

# IFN ISLAMIC SUSTAINABLE INVESTING THOUGHT LEADERSHIP REPORT



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## Sustainability: The future of Islamic finance

The call for finance to be a force for good has become more urgent than ever, and the Islamic finance industry is heeding that call. Despite practitioners often being quick to point out the similarities between it and the sustainable finance movement, Islamic sustainable finance remains but a drop in the multitrillion-dollar ethical finance industry. Industry leaders, however, believe we are moving in the right direction, and with the right steps, the industry could deliver more meaningful impact through Shariah instruments with a sustainable core. VINEETA TAN dives deeper.

### Slow and steady

Don't let the abbreviations confuse you. Be it ESG [environmental, social and governance], SRI [socially responsible investing] or impact investing, these terms are parked under the wider sustainable finance umbrella and are often used interchangeably albeit with delicate differences. ESG may be a jargon first coined in 2005 but the concept dates back earlier with SRI taking off in the 1960s. Within the Islamic finance sector, however, these concepts are a relatively new phenomenon, with Islamic ESG or Islamic sustainable finance gaining more momentum over the last half a decade or so.

Take green bonds as an example. The first climate awareness bond, or green bond, was issued by European Investment Bank back in 2007. The landmark EUR600 million (US\$678.27 million) offering triggered a domino effect which led to an ESG finance market that is worth over a trillion dollars and growing exponentially. The Islamic finance industry, however, trailed behind and only issued its first green Sukuk 10 years later in 2017. From then until July 2020, only 17 green Sukuk issuances have entered the market, and are mostly concentrated in Malaysia and Indonesia.

According to Bashar Al Nattoor, the global head of Islamic finance at Fitch Ratings, about US\$5.5 billion

were raised through sustainability-linked Sukuk in 2020; this figure has been superseded in the first three quarters of 2021 alone, with almost US\$7 billion already raised.

"If I look at how much was issued since 2017, it is less than US\$20 billion, which is small compared to the size of the global Sukuk market which is around US\$800 billion currently. So, in terms of actual size, the sustainable Sukuk market is still tiny," Bashar explained, adding that over 10% of Fitch's US\$130 billion rated Sukuk outstanding has some elements of sustainable, transition and green, indicating that this theme is more apparent within the dollar space. Malaysia is an exception, with corporates driving the Islamic sustainable agenda in the local currency market.

The growth may be slow, but market practitioners take this as a sign in the right direction.

"Sustainability has always been at the heart of Islamic finance. But I think perhaps in the past we didn't bring it to the fore as much as we're doing now. And one of the reasons that we're doing it now is because in the conventional markets, sustainability, ESG financing has grown enormously in the last 15 years or so, and increasingly so in the last five years. So that depth of funding liquidity that's



Bashar

available in the conventional sustainable markets is something that Islamic finance is becoming increasingly aware of and tapping into. The combination of liquidity plus the fundamental purpose of Islamic finance have come together in the last three or four years," observes Farmida Bi, Norton Rose Fulbright's chair for the Middle East, Europe and Asia and the firm's European head of Islamic finance.

### That depth of funding liquidity that's available in the conventional sustainable markets is something that Islamic finance is becoming increasingly aware of and tapping into

The Islamic and sustainable convergence is indeed gaining serious momentum, evident by the numbers.

"I think over the last 12 months, there's been a lot of discussion and the good news is that the discussion has basically crossed into almost every aspect of Islamic finance. Everybody is now talking about [Islamic sustainable finance], which is a good start," Dr Scott Levy, CEO of Bedford Row Capital, opined.

There is indeed a lot of talk, backed by meaningful measures, at the top of the industry and at government levels, with the likes of Malaysia, Indonesia, and several administrations in the Middle East putting together policies and incentives to spur the sector. Malaysia introduced its SRI Sukuk Framework in 2014, Indonesia launched its Green Bond

and Green Sukuk Framework in 2017, and the UAE this year released its 10-year sustainable finance framework which features Islamic instruments while Oman is developing an ESG finance framework as well.

However, there is still a lot of work to be done, not only at policy level, but also at issuer level as we move from a mindset of maximizing profits to a mindset of profit with purpose.

#### Costly compliance

There is a cost to compliance, and this cannot be underestimated.



Farmida



Levy

"In addition to complying with Shariah principles, you also have to comply with green bond principles and there are increasing layers of regulatory frameworks that are being built around Islamic sustainable finance," Farmida explained, adding that tapping the ESG market generally means having to get an ESG rating as well. "All of those are substantial obligations that you have to comply with, compared to going out into the market and issuing a conventional bond. So in order to jump through all of those different hoops, it has to be worthwhile."

### There is a cost to compliance, and this cannot be underestimated

Disclosure is a central challenge Islamic financial institutions face in fully embracing the sustainability agenda. Perhaps the lack of Islamic







financial institutions committing to globally-recognized frameworks such as the UN Principles of Responsible Investment and the UN's Principles of Responsible Banking, which require regular detailed reporting of one's sustainability efforts and impact, is an indication of the severity of this challenge. To date, only a handful of entities have adopted these principles.

"The commercial necessity of doing so isn't quite clear enough," Dr Levy highlighted. "If [issuers] can tap into the markets the way they have always done and take a very conservative and traditional approach, why do they need to do this? And there isn't yet a commercial imperative in the same way there is on the conventional side to put the effort into the reporting that's required."

Professor Kevin Haines, Bedford Row Capital's head of social policy, echoes his colleague's sentiments: "There is an issue at the moment for Islamic finance about talking the kinds of language that is increasingly acceptable to investors. Investors are now expecting issuers to be conversant with these various regulatory frameworks and to be providing the data that investors need to demonstrate their compliance under these regulatory frameworks. This is early days but it is important for Islamic issuers to get conversant with these regulatory frameworks."

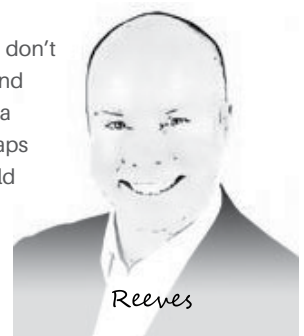
### Making it worthwhile

The reality is: it is not easy to use finance for good without risking greenwashing. And it is costly too. These merely compound the concerns conventional issuers have with Shariah finance, which is already perceived as more complicated and expensive. This leads us to ask: is the payoff justified?

Market practitioners believe so, albeit the fact that it may take a while to realize such gains.

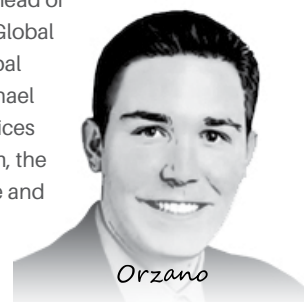
"(In general) getting a real yield that is actually positive is a challenge, and if you're an Islamic

investor, then you have further restrictions. You don't have the entire universe available to invest in and so finding something that is going to generate a yield is one thing, finding something that perhaps can generate a positive inflation built in the yield is another. Islamic attributes attached is even more of a challenge and of course increasingly, Islamic investors also want sustainability, they're not different from everybody else. Having a sustainable Islamic investment I think is an incredibly positive and virtuous thing and I think in some respects they it could potentially lead this and certainly the opportunity is there," noted Craig Reeves, the founder of Prestige Funds.



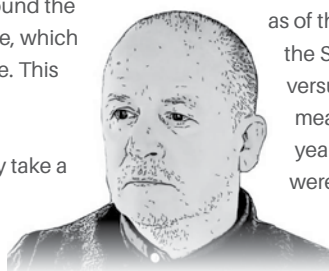
Reeves

When we compare the performance of conventional and Islamic indices, it does look like conventional edges ahead of its Islamic counterpart. The conventional S&P Global 1200 has modestly outperformed the S&P Global 1200 ESG Shariah. However, according to Michael Orzano, the senior director of global equity indices at S&P Dow Jones Indices, over the longer term, the ESG jurisprudence have led to outperformance and also some reduction in volatility.



Orzano

"If we look at the trailing 10 years as of the 30<sup>th</sup> September 2021, the S&P Global 1200 Shariah gained an annualized 14.7% versus 13.1% for the conventional index, which is a pretty meaningful outperformance of over 1.5% per annum over 10 years. Interestingly on the volatility side, standard deviations were a little bit lower for the ESG SRI Index as well, which is interesting as it is a much narrower index," Orzano elaborated, adding: "Long-term outperformance was almost fully driven by the Shariah screens and the



Haines

ESG side of it didn't really have a large contribution because by design, the S&P ESG Index is constructed in an industry neutral basis so that it tends to closely track the conventional parent benchmark."

The ability to reach a wider investor base is often the driving reason to turn to Islamic sustainable finance. Beyond that, the trend toward doing good for the planet and people also attracts Islamic finance institutions to capitalize on this swelling demand.

### Private capital really is vital and this presents a considerable opportunity for the Islamic capital markets to mobilize funding and is also a very unique opportunity for Islamic finance

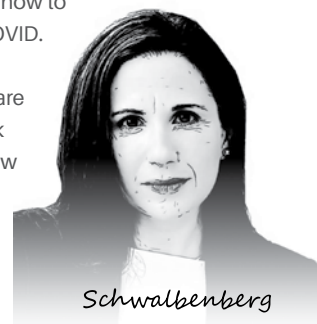
"In Europe, you will see green issuances resulting in savings of at least up to 10 basis points as compared to normal issuances. But in the case of Asia, including Malaysia, generally the difference is very marginal," Chung Chee Leong, CEO of Cagamas, Malaysia's national mortgage corporation and the country's largest debt issuer, shared. "In our case, we managed to get two basis points (in savings) for our 2020 issuance. With increased awareness, we will probably see in the future, potentially some savings issuing sustainability Sukuk as compared to regular Islamic offerings." Cagamas in 2020 priced a combined issuance of its inaugural ASEAN Sustainability SRI Sukuk and Islamic medium-term notes totaling RM450 million (US\$106.08 million). Proceeds from the SRI

paper was used to specifically fund the purchase of eligible Islamic financing for affordable housing.

### Urgent needs, attractive opportunities

For the most part, Islamic sustainable finance is here to stay, especially as the pandemic has created an urgent need for funding to recover.

"There is now a much greater focus on how to build back better as we come out of COVID. Many of the people who have been impacted the most by the coronavirus are in Muslim-majority countries and I think when those countries are looking at how they can rebuild that infrastructure, whether that's health, education, employment, there has been in Europe a very big focus on social bond issuances to try and ameliorate the effect of the pandemic. And



those are structures and capital flows that these Muslim-majority countries can also tap into as the world generally tries to support development post-pandemic," noted Farmida.

The Islamic Finance Council UK expects US\$30-50 billion in capital for green and sustainability Sukuk up to 2025.

"It has been suggested that we need about US\$7 trillion in infrastructure investment annually and between US\$1.5 trillion to US\$4 trillion every year for energy transition to meet the Paris [Agreement] targets; and with the commitments of the Glasgow Climate Pact, I'm sure







those numbers will then be increased and there aren't sufficient public funds to satisfy this. So, private capital really is vital and this presents a considerable opportunity for the Islamic capital markets to mobilize funding and is also a very unique opportunity for Islamic finance," according to Jennifer Schwalbenberg, the chief governance officer for the DDCAP Group.

**The starting point is to understand and be aware of what the conventional [space] is doing, then look at your industry, see where you can capitalize on the things that you already have and then develop the things that you like**

COP 26 [UN Climate Change Conference 2021], contentious as it may have been, nonetheless pushed various nations toward some serious climate commitments.

"The UAE was the first in the Middle East to announce their net zero ambition followed by Saudi Arabia and you must acknowledge that it's not easy for these countries. For these countries, which are some of the largest oil-producing countries in the world, to go next zero, they have to invest much more and they have to make much more effort as compared to other countries," said Khurram Hilal, CEO of group Islamic banking at Standard Chartered Bank.

This year's UN Climate Change Conference saw the formation of the Glasgow Financial Alliance for Net Zero, a global coalition of 450 institutions from 45 countries committed to accelerating the

decarbonization of the world economy and reaching net zero emissions by 2050. These institutions are not only augmenting their internal policies but also revising their investing and lending criteria for projects focusing on achieving net zero, signaling deep capital flows into the sustainable finance sector.

### Turning words into action

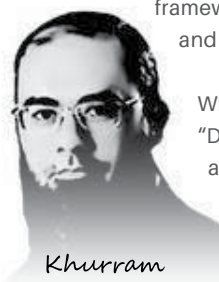
So how do we, as an industry, capture these Islamic sustainable opportunities? As Schwalbenberg observed: "We had two weeks of moving intentions and wonderful announcements [at COP 26] but now we need to put that into reality and make it happen. It's no longer about goals and aspirations. It really needs to be about action. And with this, I think there really is a key role in the Islamic finance agenda for green finance, but also transition finance."

Bashar concurs. "I think the starting point is to understand and be aware of what the conventional [space] is doing, then look at your industry, see where you can capitalize on the things that you already have and then develop the things that you like. First is to build awareness, then realization of putting strategies and regulations and frameworks to improve that and then installing that in the system and having an ecosystem and incentivize issuers."

When it comes to regulations and policies, Dr Scott's advice is: "Don't be afraid of regulation – that's the first step. Look internally at your internal processes, have a brief read of the UN SDGs and understand where you fit into the things that the world is talking about at the moment."

At the heart of this movement is the importance of nurturing the right people to drive this change.

"We need to think about how do we get staff in Islamic banks to be equipped with the right knowledge? How do we create a future-ready workforce? We need our training and our learning institutions to focus



in this area because this is the future of finance. They need to help develop the next generation of Islamic bankers who understand the dynamics of sustainable finance, who understand climate change, net zero carbon footprint, social finance and inclusion. They need to be fully up to speed with these concepts and not just knowing them, but also owning these concepts and also championing [them]," Khurram strongly believes.

### Leveraging tech

And just as the Islamic finance industry is using technology to advance their cause, technology should also be leveraged in our journey of Islamic sustainability.

"Technology can definitely play a significant role in achieving environmental and social goals. We have instances of application of blockchain technology and Islamic social finance, such as the use of digital identities for monitoring the end-use of the contents of funds, as well as the preservation or development and proper use of Waqf or Islamic endowments for achieving various societal goals. Most of such goals find a place in the UN Sustainable Development Goals (SDGs)," according to Mohammed Alim, CEO-designate of IBF Net Group.

IBF Net is currently working on miniaturizing the Islamic economy, with a focus on Islamic social and sustainable finance using blockchain technology, and has launched several projects to this end. One of the projects is the Confluence platform which seeks to measure the impact of projects from the standpoint of Shariah and the UN SDGs.



"The platform combines the performance of the given projects against these metrics using an algorithm and produces a score or a classification scheme. This score reflects the impact of the projects using the lens of Shariah objectives, as well as the SDGs as perceived by the stakeholders. Given the availability of tools for measurement of environmental and social impact, for example carbon footprint, our platform identifies and adopts a suitable method for measurement and conversion of such impact into social cryptos. In this case, products can earn or liquidate such cryptos, which represent both types of impact acting at an exchange to alter their risk return impact profile in the market," Mohammed explained.

### Moving forward

The notions of sustainability and ethics are not new in Islamic finance, although it is only in recent years that the industry is focused on harnessing and delivering sustainable impact in a more formal and structured manner. To many, this is the future of Islamic finance.

"This trend is a growth trend and I think this has already been cemented in the past three years; even at the height of COVID-19, we saw this segment growing, and I think this will continue in the short to medium term at least. If the government's strategies and milestones and objectives are really pursued in a very dedicated way, we could see more transformation of this segment, even in the long term, where it becomes a significant part of the industry," Bashar opined.

The push is also seen from the demand side, encouraging the supply side.







"We're definitely seeing a high level of demand from clients around the world for both ESG and for Islamic indices. Both of these are big areas of focus for us as an index provider. There have been significant inflows into ESG index products, including ETFs [exchange-traded funds] around the world over the past year, and we've also started to see Islamic ETFs in the US and Canada really gather momentum," Orzano shared. "I think the investment community is really just starting to think about combining broad-based ESG and Shariah investing together. I think we're likely to see a lot of new product development in the space over the next few years."

Schwalbenberg concurred: "I think as the strength of this agenda in the market increases, and that momentum builds, we will see the different institutions increasing their offerings and their options to the market. And it will be organic because as the sustainable finance sector grows and the products and services and practices become more prevalent, institutions will become more cognizant of this and they will realize they will miss opportunities and be at a disadvantage if they don't participate. Islamic sustainable finance will be recognized as the new normal and commitment will follow."

Corporates and Islamic issuers are already lining up their ducks.

"We see a lot of our traditional energy clients setting up new projects in a sustainable and renewable way and we are expecting a number of projects that were conventionally financed now being refinanced in a sustainable way going forward. So as a firm, we are expecting to do a lot more sustainable finance, certainly in the conventional markets, but

hopefully much more in the Islamic markets as well," Farmida shared. It is learned that Cagamas and Standard Chartered are each preparing to introduce new products. Chung, CEO of Cagamas, revealed that the firm is looking to issue green Sukuk while Standard Chartered is working on expanding its Islamic green mortgage offering, Islamic social finance tools and Islamic ESG wealth management services, and is building on creating sustainability solutions for the wider Halal market including Islamic sustainable supply chain instruments.

**As the multitrillion-dollar Halal industry continues to grow in its own space and globalize, I think it is important that they harness the socially responsible funding mechanism**

"I think it's a great opportunity for growth that and we have this great upside in front of us," Khurram explained. "As the multitrillion-dollar Halal industry continues to grow in its own space and globalize, I think it is important that they harness the socially responsible funding mechanism, mechanisms of Islamic finance and strive to give holistic Halal solutions to faith-conscious clients."

"We need more innovation, we need more solutions in this space. This is an open field for all banks, all partners to come in and play their role." (👉)





Authored by



**CIMB Group (the Group) is a leading ASEAN universal bank and one of the region's foremost corporate advisors. It is also a world leader in Islamic finance. The Group is headquartered in Kuala Lumpur, Malaysia and offers consumer banking, commercial banking, investment banking, Islamic banking and asset management products and services.**

As a leading ASEAN bank, our greater purpose is to advance customers and society toward a sustainable future. In line with this, we integrate economic, environmental and social (EES) considerations into all aspects of our business.

Our strategy is two-pronged. We commit to investing resources and influencing networks to reduce negative EES impacts. We also aspire to create a net positive impact through our business activities.

Sustainability is one of the key elements of our strategic theme to become a purpose-driven organization. As we strive to be a top quartile bank in ASEAN under our Forward23+ strategy, we target to achieve the 75<sup>th</sup> percentile of the Dow Jones Sustainability Index ranking by 2024.

Based on our 2020 performance, we are now at 79<sup>th</sup> percentile of these rankings, achieving this target three years ahead of time.

We are the first banking group in Malaysia and the first in Southeast Asia to commit to phasing out coal from its portfolio by 2040, with no new coal/coal-fired power plant-related financing by 2021 onwards.

Our recent commitments are:

- Net zero by 2050, no deforestation, no peat and no exploitation, and
- RM30 billion (US\$7.09 billion) in sustainable finance, RM150 million (US\$35.46 million) in corporate social responsibility by 2025 and 100,000 annual volunteering hours.

As a regular issuer in the bond and Sukuk market, we strive to ensure our instruments and frameworks continue to reflect the latest sustainability commitments of the Group, and market standards as well as expectations. In this regard, we have decided to update the SDG Bond Framework in 2021 and effect the following changes:

- Insertion of a Sukuk component to allow for future issuances of Shariah compliant notes
- Consolidation of the SDG Bond and Sukuk Framework under the Group, ie CIMB and its subsidiaries including but not limited to CIMB Bank could use the SDG Bond and Sukuk Framework as the basis for future sustainability bonds and/or Sukuk to be issued on and after the 18<sup>th</sup> October 2021, and
- Inclusion of new forms of eligible assets that could qualify for the use of proceeds of the future sustainability bonds and/or Sukuk by the Group.

CIMB Islamic have been at the forefront of Islamic and Sustainable financing and would like to highlight just two of our recent transactions as follows.



# Indonesia's US\$3 billion Sukuk issuance features landmark green tranche

The Indonesian government in June 2021 issued a landmark Sukuk issuance worth a total of US\$3 billion, featuring a green Sukuk tranche that is touted as the first-ever 30-year and longest-tenored green Sukuk issuance globally.

The global Islamic trust certificates were issued in three tranches: a five-year US\$1.25 billion facility; a 10-year paper worth US\$1 billion; and a 30-year green Sukuk facility worth US\$750 million.

The landmark green Sukuk tranche is the government's fourth global green Sukuk issuance under its Green Bond and Sukuk Framework since the debut paper in 2018, but is the first with a 30-year tenor — globally the longest tenor for an issuance of its kind.

"The global Sukuk issuance is aligned with the Republic of Indonesia's strategy to strengthen its position as a leader in the global Islamic financial markets, with the green Sukuk being a testimony of its dedication and long-term commitment to green and sustainable financing," CIMB Bank, the lead arranger and bookrunner of the transaction, said.

## The offering garnered robust demand, receiving a final orderbook of US\$10.3 billion, reflecting an oversubscription of 3.43 times

The offering garnered robust demand, receiving a final orderbook of US\$10.3 billion, reflecting an oversubscription of 3.43 times that resulted in the final pricing going below the fair value across all three tranches.

According to CIMB Bank, the issuance also achieved the lowest-ever five-year, 10-year and 30-year yield spread over the US Treasury and profit rate achieved by the Indonesian government for an international Sukuk paper. 🌱

Indonesia's Sukuk	
US\$3 billion	
	
9 <sup>th</sup> June 2021	
Issuer	Perusahaan Penerbit SBSN Indonesia III
Obligor	Republic of Indonesia
Issue size	Tranche 1: US\$1.25 billion Tranche 2: US\$1 billion Tranche 3: US\$750 million
Structure	Tranche 1 and 2: Sukuk Wakalah Tranche 3: Green Sukuk Wakalah
Maturity date	Tranche 1: 9 <sup>th</sup> June 2026 Tranche 2: 9 <sup>th</sup> June 2031 Tranche 3: 9 <sup>th</sup> June 2051
Yield/periodic distribution rate	Tranche 1: 1.5% pa Tranche 2: 2.55% pa Tranche 3: 3.55% pa
Listing	Singapore Exchange; NASDAQ Dubai
Governing law	English law; Indonesian law for asset-related documents
Joint lead managers and bookrunners	CIMB Bank; Citibank; Dubai Islamic Bank; HSBC; Standard Chartered
Joint green structuring advisors	HSBC; Standard Chartered
Co-managers	BRI Danareksa Sekuritas; Trimegah Sekuritas Indonesia



# SME Bank's Sukuk: Meeting demand for ethical products

Malaysia has added another feather to its Islamic sustainable finance cap as government-backed SME Bank made its sustainability Sukuk debut to overwhelming response, cementing the country's global lead in the area.


Receiving more than triple its target of RM500 million (US\$118.22 million), SME Bank's sustainability Sukuk Wakalah program, which recorded a final order of RM1.78 billion (US\$420.85 million), underscores the latent demand for ethical investments in Malaysia, which accounts for the most corporate socially responsible investing (SRI) Sukuk in the world at 16 offerings as at the start of 2021. The issuance consists of an Islamic medium-term note program worth up to RM3 billion (US\$709.31 million) and an Islamic commercial paper program of up to RM1 billion (US\$236.44 million), with a combined limit of up to RM3 billion in nominal value.

With the issuance of the sustainability Sukuk, the bank will now be able to offer more innovative financing solutions for SMEs


Without detailing the breakdown of investors, SME Bank Group President and CEO Aria Putera Ismail noted that the local offering was also subscribed by foreign asset managers and had a diverse mix of investors including financial institutions, fund management companies, insurers and government-linked companies. The paper, the first non-government guaranteed Sukuk for SME Bank, was priced at a 3.1% profit rate. Aria attributed the oversubscription to "awareness movements within and outside the country that continue to support a balanced and sustainable development". Malaysian Rating Corporation awarded the issuance programs 'AAA' ratings and also a gold standard for the Sustainability Sukuk Framework.

"With the issuance of the sustainability Sukuk, the bank will now be able to offer more innovative financing solutions for SMEs and continue to play our countercyclical role to ensure their success and becoming the nation's engine of growth that not only contributes positively to the GDP, creating employment but ultimately, a positive spillover to society and the environment," Aria commented.



<p><b>SME Bank's Sukuk</b></p> <p><b>SIZE: RM500 million (US\$118.22 million)</b></p>  <p><b>24<sup>th</sup> July 2021</b></p>	
<b>Issuer</b>	SME Bank
<b>Type</b>	Sustainable Sukuk
<b>Profit rate</b>	3.1%
<b>Use of proceeds</b>	To finance and/or refinance new or existing asset businesses and projects that promote sustainability
<b>Sole principal advisor and lead arranger</b>	RHB Investment Bank
<b>Joint lead managers</b>	AmInvestment Bank; CIMB Investment Bank; Maybank Investment Bank; RHB Investment Bank
<b>Rating</b>	'AAA' by Malaysian Rating Corporation

Bank, which falls under the Ministry of Entrepreneur Development and Cooperatives, is embarking on a multiphase environment, social and governance (ESG) strategy, with the first stage focusing on building awareness among SMEs through financing facilities. In the second phase, the bank will engage SMEs to educate businesses on utilizing the right financial instruments to meet their ESG needs as well as to apply and integrate ESG elements in their operations.

The offering comes amid greater commitment from the Malaysian financial community to align their financing activities with ESG principles. Maybank recently publicly committed RM50 billion (US\$11.84 billion) in sustainable financing and confirmed it will be scaling up its green and sustainability Sukuk/bonds program. 



## Malaysia anchors Islamic finance leadership with upsized debut sovereign sustainability Sukuk

**The Malaysian government upsized its debut sovereign sustainability Sukuk — also the world’s first — from its initial target size of US\$1 billion to US\$1.3 billion following strong demand confirmed by an oversubscription of 6.4 times.**

The US dollar sustainability Sukuk facility is comprised of US\$800 million 10-year trust certificates carrying a 2.07% profit rate and US\$500 million 30-year trust certificates with a 3.08% profit rate — the lowest-ever yield for a US dollar Sukuk issuance by Malaysia.

The warm reception to the issuance is, according to the government, a “vote of confidence in the country’s policies and strong economic fundamentals”. The investor pool was made up of fund managers, banks, insurance companies, central banks and governments and other investors from Asia, Europe, the Middle East and Africa and the US.

Supporting the green Sukuk is the government’s Sustainable Development Goals (SDGs) Sukuk Framework, which aligns issuances with the Green Bond and Sustainability Bond Principles and Standards of the International Capital Market Association and the ASEAN Capital Markets Forum.

The Ministry of Finance will manage the proceeds, which will be used to fund social and environmental projects in support of the government’s efforts to combat climate change and build a more resilient and inclusive economy.

In particular, the essential service categories of healthcare, education, affordable infrastructure, employment generation through SMEs, clean transportation, renewable energy and green buildings and the sustainable management of natural resources will take center stage.

Also, a unique highlight of the Islamic paper is that its underlying assets are sustainable: vouchers for travel entitlement on Malaysia’s Light Rail Transit, Mass Rapid Transit and KL Monorail networks. “As the first sovereign issuance with such assets in a Sukuk structure, this issuance sets a new benchmark and showcases Malaysia’s global leadership in Islamic finance, reinforcing the country’s position as the world’s largest Sukuk market,” the Ministry of Finance said.

The Sukuk facility, rated ‘A3’ by Moody’s Investors Service, was issued by the government’s SPV, Malaysia Wakala Sukuk, and approved by the Shariah boards of its joint bookrunners and lead managers which included CIMB Islamic Bank.

The success of Malaysia’s sustainability Sukuk mirrors that of its Sukuk Prihatin initiative in 2020, the proceeds of which were used to combat the impact of COVID-19. 