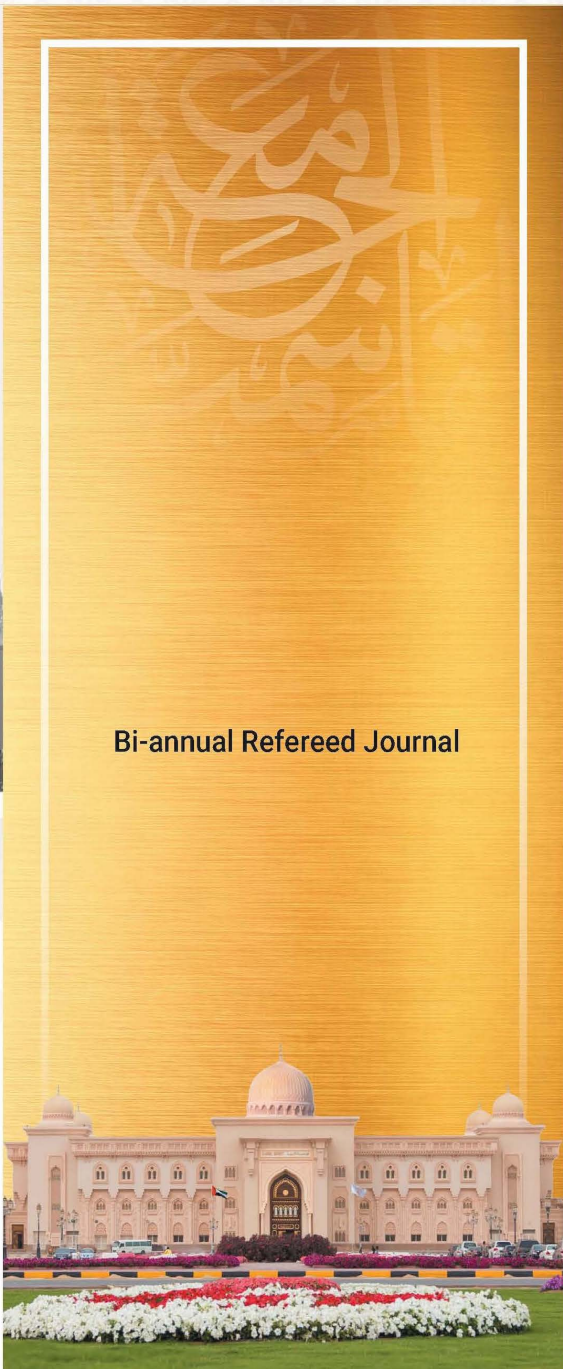


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تطوير إطار صكوك استثماري مستدام ومسؤول للإجارة لتطوير البنية
التحتية الصحية في شرق ماليزيا

DEVELOPING IJARAH-SUSTAINABLE AND
RESPONSIBLE INVESTMENT SUKUK (I-SRIS)
FRAMEWORK FOR THE DEVELOPMENT OF HEALTH
INFRASTRUCTURE IN EAST MALAYSIA¹

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الملخص

لا يزال جزء من ماليزيا لا يتمتع بامتياز الوصول إلى جميع مزايا الرعاية الصحية التي تقدمها الحكومة الماليزية؛ وهو ما يظهر الحاجة الملحة لإيجاد نموذج بديل يمكن أن يساعد في تمويل بناء المرافق الصحية في شرق ماليزيا. ستقترح هذه الدراسة إطارًا باستخدام نموذج صكوك مبتكر يمكن أن يساعد في تمويل تطوير المرافق الصحية. ولتحقيق ذلك يعتمد هذا البحث طريقة بحث ثانوية بناء على البحث المكتبي. فقد تم تحليل الدراسات السابقة حول مسألة تمويل الخدمات الصحية وإمكانية الوصول إلى المرافق الصحية في المناطق الريفية خاصة في شرق ماليزيا بشكل نقدي لإنشاء الإطار المقترح الجديد. تعمل هذه الورقة على تطوير إطار صكوك الاستثمار المستدام والمسؤول كمصدر لتمويل تطوير البنية التحتية الصحية والمرافق في شرق ماليزيا. ستوفر هذه الدراسة بعض الأفكار للحكومة والهيئات التنظيمية والإداريين الصحيين والشركات وصناع السياسات حول بدائل تمويل وتطوير المرافق الصحية.

Abstract

There is still a part of Malaysia that still does not have the privilege to access all the healthcare benefits offered by the Malaysia government. Therefore, there is a demanding need to find alternative model that could help in funding to build the health facilities in East Malaysia. This study will propose a framework using an innovative sukuk model that could help in financing the development of health facilities. This research is using a secondary research method, which adopts desk research. Literature from the past research on the issue of financing health services and accessibility to health facilities in rural areas especially in East Malaysia are critically analyzed to establish the new proposed framework. This paper is developing an Ijarah- Sustainable and Responsible Investment Sukuk (I-SRIS) Framework as a source to financing the development of health infrastructure and facilities in East Malaysia. This study will provide some insights for the government, regulators, health administrators, corporations and policymakers about the alternatives to fund and develop health facilities.

الكلمات الدالة: إطار صكوك استثماري مستدام ومسؤول للإجارة، الصحة، التمويل، شرق ماليزيا.

Keywords: I-SRIS Framework, Health, Financing, East Malaysia.

1.0 Introduction

Malaysia healthcare offers two types of health services which are public and private health services to the Malaysian. The public sector consists of government-run primary care services which are funded through the general taxation with the health budget from the Ministry of Health that has been set up annually. Meanwhile, for the private sector, the financial sources are from the private insurance companies, managed care organizations, out-of-pocket (OOP) payment from households and private corporations. Regularly, the public healthcare is dominated by the people in rural areas while private sectors mainly have a place in urban areas which usually have a better economic development.

Malaysia can be categorized as a successful country in terms of health outcomes in which implies a two-tier health system. This can be accomplished through a mix financing system. The government is the primary financier and those who can afford the service will be using private health services by using their own savings. However, common concerns in Malaysia are the rising healthcare costs and the expansion of private healthcare which would put health equity and universal coverage at risk. This creates a systematic gap in Malaysia's two-tier health system which could weaken the rationale for universal coverage if uncontrolled constraints in the private system begin to negatively affect the universal health coverage (Chua and Cheah, 2011). This strengthens the needs of more non-private healthcare that could deliver the same services as the private healthcare in the concentrated area that have no health care facilities and services, particularly the rural areas.

2.0 Literature Review

According to Jacqueline and Allotey (2018) Malaysia's health system is currently at a crucial point where the government needs to decide the plans to improve the health services ahead and to address the challenges posed by demographic shifts and impact of noncommunicable diseases. Malaysia has been recognized globally for their high-quality performance in the health system. Recently, during pandemic COVID-19, Malaysia managed to pull-off a well-coordinated multi-sectoral effort in disease control and prevention. Nevertheless, Malaysia is facing challenges in maintaining UHC in the future.

Hong and Julius (2012) mentioned that in order to achieve the universal coverage endorsed by The Member States of WHO, Malaysia must be ready for responses in order to adapt with it. One of the WHO's key criteria for Asia Pacific countries to achieve UHC is a minimum total health expenditure of 4%-5% of the gross domestic product. Wan et. al (2014) describes UHC is achieved when a complete package of health care is made accessible to the entire population using public funds without burdening the poor. However, according to the Ministry of Health Malaysia (2019), Malaysia's health expenditure in 2019 was 4.3% and it has shown an upward trend since 1997.

Batumalai (2020) mentioned that after more than half a century since Malaysia was formed, East Malaysia which consists of Sabah and Sarawak is still a way behind in terms of equitable health provision compared to peninsular Malaysia. The size of East Malaysia covers more than half of Malaysia but they have a smaller distribution of doctors and specialists and also medical infrastructures and facilities which then raises the cost of healthcare access. Flying Doctor Services (FDS) and Medical Evacuation (MEDEVAC) were provided by the Ministry of Health (MOH) for people residing in rural areas. However, FDS only goes out providing services to rural areas for only once a month or at least once every quarter of year and will spend only a maximum of 3 hours at particular places.

Furthermore, East Malaysia has a moderate number of healthcare facilities covering minor illnesses services. There are also districts that have no access to basic medical services such as Nabawan

and Tongod in Sabah and Belaga, Dalat and Julau in Sarawak. Yeo (2020) believed that it is time for Sabah state government to take action in improving the availability of primary healthcare especially in remote areas of Sabah. Better health infrastructure would help in the physical, mental and social well-being of people who are affected. The state also would be better equipped to deal with the possibility of any infectious disease or another pandemic after COVID-19 which has badly affected Sabah's healthcare system.

This proves that there is still a part of Malaysia that still does not have the privilege to access all the healthcare benefits offered by the Malaysia government. Therefore, there is a demanding need to find another model that could help in funding to build the health facilities in East Malaysia utmostly in the rural areas. This study will discuss the proposed model using an innovative sukuk model that could help in financing the development of health facilities in East Malaysia. This model also could help in giving insights to the investors and practitioners to implement this model in the real world. The main concern is to give equal accessibility to people in East Malaysia in getting their medical services.

3.0 Methodology

This study will focus on SRI sukuk and corporate waqf institutions in Malaysia to understand the concept and data available in these fields. For the purpose of designing a Ijarah SRI-Sukuk model in developing the waqf properties which in this context is the development of health infrastructure in East Malaysia. Data used for this research is by using secondary data obtained from the previous research available. Desk research was implemented to get the best available data where literature from the past research, journals, newspaper articles and government reports were analyzed in detail.

4.0 Sustainable and Responsible Investment (SRI)

According to the Securities Commission (2014), SRI is a type of sukuk in which the revenues are used solely for the purpose of funding the activities related to the approved SRI initiatives. It is in line with the United Nations Sustainable Development Goals (SDGs) framework

which helps in financing needs for the 17 SDGs descriptors. Since the EU's Action Plan on Financing Sustainable Growth was issued in 2018, SRI has evolved significantly. Moreover, SRI investors finally realised how their investment activities can have a meaningful impact on the real-world.

Despite the fact that Sustainable and Responsible Investments (SRI) have grown dramatically in recent years, the condition of our planet and the ecosystem continues to deteriorate. Scientific study reveals that we are nowhere near rectifying negative sustainability impacts, whether they are related to climate change or biodiversity. As a result, investors must target their efforts more than ever in areas where they can deliver beneficial environmental and social consequences (Eurosif, 2021).

5.0 Sustainable and Responsible Investment Sukuk in Malaysia

SRI Sukuk Ihsan is the first SRI sukuk launched by Khazanah Malaysia Berhad in 2015 through a Special Purpose Vehicle (SPV) named as Ihsan Sukuk Bhd. During its first issuance, the total Ihsan SRI sukuk programme had RM1 billion in nominal value with a period of 25 years tenure. Since Khazanah holds the role as the credit obligor, the Rating Agency Malaysia (RAM) has rated the sukuk as AAA. The Joint-Shari'ah Advisors are CIMB Islamic Bank Berhad and Amanie Advisors Sdn. Bhd while the underlying contract for this SRI is Wakalah bi Al-Istithmar which has the principle of having a representative with the purpose of investment and the funds are allowed to be used for investment. Ihsan was appointed to become the investment agent then Khazanah was assigned as its another representative or also known as sub-representative to manage the Sukuk fund. The Sukuk proceeds collected from the sukuk holders will be used by the Khazanah to invest in commodity Murabahah.

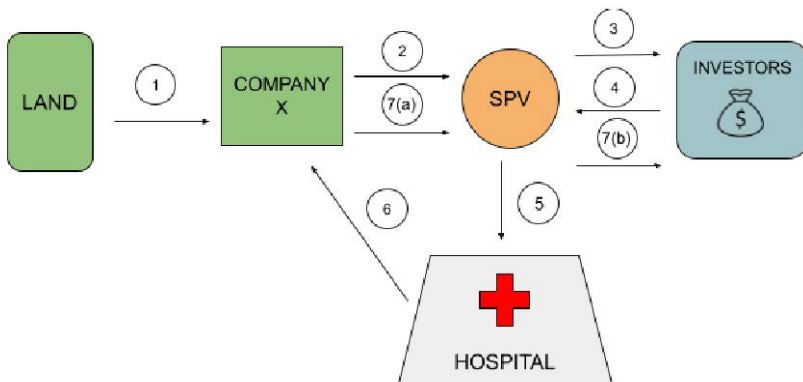
The return system is based on the pre-determined key performance indicators (KPIs) achieved in order to evaluate the effectiveness of the social programme before the maturity date. The KPIs were set including the accomplishment of the schools' teachers, the school's management and academic achievements of the students. In order for Sukuk Ihsan to be a successful programme, they must fulfil all the criteria. While the sukuk-holders are expected to receive up to

the nominal value allocated as agreed during issuance if the criteria of the KPIs are not reached (Ghani, 2015). Ghani (2015) also explained the unique aspect of Sukuk Ihsan is that it permits the sukuk holders to turn their investment into a donation at any time throughout the term. As a result, the sukuk-holders will be eligible to obtain tax vouchers in the amount equal to the donation amount or the reduction in the nominal value of their respective sukuk holdings.

6.0 The Proposed Model of Ijarah-Sustainable and Responsible Investment Sukuk (I-SRIS) Framework

Quek (2009) mentioned that one of the ways to close the health care gap in Malaysia is by having a better fund to equip the current disparities. More hospitals with better equipment and health specialists could be built in rural areas. Moreover, the dependence on the small clinics and FDS could be reduced and people in East Malaysia do not have to spend additional costs to get the health services. Therefore, this I-SRIS framework is a proposed solution to fund the cost of building and managing the health infrastructure.

Figure 1: I-SRIS Framework



Source: Authors own

This model starts with the land which is under the responsibility for the government or the Majlis Ugama Islam Sabah (MUIS) or Majlis Islam Sarawak (MIS) which is Sabah's and Sarawak's State Islamic Religious Council to identify any Waqf land available in the state. The piece of land then will be used to build the waqf properties and development and will then be directed towards becoming an entity that generates income and at the same time solving the social problems. Health system in Malaysia also would be improved and UHC could be maintained throughout the future years.

- Arrow [1] indicates the land which is the waqf land and the respective company joining a Ijarah and Musharakah contract (a profit and loss sharing partnership). The company then will become the obligor and it has to be a trusted obligor as the company needs to complete the project as well as carry out the whole process.
- Arrow [2] shows that Company X must set up a SPV to help in generating the assets and the company
- SPV then issues the Ijarah SRI sukuk to the investors designated by Arrow [3]. The SPV and the investor must be in Mudabahah (profit sharing) contract where the investors are the one who provide the cash which is also known as Rabbl al-Mal and the management would be managed by the company or SPV in this case.
- Cash proceeds from the investors shown by Arrow [4] will then be managed by the SPV and next the SPV will develop the waqf properties (Arrow [5]) and at the same time company X also will manage the Waqf properties which is the in this context is specialist hospital that will be built in the East Malaysia, shown by Arrow [6]
- Arrow [7(a)] & [7(b)] indicates that company X will distribute the income share that has been generated by the waqf properties to the partners involved based on the agreed percentage.

Other than developing and managing the Waqf properties, the responsible parties could also use the proceeds to fund the specialists and provide extra incentives for them. There is also a better reward and incentive that would encourage more specialists and fresh medical

graduates to choose East Malaysia as a destination to do their medical posting. Therefore, more supplies of medical practitioners would be available in East Malaysia. In this model, the obligor would be the private corporations or the government. It is more preferable for the government to act as the obligor as the government is the one who has the responsibility to give access to the better health infrastructures with excellent facilities to people in East Malaysia. This model would help the government to reduce the cost in building new health infrastructure for the people in rural areas.

The concept of Ijarah Mawsufah Fi Zimmah is used for the return reimbursement for this model since it provides peace of mind to the lessee in the event that a project is terminated or abandoned (Dieng, 2019) According to Global Islamic Finance Report (2016), Ijarah Mawsufah Fi Zimmah is a lease deal that involves the leasing of properties that are still being built and the main benefit of adopting it is that the lessor may earn advance rental payments during the entire building period while at the same time legally owned the property until the end of the lease term. The investors do not have to wait until the project to complete in order to get the returns as it would take years. The concept of Ijarah Mawsufah Fi Zimmah will be applied here. The return amount would be distributed depending on the return received by the business which has been agreed before and as well as the percentage of the capital contributed by the investors

7.0 Sustainable and Responsible Investment Sukuk in Malaysia

The developed I-SRIS framework could help many parties especially the rural community in East Malaysia. Other than that, this model assists the government in funding the development of health infrastructures. Thus, from a broader perspective, I-SRIS framework could deliver a great impact to the health system, society and theoretical literature.

7.1 Impact on the health system

Since WHO has urged every country to incorporate in maintaining the universal health coverage (UHC), this framework could help in maintaining the status. The more availability of the health

infrastructure and facilities, the more people could have easy access to the health services. The out-of-pocket payment also could be reduced since these health facilities subsidized the total spending of the health treatment. Furthermore, the better rewarding system and promising career development could contribute to more specialist and medical practitioners and hence would help in the development of a better health system in Malaysia.

7.2 Impact on Society and Economy

As this framework is focusing on financing the infrastructure, the economic activities could be diversified with the new innovative model which consists of few Islamic financial instruments. The issuance of sukuk in the model also could help in increasing the growth of Islamic financial assets in Malaysia and as a result will also boost the economy. Other than that, this model could help the society in getting access to affordable health services. Health services should be accessible to everyone, and people should not be charged with any additional cost in terms of time and money to get it.

7.3 Impact on the Theoretical Literature

The proposed framework will have the added value to the existing literature in the areas of SRI sukuk and improvement of health facilities. This study created a new literature for the development of the health system and efficiently utilized the use of Islamic financial instruments especially the SRI Sukuk for socio-economic development especially in Malaysia. Furthermore, this model is expected to give insights to the future investors who are interested in investing through this instrument.

8.0 Conclusion

Islamic financial system has brought so much positive impact towards the society and the annual growth of Islamic financial industry has kept up with a double digit of increment throughout the years since its inception. Nonetheless, the full potential of Islamic finance industry has yet not been touched. A lot of Islamic financial instruments with a

twist of innovation to combine between the instruments could help to close the gap between the theory and practices.

This study has developed explanatory research on I-SRIS framework as a tool to finance the development of waqf assets or properties and specifically in financing the needs of more health facilities, infrastructures and practitioners in East Malaysia. East Malaysia has the right to get equal medical access as the people in West Malaysia. Lands that are unutilized can be used to bring benefit to the society in many ways. Current waqf and sukuk models available mostly focusing on the development of Waqf properties in West Malaysia. The regulators, governments, investors and waqf administrators could use this study to improve the socio-economic development in East Malaysia and make use of the available resources.

8.1 Limitations and Direction for Future Research

This paper has at least two limitations. First, this study is only for Malaysian experience. Second, it is conceptual paper where there is no empirical analysis conducted. To improve this study in the future, following are some directions for further research: the developed model should be validated through interview and surveys to gauge the intentions of the stakeholder in using this model. Theories such as Theory of Reasoned Action (Fishbein and Ajzen (1975) and Theory of Planned Behavior (Ajzen, 1991) can be very useful in this regard.

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