

Magazine

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Special Edition

COP27 – From Pledges to Implementation

**On the Occasion of the
Conference of the
Parties (COP) 27**

**6 -18 November 2022, Sharm El-Sheikh,
Arab Republic of Egypt**



 We will promote scientific findings as the guiding light in making decisions, because the evidence is there to illustrate what is happening around us. We will strive to convince the world to act with urgency in response to the climate crisis

H.E. Ms Aminath Shauna,
Minister of Environment, Climate Change and Technology of Maldives



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Foreword

Amidst the geopolitical and economic volatility and uncertainties the world is currently faced with, we meet once again in Sharm El Sheikh, Egypt, for the 27th Conference of the Parties (COP27) under the aegis of the United Nations Framework Convention on Climate Change (UNFCCC) on 6-18 November 2022. That climate action is the defining challenge facing the world is not a moot point. The urgency and the complexity of the climate crisis – and the increasing challenges facing the world, from inequity, resource mobilisation, risk mitigation, resilience building to biodiversity loss – demand actions of unprecedented depth and scale.

Climate change is the great equaliser both in adversity and in adaptation. It respects no borders, governance and economic systems, wealth and poverty metrics, geopolitical dispensations, and demographics. That is why a holistic consensus-building approach that considers the full spectrum of the SDGs and Transition to Net Zero is our only mitigation and adaptation hope to ensure that no one is left behind. This task places a huge responsibility on our journey towards that holy grail of a climate-resilient development pathway.

The burden and responsibility are incumbent on all sections of society – governments, international agencies, development banks, financial institutions, PRI and credit insurers, private investors, industry, faith institutions, media, urban and rural communities, and NGOs.

Time is not on our side. Millions of people are already experiencing the economic, social, and ecosystem fallout of climate collapse, with a disproportionate impact on societies' most vulnerable, that is, the low-income developing countries. UN estimates put the damages caused by extreme weather climate change in 2021 at over US\$170bn and that an increase of at least 590% in annual climate finance is required to meet all internationally agreed climate objectives by 2030 and to avoid the most dangerous impacts of climate change.

Delays, complacency, and inaction are not an option. While the international community has yet to live up to its commitment to mobilize US\$100bn annually in climate finance for developing countries, the UN Climate Change Executive Secretary Patricia Espinosa, addressing the precursor Bonn Climate Change Conference in June 2022, reported that "while much work remains, Parties have made progress in several technical areas. Such steps are a key part of negotiations and important to achieve our overall goals. The world is moving closer to an overall shift towards the implementation of the Paris Agreement. Major political decisions, notably on finance for Loss and Damage, need to be taken at COP27. We now need to ensure that Sharm El-Sheikh will truly be the place where important promises of the Paris Agreement are turned into reality."

Key outstanding issues that still need to be resolved to relate, on the one hand, to building adaptation to the inevitable impacts of climate change, which include more frequent and intense heatwaves, floods and storms, and Loss and Damage ever, along with the necessary financial support. On the other hand, important work has been launched on urgently scaling up mitigation ambition and implementation.

Millions of people are already experiencing the economic, social, and ecosystem fallout of climate collapse, with a disproportionate impact on societies' most vulnerable, that is, the low-income developing countries.

The elephant in the room is the lack of financial support, especially for the most vulnerable, who are also those with the lowest carbon footprint.

Climate Change is affecting all types of businesses and sectors; the effects of extreme weather events increasing in both severity and frequency are reverberating throughout our Member States' economies. Developing countries need sustainable investment and support that is enhanced through a financial preparedness plan. Insurance and other financial de-risking instruments, which are risk absorbers, help to foster sustainable growth and resilience to disasters. As the World Bank stressed at its annual autumn meetings in October, development finance will play an important role but is not sufficient. The global community – public and private sectors and philanthropic foundations – must step up to partner with and supplement development finance in order to achieve climate goals.

"Many priority interventions that are efficient and essential to reducing global GHG emissions or improving resilience," it observes, "may not meet private sector investment criteria, even after feasible policy reforms such as the deployment of carbon pricing tools to provide climate-friendly incentives; and even with below-market financing and de-risking from MDBs."

At COP27, the Islamic Development Bank (IsDB) Group will showcase its activities and operations in the climate action landscape and highlight the climate





Egypt's COP27 presidency vision is to move from negotiations and planning to implementation. ICIEC strongly supports this vision, whose impact is demonstrated by the US\$7.35bn already disbursed to Egyptian entities including in climate action projects including in the Benban Solar Complex in Aswan

initiatives and strategic plans of its constituent entities for the coming years, especially in light of the realigned strategic direction of the Group. The IsDB Group has a dedicated pavilion during COP27 with several side events, including ones on the impact of climate change on food security, water resources, and usage.

A flagship side event is the High-Level Panel Discussion on Addressing Climate Change through the IsDB Group's Food Security Response Programme (FSRP) on 8 November 2022.

The Group launched the US\$10.54bn FSRP in July aimed at supporting Member States in addressing the ongoing food crisis and scaling up the Group's efforts in helping to strengthen its members' resilience to food security shocks in the future. There are contributions from various IsDB Group entities, including US\$500m of political and credit insurance coverage from ICIEC.

The FSRP launched by the IsDB Group constitutes a good response to the call made by the COP 27 Presidency for concrete actions to address the intertwined challenges of climate change and food insecurity. As the COP of Africa, with climate change adaptation being identified as the key topic of the Conference, this will be an excellent opportunity to showcase the multiple instruments, including innovative ones available with the entities of the Group to address low carbon, climate resilient development of the Group's member countries.

ICIEC too is organising a side event on 9 November 2022 aimed at showcasing Egypt's National Water, Food and Energy (NWFE Programme) and the bankability of adaptation projects in Africa with a focus on food security and the role of political and credit insurance in bridging the financing gap. As a signatory to the Principles for Responsible Insurance and the fact that it is the only Shariah-compliant multilateral insurer, sustainable investment is firmly embedded in ICIEC's due diligence process through linking all new business and other queries with SDG and climate action indicators.

ICIEC and peer multilaterals have an important role in contributing to the international climate finance ecosystem. It is committed to further boosting its green and sustainable finance operations. It has proposed the establishment of a Climate Action Finance Trust Fund with institutional partners, peer multilaterals, and ECAs in the Member States and beyond, which would offer a discount to the insurance premiums needed for the financing of Climate Action projects that are not investment grade.

ICIEC's insurance policies, whether the policyholder is a financial institution, specialised company, or contractor, that offer cover against political and commercial risks, can contribute to the flow of Climate Action related investment, specialised technology, and equipment or services into the Member States. These projects help reducing electricity imports, lessening dependency on fossil fuels, creating jobs, supporting the local economy via local procurement of services and equipment, fostering technology transfer, empowering local people with new knowledge about renewable energy, and improving local infrastructure via road construction and improvements in transmission lines and electricity distribution.

ICIEC actively targets real impact and change in all its financing, insurance policies it underwrites, and projects it supports, and acts as a catalyst for private sector capital mobilization towards achieving the SDGs. Cumulatively, over 28 years, ICIEC has insured US\$ 92.4 billion in trade and investment, which includes US\$91.1 billion in supporting exports and imports, and US\$1.32 billion in support of FDI. Our activities were directed to specific sectors, including US\$31.7 billion to clean energy. The IsDB Group's current renewable energy financing totals about US\$3.4 billion and ICIEC, as the Group's insurance arm, has provided US\$470 million in insurance for renewable energy projects in member states.

Egypt's COP27 presidency vision is to move from negotiations and planning to implementation. ICIEC strongly supports this vision, whose impact is demonstrated by the

US\$7.35bn already disbursed to Egyptian entities including in climate action projects including in the Benban Solar Complex in Aswan.

For implementation to succeed, we also need to ensure the integrity of commitments, pledges and agreed policies. They cannot be used for corporate and institutional greenwashing. The work of the UN's High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities will be crucial in setting standards for credible commitments from the private sector and sub-national governments and creating alignment on what counts as an appropriate ESG investment. In parallel, the UN Climate Change High-Level Champions are working with an expert peer review group of scientists, academics, and practitioners to review the UN-backed Race to Zero campaign's criteria and drive convergence on best practices, and they will continue to do so every year.

Our hope is that the COP 27 of Africa shall advance the climate action agenda in the rising continent, of which tens are Member States of both the IsDB and ICIEC, and where more than 600 million people still lack access to energy and are feeling some of the worst impacts of climate change including food and water insecurity, crop losses, disease and weather extremes.

In addition to bridging any gap towards the 2°C Paris target, we also need a strong reinforcement of policy interventions to limit GHG emissions, some profound economic transformations in the fossil fuel consuming sectors (power generation, transport, manufacturing activities, buildings), and a massive but meaningful asset reallocation, with key implications for investors globally in relation to risk management, asset prices and investment strategies.

The time for promises and pledges is behind us – the challenge now is to show the world that we can put those words into action!

Oussama Abdul Rahman Kaissi
Chief Executive Officer, ICIEC

ICIEC Joins InsuResilience Global Partnership Platform for Collaboration, Shared Learning, and Delivery for Climate and Disaster Risk Finance and Insurance Solutions

Jeddah – The Islamic Corporation for the Insurance of Investment and Export (ICIEC), the insurance arm of the Islamic Development Bank (IsDB) Group, in a further move to consolidate its commitment and involvement in boosting climate resilience, action, mitigation, and adaptation, acceded to membership of the Bonn-based InsuResilience Global Partnership, the world's leading platform for inclusive, integrated collaboration, shared learning and delivery for Climate and Disaster Risk Finance and Insurance Solutions.

ICIEC's membership of InsuResilience, which became effective on 1 September 2022, is underpinned by the Corporation's recognition of the key role that the Partnership plays in bringing together many of ICIEC's member states, 15 of whom are members of the V20 Group of Ministers of Finance of the Climate Vulnerable Forum, and the G20, as well as donors, the private sector, international organisations and civil society groups for the

achievement of wider Climate Action goals.

InsuResilience was launched at the UN Climate Conference COP23 in November 2017 and climate action has since then assumed even greater importance and urgency, including for ICIEC's 48 member states confronted with the task of dealing with the socio-economic costs of climate change and disaster management.

COP26 in Glasgow, which was attended by ICIEC, showed that the road to Net Zero 2050 and the Transition to Clean Energy under the 2015 Paris Climate Action Agreement will indeed be challenging.

According to Oussama Kaissi, Chief Executive Officer of ICIEC, **"The Corporation's development mission is aligned with the UN Sustainable Development Goals (SDGs) and the ambitions of the Paris Agreement and is informed by the needs of our member states. We welcome our accession to membership of InsuResilience**



and we remain committed to contributing to developing innovative financial solutions towards climate action, mitigation, adaptation, and capacity building in cooperation with partners through the InsuResilience platform, amongst other climate finance initiatives aimed at advancing the objectives of climate action."

ICIEC also sees its role in engaging with the private sector as a catalyst for closing the Climate Action financing gap, which is estimated at US\$20bn a year.

Africa Co-Guarantee Platform (ACGP) Steps Up De-risking Support, Guarantees and Credit Insurance to Boost Trade and Investment Flows to the Continent

Cairo – The Africa Co-Guarantee Platform (ACGP) is stepping up its trade and project guarantees amid rising demand for instruments to de-risk investment across Africa. Some 21 Sub-Saharan African states are members of the Islamic Development Bank (IsDB).

ACGP was established in 2018 and comprises six partners – The African Development Bank (AfDB); Islamic Corporation for the Insurance of Investment & Export Credit (ICIEC), the insurance arm of the IsDB Group; African Trade Insurance Agency (ATI), the multilateral African ECA; GuarantCo, part of the Private Infrastructure Development Group, which is supported by the UK, Swiss, Swedish, Dutch and Australian governments; African Union Development Agency (AUDA-NEPAD); and the African Export Import Bank (Afreximbank).

The mandate of the ACGP Platform is to "create an innovative and collective de-risking instrument, to address the perceived high risk across the continent and the lack of capacity of traditional lenders to provide risk mitigation products for projects." The CGPA aims to increase the volume of insurance and guarantee solutions available to project sponsors and their bankers in a market-responsible manner and to mobilize greater amounts of investment that would otherwise not take place in the region in the absence of affordable risk mitigation products.

In a meeting in Cairo in September 2022, the partners agreed to better leverage guarantee and insurance products, resulting in more trade and investment across Africa, and pledged to extend direct transaction support for specific



projects, including infrastructure development and optimizing balance sheets by sharing risk.

They agreed to develop new and hybrid products, including Sharia'h compliant instruments, to address issues such as

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intra-regional trade, the current food, and fertilizer crises, and enhanced coverage for infrastructure investments, public-private partnerships, and fragile/transition states and situations. The CGP will also work with stakeholders to build capacity in the use of risk mitigation instruments that strengthen project preparation and bankability.

According to the AfDB, Africa's annual trade and investment gap is estimated to be US\$200bn. Risk – both real and perceived – is a key barrier to accessing more financing at better terms. Bank credit and investment insurance are costlier, and banks are required to reserve more capital when financing in "sub-investment grade" countries. While the Platform Partners collectively support about US\$10bn in trade and investment annually through guarantees and insurance, more will be needed if Africa is to close the US\$200bn gap and meet Sustainable Development Goal targets.

According to Kofi Asumadu-Addo, Afreximbank's Director of Guarantees and

Specialized Finance, "This is a critical moment, and the ACGP is needed more than ever. The COVID-19 pandemic, the Ukraine crises, and the consequent macroeconomic challenges facing the continent require urgent action on our part as risk mitigation providers. Collectively, we have the capacity among the Platform partners to respond adequately and appropriately to help de-risk and attract investments into and across Africa. We need to bring this to bear in order to reduce the trade and investment financing gap."

To Bessem Soua, ICIEC's Division Manager for Sub-Saharan Africa and Europe, "the Co-Guarantee Platform is a unique opportunity for multilateral partners to work together on scaling up risk mitigation capacity to de-risk investments and trade in Africa. Priorities and concrete steps have been agreed among the partners to take the platform to the next level and ensure a collective and coordinated response to the continent's needs."

Al Rajhi Bank Signs US\$1bn Sustainability Commodity Murabaha Facility - the Largest Shariah-compliant ESG Syndication in the Middle East to Date



Jeddah - Al Rajhi Bank, one of the largest banks in the Kingdom and the largest Islamic bank in terms of assets, successfully concluded a 3-year dual tranche Sustainability Commodity Murabaha Facility "with a total amount exceeding US\$1bn" in September 2022.

According to Waleed Al-Mogbel, CEO of Al Rajhi Bank, the transaction makes Al Rajhi Bank the first Islamic financial institution in the world to conclude such a Shariah-compliant facility whose proceeds will be used to increase the bank's liquidity levels, which will have a positive impact on the Bank's overall business activities and will be directed towards sustainability financing for corporates and projects.

This transaction, stressed the Bank, is considered as the largest Shariah-compliant Syndication in the Middle East that complies with the Environmental, Social, and Governance (ESG) standards and practices. Standard Chartered Bank assisted Al Rajhi Bank in developing the sustainable finance framework. S&P Global assessed the framework as an independent entity and confirmed that it complies with the Green Loan Principles, Social Loan Principles, Environmentally Friendly Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines of ICMA.

The deal was well received in the international and regional markets, and Al Rajhi accordingly succeeded in increasing the value of the facility from the initially offered amount. A diversified group of 13 global investors from North America, Europe, Asia, and the Middle East participated in the landmark transaction.

The syndication was led by HSBC and SMBC International Bank as Mandated Lead Arrangers and Bookrunners. "The participation of global institutions reflects the trust shown by the international market in Al Rajhi Bank's overall business activities, market share, and market positioning. It also demonstrates the bank's commitment to environmental and social sustainability, as all proceeds from this financing will be allocated to qualified sustainable projects that are Shariah-compliant and have a positive impact, as specified in the bank's framework of sustainable financing," added Al Rajhi Bank.

The transaction is the first ESG syndication in accordance with the Bank's sustainable financing framework, which was established to facilitate the financing in accordance with global ESG standards and principles.

Malaysia's Affin Bank Group Launches Pioneering Affin Solar Financing-i Plan to Support Retail Customers to Transition to Solar Energy Options

Kuala Lumpur – Islamic financial institutions continue to innovate in the growing sustainable and SRI space related to climate action and transition to clean energy. Malaysia's Affin Islamic Bank Berhad recently launched a pioneering AFFIN Solar Financing-i product.

The product is a sustainable and personal financing plan for the banks' retail customers to purchase and install Solar Photovoltaic (SPV) System at residential and non-residential properties.

Nazlee Khalifah, Chief Executive Officer, Affin Islamic Bank, stressed that "Affin Islamic Bank is the only such bank that offers this financing facility to new and existing customers. We believe there is high awareness and interest for renewable energy, and with AFFIN Solar Financing-i, our goal is to push for solar energy to be more accessible to Malaysians."

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Nazlee Khalifah, CEO, Affin Islamic Bank



According to Khalifah, the SPV System are solar panels that capture the energy of sunlight which is converted into electricity. Tapping into this power source with its versatility and many benefits, AFFIN Solar Financing-i offers a simple and easy way for home and building owners to lower their monthly electricity bills, reduce their carbon footprint and see a fast return on their investment.

Affin Solar Financing-i provides flexible financing tenure of up to 10 years with a maximum amount of RM150,000, with various payment mode options.

Affin Bank, which was awarded the Sustainable Energy Financing Award by the Malaysian Ministry of Energy and Natural Resources (KeTSA) at the National Energy Awards 2020, aims to make AFFIN Solar Financing-i a financial solution that addresses as well as bridges the gap of the smaller-scale SPV segment by allowing retail customers, home and building owners to purchase and install the SPV panels.

"Affin Solar Financing-i," added Khalifah, "is one of the steps taken by the Bank to increase the growth of renewable energy in the country in line with the Government's renewable energy aspiration and Renewable Energy Transition Roadmap (RETR) 2035. The aim is to provide the means needed for Malaysians to progress towards sustainable development. We believe this product will help in growing green economies and green societies in Malaysia."

ICIEC Consolidates its Climate Action Playbook with Online Climate Risk Screening Software Solution, Aware for Projects

Jeddah - In an important move to further enhance its Climate Action Playbook, the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), the insurance arm of the Islamic Development Bank (IsDB) Group, signed an agreement to use the landmark online climate risk screening software solution "Aware for Projects", which helps identify potential climate change risks to investments.

Five of the largest multilateral development banks, including the Islamic Development Bank (IsDB), ICIEC's parent institution, have been using Aware for up to 10 years. In the case of the IsDB, it is used in its Project Risk and Co-Benefits Identification Process. In this respect, the software managed by WillisRe, is customised for ICIEC activities.

An equally important feature is that it is aligned with achieving the provisions of the Paris Climate Agreement, which, apart from achieving the targets, also promotes climate action through capacity development, resilient financing, and policy support.

The rationale supporting ICIEC's utilisation of Aware is clear and present.

- Aware is a tried and tested and sophisticated risk management tool that has implicit cost-saving and implementation features.
- It has an in-built early warning system that makes users aware of the potential risks of climate change and geological hazards relating to their projects and investments.
- It has future proofing features that identifies potential climate and geological risks that may need further investigation by informing users such as ICIEC what to do next (i.e. detailed climate risk analyses for projects 'Medium' or 'High' risk results) with regards to its investments, underwriting, and guarantees.
- It contains sector/subsector sensitivity indicators informing project promoters and investors about the climate vulnerability of their projects and investment.
- It also has an oversight function by allowing users to question project designers and developers about the risks identified in the software tool and the way forward to reduce the materiality of risks.

Its universal accessibility, applicability, and user-friendliness make it an attractive de-risking tool for climate risk screening across various sectors, thus converting climate change, environmental and disaster risks into easily digestible outputs.

As a signatory to the Principles for Responsible Insurance and being the only Sharia'h-

Climate action risk mitigation is a complex issue whether it relates to financing, underwriting, adaptation, risk management, technology, and equipment. The increasing use of digitisation, software solutions, AI, and other applications has positively contributed to our efforts to underwrite investment and financing for climate action projects and trade flows in our member states

compliant multilateral insurer, sustainable investment, climate action and finance, and Green Finance are firmly embedded in ICIEC's due diligence process through linking all new business and other queries with SDG and climate action indicators. ICIEC and peer multilaterals have an important role in contributing to the international climate finance ecosystem. It is committed to further boosting its green and sustainable finance operations.

Mr Oussama Kaissi, Chief Executive Officer of ICIEC, strongly welcomed ICIEC's use of Aware, commenting: "Climate action risk mitigation is a complex issue whether it relates to financing, underwriting, adaptation, risk management, technology, and equipment. The increasing use of digitisation, software solutions, AI, and other applications has positively contributed to our efforts to underwrite investment and financing for climate action projects and trade flows in our member states.

"The Aware software will help ICIEC develop a consistent approach to climate risk assessment and raises awareness about the nature and the level of climate physical risks our investments and underwriting are exposed to. It will also help make our operations more resilient to climate change by strengthening the long-term sustainability of our activities, improving the technical and financial feasibility of projects, and reducing the credit risk of the investment. As such, it will also contribute to a more efficient and impactful project and investment delivery. I look forward to a rapid implementation of the Aware software into our processes."

The Political and Economic Dichotomies of Climate Action

Climate Action Must Not Only be Done but Must be Seen to be Done

by **Oussama Kaissi, CEO, ICIEC**

One of the perversities of the Climate Action discourse is the inherent and some would say inevitable political and economic dichotomies embedded, which makes the task of transition, mitigation, adaptation, and finance that more onerous and costly

Given the complexities and immediacy of climate action, it was perhaps naïve to think that any behavioural change on the part of governments, institutions, industry, business, finance, investors, and society per se would be compliant and straight forward. Ask the behavioural economists and they will attest to the uphill struggle to get swathes of people changing their consumption habits.

What a relief that the COP Process, the transition to Net Zero, and achieving the UN SDG agenda are evidenced by an overwhelming majority of cohorts of brilliant scientists, laboratories, research, and data, despite the doubts of the minnows of climate sceptics and deniers. But judging by the trajectory of the narrative, as a global society, we tend to get stuck or stalled, seemingly oblivious, complacent or defenceless with regards to the ultra-urgency and destructive forces of climate change, as recently evidenced by the murderous floods in Pakistan and Nigeria, just to name two casualties of the consequences.

For mankind, it is not a question of apocalypse now, tomorrow, or in the distant future. We have already been sleepwalking into the eye of the storm. How this pans out depends on our leaders, financiers, gatekeepers, and activists!

This must not detract from the brilliant work done by the cornucopia of cohorts and UN and international committees and agencies

led by the Intergovernmental Panel on Climate Change (IPCC) in its mitigation to climate change report in June concluded that the world is not on track to limit global warming to 1.5°C or even 2°C. Average annual GHG emissions during the last two decades were the highest in human history.

Moreover, its latest report shows that there are options available now in all sectors that can at least halve emissions by 2030. One would have thought that in the above respect COP27 in Sharm El Sheikh assumes an even greater urgency.

As Dr. Mahmoud Mohieldin, UN Climate Change High-Level Champion for COP27, maintains, “we are at an inflection point in the global race to a climate-resilient and sustainable future, the point where the surge of commitments, ambition, initiatives, and promises made in recent years meets the real test of implementation.

“On the one hand, the climate action agenda has transformed since the Paris Agreement was clinched in 2015, with pledges to reach net zero emissions by 2050 from across the economy. On the other hand, greenhouse gas emissions have yet to fall, while the impacts of climate change are worsening. For many, especially in developing and emerging economies, there is an urgency to adapt and build resilience to impacts such as droughts, floods, extreme heat, and wildfires – while growing sustainably.”

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Mahmoud Mohieldin
UN Climate Change High-Level Champion
for COP27

The world, he adds, aspires that COP27 in Sharm El-Sheikh be an important milestone in this decisive decade for climate action through undertaking an urgent, ambitious, impactful, and transformative agenda, guided by a holistic approach to sustainable development based upon the principle of equity and informed by science.

As a multilateral political, credit, and investment risk insurer, we believe, like all our peers that addressing climate change is a collective action problem and responsibility, encompassing all stakeholders.

Bonfire of the Insanities?

The moral ambiguity and deficiencies (some climate activists would call it a moral dereliction of duty) of the COP process is the fact that some US\$2.5 trillion went into subsidising oil, gas and coal over the past six years. This is at a time when the rich nations failed to meet their US\$100bn goal of annual finance for poorer nations struggling to adapt to the climate crisis. The signs are that this is not abating.

According to the OECD and the International Energy Agency (IEA), major economies sharply increased support for the production and consumption of coal, oil, and natural gas, with many countries struggling to balance longstanding pledges to phase out inefficient fossil fuel subsidies with efforts to protect households from surging energy prices.

New OECD and IEA data show that overall government support for fossil fuels in 51 countries worldwide almost doubled to US\$697.2bn in 2021, from US\$362.4bn in 2020, as energy prices rose with the rebound of the global economy. In addition, consumption subsidies are anticipated to rise even further in 2022 due to higher fuel prices and energy use.

"Russia's war of aggression against Ukraine has caused sharp increases in energy prices and undermined energy security. Significant increases in fossil fuel subsidies encourage wasteful consumption though, while not necessarily reaching low-income households,"



OECD Secretary-General Mathias Cormann said. "We need to adopt measures which protect consumers from the extreme impacts of shifting market and geopolitical forces in a way that helps keep us on track to carbon neutrality as well as energy security and affordability."

Similarly, according to IEA Executive Director Fatih Birol, "fossil fuel subsidies are a roadblock to a more sustainable future, but the difficulty that governments face in removing them is underscored at times of high and volatile fuel prices. A surge in investment in clean energy technologies and infrastructure is the only lasting solution to today's global energy crisis and the best way to reduce the exposure of consumers to high fuel costs."

It took a former politician to recognise the contradictions of today's politics. John Kerry, US Special Climate Envoy, lamented at COP26 in Glasgow that he is 'compromised' by the policy ambiguities of politicians. "That's (the US\$2.5 trillion subsidies to the fossil fuel industry) a definition of insanity. We're allowing to feed the very problem we're here to try to cure. It doesn't make sense," said Kerry.

OECD analysis of budgetary transfers and tax breaks linked to the production and use of coal, oil, gas, and other petroleum products in G20 economies showed total fossil fuel support rose to US\$190bn in 2021 from US\$147bn in 2020. Support for producers reached levels not previously seen in OECD tracking efforts, at US\$64 billion in 2021 – up by almost 50% year-on-year, and 17% above 2019 levels.

Those subsidies have partly offset producer losses from domestic price controls as global energy prices surged in late 2021. The estimate of consumer support reached US\$115bn, up from US\$93bn in 2020.

It is true that against a current global macroeconomic background, policy implementation of mitigating climate change by the transition to clean and green energy governed by net zero targets and timelines set by the 2015 Paris Climate Agreement and subsequent COPs and achieving the UN SDG agenda targets by 2030, are being delayed.

Governments are re-commissioning or extending the use of coal-fired power stations, nuclear plants and turning to increasing fossil fuel extraction and fracking to reduce dependency on Russian gas and oil imports, if only for the short-to-medium term.

In the UK, for instance, no sooner had the Liz Truss government come to power in September 2022, she unveiled an Energy Plan that freezes the energy price cap to £2,500 annually till 2024 which had been due to rise to £3,549 for a typical household from October. She also introduced an energy plan which caps the wholesale price for gas for six months for businesses, especially in the hospitality and services sectors.

She also tore up the Conservative government's climate action playbook by issuing new oil and gas exploration licenses for the North Sea, lifting the ban on fracking for shale gas, and looking to negotiate lower-priced long-term contracts with renewable and nuclear power companies.

The Truss government lasted for only 44 days, and her successor Prime Minister Rishi Sunak, although banning fracking, has not reversed the other policy adoptions. Even in Germany, the economy most hit by the Russian energy crisis, they are reverting to coal fired power and even contemplating nuclear energy.

To add to the seeming complexity of the task, the Bank of England (BoE) has warned that banks risk causing economic shocks if they withdraw funding from polluting sectors too quickly. Chris Faint, Head of Climate, speaking at The Economist's annual Sustainability Week on 3 October, suggested that financial institutions should resist external pressure to withdraw funding from high-carbon clients as they execute their climate strategies.

"Some commentators are agitating for a sudden removal of capital or investment from more polluting sectors and the instant rechanneling of that into green activities," he reminded. "But we caution against this. Financial institutions should be making decisions from a whole economy perspective and evolving their lending at a fast enough speed to facilitate the transition, but not in a way that is too fast or disorderly that it creates additional risks."

Climate Action and Global Economic Shocks

The world, says the IMF's Benjamin Carton and Jean-Marc Natal, must cut greenhouse gas emissions by at least a quarter before the end of this decade to achieve carbon neutrality by 2050. Progress needed toward such a major shift will inevitably impose short-term economic costs, though these are dwarfed by the innumerable long-term benefits of slowing climate change.



The Fund's latest World Economic Outlook considers the impact of different climate mitigation policies on output and inflation and concludes that if the right measures are implemented immediately and phased in over the next eight years, the costs will be small. However, if the transition to renewables is delayed, the costs will be much greater.

As a multilateral insurer with disparate Member States ranging from high capita per GDP to Middle-and-Low-Income Countries, we are always cognizant of the fact that to curb costs, climate policies must be gradual. But to be most effective, they also need to be credible. As the IMF maintains, if climate policies are only partially credible, firms and households will not consider future tax increases when planning investment decisions.

As such, a better understanding of the near-term macroeconomic implications of climate

policies and their interaction with other policies is crucial to enhance their design. Transitioning to a cleaner economy entails short-term costs, but delaying will be far costlier.

A pressing concern among policymakers is whether climate policy could complicate the job of central banks, and potentially stoke wage-price spirals in the current high inflation environment. IMF analysis shows this is not the case.

"Gradual and credibly implemented climate mitigation policies," observes the Fund, "give households and firms the motive and time to transition toward a low emission economy. Monetary policy will need to adjust to ensure inflation expectations remain anchored, but for the kind of policies simulated, the costs are small and much easier for central banks to handle than typical supply shocks that cause a sudden surge in energy prices."

The Financing Conundrum

Climate action, mitigation, and adaptation cost money - in the trillions of dollars, at a time when many countries face significant fiscal and economic challenges, and poverty reduction has stalled. The financing challenges are more difficult for developing economies, especially in the current global context, and will require new financing frameworks and the participation of international financial institutions, donor countries, the private sector, and philanthropies.

Global climate finance, according to the IMF, currently totals about US\$630bn annually, with debt being the main source of funding for investments. This puts an extra burden on debt distress. It's disheartening that we are still far from the goal to mobilize US\$100bn annually by 2020 towards climate finance as promised by the rich countries.

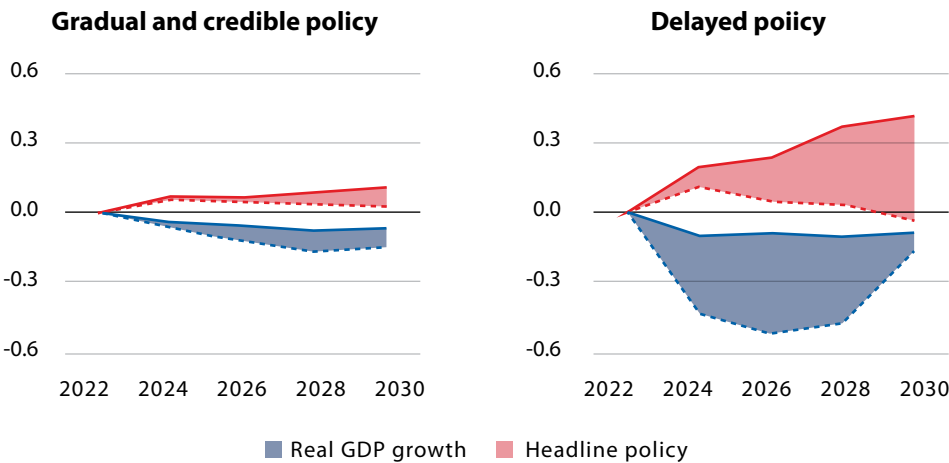
There is a significant gap in funding for climate action in developing countries. A report by the World Bank Development Committee published in October titled 'Achieving Climate and Development Goals: The Financing Question' puts the annual flow of climate finance to developing countries at less than US\$425bn for LICs (Low Income Countries) and MICs (Middle Income Countries). The hope is that these flows should at least quadruple by 2030.

The reality is that climate finance is not only about money. Key obstacles in generating funding from the private sector, for instance, says the Report, "include aligning incentives for global public goods action, project identification and pipeline challenges, business environment weaknesses, high risk perceptions, and regulatory constraints. The current environment of multiple shocks, elevated risks, and budgetary constraints compounds the challenges for the public sector.

"A large portion of projects (or parts of those projects) are not bankable and will require

Time to act

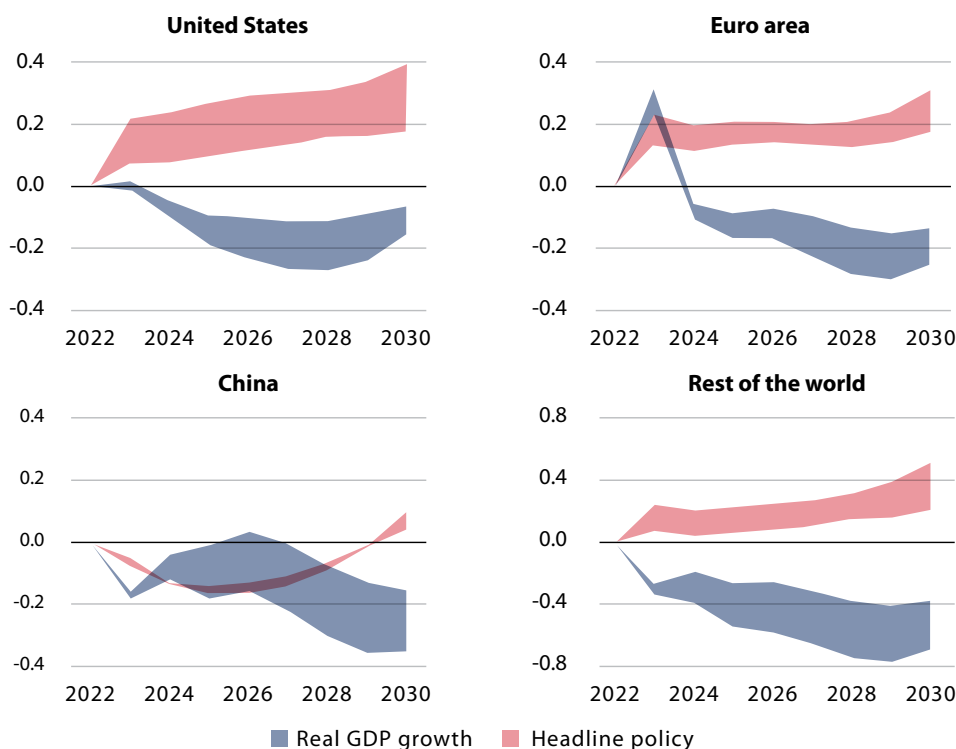
Delaying the transition to a low-emission economy significantly increases the costs to GDP. (percentage points)



Source: Global Macroeconomic Model for the Energy Transition; and IMF staff estimates.
Note: The chart shows the range of values for growth and inflation for different monetary policy objectives in the United States; stabilizing an expanded core inflation index that includes GHG taxes (dotted line) is more costly in terms of growth

Short-term costs

The impact of climate mitigation policies on output and inflation depends on how fast regions can transition to clean electricity. (percentage points)



Source: Global Macroeconomic Model for the Energy Transition; and IMF staff estimates.

Note: The chart shows the range of values for growth and inflation for different assumptions on the speed of clean electricity transition; slower transition comes with higher inflation and lower GDP growth.

concessional and grant financing, and effective and impactful private capital enablement and mobilization. Appropriately targeted and calibrated subsidies, use of carbon taxes and other carbon pricing instruments where appropriate and transparent regulatory frameworks will be needed to create viable incentives.” As such, adequate policies and capable institutions that are aligned with long-term climate and development objectives are key to accelerating climate action and maximizing the impact of limited resources.

The Development Committee recommends:

- Distortive fossil fuel and agricultural subsidies be repurposed into funding for climate action and for the mitigation of the distributional impacts of such reforms.
- Carbon pricing, achieved through carbon taxes, emissions trading systems, regulatory mandates, and climate disclosure rules, among others, can guide the allocation of private capital to impactful projects, mobilize additional domestic public resources, and help develop carbon markets.
- While development finance will play an important role, it is not sufficient. The global community – public and private sectors, and philanthropic foundations – must step up to

A large portion of projects (or parts of those projects) are not bankable and will require concessional and grant financing, and effective and impactful private capital enablement and mobilization. Appropriately targeted and calibrated subsidies, use of carbon taxes and other carbon pricing instruments where appropriate and transparent regulatory frameworks will be needed to create viable incentives

partner with and supplement development finance in order to achieve climate goals.

- Integrated solutions can address the complexities of climate change alongside broader development goals, including energy access, increased productivity, and human capital.

The World Bank Group (WBG) is developing models to pool funding from the global community and make it available for the most impactful and scalable projects to reduce GHG emissions, finance adaptation, and mobilize private capital.

“In addition to efficiently leveraging capital provided by shareholders through our balance sheet,” stressed the Development Committee Report, “we expect to launch trust fund initiatives such as the Scaling up Climate Action by Lowering Emissions (SCALE) partnership to assist the scale up of the monetization of carbon credits to partially finance and incentivize the climate transition. The WBG is also working on developing co-investment platforms with institutional investors to finance climate action, including by utilizing donor support to accelerate the energy transition. We are also rolling out tools to support clients in building capacity to access international carbon markets and develop domestic carbon markets, drawing on our expertise and lessons learned as a pioneer in this field.”

The Cost of Inaction and Delay

Inaction today will only result in much bigger spending tomorrow. Estimates of the long-term costs of inaction are also in the trillions and will continue to increase the longer that climate action is delayed.

Estimates, says the WBG, suggest that insufficient action on climate change could cost the global economy US\$178 trillion by 2070, or almost double the current GDP. For example, diminishing water supplies and water-related losses in agricultural and other output could cause GDP growth rates in some regions to decline by as much as 6% by 2050. At the same time, man-made climate change is leading to irreversible, non-linear impacts on biodiversity and ecosystem services, which could, in turn, lead to significant GDP losses.

Climate action cannot be achieved by governments alone. Partnerships with multilaterals to deploy innovative de-risking solutions are critical to create bankable projects in high-risk markets. Multi-stakeholder collaboration is vital to unlock institutional, private investor, and philanthropic assets.

In July, the IMF published a detailed note on mobilising domestic and foreign private sector capital in developing economies in support of climate projects by overcoming existing constraints. Estimates of global investments needed to achieve the Paris Agreement’s temperature and adaptation goals range between US\$3 to US\$6 trillion per year until 2050. The variation is because of the large data gaps in the tracking of climate finance data, and underdeveloped disclosure.

Estimating the financing gap in LICs and MICs is a challenge. Needs assessments depend not



only on the climate scenario chosen and which climate actions may be taken by a country, including policies and investments, but also when those actions occur. Financing needs for adaptation, says the WBG, “are more difficult to define than for mitigation because mobilizing specific adaptation investments is only part of the challenge since ultimately improving societies’ adaptive capacities depends on broader progress on inclusive development.”

Similarly, measuring and tracking climate finance delivery in practice is a challenge due to lack of uniform methodologies to calculate the climate finance portion of a financing package, especially for adaptation, and the absence of standardized and transparent reporting by climate finance providers and recipients.

Governments, rues the WBG, are, still spending billions each year on inefficient subsidies, including for fossil fuels, that not only decrease the resources available for priority expenditures but are counterproductive with regards to climate action. There is also a mismatch between private sector pledges and actual investment. Despite growing ambitions to invest for climate, private sector actors have shied away from investing in developing countries. Total annual private financial flows for climate and non-climate activities have averaged only US\$12bn for LICs and US\$800bn for MICs over 2017-2020.

Developing Countries, while supporting the thrust of the WBG approach, regularly question the commitment of developed economies, international development institutions, the private sector and other actors in financing the true impacts of climate change. This is partly reflected in the financing gaps and structural barriers relating to climate action. The challenge is to get the balance right and not to do things abruptly. Vulnerable countries who are the least polluters cannot be expected to pay the price for the heavy polluters – past and present.

Developing countries do not have the same policy options as rich countries. But they are trying their best. COP27 Host, Egypt for instance, under its Egypt Vision 2030, has introduced several national strategies to ensure that all stakeholders are working under a systemic strategic umbrella to achieve a sustainable economy and a diversified energy sector, which represents around 13% of current GDP. By identifying a set of targeted indicators to be reached by 2020 and 2030, the strategy calls for 20% of Egypt’s power generation to be based on renewables by 2022, and 42% by 2035, as per the country’s Integrated Sustainable Energy Strategy.”

Egypt also launched the National Climate Change Strategy 2050, and in light of its presidency of COP27, the role of development partners and the private sector has become crucial to mobilize development finance.

Saudi Minister of Finance, Mohammed A. Aljadaan, addressing the Development Committee, advised that “climate change is indeed one of the challenges of our lifetime and must be tackled collectively.” He has an important point that climate change and finance must be seen through the lens of international agreements: “The essence of these agreements is the principle of common but differentiated responsibilities and respective capabilities, which has two important implications. One is that countries should not contribute to climate finance proportionate to their contributions to historic of GHG emissions. The other is that the focus of climate action should be on countries that contribute significantly to the flow of GHG emissions.”

The fact that since LICs and LMICs contribute just 14% percent of global emissions, he stressed, should not be lost when advising countries on how they should deliver on their NDCs. Carbon taxes would unfairly burden the poor and most vulnerable and are inconsistent with the affordability element of SDG7.

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In this context, it is critical to differentiate between subsidies that encourage wasteful consumption and those targeted at the poor and the most vulnerable. Cash transfers are a good substitute for subsidies, but other options, such as lower electricity rates for low-consumption households, should also be a part of the solution. Furthermore, fossil fuel subsidies, urged Minister Aljadaan, should not be considered in isolation but looked at within the broader context of all energy subsidies, including those supporting renewable energy.

“Given the staggering needs, every possible source of climate finance needs to be harnessed. Bilateral donors, large philanthropic foundations, and private investors all need

to make meaningful contributions. The role of MDBs is to maximize climate co-benefits through their development financing operations. The IFC can play stronger advocacy and promotional roles in the private climate finance space. Considering the frequency and intensity of climate-triggered disasters, adaptation finance should be substantially scaled up with a view to building developing countries' resiliency and capacity to deal with natural disasters," he advised.

Global Stocktake

Hats off to the delegates at the Bonn Climate Change Conference in June for undertaking the first technical dialogue of the Global Stocktake, designed to review collective progress towards achieving the Paris Agreement's goal to limit global warming to 1.5°C. This Stocktake and numerous other initiatives lose their impact if the requisite funding is not forthcoming. After all, the international community has yet to live up to its commitment to mobilize US\$100bn annually in climate finance for developing countries, let alone the trillions of dollars needed to achieve Net Zero by 2050.

In September, Egypt hosted the Egypt-International Cooperation Forum in Sharm El-Sheikh ahead of COP27 under the theme of moving from pledges to implementation. Ministers from MENA and African countries renewed their call for a sharp increase in climate financing, while at the same time pushing back against any abrupt and arbitrary move away from fossil fuels, especially coal, oil, and gas, on which many of the countries as primary producers are dependent.

Egypt, an oil and gas producer is highly vulnerable to climate change. It has positioned itself as a champion for African interests in the wake of COP27. According to the African Union, the continent is faced with an annual climate financing gap of about US\$108bn. This is exacerbated by the fact that climate finance is biased against climate-vulnerable countries, which goes against the demand that "let the polluters pay." Climate change impacts all sectors including food insecurity. According to the IMF, Sub-Saharan Africa and some MENA states are the world's most food insecure regions. Africa benefited from less than 5.5% of global climate financing despite having a low carbon footprint and suffering disproportionately from climate change.

The response of African States to the climate crisis, according to Assistant Secretary-General for Africa, Martha Ama Akyaa Pobe, does not match the magnitude of the challenge the continent is facing. The climate crisis, she told the Security Council, is "a danger to peace". Although there is no direct link between climate change and conflict, "climate change exacerbates existing risks and creates new ones. As desertification and land degradation

drive competition for resources, they also erode livelihoods and food security for millions."

Will COP27 realise its ambitions of not only implementation but the major political decision-making, notably, the alignment of substantially increased financial flows with the objectives of the Paris Agreement, especially finance for adaptation and loss and damage, which is crucial to build a more sustainable and resilient future? Only time will tell!

Debunking the Myths

Disinformation, half-truths, and fake news is a feature of global discourse whether in print discussions or social media. Climate action and the global energy crisis are no exceptions. The three common lies about the energy crisis, according to IEA Executive Director Fatih Birol, are that the global energy crisis is a clean energy crisis, that the current energy crisis will set back efforts to tackle climate change, and that Russia is winning the energy battle.

"Today's crisis is a reminder of the unsustainability of our reliance on fossil fuels and can be a key turning point to move faster towards a cleaner, more affordable and more secure energy system," he stresses. "The Inflation Reduction Act in the United States, the REPowerEU Package in Europe, and actions by other major economies are clear evidence of the gathering momentum behind clean energy."

In fact, the first edition of the IEA's new World Energy Employment report, published in September 2022, shows that clean energy industries now employ more people globally than fossil fuel sectors. According to the report, the number of energy jobs worldwide has recovered from disruptions due to Covid 19,

increasing to above its pre-pandemic level of more than 65 million people. The growth has been driven by hiring in clean energy sectors, while the oil and gas sector saw some of the largest declines in employment at the start of the pandemic and has yet to fully recover, even with a spur of recent projects for new liquified natural gas (LNG) projects.

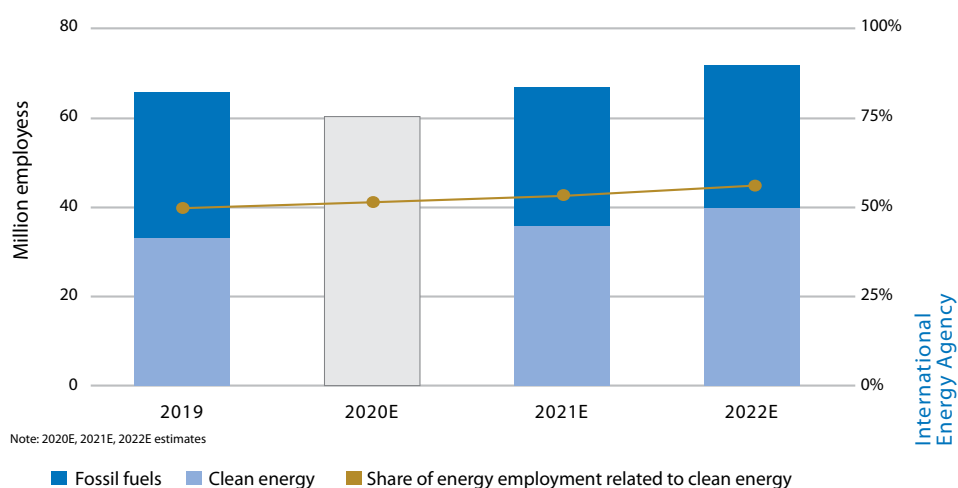
Like other areas in Climate Action, the pursuit of clean energy similarly require painful trade-offs. Clean energy technologies typically require much greater quantities of minerals and metals than their fossil fuel counterparts. As the world transitions towards net zero, the rapid shift to these technologies is expected to drive a significant increase in demand for many minerals.

"Recent price spikes for many of these minerals," warns the IEA, "have triggered a marked increase in investment in mineral exploration and production. Nevertheless, there remain significant risks that mineral supplies may not keep pace with what would be needed to meet global climate goals. Alongside supply concerns, there are also significant risks associated with the ESG impacts of mining projects. These include risks associated with geopolitical tensions, armed conflict, human rights violations, bribery and corruption, emissions, water stress and loss of biodiversity.

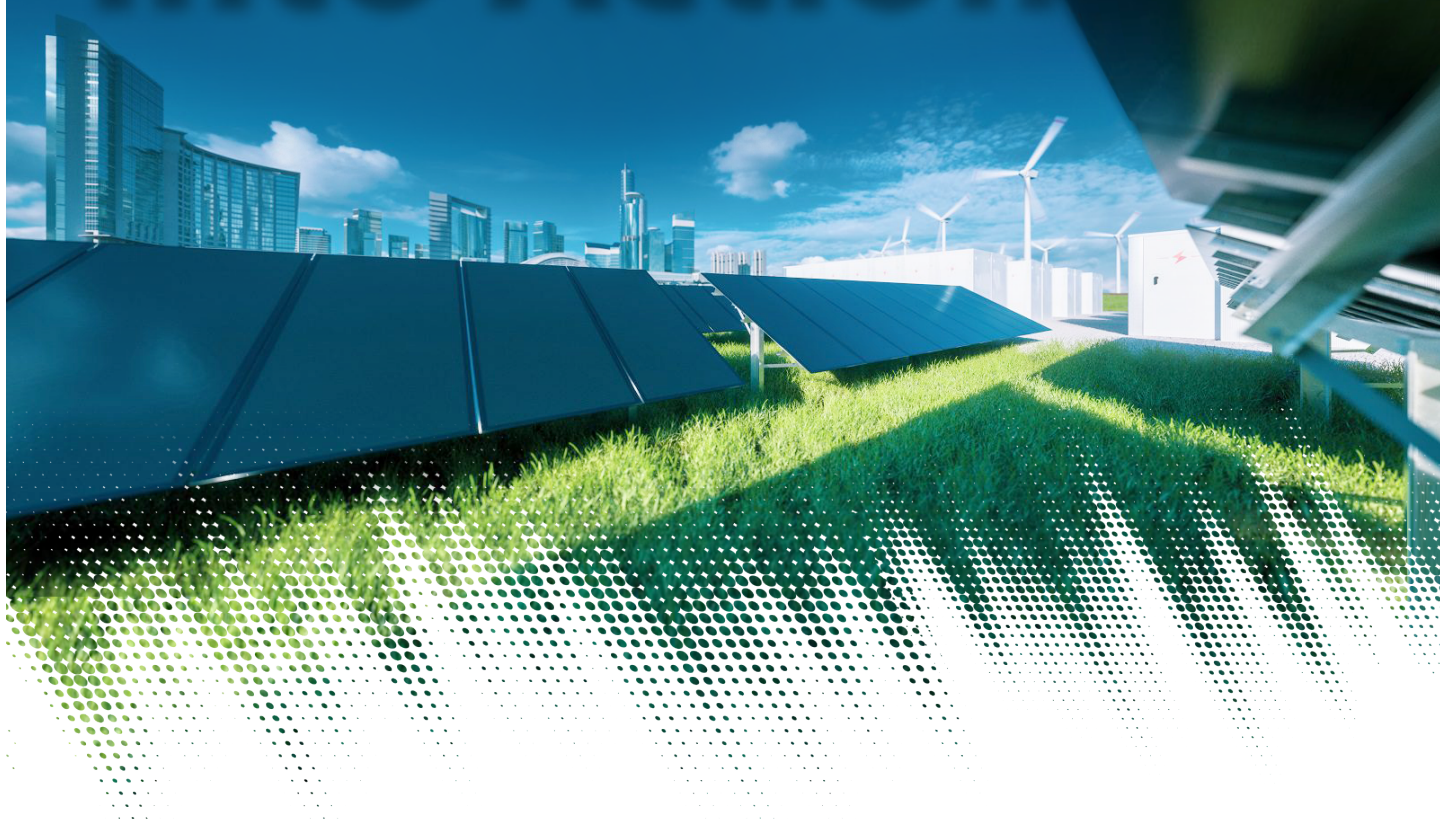
"As the world makes progress towards global climate goals, there is growing recognition that energy transitions must also be people-centred and inclusive. Businesses, especially those engaged in supporting the transition, can make a positive contribution to sustainable development, but not without addressing potential adverse impacts linked to their activities or supply chains."

Energy employ in fossil fuel and clean energy sectors, 2019-2022

World Energy Employment



Turning Words into Action



by Dr Mahmoud Mohieldin,
UN Climate Change High-Level
Champion for COP27

We are at an inflection point in the global race to a climate-resilient and sustainable future: the point where the surge of commitments, ambition, initiatives, and promises made in recent years meets the real test of implementation.

On the one hand, the climate action agenda has transformed since the Paris Agreement was clinched in 2015, with pledges to reach net zero emissions by 2050 from across the economy. On the other hand, greenhouse gas emissions have yet to fall, while the impacts of climate change are worsening. For many, especially in developing and emerging economies, there is an urgency to adapt and build resilience to impacts such as droughts, floods, extreme heat and wildfires – while growing sustainably.

We aspire that COP27 in Sharm El-Sheikh will be an important milestone in this decisive decade for climate action through undertaking urgent, ambitious, impactful, and transformative

agenda, guided by a holistic approach to sustainable development, based upon the principle of equity and informed by science.

COP26 saw an unprecedented convergence of pledges from national governments, cities, regions, businesses, investors, philanthropists, and others in areas ranging from road transport to end deforestation by 2030 to methane and reach 100% zero-emission vehicle sales worldwide by 2040. While acknowledging the complexity of the different political, economic and developmental challenges, it is incumbent on us all to raise the threshold for needed action at COP27.

In light of the goals and objectives of the Convention and Paris Agreement and building on the outcomes of previous UNFCCC COPs, we will promote a stronger focus on implementation, transforming commitments into actions and translating the pledges of the summits into solutions in the field.

When we strengthen and mainstream the global response to the threat of climate change, we are acting on all 17 of the UN's Sustainable Development Goals for 2030 – so that climate action simultaneously advances issues such as poverty eradication, gender equality, food and water security, employment, education and access to energy. Climate action can be a golden thread that leads to sustainable development. We aim to ensure a balance between mitigation, adaptation, and means of implementation, prioritising the scaling up of adaptation and mitigation, and facilitating an effective just and equitable transition.

Through the Glasgow Financial Alliance for Net Zero, over US\$130 trillion in assets is committed to reaching net zero emissions before 2050. Now that finance needs to build resilience and reduce emissions within the 2020s, along with the US\$100bn per year of public and private finance that developed countries pledged to mobilise by 2020. An exceptional push on the scale, quality, and composition of investment and finance, particularly to developing countries, is required: to close the adaptation gap, to build resilience, and protect the vulnerable from climate change, to drive systemic change and innovation for carbon neutral transformation in the context of just transition, and to protect and restore natural capital.

Grant and concessional finance, including innovative financing instruments and investments that do not exacerbate debt burdens, must take priority over the traditional debt-based instruments. To this end, we will put greater efforts into and focus on identifying the principles and priorities of post-2025 finance so as to explore practical options for innovative finance, including debt reduction mechanisms (e.g. debt for climate/nature investment). Now finance needs to start flowing to a pipeline of projects that will achieve what has been promised.

Addressing transitional challenges encountered by workers, communities and countries as the shift to a resilient, low-carbon economy takes place is crucial. If we only focus on reducing emissions, we risk leaving communities out of the transition and creating more poverty and inequality.

Replacing fossil fuels with clean energy, for example, could also disrupt labour markets, shifting jobs from one community to another and requiring some skills over others. Climate action should therefore be a part of the race to meet the Sustainable Development Goals as a whole in the context of just transition.

We also need to ensure the integrity of commitments. They cannot be used for corporate greenwashing. The work of the

UN's High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities will be crucial in setting standards for credible commitments from the private sector and sub-national governments and creating alignment on what counts as an appropriate ESG investment.

In parallel, the UN Climate Change High-Level Champions are working with an expert peer review group of scientists, academics and practitioners to review the UN-backed Race to Zero campaign's criteria and drive convergence on best practices, and will continue to do so every year.

On the momentous occasion of being held in Africa, COP 27 shall advance the climate action agenda in Africa, and it will represent and reflect the needs of the whole of Africa – where more than 600 million people still lack access to energy and are feeling some of the worst impacts of climate change including food and water insecurity, crop losses, disease and weather extremes.

Finally, the support and contribution of all parties, governmental and non-governmental, are crucial to achieve the desired success at Sharm El -Sheikh. All non-state actors will have to adjust and adapt to the new realities imposed by climate change and to be part of the solutions needed to address it. As UN Climate Change High-Level Champion for Egypt, I will build upon and push forward the intensive level of dialogue and practical interaction with all non-state actors across the globe to ensure their participation, with a special focus on developing countries. To

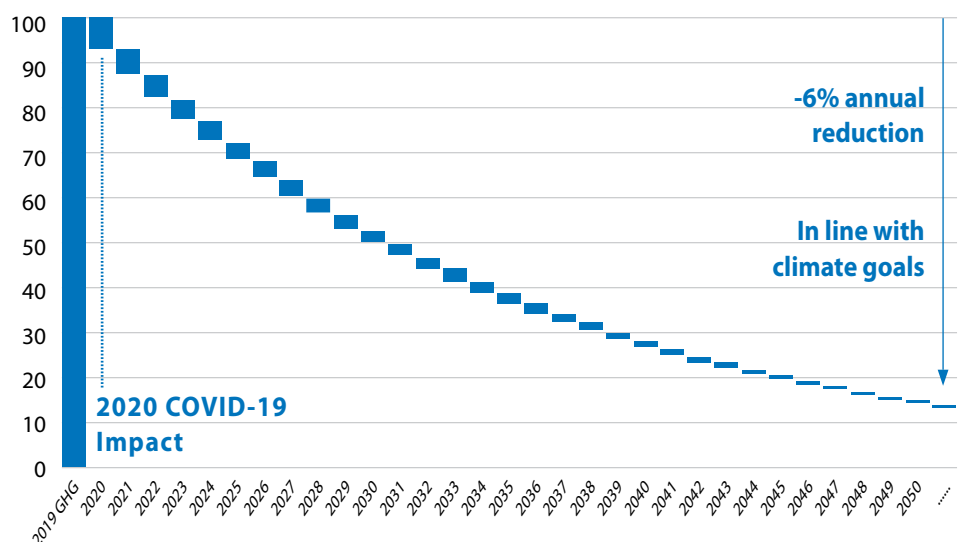
make Sharm El-Sheikh an implementation COP, we need all non-state actors to be even more integrated into the centre of international climate solutions.

By pushing progress across these different actions, I believe that we will leave COP27 with signs of real climate impact within the 2020s, with a tangible elevation of adaptation and resilience work to the level of mitigation.

We are already living in an era of climate change. The time for promises and pledges is behind us – the challenge now is to show the world that we can put those words into action.

As UN Climate Change High-Level Champion for Egypt, I will build upon and push forward the intensive level of dialogue and practical interaction with all non-state actors across the globe to ensure their participation, with a special focus on developing countries. To make Sharm El-Sheikh an implementation COP, we need all non-state actors to be even more integrated into the centre of international climate solutions.

A 6% reduction of fossil GHG is needed every year in the next decades to stay under 1.5°C global warming: illustration on a 2020-2050 period



Source: FTSE Russell & Beyond Ratings Research.



Extinction Rebellion Vulnerable States Fight for Their Very Survival

Small Island Developing States (SIDS) face an existential threat from climate change, particularly rising sea levels resulting from global warming. ICIEC Member State, The Maldives, is one of the most low-lying nations in the world, on average a mere 1.5m above mean sea level. **H.E. Ms Aminath Shauna**, Minister of Environment, Climate Change and Technology of Maldives, laments the devastation climate change has wreaked on her country, and warns about the high cost of inaction, hesitance and absence of ambition from across the world in providing adaptation support and the lack of formulating a loss and damage financing mechanism to countries at the frontline of the climate crisis.



H.E. Ms Aminath Shauna,
Minister of Environment, Climate Change
and Technology of Maldives

In February of this year, the Intergovernmental Panel on Climate Change (IPCC) issued its sixth assessment report, warning us of the dire dangers ahead, and of the utter devastation that climate change is causing to both human societies and in the natural world. The report raises alarm of the narrowing window of opportunity we have to mitigate climate change and to adapt to its worsening impacts that will soon become irreversible.

Over the ten months of 2022, we have witnessed the report's findings play out in real time, with the unceasing news of wildfires, heat waves, droughts, heavy precipitation and a myriad of other extreme weather events.

It is without doubt that Small Island Developing States (SIDS), distinguished by their unique geographical and economic vulnerabilities, are at the mercy of the worsening climate change induced effects. Among these is my home, the Maldives, a SIDS consisting of over 1192 islands scattered across 90,000km² in the middle of the Indian Ocean.

Our islands are on average a mere 1.5m above mean sea level, making us the lowest laying nation in the world. Our economy and way of life are intertwined with the geographical location and characteristics of the country. Since 1972 our country's economy has steadily and increasingly depended on the tourism generated by the natural assets of the country; our pristine beaches and colorful reefs teeming with marine life, are a one stop wonder for an ever-growing number of tourists every year.

As a country that is formed of 99% sea, we also heavily rely on our fisheries sector, producing fish and fish products for the local and global markets. As the main two industries contributing to Maldives' GDP, over half of our working population is directly or indirectly tied to the tourism and fisheries industries. Therefore, it is safe to say that the very nature of our country forms the backbone of our economy and is a determining factor in how our society functions.



Then consider just how severely this little island nation, heavily reliant on its environment and completely surrounded by the sea, would be impacted by the global catastrophe that is climate change. We are undeniably aware, thanks to experts such as the IPCC, about how important it is to limit the temperature rise to 1.5 degrees, but it is devastating what is happening to SIDS like us even in our current 1.1 world.

Disappearing Shoreline


Over my lifetime, I have seen meters upon meters of shoreline in our islands disappear,



the palm trees adorning the beautiful beaches downed as the ground beneath them simply washed away. The once predictable weather, easily distinguished by the obvious changes in our Nakai monsoons, is no longer reliable in prediction. Extended dry periods and unexpectedly heavy rainfall have made water shortages and floods a common occurrence, while rapidly intensifying storm surges damage our islands.

Rising sea levels are salinizing the freshwater aquifers in our islands that never had potable surface water. Coral bleaching events are no longer few and far between, with our coral reefs declining and having insufficient time to recover between consequent bleaching events. These impacts have culminated in severe risks to our homes and our livelihoods, threatening health, water, food security and biodiversity of the Maldives.

As a Maldivian, it saddens me that the unfortunate reality I witness is inaction, hesitation and the absence of ambition from across the world, in response to the climate crisis. In particular, the utter lack of motivation the global community has had in providing adaptation support to countries at the frontline of the climate crisis is disheartening.

 Surely it must be a priority to lend a hand to the most vulnerable nations suffering the consequences of a crisis they had hardly contributed to!



The COVID-19 pandemic has shown us how willing countries are to mobilize trillions in the form of stimulus packages, medical supplies and for the research and development of vaccines. If these past 2 years are a testament to the international community's capability to work hand in hand towards a common goal, then why is it that we are unable to find common ground when faced with the climate crisis?

The World is Failing All SIDS

The developed world is on track to undeniably fail all SIDS. The impacts of climate change are only aggravated with the delay in action and yet, the world remains indecisive. Years of negotiation and countless pledges towards reducing emissions have been made, but countries have unfailingly fallen short in fulfilling these commitments and putting in the work required to achieve net-zero emissions.

As unfettered emissions continue, we are in route to overshooting our goal of limiting temperature rise to 1.5 degrees, and it is

Climate change is not a problem we created, and yet, the onus is on us to alleviate the crisis, to lead the battle on the frontlines, and to keep advocating for ourselves. In my 1.5 years as the Minister of Environment, Climate Change and Technology, I have followed in the footsteps of my predecessors, striving to stand front and center to raise Maldivian voices on the international climate change front

without a doubt that to surpass 1.5 degrees of warming would be a catastrophe of unparalleled caliber, not only for SIDS, but for the world at large.

No one is immune to the deterioration of our planet. As the world continues to not provide climate change adaptation the adequate attention and resources it needs, the delays in adaptation support are even now causing trillions in preventable losses and damages to SIDS.

With our existence threatened, funding adaptation currently requires the reallocation of scarce government resources that could have otherwise gone to social safeguarding, education, and empowerment. Forced to spend considerable portions of our domestic budgets on adaptation efforts, we cannot remain on a development path, and we most certainly cannot remain on a path towards sustainable development.

Climate change is not a problem we created, and yet, the onus is on us to alleviate the crisis, to lead the battle on the frontlines, and to keep advocating for ourselves. In my 1.5 years as the Minister of Environment, Climate Change and Technology, I have followed in the footsteps of my predecessors, striving to stand front and center to raise Maldivian voices on the international climate change front.

Maldives has pledged to achieve Net Zero emissions by 2030, an ambitious target for a country that makes up 0.0035% of global emissions. Achieving our Net Zero target may not make a dent in the global efforts towards climate change mitigation, but it is my sincere belief that if a country as capacity constrained as Maldives can make Net Zero a reality, then there is no reason why the large emitters with far greater means of implementation cannot achieve the same. I see it simply as a matter of motivation, ambition and effort, or in this case, the lack thereof.

From a SIDS perspective, formulating a loss and damage financing mechanism is paramount.

We will promote scientific findings as the guiding light in making decisions, because the evidence is there to illustrate what is happening around us. We will strive to convince the world to act with urgency in response to the climate crisis

The effects of climate change have not ceased, they are manifold, incessant, with soft and hard adaptation limits being breached, causing irreparable damage to our homes and our people. SIDS need the climate crisis, and the need for adaptation finance to be treated like the COVID crisis, with the same level of urgency and action, because the funding is available, and the allocation of those funds depends on the willingness of developed countries to commit.

Though we may not have created this problem, we will continue to lead by example within the climate space. What is at stake for us is our history, our culture, our traditions, our stories, our homes and our very existence, and so, we will continue to attend COP after COP, contribute to negotiations and align ourselves with similar minded countries to strengthen our voices.

We will promote scientific findings as the guiding light in making decisions, because the evidence is there to illustrate what is happening around us. We will strive to convince the world to act with urgency in response to the climate crisis, because we only have 85 months before 2030 to make substantial changes to our approaches.

Vulnerable countries will face insurmountable challenges in the years to come, and as evident from 2022 alone, the rest of the world is not far behind!



Opportunities and Constraints in Mobilizing Private Climate Financing in Emerging Markets and Developing Economies

Even with the rapid increase in private sector investments in recent years, climate finance needs remain large, notwithstanding considerable uncertainty around the size of mitigation and adaptation needs and costs. **Ananthakrishnan Prasad** and **Elena Loukoianova**, Chief and Deputy Chief, Climate Finance Policy Unit, IMF, writing in their personal capacities, discuss the opportunities and constraints for private capital engagement in climate action, mitigation, adaptation, finance, and disclosure.



Ananthakrishnan Prasad
Chief, Climate Finance Policy Unit, IMF

To achieve the temperature and adaptation goals of the Paris Agreement, the world needs immediate actions, with climate policies and financing complementing each other. Policies should be accompanied by commensurate financing flows to close the large financing gap globally, and in emerging markets and developing economies (EMDEs) in particular.

EMDEs account for two-thirds of global greenhouse gas emissions, and many are highly vulnerable to climate hazards and natural disasters. These economies will need significant climate financing in the years ahead to reduce their emissions, as well as to adapt to and mitigate the physical effects of climate change.

Despite the rapid increase in private climate financing in recent years, climate investment needs remain large. Estimates of global investments required to achieve the Paris Agreement's temperature and adaptation goals range between US\$3 and US\$6 trillion per year until 2050.¹

Estimates of financing needs vary because of large data gaps in the tracking of climate finance data, especially in sectors other than renewable energy, energy efficiency, and transport. In addition, data on climate finance are partial, as data collection and disclosures at present are not required in several countries.



Elena Loukoianova, Deputy Chief,
Climate Finance Policy Unit, IMF

The investment needs of the EMDEs solely in renewable energy could reach US\$1 trillion a year by 2030, if they stay on track to achieve net-zero greenhouse gas emissions by 2050. Developing economies alone will require up to US\$300 billion a year by 2030 to adapt agriculture, infrastructure, water supply, and other parts of their economies to counterbalance the physical effects of climate change.² Climate Islamic finance (in the form of Green Sukuk issuance) stood at US\$2.56 billion in 2020. It fell to US\$869 million in 2021, even as global green bond issuance rose to US\$517 billion in 2021 from US\$297 billion in 2020.

Multiple Constraints

There are multiple constraints that preclude attracting and scaling up private sector climate financing. As climate goals face externalities that cannot be resolved fast and simultaneously, a well-designed carbon price should be an indispensable part of a strategy to reduce emissions in efficient way. Other major constraints include macro financial and microeconomic impediments, unattractive risk-return profiles in EMDE markets, high fossil fuel investments, and data and disclosure related constraints.

In addition, there are high risk-return perceptions due to uncertainties about future climate policies, technological costs, training needs, and economic effects of climate impact.

High upfront costs and risks associated with mitigation and adaptation projects play a major role in deferring climate investments into the EMDEs. Risks start with the absence of ratings for many of the EMDEs by the global rating agencies, which makes it difficult for many institutional investors to finance ESG and climate projects in those countries.

Other risks include (i) currency, (ii) regulatory environment, (iii) political, (iv) exchange rate, (v) volatility of demand and other business related, (vi) technical, (vii) cost overrun, and (viii) force majeure. Costs are related to high upfront capital expenditure, long-term horizons of investment projects, development of profitable business models, and many others.

Even if governments are committed to achieve climate goals, shorter term costs and risks can deter climate investment decisions, especially for international investors. All this points out to the role of the second-best measures to incentivize climate investments, especially from the private financial sector.

Therefore, there are difficulties to attract financing to many mitigation and adaptation projects in EMDEs. Typically, such projects likely attract a small pool of specialized investors demanding high returns in a developing and relatively liquid asset class, accompanied with some sort of government guarantees or de-risking.

Debt continues to be the main instrument in climate finance. Financing adaptation projects has additional difficulties, as it is often built into capital and operating expenditures, making it difficult to track. However, there are emerging sources of private adaptation finance, which includes green, social impact and resilience bonds, dedicated investment vehicles, balance sheet finance, and insurance.

Beyond climate, there are other impediments and constraints. These include information asymmetries, related to large climate data gaps,

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lack of widely agreed taxonomies, inadequate classifications of sustainable investments, and absence of disclosure requirements in many countries. Data provision remains costly and cumbersome, and data quality needs to be addressed.

New technologies could be employed to improve the quality and reliability of the climate data, including using internet-of-things devices for measuring carbon emissions and pollution levels at the sources and in real time and using GPS-related data and blockchain technologies for ESG investments, for example to ensure provenance of ESG certifications.

Deploying New Innovative Financial Instruments

Despite the constraints and risks, there are several opportunities for private sector finance to play a bigger role in climate finance, including through employing new innovative financial instruments.

Several financial tools have already been used in climate financing in recent years, including commercial bank lending with climate

considerations, green bonds and green loans, sustainability-linked bonds and sustainability-linked loans, sustainability bonds and social bonds, green asset-backed securities, private equity and venture-based investments in climate-related companies, and others.

Green Sukuk, Islamic bonds, that were first launched by Malaysia in 2017 and were used to exclusively finance green projects, have seen issuances in a few countries over the past few years, including Indonesia and the UAE.

Private sector financial institutions continue to search for climate-related investment products and liaise with the public sector and multilateral and national development banks (MDBs and NDBs) to develop joint products and partnerships. Large global investment funds started to invest small percentage of their capital in climate financial products in EMDEs and diversify their risks.

These investment funds can do so through partnering with MDBs and national public sector and invest a small share of their portfolio in climate EMDE products or projects, thereby fulfilling their climate commitments and investors' mandate.

Underwriting Risks

With the private sector providing a large share of financing, the public sector and MDBs can underwrite more risks, rake on equity/junior tranches, provide guarantees and credit enhancements, as well as help with project selection and assessment, capacity development and training, improving regulatory and legal environment, and diversification for the private sector, Public-private synergies in this area would provide a multiplicative effect.

MDBs and NDBs are in a good position to channel more funds and guarantees in climate-related investment projects and partnerships. These banks can provide counter-cyclical financing, long-term or concessional resources, and promote private sector involvement. Equity stakes would allow the public sector to share the upside, but they would also help to leverage private sector capital in the largest way, particularly, given and many EMDEs have large private debt.

Therefore, MDBs can play an additional role to help countries structure financial products in such a way to take equity stakes and thus attract private sector capital. MDBs can also help in addressing governance and fiscal risks.³

The public sector at large can also play many roles in climate finance. It can help better standardize the public debt market through regulation of the sustainable finance bond market. The public sector can disseminate

sustainable finance best market practices through relevant research and case studies.

Large global institutions such as the World Bank Group and the IMF can partner with global data providers to supply them with regularly updated macroeconomic and climate-related data and adapting the data to make them more accessible to the public. For example, the IMF has already started publishing the Climate Change Indicators Dashboard that includes some indicators related to climate financing. The public sector can play a bigger role in sustainable finance information quality verification and monitoring of impact indicators, MDBs can also design and monitor KPIs in collaboration with the national authorities and/or civil society.

Governments can implement several policy levers to attract private sector capital to climate investments in their countries. These policies can include implementing carbon pricing paths; investing in infrastructure that can support and incentivize low carbon private sector financing; providing leadership in closing data gaps, improving data quality, fostering data disclosure standards, and developing relevant taxonomies, developing a robust greenhouse gas accounting methodology, and elevating commitments and coordination with the private sector.

The IMF can play an important role in this regard through its instruments, including surveillance, capacity development, risk assessments, and climate diagnostic tools. In addition, the Resilience and Sustainability Trust (RST) can act as a catalyst in leveraging private sector financing, although its implementation will be gradual with a few pilot cases to begin with. For example, advanced economies can underscore the importance of public equity investments as a way of delivering on their annual US\$100 billion commitment to EMDEs.

Authors' Note: This article is based on the published IMF Staff Climate Note "Mobilizing Private Climate Financing in Emerging Market and Developing Economies," SCN/2022/007.

The views expressed herein are those of the authors and should not be attributed to the IMF, its Executive Board, or its Management.

- ¹ Prasad, A., E. Loukoianova, A. Feng, and W. Oman, 2022.
- ² Ehlers, T. and C. Gardes-Landolfini, 2022.
- ³ See A. Prasad et al. (2022) for additional discussion on these issues.

References: Prasad, A., E. Loukoianova, A. Feng, and W. Oman, 2022, "Mobilizing Private Climate Financing in Emerging Market and Developing Economies," IMF Staff Climate Note, SCN/2022/007.

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Resetting the Role for Climate Finance – Towards an Islamic Climate Action Vision 2050

The global Islamic finance industry, according to S&P Global is projected to amass assets under management in excess of US\$3.6 trillion by 2025. And yet, the industry's climate finance footprint pales into significance compared with the mainstream conventional finance industry. Are Islamic financial institutions merely playing lip service to Climate finance or are their ambitions and opportunities obfuscated by policy, regulatory, market entry, lack of capital and product innovation, poor messaging and fragmented communications? **Mushtak Parker** assesses the latest developments.





Mushtak Parker
Consultant Editor

As the world deliberates the latest round of discourse on climate action at the UN Conferences of the Parties (COP) 27 in Sharm El Sheikh in Egypt in November 2022, it is inevitable that the current global narrative including for the finance and insurance industry is concentrated on climate action, mitigation, adaptation and finance.

This is despite the lingering effects of the COVID-19 pandemic, the supply chain disruptions caused by the Ukraine conflict and its resultant impact on rising food and fuel prices, the global economic shocks of high inflation, subdued GDP growth, burgeoning public debt burdens and a global cost-of-living crisis.

The Islamic finance industry is no exception in this respect, given that many of the OIC member countries are either primary commodity producers including oil, gas and palm oil, or the victims of climate change through rising sea levels, floods, hurricanes, poor air quality and other extreme weather conditions. The ethos of Islamic finance, especially the principles of *Fiqh Al Muamalat* (Islamic principles relating to financial transactions), in general, is consistent with the objectives of the SDG Agenda, Climate Action, ESG, poverty alleviation, gender empowerment and equality, and food security to promote the wellbeing of citizens.

Green finance has essentially become a core component of economic, financial and social development and inclusion. Regulators all over are rushing to adopt Green Finance Taxonomies and are rewriting the playbook for political, market and societal demands that companies report their environmental and social impact. Islamic Green Finance has the same aspirations.

Governments and institutions are scrambling to adopt climate action strategies and policies, but the stark reality is that all governments irrespective of economic status, cannot afford to finance pre-emptive and mitigation initiatives out of national budgets alone and will rely heavily on contributions from multilaterals and in particular private

investment, which is seen to be the major driver of climate action.

COP27 Host, Egypt for instance, one of the largest emitters in Africa, has embarked on a comprehensive "National Strategy for Climate Change" and is preparing the "National Strategy for Hydrogen" to promote the use of blue and green hydrogen as a low to zero emission energy source.

"To deliver the SDGs," explained Dr Hala El-Said, Minister of Planning and Economic Development of Egypt, "the UN estimates that between US\$5 trillion to US\$7 trillion per annum needs to be mobilised by 2030. Developing countries face an annual funding gap of US\$2.5 trillion to achieve the UN SDGs.

"Low-income countries will require the largest increases in public expenditure relative to GDP to fill this gap. To increase the share of resources available for development purposes and to ensure that these resources reach those most in need, Islamic finance provides a novel option."

Egypt has a strong relationship with the Islamic Development Bank (IsDB) Group. Going forward, the priorities for the Egyptian-IsDB Group cooperation are in the following sectors: green and clean energy sectors, especially renewable energy, as well as digitalization, and trade finance.

Furthermore, there is ongoing cooperation in the field of capacity-building and training. Capacity-building is of paramount importance to Egypt and is also one of the cross-cutting pillars of the various areas of development plans and programmes of the Egyptian state, both in the field of trade, industry and other economic and development fields.

 The IsDB Group is a major player in contributing to the international climate finance ecosystem. ICIEC, the Group's insurance arm, has proposed the establishment of a Climate Action Finance Trust Fund with institutional partners, peer multilaterals and ECAs in Member States and beyond, which would offer a discount to the insurance premiums needed for the financing of Climate Action projects in Member States that are not investment grade

Islamic finance is increasingly adopting sustainability criteria, so it is well positioned to maximise social impact and address the SDGs. To Dr Hala, it provides an emerging opportunity that could be harnessed by investors and development partners, such as multilateral development organisations.

"The SDGs require unprecedented mobilization of funds to support their implementation. Islamic finance, with its focus on the real economy, offers an effective non-traditional means of financing for sustainable development activities and projects in developing countries. Many countries have started to reap the benefits offered by Islamic financing options which lowers their debt-to-equity ratios for capital intensive projects. Over the next few years, Islamic finance will be considered as one of the primary financing strategies, especially for Egypt," she confirmed.

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ICIEC actively targets real impact and change in all its financing, insurance policies it underwrites and projects it supports, and acts as a catalyst for private sector capital mobilization towards achieving the SDGs. Cumulatively, over 28 years, ICIEC has insured more than US\$ 92.4 bn of trade and investment since inception, and US\$1.32 bn in support of FDIs during 2022, as of the end of October. Its activities were directed to specific sectors including US\$37.2 bn to clean energy. The IsDB Group's current renewable energy financing totals about US\$3.4bn and ICIEC, as the Group's insurance arm, has provided US\$470m in insurance for renewable energy projects in member states.

These figures, commendable as they are, must be viewed relative to those in the conventional sector.

Resilience Tempered with the Rhetoric of Aspiration

The Islamic finance industry has shown remarkable resilience in the wake of global uncertainties over the last three years especially in its response to the COVID-19 pandemic and in its growth trajectory. This trend is especially encouraging in the two largest Islamic finance markets by far - Malaysia and Saudi Arabia. The importance of the Islamic banking industry to the economy cannot be overstated. In Malaysia,



for instance, the industry contribution to the national GDP in 2021 totalled 1.23%.

The growth dynamics suggests an upward trajectory over the next few years. S&P Global projects the industry to reach assets under management of over US\$3.6 trillion by 2025. Refinitiv, in its Islamic Finance Development Report 2021 reports a steady increase in total assets under management (AUM) from US\$2,964bn in 2019 to US\$3,374bn in 2020 to reach a projected US\$4,940bn in 2025.

Moody's Investors Service, in a Report in September 2022 stressed that growth in the major Islamic finance markets – the GCC states, Malaysia and Indonesia – is rising on the back of a surge in key exports, as well as easing pandemic restrictions.

In Malaysia, according to Bank Negara Malaysia (the central bank), Islamic financing in 2021 totalled US\$198.88bn – up from US\$183.36bn in 2020. This trajectory continued in the first four months of 2022, when Islamic banking assets of the total banking system assets reached 30.42% compared with 30.66% at the end of December 2021. Total Islamic banking AUM at the end of April 2022 reached US\$219.56bn – up on the US\$214.48bn at the end of 2021.

In Saudi Arabia, Islamic banking AUM is well on its way to breaking the US\$1 trillion barrier. According to the Saudi Central Bank (SAMA) Islamic AUM reached over US\$565bn in Q12021.

In a recent survey by Moody's, GCC fund managers stressed that they expect continued strong demand for Shariah-compliant investments but foresee more moderate growth in investments that meet ESG criteria. The other developments are the continued support from Islamic financial institutions for post-pandemic economic recovery and normalization, embracing and expanding the industry's fintech and digitisation footprint especially through the proliferation of Islamic

digital banks, and greater involvement and uptake in SDG, ESG, SRI, Sustainability and Green finance.

Given the sheer scale of the resource ask and spend for Climate Action in the Member States, the financing especially from private sector financial institutions and insurers comes nowhere near matching the demand. There is endless rhetoric of aspiration of what the sector can contribute towards climate finance, and the opportunities abound, and I have not seen any reliable independent up-to-date data sets as to the Climate Action financing and insurance needs and structural deficits of the 57 OIC Member States.

The OIC, IsDB and Islamic finance industry are in urgent need of an unified Islamic Climate Action Vision 2050, of which a holistic Shariah-compliant Taxonomy and Road Map for Climate Action, Mitigation, Adaptation and Finance must be a central plank.

Member States of the OIC face particular climate threats due to declining agricultural productivity, weather volatility, and receding water levels and quality. One central banker, Tan Sri Nor Shamsiah Yunus, Governor of Bank Negara Malaysia, emphasises that 2021 "was centred on supporting the economic recovery, assisting financially distressed customers, and

pursuing initiatives to shore up social and climate resilience. These initiatives were guided by Shariah rulings that provided operational clarity for Islamic financial business, which has enabled the industry to step up support for businesses and households."

BNM's priorities in 2022 "are guided by the Financial Sector Blueprint 2022-2026," one of whose five key thrusts is "positioning the financial system to facilitate an orderly transition to a greener economy, building social resilience and promoting climate resilience and sustainability."

The Green and Climate Taxonomy Conundrum

While several Member States and corporates are starting to adopt green taxonomies and ESG and Climate Action Frameworks and Strategies, they remain 'works in progress.'

True, Climate Action – finance, mitigation and adaptation, is hampered by a cornucopia of structural constraints, apart from the usual lack of resources, policy deficits, lack of technical expertise and the market vagaries of decarbonisation, carbon pricing, capture and storage.

They take their cue from peer countries and institutions. A recent Forum organised by OMFIF, the UK-based independent central banking think tank, identified several constraints including "unnecessary bureaucracy", excessive risk aversion, lack of harmonisation of disclosure standards for sustainable finance, proliferation of worldwide fragmented green taxonomies for guiding sustainable investments, and the need to achieve an appropriate framework for public and private investors and financial institutions to channel private investments into the vast opportunities for sustainable and green finance.

Worldwide regulatory agencies need to harmonise disclosure standards for sustainable finance to reduce unnecessary bureaucracy

 The OIC, IsDB and Islamic finance industry are in urgent need of an unified Islamic Climate Action Vision 2050, of which a holistic Shariah-compliant Taxonomy and Road Map for Climate Action, Mitigation, Adaptation and Finance must be a central plank

and maximise capital flows into investments countering climate change. Currently, there are several different definitions of ESG, sustainable investments and impact investment. Similarly, the proliferation of worldwide taxonomy schemes for guiding sustainable investments is causing confusion and inefficiency. What is required is a regulatory system that is diverse enough to handle the complexity of sustainable finance initiatives and the multiplicity of organisations promoting them, yet sufficiently simple to improve transparency and enforceability.

The danger, according to the Forum consensus, is that a failure to harmonise Climate Action regimes and green taxonomies may lead to competition between jurisdictions and some investors migrating to regions such as the US and Asia, where opportunities for scaled-up investment may be deemed to be greater and perhaps even more lax.

Malaysia, which is well into developing its own comprehensive Green and Climate Taxonomy both under its own National Strategy and under the ASEAN Initiative, is strongly promoting climate action reporting by the financial services industry.

The Joint Committee on Climate Change (JC3) of Bank Negara Malaysia (BNM) and The Securities Commission Malaysia (SC), for instance, reviewed in August the progress financial institutions including the countries 14 or so Islamic banks are making in strengthening their response to climate risk. The two regulators have launched the Climate Change and Principle-based Taxonomy (CCPT), under which financial institutions are required to transition to the Taxonomy and to report their progress towards achieving this.

Jessica Chew, Deputy Governor, BNM and Co-Chair of JC3, is encouraged by the increasing focus and concrete actions being taken by financial institutions to manage climate-related risks. "Further progress," she observes, "will however critically depend on key enablers,

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including accessibility to data and better disclosures being in place. The Committee through the CCPT Implementation Group (CCPT IG), is working with the industry and partners to further improve the consistency and quality of classifications under the CCPT for existing outstanding financing and investments. Information gaps for existing exposures continue to pose the biggest challenge"

CCPT IG has developed a due-diligence questionnaire together with the World Wide Fund (WWF) Malaysia on selected CCPT guiding principles "to help financial institutions capture important information from their customers and counterparties in a more consistent manner. This will serve to promote robust classifications of climate supporting and transitioning activities and reduce additional

burdens for customers and counterparties of banks to provide such information to multiple financial institutions."

The Joint Committee is also cooperating with Capital Markets Malaysia, an affiliate of the SC, to develop an ESG Disclosure Guide tailored to Malaysian SMEs. The Guide aims to improve the quality of and access to information on business resilience to ESG-related risks to ensure practical adoption by SMEs and larger businesses and alignment with global disclosure frameworks, including that being developed by the International Sustainability Standards Board (ISSB), to promote comparability and minimise compliance costs for businesses and financial institutions going forward.

Malaysia is currently one of the top hubs for sustainable and responsible investment (SRI) in the world, especially in the Shariah-complaint space, in which social and financial inclusion values and goals are firmly embedded, in addition to market and financial returns.

Measures to grow the domestic SRI ecosystem focused on enhancing awareness and appreciation of sustainability and facilitating Green and SRI product offerings. Towards this end, the SC launched NaviGate: Capital Market Green Financing Series, a programme to create greater awareness and connectivity between companies committed to sustainability and the capital market.

The Commission also released a consultation paper on the Principles-based SRI Taxonomy for the Malaysian capital market. The SRI taxonomy aims to guide companies with transition finance needs, facilitate investment allocation and promote the growth of SRI assets. In terms of Islamic social finance, there was continued traction in Waqf-featured funds, thus providing investors with an instrument to achieve both financial and socially impactful outcomes.

Other initiatives under the JC3 carbon action footprint include:

- i) The issuance of the Sustainable and Responsible Investment-linked (SRI-linked) Sukuk Framework by the SC in June 2022 to facilitate companies to issue SRI-linked Sukuk to support their transition towards low-carbon activities.
- ii) The exploring of suitable pilot programmes to test new green finance solutions and instruments such as blended finance to support the development of climate-friendly projects, and
- iii) The Data Catalogue developed by JC3 remains on track for publication by end-2022, which is a key challenge and deliverable of JC3 to address the data needs of the financial sector by pointing users



to credible sources of critical climate data needed to support identified use cases, albeit material gaps still exist within existing data sources due to legal impediments to data sharing.

As Datuk Zainal Izlan Zainal Abidin, Deputy Chief Executive, SC and Co-Chair of JC3, stresses: "In progressing climate action, it is important to have close engagement and collaboration with relevant stakeholders."

The Anomalies

Climate action for OIC Member States is a complex policy challenge. Most Member States of the OIC face particular climate threats due to declining agricultural productivity, weather volatility, and receding water levels and quality. These threats are exacerbated in some countries by political instability, conflict, corruption and low adaptation capacities due to technological and financial impediments.

Together they make Member States most vulnerable because of their dependence on high climate-sensitive natural resources. Many OIC countries are primary commodities producers and processors including oil, gas, coal, palm oil and other agri-products. Just transition to clean energy will be a difficult and lengthy process.

As such, the transition has to be well thought out and pragmatic, balancing the demands of climate change with those of economic development agendas and resource mobilisation. The arbitrary divestment and decommissioning of the above sectors are not realistic because the devastation it can potentially cause to the economy per se and its resultant impact on the lives and livelihoods of the general public, may be bigger than the actual disruption caused by climate change itself.

As such, it is not surprising that the Islamic finance industry, like the mainstream sector, is subject to the same unintended anomalies or

dichotomies. Take for instance the latest round of US\$1.12 billion of development finance approved by the IsDB Board in September 2022.

They included two projects involving Public Private Partnership (PPPs). The first one was an €100m IsDB contribution for the Surkhandarya Combined Cycle Power Plant Project in Uzbekistan. This project's objective is to improve the efficiency of the power sector while utilizing indigenous gas resources. It will reduce the operations and maintenance cost of the base load generation capacity required to maintain the power grid stability and allow for the integration of renewable energy resources into the power grid.

The second one was a US\$100m allocation to Uganda towards the East Africa Crude Oil Pipeline Project, which will enable Uganda, a landlocked country, to emerge as a regional oil producer with export capacity to international markets.

In the private sector, this scenario is repeated regularly across the markets. In July, Advanced

Polyolefins Industry Company (APIC), a subsidiary of Advanced Petrochemical Company based in Jubail Industrial City, for instance recently raised SAR6.1bn (US\$1.62bn) through a number of Shariah compliant Islamic financing facilities with a consortium of nine Saudi financial institutions.

Climate-friendly Commodity and Retail Finance

Commodity Murabaha and retail finance are the two largest directions of financing in the global Islamic finance sector. While there is no reliable aggregate independent up-to-date data about the volumes directed towards that corpus of financing called Islamic ESG, SRI, Green, Ethical and Sustainable Finance, some ad hoc financings continue to flourish in the market.

In September, for instance, Saudi Arabia's Al Rajhi Bank, successfully concluded a 3-year dual tranche US\$1bn Sustainability Commodity Murabaha Facility. According to Waleed Al-Mogbel, CEO of Al Rajhi Bank, will be directed towards sustainability financing for corporate clients and projects. This transaction is considered as the largest Shariah-compliant Syndication in the Middle East that complies with the Environmental, Social, and Governance (ESG) standards and practices.

The fact that the Murabaha syndication was well received in the international and regional markets with the order book well over-subscribed, which prompted Al Rajhi Bank to upsize the value of the facility from the initial offered amount, suggests a strong latent investor appetite for ESG and climate related offerings. A diversified group of 13 global investors from North America, Europe, Asia and the Middle East participated in the landmark transaction.

The transaction is the first ESG syndication in accordance with the Bank's sustainable financing framework, which was established

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to facilitate the financing in accordance with global ESG standards and principles.

Standard Chartered Bank assisted Al Rajhi Bank in developing the sustainable finance framework. S&P Global assessed the framework as an independent entity and confirmed that it complies with the Green Loan Principles, Social Loan Principles, Environmentally Friendly Bond Principles, Social Bond Principles and Sustainability Bond Guidelines of ICMA.

In the retail sector, Affin Islamic Bank recently launched the AFFIN Solar Financing-i product, a first-of-a-kind Shariah-compliant sustainable and personal financing plan for the banks' retail customers to purchase and install Solar Photovoltaic (SPV) System at residential and non-residential properties.

According to Nazlee Khalifah, CEO of Affin Islamic Bank, "there is high awareness and interest for renewable energy. Our goal is to

push for solar energy to be more accessible to Malaysians. Tapping into this power source with its versatility and many benefits, AFFIN Solar Financing-i offers a simple and easy way for home and building owners to lower their monthly electricity bills and reduce their carbon footprint."

Philanthropy in the Climate Finance Mix

Philanthropy is well entrenched in the ethos and playbook of Islamic finance. Waqf, Zakat, Sadaqah, Qard Hasana, Fidiya and other instruments are well established, albeit their existence, structures, regulation and oversight remain fragmented, sometimes politically abused, sometimes subject to mismanagement and even corruption – thus undermining their impact.

We are optimistically told that their aggregate assets under management total billions of dollars. The reality is that despite various national, regional and institutional attempts, there is still no reliable independent central data repository to support the above claims.

Nevertheless, where Islamic philanthropy is active, it has muddled through in delivering impressive outcomes in primary healthcare, housing, MSMEs, education, gender empowerment and entrepreneurship, drug rehabilitation, financial literacy for children and so on. The challenge is how these achievements can be upscaled into a coordinated regional and global initiative that capitalises on resource mobilisation, technical expertise, R&D, product innovation, governance, transparency and so on.

There is a growing gulf between the cost of tackling climate change and what governments

There is a growing gulf between the cost of tackling climate change and what governments can afford from national budgets, given the current global economic and financial. The gap in climate finance and adaptation similarly has increased enormously as climate change is races ahead relentlessly at an alarming speed. The private sector is expected to play a major role in filling this gap apart from governments and multilaterals

can afford from national budgets, given the current global economic and financial. The gap in climate finance and adaptation similarly has increased enormously as climate change is races ahead relentlessly at an alarming speed. The private sector is expected to play a major role in filling this gap apart from governments and multilaterals.

Philanthropists globally are estimated to spend a total of US\$730 billion each year on good causes, yet just 2% of this finds its way toward climate change mitigation. In the Islamic philanthropic finance space, the situation is no different. Philanthropic capital can contribute effectively towards climate change mitigation and adaptation especially through PPP mechanisms and related projects.

Innovations, no matter at what level continue to come through. In Sri Lanka, Amana Bank, the country's leading Islamic bank, has partnered with the UN Development Programme (UNDP) to launch the 'Private Sector Giving Facility for Emergency Relief', aimed at contributing towards alleviating severe medical and food supply shortages.

Malin Herwig, Officer-in-Charge, UNDP (Sri Lanka) stresses that "partners are key agents in times of crisis, with the private sector historically playing a critical and strategic role in humanitarian efforts. UNDP works with a wide range of partners such as Amana Bank, in achieving our shared vision to help countries achieve sustainable development by eradicating poverty in all its forms and dimensions, accelerating structural transformations for sustainable development, and building resilience to crises and shocks."

Impact Standards in Climate Finance

Making Blended Finance Work for the Decade of Delivery - What Does the Future Hold for Green, Social, Sustainable and Sustainability-linked Bonds?

Green, Social, Sustainable and Sustainability-linked (GSSS) bonds can be important Blended Finance instruments that can effectively support the SDGs through scale and impact, maintain **Paul Horrocks**, Head of Unit for Private Finance for Sustainable Development, OECD and **Alissa Kruger**, Policy Analyst in the Unit for Private Finance for Sustainable Development OECD



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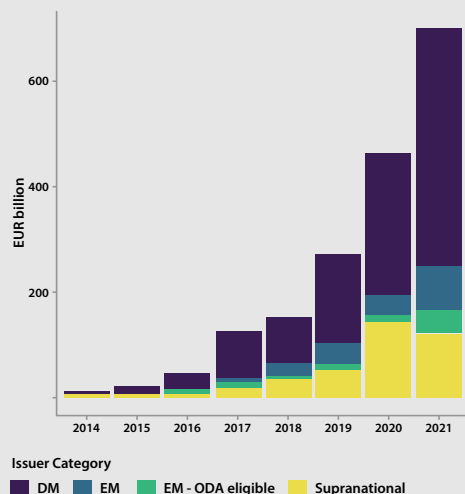


Over the last years, innovators on capital markets have developed thematic financial instruments to accelerate progress towards the SDGs, which can be broadly defined as “sustainability-linked financial instruments”. Among these instruments are Green, Social and Sustainability and Sustainability-linked (GSSS) bonds, fixed-income instruments already being issued by many DFIs and MDFIs, could be used more effectively¹ for funding activities.

GSSS bonds are growing in importance as a tool to bridge the current gap in SDG financing and tap into new sources of capital. In 2021, global issuances stood at more than EUR 700bn. However, while GSSS bonds issuances have seen strong growth with an average annual rate of 80%, they still constitute only a fraction of the overall bond market. Only 2% of total new issuances globally can be considered as GSSS bonds issuances.²

1. Dembele, F., R. Schwarz and P. Horrocks (2021), Scaling up Green, Social, Sustainability and Sustainability-linked Bond Issuances in Developing Countries, OECD Publishing, Paris,
2. OECD (2022), Green, social, sustainability and sustainability-linked bonds in developing countries: How can donors support public sector issuances? OECD Publishing, Paris.

Yearly Trends in GSSS bond issuances per issuer category



Source: OECD (2022), Green, social, sustainability and sustainability-linked bonds in developing countries: How can donors support public sector issuances?

Importantly, GSSS bonds issuance continues to be concentrated in developed markets, with only 6% of total issuance amounts in ODA-recipient countries. The GSSS bonds markets in developing countries, therefore, remain a long way from meeting the large-scale financing requirements needed to meet the SDGs, a gap only widened by the Covid-19 pandemic. The picture of issuance by region is mixed with Sub-Saharan Africa yet to show strong issuance performance.

Sub-Saharan Africa is characterised largely by private equity investments and bank lending rather than debt market instruments and limited stock markets in order to raise capital. Equity tends to have a short-term perspective and bank finance is limited in reaching the necessary scale. The SDGs meanwhile, are long term challenges that require long-term investors with stable pricing and predictable

exits. GSSS bonds typically generate the long-term returns that match the liabilities of pension and insurers. Sovereign issued GSSS Bonds allows the government, to access private sector capital and pay for new things such as green power generation.

In order for public sector entities to tap into the enormous potential of the GSSS bonds market, major transformations are required. The [OECD report on donors support to sovereign GSSS bonds issuances](#) lays out important challenges developing countries face. Key challenges include weak macro-fundamentals and financial markets, as well as complex public budgeting processes, insufficient project pipelines and limited familiarity with international investors.

Donors can play a major role in facilitating these required transformations by supporting issuances within five target areas (the five 'I's) by (i) improving market infrastructure, (ii) facilitating issuances, (iii) providing insurance and (iv) crowding in investment and (v) ensuring impact.

Impact is the missing "I" that donors need to adopt.

On Impact further development evidence would help to further spur the market. Currently GSSS Bonds standards, frameworks and taxonomies that are being developed are used by issuers (i) to identify which projects can generate positive environmental and social impact, (ii) to communicate to investors how the proceeds of the bonds will be used and (iii) to design the impact reporting framework of a bond.

Standards and frameworks are necessary because they make the market more credible and thus help mobilise institutional investors. If we want to make sure that the financial resources of institutional investors are channeled towards GSSS bonds, we need to make sure that the standards used are good enough for them, in terms of: (i) transparency

on how the proceeds are used and (ii) clear rules for impact measurement.

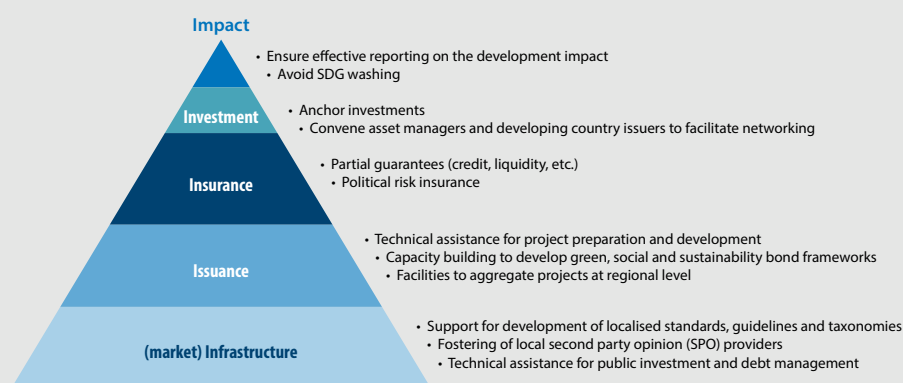
Setting good standards for bonds allows the issuer to have better access to investors. In particular, as investors have to report on impact they will be more likely to buy a bond that makes impact reporting easy. In addition, improved impact reporting leads to easier allocation of future issuances and a great chance of benefiting from the greenium of the GSSS Bond.

Need for GSSS Bonds to engage the Islamic finance market

Another important "I" to consider when exploring opportunities to grow the market is Islamic finance. Global Islamic finance with a total market value of USD 2.2 trillion, is considerable and supports the financing needs of approximately a quarter of the world's population. The Middle East, Africa and South Asia (MEASA) region plays a key role in driving its expansion. The industry-wide growth means that the global value of Sukuk issuances is expected to have reached USD 155 bn in 2021, up from USD 149 bn in 2020 as both corporates and governments tap into Islamic Finance. S&P highlighted in its recent report the likelihood of more frequent issuance of dedicated social Islamic finance instruments and green sukuk as the financial actors in the region further align with environmental, social, and governance (ESG) values to be significant. This is also in keeping with the agenda of many countries that use Islamic finance towards an energy transition pathway.

Across the Islamic finance industry region there have been some Green Sukuk transactions, including in countries such as Indonesia. However, for a long-term market to be established and for greenium levels to develop in regard to pricing, a number of factors will need to be put in place such as the right regulatory framework, a flow of transactions by both sovereign and corporate issuers and awareness and interest by private sector investors in GSSS bonds.

With COP27 taking place in Egypt there is a unique opportunity to shed light on the important contribution that GSSS bonds can make in providing access the finance necessary for sustainable projects. Moreover, it will be important to not leave the important pool of capital that Islamic finance presents untapped.



Green Sukuk for Climate Action



The Potential for Sukuk in Funding Climate Mitigation and Adaptation Projects and Infrastructure Development is huge. The issuance volumes, its regularity, product diversity and market depth however do not match the rhetoric of aspirations.

Mushtak Parker considers how the issuance of Green Sukuk can be upscaled through facilitating Best Practice regulatory frameworks for issuance, product innovation and disclosure standards.

In 2021, a record US\$1trillion of green, social and sustainable bonds were issued globally, according to the European Commission. The Commission expects this figure to rise by 50% in 2022, albeit remains about 10% of the total global debt capital market. Similarly, global sustainable bonds outstanding at end 2021 exceeded US\$1 trillion with sustainability-linked bonds making up US\$118.8bn.

In contrast, total Green and Sustainable Sukuk, according to Fitch Ratings, reached a mere US\$15bn in 2021, led by sovereign, multilaterals and corporate issuers in Indonesia, Malaysia, the GCC states, Türkiye and Pakistan. Sukuk remains the preferred format for ESG-linked debt in core Islamic finance markets.

What needs to be done to close this enormous gap? Despite the difficult prevailing global economic and geopolitical conditions and the rise in commodity prices especially oil, gas and palm oil, the global Sukuk market has shown its resilience by maintaining issuance volumes in 2022 albeit marginally lower than 2021.

Green Sukuk Market Activity in 2022

Sukuk issuances linked to Sustainability, ESG, SRI and Green Finance continue to gain momentum in the global Islamic capital market, albeit the pace, size and diversity of Sukuk structures need to be far more urgent given the huge challenges OIC countries are faced with in terms of climate adaptation costs and finance and transition to just clean energy.

In the wake of the Glasgow Climate Pact following the COP26 Climate Conference, this transition for emerging countries will be difficult, given also that many of the OIC countries are primary commodity producers including agriculture and fossil fuels – oil, gas and coal – and dependent on these revenues to finance their budgets and development.

Sukuk, according to the G20, has huge potential to finance climate-related projects especially in key sectors including infrastructure, renewables energy, primary healthcare and agriculture.

The Green Sukuk market is nascent and despite its alignment with the principles of Islamic financial intermediation it has been slow to take off on any meaningful growth trajectory.

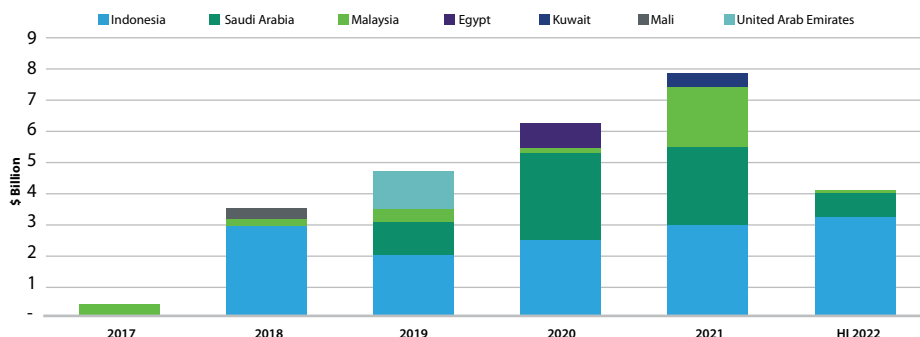
Islamic finance is often projected as a panacea for the world's socio-economic ills by its die-hard supporters. Then why is this mismatch between the obvious suitability of Green Sukuk and Finance and actual market activity through issuances and syndications? There is much aspirational rhetoric about Green Sukuk and its faith-based ethos and suitability to SDG and Sustainable Finance, but unfortunately, it is not matched by market activity in the 57 Member States of the IsDB.

Not surprisingly, projections of its growth trajectory are equally optimistic. The Islamic Finance Council UK (UKIFC), for instance, estimates "an additional US\$30-50bn of capital towards the SDGs can be raised by 2025 through green and sustainability Sukuk.

This will require focused efforts and targeted initiatives by institutions such as UN Development UNDP, Principles for Responsible Investment (PRI), and the Islamic Development Bank (IsDB) along with multiple governments."

Exhibit 4

Green sukuk issuance will grow from a low base Green and social sukuk issuance, \$ million



Source: Moody's Investors Service and Dealogic

The reasons for this Green Sukuk inertia are manifold – Sukuk policy deficit from governments, absence or dearth of Green Sukuk issuance frameworks and enabling legislation, lack of secondary trading of Sukuk certificates due to limited listings in stock exchanges, lack of awareness in general of the Green debt market, risk averseness of issuers, lack of market makers – both sovereign and corporate, the need for third party certification of Green asset pool, lack of suitable assets to securitise and political and ideological reluctance to allocate state-owned assets to Sukuk asset pools, unfamiliarity of large swathes of sovereign and corporate issuers with Sukuk structures albeit this is steadily receding through market education and technical workshops, lack of credit enhancement and third party guarantees especially for developing countries' issuers which are not investment

grade rated, a limited investor base and failure to democratise Sukuk issuances by also making them accessible to ultra-retail investors.

Green Sukuk has been issued for a few years now, pioneered by Sovereign Indonesia, the most proactive issuer of Green Sukuk. Similarly, Malaysia, Turkey, Pakistan and a host of multilaterals such as the IsDB, banks, corporates, government-linked companies have issued Green, ESG, SRI and Sustainability Sukuk in the last few years.

Jakarta's latest offering in June 2022, a two-tranche US\$3.25bn Sukuk Wakalah, according to the Directorate of Islamic Financing at the Directorate General of Budget Financing and Risk Management, Indonesian Ministry of Finance, is the largest single Global Green Sukuk transaction ever issued by the Republic. The issuance comprised a US\$1.75bn 5-year tranche maturing in June 2027, and a US\$1.5bn 10-year year (Green) Reg S/144A Trust Certificate tranche due in June 2032.

The proceeds from the Green Sukuk, according to the Directorate General "will be used to finance or refinance expenditure directly related to 'eligible Green Projects' as defined

in Indonesia's Green Bond & Green Sukuk Framework."

This latest Sukuk Wakalah issuance, like the previous ones, is pursuant to the US\$10bn Trust Certificate Issuance Programme launched by Indonesia in May 2015. This is the thirteenth US dollar-denominated Sukuk issuance by Indonesia and the tenth issuance under its Trust Certificate Issuance Programme. The Wakalah Sukuk certificates were subsequently priced at par and with a profit rate of 4.40% on the 5-year tranche, and 4.70% on the 10-year tranche.

The transaction attracted robust demand, with the final order book amounting to US\$10.8bn. Amidst challenging market conditions, the transaction attracted interest from diverse investor base and geography, "showcasing strong investment appetite for Indonesia given the Republic's strong following and economic

Indonesia is the world's most proactive issuer of Green Sukuk. In 2021 it issued a 30-year US\$750m Green Sukuk as part of a US\$3bn transaction – its fourth such global Green Sukuk issuance outside the retail Green Sukuk issued at the end of 2019.

fundamentals."

The 10-year Green Sukuk tranche was distributed 38% to Asia, 27% to Middle East investors, 20% to U.S and 15% to Europe. By investor type, the tranche is allocated 49% to asset managers/fund managers, 30% to financial institutions/banks, 13% to insurance/pension funds, 7% to central banks and 1% to private banks.

According to the Directorate of Budget Financing & Risk Management, the transaction achieved several notable milestones. These include: i) the largest ever Global USD Sukuk transaction from the Republic; ii) the largest Green Sukuk tranche ever printed globally; iii) the largest issuance from Indonesia year-to-date; iv) the first Green Sukuk tranche with a 10-year maturity by the Republic; and v) a robust investor order book that allowed pricing below fair value across all tranches.

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Jakarta issued a US\$750m Green Sukuk Wakala with a tenor of 5 years in June 2020 as part of a US\$2.5bn three-tranche transaction; a similar US\$750m Green Sukuk Wakala with 5.5-year tenor in February 2019 as part of an US\$2bn transaction; and a 5-year US\$1.25bn Reg S/144A Green Sukuk Wakala in February 2018, which was part of a two-tranche US\$3bn transaction.

The June issuance, says the Ministry of Finance, "continues a tradition of bringing to market landmark Green Sukuk deals since Indonesia's debut Green Sukuk in 2018. The Republic this year printed the largest ever Green Sukuk tranche globally, backed by the country's significant pool of Green Assets.

This issuance further evidenced Indonesia's dedication and long-term commitment to green and sustainable financing, as part of its effort in combatting climate change. The 10-year Green Sukuk tranche is the fifth global Green Sukuk issued by the Republic and the first since the Republic published its SDGs Government Securities Framework in August 2021."

The Sukuk are structured based on the Shariah principle of Wakalah (agency). The transaction is aligned with the Republic's strategy to finance the state budget, as well as its commitment to develop and improve the liquidity of the Sukuk market in the region.

Corporate and Bank Green and Sustainability Sukuk thus far in 2022 include the RM1.5bn (US\$340m) Sustainability Sukuk Wakalah issued in June Tenaga Nasional Berhad (TNB's) wholly-owned subsidiary TNB Power Generation issued to fund its Nenggiri Hydroelectric Power Plant project in Kelantan.

MBSB Bank Berhad (formerly Asian Finance Bank) successfully priced its inaugural RM300m (US\$69.91m) Sustainability Sukuk Wakalah issuance in April 2022 under its dedicated RM5bn Sustainability Sukuk Wakalah Programme.

The issuance, says MBSB Bank, was priced amidst the volatile market conditions and selling pressures seen on the domestic government securities in response to the rising global yield. The offering marks the first ever Sustainability Sukuk issuance by an Islamic bank locally, in its continued effort to grow its sustainable assets which underscores its commitment towards its sustainability agenda.

In Bahrain, Manama-based Infracorp, the infrastructure, real estate and sustainability spin-off of Gulf Finance House (GFH), issued a debut benchmark US\$900m Green Sukuk Mudaraba in May 2022, and in Saudi Arabia, Riyadh Bank, which is 43% indirectly owned by the Saudi government, recently closed a benchmark US\$750m Perpetual Additional Tier 1 (AT1) Wakala Sukuk issuance linked to sustainability.

Global Sukuk Market Dynamics

According to Refinitiv's Sukuk Perceptions and Forecast Study 2022 titled 'Navigating a New Environment', global Sukuk issuance in FH 2022 raised US\$100.9bn, marginally lower than US\$104.2bn in FH 2021.

"Despite a strong start to the year, issuance momentum slowed as the Federal Reserve and other central banks kicked off a global monetary tightening cycle. The surge in oil prices also contributed to the slowdown in issuance, as it reduced government borrowing needs in core Sukuk markets," observed Refinitiv.

Sukuk's resilience as a debt raising instrument is underlined by the fact that a new Sukuk issuance record had been set in 2021 for the fifth consecutive year, reaching a total of US\$196.5bn. Although this was a rise of 8.2% from US\$181.6bn in 2020, that compares with much greater average annual growth of 21% in the previous five years.

Malaysia, Saudi Arabia and Indonesia remain the three largest issuers of Sukuk – domestic

and international – in 2022 thus far. Together they made up nearly 75% of Sukuk issued in 2021 through to FH 2022. Malaysia maintained its leading position, although issuance of US\$34.8bn in FH 2022 was down 14% from FH 2021 as rising commodity prices drove a post-Covid economic recovery.

However, stressed Refinitiv, "with inflation now posing a threat to that recovery, government subsidies and cash assistance to mitigate its effects will increase pressure on government spending and ensure the sovereigns will remain active in capital markets."

In Saudi Arabia, Sukuk issuance raised US\$28.1bn during FH 2022, compared with US\$24.2bn during the same period in 2021, despite the surge in oil prices. Still, issuance slowed during the second quarter as the Kingdom registered a surplus from higher oil revenues.

As with most GCC governments, issuances supporting new and continuing infrastructure projects will likely be offered once volatility in global financial markets calms. This is also the case with ESG issuances that are in the pipeline awaiting more conducive conditions.

In contrast, data from the Saudi National Debt Management Centre confirms that the Kingdom raised SAR91.9bn (US\$24.5bn) in sovereign domestic Sukuk in the first nine months of 2022. In October the Kingdom returned to the international Sukuk market issuing a two-tranche US\$5bn Sukuk.

The main drivers of Sukuk issuance are sovereigns and they will continue to drive Sukuk issuance momentum in 2022 and beyond, maintaining around a 60% share of global issuance since 2017. Sovereign Sukuk issued in FH 2022 totalled US\$68.8bn, of which 83% were issued by GCC, Malaysian and Indonesian governments.

The Saudi government was the largest sovereign issuer in FH 2022, with US\$22.1bn, despite soaring oil prices having reduced government funding requirements. Corporate

Sukuk issuance amounted to US\$19.7bn in FH 2022, down 7.8% from a year prior due to rapidly increasing interest rates. Issuance from corporates is likely to moderate by the end of the year, with expectations of as many as seven Fed rate hikes across the year.

However, Refinitiv projects that as economic activity resumes the anticipation of further policy rate hikes may nudge corporate issuers to bring forward debt issuance in order to lock in current lower rates, led by the financial services, infrastructure and utilities industries.

Similarly, the size of the Malaysian Islamic Capital Market (ICM) increased by 2.3% to RM2,308.54bn (US\$520bn) at end 2021 from RM2,256.36bn (US\$510bn) at end 2020, despite the difficult global market conditions.

The ICM continued to dominate accounting for 65.4% of the total size of the overall Malaysian capital market, which also showed its resilience by registering an overall year-on-year (YoY) growth of 3% to RM3.53 trillion (US\$790bn) in 2021 on the back of "a robust capital market regulatory infrastructure, diversified market ecosystem and market participants' strong capitalisation levels."

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Moody's Investors Service in its latest Sukuk Report on the other hand maintains that that global Sukuk issuance will fall to between US\$160bn and US\$170bn in 2022, from US\$181bn in 2021, as high oil prices reduce the requirements of major Sukuk-issuing sovereigns and as raised interest rates deter issuance by corporates and financial institutions.

"The improved fiscal position of major sovereign issuers is the main reason for the expected drop in volumes this year," stresses Ashraf Madani, VP-Senior Credit Officer at Moody's. "In the Gulf Cooperation Council (GCC) region, high oil prices are reducing governments' financing needs, while in Southeast Asia we expect lower government expenditure because of a decline in pandemic-related spending to reduce governments' fiscal deficits."

Sukuk's appeal and acceptance as an investment tool, says Moody's, is growing, as shown by high demand for recent issuances. It has become normal for order books to exceed the offered amount by three or four times, particularly for creditworthy borrowers. Similarly, demand for Sukuk is increasingly coming from international actors in markets less exposed to Islamic finance.

 Despite a strong start to the year, issuance momentum slowed as the Federal Reserve and other central banks kicked off a global monetary tightening cycle. The surge in oil prices also contributed to the slowdown in issuance, as it reduced government borrowing needs in core Sukuk markets, observed Refinitiv.



Refinitiv projects a stable outlook for Sukuk supply despite global headwinds. “Following a five-year record streak,” stresses Refinitiv, “global Sukuk issuance is set to moderate in 2022. The Refinitiv Sukuk supply and demand model projects Sukuk issuance to settle at US\$185bn by the end of the year.

Sukuk supply, as defined by total sukuk outstanding, reached US\$726.8bn in FH 2022 and is projected to increase to US\$742.3bn by the end of the year. Refinitiv projects Sukuk issuance to grow at an estimated compounded annual growth rate of 6.8% over the next five years, reaching US\$257bn in 2027. The size of the Sukuk market is expected to reach US\$1.1 trillion in 2027, growing at a compounded 7.9% annual growth rate.

Both maintain that new issuers seeking to diversify their funding sources are joining the market as Sukuk becomes widely accepted. It predicts that the issuance of Green Sukuk will also accelerate as governments promote sustainable policy agendas and demand for sustainable investments encourages new issuers to consider Green Sukuk as an alternative financing tool.

Sukuk Regulatory Resilience

The main regulatory development governing SRI and Sustainability Sukuk in 2021 thus far has been the Sustainable and Responsible Investment linked (SRI-linked) Sukuk Framework launched in June by The Securities Commission Malaysia (SC) to facilitate fundraising by companies in addressing sustainability concerns such as climate change or social agenda, with features that relate to the issuer's sustainability performance commitments.

With the accelerated shift towards developing a climate-resilient future, high-emitting industries are at a high risk of being phased out. The SRI-linked Sukuk will enable companies in these as well as other industries to transition into a low-carbon or net zero economy.

The new Framework is an extension of the initiatives under the SRI Roadmap that was introduced in 2019 to broaden SRI products offerings. More significantly, this initiative reflects the SC's commitment to expand the reach of the Islamic Capital Market (ICM) to the broader stakeholders of the economy and build an enabling ICM ecosystem for the sustainability agenda.

According to the new SC Chairman Dato' Seri Dr. Awang Adek Hussin, “the SRI-linked Sukuk Framework will encourage greater mobilisation of private sector and issuers' financing towards sustainable development and meet the increasing global demand for sustainable financing. This is in line with the initiatives outlined in the Capital Market Masterplan 3 to reinforce Malaysia's value proposition as the regional centre for Sharia'h-compliant SRI.”

Under the Framework, the proceeds raised can be utilised for general purpose, subject to the issuer committing to future improvements for sustainability outcomes within a predefined timeline, which will be monitored using key performance indicators (KPIs). The financial characteristic or structure of the SRI-linked sukuk may be varied based on the success or performance of the issuer in meeting its KPIs and sustainability goals.

The Framework also provides greater transparency for investors by requiring issuers to appoint an external reviewer before issuance and an independent verifier post-issuance to assess compliance with the framework and issuer's sustainability performance which can be tracked by investors.

The SC recognises that there are significant opportunities for the market to attract a more diverse issuer and investor base and undertake a wide range of sustainable projects. Malaysia is currently one of the top hubs for sustainable and responsible investment in the world especially in the Sharia'h-complaint space, in which social and financial inclusion values and goals are firmly embedded, in addition to market and financial returns. Measures to grow the domestic SRI ecosystem focuses on enhancing awareness and appreciation of sustainability and facilitating Green and SRI product offerings. As such, the SC recently released a consultation paper on the principles-based SRI taxonomy for the Malaysian capital market.

Mortgage Securitisation – Sustainability and Green Sukuk for Housing

Affordable housing stock and concomitant mortgage finance is a major social and economic development deficit in all economies partly because of aberrant housing policies which has seen the sector starved of investment, demographic changes, an over-concentration on high-end luxury development, the vagaries of the mortgage finance market in changing interest or profit rate environments and so on.

The flip side to the housing and mortgage market is mortgage securitisation, of which Cagamas Berhad, the National Mortgage Corporation of Malaysia, is one of the most prolific issuers of Sukuk (and conventional bonds), including in the last year of Sustainability, SRI and Green Sukuk.

Proceeds from Cagamas Sukuk are used to fund purchases of eligible housing assets from the financial system by issuing bonds or Sukuk. Most mortgages are securitized, meaning the mortgage finance facilities are sold and pooled together to create a mortgage security (bond or Sukuk) that is traded in the capital markets for a yield (profit).

These securitizations can take different forms and are generally referred to as mortgage-backed securities. They can be asset-backed or asset-based, which makes them ideal for Sukuk issuances.

Cagamas is by far the most experienced and prolific issuer and originator of Sukuk and continues to be an innovator in the mortgage finance and securitisation market.

The Cagamas model is well regarded by the World Bank as the most successful secondary mortgage liquidity facility. Cagamas is the second largest issuer of debt instruments after the Government of Malaysia and the largest issuer of AAA corporate bonds and Sukuk in the market.

Since incorporation in 1986, Cagamas has cumulatively issued circa RM366.3bn worth of corporate bonds and Sukuk. Cagamas is also well regarded internationally and has been assigned local and foreign currency long-term issuer ratings of A3 by Moody's Investors Service Inc. that are in line with Malaysian sovereign ratings.

In the last two years the Corporation has enhanced its Green and Sustainability Sukuk issuance credentials. These range in various tenors, volumes and structures. In August Cagamas issued a RM285 million 2-year ASEAN Social SRI Sukuk, which is fully and unconditionally guaranteed by the Corporation.

“The Social SRI Sukuk demonstrates our continued efforts to facilitate an emerging sustainable asset class and to promote the growth of a sustainable market ecosystem. Cagamas successfully priced its 2-year Social SRI Sukuk at 2 basis points (bps) lower than the 2-year Islamic Medium Term Notes, recording competitive spreads of 39 to 45 bps above the corresponding Malaysian Government Securities/Malaysian Government Investment Issues for the overall issuances.

The Social SRI Sukuk for affordable housing were assigned the highest Social Benefit rating of Tier-1 by RAM Sustainability Sdn Bhd under the Cagamas' Sustainability Bond/ Sukuk Framework,” explained Datuk Chung Chee Leong, President/Chief Executive Officer, Cagamas. The above transaction was preceded by a similar RM150 million 3-year ASEAN Social SRI Sukuk in June 2022. Prior to that the Corporation has issued a debut Green Sukuk and Sustainability Sukuk.

There is another mortgage securitisation company, The Saudi Real Estate Refinance Co. (SRC), which is wholly owned by the Public Investment Fund (PIF), the Saudi SWF. It is also a regular issuer of Sukuk with its latest offering in October 2022 – a SAR3bn (US\$800m) benchmark fixed rate Sukuk – issued under its SAR20bn Sukuk Issuance Programme. This is SRC's fifth Sukuk issuance although none have been under the SRI, ESG or Climate-related label.

The Future is Bright: The Future is Green?

Moody's Investors Service in its 2022 Islamic Finance cross-sector Outlook maintains that it expects the Sukuk market to remain on a positive growth trajectory in the long term, mainly driven by the entrance of new participants to the market, combined with and supported by rising demand for green and sustainable Sukuk.

"We expect green Sukuk issuance will also accelerate as governments promote sustainable policy agendas and demand for sustainable investments encourages new issuers to consider green Islamic instruments as a financing alternative. In addition, Sukuk instruments already fill some of the ESG requirements and make them even more compatible with sustainable investment.

Increasing appetite for such instruments is underpinned by the strong growth of green and sustainable Sukuk in the last five years, with issuances nearing US\$8bn in 2021 compared with less than US\$1bn in 2017."

New issuers seeking to diversify their funding sources are also joining the market as Sukuk becomes widely accepted. The low penetration rate of Islamic products in several Muslim-majority countries also offers additional growth opportunities for Sukuk.

This potential, says Moody's, has been identified by several governments across the MENA and Southeast Asia regions, who have accordingly implemented favourable regulations and issued sovereign Sukuk to support market growth.

This is particularly true in the case of Türkiye, where the authorities have played a prominent role in the creation of Islamic banks and taken on issuing Sukuk on a regular basis. It is also the case in Saudi Arabia, where the government used its debt refinancing in FH 2022 as an opportunity to further increase the share of Sukuk in its debt mix, albeit the Kingdom has yet to issue a sustainability or Green Sukuk.

"It is important to note that most Muslim-majority countries benefit from strong demographic and economic growth potential that will provide Islamic debt markets with a growing economic base to continue to expand in the coming years. The global Muslim population is projected to rise from 25% of the world's population currently to 30% in 2050," observed Moody's.

Sukuk Guarantees and Credit Enhancement

Credit enhancement and Third Party guarantees are virtually bereft from the Sukuk landscape at least in terms of potential demand. As the only multilateral Sharia'h-compliant multilateral investment insurer, ICIEC has developed a Sukuk Insurance Policy (SIP), which is a credit enhancement and third-party guarantee

instrument aimed initially at promoting unrated sovereign domestic issuances by Member States that are rated below investment grade.

Its roll out however has been stalled which leaves a huge gap in the market. "We are in the process of rolling out the Policy, whose launch was delayed by the uncertainties of the pandemic, Ukraine disruptions and global economic conditions," explains Oussama Kaissi, CEO of ICIEC.

The roll out of SIP could expedite the issuance of sovereign and quasi-sovereign issuances especially from the least developed ICIEC Member States in Asia and Africa, which can then be extended to corporate offerings, bearing in mind the credit enhancement base is very low.

The only institution that has guaranteed Sukuk issuances in 2022 thus far is Danajamin Nasional Berhad, Malaysia's first Financial Guarantee Insurer. In January, Danajamin said it is guaranteeing KAB Energy Power's (KABEP) inaugural issuance under its RM500m Multi-Currency Sukuk Murabahah Programme).

KAB has four Guarantee products – a Green Technology Financing Scheme (GTFS 3.0) which is intended to encourage Sustainable and Responsible Investment (SRI) that achieve green, social and sustainable standards in Malaysia; Financial Guarantee Insurance (FGI) for credit enhancement for Sukuk issuances, Financing Facilities Guarantee (FFG) for credit enhancement for financing facilities, and Investor Guarantee (IG) for optional investor protection for Sukuk issuance.

The proceeds from the issuance will help fund KAB's future energy related ventures, greenfield projects and/or brownfield assets in Malaysia as well as across Asia, including Vietnam, Indonesia and India.

Mohamed Nazri Omar, CEO of Danajamin maintains that "by encouraging energy efficiency initiatives, we want to continue

Indonesia is the world's most proactive issuer of Green Sukuk. In 2021 it issued a 30-year US\$750m Green Sukuk as part of a US\$3bn transaction – its fourth such global Green Sukuk issuance outside the retail Green Sukuk issued at the end of 2019.

playing a significant role in contributing to the nation's economic sustainability and leave a positive impact in minimizing the environmental footprint. We hope to see more Malaysian companies participating in the green economy in the future."

According to Lai Keng Onn, MD of KAB, 'Danajamin's FGI for our Sukuk Murabahah Programme will bring us a step closer to realising the government's aspiration in promoting green technology and sustainable energy initiatives in the private sector. We are actively looking out for greenfield projects and brownfield energy assets to invest in both locally and regionally, such as solar power generation, hydropower plants and biogas plants."

Proceeds from the issuance will be used for a 2.2-megawatt waste heat recovery facility at Safran Landing System Malaysia, a leading French manufacturer of aircraft landing gear and braking systems globally. The waste heat recovery facility is located at Sendayan TechValley in Negeri Sembilan and is currently operational.

To date, Danajamin's financial guarantees have assisted 48 issuances, with a total Guarantee size of RM11.4bn. The total market impact of these deals, through risk-sharing collaboration with partner banks, stands at RM24.2bn.



Listed infrastructure: Investing in a sustainable future



by **Emily Foshag**,
Portfolio Manager, Listed Infrastructure,
Principal Asset Management



Sustainability is fundamental for infrastructure companies

Listed infrastructure is inherently aligned with many client sustainability objectives. First and foremost, these companies exist to provide the basic services that are fundamental to the functioning of our societies. Access, affordability, safety, and reliability are all important social objectives related to the products and services that infrastructure companies offer. In delivering these services, companies also have a responsibility to treat the environment in a manner that won't jeopardize their ability to deliver these essential services over the long term.

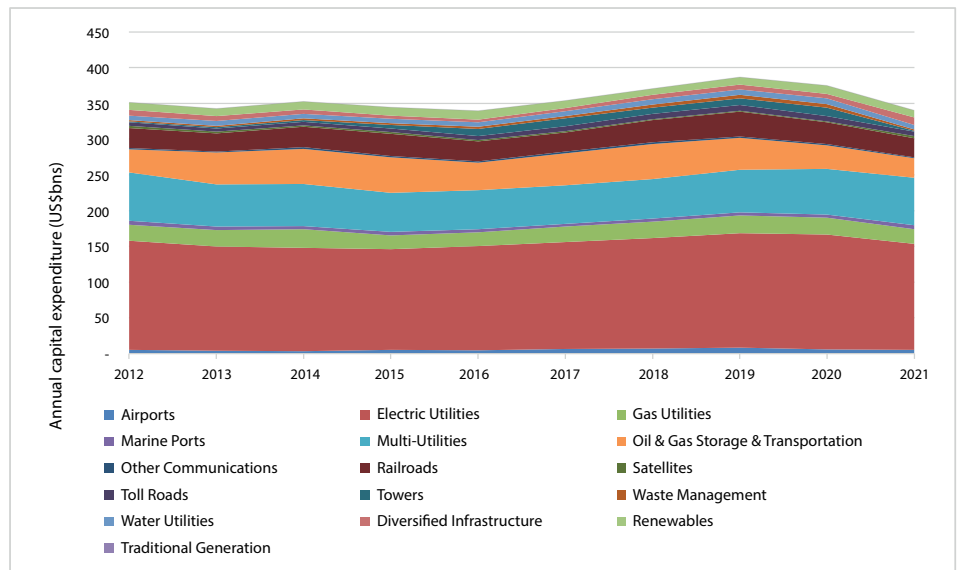
Listed infrastructure companies are continually investing large sums of capital to deliver a variety of objectives. Without a solid balance sheet and a management team that acts appropriately as a steward of capital, these objectives would not be achievable. Social, environmental, and economic objectives need to be balanced—none of these areas can be addressed in isolation.

Listed infrastructure companies invest with purpose

What is unique about the listed infrastructure space is the amount of capital these companies can deploy. Therefore, the amount of capital that can be shifted to solve some of the world's biggest environmental problems is significant. Over the last 10 years, companies have invested \$350–\$400 billion annually to deliver these essential services. Investment by electric utilities has been the largest component of this, and we expect it to continue to grow as demand for renewable generation and electricity transmission infrastructure accelerates.

Exhibit 2: Companies have long track records of investing with purpose

Capital expenditures across the listed infrastructure universe, last 10 years



Another interesting aspect about investing in listed infrastructure is the potential for carbon emissions reduction. While listed infrastructure only represents about 5% of global equity market cap, it represents a quarter of direct greenhouse (Scope 1) gas emissions. This is an important consideration because there has been an increase in generalist environmental, social, and governance (ESG) index providers adopting structural underweights to the most carbon-intensive industries as the basis for their ESG credentials. Unless investors like us continue to make the case that investing in and engaging with carbon-intensive businesses can still be ESG-friendly, listed infrastructure companies are at risk of being even more underrepresented in a broader global equity allocation going forward.

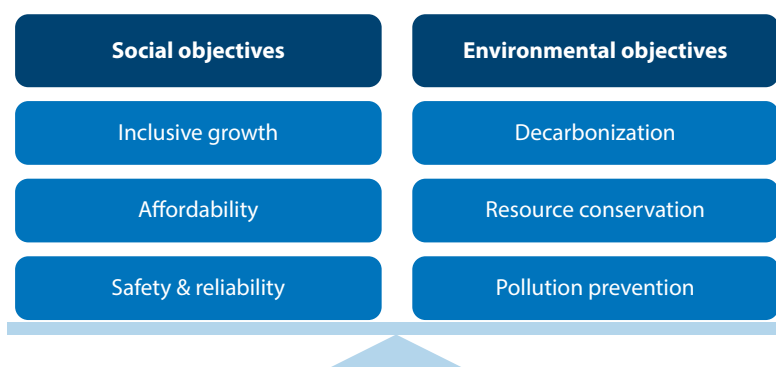
The role of listed infrastructure in investment portfolios

Listed infrastructure has historically offered compelling risk-adjusted returns relative to global equities. These are defensive businesses, but they also benefit from many of the major structural growth drivers impacting the equity markets more broadly. We have seen a long-term trend of rising income and attractive yields in this space—yields today average around 3.5% and have grown an average of 8% per year over the past 10 years.¹

Listed infrastructure may also offer potentially resilient returns through periods of higher inflation, something that is particularly relevant in the current inflationary environment. This is because these businesses typically operate under contracted or regulated revenue schemes that have explicit links to inflation. For example, a toll road may have the contractual right to raise tolls with inflation.

Compared to private infrastructure, listed infrastructure offers comparable exposure to the favorable characteristics of the underlying assets. However, by investing in infrastructure through the public markets, investors can benefit from immediate exposure with limited capital requirements. Listed infrastructure also has the potential for diversification benefits within a portfolio and provides investors access to some subsectors and high-quality companies that are only available through the public markets.

Exhibit 1: A sustainable financial position is a prerequisite to achieving social and environmental goals



1. FTSE Global Core Infrastructure 50/50 Index

Alignment with the UN's Sustainable Development Goals

Infrastructure as an asset class has the potential to directly support progress toward over 70% of the UN's Sustainable Development Goals (SDGs). The major SDGs that we typically see listed infrastructure companies aligning with include:



Clean water and sanitation. Water utilities distribute water, treat wastewater, and lead educational programs encouraging lower use of water resources.



Affordable and clean energy. Many of these companies are actively involved in increasing renewable energy consumption, decreasing energy consumption intensity, and developing new transmission infrastructure—all while ensuring customer affordability.



Decent work and economic growth. Listed infrastructure companies invest in economic productivity, employ policies on resource efficiency, can demonstrate progress on diversity and inclusion, and take steps to ensure the health and safety of employees.



Industry, innovation, and infrastructure. Some companies are involved in the provision of passenger and freight transport. We also see potential for companies across sectors to reduce operational carbon intensity.



Sustainable cities and communities. Transport infrastructure companies operate and develop public transportation infrastructure which has a key role to play in the sustainable cities of the future.



Climate action. Listed infrastructure companies can align with SDG 13 by setting and meeting aggressive climate reduction targets and improving education and awareness of climate change in their communities.

Governments and businesses are prioritizing sustainable practices

Listed infrastructure companies are highly regulated businesses, and often their sustainability initiatives can be linked to public policy. Regulators and policymakers can add further support for sustainability by providing financial incentives for reaching specific goals, preferential treatment for specific investments, as well as allowances for proof-of-concept investments and frameworks for pilot projects to prove the commercial application of certain technologies before the deployment of large amounts of capital. Among United States gas utilities, for example, there have been announcements for at least 26 green hydrogen pilot projects in the past year as the industry figures out how to make and transport the gas and customers figure out how to shift operations to utilize the fuel.

Publicly traded infrastructure companies may have particular advantages over their private market counterparts when it comes to their potential for sustainable impact. One reason is scale, as many of these companies are the largest employers in their respective regions, providing them an outsized impact on policy direction.

More companies are moving from “laggards” to “leaders”

One of the most common questions about the sustainability initiatives of listed infrastructure companies is how these initiatives are reflected in a company's stock price. Even just a few years ago, ESG and

We typically see a company's sustainability initiatives start with management planning, establishing and measuring achievable targets, and communicating this sustainability strategy to stakeholders. Ultimately, the company's willingness to provide transparency on its initiatives allows market participants to hold the company accountable for demonstrating progress toward any published targets

Exhibit 3: The path from 'laggard' to 'leader' is increasingly well-charted



sustainability expertise was arguably the domain of a few companies. Now, it's increasingly seen as the domain of many. This provides a wider opportunity set from which to identify stocks that have positive exposure to sustainability trends but are still trading at compelling valuations.

Today, we believe there is more clarity than ever regarding what it takes for a listed infrastructure company to move from a laggard to a leader in terms of its approach to ESG and sustainability. We typically see a company's sustainability initiatives start with management planning, establishing and measuring achievable targets, and communicating this sustainability strategy to stakeholders. Ultimately, the company's willingness to provide transparency on its initiatives allows market participants to hold the company accountable for demonstrating progress toward any published targets. The predictability of this process helps give us confidence to invest earlier in a company's evolution.

Conclusion: The impact potential of listed infrastructure

We believe infrastructure has tremendous potential for social and environmental impact. Most listed companies are making good progress on sustainability efforts, and we expect this to continue. From our perspective, pressure from a variety of stakeholders to do better in these areas is a positive. This dynamic increases the pool of potential investments to choose from as we seek to deliver our clients both attractive investment performance and exposure to companies that are doing good.

All Eyes on Africa at COP27



By **Vuyo Ntoi**,
Co-Managing Director,
African Infrastructure
Investment Managers (AIIM)

Energy is not only at the centre of the global climate challenge, but also has a large part to play in the solution.

The UN states that fossil fuels account for over 75% of global greenhouse gas emissions - though Africa's contribution is a small fraction of this total - and that reaching global net zero requires a rapid, universal transition to renewable, clean energy. In 2015 at COP21 in Paris, the world committed to keeping global temperatures within 1.5°C of preindustrial levels, requiring many industrialised nations across the globe to cut emissions in half by 2030 and to achieve net zero by 2050.

Now, with all eyes turned to the first COP in Africa (COP27 in Sharm El Sheikh) in over half a decade - the continent already most impacted by climate change - is this a final opportunity to achieve a global commitment to renewable energy as central to the energy mix?



The role of Africa's Independent Power Producers (IPPs)

Renewable energy is now profitable on a standalone basis and more affordable to consume than fossil fuels. Africa has tremendous renewable energy potential: its geography is well suited not only to solar and wind but also waste, geothermal and water-based energy creation. African Infrastructure Investment Managers (AIIM's) investment portfolio includes over 30 large-scale renewables facilities with a total installed capacity of 2.32 gigawatts (GW).

In 2020, AIIM-managed facilities created enough renewable energy to supply over one million middle-income homes with clean energy. This not only generates cleaner, sustainable energy for future generations, but will also help stimulate economic development and job creation in construction, operations, logistics, and maintenance across the continent. It is time to accelerate private and public investment into more renewable energy infrastructure for Africa.

The emergence of IPPs as an accelerator of renewable energy generation is a key step in Africa's energy transition. IPPs have often been the first to embrace new technologies, taking risks away from the public sector and creating opportunities to share technical knowledge.

IPPs are also typically funded by international investors and development finance institutions

(DFIs) which uphold strict international environmental, social, and corporate governance (ESG) standards, and these best practices spill over to local businesses and job markets throughout Africa.

While IPP power is, in some corners, considered more costly than publicly generated power, this is only relevant to power consumers who can choose between the two. In supply-constrained

Entities such as the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) and the Islamic Development Bank (IsDB) group are well positioned to become conduits for this overseas funding. The ICIEC and IsDB already play a critical role in helping to mitigate some of the risks associated with investing in key countries on the continent through products such as political risk insurance, and this is assisting in the mobilisation of this required capital.

markets such as South Africa, one is not an alternative to the other.

Cheap grid electricity is typically a function of utilities charging for electricity at historic costs, which has proven unsustainable as the utilities can then not afford the capital expenditure required to maintain and increase grid generation capacity. In fact, renewable energy is now the cheapest form of new electricity generation available.

To free up the balance sheets of local government-owned electricity utilities and take on the task of providing the necessary capital to build generating facilities, IPP facilities must operate as efficiently as possible to be viable, driven by the dual pressures of providing adequate returns to investors and being a successful bidder in a competitive bidding environment.

Investment by IPPs alone does not guarantee the optimal mix of energy sources - Africa's governments also have an essential role to play. IPPs respond to incentives, especially those reflected in government-set feed-in tariffs and those embedded in competitive bidding processes.

Recently, in Kenya, private sector leaders have suggested that the current feed-in tariffs favour investment in thermal power but not geothermal power, despite geothermal being a highly reliable renewable energy source, with almost zero carbon emissions and low operating costs.

Experts have therefore recommended the feed-in tariff for geothermal be increased to accelerate development by IPPs and rapidly boost the growth of geothermal power sources. And while this would be a cost to consumers in the shorter term, feedstock savings could compensate for the increased cost in future as the sector develops.

Governments must also consider how the power sector is regulated. IPPs can only sustainably operate in a market with low credit risk, where suppliers know they will receive payment for services rendered. Power markets work best when regulated independently to ensure cost reflectivity in utility tariffs, leading to a more sustainable market in the long run and creating conditions for additional international investment.

The International Investor Opportunity

Africa's infrastructure funding backlog is extensive and there is an insufficient stock of private capital on the continent to meet investment demands. It is estimated that US\$100bn in spending is required annually to fill the funding backlog, excluding clean energy transition costs.

Yet the total asset balances of pension funds and sovereign wealth funds in sub-Saharan Africa measures less than US\$500bn. A major mobilisation exercise is therefore required to attract overseas capital if the continent is to meet its infrastructure requirements and transition to cleaner energy.

Entities such as the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) and the Islamic Development Bank

(IsDB) group are well positioned to become conduits for this overseas funding. The ICIEC and IsDB already play a critical role in helping to mitigate some of the risks associated with investing in key countries on the continent through products such as political risk insurance, and this is assisting in the mobilisation of this required capital.

The IsDB, which is able to tap international capital markets, offers financial and technical support to private companies and governments and is a key player in helping the continent to overcome the challenges of climate change through adaptation-driven and resilience-focused investments and interventions.

Accelerating Africa's Renewable Energy Transition

Historically, renewable energy development in Africa has often been ad hoc due to low levels of macro energy planning. This has created a high-risk environment for developers, as projects are implemented and negotiated on a bilateral basis and there is great uncertainty as to whether projects will reach financial close. More predictable and scalable procurement processes are required in more countries on the continent to accelerate the participation of developers in the provision of much needed generation capacity. Countries such as South Africa, Egypt, Morocco, Kenya and Uganda have shown the way.

The lack of sufficiently large national grids is another considerable constraint to scaling up renewable energy across Africa. While AIIM has invested substantially in off-grid renewable power solutions, including in BBOX, an

energy platform that provides renewable power to off-grid customers in Rwanda, Kenya, and DRC, these initiatives cannot replace the grid entirely.

Regionalisation is a potential solution for increasing grid size and complexity, allowing for a more scaled and planned incorporation of renewable energy generation to the grids. Ultimately, sufficiently robust grids are needed to mitigate the intermittency of some renewable energy sources.

Sustainable utilities are also a requirement for increased renewable energy investment. Unfortunately, COVID-19 has compounded the financial pressures on national utilities and weakened national governments' ability to support them. In turn, those pressures have been further affected by higher oil and gas prices.

Large commercial customers must be able to procure renewable power directly in countries where financial pressures on government spending mean that public utilities cannot meet the demand for clean energy, and it is IPP solutions that hold the key for commercial and industrial users. AIIM, through its Starlight Energy investment in Nigeria, was an early investor in clean commercial and industrial power solutions.

Action to Replace Words at COP27

AIIM's wish list for COP27 is not an extensive one, but it is clear-eyed and informed by our experience as Africa's largest infrastructure investor. One of the main ambitions for this year's COP must be for tangible action to match the words echoed about renewable energy investment in previous years.

The deadlines agreed in Paris in 2015 are fast approaching, and now is the time for urgent delivery. Seven of the 10 countries most affected by climate change are in Africa. Urgent action and critical investment are needed.

With all eyes on COP27, the annual capital flows pledged by developed countries to assist the developing world to build resilience and reduce emissions must be realised.

Note: AIIM is a subsidiary of Old Mutual Alternative Investments (OMAI), a member of the global Old Mutual Group of South Africa. In 21 years, AIIM has built a US\$2bn plus investment portfolio across south, west and east Africa in IPPs in renewable and clean energy projects, transport, logistics and digitisation. Oxford-educated Mr Ntoi is an expert on private equity investment and infrastructure.



IsDB Group Rolls Out US\$10.54bn New Food Security Response Programme to Support Ongoing Food Crisis and Future Food Resilience Against Climate Impact in Member States

The approval by the Boards of Executive Directors of the Islamic Development Bank (IsDB), the Islamic Solidarity Fund for Development (ISFD), and the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), of an US\$10.54bn comprehensive Food Security Response Programme (FSRP) package could not come at a more opportune time for the Group's 27 Member States.

Several states including Egypt, Yemen, Somalia, Lebanon, Syria and Iraq have been severely impacted by the supply chain disruptions caused by the Ukraine conflict given that Russia and Ukraine are the two major suppliers of wheat, corn, barley and sunflower oil to these countries, and exacerbated by climate-related impacts on the agricultural sector and clean water resources.

The FSRP is aimed at supporting Member States in addressing the ongoing food crisis and scale up the Group's continued efforts to contribute to strengthening its members' resilience to food security shocks in the future.

The approval came at an extraordinary meeting chaired by Dr Muhammad Al Jasser, President of the IsDB, held in Jeddah on 28 July 2022. The Bank will contribute up to US\$5.7bn in total financing to member countries, comprising new approvals worth

US\$4.0bn and fast-tracking of disbursements for existing projects worth US\$1.7bn.

The Group's sister entities under its "One Group-One Goal" approach, are also make significant and direct contributions to the funding programme. These include:

- US\$4.5bn in trade financing by the International Islamic Trade Finance Corporation (ITFC), the trade fund of the Group.
- US\$269m in private sector development operations by the International Islamic Corporation for the Development of the Private Sector (ICD), the private sector funding arm of the Group.
- US\$75m in loans, grants, and capital resources by ISFD, the social finance arm of the Group.
- US\$500m in PRI and credit insurance coverage by ICIEC, the insurance arm of the Group.

To complement the financial package of the IsDB Group, the Islamic Development Bank Institute (IsDBi) is providing critical data,

analytics, and evidence-based support for effective and impactful decision-making.

To jump-start the programme, says the IsDB, the financing package is providing immediate financing (over the coming 18-month period) of up to US\$3.2bn for short-term interventions by providing (i) emergency food and agricultural supply inputs to increase location production of key staple crops and livestock and (ii) social protection and livelihood support to the most vulnerable populations.

"The primary focus of the programme and the bulk of the financing envelope of the remaining US\$7.3bn, which will span over the next three years," according to the IsDB, "will be on developing innovative medium-and long-term interventions to address structural weaknesses and root causes of food insecurity in the member states and to strengthen the resilience of food systems to withstand future shocks."

These weaknesses include low productivity, rural poverty, climate

change, and weak resilience of regional and national agricultural and food systems through six key initiatives: (i) building agricultural resilience to climate change; (ii) food and input value-chains; (iii) smallholders' productivity and market access; (iv) rural livelihood support; (v) livestock and fisheries development; and (vi) building resilient food supply systems.

Some of the key areas of additional support under the medium to long-term track include: strengthening production systems, promoting climate-smart agriculture, support to commodity value chains, building national strategic buffer stocks/reserves, and strengthening livelihoods for the most vulnerable.

The FSRP is in line with the IsDB's realigned Strategy for 2023-2025, which is addressing climate change, as a crosscutting area, with one of the strategic objectives being 'Driving the Green Economic Growth of its Member Countries'. This will be supported by investments in building sustainable, green, and resilient infrastructure (e.g., water, sanitation, electricity, transport, and urban and rural development). Moreover, as part of its 2020-2025 Climate Action Plan, the IsDB has committed to ensuring that 35% of its financing to go towards climate change mitigation and adaptation, in alignment with SDG 13, by 2025, as well as the objectives of the 2015 Paris Climate Agreement.

The total IsDB Group's financing support for agriculture and food security currently stands at US\$20.6bn, comprising 1,538 operations. The Ukraine conflict highlighted the issue of food security, which keeps resurfacing thanks to the effects of climate change, natural disasters, insect plagues, deforestation and soil erosion, opposition to genetically-modified seeds, battery farming of livestock, disease outbreaks and supply-chain disruption as in the COVID-19 pandemic. Food systems inequality is as impactful as food import dependency, vaccine inequality and poverty and a host of other metrics, which affect the lives of millions on a daily basis.

OECD Secretary-General Mathias Cormann, warns "the commodity supply squeeze resulting from this war, is exacerbating supply chain disruptions brought on by the pandemic, which will likely weigh on consumers and business for some time to come. We need both sensible near-term and longer-term action."

In emerging market economies, says the OECD, "steeper declines are projected for those major commodity importers. Higher food and energy prices are expected to push up inflation more than in advanced economies. The threat of cereal shortages, in particular, underlines the need to ensure that trade keeps flowing."

Flour shortages have already impacted in several IsDB member states, including Egypt, Lebanon and Somalia. Egypt imports 86% of



its wheat from Russia and Ukraine and 73% of its sunflower oil from Ukraine. Prices have escalated and the spectre of food protests looms if the government fails to intervene to bring sanity to supplies and prices.

The statistics of dependency on Russo-Ukrainian food supplies are revealing. According to the OECD, Russia and Ukraine account for 30% of world wheat exports and 14% of world maize exports. Ukraine accounts for 16% of global corn exports and 12% of wheat. Ukrainian corn output has grown 140% in the last decade to reach 42m tonnes in 2021, during which Ukraine produced 33m tonnes of wheat and 10m tonnes of barley. Ukraine was also the top exporter of sunflower oil in 2021 at 23m tonnes.

Forty percent of wheat and corn from Ukraine go to the Middle East and Africa, which are already grappling with hunger issues, and where further food shortages or price increases risk pushing millions more people into poverty. Russia is also the world's largest fertilizer producer. Even before the conflict, spikes in fertilizer prices last year contributed to a 30% rise in food prices.

The average percentage hike in prices in Q1 2022 has been staggering – 88% for wheat, 79% for fertilizers, 42% for maize, and 11% for gold says the OECD. This in addition to huge rises in the price of crude oil, gas and coal.

IsDB Member States along with significant parts of the world, are facing an unprecedented food crisis. Food prices, particularly for cereal grains have been climbing steadily in the past few years and soared recently in the wake of Russia-Ukraine crisis. The current impact of Russia-Ukraine conflict is expected to sharply increase the food prices by 56.3 percent by the end of this year (2022), with prices expected to stay high till 2024. This is happening at a time when most countries have been experiencing loss of income, additional public expenditure and climbing poverty rates due to the prolonged pandemic.

Climate change has been identified as one of the main factors exacerbating food insecurity,

through low productivity and crop failures. The ongoing food crisis has indeed further exacerbated structural food insecurity in the most vulnerable and fragile or conflict affected member States such as Syria and those in the Sahel region.

The current crisis is particularly concerning for the IsDB Member States, 36 of which are net food importers. Sub-Saharan Africa and MENA Member States are the most exposed to increased food insecurity and malnourishment. Similarly, of the 47 Low-Income Food-Deficit Countries (LIFDCs) designated by FAO, 26 are IsDB Group Member States.

As highlighted in the latest Intergovernmental Panel on Climate Change (IPCC) Report on Adaptation, climate change has already caused substantial damage, and increasingly irreversible loss, in terrestrial, freshwater and coastal and open ocean marine ecosystems. This consequently poses a negative impact on economies, with adverse effects on food systems, gender and social equity. The scale of biodiversity loss due to climate impacts is extremely preoccupying, especially when we know what important role biodiversity plays in the provision of ecosystem services, food, and water security of a growing global population of almost 8 billion human beings.

Egypt, as the COP27 Presidency, is keen to highlight this vital issue of climate-related food insecurity and its impact on the IsDB Member States. In that respect, the IsDB Group's FSRP is a commendable immediate response to the call made by the COP 27 Presidency for concrete actions to address the interlinked challenges of climate change and food insecurity.

As such, FSRP will gain greater precedence over the medium-to-long-term given the potential tenor of the challenge. In this respect, it provides important opportunities to IsDB, ICIEC, ICD, ITFC and ISFD to further refine their strategies, products and services and consolidate their partnerships.

The Importance of Responding to Climate Change in the OIC Region

Climate change is one of the defining challenges of our times and represents one of the most complex issues that the international community has ever faced. The physical impacts of climate change are already having profound and often devastating effects on societies around the world by adding significant stress to food production, water supplies, health services, and economic growth. Climate change will create numerous problems for developing countries and vulnerable communities in particular, as it will disproportionately affect the communities that contributed least to the problem, threatening to erase years of significant development gains made in these countries. OIC and ICIEC Member States are no less susceptible to these diverse challenges. **ICIEC Managers** assess the scale of the challenges faced by Member States and the Corporation's Climate and Green Finance response to date

With 48 Member States (MS) spread throughout the OIC region, and with the geographical coverage spanning from South America to Asia and from Eurasia to Sub-Saharan Africa, our MS are located in some of the world's most climate vulnerable regions. ICIEC is committed to assisting each MS in their development goals, and an important part of this assistance is to help mitigate and adapt to the threats that climate change poses for them.

ICIEC understands that failing to mitigate and adapt to the effects of a warming planet and increasingly extreme weather patterns could undermine gains made to alleviate poverty, improve health, promote education, and boost prosperity across the MS.

Stabilizing warming to 2°C or less is critical and will require both significant policy support and financial investments. ICIEC is in a unique position to help close the financing gap for climate-related projects and investments in its MS, especially considering that many of them might struggle to attract capital for such investments on their own.

ICIEC has proven it has the capacity to de-risk and crowd-in additional investment for climate-resilient projects, and it is working consistently to improve its capacity as a climate finance provider. The Corporation has increasingly provided support for projects that strengthen its MS against the threat of global warming, helping them both prepare for and adapt to the many challenges of a warming

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ICIEC Climate Projects and Investments

While ICIEC still provides insurance for fossil fuel transactions due to the centrality of fossil fuels to MS economies, the Corporation also plays a catalytic role in facilitating renewable energy projects. ICIEC provides support for strategic investments in renewable energy, assisting with the import of technologies and their use in national infrastructure projects, like the creation of solar energy systems and wind farms. Some of the high-profile renewable energy projects that ICIEC has supported in the past include the world's largest solar parks in Egypt, wind-power projects in Türkiye, and coast protection works in Benin to protect the country from the effects of rising sea-levels.

In Q3 2020, ICIEC provided insurance cover for the construction of a new energy-efficient football stadium in Senegal. This EUR143.48m infrastructure project included the construction of a 50,000 seat capacity football stadium and two training grounds with a system to produce and store solar energy to cover all the energy requirements. The project brought several economic benefits to local and regional communities while still taking into consideration the climate change risks and opportunities at every step. This project is an example of how ICIEC can leverage its products to effectively crowd-in private sector capital for climate-related projects, and it represents a critical step towards MS becoming more climate-resilient and energy-efficient.

Third Quarter results show that ICIEC has contributed over US\$418m toward infrastructure and over US\$3.9bn toward energy support this year alone, demonstrating the enormous capacity and potential that ICIEC has for becoming a leader in financing 'green' projects and infrastructure for decades to come. ICIEC understands that without capital being directed towards climate resilience, the projected perils of climate change will become a grim reality, not only for ICIEC's MS but for the world at large.

Looking Ahead

It appears difficult to remain focused on the challenges of climate change as the world still grapples with its response to the COVID-19 pandemic, but we cannot lose sight of our climate goals, even during these uncertain and unprecedented times.

ICIEC will continue to offer strong leadership in climate finance and remain a reliable partner by turning uncertainties into manageable risks. In this complex and challenging environment, each country forges a path towards sustainable development specific to its circumstances, but building climate-resilience must be a part of every country's path forward.

As we look ahead, especially in light of the ongoing global pandemic and geopolitical uncertainties including the disruptions caused by the Ukraine conflict, we must turn our attention to how we can build back better to create climate-resilient sustainable development for MS. There is great potential to be realized in how the OIC countries respond to climate change, which if harnessed properly will lead to economic and social prosperity for the people living in these countries. ICIEC will continue to work towards achieving this potential.

Role of Credit and PRI in Climate Action

Development financiers have long identified mobilizing private capital as a fundamental way to achieve the net zero goals in the Paris Agreement. While the developed countries are trailing behind their Nationally Determined Contributions (NDC) of US\$100bn per year to developing states, multilateral export credit and investment risk insurers like ICIEC have a pivotal role in bridging the gap.

Private sector engagement in climate finance requires credit enhancement, which ICIEC is uniquely positioned to do through its sustainability policies and access to its MS' national and subnational bodies, which engage with relevant climate action projects and transactions. Private sector development is one of the main pillars of ICIEC's strategy. Embedding commercial opportunities and helping corporates and banks make a material difference to support positive climate outcomes is something that risk mitigation tools can facilitate.

The swift response to the COVID-19 pandemic has provided a roadmap to address long-term credit and political risk insurance solutions for climate mitigation and adaptation. While the pandemic elevated public health and infectious diseases as an immediate concern and risk, the long-term threat of climate change was overshadowed by the pandemic in the last two years. With the war in Ukraine, the understanding of climate and political risk is again being re-evaluated, casting a spotlight on sustainable energy and energy security.



Egypt is a founder member of IsDB Group – total Group funding accessed by Egypt amounting to US\$17.8bn to date – and has seen several new climate initiatives being launched. Among the latest is a Memorandum of Understanding (MoU) between ICIEC and El-Sewedy Electric, which provides a framework for joint action in promoting climate action and water projects.

Spotlight on Egypt

Ahead of COP27 in Sharm El-Sheikh in November, all eyes are on Egypt, not only because it is the host for new climate negotiations but for charting out ambitious climate blueprints under Egypt's Vision 2030 – aimed at building a diversified, competitive, and balanced economy, and the Integrated Sustainable Energy Strategy (ISES) 2035.

Egypt is a founder member of IsDB Group – total Group funding accessed by Egypt amounting to US\$17.8bn to date – and has seen several new climate initiatives being launched. Among the latest is a Memorandum of Understanding (MoU) between ICIEC and El-Sewedy Electric, which provides a framework for joint action in promoting climate action and water projects. Under the terms of the MoU, ICIEC, which is the insurance arm of the IsDB, will work with El-Sewedy Electric to identify, assess and manage climate and water risks and opportunities; exchange essential information, expertise, and resources, extend training and capacity-building opportunities and organize joint seminars and workshops.

Private Capital Mobilisation

Counted among the top megatrends in trade and development finance, climate change is both a threat and a potential opportunity if looked at the right way. Private banks such as the Egypt-based Commercial International Bank are incorporating the climate agenda into all their financing mandates, fundamentally changing their business model to manage risk and moving away from the traditional path of seeking

insurance to mitigate climate risk. To meet the SDG goals by 2030, an estimated cost of US\$5 to US\$7 trillion annually is required, which presents itself as a business opportunity for private capital looking to invest with impact and high returns in emerging and low-income economies.

Most member states of ICIEC are low-income and developing countries, so it is challenging to attract private capital. The hurdles are high-risk perception and a lack of bankable deals. ICIEC has been working on developing bankable projects and vehicles, serving the climate agendas of MS. For instance, ICIEC's Green Sukuk Insurance Policy will allow Sukuk issuers to attract capital for 'Green' projects better. The product will be particularly valuable for issuers in ICIEC's low-income and developing country members who are subject to below investment grade credit ratings and, consequently, attract less private capital for climate action.

Egypt presents itself as a positive case study, demonstrating a blueprint for sustainable development in the renewable energy sector in other OIC countries. ICIEC has facilitated several renewable projects in the country by providing much-needed insurance cover, which has the potential to crowd in private capital. Recently, ICIEC provided a seven-year Breach of Contract and Political Risk Insurance (PRI) cover under its Foreign Investment Insurance (FII) Policy to the UAE-based Alcazar Energy for its US\$68m equity investment in the Benban Solar Complex in Aswan. The complex involves constructing and operating four 50 MW solar power plants, providing the generated electricity to the Egyptian

national grid under a 25-year power purchase agreement.

Central to the Egypt Vision 2030 is achieving net zero targets in the Paris Agreement. The country's renewable energy strategy – particularly ICIEC's bespoke insurance cover – has the potential to be replicated in other IsDB member countries, with factors such as maximization of local content, proactive government support, and generation of employment.

A 'just transition' is the need of the hour in MENA countries in particular, where the impact of climate change will be disproportionately felt. Credit and political risk insurance are integral to enabling this transition, which also factors in the 'S' (social) in ESG.

Sharjah Waste To Energy Project

The Sharjah waste-to-energy (WtE) project is the first such scheme to be financed in the GCC region as states move away from landfills to more environmentally friendly disposal solutions. The project, led by UAE clean energy firms Masdar and Bee'ah, helped Sharjah reach its zero waste to landfill target by 2020 and contributed to the UAE's 2021 goal of diverting 75% of solid waste from landfill. ICIEC provided cover for the project's construction financing, working in partnership with fellow financial institutions SMBC, Siemens Bank, Abu Dhabi Commercial Bank, Abu Dhabi Fund for Development and Standard Chartered. For its contribution to the project, ICIEC was awarded a 2018 Project Finance International Award for Middle East Clean Energy Deal of the Year.



Promotion of Egypt's Energy Sector

Due to rising demand, inadequate generation and transmission capacity, coupled with ageing and insufficient investments in energy infrastructure, Egypt suffered from an acute shortage of power between 2014-2018. Daily 10-hour black-outs were common at the peak of the crisis in Summer 2013, and in 2014 and 2015, power was cut to heavy industry, reducing Egypt's private sector competitiveness.


In 2015, the Egyptian Government introduced an emergency plan to double power generation capacity by 2020. ICIEC has underwritten the construction of gas power plants in Assiut, West Damietta Port Said, Hurgada and Sharm El Sheikh with a total installed capacity of 2,672MW. This served to stabilize the power grid and secure the base load. By providing stable electricity supplies to large industries with high voltage electricity needs, this investment will increase Egypt's competitiveness.

The government's energy plan calls for Egypt to produce at least 20% of its energy from renewables by 2022 and as much as 40% by 2035. The Benban Solar Complex, a 1.8GW project, consists of 30 separate solar plants being developed by different companies at a total cost of US\$4bn and will generate enough to power hundreds of thousands of homes and businesses. ICIEC provided cover for Alcazar Energy which has constructed four 50MW solar plants. The project is part of Egypt's Nubian Suns Renewable Energy Feed-in Tariff (FiT) Programme announced in September 2014, which is in line with the Egyptian government's Sustainable Energy Strategy 2035.

Green Finance and ICIEC's Role as a Multilateral Insurer

ICIEC sees its role in export credit insurance and political risk insurance as pivotal towards helping bridge the Climate Action finance gap through de-risking. The value and supply chains related to Green and renewable energy are complex, and ICIEC sees a wide range of opportunities across its Member States to address the twin challenges of Climate Change Mitigation and Adaptation.

Converging financing initiatives, including Green Finance, Sustainability and ESG, continue to gain traction in global markets

 The government's energy plan calls for Egypt to produce at least 20% of its energy from renewables by 2022 and as much as 40% by 2035. The Benban Solar Complex, a 1.8GW project, consists of 30 separate solar plants being developed by different companies at a total cost of US\$4bn and will generate enough to power hundreds of thousands of homes and businesses. ICIEC provided cover for Alcazar Energy which has constructed four 50MW solar plants.

to support transformation towards a green economy. These initiatives involve financing investments that generate benefits to the environment with the aim of achieving inclusive, resilient, and sustainable development.

The issuance of Green, Social and Sustainable Bonds, including Green Sukuk, has proliferated. In 2021, US\$1 trillion of green, social, and sustainable bonds were issued globally. The EU expects this figure to rise by 50% in 2022.

Insurers are Green Economy enablers because they are also risk absorbers. Insurers are well placed to channel investment into infrastructure projects, notably in renewable energy. Insurance solutions can reduce risks inherent in infrastructure projects and increase their attraction to investors. The ability to help channel investment into sustainable projects is a sizeable growth opportunity for the sector.

Over 28 years, ICIEC cover has been directed to various sectors, including US\$36.1bn to clean energy. The IsDB Group's current renewable energy financing totals about US\$3.4bn, and ICIEC has provided US\$596m in insurance for renewable energy projects in member states.

ICIEC is committed to further boosting its green and sustainable finance operations. It has proposed the establishment of a Climate Action Finance Trust Fund with institutional partners, which would offer a discount on the insurance premiums needed for the financing of Climate Action projects in the below-investment-grade Member States.

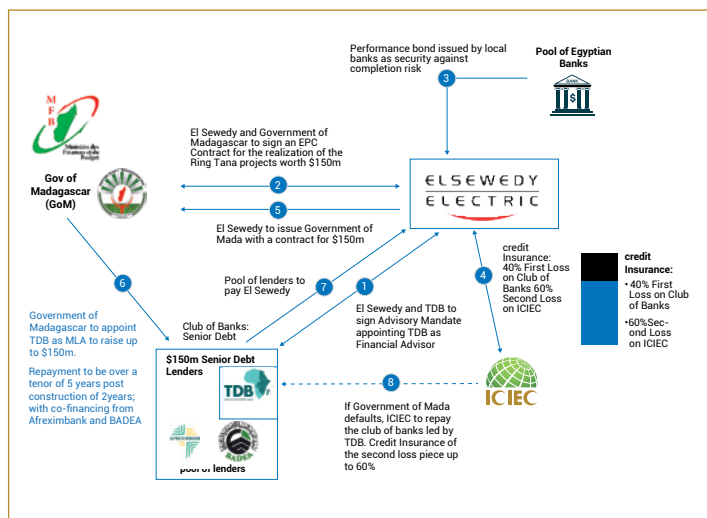
The Corporation's green finance credentials are implicit in promoting a clean and just energy transition in the Member States through supporting private sector-involved renewable energy projects, waste management, desalination, and clean water provision. ICIEC's Sharia'h-compliant de-risking solutions - Non-Honouring of Sovereign Financial Obligations (NHSFO) Policy, Foreign Investment Insurance Policy (FIIP) to cover Equity Investment, and Reinsurance - are unique.

Through forging Partnerships for Change (SDG 17) and ICIEC's Theory of Change strategy, it harnesses international best practices and technologies. ICIEC latterly also joined the InsuResilience Global Partnership for climate disaster risk finance and disaster solutions, thereby positioning itself at the forefront of its industry peers in order to meet the Climate Action needs of its Member States.

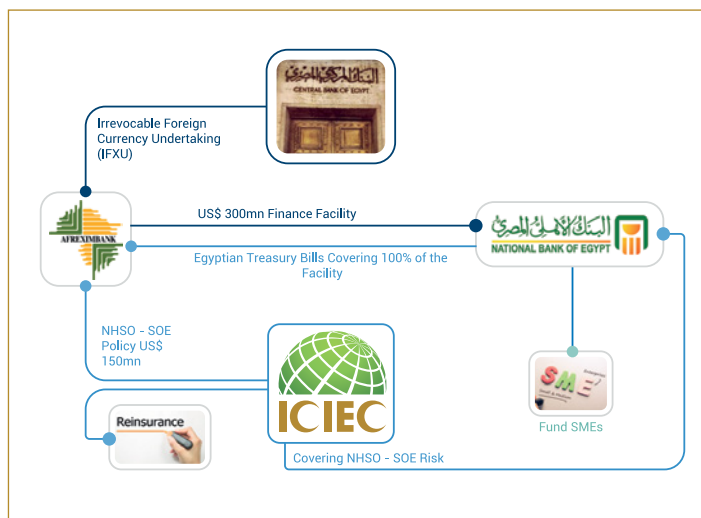


Recent ICIEC Green and Climate-related Transactions & Case Studies

NHSO- SOE Project Finance



NHSO- SOE Trade Finance



NHSFO Cover for Syndication Facility to Egyptian MoF for Green Projects

Country	Egypt
Volume	US\$56 million
Tenor	3 years
Product	Non-Honouring of a Sovereign Financial Obligation (NHSFO)
Client	Sumitomo Mitsui Banking Corporation (SMBC)
Context	SMBC's participation in a US\$3 billion syndication facility to the Ministry of Finance (MoF), Egypt to finance Green Projects
ICIEC's Role	ICIEC provided an NHSFO policy for US\$56 million covering the SMBC participation in the Syndicated Green Term US\$3 billion Loan arranged by Emirates NBD Capital and First Abu Dhabi Bank in favour of the Ministry of Finance of Egypt.
SDG Targets	SDG 7 - Affordable and Clean Energy SDG 6 - Clean Water and Sanitation
Development Impact	<ul style="list-style-type: none"> Egypt is highly vulnerable to the impacts of climate change, as such climate adaptation projects aiming to increase resilience and adaptive capacities are highly vital to the country. The Eligible Green Projects are expected to have a significant positive impact on the environmental and social programs of Egypt. The projects include seawater desalination plants with the most energy-efficient technologies that reduce water consumption or improve the efficiency of resources e.g., collection, treatment, recycling, or reuse of water, rainwater, or wastewater. 1.2 million people in four Egyptian governorates expect to have access to better sanitation and sewerage upon completion of the Sanitation and Sewerage Infrastructure Project.
Key Results	<ul style="list-style-type: none"> The projects support the creation of employment for locals given the needed manpower to execute these projects. The potential impact of the proposed projects is that they will improve the governance of climate change in Egypt. The projects are likely to contribute to the achievement of SDG 6, Clean Water and Sanitation. The projects include infrastructure for the transport and treatment of wastewater.

PRI Cover for Equity Investment in Solar Power Project in Aswan, Egypt

Country	Egypt
Volume	US\$68 million
Tenor	7 Years
Product	Foreign Investment Insurance Policy-Equity
Client	Alcazar Energy
Context	Construction and operation of four 50 MW solar power plants, providing the generated electricity to the Egyptian national grid under a 25-year power purchase agreement. The project is located in the Benban Solar Complex in Aswan.
ICIEC's Role	ICIEC provided Breach of Contract and PRI cover to the UAE-based investor for their equity investment in the Benban Solar Complex.
Development Impact	ICIEC support promoted FDI inflows into Egypt and energy security with a focus on supporting development of the country's power industry and renewable energy sources.
Key Results	Member Country Development & Energy Security

Source: ICIEC April 2022

Waste-to-Energy (WtE) Project, Sharjah, UAE

Country	UAE
Volume	USD 32.5 m
Tenor	17 years
Product	Non-Honoring of Sovereign Financial Obligations (NHSO)
Client	Sumitomo Mitsui Banking Corporation Europe (SMBCE), UK
Context	The Project is a continuation of the implementation by the Government of Sharjah and the UAE environmental policies designed to encourage private sector participation in the waste sector. In particular, the Project fits into the UAE Vision 2021, which focuses heavily on environmental measures including the diversion of 75% of the current waste from landfills by 2021.
ICIEC's Role	ICIEC is supporting its member country by providing cover to facilitate financing from an international bank for construction work to be executed by a foreign contractor related to the Waste-to-Energy project in the Emirate of Sharjah, UAE.
Development impact	<ol style="list-style-type: none"> Positive environmental impact with an estimated net reduction of 460,000 CO2e per year and reduction of waste disposed to landfills. Positive impact on energy generation from the operation of the WtE plant. Employment for around 1,000 workers during the construction phase and about 50 during the operation phase.
Key results areas	Areas Member Country Development; tackling climate change; cooperation with IFIs for green financing; access to long-term finance to MCs.

ICIEC Reinsurance to Facilitate Development of Renewable Energy Project in Türkiye

Country	Türkiye
Volume	US\$80 million
Product	Reinsurance Facility
Client	Eksport Kredit Fonden (EKF), the leading Danish ECA and one of the most experienced ECAs in wind energy.
Context	To support the construction of four wind farm projects to generate electricity with a total capacity of 316 MW.
ICIEC's Role	ICIEC provided reinsurance to EKF in support of the projects.
Development Impact	ICIEC Facilitates the Development of Renewable Energy Project in Türkiye. The wind farm projects will contribute to reducing Turkey's electricity imports and lessen its dependency on fossil fuels. The projects also help to create jobs, support the local economy via local procurement of services and equipment, foster technology transfer, empower locals with new knowledge about renewable energy and improve the local infrastructure via road construction and transmission line improvements.
Key Results	Member Country Development & Energy Security and Transition



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