



GREEN FINANCING AS A MANIFESTATION OF MAQASID SHARIAH: AN UPDATE OF MALAYSIAN ISLAMIC FINANCE INDUSTRY

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Malaysian Islamic Finance: A
Moving Industry

Global Development: SDGs & SRI

SRI: The Malaysian Case

Green Financing in Light of
Maqasid Shariah

PRESENTATION OUTLINE

Malaysian Islamic Finance : A Moving Industry



Since its inception circa the 80's, the industry has witnessed continuous positive progresses



Product development : From heavy reliance on BBA-based products to more variety of concepts and structures.



Regulatory : From simple and general pieces of law e.g. Islamic Banking Act 1981 (IBA 1981) and Central Bank of Malaysia Act 2009 (CBMA 2009) to more comprehensive regulatory regime e.g. Islamic Financial Services Act 2013 (IFSA 2013) and numbers of Policy Document (PD) issued by the Central Bank

Malaysian Islamic Finance : A Moving Industry (cont.)

- Legal : Changes in terms of courts of law's attitude in dealing with the Islamic finance cases:
 - First Phase (1979-2002) - the concern was with the application of the classic common law approach rather than deliberating Shariah issues.
 - Second Phase (2003-2007) - courts demonstrated their critical approach in perusing the underlying Shariah contract offered.
 - Third Phase (2008 onwards) - courts become more critical towards the practice of the industry (looking beyond the words of agreement).



- The discourse of industry, therefore, moved from merely discussing of 'what does the contract say' (e.g. forms of products) during its infancy stage to 'what does the paper actually mean?' (substances of the products).
- Now? The discourse is beyond the substance.
- It is now about VALUE.
- The current position, therefore, compliments the introduction and the implementation of GREEN FINANCING.

GLOBAL DEVELOPMENT : SDGs & SRI



Climate change has become a global issue which requires a serious attention. The increasing frequency of extreme weather as manifested by rising water temperatures, severe droughts and floods renders disruptive implications on the social well-being, economic development and financial stability.



This global phenomena has, therefore, prompted various global initiatives to address the threats and crises.



Among these initiatives is the United Nation's (UN) Sustainable Development Goals (SDGs) introduced in 2015.

GLOBAL DEVELOPMENT : SDGs & SRI (cont.)



In September 2015, the UN, through its General Assembly has adopted the 2030 Agenda for Sustainable Development that includes 17 Sustainable Development Goals (SDGs). Building on the principle of “leaving no one behind”, the new agenda emphasises a holistic approach to achieving sustainable development for all.



193 member states pledged to ensure a sustained and inclusive economic growth, social inclusion, and **environmental protection**, fostering peaceful, just and inclusive societies through global partnership.

GLOBAL DEVELOPMENT : SDGs & SRI (cont.)

17 specific targets in achieving sustainable development outcomes by 2030, seven of which cover the environment sustainability (Green Agenda) :

- GOAL 1: No Poverty
- GOAL 2: Zero Hunger
- GOAL 3: Good Health and Well-being
- GOAL 4: Quality Education
- GOAL 5: Gender Equality
- **GOAL 6: Clean Water and Sanitation**
- **GOAL 7: Affordable and Clean Energy**
- GOAL 8: Decent Work and Economic Growth
- **GOAL 9: Industry, Innovation and Infrastructure**
- GOAL 10: Reduced Inequality
- **GOAL 11: Sustainable Cities and Communities**
- **GOAL 12: Responsible Consumption and Production**
- **GOAL 13: Climate Action**
- **GOAL 14: Life Below Water**
- **GOAL 15: Life on Land**
- GOAL 16: Peace and Justice Strong Institutions
- GOAL 17: Partnerships to achieve the Goal

GLOBAL DEVELOPMENT : SDGs & SRI (cont.)

- The Paris Agreement is also another milestone which marks the global rise of Green Agenda.
- It is the world's first universal climate treaty, entered by 195 parties which is built upon global common cause to combat climate change by setting the benchmark for countries to undertake actions to fight climate change.
- The same aspiration of serving SDGs is simultaneously resonated in financing segment in all around the world. Some of the examples are like the Multilateral Development Banks' (MDBs) plan to provide a financial support from 2016 to 2018 (SDGs period).
- The World Bank has also been directing about USD 11 Billion value of projects towards fighting climate change.
- Against this backdrop, **Social Responsible Investment (SRI)** gains its momentum as an approach to fulfil the SDGs and, by extension, propels **Green Finance** forward to render benefits to the environment.

SRI & Green Financing



SRI is an investment discipline that considers environment, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact



It covers any type of investment process that ties investors' financial objectives with their concerns on **environmental**, societal and governance issues.



Green Finance, which falls under the ambit of SRI, covers the financing of investments that would generate environmental benefits such as reducing pollutions, GHG emission, improving energy efficiency and mitigate climate change.

SRI : The Malaysian Case

*“Malaysia's position as a leader in the Islamic capital market is an advantage in attracting funds and issuance of securities. To enhance global competitiveness, efforts will be intensified to promote Malaysia as a market for **Social Responsible Investment (SRI)**....The Securities Commission will introduce the **Framework of Socially Responsible Sukuk Instrument or SRI Sukuk** to finance various sustainable and responsible investment initiatives.”*

(Prime Minister of Malaysia, 2014 Budget Speech)



SRI : The Malaysian Case (cont.)



Therefore, the Securities Commission of Malaysia (SC) in its 'Guidelines on Sukuk' launched in April 2014, has issued the guidelines pertaining to the issuance of SRI Sukuk.



This issuance was in line with the initiative set out under the SC's Capital Market Masterplan 2 to promote socially responsible financing and investment. With the shifts in investor demographics, there are growing concerns over environmental and social impact of business and greater demand for stronger governance and ethics from businesses. The Malaysian capital market is well-positioned to capitalise on these changing trends and facilitate sustainable and responsible investing.

SRI : The Malaysian Case (cont.)



- Subsequently in March 2015, the SC has launched the 'Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework' (revised on October 2018). This Guidelines supersedes, among others, the 'Guidelines on Sukuk'.
- Nevertheless, Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework' has once again addressed specifically the issuance of SRI Sukuk.

SRI : The Malaysian Case (cont.)

7.03. Eligible SRI projects refer to projects that aim to -

- a) preserve and protect the environment and natural resources;
- b) conserve the use of energy;
- c) promote the use of renewable energy;
- d) reduce greenhouse gas emission; or
- e) improve the quality of life for the society.

SRI : The Malaysian Case (cont.)

7.04 Only a project or physical assets/activities relating to an existing project in any of the following sectors is deemed to be an Eligible SRI project:

- (a) Natural resources – projects relating to –
 - (i) sustainable land use;
 - (ii) sustainable forestry and agriculture;
 - (iii) biodiversity conservation;
 - (iv) remediation and redevelopment of polluted or contaminated sites;
 - (v) water infrastructure, treatment and recycling; or
 - (vi) sustainable waste management projects,

SRI : The Malaysian Case (cont.)

(b) Renewable energy and energy efficiency – projects relating to –

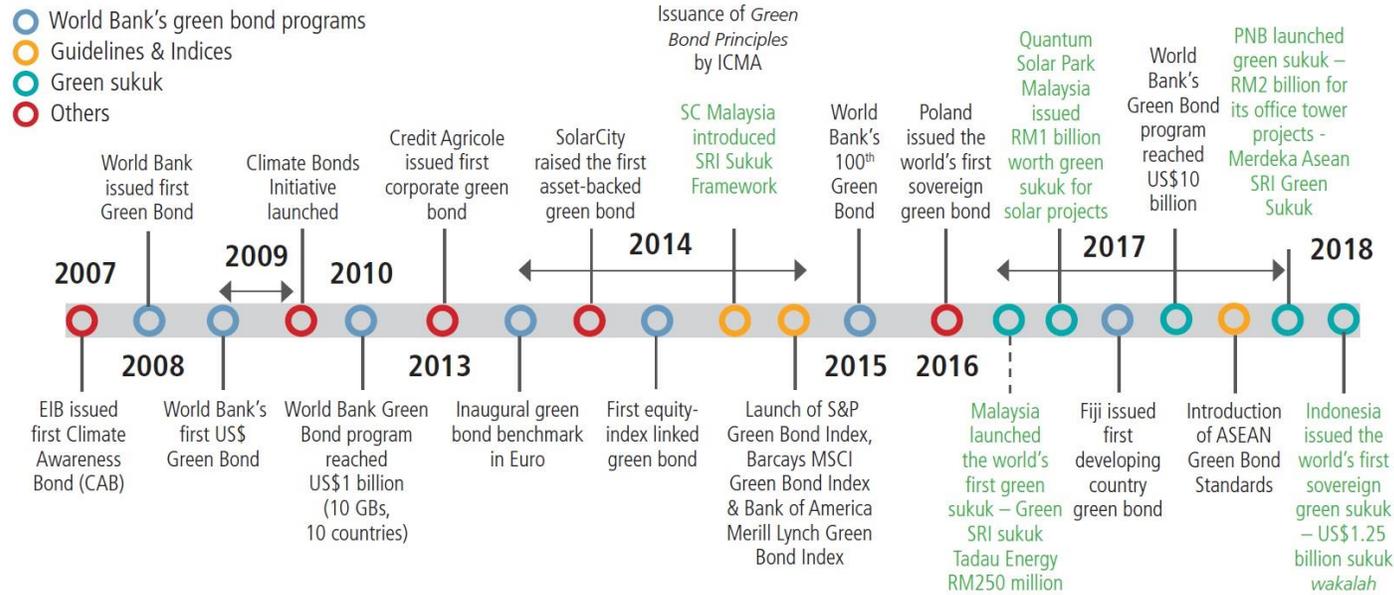
- (i) new or existing renewable energy (solar, wind, hydro, biomass, geothermal and tidal);
- (ii) efficient power generation and transmission systems; or
- (iii) energy efficiency which results in the reduction of greenhouse gas emissions or energy consumption per unit output,

(c)...

(d)...

FIGURE 4: Evolution of the Green Bond and Sukuk Market

When did green sukuk come into picture?



Source: INCEIF and SC

SRI : The Malaysian Case (cont.)

SRI : The Malaysian Case (cont.)

TABLE 1: Green Sukuk Issuance in Malaysia as at April 2018

Issuer	Program size (RM Million)	Issue date	Issued amount (RM Million)	Utilization of proceeds
Tadau Energy Sdn Bhd	250.00	27 July 2017	250.00	To finance 50 megawatt (MW) solar power plants in Sabah.
Quantum Solar Park (Semenanjung) Sdn Bhd	1,000.00	6 October 2017	1,000.00	To finance three 50 MW solar power plants in Kedah, Melaka, and Terengganu.
PNB Merdeka Ventures Sdn Bhd	2,000.00	29 December 2017	690.00	To fund an 83-storey office space, forming part of the Merdeka PNB118 tower project in Kuala Lumpur.
Sinar Kamiri Sdn Bhd	245.00	30 January 2018	245.00	To finance 49 MW solar power plant in Perak.
UiTM Solar Power Sdn Bhd	240.00	27 April 2018	222.30	To finance 50 MW solar power plant in Pahang.

Source: SC

Green Financing in Light of Maqasid Shariah

- Shariah is a complete divine system sent down to the humankind as a Mercy
- In its totality, Shariah aims to preserve the interest (Maslahah) and eliminate the harm (Mafsadah) of life affairs in this world as well as the hereafter.
- The universality of Shariah is vividly demonstrated through the discourse of Maqasid Shariah since it talks about the value that Shariah brings rather than mere technical aspects of Islamic positive law.

Green Financing in Light of Maqasid Shariah (cont.)

- In the classical approach, the interest of human life is divided into three main categories; Dharuriyat, Haajiyat and Tahsiniat.
- Dharuriryat is further divided into 5 main aspects of protection; religion (Hifz Din), life (Hifz Nafs), wealth (Hifz Mal), intellectual (Aql) and lineage (Hifz Nasl).
- These 5 aspects are identified to be at the top of the list of protections due to their imperative roles in ensuring the continuity of human's life and their well-beingness. Any disorder in relation to them will render the human's life disrupted or even destructed.
- Therefore, any aspect that requires the same level of attention and protection should receive the same regard in the eye of Shariah.

Green Financing in Light of Maqasid Shariah (cont.)

- Numerous evidences from the legal texts of Islamic law would be able show that Islam concerns about the environment.
- In fact, many of procedures in 'Islamic rituals' are tied closely to the environmental well-being e.g. clean water for purification (Hifz Din).
- Environmental well- being fosters forestry and agriculture which may turn into safe and peaceful ecosystem in which human life may properly operate (Hifz Nafs and Hifz Aql) as well as well as provide vibrant commercial avenue (Hifz Mal).
- Therefore, the protection of environment certainly consistent with the aspiration of Maqasid Shariah in protecting the essential elements of life. In fact, some researchers had suggested 'Hifz Biah' (protection of environment) to be added as a new components of Dharuriyat due to its cruciality in the big picture of Shariah.

THANK YOU