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

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‘Navigating Impact Development in an Era of Global Polymorphic Uncertainties’

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Message from HE the Chairman of the IsDB Group & Chairman of the Board of Directors of ICIEC

As we convene the 2023 IsDB Group Annual Meetings on 10-13 May in Jeddah, Saudi Arabia, it is a poignant time to take stock of the economic situation and development status in our 57 member countries and, indeed, in the world. But, more importantly, it is also an opportunity to reflect on and try to mitigate the challenges facing these countries in a global environment where reality seems to be regularly altered by events in a perpetual cycle of crises.

As we emerge from a receding coronavirus pandemic on the way to economic recovery and 'normalization,' the Omicron variant outbreaks in China and elsewhere, and the resurgence of other pandemics such as TB and Malaria, is a stark reminder that COVID-19 is far from over. Moreover, the supply chain disruptions caused by the Ukraine conflict continue to wreak havoc on fuel and food prices which have plunged the world into a cost-of-living crisis, disproportionately affecting our medium-and-low-income developing countries.

These geopolitical tensions have exacerbated the resultant global economic shocks of record inflation levels, subdued GDP growth, declining FDI flows, rising unemployment, increased sovereign debt, and several other metrics. According to the IMF and the OECD, these economic shocks expose the fragility of the global economy, with an outlook being at best "moderate" for the next two years, despite recent signs of recovery and the talk of a shallower recession.

The Kingdom of Saudi Arabia is the largest shareholder at 23.5% the IsDB's subscribed capital. Saudi Arabia is also the IsDB's strongest supporter not only in terms of resource allocation but also in technical expertise, logistics, whether in food security, poverty alleviation, sustainable finance, climate action, vaccine accessibility, and energy transition. In return, the IsDB Group supports the Kingdom's Vision 2030 and its National Transformation Programme.

The Kingdom's importance to the global economy extends far beyond its membership in the G20; its economy has been on a steady recovery trajectory in recent months. A robust Saudi economy means greater support for the IsDB Group and, therefore, for the various development programs aimed at its constituent member countries.

In the above context, Focus on Saudi Arabia: 'Navigating Impact Development in an Era of Global Polymorphic Uncertainties' could not be more pertinent. It provides timely analysis, comments, and interviews with experts and officials not only on the Saudi economy and the progress towards Vision 2030 realization but also on the Kingdom's Islamic finance and Sukuk proposition, export and investment promotion, food security, the drive toward digitization, sustainable development, and women empowerment initiatives.

ICIEC, the multilateral credit and investment insurer and member of the IsDB Group, as the publisher of the Special Focus on Saudi Arabia, has enjoyed a long and fruitful partnership in helping promote the Kingdom's export strategy – first with the Saudi Export Program and now with its successor Saudi Exim Bank – highlighting the importance of credit and investment insurance, and guarantees.

This special relationship between ICIEC and Saudi Arabia is underpinned by the fact that the latter accounts for 20.22% of ICIEC's subscribed capital and a cumulative US$21.4 billion or 11.28% of business insured at the end of 2022 in favour of Saudi exporters, importers, investors, and banks.

Dr. Muhammad Al Jasser

Chairman of the IsDB Group
Chairman of the Board of Directors of ICIEC

CEO's Brief

We are living in a world of seeming dichotomies. While some economists are hailing a rebound of GDP growth in several economies and a shallower recession, others warn of a fragile recovery. The reality seems to be where real resilience meets financial fragility.

At the Spring Meetings of the World Bank/IMF in April 2023, the clear message was that the global

economy is at another highly uncertain moment, tentative signs of stabilization earlier this year have receded, and the outlook is increasingly risky and uncertain. IMF Managing Director Kristalina Georgieva, urged that "strong policy action is needed together with pragmatic approaches to find areas of common ground to respond to shared challenges."

Strong consumer demand in advanced economies, together with the reopening of the Chinese economy, buoyed activity in the second half of 2022. However, successive shocks, including the conflict in Ukraine and now tighter monetary policies needed to bring down inflation, are weighing on the global recovery and macro-financial stability.

The forecast is for growth to fall from 3.4% in 2022 to 2.8% in 2023, before settling at 3.0% in 2024, with advanced economies projected to see a pronounced growth slowdown, from 2.7% in 2022 to 1.3% in 2023. On the positive side global inflation is projected to fall from 8.7% in 2022 to 7.0% in 2023 on the back of lower commodity prices but underlying (core) inflation is likely to decline more slowly. Inflation's return to target is unlikely before 2025 in most cases.

Economies in the Middle East and North Africa (MENA) and Central Asia region and in Sub-Saharan Africa, where most member states of the IsDB and ICIEC are located, are expected to grow at a slower rate in 2023 largely because of the devastating impact of food price inflation on poor families. MENA's GDP alone, for instance, is projected to slow to 3.1% in 2023 from 5.3% in 2022.

It is against such an uncertain global economic background that we convene for the 2023 IsDB Group Annual Meetings on 10-13 May in Jeddah, Saudi Arabia and of course for the Annual Board Meeting of ICIEC. But we remain mindful that the global economic recovery is still facing significant headwinds from lingering trade disruptions, growing economic fragmentation risks, and tightening financial conditions, which continue to affect ICIEC's economically disparate 49 Member States.

We are gathered in the Kingdom at a time when Saudi Arabia is fast proving to be the exception to the rule. Driven by its Fiscal Sustainability Programme and other pillars under the ambitious Saudi Vision 2030, the Saudi economy's performance has exceeded

ICIEC's current portfolio in Saudi Arabia encompasses support for foreign investments into the Kingdom, supporting Saudi exports and imports, facilitating risk solutions for Saudi investments abroad, provision of lines of financing and cover to Saudi banks and financial institutions, and enhancing its long-standing relationship with the Saudi Exim Bank (SEB) and its precursor Saudi Export Programme (SEP).

expectations, growing at 8.7% in 2022, making it the fastest growing economy among the G20 countries.

Overall unemployment rate, according to the Ministry of Finance, is down from 6.9% in Q4 2021 to 4.8% in Q4 2022 Q4, and among Saudi nationals from 11% to 8% respectively. Not surprisingly, in April Moody's Investors Service affirmed its "A1" rating for the Kingdom and revised the stable outlook rating to positive. Fitch Ratings went one step further upgraded Saudi Arabia's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'A+' from 'A', with a stable outlook.

Both actions reflect the Kingdom's strong fiscal and external balance sheets, low government debt/GDP, high sovereign net foreign assets, and significant fiscal buffers in the form of deposits and other public sector assets. They also assume ongoing commitment to gradual progress with fiscal effectiveness, regulatory, economic and governance reforms.

Saudi Arabia, despite the fact that it is a major oil exporter, has one of the most proactive climate action and ambition strategies based on harnessing technology for a greener future for all. Global recommendations on energy security and transition should be carefully

designed to be commensurate with the reality of the energy market and the economic conditions of each country. Policy advice should inter alia focus on targeting emissions reduction rather than recommending the phasing out of conventional sources of energy.

As the spiritual and physical home of the IsDB Group, and its single largest equity subscriber at 22%, the Kingdom's engagement with and co-leadership of the multilateral development bank of the Ummah, is second to none. Saudi Arabia has demonstrated its invaluable and impactful support of the IsDB and its sister entities towards meeting the Group's mandate - all consistent with helping the 57 member states achieving their specific development agendas.

ICIEC's relations with and Saudi Arabia is steeped in a history of cooperation, targeted investment and innovative export promotion through Shariah-compliant risk mitigation and credit enhancement solutions. ICIEC's current portfolio in Saudi Arabia encompasses support for foreign investments into the Kingdom, supporting Saudi exports and imports, facilitating risk solutions for Saudi investments abroad, provision of lines of financing and cover to Saudi banks and financial institutions, and enhancing its long-standing relationship with the Saudi Exim Bank (SEB) and its precursor Saudi Export Programme (SEP). ICIEC is also currently studying a joint programme with SEB which aims at providing integrated insurance and financing solutions to Saudi exporters.

Since inception and up to end 2022, business insured in the Kingdom by the Corporation reached US$21.7 billion, or 11% of the total operations of ICIEC. This comprised US$13.3 billion in favour of Saudi exporters; US$8.2 billion for Saudi importers and US$239 million for Saudi investors. In this respect, ICIEC, the world's only Shariah-compliant multilateral insurer, acts as a risk absorber and mitigator in its efforts in carrying out its mandate which including promoting intra-OIC trade and investment, helping member states in their post-pandemic recovery, and overcoming the impact of the supply-chain disruptions due to the Ukraine conflict.

ICIEC will continue to enhance its existing cooperation with the Kingdom and seek new opportunities particularly related to the inter-connectivity between the estimated US$3.5 trillion Islamic finance industry and the wider Halal Economy, which according to a report from Frost & Sullivan will likely reach US$4.96 trillion by 2030 from US$2.30 trillion in 2020.

Here, ICIEC can provide de-risking tools for projects, co-opt private sector capital, which would make projects bankable and more attractive to investors and contribute to food security in the Member States. In this context, ICIEC welcomes the recent launching of the Halal Products Development Company (HPDC) by The Public Investment Fund (PIF), Saudi Arabia's sovereign wealth fund, aimed at investing in localising the Halal manufacturing industry, promoting Saudi Arabia as a global Halal hub and unifying global efforts in Halal certification and standards.

ICIEC and the credit insurance sector can leverage new business insured and guarantee opportunities in the halal economy, especially trade credit and investment in manufacturing pharmaceuticals, food and agri-products, and renewables. This can have an important multiplier effect which could have positive impacts on job creation, import substitution, GDP growth and the well-being of citizens. Halal products have become increasingly globalised because of the Muslim diaspora. But according to Frost & Sullivan, the demand for halal products is now coming from both Muslim and non-Muslim consumers across countries.

ICIEC is again co-organising the IsDB Group Private Sector Forum as a side event at the 2023 IsDB Group Annual Meetings in Jeddah on 11th May, which is the flagship event attracting the participation of over 2,400 delegates and covering the pertinent theme of "Partnerships to Fend Off Crises."

The Forum is a regular and popular feature at IsDB Group Annual Meetings because it gives an excellent platform for the exchange of ideas between participants and delegates, an opportunity for governments to showcase their policies and strategies in various economic sectors, for the private sector to explain their needs and concerns especially in making investment projects bankable, for insurers to stress the importance and increasing necessity of risk mitigation and credit enhancement solutions in a world of increasing uncertainties, and for NGOs, civil society and communities to voice their demands lest they be left behind.

The Forum will comprise three sessions – one showcasing four country presentations and the other two panel discussions – the first one on renewable energy, food security, and tourism, and the second one on how to attract FDI inflows for the above sectors.

In the above context, the publication of Focus on Saudi Arabia: 'Navigating Impact Development in an Era of Global Polymorphic Uncertainties' could not be timelier. It provides up-to-date analysis, comments, and interviews with experts and officials not only on the Saudi economy and the progress towards Vision 2030 realization but also on the Kingdom's Islamic finance and Sukuk proposition, export and investment promotion, food security, the drive toward digitization, and sustainable development initiatives.

Oussama Kaissi
CEO, ICIEC

News in Brief

OECD Members Endorse EU Initiative to Modernise Export Credit Rules

OECD member countries reached an agreement in principle on 31 March 2023 on a wide-ranging EU initiative to modernise export credit rules and payment terms aimed at supporting exporters in Member States, especially in transitioning to green and climate-friendly transactions.

The deal to update the Arrangement on Officially Supported Export Credits says the OECD "will provide streamlined terms and conditions so that government-backed export finance can better meet the needs of exporters in an increasingly competitive landscape, while avoiding market distortions. At the same time, the outcome widens the scope of green and climate-friendly transactions benefitting from extra incentives in the form of more flexible financial terms and conditions."

Specifically, the Participants agreed in principle on the expansion of the scope of green or climate-friendly projects eligible for longer repayment terms (i.e. eligible under the Climate Change Sector Understanding or CCSU) to those related to (i) environmentally sustainable energy production, (ii) C02 capture, storage, and transportation, (iii) transmission, distribution and storage of energy, (iv) clean (green) hydrogen and ammonia, (v) low emissions manufacturing, (vi) zero and low emissions transport and (vi) clean energy minerals and ores.

The current financial terms are to be amended in several ways. According to an OECD statement, the proposed new Arrangement also provides more flexible financing terms and conditions for projects eligible for the CCSU as well as for all other transactions supported according to the Arrangement by:

- increasing the maximum repayment term from 18 years to up to 22 years for climate-friendly and green transactions and from 8.5 years and 10 years to up to 15 years for most other projects.
- introducing further flexibilities regarding the schedule of repayments over the life of the financial package provided and adjusting the minimum premium rates for credit risk for longer repayment terms. In addition, these changes will lead to a simplification of the Arrangement text through streamlined provisions, as well as a more robust transparency regime and review procedures.

This reform is expected to come into effect later this year, once the participants complete their formal internal decision-making processes and agree to the new Arrangement text. The Participants to the Arrangement are the EU, Australia, Canada, Japan, South Korea, New Zealand, Norway, Switzerland, Türkiye, the United Kingdom, and the United States.

The EU initiated the modernisation process in June 2019 and put the first broad proposal on the table at the OECD, following which the Participants agreed to modernise the Arrangement in 2020. The March 2023 announcement is thus the culmination of more than two years of negotiations and consultations. Modernisation was needed because the financial terms of the Arrangement were outdated and were no longer adapted to market needs in a changing, global financial landscape.

The main purpose of the Arrangement of Officially Supported Export Credits is to provide a framework for the orderly use of officially supported export credits by fostering a level playing field to encourage competition among exporters. This would be based on the quality and prices of goods and services exported rather than on the most favourable officially supported financing package.

Governments provide officially supported export credits through Export Credit Agencies (ECAs) in support of national exporters. Such support takes the form of either 'official financing support' or 'pure cover support', such as export credit insurance or guarantee cover.

ICIEC Signs MoU with Abu Dhabi's Masdar to Promote Renewable Energy Projects in Member States Using ICIEC's De-risking Insurance Solutions

ICIEC signed a wide-ranging Memorandum of Understanding (MoU) with Abu Dhabi Future Energy Company (Masdar), which is set to give a major boost to the transition to renewable and clean energy in markets of mutual interest to both entities.

The MoU was signed by Mr. Oussama Kaissi, Chief Executive Officer of ICIEC, and Mr. Mohamed Jameel Al Ramahi, Chief Executive Officer of Masdar, during the Abu Dhabi Sustainability Week, held between 15-19 January 2023.

Under the MoU, the two parties agreed to co-operate "in promoting joint action in the origination, financing, and execution of renewable energy projects through ICIEC's insurance support in its member states." Among ICIEC's mandate is to promote the flow of foreign investments among and into its member states and enlarge the scope of trade transactions between them. This includes support for transitioning to clean energy through the generation of electricity from renewable non-emitting sources and, eventually, the transition to a Green Economy whilst ensuring sustainable economic growth.

Masdar is similarly mandated to develop commercially viable renewable energy projects in the Middle East & North Africa (MENA) and international markets. In December 2021, Masdar launched a global clean energy powerhouse partnership with ADNOC, Mubadala and Taqa intended to spearhead the drive to net-zero carbon by 2050.

The partnership will have a combined current, committed, and exclusive capacity of over 23 Gigawatts (GW) of renewable energy, with the expectation of reaching over 50GW total capacity by 2030. The expanded Masdar entity will become one of the largest clean energy companies of its kind and be well-positioned to lead the industry on a global scale.

Masdar and ICIEC share a common interest in contributing to the growth of renewable energy in ICIEC member states, including in the MENA region, and to the international climate finance architecture. ICIEC is positioned to play a key 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 State national and sub-national bodies who are the custodians of the relevant Climate Action projects and transactions.

Mr. Oussama Kaissi, CEO of ICIEC, welcomed the signing of this landmark MoU and stressed:

"Cooperation between ICIEC and Masdar would bring about better co-ordination and more efficient implementation of their respective activities to the benefit of renewable energy production in the ICIEC Member States. At ICIEC, each of our 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 States thereby contributing to the goals of the Paris Climate Agreement and UN SDG Agenda."

SAMA Adopts IFRS 17 for Insurance Contracts and IFRS 9 for Financial Instruments

The Saudi Central Bank (SAMA) has adopted the International Financial Reporting Standard-IFRS 17 for Insurance/Takaful Contracts and International Financial Reporting Standard-IFRS 9 for Financial Instruments by the Saudi insurance sector, which came into effect on 1 January 2023, in line with the implementation date set by the International Accounting Standards Board (IASB).

SAMA in a statement stressed that it attached "huge importance to a seamless and highly effective adoption of the IFRS 17 in Saudi Arabia, as a member of the G20." The Central Bank rolled out a transition plan with four phases in 2018.

According to SAMA, the adoption of IFRS 17 contributed to introducing new elements in the insurance industry, improving human and technological resources, enhancing transparency of reporting, fostering regulator-sector relationship, and enabling the Saudi insurance sector to meet the objectives of Saudi Vision 2030.

IFRS 17 and IFRS 9 will impact the Islamic insurance industry as much as it will the conventional sector. The consensus is that IFRS 17 for insurance contracts will bring enhanced transparency to financial statements, as well as greater consistency and comparability within and beyond the insurance market.

Under IFRS 17, says Fitch Ratings, insurers' profit recognition pattern, as well as the P&L components, are set to change under IFRS 17. The standard requires insurers to present a market-consistent balance sheet measurement of insurance contracts, with recognition of profit over the period that services are provided. Written premiums, traditionally the first line of a traditional income statement (P&L), will be replaced by a new item, 'value of the insurance services provided', and investment components will be excluded from revenue and claims.

According to Stephan Kalb, Senior Director, Insurance at Fitch Ratings, the introduction of IFRS 17 and IFRS 9 "will have limited impact on our ratings, as it does not change the risk structure or the economic profitability of the underlying insurance operations. We do not expect our overall views on capitalisation to change for most insurers after the introduction of IFRS 17. However, reported shareholders' equity is likely to be affected, both directly and indirectly, by the introduction of IFRS 17.

"IFRS 17's requirement to value liabilities at market value will bring significant direct impacts to reported equity, in particular with regard to the introduction of the contractual service margin (CSM) and the discounting of cash flows. We believe shareholders' equity could reduce as a consequence of this, as the profit is recognised more slowly over the duration of the contract. However, we expect to add the CSM to the shareholders' equity in

both its Prism Factor-Based Capital Model (FBM) and in the denominator of capital-based ratios. Therefore, the total impact on capital should be small."

Kalb expects that most financial performance and earnings ratios currently used will be maintained under IFRS 17, although the parameter values of the ratios could change. "We may therefore need to calibrate a separate set of criteria guidelines for companies switching to IFRS 17. In addition, we expect to adopt a number of new financial performance ratios to enhance our analysis, leveraging the new information that will be available under IFRS 17. We have no particular expectation that the above views could be different for credit and political risk insurance," he added.

News in Brief

ICIEC and RAII Pen Landmark Agreement to Invest in and Insure Projects to Promote Agricultural Development and Food Security Sectors

ICIEC and Sulaiman Abdul Aziz Al Rajhi International Company (RAII) of Saudi Arabia signed a wide-ranging agreement in December 2022 to investing and insuring projects in the vital agricultural and food security sectors.

RAII is a subsidiary of Sulaiman Abdulaziz Al-Rajhi Awqaf Holding, which is one of the largest business groups in Saudi Arabia, whose core activities include investments in the agricultural and food security sectors and related fields globally.

Promoting investments in the food and agricultural sectors towards achieving food security and lessening dependency on imported food supplies in the wake of the commodity supply chain disruptions caused by the conflict in Ukraine, is a core mandate of both ICIEC and RAII. Food insecurity due to the impacts of Ukraine disruptions but, more importantly, also because of climate change has affected ICIEC and IsDB Member States and Emerging Markets disproportionately.

This cooperation is aimed at contributing to achieving food self-sufficiency in Saudi Arabia and ICIEC Member States in which RAII is already engaged through jointly exploring new agri-business opportunities, investments in agricultural and food security projects, enhancing and developing agricultural infrastructure at the advanced, SME and rural farming levels, and co-financing and technical consultancy opportunities with ICIEC clients and partners using the Corporation's risk mitigation and credit enhancement solutions.

The two parties also aim to help boost agricultural production by focusing on developing agriculture technologies and farm management services to also maximize productivity. RAII owns the largest organic agriculture project in the Kingdom, and one of the largest poultry projects in Saudi Arabia and an integrated poultry project in Egypt. Its products are also exported to neighbouring GCC markets and to Yemen, China and Vietnam.

The IsDB Group, including ICIEC, are heavily invested in supporting the agricultural and food industry in Member States, 36 of which are net food importers. Total IsDB Group's financing support for agriculture and food security currently stands at US$20.6 billion, comprising 1,538 operations. Earlier in 2022, the IsDB Group launched a US$10.54 billion comprehensive Food Security Response Programme (FSRP) aimed at supporting Member States in addressing the ongoing food crisis and scaling up the Group's continued efforts to contribute to strengthening its members' resilience to food security shocks in the future. ICIEC is supporting this "One Group-One Goal" initiative with an allocation of US$500 million in PRI and credit insurance.

According to Oussama Kaissi, CEO of ICIEC, "Our mandate includes supporting intra-OIC trade and investment through the provision of our unique Shariah-compliant credit enhancement tools against commercial and non-commercial risks. IsDB and ICIEC Member States, along with significant parts of the world, are facing an unprecedented food crisis. Food prices, particularly for cereal grains, have been climbing steadily in the past few years and soared recently in the wake of Russia-Ukraine crisis. Climate change is also one of the main factors exacerbating food insecurity, through low productivity and crop failures.

"We welcome this important MoU with RAII, an institution which has a venerable reputation in the sector both in the Kingdom and the wider world. We look forward to a fruitful partnership with RAII in boosting agricultural and food security potential especially in the Member States, and attracting vital inward investment in enhancing production, yields and productivity respectively."

ICIEC Continues to Consolidate its Credit and Investment-linked (Re)Insurance Cooperation with Central Asian Entities

Further signs of the consolidation of ICIEC's operations and cooperation with entities in Central Asia is the Master Facultative Reinsurance Agreement (MRA) signed in January 2023 between the Corporation and the Uzbekinvest Export-Import Insurance Company. The agreement, signed by Mr. Oussama Kaissi, Chief Executive Officer of ICIEC, and Mr. Rustam Khalikov, First Deputy Director General, Uzbekinvest, aims to support the export promotion of Uzbekistan.

Under the agreement, ICIEC will provide reinsurance services to Uzbekinvest for exports of goods and services from Uzbekistan to all over the world, which will enhance the underwriting capacity of Uzbekinvest, hence increasing the country's exports. ICIEC has been extending similar reinsurance support to other Member States' export credit agencies (ECA) and Exim Banks. Commenting on the agreement, Mr Oussama Kaissi said "ICIEC welcomes this partnership with Uzbekinvest which will strengthen our efforts in providing reinsurance in export credits, especially in the CIS region. It is believed that there is strong demand for export credit insurance from business communities, especially after the economic crises and political turbulence in certain countries".

In another development, the Republic of Azerbaijan acceded to membership of ICIEC on 16 January 2023, thus becoming the Corporation's 49th Member State. ICIEC de-risking insurance solutions catalyze strategic projects and improve its member states' investment attractiveness.

ICIEC will work closely with the Government of Azerbaijan to support economic and social infrastructure projects in trade, agriculture, energy, water, sanitation, and urban services and with the private sector to improve access to finance.

The Corporation supports Azerbaijan's 2030 National Priorities for Socio-Economic Development, which promotes sustainable economic growth, high social welfare and transition to a clean environment and a country of "green growth". ICIEC's presence as an investment partner provides a measure of reassurance and encouragement to other potential investors seeking opportunities in Azerbaijan. Investment projects often provide employment, enhanced modern and efficient

infrastructure, and better quality of life for citizens.

Mr Oussama Kaissi, CEO of ICIEC, welcomed Azerbaijan, stating: "The Republic of Azerbaijan's membership opens the door for its private and public sectors to benefit from risk mitigation and credit enhancement solutions offered by ICIEC to expand their exports and promote foreign direct investment inflow. Similarly, it allows exporters, banks and investors from other member and non-member states, to cover political and commercial risks related to their operations in Azerbaijan."

ICIEC Signs MoU with the Libyan Export Promotion Centre to Support Export Development

Multilateral Insurer, ICIEC, and the Libyan Export Promotion Centre (LEPC) signed a Memorandum of Understanding (MoU) in January 2023 to facilitate cooperation between the two parties in the provision of export credit and investment insurance facilities to Libyan institutions and companies. The agreement was signed by Mr. Oussama Kaissi, Chief Executive Officer of ICIEC, and Mr. Mohammed Ali Al-Deeb, Director General, of the LEPC.

The Libyan Export Promotion Center is a government entity affiliated with the Ministry of Economy and Trade, Libya. It was established with the aim of encouraging, developing and diversifying Libyan non-oil exports, spreading the culture of export among the parties related to its activity, and providing the necessary technical, administrative and financial support to Libyan and export institutions to facilitate the access of their products to global markets.

The MoU covers a broad range of activities, such as organizing introductory seminars for Islamic insurance, export credit and investment

insurance, providing technical support to local insurers, introducing foreign investments into Libyans' export projects, participating in related activities organized by other parties, exchanging information on exporters based in Libya looking for export credit insurance. This partnership will help create an environment that encourages businesses to invest more confidently while expanding the scope of their operations abroad.

Commenting on the MoU Mr. Oussama Kaissi said "We are delighted to announce our new partnership with the Libyan Export Promotion Center! This agreement will increase and diversify Libyan exports, strengthening our efforts in export credit reinsurance. We believe this will provide much-needed support for businesses in Libya during these challenging times".

Balancing Strong Fundamentals and Ambitious Reforms with Downside Risks

The Kingdom of Saudi Arabia seems 'never to have had it so good.' Finance Minister Dr Mohammed Aljadaan at the IMF Spring Meetings in April 2023 reminded that 'the Saudi economy's performance in 2022 has exceeded expectations.' Its recovery following a deep pandemic-induced recession is remarkable, driven by government liquidity and fiscal support, higher oil prices, and a reform momentum under Saudi Vision 2030. In April 2030, Fitch Ratings upgraded Saudi Arabia's sovereign rating to 'A+' from 'A' with a Stable Outlook. The Kingdom however is subject to the same vagaries of the global economy – unlocking GDP growth, fighting high inflation, creating more jobs and in the Saudi context diversifying the economy away from dependence on hydrocarbons. Non-oil exports fell year-on-year by 24% last December and in January 2023 inflation increased slightly to 3.4% from 3.3% the previous month.

Oussama Kaissi discusses the outlook for the Saudi economy.

The expectations of a shallower global economic recession and a gradual but sustainable recovery in 2023 were perhaps too optimistic. One can excuse human exuberance following the effects of a deep pandemic-induced recession since March 2020 and the supply chain disruptions due to the Ukraine conflict over the last year.

Indeed, tentative signs in early 2023 that the world economy could achieve a soft landing, with inflation coming down and growth steadying thanks to China rebounding strongly following the re-opening of its economy, perhaps beguiled governments, global economic gatekeeper organisations and forecasters into a false sense of security and even complacency.

At the Spring Meetings of the World Bank/IMF in Washington in April 2023, the mood music was definitively different. In the space of one financial quarter, the earlier optimism had receded and given way to the stark realisation that the stubborn global economic shocks, especially high inflation is proving to be much stickier to rein in, further exacerbated by recent financial sector turmoil following the collapse/rescue of Credit Suisse, Silicon Valley Bank and First Republic Bank in the US. The talk is now of a "rocky recovery" or a "fragile recovery".

Rocky and Fragile Global Recovery

The message from IMF Managing Director Kristalina Georgieva was unequivocal: "The global economy is at another highly uncertain moment. The tentative signs of stabilization earlier this year have receded, and the outlook is increasingly risky and uncertain. Successive shocks—including Russia's war against Ukraine—and now recent financial market stress, in the context of tighter monetary policies needed to bring down inflation, are weighing on the global recovery and macro-financial stability."

Indeed, the IMF's World Economic Outlook (WEO) Spring 2023 projects global growth in the near and medium term to remain weak by historical standards and could weaken further if financial stress continues and leads to a sharp tightening of financial conditions. Rising interest

rates, inflation and fuel and food prices have formed a perfect storm which has led to a pernicious global cost-of-living crisis.

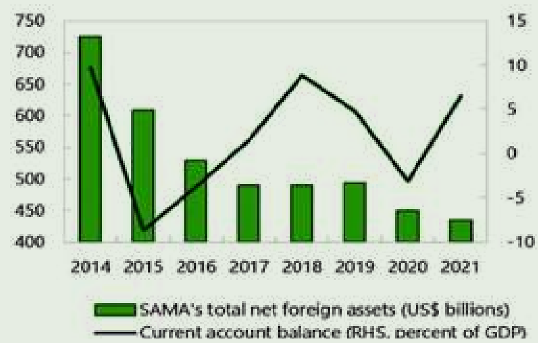
"Strong policy action is needed together with pragmatic approaches to find areas of common ground to respond to shared challenges," declared Georgieva. In the Fund's latest forecast, global growth will bottom out at 2.8% this year before rising modestly to 3.0% in 2024. Global inflation will decrease, although more slowly than initially anticipated, from 8.7% in 2022 to 7.0% this year and 4.9% in 2024.

Economies in the Middle East and North Africa (MENA) region are projected to grow at a slower pace, with GDP in 2023 at 3.1% and 3.4% in 2024, much lower than the growth rate of 5.8% in 2022. The MENA average growth rate masks stark differences across countries. Following a GDP expansion of 8.7% in 2022, growth in Saudi Arabia is expected to decelerate to 3.1% in 2023, a level that is expected to be maintained in 2024.

Sticky Inflation

Although inflation has declined as central banks have raised interest rates and food and energy prices have come down, underlying price pressures are proving sticky. Side effects from the fast rise in policy rates are becoming apparent, as banking sector vulnerabilities have come into focus and fears of contagion have risen across the broader financial sector, including nonbank financial institutions.

International Reserves and Current Account



Sources: Saudi Arabian authorities and IMF staff calculations

Inflation in Saudi Arabia is tapering downwards from 3.4% in 2020 to 3.1%in 2021 and estimated at 2.5% in 2022 and projected to decline to 2.4% this year before settling down to 2.2% over the next two years. The fickleness of forecasting, however, is implicit in the latest data of General Authority for Statistics (GASTAT). Inflation in Saudi Arabia increased in January 2023 to 3.4% from 3.3% the previous month. This was largely due to the increase in the prices of housing, water, electricity and gas by 6.6%, and food and beverages by 4.2%.

Central banks traditionally use the interest rate mechanism to dampen inflationary pressures. In March 2023, The Saudi Central Bank (SAMA) decided to raise the rate of Repurchase Agreement (Repo) by 25 basis points to 5.50%, and the rate of Reverse Repurchase Agreement (Reverse Repo) by 25 basis points to 5.00%t. This decision, said SAMA, reflects global monetary developments and the Central Bank's objectives.

In its Article IV Consultation on Saudi Arabia in October 2022, the IMF observed that the Kingdom "is recovering strongly following a deep pandemic-induced recession. Liquidity and fiscal support, reform momentum under Vision 2030, and high oil prices and production helped the economy recover with a robust growth, contained inflation and a resilient financial sector.

The receding effects of the pandemic, rising oil production/prices and a strengthening economy have improved the fiscal and external positions. The solid reform progress since the inception of Vision 2030 has created the fiscal space and the capacity for the Saudi government to press

ahead with the implementation of more comprehensive structural reforms at an even more advanced pace despite the challenging global environment."

Ambitious Reforms

The ambitious reforms continue to focus on: unlocking potential growth that is sustainable and more inclusive, enabling the private sector to thrive and create more jobs, improving the quality of public goods and services, and strengthening the fiscal and external positions. And there seems to be a greater urgency in pushing the reform process in its various realisation facets.

The National Budget 2023 stresses that the Kingdom "aims to progress at a more advanced pace in the process of implementing the comprehensive structural reforms through executing strategies, programmes, and projects that drive sustainable economic growth and raise the quality of life in the Kingdom in accordance with the Saudi Vision 2030. These reforms aim to achieve high growth rates, provide greater employment opportunities, raise the level of essential and social services to citizens, residents, and visitors, enhance the role of the private sector, develop local content and local industry, improve the balance of payment, and at the same time enhance the Kingdom's strong fiscal position."

The Budget identifies three key fiscal and economic risks and challenges over the medium-term. These include Global Economic Growth Rates and Inflation, Petroleum Market Fluctuations and the Growth of the Domestic Non-oil Economy.

The global economic outlook is still characterized by ambiguity in light of the growing uncertainty about the future of inflation, fluctuations in energy markets, and the possibility of a higher escalation in geopolitical tensions, which may exacerbate the severity of the negative effects on the supplies of commodity markets, the increase inflation rates to level higher than expected, and the impact on the industrial sector, especially in Europe due to the lack of gas supplies.

"These risks," according to the Budget statement, "raise doubts about the global economy entering a state of economic recession, especially in advanced economies, and accompanied by high inflation rates (stagflation). Likewise, the Saudi economy is not isolated from the shocks that the global economy faces, as the increasing possibility of the global economy entering a state of as the increasing possibility of the global economy entering a state of recession may lead to a significant decline in global demand and a decrease in trade exchange, and public finances affected through possible declines in revenues compared to budget projections."

The real economy impact on Saudi consumers is implicit – the effect of the possibility of an increase in US interest rates at unexpected rates reflects on the increase in the Saudi Arabian Interbank Offered Rates (SAIBOR), which will affect the indicators of consumption, investment, and credit to the private sector.

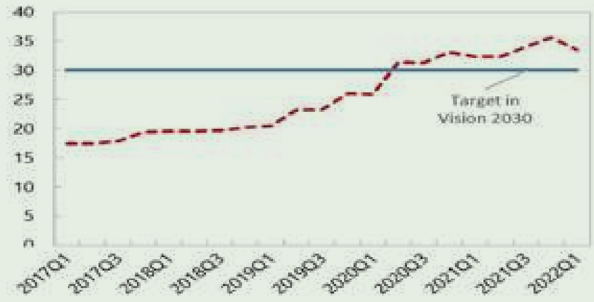
As far as oil market dynamics is concerned, the Kingdom seeks, through its petroleum policy and efforts in supporting the OPEC+ Agreement, to support market stability and achieve balance between demand and supply to address any potential risks to the interests of the participants in the petroleum market and industry, as well as consumer interests.

> Unlocking potential growth that is sustainable and more inclusive, enabling the private sector to thrive and create more jobs, improving the quality of public goods and services, and strengthening the fiscal and external positions. And there seems to be a greater urgency in pushing the reform process in its various realisation facets.

Implementation Urgency

Similarly, Saudi Arabia is seeking to move forward with its reforms aimed at promoting economic diversification and utilizing the available opportunities to accelerate the implementation of some programs and projects that will have a high economic and social impact.

Saudi Female Labor Participation Rate (Percent)



Sources: Saudi Arabian authorities and IMF staff calculations

The economic outlook for the Kingdom in April received a boost when Fitch Ratings upgraded Saudi Arabia's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'A+' from 'A'. The Outlook is Stable. The rationale driving the upgrade includes:

- The Kingdom's strong fiscal and external balance sheets.
- The strong government debt/GDP ratio and sovereign net foreign assets (SNFA) are projected to remain above 55% of GDP in 2023-2024, and significant fiscal buffers in the form of deposits and other public sector assets.
- Ongoing commitment to gradual progress with fiscal, economic and governance reforms.
- Formidable External Finances. Foreign reserves excluding gold remained broadly stable in 2022, at US$459 billion.
- Low government debt. Gross government debt/GDP declined to 23.8% in 2022 and is projected to increase to 24.7% in 2023 and rise but remain below 30% in 2024-2025.
- A budget close to balance.
- The non-oil economy is gaining traction with a forecast of 5% growth in 2023 compared with 5.4% in 2022.

Source: IMF Article IV Consultation Statement October 2022

Non-Oil GDP Growth Dividends Reforms
(Percentage points, relative to baseline)

Sources: Saudi Arabian authorities and IMF staff calculations

Downside Risks

The downside risks include high dependence on oil, weak World Bank governance indicators and vulnerability to geopolitical shocks, although there are some indications of improvement in these factors.

According to Fitch, "oil dependence remains a rating weakness. Oil revenue will account for around 60% of total budget revenue in 2023-2024 (albeit down from 90% 10 years ago) and oil GDP 30% of total nominal GDP. We estimate that a US$10/bbl movement in oil prices would change our budget forecast by just over 2% of GDP."

However, in large part, government decision-making appears to have been strategic, reflecting a policy balance between supporting Vision 2030 projects and responding to higher inflation on the one hand and remaining fiscally prudent. For example, the wage bill (44% of total spending) increased by just 3.5%, minimal growth in real terms.

Moody's Investors Service similarly changed its outlook on Saudi Arabia in March 2023 to positive from stable and affirmed its long-term issuer and senior unsecured ratings at 'A1.' The rationale is that government reforms and investment in non-oil sectors will, over time, lead to the diversification of the economy and, therefore, reliance on hydrocarbons. The affirmation is a recognition of the progress made in the Kingdom's reform program, the moderate debt burden of SAR985 billion, most of which had already been pre-funded in 2022, or 30.7% of GDP in Q3/2022, solid fiscal buffers, and Saudi Arabia's highly competitive and pre-eminent position in the global oil market.

In April 2023, for instance, Saudi Arabia led the OPEC+ in announcing a 500,000 barrels per day supply reduction till the end of the year as a precautionary measure aimed at supporting the stability of the oil market, leading to the highest daily rise in the benchmark Brent crude in a year. These metrics of recovery also include the overall employment rate, involving non-citizens, falling to 4.8% in Q4/2022 from 5.8% the previous quarter, unemployment among citizens falling to 8% from 9.9% in the same period, real GDP growth rising from 2.6% in 2023 to 3.7%, and headline inflation stabilizing at 2.3% in 2023/24.

Saudi Arabia Fact File – Selected Economic & Financial Indicators

	2021a	2022e	2023f	2024f	2025f
Population	million 35.5	million 36.2	million 36.9	million 37.6	million 38.4
Crude oil Production millions/barrels per day	10.0	11.0			
(Current Account (US$bn	44.3	177.3	141.1	110.7	82.8
(Current Account (% of GDP	5.1%	15.7%	11.0%	10.6%	10.3%
(Net Foreign Direct Investment Inflow (% of GDP	-0.6%	-0.9%	-0.9%	-1.0%	-1.0%
Read GDP Growth	3.9%	8.7%	3.1%	3.1%	3.0%
Non-Oil Real GDP Growth	4.9%	4.2%	3.8%	-	-
(Fiscal Balance (% of GDP	-2.3%	2.6%	1.7%	1.1%	0.6%
(National Debt (SAR bn	938	985	951	959	962
(National Debt (% of GDP	30.9%	25.7%	24.6%	23.7%	24.2%
(GHG emissions growth (mtCO2e	3.6	3.8	2.5	3.7	3.1
(Energy related GHG emissions (% of total	70.8%	70.9%	71.2%	71.8%	72.2%
(Total Oil Revenues (SARbn	965	1,234	1,130	1,146	1,205
(Total Expenditure (SARbn	1,039	1,132	1,114	1,125	1,134
(Budget Surplus/Deficit (SARbn	-73	102	16	21	71
Surplus/Deficit as % of GDP	-2.3%	2.6%	0.4%	0.5%	1.7%
(Oil Revenues (SAR bn	562	842	795	776	765
(Non-oil revenues (SAR bn	403	405	429	454	481
Oil Revenues % of GDP	18.0%	21.3%	20.8%	20.2%	19.5%
Non-oil revenues % of GDP	12.9%	10.5%	11.2%	11.8%	12.3%
(Nominal GDP (SAR bn	3,126	3,957	3,869	3,966	4,247
($Nominal GDP per capita (US		27,996.9			
(Consumer Price Index (CPI- Inflation	3.1%	2.5%	2.4%	2.2%	2.2%
(Total Exports (US$bn	276.2	426.1	392.2	367.6	353.2
(Imports (fob	-139.7	-157.1	-172.2	-189.3	-208.9
(Unemployment rate (nationals	11.0%	10.1%	-	-	-
(Unemployment rate (overall	6.9%	6.0%	-	-	-
(SAMA Total Net Foreign Assets (US$bn	-	535.5	610.3	685.5	743.1
(Government Reserves at SAMA (SAR bn	347	394	399		
(IMF Special Drawing Rights (SDR	million 15483.36	million 15483.36	million 15483.36	million 15483.36	million 15483.36
IMF Quota SDR	million 9992.6	million 9992.6	million 9992.6	million 9992.6	million 9992.6

Source: *IMF/World Bank Group 2023 a) actual e) estimate f) forecast compiled by Mushtak Parker*

‘The Saudi Economy’s Performance in 2022 has Exceeded Expectations’

Dr Mohammed Aljadaan, Minister of Finance of Saudi Arabia, in his statement to The International Monetary and Financial Committee at the Spring Meetings of the World Bank/IMF, calls for a coordinated policy response to mitigate spillover risks in the global economy, and discusses the solid reform progress towards achieving the goals of Saudi Vision 2030 and the Kingdom’s positive economic performance that have yielded positive economic and social returns.

The Spring Meetings of the World Bank/International Monetary Fund (IMF) provide a timely opportunity to reinforce confidence in the global financial system following the recent banking turmoil in some economies. These financial developments come at a time when the global economy continues to face increasing uncertainty stemming from the adjustment to a series of massive shocks since 2020.

While the recent global financial market turbulence has been contained, continued vigilance remains essential to safeguard the global economy against the elevated financial stability risks in light of tighter monetary and financial conditions. This raises the need to reinforce the commitment to continue the implementation of internationally agreed upon regulatory and supervisory reforms.

The IMF can play a unique role using its comparative advantage to facilitate a coordinated policy response to mitigate spillover risks from volatile cross-border financial flows while anchoring macroeconomic and financial stability.

The Global Economy and Policy Priorities

We are mindful that the global economic recovery is still facing significant headwinds from lingering trade disruptions, growing economic fragmentation risks, and tightening financial conditions. At this juncture, policymakers will have to carefully manage competing objectives to ensure price and financial stability.

The heterogenous impact of the external shocks across countries and regions may entail different domestic policy responses, which can have spillover effects and further complicate the global macroeconomic landscape. The main macroeconomic priority remains the containment of inflation while also forestalling emerging financial stability risks.

Fiscal prudence and agility are vital to promoting sustainable and inclusive growth without undermining price stability or debt sustainability. The structural agenda should also prioritize supply-side reforms in the labour and product markets to help further ease price pressures while unlocking potential growth. Stronger multilateral cooperation is warranted to avert fragmentation and effectively address the risks and trade-offs facing policymakers, given the nature and magnitude of these risks.

Moreover, strengthening the multilateral trading system in coordination with the World Trade Organisation (WTO) to ensure an open, fair, and mutually beneficial international trading system will be particularly important

to reduce the risks to the growth outlook and to strengthen the resilience of the global economy.

Ensuring more effective multilateral cooperation to enhance the resilience of the global economy against emerging global challenges, including climate change, can be achieved by directing more efforts towards building consensus around policies to address global challenges through more inclusive discussions from the wider membership. In particular, the IMF approach to climate change should adopt a flexible, bottom-up approach that allows governments to determine their own domestic targets and mitigation paths.

The Saudi Economy

The solid reform progress since the inception of Vision 2030 has created the fiscal space and the capacity for the Saudi government to press ahead with the implementation of more comprehensive structural reforms at an even more advanced pace despite the challenging global environment.

The ambitious reforms continue to focus on: unlocking potential growth that is sustainable and more inclusive, enabling the private sector to thrive and create more jobs, improving the quality of public goods and services, and strengthening the fiscal and external positions.

The positive economic performance on the back of the structural reforms has indeed yielded positive economic and social returns. Here, we welcome Saudi Arabia's improved credit ratings, which recognize the government's impressive track record of fiscal policy effectiveness and the comprehensive regulatory and economic reforms that will support the sustainability of economic diversification.

In fact, the Saudi economy's performance has exceeded expectations, growing at 8.7 percent in 2022,

making it the fastest growing economy among the G20 countries and bringing the overall unemployment rate down from 6.9% in Q4 2021 to 4.8% in Q4 2022, and among Saudi nationals from 11% to 8%, respectively.

Among Saudi females, the unemployment rate decreased by 7.1% from 22.5% in Q4 2021 to 15.4% in Q4 2022. This is despite the massive increase in women's participation in the labour force from 17% in 2017, the baseline under vision 2030, to 36% in 2022, overshooting the official target of 31.4% in 2025 by 4.6%.

Here, it is worth noting that Saudi employment has sharply increased while the wage bill remains contained. Furthermore, the robust growth that is accompanied by a strong labour market and contained inflation reflects a stronger non-oil sector.

The Saudi Banking System

The Saudi banking system remains strong, liquid, and well-regulated. We are closely monitoring the developments in the global financial system and have the tools and the resolve to safeguard the stability of our financial system.

A great deal of progress is underway in the Giga projects and the announced initiatives under the Vision 2030 programmes. Meanwhile, we remain committed to achieving our net-zero target by 2060 by deploying all available technologies within the Circular Carbon Economy framework as well as the Saudi Green Initiative to increase vegetation cover and planting 10 billion trees, combating pollution and preserving marine life. Furthermore, Saudi Arabia is playing a leading role in coordinating regional efforts to combat climate change through the Middle East Green Initiative.

We remain committed to achieving our net-zero target by 2060 by deploying all available technologies within the Circular Carbon Economy framework as well as the Saudi Green Initiative to increase vegetation cover.

Tackling the Sovereign Debt Vulnerabilities

Many emerging markets and developing economies (EMDEs) are still facing growing concerns about debt vulnerabilities. In the MENA region, some middle-income countries with limited fiscal space to absorb shocks have been under pressure of high debt levels in light of tightening monetary and global financial conditions.

The IMF's timely financial support, underpinned by tailored policy advice and technical assistance, will be vital to overcome the compounding challenges. Saudi Arabia has continued its bilateral engagement with countries in the region and beyond to provide substantial financial support to help anchor macroeconomic and financial stability during these turbulent times.

Meanwhile, Saudi Arabia has also continued to work in coordination with the IMF to help revive several IMF-supported programmes. Here, I am pleased to announce that Saudi Arabia will provide a loan in the amount of SDR2.025 billion to the loan resource account at the Poverty Reduction and Growth Trust, which should cover 57% of the funding gap in the loan account. The Saudi financial contributions to vulnerable members, since the recent SDR allocation, have amounted to around US$28

billion, equivalent to about 217% of our share of the recent SDR allocation.

That said, rising debt levels have restricted vulnerable countries' access to much-needed financing, including the IMF's resources, which brings into sharp focus the need to address debt vulnerabilities in a timely manner before it morphs into a full-fledged sovereign debt crisis. In this regard, we look forward to further advancing collective efforts to strengthen the global architecture for debt restructuring by building on the important progress made under the Common Framework (CF) and addressing the challenges to further accelerate its implementation.

To this end, we expect that the newly created Global Sovereign Debt Roundtable will help identify key

impediments to debt restructuring and support the ongoing efforts to institutionalize the CF, while ensuring the focus remains on the CF as a platform for debt treatments.

The IMF's Policy Agenda

We welcome the focus on macro-financial stability in surveillance activities following the recent financial turbulence. The IMF has a critical role to play in coordination with other relevant partners to provide clear guidance and recommendations on the appropriate policy response as well as to allow early identification of pressure points in the financial system including in the areas of crypto assets and NBFIs that are in need of remedial actions.

We also welcome the agenda to address debt sustainability concerns with reference to vulnerable Middle-Income Countries (MICs). This should, in turn, help facilitate timely access of vulnerable member countries to IMF resources to meet urgent financing needs. Here, we emphasise the importance of the catalytic role of IMF lending to unlock further financing and stimulate private capital flows.

In this regard, we support prioritizing the Fund's debt agenda to continue working with its partners to support members' debt restructuring efforts and strengthen the global debt architecture, including through accelerating the implementation of the CF.

The IMF agenda on climate change should be guided by its mandate and in line with the Paris Agreement. While the analytical work on energy security and climate mitigation is welcome, the motives of the analysis should be reviewed to align recommended climate policies with the Paris Agreement. Recommendations on energy security should be carefully designed to be commensurate with the reality of the energy market and the economic conditions.

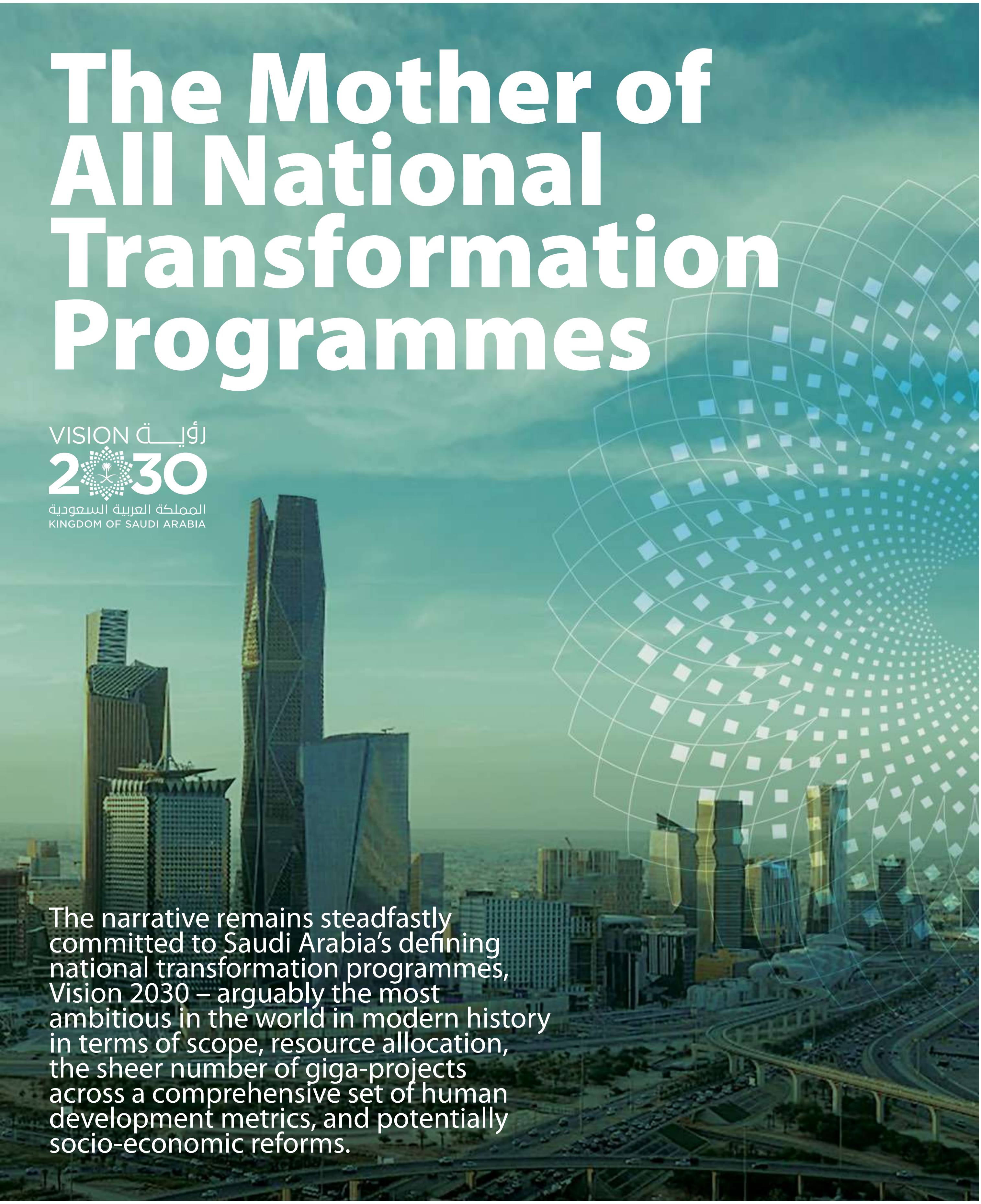
Policy advice should focus on targeting emissions reduction rather than recommending the phasing out of conventional sources of energy. We stress that the latter will not reinforce energy security, but rather undermine the stability of energy markets. Here, when conducting analytical work, staff must pay due attention to the broader responsibility of the IMF in promoting the exchange of international goods and services. Moreover, we stress the importance of addressing equity concerns when referring to "large emitters" by considering historical contributions to the stock of GHG emissions.

We remain of the view that the IMF resources are adequate and that the current envelope has proven resilient even during the recent shocks with significant unutilized resources and borrowed resources (including BBA) remain a more efficient means to cover tail risks in the future. We welcome the growing consensus thus far toward keeping the current quota formula unchanged in the spirit of pragmatism to conclude the 16th Quota Review (GRQ) by end-2023.

We see scope for further emphasis of management's commitment to the longstanding issue of underrepresentation in the IMF. In particular, the MENA region has been one of the most underrepresented regions since the 2000 Annual Diversity Report. We therefore stress the importance of stepping up efforts to take concrete and timely actions to improve staff diversity and inclusion, responding to the specific challenges identified in the FY 2020-2021 Diversity and Inclusion Report.

***Editor's Note:** This is an edited version of the Statement delivered on 14 April 2023 by Dr Mohammed Aljadaan, Minister of Finance of Saudi Arabia, to The International Monetary and Financial Committee of the IMF during the World Bank/IMF Spring Meetings in Washington DC.*

The Mother of All National Transformation Programmes



The narrative remains steadfastly committed to Saudi Arabia's defining national transformation programmes, Vision 2030 – arguably the most ambitious in the world in modern history in terms of scope, resource allocation, the sheer number of giga-projects across a comprehensive set of human development metrics, and potentially socio-economic reforms.

Status Report - Saudi Vision 2030

Transforming the Vision into reality through the 11 Vision Realization Programmes (VRPs) was stalled due to the impacts of the COVID-19 pandemic, the supply chain disruptions of the Ukraine Conflict especially rising food and energy prices, and the resultant global economic challenges, including high inflation, rising interest rates to contain sticky inflation, and a cost-of-living crisis which has affected every economy on earth.

A receding pandemic and a move towards post-pandemic economic recovery if not normalisation, albeit a fragile one, saw a timely restructuring and/or extension of 10 of the VRPs. On 26 April 2023, Saudi Vision 2023 entered its seventh year of implementation, a journey which started on 25 April 2016, under the leadership of King Salman and Crown Prince and Prime Minister Mohammed bin Salman, who is also the Chairman of the Council of Economic and Development Affairs.

The Kingdom has never looked back. "Since the launch of Vision 2030," says the latest Vision 2030 Achievements Report, "many achievements have supported Saudi Arabia's trans-formation, enabling the Kingdom to grow its economy, empower its citizens and deliver a future full of opportunity." The Vision is an ambitious programme "that reflects government confidence in the ability of its people to realize their aspirations and potential. The Vision is being delivered by empowering citizens, investing in the future, and creating a diverse, prosperous and sustainable economy to enrich the lives of citizens."

As the world's largest historical producer and exporter of oil, which is subject to a host of largely external market and geopolitical risks, Vision 2030 is also subject to several potential risks, but can also deliver on a bevy of returns.

Fitch Ratings in its latest commentary on Saudi Arabia in April 2023, observed that "rising public-sector spending outside the budget, including on ambitious NEOM giga projects, and the potential for higher debt of state-owned and government-related entities (GREs), as Saudi Arabia presses ahead with its national investment strategy as part of Vision 2030, is a medium-term risk to the sovereign's balance-sheet strengths, in Fitch's view. However, it may bring returns, in the form of sustained higher non-oil GDP growth and job creation to meet the expanding national labour force."

There is no doubt that Vision 2030 features very prominently in current and near future Saudi government economic and financial decision-making. "We expect gradual improvements in fiscal structure, despite deterioration in 2022 and a higher spending profile for 2023-2025," added Fitch Ratings. "In 2022, the fiscal break-even oil price increased, to USD86/b, and the non-oil primary deficit to non-oil GDP widened. However, in large part, government decision-making appears to have been strategic, reflecting a policy balance between supporting Vision 2030 projects and responding to higher inflation on the one hand and remaining fiscally prudent. For example, the wage bill (44% of total spending) increased by just 3.5%, minimal growth in real terms."

According to the progress document, in five years (2016-2020), Vision 2030 has "ushered in substantial reform transforming the social, economic and government landscapes. Evident in the Kingdom's management of the COVID-19 pandemic, Vision reforms have introduced greater capacity and strengthened resilience. This next phase of Vision 2030 refreshes the VRPs to ensure their consistency with Vision objectives, efficiency and responsiveness to environmental change. Some programmes have been restructured and others have been newly created to meet the challenges of the Vision's next phase, while some programmes have had their objectives, initiatives and entities updated."

The 11 VRPs, it continued, were designed to translate Vision 2030 into action and have helped deliver remarkable successes across the three pillars:

- A Vibrant Society: 'Vision 2030 recognizes the importance of a vibrant society where everyone enjoys a rich, happy and fulfilling life as a strong foundation for economic prosperity. Our vibrant society is characterized by strong roots and strong foundations that emphasize moderate Islam, national pride, Saudi heritage and Islamic culture, while also offering world class entertainment options, sustainable living, care in the community, and efficient social and health care systems.'
- A Thriving Economy: 'A key focus for Vision 2030 is in creating an environment that unlocks business opportunities, broadens the economic base, and creates jobs for all Saudis. We will achieve this by leveraging Saudi Arabia's unique location and potential, attracting the best talent, and increasing global investment.'
- An Ambitious Nation: 'Vision 2030 is creating a high-performing government that is effective, transparent and accountable. It is empowering citizens, the private sector and non-profit organizations

to take the initiative in identifying opportunities for realizing the agenda's objectives.'

"These reforms aim to achieve high growth rates, provide greater employment opportunities, raise the level of essential and social services to citizens, residents, and visitors, enhance the role of the private sector, develop local content and local industry, improve the balance of payment, and at the same time enhance the Kingdom's strong fiscal position," it added.

The positive economic performance and the impact of fiscal reforms that were implemented since the launch of the Vision 2030 are reflected in the financial indicators. "Those reforms allowed additional fiscal space that enabled the acceleration of expenditure on the programmes, projects, and strategies related to Vision 2030," according to the Ministry of Finance.

"These programmes, projects and strategies, in turn, will increase and accelerate the achievement of economic returns and social gains that will have a positive impact on public finances in the medium- and long-term, while maintaining a balance between fiscal sustainability and accelerating the achievement of the Kingdom's Vision 2030 economic and social goals."

Already in recent years there has been a continuous increase in the rates of women's participation in the labour market, as the rate increased in Q2 2022 to reach 35.6%, thereby exceeding the Kingdom's Vision 2030 objective of 30%.

Similarly, the National Investment Strategy (NIS) is an essential and enabling element of Vision 2030, which aims to raise net FDI flows to SAR388 billion annually by FY 2030. Vision 2030 aims for the contribution of FDI to reach 5.7% of GDP, compared to the contribution achieved at 2.3% of GDP during FY 2021. This is in addition to strengthening the partnership with the private sector to become the main mobilizer of the economy, with the aim of increasing the private sector's contribution to GDP to 65% by 2030, compared to the private sector's contribution to the GDP of 39.7% during FY 2021.

This will be achieved by encouraging entrepreneurship and launching a number of programmes such as the "Shareek" Programme, which aims to increase domestic investments of private sector companies to reach SAR5 trillion by FY2030, and the Privatization Programme, which aims to enhance the role of the private sector in providing services and making government assets available to it.

All these initiatives and programs are expected to have a positive impact on employment rates, with the aim of reducing unemployment rates among citizens to 7% by FY 2030.

SAUDI VISION 2030 – The Metrics of Social Progress and Returns

	Before Vision 2030	Year 2020
Percentage of Saudi Homeowners	47%	60%
Waiting Period for Housing Subsidy	15 years	Immediate
Specialist Health Consultations within 4 Weeks	50%	80%
Access to Emergency Healthcare within 4 Hours from Patient entering ER until Discharge	36%	87%
Saudi Arabia's Ranking in World Happiness Report	37	21
Road Traffic Deaths per 100k Population	28.8	13.5
Percentage of Saudi Nationals Doing Weekly Exercise	13%	19%
Number of Places of Entertainment	154	277
Number of National Heritage Sites Open to Visitors	241	354
Waiting Period for Haj and Umrah Visas	14 Days	5 minutes (Electronic)
Capacity to Host Foreign Umrah Visitors	6.53m Umrah Visitors	8.2m Umrah Visitors

Source: *Saudi Vision 2030 Achievements 2016-20 Report Compiled by Mushtak Parker May 2023*

The industrial sector is one of the pillars of the Kingdom's Vision 2030, with the launch of the National Strategy for Industry, which aims to reach an industrial economy that attracts investment and contributes to achieving economic diversification as well as raising the GDP and non-oil exports. The strategy focuses on 12 sub-sectors to diversify the industrial economy in the Kingdom. It aims to increase the industrial GDP by about 3 times to reach SAR895 billion, and to double the value of industrial exports to reach SAR557 billion. It also aims for the total value of additional investments in the sector to reach SAR1.3 trillion, increase the exports of advanced technological products about 6 times, and create tens of thousands of qualitative, high-value jobs by FY 2030.

The mouth-watering Giga Projects include the Saudi Seasons Project (Tourism), The Green Riyadh Project (Urban Afforestration), The Sports Boulevard Project (Sports City), The Qiddiya Project (Arts and Culture), The Red Sea Project (Luxury Tourism), The NEOM Project (Economic Development), The King Salman Park Project (City Parks), and The Roshn Project (Housing Development).

SAUDI VISION 2030 – The Metrics of Economic Progress and Returns

	Before Vision 2030	Year 2020
Non-Oil Revenues	SAR168bn	SAR369bn
Percentage of Non-Oil GDP in Total GDP	55%	59%
Value of FDI yto Saudi Arabia	SAR5.321bn	SAR17.625bn
Number of Factories	7,206	9,984
Percentage of Localisation in Military Industries	2%	8%
Time to Establish Companies and Issue Commercial Registers	Days Visiting 8 Government Offices 15	min Online 30
Homes With Superfast Fibre Optics	1.2m	3.5m
Participation of Women in Labour Force	19.4%	33.2%
Percentage of Children Enrolled in Kindergarten	13%	23%
Published Scientific Research Papers from Saudi Institutions	Papers 15,056	Papers 33,588
Percentage of Employed with Disabilities in Work	7.7%	12%

Source: *Saudi Vision 2030 Achievements 2016-20 Report Compiled by Mushtak Parker May 2023*

OPEC and Non-OPEC Countries' Strong Commitment to Support Oil Market Stability

Haitham Al Ghais, Director General of The Organization of the Petroleum Exporting Countries (OPEC), in a statement to the International Monetary and Finance Committee (IMFC) at the IMF Spring Meetings in April 2023, discusses the current global oil market conditions and developments

Global oil market remains well supplied by OPEC and the non-OPEC countries participating in the Declaration of Cooperation (DoC). Regular monitoring of oil market fundamentals has repeatedly provided clarity and assurance to the market, and hence reduced market volatility, which in turns has benefited both producers and consumers.

Moreover, the DoC joint efforts contribute to global energy security, which is a key enabler for economic activity, an essential element of energy access, and a cornerstone of stability in energy markets. Indeed, the world oil demand is expected to grow firmly in 2023 by 2.3 mb/d, following a solid growth in 2022, amid sustained global economic and oil demand growth that was consolidated by China's reopening of its economy.

However, monetary policies from leading central banks and recent sell-offs in major financial markets caused by the banking system turmoil have clouded the global economic and energy demand outlook. This has amplified volatility in the futures markets, including crude oil. Unfortunately, liquidity in oil futures markets remains relatively low, despite the recent slight recovery, and is a concern for the efficiency of price discovery, as well as for the overall functioning of the oil market.

While multiple challenges are expected to dampen global economic growth in 2023 when compared to 2022, the 1Q23 dynamic has been solid. Steady US growth in particular the services sector, the positive effects from China's reopening, and better-than-expected growth in the Euro-zone were all supportive developments. India is also likely to perform relatively well in 2023, supported by government spending plans that include a rise in infrastructure spending, income tax cuts and other measures. Brazil and Russia are forecast to face challenges in 2023, but are likely to be supported by structural reforms, fiscal support measures and commodity income.

Although global GDP growth was better than expected in 1Q23, it is forecast to slow in 2023 to 2.6% from 3.2% in 2022. This deceleration comes amid elevated global inflation, continued monetary tightening by major central banks, and increasingly limited fiscal room to counterbalance the deceleration. The recent turbulence in the banking sector adds to the expectation of further economic challenges in 2023.

Stalled US and China GDP Growth

The US economy is forecast to slow considerably. Following growth of 2.1% in 2022, the economy is forecast to grow by 1.6% in 2023. Similarly, the Euro-zone's economic growth is anticipated to decline significantly from 3.5% in 2022 to 0.8% in 2023. Japan's economic growth estimate for 2022 stands at 1.1%, and the economy is forecast to expand by 1.3% in 2023.

China's economic growth stood at 3% in 2022, largely impacted by COVID-19 lockdown measures, but the economy is forecast to rebound sharply following the country's reopening efforts and grow by 5.2% in 2023. India's 2022 economic growth stood at 6.8% on a calendar year basis and is forecast to slow to 5.9% in 2023. Brazil's economic growth was reported at 2.9% for 2022 and is forecast so decelerate to 0.9% in 2023. Russia's statistical office reported a contraction of 2.1% in 2022 and is expected to contract by 0.7% in 2023.

In 2022, global oil demand is estimated to have increase by 2.5 mb/d to average 99.6 mb/d, supported by the economic recovery. With the exception of China, whose strict zero-COVID-19 policy led to reduced economic output and mobility, demand was driven by improvements in jet/kerosene, diesel and gasoline. In the OECD region, OECD Americas drove demand growth by 0.7 mb/d y-o-y, and Europe saw a healthy y-o-y increase of 0.4 mb/d.

OECD Asia Pacific lagged behind, impacted by the negative developments in the region's major trading partner, China. Overall, oil demand in the OECD increased by 1.2 mb/d, y-o-y. Oil demand in the non-OECD is estimated to have increased by a 1.3 mb/d, y-o-y, despite a y-o-y contraction, mainly in China. China's oil demand contracted due to the extension of the zero-COVID-19 policy.

Despite the apparent slowdown in economic growth in several regions towards the end of the previous year, world oil demand growth in 2023 is forecast to increase by around 2.3 mb/d to average 101.9 mb/d. This will be largely due to China, where the abandonment of the zero-COVID-19 policy in December 2022 and subsequent reopening is expected to considerably boost demand for transportation and industrial fuels.

Rising Oil Demand Dynamics

Despite some macro-economic headwinds, oil demand in the OECD is anticipated to rise by around 0.2 mb/d, with most of the increase occurring in OECD Americas and some pick-up is expected in OECD Asia Pacific. However, oil demand in OECD Europe is expected to stagnate due to the anticipated slowdown in economic activity and supply-chain-related as well as geopolitical developments. In terms of products, jet/kerosene is projected to be the driver of oil demand, with road transportation fuels – diesel and gasoline – also growing.

In the non-OECD region, oil demand is expected to soar by around 2.1 mb/d, with the re-opening of China having a substantial impact on the region's oil demand, followed by Other Asia and the Middle East. However, this forecast remains subject to many uncertainties, including the pace of global economic activity given the current challenges and geopolitical developments.

The world oil demand is expected to grow firmly in 2023 by 2.3 mb/d, following a solid growth in 2022, amid sustained global economic and oil demand growth that was consolidated by China's reopening of its economy.

Global Oil Market Dynamics

Non-OPEC liquids supply in 2022 is estimated to grow by 1.9 mb/d from the previous year. The main drivers for growth were the US, Russia, Canada, Guyana, China and Brazil. Crude and product exports from Russia have proved more resilient than expected. US production is estimated to increase by 1.2 mb/d y-o-y. Estimations show global E&P capex spending for 2022 rising by about 18% y-o-y to average $500 billion, much lower than the $886 billion recorded in 2014, but 27% more than in 2020.

For 2023, the non-OPEC liquids supply is expected to grow by 1.4 mb/d. The main growth contributors are expected to be the US, Brazil, Norway, Canada and Kazakhstan. Global E&P capex spending for 2023 is forecast to grow by around 13% y-o-y to average $566 billion, just over pre-pandemic levels. More upstream investment is still required to meet the demand outlook and strengthen spare capacity. Amid supply chain issues and inflation in the US, public operators and the oil majors are still expected to focus on paying down debt and increasing returns to investors. Nonetheless, given the ongoing geopolitical developments in Eastern Europe and US shale liquids production prospects, there is a great deal of uncertainty surrounding the non-OPEC supply forecast for 2023.

Meanwhile, OPEC NGLs and non conventional liquids production in 2022 is estimated to have grown by 0.1 mb/d to average 5.4 mb/d, and is expected to grow by 50 tb/d to average about 5.4 mb/d in 2023. In February 2023, OPEC crude oil production rose by 117 tb/d m-o-m in February to average 28.92 mb/d, according to secondary sources.

In February, refinery margins reversed course and underwent a counter-seasonal downturn to show solid losses in all main trading hubs. This occurred despite rising offline capacities as maintenance works intensified. In the US Gulf Coast, Rotterdam and Singapore, margins declined by $13.06/b vs WTI, $7.64/b vs Brent, and $5.45/b vs Oman m-o-m, to average $30.40/b, $12.86/b, and $6.76/b respectively. Most of the weakness stemmed from the middle section of the barrel as a result of high middle distillate volume arrivals in Europe, mainly from the East. The high product availability in Europe, amid weaker US product exports and strong refinery output levels in Asia, led to considerable stock builds and caused jet fuel and gasoil margins to experience massive losses across regions.

Global refinery offline capacities in February rose by 1.7 mb/d to average 8.7 mb/d, according to preliminary data. Accordingly, global refinery runs extended their downward trend and fell by 646 tb/d to average 79.5 mb/d compared to 80.1 mb/d registered in the previous month. However, y-o-y, intakes were 94 tb/d higher. Going forward, global refinery intakes are expected to drop further as offline capacities rise during heavy maintenance, which is projected to peak around April. Consequently, product balances are set to contract, which should improve product performance and refinery economics in the coming month.

Declining Oil Imports from US and China

US crude imports in February declined from a three-year high the month before to average 6.4 mb/d, according to weekly data. In contrast, preliminary data shows US crude exports reached a record high of 4.3 mb/d in February. US product imports fell from an 11-month high the month before to average 2.2 mb/d. Gains in gasoline and jet fuel were outpaced by declines in other products. In Japan, the latest data shows crude imports fell from a four-month high to average 2.7 mb/d in January. Product imports, including LPG, were little changed after reaching an 11-month high the month before. Japan's product exports recovered further, averaging 562 tb/d. Gasoil, gasoline and fuel oil saw gains, while kerosene and jet fuel declined.

Estimates based on secondary sources showed crude imports into the OECD Europe region were ample in February, with supplies coming in from South America, West Africa, North America and the Middle East. Crude imports into the region from Russia have been focused on Turkey and countries along the southern leg of the Druzhba pipeline.

China's crude imports declined from the highs seen at the end of 2022, averaging 10.2 mb/d in January, then picked up again to 10.6 mb/d in February. Product exports remained at elevated levels in February, averaging 1.7 mb/d. Although down from the almost three-year high at the end of last year, product outflows were sharply higher compared to the same month last year. India's crude imports rose

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2% in January to average 4.7 mb/d as refiners returned from maintenance and continued to increase inflows of discounted Russian grades. India's product exports erased much of the previous month's gains, averaging 1.1 mb/d, with declines across the barrel.

Total OECD commercial oil stocks rose by 14.1 mb m-o-m in February for the sixth consecutive month. At 2,865 mb, they were 237 mb higher than the same time one year ago, 18 mb above the latest five-year average, but 54 mb lower than the 2015-2019 average. Within the components, crude stocks rose m-o-m by 28.9 mb, while product stocks fell m-o-m by 14.8 mb. At 1,442 mb, OECD commercial crude stocks were 180 mb higher in February than the same time a year ago, 57 mb above the latest five-year average but 6 mb lower than the 2015-2019 average. OECD product stocks stood at 1,424 mb, 57 mb higher than the same time a year ago, 38 mb lower than the latest five-year average and 48 mb below the 2015-2019 average.

In terms of days of forward cover, OECD commercial stocks rose by 1.0 days m-o-m in February to 62.9 days. This is 4.9 days above February 2022 levels, 1.8 days below the latest five-year average but 0.3 days higher than the 2015- 2019 average. All three OECD regions were below the latest five-year average: the Americas by 1.1 days at 62.3 days, Asia Pacific by 3.1 days at 47.2 days, and Europe by 2.9 days at 72.4 days.

In closing, OPEC would like to reaffirm its long-standing commitment to supporting oil market stability for the mutual benefit of consuming and producing nations, as well as the global economy. Given the current level of economic uncertainty, and the increased volatility observed in the oil market, OPEC and the non-OPEC countries in the DoC will continue to closely monitor market developments and remain poised to make adjustments within its existing mechanisms in order to support oil market stability.

Editor's Note: This is an abridged version of the Statement given by Haitham Al Ghais, Director General of OPEC, to the International Monetary and Finance Committee (IMFC) at the IMF Spring Meetings in April 2023, on the current global oil market conditions and developments.

Consolidating Gains of Recovery and Strengthening Mechanisms for Achieving Sustainable Development in the Member Countries

Next Year, the Islamic Development Bank (IsDB) celebrates its 50thAnniversary. As the multilateral development bank of the Member Countries of the Organization of Islamic Cooperation (OIC), the Bank has played a crucial role in supporting the development agendas of its 57 Member Countries in its various sectors as per its mandate. The IsDB Group played a commendable role in its first mover response to mitigating the impacts of the COVID-19 pandemic, dealing with the supply chain disruptions and resultant food and fuel price hikes due to the Ukraine conflict, and the effects of global economic shocks including a cost-of-living crisis and high inflation. Here President of IsDB,

H.E. Dr Muhammad Al Jasser,

discusses the priorities for the Bank going forward, the multiple challenges facing the global economy and Member Countries, and what more could be done to enhance IsDB's efforts to boost recovery, tackle poverty, build resilience, and drive green economic growth.

Focus Interview - Dr Muhammad Al Jasser

Focus on the Kingdom Saudi Arabia: The past year has been a difficult year for the global economy and most if not of all the 57-Member Countries of IsDB have been disproportionately affected. What sort of year has it been in terms of your operations, achieving your objectives and the lessons learnt? Given the huge disparities between IsDB member states, what are your expectations for their economies outlook?

Indeed, the global economy is currently facing uncertainties caused by the combined impacts of the after-effects of the COVID-19 pandemic, and the East European crisis, which have led to accelerating inflation and tighter global monetary conditions leading to a global economic slowdown. In 2022, the global economy only grew by 3.2 percent from a strong post-Covid-19 recovery of 6 percent in 2021 and is projected to slow further in 2023, driven mainly by deceleration in major economies such as the US, China, and the Eurozone.

The situation has resulted in a cost-of-living crisis that is worsening livelihoods of people who are already grappling with negative outcomes of climate change such as extreme heat, droughts, floods, and other environmental disasters that are displacing many people and undermining their livelihoods.

The 57 member countries of the IsDB are not spared by the global economic challenges though disproportionally depending on certain circumstantial advantages. On average, economic growth of the 57 member countries decelerated marginally from 5.4 percent in 2021 to 5.1 percent in 2022 and is projected to decelerate even further to 4 percent in 2023. While this appears generally optimistic compared to the global outlook, it masks the projected sharp deceleration in IsDB fuel-exporting member countries of 3.4 percent in 2023 from 4.6 percent in 2022.

While non-fuel exporting member countries appear to drive average growth in IsDB member countries – projected to be 5.4 percent and 4.3 percent in 2022 and 2023, respectively – inflation in these countries is accelerating. Inflation for non-fuel exporters is projected to be 21.1 percent in 2022, up from 12.7 percent in 2021. Meanwhile, for all IsDB member countries, inflation averaged at 17.6 percent in 2022 from 10.5 percent in 2021 subsiding to 15.3 percent in 2023.

Thus, the multiple challenges facing the global economy can be summarized as decelerating growth, accelerating inflation, tightening of global liquidity and the shrinking of concessional financing resources as well as debilitating impacts of climate change. These challenges cause severe difficulties for many low-income countries facing debt sustainability issues and food insecurity and therefore require more efforts from us at IsDB Group level to support our low-income member countries to boost recovery, tackle poverty, build resilience, and drive green economic growth.

In recent years, IsDB has been consolidating and deepening partnerships in addressing perennial and emerging development challenges facing member countries. We have scaled up not only financing but also technical expertise in helping our member countries navigate through crises. In 2022, the IsDB intensified its engagement with development financing partners, yielding a contribution of US$2.29 billion on top of the existing US$1.14 billion IsDB financing for various development projects in member countries. Additionally, the IsDB Group reached a landmark collaboration with the Arab Coordination Group, earmarking US$10.54 billion for a comprehensive food security response program and US$24 billion for climate finance initiatives.

Looking ahead, what are the priorities for the IsDB in 2023/24 and beyond at a time when the global economy is faced with poly-crises including disruptive fuel and food shortages and price rises, an unprecedented cost-of-living crisis, a slowdown in global FDI flows, and multiple global economic shocks especially high inflation and sluggish GDP growth? Full economic recovery may take a decade and it will be the low-and-middle income developing countries (LMDCs), many IsDB Member Countries, that will bear the brunt of these disruptions, downturns, and dislocations.

Going forward, especially in the immediate future, the IsDB will intensify partnerships with multilateral development organizations and governments to consolidate the gains of recovery and strengthen the mechanisms for achieving sustainable development in member countries.

In this context, IsDB plans to prioritize ***Agriculture for Poverty Reduction and Food Security***. This will help to reverse the worsening of extreme poverty that recorded an estimated 70 million additional people into extreme poverty, about 51 million of whom are from IsDB member countries, caused by the combined effects of COVID-19 pandemic and the East European crisis. The poverty situation is more precarious from the multidimensional poverty analysis perspective. The adverse impact of the cost-of-living crisis on all aspects of poverty is more severely felt in low-income countries, especially those in fragile-, conflict-, and violence-affected countries.

Considering that many of these countries have high shares of agriculture in value-added and employment, greater commitment to the financing and development of climate-resilient agriculture to improve food security will help significantly address poverty in low-income countries. Our strategic approach is to scale up financing in agricultural infrastructure anchored on country-driven development initiatives, relying on data-driven evidence and impact evaluation. This renewed focus on agriculture will be the kernel of intertemporal poverty alleviation and food security interventions.

Achieving sustainable development hinges on efficiently harnessing available human and material resources. However, mobilizing adequate financial resources to achieve internationally agreed development goals has been a daunting challenge for many developing countries at

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the IsDB Group has approved total financing of about US$5.6 billion for the Kingdom of Saudi Arabia. This includes US$1.4 billion project financing by IsDB, US$551.3 million approved by ICD, US$716 million trade operations by ITFC, and US$2.9 billion by other IsDB Group funds and operations. In addition, ICIEC has provided US$17.3 billion as business insured and US$11 billion as new insurance commitments.

a time of growing debt sustainability concerns as many countries face high-to-severe risk of debt distress. It is therefore imperative that we encourage member countries to adopt forward-looking macroeconomic management anchored on effective fiscal and monetary policy tools to improve FDI inflows and enhance fiscal space through effective utilization of resources.

As part of our strategic plans, IsDB is committed to ***Promoting Green Finance***, especially as climate change is impacting economic growth with consequences on the lives and livelihoods of people. In this regard, IsDB is working towards a 35 percent climate finance by 2025. This is achievable based on our track record of issuing EUR 1 billion Green Sukuk (in 2019) and a US$ 2.5 billion Sustainability Sukuk (in 2021). It is noteworthy that the global green bonds market, to which we are important stakeholders, is growing fast, and as projected by the World Economic Forum, it is to reach US$2.36 trillion by 2023, reflecting the growing significance of green financing at the global level.

The complexity of the emerging challenges requires strong coordination and cooperation with other international development institutions to harness knowledge, increase financing resources and leverage partnerships for effective interventions. We also need to continuously innovate to expand the basket of financial instruments for sustainable development. These innovative instruments must address the structural drivers of growth and economic transformation anchored on transparency, efficiency, and equity.

The Kingdom of Saudi Arabia is hosting the 48th Annual Meetings of IsDB Group. Kingdom of Saudi Arabia is the largest equity subscriber (about 23%) to the IsDB. Which areas do you see increased cooperation be-tween the IsDB Group and Kingdom of Saudi Arabia – private sector development, women entrepreneurship, renewable energy, infrastructure, SMEs, export promotion? What can Kingdom of Saudi Arabia offer to other countries through reverse linkages and other forms of cooperation?

The Kingdom of Saudi Arabia is a founder of IsDB with currently a capital subscription of about 23.51% of total IsDB subscribed capital. It is also a major member of IsDB Group's entities (namely, ICIEC, ICD and ITFC).

As of March 2023, the IsDB Group has approved total financing of about US$5.6 billion for the Kingdom of Saudi Arabia. This includes US$1.4 billion project financing by IsDB, US$551.3 million approved by ICD, US$716 million trade operations by ITFC, and US$2.9 billion by other IsDB Group funds and operations. In addition, ICIEC has provided US$17.3 billion as business insured and US$11 billion as new insurance commitments.

Project financing represents 32.9% (US$1.8 billion) of total financing, while trade financing represents 66.8% (US$3.7 billion), and concessional financing is negligible and represents 0.3% (US$15.9 million). The sectoral breakdown of IsDB Group operations in the Kingdom of Saudi Arabia is as follows: the sector with highest share is Industry and Mining at 60.9% (about US$3.4 billion) followed by Energy at 10.6% (about US$589.2 million), and Agriculture at 8.9% (about US$494.2 million).

IsDB Governors have suggested that the Bank should leverage its AAA ratings and its zero-risk weighting by the European Commission for MDBs to raise funds from the market directly rather than relying on callable capital from Member Countries. The Bank currently has a US$25 billion Trust Certificate Issuance Programme for its Sukuk offerings. Given the huge demand for funding from Member Countries in an era of global and national multiple crises, are there any plans to further boost IsDB Sukuk issuances perhaps even with regular tap issuances?

IsDB's Board of Governors approved our 6th General Capital Increase (GCI) of ID5.5 billion (fully cash callable) in December 2020. This additional equity injection further strengthened the Bank's capitalization level in tandem with the projected operational growth in the upcoming years, which will in turn lead to a concomitant increase in Sukuk issuances.

This will complement the incoming share capital receipts to finance the growing annual Operations Plan and maintain our strong liquidity buffers at the same time. The IsDB Euro Medium Term Note (EMTN) Program has been upgraded to include tap mechanics for investors to participate in our Sukuk issuances any time after the first issue date and I am pleased to share that the response has been very encouraging and IsDB has already executed several tap issuances and the outlook is positive.

Many IsDB Member States would struggle to get investment grade ratings from the Big Three rating agencies. Noting that ratings are essential for sovereign Sukuk issuances. One way is for the IsDB to act as a market maker by issuing more local currency Sukuk in Member Countries like it has done in Malaysian Ringgit. The global Sukuk market is currently dominated by Kingdom of Saudi Arabia, UAE, Malaysia, Indonesia and Türkiye. The G20 has singled out Sukuk as an effective way of financing infrastructure. West African BCEAO states and Nigeria have also demonstrated its efficacy in both infrastructure financing and financial inclusion. Is there a need for greater urgency in this respect with IsDB and its sister entities leading the way?

Indeed, local currency Sukuk issuances are a critical element for expanding access to local and regional funding in IsDB Member Countries. This also has a positive knock-on effect on the Islamic finance landscape of the Member Countries and can accelerate large scale infrastructure financing in the Member Countries. At IsDB, we play a two-part role towards this objective: (a) Through the Technical Assistance programme, IsDB facilitates laying the groundwork to implement and execute Sukuk issuances at the regulatory level i.e., legal and supervisory frameworks for the financial and capital market authorities in Member Countries. This is supported by bespoke training and capacity building exercises for the staff of these institutions to help them execute their mandates effectively, and (b) A local currency issuance framework that will streamline such issuances as part of the annual resource mobilization. While we are working on many fronts to address such needs, local issuance by Multilateral Development Banks largely depends on the state of domestic capital markets as well as the availability of hedging mechanisms such as currency swaps. Regulatory and legal frameworks in some of our Member Countries still need further steps to accommodate asset-based financing such as Sukuk, and that is why we are prioritizing and working on developing the domestic Capital markets in our Member Countries through technical assistance.

IsDB is fully committed to all such efforts by leveraging upon its top-tier AAA-rating to unlock further capital for sustainable development in our Member Countries.

Credit and investment insurance and guarantees are inextricably linked to global trade and infrastructure development. Developing countries have a much harder time selling the goods they produce and gaining access to the inputs they need. This is largely because exporters deem these markets to be risky, which is a problem they must face even in normal times. The ECA industry is crucial to overcoming these problems as it offers exporters and importers confidence that they will not face a significant loss should the supposedly risky market not uphold its side of the agreement. Without requisite de-risking tools such as guarantees, credit and political risk insurance, resources are being mobilized at higher costs and premiums. Is the IsDB Group doing enough in helping to inculcate a culture of credit and investment insurance in its member states?

The insurance industry serves as a shock absorber for and mitigator of global uncertainties and risks. Trade and investment have an important role to play in building back better and fairer in the post-pandemic economic recovery and in mitigating the economic shocks associated with the disruptions caused by the Ukraine conflict and dealing with the global economic slowdown tempered by high inflation, rising fuel and food prices.

Credit insurance is an important component of global trade. Export credit insurance is not only a de-risking tool to manage and mitigate crises but also an active contributor towards building and guiding structural change and resilience through making projects bankable and acceptable to partners, especially private sector investors. There is a huge opportunity for Export Credit and Political Risk Insurance to be an enabler of the Green Economy through supporting technology transfer, innovation and risk mitigation.

ICIEC's mandate as a multilateral insurer and a Member of IsDB Group is to support exports and imports of strategic goods of Member Countries through the flow of trade and investments and by providing credit and political risk insurance. Despite the underdeveloped ECA culture, credit and investment insurance market penetration and premium base in the OIC countries, there is huge scope for multiplier opportunities. These are particularly so in post-pandemic recovery and normalisation on the back of a rebound in international merchandise trade trends and slowly recovering FDI flows, and the demands of climate action, sustainable finance as per the UN SDGs Agenda and the development strategies of Member Countries, especially in lifting their populations out of poverty.

For the credit insurance sector, a key lesson learned from the pandemic disruptions is building awareness about the products offered and their roles in supporting trade and economic resilience during normal periods while maintaining close contact with governments during crises so that the most appropriate policy decisions can be made in support of the real economy.

ICIEC has always responded with urgency and prioritisation in tandem with IsDB Group and under regional and international partnerships. In 2022, ICIEC was resolute in supporting IsDB Group's COVID-19 mitigation Strategic Preparedness and Response Program (SPRP) for which it provided US$1.4 billion in insurance coverage, including US$528 million for the healthcare sector, US$824 million towards the import of essential commodities, and US$62 million to support SMEs.

However, the importance of public private partnerships and the involvement of private capital cannot be overstated. Whether in economic development, climate action, clean energy transition and the Green Economy, food security and indeed meeting the challenges of achieving the SDGs agenda and the Net Zero targets, private partnerships involving collaboration among private capital, privately-owned firms, governments, banks, multilateral credit and investment insurers, civil society, and other stakeholders, are essential to building post-pandemic economic resilience and normalisation.

Private partnerships can leverage the strengths and resources of the private sector to address various challenges and promote sustainable development. The challenge is to maximise cross-stakeholder cooperation to achieve economies of scale, the pooling of resources and expertise, pre-empting duplication of resources and costs, as well as promoting social and financial inclusion.

ICIEC is the world's only Shariah-compliant multilateral credit and investment insurer. It is also a sister entity of IsDB Group. ICIEC's record shows the critical role of risk mitigation in meeting the needs of socio-economic recovery and the developmental impact through resource optimization using guarantees/insurance in mobilizing international and private capital. How can ICIEC's mandate be further upscaled and integrated with IsDB's sister entities in this respect?

Despite difficult global market conditions, ICIEC consolidated its financing and operations in 2022 with gross Business Insured in support of trade and investment amounting to US$11.6 billion – a 19% increase in 2021. The Corporation's cumulative business insured across its 49 member countries since inception now stands at US$95 billion, comprising US$75.8 billion in support for trade and US$19.2 billion for foreign direct investment. This is a clear demonstration of the positive development impact of ICIEC operations.

While ICIEC's focus in 2022 was firmly on assisting member states in their post-pandemic socio-economic normalisation, unfolding challenges such as decarbonisation and mitigating climate risks which have disproportionately affected many of IsDB member countries will be critical in the year ahead and beyond in line with the Group's commitment to help them achieve the UN SDGs and the Net Zero 2050 goals of the Paris Climate Agreement in line with the development agenda of individual states.

A combination of ESG-related finance, sustainable investment, Islamic finance, and de-risking solutions will be important for achieving climate mitigation and a smooth and just transition to clean energy. This can be best realised through enhanced intra-Group cooperation and through smart partnerships with government agencies in member states, peer institutions, the private sector and development partners.

The above urgency has recently been redoubled and refined by the adoption of the IsDB Strategic Realignment 2023-2025, whose overarching objectives are boosting recovery, tackling poverty, and building resilience, and driving green economic growth. These objectives will be achieved by focusing the Group's interventions on two key pillars over the next three years (2023-2025) - developing green, resilient, and sustainable infrastructure, and supporting inclusive human capital development through projects and capacity development initiatives.

The Strategic Realignment provides crucial guidance for IsDB Group toward supporting its member states in achieving the SDGs by 2030 and the 2025 Action Plan of the OIC. It also complements the "One Group-One Goal" integration approach of IsDB Group, allowing entities to make significant and direct contributions to the funding programme.

Focus in Depth

Saudi Arabia's Flourishing and Profitable Islamic Finance Proposition

Despite pioneering the establishment of the Islamic Development Bank (IsDB) in 1974 – considered to be the year zero of the contemporary Islamic finance industry, Saudi Arabia, is a relatively latecomer to the sector. But, over the last decade thanks to the ambitions set out in the Financial Sector Development Programme and under the various pillars of Saudi Vision 2030 including financial inclusion, the Kingdom's Islamic finance proposition has gained a robust momentum which has propelled it to the largest such market in the world in terms of assets under management (AUM) well on its way to achieving a market size in excess of US$1 trillion. **Mushtak Parker** considers the potential growth trajectory and headwinds ahead of a market that was born to lead from the front.

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As the largest Islamic finance market in the world in terms of assets under management and robust uptake of Islamic retail and commercial products and services especially by a young demographic, Saudi Arabia's Islamic finance journey is assuming greater importance both in form and substance.

It is not exactly emulating the dual banking system of Malaysia where an Islamic financial system operates side-by-side with a conventional one – cooperating but not co-mingling – as part of a financial inclusion-cum-consumer choice strategy with the target of reaching parity in terms of market share by 2025. By end 2022, the market share of Islamic banking assets had reached 36.3% of total banking system assets.

The Saudi Islamic banking system adopts a different approach – a seemingly ad hoc market-based approach driven by the provisions of the Financial Sector Development Programme, one of the realisation pillars of Saudi Vision 2030, the Ministry of Finance's Annual Borrowing Plan which commits the National Debt Management Centre (NDMC) to a consecutive monthly Saudi Riyal-denominated Sukuk issuance calendar in addition to the regular occasional Sukuk offering foray into the international market, strong demand from Saudi corporates for trade finance, project finance, capital requirements and balance sheet purposes, ranging from oil giant Aramco to banks to SMEs, and robust demand from consumers especially the young aged between 18-30.

It is noteworthy that of the original 13 Saudi Vision Realisation Programmes (VRPs), Islamic finance already features strongly and directly in at least seven - The Financial Sector Development Programme, The Housing Programme, The Fiscal Balance Programme, The Public Investment Fund Programme, The National Companies Promotion Programme, The National Industrial Development and Logistics Programme, The Hajj and Omrah Programme.

In recent years this proposition has expanded rapidly with Islamic banking market size now exceeding US$1 trillion and growing. Saudi is co-leading in Islamic housing finance and mortgage securitisation, trade and commodity finance, corporate finance, Islamic REITs, project finance, social finance including Zakat and Waqf, and more recently in digitisation services such as Islamic digital banks, payment solutions, e-commerce platforms and digital currency exchanges.

The Pending New Amended Banking Control Law

The Kingdom is in the process of amending its existing Banking Control Law issued under Royal Decree (M/5) on 22/02/1386H. The Saudi Central Bank (SAMA) published a Draft Amended Banking Law in January 2023 for consultation.

The objectives of the amended Law, according to SAMA is to:

- Ensure stability and growth of the banking sector, encouraging investment in the banking sector and contributing to financial stability.
- Set forth the legal framework for practicing banking business.
- Promote the protection of deposits, funds, rights and interests of depositors and clients and their information.

The Draft Law does not differentiate between conventional banks and Islamic Banks. In fact, the category 'Islamic Banks', or 'Shariah compliant financial institutions' or 'Islamic Financial Institutions' do not feature specifically in the Draft document, albeit there is reference to Islamic financial instruments such as "Sukuk and other Financial Products" and "Other banking business."

It would be interesting to see how SAMA regulates and supervises the various and very popular Islamic products such as Murabaha, Tawarruq, Mudarabah, Istisna and of course Sukuk, whose specificities differ essentially from conventional interest-based equivalents. It is possible that the New Amended Law will be a catchall law with specific sections relating to authorising Islamic financial institutions. This compared with a dedicated Islamic Banking Law in several other countries including Kuwait, Bahrain, Malaysia and Pakistan.

That Saudi Arabia is host to the largest Islamic bank in the world in terms of AUM, Alrajhi Bank, is no coincidence. It also is the domicile of several other Islamic banks including Bank Albilad, Alinma Bank and Bank Aljazira. Saudi National Bank (SNB Alahli) emerged following the merger between National Commercial Bank (NCB) and Samba Financial Group in 2021.

NCB at that time was in the process of converting to a full-fledged Islamic bank. In fact, its consumer banking was effectively fully Islamised and its corporate finance portfolio was similarly well on its way to becoming Shariah compliant. SNB in fact has joined other local banks as a primary dealer for the NDMC's domestic sovereign Sukuk issuances.

Islamic Banking Growth and Profits Outperform Conventional Peers

The prospects for the Saudi Islamic finance market could not be more opportune and timelier. Islamic finance growth continues to outperform that in the conventional finance sector, driven by strong GDP growth, robust commodity prices and increasing economic diversification that in turn supported demand for Islamic financing (analogous to lending).

According to the authors of Moody's Investors Service Cross Sector Islamic Finance Report of March 2023, they "expect Islamic finance growth to keep pace in 2023, driven by robust economic activity, continuous government and legislative support as well as merger and acquisition (M&A) activity, particularly in the GCC region.

Islamic financing in Saudi Arabia, they added, posted double-digit growth for the third consecutive year, as demand from both retail and corporate clients for Shariah-compliant products remained steady given strong economic activity (+5.2% in 2022 for the non-oil economy).

"The economic diversification agenda and a cultural affinity for Islamic finance fuelled demand for Shariah-compliant financing. Budgetary and broader public sector spending will continue to support non-oil economic growth in 2023 and the expansion in Islamic financing

(our non-oil economy growth forecast is at around 3.5% this year). Thus, we expect Islamic assets in Saudi Arabia to account for 85% of systemwide loans over the next 12-18 months, from 83.3% in September 2022," explained Moody's.

In addition, rising investor demand for Shariah-compliant products will continue to support flows into Islamic funds. According to Moody's latest survey of GCC asset managers, chief investment officers expect rising demand for Shariah-compliant assets.

Demand is largely underpinned by the large Muslim population, the expansion of Islamic investment product offerings, and rising demand of socially conscious investing. Islamic fund indices continue to outperform their conventional counterparts on a five-year basis, which could further boost investor confidence in the core markets, and also drive demand from investors outside the core Islamic finance markets.

Sound Financial Metrics Going Forward

Fitch Ratings, in its latest Saudi Islamic Banks Dashboard: 2023, published at end April, reported that Saudi Islamic banks' financial metrics are sound and in terms of profitability, they outperformed their conventional counterparts, and improved in 2022 with a more favourable operating environment. They are well-placed in the banking sector, with larger retail franchises supporting higher margins, a lower cost of funding, and better asset quality. Saudi Arabia has the largest proportion of Islamic financing (86%) of any country that allows conventional banks to operate alongside Islamic banks.

"The standalone credit profiles of Saudi Islamic banks," emphasised Bashar Al Natoor, Global Head of Islamic Finance at Fitch Ratings, to Focus on Saudi Arabia, "will remain strong in 2023. These are supported by high oil prices and strong non-oil real GDP growth in the country. Due to the favourable operating environment and a higher probability of support from the Saudi Arabian authorities, Fitch upgraded two Islamic banks in April 2023. Islamic banks in Saudi Arabia also benefit from the increasing availability of government Sukuk and tools from the central bank in order to support their liquidity management and investment options.

"Strong credit growth will put some pressure on capital, funding and liquidity, with increasing recourse to market funding. However, SAMA is likely to inject further liquidity if necessary. We do not expect M&A involving Islamic banks in the near future."

Other sectoral trends and observations by Fitch includes:

In terms of asset quality, as for conventional banks, Islamic bank's impaired financing ratio reduced in 2022 despite the termination of pandemic-related deferral measures, owing to improved operating environment conditions and high credit growth. Islamic banks have stronger ratios than conventional banks due to lower levels of corporate financing.

Saudi Arabia Key Islamic Banking Indicators 2020/ Q3 2022

	2020	2021	Q3 2022
No. of Islamic Banks	4	4	4
No. of Domestic Branches	831	808	810
No. of ATMs	8,358	8,074	7,900
No of Employees	17,447	18,476	18,345
Total AUM	SAR813,534.5m	SAR1,010,828.7m	SAR1,171,216.5m
Total Financing	SAR 566,312.9m	SAR742,987.8m	SAR870,069.6m
Total Shariah compliant Financing incl. IBWs	SAR895,587.9m	SAR981,275.9m	SAR1,066,778.2m
NPF	SAR7,385.1m	SAR7,613.9m	SAR8,173.0m
Total Revenues	SAR31,063.9m	SAR36,859.5m	SAR32,704.9m
RoA	1.96%	2.40%	1.91%
RoE	15.00%	19.40%	15.50%
No. of Islamic Banking Windows (IBWs)	7	7	7
Grand Total Shariah-compliant AUM	SAR1,227,472.6m	SAR1,402,502.9m	SAR1,489,364.3m

Source: *SAMA, Islamic Financial Services Board (IFSB) Compiled by Mushtak Parker May 2023*

The Saudi Islamic banking sector's profitability improved in 2022 owing to credit growth and lower impairment charges. Islamic banks' profitability remained well above conventional banks' due to higher margins because of a higher proportion of retail financing and a lower cost of funding (due to stronger retail franchises and a higher proportion of non-profit-bearing deposits).

Saudi Islamic banks remain well-capitalised, with an average common equity Tier 1 (CET1) ratio of 16.6% at end-2022 (in line with their conventional peers at 16.7%). Islamic banks' higher proportions of retail banking assets and lower off-balance-sheet activities result in lower risk-weighted assets to total assets (72%, 85% for conventional banks at end-2022). Nevertheless, capital levels have been reducing due to strong retail financing growth.

Customer deposits formed 81% of Islamic banks' funding at end-2022, against 85% for conventional banks. Islamic banks' average financing/deposits ratio increased to 99% atend-2022 (end-2021: 90%) as sector financing growth outpaced deposit growth. Deposit concentration is high, except at Al Rajhi, which benefits from a granular retail deposit base. The increasing availability of government Sukuk and liquidity-management tools from the central bank support Islamic banks' liquidity management and investment options.

Big Ticket Saudi Corporate Islamic Financing Facilities 2022-2023 To Date

Date	Allocated Amount	Pricing / Profit Rate	Tenor	Receiving Entity	Maturity	Type of Financing
December 2022	SAR11.25bn	N/A	5 years	Ma'aden	December 2027	Murabaha Revolving Credit Facility
23 January 2023	SAR815m Aggregate	N/A	5 & 3 years	Saudi Home Loans Company	22 January 2028 22 January 2026	Two Tranches of Tawarruq Facilities
December 2022	SAR900m Aggregate	N/A	8-10 & 1 years	SPIMACO ADDWAIEH	December 2032 December 2023	Murabaha Credit Facility
August 2022	SAR550m Aggregate	N/A	1 & 10 years	SPIMACO ADDWAIEH	August 2023 August 2032	Murabaha Credit Facility
10 January 2023	SAR1,800m	N/A	7 years	ACWA Power	9 January 2030	Sukuk Mudarabah/ Murabaha
September 2022	US$1bn Dual Tranche	N/A	3 years	Alrajhi Bank	2 December 2032	Sustainability Commodity Murabaha Facility
3 November 2023	SAR3bn	N/A	5 years	Saudi Kayan Petrochemical Company	November 2028	Murabaha Revolving Credit Facility
February-March 2022	SAR3,067.5m aggregate	N/A	-	4 Receiving Entities	-	Murabaha Credit Facilities
July 2022	SAR6.1bn aggregate	N/A	4 tranche – various tenors	APIC	-	Murabaha Credit Facility
14 February 2023	SAR10bn	N/A	7 years	Saudi Electricity Company	February 2030	Syndicated Murabaha Facility

Recent Developments Set to Boost Market Depth

1) The launch by Saudi Stock Exchange (Tadawul) of its maiden Shariah Compliant Index, the TASI Islamic Index in July 2022, comes "in response to growing demand and interest from local and international investors for Shariah compliant investment tools."

The Index tracks the performance of Shariah compliant companies listed on Tadawul under the supervision of an independent Shariah Advisory Committee (SAC), and acts as a tool for investors and wider market participants to guide and inform decisions when looking into Shariah compliant investments, while also allowing asset managers to benchmark the performance of their Shariah compliant portfolios.

According to Mohammed Al Rumaih, CEO of Tadawul, "the launch of the TASI Islamic Index complements the Exchange's ongoing product and indices development efforts to provide best-in-class services and diversified offerings to investors. The Index will facilitate the launch of new financial products in the market to satisfy the increasing demand for Shariah compliant investment tools. The introduction of such tools shall ultimately boost the Islamic investment sector in the Kingdom. It will also strengthen the Saudi Exchange's position as the investors' exchange of choice and an attractive investment destination in line with Vision 2030's Financial Sector Development Programme."

The Saudi Exchange will collaborate with the SAC, which consists of representatives from leading financial institutions, and will work towards maintaining the highest standards of governance, while ensuring Index constituents abide by the unified Shariah principles based on clear and transparent criteria. They will also undertake the responsibility of overseeing and approving the list of Shariah compliant listed companies on a periodic basis.

Focus in Depth

The launch of the Index, says Tadawul, also represents the Saudi Exchange's ongoing efforts to deliver best-in-class services, diversified offerings, and investment opportunities, ultimately increasing the Saudi capital market's attractiveness among local and international investors.

Big Ticket Saudi Corporate Sukuk Issuances 2022-2023 To Date

Date	Allocated Amount	Pricing / Profit Rate	Tenor	Issuer	Maturity	Type of Financing
September 2022 15	SAR3.3bn	.p.a 5.0%	Perpetual Sukuk	Saudi National Bank	-	Additional Tier 1 Sukuk
October 2022 29	SAR10bn	.p.a 5.5%	Perpetual Sukuk	Alrajhi Bank	-	Tier 1 Hybrid Tawarruq/Mudaraba Sukuk
January 2023 19	SAR6.5bn	.p.a 3.5%	Perpetual Sukuk	Alrajhi Bank	-	Tier 1 Hybrid Tawarruq/Mudaraba Sukuk
March 2023 29	US$1bn	p.a. Yield of 4.75% 5-Yr US Treasuries + 110bps	years 5	Alrajhi Bank	March 2028 28	Senior Unsecured Sustainable Sukuk
October 2022 5	SAR6.5bn	.p.a 5.25%	Perpetual Sukuk	Riyad Bank	-	Additional Tier 1 Sukuk
January 2022	US$750m	.p.a 4.0%	Perpetual Sukuk	Riyad Bank	-	Additional Tier 1 Sustainability Sukuk
February 2023 2	SAR1.8bn	Months SAIBOR + 0.95% p.a. 3 rising to 1.05% in the 5th year	years 7	ACWA Power	February 2030 1	Senior Unsecured Sukuk
July 2022 16	SAR3.9bn	120bps + 6 Months SAIBOR	years with a 7 call option after 5 years	Bahri	July 2029 15	Senior Unsecured Sukuk
June 2022 29	SAR2bn	.p.a 6.0%	Perpetual Sukuk	Saudi Investment Bank	-	Additional Tier 1 Sukuk
January 2023 31	SAR500m	6.25%	Perpetual Sukuk	Saudi Investment Bank	-	Additional Tier 1 Sukuk
July 2022 18	US$400m	.p.a 7.75%	years 3	Dar Al Arkaan	July 2025 17	Hybrid Tawarruq/Ijara Sukuk
April 2023 4	US$1.2bn	p.a. – Spread of 4.632% 120bps +10-Yr US Treasuries	years 10	Saudi Electricity Company	April 2033 3	Senior Unsecured Green Sukuk
April 2023 4	US$800m	p.a. Spread of 205bps 5.684% +30-Yr US Treasuries	years 30	Saudi Electricity Company	April 2053 3	Senior Unsecured Sukuk

2) To enhance **financial inclusion** and to make Islamic capital market instruments more accessible to retail investors, the Saudi Ministry of Finance and its National Debt Management Centre (NDMC) signed an MoU with SNB Capital, the investment banking arm of Saudi National Bank (SNB) in August 2022 to develop and launch "individual savings Sukuk to motivate individuals to design better plans for the future, and to seek strategic partnerships with the private sector."

Details of the product structure are being finalised. According to the NDMC, the aim is "to enhance the concept of saving across the Kingdom by driving the expansion of savings products. That is a part of the ongoing work under the Financial Sector Development Programme to Promote and Enable Financial Planning."

According to Abdulaziz Al Furaih of the Ministry of Finance and Chairman of the Steering Committee overseeing the initiative, the Sukuk "will be the first government-supported savings product and aims to increase the proportion of individuals' savings on a regular basis, increase the supply of saving products, and to raise awareness of the importance of saving and its benefits in planning future objectives."

3) Saudi Arabia is in the final stages of introducing a new landmark law that allows non-Saudi residents to own property anywhere in the Kingdom, including Makkah and Madinah. The new law, according to the Real Estate General Authority (Rega), is broader and more inclusive than the current property-owning system. The new law is projected to lead to a freehold leasehold property boom in the Kingdom, which in turn would have a multiplier effect on the housing finance and mortgage securitisation market, in which Shariah-compliant mortgage finance, property and contents cooperative insurance (Takaful) and mortgage securitisation already has a strong foothold.

Saudi Arabia is also in the midst of a real estate boom defined by the ambitious US$500 billion NEOM initiative which comprises a series of giga projects. Under the social inclusion dimension of Saudi Vision 2030, the Government also seeks to stem current high house price inflation, especially in Riyadh, through lower real estate prices by boosting demand and striking economic equilibrium in the sector. The aim is to make more housing units available at affordable prices and support supply by offering government land and forming partnerships with the private sector. The Saudi real estate sector, according to Rega, accounts for about 5.1% of the Kingdom's GDP and 12.8% of the non-oil GDP.

Leading from the Front – Saudi Arabia's Stable and Sustainable Sukuk Strategy

Despite the difficult prevailing global economic and geopolitical conditions and the rise in commodity prices especially oil, gas and palm oil, the global Sukuk market has shown its resilience by maintaining issuance volumes in 2022. The trajectory for 2023 is similarly encouraging. Saudi Arabia, Malaysia and Indonesia remain the three largest issuers of Sukuk – international and domestic. But it is the Kingdom, that is driving issuances despite a budget surplus, rising oil revenues and pre-funding activities that have been executed to manage refinancing risk amid a higher interest rate environment. **Mushtak Parker** considers the developments in Sukuk market dynamics in Saudi Arabia.

Saudi Arabia is a relative latecomer to the Sukuk market, let alone the Islamic finance sector per se. But over the last few years, it has made up for this shortcoming with a vengeance. Today the Kingdom is the single largest Islamic finance market in terms of assets under management (AUM) and market capitalisation.

According to Saudi Central Bank (SAMA) data, total Islamic banking AUM alone in the Kingdom reached SAR1,171,216.5 million (US$297,831.4 million) at end Q3 2022 compared with SAR959,677.0 million (US$255,833.98 million) at end Q3 2021. The Sukuk holdings of the Saudi Islamic banking system increased to SAR151,116.4 million (US$40,285.13 million) from SAR119,216.3 million (US$31,781.09 million) for the same period.

The total Islamic finance industry AUM – banking – retail, commercial and corporate finance, capital markets - Sukuk and fund management, Takaful - is well on its way to breaking the US$1 trillion barrier according to the latest reports with current estimates at over SAR3.4 trillion (US$910 billion). Reliable and up-to-date data on Islamic banking and capital markets remains a major challenge for almost all the traditional Islamic finance markets, save perhaps Malaysia.

In the case of the Kingdom, the current data on Islamic finance and capital markets, at best is fragmented, sometimes contradictory and often lack the required details ,especially in terms of asset class segmentation and differentiation.

As such, it would be in the interest of both the National Debt Management Center (NDMC) of the Saudi Ministry of Finance and SAMA to enhance this vital function, especially in the context of its ambitious Islamic finance proposition.

This vision could not be more evident than in the Kingdom's Sukuk sector – both in the US dollar international market and Saudi riyal domestic market. The fact that Sukuk are regularly issued in both markets by a range of issuers starting from the NDMC, quasi-sovereigns and government-linked companies such as Aramco, Saudi Electricity Company, SABIC, banks and corporates ranging from Alrajhi Bank, Saudi National Bank (SNB), Saudi Real Estate Refinance Company, Alinma Bank, Bahri and a host of others, underlines the pervasiveness of Sukuk origination across the issuer spectrum.

This augurs well for the stability and sustainability of Sukuk issuance in the Saudi market as part of a well-established and diversified public debt fund raising strategy. The G20 has repeatedly stressed that Islamic finance, especially Sukuk, with its unique risk-sharing, sustainability, and ESG-based development features, is particularly well suited to play an important role in financing the huge infrastructure needs in OIC member states and in non-traditional markets should they opt to do so.

According to the NDMC, the Kingdom's Sukuk issuance strategy centres around the Saudi Government SAR Sukuk Programme and foreign currency Sukuk issuances, as well as conventional bond offerings in the international market.

This year's plan will continue to be "through diversified funding sources which include domestic and international Sukuk and bond issuances as well as new financing channels, including Government Alternative Financing, [and] Supply Chain Financing, in addition to unifying the domestic Sukuk issuance programmes."

Saudi Arabia Sovereign US Dollar International Sukuk Issuances to Date

ISSUANCE DATE	SIZE OF ISSUANCE	NUMBER of TRANCHES	MATURITY DATES	COUPON RATE P.A.	LISTING MARKET
4 Apr 2017	US$9.0 billion	Two Tranches US$4.50bn each	20 Apr 2022 20 Apr 2027	2.894% 3.628%	Irish Stock Exchange
19 Sep 2018	US$2.0 billion	One Tranche	19 Jan 2029	4.303%	London Stock Exchange
29 Oct 2019	US$2.5 billion	One Tranche	29 Oct 2029	2.969%	London Stock Exchange
17 Nov 2021	US$2.0 billion	One Tranche	10 Apr 2031	2.25%	London Stock Exchange
19 Oct 2022	US$2.5 billion	One Tranche	18 Oct 2028	105bps over US Treasuries	London Stock Exchange

The proceeds from Saudi sovereign issuances are primarily used to fund budget shortfalls, pre-funding for refinancing and Sukuk redemptions, developing a secondary market for trading on Tadawul (the Saudi Stock Exchange), promoting the development of a thriving Islamic debt capital market and for various policy reasons.

Similarly, the proceeds from a surfeit of regular corporate offerings are used inter alia by banks for raising funds to boost their Tier I capital requirements under Basel III or to finance their business expansion, by companies seeking to raise funds to refinance existing debt, to boost their balance sheet and for working capital purposes, to finance business expansion and so on.

Sukuk and Public Debt

In the public debt sector, not surprisingly, the Kingdom is by far the single most proactive sovereign Sukuk issuer, especially for domestic offerings in the world. To date, the NDMC has issued five Sukuk in the international market between 2017-2022, raising US$18 billion in the process.

The NDMC's 2023 Calendar of Local Sukuk Issuances, released in January, confirms the intention of repeating the issuance of domestic sovereign Sukuk consecutively for each month of the year from January to December like in 2021 and 2022 – the only sovereign issuer to commit to such a calendar in advance.

This commitment is partly driven by the robust market demand for Saudi Arabian sovereign domestic Sukuk certificates. The NDMC's role is to secure Saudi Arabia's debt financing needs with the most competitive financing costs. Saudi Arabia is ahead in tapping the domestic sovereign Sukuk market because it also has an established issuance infrastructure complete with a government policy framework under its 'Fiscal Balance Programme and Financial Sector Development Programme', whose objectives are to add to a diversified public debt fund raising strategy and to the development of the Saudi Sukuk and Islamic Capital Market.

In April 2023, the NDMC successfully closed its fourth consecutive monthly domestic sovereign Sukuk issuance on 23 March 2023 raising an aggregate SAR2,471.002 million (US$658.77 million) in the process through a two-tranche auction conducted by the Saudi Central Bank (SAMA). The NDMC Sukuk are all issued under the unlimited Saudi Arabian Government SAR-denominated Sukuk Programme, which focuses on fixed-rate instruments "to hedge against risks of potential interest rate fluctuations."

In 2022, the Saudi Ministry of Finance issued an aggregate SAR86,491.29 million (US$23,042.00 million) of Saudi-riyal denominated Sukuk for the January-December period through consecutive monthly issuances. In the same period in 2021, the NDMC issued an aggregate SAR65,741.315 million (US$17,491.51 million). Thus far in 2023, the NDMC has raised a total of SAR12,968.225 million (US$3,457.34 million) in the January-April period. Total bids reached SAR23,361.9 million (US$6,225.61 million), once again underlining the strong demand for government debt certificates.

NDMC Saudi Sovereign Domestic Sukuk Issuance January – April 2023

Issuance Date 2022	Volume	Maturity Date	Tenor	Profit Rate/ Final Yield Fixed Rate	Total Bids
13 April 2023	Tranche 1 – SAR1,919.2m Tranche 2 – SAR551.802m	21 January 2033 17 March 2037	10 years 14 years	4.15% pa 4.31% pa	SAR2,471.002m (US$658.77m)
26 March 2023	Tranche 1 – SAR2,774.2m Tranche 2 – SAR600m	17 June 2031 17 March 2037	8 years 14 years	4.22% pa 4.33% pa	SAR8,341.852m (US$2,223.50m)
15 February 2023	Tranche 1 – SAR3,224.813m Tranche 2 – SAR432.649m	17 June 2031 17 March 2037	8 years 14 years	4.15% pa 4.34% pa	SAR3,713.449m (US$989.45m)
24 January 2023	Tranche 1 – SAR1,266.0m Tranche 2 – SAR2,199.561m	23 March2030 24 Feb 2035	7 years 12 years	4.00% pa 4.35% pa	SAR8,835.632m (US$2,353.89m)
Grand Total January-April 2023	**SAR12,968.225m (US$3,457.34m)**	-	-	-	**SAR23,361.9m (US$6,225.61m)**
Grand Total FY 2022	SAR86,491.29m (US$23,042.00m)	-	-	-	-
Grand Total FY2021	SAR74,411.829m (US19,811.49m)	-	-	-	-
Grand Total FY 2020 * Under Saudi Arabian Government SAR Sukuk Programme. ** On a Standalone Basis	*SAR50,393m US$13,433.13m + **SAR34,645m US$9,236.77m = SAR85,038m US$22,638.35m	---------------	--------------	---------------	SAR90,821m US$24,276.17m SAR34,645m US$9,236.77m SAR125,466m US$33,512.94m

Source: *Compiled by Mushtak Parker from Data of the NDMC, Saudi Ministry of Finance April 2023*

This April 2023 issuance confirmed the NDMC supports the debt management office's statement in February and March that "the NDMC will continue, in accordance with the approved Annual Borrowing Plan, to consider additional funding activities subject to market conditions and through available funding channels locally or internationally. This is to ensure the Kingdom's continuous presence in debt markets and manage the debt repayments for the coming years while taking into account market movements and the government debt portfolio risk management."

According to Saudi Finance Minister Mohammed Al-Jadaan, "despite the expectation of achieving a budget surplus during FY 2023, the Kingdom aims to continue its funding activities in the domestic and international markets through timely Sukuk and bond issuances, in addition to domestic sovereign issuances, with the objective of repaying debt principal that will mature during FY 2023 and the medium-term, utilizing opportunities based on market conditions to enter into pre-funding and liability management transactions, financing strategic projects, and executing GAF transactions that will promote economic growth such as capital expenditure and infrastructure financing."

The 2023 debt portfolio split between domestic and international debt will be largely unchanged from 2022. The projected form of funding will be a mix of bonds, Sukuk (both in domestic and international markets), as well as all forms of GAF.

As far as the refinancing agenda for 2023, SAR108 billion was due to mature domestically and internationally. However, the NDMC successfully executed Sukuk and bond liability management transactions in 2022, where approximately SAR15 billion of 2023 domestic and international maturities were successfully refinanced through issuing new Sukuk and a bond. As a result, 2023 maturities were reduced to approximately SAR93 billion.

During 2022 the NDMC pre-funded about SAR48 billion to secure and reduce a portion of 2023 financing needs by proactively managing interest rates and refinancing risk. Moreover, says the Report, the NDMC will carefully calibrate new securities to preserve the average target maturity of the Kingdom's debt portfolio.

The current and future drivers of Sukuk issuance in Saudi Arabia include:

1. Robust investor demand. Take, for instance, the October 2022 US$5 billion (SAR18.8 billion) transaction, which comprised two tranches - a US$2.5 billion (SAR9.4 billion) Hybrid Sukuk Murabaha/Mudaraba issuance with a tenor of 6 years maturing in October 2028, and a 10-year US$2.5 billion conventional bond issue maturing in October 2032. The total amount of bids received exceeded US$27 billion, which meant that the transaction was oversubscribed by 5 times. The Sukuk were issued under the Kingdom's Global Trust Certificate Issuance Programme and the bonds under its Global Medium Term Note Issuance Programme. The bid-to-cover ratio, according to the NDMC, reflected the strong demand of the Kingdom's issuances, confirming the investors' confidence in the reliability and stability of the Kingdom's economy.

2. Diversifying the investor base. The NDMC has an on-going strategy to diversify the investor base and meet the Kingdom's financing needs from international debt capital markets efficiently and effectively.

3. Expanding the Primary Dealers Programme. To expand the distribution of sovereign Sukuk issuances and greater investor participation, especially by foreign investors, the Ministry of Finance and the NDMC appointed BNP Paribas, Citigroup, Goldman Sachs, J.P. Morgan, and Standard Chartered Bank as primary dealers in the government's local debt instruments in October 2022. They join the other five local institutions, namely, SNB, the Saudi British Bank (SABB), Al Jazira Bank, Alinma Bank, and Alrajhi Bank.

According to Saudi Minister of Finance Muhammed Al Jadaan "these agreements are a continuation of the developmental steps taken towards achieving Vision 2030 objectives under the umbrella of the Financial Sector Development Programme. This is primarily achieved through cooperation between relevant entities to develop the infrastructure of the local debt market and increase the liquidity of the government's local debt instruments by attracting more capital from foreign investors. This is in addition to enabling primary dealers and market participants to play their roles in providing appropriate tools."

The opening up of the local debt market to new capital from foreign investors, in conjunction with Tadawul's dedicated Sukuk secondary trading platform, itself is a driver of sustainable domestic sovereign Sukuk issuances in terms of market depth and size.

4. Product innovation to promote Financial Inclusion. SNB Capital, the investment banking arm of SNB, signed an MoU with the Saudi Ministry of Finance and NDMC in August 2022 to develop and launch "individual savings Sukuk to motivate individuals to design better plans for the future, and to seek strategic partnerships with the private sector."

Details of the product have yet to be released. But according to the NDMC, the aim is "to enhance the concept of saving across the Kingdom by driving the expansion of savings products. That is a part of the ongoing work under the FSDP to promote and enable financial planning."

According to Abdulaziz Al Furaih of the Ministry of Finance and Chairman of the Steering Committee overseeing the initiative, the Sukuk "will be the first government-supported savings product and aims to increase the proportion of individuals' savings on a regular basis, increase the supply of saving products, and to raise awareness of the importance of saving and its benefits in planning future objectives." The Ministry and NDMC are keen on this collaboration with the private sector "in the development and launching of a number of saving products for specific purposes and benefiting different groups of individuals, whether through banks, fund managers, fintech companies, or others."

5. Incentive for new issuers. New issuers seeking to diversify their funding sources are joining the market as Sukuk becomes widely accepted. With Green and Sustainable Finance now firmly on the debt capital map, the issuance of Green Sukuk is set to accelerate as governments promote sustainable policy agendas and demand for sustainable investments encourages new issuers to consider Green Sukuk as an alternative financing tool.

6. Sukuk's appeal as an investment tool. Sukuk's appeal and acceptance as an investment tool is growing, as shown by the high demand for recent issuances. It has become normal for order books to exceed the offered amount by three or four times, particularly for creditworthy and A rated borrowers.

7. New demand. Demand for Sukuk is increasingly coming from international actors in markets less exposed to Islamic finance.

Annual Borrowing Plan

The MoF's Annual Borrowing Plan Report for 2023 reflects a stable and encouraging scenario. The Sovereign debt portfolio increased during 2022 by about SAR52 billion to reach SAR990 billion, representing 25.0% of GDP, compared to 30.0% in 2021.

The increase, according to the Report, was mainly driven by prefunding activities that have been executed to manage refinancing risk amid a higher interest rate environment. Despite the increase in the debt portfolio in 2022, the debt-to-GDP ratio has decreased due to the fact that debt levels are increasing at a lower pace than the expected increase in GDP.

However, two important developments since then may impact on Riyadh's fund-raising strategy in 2023. Firstly, Moody's Investors Service changed its outlook on Saudi Arabia in March 2023 to positive from stable and affirmed its long-term issuer and senior unsecured ratings at 'A1'.

The rationale is that Government reforms and investment in non-oil sectors will over time lead to the diversification of the economy and, therefore less reliance on hydrocarbons. The affirmation, according to the rating agency, is a recognition of the progress made in the Kingdom's reform programme, the moderate debt burden of SAR985bn most of which had already been pre-funded in 2022 or 30.7% of GDP at Q3 2022, robust fiscal buffers and Saudi Arabia's highly competitive and pre-eminent position in the global oil market.

Secondly, in early April 2023, OPEC+ nations led by Saudi Arabia announced a surprise production cut of more than 1 million barrels per day (bpd) till the end of the year, leading to the highest daily rise in the benchmark Brent crude in a year. Brent crude was trading at US$84.80 a barrel on 3 April after touching the highest in a month at US$86.44.

According to the Saudi Ministry of Energy the move "is a precautionary measure aimed at supporting the stability of the oil market." Increased oil revenues will impact the Kingdom's economic fundamentals in terms of fiscal space, buffers, expenditure and even the necessity to access the domestic and international financial markets.

These metrics of recovery also include the overall employment rate, including non-citizens, falling to 4.8% in Q4 2022 from 5.8% the previous quarter, unemployment among citizens falling to 8% from 9.9% in the same period, Real GDP growth rising from 2.6% in 2023 to 3.7%, and headline inflation stabilising at 2.3% in 2023/24.

But these metrics instead of being a dampener on Saudi sovereign Sukuk origination, will stimulate more issuances due to the above drivers and also to provide for contingencies given the vagaries of the energy market and the manifold geopolitical, global economic and supply chain uncertainties.

The Kingdom's issuances for 2022 were in the local market as it is relatively stable in comparison to international markets. These issuances included early repurchase of some of the Kingdom's debt instruments and pre-funding transactions for maturities due in 2023, 2024 and 2026. According to Hani Al Medaini, NDMC CEO, the immediate future Sukuk strategy is on expanding the investors base, strengthening communication channels, reaching new geographic areas, and utilizing the arising opportunities in local and international markets in accordance with risk management and debt strategy.

He also added that the NDMC is working on attracting new c apital and international financial institutions to take part in the Primary Dealers Programme, to capitalize on the debt instruments arranged by the NDMC.

It further confirmed that it may, in accordance with the Annual Borrowing Plan, "continue to consider additional funding activities subject to market conditions and through available funding channels locally or internationally through debt markets and government alternative financing. This is to ensure Kingdom's continuous presence in debt markets and manage the debt repayments for the coming years, in addition to, facilitating the financing of capital expenditures and infrastructure projects which will contribute to promote economic growth while taking into account market movements and the debt portfolio risk management."

Work in Progress

Despite its robustness, the Saudi Sukuk market remains a 'work in progress.' Take for instance Green, Social, Sustainable and Sustainability-linked (GSSS) bonds/Sukuk. The OECD believes GSSS bonds/Sukuk can be important Blended Finance instruments that can effectively support the UN's SDG agenda through scale and impact.

S&P highlighted in a recent report the likely hood of more frequent issuance of dedicated social Islamic finance instruments and Green Sukuk as the financial actors in the region further align with environmental, social, and governance (ESG) values to be significant. This is also in keeping with the agenda of many countries that use Islamic finance towards an energy transition pathway.

Sovereign Saudi Arabia has yet to issue a Green or Sustainability or SRI Sukuk. It simply does not feature on the Kingdom's public debt issuance radar. Across the Islamic finance industry region, there have been some Green Sukuk transactions, including in countries such as Indonesia and Malaysia.

However, as the OECD stresses, "for a long-term market to be established and for greenium levels to develop in regard to pricing, a number of factors will need to be put in place such as the right regulatory framework, a flow of transactions by both sovereign and corporate issuers and awareness and interest by private sector investors in GSSS bonds/Sukuk."

In this respect, corporate issuers are way ahead of the sovereign issuance curve. Saudi Electricity Company (SEC), the Kingdom's power generation utility, for instance, issued a dual tranche US$2 billion Sukuk in early April 2023 including and a 10-year Senior Unsecured RegS US$1.2 billion Green Sukuk tranche, under its unlimited Sukuk Issuance Programme and Green Sukuk Framework.

Similarly, Alrajhi Bank, the world's largest Islamic bank in terms of both assets and market capitalization, successfully priced its inaugural US$1 billion (SAR3.75 billion) 5-year RegS Senior Unsecured Sustainability Sukuk in March 2023.

The proceeds from the issuance, according to Alrajhi Bank, will be used to enhance the Bank's liquidity and support the bank's business growth especially in the Green and Social sectors which are aligned with the Net Zero and Vision 2030 targets set by Saudi Arabia. The proceeds will be used also to finance and refinance, in whole or in part, Eligible Sustainable Projects, as set out in the Bank's Sustainable Finance Framework.

Other areas where Sukuk has hardly impacted include social issuances including Waqf-linked Sukuk to fund education, women's entrepreneurship, primary healthcare and other social sectors.

Resource Mobilisation in a Turbulent Global Economic Landscape

Mohammed Sharaf, Director of the Treasury Department, Islamic Development Bank, highlights the progress to date of the MDB in responding to the current global challenges faced by its 57 Member States and the importance of Sukuk as an integral part of its resource mobilisation strategy and as a sustainable and innovative finance instrument for financing the SDGs

The Islamic Development Bank (IsDB), established in 1974, is a multilateral development bank (MDB) and supranational that operates on the principles of the Sharīah and Fiqh Al Muamalat (Islamic Law Relating to Financial Transactions).

The IsDB works to improve the lives of those it serves by promoting sustainable social and economic development in Member States (MSs) and Muslim communities worldwide, delivering impact at scale. The Bank focuses on providing the infrastructure to enable people to lead better lives and achieve their full potential.

As of year-end 2021, IsDB's authorized share capital stood at Islamic Dinars (ID) 100 billion (US$139.1 billion) with a subscribed capital of US$70.3 billion and callable capital of US$57.2 billion. IsDB is rated 'AAA' with Stable Outlook by all three global rating agencies (Standard & Poor's, Moody's Investors Service, and Fitch Ratings) with the latest ratings affirmed by S&P as recently as December 2022. It is also one of the strongest-capitalized MDBs with an equity-to-adjusted assets ratio of 36.7%.

In addition to its share capital, IsDB also mobilizes resources from the global capital markets through the issuance of Sukuk i.e. Islamic Trust Certificates, which are the Islamic equivalent of traditional bonds with an added layer of Sharīah compliance. For this purpose, IsDB leverages on its top-tier AAA-rating and its classification as a 'supranational' to access the global capital markets regularly.

Coveted Basel and EC Designations

In addition, the IsDB-issued Sukuk have coveted labels to its name, such as the Bank's designation as a Zero-Risk Weighted Multilateral Developmental Bank (MDB) by the Basel Committee on Banking Regulation and Supervision (BCBRS) and the European Commission.

The IsDB is recognized as a Supranational issuer as per the European Central Bank (ECB). The IsDB trust certificates have eligibility as 'Level B' collateral for Bank of England's operations, and eligibility for inclusion in 'liquidity buffers' of banks under the supervision of the Financial Conduct Authority (FCA) in the UK.

The IsDB Euro Medium Term Note (EMTN) programme and Sukuk issued under the Programme have also both been consistently rated 'AAA' by the three major rating agencies. The Sukuk structure employed by IsDB is based on the Wakalah bil-Istithmar (Investment Agency) principle, which is approved by the IsDB Group Sharīah Board and assigned the highest AAA-rating by the three global rating agencies. Since 2009, IsDB has been a frequent Sukuk issuer in the global capital markets with at least one public US$ benchmark issuance per year.

As of year-end 2021, IsDB has issued more than US$38 billion worth of Sukuk under its EMTN Programme with 58 issuances.

These were issued in both Public as well as Private Placement modes, with the shortest tenor being a 3-year and the longest being a 10-year issuance in multiple currencies such as USD, EUR, GBP, SAR, MYR as well as CNY in both fixed and floating rate note formats.

The frequent issuances of Sukuk are part of IsDB's commitment towards the development of the global Sukuk market by providing an active supply to the Islamic capital markets with high-quality low-risk Sharīah-compliant papers that are tradable in the secondary market.

On the other hand, IsDB also plays an active role of an anchor investor by participating in Sukuk issuances (both sovereign and non-sovereign). Since 2021, IsDB has invested US$2.7 billion in long-term Sukuk issuances with an average duration of 4.7 years and YTM of 2.66% (Average credit rating: A- and Minimum credit rating BBB-) with 5.53% in Green Sukuk and 24.2% in Sustainability Sukuk.

Sustainable Finance Framework

As part of IsDB's commitment to the UN Sustainable Development Goals (SDGs) and in line with other MDBs and institutions, the Bank created its own Sustainable Finance Framework (SFF) in 2019.

This ground-breaking effort enabled IsDB to issue Labelled Sukuk such as Green and Sustainability in order to plug the huge gap in financing the SDGs in its Member States.

The SFF was assigned a rating of 'Medium-Green Shading' by an external rating agency (CICERO AS from Norway), which is the same rating that was assigned to peer MDBs such as the International Finance Corporation (IFC), Kreditanstalt für Wiederaufbau (KfW) and the African Development Bank (AfDB).

IsDB also secured a very strong (low) ESG risk-rating from another external rating provider (Sustainalytics), which evaluated the Bank on its Environment, Social and Governance (ESG) policies. The rating reaffirmed the Bank's strong credentials in terms of internal policies and governance for green, social as well as climate related projects.

The SFF was created in line with the global Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG) as set out by the International Capital Market Association (ICMA).

With these strong credentials awarded to the SFF, IsDB pioneered both Green and Sustainability Sukuk to mobilize more than US$5 billion to date for climate friendly as well as social development projects.

In November 2019, the IsDB issued its debut Green Sukuk, a €1billion offering, which is the only AAA-rated Green Sukuk in the international capital markets to date. The proceeds were fully allocated to eleven (11) green projects across IsDB Member States, in alignment with the Climate Change Mitigation and Climate Change Adaptation environmental objectives.

These include projects for renewable energy, clean transportation, energy efficiency, pollution prevention and control, environmentally sustainable management of natural living resources and land use and sustainable water and wastewater management.

IsDB International Sukuk Issuances 2021-2023 To Date

ISSUANCE DATE	SIZE OF ISSUANCE	TENOR	MATURITY DATES	PROFIT RATE p.a./YIELD	LISTING MARKET
March 2021	US$2.5bn	5 years	March 2026	1.262% MS+33bps	Sustainability Sukuk Wakalah
May 2021	US$400m	3 years	May 2024	At Par100% Mutually Agreed Coupon	SOFR-linked Sukuk Wakalah
October 2021	US$1.7bn	5 years	October 2026	1.435% MS+25bps	Sukuk Wakalah
20 April 2022	US$1.6bn	5 years	19 April 2027	3.213% MS+50bps	SOFR-linked Sukuk Wakalah
19 October 2022	US$1.0bn	5 years	18 October 2027	4.74% MS+62bps	SOFR-linked Sukuk Wakalah
6 March 2023	US$2.0bn	5 years	5 March 2028	4.598% MS+55bps	SOFR-linked Sukuk Wakalah

Source: *Compiled by Mushtak Parker from IsDB Data May 2023*

The IsDB's debut Sustainability Sukuk raised US$1.5 billion in June 2020, and was fully earmarked for COVID-19 projects of 'access to essential services' and 'SME financing and employment generation.' This was the first ever AAA-rated Sustainability Sukuk in the global capital markets. The issuance supported IsDB's contribution to the Group-wide Strategic Preparedness and Response Programme (SPRP) for COVID-19 interventions.

The second Sustainability Sukuk, which was also IsDB's largest Sukuk issuance ever, raised US$2.5 billion in March 2021. Over 90% of the proceeds will be deployed towards social projects and 10% will be allocated to green projects. By issuing AAA-rated Green and Sustainability Sukuk, the Bank provided more depth to the Sukuk market with its high-quality paper, boosting liquidity and showing the path for

The IsDB's debut Sustainability Sukuk raised US$1.5 billion in June 2020, and was fully earmarked for COVID-19 projects of 'access to essential services' and 'SME financing and employment generation.' This was the first ever AAA-rated Sustainability Sukuk in the global capital markets. The issuance supported IsDB's contribution to the Group-wide Strategic Preparedness and Response Programme (SPRP) for COVID-19 interventions.

the industry to innovate under existing Sukuk formats and placing the SDGs at the heart of their funding strategies.

Saudi Arabia and the IsDB Group Fact File 2023

Date of Accession to IsDB Membership	August 1974 12
Saudi Arabian Governor to IsDB	H.E Mohammed Abdullah Al-Jadaan, Minister of Finance
Saudi Arabian Alternative Governor to IsDB	H.E Ayman Mohammed Alsayari, Governor of SAMA
Date of Accession to ICIEC Membership	December 1992 30
Other IsDB Group Memberships	ITFC, ICD, ISFD, IsDB Institute
Total Equity Capital to IsDB	ID11,896.8 million
Of which Called Up	ID2,135.9 million
Of which Callable	ID 9,761.0 million
Of which Paid Up	ID1,459.2 million
Percentage of Total IsDB Subscribed Capital	23.5%
Percentage of Total Subscribed Capital in ICIEC	20.2%
Total Subscribed Capital in ICIEC	ID60 million
Number of ICIEC Equity Shares	shares 60,036
Number of IsDB Equity Shares	1,189,680
Number of Voting Rights centage of	1,122,516
Percentage of IsDB Voting Rights	23.83%
Total IsDB Funding Accessed to Date	US$5.5 billion
Total Number of Projects Funded by IsDB	450
Of which projects completed	397
Of which projects active	53
Total Volume of Business Insured by ICIEC in Saudi Arabia since Inception till end 2020	US$19.2 billion
Percentage of Total ICIEC Business Insured Inception till end 2020	13.1%

The SFF of IsDB reaffirms the Bank's longstanding commitment to play a transformative role in the global capital markets with innovative financing solutions in order to help the IsDB Member States achieve the SDGs.

LIBOR Transition

In the context of the global phase-out of the London Interbank Offered Rate (LIBOR) by June 2023, the IsDB also issued an innovative Secured Overnight Financing Rate (SOFR)-linked Sukuk in April 2021. The SOFR-linked Sukuk was a 3-year Floating Rate Note (FRN) that raised US$400 million from a single investor on a Private Placement basis.

This was a breakthrough transaction for IsDB in terms of timing, pricing, Sukuk offerings, and investor diversification, as well as testing IsDB's modus-operandi for a post-LIBOR landscape. On 6th March 2023, the IsDB priced its first public Sukuk issuance of the year when it raised US$2.0 billion through a 5-year (SOFR)-linked Sukuk issuance priced at an overall profit rate of 4.598%.

This is the fourth IsDB Sukuk transaction based on the Secured Overnight Financing Rate (SOFR) Mid-Swap benchmark, the new global benchmark rate that is being adopted by issuers for pricing fixed rate instruments. The Bank was the first Islamic financial institution to issue a SOFR-linked Sukuk.

In May 2021, it issued its maiden SOFR-linked Sukuk - a 3-year Floating Rate Note (FRN) that raised US$ 400 million from a single investor on a

Private Placement basis. That Sukuk was priced at par (100%) and at a mutually agreed coupon payable on a quarterly basis. This was followed by the April 2022 US$1.6 billion SOFR offering and the US$1 billion issuance in October 2022. Further SOFR-linked Sukuk issuances would help to build IsDB's SOFR-linked yield curve.

Global Challenges and IsDB's Response to a Turbulent Landscape

There are five main challenges to which the IsDB has been focusing and responding, in addition to its core mandate. These include Climate Action, Strategic Realignment, Capital Increase, Food Security and Resource Mobilisation.

In terms of climate action, the Bank established its Climate Change Policy in 2019 with a focus on (i) mainstreaming climate action plans of Member States into IsDB activities, (ii) promoting resilience to climate change, (iii) supporting transition to a green economy, and (iv) leveraging resources for climate action. The Bank also announced its Climate Action Plan, with an ambitious climate finance target of 35% of annual approvals by 2025.

As a proactive step toward addressing emerging global challenges, IsDB formulated a Realigned Strategy 2023-2025 that hinges on three overarching objectives. These are (a) boosting recovery, (b) tackling poverty and building resilience, and (c) driving green economic growth. These objectives are intended to be achieved by focusing the Bank's interventions on two key pillars over 2023-2025: (1) developing green, resilient, and sustainable infrastructure, and (2) supporting inclusive human capital development through projects and capacity development initiatives.

To ensure sound and prudent financial sustainability, IsDB's Board of Governors approved its 6th General Capital Increase (GCI) of ID5.5 billion (fully cash callable) in December 2020 (via circulation). This additional equity injection further strengthened its capitalization level in tandem with the projected operational growth in the upcoming years.

The IsDB approved a comprehensive US$10.54 billion Food Security Response Programme (FSRP) package in July 2022 in a joint meeting of the IsDB Board of Executive Directors, the Board of Directors of the Islamic Solidarity Fund for Development (ISFD), and the Board of Directors of the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC). The FRSP will support Member States in addressing the ongoing food crisis, in addition to scaling up the Group's efforts to contribute to strengthening its Member States' resilience to food security shocks in the future.

In terms of overall resource mobilization, the IsDB continues to organize awareness raising sessions in the form of joint workshops and roundtables around the world to highlight Sukuk as a sustainable finance instrument and showcasing its main features, especially in the context of innovative financial instruments for financing the SDGs.

The Meteoric Rise of Saudi EXIM – Giving Exporters Credit Where it is Due

Saudi EXIM is a national export credit and investment insurer on the move. In the space of three years, it has established itself as an ambitious institution resolute in supporting the Kingdom's international trade, assisting domestic exporters, and fostering sustainable economic growth. Here **Eng. Saad Alkhalb, CEO of Saudi EXIM,** in this in-depth interview discusses Saudi EXIM's adaptive approach and strategic priorities aimed at enhancing resilience, contributing positively to the global economy, and ultimately to ensure that no cross-border export transaction from Saudi Arabia fails due to a lack of credit and/or investment insurance or financing.

Focus on Saudi Arabia: Since its 2020 establishment, Saudi Eximbank (Saudi EXIM) has aimed to empower the non-oil economy and support exports by bridging financing gaps and mitigating risks. What progress and challenges has the bank encountered, and how have recent global changes, such as the Ukraine conflict, supply chain disruptions, and economic shocks, affected priorities for 2023 and beyond?

Eng Saad Alkhalb: The launch of Saudi EXIM comes as an outcome of Vision 2030's programmes and initiatives that aim to motivate Saudi exports and enhance the supply chains. In a very short time, Saudi EXIM was able to establish itself as an essential part of growing exports, having provided covered exports worth over US$2.8bn and US$3.2bn in loans to Saudi exporters since inception.

ECA/EXIM Banks are an integral part of the global financial systems that focus on promoting export, infrastructure and energy projects, and supporting global trade. In particular, they support the global economy by managing a different type of risk compared to commercial financial institutions, while simultaneously enabling Financial Institutions (FIs) to expand their risk appetite. Additionally, they help domestic companies limit their financial risk in cross-border transactions.

ECA/EXIM Banks also act as a great buffer to market volatility, especially during counter-cyclical moments that directly impact the level of uncertainty, which we are witnessing, across markets experiencing regular rapid interest rate hikes or geopolitical conflict disrupts supply chains.

Even when times are good, and the level of certainty is high, the ECA/EXIM Banks support the economy directly and indirectly by providing, for example, Documentary Credit Insurance Policy (DCIP) to commercial banks to expand their risk appetite in cross-border transactions. As our institution continues to grow, so does our ambition to positively impact the world economy. We have been actively fostering collaboration opportunities with our ECA/EXIM Bank colleagues in the Berne and Aman Unions as well as with Special and/or Multilateral Financial Institutions like the IsDB Group, among others.

Furthermore, we have been collaborating with regional & international ECAs to establish a seamless exchange of learnings and experiences that can further develop our offerings in each of our respective markets. These exercises have been particularly beneficial in helping us further refine our product offering to suit the needs of the Saudi market. We look forward to further collaboration and a long and prosperous business relationship with our international partners and future colleagues.

I must acknowledge the significant impact of recent global events on both the international and domestic economic landscapes. Geopolitical conflicts, supply chain disruptions, volatile commodity prices, rapid interest rate rises, and ensuing economic shocks have necessitated a reassessment of our priorities for 2023 and beyond.

In response to these challenges, we have identified several key areas of focus:

1. **Diversification:** We are actively promoting the diversification of export markets and sectors to mitigate the risks associated with overreliance on specific regions or industries. This approach will enhance our clients' resilience to global economic irregularities.
2. **Supply Chain Resilience:** To address supply chain disruptions, we are working closely with our clients to identify alternative sourcing strategies, enhance their logistical capabilities, and invest in advanced technologies that improve efficiency and traceability.
3. **Risk Sharing:** We are pursuing risk-sharing techniques like re-insurance, club deals, and syndication structures as additional tools to manage/protect our balance sheet.
4. **Risk Management:** We have intensified our risk assessment processes to account for geopolitical instability, supply chain vulnerabilities, and market fluctuations. We can better navigate these uncertainties and protect the interests of our clinets by bolstering our risk management capabilities.
5. **Sustainable Development:** Recognizing the crucial role of environmental, social, and governance (ESG) factors, we are committed to integrating ESG principles into our financing decisions and promoting sustainable practices across the value chain.

As we navigate this complex and ever-changing economic landscape, Saudi EXIM remains resolute in supporting international trade, assisting domestic exporters, and fostering sustainable economic growth. Our adaptive approach and strategic priorities aim to enhance resilience and contribute positively to the global economy. Ultimately, our primary objective is that no cross-border export transaction from Saudi Arabia fails due to a lack of insurance or financing.

Considering the nascent state of credit and investment insurance in Saudi Arabia, how do you assess its current state and barriers for SME exporters? How important is credit and investment insurance for a modern, evolving economy, and how can ECAs and multilateral insurers contribute to post-pandemic recovery, climate action, and clean energy transition? Furthermore, how can the partnership between Saudi EXIM and ICIEC develop beyond the Vision 2030 Realization Program? Can you elaborate on the cooperation and potential new developments under the FRAs? Lastly, do you concur with Zurich's assessment of regulatory standards in the MENA region?

The OIC countries' export credit and investment insurance mechanisms have made considerable progress in recent years, driven by robust economic growth and diversification efforts. However, there remains ample room for improvement, especially regarding accessibility and awareness for SMEs.

The primary barriers faced by SMEs in this context include:

1. **Limited Awareness:** Many SMEs in the OIC countries lack adequate understanding of export credit and investment insurance products, leading to the underutilization of these financial instruments.
2. **Complexity:** The process of securing export credit and investment insurance can be cumbersome, deterring SMEs from exploring and leveraging these options.
3. **Access to Finance:** Insufficient access to affordable credit and burdensome collateral requirements can restrict SMEs from obtaining the necessary insurance coverage for their international growth.
4. **Regulatory Hurdles:** SMEs can also face additional regulatory challenges in obtaining export credit and investment insurance, further complicating their endeavours.

To address these barriers, EXIM Banks and other financial institutions should collaborate with governments and regulators to enhance awareness, streamline processes, and increase accessibility to financial products. By fostering an inclusive and supportive environment for SMEs, we can bolster their international competitiveness and support their contribution to the sustainable economic growth of the OIC.

Credit and investment insurance are vital components of a modern and rapidly evolving economy. These instruments not only mitigate risk but also facilitate international trade, encourage investment, and foster economic growth. ECAs and multilateral insurers play a unique role in post-pandemic recovery and tackling global challenges, such as climate action, food security, and transitioning to clean energy.

ECAs and multilateral insurers can contribute in several significant ways:

1. **Post-Pandemic Recovery:** By providing credit and investment insurance, these institutions can stimulate international trade and investment, supporting businesses in overcoming the economic fallout of the pandemic and hastening the return to normalcy.
2. **Climate Action:** ECAs and multilateral insurers can promote climate-resilient investments by incorporating environmental, social, and governance (ESG) criteria into their decision-making processes. They can also prioritize financing projects aligned with global climate goals, such as renewable energy, sustainable infrastructure, and green technologies.
3. **Food Security:** By supporting investments in agricultural innovation, technology, and infrastructure, institutions can enhance food production and distribution capabilities, thereby contributing to global food security.
4. **Clean and Just Energy Transition:** ECAs and multilateral insurers can facilitate the transition to clean energy by financing renewable energy projects, supporting energy efficiency improvements, and fostering sustainable development in both emerging and established markets.

One of the key areas that Saudi EXIM envisages in 2023 is political risk insurance. We believe ICIEC has an edge as a cross-continental institution to support Saudi EXIM in pursuing this line of business with more comfort. By leaning on its unique legal stature and long experience in covering these risks, ICIEC can foster growth in key markets and industries related to achieving Saudi Arabia's Vision 2030 goals.

ICIEC has been a key supporter of Saudi EXIM in offering the DCIP in the Saudi market, providing the capacity for high-risk issuing banks, thereby helping Saudi EXIM to expand its coverage to local banks. During 2022, Saudi EXIM has signed DCIP policies with six local banks with a total capacity of more than US$500m. This enabled Saudi EXIM to learn more about the specific needs to develop great products, enhance its features, and fulfill the Saudi banking sector's expectations.

Though a nascent market, we believe that the MENA region's insurance regulation is developing quickly in response to both the global and local operating environments. The insurance industry is very interconnected through reinsurance channels, which helps drive smooth and fast adoption of best practices across markets. The Saudi insurance market has been evolving very fast in terms of regulations, which is expected to bear fruits over the long run.

The introduction of new International Accounting Standards, IFRS 17 and IFRS 9, on 1 January 2023 for insurance/Takaful contracts are aimed at bringing enhanced transparency to financial statements and greater consistency and comparability within and beyond the insurance market. Under IFRS 17,

says Fitch Ratings, Insurers' profit recognition pattern, and the P&L components are set to change under IFRS 17. The standard requires insurers to present a market-consistent balance sheet measurement of insurance contracts, recognizing profit over the period services are provided. Written premiums, traditionally the first line of a traditional income statement (P&L), will be replaced by a new item, 'value of the insurance services provided', and investment components will be excluded from revenue and claims. As an ECA, does Saudi EXIM welcome these reporting developments?

We recognize the importance of adopting robust and transparent accounting standards that improve the clarity and comparability of financial reporting. The introduction of IFRS 17 and IFRS 9 for insurance and Takaful contracts aims to achieve these objectives by enhancing transparency, consistency, and comparability within and beyond the insurance market. We welcome these reporting developments, as they offer several key benefits, as already mentioned.

ECAs, like others, face ever-changing metrics that necessitate a vigilant approach to risk management. In a recent report, Fitch Ratings noted a greater awareness of environmental, social, and governance (ESG) issues, particularly extreme weather and natural catastrophe exposure, among (re)insurers which has led them to adjust policy terms and conditions. (Re)insurers are re-assessing risk modelling and catastrophe management frameworks to help quantify potential natural hazard losses for underwriting, pricing, and capital setting. Can you expand on your risk management strategy?

Vigilance in risk management can be understood as staying close to tried-and-true practices while ever adapting, particularly given the dynamic nature of global metrics and the increasing prominence of environmental, social, and governance (ESG) issues. Our risk management strategy incorporates several key aspects to ensure that we adequately address and mitigate potential risks. They include:

1. **ESG Integration:** We recognize the significance of ESG factors in risk management and have incorporated these considerations into our underwriting, pricing, and capital-setting processes. By evaluating the ESG performance of our clients and projects, we can identify potential risks and demonstrate a more flexible credit appetite and terms for applications with favourable ESG standards.
2. **Enhanced Risk Modelling:** We constantly update and refine our risk modeling techniques to better quantify potential losses and other emerging risks. This involves leveraging advanced analytics, data sources, and industry expertise to develop comprehensive and accurate risk models.
3. **Diversification:** To mitigate concentration risks, we strive to diversify our portfolio across different industries, sectors, and regions. This approach enhances our resilience to market fluctuations, geopolitical instability, and other unforeseen events.
4. **Continuous Monitoring:** Our risk management strategy involves ongoing monitoring and assessment of the risk environment, enabling us to identify emerging threats and adjust our policies and practices accordingly.
5. **Collaboration with (Re)insurers:** We actively engage with (re)insurers to refine our risk management framework and share insights on best practices. This collaborative approach ensures that we remain informed of industry developments and are better equipped to manage risk effectively.
6. **Capacity Building:** We invest in the continuous development of our risk management capabilities by providing training and resources to our team members, ensuring they have the knowledge and skills to navigate the evolving risk landscape adeptly.

Our risk management strategy encompasses a holistic approach that integrates ESG considerations, embraces advanced risk modeling techniques, fosters diversification, and emphasizes continuous monitoring and collaboration. By adopting such a comprehensive strategy, Saudi EXIM remains prepared to confront and manage the ever-changing risks that we face in the global marketplace.

Looking ahead, what are the prospects for Saudi EXIM? Are you targeting specific products, sectors, or markets? How important is boosting intra-OIC exports and investment in your overall strategy?

Our global strategy encompasses several key elements aimed at enhancing non-oil GDP growth and fostering trade with targeted markets:

1. **SMEs:** SMEs are the critical employment and business backbone of most economies. As such, we pay special attention to supporting our SMEs. Approximately 40% of approved clients are SMEs.
2. **Strategic Sectors:** We concentrate on industries with substantial growth potential, such as those highlighted in the NIS: chemicals/specialty chemicals, plastics, and rubber conversion, food/agriculture, renewable energy, aviation, automobiles (including electric vehicles), maritime manufacturing, pharmaceuticals, medical devices, and supplies, construction materials, machinery/equipment, and mining/minerals driving sustainable economic growth and diversification.
3. **Market Prioritization:** We identify and focus on markets with significant trade opportunities that align with our nation's objectives, enabling targeted efforts and resource allocation to cultivate mutually beneficial relationships.
4. **Collaboration:** By partnering with local and international financial institutions, we can extend our reach and effectively support buyers in diverse markets.
5. **Customized Solutions:** We offer tailored financial solutions addressing the unique needs of buyers, ensuring access to necessary funding for procuring our nation's products.
6. **Capacity Building:** We invest in human resource development and infrastructure to better serve clients and adapt to the evolving demands of the global marketplace.

Our buyer credit product plays a critical role in supporting purchasers of our nation's goods. This financial instrument is essential for facilitating international trade and promoting economic growth, particularly in non-oil sectors.

Saudi Arabia is hosting the 48th annual meetings of the IsDB Group in May this year. The Group's relations with the Kingdom are second to none. KSA is the largest equity subscriber (21%) to the IsDB, which has a strong relationship with several Saudi government agencies, especially the Export Promotion Program and Saudi EXIM Bank, in helping to promote Saudi non-oil products abroad. What can the IsDB Board of Governors and Group do to enhance the profile and reach of credit and investment insurance both institutionally and among its 57 Member States?

The IsDB has served as a fantastic group of institutions for growth and cooperation among the 57 Member States. Coinsurance and reinsurance can help reduce the risk of insolvency or bankruptcy for insurance companies, especially in large or catastrophic losses. They can also help increase the capacity and coverage of the insurance market by allowing smaller or specialized insurers to participate in larger or more complex risks. Additional collaboration and integration among member states can be fostered by encouraging opportunities for deal syndication.

This increased integration drives further opportunities for the exchange of market knowledge, both for institutions and clients. Clients benefit from the deeper knowledge networks of institutions, and clients become more sophisticated in their understanding of available products, their implementation, and ongoing requirements.

Many SMEs can benefit from this upskilling and awareness drive. This aligns well with the IsDB recent strategy re-alignment on boosting recovery, tackling poverty, building resilience, and driving green economic growth. SMEs employ a large portion of the population, and therefore their sustained business, recovery, and resilience are critical to ensure continued growth in the member states and beyond.

Furthermore, by developing and offering innovative and tailored credit and investment insurance products and solutions in collaboration with partner institutions such as Saudi EXIM that meet the diverse needs and preferences of its member countries and sectors, specific sectors like SMEs can be further supported and encouraged.

On an institutional level, strengthening cooperation and coordination with other credit and investment insurance providers, such as the Aman Union, Berne Union, multilateral agencies, multilateral financial institutions, and private insurers by sharing best practices, leveraging synergies, and increasing capacity and coverage will ultimately lead to trickle-down effects across all economies.

Finally, we can all learn from each other and support capacity building and technical assistance of other member countries to improve their creditworthiness, business environment, and risk management practices.

A Smart Partnership Steeped in a History of Cooperation

ICIEC has enjoyed a long and fruitful partnership in helping to effect and promote the Kingdom's export strategy – first with the Saudi Export Programme (SEP) and more recently with its successor Saudi Eximbank highlighting the importance of credit and investment insurance and guarantees. **Ziad Al Sabbaly**, Country Manager for Saudi Arabia at ICIEC, maps out ICIEC's special relationship with the Kingdom, especially its enhanced cooperation with Saudi Eximbank.

The relationship between ICIEC, the multilateral credit and investment insurer and member of the IsDB Group, and Saudi Arabia is steeped in a history of cooperation, targeted investment and innovative export promotion through Shariah-compliant risk mitigation and credit enhancement solutions.

The main objective is to help promote the Kingdom's export strategy – first with the Saudi Export Programme and since 2021 with its successor Saudi Eximbank – highlighting the importance of credit and investment insurance and guarantees. This special relationship between ICIEC and Saudi Arabia is underpinned by the fact that the latter accounts for 20.29% of the Corporation's subscribed equity and a cumulative US$21.4 billion or 11.28% of business insured at the end of 2022. This comprised US$13.1 billion in favour of Saudi exporters, US$8.1 billion for Saudi importers and US$239 million for Saudi investors. Since its inception in 1994 till end 2022, ICIEC has insured US$95 billion in trade and investment. Of this Business Insured amounted to US$75.8 billion for trade and US$19.2 billion for investments.

In this respect, ICIEC, the world's sole Shariah-compliant multilateral insurer, acts as a risk absorber and mitigator in its efforts in carrying out its mandate which includes promoting intra-OIC trade and investment, helping Member States in their post-pandemic recovery, overcoming the impact of the supply-chain disruptions due to the Ukraine conflict, and the impact of global economic shocks such as high inflation and its effect on food and fuel prices leading to a global cost-of-living crisis.

ICIEC will continue to enhance existing cooperation with the Kingdom and seek new opportunities particularly related to the inter-connectivity between the estimated US$3.5 trillion Islamic finance industry and the wider Halal Economy, which according to a report from Frost & Sullivan will likely reach US$4.96 trillion by 2030 from US$2.30 trillion in 2020.

Here, ICIEC can provide de-risking solutions for various projects, co-opt private sector capital, which would make projects bankable and more attractive to promoters and investors and contribute to food security in Member States. In this context ICIEC welcomes the recent launching of the Halal Products Development Company (HPDC) by The Public Investment Fund (PIF), Saudi Arabia's sovereign wealth fund, aimed at investing in localising the Halal manufacturing industry, promoting Saudi Arabia as a global Halal hub and unifying global efforts in Halal certification and standards.

ICIEC and the credit insurance sector can leverage new business insured and guarantee opportunities in the Halal economy especially trade credit and investment in manufacturing in pharmaceuticals, food and agri-products, and renewables.

This can have an important multiplier effect which could have positive impacts on job creation, import substitution, GDP growth and wellbeing of citizens. Halal products have become increasingly globalised because of the Muslim diaspora. But according to Frost & Sullivan, the demand for halal products is now coming also from both Muslim and non-Muslim consumers across countries.

Enhanced Engagement with Saudi Eximbank

ICIEC's current portfolio in Saudi Arabia encompasses support for foreign investments into the Kingdom, supporting Saudi exports and imports, facilitating risk solutions for Saudi investments abroad, provision of lines of financing and cover to Saudi banks and financial institutions, and enhancing its long-standing relationship with the Saudi Eximbank (SEB) and its precursor Saudi Export Programme (SEP). ICIEC is also currently studying a joint programme with SEB which aims at providing integrated insurance and financing solutions to Saudi exporters.

The Corporation is actively engaged in supporting Saudi exports directly and in cooperation with related private and public entities. The relationship between ICIEC and the Saudi national export credit entities started with the Saudi Export Programme through several reinsurance policies covering Letters of Credits issued in favour of Saudi exporters. Since 2002 till 2022 the business insured under this relationship exceeded US$315 million.

To achieve one of the Saudi 2030 Vision pillars, Saudi Eximbank was launched in 2021 to promote the Kingdom's non-oil exports as part of its economic diversification plan and dependency away from hydrocarbons. The aim is to reach 50% of the overall exports of the Kingdom by 2030.

ICIEC, from the onset played an important part in the establishment of Saudi Eximbank by providing technical expertise, sharing information and procedures. Currently, ICIEC is providing reinsurance solutions to Saudi Eximbank covering many Saudi confirming banks to cover Saudi exports.

Moreover, the relationship between the two institutions has advanced to new levels of cooperation whereby ICIEC is providing training and information sharing to help the newly established entity. Moreover, ICIEC is working closely with Saudi Eximbank to launch new products that will encourage Saudi investments abroad by co-insuring those investments against several risks associated with the particular business.

This enhanced level of cooperation comes under the landmark Facultative Reinsurance Agreement (FRA) signed by the two entities in

ICIEC in Saudi Arabia – Data at a Glance

Date of ICIEC Incorporation	1994
Accession of Saudi Arabia as Member State	1994
Saudi Arabia's Equity Subscription to ICIEC	60,036 Shares at a value of ID60m
Percentage of Subscribed Capital by Saudi Arabia	20.29%
Cumulative Business Insured in Saudi Arabia at end 2022	US$21.4 billion or 11.28% of total ICIEC operations
Insurance Cover underwritten for Saudi Banks	US$2.82 billion
Reinsurance Capacity Provided under the Saudi Export Programme (SEP)	US$315 million

Source: Compiled by Mushtak Parker from official data May 2023

September 2021, whereby ICIEC would provide Credit Reinsurance Cover facilities to the Saudi Eximbank.

"This agreement," emphasized Mr Oussama Kaissi, CEO of ICIEC, "consolidates our long-standing partnership with the Saudi Export Programme and now the Saudi Eximbank in supporting export development and Foreign Direct Investment in Saudi Arabia."

Under the FRA, ICIEC is providing 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 Current Portfolio of ICIEC Activities in Saudi Arabia

a) Support for FDI in the Kingdom

ICIEC has provided a reinsurance service for the Riyadh Metro project with a coverage of US$306 million. This project is considered as one of the vital projects that contributed towards raising the quality of public transportation and alleviating traffic congestion. The project contributed to the creation of 300,000 jobs.

b) Supporting Saudi Exports and Imports

A number of exporters from the Kingdom have benefited from the insurance coverage provided by the Corporation in carrying out their export operations across the globe. In a competitive economic environment, trade credit insurance plays a critical role in facilitating the expansion of exporters into new markets.

These exporters benefiting from ICIEC risk mitigation products included but were not limited to i) Saudi Basic Industries Corporation (SABIC), Zamil Company, Al Rajhi Industrial Group, Petro Rabigh, Saudi Industrial Export Company, Riyadh Cables, and National Petrochemical Industries Company.

The volume of support provided by the Corporation for imports of goods to Saudi Arabia reached US$8.1 billion. ICIEC's cover in favour of its foreign exporter clients made it possible for them to extend credit and transact on more favorable terms, which in turn benefited over 2,600 local importers and SME's.

c) Support for Saudi investments Abroad

Within the framework of the foreign investment insurance services, the Corporation issued insurance contracts worth US$239 million to cover investment projects involving entities and financing institutions in Saudi Arabia. Notable project insurance cover policies included i) the Kenana Sugar Factory in Sudan, ii) Natrindo Telepon Seluler of Indonesia for the benefit of Saudi Telecom Company and Maxis Group in Malaysia, iii) and Sidra Capital Group for its project in Indonesia, with an investment value of US$80 million, which was financed by a group of Saudi banks.

ICIEC is looking to play a greater role by expanding the provision of political risk insurance solutions and services related to Saudi investments abroad, especially in the agricultural sector and food security projects that are heavily supported by the Saudi Government. In Dec 2022 the Corporation signed an MoU with Al-Rajhi International Investment Company (RAII) of Saudi Arabia, aimed at jointly exploring investment opportunities in agriculture and related food security projects.

d) Support to Saudi Banks and Financial Institutions

Within the framework of its support to export promotion of Member States, ICIEC supports banks and financing institutions in Member States in their international trade financing operations, by providing insurance coverage for direct financing provided by banks for these operations, or by insuring letters of credit (LCs) in support of export operations financed by the banks.

In this regard, ICIEC has issued insurance policies to a number of Saudi banks, including the Saudi National Bank and the Saudi British Bank. The total operations insured by ICIEC for these banks until the end of 2022 amounted to US2.82 billion.

In this context, ICIEC has taken initiatives with some Saudi banks to build partnerships between the issuer, the financier and the insured to support Saudi SMEs in their efforts to expand their export operations and to enter new markets, thus benefitting from export financing and credit services.

e) The Corporation's Relationship with Saudi EXIM Bank

Within the framework of its support to national guarantee agencies in Member States, ICIEC has built a strategic cooperation relationship with the Saudi EXIM Bank, through which it aims to enhance the growth and export capabilities of Saudi companies and industries, enabling them to access global markets, by providing financial solutions, insurance coverage and guarantees in order to facilitate export operations and global expansion.

In this regard, ICIEC has signed an agreement with the bank with the aim of strengthening cooperation in the field of insurance, reinsurance, training, marketing, and exchange of credit information between the two institutions, and through reinsurance in favor of a number of Saudi correspondent banks for documentary credits. The participating banks include Banque Saudi Fransi, Al Rajhi Bank, The Saudi Investment Bank, Bank Albilad and Arab National Bank. ICIEC is currently working on adding other banks to this list so that it can provide the necessary insurance coverage to the largest possible number of Saudi banks.

ICIEC is also currently studying a joint programme with Saudi EXIM which aims at providing integrated insurance and financing solutions to Saudi exporters. The programme is expected to benefit Saudi EXIM Bank and their export clients alike by providing easier access to trade credit facilities based on ICIEC's coverage of the risks of non-payment by importers in multiple countries around the world.

ICIEC has provided a reinsurance service for the Riyadh Metro project with a coverage of US$306 million. This project is considered as one of the vital projects that contributed towards raising the quality of public transportation and alleviating traffic congestion. The project contributed to the creation of 300,000 jobs.

Case Studies of ICIEC Impact Investment in Saudi Arabia

Case Study - 01

Project	**Supporting Saudi Exporter Riyadh Cables Company**
Country	**Saudi Arabia**
Volume	**USD 195 Million**
Tenor	**1 year**
Product	**Comprehensive Short-Term Policy (CSTP)**
Client	**Riyadh Cables Company**

ICIEC's Role

ICIEC is playing a key role in supporting Riyadh Cables Company in its effort to increase export sales, penetrate new markets, obtain information on new buyers and secure its receivables by providing its STP product.

Development impact

Case Study - 02

Project	**Supporting Saudi Exporter Riyadh Cables Company**
Country	**Saudi Arabia**
Volume	**USD 60 Million**
Tenor	**1 year**
Product	**Specific Transaction Policy (SIP)**
Client	**A Japanese Company exporting to Saudi Arabia**

ICIEC's Role

The question of food security is vital for every country around the world. In this project, ICIEC is supporting a Japanese exporter, one of the largest trading companies in Japan, to export canned food products into Saudi Arabia. The deal facilitates trade between a member country and a non-member by allowing a higher credit facility for the Saudi importer with the Japanese exporter.

Development impact

Case Study - 03

Project	**Supporting Transporation Sector in Saudi Arabia**
Country	**Saudi Arabia**
Volume	**USD 360 Million**
Tenor	**5 years**
Product	**Facultative Reinsurance Policy**
Client	**Atradius Dutch State Business N.V., the state-owned Export Credit Agency (ECA) of Netherlands**

ICIEC's Role

The Riyadh Metro Project is a network covering 176 kilometers. The project aims to reduce traffic congestion in Riyadh and is expect to have a positive impact on the quality of life in the city as its residents will have access to a modern and efficient public transportation system. From an economic point of view, the project will generate substantial employment during the construction period by employing over 30,000 people.

The new metro network will provide Riyadh with a state-of-the-art integrated public transport system, to which buses and park-and-ride facilities will also be connected. Where only 2% of the population uses public transport today, it is expected that 2% of the city's inhabitants will use the underground once the metro is fully operational in 2021. According to Strukton, the Saudi capital is expected to grow by some 2.5 million inhabitants to a total of 8.3 million inhabitants over the next decade.

Development impact

ICIEC Development intervention for the Kingdom of Saudi Arabia 2030 Vision:

Case Study - 04

Project	**Facilitating exports of Saudi made Packaging Materials to EU, USA, & MENA**
Country	**Saudi Arabia**
Volume	**USD 160 Million**
Tenor	**1 year**
Product	**Globalliance (GAP) Short-Terns Policy — Reinsured by Coface**
Client	**Gulf Packaging Co. & Trio Mada Co.**

ICIEC's Role

ICIEC is facilitating the export of the above exporters to Africa, Europe, North America and GCC countries by providing coverage to the PH against the non payment of their debtors/buyers. ICIEC is also playing a role in providing financial information on the existing/new buyers and new markets as well in order to ensure a safe penetration for the Saudi exporter to foreign markets.

Development impact

Case Study - 05

Project	**Facilitating export of Saudi made raw papers**
Country	**Saudi Arabia**
Volume	**USD 120 Million**
Tenor	**1 year**
Product	**Comprehensive Short-Term policy - CSTP**
Client	**Middle East Papers Co.**

ICIEC's Role

ICIEC is facilitating the export of the above exporters to Africa, Europe, North America and GCC countries by providing coverage to the PH against the non-payment of their debtors/buyers. ICIEC is also playing a role in providing financial information on the existing/new buyers and new markets as well in order to ensure a safe penetration for the Saudi exporter to foreign markets.

Development impact

Case Study - 06

Project	**Facilitating export of spun melt non woven fabrics**
Country	**Saudi Arabia**
Volume	**USD 90 Million**
Tenor	**1 year**
Product	**Globalliance (GAP) Short-Terns Policy — Reinsured by Coface**
Client	**Advanced Fabrics Co. (SAAF)**

ICIEC's Role

ICIEC is facilitating the export of the above exporters to Africa, Europe, North America and GCC countries by providing coverage to the PH against the non-payment of their debtors/buyers. ICIEC is also playing a role in providing financial information on the existing/new buyers and new markets as well in order to ensure a safe penetration for the Saudi exporter to foreign markets.

Development impact

ICIEC Development intervention for the Kingdom of Saudi Arabia 2030 Vision:

Case Study - 07

Project	Facilitating export Saudi made Plastic product
Country	Saudi Arabia
Volume	USD 60 Million
Tenor	1 year
Product	Globalliance (GAP) Short-Terns Policy — Reinsured by Coface
Client	Saudi Plastic Packaging System – Part of Takween Group

ICIEC's Role

ICIEC is facilitating the export of the above exporters to Africa, Europe, North America and GCC countries by providing coverage to the PH against the non-payment of their debtors/buyers. ICIEC is also playing a role in providing financial information on the existing/new buyers and new markets as well in order to ensure a safe penetration for the Saudi exporter to foreign markets.

Development impact

Case Study - 08

Project	Facilitating the export of 3P stretch films
Country	Saudi Arabia
Volume	USD 35 Million
Tenor	1 year
Product	Globalliance (GAP) Short-Terns Policy — Reinsured by Coface
Client	Al Sharq Flexible Industries – Takween Group

ICIEC's Role

ICIEC is facilitating the export of the above exporters to Africa, Europe, North America and GCC countries by providing coverage to the PH against the non-payment of their debtors/buyers. ICIEC is also playing a role in providing financial information on the existing/new buyers and new markets as well in order to ensure a safe penetration for the Saudi exporter to foreign markets.

Development impact

Case Study - 09

Project	Insuring Saudi Investment in Indonesia
Country	PH from Saudi Arabia – Project in Indonesia
Volume	USD 100 Million
Tenor	1 year
Product	Foreign Insurance Policy (FIIP) – Financing
Client	SIDRA Capital

ICIEC's Role

ICIEC has provided insurance against the political in Indonesia. With ICIEC 's support we made it easy for the Saudi Investor to fund a project in Indonesia that supports mining sector and creates thousands of job opportunities.

Development impact

PIF's HPDC Plans to Transform Saudi Arabia into Premier Global Halal Hub

The global Halal economy is set to expand from a US$1.90 trillion market in 2015 to an estimated US$4.96 trillion by 2030. Growth opportunities, aside from traditional markets in Organization of Islamic Cooperation (OIC) member states, will increasingly emerge across non-OIC countries, driven by growing globalisation and awareness of Halal products and its preference by many non-Muslim consumers, and both policy momentum and private sector investments. The entry of Saudi sovereign wealth fund (SWF), the Public Investment Fund (PIF), into the Halal market, explains **Mushtak Parker**, augurs well for an industry whose growth trajectory can only be upwards.

The launching of the Halal Products Development Company (HPDC) by the Public Investment Fund (PIF), Saudi Arabia's sovereign wealth fund, last October is a major boost to the global Halal economy estimated to rise to US$4.96 trillion by 2030 and indirectly to the estimated US$3.5 trillion Islamic finance industry.

It is only natural that the Kingdom as the birthplace of Islam and the custodian of its two holiest cities, Makkah and Madinah, should be a policy and market leader in the Halal economy, which includes financial services, pharmaceuticals, fashion, cosmetics and foodstuffs.

HPDC also complements and synergises the "Made in Makkah" and "Made in Madinah" identities and brands launched in January 2023 as part of the wider "Made in Saudi Arabia" initiative launched by the Saudi Export Development Authority (SEDA) in 2021. According to the Saudi Minister of Industry and Mineral Resources and Chairman of the Board of Directors of SEDA, Bandar Alkhorayef, "the special status that Makkah and Madinah enjoy among Muslims in all parts of the world has made the products of the two holy cities most favourite among the majority of Muslims around the world."

The company's launch is underpinned by the strong creditworthiness of its parent, PIF. In March 2023, Moody's Investors Service upgraded PIF's credit rating outlook to "positive" and affirmed the Fund's A1 issuer rating. Such ratings are measures of creditworthiness, and A1 is considered an indication of very strong fundamental credit strength." Moody's highlighted PIF's steady dividend income stream, high-quality investment portfolio, and sector diversification. PIF has a National Scale Rating – opinions of the relative creditworthiness of issuers and financial obligations within one country – of Aaa.sa, the highest possible NSA rating that entities in Saudi Arabia can obtain."

The PIF is a pillar and an essential enabler of the Kingdom's Vision 2030, and the main mobilizer of the domestic economy and the diversification of its sources of income, as the fund's strategy enhances the efforts that contribute to the development of the Kingdom's wealth through investing domestically and globally to enable the growth potentials for the priority sectors in the Kingdom, which will contribute to enhancing economic diversification, contributing to the growth of non-oil GDP, increasing local content, and empowering the private sector.

Compelling Demographic Driver

Apart from the business case, there is also a compelling demographic driver of the Halal economy. The global Muslim population exceeded the 2 billion marks at end April 2023, when it was estimated at 2,007,821,549 people, which represents over 25% of the world's total

population of 8,031,286,196. Islam currently is the second largest religion in the world, but it is also the fastest growing religion with new adherents coming from various groups, including non-Muslims in various corners of the world.

The market opportunity is so huge and its growth so diverse that multinationals are getting firmly embedded, albeit in selected segments, in the Halal economy. Similarly, the World Bank saw fit to publish a report on "Islamic Finance and the Development of Malaysia's Halal Economy" last October which led to an international conference on the subject.

The State of the Global Islamic Economy Report 2022 published by Dinar Standard puts Saudi Arabia second to Malaysia on its Global Islamic Economy Indicator, followed by the UAE and Indonesia. Saudi Arabia says the Report has bolstered its the Islamic economy, especially in halal food, Islamic finance, and fintech.

Halal food exports to OIC countries from Saudi Arabia only decreased by 2%, despite the pandemic. Hajj and Umrah tourism were heavily impacted by the pandemic in 2020/21, is recovering as post-pandemic recovery and normalisation continues. Saudi Arabia has continued to invest in its tourism sector as part of its Vision 2030 strategy. The PIF is investing in luxury resorts, an airline, and a cruise line in its efforts to expand leisure tourism.

Similarly, according to US-based Frost & Sullivan's report last October on "Global Halal Economy Growth Opportunities," the market for the global halal economy will likely witness impressive growth, reaching an estimated US$4.96 trillion by 2030 from US$2.30 trillion in 2020.

The main factors driving the Halal industry are favourable population demographics, government policies, and private sector initiatives. Growing non-Muslim demand for Halal foods, said the report, will be driven by its association with safe and healthy eating, while Halal fashion and tourism should also find increasing acceptance among more conservative non-Muslim consumers.

"With higher levels of Halal trade and Islamic finance potentially accelerating infrastructure development," explained Neha Anna Thomas, Senior Economist at Frost & Sullivan, "the Halal economy is poised to become more integrated with global trade and supply chains. Further, governments are strengthening regulatory and policy support through national masterplans and Halal certification scope expansion, which will boost the industry's growth. This creates the need to progressively ensure trade and supply-chain transparency while driving awareness of Islamic financing solutions."

Another report published in January 2023 by US-based Coherent Market Insight titled "Halal Products Market 2022 Analysis by Market Trends, Size, Share, and Outlook" maintains that "the competitive landscape of the global halal products market is fragmented. The emergence of large numbers of key players is the main reason for such fragmentation in the global market. In the next few years of the forecast period (2020-2030), global market competition is expected to only intensify."

Some of the key players involved include Nestlé S.A. (Switzerland), Cargill (U.S.), Unilever (UK), Al Islami (Dubai), American Foods Group (U.S.), QL Foods (Malaysia), PRIMA AGRO (Malaysia), Saffron Road (US), Allanasons (India), Kawan Food Manufacturing (Malaysia), The Coca Cola Company (US), Krafts Food Group

(US), GlaxoSmithKline (UK), L'Oreal S.A (France), Ulker (Turkiye) and Savola (Saudi Arabia). There are of course thousands of dedicated medium-and-small-sized companies from across the five main geographic regions in North America, Europe, Asia Pacific, Middle East-Africa, and Latin America involved in the Halal economy.

Saudi Arabia as a Global Halal Hub

Several Muslim countries have the ambition of being the 'Global Halal Hub'. These include UAE/Dubai, Malaysia, Türkiye, Indonesia, Pakistan, India and now Saudi Arabia.

The rationale behind PIF launching HPDC is precisely to "building on Saudi Arabia's position in the Islamic world, unifying global efforts (in the halal economy) and promoting Saudi Arabia as a global Halal hub."

HPDC's core objectives include:

- Increasing the efficiency of the Halal economy ecosystem locally, while supporting the development of knowledge, technology, and innovation for the development of Halal products including foodstuffs, cosmetics, and pharmaceuticals, with plans to export to markets globally.
- Developing the Halal production industry by partnering with key players and providing specialized advisory services domestically and globally, to increase efficiency and innovation and promote opportunities.
- Enabling local players, SMEs in particular to grow and expand across global Halal markets.
- Contributing to job creation.
- and Promote investment and economic opportunities for the industry by introducing various services, including fund raising and specialized advisory.

Equally importantly, HDPC will also enable PIF and its portfolio companies, which include the shipping firm Bahri, ACWA Power, the renewable energy lead, Saudi Real Estate Refinance Company (SRC), the mortgage finance and securitisation entity, and mining company, Ma'aden, to access a variety of collaboration and investment opportunities across global Halal markets.

"The launch of the company aligns with PIF's strategy, which focuses on developing and enabling the capabilities of key sectors– including consumer goods and retail, and food and agriculture – to improve the trade balance, localize and develop the industry, and contribute to the diversification of the economy and growth of non-oil GDP, underscoring the objectives of Saudi Vision 2030," added PIF in a statement.

Digital Transformation Opportunities

Frost & Sullivan identified sector-specific growth opportunities, with digital transformation opportunities emerging as a recurring theme, whether blockchain-based solutions for halal foods traceability or Islamic fintech solutions. According to Neha Anna Thomas, "transparency and traceability along the Halal product value chain are crucial. Due to this, governments should encourage the adoption of advanced technologies such as blockchain and the Internet of Things (IoT) when developing Halal economy masterplans, while businesses can partner with tech start-ups."

Technological infrastructure innovation and digitisation in the Halal economy, for instance, is also a core aim of Malaysia's Halal Industry Master Plan 2030 (HIMP 2030), which was launched on 23rd March 2023 by Investment, Trade and Industry Minister (MITI), Tengku Datuk Seri Zafrul Tengku Abdul Aziz.

HIMP envisages the Malaysian Halal industry to expand to US$113.2 billion by 2030, with a GDP contribution of 8.1% by 2025. According to MITI, Malaysia's Halal exports continued with its growth trajectory in 2022 with a total Halal export value of RM59.46 billion, an increase of RM23.16 billion or 63.8%n from the previous year.

The Malaysian Halal ecosystem includes the Halal Development Corporation (HDC), Martrade, and the annual Malaysia International Halal Showcase (MIHAS) with its pioneering B2B platform, which according to Tengku Zafrul "has grown from strength-to-strength, and has also established itself as one of our key drivers to build on the halal momentum by exploring new frontiers and untapped opportunities in this industry."

The challenge for the Halal economy anywhere is to generate revenue and jobs across the spectrum including MSMEs to diversify economies away from dependence on hydrocarbons, and more recently also to promote sustainability and ESG considerations in line with the UN and national SDG agenda and the Net Zero goals of the Paris Agreement.

Job creation is a core objective of PIF, which manages six different pools of investments - two international and four domestic pools. Yasir Al-Rumayyan, Governor of PIF, addressing the PRIORITY Summit in New York last September revealed that the Fund has "already established 56 companies and helped create approximately half a million jobs, and we want to create 1.8 million direct and indirect jobs," as part of PIF's initiative to ensuring the achievement of the goals set in the Saudi Vision 2030 Realization Programme.

Connectivity Anomaly

The connectivity between Islamic finance and the Halal Economy remains fragmented, under-researched exacerbated with under-reporting, poor data collection, confusing methodology in terms of criteria and metrics which relies too much on catchall and aggregate sector data as opposed to clear national data as to the size of the industry and its constituents.

One anomaly the PIF must be considering is in its fund-raising portfolio, which hitherto has exclusively relied on conventional finance, albeit its portfolio companies such as ACWA Power, Bahri, SRC and Ma'aden are active issuers of Sukuk and users of Mubaraha and Tawarruq financing facilities.

The parent PIF to date has raised US$17 billion through a conventional term loan in November 2022, two Green Bonds – one a US$3 billion Green Bond in October 2022 and the other a US$5.5 billion Green Bond in February 2023 - to finance or refinance eligible green projects, in accordance with PIF's Green Finance Framework.

It's only a matter of time that PIF enters the Murabaha/Tawarruq financing and Sukuk issuance market with maiden transactions.

The PIF co-established the Regional Voluntary Carbon Market Company (RVCMC) last October in which PIF holds an 80% stake and Saudi Tadawul Group Holding Company a 20%. RVCMC will offer guidance and resourcing to support businesses and industry in the region as they play their part in the global transition to net zero, ensuring that carbon credit purchases go above and beyond meaningful emission reductions in value chains.

In October 2023, RVCMC held the "world's largest carbon credit auction" which had a Shariah compliant component. The International Islamic Trade Finance Corporation (ITFC), the trade fund of the IsDB Group, emerged as one of 16 successful bidders comprising Saudi and regional entities at the Auction. According to the PIF, the auction resulted in 1.4 million tons of carbon credits being sold, in the largest-ever carbon credit sale.

The credit basket contains units generated by clean and sustainable energy projects in OIC member countries. RVCMC could become an important milestone in increasing the amount of carbon credits held by Islamic Financial Institutions needed to further facilitate trade. This increases the overall global demand and hence the price for carbon credits, which in turn, incentivizes further project developers to carry out climate positive projects.

The EVCMC initiative is a continuation of PIF's efforts to support Saudi Arabia's green agenda and follows previous announcements by the Fund, including the completion of its two Green Bond issuances, and the various renewable projects PIF is spearheading as part of its commitment to developing 70% of Saudi Arabia's renewable energy capacity, in line with Vision 2030.

The Successes and Challenges of Financing Sustainable Development through Partnerships and Risk-mitigation Tools - the Case of Saudi Fund for Development (SFD)

Sultan Abdulrahman Al-Marshad, Chief Executive Officer, Saudi Fund for Development (SFD), explores the importance of financing sustainable development and climate action, and outlines the steps that Saudi Arabia, specifically SFD, is taking to support the transition to a more sustainable future. He also examines the challenges facing SFD and other actors in financing sustainable development, such as scaling up investments, addressing environmental and social risks, and ensuring transparency and accountability. Finally, he demonstrates the importance of partnerships and innovative financing tools in promoting sustainable development, and the critical role of actors like the SFD in achieving a more sustainable and equitable future for all.

In recent years, the world has witnessed the devastating impacts of climate change, from rising sea levels and extreme weather events to loss of biodiversity and destruction of ecosystems. As per the Climate Vulnerability Monitor published by DARA, 800 million people, or 11% of the world's population is currently vulnerable to climate change impacts such as droughts, floods, heat waves, extreme weather events and sea-level rise1.

Even more concerning is the fact that at present, according to the Emissions Gap Report of the UN, the world is still heading for a temperature rise of more than 3°C this century – with exceeds the Paris Agreement goals of limiting global warming to under 2°C2. Therefore, the urgent need to address these challenges has led to a growing recognition of the importance of sustainable development. Climate action, green energy, and food security are three critical components of sustainable development. Climate action is necessary as the mitigation of the impacts of climate change requires a multi-sectoral international and local response to be successful. Green energy is crucial to reducing greenhouse gas emissions and transitioning to a more sustainable global growth model. Ensuring food security is essential as the world's population continues to grow, and many regions face food shortages and loss of crops due to agricultural vulnerabilities.

Development Finance and Transition to Sustainability

Financing sustainable development is crucial for addressing these issues, as it can help to promote economic growth, reduce poverty and inequality, reduce state fragility, and mitigate the negative impacts of economic development on the environment. Financing sustainable development is crucial for several reasons.

1 Dara International Climate Vulnerability Monitor 2012

2 United Nations Environmental Program

3 Garrett-Peltier, H., Pollin, R. (2010). Job Creation per $1 Million Investment. University of Massachusetts Political Economy and Research Institute.

First and foremost, it helps to address some of the most pressing global challenges such as poverty, inequality, climate change, and environmental degradation. By investing in sustainable development, countries can create jobs, promote economic growth, and ensure a more equitable distribution of resources.

According to the University of Massachusetts, natural climate solutions such as restoring degraded forests could create nearly 400 additional jobs per 10 million dollars spent. Moreover, sustainable development financing also helps to mitigate the negative impacts of economic growth on the environment. This is particularly important as we are currently facing an urgent need to reduce greenhouse gas emissions and limit the impacts of climate change. By investing in renewable energy, energy efficiency, and other green technologies, countries can reduce their carbon footprint and transition towards a low-carbon economy.

Saudi Arabia has recognized the importance of climate action and green energy and has taken several steps to transition towards a more sustainable future. These include:

- **The Saudi Green Initiative:** In March 2021, Saudi Arabia announced the launch of the Saudi Green Initiative, a comprehensive plan to reduce carbon emissions and combat climate change. The initiative includes planting 10 billion trees and aims to cut carbon emissions by 60% by 2030.
- **Renewable energy projects:** Saudi Arabia has invested heavily in renewable energy projects in recent years. In 2019, Sakaka solar power plant was inaugurated, the first of its kind in the kingdom. It also has plans to develop wind and solar power projects that will generate up to 58.7 gigawatts of electricity by 2030.
- **Carbon capture and storage:** Saudi Arabia has also invested in carbon capture and storage technology, which captures carbon dioxide emissions from industrial processes and stores them underground. It aims to capture and store up to 800,000 tons of carbon dioxide per year by 2030.

Saudi Arabia's focus on climate action and green energy is a major step towards a more sustainable future. By investing in renewable energy and reducing our carbon footprint, the Kingdom is helping to mitigate the impacts of climate change and promote sustainable development globally.

Development Assistance

In addition to promoting climate change mitigation at home, Saudi Arabia has always been a committed and active contributor to sustainable development in developing countries. In 1974, the Kingdom established the Saudi Fund for Development (SFD), a dedicated development finance institution (DFI), as the main bilateral channel for the Kingdom's development assistance. SFD's policy focuses on supporting sustainable economic and social development in priority sectors in recipient countries.

Between 1975 and 2022, SFD signed 739 loan agreements to finance 702 economic development projects and programmes – all of them aimed at directly or indirectly contributing to sustainable development in recipient countries. These projects have been implemented in a range of sectors, such as transport and telecommunications, energy, agriculture, social infrastructure and industry and mining, for a total value exceeding US$18.7 billion. Eighty-four developing countries worldwide benefited from these projects and programmes, 46 of which are in Africa, 30 in Asia and 8 in other parts of the world.

4 US Global Leadership Coalition

The impact of climate change is not experienced uniformly by all countries. In fact, the countries that have historically contributed

In recent years, the world has witnessed the devastating impacts of climate change, from rising sea levels and extreme weather events to loss of biodiversity and destruction of ecosystems. As per the Climate Vulnerability Monitor published by DARA, 800 million people, or 11% of the world's population is currently vulnerable to climate change impacts such as droughts, floods, heat waves, extreme weather events and sea-level rise1.

the least to climate change are the ones most vulnerable to its adverse impact. A study from Stanford University found that climate change has increased economic inequality between developed and developing nations by 25% since1960. In this context, the SFD financed several environmental and flood protection projects in developing countries, with a total amount exceeding US$205.37 million.

In addition, SFD has contributed to several afforestation projects in developing countries, amounting to US$13.25 million. SFD also contributed to promoting rural development in several countries with a total amount of US$80.27 million. The SFD has also contributed to irrigation and drainage projects with a total value of US$32.26 million. Overall, SFD has contributed to financing several irrigation projects with a total value of US$306.19 million. Lastly, SFD has contributed to the development of agriculture in Central Africa with an amount of US$2.4 million.

Investing in renewable energy sources is the key to secure and affordable energy for the planet. It can help developing countries mitigate climate change, build resilience to volatile prices, and lower energy costs. In this regard, SFD recognized the importance of financing renewable energy projects during its early years by signing 16 loan agreements with 11 developing countries.

These include the construction and upgrading of 10 dams for the production of hydropower, including diverting river paths and building buffers, dams and generators to convert hydropower into a source of sustainable, renewable and clean energy, in addition of signing 4 agreements for the construction of two hydroelectric power plants. The total loans provided for this purpose amounted to US$671.08 million, equivalent to 21.73% of the total loans directed to support the energy sector.

Food Security a Priority

SFD pays close attention to financing food security projects in developing countries through financing food production and provision of potable water. Since the beginning of its lending activity until the end of 2022, SFD signed 124 loan agreements for the food security sector, with a total amount exceeding US$2,992 million.

The Kingdom is an active contributor to Arab, regional, and international development institutions such as the Arab Bank for Economic Development in Africa (BADEA), Islamic Development Bank, OPEC Fund for International Development (OFID), International Monetary Fund (IMF), The World Bank and others. The Kingdom is also an avid supporter of the global health security architecture, including the World Health Organization, the Global Fund, the Global Vaccine Alliance (GAVI), the Coalition for Epidemic Preparedness Innovations (CEPI), and many others. Our collaboration with those institutions is yet another proof of the Kingdom's commitment to accelerate sustainable economic and social development in the countries that need it most.

Chronic droughts have affected all aspects of natural life in the African continent. Saudi Arabia launched the Saudi Well Drilling and Rural Development Program in Africa to be implemented through SFD in response to a call addressed by the African countries during Islamic Summit Conference, held in Makkah Al-Mukarramah in 1981.

The Programme has contributed to reducing the effect of the drought in different rural areas of African countries through drilling wells and providing drinking water for its people. The programme allocated an amount of US$100 million to its first phase, which was implemented between 1982-1988.

Despite the success achieved in many African countries, droughts continued in the following years and increasingly affected many rural areas in the continent. To face this imminent risk, it was important to continue the implementation of the Programme and launch other phases to cover other areas. The second phase was launched in 1987. An amount of US$30 million was allocated to drill more wells until 1991. The third phase was launched and implemented between 1997-2005 with an amount of US$50 million. The fourth phase was implemented between 2006-2014, whereby an amount of US$50 million was allocated.

Through this programme, 6,302 water facilities were drilled and equipped to benefit more than 3 million people in 13 African countries. These projects also provided spill over benefits to agriculture and livestock. These projects increased the availability of drinking water to support health, economic, and social development in rural areas of the affected countries. These projects helped the global community in working toward several international commitments. These include Target 7 of the Millennium Development Goals (MDGs), which aims to ensure environmental sustainability through increasing the proportion of the population with sustainable access to safe drinking water.

They also supported the availability of potable water supply purported in the Sustainable Development Goal 6 (SDG, Goal 6), "Clean Water and Sanitation" in addition to SDG Goal 2 to eradicate hunger that focuses on achieving food security and improved nutrition through promoting sustainable agriculture. Our approach in this program is deeply participative.

Since the first phase, the programme ensures and monitors the participation of beneficiaries in their projects at different stages of implementation, especially during operation, maintenance, environment preservation, supervision, water preservation, and distribution.

The fifth phase of this project was launched in 2016 and is currently underway, whereby an amount of US$100 million, was allocated for the drilling of 2,500 wells to benefit 1.5 million people. In summary, a total of US$330 million to drill 8,800 wells to benefit more than 4.5 million people in 18 African countries have been disbursed or allocated.

By predicting challenges and risks in developing countries and responding to them through a multilateral participatory approach, the Saudi Fund for Development continues to promote the well-being of millions of people in developing countries.

Saudi Arabia's Climate Ambition- Harnessing Technology for a Greener Future for All

The Kingdom of Saudi Arabia, as the world's leading exporter of crude oil, has embraced an ambitious energy mix diversification strategy, which allows the government to determine its own domestic targets and mitigation paths, based on an unwavering commitment to Net Zero by 2060, promoting carbon capture and storage, reaching 50% energy mix parity for renewables by 2030, making the Kingdom one of the world's largest Green Hydrogen and Green Ammonia Hubs, and greening the country through large-scale afforestation under the Saudi Green Initiative. **Salih Suwarelzahab**, Senior Legal Counsel and ICIEC's Climate Action Team Lead, ponders the policies, projects, processes and progress of Saudi Arabia's climate ambitions.

The Kingdom of Saudi Arabia comprises four-fifths of the Arabian Peninsula, occupie2,250,000 square kilometers and borders the Red Sea in the west, the Arabian Gulf, Bahrain, Qatar and the United Arab Emirates in the east, Jordan, Iraq and Kuwait in the north and Oman and Yemen in the south.

Saudi Arabia's Red Sea coast on the west stretches to 1760 kilometers with 1480 sq km of coral reef, while its eastern coast on the Arabian Gulf covers 650 kilometers, including 35 sq km of mangroves. The country has an arid climate with an average annual rainfall of 70.5 mm. Almost two thirds of the country is arid steppe and mountains with peaks as high as 3,000 meters, and most of the remainder is sand desert.

As the largest Arab country in terms of land mass on the Asian continent, one of the oldest independent and sovereign states in the Greater Middle East, the location of Islam's holiest sites and a member of the G20, the 20 largest economies in the world, Saudi Arabia is exceptional on many fronts.

The Kingdom's remarkable developmental success story has been underwritten by its hydrocarbon wealth, holding the world's largest petroleum reserves for much of the 20th and 21st Centuries to date, running a world leading downstream petroleum industry and being the world's largest historical exporter of petroleum.

Saudi Arabia has been an active participant in global deliberations on the environment since the Rio Earth Summit in 1992 as a proponent of the interests of resource rich countries in the global South. As evidence of the negative impacts of climate change became more evident with time, a global consensus crystalised around attempts to slow the earth's anthropogenic warming.

Saudi Arabia is vulnerable to the negative effects of climate change and in particular to accelerated desertification. Most of Saudi Arabia has a sensitive ecosystem for any level of climate change especially on desertification processes. A 1°C increase in temperature would result in elevated levels of evapo-transpiration by 1-4.5%, with exponential increases in rates of evapo-transpiration projected in line with further temperature increases.

Under this scenario, a projected yield loss for different types of crops, including cereals, vegetables and forage crops and fruit trees including date palms will range between 5% and 25% per temperature increase, per annum.

Saudi Arabia's Aspirational Climate Action Blueprint

More than two decades after the Rio Earth Summit, in 2016 in the same year Crown Prince Muhammad bin Salman announced Saudi Arabia's Vision 2030 whose primary aims are to reduce Saudi Arabia's economic dependence on oil and to diversity the Saudi economy, the Kingdom signed and ratified the United Nations Framework Convention on Climate Change, also known as the Paris Agreement, a legally binding treaty that is the largest of its kind in terms of accession by Member States of the United Nations .

The Paris Agreement obliges States to strive to reduce global temperatures by between 1.5°C – 2°C to pre-industrial levels. Transformation is at the core of the Paris Agreement on the financial, technological and capacity building fronts to mitigate climate change through the reduction of GHG emissions and to adapt to the effects of climate change through optimised management of water and land resources in light of climate stress.

The convergence of the global Climate Action agenda, represented by Paris Agreement commitments, and Saudi Arabia's ambitious and transformative Vision 2030 framework with its wide ranging sectoral and socio-economic reforms have resulted in an aspirational Saudi Climate Action blueprint with a dynamic green footprint whose impact is both regional and transboundary.

In October 2022, Crown Prince Muhammad bin Salman announced that Saudi Arabia aims to become carbon neutral by 2060. The Saudi approach to Paris Agreement commitments when coupled with the transformational thrust of Vision 2030 is reflected in opportunities for job creation, research and new value chains.

Saudi Arabia's Climate Action agenda can be thematically summarised into - i) abatements, ii) energy efficiency, iii) renewable power generation, iv) carbon capture and sequestration, v) cleaner energy transition, vi) the circular carbon economy framework, vii) development of the global carbon credit financial ecosystem on the mitigation side, viii) optimised water resource management, and ix) the world's most ambitious afforestation project on the adaptation side.

As part of its procedural requirements under the Paris Agreement, Saudi Arabia published its second updated Nationally Determined Contributions document to the UNFCCC in 2021 pledging, on the mitigation front, to reduce and avoid GHG emissions by 278 million tons of CO2eq annually by 2030.

In order to tackle inefficiencies in consumption, the Kingdom set up the Saudi Energy Efficiency Centre whose Energy Efficiency Programme sets energy standards and targets the three sectors that account for 90% of national energy demand: industry, construction and building, and land transportation. Furthermore, efficiency in consumption is being targeted from home appliances such as air conditioning units, to feedstock utilization in key strategic sectors such as petrochemicals, improving transportation fleet fuel economy, phasing out inefficient used light-duty vehicles, implementing aerodynamic regulation for heavy duty vehicles, and improving the thermal efficiency of power generation, transmission, and distribution.

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Saudi hubs are expected to leverage their geographical proximity to industrial zones, manufacturing and production centres, sinks and transport infrastructure at the ports resulting in a unique scalability dividend that includes reducing, reusing, recycling and removing GHG emissions.

The National Energy Services Company (Tarshid) was established to incentivise energy efficiency in the public sector and to encourage private sector investment in energy efficiency services. Tarshid is embarking on a large-scale project to retrofit the entire pool of public and governmental assets and facilities which include 2 million street lighting units, 110,000 government buildings, 35,000 public schools, 100,000 mosques, 2,500 hospitals and clinics.

Ambitious Renewable Energy Targets

Drawing on decades of technical excellence in the petroleum industry led by Aramco and on targeted research with national centres of excellence such as King Abdullah University for Science and Technology, CCUS (carbon capture, utilisation and storage) is one of the key methods of climate change mitigation that is adopted by Saudi Arabia.

CCUS is premised on the deployment of new technology is deployed to capture CO2 emissions from exhaust or reformed gases using pre or post combustion techniques. The captured CO2 can then be deposited in geological formations primarily in western Saudi Arabia. Utilisation of CO2 takes place where CO2 produced in industrial processes is captured and used to produce chemicals or fuels, namely blue hydrogen, which hydrogen produced from natural gas, supported by carbon capture and storage and resulting in a low carbon hydrogen fuel that produces no CO2.

The projected scale of carbon capture allows Saudi Arabia to become a world-leading producer of blue hydrogen as reflected in the National Hydrogen Strategy. With associated carbon emissions captured, utilised and stored in geological formations, blue hydrogen is envisaged to be utilized for domestic us in various industrial sectors, including aviation, shipping, petrochemicals, and steel industries.

In addition to existing Carbon Capture and Storage plants centred around the petrochemical industry in Yanbu, work is underway for the construction of the largest Carbon Capture and Storage Hub in the world, in Jubail, eastern Saudi Arabia. Once operational in 2027, the Jubail hub will extract and store 9 million mtpa of CO2 in its first phase and have the capacity to extract and store 44 mtpa of CO2 by 2035.

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On the renewable energy front, Saudi Arabia's institutional commitment is reflected in the National Renewable Energy Program which is a strategic initiative of both Vision 2030 and the King Salman Renewable Energy Initiative. Saudi Arabia's ambitious national target of 50% of electricity generation from renewables by 2030 is well underway with significant, global milestones such as the most cost-efficient wind energy project with the lowest tariff of US$19.9/ MWh having been completed in Dumat Al-Jandal, Al Jouf, north western Saudi Arabia.

In line with other national renewables energy strategies, Saudi Arabia plans to localise a significant portion of the renewable energy value chain in the Saudi economy including renewables-specific technologies such as solar photovoltaics, concentrated solar power equipment, wind power equipment, geothermal energy equipment, waste-to-energy infrastructure and green hydrogen research, development and manufacturing.

Green hydrogen, when it is generated by renewable energy, will be an abundant resource, particularly in the flagship giga-project, NEOM, where one of the world's largest green hydrogen facilities, powered by over four gigawatts of renewable energy from solar and wind will be built. Once onstream by 2025, it is expected to produce 650 tons per day of green hydrogen by electrolysis and 1.2 million tons per year of green ammonia as a carbon free fuel.

On the mitigation side, Saudi Arabia hosted the world's largest carbon credit auction in October 2022 at the Future Investment Initiative in Riyadh where 1.4 million tonnes of Carbon Offsetting and Reduction Scheme for International Aviation credits were auctioned. The success of the carbon credit auction affirms the adequacy of the regulatory framework in Saudi Arabia for carbon credit and other climate finance transactions for the benefit of the wider Middle East and African region.

Saudi Green Initiative and Climate Leadership

Perhaps Saudi Arabia's most far-reaching climate change plan is the Saudi Green Initiative which has pledged the planting of 10 billion trees across Saudi Arabia and the rehabilitation of 40 million hectares of degraded land. Cutting-edge technology including the use of drones for seeding and the systemic use of treated municipal water for irrigation, shall be deployed for large-scale afforestation.

The Saudi Green Initiative aims to categorise 30% of the land and sea area of Saudi Arabia as under protection by 2030 and to plant 600 million trees by 2030. To date, over 18 million trees have been planted including 13 million

mangroves which sequester five times more organic carbon than upland tropical forests.

NEOM, which shall be the green hydrogen hub, has announced that 1.5 million hectares of land will be rehabilitated, and 100 million native trees, shrubs and grasses planted by 2030. In full recognition of the transboundary impact of climate change and in full embodiment of climate leadership, Saudi Arabia heads and has pledged itself to establish the Middle East Green Initiative Secretariat with a seed capital of US$2.5 billion to support projects spanning the African Atlantic coast to the Mediterranean.

The Middle East Green Initiative aims to deliver the largest reforestation programme in the world, thereby significantly contribute to achieving the emissions reduction targets under the Paris Agreement as well as spurring economic diversification, job creation, and private sector investment. The Middle East Green Initiative also aims to reduce emissions from regional hydrocarbon production by 670 million tons of CO2, which represents the Nationally Determined Contributions or 10% of global contributions in 2021.

This is envisaged to be achieved through collaboration at the highest levels of government to enable businesses and civil society to scale up carbon capture, investment in the green economy and encouragement of innovation and growth in renewables.

Saudi Arabia's approach to combatting climate change and its effects is holistic, multi-pronged and seeks to create and consolidate opportunities reflected in research, new local and international value chains, job creation and environmental transformation.

The Kingdom's steady and positive evolution from the 1992 Rio Earth Summit to the commitments and climate leadership in Vision 2030 and the Saudi and Middle East Green Initiatives is unprecedented and augurs well from the green economy at large.

ICIEC looks forward to deploying its credit and political de-risking tools which facilitate climate finance in the green initiatives of Saudi Arabia, which is ICIEC's largest shareholding Member State and host country, and in all its 49 Member States.

An Accelerated Digital Revolution Driven by FinTech and E-Government

One of the unintended consequences and perhaps lasting legacies of the Covid-19 pandemic has been the greater adoption of digital technologies in the economy, commerce and financial services sector as measured inter alia by the share of workers using a computer connected to the internet. This has far-reaching implications for productivity and labour markets, cost of finance, speed of doing business, financial and social inclusion, and work-life balance and well-being. **Mushtak Parker** assesses the Kingdom's digital and FinTech landscape, ambition, adoption and implementation progress

This digital acceleration has been most marked in government e-services in the tourism, taxation and logistics sectors, and even more so in financial technology (FinTech) and digital finance, albeit in a fragmented way. Adopting digital technologies is not only playing a role in increasing global productivity growth but has also transformed consumers' receptiveness to interacting with financial services, trade and e-commerce, investment, consultancy and data harvesting digitally, pointing to huge growth potential. Increased digitalisation and interconnectedness, however are adding to the current risks such as those related to cyber security, protection against fraud and scams, identity theft and outsourcing of services to third parties.

The decision to promote Fintech was made by the Saudi Central Bank (SAMA) in April 2019, with the aim also of opening financial services to new types of actors in financial technology developing funds, accelerators and incubators, and stimulating the entrepreneurial environment.

Saudi Arabia, relatively speaking, is at the lower-to-medium end of its socio-development curve. Perhaps because of this and the fact that it is the world's largest historical producer and exporter of crude oil and petrochemical products, it has embraced one of the most proactive and comprehensive economic digitalization and FinTech strategies in the world under the various realisation pillars of its ambitious national transformation programme, Saudi Vision 2030 and its all-encompassing Financial Sector Development Programme (FSDP) pillar.

Both the Ministry of Finance (MoF) and SAMA, stress the importance of leveraging new technologies and accelerating the growth and advancement of FinTech, which "plays an integral role in the growth and development of the Kingdom's financial sector and contributes to the diversification and enhancement of financial digital products and services."

The Kingdom has embarked over the last seven years on a maze of major transformations in digital and smart infrastructure, which proved particularly invaluable during the COVID-19 pandemic, providing continuity of essential services. In addition to the development of the digital economy, Vision 2030 programmes have made progress in several sectors, most notably: energy, industry, logistics, tourism and more recently in FinTech, digital banking, electronic payments and in Umrah and Hajj services.

Saudi Arabia's digitisation and FinTech policy and framework is centered around four broad areas: i) financial services and payment solutions, ii) E-Government services to facilitate effective and more timely payment to citizens and to optimise budget and other policy executions, iii) the private sector to facilitate E-commerce, trade, investment and entrepreneurship: and iv) social enterprise by promoting platforms for start-ups, crowdfunding, P2P lending and angel investment. The objectives of digitisation and FinTech inter alia is to raise financial awareness among all community segments, support the development of a competitive national economy and diversification of its income sources, and incentivize savings, financing and investment.

The Saudi Vision 2030 embraces two key goals amongst many others pertaining to the ongoing global digitisation and FinTech revolution – the so-called Fourth Industrial Revolution - in pursuit of an ambitious and vibrant, socio-culturally progressive, economically sound and technologically present society. These include a 'Developed Digital Infrastructure' and 'Effective E-government'.

"A sophisticated digital infrastructure," stressed Crown Prince and Prime Minister Muhammed Bin Salman in the KSA Vision 2030 plan, "is integral to today's advanced industrial activities. It attracts investors and enhances the fundamental competitiveness of the Saudi economy. We will partner with the private sector to develop the telecommunications and information technology infrastructure, especially high-speed broadband, expanding its coverage and capacity within and around cities and improving its quality."

Indeed, the Kingdom achieved a Number One ranking in the world for 5G internet speed in 2020. More than 12,000 5G towers have been deployed covering more than 60% of major cities and more than 45% of all cities.

Remarkable Progress

In a short space of time, the progress achieved by the Kingdom has been remarkable in several spheres. According to the "Digital Progress" report issued by the European Centre for Digital Competitiveness, for instance, Saudi Arabia was the most advanced country in digital competitiveness amongst G20 countries for the past three years. The Kingdom also ranked 9th in the Digital Capabilities Index and 3rd among the G20 countries in the regulatory framework for adopting business technologies, according to the World Economic Forum.

Similarly Saudi Arabia has ranked second among the G20 Members and fourth globally in the preparedness of digital systems following its success in building a sustainable regulatory framework and shifting towards digital collaborative regulation to empower the digital economy.

According to the Saudi Digital Government Authority, the Kingdom achieved the best result in the history of the UN E-Government Development Index (EGDI), advancing 12 ranks globally to rank 31st, with a rate of 85.4%. The Kingdom also advanced 39 ranks in the Electronic Services Index as the country with the best advancement rate in the G20 countries. The Kingdom also ranked first in providing digital government services and interacting with citizens, according to the GovTech Maturity Index (GTMI) issued by the World Bank to measure the progress of countries in this field.

In the electronic payments sector, SAMA in April 2023 announced that the share of electronic payments in the retail sector in the Kingdom reached 62% of total payments, including cash, in 2022, exceeding the 60% target set by the FSDP, a key pillar of Saudi Vision 2030.

This achievement reflects the continuous and accelerated development of local payments over the past few years. The progress in e-payments would not have been possible without the significant improvement in payment infrastructure, the enhancement of existing systems, and the introduction of new systems and services. In addition, progress in the regulatory, technical, and operational aspects of the sector has contributed to the recent transformation towards electronic payments.

Statistically, the number of PoS (point of sale) transactions executed via the Saudi Payment Network "Mada" reached an unprecedented 7.2 billion transactions during 2022, an increase of 40% compared to 2021. Mada card online transactions also grew by 76% in 2022, recording 610 million transactions. As of the end of 2022, there were 1.4 million PoS terminals, representing a 42% increase compared to 2021.

In April 2023, SAMA licensed the latest FinTech company - Rasid Payments Company for Financial Technology to provide payment solutions through POS. This brings the total number of payment companies licensed by SAMA to 24, in addition to six companies 'granted in-principle' approvals. At the same time, SAMA also granted Creative Future for Digital Brokerage a license to carry out finance aggregation services and MIS Forward a permit to carry out 'Buy Now Pay Later (BNPL)' solutions pursuant to the two relevant laws.

SAMA's Electronic Payment Plans

SAMA is invested in accelerating digital transformation towards electronic payments, supporting payment infrastructure, and encouraging its adoption. SAMA's strategic plans for the payment sector have made this achievement possible by significantly reducing reliance on cash. The central bank's goal is to increase the electronic payment share to 70% by 2025 and to create synergies between the government and private sectors, paving the way for a new era of digitalization for payment systems.

In his 2023 National Budget, Saudi Minister of Finance Dr Mohammed Aljadaan, revealed that the number of technology companies listed on the Tadawul stock exchange increased from 3 companies in FY 2021 to 9 listed companies in FY 2022. The aim is to further increase the number of jobs in the sector to 340,000 jobs, with a growth of 7%, and increasing the percentage of women's participation to 30.5%, which is a growth of 3.3%, compared to Q2 of FY 2021.

In the government services sector, five GCC countries, led by Saudi Arabia, launched a potentially game-changing unified platform for linking and integrating electronic services, which connects 70 government bodies and, 6 private sector entities. The platform also aims to achieve the highest levels of security, reliability and operational durability in the exchange of electronic services. The total number of operations since the beginning of FY 2022 has reached more than 6.7 billion operations.

In the tourism and travel sector, the deployment of electronic gates (eGates) to complete travel procedures at a number of airports in the Kingdom is facilitating and speeding up travel procedures and enhancing border security. In an OIC context, digital connectivity is playing a crucial role in enabling domestic and cross-border eCommerce and m-commerce. Saudi Arabia, Indonesia and Malaysia are some of the OIC countries that have the highest global eCommerce and m-commerce adoption, above the global average of 76.8% and 55.4%, respectively (December 2021).

Digital Banks

Digital banks and FinTech applications and companies continue to flourish especially in the Islamic finance space. In Saudi Arabia, the Public Investment Fund (PIF), the Kingdom's sovereign wealth fund with current assets under management in excess of US$650 billion, is particularly proactive in investing in various FinTech and digitisation start-ups.

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SAMA in fact approved its third digital bank licence in February 2022 in the Kingdom for D360 Bank following the go ahead from the Council of Ministers. D360 Bank is being established with a capital of SAR1.65 billion through a consortium of individual and corporate investors, including the PIF and Derayah Financial Company as key investors. Prior to this, SAMA approved the Kingdom's first two digital bank (DB) licences – one for STC Pay - which is in the process of converting into a local digital bank, STC Bank, with a capital of SAR2.5 billion - and the second to a consortium of investors led by Abdul Rahman bin Saad Al-Rashed & Sons Company, which is establishing Saudi Digital Bank with a capital of SAR1.5 billion to conduct banking business in the Kingdom.

SAMA has been working relentlessly to develop and support innovation in the banking sector in partnership with FinTech companies to reap the benefits of the technological revolution for the financial sector and the economy at large while maintaining financial stability and protecting players in the banking sector and related parties. SAMA's FinTech policy is also in line with the objectives of the FSDP. This seeks to keep pace with global developments in financial services and FinTech during 2021-2025 to underpin economic diversification and to enable financial institutions to support private sector growth and provide opportunities to new companies

and start-ups to provide financial services.

All the above is also pursuant to the "Open Banking Policy" adopted by SAMA in 2020, which allows bank clients to manage their bank accounts and share data securely. Clients are given the option to allow third party service providers, including banks and FinTech companies, to access their banking information.

According to SAMA, digital banks are subject to the same supervision and controls applied to commercial banks operating in the Kingdom, with an increased focus on aspects of technology, cyber security, anti-money laundering and tracking terrorist financing, as well as operational risks. DBs are licenced to provide services and products exclusively through electronic channels by adopting an innovative and sustainable banking business model to enhance financial inclusion and keep pace with cutting-edge technological developments in the financial sector. SAMA expects to continue to receive digital banking license applications.

In reality digital banks, both in the conventional and Islamic banking sectors, remain a work in progress, albeit the former is much more advanced in terms of the number of banks, assets under management (AUM) and market depth. As such, claims of "reimaging 21st century banking" and the 'uniqueness' of each digital bank must be taken with a pinch of salt.

Last December, the Malaysian subsidiary of Saudi Arabia's Alrajhi Bank, Al Rajhi Bank Malaysia (ARBM), launched Rize, "a first-of-its-kind digital bank with a profit rate". Instantly, a wide range of Rize services went live with more

rolled out progressively, including deposits, withdrawals, and transfers, account and personal finance management, debit card application, purchase, and maintenance, ATM services and eStatements, and personal financing-I, a paper-less, hassle-free digital financing product that requires minimal documentation and no processing fee.

Updated Regulatory FinTech Sandbox

Last September 2022, SAMA updated its Framework of its Regulatory Sandbox for aspiring FinTech companies. A SAMA study also showed that for the first-time electronic payments in all user groups exceeded the use of cash in 2021 and the trend continues to rise.

SAMA is one of the more proactive regulators in the OIC countries in facilitating the orderly development of Fintech in the Saudi financial ecosystem through the licensing of digital banks, digital exchanges, payment solutions companies, crowd funding and debt collection firms and so on. These initiatives come as part of SAMA's role in strengthening and widening the scope of the finance and payments-processing services sector by allowing them to engage in new activities and to attract a wider pool of investors and companies. The aim is to increase the effectiveness and flexibility of financial transactions, enabling and encouraging innovations in financial services, enhancing the level of financial inclusion in the Kingdom, and enabling easy and safe access to financial services to all segments of the Saudi society.

SAMA continues to grant permits to new companies to provide Open Banking Solutions in the Regulatory Sandbox. In January 2023, SAMA issued a license to Raqamyah, a new FinTech finance company specialized in debt-based crowdfunding. The license was granted to the company after the successful testing of its solutions in SAMA's Regulatory Sandbox, an experimental environment dedicated to innovative financial products and services in Saudi Arabia.

This follows the issuance in December 2022 by SAMA of the first such license to Manafa – a FinTech finance company specialized in debt-based crowdfunding in the Kingdom. "This initiative," explained the central bank, "comes as part of the vital role SAMA plays in strengthening the finance sector, encouraging and enticing innovators and investors who can bring added value to the sector while maintaining full adherence to the supervisory guidelines defined by SAMA. The licensing of FinTech companies contributes towards achieving the objectives of the FinTech Strategy to position the Kingdom among the leading countries in FinTech."

SAMA also reiterated its commitment to support the finance sector, by increasing the efficacy and flexibility of financial transactions, enabling and encouraging innovations in financial services, promoting financial inclusion in the Kingdom and enabling easy and secure access to financial services to all segments of the Saudi society, with the aim of also advancing the Kingdom's Fintech Strategy.

Licences issued included one to Mani, a finance debt collection company to provide debt collection service for finance institutions in February 2023. The license was granted to the company after completing all the requirements stipulated in the "Rules of Licensing Finance Support Activities" issued by SAMA.

SAMA also issued a license in December 2022 for the payment FinTech company, namely Tweeq International Financial Company to provide E-wallet services. This brings the total number of payment companies licensed by SAMA to 23 companies, in addition to 5 companies granted an "In-principle Approval". This also brings the total number of firms operating under SAMA's Regulatory Sandbox to 42, of which 15 have graduated by obtaining full authorizations and were licensed by SAMA.

SAMA updated its Regulatory Sandbox Framework to an Always Open Approach. The updated framework adopts greater flexibility by enabling financial institutions, as well as local and international start-ups to apply anytime throughout the year, and to bring more innovative business models to their clients. SAMA has been working with market participants including banks and FinTechs to develop an integrated platform for Open Banking in accordance with international best regulatory and technical practices as this should enable participants to develop and launch new and innovative Open Banking Solutions.

The updated framework, says SAMA, will also support the objectives of its FinTech Strategy aimed at contributing to the economic empowerment of Saudi society by promoting further innovations in technology-based financial services. Operating within a holistic framework, the strategy will support a broad range of FinTech activities through several initiatives serving as catalysts for change.

SAMA launched the Regulatory Sandbox initiative back in 2018 to garner the participation of local, regional and international FinTech institutions and companies seeking to take advantage of current and new technologies to provide innovative financial products and services to Saudi markets. The initiative, according to the central bank, proved to be very successful as it enabled the regulator to adopt many services and products by issuing instructions and regulations, as well as launching many of those products and services to clients within the financial sector.

The updated framework of the Regulatory Sandbox is open to both local and international applicants - entrepreneurs, non-regulated companies or existing regulated entities. "The key differentiator of the updated framework is to move from a cohort-based approach to an Always Open approach which will give greater flexibility to those applying. This transition will allow applicants to apply to the Regulatory Sandbox when they are ready and in addition bring their chosen business model/concept and not work to a specific one determined for the cohort."

Open banking is the process of enabling third-party financial services providers to access consumer banking information such as transactions and payment history. This practice is possible through the use of an application programming interfaces (APIs). Several banks such as Barclays are already using open banking services.

SAMA also reiterated its commitment to support the finance sector, by increasing the efficacy and flexibility of financial transactions, enabling and encouraging innovations in financial services, promoting financial inclusion in the Kingdom and enabling easy and secure access to financial services to all segments of the Saudi society, with the aim of also advancing the Kingdom's Fintech Strategy.

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