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

Connect with member states & global partners

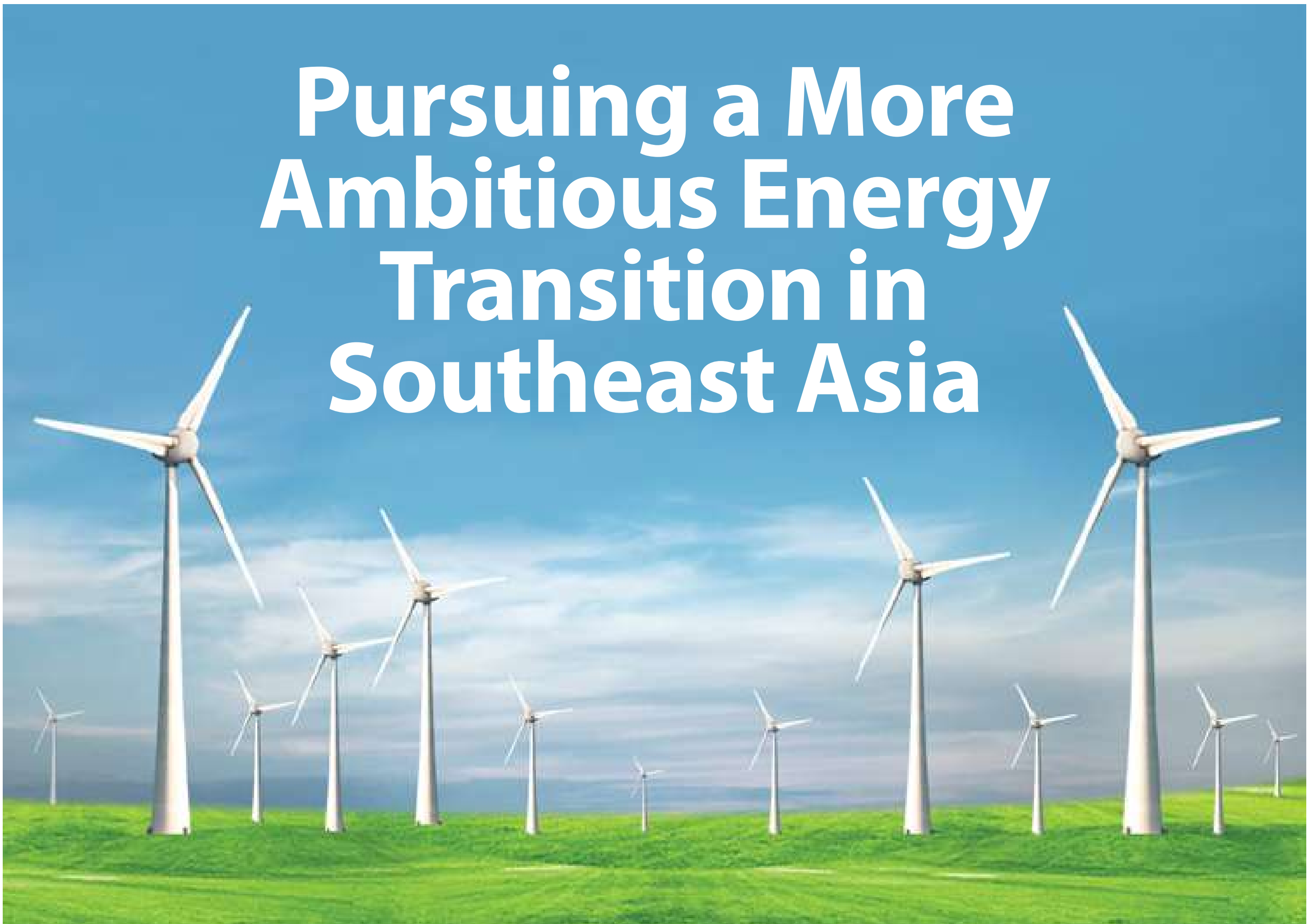
مجموعة البنك الإسلامي للتنمية
Islamic Development Bank Group

newsletter

Quarterly Publication

October/December 2022- Quarter 4

Pursuing a More Ambitious Energy Transition in Southeast Asia

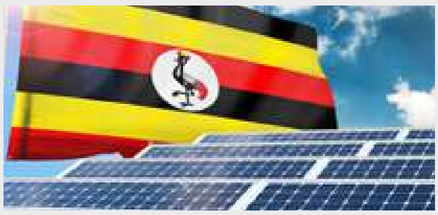


" The energy transition is at the core of what will help drive the global economy in the coming years. Islamic finance should and will play a crucial role in assisting OIC States to transform and mitigate climate risk."

Oussama KAISSI, CEO, ICIEC

Indonesia's Suminto on Engaging Bold Plans for Energy Transition with the Help of Islamic Finance

Indonesia Country Profile: Project and Export Finance Enroute to Energy Resilience and Sustainability



Shifting and Mobilizing Resources for Uganda's ESG Infrastructure Projects

The energy transition is at the core of what will help drive the global economy in the coming years. Islamic finance should and will play a crucial role in assisting OIC countries to transform and mitigate climate risk. As the world's only Shariah-compliant multilateral insurer, we take our multiple roles promoting ESG-related finance, sustainable investment, and Islamic finance very seriously and believe blended solutions are essential and material in helping climate mitigation and the energy transition.

In this fourth quarter edition of the ICIEC newsletter, we pay particular attention to the state of Islamic development finance and how it can be used in the energy transition. We go into further depth on developments in Southeast Asia, particularly in Indonesia and Malaysia, to see how decarbonisation can work in lockstep with finance.

We also look in greater depth at Indonesia, and how the country is engaging in renewable power (floating solar) and decarbonisation initiatives (such as the recent planned refinancing of coal power aimed to assist the early retirement of coal-fired power plants). We look at how the private sector, export credit agencies, development banks, and organisations such as ICIEC are engaging with the financing energy transition in this OIC Member State.

We learn how the Ministry of Finance has been engaging its bold plans for energy transition with the help of Islamic finance. We are honoured to profile H.E. Suminto Sastrosuwito, Director General of Budget Financing and Risk Management, and discover the practical steps Indonesia is taking to finance its energy transition, which he regards as vital given that the world is currently dealing with the consequences of climate change. Indonesia's use of Islamic finance to help achieve its goals is ground-breaking, and we hear his valuable advice on how other OIC Members could also look to use some of the tools to support the funding gap.

Keeping with Indonesia, we present another member of the ICIEC family in our "ICIEC in Five" feature. We turn to Jakarta to introduce our Country Manager for Indonesia and learn more about his role, the impactful development work ICIEC is doing to help OIC Members in Asia reach their challenging climate targets, and how ICIEC is assisting in risk mitigation for the energy transition.

I trust you will enjoy this newsletter, and please do let us know if there are any other issues or features you would like ICIEC to focus on in future editions.

Oussama KAISSI
Chief Executive Officer, ICIEC

Insights Into Islamic Development Finance on the Energy Transition in Asia and Beyond

What is the role of Islamic financing in terms of funding energy transition projects, particularly renewable energy? What are Islamic development finance institutions doing in this critical arena? Here is a briefing on the outlook and state of play in the Islamic development finance market, with a particular focus on Asia

A shared sense of social responsibility is embedded in both sustainable financing and Islamic finance, and there is a real symbiosis between the two areas. Islamic financing is estimated to exceed $4 trillion by 2030, and a union of Islamic financing and sustainability could mark a key advancement in helping finance the global energy transition. Islamic finance should offer excellent potential regarding how non-interest-bearing structures could be used as tools for key transition energy issues, such as retiring old fossil fuel plants. However, combining the two streams of financing is not as easy as it would appear on the surface.

The similarities between Islamic and sustainable financing are plentiful. They are both subsets of the global financial market with ethical principles that require finance to be used in a very specific way. Islamic finance lawyers point out that protecting the environment in any context is enshrined in the principles of Shariah law.

In terms of financing projects, Islamic finance lends itself naturally to the energy transition as it has evolved to be entirely asset-based. In the past, finding a Shariah-compliant asset to tack onto financing was always a challenge for financiers and led them to develop creative structures. Now, energy transition projects abound that are centred around an asset that perfectly fit the requirements of Shariah.

Sustainable project finance – investor opportunities

There are certainly investor pools that could be engaged for sustainable project finance. For instance, in Indonesia, waqf and pilgrimage funds are pools of capital that currently represent IDR2180 trillion ($146 billion) and IDR163 trillion ($10 billion), respectively. The pilgrimage funds present an attractive option as they are largely invested in low-risk, short and long term government bonds. Their perpetuity principle makes them ideal for long term projects – although asset-based waqf and Sukuk have more freedom regarding value and risk.

Nonetheless, while these capital pools are promising, the Environment, Social and Governance (ESG) and green Sukuk market are certainly where investor appetite is picking up. According to Fitch Ratings, outstanding ESG Sukuk increased by 11.2% to $19.3 billion in Q2 2022 from the previous quarter. That was a faster rate of growth than for the total Sukuk market. Notable deals in 2022 included Riyad Bank's first sustainability linked AT1 $750 million Sukuk and Infracorp's issuance of Bahrain's first green Sukuk at $900 million.

Most significantly, Indonesia returned to the market in 2022 to raise $3.25 billion in its largest global Sukuk offering, which included the world's largest ever green tranche. This Sukuk received significant demand, tightening the coupon by an average of 37.5 basis points to 4.4% on the $1.75 billion five-year tranche and 4.7% on the $1.5 billion green 10-year tranche.

The Indonesian green Sukuk was targeted at the international market, with only 10% of its investors coming from the domestic market. The government specifically targeted the potential investment from the wider Muslim world and used the route of green and Shariah-compliant instruments to help deepen relationships.

This is one of the key reasons green Sukuk represents an attractive prospect for promulgating sustainable financing – it allows the largest Islamic investor base to invest in Shariah-compliant, sustainable products. According to Fitch Ratings, Sukuk is the preferred format in many cores Islamic finance markets, equalling 75.5% of outstanding hard-currency ESG-debt at Q2 2022 in the GCC region, 90.7% in Saudi Arabia, and 100% in Bahrain.

Progress remains slow

While Islamic finance ESG wheels are starting to turn and demands from funds that are traditional investors in Islamic finance for ESG compliant products is certainly rising, progress does remain slow. Hard-currency Sukuk have typically been oversubscribed, including green Sukuk, and undoubtedly investor interest in ESG products is growing. The marriage of sustainability and Sukuk in Indonesia's 10-year green tranche helped make it oversubscribed by more than 4.8 times.

Yet whether badging the products' sustainable' adds to (or even detracts from) Sukuk demand is complicated by the numbers. In some cases, ESG Sukuk achieved a lower yield at issuance than their non-ESG counterparts, but only slightly. It is difficult to tell because, despite increased interest, ESG Sukuk still represents only 2.6% of the global outstanding total.

Demand from the Middle East for sustainable products may be behind the curve because it took some issuers time to offer ESG-related products. In part, this has been a result of differing standards imposed by regulators and a lack of politically driven incentives such as the green taxonomy framework established by the EU. Nonetheless, some say that this gives the region the advantage of learning from some of the early mistakes elsewhere that have led to accusations of 'greenwashing'.

Project by project or looking wider?

One of the challenges for using waqf assets has been that issuers may need to be looking wider than simply on a single project basis. There is an argument that looking at innovation and looking to use underlying assets to issue financing instruments for sustainable projects on a broader basis can help.

While demand is slowly rising, there are still issues with supply. A mixture of nascent market infrastructures, underdeveloped local guidelines, and taxonomy – a persistent, global issue for ESG – shortages in qualified human

capital, and regulatory constraints make for an unready global market. This is especially true of project financing. Analysts argue that while Islamic finance on its own fits from an ethical and moral perspective, getting an Islamic finance deal done in terms of the standardisation of documents and structures needed takes longer. That includes getting agreement from banks, other stakeholders, and then the final sign of a fatwa, if needed. As a result, seeing infrastructure fully financed by Islamic finance remains rare in the Middle East.

That is on top of policy issues depending on the jurisdiction and different expectations as to what security is required and whether financing will need government sovereign backing. Commercial disparities between Islamic and other parties can delay agreements and coordinating these in emerging markets are complex. Risk considerations such as these are where Shariah-compliant insurance institutions such as ICIEC could be ready to step in and help.

ICIEC is a signatory to the Principles for Responsible Insurance and is also the only Shariah-compliant multilateral insurer. This means that sustainable investment, climate action and finance, and Green Finance are at the core of ICIEC's due diligence process, and ICIEC can link all new business and other queries with SDG and climate action indicators.

Lessons from the Malaysian experience

Malaysia is a market leader in Islamic ESG, as Fitch Ratings has highlighted. Malaysia created an ESG framework in 2014. Malaysian firm Tadau Energy issued the world's first green Sukuk in 2017, and the Securities Commission issued guidelines on SRI funds in the same year. Unlike other core markets, the majority of its green Sukuk is in local currency, supported by the SRI Sukuk and Bond grant scheme that offsets up to 90% of the external review costs per issuance. This developed ecosystem is a long stretch from others and, as a result, Malaysia houses 91% of global ESG Sukuk issuances (175 of 192 as of Q2 2022).

Indeed, most new projects are financed by Sukuk rather than by conventional bonds. This is helping energy transition projects. For instance, for Large Scale Solar (LSS), a competitive bidding programme was used to drive down the cost of energy for large scale solar PV plants, where many of these projects have been financed by Sukuk.

Malaysia's dominance of the Shariah-compliant ESG market also displays that, in practical terms, the preconditions for success are to have an ESG framework at the corporate level in place, with policies, procedures, and methodology for measuring targets. This is important before borrowing or investing in an ESG-compliant way can be considered.

The preconditions necessary for success

There is a lot to do before Islamic investors can and will get behind financing sustainable projects on a large scale. There are processes and regulatory frameworks that need development, and their absence will continue to curb accelerated progress.

On the demand side, interest in ESG Sukuk is growing – but the majority of Sukuk investors are still a distance away from actively seeking impactful projects. However, there are opportunities cropping up for higher impact infrastructure projects. One example to watch is the MoU signed between IsDB and PT Sarana Multi Infrastruktur (PT SMI), a special mission vehicle (SMV) of Indonesia's Ministry of Finance and country ETM platform manager and collaborator on the Just Energy Transition Partnership (JETP) Investment and Policy Plan.

The agreement will support a partnership for the provision of a line of financing and co-financing for Energy Transition, Renewable Energy, and the Development of PPP-supported infrastructure initiatives. If this MoU were to lead to Sukuk being issued by IsDB for the ETM and JETP, it would mark a significant pathfinder for the wider market.

Indonesia's Suminto on Engaging Bold Plans for Energy Transition with the **Help of Islamic Finance**

PROFILE INTERVIEW:

H.E. Suminto Sastrosuwito

Director General of Budget Financing and Risk Management, Ministry of Finance of the Republic of Indonesia

Indonesia has been an innovator in financing its large sovereign Sukuk in 2021, with the dimension of the green Sukuk, an Islamic bond designed to finance green investments, and has recently issued its first SDG bond. We profile HE Suminto Sastrosuwito, Director General of Budget Financing and Risk Management at Indonesia's Ministry of Finance and get his views on his role in financing and how Indonesia plans to finance the energy transition.

How do you view the role of the Ministry of Finance of the Republic of Indonesia in supporting Indonesia's agenda on the energy transition?

Suminto Sastrosuwito: The energy transition is vital, given that the world is currently dealing with the consequences of climate change. It is also critical for Indonesia given that 90% of the country's energy sector remains reliant on fossil energy, which is one of the main contributors to greenhouse gas emissions. Indonesia has considerable resources of renewable energy, more than 3,000 GW, comprising solar, hydro, wind, bioenergy, ocean, and geothermal.

The Government of Indonesia has a strong commitment to tackling climate change and achieving Sustainable Development Goals (SDGs). In 2016, Indonesia ratified the Paris Agreement (through Law No. 16 of 2016). In the Nationally Determined Contribution (NDC), in order to prevent global warming of 2°C, the Government of Indonesia has pledged to reduce emissions by 29% under its own efforts (business as usual) and by 41%, with international support, by 2030. In 2022, according to our latest Enhanced Nationally Determined Contribution (NDC) document Indonesia has committed to increasing its targets to reduce greenhouse gas (GHG) emissions. The target has increased from 29% to 31.9% [by the country's own efforts alone] and from 41% to 43.2% with international assistance by 2030.

The government even raised this target towards net zero emission (NZE) by 2060 or earlier in accordance with the Glasgow Climate Pact to limit global warming by 1.5°C. In particular, the energy sector, with a focus on the energy transition to new and renewable energy (NRE), is expected to reduce emissions by 358 million tons of CO_2e with its own efforts and 446 million tons of CO_2e with international support.

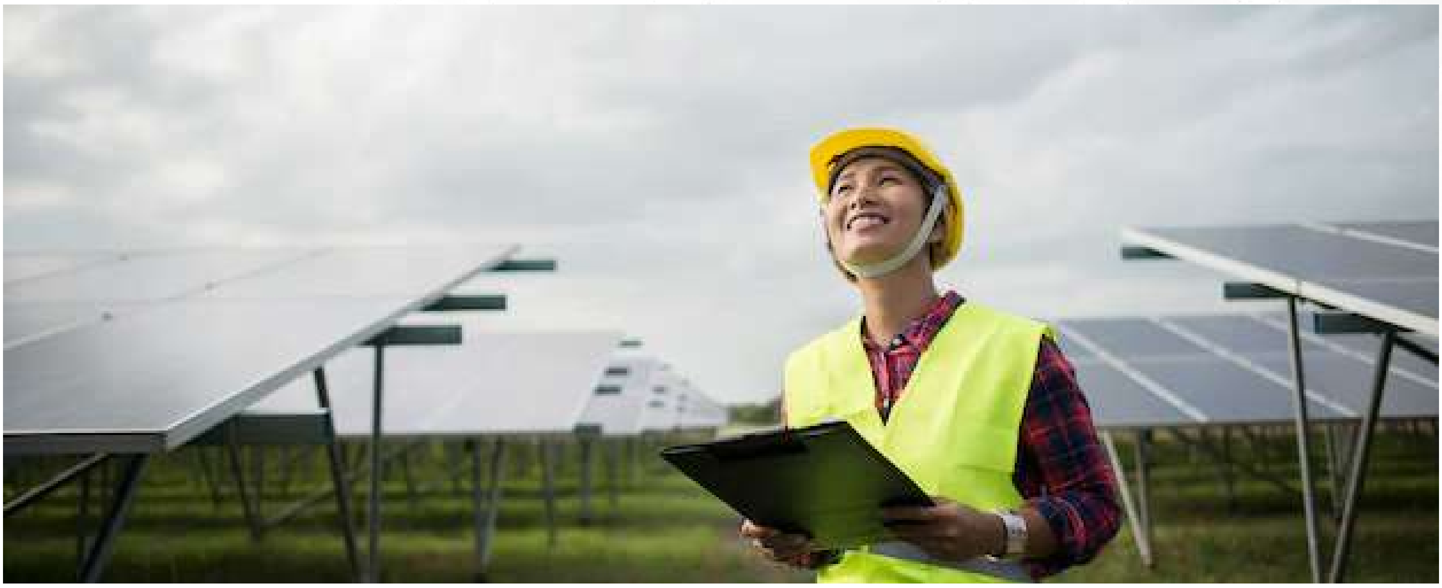
The target is quite ambitious and requires substantial financing, for which I believe the Ministry of Finance is playing a leading role in formulating a financing strategy. The commitment signifies the need for dedicated and long term financing, which is estimated to be worth at least 25% of Indonesia's Gross Domestic Product (GDP), just to achieve the 2030 target. It is estimated that the government could only cover less than 30% of the financial needs through the state budget (APBN), while the private sector is expected to participate [to cover] 22% to 25% of capacity. Consequently, an additional 40%-55% of financing must be raised from other sources.

Therefore, the Government of Indonesia has issued a number of fiscal incentives or tax facilities to mobilise private investment in green projects and green industry, including tax holidays, tax allowances, as well as facilities on VAT, import duty, and property tax. In addition, the Government also provides facilities for green projects procured through the PPP scheme, such as the project development facility (PDF), the viability gap fund (VGF), and government guarantees.

We also develop innovative financing strategies through the optimisation of the state budget and mobilising funds from external sources. Various innovative financing instruments have been created to support the transition. The issuance of green Sukuk has been carried out since 2018 to fund the transition towards a low-carbon economy. Some Special Mission Vehicles (SMVs) have been established to mobilise and manage funds or develop sustainable projects, including the Indonesia Environment Fund (BPDLH), SDG Indonesia One (managed under PT SMI), and the Indonesia Investment Authority (INA).

We also encourage collaboration with development partners and optimising the role of SMVs, including PT SMI, IIGF, and Geo Dipa Energi, to contribute to the implementation of policies related to climate and energy transition. Furthermore, we coordinate with other core ministries and related institutions to ensure synergy and synchronisation of the climate policies taken by each institution. Lastly, we also actively promote these initiatives both in domestic and international forums to encourage collaboration and maximise opportunities to attract investment and financing from global communities and the private sector.

During Indonesia's G20 Presidency, the government encouraged climate-related finance and sustainable infrastructure as being among the main agendas. Furthermore, as a concrete step forward in energy transition, in November 2022, during a side event of the G20 Forum, the Ministry of Finance proudly launched the Energy Transition Mechanism (ETM) Country Platform. The platform is aimed at mobilising internation-



al and private participation in financing ETM projects in a blended finance scheme.

Can you tell us about the path to success of the global Sukuk in 2021, particularly the green Sukuk? How are its proceeds being used?

Suminto Sastrosuwito: Indonesia has successfully raised over $6.8 billion through multiple rounds of green Sukuk issuances in global and domestic markets. The proportion of green investors has also shown a trend increase, from 29% in the 2019 global green Sukuk to 33% and 57% in the 2020 and 2021 global green Sukuk issuances, respectively, and 36% in the 2022 global green Sukuk. These showcased how the global community is willing, if not committed, to take part in the green recovery movement. The shifting paradigm of investment towards a more sustainable preference has supported the green Sukuk market as a growing source of finance to address climate change even amid the pandemic. Hence, there is a remarkable momentum for public private financing of SDGs unfolding across the globe.

More governments are turning to public finance instruments to catalyse private investments for economic, social, and environmental goals. As a result, the number of thematic bonds and Sukuk (such as green, social, and sustainability bonds and Sukuk), and the size of the market, are growing, and green and responsible investors are getting more excited about the coming years.

Further to investing in projects reducing GHG emissions – projected to be up to 10.5 million tons of CO_2e – proceeds from Indonesia's green Sukuk have supported the construction of over 690 kilometres of railway tracks, an increase of 7.3 million kWh of electricity capacity, and improved solid waste management for more than 7.8 million households.

What are your plans for fundraising internationally in the Sukuk market in the future, particularly given international financial headwinds (and dollar strength) now? Do you plan to issue more SDG bonds?

Suminto Sastrosuwito: For Indonesia, international Sukuk issuance is intended to diversify the government's financing instruments as well as broaden our investor base. It is not only part of our overall debt portfolio management strategy for achieving optimal cost and risk, but it also contributes to the growth of the Islamic financial market, specifically Sukuk.

We believe that as we head into 2023, the market backdrop will remain supportive for a new Indonesia Sukuk issuance. In line with this, we are confident that investors would be highly supportive given Indonesia's strong credit profile and supportive supply and demand dynamics. We expect the Sukuk industry to remain strong, given elevated oil prices and strong demand from Middle Eastern investors. Furthermore, given ample funding, GCC sovereign issuers are expected to issue fewer bonds next year.

As for the Sukuk structure, the current asset-light Wakala structure has already been widely accepted by Islamic investors globally and is aligned with the requirements of Islamic investors (including UAE investors, following the adoption of AAOIFI Shariah standards).

Indonesia is committed to tackling climate change issues through fund mobilisation, one of which is green Sukuk issuance.

As for thematic Sukuk, Indonesia has demonstrated thought leadership in pursuing Sukuk and green structures and unlocking liquidity in key investor hotspots such as the Middle East and Europe.

To further strengthen its leadership in green structure innovation, Indonesia will maintain its status among the world's most sophisticated sovereign issuers through constant and consistent development in the thematic Sukuk markets.

What lessons can you share with other OIC Members planning to raise funding using Islamic finance (for instance, what have been the challenges and how have you managed to overcome them)?

Suminto Sastrosuwito: The enactment of Law No.19/2008 on Sovereign Shariah Securities, [namely Sukuk Negara] led to the government of Indonesia issuing IDR4.7 trillion in sovereign Ijarah Sukuk in that year alone. Since then, total issuance has now reached IDR1,919.77 trillion through various Sukuk structures and issuance methods (auction, book building, private placement), both in rupiah and foreign currency (US dollars).

With 13 years of growth, Sukuk Negara has played a vital role not only as an instrument of state budget financing, including funding infrastructure projects but also as a key driver of Islamic finance sector development in Indonesia.

Many supporting infrastructures for Sukuk Negara issuance have been established and improved, including the legal framework for its issuance and management, Sukuk structure and underlying assets, methods of issuance, and types of instruments, as well as the development of a domestic and international market and investor base.

Aside from the market infrastructures mentioned, the country needs to keep making progress and have a strong presence in the market in order to move forward.

To put emphasis on the challenges in our latest development of green Sukuk:

1. Thematic bonds/Sukuk necessitate additional effort: framework preparation, framework review by a third party, impact reports, and report assurance (audit) by an external auditor.
2. It's important to have the right partners who are knowledgeable and trustworthy to help with framework development, issuances, including investor meetings, and impact reporting.
3. The need for strong commitment and coordination from all stakeholders, especially line ministries,
4. To encourage more parties to issue green/SDG instruments, incentives, particularly pricing benefits ('greenium'), are required.
5. There is still much work to be done to combine Islamic finance and social finance for efficiency and convenience of transaction, including providing incentives to encourage involvement.

How are you working with the private sector to help energy transition financing in Indonesia?

Suminto Sastrosuwito: To achieve the NDC commitment, climate change mitigation costs need to be around $281 billion (according to the Third Biennial Update Report 2021). The state budget capacity could only finance about 20-27% of the total financing needs. Meanwhile, the private sector is expected to operate at 22-25% of capacity. Consequently, there is a funding gap of approximately 40-55%. The energy and transportation sectors have the largest needs, at around $246 billion.

The roles of the private sector and global investors are very important to support the energy transition, especially to fill the financing gap. We also realise that aligning investment with sustainability goals is crucial as investors' concern over sustainability issues tends to increase. Therefore, we have developed various schemes for involving the private sector.

As I mentioned, we launched the ETM country platform in November 2022. The ETM framework's design allows for widespread investor participation, including the private sector. The country platform encourages blended finance to open financing opportunities from various sources, such as multilateral development banks (MDBs), climate funds, philanthropists, and the private sector. As the manager of the country platform, PT SMI is an SMV under the Ministry of Finance. PT SMI has gained experience in playing the role, as in 2018, a blended finance platform named SDG Indonesia One (SIO), managed by PT SMI, was established to mobilise funds for climate actions from philanthropists, donors, climate funds, green investors, MDBs, international institutions, commercial banks, sovereign wealth funds, and institutional investors.

Another scheme for private sector participation with a focus on infrastructure has been developed through Public Private Partnerships (PPPs). PPP in Indonesia has been applied to some green projects and will be further encouraged to support more similar projects, including new and renewable energy. As part of our commitment to promote sustainable infrastructure, we will implement Quality Infrastructure Investment (QII) and have formulated Environment, Social, and Governance (ESG) standards that will be applied to government support provided to infrastructure projects. It not only covers the PPP scheme but also other government fiscal support for infrastructure, such as government guarantees.

Also, a special fund called Dana Pembiayaan Infrastruktur Sektor Panas Bumi (Dana PISP or Geothermal Fund) has been set up to help the development of geothermal energy projects. The facility has a de-risking feature to reduce risk and cost in the exploration stage. The facility is eligible for government drilling, SOE drilling, and private drilling. The Geothermal Fund platform has also collaborated with several external sources of funding (loans and grants from an MDB). Therefore, a blended finance model has been established under this Geothermal Fund platform. PT SMI is mandated to manage the Geothermal Fund and collaborate with other SMVs in implementing the facility, namely PT GDE and PT PII/IIGF.

We believe that those comprehensive financing frameworks and government support – both established and under development – will engage the attention and enthusiasm of private investment.

How does Islamic financing sit within your Integrated National Financing Framework Assessments and the UN ASSIST programme on sustainable finance to bridge the SDG financing gap in Asia?

Suminto Sastrosuwito: Islamic finance offers the most viable solution because it is flush with capital, and the principles behind it are pretty much aligned with the core values of the SDGs. By 2024, the total value of Islamic finance is expected to reach $3.5 trillion, and the volume is expected to rise even further. Islamic finance also tends to be less averse to risk, offering a more sustainable financing system that could be more robust and resilient than conventional financing. All of these factors combine to make Islamic Finance the best alternative source of financing for the SDGs. Concretely, Islamic finance has also increasingly adopted sustainability criteria and is thus well positioned to maximise social impact and address the SDGs.

And the green Sukuk initiative, which is supported by UNDP through the UN ASSIST Joint Programme, becomes one clear example of how this is achieved. Through the multiple rounds of Indonesia's green Sukuk investments since 2018, over $6.8 billion has been mobilised towards the country's climate change action. This initiative has shown the Government's commitment to addressing climate change and mainstreaming innovative financing to achieve the SDGs while also strengthening Indonesia's position in the global Shariah market.

How optimistic are you about financing the energy transition in Indonesia, as these are undoubtedly challenging times in terms of international supply chain dislocations, inflationary pressures, and climate necessities? What does success look like from a five-year view?

Suminto Sastrosuwito: The government has drawn up a roadmap for the energy transition to achieve the target of net zero emission (NZE) in 2060. Among the strategies in the roadmap is the early retirement of Coal-Fired Power Plants (CFPP). It is expected that before 2025, CFPP and Gas Engine Power Plants will be replaced by New and Renewable Energy (NRE) power plants with a baseload of up to 1.1 GW, and another 1 GW until 2030.

In achieving that goal, the Government of Indonesia faces at least three challenges: (i) efficient usage of limited fiscal capacity, (ii) a just energy transition, especially for affected workers and communities, and (iii) non-NRE power plants tend to be more affordable to fiscal capacity and consumers. Therefore, we expect that the ETM framework can overcome these challenges.

The current challenges with high global dynamics also potentially affect the achievement of energy transition targets. But looking at Indonesia's positive economic outlook and strong political willingness, we are optimistic that the energy transition in the country will stay on track. A promising market, a conducive investment climate, and economic performance will guarantee investors' confidence.

Indonesia Country Profile: **Project and Export Finance Enroute to Energy Resilience and Sustainability**

A focus on Indonesia from the perspective of how Indonesia engages with renewable energy and decarbonisation initiatives. Here we look at the themes emerging in export and project finance through the perspective of a funding strategy for Indonesia. How are the private sector, export credit agencies, development banks, and organisations such as ICIEC engaging with financing energy transition in this OIC Member State

Indonesia has been an active project and export finance market over the past five years. According to TXF Data, Indonesia was the second biggest user of ECA debt in Asia-Pacific, with a total volume of roughly $80 billion since 2018, only second to Vietnam.

Deal volume was mostly driven by the power sector (around $7 billion of export credits over the same period), followed by manufacturing & equipment ($2.4 billion) and telecommunications ($570 million).

Conventional power, from coal and oil to gas-fired power generation, accounts for 90% of baseload power in Indonesia. So, the world's 16th largest economy has a long way to go before realising carbon neutrality by 2060, even with the government's ambitious targets. That means significant long term financing will be needed.

Climate mitigation targets

The government of Indonesia has always had a strong commitment to tackling climate change and achieving the Sustainable Development Goals (SDGs). For example, in 2016, under its Nationally Determined Contribution (NDC) to limit global warming by 1.5 degrees Celsius, Indonesia ratified the Paris Agreement and pledged to reduce emissions by 29% under its efforts and by 41% with international support by 2030.

But more recently, in 2022, according to the latest Enhanced NDC document from the Glasgow Climate Pact, Indonesia has committed to increasing its targets to reduce greenhouse gas emissions. The target has now increased from 29% to 31.9% and from 41% to 43.2% with international assistance by 2030.

The energy sector, specifically, with a focus on the energy transition to new and renewable energy, is expected to reduce emissions by 358 million tons of CO_2e with its own efforts and 446 million tons of CO_2e with international support.

Renewables capacity

Indonesian decarbonisation can be compounded by upping renewable energy generation – which stands at 3,000GW – given the favourable geography of the country comprising solar, hydro, wind, bioenergy, ocean, and geothermal.

But renewables as a sector have only been financed to the tune of $540 million over the past five years, which is very small when pitted against the volume of conventional power finance over the same period. In short, there is real potential for agency finance – as well as Islamic finance – in Indonesia, especially for green projects, as ECAs and DFIs can provide significant comfort to both international and local banks eyeing this asset class.

> The energy sector, specifically, with a focus on the energy transition to new and renewable energy, is expected to reduce emissions by 358 million tons of CO_2e with its own efforts and 446 million tons of CO_2e with international support.

And with ICIEC well placed to support this OIC member state, given its ESG-related investments and Shariah-complaint product suites, there is real potential for greater ECA involvement in the Indonesia renewables market.

The TXF perspective

Winding down carbon-intensive assets is essential if the race to net zero is to be won. But accelerating the deployment of energy so that renewable energy comprises at least 34% of all power generation by 2030 means that green projects need to be top of the financing agenda.

International ECAs are no strangers to Indonesia, but there is an imperative to shoulder more green projects. This is especially key in fledgling renewables sectors, such as floating solar schemes.

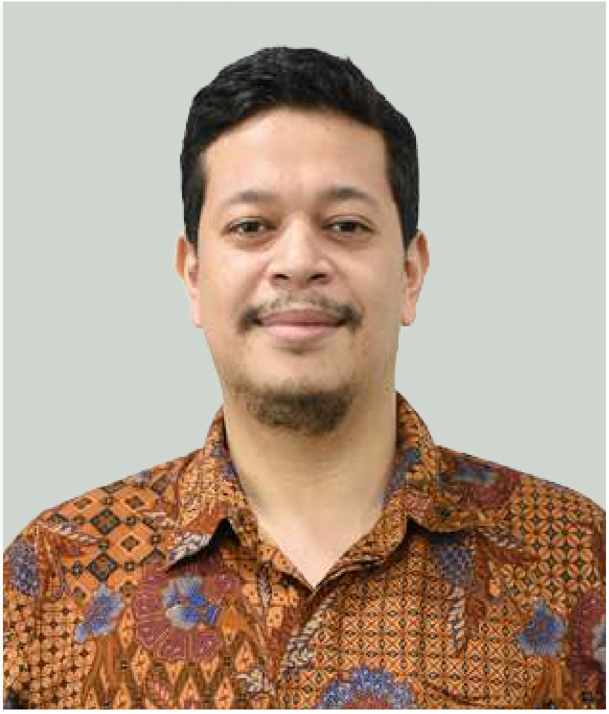
A precedent financial template exists in Indonesia for a floating solar project deal. In 2021, the Cirata reservoir in West Java was used for the 145MW Cirata floating solar project, developed by PT Pembangkitan Jawa Bali Masdar Solar Energi (PMSE), a joint venture between Masdar and PT Pembangkitan Jawa-Bali (PJBI), a subsidiary of Indonesian state-owned energy company PT Perusahaan Listrik Negara (PLN). PJBI holds a 51% stake in PMSE, while Masdar holds a 49% stake. The project benefits from a 25-year PPA with PLN at a tariff of $0.0582/kWh.

While the Cirata deal reached close without ECA or DFI support, this nascent sector is expected to gain momentum over the coming years. Sunseap Group also signed an agreement in 2021 with local development authority BP Batam for the construction of a 2.2GW floating solar project at the Duriangkang Reservoir in Batam. The Cirata financing has been seen as a marker of the success of the burgeoning floating solar sector in several Asian markets.

Also, expect ECA support to emerge on the refinancing and reinsurance agreements, not just for green projects, but for conventical power too. Gas-fired plants in emerging market economies will be needed in the short term to help dovetail the energy transition. After all, gas is significantly less carbon-intensive than oil and coal plants. And while ECAs have retreated from supporting coal power (unless ultra-supercritical technology is used), gas is very much a transitional fuel in the wake of the pandemic and the war in Ukraine.

Meet the team: ICIEC in Five

We are happy to share an insight into ICIEC's workings in our meet the team feature. Here we show you what key team members do with us, how and why. This quarter we introduce you to **Miguel Kosahih**, who is Country Manager at ICIEC's Jakarta Office. We asked Miguel five questions to get a steer on his work in Indonesia, and wider Asia, and gain a view on the important role ICIEC is playing in Asia, particularly in the energy transition.



1. What is it you do at ICIEC, and how did you get here?

I'm currently serving as Country Manager for ICIEC's Jakarta office in Indonesia. This position, which is a real privilege to have, is mainly a business origination and development role. I'm responsible for developing and expanding ICIEC's de-risking interventions and portfolio for both inward and outward trade transactions and investments between ICIEC member states in the South-east Asia (SEA) region, which includes Indonesia, Malaysia, and Brunei Darussalam.

I joined ICIEC in late October 2019, only a few months before the pandemic outbreak. Before that, I spent around 10 years working at PT Asuransi Asei Indonesia, which is Indonesia's national Export Credit Agency (ECA). That was where I first got introduced to export credit and political risk insurance, and the ECA world in general. Prior to assuming the ECA role, I had a brief stint working on the legal staff at a private commercial bank, but I realised I wasn't keen to pursue a career as a corporate or litigation lawyer, despite obtaining both my undergraduate and postgraduate degrees in international public law. I was initially drawn to becoming a public servant to the country either as a diplomat or trade attaché, but not long after I was immersed in this specialised industry, I realised that working for the national ECA offered the same level of contribution, given its strategic mandate to support the country's exports through risk mitigation.

Having been assigned and rotated to various functions during my 10-year employment at the ECA, which included marketing, product development, reinsurance, underwriting, claims and recovery, I had the opportunity to acquire the technical know-how, experience, and operational oversight of how export credit and political risk insurance inquiries are managed and processed from front to back end. This is what prepared me for taking on this important role at ICIEC and made my transition to and familiarisation with ICIEC's solutions and internal processes a lot easier.

2. What does your typical day involve/tell me about your team in Indonesia and how it works, and the markets you cover in Asia?

At ICIEC's Jakarta office, I work in tandem with another colleague, Shaiful Kamarul, who is assigned as Senior Country Manager. He essentially led the establishment of the office and started ICIEC's ground operations in the country and region in 2018, one year before I joined ICIEC. He is a Malaysian national, which makes our overall communication and coordination in distributing the tasks and responsibilities easier, given our similarities in culture and language. He focuses more on the Malaysian market, and I on Indonesia. Inquiries for (and from) Brunei Darussalam and other Asian markets such as Singapore, Hong Kong and China are distributed equally between us.

ICIEC's Jakarta office is integrated within the Islamic Development Bank (IsDB) Group Regional Hub of Indonesia, which in total, comprises around 30 employees. The hub is led by an IsDB hub resident, who is supported by an IsDB country manager, several operation team leaders and supporting staff, all managing the interventions of the IsDB for the same SEA member countries as ICIEC. We also have colleagues from our sister entity, the International Islamic Trade Finance Corporation (ITFC), which is the trade financing arm of the IsDB group.

The IsDB Group synergy has been one of the key success factors for raising ICIEC's brand awareness and expanding its interventions in Indonesia and the SEA region. We have an existing insurance policy with ITC, where we provide them with non-payment/credit default risk insurance cover for Indonesian export clients that they finance, allowing ITFC to expand its trade financing interventions to support Indonesian exporters' working capital requirements which eventually contributes to the member states exports.

We also work closely with our IsDB colleagues in identifying and originating potential transactions for joint intervention. As Indonesia is a direct borrower from the IsDB, our IsDB colleagues work closely with the government, especially at the ministerial level, which helps us at ICIEC identify potential pipelines of strategic projects where ICIEC could also contribute through its risk mitigation/de-risking solutions complementing the overall interventions of the IsDB Group to our member states.

All colleagues of the regional hub have formed a close bond with each other, which has created a family-like working atmosphere and makes coming to the office, while putting in the extra working hours to ensure smooth coordination with our HQ in Jeddah (as Jakarta is four hours ahead of Jeddah), even more enjoyable.

3. How does your role empower your clients – particularly in the field of energy transition in Asia?

One of our key roles/functions as business development is to identify the financing and investment needs of our member states to support their national development plans and connect those needs to the resources that we/ICIEC have in our own network. This is the same approach we apply when it comes to supporting our member states throughout their 'net zero' journeys in executing their energy transition plans as per their National Determined Contributions (NDCs) and commitments as signatories to the Paris Agreement.

As Asia is the highest contributor to the globe's CO_2 emissions (52%), there is an astounding $40 trillion estimated funding gap for Asia to achieve its net zero targets by 2050. If you include Central Asia, we have around 12 member states from the continent. Each one of these is economically (and politically) differently situated. Each has different energy transition blueprints, climate frameworks and policies, resources/means and timelines to achieve their net zero targets. Some member states have easier access to financing/liquidity than others.

Business development is placed at ICIEC's front line for its member states; hence it's our role to do any necessary canvasing, to conduct and participate in dialogues with key stakeholders involved in each country's climate framework, to identify the gaps that our member states

governments require support for and treat those gaps as opportunities for ICIEC to step in and mobilise its resources through our de-risking solutions.

Indonesia, for example, requires around IDR3.416 trillion/$221 billion to reach its NDC target in 2030 (reducing CO_2 emissions by 29% or 41% with international assistance) and around IDR28.2 trillion/$1.8 trillion to become net zero in 2060. The government can only spend around 35% ($60 billion) of its budget to reach its NDC target in 2030 and is reliant on other sources to fill this funding gap.

Together with the IsDB Group, we have been in discussion with several key state-owned institutions that require financing to support Indonesia's energy transition plan, which is included under the 'SDG Indonesia One-Green Finance Facility (SIO-GFF)', a platform devised by the Indonesia MoF to blend public and private financing (blended finance) aimed at channelling SDG-related infrastructure projects including energy transition, the first phase of which will mainly be focused on gradually decommissioning Indonesia's coal-fired power plants and the second phase will be focused on developing new renewable energy assets.

4. What is the one thing about ICIEC that you think should be better understood by the wider world?

ICIEC's role in our member states' energy transaction and sustainable development, in general, is essentially catalytic. As an insurance provider, we may not be able to directly provide the financing to the projects, but we can mobilise resources by connecting those projects, and their stakeholders to the financial institutions that we work with that are already frequent users of our Political Risk Insurance/Foreign Investment Insurance policies, and that are also well familiarised with our internal due diligence and credit approval processes.

The financial institutions that are our policyholders not only benefit from the reduction on their risk-weighted assets, ensuring they obtain some degree of capital relief provided to them under our insurance policies but are also able to benefit from our Preferred Creditor Status (PCS) if, under a worst-case scenario, our member states borrowers fail to honour their financial obligations to our financial institution partners/insurance policyholders.

In addition to mobilising the financial resources, through our non-payment/contract frustration insurance programme, ICIEC can also bring in EPC companies that are well experienced in specific infrastructure sectors allowing our member states to get the expertise and technology transfer necessary to complete their strategic projects.

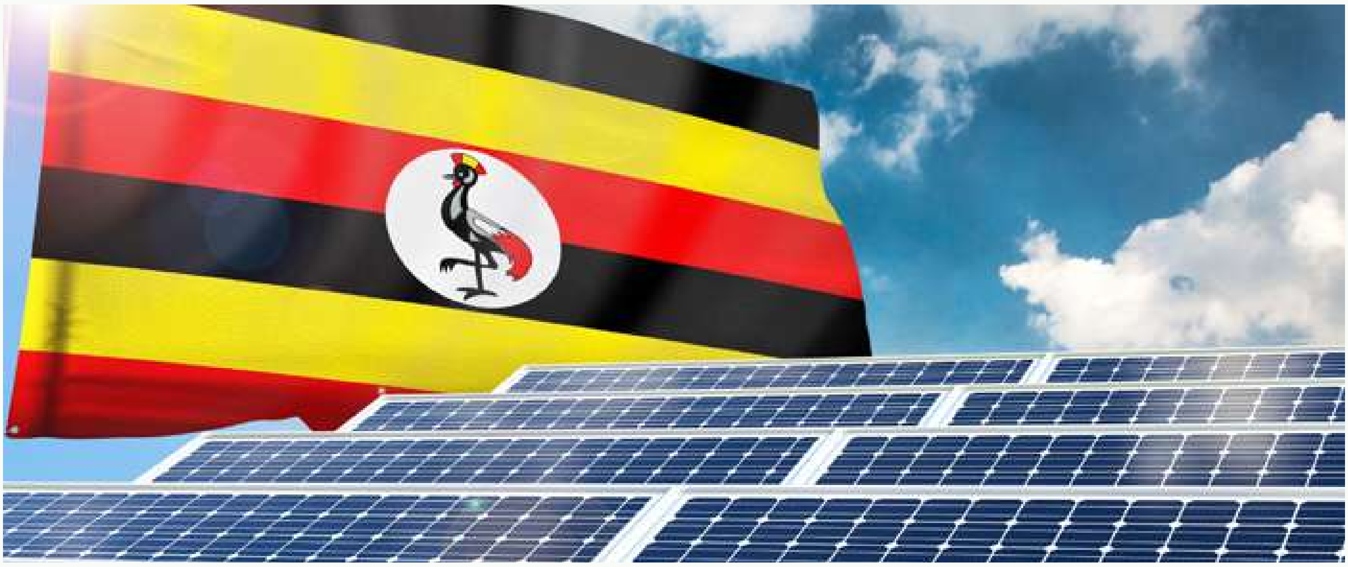
In essence, ICIEC offers a variety of de-risking solutions which enables us to support a particular project from different angles through different stakeholders.

5. What is your 'superpower'?

As a normal human being, I can't think of having any superpowers. In fact, the person that really has a superpower should be my wife. A working mother who can manage and balance her office duties with most of our daughter's daily routines and school schedule is truly commendable and superpower worthy. A true manifestation that women are far better at multitasking than men!

But if I were able to equate a superpower to a certain quality or trait, I would describe myself as a person that is innately helpful to others. I try to support my colleagues the best I can whenever they need assistance or guidance on certain work-related matters. I am a true believer that sharing and exchanging experience and knowledge among colleagues only builds a stronger collective intelligence which would consequently boost the overall standards of the institution.

Shifting and Mobilizing Resources for Uganda's ESG Infrastructure Projects



On December 22, 2022, ICIEC provided EUR 145 million in insurance to support ESG-related projects in Uganda. ICIEC agreed with the government of Uganda, Standard Chartered Bank (SCB), and Société Générale (SocGen) to offer cover on selected projects that are considered key for the OIC Member State. All of the projects selected are related to ESG and will have a significant developmental impact in Uganda. The backed financing will go towards agriculture, solar energy (climate change), water infrastructure, and healthcare. After completion, the projects will immediately improve the lives of millions of people.

The 10-year insurance cover was provided to SCB and SocGen to mitigate non-payment risk and comes under ICIEC's Non-Honoring of Sovereign Financial Obligations Policy (NHSFO). The Islamic facility (Murabaha) was lent by SCB as the mandated lead arranger (MLA) of syndication in which Société Générale has provided participation.

The challenging backdrop

Uganda has been challenged by the ongoing problems of both COVID impacts on real GDP (GDP growth had slowed to 3% year/year in 2020 amid COVID, half the year earlier growth rate). The severe income losses due to COVID led to lower consumption growth and a 5.2% increase in the national poverty line after the first lockdown in 2020. Post-COVID supply disruptions, and also the Ukraine invasion, have led to much more expensive inputs such as fertilisers and energy, and higher transportation costs which have put pressure on agricultural production inputs and food security and have dampened household incomes and demand. According to data on OIC countries quoted in SESRIC [OIC Economic Outlook 2022], Uganda had a fiscal deficit of 7.8% of GDP in 2021.

To help mitigate the effects of imported inflation and help stabilise domestic prices, the Republic of Uganda, SCB, and SocGen agreed on COVID-19 support and a development programme. Within this, ICIEC has agreed with SCB and the government to offer cover on selected projects that are considered key for the Member State. Funds will be used in agricultural projects, solar energy (which will work towards mitigating climate change), water infrastructure, and healthcare.

The key positive results of the support are intended to be multiple, including improvement of living conditions, increasing access to safe drinking water to 95%, increasing life expectancy and health adjusted life expectancy, improving food security conditions, increasing agricultural productivity, and promoting the green economy.

Helping to meet NDC goals

Uganda is also committed to its updated Nationally Determined Contributions (NDCs) on climate change to meet its Paris Agreement undertakings. In the updated NDC published in September 2022, Uganda has an ambitious economy-wide target to cut emissions by 24.7% below its Business as Usual (BAU) by 2030 (a target that has been raised from the 22% reduction target made in 2016).

The report indicates, Uganda's number one priority response to climate change is an adaptation in the context of "addressing key vulnerabilities in sectors, building adaptive capacity at all levels, addressing loss and damage, and increasing the resilience of communities, infrastructure, and ecosystems. The sectoral scope for adaptation has been broadened from agriculture, forestry, water, infrastructure, energy, risk management, and health to also include ecosystems (wetlands, biodiversity, and mountains), water and sanitation, fisheries, transport, manufacturing, industry, and mining, cities and built environment, disaster risk reduction, tourism, and education."

According to the report, these ambitious goals will require considerable financing. The report notes that the total cost of implementing adaptation, mitigation, coordination, monitoring, and reporting of this updated NDC is estimated at $28.1 billion. While Uganda commits to mobilising domestic resources to cover the unconditional actions to the tune of $4.1 billion, equivalent to 15% of the total cost of the updated NDC, it will need international support to cover the conditional measures and actions. Several capacity-building and technology needs have also been identified for implementing the NDC. Support by development institutions such as ICIEC will be very important going forward.

ICIEC Follows Through on Successful COP27 Engagement

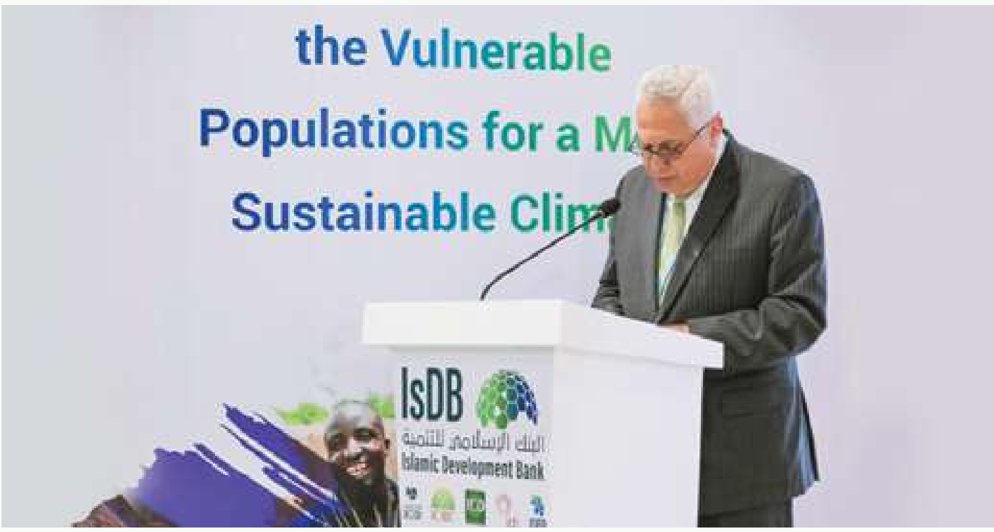
Sharm El-Sheikh, Egypt

ICIEC is to follow through on its successful COP27 engagement. This comprised three timely side events, three fireside chats, and an MoU signed with the Africa Finance Corporation (AFC) to jointly deliver mark-to-market climate action projects using ICIEC's de-risking solutions in the African Member States common to both. On one panel discussing the Food Security and Project Bankability Agenda, the IsDB Group US$10.54bn Food Security Response Program (FSRP) was highlighted. Climate risk financing and food security challenges for Member States are large. ICIEC's support for the FSRP is underpinned by its initial contribution of $500 million in PRI and credit insurance coverage, of which $150 million has been disbursed to date, covering several transactions.

ICIEC and InsuResilience Global Partnership Stress Partnership Importance at COP27

November 8, 2022
Sharm El-Sheikh, Egypt

ICIEC and InsuResilience Global Partnership (IGP) convened a forum at COP27. This stressed the role of partnerships in accelerating climate protection and de-risking credit and political risk through the G7/V20 Golden Shield Initiative (creating a Golden Shield against Climate Risks (GSCR)) in Member States such as Gambia.

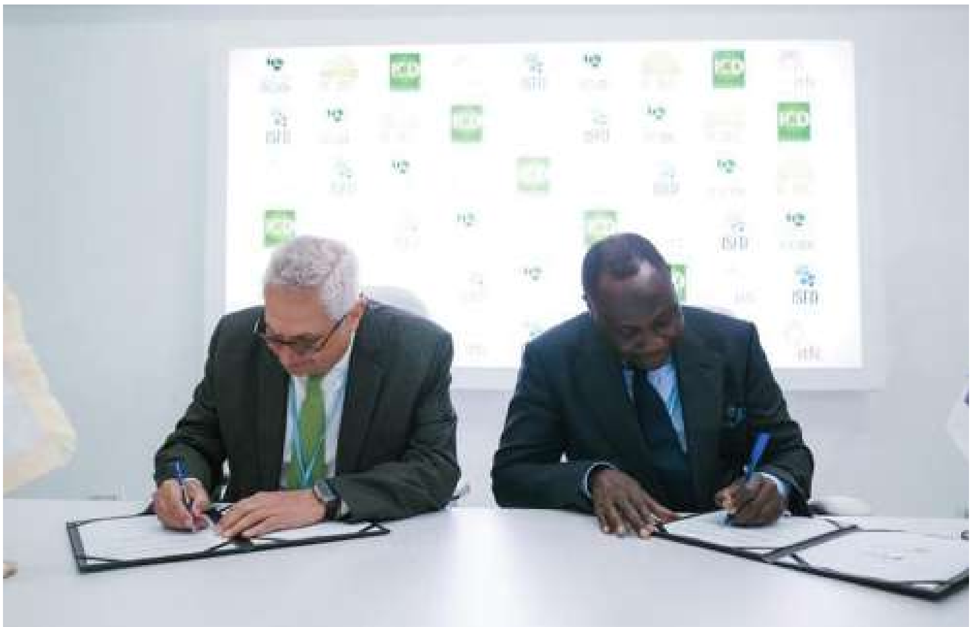


ICIEC and the Commercial International Bank Partner on Discussion Bankability of Climate Action Projects at COP27

November 9, 2022
Sharm El-Sheikh, Egypt

ICIEC and CIB, joined forces for a COP27 panel discussion on the bankability of climate adaptation projects focused on food security in Africa. The discussion spotlighted Egypt's National Water, Food, and Energy (NWFE) Program and highlighted the role of credit and investment insurance in helping bridge the climate financing gap.

ICIEC and the Africa Finance Corporation Cooperation Agreement on Climate Action Projects



November 9, 2022,
Sharm El-Sheikh, Egypt

ICIEC signed a landmark MoU of cooperation with the AFC to promote the origination, resilient financing, and execution of climate action projects in the African Member States through ICIEC's de-risking solutions. This partnership will focus on fostering the growth and development of the global green bond market. The mandate of ICIEC is to promote trade and FDI flows among its 23 African Member States in partnership with peer and specialized institutions.

ICIEC and the Africa Finance Corporation Convene Forum on Renewable Energy and CPRI

November 12, 2022
Sharm El-Sheikh, Egypt

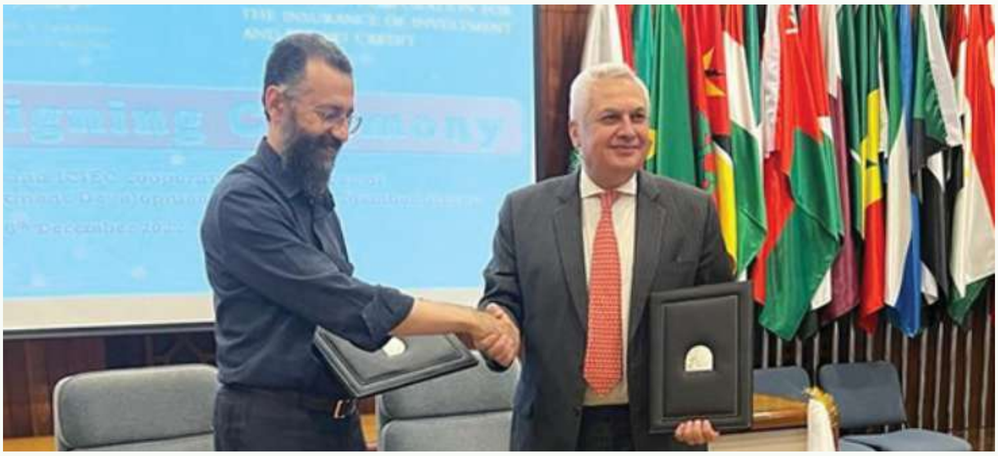
ICIEC and AFC joined forces to convene a forum at COP27 on the roles of renewable energy projects and credit and political risk insurance in climate change mitigation. Highlighting the role of renewable energy in climate change mitigation and the experiences of multilateral financial institutions investing in such projects and how they can be supported by ICIEC's risk mitigation strategies.

Moody's Affirms ICIEC Strong Ratings and Gives Positive Inaugural ESG Score

December 18, 2022

Moody's Investor Services (Moody's) has confirmed ICIEC's Aa3 Insurance Financial Strength Rating (IFSR) for the 15th year in a row and has assigned, for the first time, ICIEC's ESG Credit Impact Score as neutral-to-low (CIS-2), reflecting a limited impact from environmental and social factors on the rating. The affirmation of the IFSR rating reflects the strong fundamentals, namely ICIEC's financial position, risk governance, and continued support from its parent, the Islamic Development Bank (IsDB), and multiple sovereign members of the Organization of the Islamic Cooperation (OIC).

ICIEC and the Islamic Chamber of Commerce, Industry and Agriculture Sign Intra-OIC Trade and Investment Accord



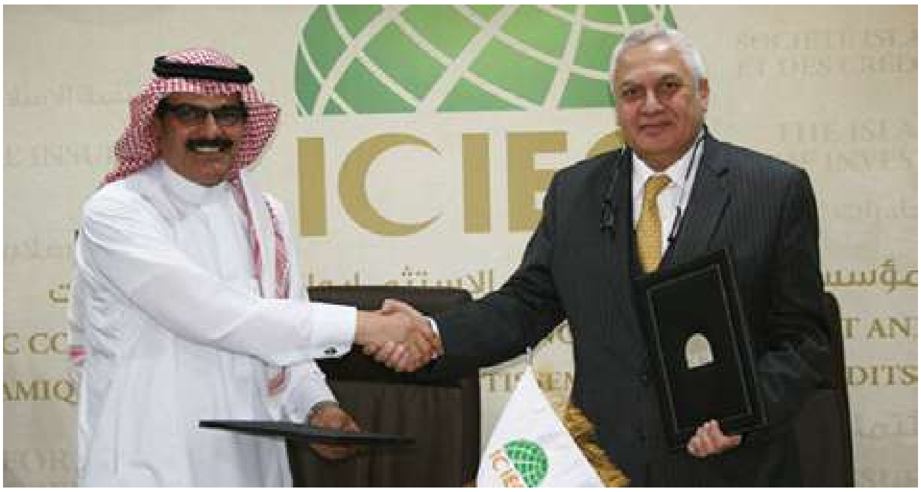
December 19, 2022
Karachi, Pakistan

ICIEC signed a cooperation MoU with ICCIA with the aim to promote and support intra-OIC trade and investment, green finance, and the Halal economy in the common Member States using ICIEC de-risking solutions.

ICIEC and Al-Rajhi International Investment Company Agree on Cooperation Pact for Agri and Food Security Sectors

December 27, 2022
Jeddah, KSA

ICIEC signed an MoU with RAII of Saudi Arabia to promote synergizing coordination, business development, and efficient implementation of projects in the vital agricultural and food security sectors in ICIEC member states. RAII owns the most extensive organic agriculture projects and one of the largest poultry projects in Saudi Arabia and an integrated poultry project in Egypt. Its products are exported to neighbouring GCC markets, Yemen, China, and Vietnam.



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

ICIEC

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

Managing Editor
Rania Binhimd