDP tumbled to -17% in the second quarter of 2020 compared to 4% in the corresponding quarter of 2019<sup>1</sup>.

The country is further known to rely heavily on petroleum. As a signatory to the Paris Agreement, Malaysia has committed to a reduction of greenhouse gases by 45% by 2030. Of these, 35% are unconditional, whereas the remaining 10% depend upon additional climate finance, technology transfer, and capacity building measures from developed countries. Only 8% of its energy generation is from Renewable Energy (RE)<sup>2</sup>. More recently, however, Malaysia has introduced many initiatives supporting RE like feed-in-tariff (FiT), net energy metering (NEM), large-scale solar (LSS), self-consumption (SELCO).

The renewable energy industry has been badly affected by the pandemic: projects were delayed or halted altogether. Similarly, parallel industries like electric vehicles, heating, cooling, etc. also got affected. In a move to revive the pandemic stricken RE industry, the Malaysian government launched a 1 GW solar tender worth 4 billion Malaysian Ringgit (USD 927 million) in investment.<sup>3</sup> Simultaneously, some of Malaysia's biggest financing institutes are increasingly moving away from coal. Malaysia's second-largest lender, CIMB Group Holdings Bhd, announced in December 2020 that it plans to phase its portfolio out from coal by 2040. Its 'Coal Sector Guide' will prohibit asset-level or general corporate financing for new thermal coal mines and coal-fired power plants, as well as expansions. Excluded are already existing commitments.

## Malaysia's recovery package

While the pandemic has made us rethink the business-as-usual scenario, the nations have woken up to the realisation that building resilience to such external shocks should be a priority. Be it a pandemic, extreme weather events, or natural disasters. Pegged at RM322.5 billion (USD 80 billion), Malaysia released its largest budget in history in November 2020 aiming at meeting the immediate need of the nation to stand up above the economic slump brought on by the pandemic. With the

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<sup>1</sup> Asia Fund Manager, "Malaysia economy under pandemic pressure"  
<https://www.asiafundmanagers.com/int/malaysia-economy/>, published on 14 September 2020, accessed on 04 December 2020.

<sup>2</sup> Mahesh Vaka, [Rashmi Walvekar](#), Abdul Khaliq Rasheed, and Mohammad Khalid, NCBI, "A review on Malaysia's solar energy pathway towards carbon-neutral Malaysia beyond Covid'19 pandemic" [A review on Malaysia's solar energy pathway towards carbon-neutral Malaysia beyond Covid'19 pandemic \(nih.gov\)](#), published on 10 November 2020, accessed on 04 December 2020.

<sup>3</sup> PV Tech, "Beyond COVID: Malaysia's pandemic recovery plan and renewables records tumble in Europe" [Beyond COVID: Malaysia's pandemic recovery plan and renewables records tumble in Europe | PV Tech \(pv-tech.org\)](#), published on 05 June 2020, accessed on 04 December 2020.

slogan of “Resilient as One, Together We Triumph” the government has expressed its commitment to a rapid economic recovery.

The budget includes several tax incentive measures<sup>4</sup> that focus on attracting new investments in Malaysia to increase the liquidity of the local market. Despite the fact that the government has seen a deficit in its tax collection due to the coronavirus, the budget does not propose introducing any form of new taxes, as taxpayers are still grappling with the impact of COVID-19<sup>5</sup>. While there is no focus sector for the tax incentives, this measure could attract new investments in large scale solar as well as other renewable technologies. In addition, the package includes financial support for an apprenticeship programme which aims to increase jobs for younger generations. This is expected to encourage the entry of skilled labour into the renewable industry.<sup>6</sup> Further, the incentives for Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) will be exempted till 2023.<sup>7</sup>

Beyond financial incentives, the government tries to attract sustainable investments through the launch of its first Sustainability Bond in Malaysia in 2021.<sup>8</sup>

## The 1GW recovery tender

The 1GW solar tender, launched by the Ministry of Energy and Natural Resources, is the country’s biggest solar tender so far. It aims to strengthen the COVID-ridden RE sector while achieving its emission reduction target under the Paris Agreement.

In previous years, the Large-Scale Solar (LSS) scheme saw bidders engaging in solar tender processes. The first round auctioned 250MWac, the second 563MWac, and the third 500MWac. To encourage participation, the 1GW recovery tender is split into two packages of 500MWac each. The first package will auction a capacity between 10MW to 30MW and the second package 30 to 50MW.<sup>9</sup> The tender seeks to create about 12.000 new jobs in the coming years and increase stable electricity access.

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<sup>4</sup>KPMG, “Malaysia: Tax developments in response to COVID-19”

<https://home.kpmg/xx/en/home/insights/2020/04/malaysia-tax-developments-in-response-to-covid-19.html>, published on 02 December 2020, accessed on 04 December 2020.

<sup>5</sup> Hooi Beng, Deloitte News Feed, “Highlights of Budget 2021 include incentive measures to attract foreign investment” [Deloitte | tax@hand \(taxathand.com\)](#), published on 13 November 2020, accessed on 04 December 2020.

<sup>6</sup> Ibid.

<sup>7</sup> SEDA Malaysia website, “Other Related Fiscal Incentives” [Other Related Fiscal Incentives – SEDA](#), accessed on 04 December 2020.

<sup>8</sup> BDO Tax Services SDN BDH, Malaysia Budget 2021 Highlights, [MALAYSIA: 2021 BUDGET HIGHLIGHTS. Resilient As One. Together We Triumph - PDF Free Download \(docplayer.net\)](#), published November 2020, accessed on 04 December 2020.

<sup>9</sup> New Strait Times, “Malaysia opens RM4 bil bid for 1GW of solar plants” [Malaysia opens RM4 bil bid for 1GW of solar plants \(nst.com.my\)](#), published on 07 June 2020, accessed on 04 December 2020.

The fourth Round specifically focuses on COVID recovery and aims to expedite the bidding process and give local solar entrepreneurs a competitive edge by:

- preferring local bidders. Only 100% locally incorporated firms or businesses listed with at least 75% of their shares on Malaysia's stock exchange will be able to bid<sup>10</sup>.
- Commissioning of these plants must be completed by 31st December 2023<sup>11</sup>.
- In order to rapidly bring in the liquidity in the market, the bid submission deadline for LSS4 had been reduced from six months to three months<sup>12</sup>.
- No reference price has been disclosed for the bids. The bidding price during the third round is between 17sen to 58sen/kWh<sup>13</sup>. It is expected that the price can go close to LSS3.

## Conclusion

Overall, the 1GW remains the highlight of the COVID Recovery Stimulus Package which is said to bring in investments in Malaysia and boost the business in the renewable energy sector. The focus on local participation was welcomed broadly.

With the right combination of the financial stimuli measures, new regulations, and local, active participation in the bidding, the business is bound to bounce back but might take some time to regain its pre-pandemic spark.

However, the strength of small and medium scale industries to participate in the process is unclear. These industries provide the majority of rooftop solar PV installations and have been hit comparatively hard by the supply chain disruptions caused by the effects of the COVID-19 pandemic. Unfortunately, the recovery measures leave out the rooftop PV sector altogether. In addition, wind and mini-hydro projects which have recently been gaining momentum in Malaysia are also excluded.

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<sup>10</sup> Jose Rojo Martin, PV Tech, "Malaysia eyes pandemic recovery with 1GW new solar tender" [Malaysia eyes pandemic recovery with 1GW new solar tender | PV Tech \(pv-tech.org\)](#), published 01 June 2020, accessed on 04 December 2020.

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> New Strait Times, "Malaysia opens RM4 bil bid for 1GW of solar plants" [Malaysia opens RM4 bil bid for 1GW of solar plants \(nst.com.my\)](#), published on 7 June 2020, accessed on 04 December 2020.