

Cagamas: Bank Negara, SC support to boost green sukuk trend

KUALA LUMPUR: Green sukuk in Malaysia is expected to have a better outlook in the near term with the support from Bank Negara Malaysia and the Securities Commission Malaysia, says Cagamas Bhd chief executive officer (CEO) Datuk Chung Chee Leong.

Chung said as banks in the country had started to focus on projects related to green environment, global warming and environmental sustainability, this could help drive the green sukuk trend.

“For example, more developers are building houses that can conserve energy by using solar power.

“Therefore, I think, there will

be a greater traction for green sukuk in the near future,” he said on the sidelines of the 14th Kuala Lumpur Islamic Finance Forum 2017, here, yesterday.

Green sukuk is syariah-compliant. It involves investments in renewable energy and other environmental assets. Its proceeds are used to finance construction, refinance construction debt or finance the payment of a government-granted green subsidy.

In July, Malaysia issued the world's first green sukuk — RM250 million Sustainable Responsible Investment Sukuk — to finance the construction of a solar project in Kudat, Sabah.

Chung said Malaysia had an ideal

ecosystem to facilitate the growth of green sukuk as the sukuk investor base was larger than the conventional investor base.

On challenges faced by the sukuk issuers, Chung said, the tightening of monetary policy by the United States central bank remained one of the biggest challenges because it could create volatility in yields and price.

“We issue on the margin, meaning we issue at X per cent, and use the fund to give to somebody else at Y per cent, but general issuers will be subjected to the increase, and that is why many issuers issue the bond or sukuk before the actual (interest) rate is announced,” he said.

As for investors, Chung said, they would quit from the emerging markets and move to the US market as they expected the US dollar yield to rise.

Early in the session, Bank Muamalat Malaysia Bhd executive vice-president Syed Alwi Mohd Sultan said green bond could be the largest threat in the sukuk industry.

“The green bond industry is going to overtake the green sukuk by itself, as between 2007-2012, the green bond industry only raised about US\$20 billion to US\$30 billion (RM84.6 billion to RM126.9 billion) annually, while sukuk raised about US\$100 billion annually.

“But from 2013 onwards it was different. The green bond industry issued US\$80 billion last year, versus sukuk which only issued about US\$78 billion,” he said, adding that in the first half of this year, sukuk outstanding issuance was US\$56 billion while the green bond was US\$60 billion.

“When corporates want to raise funds for sustainability reasons, will they go for green bond instead of sukuk?” he asked.

Chung said the bond market had always raised a bigger fund against sukuk as the latter was just a certain fraction of the total bond market, and bond has a longer history than sukuk.

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