

MARKET BASED FINANCING FOR GREEN INITIATIVES

GREEN FINANCE defined....

“Financial products & services that consider environmental factors throughout the lending decision-making, ex-post monitoring, and risk management processes, to promote environmentally-responsible investments and encourage low-carbon technologies, industries and businesses”

Source: Pricewaterhouse Coopers

“Green bond is functionally a debt instrument, like any other bond. It offers fixed return, and a promise to use the proceeds to finance and re-finance, in part or fully, new or existing sustainable projects.”

Source: EY

Potential Green Sectors



Energy

- Renewable energy
- Energy efficiency



Manufacturing

- Industrial process efficiency



Transportation

- Public transportation
- Fuel efficient vehicles



Buildings

- Green building
- Sustainable construction



Waste Management

- Waste treatment
- Waste disposal
- Recovery of resources



Water

- Water saving technology
- River basin management
- Waste water management
- Water utilisation

Green Finance Comprises

Financing of green investments (incl. preparatory and capital costs)



Financing of public green policies

Green financial system

Source: Definition of Green Finance, Nanette Lindenberg

Malaysia Makes Sustainability a Key Initiative

- Malaysia is committed to the 2030 Agenda of Sustainable Development Goals (SDG) Roadmap introduced by the United Nations.
- Most of the SDG targets are being addressed through integration of SDG targets into the 11th Malaysia Plan for the 1st Phase implementation (2016-2020).
- Malaysia is a signatory for the Paris Agreement aimed at reducing carbon emissions by 2030.

Securities Commission Malaysia Developing the Sustainable Agenda in the Malaysian Capital Market

- SC introduced the SRI Sukuk Framework in 2014.
- Khazanah Nasional Bhd issued the first SRI Sukuk through the SRI Sukuk framework in 2015.
- Collaborated with Bank Negara Malaysia and the World Bank Group on the issuance of the World's first Green SRI sukuk for Tadau Energy Sdn. Bhd. in 2017.
- In 2017, Quantum Solar Park Malaysia has issued the world's largest green Sukuk worth RM 1 billion to finance construction of the largest solar power project in Southeast Asia.
- Currently leading the initiative under the ASEAN Capital Market Forum (ACMF) in developing ASEAN Green Bond Standards.

World's First Green Sukuk

Tadau Energy Sdn. Bhd. has successfully issued RM250 million of Green and Sustainable Responsible Investment (SRI) Sukuk, the first in the world. Tadau Energy is a Malaysian project company undertaking a large scale solar project in Kudat, Sabah under two 21-year Power Purchase Agreements. The project is considered to be an Eligible SRI project guided by the Guidelines on Unlisted Capital Market Products released by Securities Commission Malaysia (SC). This first green SRI sukuk is the result of a collaboration between SC, Bank Negara Malaysia and the World Bank Group.

The Green SRI Sukuk Tadau has been assigned a long-term rating of 'AA3' by RAM Rating Services Bhd and has been rated 'Dark Green' by CICERO for its long-term vision of low carbon and climate resilient future. Affin Hwang Investment Bank was the principal adviser, lead arranger, lead manager and facility agent.

On 28 August 2014, SC launched the SRI Sukuk Framework to facilitate the financing of SRI initiatives. The introduction of the SRI Sukuk framework is part of SC's developmental agenda to facilitate the creation of an ecosystem conducive for SRI investors and issuers. It is also in line with the rising trend of green bonds and social impact bonds that have been introduced globally to facilitate and promote SRI.

SRI Sukuk Framework



Utilisation of Proceeds

Proceeds must be utilised only for eligible SRI projects



Eligible SRI Projects

Eligible SRI projects includes natural resources, renewable energy and energy efficiency; community and economic development and waqf properties/assets



Assessment

An independent assessor may be appointed to undertake an assessment of the eligible SRI projects



Reporting

Annual reporting on the status of the eligible SRI projects to the investors

Source: Securities Commission Malaysia

Eligible Requirements for an Issuance of SRI Sukuk

- Preserve and protect the environment and natural resources;
- Conserve the use of energy;
- Promote the use of renewable energy;
- Reduce greenhouse gas emission; or
- Improve the quality of life for the society.

Source: Securities Commission Malaysia

Green Technology Incentives

To enhance Malaysia's capability in their innovation for green technology development, the Malaysian government has introduced incentives in the form of income tax allowance or income tax exemption for qualified green projects.

Tax Incentives

Tax Incentive for Green Technology Project

Investment Tax Allowance (ITA) of 100% of qualifying capital expenditure incurred on a green technology project from the year of assessment 2013-2020.

Tax Incentive for Green Technology Services

Income tax exemption of 100% of statutory income from the year of assessment 2013-2020.

Tax Incentive for Green Technology Assets

Investment Tax Allowance (ITA) of 100% of qualifying capital expenditure incurred on green technology asset for the year of assessment 2013-2020.

Incentives for Establishment of Waste Eco Parks (WEPs)

Waste Eco Park (WEP) aims to promote waste recycling, recovery and treatment activities by the industries and provides a sustainable solution to waste management problem. This will encourage investments in holistic waste management activities with incentives for WEP Developer, WEP Manager and WEP Operator.

WEP Developer

Income tax exemption of 70% of statutory income for rentals on building, rental received from the usage of waste collection and separation facility and rental received from waste water management.

WEP Operator

Income tax exemption of 100% on statutory income for a period of 5 years, derived from the qualifying activities undertaken in the WEP.

WEP Manager

Income tax exemption of 70% of statutory income derived from services activities related to management, maintenance, supervision and marketing of the WEP.

Source: Malaysia Investment Development Authority