

# Second-Party Opinion

## The Government of Malaysia SDG Sukuk Framework

### Evaluation Summary

Sustainalytics is of the opinion that the Government of Malaysia SDG Sukuk Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2018, Green Bond Principles 2018, and Social Bond Principles 2020, and ASEAN Sustainability Bond Standards 2018. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds — Access to Essential Services: Healthcare, and Education, Affordable Basic Infrastructure, Employment Generation through Small and Medium Enterprises (SME), Clean Transportation, Sustainable Management of Living Natural Resources, Renewable Energy, and Green Buildings — are aligned with those recognized by the Green Bond Principles, the Social Bond Principles, and ASEAN Sustainability Bond Standards. Sustainalytics considers that the eligible categories are expected to facilitate the transition to a low-carbon economy and lead to positive social impacts in Malaysia, while advancing the UN Sustainable Development Goals (SDGs), specifically SDG 1, 3, 4, 6, 7, 8, 9, 11, and 15.



**PROJECT EVALUATION / SELECTION** The Government of Malaysia has established the SDG Sukuk Technical Committee, which will be responsible for selecting projects in line with the Framework's eligibility criteria. The Ministry of Finance will be responsible for reviewing and approving eligible expenditures. Sustainalytics considers the project selection process in line with market practice.



**MANAGEMENT OF PROCEEDS** The Ministry of Finance will be responsible for the management of proceeds. Pending allocation, unallocated proceeds will be held in cash, cash equivalents or existing bond maturities. The Government of Malaysia intends to fully allocate the net proceeds to eligible expenditures within the first year of issuance. Sustainalytics considers the management of proceeds process in line with market practice.



**REPORTING** The Government of Malaysia intends to report on the allocation and impact of proceeds on its website, on an annual basis, until full allocation. Allocation reporting will include the summary of project details, amount of allocated proceeds, and balance of unallocated proceeds. In addition, the Government of Malaysia is committed to reporting on relevant impact metrics. Sustainalytics views the Government's allocation and impact reporting as aligned with market practice.

### Alignment with the ASEAN Sustainability Bond Standards

The ASEAN Sustainability Bond Standards provide guidance to issuers and communicate more specifically what an issuer should do to issue a credible sustainable bond within Southeast Asia. Sustainalytics is of the opinion that the green and social categories under the Framework align with the ASEAN Sustainability Bond Standards.

<b>Evaluation date</b>	April 16, 2021
<b>Issuer Location</b>	Putrajaya, Malaysia

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## Introduction

The Government of Malaysia (“GoM”, the “Government”, the “Country”, or the “Issuer”) GoM has developed the Government of Malaysia SDG Sukuk Framework (the “Framework”) under which it intends to issue green social, and sustainability sukus (collectively referred as “SDG Sukuk”) and use the proceeds to finance and/or refinance, in whole or in part, existing and/or and future government loans or expenditures in the form of capital investments, subsidies, grants, loans, operating expenditures in relation to provision of public service/public goods as well as financial transfers to local governments/statutory bodies/state-owned entities enabling public services/goods to be provided. Eligible projects are expected to facilitate the transition to a low-carbon economy and lead to positive social impacts in Malaysia. Sustainalytics notes that GoM expects majority of expenditure from the first issuance to be focused on social categories. The Framework defines eligibility criteria in seven areas:

### Social Eligible Categories

1. Access to Essential Services
  - a. Healthcare
  - b. Education
2. Affordable Basic Infrastructure
3. Employment Generation through Small and Medium Enterprises (SME)
  - a. Financing and Microfinance
  - b. Socioeconomic Advancement and Empowerment

### Green Eligible Categories

1. Clean Transportation
2. Sustainable Management of Living Natural Resources
3. Renewable Energy
4. Green Buildings

GoM engaged Sustainalytics to review the Government of Malaysia SDG Sukuk Framework, dated April 2021, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG), Green Bond Principles 2018 (GBP), Social Bond Principles 2020 (SBP),<sup>1</sup> and ASEAN Sustainability Bond Standards (ASEAN SUS).<sup>2</sup> This Framework has been published in a separate document.<sup>3</sup>

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>4</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2018, Green Bond Principles 2018, and Social Bond Principles 2020, as administered by ICMA; and ASEAN Sustainability Bond Standards as administered by ACMF;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.7.1, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

<sup>1</sup> The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

<sup>2</sup> The ASEAN Sustainability Bond Standards are administered by the ASEAN Capital Markets Forum and are available at: <https://www.mof.gov.my/en/https://www.theacmf.org/initiatives/sustainable-finance/asean-sustainability-bond-standards>

<sup>3</sup> The Government of Malaysia SDG Sukuk Framework is available on the Government of Malaysia’s website at:

<sup>4</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

As part of this engagement, Sustainalytics held conversations with various members of GoM's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. GoM representatives have confirmed (1) they understand it is the sole responsibility of GoM to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and GoM.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that GoM has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Government of Malaysia SDG Sukuk Framework

Sustainalytics is of the opinion that the Government of Malaysia SDG Sukuk Framework is credible, impactful and aligns with the four core components of the Green Bond Principles 2018 (GBP), the Social Bond Principles 2020 (SBP), and the ASEAN Sustainability Bond Standards 2018 (ASEAN SUS). Sustainalytics highlights the following elements of the Government of Malaysia SDG Sukuk Framework.

- Use of Proceeds:
  - The eligible categories – Access to Essential Services: Healthcare, Education, Affordable Basic Infrastructure, Employment Generation through Small and Medium Enterprises (SME), Clean Transportation, Sustainable Management of Living Natural Resources, Renewable Energy, Green Buildings – are aligned with those recognized by the GBP, SBP, and ASEAN SUS. Sustainalytics notes that the proceeds of the SDG Sukuks issued under the Framework can be expected to facilitate the transition to a low-carbon economy and lead to positive social impacts in Malaysia.
  - The Government has defined a three-year look-back period for refinancing activities, and intends to achieve full allocation within the current financial year of SDG Sukuk issuance, which Sustainalytics considers to be in line with market practice.
  - As part of the Clean Transportation category, the Government may invest in electrified public transportation systems, hydrogen-powered or electric vehicles for public transportation, and associated infrastructure.
  - For the Sustainable Management of Natural Resources category, the Government may invest in programs targeted to the management, protection, and conservation of biodiversity (such as coastal and marine environments), the implementation of sustainable agriculture techniques, the production of agriculture (excluding palm oil operations), and the sustainable management of forests and reforestation.
    - The Government has confirmed to Sustainalytics that projects related to the management of forests and reforestation will receive the Malaysian Criteria and

Indicators for Forest Management Certification, which is based on the Programme for the Endorsement of Forest Certification (PEFC)<sup>5</sup> Sustainalytics views the certification as being credible standard upholding sustainable forest management practices (see Appendix 3 for more information). Moreover, the Government has confirmed to Sustainalytics that reforestation programmes will use tree species that are well adapted to local conditions.

- The implementation of sustainable agriculture techniques may include programmes that aim to promote conservation agricultural practices through conservation tillage, sowing of diverse cover crops, multiple crop rotation, soil restoration and management, nutrient and waste management, and no or minimal pesticides or synthetic fertilizers. Sustainalytics recognizes the importance of promoting sustainable agriculture techniques and encourages the Issuer to provide further disclosure on the projects financed and the impact achieved.
  - For agriculture production, the Government uses agricultural certifications namely, MyOrganic and MyGap. Sustainalytics considers the certification standards as credible and impactful while noting that the certification processes do not involve independent third-party verifiers as the audit process is conducted by the Department of Agriculture (see Appendix 2 for Sustainalytics assessment).
- Within the Renewable Energy category, the Government may invest in renewable power generation from solar, and mini hydro (with a capacity under 25 MW). For all new hydropower projects, the Government has confirmed to Sustainalytics that an environmental and social impact assessment will be carried out according to relevant local regulations.<sup>6</sup> The Government has confirmed to Sustainalytics that (i) there will be no significant risk or expected negative impact identified in an Environmental Impact Assessment, and (ii) there will be no significant controversy surrounding the project.
  - Under the Green Building category, the Government may finance the development of government buildings and facilities that have received or are expected to receive one of the following green building certifications: LEED (Gold or above), Green Building Index (Gold or above), or any equivalent standard. Sustainalytics has conducted an evaluation of these standards and considers them to be robust and credible, and encourages the Issuer to report on the Building Energy Intensity as defined under the Green Building Index reference (see Appendix 1 for Sustainalytics' assessment).
  - Sustainalytics highlights GoM'S targeted and diligent approach under the following social categories:
    - Access to Essential Services: Investments in the areas of public healthcare and education. Intended project examples include the construction and upgrades of public health facilities, the provision of pandemic-related support programmes (such as research and development of vaccines), mobile healthcare (such as flying doctor services)<sup>7</sup> for underserved communities in rural areas, the construction and upgrade of public education and training institutions, the provision of grants and scholarships to students from low-income households<sup>8</sup> and trainings for teachers, lecturers, and unskilled youth. The Government has confirmed to Sustainalytics that programmes under this category will be provided for free, with a minimal registration fee, ensuring access for all regardless of the ability to pay.
    - Affordable Basic Infrastructure: Investments that aim to improve access to affordable housing, water, sanitation, electricity, telecommunication, and transport. Intended project examples include the construction of affordable housing for low-income populations (classified as Bottom 40, low-income, or poor households)<sup>9</sup>, the

<sup>5</sup> PEFC, "Standards and Guides", at: <https://pefc.org/standards-implementation/standards-and-guides>

<sup>6</sup> Environmental Quality Act, 1974 (Amendment 1985), Section 34A, and Country Planning Act 1976 (Amendment 2017), Section 20B.

<sup>7</sup> Mobile health services include the Flying Doctor Service (FDS) providing basic health services to remote and hardly accessible population

<sup>8</sup> Low income households are defined as households earning less than RM1,500 per month.

<sup>9</sup> Based on the Household Income & Expenditure Survey and Basic Amenities 2019, B40 has a monthly household income of less than RM4,850, with 3 main subgroups: Hardcore poor - Monthly household income less than the food Poverty Line Index ("PLI"), RM1,169, Absolute poor - Monthly household income less than the absolute PLI, RM2,208, and Relative poor - Monthly household income less than RM2,940, which is half of the national median income

development of transmission and distribution infrastructure for electricity,<sup>10</sup> broadband infrastructure in rural areas, drainage systems targeted towards rural areas that currently lack such systems, freely accessible multipurpose halls (such as communal spaces that support recreational activities for youth), and public transportation infrastructure such as bus stops. With regards to the affordable housing, Sustainalytics recognizes that average house prices are approximately 4.5 times higher than average income in Malaysia, and considered to be significantly unaffordable for low-income populations. Therefore, Sustainalytics considers the targeted populations as impactful and in line with market practices. (see Section 3)

- Employment Generation through SMEs: Loans or financial support to SMEs<sup>11</sup> that face financial stress due to socioeconomic crises stemming from the Emergency Declaration<sup>12</sup> by the national authorities (pandemics, flood, haze etc.), training programmes, and the provision of grants.<sup>13</sup> The Government has confirmed to Sustainalytics that training programmes under this category will be provided for free with minimal registration fee to guarantee access for underserved SMEs.
- Project Evaluation and Selection:
  - The Government of Malaysia has established the SDG Sukuk Technical Committee which will meet at least annually to select and evaluate eligible expenditures, collect impact reporting data and propose expenditures for allocation. The Government of Malaysia represented by the Ministry of Finance will be responsible for overseeing the implementation of the Framework, reviewing, and approving projects and budget allocation.
  - Based on the delegation of responsibility between departments and groups, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - The net proceeds of the sukuku under the Framework will be transferred to the Government's Development Fund. The Ministry of Finance will maintain an SDG Sukuk register to track and manage the allocation process. The register will contain information on each SDG sukuk including pricing date, maturity date and list of eligible expenditures. Pending allocation, unallocated proceeds will be held in cash and cash equivalent. The GoM intends to fully allocate the net proceeds to eligible expenditures within the first year of issuance.
  - Based on these elements, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - The Government intends to report on the allocation of proceeds on its website on an annual basis until full allocation. The allocation reporting will include the summary of project details, amount of allocated proceeds, expected social and environmental impact, and balance of unallocated proceeds.
  - In addition, the Issuer is committed to reporting on relevant environmental and social impact metrics including the number of patients, students or beneficiaries reached, annual GHG emissions reduced or avoided, renewable energy produced. For a complete list of impact indicators, please refer to Appendix 4 Sustainability Bond/ Sustainability Bond Programme External Review Form.
  - Based on the commitment to both impact and allocation reporting, Sustainalytics considers this process to be in line with market practice.

### Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that the Government of Malaysia SDG Sukuk Framework aligns with the four core components of the GBP, SBP, and ASEAN SUS. For detailed information please refer to Appendix 4 and 5: Sustainability Bond/ Sustainability Bond Programme External Review Form.

<sup>10</sup> If transmission grid is invested, the Government has confirmed to Sustainalytics that intended grid shall not be connected to a dedicated fossil fuel power generation.

<sup>11</sup> The Government relies on the following definition for SMEs: <https://www.smecorp.gov.my/index.php/en/policies/2020-02-11-08-01-24/sme-definition>

<sup>12</sup> For the purposes of the Sukuk, the declaration of an Emergency Declaration due to wars is excluded as an eligible expenditure

<sup>13</sup> Sustainalytics considers Malaysia to be an economically disadvantaged country and thus considers grants to Malaysian SMEs without further specification on the targeted group as in line with market practice.

## Section 2: Sustainability Mandate of the Government of Malaysia

### Contribution of Framework to the Government of Malaysia's sustainability mandate

Malaysia is committed to sustainable development and climate change mitigation in the transition towards a more resilient and inclusive economy. The Country has formulated its sustainable development strategy within the Eleventh Malaysia Plan ("11MP") 2016-2020<sup>14</sup> and is in the process of finalizing its next development plan, the Twelfth Malaysia Plan ("12MP"), 2021-2025.<sup>15</sup> 11MP focused on six pillars, namely (i) reforming governance, (ii) enhancing inclusive development and wellbeing, (iii) pursuing balanced regional development, (iv) empowering human capital, (v) enhancing environmental sustainability, and (vi) strengthening economic growth. While 11MP heavily focuses on economic development, it also entails environmental and social aspects.

11MP intended to foster sustainable socio-economic development via green growth. In order to decouple economic growth from emissions, Malaysia has set a target for reducing the GHGs emission intensity of GDP by up to 40% in 2020, compared to 2005 levels.<sup>16</sup> In addition, Malaysia established a target of reducing GHG emission intensity of GDP by 45% by 2030 compared to the 2005 baseline.<sup>17</sup> Furthermore, Malaysia adopted sustainable consumption and production measures to achieve its target, such as expanding renewable energy installed capacity to 2,080 MW and reducing end-use energy consumption. Sustainalytics notes that several of the projects included in the Framework could assist the country in achieving green growth and meeting its GHG intensity per GDP target. Furthermore, the 12MP intends to further support environmental improvements in Malaysia.<sup>18</sup>

On the social side, 11MP intended to improve Malaysians' well-being by addressing their needs, such as those related to affordable housing, quality healthcare, or access to infrastructure and public amenities. To expand access to basic infrastructure, the Government implemented housing programs for poor and low-income households in urban and rural areas. In addition, 11MP sought to expand the healthcare system capacity to increase accessibility, as well as providing targeted support for underserved communities. Sustainalytics notes that several projects included in the Framework align with Malaysia's ambition to increase the wellbeing of its people. Furthermore, the 12MP aims to further improve Malaysians' wellbeing by expanding access to affordable housing, health, and education.<sup>15</sup>

In addition, Malaysia demonstrates a commitment to sustainable finance.<sup>3</sup> In 2014, the Securities Commission of Malaysia disclosed a Sustainable and Responsible Investing Sukuk Framework to promote local expertise in sustainable finance. Bank Negara Malaysia, the central bank of Malaysia, is currently piloting a taxonomy for eligible green investments, akin to the EU Taxonomy. The objective of the taxonomy is to help facilitate financial institutions in identifying and classifying economic activities that could contribute to climate change objectives, whilst ensuring flexibility for regional specificities including the different needs of developed and emerging markets. Bank Negara Malaysia expects to publish the taxonomy in late 2021.

Sustainalytics is of the opinion that the Government of Malaysia SDG Sukuk Framework is aligned with the Country's current development plan and will further the implementation of the upcoming development plan, 12MP.

### Well-positioned to address common environmental and social risks associated with the projects

While Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are expected to have positive environmental and social impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key social and environmental risks associated with the eligible projects include worker health and safety, land-use change, biodiversity loss, waste management, and stakeholder participation. In addition, social projects may also create some risk of increasing inequality if not targeted to vulnerable populations.

<sup>14</sup> Government of Malaysia, "Eleventh Malaysia Plan 2016-2020", at: <https://policy.asiapacificenergy.org/sites/default/files/11th%20Malaysia%20plan.pdf>

<sup>15</sup> Government of Malaysia, "Guideline Preparation for the Twelfth Malaysia Plan, 2021-2025", (2020), at: <https://policy.asiapacificenergy.org/node/4227>

<sup>16</sup> As at 2016, Malaysia has reduced 29.4% its GHG emission intensity.

UNFCCC, "Third Biennial Update Report Malaysia to the United Nations Framework Convention on Climate Change", (2020), at: <https://unfccc.int/documents/267685>

<sup>17</sup> UNFCCC, "Intended Nationally Determined Contribution of the Government of Malaysia", (2015), at:

<https://www4.unfccc.int/sites/submissions/INDC/Published%20Documents/Malaysia/1/INDC%20Malaysia%20Final%2027%20November%202015%20Revised%20Final%20UNFCCC.pdf>

<sup>18</sup> Government of Malaysia, "About Twelfth Malaysia Plan", at: <http://rmke12.epu.gov.my/about-us>

Sustainalytics is of the opinion that the Government of Malaysia is able to manage and/or mitigate potential risks due to the following:

- According to Malaysia's Environmental Quality Act, an Environmental Impact Assessment (EIA) is required<sup>19</sup> for activities associated with agriculture, drainage and irrigation, fisheries, forestry, housing industry, infrastructure, power generation and transmission, transportation, waste treatment and disposal, and water supply. The EIA provides guidance on key metrics including buffers, air pollution, proximity, water pollution, geology/hydrology, risk of toxic clouds, waste disposal, social/cultural access, noise, land value and ecology. As part of the project execution, mitigation measures and Environmental Management Planning must be implemented. For projects and activities with high sensitivity and environmental impact, the act requires a detailed EIA and involvement of public participation.
- As part of the Town and Country Planning Act 1976 (Amendment 2017),<sup>20</sup> it is a requirement to conduct public consultation, stakeholder engagement, and an independent social impact assessment study, before relevant authorities approve the project, for major projects with significant direct social impact. Moreover, for projects with no significant social impacts, it is a requirement to address potential social issues and incorporate it in the planning development report.
- In relation to worker's health and safety, Occupational Safety and Health Act 1994 ("OSHA") outlines the regulatory regime, and duties of employees for ensuring the safety, health and welfare at work of all their employees, as well as protecting other people who their safety and health may be affected arising from work related activities.<sup>21</sup> In more detail, the Act stipulates that it is the duty of an employer to ensure the provision and usage of personal protective equipment. According to the Factories and Machinery Act 1976, it is the duty of employers to provide first-aid and welfare facilities.<sup>21</sup>
- In order to ensure adequate mitigation of environmental and social risks in Malaysia, the Government of Malaysia has important environmental laws and policies in place including the Environment Quality Act 1974 and its Regulations 1989, the Environmental Quality Order 1989, the Protection of Wildlife Act, the National Forestry Act 1984, the Fisheries Act 1985, the National Parks Act 1980.<sup>22</sup>
- In order to mitigate the risk of increasing inequalities in Malaysia, the Government targets social investments at disadvantaged groups, the scope of which is defined in the Framework. (for more information, please refer to Section 1 of this document)
- The Government excludes financing of any activity, projects related to fossil fuel energy generation, nuclear power, palm oil operations, luxury sectors, weapons and military contracting, tobacco, large scale hydropower, adult entertainment, and child labour or forced labour.

Considering the regulatory context in Malaysia, Sustainalytics is of the opinion that the Government is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

All seven use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics has focused on three below where the impact is specifically relevant in the local context.

#### Increasing the share of renewable energy sources in Malaysia's power mix

The current energy mix for Malaysia's power generation capacity is mainly provided by natural gas and coal, both sources accounting for 43.6% and 31.1% of total capacity, respectively.<sup>23</sup> As of December 2020, renewable energy sources accounted for 22% of total generation capacity.<sup>24</sup> The contribution of power

<sup>19</sup> Environmental Requirements for the EIA of Malaysia available at: <http://www.doe.gov.my/eia/eia-procedure-and-requirements-in-malaysia/>

<sup>20</sup> An Act to amend the Town and Country Planning Act 1976, at: [https://www.cjljlaw.com/files/bills/pdf/2016/MY\\_FS\\_BIL\\_2016\\_14.pdf](https://www.cjljlaw.com/files/bills/pdf/2016/MY_FS_BIL_2016_14.pdf)

<sup>21</sup> ILO, "OHS – Malaysia", at:

[https://www.ilo.org/dyn/legosh/en/f?p=14100:1100:0::NO::P1100\\_ISO\\_CODE3,P1100\\_SUBCODE\\_CODE,P1100\\_YEAR:MYS,,2013](https://www.ilo.org/dyn/legosh/en/f?p=14100:1100:0::NO::P1100_ISO_CODE3,P1100_SUBCODE_CODE,P1100_YEAR:MYS,,2013)

<sup>22</sup> N. Mohammad, "Environmental Law and Policy Practices in Malaysia: and Empirical Study", at: [http://portal.unimap.edu.my/portal/page/portal30/Lecture%20Notes/KEJURUTERAAN\\_BIOPROSES/Semester%201%20Sidang%20Akademik%2020192020/CHEMICAL%20ENGINEERING%20PROGRAMME/YEAR%201/ERT%20113/ENVIRONMENTAL%20LAW%20AND%20POLICY%20PRACTICES%20IN%20MALAYSIA.pdf](http://portal.unimap.edu.my/portal/page/portal30/Lecture%20Notes/KEJURUTERAAN_BIOPROSES/Semester%201%20Sidang%20Akademik%2020192020/CHEMICAL%20ENGINEERING%20PROGRAMME/YEAR%201/ERT%20113/ENVIRONMENTAL%20LAW%20AND%20POLICY%20PRACTICES%20IN%20MALAYSIA.pdf)

<sup>23</sup> Statista, "Total electricity generation capacity in Malaysia as of January 2018, by type", (2020), at: <https://www.statista.com/statistics/865614/malaysia-total-electricity-generation-capacity-by-source/>

<sup>24</sup> Information provided by the Government of Malaysia.

production to national GHG emissions increased thanks to higher economic growth and power consumption.<sup>25</sup>

Given the above, Malaysia established a national target of reducing GHG emission intensity of GDP by 45% by 2030 compared to the 2005 baseline to decouple growth from GHG emissions and achieve the “green growth” mentioned in Section 2: Sustainability Mandate of the Government of Malaysia.<sup>26</sup> To do so, Malaysia introduced new programs and initiatives such as the Renewable Energy Act, which aims to increase the share of low-carbon sources in Malaysia’s power mix by introducing feed-in tariff scheme for solar photovoltaic (PV), biomass, biogas and mini hydro use.<sup>27</sup> Besides, as part of the 12MP, Malaysia aims to increase the share of renewable added capacity to 20% in the power mix.<sup>28</sup>

Based on the above, Sustainalytics considers that Malaysia’s financing of renewable energy projects will help to increase the share of renewable energy sources in electricity production and support national emission intensity and renewable energy added capacity targets.

### Enhancing Malaysia's pandemic-related support programs

During pandemic-related events, the implementation of early-stage measures, including surveillance, contact tracing, and isolation of positive cases, can help to contain the spread of the disease.<sup>29</sup> The number of infected cases and deaths and the rate at which they increase depend significantly on the preparedness and robustness of health systems.<sup>29</sup> Malaysia performed well in implementing early-stage measures and curbing the COVID-19 infection rate, given its past experiences in dealing with pandemics.<sup>29</sup> As of March 31, 2021, the number of cumulative confirmed COVID-19 cases per million people reached 10,974 in Malaysia, compared to 92,025 in the US, or 64,225 in the UK.<sup>30</sup> Sustainalytics notes that the financing of pandemic-related support programs may further Malaysia’s efforts in curbing the infection rates of covid-19.

While reaching herd immunity might be challenging, vaccines can play a decisive role in reducing virus transmission.<sup>31</sup> Malaysia has secured vaccine supply to cover 100.2% of the population, according to the government. The country started its vaccination program in March 2021 and aims at completing vaccinations for at least 80% of the adult population by December 2021.<sup>32</sup> As of March 2021, the worldwide rollout of COVID-19 vaccines is uneven, with developed countries leading the pack.<sup>33</sup> Demand far outstrips supply: 60% of the doses that the main vaccine producers have pledged to produce in 2021 have already been pre-ordered, mainly by wealthy countries.<sup>33</sup> Vaccines R&D efforts were concentrated in the West, constraining access for the rest of the world. The Government of Malaysia plans to use part of the proceeds to finance R&D into vaccines. Sustainalytics notes that the financing could help Malaysia strengthen its R&D capacities and reduce its dependence towards foreign vaccine suppliers.

### Importance of financing affordable housing in Malaysia

The Government of Malaysia intends to use part of the proceeds to build affordable housing for households with a monthly income below RM4,360 (USD 1052). In Malaysia, house prices are approximately 4.5 times higher than average income, which is classified as “seriously unaffordable” for low-income populations.<sup>34</sup> Given that the average growth rate of housing prices is significantly higher than the increase in incomes,

<sup>25</sup> Wan Syakirah Wan, A., et al., (2019), “The Potential and Status of Renewable Energy Development in Malaysia”, *Energies*, at: <https://www.mdpi.com/1996-1073/12/12/2437>

<sup>26</sup> UNFCCC, “Intended Nationally Determined Contribution of the Government of Malaysia”, (2015), at: <https://www4.unfccc.int/sites/submissions/INDC/Published%20Documents/Malaysia/1/INDC%20Malaysia%20Final%2027%20November%202015%20Revised%20Final%20UNFCCC.pdf>

<sup>27</sup> Majid, A., A., et al., (2019), “The Renewable Energy Act: Is Malaysia Powering Up Right?”, at: <https://www.zicolaw.com/resources/publications/the-renewable-energy-act-is-malaysia-powering-up-right/#:~:text=Almost%20a%20decade%20has%20passed,the%20country's%20renewable%20energy%20sector.>

<sup>28</sup> Excluding hydro power plants larger than 100MW.

<sup>29</sup> Hamzah, N., M., et al., (2020), “Assessing the efficiency of Malaysia health system in COVID-19 prevention and treatment response”, *Health Care Management Science*, at: <https://link.springer.com/content/pdf/10.1007/s10729-020-09539-9.pdf>

<sup>30</sup> OurWorldInData, “Cumulative confirmed COVID-19 cases per million people, Mar 31, 2021”, (2021), at: <https://ourworldindata.org/coronavirus/country/malaysia>

<sup>31</sup> Nature, “Five reasons why COVID herd immunity is probably impossible”, (2021), at: <https://www.nature.com/articles/d41586-021-00728-2>

<sup>32</sup> Information provided by the Government of Malaysia.

<sup>33</sup> The Economist, “Coronavirus vaccines: expect delays”, (2021), at: [https://www.eiu.com/n/campaigns/q1-global-forecast-2021/#:~:text=The%20Economist%20Intelligence%20Unit%20\(EIU,if%20it%20happens%20at%20all.](https://www.eiu.com/n/campaigns/q1-global-forecast-2021/#:~:text=The%20Economist%20Intelligence%20Unit%20(EIU,if%20it%20happens%20at%20all.)

<sup>34</sup> Hui Yap, J., B., et al., (2018), “Housing affordability in Malaysia: perception, price range, influencing factors and policies” at: <https://www.emerald.com/insight/content/doi/10.1108/IJHMA-08-2017-0069/full/pdf?title=housing-affordability-in-malaysia-perception-price-range-influencing-factors-and-policies>

undersupply of affordable homes remains a challenge in Malaysia. Since increasing access to affordable housing is one of the key strategies of the 11MP, the Government established housing programmes for low income populations such as Program Perumahan Rakyat 1Malaysia (PR1MA), Rumah Idaman Rakyat and Rumah Mesra Rakyat 1Malaysia.<sup>35</sup> In 2019, as part of the RM1 billion Fund (USD 242 million), the Government and Central Bank of Malaysia defined the maximum price of an affordable house as RM300,000 (USD 72 thousand).<sup>36</sup> The programme aims to support low income groups to finance the purchase of their first homes.

Based on the rapidly increasing house prices and undersupply of affordable houses, Sustainalytics of the opinion that the financing of affordable housing will create positive social impact by increasing affordable housing capacity for lower income populations and support national targets.

#### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The Sukuks issued under the Government of Malaysia SDG Sukuk Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Access to Healthcare Access to Education	3. Good Health & Wellbeing  4. Quality Education	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all  4.4 By 2030, substantially increase the number of youth and adults who have relevant skills including technical and vocational skills, for employment, decent jobs and entrepreneurship
Access to Affordable Basic Infrastructure	6. Clean water and sanitation  11. Sustainable Cities and Communities  1. No Poverty	6.2 By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations  11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums  1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance
Employment Generation through Small and Medium Enterprises (SME)  Financing and Microfinance  Socioeconomic Advancement and Empowerment	8. Decent work and economic growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services

<sup>35</sup> Government of Malaysia, "Eleventh Malaysia Plan 2016-2020", at: <https://policy.asiapacificenergy.org/sites/default/files/11th%20Malaysia%20plan.pdf>

<sup>36</sup> Government of Malaysia, "Enhancements to Bank Negara Malaysia's RM1 billion Fund for Affordable Homes", (2019), at: [http://www.bnm.gov.my/index.php?ch=en\\_press&pg=en\\_press&ac=4900](http://www.bnm.gov.my/index.php?ch=en_press&pg=en_press&ac=4900)

Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Sustainable Management of Living Natural Resources	15. Life on Land	15.a Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems
Renewable Energy	7. Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Green Buildings	9. Industry, innovation and infrastructure 11. Sustainable Cities and Communities	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities  11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management

## Conclusion

The Government of Malaysia has developed the Government of Malaysia SDG Sukuk Framework under which it may issue green, social or sustainability sukuk and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future government loans or expenditures. Sustainalytics considers that the projects funded by the sustainability bond proceeds are expected to facilitate the transition to a low-carbon economy and lead to positive social impacts in Malaysia.

The Government of Malaysia SDG Sukuk Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that The Government of Malaysia SDG Sukuk Framework is aligned with the overall sustainability strategy of the company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 1, 3, 4, 6, 7, 8, 9, 11, and 15. Additionally, Sustainalytics is of the opinion that GoM has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that The Government of Malaysia is well-positioned to issue sustainability bonds and that that The Government of Malaysia SDG Sukuk Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2018) and Social Bond Principles (2020) and ASEAN Sustainability Bond Standards.

## Appendices



### Appendix 1: Assessment of Green Building Certification Schemes

	LEED	Malaysia Green Building Index
<b>Background</b>	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.	The Green Building Index (GBI) is a Malaysian industry-recognized green rating tool, developed specifically for the tropical climate and development & cultural context of Malaysia.
<b>Certification levels</b>	Certified Silver Gold Platinum	Certified Silver Gold Platinum
<b>Areas of Assessment</b>	Energy and atmosphere Sustainable Sites Location and Transportation Materials and resources Water efficiency Indoor environmental quality Innovation in Design Regional Priority	Energy Efficiency Indoor Environment Quality Materials & resources Sustainable Site Planning & Management Water Efficiency Innovation
<b>Requirements</b>	Prerequisites (independent of level of certification) + Credits with associated points  These points are then added together to obtain the LEED level of certification  There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).	Point score only.  Points are awarded based on various sub-criteria within each area assessed. These points are then added together to obtain the GBI level of certification.  Depending on the development type the weighting is adjusted, changing the total number of points available in that category.  Assessment is conducted by an assessor certified by the GBI Accreditation Panel at the design and completion stages.
<b>Performance display</b>		

## Appendix 2: Assessment of Agricultural Production Certifications

	myOrganic	myGap
<b>Background</b>	myOrganic, or the Malaysian Organic Certification Scheme, was developed by the Malaysian Department of Agriculture as a means to determine the farms practicing organic farming based on the Malaysian Standard MS 1529:2001 for The Production, Processing, Labelling and Marketing of Plant Based Organically Produced Food.	MyGAP (Malaysian Good Agricultural Practices) is an official certificate awarded by Ministry of Agriculture of Malaysia to give recognition to farms that adopt the concept of environmentally friendly APB, safeguarding the welfare and safety of workers to produce quality, safe and edible products. This scheme was developed based on Malaysian Standard MS 1784: 2005 Crop Commodities - Good Agricultural Practice (GAP).
<b>Clear positive impact</b>	Promoting sustainable practices in organic farming.	Promoting good agricultural practice (GAP) that addresses environmental, economic, and social aspects in order to ensure healthy and excellent quality products.
<b>Minimum standards</b>	myOrganic establishes minimum application criteria and requires farmers to demonstrate improved sustainability following a (i) site inspection, an (ii) outcome analysis of pesticides residues, heavy metals and microbes and an (iii) audit of farm practices. <u>However, the actual thresholds are not publicly disclosed for consultation.</u>	To receive myGAP certification, agribusinesses must meet the MyGAP standard based on different elements. <u>The actual thresholds are not publicly disclosed for consultation.</u>
<b>Scope of certification or programme</b>	myOrganic addresses key risks such as pesticide and heavy metal presence in food production, synthetic fertilizers, antibiotics, GMOs, growth hormones, the general environmental protection, and the safety and welfare of farm workers. <sup>37</sup>	myGap addresses the following elements: (1) Traceability, (2) Keeping records and performing internal audit (3) Raw material and rootstock planning (4) Site History and Management (5) Soil and Substrate Control (6) Managing Fertilizer (7) Irrigation and fertigation activities (8) Crop protection activities (9) Harvesting process (10) Post-harvest management (11) Management of Pesticide Residue (12) Waste Management, recycling, and re-use matters (13) Health and Safety of Workers (14) Management of Environmental Issue (15) Keeping Records of Complaints (16) Legal requirements and Withdrawal Process
<b>Verification of standards and risk mitigation</b>	Certified entities undergo a (i) pre-audit executed by district level Malaysian Agriculture Department officials and then a (ii) follow up audit carried out by an office of the Department of Agriculture appointed by the Director General of Agriculture.	Certified entities undergo a (i) pre-audit executed by district level Malaysian Agriculture Department officials and then a (ii) follow up audit carried out by an office of the Department of Agriculture.

<sup>37</sup> <https://www.kccci.org.my/attachments/article/2346/MARDI-Organic%20Farming.pdf>

<b>Third party expertise and multi-stakeholder process</b>	myOrganic is a state-developed scheme. <u>There is no disclosure as to whether the certification is the result of a multi-stakeholder process.</u>	myGap is a state-developed scheme. <u>There is no disclosure as to whether the certification is the result of a multi-stakeholder process.</u>
<b>Performance display</b>		
<b>Qualitative considerations</b>	The audit is conducted by the Department of Agriculture. The validity period of the myOrganic certification is one year. Certification applicable for Malaysian farms only.	The audit is conducted by the Department of Agriculture. The validity period of the myGap certification is two years.

### Appendix 3: Assessment of Forestry Certification

MTCC or the Malaysian Timber Certification Council is an independent timber certification organization for tropical forests based on Malaysia. PEFC (The Programme for the Endorsement of Forest Certification) endorsed and publicly recognized the MTCC certification, while the national timber procurement policies in Denmark, United Kingdom, Germany, Finland, Belgium, Switzerland, France, New Zealand and the Keurhout System of The Netherlands recognize that MTCC meets the requirements for sustainable timber.

MTCC is based on a multi-stakeholder structure and is aligned with the international norms such as the International Labor Organization conventions, the United Nations Convention of Biological Diversity and the Convention on International Trade in Endangered Species of Wild Fauna and Flora.<sup>38</sup> In addition to complying with local regulations, MTCC has set requirement thresholds, including compliance with standards for Sustainable Forest Management License Agreement, the management of environmental and socio-economic impact, biodiversity preservation as well as chain of custody documentation. Furthermore, the MTCC certification requires that external audits be conducted by certification bodies,<sup>39</sup> which in turn had received certification by the MTCC Standard Malaysia Accreditation Body. Out of the 18 Certification Bodies, 17 automatically notify PEFC in regard to the forest management certifications and chain of custody certification. All other Certification Bodies not listed on the MTCC website file notifications with the PEFC Governing Body in their respective countries. Sustainalytics made an assessment of the MTCC certification and highlights below its limitations:

- (i) *Type of organization*: PEFC, the main relevant entity having recognized MTCC, has received criticism that its mutual recognition system allows for more flexibility in the interpretation of its benchmarks, as per the regional, cultural and socio-economic context, an issue potentially exerting influence over its overall assessment and outlook over the socio-environmental additionalities of the MTCC standard.
- (ii) *Local and indigenous people's rights*: Although MTCC discloses that public consultations with local communities or indigenous people are required to ensure that the entity seeking certification receives the social license to operate, Sustainalytics highlights that there is no requirement that these consultations be carried out by an independent third-party organization as it is the case under the FSC and PEFC standards. Under the MTCC standards, these consultations are conducted bilaterally by forest managers and local communities/indigenous people.
- (iii) *Non-certified wood sources*: the MTCC does not make any reference as to whether the sourcing of non-certified wood is admissible under the standard. Sustainalytics highlights that although benchmark certifications such as FSC and PEFC received criticism that the qualitative threshold for this requirement is fairly lax, limiting the identification of controversially sourced wood to wood

<sup>38</sup> <http://mtcc.com.my/wp-content/uploads/2016/11/MCINatural-Forest-1.pdf>

<sup>39</sup> <https://mtcc.com.my/accreditation-body/>

harvested in violation of traditional and civil rights or in situations where the local, the MTCC sets no requirements for this topic.

## Appendix 4: Alignment to the ASEAN Sustainability Bond Standards

ASEAN SUS Criteria	Alignment with the ASEAN SUS	Sustainalytics' comments on alignment with the ASEAN SUS
Eligibility	Yes	The ASEAN SUS requires that issuers must be in or that the proceeds be directed to assets in an ASEAN country. The Government of Malaysia given that the Government intends to finance projects in Malaysia.
Use of Proceeds	Yes	The ASEAN SUS offers specific clarification that fossil fuel power generation projects and projects which involve activities that pose a negative social impact related to adult entertainment, alcohol, gambling, tobacco products and weapon are excluded. GoM has included exclusion criteria in the Framework to this effect.
Process for Project Evaluation and Selection	Yes	The ASEAN SUS specifies information that must be clearly communicated to investors before issuance regarding project selection. The Government of Malaysia has established the SDG Sukuk Technical Committee, which will be responsible for selecting projects in line with the Framework's eligibility criteria. The Ministry of Finance will be responsible for reviewing and approving eligible expenditures.
Management of Proceeds	Yes	The ASEAN SUS mandates that proceeds must be appropriately tracked and that temporary investments be disclosed. Within the Framework, the GoM disclosed that the Ministry of Finance will maintain an SDG Sukuk register to track and manage the allocation process. Pending allocation, unallocated proceeds will be held in cash and cash equivalent.
Reporting	Yes	The ASEAN SUS requires annual reporting on the allocation of funds and the expected impacts. The GoM states that it will provide an annual allocation report until full allocation and report on the impact of the use of proceeds.
Annual Review	Yes	The ASEAN SUS encourages, but does not require, annual reviews. As of 2021, the GoM does not intend to provide annual reviews.

## Appendix 5: Sustainability Bond / Sustainability Bond Programme - External Review Form

### Section 1. Basic Information

Issuer name:

The Government of Malaysia

<b>Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:</b>	The Government of Malaysia SDG Sukuk Framework
<b>Review provider's name:</b>	Sustainalytics
<b>Completion date of this form:</b>	April 14, 2021
<b>Publication date of review publication:</b>	

## Section 2. Review overview

### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

## Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

### 1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds — Access to Essential Services: Healthcare, and Education, Affordable Basic Infrastructure, Employment Generation through Small and Medium Enterprises (SME), Clean Transportation, Sustainable Management of Living Natural Resources, Renewable Energy, and Green Buildings — are aligned with those recognized by the Green Bond Principles, the Social Bond Principles, and ASEAN Sustainability Bond Standards. Sustainalytics considers that the eligible categories are expected to facilitate the transition to a low-carbon economy and lead to positive social impacts in Malaysia, while advancing the UN Sustainable Development Goals (SDGs), specifically SDG 1,3, 4, 6, 7, 8, 9, 11, and 15.

**Use of proceeds categories as per GBP:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy   | <input type="checkbox"/> Energy efficiency  |
| <input type="checkbox"/> Pollution prevention and control  | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input checked="" type="checkbox"/> Clean transportation  |
| <input type="checkbox"/> Sustainable water and wastewater management   | <input type="checkbox"/> Climate change adaptation  |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input checked="" type="checkbox"/> Green buildings   |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify):  |

If applicable please specify the environmental taxonomy, if other than GBPs:

**Use of proceeds categories as per SBP:**

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Affordable basic infrastructure   | <input checked="" type="checkbox"/> Access to essential services                                   |
| <input checked="" type="checkbox"/> Affordable housing  | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security  | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment                      |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify):   |

If applicable please specify the social taxonomy, if other than SBP:

**2. PROCESS FOR PROJECT EVALUATION AND SELECTION**

Overall comment on section (if applicable):

The Government of Malaysia has established the SDG Sukuk Technical Committee, which will be responsible for selecting projects in line with the Framework's eligibility criteria. The Ministry of Finance will be responsible for reviewing and approving eligible expenditures. Sustainalytics considers the project selection process in line with market practice.

**Evaluation and selection**

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives                                 | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories               |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available                | <input type="checkbox"/> Other (please specify):  |

**Information on Responsibilities and Accountability**

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify):   |  |

**3. MANAGEMENT OF PROCEEDS**

Overall comment on section (*if applicable*):

The Ministry of Finance will be responsible for the management of proceeds. Pending allocation, unallocated proceeds will be held in cash, cash equivalents or existing bond maturities. The Government of Malaysia intends to fully allocate the net proceeds to eligible expenditures within the first year of issuance. Sustainalytics considers the management of proceeds process in line with market practice.

**Tracking of proceeds:**

- |   |
|---|
| <input type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner            |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify):  |

**Additional disclosure:**

- |  |   |
|--|---|
| <input type="checkbox"/> Allocations to future investments only                  | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                  | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements          |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify):  |

**4. REPORTING**

Overall comment on section (if applicable):

The Government of Malaysia intends to report on the allocation and impact of proceeds on its website, on an annual basis, until full allocation. Allocation reporting will include the summary of project details, amount of allocated proceeds, and balance of unallocated proceeds. In addition, the Government of Malaysia is committed to reporting on relevant impact metrics. Sustainalytics views the Government’s allocation and impact reporting as aligned with market practice.

**Use of proceeds reporting:**

- Project-by-project  On a project portfolio basis
- Linkage to individual bond(s)  Other (please specify):

**Information reported:**

- Allocated amounts  Sustainability Bond financed share of total investment
- Other (please specify):

**Frequency:**

- Annual  Semi-annual
- Other (please specify):

**Impact reporting:**

- Project-by-project  On a project portfolio basis
- Linkage to individual bond(s)  Other (please specify):

**Information reported (expected or ex-post):**

- GHG Emissions / Savings  Energy Savings
- Decrease in water use  Number of beneficiaries
- Target populations  Other ESG indicators (please specify):

Eligible Project Category	Indicative Impact Indicators
Accessibility to Quality Healthcare	<ul style="list-style-type: none"> <li>• Number of patients reached</li> <li>• Number of hospitals, clinics and health care centres built</li> <li>• Number of women/target population supported</li> <li>• Infant mortality rate</li> <li>• Information availability on the e-health platform</li> <li>• Number of confirmed cases of Covid-19</li> </ul>
Accessibility to Quality Education and Training	<ul style="list-style-type: none"> <li>• Number of students reached</li> <li>• Number of schools built</li> <li>• Number of women/target population supported</li> </ul>

Accessibility to Affordable and Quality Basic Infrastructure	<ul style="list-style-type: none"> <li>• Number of beneficiaries</li> <li>• Share of people with access to water / electricity</li> <li>• Share of people with sanitation facilities</li> </ul>
Employment Generation	<ul style="list-style-type: none"> <li>• Number of SMEs supported or funded</li> <li>• Number of employees of SMEs supported or funded</li> <li>• Number of jobs generated</li> <li>• Number of women/youth//target population supported</li> <li>• Number of beneficiaries reached</li> <li>• Number of equal paying jobs created for women</li> <li>• Number of women work in technology industry</li> </ul>
Financing and Microfinance	
Socioeconomic Advancement and Empowerment	
Clean Transportation	<ul style="list-style-type: none"> <li>• Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent</li> <li>• Air pollutants reduction (PMO / NOx / Sox, in %)</li> <li>• Number of passengers, or passenger-km</li> </ul>
Sustainable Management of Natural Resources	<ul style="list-style-type: none"> <li>• Area conserved or protected in m2</li> <li>• Number and nature of projects that support climate change adaptation</li> <li>• Number of wildlife species conserved</li> <li>• Average fatality rate of livestock reduced</li> </ul>
Renewable Energy	<ul style="list-style-type: none"> <li>• Renewable energy produced in MWh</li> <li>• Renewable energy capacity in MW</li> <li>• Share of renewable energies in final gross energy consumption (%)</li> <li>• Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent</li> <li>• Annual energy savings in MWh</li> </ul>
Green Buildings	<ul style="list-style-type: none"> <li>• Green building certification achieved (system &amp; level)</li> <li>• Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent</li> <li>• Annual energy savings in MWh</li> <li>• Water consumption reduction in litres</li> <li>• Amount of waste reduced and/or diverted from landfills in tonnes p.a.</li> </ul>

**Frequency:**

- Annual
  Semi-annual
  Other (please specify):

**Means of Disclosure**

- Information published in financial report
  Information published in sustainability report
- Information published in ad hoc documents
  Other (please specify):
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)**

<https://www.mof.gov.my/en/>

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE****Type(s) of Review provided:**

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                                   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):                       |  |

**Review provider(s):****Date of publication:****ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP**

- i. **Second-Party Opinion:** An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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## About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world’s leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world’s foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the “Largest Approved Verifier for Certified Climate Bonds” for the third consecutive year. The firm was also recognized by Environmental Finance as the “Largest External Reviewer” in 2020 for the second consecutive year. For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com).

