

Malaysia's green sukuk

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Over the last few years, environmental preservation has been the focus of renewed investor attention, as evidenced by growing interest in socially responsible investment (SRI) instruments. Green sukuk, a syariah-compliant SRI instrument for renewable energy and other environmental sustainability projects, is an important and commendable initiative.

Malaysia, being home to the world's largest sukuk market, has pioneered the issuance of green sukuk. On July 27, the Securities Commission announced the debut of the world's first green sukuk under its SRI sukuk framework. This milestone is the result of a joint effort between SC, Bank Negara Malaysia and the World Bank Group to facilitate the development of green financing and investor participation in SRI sukuk.

Issued by Tadau Energy Sdn Bhd, a Malaysian-based renewable energy and sustainable technology investment firm, and structured on the Syariah principles of *istisna'* (manufacturing sale) and *ijarah* (leasing), the RM250 million Green SRI Sukuk Tadau is to finance the construction of large scale solar (LSS) photovoltaic power plants in Kudat, Sabah, with a tenure of two to 16 years.

Following the success of Green SRI Sukuk Tadau, Quantum Solar Park Malaysia Sdn Bhd launched the world's largest green SRI sukuk — RM1 billion — in October to fund the construction of Southeast Asia's largest solar photovoltaic plant project in three districts: Kedah, Melaka and Terengganu.

More green sukuk is expected to be issued in Malaysia to support environmentally sustainable infrastructure projects and to strengthen the country's position as the main catalyst for Syariah-compliant green instruments.

Certainly, the future of green sukuk in Malaysia is promising for a number of reasons. Firstly, the government aspires, as envisioned in the 2014 Budget speech, to position Malaysia as the home for SRI as part of its ambition to make Malaysia a green technology hub by 2030.

In response, SC revised its sukuk guidelines in 2014, incorporating new requirements for the issuance of SRI sukuk. The new sukuk guidelines state that the proceeds of SRI sukuk can be used to preserve the environment and natural resources, conserve the use of energy, promote the use of renewable energy and reduce greenhouse gas emissions.

Also, a number of incentives have been offered to stimulate greater utilisation of SRI instruments as a fundraising channel. These include tax deductions on the issuance costs of SRI Sukuk approved or authorised by SC and tax incentives for green technology activities. The government also introduced a special financing scheme,

Green Technology Financing Scheme, with a total fund allocation of RM5 billion until 2022 to support the development of green technology.

Secondly, a substantial increase in the demand for both energy supply and energy financing in Malaysia has opened up room in which green sukuk can grow. The government has put in place a renewable energy generation target of 7,200 megawatts by 2020. Malaysia's Green Technology Master Plan also aims to boost the growth of its green technology sector, with a targeted revenue of RM180 billion alongside the creation of 200,000 green jobs by 2030.

Thirdly, there is a growing awareness of SRI among both conventional and Muslim investors. Green sukuk facilitates and increases the broader participation of conventional investors in the sukuk market, especially those looking for more ethical and socially responsible investment opportunities. It helps bridge the gap between sustainable investors and sukuk investors who aim to place their money in a scheme that complies with certain values.

Other positive factors include the design of sukuk, which is naturally supportive of green principles because it requires a specific pool of assets. Also, the progress of green sukuk is, and has evolved into, an indispensable part of the natural evolution of the global Islamic financial market.

Islam is fully supportive of the idea of green financing. The Quran and the prophetic traditions emphasise the importance of environmental conservation and sustainability. Islam commands mankind, as the vicegerents of God, to take care of the environment and nature, and to avoid any act that is detrimental to them. This corresponds to the principal purposes of syariah (maqasid al-Syariah) which are intended to realise public benefit (maslahah) and eliminate harm and destruction (mafsadah), outlined under five main headings: protection of life, preservation of religion, upholding the integrity of the human intellect, protecting the family and protection of lawfully-owned property.

Al-Qardhawi, however, added environmental conservation and preservation as another ultimate objective of syariah, having an equally important position as the five goals.

On the whole, green sukuk, like other SRI instruments, is a funding channel that plays an important role in the preservation of the environment and the sustainability of the earth. Islamic finance should, therefore, provide more avenues for the growth of green sukuk as a financial instrument for sustainable development.

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