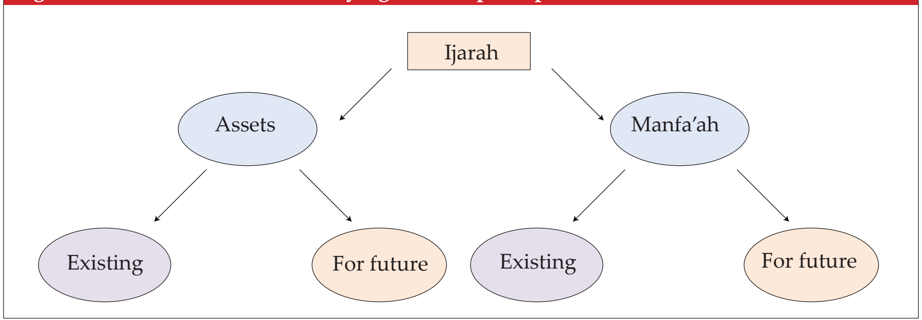
Application of Sukuk for the travel and tourism industry in Malaysia

As the world becomes wealthier, the tourism industry is growing simultaneously. AMIRABBAS ZINATBAKHSH explores the exciting possibilities this presents for Islamic tourism and its potential for the Malaysian travel industry, and looks at how a new structure for Sukuk could enhance this opportunity.

In recent years, in addition to global travelers that mostly come from advanced economies, the number of people from the emerging and fast-growing economies such as BRIC (Brazil, Russia, India, China) and the Middle East, who can afford to travel overseas for leisure and recreational purposes has increased significantly, with an estimated 76% of global travel and tourism contribution to GDP coming from leisure travel.

Figure 1: Illustration of the underlying Shariah principle for Sukuk Manfa'ah



The United Nations Global Tourism Organization (UNWTO) in its latest report measured the global travel and tourism's contribution to GDP (direct, indirect, and induced impact)which stood at over 9%. The total contribution of travel and tourism to GDP has been more than US$6.6 trillion of which 30% is spent by foreign visitors and the rest by domestic spenders. The industry's contribution to employment (direct and indirect) was over 260 million jobs. International tourist arrivals reached 1.09 billion (with Europe, Asia Pacific, the Americas, Africa and the Middle East respectively receiving 52%, 22.8%, 15.5%, 5%, and 4.7% of arrivals), and the total figure is estimated to exceed 1.8 billion travelers by 2030. Following consecutive years of prosperity, 2014 tourism is expected to experience a 4-4.5% growth rate to record another affluent year for the industry.

The Islamic tourism industry

A survey recently released by Crescent Rating (CR), a Singapore-based Muslim travel specialist, estimates that in 2013 the Muslim travel market was worth US$140 billion and is expected to reach US$200 billion by 2020. CR announced Malaysia as the friendliest Halal destination for Muslim tourists. According to data compiled by the Ministry of Tourism and Agriculture, the country received approximately 25.7 million international travelers from which it earned over US$21 billion in 2013. Interestingly, Singapore ranked sixth and Japan, which was in 50th place in 2012, for 2013 scored 40th among the 60 ranked. Such ambitious attempts undertaken by non-Muslim economies competing with Muslim nations are clear evidence of the importance of Islamic travel and tourism industry.

Sukuk for the tourism industry

Sukuk Manfa'ah: as a choice to enhance tourism industry

Malaysia has already undertaken many initiatives to become an attractive destination for the global tourism market. The Economic Transformation Program (ETP) for example is an initiative undertaken by the Malaysian government to turn Malaysia into a high income economy by 2020. ETP places tourism as the fourth sector (after oil, gas & energy, palm oil & rubber and financial services) in focus, affirming the strategic position of the industry. However, to maintain this position in such competitive environment, the country must continue to develop infrastructures and enhance capacities and attractions in tandem with the fast-growing number of arrivals.

To do so, apart from removing roadblocks to growth,the funding and structure of financing are key determining factors. The Malaysian Sukuk market is the most advanced market globally, and on the other hand due to its innovative nature and flexibility, Sukuk can offer unique potential for the industry to grow. As such, the role of Sukuk in the travel and tourism industry should not remain obscure. From the many different available and suitable structures like Murabahah, Ijarah, Istisnah, Musharakah, and so on, for this industry, Sukuk Manfa'ah seems like a viable option.

The underlying Shariah principle for Sukuk Manfa'ah

Sukuk Manfa'ah is a structure that takes its legality from Ijarah Mawsufa Fi Al-Dhimmahor a forward Ijarah contract. Ijarah is a lease contract whereby an owner (lessor/obligor) leases out either an asset or the usufructs of the asset/ service/Manfa'ah to its clients (lessees/ investors). Delivery of the asset or the Manfa'ah can be for immediate usage or for a certain date in the future upon mutual consent of contracting parties i.e. lessor and lessee. If delivery is for the future, the contracts lie within Ijarah Mawsufa Fi Al-Dhimmah or forward Ijarah (second and fourth categories in Figure 1).

Sukuk Manfa'ah lies within the fourth category and technically can be defined as financial certificates that represent ownership of the holder on certain usufruct of a durable asset for specific time in future. The holders of these certificates obtain such rights in exchange for an agreed amount of money they pay to the issuer. Airtime certificates entitling the holder for a predetermined duration of telephone calls in future, vouchers representing the right to travel on the road, sea, or air are some examples for Sukuk Manfa'ah.

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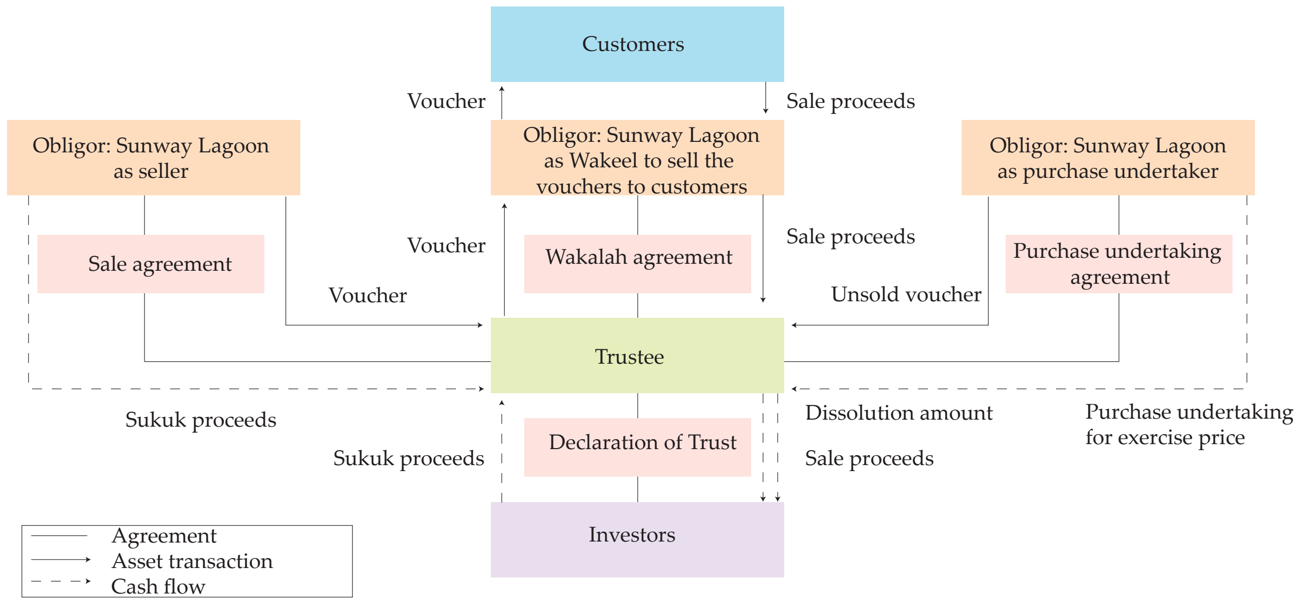
Figure 2: Illustration of the proposed structure



Modus Operandi

1. The trustee, on behalf of the Sukuk investors, purchases fromSunway Lagoon (the obligor in the proposed structure)the vouchers below the face value at an agreed price, and pays the Sukuk proceeds as the purchase price.
2. Subsequent to the purchase of the vouchers, the trusteeappoints Sunway Lagoon as its agent to distribute and sell the vouchers to its regular customers through its franchises or retail outlets according to a certain distribution schedule.
3. Pursuant to purchase of the vouchers,the trustee and Sunway Lagoon enter into a purchase undertaking contract in which Sunway Lagoon promises to purchase the allotted but unsold vouchers for an exercise price in order to enable the trustee to continue periodic distribution scheme. (It should be noted that in this proposed structure, there is no issue with the purchase undertaking agreement since it is not an equity-based Sukuk like Mudarabah or Musharakah in which it is not possible to figure out the value of underlying assets by maturity time.)
4. Sunway Lagoon, as the agent of the trustee, sells the vouchers at face value and makes periodic payments to the trustee.
5. The trustee pays investors the amounts received fromits agent; i.e. Sunway Lagoon, on the relevant periodic distribution dates.
6. For the outstanding unsold vouchers, the trustee exercises its right to oblige Sunway Lagoon to purchase for the exercise price pursuant to the purchase undertaking.
7. Trustee receives the dissolution amounts and pays to investors. It means the redemption of the outstanding Sukuk and termination of the contract.

The proposed structure

In order to understand the proposed structure, suppose Sunway Lagoon (a leisure complex or theme park) by using the usufructs of its parks decided to issue Sukuk Manfa'ah to obtain a lump sum of cash in order to develop some other recreational or leisure projects. To do so, Sunway, the parent company, can issue 'vouchers' that entitle holders the"rights to enter into Sunway Lagoon parks and enjoy the services"on a certain date for a limited time in future. Thus Sunway can use these vouchers as the underlying asset to raise capital from interested investors. Figure 2 illustrate the procedures clearly.

Conclusion

- The above structure is innovative in the sense that there are no physical assets involved as it is a so-called 'voucher-based' Sukuk. It suits issuers who do not have enough unencumbered physical assets sufficient for Sukuk issuance;
- Whereas the underlying assets are non-Ribawi materials, these Sukuk are tradable at a premium or discount;
- The structure directs financial resources to the real economy and there is no room for leverage;
- The structure follows an amortizing payment schedule since the value of the Sukuk gradually reduces over a fixed period of time. In other words, it is scheduled that the issuer by selling the vouchers through its outlets, pays off the full amount before the final maturity date;
- The above structure can be adopted by power generating companies, mobile, internet, airlines, shipping lines, highways, hotels, healthcare operators, pilgrimage organizations or institutions, shopping malls and all other businesses that own or manage durable assets having future legitimate and measurable usufruct or Manfa'ah; and
- It is worth noting that such structure can be used by all countries across the globe as long as the underlying assets and attached usufructs, and the new projects are Shariah compliant.

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