Adnan Zaylani Mohamad Zahid: Bridging the divide – Islamic finance as a catalyst for global climate resilience

Keynote speech by Mr Adnan Zaylani Mohamad Zahid, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the launch of The World Bank and Islamic Development Bank Report on Islamic Finance and the Climate Agenda, Kuala Lumpur, 13 January 2026.

* * *

I am delighted to be here at this important juncture as we launch the joint report on *Islamic Finance and the Climate Agenda*. This collaboration between two leading multilateral development banks demonstrates what is possible when expertise, commitment, and a shared vision converge. The insights within this report reflect the strength of partnership and the promise of Islamic finance as a catalyst for sustainable global development.

I have had the opportunity to read the report, and it lays out a clear and compelling pathway. One that blends both ambition and practicality. It draws us to reimagine how Islamic finance can be mobilised at scale. Allow me to draw on several insights from the report that illuminate the opportunities and the responsibilities that lie ahead for Islamic finance, particularly for OIC countries.

- **First, many OIC countries remain among the most climate vulnerable regions in the world, with high exposure and low adaptive capacity.** The investment required to pursue low carbon strategies is substantial, averaging 1.4% of GDP, and rising to over 5% for low income OIC members, far beyond what public resources alone can support. This reality makes one point unmistakably clear - scaling Islamic finance will hinge on our ability to mobilise private capital effectively and at speed.

- **Second, driving climate action also requires innovation and embracing technological progress.** But here too, the report reveals a critical gap: only 3% of companies that secured private equity (PE) or venture capital (VC) funding for clean and climate technologies between 2017 and 2024 came from the OIC, representing just 0.5% of total global investment. This is a missed opportunity. Growing and facilitating PE and VC markets are essential for nurturing new solutions, such as renewable energy, green manufacturing, nature-based solutions, and climate smart agriculture. Islamic finance must play a larger role in unlocking these innovation ecosystems.

- **Third, developing takaful as risk transfer mechanism to encourage climate-resilient investments is essential,** given the gaps observed vis-a-vis conventional insurance tools used for climate finance. Many takaful operators lack the technical expertise, actuarial capacity, and data infrastructure needed to design climate-related products such as parametric coverage for droughts, floods, and extreme weather events.

These point to transformational potential areas where Islamic finance can meaningfully shift outcomes. The *Maqasid al-Shariah*, which seeks to preserve life, intellect, future generations, and the environment, provides a powerful moral framework for climate action. We are accountable to advance Islamic finance by offering a value-based financial architecture that can guide the transition toward a more just, climate-resilient, and prosperous future for all. The report rightly noted that the growing vulnerability of OIC countries to climate shocks demands a jurisprudential shift in Islamic economics and finance toward the principle of *maslahah* or the public interest. The case studies of *Shariah*-compliant instruments also provide practical, scalable, and effective in supporting real economy outcomes.

Let me now turn to Malaysia's experience and aspirations in strengthening the nexus of Islamic finance and climate agenda. At the national level, Malaysia places climate resilience at the centre of national policy, as reflected in the 13th Malaysia Plan, which aims to strengthen competitiveness and raise our economic potential. Malaysia has long been at the forefront of mobilising Islamic finance for the climate agenda. We began with the world's first green sukuk in 2017 that positioned the country as the largest issuer among OIC region, with over 47 green and sustainability sukuk totalling USD13.4 billion. These advancements are made possible by adopting a comprehensive ecosystem approach, including implementation of Value-Based Intermediation (VBI) initiative and VBIAF sectoral guides. To date, 18 VBI Community of Practitioners have channelled more than USD11 billion in Islamic green financing, demonstrating the sector's ability to shift investment behaviour and mobilise meaningful capital toward climate action.

We are committed to sustain this momentum and continue developing solutions that focus on unlocking efficient public and private capital mobilisation. Allow me to briefly highlight a few initiatives that reflect this direction.

- Last year, in September, we introduced the **i-CITA** initiative. This programme enables Islamic banks to pilot risk-sharing contracts, supported by a RM100 million i-CITA fund from the Government that provides matching financing to participating banks. Importantly, it reduces front-loaded risks for banks, allowing them to better support climate and food-security projects where risk-sharing mechanisms are most needed. As sectoral roadmaps for energy, natural gas, and hydrogen begin to take shape, to better support these sectors, we must move beyond fixed instalments and collateral-heavy structures. Risk-sharing solutions provide an innovative and responsive contractual framework to meet these emerging and demanding economic needs.

- Strengthening the infrastructure to support innovation is equally vital to unlock new climate-finance pathways. The **Climate Finance Innovation Lab (CFIL)** administered by Bank Pembangunan Malaysia has rolled into action recently and is pioneering innovative financing structures and models for climate projects. CFIL plays a key role in developing and testing innovative financing structures and models capable of mobilising both public and private capital. By serving as a platform for market experimentation and proof-of-concept, CFIL enhances the ecosystem's ability to originate and scale solutions that support Malaysia's transition to net zero.

- A segment that I wish to highlight is the SMEs that make up 97% of business establishments in Malaysia. They form the backbone of supply chains across our key sectors. Yet they are also among the most vulnerable to tightening ESG and climate-related requirements, often constrained by limited capacity, capability, and resources to meet new standards. We realised that in ensuring an orderly and inclusive transition, closing these gaps is a must. This is why we introduced and invested in practical tools to support SMEs through the **Greening Value Chain Programme (GVC),** the **Low Carbon Transition Facility** and the newly rolled out **Greening Halal Businesses Programme (GHB) in partnership with IsDB.**

Beyond access to transition financing, banks, through these initiatives also provide SMEs with critical enablers – carbon-accounting software and targeted technical guidance which significantly strengthen their ability to transition successfully and sustain momentum over time. Since inception of GVC, 2,890 SMEs have attended technical training, and more than 250 measured and reported their GHG emissions.

- Another important initiative that I wish to add here is takaful protection against climate related shocks. As climate risks intensify, particularly in sectors such as agriculture where livelihoods are highly exposed to floods and unpredictable weather, it is crucial that financial solutions offer reliable and accessible safety nets. In this regard, the government has introduced the **Paddy Crop Takaful Scheme, Malaysia's first Shariah-compliant takaful protection for paddy farmers** to mitigate natural-disaster losses. The protection scheme helps farmers navigate the uncertainties and challenges posed by natural disasters. As of March 2025, RM16.2 million (USD4 million) in compensation had been approved for 6,319 affected farmers, underscoring the solution's responsiveness to climate-related events.

The foundational frameworks are in place and the ecosystem has become more enabling, with Islamic finance instruments consistently proving their viability and practicality. The task before us is no longer about mere alignment; it is about advancing with purpose. Even a small step forward, be it a pilot, a prototype, a first-of-its-kind solution, can become the spark that shifts. We must be bold enough to experiment, humble enough to learn from early trials, and resolute enough to scale what works.

We have moved beyond an era when the Shariah debate was dominated by questions of permissibility and hardship to enable end-to-end compliance. Today, many jurisdictions have developed mature, confident Islamic finance ecosystems that are not only fully Shariah-aligned but also forward-looking and innovation-ready. These markets can and should lead the way, offering a blueprint for emerging and nascent OIC markets to build upon, accelerate their progress, and unlock the full potential of Islamic finance in advancing climate resilience and sustainable development.

We must work towards a future where Shariah-compliant transition finance becomes the norm. Not an exception, but a pathway that is principled in its ethics, pragmatic in its design, and globally relevant in its impact. In this journey, the continued support of multilateral partners such as the World Bank and IsDB is not only valuable, but vital to our cause. Their collaboration reinforces the reminder of verse 195 *Surah Al Baqarah:*

"And do good; indeed, Allah loves the doers of good." I am deeply encouraged by the collective resolve to elevate Islamic finance within the global climate agenda. On that note, thank you.