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Letter to the Editor

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**A Stronger Sustainable Finance Taxonomy is Needed for Our Forests,  
Biodiversity and Community Rights**

The recent effort to update the Malaysia Taxonomy for Sustainable Finance, a classification system for projects based on environmental and social criteria, falls short of adequately protecting forests, biodiversity and safeguarding the rights of indigenous peoples and local communities.

Sahabat Alam Malaysia (SAM) took part in the public consultation on the draft Malaysia Taxonomy for Sustainable Finance held from March to April 2026 by Bank Negara Malaysia and the Securities Commission Malaysia.

While there is some progress compared to the previous version, the proposed taxonomy remains weak in addressing forest protection and upholding the rights of indigenous peoples and local communities.

Based on our [new research](#)<sup>1</sup>, SAM has three main demands to strengthen this taxonomy for financial institutions.

**1. Involve the people actually affected**

It is telling that the regulators directed all 30+ feedback questions to financial institutions, focussing largely on data and implementation considerations, while not a single query was addressed to NGOs or affected communities.

We urge the Malaysia Taxonomy for Sustainable Finance Taskforce to hold **dedicated consultations with indigenous peoples and local communities** and formally include representatives from grassroots civil society organisations (CSOs) and community-based organisations (CBOs). Financial institutions must be required to incorporate CSOs and community inputs in due diligence for forest-risk sectors.

**2. Make Free, Prior and Informed Consent (FPIC) mandatory**

The current draft allows companies to obtain "green" financing if they have a broad corporate human rights policy, even if a specific local project violates community rights. That is a huge loophole.

We stress that environmental and social **safeguards have to be checked at project level**. Importantly, financial institutions must require their clients to respect the right of indigenous peoples to give or withhold

FPIC at any stage of project planning and implementation. Clear channels for affected people to report grievances or greenwashing must be set up at every financial institution.

### **3. Have a Malaysia-specific Red List**

Malaysian financial regulators aim to align with the ASEAN standard. But that regional framework does not have a clear "red" category to block funding for problematic agricultural and forestry projects.

We need a **Malaysia-specific Red List** that automatically blocks financing for the worst offences. This includes clearing forests, draining peatlands and encroaching on indigenous customary territories. If an activity destroys our Environmentally Sensitive Areas or violates human rights, financial institutions should not be allowed to finance it under any circumstances.

### **4. Give the rules some teeth**

Finally, a taxonomy without penalty is merely aspirational. For it to drive real change instead of just greenwashing, regulators need to introduce mandatory, binding rules. Financial institutions that misclassify environmentally destructive projects or ignore biodiversity risks must face serious sanctions. The problem of ESG greenwashing has been widely recognised, including by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) which emphasises that effective regulatory oversight and robust verification mechanisms are crucial to prevent it.

For SAM's full comments on the Malaysia Taxonomy for Sustainable Finance, please see our [blog post here](#)<sup>2</sup>. We urge the regulators to consider and adopt the recommendations in [SAM's Regulating Finance for Forests and Community Rights in Malaysia \(February 2026\) report](#)<sup>3</sup>.

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**President**  
**Sahabat Alam Malaysia**

<sup>1</sup>Sahabat Alam Malaysia. (2026, February 26). Regulating Finance for Forests and Community Rights in Malaysia. [https://foe-malaysia.org/wp-content/uploads/2026/02/260226\\_SAM\\_Regulating-Finance-for-Forests-and-Community-Rights-in-Malaysia-report\\_F.pdf](https://foe-malaysia.org/wp-content/uploads/2026/02/260226_SAM_Regulating-Finance-for-Forests-and-Community-Rights-in-Malaysia-report_F.pdf)

<sup>2</sup>Sahabat Alam Malaysia, "SAM Comments: Safeguarding Forests and Community Rights in Malaysia's Sustainable Finance Taxonomy," May 15, 2026, <https://foe-malaysia.org/articles/sam-comments-safeguarding-forests-and-community-rights-in-malaysias-sustainable-finance-taxonomy/>.

<sup>3</sup>Sahabat Alam Malaysia. (2026, February 26). Regulating Finance for Forests and Community Rights in Malaysia. [https://foe-malaysia.org/wp-content/uploads/2026/02/260226\\_SAM\\_Regulating-Finance-for-Forests-and-Community-Rights-in-Malaysia-report\\_F.pdf](https://foe-malaysia.org/wp-content/uploads/2026/02/260226_SAM_Regulating-Finance-for-Forests-and-Community-Rights-in-Malaysia-report_F.pdf)