

Exploring the Nexus between SRI Sukuk and the SDGs: Malaysia's Path toward the 2030 Agenda (2015–2023)

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Received: 19/06/2025; **Revised:** 17/10/2025; **Accepted:** 06/12/2025

Summary: This study examines the role of Green Sukuk (Sustainable and Responsible Investment - SRI) in supporting the achievement of the Sustainable Development Goals (SDGs). The objective is to analyze how this Sharia-compliant financing tool contributes to funding environmentally friendly projects, aligning Islamic ethical values with sustainability principles.

in Malaysia as a spatial framework. The research employs an analytical methodology based on a comprehensive literature review and desk research to assess the potential and contributions of Green Sukuk to sustainable development. The findings indicate that SRI Sukuk can play a strategic role in financing projects that support environmental conservation in Malaysia, renewable energy, and the sustainable management of natural resources. Furthermore, the implementation of Green Sukuk demonstrates adherence to Sharia principles, which emphasize justice and ecological balance, thereby generating added value for both society and the environment; However, challenges remain in the implementation of SRI, including regulatory issues, transparency, and reporting standards that require further harmonization.

Keywords: Islamic finance; SRI sukuk; Sustainable Development Goals (SDGs); Malaysia.

Jel Classification Codes : Q01; P33; R51; G21.

I- Introduction :

In the current global landscape, achieving sustainable development remains a pressing challenge, particularly in addressing environmental, social, and economic issues. Climate change, poverty, food and water security, corruption, and unemployment present significant obstacles to global progress. A 2017 World Economic Forum survey revealed that climate change is perceived as the most urgent issue, with nearly half of the participants considering it their primary concern. Additionally, other critical issues, such as wars, income inequality, and lack of education, continue to impede efforts toward a sustainable future. In response, global organizations, notably the United Nations, have launched various initiatives to tackle these challenges and promote sustainability, calling for commitment and cooperation from all relevant stakeholders. Among these initiatives, the Sustainable Development Goals (SDGs) have provided the foundation for new frameworks, including Socially Responsible Investment (SRI), which integrates social and environmental considerations into investment decision-making.

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Islamic finance, based on ethical investment principles and social responsibility, has emerged as a key mechanism in supporting sustainable development. In Malaysia, the introduction of Sustainable and Responsible Investment (SRI) Sukuk has introduced innovative financing solutions for projects focused on environmental, social, and governance (ESG) goals

The Malaysian government has actively supported the SRI initiative, offering frameworks and incentives that align with the global sustainability agenda. SRI Sukuk, a financial instrument that combines investment returns with social and environmental benefits, has gained recognition as an effective tool for financing projects in areas such as renewable energy, affordable housing, and social enterprises. Despite the positive growth of SRI Sukuk in Malaysia and its potential to drive sustainable development, there is still a gap in understanding its role within the broader context of Islamic finance. Research on the nuances of SRI Sukuk, especially from an Islamic finance perspective, remains limited.

This paper aims to bridge this gap by exploring the development of the SRI Sukuk concept, its implications for the Malaysian Islamic finance industry, and the government initiatives designed to promote its growth.

An analytical approach is employed in this study to discuss the Role of SRI sukuk in Achieving the SDGs Vision in 2030 in Malaysia. It also looks at Malaysia's goals of diversifying its economy and improving its competitive edge through the Vision 2030 Initiative. This study addresses the following research questions :

1. How can SRI Sukuk contribute to achieving Malaysia's 2030 Agenda by aligning Islamic finance principles with sustainable development goals (SDGs),?
 2. What are the measurable impacts of SRI sukuk on environmental and social outcomes ?
- By examining these questions, this study aims to contribute valuable insights into the discussion of SRI sukuk as an Islamic financial tool to advance global sustainability goals. At the end of the paper, the researchers provide recommendations for future research and policy development.

1.1. Literature Review:

the use of Islamic finance aligns with Islamic principles suggests financial solutions.

Pericoli (2020) explains the importance of Islamic financial practices and tools that promote global financial aspirations and managing resources for sustainable development. He explains that these principles support ethical considerations that ensure fairness and equality. These principles are underlines guides of *maqasid al-Shariah* that clearly stated the protection of *maal* (money), property, and *nasl* (progeny). Al-Sharia prioritises humans, whom are regarded as protectors of all homo sapiens on earth. Islamic finance, in its essence can bring about new funding sources, such as value proposition that is not fully leveraged by green finance. Incorporating Islamic finance, green finance and sukuk can strengthen this value (worldbank, 2020,P 25)

Ayus and Asmiyati (2024) revealed that sukuk as an instrument in Islamic finance can increase economic and business activities that relatively influence climate change. Sukuk can anticipate post-SDGs, reduce extreme poverty and improve human equality. For example, Malaysia has secured a financial and social stability relying on inherited Shariah principles. In Indonesia, the government and the United Nations collaborated to use green sukuk for green projects, which showed the effects of this instrument. (Ramdanyah.F, Andri.S, 2022,P237).

Further studies such as (Laldin, M.A., Djafri, F. (2021).P107) have also demonstrated that have demonstrated that Islamic finance shares key principles with impact investment, particularly in addressing societal challenges and contributing to Sustainable Development Goals (SDGs). The

study emphasizes that creative financial tools, including SRI Sukuk, can play a transformative role by funding projects aligned with sustainability and Shariah principles. SRI Sukuk, as a mechanism, fosters financial inclusion, stability, and support for initiatives such as renewable energy, education, and poverty alleviation. Moreover, aligning SRI Sukuk with Maqasid al-Shariah offers a pathway to bridge the gap between ethical financial practices and sustainability objectives, making it a critical instrument for implementing the SDGs’

Mohamad N.et AL, (2023,P327) conducted a study to highlights the transformative role of SRI Sukuk as an innovative Islamic financial instrument for social impact financing. Focusing on Malaysia's SRI Sukuk Framework introduced in 2014, the study assesses its ability to mobilize funds for socially impactful projects such as renewable energy, affordable housing, and education. Using the Khazanah SRI Ihsan Sukuk as a case study, the research underscores its role in aligning investments with Sustainable Development Goals (SDGs). The authors note challenges in data availability and recommend enhancing transparency and governance practices to attract global investors.

Further studies such as (Owais & Mustafa 2018,P2321) explored the application and impact of Malaysia's SRI Sukuk Framework on community and economic development. Using a qualitative approach, the study identified its role in financing education through initiatives like Yayasan AMIR and urban revitalization. However, it highlighted an implementation gap, as projects in healthcare and affordable housing had been minimally addressed. The research emphasized the need for broader application of SRI Sukuk and more effective incentives to meet growing market demands. These findings provide a foundational basis for the current research, which aims to investigate how the Malaysian SRI Sukuk Framework can be further optimized to address these gaps and better support sustainable development objectives.

in comprehensive study conducted by (Engku et al. (2019,P90)) examined the financial sustainability challenges faced by Higher Learning Institutions (HLIs) in Malaysia due to declining government funding. The study proposed two SRI Sukuk models: Wakalah bil-Istithmar for income-generating projects and a Waqf-based Sukuk for non-revenue-generating initiatives, integrating Key Performance Indicators (KPIs) to measure outcomes. Key recommendations included government-backed guarantees, tax incentives, and forming HLI consortia to reduce costs and improve management efficiency. The research highlighted SRI Sukuk's potential in aligning education funding with global sustainability goals.

Study by Syed Azman and Engku Ali (2018) examines the potential of integrating waqf (Islamic endowment) assets into SRI Sukuk to finance impactful social projects. The authors propose Musharakah-based SRI Sukuk models for waqf development, emphasizing their potential to address poverty, healthcare, and education while ensuring compliance with Shariah principles. They suggest enhancing disclosure requirements and independent third-party assessments to strengthen investor confidence. (Mujahid, S. M., & Adawiah, E. R. (2015 ,P5).)Analyzed the growth of the SRI sector, particularly within Islamic finance. It highlighted the significant expansion of Islamic finance over three decades, with assets reaching approximately USD 2 trillion. The study focused on the sukuk market, which tripled in size from USD 45 billion in 2011 to USD 118.8 billion in 2014, despite a temporary decline in 2015 due to falling oil prices and market volatility. Additionally, the paper explored various SRI financial instruments, including green bonds, vaccine bonds, and social impact bonds (SIB), emphasizing their role in addressing environmental and social challenges. It also discussed the potential of SRI sukuk to attract both conventional and Islamic investors by combining financial objectives with environmental, social, and governance (ESG) concerns. The study concluded that while challenges remain, the SRI sector holds strong growth potential due to increasing global interest in sustainable investments.

However, the study by (Zarunnaim & Naim (2019 ,P44)) focused on Malaysia's initiatives to support Sustainable and Responsible Investments (SRI) through the Sukuk approach. The study explored key incentives provided by the Malaysian government, including tax benefits and Green Technology Financing Schemes, to promote SRI Sukuk issuance. It also highlighted the government's commitment to enhancing sustainable economic growth through supportive regulations and frameworks tailored to align with international ESG standards.

I. 2. Green Sukuk Concept:

Sukuk, as a concept, is grounded in Islamic Shariah principles, ensuring that all financial activities are free from *riba* (usury), *gharar* (excessive uncertainty), *maysir* (speculation), and unethical or immoral behaviors (Noman, 2021,P879).

The philosophy of Sukuk is deeply rooted in the Qur'an, as seen in *Surah Al-Anbiya* (Qur'an 21:105): "The earth will be inherited by My righteous servants," and *Surah Al-A'raf* (Qur'an 7:85): "Do not cause corruption in the land after it has been set in order: this is better for you, if you are believers." These verses emphasize the principles of justice, fairness, and responsibility, which underpin the concept of Sukuk.

Historically, Sukuk emerged during the classical Islamic period (700–1300 AD), evolving as an Islamic financial concept to support trade and economic activities. Stemming from the Arabic term *sakk*—meaning "deed" or "instrument"—Sukuk were initially used as documents representing financial obligations that adhered to Islamic teachings. This aligns with *Surah Al-Baqarah* (Qur'an 2:282), which highlights the importance of documenting financial transactions to ensure clarity and fairness. (Ivan Rahmat, S., 2020,P4)

A study by Fitrah and Soemitra (2022) found that green sukuk aligns with *Maqasid al-Shariah*, in five aspects : protecting religion, soul, mind, offspring, and property. This makes green sukuk an important tool for supporting environmental projects while adhering to Islamic principles. (Fitrah, R., & Soemitra, A., 2022,P244).

II– Background on Developing Green Sukuk (SRI Sukuk):

II.1. Definition of Socially Responsible Investing SRI

Sustainable Responsible Investment (SRI) refers to the integration of environmental, social, and governance (ESG) factors into financial decision-making processes. This approach aims to generate both positive financial returns and societal or environmental benefits. It emphasizes long-term value creation by aligning investments with ethical and sustainability considerations while addressing issues such as climate change, corporate governance, and social equity (Renneboog et al., 2008,P1727 ; Friede, et al., 2015,P236 ; Revelli, & Viviani. 2015,P219) ,

SRI is known by many different names in the investment world, including "green investing," "values-based investing," and "community investing," as well as the more recent terms "environmental, social, and governance (ESG)," "impact investing," "gender lens," and "fossil- fuel free" (Townsend, 2020). Nowadays, SRI is characterised as sustainable, responsible, and impact investing, and it has a real force in the financial services and capital markets.

Sustainable responsible investment (SRI) can be regarded as making investments sustainably by emphasising environmental, social, and governance (ESG) topics or the sustainable development goals (SDGs) (Townsend, B. 2020,P13).

Sustainable and Responsible Investment (SRI) broadly encompasses sustainable-themed investments that prioritize Environmental, Social, and Governance (ESG) factors or align with the United Nations

Sustainable Development Goals (SDGs). It represents an investment strategy that integrates ethical, social, and environmental considerations into financial decision-making, promoting positive societal impacts alongside monetary returns (Mohd Ma'Sum Billah, et al, 2024)

The SRI framework emphasizes evaluating the environmental and social effects of investments, as well as their financial viability. It incorporates ESG criteria, which focus on:

1. **Environmental:** Addressing climate change, resource conservation, and environmental protection.
2. **Social:** Prioritizing human rights, fair labor practices, and community well-being.
3. **Governance:** Ensuring accountability, transparency, and ethical corporate behavior.

Portfolio selection and management under the SRI approach involve systematically considering these ESG criteria to align with sustainability objectives.

SRI also shares significant synergies with Islamic finance principles, as both advocate for ethical and responsible investment practices. This alignment has led to growing convergence between the two frameworks, supporting investments that achieve financial returns while promoting social equity and environmental stewardship (Abdullah, N., Nayan, M. A, 2020,P 20)

II.2. The Integration Between SRI and SDGs in Malaysia

Malaysia's Sustainable and Responsible Investment (SRI) Sukuk Framework, introduced by the Securities Commission (SC) in 2014, is designed to foster sustainable finance and responsible investments. This framework facilitates funding for projects aligned with global Sustainable Development Goals (SDGs) while adhering to Shariah principles (Securities Commission Malaysia, 2019,P12) ; (Zarunnaim, & Mohamed, 2019,P51)

Core Objectives :Promoting SDGs: Address global challenges such as clean energy, education, and affordable housing

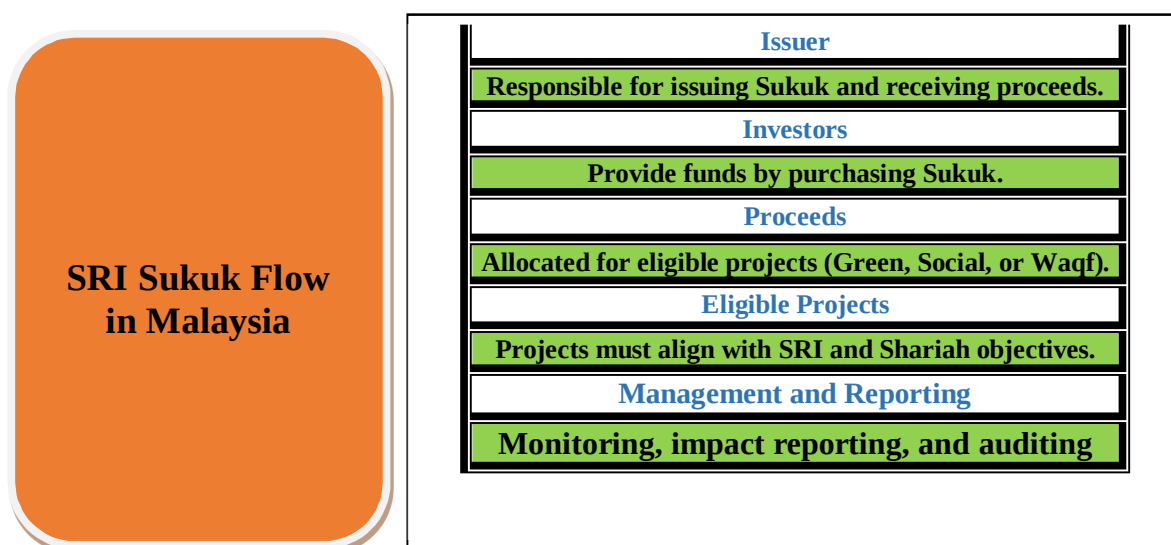
1. Attracting Ethical Investors: Appeal to investors seeking impactful and ethical investments.
2. Enhancing Transparency: Ensure high governance and disclosure standards for stakeholders

II.2 .Process Framework (Securities Commission Malaysia. 2019):

1. Project Evaluation and Selection : Proposals are screened to ensure compliance with SRI objectives and Shariah principles.
2. Proceeds Management : Funds must be managed transparently and allocated exclusively to selected projects.
3. Reporting and Monitoring : Issuers provide regular impact reports detailing fund utilization and project outcomes.
4. External Reviews: Independent auditors ensure compliance with the framework and certify the integrity of the projects (Mohamad, N.et AL . 2023.P235).

II.3. A typical flow of SRI Sukuk in Malaysia :

1. Issuer sells Sukuk to Investors for proceeds.
2. Proceeds are allocated to Eligible Green, Social, or Waqf Projects.
3. Funds and impacts are managed and reported to ensure alignment with SRI goals and compliance

Figure (1): SRI Sukuk Flow in Malaysia

The Source : Prepared by the researchers based on the following references.

<https://www.sc.com.my/api/documentms/download.ashx?id=84491531-2b7e-4362-bafb-83bb33b07416> 15 Novembre 2024., at: 22:00.

Table (1):ELIGIBLE SRI PROJECTS SUSTAINABLE DEVELOPMENT GOALS

Eligible SRI Projects	Sustainable Development Goals (SDGs)
Green Projects	
- Affordable and Clean Energy (e.g., Tadau Energy, Quantum Solar Park)	SDG 7: Affordable and Clean Energy – Financing renewable energy projects.
- Sustainable Cities and Communities (e.g., Merdeka 118 Tower with eco-friendly designs)	SDG 11: Sustainable Cities and Communities – Investment in infrastructure with eco-friendly designs.
- Climate Action (e.g., green infrastructure initiatives)	SDG 13: Climate Action – Mobilizing funds for climate resilience and green infrastructure.
Social Impact Projects	
- Decent Work and Economic Growth (e.g., Sustainability Sukuk issued by institutions like SME Bank)	SDG 8: Decent Work and Economic Growth – Empowering SMEs through sustainable investments.
- Employment Generation through SME Financing and Microfinance	SDG 8: Decent Work and Economic Growth – Job creation through financial support to SMEs and microfinance.

Source : Prepared by the researcher based on the following references.

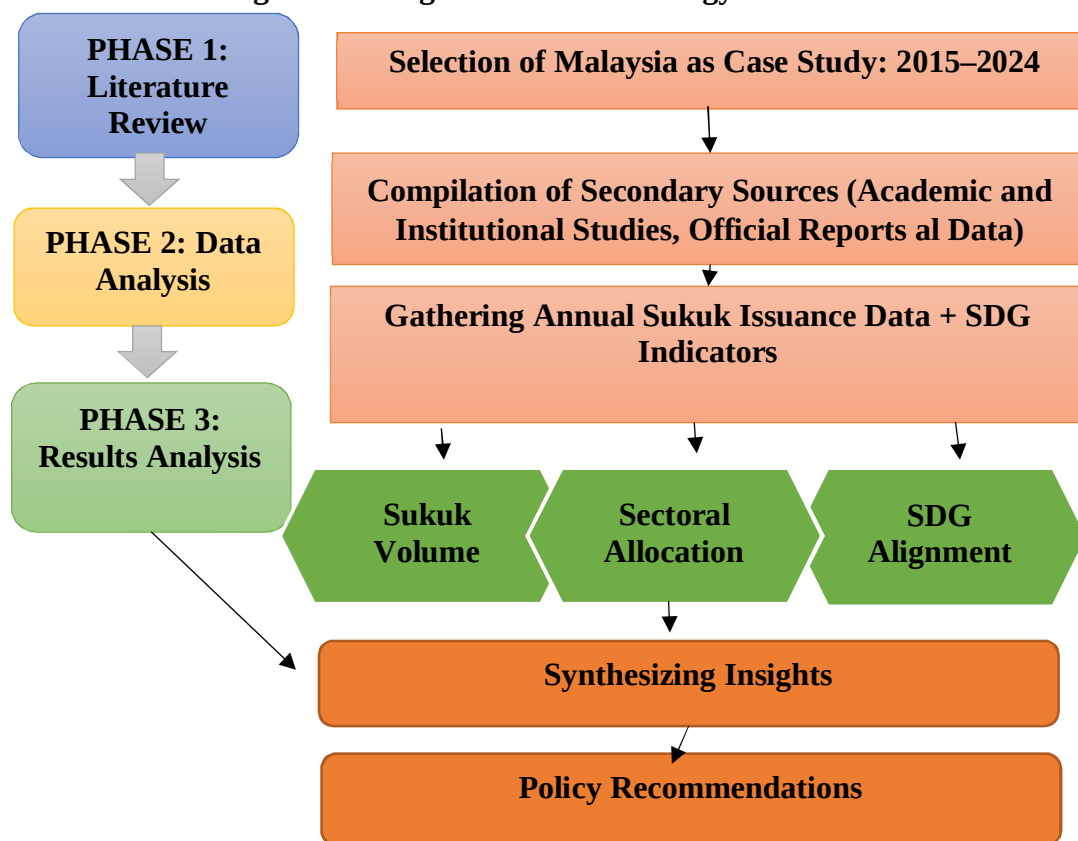
<https://www.sc.com.my/api/documentms/download.ashx?id=84491531-2b7e-4362-bafb-83bb33b07416> 15 Novembre 2024., at: 22:00.

The alignment between Malaysia's SRI Sukuk initiatives and the Sustainable Development Goals (SDGs) is clearly outlined in official reports issued by the Securities Commission Malaysia, particularly under the "SRI Sukuk Framework" (2014) and its updated guidelines (2023). These

reports highlight how the SRI Sukuk framework integrates Islamic finance principles with national sustainability objectives, providing a regulatory foundation for financing projects that directly support Malaysia's 2030 Agenda, this directly addresses the first research question.

III–Methods and Materials: To address RQ2, this section a qualitative analytical approach based on a case study of Malaysia to explore the role of SRI sukuk in supporting the Sustainable Development Goals (SDGs) within the Vision 2030 framework.

Figure 02: Stages of the Methodology Flowchart :



The source : Prepared by the researchers

III Overview of sustainable and responsible investment (SRI) Sukuk in Malaysia

Malaysia as a leading country and a hub of islamic finance ; took the initiative since 2011 in promoting and encouraging SRI projects and investments ; this started with the launching the securities started SC of the Socially Responsible Investment (SRI) Sukuk Framework. The primary objective of the framework was to facilitate the financing of SRI initiatives as an first step setting an agenda to develop a suitable framework and atmosphere for investors willing to supports projects (Ma'Sum Billah,et el , 2024,P111)

III.1. Establishment of SRI in Malaysia :

In recent years, there has been growing interest in socially responsible investment (SRI) sukuk, also known as green sukuk. A number of sukuk in this category have been issued in the global market to finance environmentally friendly projects. This growing trend toward SRI sukuk or green sukuk is primarily driven by the need for sustainable and environmentally conscious financial instruments. The term "SRI" was officially introduced in Malaysia by the sixth Prime Minister during his National Budget 2014 speech on October 25, 2013.

On 28 August 2014, Securities Commission Malaysia (SC) has announced the revisions of its sukuk guideline by including the new requirements for the issuance of SRI sukuk. In Part E, Chapter 20 of the Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors explains that SRI Sukuk can be used to the projects that aim to preserve and protect the environment and natural resources, conserve the use of energy, promote the use of renewable energy, reduce greenhouse gas emission or/and improve the quality of life for the society. Besides, the guideline also highlighted the details of the project for each component as well as assessment and disclosure requirements for the issuer (Zarunnaim, & Mohamed, 2019,P50)

On June 18, 2015, the first SRI sukuk was issued by Khazanah Nasional Berhad through Ihsan Sukuk Berhad, which acted as a Special Purpose Vehicle (SPV). Ihsan Sukuk Berhad was established earlier in 2015 to issue a ringgit-denominated SRI sukuk programme amounting to RM1 billion (Ghani, 2015). This SRI sukuk was structured to promote a new method of funding “trust schools” through the Islamic capital market.

This sukuk also marked another milestone for the Islamic Capital Market (ICM) as the first SRI sukuk approved under the SRI Framework by the Securities Commission (SC). It was rated AAA by RAM Rating Services Berhad (RAM Ratings) (Ghani, M. I. 2015,P213)

Subsequently, various issuances of SRI sukuk followed, and the following table summarizes them.

Table (2):SRI Green Sukuk Issuances in Malaysia

Year	Issuer	Title/Project	Value (RM)	Purpose
2015	Khazanah / Ihsan Sukuk Bhd	Sukuk Ihsan (Tranche 1)	100 million	Trust Schools Programme (social/education)
2016	Khazanah / Ihsan Sukuk Bhd	Sukuk Ihsan (Tranche 1)	100 million	Trust Schools Programme (social/education)
2017	Tadau Energy Sdn Bhd	Malaysia's First Green Sukuk	250 million	Solar projects in Kudat, Sabah
2017	Quantum Solar Park (Semenanjung)	Southeast Asia's Largest Solar Photovoltaic Plant	1 billion	Solar energy development
2017	PNB Merdeka Ventures Sdn Bhd	Merdeka PNB118 Tower	2 billion	Sustainable building standards
2018	Sinar Kamiri Sdn Bhd	Sungai Siput Solar Project	245 million	49MW solar photovoltaic plant
2018	UiTM Solar Power Sdn Bhd	Gambang Solar Project	222.3 million	Large-scale solar development
2019	Edra Solar Sdn Bhd	Kedah Solar Photovoltaic Plant	245 million	50MW solar energy generation
2019	Telekosang Hydro One Sdn Bhd	Small Hydropower Plants in Sabah	470 million	Hydropower development

2020	Leader Energy Sdn Bhd	Kedah Solar Photovoltaic Plant	260 million	100MW solar energy generation
2021	SME Bank	SME Sustainability Sukuk	Not disclosed	Green SME financing
2021	Kuveyt Türk Bank	Sukuk	Not disclosed	Global sustainability financing
2022	-----	Multiple SRI sukuk issuances (Malaysia)	RM10.58 billion (total SRI sukuk issued in Malaysia in 2022)	Several green/social/sustainability sukuk under SC SRI Framework. (see SCM analytics for itemised list).
2023	-----	Multiple SRI sukuk issuances (Malaysia)	RM10.58 billion (total SRI sukuk issued in Malaysia in 2022)	Record year — many issuers and larger programme sizes (see SC analytics for breakdown).
2024	-----	Ongoing issuances / market growth	Market continued with SRI issuance activity (see SC Annual Report 2024)	Continued corporate & ASEAN green sukuk issuance; consult SC 2024 annual report for itemised issuances.

The Sources : Prepared by the researchers based on the following references : (Ghani, M. I. 2015,P213) ,RAM reports. BIX Malaysia. 15 January 2025 at 23:00
<https://www.khazanah.com.my> 1 March 2025 at 14:00
<https://www.bixmalaysia.com/market-insights/ram-reports> 1 March 2025 at 14:00
<https://www.sc.com.my/analytics/bonds-sukuk-market> 15 Novembre 2024., at: 22:00

As shown in Table 2, the evolution of Malaysia's SRI Sukuk market can be divided into four distinct phases foundation, expansion, integration, and consolidation each marked by progressive diversification in project type, issuer profile, and financial magnitude. During the foundation phase (2015–2016), total issuances amounted to approximately RM200 million, primarily dedicated to social and educational outcomes through Sukuk Ihsan.

The expansion phase (2017–2020) emphasized renewable energy and green infrastructure, with cumulative issuances exceeding RM4 billion. This period witnessed significant projects such as Tadau Energy's Green Sukuk and Quantum Solar Park, which established Malaysia's global leadership in Shariah-compliant green finance.

The years 2021–2024 illustrate a structural deepening of the market (integration phase), characterized by multi-sectoral issuances that integrate social, environmental, and corporate

sustainability objectives. The cumulative value of SRI Sukuk during this period—surpassing RM10 billion annually—confirms the sector’s resilience and growing institutionalization.

According to official reports published by the Securities Commission Malaysia (SC), particularly the SRI Sukuk and Bond Framework Reports (2015–2024) and the SC Annual Reports, Malaysia has maintained its position as a regional benchmark in Islamic sustainable finance. These findings suggest that regulatory clarity, investor awareness, and the integration of Shariah-compliant principles have been instrumental in strengthening Malaysia’s leadership in aligning Islamic capital markets with global sustainability and ESG standards.

The figure (3) from the appendix illustrates the growth of Sustainable and Responsible Investment (SRI) Sukuk issuances in Malaysia over the period 2015 to 2023.

Since the inaugural issuance of the first SRI Sukuk in 2015, Malaysia’s market has progressively evolved into one of the most dynamic segments of Islamic sustainable finance. As of December 2023, a total of 41 corporate SRI Sukuk have been issued comprising green, social, sustainability, and sustainability-linked Sukuk with an aggregate value of RM31.27 billion (US\$6.67 billion). This expansion reflects strong regulatory support under the Securities Commission Malaysia (SC)’s SRI Sukuk Framework and alignment with the ASEAN Sustainability Bond Standard

The initial phase (2015–2019) was characterized by modest issuance activity, with annual totals not exceeding RM3 billion. This period marked the foundational stage of the SRI Sukuk ecosystem, focused on establishing regulatory credibility and investor familiarity. However, from 2020 onward, the market demonstrated rapid acceleration—particularly during 2022 and 2023, when issuances surged by more than 200 times compared to the early years. This growth positioned Malaysia as a global leader in SRI Sukuk, representing approximately 11% of the total corporate Sukuk market (RM91.4 billion) by 2023. (Figure 3).

To further encourage SRI issuances, Budget 2024 introduced an extension of the tax exemption on management fee income for SRI funds and a tax deduction on SRI Sukuk issuances, both extending until 2027 (from 2023). Additionally, the scope of the income tax exemption for the SRI Sukuk Grant and Bond Scheme has been expanded to include ASEAN Sustainability-Linked Bond Standards. This grant allows eligible issuers to claim up to 90% of the cost for external reviews, subject to a maximum of RM300,000 (US\$63,999.6) (Figure 4).

These fiscal incentives, together with the recent release of the Maqasid al-Shariah Guidance for the Islamic Capital Market Malaysia 2023, are expected to sustain the momentum and further stimulate the development of the SRI Sukuk market (SIEW SUET MING, 2024)

Overall, this data underscores Malaysia’s growing role as a leader in Islamic sustainable finance, supported by a diversified issuance strategy that aligns with global ESG and SDG priorities.

III.2. Incentives to support SRI in Malaysia : (Zarunnaim, & Mohamed, 2019,P50):

The Malaysian government and regulatory bodies have implemented several **financial incentives** to promote the issuance of **SRI Sukuk**, making them more attractive and reducing costs for issuers (Owais & Mustafa 2018,P2329)

✓ **Tax Exemptions** (Mohamad, N.et AL . 2023.P 334): Tax deductions are granted on expenses incurred in issuing SRI Sukuk. This includes costs such as advisory services, credit rating, and other professional fees associated with Sukuk structuring. These tax deductions lower the barriers for entities to enter the Sukuk market, especially smaller organizations.

✓ **Green Technology Financing Scheme (GTFS)** : Projects issued under the **Green Sukuk initiative** benefit from the GTFS, which subsidizes financing costs for renewable energy and other

environmental projects. This reduces the financial burden of implementing sustainable infrastructure (MIFC Report on Green Sukuk 2017).: (<https://policy.asiapacificenergy.org/sites/default/files/Green%20Technology%20Financing%20Scheme%202.0%20%28GTF%202.0%29%28Intro%29%28EN%29.pdf>)

✓ **Grants for External Reviews** : Issuers can apply for **grant schemes** to cover the cost of obtaining external certifications (e.g., impact assessments, environmental evaluations).

- This ensures transparency and credibility for SRI projects while alleviating additional costs for issuers (Mohamad, N. E. A., Mohd Saad, N., & bin Mohamed, Z. (2023).P339) (Owais & Mustafa 2018, 329).

✓ **Capital Market Development Incentives** : The Malaysian government encourages SRI Sukuk by promoting them as a core instrument in its capital market development roadmap.

✓ Financial and regulatory incentives attract investors to fund impactful projects, such as affordable housing, renewable energy, and social welfare (Owais & Mustafa 2018,P64) (Securities Commission Malaysia, 2019)

III.5. Policy Frameworks Supporting SRI and SDGs (Capital Markets Malaysia. 2023) ; (Securities Commission Malaysia. 2019) :

- **Capital Market Masterplan 3 (CMP3)**: Launched by the Securities Commission Malaysia in 2021, this framework emphasizes the promotion of sustainable finance and aims to facilitate the integration of ESG practices in capital markets.
- **Islamic Finance Initiatives**: Malaysia's leadership in Islamic finance aligns with sustainability principles, integrating ESG factors with Shariah-compliant investing, which supports many SDG-related goals such as responsible production and social justice.
- **Green Technology Master Plan (2017–2030)**: This comprehensive policy supports the growth of green investments, particularly in renewable energy, resource efficiency, and climate change mitigation, directly linking SRI with environmental SDGs.

III .3. Socioeconomic Impact of Sustainable Sukuk in Malaysia (SRI sukuk) :

Sustainable Sukuk in Malaysia has made significant contributions to the nation's socioeconomic development by integrating sustainability with Islamic finance principles. This innovative financial instrument has positively impacted various sectors and stakeholders (Owais & Mustafa 2018,P65).

1. Enhancing Education:

- The issuance of SRI Sukuk has significantly contributed to improving Malaysia's public education sector.
- Example: Khazanah's Sukuk Ihsan funded the Trust Schools under Yayasan Amir, impacting over 65,000 students and supporting 83 schools across 10 states.

2. Affordable Housing:

- SRI Sukuk played a role in addressing the national housing crisis, focusing on providing affordable homes for middle- and low-income families.
- Projects under PR1MA utilized sukuk funding to implement large-scale housing initiatives (Suraya et AL 2015).

3. Healthcare Advancements:

- SRI Sukuk supported health initiatives, such as the "Vaccine Sukuk" by IFFIm, which combined social impact with competitive returns, promoting global immunization efforts.

4. **Urban Revitalization:**

- Although limited, urban revitalization projects like Think City, funded indirectly through SRI mechanisms, demonstrated socioeconomic benefits by enhancing heritage preservation and improving urban spaces, thereby attracting tourism and boosting local economies (Yayasan Hasanah. (2017).).

5. **Economic Empowerment:**

- By integrating socially responsible investments (SRI) into sukuk structures, Malaysia strengthened its position as a leader in sustainable finance.
- SRI Sukuk not only funded projects for immediate community needs but also promoted long-term sustainability, aligning financial returns with social objectives.

6. **Economic Growth and Job Creation**

- Sustainable Sukuk has funded infrastructure projects such as renewable energy plants, affordable housing, and sustainable urban development, contributing to Malaysia's GDP growth.
- By financing green industries and SMEs, it has spurred job creation, particularly in sectors like solar energy and eco-friendly construction (Securities Commission Malaysia. 2019).

III .4.Challenges and prospects (Bank Negara Malaysia 2016,P6)) Owais & Mustafa 2018,P66) Challenges

• **Limited Secondary Market :**

- Insufficient investor base results in poor liquidity for green and SRI sukuk markets.
- Institutional investors require an active secondary market to meet liquidity demands (Mohamad, N. E. A., Mohd Saad, N., & bin Mohamed, Z. (2023).P 340).

• **Lack of Standards:** There is an absence of standardized verification systems for measuring the performance of green bonds and sukuk, making it difficult to assess their effectiveness.

• **Technological Risks :** Many financed projects rely on advanced, unproven green technologies, increasing financial and operational risks.

• **Transparency Concerns :** Ensuring that sukuk proceeds are allocated exclusively to sustainable projects is challenging due to weak verification frameworks (Engku Ali, Et al. 2019,P104)

• **Government Support :** Proactive frameworks, such as Malaysia's 2014 SRI Sukuk Framework, facilitate sustainable financing initiatives.

• **Increased Ethical Investment Awareness :** Growing global investor interest in socially responsible and sustainable projects increases demand for SRI sukuk.

• **Alignment with Global Sustainability Goals :** SRI sukuk enables funding for projects aligned with the UN Sustainable Development Goals (SDGs).

• **Incentives for Issuances :** Government grants and tax exemptions, like Malaysia's Green SRI Sukuk Grant Scheme, encourage issuances.

IV- Results and discussion :

–SRI Sukuk is an effective financing tool for projects that generate measurable environmental and social impact ; It plays a strategic role in advancing key development sectors This supports the conclusion of (Laldin, M.A., Djafri, F. (2021).

– The implementation of innovative frameworks, particularly Khazanah's "pay-for-success" model, has : boosted investor confidence ; Provided clear socio-economic outcomes consistent with the findings of (Owais & Mustafa 2018).

–Malaysia's proactive approach in the SRI Sukuk market has strengthened its position as a global leader in : Sustainable finance ; Shariah-compliant investment ; unlock the full potential

of SRI Sukuk, key enablers must be prioritized: Enhanced private sector participation and expanded international collaboration This corresponds with (Mohamad, N.et AL . 2023):

–These strategies are crucial for ensuring long-term sustainability and for addressing pressing development needs at both national and international levels.

–Challenges and Growth Opportunities:

Despite its progress, Malaysia faces challenges such as the need for further standardization, increased investor awareness, and deeper integration with global green finance platforms.

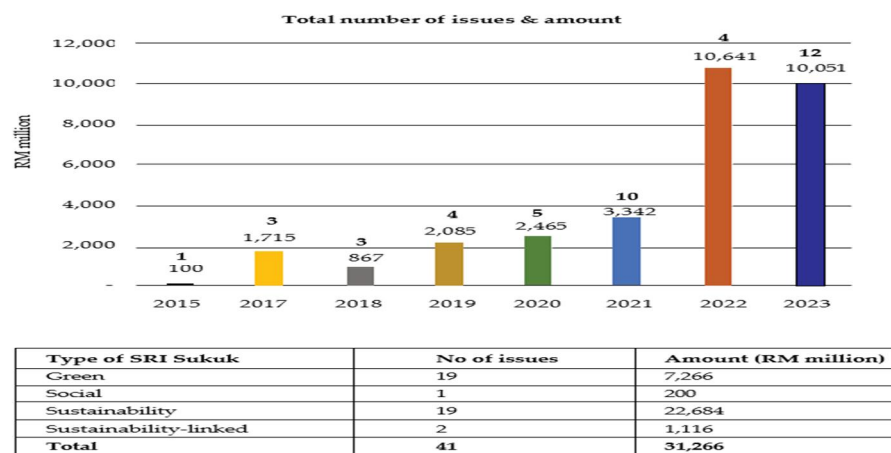
However, these challenges also present valuable opportunities for market development, including the strengthening of public-private partnerships and the expansion of green financial instruments aligned with Malaysia's sustainability agenda.

V- Conclusion:

In conclusion, This paper examines how SRI Sukuk supports green finance in line with Malaysia's 2030 Agenda. It highlights the government's efforts to develop the SRI ecosystem and promote sustainable development. Thus, from the analysis, the study found tha the development and implementation of SRI Sukuk in Malaysia have exemplified the nation's progressive approach to fostering sustainable economic and social growth. Through strategic government initiatives, such as tax incentives, financing schemes, and the establishment of comprehensive frameworks—including the SRI Sukuk Guidelines, ASEAN Green Bond Standards, and ASEAN Sustainability Bond Standards—Malaysia has laid a solid groundwork for the SRI Sukuk ecosystem to thrive. These measures reflect a dual commitment: advancing Shariah-compliant investments while addressing pressing societal challenges

- Appendices:

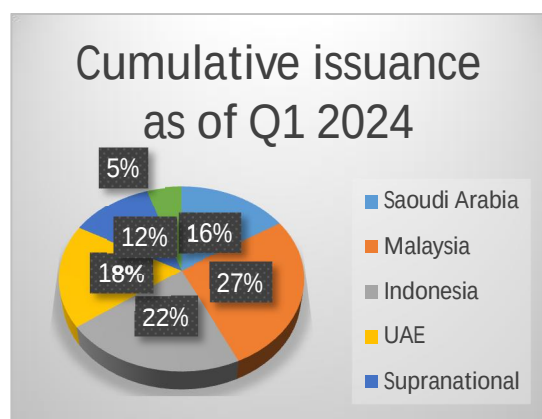
Figure (4): provides a snapshot of global sri sukuk issuances between 2015 and 2023



Source: RAM, SC

The Source : <https://www.bixmalaysia.com/learning-center/articles-tutorials/malaysia-sri-sukuk-to-gain-momentum> 1 March 2025 at 14:40

Figure (5): Cumulative issuance as of Q1 2024



The source :LSEG Data & Analytics

Figure (6): An Overview of Sustainable and Responsible Investment Sukuk for Social Impact Financing The Eligible SRI Projects



The source : Mohamad, N. E. A., Mohd Saad, N., & bin Mohamed, Z. (2023). An Overview of Sustainable and Responsible Investment Sukuk for Social Impact Financing. In A. H. Jaaffar, S. Buniamin, N. R. A. Rahman, N. S. Othman, N. Mohammad, S. Kasavan, N. E. A. B. Mohamad, Z. M. Saad, F. A. Ghani, & N. I. N. Redzuan (Eds.), *Accelerating Transformation towards Sustainable and Resilient Business: Lessons Learned from the COVID-19 Crisis*, vol 1. European Proceedings of Finance and Economics (pp. 327-341). European Publisher. <https://doi.org/10.15405/epfe.23081.29>

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