

## Implication of Malaysia SRI Sukuk framework in Sustainable Community and Economic Development

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**Abstract:** This study explores the potentials of SRI sukuk in Malaysia. Driven by SRI Sukuk framework by the Security Commission (SC). Focusing on the Community and Economic Development that concentrate on public hospital and medical services, public education, community services, urban revitalization, affordable housing and sustainable building. This study highlights the application, challenges as well as potentials of SRI sukuk as a source of financing for Community and Economic Development. The paper also highlights the demand SRI Sukuk as well as the tax incentive by the government to support the initiatives.

**Design/methodology/approach**– Driven by the SRI Sukuk Framework data has been collected from the sources to form a qualitative research paper.

**Findings**– There has been rapid growth for Community and Economic Development sectors. But from the Sukuk perspective, most of the focus has been on Education, with the issuance of Sukuk Ihsan by Khazanah for Yayasan Amir. But we also found-out that another organization by Khazanah, which is Yayasan Hasanah (Hasanah) has develop corporate responsibility investment focusing on various area including education and urban revitalisation. We also found-out that no Sukuk has been issued for affordable housing and for public health, the issuance of share has been chosen as method of fund raising. There's one Sukuk issued by KPJ, but it is solely for their operation and working capital cost

**Research implication/limitation** – Possible some solutions to enhance the current Sukuk SRI offering as to attract more investor to invest and create sustainability community.

**Originality/value** – Since the field of SRI sukuk is still in its infancy stage especially in Islamic finance, plus the study on the implication of Sukuk Framework issued by SC is even scarcer. Hence, this provide the originality to this paper.

**Keywords**– Sukuk Ihsan, Yayasan Amir, Yayasan Hasanah, Khazanah

**Paper type** – Research paper

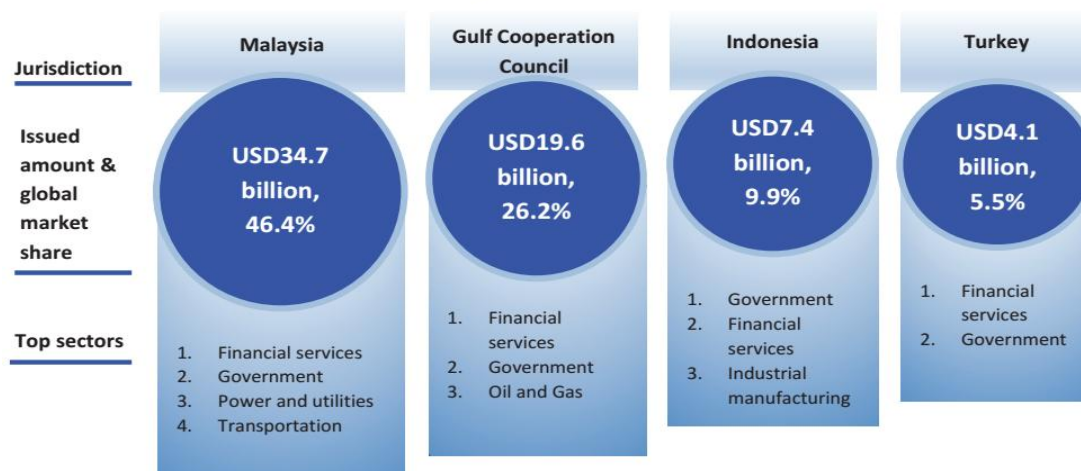
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### I. Introduction

In agenda is progressing slowly. (Ratings, 2018)

Top Sukuk Markets in 2016



What's next?

According to Global Sukuk market outlook one of the trend to watch in 2018 is a broadening of the investor base , and now it is lack of supply rather than demand. This bring us to our main topics, the Social Responsibility Investment (SRI) Sukuk.

**Background**

**Sustainable and Responsible Investment (SRI)**

Sustainable and Responsible Investment (SRI) is the concept of making investment decisions that take into "Vaccine Sukuk" in 2014. Malaysia with the capacity as the biggest Sukuk player has lead the way to issue first ringgit SRI Sukuk in 2017.

Name	YEAR	Issuer	Value	Details
First Green BOND	2008	World Bank	USD440M	Scandanavian pension fund that seeking to support climate focus programme
First SRI Sukuk (Vaccine Sukuk)	2014	IFFIm	USD500M	child immunization and strengthens health systems related to it in some of the poorest countries of the world through Gavi, the Vaccine Alliance
First Ringgit SRI SUKUK (Sukuk IHSAN)	2015	KHAZANAH	RM100M (first issuance)	Trust School trough SPV (Ihsan SUKUK BHD)
			New Issuance 2017	Yayasan AMIR Trust School Programme
First Green SUKUK	2017	Edra Power Holdings Sdn Bhd's unit, Tadau Energy Sdn Bhd	RM250M	finance a large-scale solar project of 50MW in Kudat, Sabah

due to Security Commission introduction of the Sustainable and Responsible Investment Sukuk framework in 2014 and subsequently in 2017 the issuance of Guidelines on Sustainable and Responsible Investment, which isto facilitate the financing of sustainable and responsible investment initiatives. Within the SRI Sukuk Framework, SC has outline four eligible SRI projects categories;

- Natural resources
- Renewable energy and energy efficiency
- Community and economic development
- Waqf properties/assets.

For this research paper, we will concentrate on Community and Economic development focusing on:

- Affordable housing,
- Urban Revitalization,
- Medical Services and
- Education.

ELIGIBLE SRI PROJECTS

NATURAL RESOURCES	RENEWABLE ENERGY AND ENERGY EFFICIENCY	COMMUNITY AND ECONOMIC DEVELOPMENT	WAQF PROPERTIES/ASSETS
<ul style="list-style-type: none"> <li>Sustainable land use</li> <li>Sustainable forestry and agriculture</li> <li>Biodiversity conservation</li> <li>Remediation and redevelopment of polluted or contaminated sites</li> <li>Water infrastructure, treatment and recycling</li> <li>Sustainable waste management projects</li> </ul>	<ul style="list-style-type: none"> <li>New or existing renewable energy (solar, wind, hydro, biomass, geothermal and tidal)</li> <li>Efficient power generation and transmission systems</li> <li>Energy efficiency which results in the reduction of greenhouse gas emissions or energy consumption per unit output</li> </ul>	<ul style="list-style-type: none"> <li>Public hospital/medical services</li> <li>Public educational services</li> <li>Community services</li> <li>Urban revitalisation</li> <li>Sustainable building projects</li> <li>Affordable housing</li> </ul>	<ul style="list-style-type: none"> <li>Any projects that undertake the development of waqf properties / assets</li> </ul>

### **Demand of SRI Sukuk**

According to RHB Global Sukuk Markets Research dated in 2015, the demand of SRI Sukuk is 1.3 times lower Sukuk issued by UiTM make it's the world first University to Issue Green Sukuk (UITM, 2018).

### **Tax Deduction**

One of the main contribution toward the growth is the tax deduction for the expenditure incurred on the issuance or the Labuan Companies Act 1990 [Act 441] and the company has made an election under section 3A of the 2016, global sukuk market witnessed a rebound after three consecutive years of decline following its peak in 2012. Malaysia continued to be the main driver for sukuk issuance for the year, commanding a market share of 46.4% of total issuances, followed by Indonesia and the United Arab Emirates (UAE), accounting for 9.9% and 9.0%. With the main Currencies used is USD and stood-up at 48.9%, Sukuk issuance in 2017 increased by 45.3%, reaching USD97.9 billion, up from USD74.8 billion in 2016, underpinned primarily by the jumbo issuances of some Gulf Cooperation Council (GCC) countries. The expectation toward 2018 market is soften and the expected to be decline to USD70 billion-USD80 billion. This is because Global liquidity is likely to be tighten as European Central Bank has announced it will start reducing the pace of its asset purchases from January 2018, to €30 billion a month from €60 billion. Geopolitical risk is on the rise where issue like sanctions of Qatar as well as the standardization

to include retail investors or waqf money (Ratings, 2018). It is believed that retail investment or waqf money could lift sukuk issuance and reduce pricing by boosting demand. From the observation, the investor not after profit maximization but rather the fulfilment of certain social objectives. That's why there's a connection between waqf and the financing of sustainable development goals. This is because of oversubscription of most SRI sukuk issued

account not only financial returns but also the impact it has on the environment and social development. Hence, the SRI approach considers three criteria; Environmental, Social and Governance factors. (Malaysia C. M., n.d.). The SRI sukuk is an innovative structure that demonstrates that impact investing can be done without scarifying the competitive rates. SRI can potentially cover a variety of sustainable and socially responsible financial tools including green sukuk, vaccine sukuk, education and etc. With the world first SRI Green bond issued in 2008. Later, International Finance Facility for Immunization (IFFIm) has issued first Social Impact Sukuk for medical called

According to SC, Malaysia is currently the largest SRI funds market in Asia (excluding Japan). It has 30% share of the region's USD52 billion fund assets. Malaysia is also the second largest Islamic funds market globally at 29% of the US\$56 billion global total asset under management (AUM).

The growth is highly compared to other Sukuk (Rhb, 2015). Nonetheless as we progress, the demand of SRI Sukuk starts to build-up. This can be seen in 2017, Khazanah Nasional Bhd's retail offering of up to RM5mil sustainable and responsible investment (SRI) sukuk has been oversubscribed. According to MIFC, the growth potential for green sukuk market is raise timely with rising global interest in green financing where innovative fundraising instruments like green and socially responsible investing (SRI) sukuk is a viable solution to address global needs for green and other forms of sustainable and responsible financing. Taking an example of Tadau Energy, a unit of China-owned Edra Power Holdings, RM250 millions of green SRI sukuk has been issue to raise funds to build a 50-megawatt (MW) solar-generated power plant in the east Malaysian state of Sabah.

Form the global bond perspective according to KPMG, the growth has been exponential for Social Impact Bond in 2018 (KPMG, 2018). And according to Whitchurch Securities, 10% of the investment has been directed to SRI in their past year (2017) (McKeever, 2018). Form this we can see that there's an increase of demand in SRI landscape, with the latest one Green

offering of SRI sukuk approved by SC for the year of assessment 2016 until the year of assessment 2020. The tax deduction is applicable to SRI sukuk in which ninety percent of the proceeds raised from the issuance or offering of the SRI sukuk are used solely for the purpose of funding SRI projects. This has been stipulated under the INCOME TAX ACT 1967. In the rule, company that registered, under the Companies Act 2016 [Act 777]; or incorporated under

Labuan Business Activity Tax Act 1990 [Act 445] to be charged to tax in accordance with the Labuan Business Activity Tax Act 1990. Deduction shall be allowed for the expenditure incurred by the company on the issuance or offering of an SRI Sukuk approved the Securities Commission Malaysia. The total amount of deduction allowed shall be equivalent to the amount of expenditure incurred by the company on the issuance or offering of the Sustainable and Responsible Investment Sukuk.

### **Problem Statement**

SRI sukuk framework has been issued by SC in 2014. SC has outline the SRI Eligible Projects. This paper is to study the implication of Community and Economic Development section in the framework. Does the initiative spur the growth of SRI Sukuk or not?

### **Objectives**

Objective of this paper is to study the implication of the SRI sukuk framework has been issued by SC in 2014. How's, the implementation, any challenges, demand as well as tax incentive by the government.

### **Significant**

Possible to improve current practice of Sukuk SRI and any Social Impact investment.

### **Scope**

Malaysia SRI Sukuk and Social Impact investment

### **Organisation of Study**

This paper starts with structured Abstract that provide executive summary on the Purpose, brief methodology and overall findings of the paper. It then continues with Introduction explaining the background, problem statement and objective. In the background we touch the SRI Framework outlined by SC. We then try to gauge the quantity of demand and the tax incentive of it. The literature review provides details on the paper direction and brief of literature that has been done within the selected topics. Exploring one by one the Community and Economic development focusing on:

- Affordable housing,
- Urban Revitalization,
- Medical Services and
- Education.

Next section we discuss the issue and challenges of SRI in Malaysia

The next and final section is the recommendation and conclusion where we provide recommendation based on issue discussed.

## **II. Literature Review**

According to (Bahari, 2016) the Islamic finance industry has witnessed significant developments and that includes sukuk market. In Malaysia, sukuk were first innovated in the early 1990s. It has shown remarkable progress since then. Malaysia has successfully created a niche market in this area. Its recognized as a substitute to conventional bonds. According to IMF World Economic Outlook 2015, global growth is projected to increase slightly from 3.4% in 2014 to 3.5% in 2015, supported by lower inflation, accommodative monetary conditions and sustained growth in global trade. Despite the encouraging growth and development of the sukuk market, it seems that there are many controversial issues that need prompt solutions in order to sustain the development of the sukuk market. To ensure the sustainability of sukuk in the future, all parties including regulator and shariah scholars must take a vast action to settle the several issues on sukuk.

Despite the growth highlighted, there are various parties who argue that the Islamic finance industry has not yet realized its full potential as it focuses primarily on profit and often neglect social objectives. Islamic financial institutions are called to put the theory of Islamic finance into practice and raise their efforts in improving the society by addressing issues such as poverty and socio-economic insecurity. Hence The emergence of financial tools such as Social Impact Bond(SIB) and Social Responsible Investment (SRI) sukuk that promote social impact on top of financial returns may become an avenue for Islamic financial institutions to improve in this aspect. However, much more effort is needed from Islamic finance industry stakeholders in order to facilitate the development of SIB or similar financial tools such as SRI sukuk. It need to be promoted further in order to create greater awareness and attract more interest in the market. Further research can also be done as academic research in the area of Shari'ah-compliant SIB is still very scarce. (Mazwan, 2016)

In Islam, the developments in social sukuk can promote and enhance true realisation of the principles of maqasid al-shariah. Among some of the pressing needs that require financing solutions are problems on poverty, illiteracy, drug addictions, teenage pregnancy, crime and theft, flood mitigations and global humanitarian and relief work. Supranational agencies like the World Bank through its pioneering work on the vaccine sukuk is already paving the way in modelling how new ways of funding social services. Work on social sukuk can also bring a convergence and overlap in the ethical social impact investing space with that of the shariah compliant space and hence the universe of both can be made bigger. (Mohamad, 2017)

In the SRI world, the definition of eligible SRI sukuk issuer in the Guidelines on Sukuk seems to be more stringent compared to the one provided in the GBP and the US' SIB Act. Nevertheless, the SRI Sukuk Framework provides a more comprehensive yet precise list of eligible SRI projects, covering both environmental and social aspects, compared to the GBP (which only focuses on broad categories of environmental projects) and also the USA's SIB Act (explicitly outlines 13 social projects which are aligned

with the US Federal Government's agenda in tackling social illnesses). Indeed, the main difference between the eligible SRI sukuk projects and its conventional counterparts lies in its compliance to Shariah principles. It is also observed that a significant emphasis has been given on SRI legislations in ensuring proper reporting and disclosure provided to the SRI sukuk stakeholders together with critical evaluation on the impacts of SRI programs provided by an independent assessor. (Noordin, 2018)

The world of SRI seeks out positive environmental impact and often requires it to be deemed an ethically responsible activity. Founded in a tradition with deeply entrenched spiritual and ethical notions of environmental and social responsibility (F.Moghul, 2014)

### III. Research Methodology

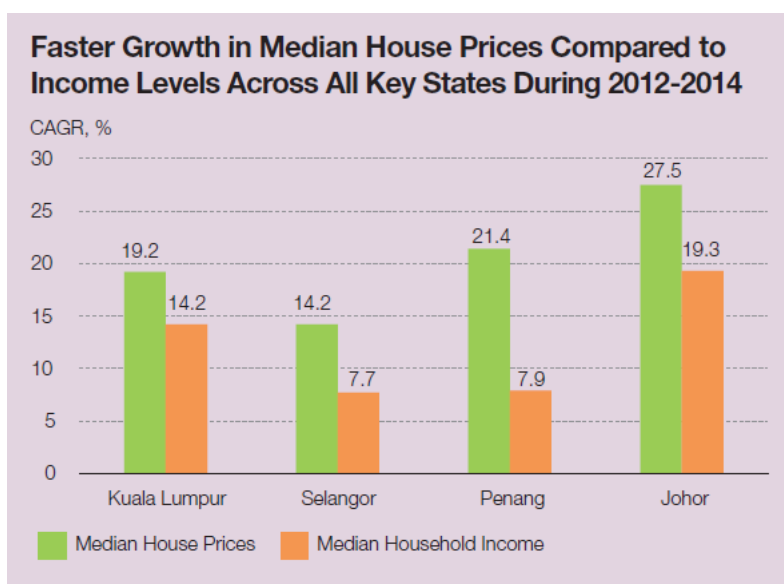
Driven by the SRI Sukuk Framework this paper primarily adopted qualitative document and content analysis, supported by quantitative numerical analysis, in reviewing data such as growth of the demand and cost of developing an affordable house. Data is mainly secondary data, based on document such as Khazanah Report 2016, Hasanah Report 2017 and Global Sukuk Market Outlook 2018.

These documents provide stable, reliable and sufficient material and data for the purposes of this study was culled in an efficient manner, since the data was selected and not collected. The systematic evaluation adopted in this study also involved a review of prior literature, which in this case served to support the overall research (Bowen, 2009).

### IV. Discussion and Findings

#### Affordable Housing and Sustainable Building

Housing affects mainly the economic, political and social aspect of any country and is considered a high value asset. Plays an important role in many aspects, such as: accelerating economic growth (Abd Aziz, 2011). Despite its prominent role, the problem of providing affordable housing remains a global problem (Beer, 2007). According to (Woetzel, 2014), millions of people from different classes in global capitals face the challenge of providing affordable housing without financial pressures. There are 330 million households face a housing crisis in the world and is expected to reach 440 million (1.6 billion people) by 2025. Housing prices in many developing countries, including Malaysia, have risen because of rapid population growth in parallel with rapid urbanization. Furthermore, increase in migration and foreigners (students and tourists), led to hard lack of affordable housing (Buhaug, 2013). In the case of Malaysia, there were 182 households for every 1,000 people in 1970, and there will be 250 households for every 1,000 people by 2020 (Suraya, 2015).



Source: National Property Information Centre and Department of Statistics Malaysia

#### Definition of Housing Affordability:

This term is defined based on the income of the targeted consumers. There are some definitions as following:

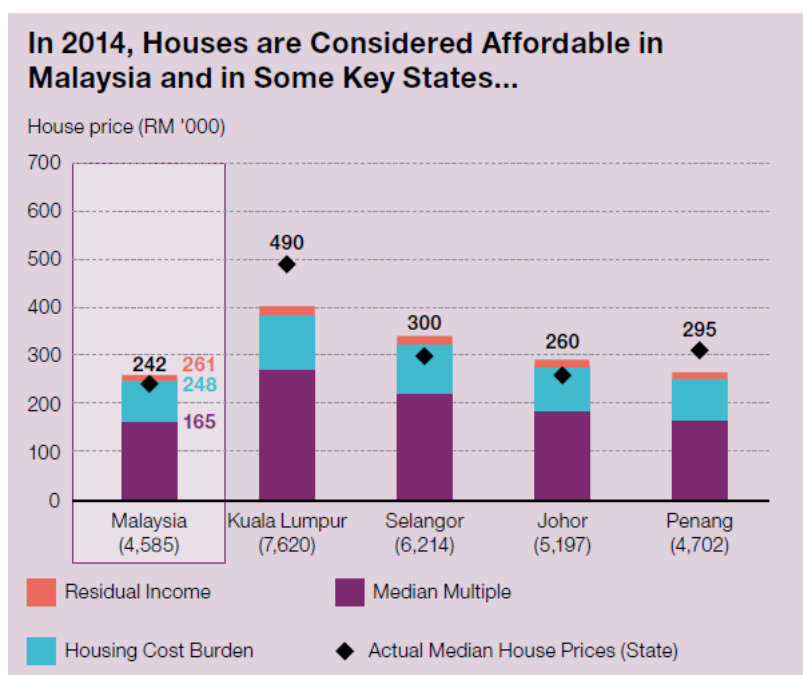
According to Khazanah Research Institute and Bank Negara (Malaysia B. N., 2015), the sign of a well-functioning and affordable home market is when the median price for the housing market is three times the gross annual household income. BNM added that the home monthly payment should not be more than 30 per cent of the income. Payments of more than 30 per cent considers overburdening for the consumer. Housing

affordability is considered as a household selection decision function between housing and non-housing product expenditure (Suhaida, 2010).

### Contemporary scenario

Housing policy was modified by the government after the housing crisis escalated to provide home ownership. The National Housing Policy (NHP) was launched in 2011 to provide suitable and comfortable housing with high quality and affordable housing (Shatar, 2017).

The rise in home prices in Malaysia, especially in urban areas, has caused general concern about the disability to afford housing. According to the National Property Information Centre (NAPIC), housing prices are high compared to monthly household income, where the average price of housing is RM 330,964 in Q2 2016 (NAPIC, 2014b), while the average monthly income of Malaysian households is RM 4,585, as reported by the Department of Statistics Housing Income Survey 2014 (Zainon). This means that households cannot afford to buy a house that is higher than RM300,000.



Source: Department of Statistics, Malaysia, National Property Information Centre and Bank Negara Malaysia estimates

The Malaysian government has implemented some housing programs for poor, low-income households, such as Program Perumahan Rakyat (PPR) and Program Bantuan Rumah (PBR), which is managed through some ministries and agencies in urban and rural areas (Shatar, 2017). In 2011, the government announced My First Home (MFH) program to enable middle-income households who earn a monthly RM5,000 or less to buy an affordable house (Finance, M. O, 2010). In 2012, the 1Malaysia People's Housing Programme (PR1MA) was launched. Then followed by the 1Malaysia Civil Servants Housing (PPA1M) and Rumah Wilayah Persekutuan (RUMAWIP) in 2013. All these steps (MFH, PR1MA, PPA1M and RUMAWIP) discussed the housing affordability among middle-income households (Shatar, 2017). In addition, various government agencies were involved in providing an affordable housing.

### Implementation of SRI sukuk and Major Market Player

The government has made a pledge to offer at least 1 million affordable housing units by 2018. PR1MA and PPA1M have been tasked to build 600,000 housing units by 2018. PR1MA sponsor to build 500,000 units while PPA1M sponsor 100,000 units. As of April 2017, PR1MA has approved 265,033 housing units of PR1MA across the country, where 136,569 units are currently under construction. However, The PPA1M has achieved and exceeded the target two years earlier. The achievement done by PPA1M led the government to set a new target for PPA1M to complete building 200,000 housing units by 2018 (Shatar, 2017).

The real median price of housing in Malaysia was RM242,000 in 2014. After two years, the price of house increased further in 2016 (Ling).

The government has adopted a multi-pronged approach of diversifying sources to facilitate purchasing of affordable houses. Including bank financing of housing loans. Some sources indicate that PR1MA, Malaysia's largest real estate development company, is seeking and planning to raise RM5 billion to support 89 nationwide



projects, includes 89,449 housing units through Sukuk programme. As mentioned before, the company has been given a government mandate to build 500,000 affordable houses. For getting a finance, the company is partnering with four of Malaysia's largest local banks to raise funds. These banks are Maybank Investment Bank Bhd, AmInvestment Bank Bhd, CIMB Investment Bank Bhd and RHB Investment Bank Bhd. According to PR1MA chief executive, the task of building 500,000 homes for the middle-income group in the country is large and requires huge working capital, so the decision to raise funds from an external platform has been taken to ensure the sustainability of this program as well as other sources of funding such as government grants. In terms of the implementation, 267,902 houses have been implemented, about half of which is under construction and 9,791 units have sold with sales value of RM2.6 billion (Finance, M.O, 2010).

According to the above pricing, it can be said that the affordable house is (RM2.6 billion divided by 9,791 units = RM265,550 housing price). This price is cheaper comparing with the average price in 2016. There is a lack of sources about the practice of sukuk financing programme for housing in Malaysia.

### **Output of implementation**

The main objective of this programme is to provide adequate, comfortable, quality to citizens. To supply affordable houses for the poor and middle-income households, particularly in urban areas to own a house. In addition, increased supply of housing due to the availability of many housing construction projects. The ability of individuals to obtain financing for home purchases and thus contributes to the balance of supply and demand for homes.

### **Urban Revitalization**

The definition of Urban Revitalization is the process by which a part of the city in social, urban or economic crisis undergoes a transformation, more or less deep, in order to reverse the declining trend (Global, n.d.). One of the most popular Urban Revitalisation project through Bond is the revitalisation of AKIHABARA where Financing for this project via the urban renewal fund in 2003 came primarily from domestically issued bonds. (DBJ, n.d.).

In Malaysia, currently there's no SRI Sukuk issued specifically for Urban revitalization purpose. But within the SRI space, there's one company that actively performed this duty under the corporate responsibility flags which is Think City. Think City is a wholly-owned subsidiary of Khazanah Nasional Berhad and funded by Yayasan Hasanah. It has been established in 2009. Through the fund, Think City has created 410 projects (end 2017) encompassing of Placemaking, Arts, Heritage & Culture, Research & Advocacy, Capacity Building and Inclusive Spaces. Yayasan Hasanah is also partners for Yayasan Amir.



Think City first task was to rejuvenate the historic city of George Town, Penang. The success of this led to the expansion into 3 other cities, Butterworth, Kuala Lumpur, and most recently Johor Bahru. Today, Think City works closely with local governments, international agencies and various local communities, building effective partnerships and enhancing capacity along the way.

Think City Key Focus are:

- Urban regeneration projects that have a major public component especially those dealing with issues of mobility, greening, waste management, drainage and public markets
- Restoration of heritage buildings or homes, e.g. own a heritage building (over 100 years old) and would like to restore or adapt it.
- Strengthening and building community ties to create a better living environment. For example, creating events such as greening spaces or establishment of community gardens or community learning centres
- Environments at risk – derelict or run-down places that pose a health or security risk to the community living there
- Research or the cultural mapping
- Innovative projects that involve lower income groups that will help build a more inclusive society.

Think City work through its Grants Program with 4 type grants. (Thinkcity, n.d.)

- **Project Grants & Booster Grants**
  - For projects already in existence that needs a booster to achieve its full potential.
- **Repayable Grants**
  - For property owners of buildings that are of significant heritage value. If the restored properties are sold within a ten-year period, owners will have to repay the grant in full. No interest will be charged and after ten years, the grant is no longer repayable.

- **Matching Grant**
  - Urban regeneration projects that have a major public component especially those dealing with issues of mobility, greening, waste-management, drainage and public markets being the key intervention areas.
- **Technical Assistance and Capacity Building Grant**
  - Special grants allocated for technical expertise (for conservation and urban rejuvenation) and capacity building (for public programmes) to fulfil the Grants' objectives

Below are the Grant Value:

Intangible Heritage	Grant Amount	Estimated Project Duration
Project Grants	Up to RM 200K	6 -12 months
Booster Grants	Up to RM 500K	Up to 24 months
Physical Heritage	Grant Amount	Estimated Project Duration
Matching Grants	Up to RM 2 million	Up to 24 months
For all project types	Grant Amount	Estimated Project Duration
Technical Assistance & Capacity Building Grants	Up to RM 100K	6 -12 months

To award the grant, think city have 4methodologieswhich is Baseline Study where they will understand the area in details. Next is the Stakeholder Engagement where they will discuss with stake holder of the projects. The final one is the Strategy and the Implementation plan and effort.



**SAMPLE PROJECT BY THINKCITY:ARMENIAN PARK – GeorgetownPenang**

The Lebuh Armenian park is one of the few green spaces in the George Town World Heritage Site. In recent years there have been some modifications and improvements to the park and surrounding spaces. In 2012 Think City supported a landscape plan for the existing green space and oversaw the ‘greening’ of nearby Lebuh Carnarvon.





Following on from the success of their George Town Grants Programme (GTGP) in 2014, Think City has replicated their Grants Programme to Butterworth, Kuala Lumpur and Johor in 2015. Based on the latest report, total Grants from 2014 to 2016 has rack-up RM21,400,000 with allocation for 2017 is RM16,000,000. This is from 105 grant that has been awarded. (Hasanah, 2017)

### **SRI Sukuk Potential?**

Judging from the project growth there's seems a lot of demand for Urban Revitalisation. But there's still no Sukuk raise specifically for that purpose. With this potential any Khazanah or any organization can actually focus and create Sukuk for this purpose given that in Malaysia there's a lot of old and heritage building that can be revitalize. The Sukuk also can be focus on revitalising old heritage town such as Kuala Selangor, Teluk Intan and not forgetting the East Malaysia; Sabah and Sarawak.

### **Public Hospital and Medical Services**

#### **Vaccine bonds and vaccine sukuk**

Since the global financial crisis for 2008, Islamic finance and socially responsible investment (SRI) funds becoming two fastest areas of growth. Until recently, these two markets have been largely distinct, involving different investors in different geographic regions. The World Bank Treasury has brought the two together by helping the International Finance Facility for Immunization (IFFIm) issue two Sukuks in less than a year.



IFFIm issued its first Sukuk in December 2014, a three-year, US\$500 million makes it the largest debut Sukuk ever issued by a supra-national entity. Known as the "Vaccine Sukuk", it brought the concept of SRI to the Sukuk market. This marked the first time most Sukuk investors had ever considered investing in something that provided both economic and social returns, non-absence of profit, it actually paid a competitive rate of return while supporting the immunization of more children in developing parts of the world. (Vaccine Sukuks\_ Islamic securities deliver economic and social returns \_ Voices and Views\_ Middle East and North Africa.html, n.d.)

### **Malaysia SRI on Medical Services**

In Malaysia, Khazanah recognized health care as a key strategic sector back in 2005, fast-forward eight years later, IHH Healthcare Berhad (IHH), has been listed both at Bursa Malaysia and Singapore Stock Exchange since 25 July 2012. Market capitalisation now stood at RM31.4 billion, making it the largest listed hospital group in Asia and second largest in the world. (Zahrudin, 2014)

This mark as evidence of successful implementation of new economic investment in Khazanah. IHH is the regional leading provider of quality healthcare services in markets where demand for high quality medical care is growing fast. The Group operates in ten countries with more than 25,000 employees in hospitals and health centers and its services (Zahrudin, 2014)

### **Growing the Regional Platform**

In the subsequent year, IHH achieved another significant milestone in March 2013 by winning the tender to build a 500-bed private hospital in Hong Kong, whilst the 320-bed City International Hospital in Vietnam, which is managed by PPL under a hospital management agreement, commenced operations in September 2013. The IHH has been developing its hospitals network since the opening of the 333-bed Elizabeth Novena Hospital in June 2012. IHH opened two new hospitals in Turkey (Acibadem Ankara and Acibadem Bodrum Hospitals) and 150 new beds were added in 2012. In 2014, IHH opened a new 278-bed hospital in Turkey, two other new hospitals under hospital management agreements by PPL and Acibadem respectively also commenced operations; namely the 450-bed Shanghai International Medical Center in China and 210-bed

Faruk Medical City in Iraq. There are more than 3,000 new beds slated to come on stream by 2016. (Zahrudin, 2014)

### **Output of implementation**

Healthcare spending across the region has increased, with increased private healthcare demand due to restrictions on public hospitals, increased wealth levels, increased medical tourism, and demographic change, all of which led to Khazanah identifying Healthcare as a strategic sector. Historical trends of high growth coupled with stable and defensive cash flows added to this sector's financial attractiveness. (Zahrudin, 2014)

### **Issue and challenges to Implement SRI**

KPJ Healthcare Bhd via its Special Purpose Vehicle (SPV), Point Zone (M) Sdn Bhd has issued up to RM1.5 billion Sukuk. Proceeds raised from the sukuk programmes will be used to refinance the outstanding amount under the existing Islamic Commercial Papers (ICP) /Islamic Medium-Term Notes (IMTN) programme of up to RM500.0 million or under a bridging loan facility of up to RM450.0 million; and to finance the group's expansion and working capital requirements. With tenure for ICP programme is seven years from the first issuance and the later is 10 years from the first issuance date.

The sukuk programmes will be secured against a charge and assignment over the designated account and an irrevocable and unconditional corporate guarantee from KPJ. Both the ICP programme and the IMTN programme will not be rated. (KPJ Healthcare unit to issue up to RM1.5b Islamic bonds.html, n.d.). The sukuk murabahah shall not be listed on Bursa Malaysia or any other stock exchange and will be issued in tranches under the sukuk programmes via private placement on a best effort basis. (KPJ Healthcare unit to issue up to RM1.5b Islamic bonds.html, n.d.)

On August 2014 RAM Rating Services Bhd has lowered the outlook on the long-term rating of KPJ Healthcare Bhd unit, Point Zone (M) Sdn Bhd's RM500mil debt notes from stable to negative. The new rating affect both ICP/IMTN which the new rating is AA3/P1. The revision comes following an unexpectedly lacklustre operating performance in FY December 2013. This includes significant spike in staff costs and the higher operating expenses of newly-opened hospitals as well as increased debt due to aggressive expansion. KPJ group's operating profit before depreciation, interest and tax (OPBDIT) also has been decline from 12% in FY December 2009 to 8.9% in FY December 2013. Debt is surging from around RM900mil to RM1.76bil. however, judging from the first quarter of FY ending December 2014, KPJ's performance showed improvements, resulting from higher patient volumes and an upward revision of medical fees. (Star, 2014)

### **SRI Sukuk in Public Education Services**

#### **Contemporary scenario:**

Quality of public education in Malaysia lagging behind compare to the other advance education system. Government are spending 5% to 6% of GDP. But still Malaysia are performing poorly in international tests TIMSS and PISA. Malaysia's performance in internationally-benchmarked assessments - the OECD's Programme for International Student Assessment (PISA) as well as the Trends in International Maths and Science Study (TIMSS) – has deteriorated. Even though government are giving fund to improve the quality of public education but it does not implement effectively due to various reasons like miss management, corruption and negligence.

About 60% of the Malaysian students failed to meet the minimum proficiency level in Mathematics while 44% and 43% did not meet the minimum proficiency level in Reading and Science respectively (Ministry of Education, 2013). In Malaysia the literacy rate surprisingly low in rural areas and indigenous community. Literacy rates for the rural areas of Sabah and Sarawak were significantly lower, at 79% and 72% respectively (UNICEF). Some more, the literacy rate among indigenous communities, measured at 51% (UNICEF). To improve the quality of education, the Government of Malaysia issued the Malaysia Education Blueprint 2013-2025 in 2013. The aim of this Blueprint is to set the stage to transform the Malaysian education system to reach the same standard as the other high performing education system (Ministry of education, 2013). This Blueprint outlines five outcomes that Malaysian education system aspired to achieve – accessibility, quality, equality, unity and efficiency (Ministry of Education, 2013).

#### **Causes behind the poor quality of Public education**

There are many reasons behind the poor output from public education in Malaysia. The World Bank claims that poor training for teachers and a highly centralized educational system contribute to Malaysia's educational shortcomings. Schools in Malaysia are limited in their ability to respond to local needs as a result of centralized education policies that hinders schools' autonomy. There are also lack of public schools and the environment of existing school is not very conducive for education. Furthermore, the students are far behind in terms of soft skill compare to another advance jurisdiction. In its analysis of the findings, the OECD noted that

Malaysian schools had less responsibility for curriculum and assessment than their PISA counterparts and students were more likely to be in institutions where teachers and senior staff had considerably less autonomy than other participants in choosing textbooks and determining course content (PISA 2012)

#### **Implementation of SRI Sukuk in order to sustainable development:**

To create a sustainable development in public education, SRI Sukuk can play an important role. To establish the objective of Malaysian Education Blueprint (2013 – 2015), SRI Sukuk has solid foundation to work closely with plan and develop further gradually.

SRI Sukuk will implement in three categories to enrich the public education in Malaysia. The categories are:

- Firstly, to create more public school and adopt more creative programmed which will not only enrich the quality of education but also grow the interest among students to learn.
- Secondly, to create more community library that student can grow the reading habit and to be more creative to find out the new discoveries.
- Thirdly, to create more training center to develop more skilled teacher for students and to provide soft skill training to the students to fit them in contemporary world.

#### **Socio and Economic output of SRI Sukuk in public education:**

Improve the quality of education: to ensure a quality education, conducive academic environment is in first priority. To establish that conducive environment fund will be needed and SRI Sukuk can fulfil that necessities by the private or public investment. The SRI Sukuk investment will utilise to build up more public school and conducive environment for education. SRI Sukuk can utilise to increase the school facilities so the students will be more motivated to complete their task.

Improve the soft skill of students: SRI Sukuk will be implement to create more enhancing programme like leadership, interpersonal skill, language skill, science club and many more to increase the soft skill of students. Soft skill not only help student to be skilled but also make them confident for their future.

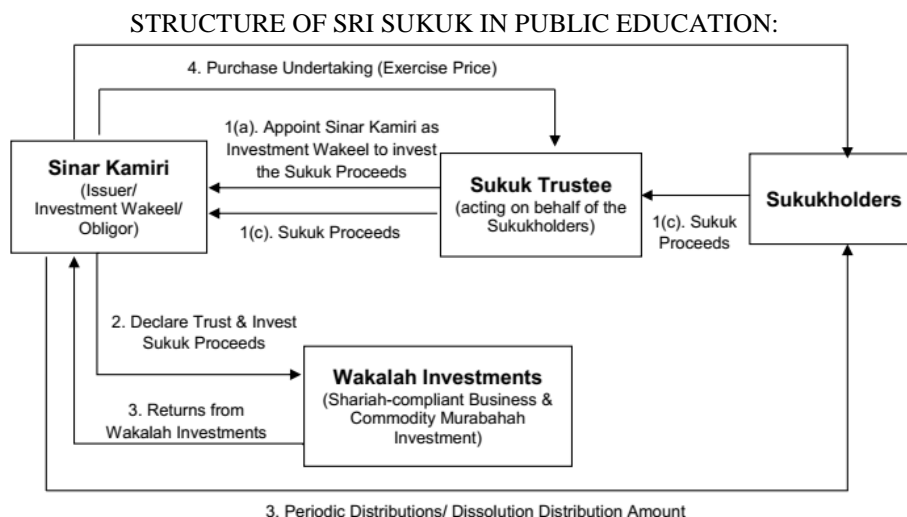
Create more skilled and effective trainer: One of the major issue in Malaysian public education is skilled and effective teacher. Therefore, the students cannot perform greatly. SRI Sukuk implementation in public education can resolve the issue. Through the SRI Sukuk more effective training centre need to establish. From this training centre, the teacher, office staffs and other related staff will be trained perfectly. So, these trained people can teach the students more effectively. To create a good student a skilled trainer is quite important. Since there is not enough training institution for teachers, SRI sukuk could step forward to establish more training centre across the Malaysia to develop the public education in Malaysia.

To create reading habit among the students: SRI Sukuk can implement to establish the community library which will change the students reading habits. It is important for students to read to learn. But in Malaysia there are not much community library where students can grow their reading skill. Even though there are some community library in Malaysia but that is not well equipped and not well facilitated which can attract students to be there. Therefore, SRI Sukuk can utilise to establish more community library in across the Malaysia to change the reading habit of Malaysia students. Both private and public company can step forward to establish this community library to enhance the quality of public education in Malaysia.

#### **MAJOR MARKET PLAYERS OF SRI SUKUK IN PUBLIC EDUCATION:**

Khazanah, Yayasan Amir and Trust Schools: The Trust School system in Malaysia is largely the work of the state investment fund, Khazanah Nasional, its philanthropic foundation, Yayasan Amir, and its education services company, Leaped Services, which was created to develop the teaching and classroom pedagogy for the initiative by SRI Sukuk.

The aim was to transform “the education system through a paradigm shift, with the end goal of maximising student potential, utilising the existing resources.” (CEO Khazanah) In other words, not to create a new educational structure, but to improve student outcomes within the existing system. In this sense, the initiative is more narrowly focussed than any of every Trust School, the Ministry of Education retains ownership as well as responsibility for the teaching staff and funding. The schools are financed in the same way as any other government school, based on size, location and performance. Yayasan Amir is given responsibility, and held accountable for, learning practice and curriculum delivery. In other words, its focus is mostly on learning and developing teaching skills among the staff. Khazanah describes the system as, “semi-privatised the reforms in the US, UK or Sweden. Today Yayasan Amir and Trust Schools has progressed tremendously. Currently, they have 65000 students, 83 trust school in across the 10 states in Malaysia. They have issued two tranches of SRI Sukuk on education in 2015 and 2017. They have more upcoming educational programme to enhance the trust school and its performances. The Malaysian Government aims to set up a total of 500 Trust Schools across the country by 2025.



Step 1: Pursuant to a wakalah agreement (“Wakalah Agreement”) entered into between the Sukuk Trustee (acting on behalf of the investors (“Sukukholders”)) and Sinar Kamiri, the Sukuk Trustee (acting on behalf of the Sukukholders) shall appoint Sinar Kamiri to act as its agent (“Investment Wakeel”) to perform services which will include investing the Sukuk Proceeds in Wakalah Investments. Sinar Kamiri shall issue the Sukuk (“Green SRI Sukuk Wakalah”) and the Sukukholders shall subscribe to the Green SRI Sukuk Wakalah by paying the issue proceeds (“Sukuk Proceeds”).

Step 2: Sinar Kamiri, in its capacity as the Investment Wakeel, shall declare a trust over the Sukuk Proceeds and over the Wakalah Investments acquired using the Sukuk Proceeds. The Green SRI Sukuk Wakalah shall represent the Sukukholders’ undivided and Proportionate beneficial interest in the Trust Assets (as defined below). The Trust Assets Shall comprise of (i) Sukuk Proceeds, (ii) the Wakalah Investments and (iii) the rights, title, interest, entitlement and benefit in, to and under the Transaction Documents. The Investment Wakeel shall invest the Sukuk Proceeds received from the Sukukholders.

Step 3: In respect of such series of the Green SRI Sukuk Wakalah with Periodic Distributions, returns generated from the Wakalah Investments up to the Expected Periodic Distribution Amount shall be distributed periodically to the Sukukholders in the form of periodic distributions (“Periodic Distributions”). The Periodic Distributions shall be distributed semi-annually or such other period to be determined prior to issuance date of the relevant series (each such date for distribution, a “Periodic Distribution Date”).

Step 4: Sinar Kamiri (as the Obligor) shall grant a purchase undertaking (“Purchase Undertaking”) to the Sukuk Trustee (for the benefit of the Sukukholders), whereby on the Scheduled Dissolution Date or the Dissolution Declaration Date whichever is the earlier, the Obligor shall purchase the Sukukholders’ undivided and proportionate beneficial interest in the Shariah-compliant Business at the Exercise Price by entering into a sale agreement (“Sale Agreement”).

### **Issue and Challenges**

SRI Sukuk has enormous opportunity to implement for sustainable community and economic development in Malaysia. Sukuk is one of the best instrument of Islamic banking and finance which is globally recognized and accepted. Malaysia is the top country in the world for sukuk issuance. Therefore it has good strength of issuing SRI Sukuk and implement in Malaysia for sustainable community and economic development. The sectors of Public health, public education, affordable housing and urban revitalization is important sector for sustainable community and economic development. But in terms of Malaysia, those sectors are so developed. Therefore, it has good strength and opportunity to implement SRI Sukuk for development. But there are some issue and challenges which interrupt the progress of SRI Sukuk in Malaysia for sustainable community and economic development. Those are follows:

- Firstly, there are not much work done SRI Sukuk for public education, public health, affordable house and urban revitalization in Malaysia
- Secondly, there are only a one single big player (Khazanah) who implementing SRI Sukuk in Malaysia.
- Thirdly, there are lack of entrepreneur to implement the SRI Sukuk for sustainable community development.
- Fourthly, the investor has lack of knowledge about SRI Sukuk in terms of structure, risk and return
- Lack of us of Technology. The only notable effort is by Sukuk Ihsan.

## V. Conclusion and Recommendation

Sustainable community is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable community and economic development is very important in terms of economic growth of the country. According to the SC, the sector need to develop to ensure sustainable community and economic development which are; Public education, public health, affordable housing and urban revitalization. In these sector, Malaysia has developed quite a good effort, but things like budget cut for education by the government of Malaysia (SANI, 2017) has really make some negative impact to the growth of education. Malaysia needs to source fund from different method to make its more independent and sustainable in future. Therefor SRI Sukuk could be one of the important element to create a sustainable community and economic development.

To enhance and further development of SRI Sukuk Government could play and important role to implement SRI Sukuk for sustainable community and economic development. More private company should step forward to implement SRI Sukuk with collaboration along government. There should not be any monopoly business for SRI Sukuk. The authority should take necessary steps to promote SRI Sukuk to other venture. Need to promote SRI Sukuk to international investor so they can invest for further development.

In affordable housing sector, Sukuk can be issued to source the fund rather than rely on Government. A lot more advertisement need to be done, as we can see from this research that affordable house is still profitable. This can actually attract more investors. On urban revitalisation, promotion of the success model such as Armenian Street and Masjid Jamek needs to be promoted. This is because resultant form that, the socio-economy of the surrounding has increase. More a more entrepreneur gather to showcase their products to the tourist that visit those heritage places. On medical, even-though the method of using share has been successful, plus based on budget 2018, Malaysia has allocated 9.5% of its budget to health (NST, 2017). But the increase of medical cost has been the case year by year. Government hospital is not 100% free anymore. The payment is needed for medical equipment such as bone fracture steel plate. SRI Sukuk can be issue to support those areas. In education, as mentioned earlier the budget cut has been a dilemma for education sector, specific Sukuk issued by professional or corporate to support specific school or programme, such as engineering company Sukuk for vocational and technique schools. With the scholarship has been cut down (Othman, 2016), this is the loop hole that can be filled by SRI Sukuk. As the student grown up, they can contribute back to the sukuk in many forms such as labour or capital. During this fintech era, the use of technology should be encouraged as it will boost-up the Sukuk subscription. Sukuk Ihsan has pioneering this effort by partnering with ATAPLUS and pitchIN. This should be replicate by other Sukuk issuance. Finally, the investor should obtain more knowledge about SRI Sukuk and community and economic development as what has been proven, even though its SRI, but it also generates some good return and profit.

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