THE THOUGHT LEADERSHIP MAGAZINE OF ICIEC

ICIEC
THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT

IMPACT INSURANCE

ISSUE 02 JULY - DECEMBER 2021

De-risking Climate Change Through Sustainable Solutions

Funding Root Causes of Climate Change Remains Greater Than Funding the Response to It

Climate Adaptation and Cost of Inaction Looms over COP 26 and Beyond

"The three most pressing challenges are climate action in the wake of the COP26 process and the Glasgow Climate Pact in November 2021; the sequencing of the highly transmissible Omicron variant of coronavirus, first identified in Southern Africa and now spreading globally; the impact of the cessation of LIBOR on 31 December 2021 and the transition to alternative benchmark rates on the global financial system in pricing a gamut of products and services, many of which will affect the daily lives of millions of ordinary stakeholders"

Oussama Kaissi, CEO of ICIEC

مجموعة البنك الإسلامي للتنمية
Islamic Development Bank Group

CEO's Brief

Welcome to this second issue of Impact Insurance, the thought leadership magazine of ICIEC, the standalone export credit and investment insurance corporation of the Islamic Development Bank (IsDB) Group.

As we ponder what the year 2022 holds out for the immediate future, it is apparent that the year 2021, after promising so much in the First Half in terms of COVID-19 containment and a rebound in economic recovery, has disappointed in the latter months, which continues to undermine global economic recovery, financial stability, and pandemic preparedness.

The saving grace is that the world has been forced to confront humanity's defining issues and threats with much greater urgency and unity!

The three most pressing challenges are climate action in the wake of the COP26 process and the Glasgow Climate Pact in November 2021; the sequencing of the highly transmissible Omicron variant of coronavirus, first identified in Southern Africa and now spreading globally; the impact of the cessation of LIBOR on 31 December 2021 and the transition to alternative benchmark rates on the global financial system in pricing a gamut of products and services, many of which will affect the daily lives of millions of ordinary stakeholders.

These three metrics will determine the growth, economic recovery, and pandemic trajectory for the coming year and beyond. The impact of COVID-19, irrespective of the emergence of further variants, will be with us for some years to come. The resurgence of the pandemic and the latest variant, Omicron, says the IMF, have sharply increased uncertainty around global economic prospects.

The past two years have painfully demonstrated the intolerable cost of soaring inequalities, including access to vaccines by low-income countries and their underdeveloped healthcare systems and the ever-widening income gap between the rich, the middle classes, and the poor. Recent WHO reports confirm that only 27% of health workers in Africa have been fully vaccinated against COVID-19, compared with 80% of healthcare workers in 22 primarily high-income countries.

The inequalities inflamed by COVID-19 push us backwards and undermine efforts to rebuild trust. The five metrics that will inter alia define global economic prospects in 2022 are the Pandemic, Inflation, Commodity Prices, Public Debt and Climate Action. The IMF projects the global economy to grow 5.9% in 2021 and 4.9% in 2022, only to moderate to about 3.3% over the medium term. The forecast for key EMEA emerging economies (Saudi Arabia, Russia, Turkey, Poland, and South Africa) is an average of 3.2% in 2022.

The consensus is that growth will be fragmented depending on the region and country. The US and EU will be the fastest-growing, with China pegged below 5% and India particularly hard hit. Sub-Saharan Africa is projected to have the slowest economic recovery.

COP26 was neither a success nor a failure. It remains a work in progress. The baton for COP27 in November 2022 is passed on to Egypt. Under the Glasgow pact, countries have agreed to meet in 2022 to pledge further carbon cuts with the aim of reaching the 1.5°C goal. Current pledges, if fulfilled, will only limit global warming to about 2.4°C.

The transition from LIBOR to alternative reference rates over the next year represents one of the most significant changes to the financial services industry. This transition includes the estimated US$3.4 trillion Islamic finance industry.

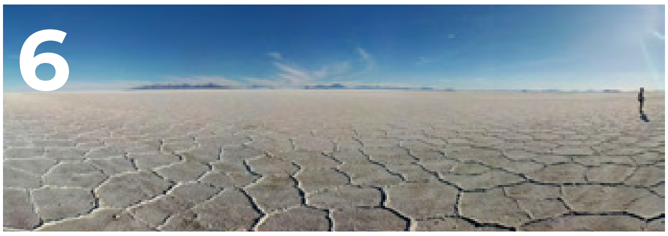
With an estimated US$370 trillion of LIBOR-related activity globally, covering loans, bonds/Sukuk, derivatives, working capital and trade products, LIBOR transition will significantly affect how contracts are priced and how market participants manage risk, lenders, borrowers, and guarantors, which use/d LIBOR as their operating model. We look forward to the development of dedicated Shariah-compliant reference rates!

But never underestimate the resilience of humanity! The WTO, in its latest World Trade Report 2021, commends global trade for being more resilient during the pandemic than the 2008-09 global financial crisis. During the crisis, global trade touched US$4.8 trillion, while during the pandemic, it reached US$6.2 trillion, despite the economic, health, and social impacts, especially disruptions in the supply chain.

Oussama Kaissi
CEO of ICIEC

> **"The transition from LIBOR to alternative reference rates over the next year represents one of the most significant changes to the financial services industry. This transition includes the estimated US$3.4 trillion Islamic finance industry**

Contents



ICIEC

Editor-in-Chief
Oussama A. Kaissi
Chief Executive Officer

Managing Editor
Rania Binhimd

Consultant Editor
Mushtak Parker

Editorial Comment

“

Omicron is a stark reminder that the COVID-19 pandemic is far from over, and its impacts will be with us potentially for years to come. The IMF talks about “an enduring pandemic,” “a hobbled recovery,” and “entrenched fault lines” in the global economy

The year 2021 was supposed to mark the world starting on the road to recovery from the impacts of the COVID-19 pandemic and building back better and fairer.

There were indeed some green shoots of recovery, especially in the First Half of 2021, with many regions recording a projected rebound in GDP growth for the year. The IMF projects the global economy to grow 5.9% in 2021 and 4.9% in 2022 to moderate to about 3.3% over the medium term.

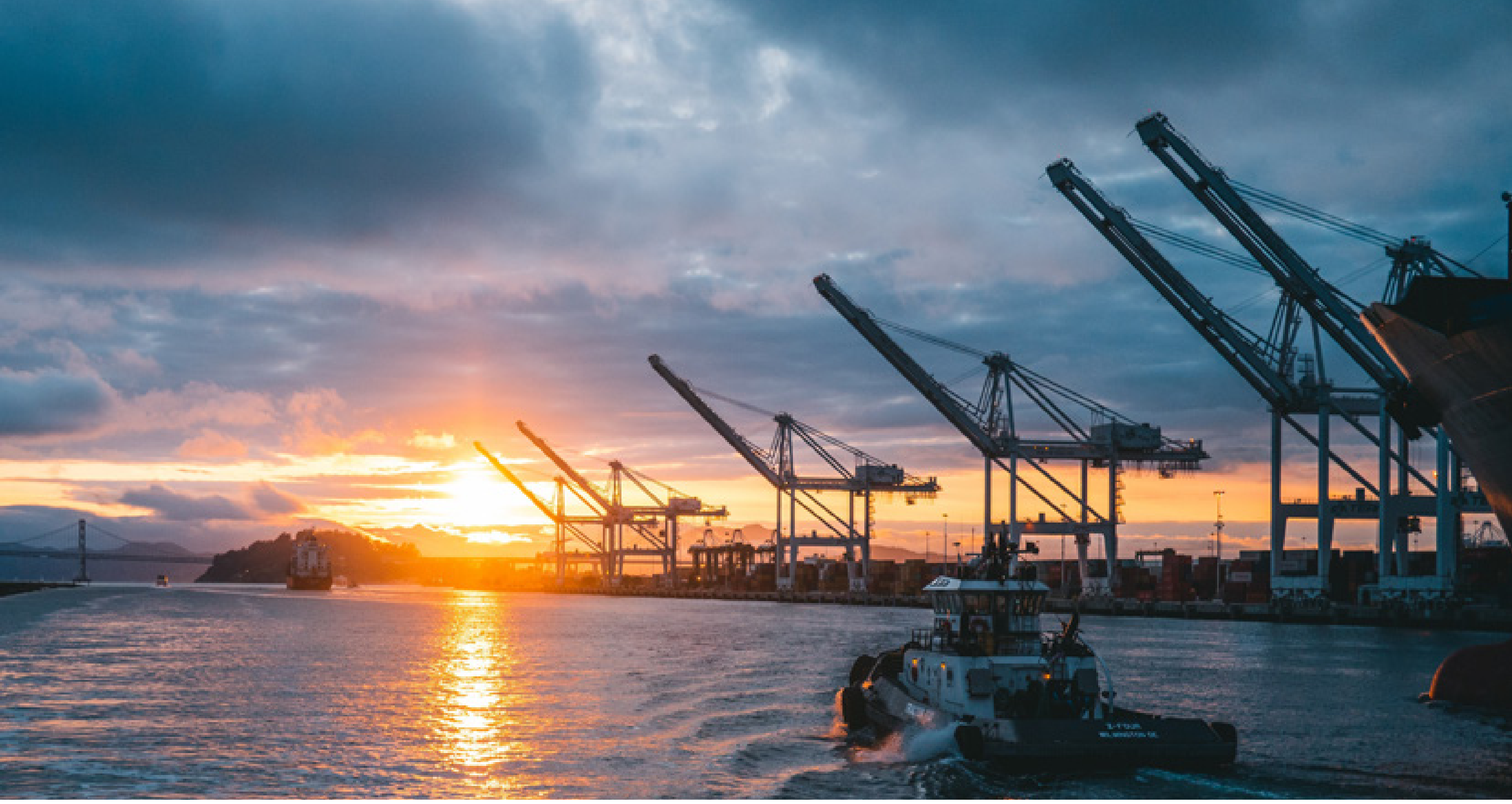
But the recovery remains fragmented and fragile. The developed economies are expected to exceed pre-pandemic medium-term GDP projections, reflecting sizable anticipated further policy support in the US and EU. By contrast, the growth and recovery trajectory for the emerging markets and developing economies will be slower over the medium term, tempered by sluggish global demand, supply chain disruptions, slower vaccine rollouts, and generally less policy support.

However, events in the Second Half of the year have inevitably defined the year. The three most meaningful impacts are COP26 and the lack of progress in climate action as embodied in the Glasgow Climate Pact 2021; the resurgence of a new Omicron variant of the coronavirus sweeping the world at the end of 2021; and the cessation of LIBOR as a benchmark interest rate on 31 December 2021 and the transition to alternative reference rates for the global financial system.

Omicron is a stark reminder that the COVID-19 pandemic is far from over, and its impacts will be with us potentially for years to come. The IMF talks about “an enduring pandemic,” “a hobbled recovery,” and “entrenched fault lines” in the global economy.

Not surprisingly, the resurgence of the pandemic has sharply increased uncertainty regarding global economic prospects.
In addition, there are the other downside macro-economic risks significantly rising inflation, fuelled by the energy crisis and prolonged supply-side issues; rising public debt; supply chain disruptions; subdued employment growth; rising prices and cost of living; rising income gaps between the wealthy, middle classes and the poor; and food insecurity - with little room for manoeuvre.

As such, policymakers in individual countries will have to chart their responses to suit the unique circumstances of their respective



Our Outlook for the Global Economy covers an in-depth analysis of the prospects for the global economy, recovery and growth, and some of the significant downside macro-economic risks facing markets across the world

economies. But they will need the support, financing, and cooperation of the developed economies and international development finance institutions.

Impressive Range of Issues

This second issue of **Impact Insurance** is a strong mix of relevant articles and comments from and interviews with prominent stakeholders that go to the core metrics of climate action, LIBOR cessation, and Omicron containment and mitigation.

We have two powerful interviews – one with H.E. Aminath Shauna, the Minister of Environment of The Maldives, which like all other small island developing states, is facing an existential threat from climate change, in particular rising sea levels as a result of global warming, in which she warns that the progress in Glasgow was not in line with the urgency and scale required and would not help the Maldives adapt in time.

The other with Gilbert F Houngbo, President of IFAD, on what COP26 means to rural farmers, the importance of climate adaptation, the cost of inaction, and the vital role Islamic finance and Sukuk can play.

Our coverage of COP26 Glasgow is comprehensive and includes an assessment of whether it was 'a Fair COP or a Flawed COP'; an article on the importance of a Climate Action Strategy for ECAs including ICIEC; COP26 - Initiatives and Deliverables and an article on Climate Finance. We have two ground-breaking guest contributions – one by Stella Cox, CBE, Managing Director, and Jennifer Schwalbenberg, Chief Governance Officer, DDCAP Group in the UK, on how SMEs have great potential to embed sustainable and responsible actions across the Islamic finance industry.

The other by Fabienne Michaux, Director of SDG Impact at UNDP, Priscilla Boiardi, Policy Analyst and Esme Stout, Junior Policy Analyst – both in the Financing Sustainable Development Division at OECD, demystifying the impact investment measurement universe, its shortcomings, and the need to integrate measurement practice into practical ways to manage for impact.

Similarly, our coverage of LIBOR Cessation is equally considered. The transition from LIBOR to alternative reference rates (ARRs) over the next year represents one of the most significant changes to the financial services industry ever. As such, our Post-LIBOR Implications for the Global Islamic Finance Industry uniquely assesses how the industry is addressing the issue and which countries and institutions are leading from the front.

Ijlal Ahmed Alvi, Chief Executive Officer of the International Islamic Finance Market (IIFM), provides expert comment on the implications of LIBOR Cessation and IIFM's landmark Global Benchmark Rate Standards for Islamic Finance comprise risk-free rates for Murabaha and Ijarah transactions. We also have an analysis of the impact of LIBOR cessation on Sukuk issuance and pricing, including the Islamic Development Bank's pioneering first-of-its-kind debut Secure Overnight Financing Rate-linked (SOFR) Sukuk.

Our Outlook for the Global Economy covers an in-depth analysis of the prospects for the global economy, recovery and growth, and some of the significant downside macro-economic risks facing markets across the world.

Similarly, our Sector-in-Depth discusses the Outlook for the Global Reinsurance Sector. Despite Omicron-induced uncertainties, the consensus seems to be an improving market with projected record premiums in 2022. This is complemented by an article on Reinsurance's Climate Action challenge. While the re/insurance industry made further progress on climate change resilience at November's COP26, the sector's real challenge is reducing or eliminating underwriting for carbon-related activities such as oil, gas, and coal.

Finally, we round up with a selection of pertinent News in Brief on ICIEC Member Country ECAs and Partners.

Status Report

The 26th UN Climate Change Conference of the Parties (COP26), Glasgow Towards a Climate Action Strategy for ECAs

De-risking Climate Change Through Sustainable Solutions

By Oussama A Kaissi, CEO ICIEC

Making finance consistent with the delivery of net-zero carbon emission by the target date of 2050 and a climate-resilient economy is the crucial third goal of the Paris Climate Agreement. It is also the 13th Sustainable Development Goal (SDG) on Climate Action of the UN Agenda.

Simultaneously, the climate change mitigation and adaptation objectives of the European Union's Taxonomy Regulation, among four others, come into force from January 2022. They are all part of the EU Green Deal and Action Plan on Financing Sustainable Growth, complete with the EU Sustainable Finance Disclosure (SFDR) directive for financial market participants aimed at helping to meet the EU's climate and energy targets for 2030, primarily through directing investments towards sustainable projects and activities.

The EU taxonomy sets a clear framework and defines when a company's economic activity is sustainable or environmentally friendly. Given the global nature of finance, its impact is well beyond the borders of the EU.

The Glasgow Climate Pact in November 2021 has shown that combatting climate change is an urgent priority for governments and fast becoming a necessity for economic, financial, and investor stakeholders. Climate adaptation has been slow for manifold reasons because of short-termism, exacerbated by a misreading of future climate risk.

Swiss Re Institute, for instance, estimates global GDP could shrink 18% by 2050 if global temperatures are allowed to rise by 3°C. In 2020, global losses from natural disasters totalled US$210bn; the cost of climate-related disasters across Asia alone reached US$67bn.

Climate volatility, frequency, and change are both a near-term and a longer-term risk, which are rising according to the recent findings of the UN Intergovernmental Panel on Climate Change, which calls for an increase in adaptation investment across public and private sectors to build resilience to climate extremes and climate variability.

As a multilateral export credit and investment risk insurer, ICIEC is uniquely positioned to support and provide leadership and de-risking solutions to member countries and international climate action and resilience aims in the race for countries achieving net zero emissions by 2050 and their just transition to lower carbon economies.

ICIEC is also the only Shariah-compliant multilateral insurer in the world. Climate action, sustainable investment and development, and protecting the environment are all entrenched in the ethos of Maqasid Al-Shariah.

To best leverage our unique role, a more systemic approach is required in helping our stakeholders, partners, and us achieve our climate action commitments.

This could best be achieved by adopting an ICIEC Climate Action and Change Strategy encompassing a Five-Year Pathway Roadmap that would outline how the Corporation's business activities and operations favouring member countries' exporters and suppliers consistent with this strategy.

> **"Estimates global GDP could shrink 18% by 2050 if global temperatures are allowed to rise by 3°C. In 2020, global losses from natural disasters totalled US$210bn; the cost of climate-related disasters across Asia alone reached US$67bn**

The call from our member countries is indeed to support green financing as part of building back better in a post-COVID-19 era. We need to upscale our climate action engagement with each member country, specific to their requirements and development plans. At ICIEC, there is indeed an urgency to adopt a climate action policy and defined strategy to engage all stakeholders.

Trade and Climate are closely interlinked. Today's emphasis is on cleaner energy and cleaner exports, imports, investments, and guarantees. We recognize that addressing climate change through decarbonization will take a coordinated international effort over the long term, requiring lasting partnerships between the public and private sector participants. Our role in supporting member countries, companies, and partners to win clean growth contracts and transition away from fossil fuels will be critical in the race to net zero.

ICIEC's Development Effectiveness Framework is closely aligned with IsDB Group's 10-Year Strategy, the 17 UN SDGs, the Paris Climate Agreement, and the UN Principles for Responsible Investments (PRI).

In support of SDG 7 on Affordable and Clean Energy, for instance, ICIEC has insured US$5.4 billion in renewable energy sector business. However, it is a different story regarding SDG 13 on Climate Action. The corporation has to prioritize more de-risking solutions relating to climate action in the transition of member countries to a low carbon economy.

In mitigation, the pandemic meant greater allocation and diversion of resources across financial institutions, including multilateral development banks. While COVID-19 impacted a reduced commitment to climate action, it left fewer environmental footprints due to less production and transportation.

During extreme pandemic volatility, ICIEC has proven to be a reliable partner by turning uncertainties into manageable risks. The year 2020 was defined by devastating social and economic disruptions. ICIEC continued to protect trade and facilitate investment opportunities in its member countries, supporting exporters to keep trade flowing and enabling large-scale infrastructure projects to address critical health care initiatives.

The reality is that carbon transition for many ICIEC member countries will not be easy. Many of them are producers of primary commodities, including fossil fuels such as oil, gas and coal, and a motley of agricultural products including palm oil, ground nuts, and cotton. As such, any transition will have to balance the needs of economic development and upliftment with commitments to decarbonization.

ICIEC's development finance footprint speaks for itself, with US$9,797 million in 2021 and US$83,309 million since inception. The number of export transactions facilitated totalled US$7,556 million in 2021 and US$66,133 million since inception. Similarly, the number of investments facilitated totalled US$2,241 million in 2021 and US$17,176 million since inception.

Supporting intra-OIC exports and investments is a core component of our mandate. In this respect, ICIEC insured a total of US$3,732 million in intra-OIC exports in 2021 and US$32,251 million since inception; and insured US$755 million in intra-OIC investments in 2021 and US$6,526 million since inception.

The challenge for ICIEC in 2022 is to develop a meaningful but balanced climate finance footprint based on an inclusive Climate Action and Change Strategy. That Strategy must be inclusive, comprehensive, well-defined, adequately resourced, transparent, accountable, and all-embracing.

ICIEC's COVID-19 response strategy has set a commendable precedent and template for a Climate Action and Change Strategy. Providing international leadership on climate change amongst ECAs and relevant financial institutions could also serve as a model for partner agencies in member countries to follow!

"Supporting intra-OIC exports and investments is a core component of our mandate. In this respect, ICIEC insured a total of US$3,732 million in intra-OIC exports in 2021 and US$32,251 million since inception; and insured US$755 million in intra-OIC investments in 2021 and US$6,526 million since inception

Stakeholder Comment

COP26 Initiatives and Deliverables

Salih Suwarelzahab,
Senior Legal Counsel, ICIEC

"Attendance of COP26 was an opportunity to learn, engage and build effective cooperation for Climate Action with peer multilaterals and specialized agencies, representatives from Member Countries, and the private sector

Between the 1st and 5th of November 2021, ICIEC senior management joined the IsDB Group high-level delegation to COP26 in Glasgow, Scotland. HE Dr Muhammad Al Jasser, Chairman of The Islamic Development Bank Group (IsDBG), led the delegation.

It was incumbent that I attend COP26 in person as 45 of ICIEC's 48 Member Countries have made commitments under the UN Framework on Climate Change (the Paris Agreement) to combat climate change and its effects through Climate Change Adaptation, and Mitigation projects that are reflected in their respective Nationally Determined Contributions.

Attendance of COP26 was an opportunity to learn, engage and build effective cooperation for Climate Action with peer multilaterals and specialized agencies, representatives from Member Countries, and the private sector.

ICIEC attended the events series of one of its large policyholders, Deutsche Bank (DB), to whom the Corporation has provided insurance cover under its Non-Honouring of Sovereign Financial Obligations (NHSFO) policy for transactions in Cote d'Ivoire and Turkey.

There is a precise and natural alignment between ICIEC's mandate and strategy in contributing towards the sustainable development of its Member Countries and the firmly established ESG targets of major financial institutions such as Deutsche Bank.

ICIEC discussed at length with its partners the modalities of bridging the insurance-based risk gap between the Private Sector and Member Countries to support climate financing effectively. ICIEC also visited the pavilions of its Member Countries, attended their presentations, and discussed priority areas for Climate Action, including initiatives such as the Astana International Financial Centre's Green Finance Initiative.

Effective engagement and coordination with international agencies and global partnerships such as InsuResilience and African Risk Capacity, who were present at COP26, were discussed, and a plan of joint action was agreed upon for 2022. It is worth noting that 12 out of 28 Vulnerable 20 (V-20) Group members are ICIEC Member Countries.

Discussions with ICIEC's partners included the potential establishment of a Trust Fund for Climate Action Financing led by ICIEC. With an estimated annual Green Finance funding gap for developing countries of €100 billion, ICIEC is well-positioned to support climate action finance.

ICIEC set Climate Action as a strategic goal in our 10 year strategy and business plan for 2022, that shall be reflected internally through the formation of a Standing Taskforce; the setting of a percentage of total annual insurance for Climate Action transactions; the cascading of Climate Action KPI's to relevant departments and staff; and the allocation of a training program for relevant staff.

Climate Financing

A Role for Multilateral Institutions and ICIEC

One of the significant existing challenges for the global climate crisis is climate finance.

A colossal funding gap in the billions of dollars remains an obstacle to the slowing down of climate change to an increase of 1.5°C through investment in initiatives that reduce greenhouse gas emissions, protection, and promotion of carbon sinks such as forests, support for the resilience and adaptation of populations and economies most affected by climate change, the generation of electricity from renewable non-emitting sources and eventually the transition to a Green Economy whilst ensuring sustainable economic growth.

Each of ICIEC's insurance policies, whether the policyholder is a financial institution, specialized company, or contractor, that offers cover against political and commercial risks, can contribute to the flow of Climate Action related investment, specialized technology, and equipment or services into its Member Countries thereby contributing to the goals of the Paris Agreement.

ICIEC and other multilaterals also have an essential role in contributing to the international climate finance architecture. ICIEC is positioned to play a crucial role in private sector engagement through the credit enhancement its policies provide to financial institutions on the one hand and the access it has to its Member Country's national and sub-national bodies who are the custodians of the relevant Climate Action projects and transactions.

The Corporation can contribute to alleviating the complexity of the mobilization of resources at scale through the potential setup of a Climate Action Finance Trust Fund with concerned institutional partners, including peer multilaterals in its Member Countries and beyond, which would offer a discount to the insurance premiums needed for the financing of Climate Action projects in Member Countries that are not investment grade.

Many ICIEC Member Countries issue Green Bonds and Sukuk that are often oversubscribed by providing a package of insurance against political and commercial risks and Non-Honouring of Sovereign Financial obligations (NHSFO).

ICIEC remains poised to catalyse and assist in executing Climate Action projects and investments in its Member Countries.

Innovative solutions involving carbon markets are yet to be tested, and ICIEC remains open to collaborating with the private sector in this area.

“Many ICIEC Member Countries issue Green Bonds and Sukuk that are often oversubscribed by providing a package of insurance against political and commercial risks and Non-Honouring of Sovereign Financial obligations (NHSFO)

Stakeholder Comment

COP26 Glasgow a Fair COP or a Flawed COP?

COP26 Glasgow, to some, was neither a failure nor a success! To others, it was a lost opportunity for the world, especially its largest polluters, three of whose leaders from China, India and Russia did not attend, to agree on a unified plan for climate action, including containing the global warming temperature rise to 1.5°C towards transitioning to Net Zero by 2050. Mushtak Parker assesses the pros and cons of the Glasgow Climate Pact 2021

COP26 Glasgow in the first two weeks of November was essentially a Conference of the Polluters supposed to accelerate action towards the goals of the Paris Climate Agreement and the UN Framework Convention on Climate Change.

The UN's Intergovernmental Panel on Climate Change (IPCC) only a few weeks earlier had fired the first salvo of stark warnings in its latest assessment that "it is unequivocal that human influence has warmed the atmosphere, ocean and land. Widespread and rapid changes in the atmosphere, ocean, cryosphere, and biosphere have occurred." The world is now 1.09°C warmer than it was in the early industrial era.

If the intention was to heighten consensus and urgency for climate action under COP26, it failed to materialize. At best, the attending global leaders from some 200 countries adopted a fragmented approach of selective pledges relating inter alia to phasing out coal, cutting methane emissions, reversing deforestation, meeting a new commitment of US$100bn by rich countries to help the poor nations to finance adaptation costs in mitigating climate change.

The COP process has made some progress. But the world can ill afford a step-by-step approach over an extended timeline to suit the narrow politics and economics of major historical and contemporary polluters.

Progress, say Karen Ward and Hugh Gimber of JP Morgan, "fell short of the scale and specificity required to give us confidence that disruptive climate outcomes can be avoided. As the practicalities of reaching net-zero become clear, governments are finding the short-term economic costs unpalatable. Massive change is required to reach net-zero emissions, which in the short term is likely to involve considerable economic cost."

For India's Climate Minister Bhupender Yadav, for instance, to ask how developing countries could promise to phase out coal and fossil fuel subsidies when they "have still to deal with their development agendas and poverty eradication" shows the comprehension gap between policymakers and the reality of climate devastation including perennial floods, droughts, air pollution and the like.

How telling that at the very time residents in the Indian capital, Delhi, were under a forced 'lockdown' because of the poor air quality as a result of crop stubble burning by farmers in northern India and very high level of vehicle pollution.

What we didn't hear at COP26 are the vagaries of politics, ideology, denial, climate profiteering, reluctance to transfer technology, reneging on previous financial commitments, lack of oversight, and transparency not only on data but equally importantly on governance, resource allocation, and financial accountability.

In the last two years, there has been a surfeit of COP speak enough to compile a lexicon. Much of it is simply misplaced hubris. Tariq Fancy, ex-BlackRock CIO, recently warned that more than half of the low carbon ESG funds are exaggerating sustainability claims through 'greenwashing' and are 'marketing gimmicks' for which investors are paying higher fees. The ultimate symbolism of whether the Glasgow Climate Pact was a success, failure, or continues to be "a work in progress" was the sight of the genteel Alok Sharma, President of COP26, fighting back the tears stressing that he is "deeply sorry" for how events had unfolded.

The Urgency

Climate mitigation has largely been a policy of aspirations than any meaningful, transformative actions across the societal and sectoral spectrum. According to European Commission data for 2019, China is the world's largest emitter of CO_2 at 11,535 megatons (MGTs), followed by US at 5,107 MGTs, the EU at 3,304 MGTs, India at 2,597 MGTs, and Russia at 1,792 MGTs. In per capita terms, US is the largest emitter at 15.5 tonnes, followed by Russia at 12.5 tonnes, China at 8.1 tonnes, the EU at 6.5 tonnes, and India at 1.9 tonnes.

Spare a thought for those whose future existence is directly threatened by global warming and rising sea levels - small island states such as Maldives, Marshall Islands, and Antigua and Barbuda. "We have 98 months to halve global emissions. The difference between 1.5°C and 2.0°C degrees is a death sentence for us," laments Shauna Aminath, Maldives Environment Minister.

The Glasgow Climate Pact – Progress and Regress

The first two pledges agreed in Glasgow in the first days set the template for the rest of the negotiations.

i) There is a promise by 110 world leaders to end and reverse deforestation by 2030, including the climate-skeptic Brazilian President Jair Bolsonaro. The promise is underpinned by a US$19.2bn pledge of public and private funds for the deal.

ii) This was followed by a Global Methane Pledge whereby over 100 countries agreed to cut emissions by 30% by the end of the decade. However, three of the largest methane emitters China, Russia, and India, refused to sign up for the pledge.

iii) At best, COP26 could be remembered as the 'Conference for the Pledging Out of Coal'. Some 40 countries pledged not to invest in new coal mines and to phase out coal power over the next few decades. Alas, mega emitters such as China, Russia, Australia, the US, and India refused to partake. But 20 countries, including the US pledged to end public finance support of overseas oil, gas and coal projects but excluding China, Japan, and South Korea, the three largest coal financiers abroad.

China, for instance, has over 40GW of coal power plants in 20 countries in the pre-construction pipeline. In Cumbria in northern England, a new coal mine remains on the agenda despite Premier Boris Johnson not being "in favour of more coal", and the UK government's decision not to offer backing to the "low-cost" Acorn Project – a proposed carbon capture facility in Aberdeenshire. Chinese President Xi Jinping too announced the opening of five new coal mines in addition to existing ones to boost production to meet the country's voracious energy demand. Indian Premier Modi also confirmed that India will continue to use coal power in its energy mix.

Failure to get commitments from and the lack of cooperation between the big polluters has undermined COP26's 'coal out' strategy. According to the International Energy Agency (IEA), China needs to cut its coal demand by 80% by 2060 to meet its climate goals. Only the EU is on track to achieving net-zero by 2050. About 70% of India's electricity grid is powered by coal. Its net zero commitment is for 2070. The IEA reckons India needs to phase out coal power generation before 2040 to reach the 2050 target. The US too, is dependent on fossil fuels for 80% of its energy mix. The Biden Environmental Plan falls well short of achieving net-zero by 2050.

A number-crunching by IEA based on promises made on Days 2 and 3 of COP26 predicts that the holy grail of limiting global temperature rise to 1.5°C to contain global warming will not be met. The best hope for a 1.5°C rise is subject to all pledges being implemented. India, Australia, China, Russia, and US - the largest emitters by far of greenhouse gases – in a single day unravelled a potentially workable but far from perfect 'deal' only to jettison an earlier firm commitment to "phase out" coal and replace it with lip service to "phase down" the use of coal in power generation.

iv) India and China's pledges to reach net-zero by 2070 simply kick the Paris targets into touch. The IPCC maintains that it is

still possible to limit global warming to 1.5°C by the end of the century, but only with a steep reduction in global emissions by 2030 and if the world reaches global net-zero around 2050, based on targets defined by Nationally Determined Contributions. China's chief climate negotiator at COP26, Xie Zhenhua, has been quick to push back at the new aim of limiting global temperature rises to 1.5°C, insisting that the higher rise of 2°C agreed under the 2015 Paris Agreement "had to remain up for discussion."

v) A commendable 'success' of COP26 was the US, UK, and EU's US$8.5bn engagement with South Africa over the next five years to wean the country off coal, which accounts for 80% of its energy mix, as part of COP26's ambition towards 'consigning coal power to history.' The aim is also to support a just clean energy transition to low carbon and climate-resilient economy in South Africa.

"The idea," explained EU President Ursula von der Leyen, "is that the countries support South Africa to phase out of coal faster and to go earlier and faster into developing renewables. I am confident that this partnership could become a template on how to support just transitions around the globe."

Of all the fossil fuels, coal is a bigger source of carbon emissions than oil and gas – 14.7Gt of CO_2 compared with 11.5Gt for oil and 7.7Gt for gas, according to the Global Carbon Budget 2021. But coal is a resilient adversary and, like all commodities, subject to market vagaries. Instead of a retreat from coal, European countries sought refuge in coal and lignite in Q3 2021 as record gas prices hit the continent. The European Electricity Generation Summary Q3-2021 of EnAppSys, confirms that coal and lignite contributed a greater fuel mix share than gas, producing 110TWh compared with 92TWh by gas-fired plants.

South African electricity utility, Eskom's Emalahleni coal mine in Mpumalanga province, one of 15 across the country, which supplies most of its coal feedstock, for instance, has contributed to making South Africa the 12th biggest CO_2 and the largest SO_2 emitter in the world.

A Role for the Private sector

As governments are reluctant to inflict the economic pain related to climate action, the onus will fall on the private sector to drive change.

Governments will continue to play a major role. Setting rules for a new global carbon market was offset by the lack of progress on setting a global carbon price. The EU is taking the lead with its new ESG Taxonomy, which includes The Sustainable Finance Disclosure Regulation (SFDR), making it mandatory for financial market participants to disclose their ESG disclosure obligations

Cohort	Policy Pledges Announced	Signatories
Phasing Out Coal	i) End investment in new coal power generation ii) Phase out coal power in 2030s for Developed Markets; in 2040s for Emerging Markets iii) End public finance in support of overseas oil, gas and coal projects	i) & ii) Some 40 countries agreed, excluding China, Russia, Australia, US and India iii) 20 countries agreed, including US but excluding China, Japan, South Korea
Adaptation Finance	New pledge to meet a target of US100$bn of adaptation finance to help Developing Countries meet climate action targets	Included in the final Glasgow Climate Pact 2021 – agreed by all signatories
Global Methane	Cut methane emissions by 30 % by 2030 versus 2020 levels	100 countries agreed, excluding China, Russia, India
Electric Cars	All sales of new cars and vans to be zero-emission by 2035 for Developed Markets or 2040 for Emerging Markets	Over 30 countries agreed, excluding China, Russia, US
Forests	End and reverse deforestation by 2030	110 countries, including Brazil agreed
Fossil Fuels – Oil & Gas	Not properly discussed. No consensus	No signatories
Net Zero Commitment	Target year of 2050 Target year of 2070	EU, UK, US agreed India, China agreed
Limiting Global Warming Temperature Rise	Target of 1.5C° Target of 2.0C° Projected Rise if No Action 2.4C°	EU, UK, Small Island States, US, S. Africa China N/A

***Source:** Compiled by Mushtak Parker from UKCOP26.org, UN, Glasgow Climate Pact Final Document data December 2021*

and to ensure the financial system will deploy capital in a manner consistent with climate objectives.

The Glasgow Financial Alliance for Net Zero, an initiative led by Mark Carney, UN Special Envoy on Climate Finance, saw over 450 financial institutions commit more than US$130 trillion of private capital to support the net-zero transition. For private sector partnerships to work, governments must come up with relevant policy incentives and clearer guidance on future regulation to enable the financial sector to effectively put its capital to work.

As for the future, the baton for COP27 is passed on to Egypt, one of Africa's largest polluters. Under the Glasgow Climate Pact, signatories have agreed to meet in November 2022 to pledge further carbon cuts with the aim of reaching the elusive 1.5°C goal. Current pledges, if fulfilled, will only limit global warming to about 2.4°C.

The reluctance of China and India, amongst others, to join commitments to phase out coal presents a stark choice whether energy transition trumps economic progress unless wealthier nations are willing to take into account their high cumulative emissions since the beginning of the industrial revolution and ramp up their support to help with the economic costs. Similarly, COP26, led by the US, failed to reach a consensus on action to phase out the use of fossil fuels, especially oil and gas.

UN Secretary-General Antonio Guterres, the gatekeeper of the COP process, could not have been more to the point when he admitted that post-COP26, "we are still knocking on the door of climate catastrophe... it is time to go into emergency mode - or our chance of reaching net-zero (emissions) will itself be zero."

Interview

H.E. Aminath Shauna,

Minister of Environment, The Maldives

Funding Root Causes of Climate Change Remains Greater Than Funding the Response to It

Of all the ICIEC member countries, the Maldives, like all other small island developing states, face an existential threat from climate change, particularly rising sea levels resulting from global warming. The Maldives is one of the most low-lying nations in the world. In an exclusive interview

H.E. Aminath Shauna,

Minister of Environment of The Maldives, discusses with Impact Insurance the progress and failures of COP26 in Glasgow, the state of the climate threat to her country, what measures the government has taken to mitigate some of the effects of climate change and how multilaterals such as ICIEC have and can help in terms of financing green exports and climate action development

Impact Insurance: What is your response to the deliberations and outcome of the COP26 Glasgow Climate Pact in November?

Aminath Shauna: As I spoke in the closing plenary, while incremental progress was made in Glasgow, we think this progress was not in line with the urgency and scale required and would not help the Maldives adapt in time. For us, addressing loss and damage is a matter of survival.

We see the COP outcomes as yet another conversation where we put our homes on the line, while those who have other options decide how quickly they want to act to save those who don't. On behalf of Maldivians, I urged Parties to deliver the action and resources we need to address the crisis in small islands in a timely manner. After all, we have 98 months to halve global emissions. As I stated before, the difference between 1.5 and 2 degrees is a death sentence for us.

Of all the OIC member countries, the Maldives, like all other small island states, is facing an existential threat. What were the main provisions not agreed in Glasgow that threatened the very future existence of countries such as the Maldives?

As a small island developing state (SIDS) facing an existential threat from climate change, one of the main outcomes we wish to see out of the multilateral process is mitigation ambition in line with the 1.5°C temperature goal. COP made some progress in keeping this ambition alive, yet funding for the root causes of climate change is still exponentially greater than funding to the response to climate change, and at least US$1.6 trillion were spent on fossil fuel subsidies over the 5-year period since the adoption of the Paris Agreement in 2015.

The subsidizing of fossil fuels by major emitters, particularly the Group of 20 (G20), runs counter to the Paris Agreement and is contrary to the best available science. We wanted more concrete outcomes from COP to address these.

Another major issue is support for loss and damage. We sought dedicated financing for loss and damage on a cooperative and facilitative basis as an urgent priority. This must start with the operationalization of a standalone facility on loss and damage under the Financial Mechanism of the Convention, that would consider innovative means to provide finance and support to address economic and non-economic losses related to the adverse effects of climate change including, but not limited to, risk transfer insurance mechanisms. I am quite disappointed that this outcome was not achieved out of COP.

As SIDS faces particular challenges and collectively receives the lowest amount of funding support for climate change, we wanted concrete outcomes out of COP for SIDS to have dedicated financing facilities for our adaptation, reporting, as well as sub-targets for support under the new collective finance goal. None of this was achieved.

What action has the Maldives taken to boost its own climate action strategy? The Maldives' Thilafushi Island where until 2021, up to 700 tonnes of rubbish were dumped every day and burnt releasing tonnes of toxic fumes. What action are you taking as Environment Minister to root out and pre-empt such anomalies?

“

We have stopped open burning in Thilafushi since September 2021. We are in the process of establishing a modern waste management facility in Thilafushi that will serve half of the population and more than 70 tourist resorts

The Climate Emergency Act was passed by the Parliament in April 2021, which has provisions to strengthen our efforts to address climate change impacts, legal structure, and guidelines to enhance climate governance and most importantly, achieve net-zero by 2030.

Waste management is one of the most challenging issues facing the country. We are currently in the process of developing three regional waste management facilities in the Maldives.

We have stopped open burning in Thilafushi since September 2021. We are in the process of establishing a modern waste management facility in Thilafushi that will serve half of the population and more than 70 tourist resorts. This is one of the most important achievements in our waste management sector this year. Thilafushi is being redeveloped with support from ADB, AIIB, the Government of Japan, and IsDB, along with the Government of the Republic of Maldives.

The project is progressing well and includes source segregation, better management, an efficient collection system, a reliable waste transfer mechanism, recycling, and the establishment of a waste-to-energy plant with a treatment capacity of 500 tonnes of waste per day for the next 10 years.

In addition, an 8-hectare dumpsite will be rehabilitated, capped, and properly closed, ensuring no GHGs will be released into the atmosphere. Similarly, a facility in Addu is being developed with support from the Abu Dhabi Fund for Development, and support for a waste management project in the Northern Atolls is being provided under programs of OFID.

access to funds for vulnerable small island developing states like ours, as we have limited capacities to prepare cumbersome bankable documents.

Climate adaption costs are enormous given the continuing neglect by the world's major polluters to contain emissions and other pollutants re the Paris Agreement and other conventions. The IsDB Group is committed to the UN SDGs, the COP process and climate action in its financing and structures. Do you see an increased role for Islamic climate finance given that climate action is consistent with Maqasid Al-Shariah?

Certainly. To meet our Nationally Determined Contributions targets would require funding from a variety of sources. This includes innovative financing instruments as well as private investment. In this regard, Islamic climate finance would play an increasingly important role in our climate investment needs. The government budget approved for 2022 recently adopted by Parliament includes plans to include more Sukuk to support our development activities.

I also think Islamic climate finance can plan an important and pivotal role in addressing climate change, especially on resilience building and on achieving long-term development goals. For example, Islamic finance could play an important role in the climate-proofing of vital infrastructure and also in supporting smallholders such as in fishing and farming etc. I see lots of opportunities in the Islamic climate finance sector to enhance climate actions and achieve our

The promised US$100bn adaptation costs by the wealthy countries have failed to materialize. What hope is there in effecting climate action to reach the elusive 1.5°C by 2025, when the climate finance is not in place? What measures are needed to boost climate finance?

To reach the 1.5°C temperature goal, scaled-up and diversified climate financing will be essential. And, given the magnitude of financing that has to be mobilized, the contribution of the non-Party stakeholders, in particular the private sector, will also be necessary.

To this end, it is important to align existing and potential financial flows to the goals of the Paris Agreement. We expect the international community to step up in their efforts to raise ambition in climate finance and meet the US$100bn target at the earliest. It's disheartening to see we are still far from the goal to mobilize US$100bn annually by 2020.

We also face many challenges in accessing funds that are available to us. We have prepared several successive ambitious national strategies and action plans that aim to address climate adaptation and mitigation. Yet when it comes to mobilizing the resources needed to implement these strategies, we are faced by many hurdles with the result that the majority of our plans have remained unfunded and unrealized. I want to highlight the importance of simplifying

“ I also think Islamic climate finance can plan an important and pivotal role in addressing climate change, especially on resilience building and on achieving long-term development goals. For example, Islamic finance could play an important role in the climate-proofing of vital infrastructure and also in supporting smallholders such as in fishing and farming etc.

development goals. However, we need to broaden the research to identify the best and suitable products that could be utilized to enhance climate actions.

The Maldives became the 48th member country of ICIEC in August 2021. Risk mitigation tools will increasingly play an important role in climate-related and climate action projects and financing. How can ICIEC help specifically in pushing the de-risking agenda?

Increasing resilience and building adaptive capacity are major challenges. Finance remains a major challenge. Our very conservative estimates show that we need US$500 million until 2024 to address our very immediate climate actions. Unfortunately, we haven't even received a quarter of it to date. Comprehensive risk management is perhaps one of the best options for de-risking and addressing the losses and damages we face due to climate extremes. It's also very important to build the long-term resilience of our vulnerable communities and vital assets on facing slow onset events.

What would you like to see the global Islamic finance industry with its estimated US$3.4 trillion AUM do to contribute more to climate change in their financing, investment, and PRB and PRI commitments?

As I mentioned before, the Islamic financing industry has an important role to play in mobilizing investments towards green pathways and aligning its finance flows with the Paris Agreement to achieve the global net-zero target by 2050.

How has the COVID-19 pandemic affected climate action and adaptation?

The pandemic is a living example of the vulnerability of small island developing states to external shocks in several respects:

- We had to close our borders for three months, which entirely halted our tourism industry, which over 50% of our economy is based on. This led to a devastating impact on livelihoods and the economy.
- An Asian Development Bank report showed that the Maldives is amongst the top three countries in the region hit hardest by the crisis in terms of its impact on GDP.
- As a country heavily reliant on imports to meet our most basic needs, the pandemic also threatened our food and energy security as the countries we import from closed their borders.
- The pandemic crisis also tremendously increased our debt burden. Hence supporting and limiting the debt is important.
- We are making efforts to build back better while addressing the COVID19 recovery; hence the government has adopted the National Recovery Plans to this end.

Climate change research shows disproportionately affect on women and children. Do you think the impact on women gets lost in translation in these international conferences, structures, and processes whose focus inevitably is on wider action, adaptation, finance, and recovery?

"We especially need to ensure that access to climate finance takes into account gender considerations. For example, in evaluating what is considered as loss and damage in disaster relief efforts, I think there is a tendency for women's work to get subordinated over other kinds of losses

I think it is important to keep in mind that climate impacts have a human face. In the negotiations, we sometimes tend to get embroiled in the technicalities of the issue and view climate change in an abstract sense. I think there is a need for increased effort at the decision-making level to take into account the data and research on how it affects women and children and consider the views and priorities of marginalized groups. We especially need to ensure that access to climate finance takes into account gender considerations. For example, in evaluating what is considered as loss and damage in disaster relief efforts, I think there is a tendency for women's work to get subordinated over other kinds of losses.

As the environment minister of a country most affected by climate change leading to rising sea levels, the human cost on you personally must be huge. What are your coping mechanisms emotionally and practically, especially in dealing with the foibles of the big polluters and those countries, corporates, banks, and individuals who merely play lip service to climate action?

We think climate change is a global issue and is not limited to certain boundaries. Therefore, global action and cooperation are essential to address the climate change. However, we have to note that low-lying Small Island nations are the most vulnerable, and there has to be more support towards building the resilience of these countries.

Guest Column

Stella Cox, CBE, Managing Director, (left)
Jennifer Schwalbenberg,
Chief Governance Officer, DDCAP Group, UK

SMEs Have Great Potential to **Embed Sustainable and Responsible Actions Across IF Industry**

> DDCAP has made the public commitment to develop a more sustainable, equitable, and prosperous world and supports the view that those in business must adopt strategies to deliver not only financial results but also social and environmental outcomes

DDCAP Group™ is an industry-leading market intermediary and financial system solutions provider which connects the global Islamic marketplace responsibly via its proprietary system, ETHOS AFP™. The company aspires to provide best-in-class responsible and sustainable solutions to clients and supports awareness of the business and ethical case for responsible finance.

DDCAP is headquartered in London with representative offices in the Dubai International Financial Centre, Bahrain, and Kuala Lumpur, providing a global footprint and connecting into ESG initiatives across the GCC and Southeast Asia.

In tandem with its core offering, DDCAP seeks to invest within halal economy businesses with exceptional fintech strategies. We believe that Islamic finance SMEs like ourselves, and those within the wider halal economy, have great potential to embed sustainable and responsible practices across the wider industry, and we see such investments as a natural complement to our own ESG initiatives and industry goals.

Accordingly, DDCAP works to these same standards *internally*. Through what has since become DDCAP's Sustainable and Responsible Actions (SRA) Program, through which ESG considerations are addressed, DDCAP has made the public commitment to develop a more sustainable, equitable, and prosperous world and supports the view that those in business must adopt strategies to deliver not only financial results but also social and environmental outcomes. In furtherance of this, DDCAP became a service provider signatory to the UN Principles for Responsible Investment in 2016 and a stakeholder endorser of the UN Principles for Responsible Banking in 2020.

The Development of SRA Strategy

Since its founding in 1998, DDCAP has placed great importance on its reputation, and the pathway to our current SRA strategy and supporting governance structure can be traced through its consistent focus on setting the industry standard for best practice.

Increased emphasis on corporate governance, accountability, and responsible actions across the financial industry showed us the importance of doing business differently and informed its strategy to expand its vision of best practice to include not only traditional corporate governance matters but also sustainability and corporate responsibility concerns.

> In its current form, ETHOS AFPTM accommodates the specific trade execution and post-trade service requirements of DDCAP's clients through fully automated processes, thereby helping to connect the global Islamic financial market responsibly

Two particularly noteworthy milestones in our journey are our commitment to upholding Shariah standards with the establishment of our own Shariah Supervisory Board (SSB) and then with the development of ETHOS AFP™ to promote consistency and standardization. We established our own SSB to review and validate its processes and procedures, and over the past eight years, DDCAP has developed a geographically diverse and academically vibrant SSB committed to the highest level of analysis and deliberation. We first convened our SSB in March 2013 and opened our business and systems to regular Shariah review and validation.

In 2016, work commenced on the development of what would become ETHOS AFP™. DDCAP originally developed ETHOS AFP™ to enhance efficiency for clients and address traditional governance concerns within an infrastructure capable of being developed further to include additional functionality to address the evolving concerns of the financial marketplace.

In its current form, ETHOS AFP™ accommodates the specific trade execution and post-trade service requirements of DDCAP's clients through fully automated processes, thereby helping to connect the global Islamic financial market responsibly. Initially, clients required geographic screens for commodities, primarily in response to sanctions checking and wider financial industry governance concerns. This evolved into automated commodity screens within ETHOS AFP™ for environmental factors (e.g., deforestation from the cultivation of agricultural commodities) and social factors (e.g., mining practices leading to a refusal to trade in certain metals) or conflict impact (e.g., blood diamonds and other gemstones such as emeralds and tanzanite).

Since we have always aimed to be a "first mover" and to lead by example, the natural next step was the development of best practice standards for sustainability and responsibility. As Managing Director, I and our executive leadership took a very considered path to develop a SRA strategy. Various discrete initiatives were proposed to the Board of Directors over time, and with a portfolio of ESG and CSR successes, the Managing Director presented a formal structure to house existing initiatives and provide the environment to develop the SRA strategy further. Based on the efficacy and value of the previous successful initiatives, the new structure was approved by the Board of Directors.

We established an SRA Working Group extending across our organization. Its membership represents the Executive Team, Legal, Compliance, HR, Business Development and Client Services, Commodity Relationships, Systems and Operations, Trading, and Marketing. This is important because many ESG teams traditionally sit outside of the business, very often within Marketing or Investor Relations functions as they have grown out of those remits or out of traditional CSR functions.

When they have been created specifically as ESG teams, they are often created as a siloed function. But as this area matures and there is increasing regulatory and legal risk relating to ESG, the governance considerations grow exponentially. DDCAP has recognized that an exceptional corporate governance strategy is one that incorporates compliance, regulatory, and ESG considerations.

Conclusion

We believe that responsibility for ESG-focused strategy must exist within the core corporate structure as a strategic priority because it involves significant risks to the business but also significant opportunities. Our SRA function provides it with the ability to adapt as priorities, shifts and ambitions increase in light of developing regulation, strategy, reputational risk, and resilience considerations.

The structure adopted has been designed so that those tasked with these SRA responsibilities are empowered to feedback through leadership channels, and then the executive management lead from the front. They are then empowered to articulate what is required for any necessary transition, robustly manage the associated risk, engage effectively with internal and external stakeholders through this process and stay flexible and responsive as the landscape changes.

This structure provides DDCAP the tools to identify the issues which it must address (e.g., because of legislative or non-legislative requirements), determine what it wants to address (because of corporate culture or purpose), and decide what it can't yet address at the current time (which is equally important).

Good governance is the heart of the best practice, and all the players in the marketplace are responsible for ensuring the market operates responsibly and in line with the principles of good governance. As an intermediary, DDCAP's role is to respond to the demands of the marketplace, and that has informed and will continue to inform its focus on systems to help support its clients' corporate governance requirements and sustainability initiatives.

Progress **Update**

Alternative Reference Rates LIBOR Cessation

Post-LIBOR Implications for the Global Islamic Finance Industry

Ever since the UK's Financial Conduct Authority announced in July 2017 the need for the market to transition away from LIBOR (the London Interbank Offered Rate) as an interest rate benchmark by 31 December 2021, Working Groups established by central banks and regulatory authorities the world over have been preparing for the cessation of LIBOR with replacement overnight risk-free rates (RFRs). LIBOR, based on five currencies (USD, Sterling, Euro, Japanese Yen, and Swiss Franc), served as the reference benchmark for a wide range of financial products and services for several decades before it became discredited in a long-running manipulation scandal that was uncovered in 2012 in the aftermath of the global financial crisis in 2008. LIBOR cessation raises important issues also for the global Islamic finance industry, projected to rise to US$4.94 trillion in 2025 and now a critical niche component of the global financial system. Mushtak Parker considers the implications and the challenges

The transition from LIBOR to alternative reference rates (ARRs) over the next year represents one of the most significant changes to the financial services industry ever.

"With an estimated US$370 trillion of LIBOR-related activity globally, covering loans, bonds/Sukuk, derivatives, working capital and trade products," observes international law firm Clyde & Co., "the LIBOR transition will significantly affect how contracts are priced and how risk is managed by market participants, lenders, borrowers and guarantors which use/d LIBOR as their operating model."

Broadly speaking, an RFR (risk-free rate) or ARR are backward-looking benchmark rates with limited forward term structure generally based on overnight deposit rates. They are derived from a large volume of real observable transactions making them highly representative of the actual market, and they are considered "risk-free".

This is a significant improvement on LIBOR, which was based on expectations/speculations and quotes submitted by panel banks, which it is alleged was open to manipulation.

The Financial Stability Board (FSB) also encouraged global market participants to discontinue the new use of US dollar LIBOR-linked contracts as soon as practicable and no later than end-2021 in light of the safety and soundness risks associated with continued use. However, certain more frequently used US dollar LIBOR panels, including overnight, one-month, three-month, six-month, and 12-month ones, will be allowed to continue until mid-2023.

The result has been a scramble to develop alternatives such as the transaction based ARR forcing financial institutions to update their contracts and other communications materials in time for the proposed ending of LIBOR support on 31 December 2021. Each country is expected to have its own rate calculation mechanism.

As an integral niche part of the mainstream global financial system, the Islamic finance industry is no exception. LIBOR is generally still the most referenced short-term interest rate in the world. Islamic financial institutions (IFIs) use LIBOR as a guidance benchmark to price their products and services without using the actual reference rate, partly because of the absence of a universal or individual market-based Shariah-compliant alternative, save in a few markets such as Malaysia.

How many central banks in the 57 OIC member countries will be ready for the LIBOR cessation and transition to ARR is unclear. The short-to-medium-term impact on the Islamic financial services industry remains uncertain.

Dubai Islamic Bank, in a recent customer communication on IBOR (Interbank Offered Rate) Transition, for instance, observed: "Concrete regulatory guidance, and corresponding industry consensus, on IBOR referencing Islamic financing and derivative products are yet to emerge." This reflects the relevance, lack of urgency, and absence of response of industry bodies, save by the International Islamic Financial Market (IIFM).

It is no overstatement that there is no time to lose, and Islamic banks must be proactive in assessing and identifying their LIBOR-based exposures and assets to enable them to effect an orderly transition.

"

It is no overstatement that there is no time to lose, and Islamic banks must be proactive in assessing and identifying their LIBOR-based exposures and assets to enable them to effect an orderly transition

The potential impact on agreements between IFIs and their clients is implicit. According to DIB, "the use of the benchmark rate may result in products or agreements performing differently than if the original benchmark rate had continued to apply. This could include variation or amendment to the calculation of profit, income, rental, return or incentive amounts (being the Applicable Payment)."

Terms and conditions of financial products typically contain fallback provisions, which identify how a successor or substitute rate will be selected if LIBOR, EURIBOR, EONIA, or a similar benchmark is not published.

"There is a risk," says DIB, "that fallback terms do not adequately cater for the circumstances in which they need to be used. Fallback language in the context of LIBOR is the contractual language contingent on the cessation trigger and the pre-cessation trigger that will initiate the switch to the ARR. Furthermore, DIB will adopt a mechanism under the fallback language, which is in accordance with Shariah principles, as approved by the Internal Shariah Supervisory Committee of DIB and the Higher Shariah Authority of the Central Bank of the UAE."

In the end, says DIB, it will replace LIBOR with the benchmark rate designated, nominated, or recommended by the administrator of LIBOR or Applicable Regulatory Body.

Shariah-compliant Reference Rates

What are the main ARRs serving some of the key Islamic finance markets? For instance, Bank Negara Malaysia (BNM), the central bank, launched the Malaysia Overnight Rate (MYOR) at the end of September 2021 as the new ARR for the conventional financial sector in the country after a robust market consultation that started in January 2021.

Globally, ARRs are being introduced to improve the integrity of financial benchmark rates as part of a transition to transaction-based rates, in line with the LIBOR reforms after the 2008 Financial Crisis. "The introduction of ARRs aims to facilitate the usage of benchmark rates that are more robust and based upon transactions in active, liquid markets. In Malaysia, the MYOR will run in parallel to the existing Kuala Lumpur Interbank Offered Rate (KLIBOR) with periodic reviews to ensure that the financial benchmark rates remain robust and reflective of an active underlying market," explained BNM.

Malaysia is an interesting model in that it has been official government policy since the introduction of Islamic banking and finance in 1983 to develop a dual banking system in which an Islamic financial system would operate side by side a conventional one, cooperating but not intermingling. The stated target of successive governments has been for the two systems to rich parity of 50% each of banking system market share by 2030. At the end of 2021, the Malaysian Islamic banking industry commanded almost 35% of total banking sector assets – well on its way to achieving the 2030 milestone.

The current reference rate for the Malaysian Islamic finance industry is the Kuala Lumpur Islamic Reference Rate (KLIRR). According to BNM, as part of its ongoing efforts to further develop the Islamic financial market, it is collaborating with the Financial Markets Committee (FMC) and the Islamic Market Technical and Development Committee (IMTDC) of the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM) and the Financial Markets Association Malaysia (FMAM), to develop a new Islamic benchmark rate to replace KLIRR by the First Half of 2022.

The FMC was established by BNM in May 2016 and comprised representatives from the Bank, financial institutions, corporations, financial service providers, and other institutions with prominent roles or participation in the financial markets.

KLIRR, on the other hand, was introduced in 2006 as a reference rate for the Islamic interbank money market. However, its use as a pricing reference has remained limited. BNM, in consultation with the FMC in tandem, also conducted a comprehensive review on the suitability of the continuity of KLIRR. The decision was made in October 2021 to develop and launch an alternative Islamic reference rate that adheres to global standards for financial benchmarks.

In Bahrain, in October 2021, the Manama-based International Islamic Financial Market (IIFM), the Islamic finance industry's leading standard-setting body, announced "the approval of its Shariah Board's RFR implementation related Compliant Standard Structuring Solutions for Murabahah and Ijarah transactions.

"The global benchmark rate reform is a significant regulatory driven development that also has consequences for Islamic financial transactions. Globally, work on phasing out of LIBOR and transition to Risk-Free Rates (RFR's) or Alternative Benchmark Rates is now approaching discontinuation date of 31 December 2021 for currencies such as USD, EUR, GBP, CHF, JPY, and certain other hard currencies used in the domestic as well as cross border trades, except in a few cases the final deadline will be June 2023," explained IIFM CEO Ijlal Alvi.

IIFM took the lead by creating awareness in the Islamic finance industry on this significant development and highlighted the challenges posed, particularly Islamic financial product structures, transactions, documentation, credit, and legal matters, through consultation with key industry stakeholders. This culminated in the publication of "the industry's first and only white paper on "Global Benchmark Rate Reforms and Implications of IBOR Transition for Islamic Finance" in March 2021."

Since the publication of the white paper, IIFM started working on the implementation of RFR's in Islamic financing and hedging transactions so that the transition to RFR's does not affect industry development and competitiveness. Contributions from leading financial institutions, accounting firms, law firms, and a few other market participants came together to create awareness and highlight potential challenges that the Islamic financial industry may face in its activities due to this new transformational development.

According to IIFM Chairman Khalid Hamad Al Hamad of the Central Bank of Bahrain, "IIFM has always strived to take active role in the industry's development and its unification, and the publication of these Shariah-compliant solutions required for a smooth transition by the Islamic finance industry. Developing standard guidelines and a Shariah solution on these new alternative benchmark rates will greatly benefit Islamic finance market participants globally."

To form a consensus around developing viable and standardized Shariah-compliant solutions and amendments, particularly in documentation, IIFM worked with three specific work streams, namely Financing, Hedging, and Sukuk, to deal with this critical development and to reach practical and workable solutions.

The publication of the IIFM Shariah-compliant standard structuring solutions for RFR's implementation for Murabahah and Ijarah transactions emphasizes Mr Alvi, "is the culmination of the hard work carried out by the financing workstream and final guidance and approval by the IIFM Shariah Board. Publication of these Standard Solutions amplifies the importance of collaboration needed to overcome challenges and develop Shariah-compliant standardized guidelines, solutions, and documentation. The Islamic finance industry cannot develop on a sound footing without the cooperation and support of all stakeholders, who can drive maximum benefit by ensuring wider implementation levels of these RFR implementation-related standard solutions, which will be beneficial to the users as well as to the industry globally."

"To form a consensus around developing viable and standardized Shariah-compliant solutions and amendments, particularly in documentation, IIFM worked with three specific work streams, namely Financing, Hedging, and Sukuk, to deal with this critical development and to reach practical and workable solutions

Going forward, the global Islamic finance industry has two options: i) to develop a standalone truly universal Shariah-compliant benchmark reference rate to price a range of products, which currently seems unlikely given the lack of coordination among policymakers and Shariah authorities; and ii) to develop regional or national Shariah-compliant reference rates to suit their market requirements.

Failing that, they will always be beholden to the seven main replacement benchmark rates, especially the Secured Overnight Financing Rate (SOFR) to replace US dollar LIBOR tabled by the US Alternative Reference Rate Committee (ARRC) led by the Federal Reserve Bank and the New York Reserve Bank, and the Reformed Sterling Overnight Index Average (SONIA), which replaces Sterling LIBOR, tweaked by their respective Shariah advisories!

Progress Update

Ijlal Alvi,
CEO of IIFM

Global Benchmark Rates Reform & Cessation of IBOR

Towards Global Benchmark Rate Standards for Islamic Finance -

The IIFM's RFRs for Murabaha and Ijarah Transactions

“

The development of effective universally acceptable standalone alternative benchmark rates for the Islamic finance industry is gathering momentum, albeit at a slow pace. The Manama-based International Islamic Financial Market (IIFM), the premier standard-setting body for Islamic financial transactions, has gone one step further by publishing Risk-Free Reference (RFR) standards for two widely used contracts - Ijarah and Murabaha - in the Islamic syndication market as well as in other financial transactions including liquidity management. *Ijlal Ahmed Alvi*, Chief Executive Officer of IIFM, discusses the landmark developments

Since 2013, IOSCO and the FSB Official Sector Steering Group and public-private groups, specifically in the EU, UK, North America, and Japan, have reformed major benchmark rates, identified alternative rates, and developed plans for adoption of those rates. In July 2017, the UK's Financial Conduct Authority announced that it would not compel panel banks to submit to LIBOR after 2021.

On 19th November 2021, the Financial Stability Board (FSB) issued a statement that most LIBOR panels will cease on 31st December 2021, with certain key US dollar settings continuing until June 2023 to support the rundown legacy contracts only. Earlier on 5th March 2021, ICE Benchmark Administration (IBA) and FCA formally confirmed the dates that panel bank submissions for all LIBOR settings will cease, and LIBOR rates will no longer be available.

The global benchmark rates transformation to Risk-Free Rates (RFR) involving international currencies such as USD, GBP, EURO, YEN, CHF, and certain other hard currencies has implications for Islamic finance, and workable Shariah-compliant solutions need to be developed to overcome challenges particularly affecting Islamic product structures, transactions, documentation, accounting and profitability, credit and legal matters.

It is important to understand the major differences between Interbank Offered Rates (IBOR) and RFR as follows:

i) Calculation methodology,
ii) Term structures (backward looking versus forward looking),
iii) Credit premium, and
iv) Consistency/timing.

The above differences necessitate timely actions to adjust to the era of RFR. Moreover, for further details on the key differences between IBOR versus RFR, please refer to IIFM IBOR white paper, which is easily downloadable from www.iifm.net

While the international financial markets led by global regulators are speedily working on the global benchmark rates reforms and its implementation; the development of a benchmark rate specific to the Islamic finance industry is once again a central discussion point among stakeholders, but its development is seemingly a lengthy process and will take time as IIFM has been looking into Islamic rate proposition for some time now.

Considering the looming deadline of LIBOR Cessation at the end of the year 2021, IIFM took immediate actions by creating awareness in the industry and started assessment and actual development work on RFR implementation-related requirements.

IIFM's IBOR Transition to RFR Initiative

IIFM formed a core working group consisting of major banks, law firms, multilateral institutions, and other market experts to develop a White Paper on Global Benchmark Rates Reform and its impact on the Islamic industry. The White Paper has used a basis in the November 2020 industry consultative meeting, attended by around 180 participants, including regulators from 18 countries.

Based on the consultative meeting's final recommendations, the IIFM officially published in March 2021 the industry's first and only White Paper titled "Global Benchmark Rate Reforms and Implications of IBOR Transition for the Islamic Finance Industry" on this important development.

Furthermore, to tackle the RFR implementation-related issues, IIFM formed three separate workstreams, namely Financing, Hedging, and Sukuk, to assess the issues/challenges involving the use of RFR versus LIBOR and to work on the development of standard solutions and fallback documentation to provide a smooth transition from LIBOR to RFR.

"

Considering the looming deadline of LIBOR Cessation at the end of the year 2021, IIFM took immediate actions by creating awareness in the industry and started assessment and actual development work on RFR implementation-related requirements

Shariah-Compliant Structuring Solutions for RFR Implementation

On 4 October 2021, IIFM published RFR implementation standard structuring solutions relating to the two most widely used contracts, namely Ijarah and Murabaha, in the Islamic syndication market and other financial transactions, including liquidity management. The IIFM's IBOR transition Shariah-compliant structuring solutions for financing transactions, namely Ijarah and Murabaha, as approved by the Shariah Board, include:

Murabaha Variant 1: Dual Tranche Structure

Murabaha Variant 2: Single Murabaha with Two Undertakings (Ceiling Rate Structure)

Ijarah Variant 1: Daily Rental over the Calculation Period

Ijarah Variant 2: Breaking the Calculation Period into two Sub-rental Periods

The details of the above RFR implementation standard solutions for financing transactions are available on www.iifm.net

The publication of IIFM Shariah-compliant standard structuring solutions for RFR implementation for Ijarah and Murabaha transactions is the culmination of hard work carried out by the financing workstream and the core-working group.

ISDA/IIFM IBOR Fallback Definitions and Bilateral Amendment Agreement

IIFM is a pioneer in jointly publishing Islamic hedging documentation standards. Based on the IIFM Hedging Workstream recommendations, RFR implementation documentation, namely IBOR Fallback Definitions Booklet and Bilateral Amendment Agreement, commenced in September 2021.

On 14th December 2021, IIFM and ISDA published the ISDA/IIFM Bilateral Amendment Agreement approved by its Shariah Board and an accompanying IBOR Fallback Definitions Booklet for Islamic Transactions to be used for reference purposes.

Due to the imminent demise of IBOR benchmark rates, it has become necessary to include fallbacks in financial contracts such that a replacement rate can be determined if the relevant IBOR benchmark rate ceases to be available and become non-representative. This is a regulatory requirement in several jurisdictions where certain Islamic hedging transactions such as profit rate swap and cross-currency swaps entered into under the Tahawwut Master Agreement (TMA) are based on an IBOR benchmark rate such as USD LIBOR.

To provide greater transparency and clarity on issues such as the use of global benchmark rates by the Islamic finance industry, the IIFM Shariah Board has also provided guidelines on using these RFR implementation standards and related documentation. The publication of the ISDA/IIFM IBOR Bilateral Amendment Agreement and ISDA/IIFM IBOR Fallback Definitions Booklet for RFR implementation for Hedging transactions was the culmination of hard work carried out by the Hedging Workstream and the core-working group.

IIFM has efficiently managed and timely completed the required RFR implementation-related initiatives related

> **“To provide greater transparency and clarity on issues such as the use of global benchmark rates by the Islamic finance industry, the IIFM Shariah Board has also provided guidelines on using these RFR implementation standards and related documentation**

to Ijarah and Murabaha financing and Hedging transactions before the year-end deadline of cessation of LIBOR. As per IIFM's assessment, the use of IBOR based benchmarks in Sukuk issuances is generally not practised as most of the Sukuk are issued on a fixed profit rate basis where other relevant benchmark rates are used.

The publication of RFR implementation IIFM standard financing transactions solutions, the hedging segment related ISDA/IIFM Bilateral Amendment Agreement, and ISDA/IIFM IBOR Fallback Definitions Booklet are important milestones for the Islamic finance industry. IIFM will continue to play a pivotal role in shaping the future of the Islamic finance industry through such initiatives with the support of industry participants, particularly member institutions.

Progress Update

Sukuk Pricing and LIBOR Cessation

IsDB Leads with First-ever SOFR Sukuk

> "For Shariah-compliant transactions, the extent of the changes required also need to be assessed in light of transitioning to an Islamic structure that would support the use of a "backward-looking" RFR where the relevant periodic payment amount may not be known until the end of a calculation period

The transition away from LIBOR creates challenges for various asset classes, especially derivatives, loans and in the case of Islamic finance, specifically Murabaha financing, Instalment Sale and some Sukuk transactions. These challenges relate to operational changes, risk modelling and the availability of liquid products for hedging, among other issues. Key uncertainties relate to contracts that embed the legacy IBORs (Interbank Offered Rates) but lack suitable fall-back provisions in the event of IBOR discontinuation.

According to Fitch Ratings, Sukuk faces extra complexities from the IBOR transition due to Shariah's requirements. Regulatory guidance is uneven and at different stages of development in key Islamic finance markets. "The transition to new risk-free rates (RFRs) creates challenges for the small portion of the Sukuk market that reference legacy IBORs. This Sukuk will face the same uncertainties as conventional bonds, with the added complexity of how the transition to RFRs can be accommodated in underlying Sukuk structures," said Fitch Ratings in a recent report.

However, even if the new RFRs are deemed consistent with Shariah principles, the underlying Sukuk structures may need to change. Sukuk

are complex instruments, usually based on one or more specific Shariah contracts. They typically incorporate an undertaking whereby the obligor commits to repurchase underlying Sukuk assets on maturity, covering the outstanding principal and any unpaid periodic distribution amounts in a timely manner.

"There is no standard structure, however, and different underlying contractual arrangements might need to be adapted to the new RFRs deal-by-deal. This process could be time-consuming and require fresh opinions from the originator's and investors' Shariah boards that the new structure is Shariah-compliant. Understanding the relationship between the funding arrangement, the asset, and the key features of its underlying contractual structure is fundamental to analysing the credit risk of a Sukuk," said Fitch's Bashar Al Natoor, Global Head of Islamic Finance.

"

Sukuk faces an additional complexity due to the lack of Shariah codification. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and many prominent Islamic finance scholars have acknowledged that under certain conditions, using benchmarks like LIBOR or certain share or commodity price indexes to determine investors' profit margins for Islamic products is possible

Sukuk faces an additional complexity due to the lack of Shariah codification. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and many prominent Islamic finance scholars have acknowledged that under certain conditions, using benchmarks like LIBOR or certain share or commodity price indexes to determine investors' profit margins for Islamic products is possible, notwithstanding the Shariah prohibition on riba, or unlawful gains, including interest.

LIBOR transition working groups all over the world have been working on a surfeit of replacement overnight risk-free rates (RFRs) and alternative reference rates (ARRs), which are currency-specific. Each working group is at a different stage of transition.

In the context of the global Sukuk market, dominated by US dollar issuances and by English law as the governing law, the two key alternatives are the Sterling Overnight Index Average (SONIA), The Secured Overnight Financing Rate (SOFR), the replacement for USD LIBOR and administered by the Federal Reserve Bank of New York. SOFR was first tabled by the US Alternative Reference Rate Committee in March 2020.

SOFR will effectively be the new global benchmark rate, replacing the London Interbank Offered Rate (LIBOR), which was initially going to be phased out in January 2022, but the deadline was extended to June 2023. The SOFR is defined by the Federal Reserve Bank of New York as "a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

According to Fitch's Bashar Al Natoor, with the cessation deadline for the main US dollar, Libor benchmarks extended from end-2021 to June 2023, "transition risks for floating-rate Sukuk will be reduced as the extension gives an extra 18 months to incorporate fallback language and allow more Sukuk to mature. However, 92% of US dollar Sukuk are fixed-rate and unaffected by the transition." Among the major currencies, the planned shift to SOFR from LIBOR in the US dollar market by end-2021 is the most relevant as dollar-denominated Sukuk constitutes just over one-quarter of all outstanding Sukuk.

Concrete regulatory guidance and corresponding industry consensus on IBOR referencing Islamic financing, Sukuk, and derivative products are yet to emerge. The IIFM in October confirmed "the approval of its Shariah Board's RFR implementation related Compliant Standard Structuring Solutions for Murabahah and Ijarah transactions." As such, where possible, the Sukuk market will have to adopt or adapt the initiatives that are taking shape in the conventional bond market. There are already signs of this as some Sukuk structures now include fall-back provisions designed to accommodate a change of reference rate, as seen in conventional bond documentation.

Islamic Development Bank (IsDB) International Sukuk Issuances January-December 2021

Date	Volume	Type	Profit Rate	Yield	Tenor	JLM/JB
October 2021	US$1.7bn	AAA Rated Trust Certificates	1.435 % payable on a semi-annual basis	MS plus 25bps	5 years	Credit Agricole, SCB, FADB, KFH Capital, Natixis, SMBC Nikko, SNB Capital, ICD, HSBC, JP Morgan,
May 2021	US$400m	AAA-rated SoFR-linked Floating Rate Notes (FRNs)	Undisclosed. Priced at par (100 %); and agreed coupon, payable quarterly	N/A	3 years	Single Investor – private placement
March 2021	US$2.5bn	AAA-rated Sustainability Sukuk	1.262 % payable on a semi-annual basis	MS plus 33bps	5 years	Citi, HSBC, Goldman Sachs, KIB, Warba Bank, SCB, Natixis, Société Générale,

Source: Compiled by Mushtak Parker from IsDB Data. KIB-Kuwait International Bank; SCB-Standard Chartered Bank; FADB-First Abdu Dhabi Bank; ICD-Islamic Corporation for the Development of the Private Sector JLM-Joint Lead Managers JB-Joint Bookrunners SoFR-Secured Overnight Financing Rate MS = Mid Swaps bps = basis points **December 2021**

“The IsDB, one of the most proactive issuers of Sukuk, raised an aggregate US$4.6 billion through three offerings in 2021, including the SOFR-linked Sukuk – all issued under its updated US$25 billion Trust Certificate Issuance Programme, which now incorporates various new risk-free rate mechanics

According to the international law firm, Clifford Chance, the conventional bond market started to use compounded backward-looking rates in certain issuances. For instance, the approach taken in the SONIA floating rate market to date has been to use a five-day lag mechanism so that the coupon amount is known five days prior to the payment date. However, compounded rates with “lag mechanisms” do not give obligors visibility at the start of a profit period, and so this solution may not translate for Sukuk instruments.

“For Shariah-compliant transactions, the extent of the changes required also need to be assessed in light of transitioning to an Islamic structure that would support the use of a “backward-looking” RFR where the relevant periodic payment amount may not be known until the end of a calculation period,” said a Clifford Chance report.

A Murabaha transaction, for instance, can support a “backward-looking” RFR. It is a common cost-plus financing structure to facilitate periodic payments by one party to another through the purchase of Shariah-compliant commodities by the payer party on a “spot-delivery, deferred payment” basis where the deferred purchase price would include a profit amount equal to the amount of the economic payment. Murabaha and Tawarruq are commonly used as part of a supporting structure underlying some Sukuk structures.

The IsDB, in fact, assumed a first mover role when it issued a debut Secured Overnight Financing Rate (SOFR)-linked Sukuk in April 2021 - the first such offering in the global capital markets. Leveraging its Aaa/AAA/AAA by Moody's Investors Services, Standard & Poor's (S&P) and Fitch Ratings (all with a stable outlook), the IsDB raised US$400 million through a 3-year Sukuk, maturing in April 2024.

The IsDB, one of the most proactive issuers of Sukuk, raised an aggregate US$4.6 billion through three offerings in 2021, including the SOFR-linked Sukuk – all issued under its updated US$25 billion Trust Certificate Issuance Programme, which now incorporates various new risk-free rate mechanics. The SOFR-linked Sukuk is a 3-year Floating Rate Note (FRN) that raised US$400 million from a single investor on a Private Placement basis.

“The Bank continues to stay committed to innovation, and this is yet another example. The global shift away from LIBOR will undoubtedly have an impact on IsDB operations in our Member Countries. Our Treasury has successfully closed this transaction as part of IsDB's high-level plan to make our way through this transition at the early stages,” said the multilateral development bank in a statement. S&P assigned a AAA rating to the Notes, making them the first-ever AAA-rated SOFR-linked Sukuk in the Islamic capital market. The Sukuk was priced at par (100%), and the mutually agreed coupon is payable quarterly.

“With almost US$22 billion in Sukuk outstanding,” explained Dr Zamir Iqbal, Vice President (Finance) and CFO of IsDB, “it is imperative for IsDB to plan for ensuring a smooth transition away from LIBOR and offer new instruments to investors who are important stakeholders in the transition. We are very grateful for the investor's confidence in IsDB for this transaction.”

According to IsDB Head of Treasury, Dr Yasser Gado, as a frequent Sukuk issuer, this was a breakthrough transaction in terms of timing, pricing, investor diversification, Sukuk offerings, as well as testing its modus-operandi for a post-LIBOR landscape. “We intend to continue this momentum in order to secure low-cost funding, strengthen our standing in a new market reality and keep promoting Sukuk as an alternative asset class for sustainable development.” In this respect, the Bank anticipates “further SOFR-linked Sukuk issuances in order to build IsDB's SOFR-linked curve. We will also continue our efforts for other risk-free rate issuances soon.”

Global Economy Outlook 2022

Rebound, Recovery or Retrenchment?

A Hobbled Recovery in a Global Economy with Entrenched Fault Lines

The new Omicron variant of the coronavirus sweeping the world at the end of 2021 is a stark reminder that the COVID-19 pandemic is far from over, and its impacts will be with us potentially for years to come.

The resurgence of the pandemic has sharply increased uncertainty regarding global economic prospects, with the gatekeepers of the international economic and financial system scurrying to revise and project its potential impact. Very often, in such cases, it is the perception as opposed to the actual impact that drives market sentiments and confidence.

When institutions such as the IMF talk about "an enduring pandemic," "a hobbled recovery," "entrenched fault lines," policymakers the world over can only take note. The consensus is that any semblance of a post-pandemic recovery – its strength and magnitude - will vary significantly across countries. The US and EU will lead from the front, followed by China, with Sub-Saharan Africa the slowest region to recover. This means that policymakers in individual countries will have to chart their own responses to suit the unique circumstances of their respective economies.

On 15 November 2021, the Swiss Re Institute published a study forecasting strong global GDP growth at 5.6% in 2021, slowing to 4.1% in 2022 and moderating to 3.0% in 2023. "The economic recovery we are experiencing is cyclical and not structural, with

> "The IMF similarly predicts a continuing global economic recovery, even as the pandemic resurges, albeit economic fault lines opened up by COVID-19 are looking more persistent and likely to impact medium-term performance

macroeconomic resilience weaker today than before the COVID-19 crisis. As such, we should be anything but complacent. Inflation is the prevailing near-term macro risk, fuelled by the energy crisis and prolonged supply-side issues. The price pressure is expected to be most acute among emerging markets and in the UK and US," maintained Jerome Haegeli, Chief Economist of Swiss Re Group.

The IMF similarly predicts a continuing global economic recovery, even as the pandemic resurges, albeit economic fault lines opened up by COVID-19 are looking more persistent and likely to impact medium-term performance.

In low-income countries, the damning reality of a lack of vaccine access and inequality is best exposed by a recent World Health Organization (WHO) report stating that only 27% of health workers in Africa have been fully vaccinated against COVID-19, leaving the bulk of front-line workforces against the pandemic unprotected. In contrast, a WHO global study of 22 mostly high-income countries revealed that more than 80% of their health and care workers were fully vaccinated.

Omicron is only serving to increase uncertainty about how quickly the pandemic can be overcome. If it proves to be more contagious, as initial reports suggest, there will be a short-term reversal, especially for the global travel, tourism, and hospitality countries largely in South Africa and Emerging Markets with larger tourism sectors such as Thailand, Turkey, Indonesia, and Mexico.

The choices for policymakers, not surprisingly, have become more difficult. They are confronted with multidimensional challenges – rising public debt; moderating medium terms GDP growth; supply chain disruptions; subdued employment growth; rising inflation; rising prices and cost of living; rising income gaps between the rich, the middle classes, and the poor; food insecurity; the setback to human capital accumulation; and climate change - with limited room for manoeuvre.

The IMF projects the global economy to grow 5.9% in 2021, 4.9% in 2022, only to moderate further to about 3.3% over the medium term. "Advanced economy output is forecast to exceed pre-pandemic medium-term projections - largely reflecting sizable anticipated further policy support in the US and EU. By contrast, persistent output losses are anticipated for the emerging market (EM) and developing economy group due to slower vaccine rollouts and generally less policy support," explained the Fund.

S&P Global's baseline GDP forecasts echo that of the IMF and Swiss Re. "We have nudged global GDP growth down to 5.7% in 2021 and 4.2% in 2022 before declining closer to a trend of around 3.5% in 2023-2024. For 2022, Brazil, the UK, the US, and China will all see lower growth, while forecasts are flat to higher in 2023-2024," said the rating agency in its global outlook at the end of November 2021.

The growth forecast of the five major economies between 2021 and 2024, despite the various posturing, is not encouraging. US GDP on average is projected to moderate from 5.5% in 2021 to 3.9% in 2022 to 2.3% in 2024; for the Eurozone its 5.1% to 4.4% to 1.6%; for China it is 8% to 4.9% to 4.8%; for Japan it is 1.9% to 2.3% to 1.0%; and for the UK 6.9% to 4.6% to 1.9% respectively.

The story is very different for EMs. Many countries in this group remain well below end-2019 GDP levels and will suffer a "permanent output loss. This means that EM economies will not get back to their pre-pandemic GDP path; they will be on a lower path." This is due to a lack of fiscal space and spending, which led to the loss of non-replaceable expenditures, with India particularly hard hit.

"We forecast GDP growth in key EMEA emerging economies (Saudi Arabia, Russia, Turkey, Poland, and South Africa) to average 3.2% in 2022. We expect slower growth than the regional average of 5.2% this year due to a correction of growth rates after a strong rebound linked to re-openings of the economies; softer global demand for manufactured products and commodities; a gradual withdrawal of fiscal support; and tighter and more volatile external and domestic financing conditions," explained S&P Global.

Real GDP Outlook for Major and Regional Economies 2019-2026

Country	2019	2020	*2021	*2022	*2026
US	2.3%	-3.4%	6.0%	5.2%	1.7%
China	6.0%	2.3%	8.0%	5.6%	4.9%
Japan	0.0%	-4.6%	2.4%	3.2%	0.5%
Eurozone	1.5%	-6.3%	5.0%	4.3%	1.4%
UK	1.4%	-9.8%	6.8%	5.0%	1.5%
India	4.0%	-7.3%	9.5%	8.5%	6.1%
Middle East & Central Asia	1.5%	-2.8%	4.1%	4.1%	3.7%
Sub-Saharan Africa	3.1%	-1.7%	3.7%	3.8%	4.2%

Source: IMF World Economic Outlook October 2021 *Projections

The five metrics that will inter alia define global economic prospects in 2022 are the COVID-19 Pandemic; Inflation; Commodity Prices, Public Debt, and Climate Action.

No one can predict the trajectory of COVID-19 and the emergence of any new variants. That is why there are so many differences in scenarios of pandemic impact. Some stress that the impact of the pandemic is weakening especially in the advanced economies, while in other countries, it is beholden to a number of factors.

The latest McKinsey Global Survey in October 2021, for instance, revealed that uncertainty over COVID-19 is no longer a foremost economic concern to top executives, which is a change from the first three quarters in 2021.

"

Not surprisingly, the outlook for low-income countries, says the IMF, has darkened considerably due to worsening pandemic dynamics. Equally, warns Gita Gopinath, then IMF Chief Economist, the dangerous divergence in economic prospects across countries remains a major concern

According to the WTO Director-General, Ngozi Okonjo-Iweala, rapid and equitable access to the COVID-19 vaccine is a prerequisite for a full recovery of the global economy, trade, and investment. Not surprisingly, the outlook for low-income countries, says the IMF, has darkened considerably due to worsening pandemic dynamics. Equally, warns Gita Gopinath, then IMF Chief Economist, the dangerous divergence in economic prospects across countries remains a major concern.

The global inflation landscape has been tempered with rising energy and food prices which have fuelled higher inflation in many countries. These global factors may continue to add to inflation in 2022, especially high commodity food prices. This has particularly negative consequences for households in low-income countries where about 40% of consumer spending is on food.

A measure of inflation which strips out volatile fuel and food inflation, so-called core consumer price inflation, has also risen but exhibits significant variation across countries.

According to Gopinath and her colleague Tobias Adrian, "the rise in core inflation reflects multiple factors. Demand has rebounded strongly supported by exceptional fiscal and monetary measures, especially in advanced economies. In addition, supply disruptions caused by the pandemic and climate change, and a shift in spending toward goods over services have increased price pressures. Furthermore, wage pressures are apparent in some segments of labour markets."

Despite expecting inflation likely to be higher for longer than previously thought, which means that real rates are even lower than before, implying an increasingly expansionary stance of monetary policy, they expect that "the mismatch in supply and demand to attenuate over time reducing some price pressures in countries. Under the baseline, shipping delays, delivery lags, and semiconductor shortages will likely improve in the second half of 2022. Aggregate demand should soften as fiscal measures come off in 2022."

In its World Economic Outlook 2022, the Fund warned that even a Federal Reserve response to dampen inflation risks could result in market volatility and create difficulties elsewhere, especially in emerging and developing economies.

Depending on how Omicron pans out, S&P Global Platts Analytics, for instance, projects that the new strain could curb oil demand growth to as low as 2.9m barrels per day in 2022, as compared to base case demand growth of 4.8m barrel per day.

OPEC+ and Russia agreed to continue with its planned oil output increase in early December 2021, signalling that the Omicron coronavirus variant's potential implications on global economic activity could be overcome by pent-up demand. Indeed, the oil alliance agreed on 2 December 2021 to raise its 23 members' and partners' quotas by 400,000 barrels per day, despite Omicron, the planned US-coordinated strategic petroleum reserve release, and evolving monetary policies, reported S&P Global Platts.

Another major concern is the debt treatment of the low-income countries. The G20 Debt Service Suspension Initiative under its Common Framework for Debt Treatments expired at the end of 2021, and interest rates are set to

“

Depending on how Omicron pans out, S&P Global Platts Analytics, for instance, projects that the new strain could curb oil demand growth to as low as 2.9m barrels per day in 2022, as compared to base case demand growth of 4.8m barrels per day

rise. These countries will increasingly find it difficult to service their debts. The IMF reckons that despite significant pandemic-related relief measures by countries; its own US$650bn SDR allocation of which US$21bn was directed to low-income countries; and the G20 US$100bn on-lending to such countries, they are faced with a bleak debt outlook as debt servicing payments are set to resume in 2022.

IMF Director General Kristalina Georgieva in December pleaded for the Common Framework for Debt Treatments intended to deal with insolvency and protracted liquidity problems to be expanded to include "a sustained debt service payment standstill", and to be implemented with much greater clarity of its processes and urgency.

A defined global priority with COP27 looming in Egypt in 2022 is also climate action and the quest to achieve net-zero carb emissions by 2050. UN Secretary-General Antonio Guterres, the gatekeeper of the COP process, admitted that post-COP26, "we are still knocking on the door of climate catastrophe... it is time to go into emergency mode - or our chance of reaching net zero (emissions) will itself be zero."

The current landscape is littered with claims and counterclaims of aspirations; hugely differing definitions relating to climate change concepts; a mishmash of net-zero and phasing out coal targets by governments, corporates, banks, and other institutions; under-developed just energy transition to renewables; slow Green Finance and Investment initiatives; slow carbon pricing and capture dynamics; and the failure of the rich countries to honour a previous pledge of mobilizing US$100bn of annual climate finance to effect adaptation in developing countries.

The failure in meaningful and measurable progress, especially towards reaching the 1.5°C recommended by the Glasgow Pact but rejected by key greenhouse gas emitters such as China, Russia, India, US, and Australia, could be the ultimate downside risks in global economic prospects. Current pledges, if fulfilled, will only limit global warming to 2.4°C.

“

UN Secretary-General Antonio Guterres, the gatekeeper of the COP process, admitted that post-COP26, "we are still knocking on the door of climate catastrophe... it is time to go into emergency mode - or our chance of reaching net zero (emissions) will itself be zero"

Sector-in-Depth
Outlook for the Global Reinsurance Sector

An Improving Market with Projected Record Premiums in 2022 Despite Omicron-induced Uncertainties

"

The resurgence of the COVID-19 pandemic and the latest variant, Omicron, says the IMF, have sharply increased uncertainty around global economic prospects. This comes as several countries grapple with inflation well above their monetary policy targets. It is, however, evident that the strength of the economic recovery and magnitude of underlying inflationary pressures vary significantly across countries, markets, and economic and financial sectors. *Mushtak Parker* assesses the potential impact and outlook for the Global Reinsurance Sector

Volatility in economic conditions means a constant revision of sector outlook and metrics. The reinsurance sector is no exception. The sector continues to be defined by the impact of the pandemic, the pace of vaccine roll-out, the emergence of new variants such as Omicron and its potential health and economic impacts, factors that both obfuscate and regenerate GDP growth such as the volatility in commodity prices, inflation and the pace of economic recovery, and the pressing issue of climate resilience in the march towards net zero.

There is a bullish consensus that the outlook for the re/insurance sector is improving with a strong growth forecast for 2022 as demand for risk protection increases. Swiss Re Institute's latest Sigma study in November 2021, for instance, revised its forecasts for the global insurance industry:

- Global insurance premiums are expected to grow by 3.4% in real terms in 2021, 3.3% in 2022, and 3.1% in 2023,
- The world insurance market is set to exceed US$7 trillion in premiums for the first time by mid-2022, earlier than expected, and
- Insurance profitability is supported by heightened risk awareness in both the life and non-life segments in the wake of the pandemic and continued strong rate hardening in non-life insurance commercial lines.

The insurance industry outlook said the study, "is also supported by a strong cyclical recovery from the COVID-19 shock, but economic growth is expected to slow in the next two years due to an unfolding energy price crisis, prolonged supply-side issues, and inflation risks." The pandemic raised risk awareness which is generating demand for more insurance protection. The pandemic shock has highlighted the important role the insurance industry plays as a risk absorber in times of crisis by providing financial relief to households, businesses, and governments.

Swiss Re Institute identifies three additional significant trends shaping the world economy and insurance markets for 2022 - climate change, digitalization, and the growing divergence of countries' growth and socio-economic indicators such as inequality – a potential downside risk. Increasing inequality could exacerbate social inflation, which is defined as the increase in insurance claims driven by large litigation costs.

Rapid decarbonization is becoming imperative, and societies' approach to transitioning to a green economy will determine the economic outlook. The insurance industry can support the transition to a low-carbon economy, not only by absorbing disaster losses but also by promoting sustainable infrastructure investments that help mitigate the impact of volatile, extreme weather.

"The reinsurance sector," observes Fitch, "will maintain very strong capital adequacy in 2021 and 2022 – a testament to prudent risk management, stronger earnings generation capability, and continued access to financial markets, which facilitates the issuance of new capital at favourable conditions

Adopting digital technologies is not only playing a role in increasing global productivity growth, but Swiss Re research also found that the pandemic has transformed consumers' receptiveness to interacting with insurance digitally, pointing to growth potential. However, increased digitalization and interconnectedness are adding to the current risks such as those related to cyber protection.

Fitch Ratings similarly revised its outlook for the global reinsurance sector to 'Improving' from 'Stable' in October 2021. This reflects the expected significant improvement in the sector's financial performance in 2021 and 2022 on the back of higher prices in a hardening market environment, a strong rebound in economic activity, and lower pandemic-related losses. These positive drivers, added Fitch, will only partially be offset by declining investment returns, a higher frequency and severity of natural catastrophe claims, and a temporary pick-up in inflation rates.

"The reinsurance sector," observes Fitch, "will maintain very strong capital adequacy in 2021 and 2022 – a testament to prudent risk management, stronger earnings generation capability, and continued access to financial markets, which facilitates the issuance of new capital at favourable conditions."

Total Insurance Premium Growth Forecasts in Real Terms

World	2021	2022	2023
Advanced Markets	3.4%	3.3%	3.1%
North America	2.3%	2.5%	2.2%
EMEA	4.9%	2.0%	2.0%
Asia Pacific	3.9%	3.6%	2.8%
China	1.5%	7.1%	6.9%
Emerging M. East	2.5%	4.7%	4.5%
Africa	1.9%	2.0%	2.6%

Source: Swiss Re Institute November 2021

Another important factor is the steady growth in Alternative Reinsurance Capital (ARC) – capital from investors in the form of collateralized reinsurance, catastrophe bonds, and reinsurance sidecars – to about US$97bn at Q2 2021, which now constitutes 15% of total reinsurance capital. Reinsurers are using ARC to lower their own total cost of capital, manage peak risk exposures, improve risk-adjusted returns and enhance their overall competitive positioning in the sector.

The above scenarios are subject to certain caveats, especially the emergence of extreme natural catastrophes. They have already been 'compromised' by an intensifying global inflation landscape which the IMF projects will persist well into 2022 if not beyond.

According to the Fund, "rising energy and food prices have fuelled higher inflation in many countries. These global factors may continue to increase inflation in 2022, especially high commodity food prices. A measure of inflation which strips out volatile fuel and food inflation, so-called core consumer price inflation has also risen but exhibits significant variation across countries."

Fitch maintains that the reinsurers it rates have generally been well-positioned to absorb pandemic-related losses so far, and uncertainty over the ultimate losses is diminishing for three main reasons:

a. The progress on vaccination, particularly in Europe and North America, has reduced the risk of excess mortality claims in life reinsurance, despite the spread of the Delta variant.

b. Infectious disease exclusions in renewed contingency and business-interruption treaties have mostly eliminated the risk of new pandemic-related claims from these business lines.

c. The business interruption losses reported so far in 2021 have been within expectations factored into incurred-but-not-reported claims reserves set aside in 2020.

"A measure of inflation which strips out volatile fuel and food inflation, so-called core consumer price inflation has also risen but exhibits significant variation across countries

Fitch expects "the reinsurance sector's combined ratio, normalized for large losses, to improve by 2pp–3pp in 2021 and another 1pp–2pp in 2022 as price increases gradually feed into underwriting margins. However, price rises are slowing due to strong capital supply and recovering profitability, and we expect risk-adjusted prices to remain largely unchanged in 2022. Reinsurance terms and conditions have tightened, with infectious disease and silent cyber coverage excluded from many renewed treaties. Renewals are also starting to be affected by ESG considerations, with some reinsurers reducing or withdrawing facultative reinsurance cover related to fossil fuels."

Trade credit insurers have also been resilient to the effects of the pandemic, helped by sound risk underwriting, limited corporate insolvencies, and government-backed reinsurance to maintain confidence in the sector, in recognition of its importance to global trade. "We expect the sector's 2021 results to be robust, supported by continued low default rates. Credit insurers have started to increase their risk appetite for new business as the economy recovers," added the rating agency.

Global Reinsurance Forecast 2020-2022

USD Millions	2020 Actual	2021 Forecast	2022 Forecast
Net Premiums Written	137,159	157,750	173,525
Catastrophe losses	8,577	13,600	16,200
Pandemic-related losses	4.9%	2.0%	2.0%
(non-life)	12,825	1,000	300
Net prior-year favourable reserve development	1,994	1,866	1,626
Calendar-year combined ratio (%)	105.0	95.8	94.9
Accident-year combined ratio (%)	106.5	97.1	95.9
Accident-year combined ratio excl. catastrophe/ pandemic-related (%)	90.3	87.3	85.8
Calendar-year operating ratio (%)	97.2	89.3	88.4
Shareholders' equity (excl. Berkshire Hathaway)	195,065	198,975	208,920
Net income RoE (excl. Berkshire Hathaway) (%)	2.2	10.0	10.4

Source: Fitch Ratings September 2021

Re/insurance's Climate Action Challenge

While the re/insurance industry made further progress on climate change resilience at November's COP26, the real challenge the sector faces is reducing or eliminating underwriting for carbon-related activities such as oil and gas and coal.

Climate change poses the biggest long-term threat to the global economy. According to the Swiss Re Institute, the world economy is set to lose up to 18% of GDP from climate change by 2050 if no mitigating actions are taken. Especially the risks from secondary perils, such as floods or wildfires, are growing, also driven by urbanization, exposing ever larger communities and assets to extreme climate events.

> **"According to the Swiss Re Institute, the world economy is set to lose up to 18% of GDP from climate change by 2050 if no mitigating actions are taken. Especially the risks from secondary perils, such as floods or wildfires, are growing, also driven by urbanization**

In Glasgow, the industry unveiled two initiatives to advance greater climate resilience globally. The Insurance Development Forum, an industry-led public-private initiative that aims to improve countries' natural disaster resilience through insurance and risk management, launched: i) the Global Risk Modelling Alliance, which seeks to improve climate-vulnerable countries' access to risk modelling; and ii) co-established the Global Resilience Index Initiative to create a global model for measuring climate resilience.

The aim is to build up public-sector support for both initiatives and to get the Global Resilience Index Initiative started by COP27, scheduled to be held in Egypt in November 2022.

It is no secret that re/insurance companies have come under fire for the industry's continued support for oil and gas underwriting, raising questions about their progress towards and commitment to the UN SDG Agenda and the Paris Climate Agreement. But they have made rapid progress in exiting coal underwriting.

At COP26, insurance industry representatives ruled out ceasing insuring fossil fuels entirely. Instead, they are focussing on helping companies transitioning to renewable clean energy. Just transition to clean energy raises its own issues especially if it is not structured in an inclusive way which takes into consideration all stakeholders.

In an interview with S&P Global Market Intelligence, Peter Bosshard, Global Coordinator of the Insure Our Future campaign, stressed that any engagement with fossil fuel companies on a transition "should be time-restricted and have consequences; otherwise, insurers are just "kicking the can down the road." A first step should be to stop insuring the expansion of oil and gas production and new exploration – a tall order given that middle and low-income countries are heavily dependent on oil, gas, and coal revenues.

Swiss Re, for instance, announced a "long-term objective to exit coal-based assets for the portfolio by 2030," but there was no such commitment for its oil and gas portfolio.

Another two important initiatives are: i) the UN-convened Net-Zero Insurance Alliance (NZIA) consisting of 14 major insurers and Lloyd's of London, which has pledged to reduce the greenhouse gas emissions in their underwriting portfolios to net-zero by 2050; and ii) the development by NZIA, the Partnership for Carbon Accounting Financials and the UNEP's Principles for Sustainable Insurance Initiative, of a global standard for measuring and disclosing insured greenhouse gas emissions, scheduled for late 2022.

The problem is that the approach to commit to climate resilience and action by the major insurers and reinsurers is at best piecemeal and individualistic in underwriting activities whose consequences respect no borders or nationalities.

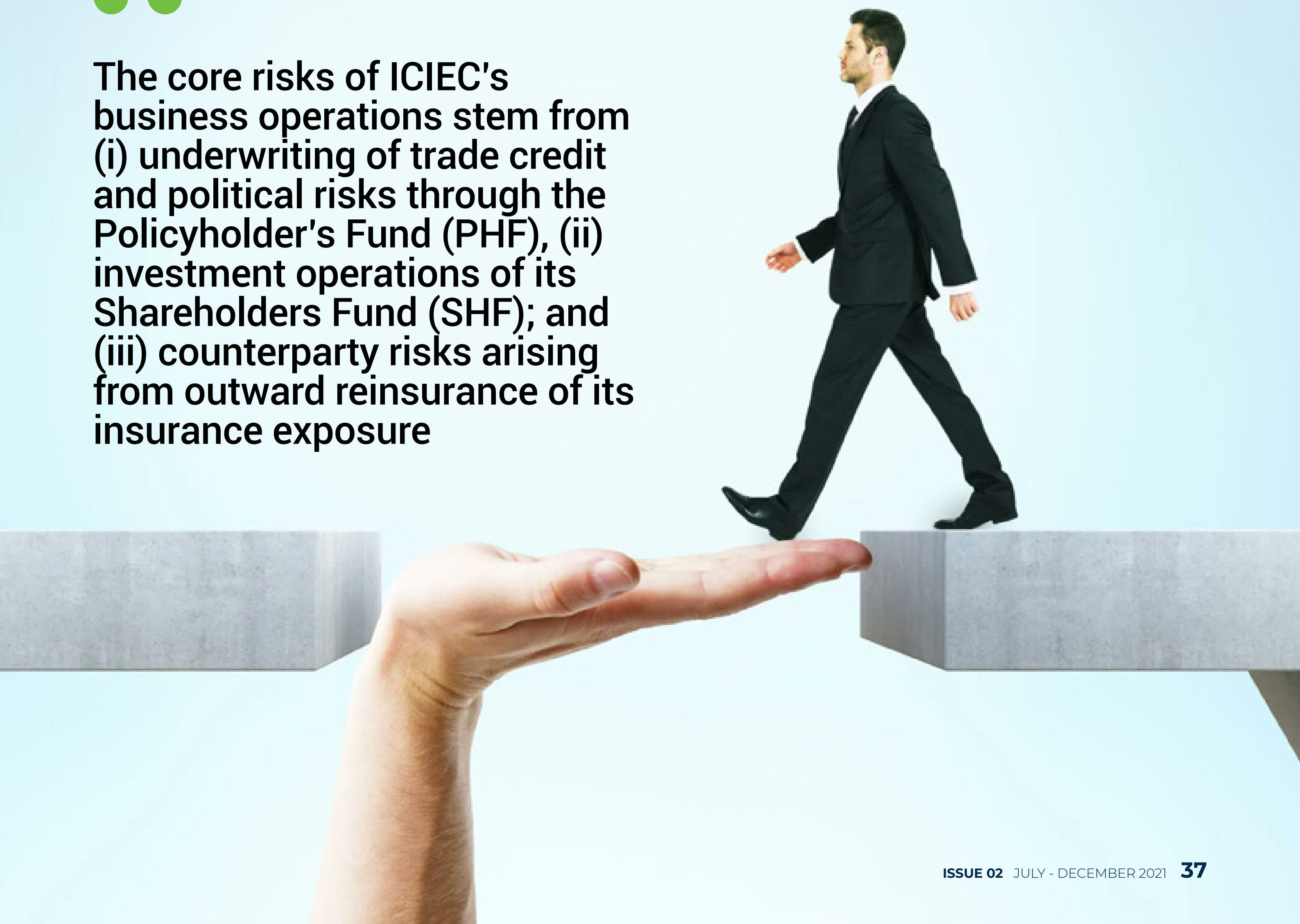
Rising Risks
Changing Mitigation

Tauhidur Rahman,
Manager, Risk Management Division

Reimaging ICIEC's Risk Management Process During the Pandemic and Beyond

"

The core risks of ICIEC's business operations stem from (i) underwriting of trade credit and political risks through the Policyholder's Fund (PHF), (ii) investment operations of its Shareholders Fund (SHF); and (iii) counterparty risks arising from outward reinsurance of its insurance exposure



Other risks arise from its overall activities in diverse and complex forms being a specialized multilateral insurer (SMI).

ICIEC Risk Management function was set up to strengthen the core risk functions by institutionalizing a systematic risk-based approach for the Corporation's strategic direction, the growth trajectory for its business and operations. This balanced risk management process is adopted to ensure long-term financial sustainability, upkeeping its credit fundamentals and maintaining standard all-time basis solvency.

ICIEC has recently made significant strides to strengthen its risk management paradigm and achieved appreciable milestones. The progress achieved was quite significant and timely with the advent of the COVID-19 pandemic in the Spring of 2020, negatively impacting the Credit and Political Risk Industry (CPRI) and heightening credit risk defaults amongst corporates and financial institutions. The pandemic created harsh economic and human challenges across ICIEC operating countries.

Throughout the pandemic period, ICIEC took a balanced approach, supporting Member Countries to combat the pandemic while maintaining a sound portfolio with robust risk management, prudent underwriting, and loss minimization efforts. Undoubtedly, the pivotal role of Risk Management helped the Corporation to successfully navigate the crisis period and uphold its strong credit profile thus far.

This was further enhanced by the strong follow-up and prudent monitoring using effective risk management capabilities and the management's timely intervention in strategic key points supported by the IsDB Group Synergy.

ICIEC's Strategic Risk Priorities (2021-2024)

The Corporation's target of implementing a fully-fledged Enterprise Risk Management (ERM) architecture as an enabler to achieving its strategic goals sets the foundation for the priorities for the coming Five-Year Risk Strategy. The ERM framework shall be bespoke and forward-looking, tailored towards ICIEC's multilateral status and self-regulated business model adapted by the COVID-19 paradigm shift and new ways of doing business.

By adopting the ERM approach, ICIEC plans to achieve the following specific objectives:

- Keeping abreast of risk matters by defining, interpreting, and articulating the risk profile of the Corporation in line with its strategic direction that is tailored to its business model and multilateral status;
- Controlled risk-taking by establishing a clear Risk Appetite Statement (RAS);
- Providing effective risk solutions to maximize opportunities and reduce claims/operational losses by establishing risk control oversight for prudent underwriting of the PHF and investment management of the SHF;
- Ensuring capital protection, solvency, and resilience to absorb shocks and maintain business continuity through undertaking stress tests and other proactive risk management activities;
- Establishing robust risk culture to influence optimal decision-making processes and operational procedures, thereby safeguarding the Corporation from both excessive and passive risk-taking in the execution of business plans and activities.

In line with the aforementioned, a comprehensive Risk Management Plan was put in place in 2018 to align with the 10-year Strategy of the Corporation. The Plan has since been revised in consonance with the 5-Year Mid-Term Strategy Review.

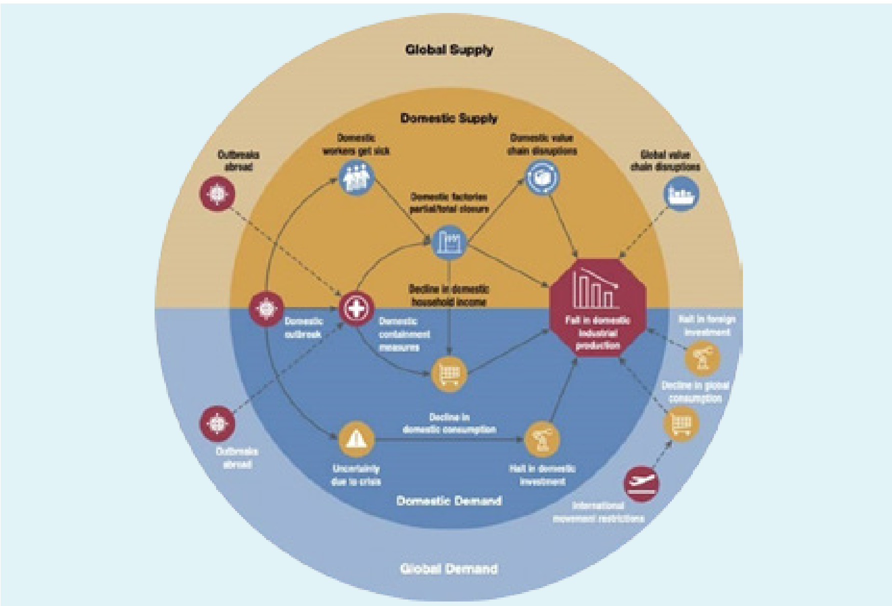
The strategic risk priorities of the Corporation for the next five years (2021–2024) includes:

i) The implementation of an ERM framework thereby establishing a structured and integrated approach

“

ICIEC Risk Management function was set up to strengthen the core risk functions by institutionalizing a systematic risk-based approach for the Corporation's strategic direction, the growth trajectory for its business and operations

Framework connecting the COVID-19 outbreak to Industrial Production



The ERM Process

towards managing risk in the core business processes;

ii) Embedding the Risk Capital Model as the center of the financial risk paradigm;

iii) Establishment of an Exposure Management Framework as the basis for risk-based limit setting;

iv) Developing a risk-based pricing model;

v) Enhancing risk parameters, recalibrating Probability of Default (PD) and Loss Given Default (LGD) models and creating a dynamic risk dashboard;

vi) Implementation of a robust Stress Testing Framework and Own Risk and Solvency Assessment (ORSA) to maintain all-time solvency and strong capitalization aligned with target rating;

vii) Undertaking Counterparty Credit Risk Assessment for Investments and Reinsurance partners;

viii) Deployment of extensive digitalization of processes, reporting, quantitative modelling-monitoring tools, and Key Risk Indicators (KRIs) to flag emerging risks;

ix) Strengthening risk governance and the role of risk function to implement the transformation agenda in building a robust risk culture across ICIEC;

x) Enhancement of the Expected Loss (EL) measurement process and portfolio reserving aligned with IFRS-9 and IFRS-17;

xi) Development and implementation of an Operational Risk Management (ORM) framework; and

xii) Enhancement of risk monitoring and reporting to ensure that risks are consistently monitored and reported.

Key Achievements of ICIEC from Risk Management Perspective

In accordance with the plan to strengthen the risk management function, approved by its Board of Directors, ICIEC undertook various initiatives to enhance its risk management practices.

Subsequently, several activities and initiatives were embarked upon, which has contributed significantly to the realignment of strategic objectives of the Corporation in managing risks throughout the crisis period and during the recovery phase. Some of the major milestones of ICIEC that has contributed to the strengthening of its risk management includes the development and implementation of models and framework through:

A Risk Management Framework - which provides general policies and guidelines consistent with sound risk management principles in line with global best practices.

A Risk Capital Model - used to aggregate capital over risk sub-types, quantify portfolio risks by setting risk parameters, calculate risk capital, determine capital adequacy to back the risk-taking, supply inputs for headroom capacity and limit control and provide a consistent way of describing the risk implications for the Corporation of different business decisions.

An Exposure Management Framework - derived from the credit risk measures provided by the Capital Model and providing a more granular approach to limit setting with linkage to the risk of actual exposures, thus contributing to the efficient deployment of scarce, risk-bearing capacity. It outlines the ideal layout of the risk exposure employing dynamic and fine-grained portfolio thresholds to support diversification, thereby reducing concentration risks. The framework uses the method of Maximum Loss Exposure (MLE) and is dependent on a confidence percentile defined for different risk classes.

A Portfolio Reserving Framework - defines the principles related to technical provision (or 'Technical Reserves') to ensure that ICIEC sets aside adequate reserves on an expected claim loss basis replacing the existing practice of Incurred But Not Reported (IBNR) in line with risk reporting best practices.

Other policies and initiatives that have enhanced the Corporation's risk management processes and practices include, amongst others, the application, for the first time, a RAS which articulates in written form the aggregate level and types of risk that the Corporation is willing to accept, or to avoid, in order to achieve its business objectives; development of the ICIEC Liquidity Policy towards managing liquidity risk that provides guidelines for identifying, measuring, controlling, monitoring, and reporting liquidity risk in a consistent manner across the Corporation; origination of an internal Country Risk Rating Model for Member and Non-Member countries; and preparation of a Risk Management Perception (RMP) as a management handbook for all operating countries.

The RMP highlights the risk trigger events to provide a quick view with high-level risk management guidelines shaped by the Risk Appetite of the Corporation in the structure of brief Country Risk Analysis reports, and the revamp of the Country

> **"Contributed significantly to the realignment of strategic objectives of the Corporation in managing risks throughout the crisis period and during the recovery phase**

Risk Assessment (CRA) report. The CRA report provides the broader aspects of the upside and downside risks relating to trade and investment and its impact on political risk perils idiosyncratically as well as commercial risks of the country.

Plans and Initiatives

ICIEC aims to consolidate the achievements made so far by strengthening the risk management practices and architecture to support the achievement of the 10-year strategy.

Subsequently, the near future plans of ICIEC from a risk perspective includes the development and implementation of new policies and framework through:

a) A Country Risk Management Framework - including Risk Management Perception, Country Risk Assessment Report, Country and Sector Risk Management;

b) A Capital Risk Management and Solvency Framework – which broadly defines risk-based capital management policies and methodologies for capital adequacy and optimization to support ICIEC's operations;

c) A Stress Testing Framework – establishing criteria for assessing the probable expected and unexpected losses from its operations as well as the economic capital requirement for insurance and investment portfolios considering extra-ordinary shocks;

d) An Operational Risk Management Framework - incorporating the overall framework for managing risks relating to human resources, processes, systems, particularly IT system and internal/ external threats with methodologies e.g., KRIs, Risk Control Self-Assessment (RCSA), loss data, business continuity, and product risk assessment etc;

e) A Market and Liquidity Risk Management Framework - primarily focused on Investment/Liquid Fund Risk Management Framework of SHF, foreign exchange, equity (SHF), rate of return risks, pricing and liquidity assessment in relation to solvency and credit rating;

f) An Enterprise Risk Management Framework (Operational Risk Infrastructure);

g) IFRS 9 - to enhance the scientific approach of a Portfolio Technical Reserve Mechanism based on the Excepted Claim Loss (ECL) in a forward-looking way;

h) Enhanced Risk Parameters (PD, LGD models) - the parameters will be key inputs to risk management calculations, including portfolio, reserving, the estimation of economic capital, limit setting, risk-based pricing model, and stress testing calculations using the exposure management system within the Risk Framework of the Corporation; and

i) A Risk-Based Pricing Model - dynamic and commensurate with the risk profile of ICIEC benefiting from its risk capital which will provide the basis for determining the fundamental cost of risks viz-the portfolio cost (risk capital charge and technical reserve), the administrative cost, and a risk margin.

“Other initiatives aimed at promoting the risk culture of ICIEC include the preparation of a Risk Bulletin to cover the sector insights, industry updates, and recent risk management developments

Other initiatives aimed at promoting the risk culture of ICIEC include the preparation of a Risk Bulletin to cover the sector insights, industry updates, and recent risk management developments; preparation of sector risk insights and outlook for publication in Impact Insurance magazine; and digitization of the Risk Management Process and activities by designing a real-time dashboard to represent all operational activities.

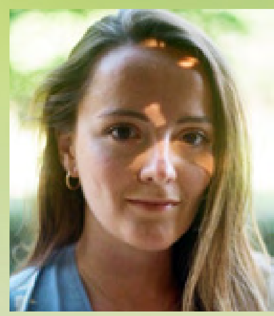
Analysis

Measuring Impact Investment and Insurance in Sustainable Development

Managing for Impact in Sustainable Development Investments:

Why We Need Standards to Build Forward Better and Greener





Fabienne Michaux,
Director of SDG Impact- UNDP

Priscilla Boiardi,
Policy Analyst, Financing Sustainable Development Division-OECD

Esme Stout,
Junior Policy Analyst, Financing Sustainable Development Division-OECD

A growing number of multilaterals, investors, and corporates aim at coupling financial returns in developing countries with positive social, economic, and environmental impacts. However, the way they measure those impacts can be at odds with actual managing practices. There are several conventions measuring investment impact which overlap and differ, thus causing confusion. Important aspects such as transparency, the protection of human rights, and local stakeholder consultation are not systematically taken into account. The OECD-UNDP Impact Standards for Financing Sustainable Development provide a framework for donors, domestic financial institutions, and their private sector partners to make financial decisions and manage projects in ways that generate a positive impact on sustainable development and improve the transparency of development results. ***Fabienne Michaux,*** Director of SDG Impact at UNDP, ***Priscilla Boiardi***, Policy Analyst and ***Esme Stout***, Junior Policy Analyst – both in the Financing Sustainable Development Division at OECD, demystify the impact investment measurement universe, its shortcomings and stress the need to integrate measurement practice into effective ways to manage for impact

> In the development finance space, a growing number of investors and corporates demonstrate an increasing interest in coupling the financial returns they generate in developing countries with positive social, economic, and environmental impacts. This is a positive signal because it shows that private finance is eager to play a central role in building forward better and in achieving the UN Sustainable Development Goals (SDGs)

As we fight our way out of the COVID-19 pandemic, there is no longer an option to pursue profit without considering the environmental and social impacts generated by investments.

Economic systems are increasingly unstable and unable to respond to shocks at the pace and scale we want them to. Long-term trends like climate change, accelerating biodiversity loss, increasing population growth, and inequality are driving the interdependency of economic, social, and environmental outcomes. Fundamentally, the pandemic has exposed the failures of an economic paradigm that socializes risks and privatizes profits in its pursuit of infinite wealth from finite resources. At the same time, this global crisis has illuminated where the opportunities in building forward better and greener lie.

In the development finance space, a growing number of investors and corporates demonstrate an increasing interest in coupling the financial returns they generate in developing countries with positive social, economic, and environmental impacts. This is a positive signal because it shows that private finance is eager to play a central role in building forward better and in achieving the UN Sustainable Development Goals (SDGs).

However, these investors have been focussing extensively on how they can measure those impacts and less on their actual management practices. Through the years, policymakers have developed several distinct yet overlapping conventions for measuring impact, generating confusion, and exaggerating the need for precise calculations and accounts. Instead, it is important to understand why certain data is collected and how it can help improve both people and the planet.

The practice of impact measurement, which is about assessing expected impacts, monitoring over time, and evaluating results, is crucial but insufficient alone. On its own, impact measurement doesn't tell investors whether they are doing or measuring the right things and doesn't tell them what to do with the information when they have it. To be truly useful, we need to integrate impact measurement practice into effective ways to manage for impact.

In addition, mere measurement and reporting on indicators without radically changing behaviour risks biasing development finance providers and overlooking transparency, the protection of human rights, and local stakeholder consultation. Evidence confirms that, up until now, these critical areas remain systematically neglected in the development finance ecosystem.

What are the OECD-UNDP Impact Standards for Financing Sustainable Development

Effective impact management is about radically changing the way we do business and invest. It is about changing the way in which organizations and investors embed positive and negative impact considerations into their strategy, management approach, transparency provisions, and governance.

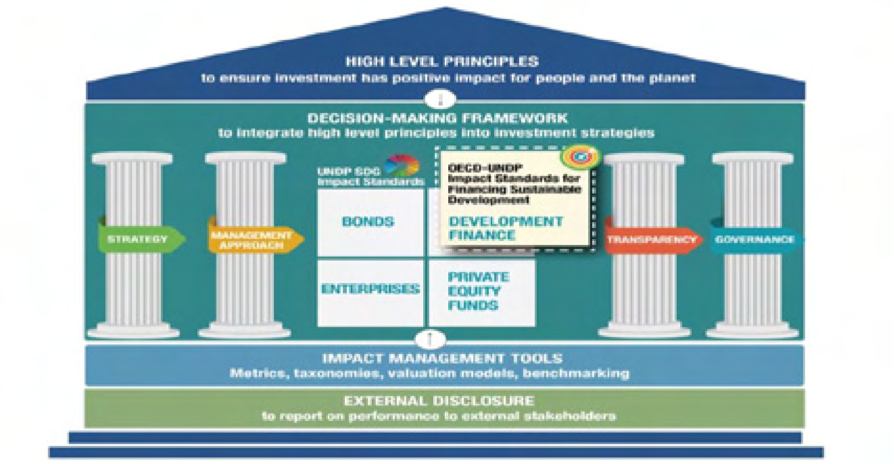
In particular, the OECD-UNDP Impact Standards for Financing Sustainable Development (IS-FSD) provide a framework for donors, domestic financial institutions, and their private sector partners to make financial decisions and manage projects in ways that generate a positive impact on sustainable development and improve the transparency of development results. The Standards build on four areas: strategy, management approach, transparency, and governance.

Approved by the OECD Development Assistance Committee (DAC) on 26 March 2021, the Standards constitute a best-practice guide and self-assessment tool to assist (primarily) donors, development finance institutions, and private sector partners seeking to optimize their positive contribution to the SDGs, promote impact integrity and avoid impact washing.

The Standards represent part of the UNDP SDG Impact suite of Standards, spanning enterprises, bond issuers, and private equity funds. They set the bar for management best practices that embed sustainability at the core of an organization. They aim to foster a management mindset change, in which sustainability becomes central to decision-making. In other words, no longer an add-on to what business does, but how all business is done.

Together, the four sets of standards constitute a harmonized impact management framework that connects different actors in the system through a shared language and approach to achieving the SDGs. As a result, the Standards fill gaps in current SDG-undermining market practices and facilitate the creation of an enabling environment necessary for greater cross-sector collaboration and innovation in SDG financing solutions.

Mapping of the exisitng impact management principles, frameworks and tools (2021)



The Standards build on and complement existing work undertaken by other industry-led initiatives on impact management and measurement. While ambitious, they help to make high-level impact management principles actionable and provide the necessary context to guide the choice of which frameworks, methodologies, and tools should be used to appropriately measure and manage the impact.

By creating a robust internal impact management system, organizations that adopt the Standards will also be in a much better position to meet the growing sustainability reporting and disclosure requirements and expectations of governments, regulators, investors, and other stakeholders.

Impact Standards help create and grow development finance markets

Overall, broad implementation of the Standards will help all providers of development finance to fulfil the pledge to "leave no one behind" with integrity. By adopting the Standards and embracing their logic, organizations engage in proactively managing the positive and negative intended and unintended economic, social and environmental impacts that their business and investment decision have on people and the planet. Consequently, this will lead to more resources flowing towards business models and ideas that can increase positive development impacts and reduce negative ones.

The development of the Standards and their accompanying Guidance helps to demonstrate to organizations what success looks like, minimizing discrepancies in the quality of self-reported data, which in itself risks SDG- and impact-washing. A secondary effect of a more transparent, data-rich ecosystem is the development of the sustainable finance market. Access to data on business models that work to solve specific social or environmental issues helps reduce the (perceived) risks associated with such investments and unlock the market for more traditionally risk-averse actors, such as institutional investors.

An additional advantage of adopting the Standards is the enhanced ability for providers of development finance to future-proof their investment strategies, and management approaches. The pandemic has shown that previously overlooked environmental and social risks, such as climate change, social unrest, and migration, can have unexpected effects on the financial value of assets.

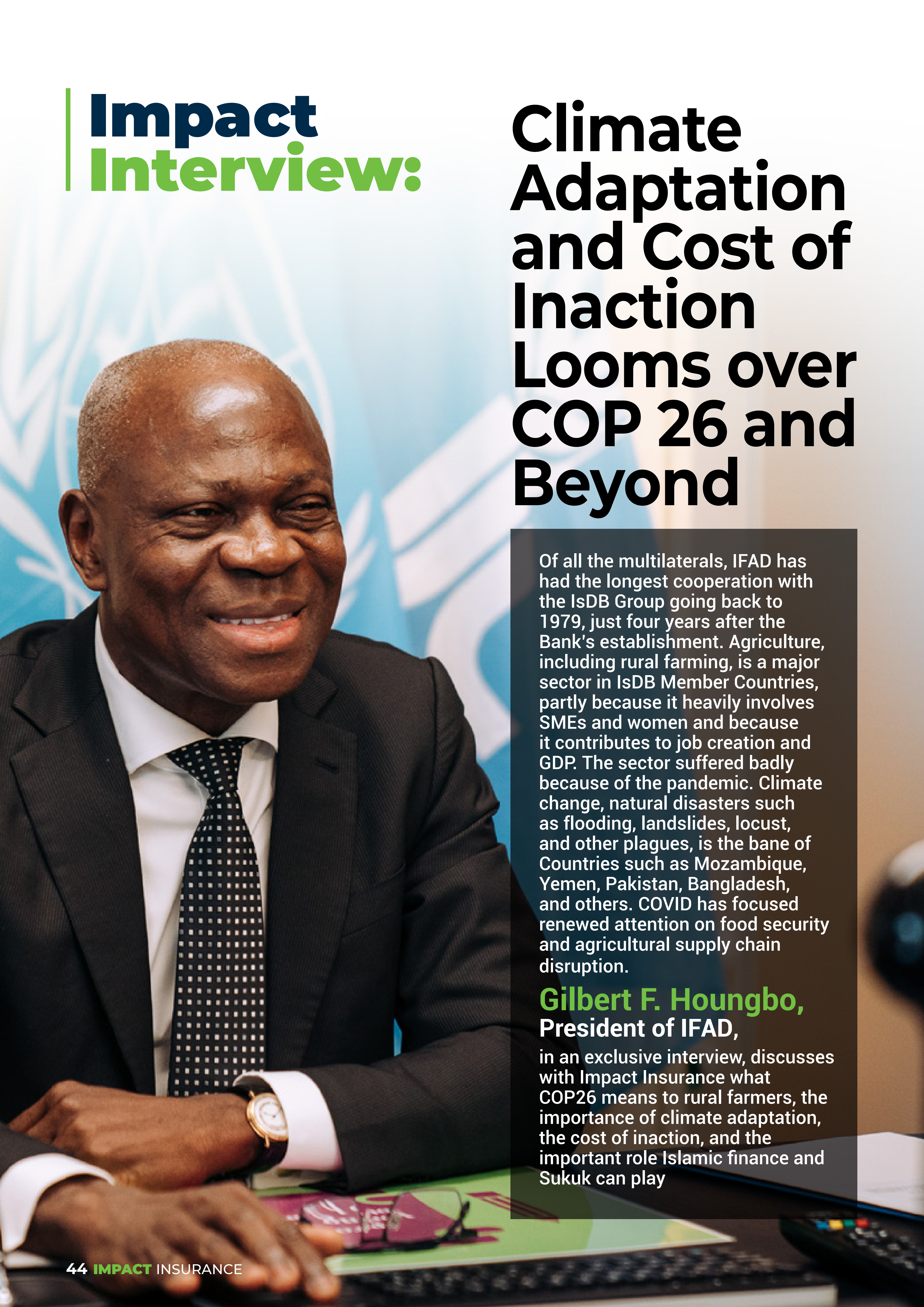
Improving impact integrity and transparency through assurance

Authenticating good practice through independent assurance reduces the aforementioned risk of SDG-washing and provides much-needed credibility for the market. Due to launch in 2022, the SDG Impact Assurance Framework serves to drive more consistent implementation and underpins continuous improvement towards best practices in line with the SDG Impact Standards. The open-source framework will also support a level of transparency currently lacking in those proprietary assurance approaches that do not disclose their underlying methodologies

The SDG Impact Seal recognizes those organizations who strive to align with the SDG Impact Standards but are currently more likely to be contributing positively to sustainability by meeting a minimum threshold. The SDG Impact Seal recognizes their demonstrated commitment to continuous improvement and progress towards best practice.

To build forward greener from COVID-19, to achieve the SDGs and reorient the world towards a more sustainable and equitable path, we need a transformational shift in business and investment mindset and decision-making that puts sustainability at the heart of management decision-making. The OECD-UNDP Impact Standards for Financing Sustainable Development (IS-FSD), alongside the SDG Impact Standards, provide the frameworks to help us get there together.

* **Priscilla Boiardi**, is a Policy Analyst in the Financing Sustainable Development Division at the Organisation for Economic Cooperation and Development (OECD). She has over 10 years of research experience in private finance and social investment. Previously, Priscilla was Knowledge Centre and Policy Director at the European Venture Philanthropy Association (EVPA), leading research, training, and policy.
* **Fabienne Michaux** is the Director of SDG Impact, a United Nations Development Programme (UNDP) initiative focused on mobilizing private sector capital in support of the SDGs. She also chairs the Australian Advisory Board on Impact Investing's Market Building Working Group, and previously worked at S&P Global Ratings as Australian Country Head and Head of Developed Markets Asia-Pacific.
* **Esme Stout** is a Junior Policy Analyst in the Financing Sustainable Development Division at the OECD. She previously worked for the UK Foreign, Commonwealth, and Development Office in Paris and Brussels. Esme holds a Master's Degree in International Security from Sciences Po, Paris, and a Bachelor in History from the University of Oxford.



Impact Interview:

Climate Adaptation and Cost of Inaction Looms over COP 26 and Beyond

Of all the multilaterals, IFAD has had the longest cooperation with the IsDB Group going back to 1979, just four years after the Bank's establishment. Agriculture, including rural farming, is a major sector in IsDB Member Countries, partly because it heavily involves SMEs and women and because it contributes to job creation and GDP. The sector suffered badly because of the pandemic. Climate change, natural disasters such as flooding, landslides, locust, and other plagues, is the bane of Countries such as Mozambique, Yemen, Pakistan, Bangladesh, and others. COVID has focused renewed attention on food security and agricultural supply chain disruption.

Gilbert F. Houngbo,
President of IFAD,

in an exclusive interview, discusses with Impact Insurance what COP26 means to rural farmers, the importance of climate adaptation, the cost of inaction, and the important role Islamic finance and Sukuk can play

Impact Insurance: Given that rural farmers are disproportionately impacted by climate change, what are your thoughts about the outcome and shortcomings of COP26 in Glasgow?

Gilbert Houngbo: COP26 strengthened the importance of adaptation on the global stage. The Glasgow Climate Pact includes an unprecedented goal for developed countries to double the funding provided to developing countries for adaptation by 2025, taking the annual figure to around US$40bn.

Going forward, it will be important that this finance is mobilized, but it must be new and additional finance. We cannot start relabelling existing flows or converting official development assistance (ODA). This crisis needs additional finance to respond to climate change, and the only new funding will suffice.

As the number of weather-related disasters has increased five-fold over the past 50 years, investments in adaptation are urgently needed in both developing and developed countries. We must ensure that developing countries and vulnerable people receive their fair share of climate finance. Currently, small-scale farmers only receive 1.7 percent of tracked climate finance. Rural people in developing countries are already paying a huge price for the impacts of climate change and related disasters, so adaptation is crucial to securing their livelihoods and well-being. In 2020, it was estimated that extreme climate drove 30 million people from their homes.

Ensuring that small-scale farmers receive adequate adaptation finance is crucial. The most notable pledge to adaptation amounted to US$356m to the UN Framework Convention on Climate Change (UNFCC) Adaptation Fund – however, the adaptation finance gap currently sits at US$180-300bn per year until 2030.

IFAD works to address climate justice by putting the most vulnerable, those at the mercy of climate change today, at the heart of climate action. It prioritizes socially inclusive approaches to climate adaptation, mitigation, and finance for rural farmers, working with donor and recipient governments, private investors, civil society organizations, and the small-scale farmers on the frontlines of climate change.

Additionally, the Koronivia Joint Work on Agriculture (KJWA), a landmark decision recognizing climate change, agriculture, and food security must be addressed in a holistic manner, is set to continue, with conclusions in Glasgow setting a new goal of "recommending a draft decision for consideration and adoption" on agriculture, food security and climate change at COP27 in November 2022.

IFAD will continue to engage in the KJWA deliberations as a UN observer and stands ready to support parties by sharing IFAD experience and to partner with countries seeking to finance and implement their national priorities for climate action in agriculture. We aim to collaborate closely with UNFCC and the Food and Agriculture Organization (FAO) on Koronivia in 2022.

IFAD's own estimates put annual climate adaptation costs in developing countries at US$140bn-US$300bn per year by 2030. If COP26 could not fulfill the US$100bn climate finance ask from developed countries agreed in Paris, what hope is there going forward?

Whilst a discussion of the gaps is important, I think the stronger message to the world should be the cost of inaction. Whilst these numbers seem high and the gaps insurmountable, this is nothing compared to the costs we will bear, both financially and in terms of lives and livelihoods lost, if we do nothing. There is a clear economic argument for action. While global estimates of finance are a tangible guide or target for what is required for climate action and sustainable development – the bang for the buck of every dollar invested from the finance that is currently available is an equally important consideration.

> **"IFAD works to address climate justice by putting the most vulnerable, those at the mercy of climate change today, at the heart of climate action**

The goal in Glasgow was not to set a specific number but to establish a process for countries to learn, deliberate, and decide how much finance developed countries (those able and willing to do so) will provide and mobilize. Developed countries pointed to their efforts to provide and mobilize greater climate finance and to improve the transparency of their plans to provide finance as a way to improve the predictability of climate finance flows.

For IFAD, the targeting of our investments is key to optimizing their impact. IFAD targets small-scale agricultural producers and the rural poor, including women, youth, and Indigenous Peoples, to help to build thriving and sustainable rural economies that offer remunerative livelihood opportunities to rural people. Capacity building is a centrepiece of IFAD projects as it enables rural people to continue to drive development, invest in their communities and build resilience. IFAD carries out impact assessments on 15 percent of its portfolio to provide evidence of the impact of our investments, to learn and scale up successes, and to promote systemic change.

While maximizing the impact of investments and sharing knowledge and experiences is of the utmost importance, political will and ambition are also required to deliver a global boost to the fight against climate change. IFAD has a significant portfolio of experience and knowledge to leverage in climate adaptation – which could be put to more effective use if governments mobilize to meet their commitment to deliver US$100bn per year and mobilize greater (at least double) adaptation finance in the wake of COP26.

The goal in Glasgow was not to set a specific number but to establish a process for countries to learn, deliberate, and decide how much finance developed countries (those able and willing to do so) will provide and mobilize

What are the real economic and life consequences for food security, hunger, and poverty alleviation, boosting rural farmer income, productivity, and sustainability and contributing to preserving biodiversity if climate mitigation does not progress at the required pace and climate adaptation finance remains pitifully meager?

Failure to adapt to current and future impacts of climate change and to mitigate the rise in global temperatures will have devastating impacts on the entire planet. Poor rural people are suffering already and will continue to suffer the most if we do not help to build their resilience and capacities to adapt.

The difference between a temperature increase of 1.5°C and 2°C is:

• Some 70 or 99% of coral reefs dying,

• Doubles the likelihood that insects and other vital pollinators lose half their habitat,

• Ice-less summers in the Arctic Ocean once per century or once per decade,

• One meter added in sea-level rise; and

• Six million or 16 million affected by sea-level rise in coastal areas by the end of this century.

Additionally, the increased frequency of extreme weather events and compounding impacts of different events - eg fires followed by flooding - will have severe and unpredictable impacts on millions of people.

Some 2 to 3 billion people depend on small-scale agriculture for their livelihoods. Amongst this group is the world's poorest, most food insecure, and most vulnerable. In tropical countries, 1.2 billion people (30 percent of their population) are highly dependent on nature for basic human needs, including food, clean water, and energy – and lack alternatives. Failure to mitigate and adapt effectively will lead to increased poverty, hunger, displacement, conflict, and climate-related deaths, starting with the world's poorest and most vulnerable populations, including small-scale farmers who produce a third of the world's food. If we do not invest and act, there is a global food crisis waiting in the wings.

Food systems are responsible for an estimated 37% of greenhouse gas emissions and are also highly vulnerable to a changing climate. This includes rural, small farmers, and agri-SMEs. Look at the annual crop stubble burning by northern Indian farmers, which does not only contribute to emissions but also to poor air quality. How do we mitigate these oversights?

To mitigate these oversights, we have to invest in small-scale farmers and climate adaptation. Poor rural farmers lack the capacities and resources to adapt, and their circumstances can force them to rely on negative coping strategies. The cost of inaction is far greater than the cost of action. Investing in green, sustainable small-scale agriculture and food systems can alleviate national burdens of ill-health (from pollution), malnutrition (in terms of productivity), environmental degradation, loss of ecosystem services, and recovery from disasters.

IFAD is well placed to help connect the needs of small-scale farmers to national and global agendas, and IFAD projects contribute to countries' nationally determined contributions (NDCs) and national adaptation plans (NAPs). Off the back of COP26, IFAD is aiming to foster strengthened collaboration with, among others, the NDC Partnership, the Africa NDC Hub, and the UN4NAP initiative, thereby facilitating enhanced policy, technical and financial support by IFAD to countries. This will help governments to effectively implement their existing national climate plans and update/enhance their national climate plans to increase the focus and ambition with respect to the small-scale agriculture and rural sector. Relative to the latter, IFAD will aim to respond to requests from countries in light of the Glasgow Climate Pact to ratchet their ambitions in 2022.

IFAD's relationship with the IsDB Group goes back to 1979. An IFAD delegation visited the IsDB in Jeddah in October. How important is Islamic finance in your financing mix?

IFAD and the IsDB have a long history of collaboration. Our two institutions both strive to improve the lives of those we serve and contribute to ending poverty. We have multiple areas of common interests, including agricultural and rural development, improved access to markets and rural financial services, climate resilience, technology, and innovation. These are all entry points to jointly promote sustainable food systems transformation, in line with commitments made at the UN Food Systems Summit, G20, and COP26.

Our partnership with the IsDB is strong and becoming even stronger. The signing of a new Cooperation Framework Agreement between our two institutions in April provides new opportunities to strengthen our partnership through co-financing and technical, knowledge, and advocacy cooperation. We have committed to jointly finance priority projects over the next five years with a target of US$500m (US$250m from each institution), focusing on support to agribusiness and farmers-market linkages, improved access to markets and rural financial services, water for rural development and South-South and Triangular Cooperation.

> Both IFAD and IsDB have recently undergone restructuring and decentralization, establishing major hubs and regional offices in Africa and Asia. This provides significant opportunities for exchange at the country level

To achieve the Sustainable Development Goals (SDGs) by 2030, we need to mobilize innovative forms of financing and deliver on the UN Secretary General's call to deepen the transformation of development finance systems. Recent estimates suggest that transforming food systems to deliver healthy people, the planet, and the economy will require an extra US$300-US$350bn per year for the next decade. We need to maximize all sources of finance for development.

According to recent OECD estimates, Islamic finance represents US$2.5 trillion – a share of which could potentially be mobilized for development. There is significant scope to leverage several Islamic finance concepts and tools, notably some of the most promising ones, such as Zakat, Waqf, Sukuk, and Islamic Microfinancing, to accelerate the SDGs. Recently, IFAD has taken steps to expand our financing mix, creating new instruments to engage with the private sector and expanding IFAD's lender base and the borrowing instruments at IFAD's disposal. We welcome opportunities to partner with the IsDB in exploring innovative forms of financing, including Islamic finance.

IsDB and IFAD signed a new US$500m Cooperation and Co-financing Framework Agreement (CCFA) for the next five-year period in April. Can you update us on the progress in the implementation of initiatives and projects?

IFAD's 2021-2025 Cooperation and Co-financing Framework Agreement with the IsDB aims to scale up co-financing and knowledge sharing in areas of mutual interest in a structured and predictable manner. Both IFAD and IsDB have recently undergone restructuring and decentralization, establishing major hubs and regional offices in Africa and Asia. This provides significant opportunities for exchange at the country level. We have also developed new instruments to engage with the private sector and are increasingly focused on climate resilience.

In October 2021, our regional teams had the opportunity to discuss collaboration at the country level. Further exchanges will take place through a follow-up mission from IsDB to IFAD. This will enable our technical teams to finalize an action plan for implementation over the coming years, including a pipeline of joint activities in our common 57 Member States. We will then have opportunities to assess results from our joint activities on an annual basis and make course corrections as needed. So far, we see cooperation opportunities in a number of areas, particularly around private sector engagement, climate, and South-South and Triangular Cooperation (SSTC).

IFAD is seeking to leverage and enable more private sector investment and involvement in the small-scale agricultural sector. With the establishment of IFAD's new instruments and the Islamic Corporation for the Development of the Private Sector's long history of working with the private sector, we can explore how to jointly encourage private sector investment in agriculture and rural development.

Climate change is one of the most pressing challenges of our time, having a significant impact on critical and vulnerable communities, particularly rural people and ecosystems around the world. Both IFAD and IsDB seek to address challenges related to the impacts of climate change. Recently, IFAD launched the Enhanced Adaptation for Smallholder Agriculture Programme (ASAP+). It is a 100 percent climate financing mechanism, and given the success, we had in preceding versions of this program, we are scaling it up to make it the largest fund dedicated to climate finance for small-scale producers.

Through this program, we aim to channel US$500m of additional climate finance, targeting more than 10 million rural people by increasing the resilience of small-scale food producers as they adapt to the changing weather patterns. In addition to our core operations, ASAP+ provides significant scope for collaboration with the IsDB around climate change. IFAD is strongly committed to SSTC. Over recent years, we have mainstreamed SSTC in our operations, with currently 22 projects with SSTC components under implementation. We are now developing a new Strategy on SSTC. Its objective is to contribute to doubling and deepening IFAD's impact. This provides opportunities for collaboration with the IsDB.

Several multilaterals, including the IFC, AFC, and even national institutions such as Agrobank in Malaysia, have gone beyond accessing Islamic credit facilities by issuing Sukuk. Do you have plans to raise funds from the market through a debut Sukuk issuance?

IFAD received our first-ever credit rating from Fitch and S&P in 2020 and has also taken steps in recent years to strengthen and diversify our resource base to maximize our impact. IFAD is the first fund in the UN system to receive a public credit rating, which adds momentum to international efforts to catalyse additional financing to achieve the SDGs by 2030 and ensure no one is left behind. Meeting the needs of all our Member States requires that IFAD develops a diversified, broader, and more predictable funding base so that we can expand our financial offer for the benefit of our borrowing countries.

We have had some experience in exploring various innovative Islamic finance approaches and Shariah-compliant instruments such as Zakat, Waqf, and Sukuk, for instance, in Indonesia. Given the increasing pressure on ODA resources, Sukuk and other instruments could help tap into a new source of financing for sustainable food systems transformation. In partnership with the IsDB, we welcome opportunities to learn more about this instrument; and then to engage with our Member States about potentially using this instrument to support our mandate.

IFAD launched the Private Sector Financing Programme (PSFP). How important is the involvement of the private sector, and to what extent will the G20 'Matera Declaration on Food Security, Nutrition and Food Systems' help in stimulating more private sector investments to improve food and nutrition security, create jobs, and to increase productivity, incomes, and resilience of small-scale producers?

The role of the private sector is essential to reaching the SDG goals by 2030. It is the main driver for enterprise development, employment, and growth of private companies. Given the scale of financial resources required to meet the SDGs, investments from the private sector are critical. This role is more vital given the economic crisis caused by the impacts of COVID-19. The pandemic has resulted in significant cash-flow challenges to Agri-SMEs and financial institutions that cater to the needs of small producers and poor rural households, which may pose substantial economic and social challenges for these groups.

In the context of heightened uncertainty about donor funding and debt distress in developing countries, the private sector plays a critical role. Investments could assist in reversing the negative effects of the pandemic on IFAD's target group and support economic recovery post-crisis, notably preserving the jobs and income of those who are most likely to be left behind. Investments by the private sector in agriculture projects involving small-scale producers have historically been low, mostly as a result of the perceived high risk of the agriculture sector, low investment size, and relatively high transaction costs. Evidence suggests that, globally, small-scale producers face a financing gap of approximately US$170bn. Rural SMEs in sub-Saharan Africa alone have an estimated financing gap of US$100bn.

The Matera Declaration is the main G20 call to action to all relevant actors for increasing catalytic investments for food security as part of the substantial COVID-19 emergency funds and recovery plans. By recognizing the critical role of the private sector to build upon public efforts to improve agri-food systems, the Matera Declaration paves the way for a stronger and more stable international financial architecture and financial ecosystem in improving availability of and access to sustainable finance.

IFAD's PSFP is aligned with the G20's efforts to attract private sector investments, know-how, and innovation for the benefit of small-scale producers and rural communities, with a focus on job creation for youth, women empowerment, and strengthening resilience to climate change. This crowd-in effect will be achieved by de-risking private sector investments in two ways: first, by utilizing IFAD's strong expertise and know-how in the agricultural sector of the poorest areas of developing countries; second, by leveraging the PFSP resources, which IFAD seeks to mobilize from various types of donors and impact investors.

The PSFP is meant to complement IFAD's sovereign program but also other efforts to mobilize more resources to promote inclusive and green food systems, including through the Public Development Banks coalition led by IFAD and mentioned in the Matera declaration. We count on the support of G20 countries to make the PSFP a success.

What are your priorities for IFAD in 2022?

In 2022, IFAD will enter a new program cycle in which it will devote 100 percent of its core resources to low-income and lower-middle-income countries, of which 50 percent will be spent in Sub-Saharan Africa.

Over the next three years, IFAD plans to help approximately 127 million rural people increase their production and raise their incomes through better market access, contributing to creating jobs and improving food security and nutrition for the world's most vulnerable people. We will also step up our ambition on four thematic priorities: climate, gender, nutrition, and youth, with 40 percent of our program of loans and grants to be climate-focused. We will place greater emphasis on social inclusion, especially in providing support to Indigenous Peoples and persons living with disabilities, as well as on biodiversity and innovation.

These are crucial years if we want to support developing countries to achieve the SDGs. We look forward to our partnership with the IsDB to continue supporting the resilience of rural populations in these challenging times.

"IFAD's PSFP is aligned with the G20's efforts to attract private sector investments, know-how, and innovation for the benefit of small-scale producers and rural communities, with a focus on job creation for youth, women empowerment, and strengthening resilience to climate change

ICIEC Member Country Profile
Indonesia

Indonesia Eximbank

Empowering the Mandate to Help the National Economic Recovery

Lembaga Pembiayaan Ekspor Indonesia or Indonesia Eximbank is a special financial institution established under the Law the Republic of Indonesia No. 2 Year 2009 regarding the Lembaga Pembiayaan Ekspor Indonesia (Indonesia Eximbank Act), which commenced its operations on September 1, 2009, pursuant to the Decree of the Ministry of Finance No. 336/KMK.06/2009 dated August 24, 2009, concerning the Operational Date of Lembaga Pembiayaan Ekspor Indonesia

Indonesia Eximbank operates independently based on a separate law (Lex Specialis) and with a status of a sovereign entity so that the institution is able to perform and function effectively. As an extension of the Government of Indonesia, Indonesia Eximbank is expected to help provide funding in markets not served by commercial banks or financial institutions (fill the market gap) or due to lack of capacity in competitive financing and ability in absorbing risks, in order to support the national export development program through National Export Financing.

Mandate

The Institution has the mandate to implement the National Export Financing Programme (NEFP) in support of the Government's policies in driving the National Export Programme (NEP). Furthermore, the Indonesia Eximbank Act also stipulates the basic policy of National Export Financing, that is set for:

a. Encouraging the creation of a conducive environment for the improvement of national exports;

b. Accelerating the growth of national exports;

c. Helping to improve the national production capabilities of highly competitive and leading export commodities; and

d. Encouraging the development of micro, small and medium-scale enterprises and cooperatives to develop export-oriented products.

Along with the mandate, the Indonesia Eximbank Act also provides Indonesia Eximbank with a prerogative in the form of the Government's commitment to maintaining the capital level of Indonesia Eximbank as well as dissolution mechanisms that can only be done through legislation. With the mandate and prerogative rights come a great expectation that Indonesia Eximbank can play its role in encouraging exports, particularly in times of slow export growth.

Main Activities

The scope of the duty of Indonesia Eximbank in implementing the NEFP involves the provision of Financing, Guarantees, and Insurance, as well as Advisory Services. Indonesia Eximbank may provide National Export Financing through conventional as well as Sharia-based insurance solutions.

Financing

Indonesia Eximbank provides financing (working capital and/or investment financing) to businesses, with or without legal entity, including individuals and domiciled within or outside the territory of the Republic of Indonesia.

Guarantees

Indonesia Eximbank provides guarantee services in the form of:

a. Guarantees for Indonesian exporters against payments received from overseas buyers of goods and/or services;

b. Guarantees for overseas importers of Indonesian goods and services against the payment that has been made or will be made to Indonesian exporters for the export contracts on the sale of goods and/or services or the completion of work or services that is made by any Indonesian company;

c. Guarantees for a bank that extends an export financing facility to Indonesian exporters; and/or

d. Guarantees for the purpose of a tender for a project development that is fully or partially comprised of export supporting activities.

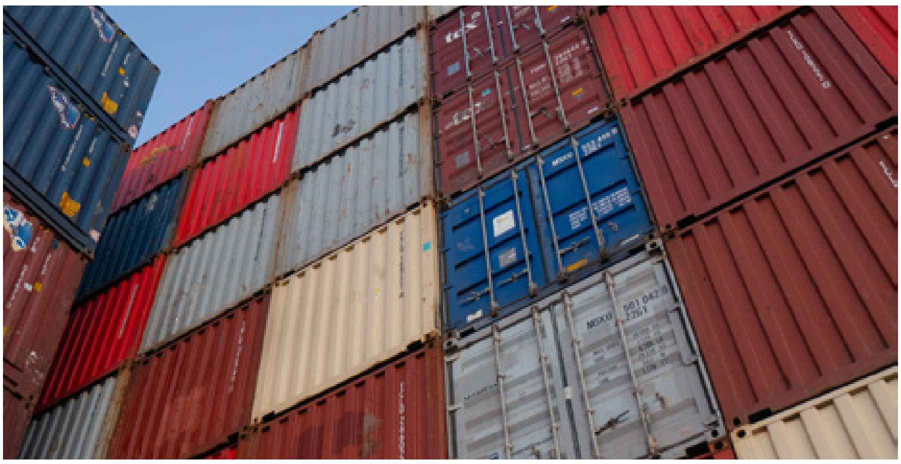
Insurance

Indonesia Eximbank provides insurance services against the risk of export failure, the risk of failure to pay, for the investment made by Indonesian companies abroad, and/or political risk in a country of export destination.

Indonesia Eximbank provides insurance facilities to exporters in the event that an ECA is unable to provide the needed insurance facilities to exporters or in order to meet the provisions required by overseas buyers. Indonesia Eximbank carries out the duties and responsibilities in a transparent, accountable, and independent manner.

In addition, Indonesia Eximbank also performs the typical activities of export-import banks as in any other country, namely providing funds for non-bankable customers with feasible business activities. Two activities that fall within this category are Overseas Project

“ Indonesia Eximbank is expected to help provide funding in markets not served by commercial banks or financial institutions (fill the market gap) or due to lack of capacity in competitive financing and ability in absorbing risks, in order to support the national export development program through National Export Financing



“

According to the ICIEC ‘s internal Country Operation Summary, the total Business Insured with Indonesian entities since ICIEC’s inception in 1994 to 2021 totalled US$1.6 billion, of which around US$764 million was ICIEC’s insurance cover to support FDI into Indonesia

Financing, namely the financing of certain overseas construction projects by Indonesian contractors, and Buyer's Credit, namely the financing to overseas parties to buy goods and services from Indonesia.

Another typical activity mandated to Indonesia Eximbank is the National Interest Account (NIA), the activities carried out based on special assignment from the Government to support national exports at the expense of the Government.

Initiatives in Response to COVID-19

As one of the Government-linked special mission vehicles, Indonesia Eximbank was assigned to perform the special assignment in order to increase national exports. Indonesia Eximbank is also involved in the national economic recovery program as part of the Government's COVID-19 response strategy.

The three roles of Indonesia Eximbank in the special government assignments are as:

a. Financers, to provide financing for exporters;

b. Guarantors, to provide guarantees to support export activities; and

c. An Advisor to improve the competitiveness of Indonesian exporters.

Indonesia Eximbank has issued policy responses to support the country's impacted debtors and Indonesian exporters in general by conducting:

A Restructuring Program - aimed to improve the asset quality and grant relaxation to debtors that are impacted by COVID-19, whilst efficiency is conducted in the form of cost efficiency and liquidity optimization. Indonesia Eximbank has restructured facilities to almost 100 debtors, including SMEs that are affected by the pandemic.

Advisory Program - the non-financial facility that Indonesia Eximbank provides to its debtors, particularly to export-oriented SMEs. The goal is to create new exporters and to support them; hence they become more resilient amid the pandemic. This program is conducted through (a) online webinars, (b) online training, (c) Desa Devisa (Community Development), (d) Coaching Program for New Exporters, as well as (e) online exhibition and business matching programs.

Furthermore, Indonesia Eximbank has also received assignments from the Government of Indonesia to support MSMEs and corporates through:

Government Credit Guarantees – Indonesia Eximbank is assigned to be a guarantor for fulfilling the financial obligations of business actors in real and financial sectors and/or labor-intensive sectors where their business activities are affected by COVID-19, and

Government Investment Program – Indonesia Eximbank has a role to channel the government investment to strategic state-owned enterprises (SoEs).

ICIEC interaction with Indonesia Eximbank

Being the National ECA of Southeast Asia's largest economy and a member country of ICIEC, Indonesia Eximbank is and will remain to be a strategic partner to ICIEC in supporting Indonesian exports and investments to various markets across the globe, including to other ICIEC member countries.

This commonality in mandate to support cross-border trade and investments led to the signing of an MOU between the institutions in April 2018, where the partnership was subsequently escalated and solidified through the conclusion of a reinsurance program in 2019, which has been annually renewed in 2020 and 2021 respectively.

Under the program, ICIEC is extending reinsurance capacity to Indonesia Eximbank to support its export credit insurance operations which indirectly supports Indonesia Eximbank's exporting clients in increasing their sales and expanding their customer base into new markets.

From the reinsurance program's inception in 2019 until Q2 2021, around US$500 million of Indonesian exported goods have been supported. In addition to the reinsurance program, other potential areas of collaboration, such as supporting Indonesian investments or projects in ICIEC member countries that are financed by Indonesia Eximbank, have been discussed and shall be the main focus in 2022 and the coming years.

According to the ICIEC 's internal Country Operation Summary, the total Business Insured with Indonesian entities since ICIEC's inception in 1994 to 2021 totalled US$1.6 billion, of which around US$764 million was ICIEC's insurance cover to support FDI into Indonesia.

With the establishment of ICIEC's representative office in Jakarta in early 2018, ICIEC has been gradually raising its profile and brand awareness as the world's leading Multilateral Shariah-compliant Export Credit and Investment Insurer to the strategic stakeholders that are actively involved in cross-border trade and investments in Indonesia and in the Southeast Asia Region.

Having the world's largest Muslim population, coupled with being one of the world's largest issuer of global and domestic sovereign Sukuk, has made Indonesia a key market for ICIEC to promote and support Indonesia's growing Islamic financial sector through its unique Shariah-compliant risk mitigating solutions.

ICIEC Member Country Export Credit & Investment Insurance Roundup

ICIEC Pens Landmark Facultative Reinsurance Agreement with Saudi Eximbank to Support Export Development and FDI Inflows

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) and the Saudi Eximbank signed a landmark Facultative Reinsurance Agreement (FRA) whereby ICIEC would provide Credit Reinsurance Cover facilities to the Saudi ECA.

The FRA was signed by Mr Oussama Kaissi, CEO of ICIEC, and Eng. Saad Alkhalb, CEO of Saudi Eximbank, during the 46th Annual Meetings of the IsDB Group held in Tashkent, Uzbekistan, in September 2021. The formal signing ceremony in Tashkent took place in the presence of Dr Muhammed Sulaiman Al Jasser, IsDB Group President and Chairman of ICIEC.

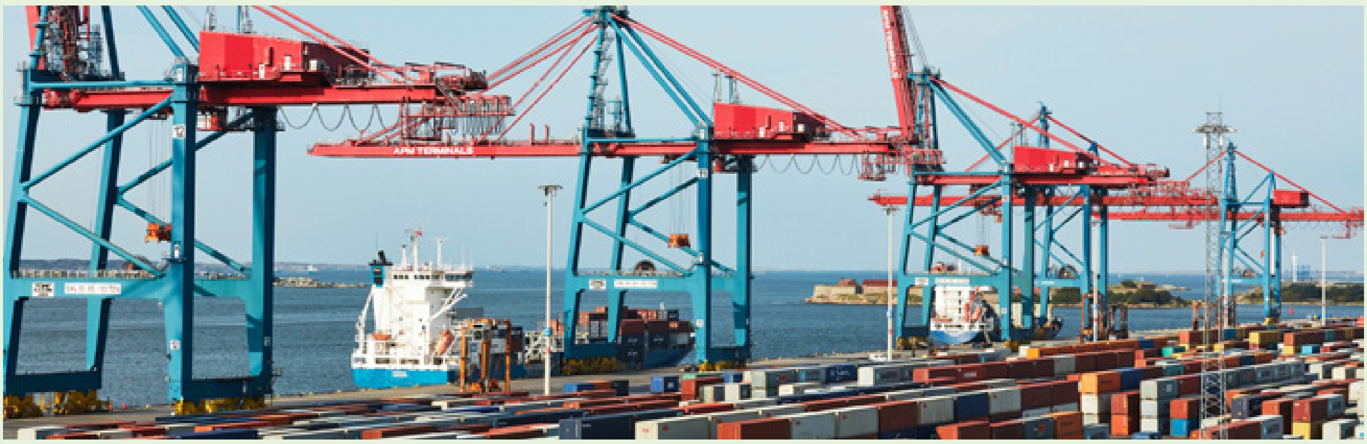
"This agreement," emphasized Mr Kaissi, "consolidates our long-standing partnership with the Saudi Export Program and now the Saudi Eximbank in supporting export development and FDI in the Kingdom."

Under the FRA, ICIEC will provide Shariah-compliant reinsurance, covering up to 70% of Saudi Eximbank's exposure under a Documentary Credit Insurance Policy Commercial and Political Risks (Multi Risk) issued to the Original Insured up to the agreed Credit Amount Limit. The aim is to support Saudi banks to provide more credit facilities for the export of non-oil products. The new FRA is also aimed at enhancing the ability of Saudi banks to consolidate letters of credit (LCs) received from foreign banks in favour of Saudi exporters.

The agreement is part of Saudi Exim Bank's "continuous efforts to reduce risks and increase the export of national products through strategic partnerships with international and local financial institutions."

Eng. Alkhalb praised the role of ICIEC in developing the export credit system in the Kingdom and the MENA region. "Saudi Eximbank aims to enable Saudi banks to facilitate non-oil exports that would enhance the competitiveness of local products, increase the impact of non-oil exports on GDP, and diversify the economy in line with the strategic goals of Vision 2030 and the Kingdom's aspirations to build a prosperous and sustainable economy." According to Saudi Eximbank, Saudi Arabia's non-oil exports reached SAR310 billion as at the end of 2020, increasing its share of non-oil GDP from 16% to about 50%.

> "The agreement is part of Saudi Exim Bank's "continuous efforts to reduce risks and increase the export of national products through strategic partnerships with international and local financial institutions"



Japanese Entities Boost Export Finance and Investment Cooperation with OIC ECAs

“Further consolidates our long-standing and growing partnership with NEXI in supporting bankable projects and inward FDI into our member countries in the MENA and SSA regions. Through our respective suites of de-risking solutions, we hope to boost the involvement of public-private partnerships in much-needed development and infrastructure projects in the mutually targeted countries”

Mr Oussama Kaissi,
CEO of ICIEC

Japanese entities have stepped up export finance and investment insurance cooperation with export credit agencies (ECAs) in the MENA region in Q4 2021. First, it was Nippon Export and Investment Insurance (NEXI), the official ECA of Japan, which virtually signed an MoU with ICIEC at the end of November 2021, whereby the two entities agreed to strengthen and further expand their existing cooperation.

ICIEC and NEXI are already cooperating in a reinsurance framework to cover projects in ICIEC member countries. This latest agreement complements an earlier one in 2019 for Accelerating Trade and Investments Targeting Africa by Japanese Companies.

Under the new MoU, ICIEC and NEXI plan to strengthen and expand strategic partnerships in greenfield projects important to Japan and the ICIEC member countries, in line with ICIEC's mandate and NEXI's strategy. The two parties are particularly interested in jointly supporting greenfield projects in the Middle East, Central Asia, and African countries.

This new cooperation may include the provision of Co-Insurance and Reinsurance. The aim is also to leverage ICIEC's extensive local knowledge and networking in member countries in Asia, Sub-Saharan Africa (SSA), and the MENA region.

“This new MoU,” says Mr Oussama Kaissi, CEO of ICIEC, “further consolidates our long-standing and growing partnership with NEXI in supporting bankable projects and inward FDI into our member countries in the MENA and SSA regions. Through our respective suites of de-risking solutions, we hope to boost the involvement of public-private partnerships in much-needed development and infrastructure projects in the mutually targeted countries. We plan to cooperate in developing the business environment to facilitate financing proposals from Japanese companies through the active underwriting of projects and the provision of reinsurance facilities. ICIEC has a long history of operations in OIC countries. Japanese companies wish to expand their presence in the Middle East, Central Asia, and African countries.”

Similarly, according to Atsuo Kuroda, Chairman, and CEO of NEXI, “the reinsurance framework we have established will solidify the two institutions' further cooperation. The purpose of the new MOU is not only to further strengthen our relationship but also to take our cooperation to a new level to collaborate in greenfield projects that are significant for ICIEC member countries and Japan. We expect such greenfield projects to bring about many positive impacts, such as assisting countries to recover from the COVID-19 pandemic as well as open doors for significant economic development.”

In further development, Saudi Eximbank similarly signed an MoU in October 2021 with Japan's Sumitomo Mitsui Banking Corporation (SMBC) to provide more financial solutions to Saudi and Japanese exporters and importers, streamlining business and reducing risk for both sides.

Malaysian Eximbank Launches Digital Financing Platform for COVID-affected SMEs

The Export-Import Bank of Malaysia launched the JanaNiaga digital platform in August 2021 aimed at aiding cashflow-strapped small and medium enterprises (SMEs) that supply goods and services to the government and government-linked companies (GLCs).

JanaNiaga, effectively the National Supply Chain Finance Platform, is supporting SMEs that supply to government and GLCs to obtain access to financing at an attractive rate as low as 3.5% a year with a financing margin of almost 100%, which is deemed far lower than the current financing available.

The financing will help ease the cash flow of SMEs and improve their liquidity. The Export-Import Bank of Malaysia launched the JanaNiaga digital platform in August 2021 aimed at aiding cashflow-strapped small and medium enterprises (SMEs) that supply goods and services to the government and government-linked companies (GLCs).

JanaNiaga, effectively the National Supply Chain Finance Platform, is supporting SMEs that supply to government and GLCs to obtain access to financing at an attractive rate as low as 3.5% a year with a financing margin of almost 100%, which is deemed far lower than the current financing available. The financing will help ease SMEs' cash flow and improve their liquidity.

This initiative was first announced by Malaysian Finance Minister Tengku Zafrul Tengku Abdul Aziz in his Budget 2021. JanaNiaga is spearheaded by Malaysian Eximbank with funding of RM300m and is expected to benefit some 2 million SMEs. The Platform funding is expected to reach RM1.2 billion with additional funding from various institutions, including the national oil company PETRONAS and Telekom Malaysia.

JanaNiaga is a digital platform aimed at faster financing approval and disbursement and documentation processing in less than 24 hours.

According to Finance Minister Tengku Zafrul, "liquidity is of utmost importance to the survival of SMEs during these challenging pandemic times. The JanaNiaga platform brings together multiple parties into a national ecosystem of supply chain vendors. This will enable an efficient cash flow for access to financing for SMEs' working capital, as well as support the recovery and rejuvenation of businesses and the country's economy."

"This initiative was first announced by Malaysian Finance Minister Tengku Zafrul Tengku Abdul Aziz in his Budget 2021. JanaNiaga is spearheaded by Malaysian Eximbank with funding of RM300m and is expected to benefit some 2 million SMEs

ICIEC Consolidates its Ties in Uzbekistan with Three New Partnership MoUs

The MoU with Uzbekinvest," emphasized Mr Oussama Kaissi, CEO of ICIEC, "is a key building block to support export development and FDI in Uzbekistan

The 46th Annual Meetings of the IsDB Group in Tashkent in September 2021 saw the signing of three MoUs between ICIEC and partner institutions in Uzbekistan aimed at further boosting the provision of insurance solutions in support of trade and investment.

Uzbekistan, the go to FDI location in the six Muslim republics of Central Asia and IsDB member countries, is on a growth and reform trajectory, which includes a new-found commitment to promote the Islamic finance industry and to leverage its potential in export development, infrastructure financing, investment, and social finance.

Uzbekistan, says Deputy Finance Minister Odilbek Isakov, is working on a new "Presidential Decree that will introduce a number of important legislative norms aimed at facilitating the introduction of Islamic finance and insurance products much easier in the Uzbek market. It will effectively set an Islamic Finance Roadmap for the next two years, highlighting what needs to be done in terms of the regulatory, legal and other frameworks."

ICIEC formally signed MoUs with: i) The Uzbekistan National Export-Import Insurance Company (Uzbekinvest); ii) The Uzbekinvest International Insurance Company (UIIC), a specialist subsidiary of Uzbekinvest; and iii) The Uzbek Investment Promotion Agency (UZIPA).

The MoU with Uzbekinvest," emphasized Mr Oussama Kaissi, CEO of ICIEC, "is a key building block to support export development and FDI in Uzbekistan. We look forward to a fruitful partnership with Uzbekinvest as we advance sustainable economic development in the country. In addition to the provision of credit and political risk insurance solutions, we will also offer co-insurance or reinsurance services for joint strategic projects where appropriate."

Similarly, ICIEC signed a tripartite MoU with Uzbekinvest International Insurance Company (UIIC) and its parent Uzbekinvest. The mandate of UIIC is specifically to encourage the flow of FDI into Uzbekistan by providing insurance cover against political risks.

According to Mr. Kaissi, "ICIEC can support Uzbekistan on infrastructure-related PPP projects and help in resource mobilization. ICIEC is collaborating with the Uzbek PPP Development Agency on energy and hospital projects. ICIEC is also cooperating with international banks to extend lines of financing to Uzbek banks and entities."

The MoU with UZIPA is to affect economic and social development through increased FDI and private sector investments, which says Mr Kaissi, "is an essential part of economic growth and acts as a catalyst for sustainable development in our Member Countries."

Under the MoU, the two parties will promote their services to foreign investors, highlight ICIEC's risk mitigation and credit enhancement capacity, as well as UzIPA's added value with the aim to encourage an increased flow of investments into the country.

Facilitating **trade** and **investment** in member countries through **innovative insurance** solutions

ICIEC
THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT

(+966) 12 644 5666 (+966) 12 637 9755 iciec-communication@isdb.org iciec.isdb.org