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COP28 - A Solutions and Inclusive 'COP in the Shifting Sands of Carbon Change Chaos'

COP28 UAE

On the Occasion of

The UN Framework Convention on Climate Change Conference of the Parties 28

30th November – 12th December 2023
Dubai, United Arab Emirates

"We fully support the UAE's COP28 Presidency and its vision to move from negotiations to inclusive solutions, harmonizing global efforts to transform commitments into deliverables." "The IsDB Group remains committed to mobilising climate finance to support our member countries in driving green economic growth and pursuing low-carbon and climate-resilient development pathways."

H.E. Dr. Muhammad Al Jasser
Chairman of the IsDB Group and
Chairman of the Board of Directors of ICIEC

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ICIEC

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

Managing Editor
Rania Binhimd

Consultant Editor
Mushtak Parker

iciec-communication@isdb.org
iciec.isdb.org

Message from H. E. the Chairman of the IsDB Group and Chairman of the Board of Directors of ICIEC

It is quite remarkable that two key member states of the 57-member Organisation of Islamic Cooperation (OIC), along with its leading multilateral development institution, the Islamic Development Bank (IsDB), serve as hosts of the Conferences of the Parties (COP) under the auspices of the United Nations Framework Convention on Climate Change (UNFCCC), which treaty came into force in 1994.

Exactly a year ago, the city of Sharm El Sheikh, Egypt, hosted the anticipated COP27, which focused on realising climate action. The reality was that while there is consensus on the urgency towards policies, funding, and taxonomies for climate adaptation and mitigation, the lack of consensus on the adoption timeline proposed is dividing the development agendas of advanced economies, historically the largest polluters and emitters of carbon, and those of the Low-and-Medium-Income-Countries (LMICs), which are disproportionately affected by the devastating impacts of climate change.

The discourse is exacerbated by the genuine dilemmas between countries, many of whom are OIC member states, whose development aspirations depend on commodities and raw materials, including fossil fuels, palm oil, minerals, etc. Not surprisingly, COP27 turned out to be a procedural affair, with several steps in the right direction.

One of the milestone achievements was the agreement to establish a Loss and Damage Fund (LDF) to help Small Island Developing States (SIDS) - some of the most vulnerable states to the devastation of climate change, especially rising sea levels, unpredictable weather patterns, floods, landslides, and destruction of rain forest and/or ocean eco-systems.

Three SIDS, namely Suriname, Maldives, and Comoros Islands, are member countries of ICIEC and the IsDB, of which I had the honor of site visiting in September this year.

In December 2023, the United Arab Emirates (UAE) hosts COP28 when all eyes converge on Dubai. The UAE's priority is a 'Solutions and Inclusive' COP, which we at the IsDB Group endorse.

At the heart of the discourse in Dubai must be measurable and impactful traction, whether in the LDF commitments or the cornucopia of funding, adaptation, and mitigation initiatives. Both Communities of Practice (COPs) have served to propel the climate agenda high on the policy priority list of IsDB member countries and have increased awareness of the urgent remedies that need to be adopted through collaboration, synergies and transparency in decision making. Here, the IsDB Group stands firmly with its member countries in enhancing the structural reforms needed to take climate action to the next level.

However, as a multilateral development bank, we need to remain focused on our immediate mandate concomitant with the specific development agendas of member countries in climate action, just transition to clean energy, building resilience, especially in food security, primary healthcare, education, job creation gender empowerment, infrastructure, and the socio-economic wellbeing of our constituents.

We must not be distracted by information and policy overloads, nefarious actors who question the very validity of climate

> If we are to meet our pledges and commitments, words must be transformed into deliverables. The IsDB Group remains committed to mobilizing climate finance to support our member countries in driving green economic growth and pursuing low-carbon and climate-resilient development pathways

change, and the continual geopolitical tensions, conflicts, disasters, and lack of governance oversight.

In this respect, we commend the UAE's COP28 Presidency priorities to continue supporting policy and financial efforts towards just transition and building climate resilience in member states. It is crucial that climate finance be scaled up without worsening the public debt burden of LMICs through debt-for-climate-action swaps.

We need to think creatively and embrace innovative ideas, including much greater private sector collaboration, philanthropic donors, not-for-profits, NGOs (Non-Governmental Organizations), and even explore the potential of Shariah-compliant voluntary carbon markets (VCMs), whether mandatory or regulated.

As a unique Shariah-compliant multilateral development finance group, the IsDB has been leading from the front in engaging with the defining issues facing humanity, whether it be boosting trade and investment, infrastructure development, promoting food and energy security, transitioning to clean energy, and building resilience in the critical economic and societal sectors. All this is in support of the 17 UN Sustainable Development Goals (SDGs) agenda and the just transition to clean energy as per the provisions of the Net Zero target set by the 2015 Paris Climate Agreement – both of which the IsDB Group is committed to.

The IsDB Group and its sister entities, including ICIEC, the multilateral credit and investment insurer of the Group, have a proud record of proacting in the above socio-economic challenges. In November, under the aegis of the Arab Coordination Group (ACG), I announced a record US$50 billion allocation to help build resilient infrastructure and inclusive societies in the African continent, hosting 27 IsDB member countries.

This is in recognition that the link between sustainable development and climate financing is cross-cutting and complex and that financial assistance for climate change needs to be scaled up to help bridge investment gaps in energy access, including low-carbon energy sources, climate mitigation, adaptation, and resilience, as well as food security.

The ACG, which brings together the ten regional Arab development funds, is a shining example of compelling collaboration in climate finance.

The fact that the ACG has been a long-standing supporter of African partners and has cumulatively invested over US$220 billion to date underlines the commitment of members to continental climate challenges. During the 2023 Africa Investment Forum (AIF) in Marrakech, the IsDB, together with partners, also launched The Special Agro-Industrial Processing Zones (SAPZs) Alliance.

IsDB Group and other co-financiers have already invested over US$ 1.5 billion for the establishment of 25 SAPZs in 11 African countries, including South Africa and Nigeria. Once operational, SAPZs will increase food processing efficiency and capacity in agricultural value addition, create employment by promoting investments in agro-industry and agribusiness, and eventually promote local, regional, and international trade.

Another landmark development in November is the issuance of our third Euro-denominated Green Sukuk, which raised €550 million, of which the proceeds under our Realigned Strategy will be used to boost recovery, tackle poverty, build resilience, and drive green economic growth. Green Sukuk and Islamic Finance could play a key role in climate action and economic development. It is time to rethink Green Sukuk and elevate its current US$20 billion level to that of the multi-trillion-dollar Green and Sustainable Bonds agenda.

We fully support the UAE's COP28 Presidency and its vision to move from negotiations to inclusive solutions. We need to harmonise our global efforts. If we are to meet our pledges and commitments, words must be transformed into deliverables. The IsDB Group remains committed to mobilising climate finance to support our member countries in driving green economic growth and pursuing low-carbon and climate-resilient development pathways. COP28 provides an excellent opportunity for IsDB Group departments and entities to highlight their advancements in the climate action landscape, their climate initiatives, and strategic plans for the coming years, especially considering the realigned strategic direction of the Bank Group.

Dr. Muhammad Al Jasser
Chairman of the IsDB Group and Chairman of the Board of Directors of ICIEC

Foreword

Who would have thought that at the cusp of the 28th Conference of the Parties (COP28) under the aegis of the United Nations Framework Convention on Climate Change (UNFCCC) and hosted by the United Arab Emirates (UAE) in Dubai on 30th November to 12th December 2023, the world would once again be distracted by internecine geopolitical tensions with its brutally insane consequences the kind of which the world has not witnessed for decades and which .threaten to undermine the very ethos of and mitigation efforts in the global climate crisis

Political instability, conflict, wanton infrastructur destruction and the manifold disruptive associated impacts are enemies of orderly development, climate action through adaptation and mitigation, vital resource mobilisation and a just and equitable transition to clean energy. The symbolism of COP28 Dubai and the previous COP27 Sharm El Sheikh delivered in the MENA region – two stalwarts of the Organisation of Islamic Cooperation (OIC) - one very liquid and the other a leader in renewables, should not be lost in translation.

The ongoing long-term impact of the COVID-19 pandemic, the fuel and food disruptions as a result of the Ukraine conflict, the subdued recovery of the global economy, the downturn in Chinese output and exports with which Afro-Arab economies are so embedded with, have all contributed to a perfect storm with an unintended magnetic polarisation roughly pitting the industrialised West against the Global South, other trade blocs with the danger, in the words of the World Trade Organisation (WTO), of further fragmentation as opposed to re-globalisation based on equitable and fair collaboration.

At least the core consensus that continues to bind the global orthodoxy, save a minority few populist exceptions, is that decarbonization remains staunchly at the core of what will help drive the global economy in the coming years, fuelled by human ingenuity in technology, digitalisation, surveillance, carbon and methane satellite tracking, innovative financing, de-risking solutions and an innate sense of sheer survivalist activism.

This urgency and the complexity of the climate crisis – and the increasing challenges facing the world, from rising inequality, lack of resource mobilisation, risk mitigation, and resilience building to biodiversity loss – demands actions of unprecedented depth and scale. But the climate narrative is so fluid with information overload, much of which is not scientific evidenced backed, that the very cornucopia of claims and counterclaims, hype, unrealistic goals and ambitions, research initiatives and reports, policy actions and chauvinism, unkept pledges and resource allocations have all contributed to delaying progress in this discourse. It is against such a background that MDBs, multilateral insurers, stakeholders, governments and societies have to contend with. The background global economic fundamentals too are skewed against rapid progress towards net zero.

The World Economic Outlook of the World Bank unveiled at the Autumn Annual Meetings in Marrakech, forecast global GDP growth to slow from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024. For developed economies, the expected slowdown is from 2.6% in 2022 to 1.5% in 2023 and 1.4% in 2024 due to stronger-than-expected US momentum but weaker-than-expected growth in the Euro area.

COP28 is crucial for scaling up resources, private sector collaboration, and achieving a just and orderly transition to clean energy, aligning with the IsDB Group's commitment to climate action.

Emerging markets are marginally holding their own with growth projected to decline modestly from 4.1% in 2022 to 4.0% in both 2023 and 2024. In sub-Saharan Africa, growth is projected to decline to 3.3% in 2023 before picking up to 4.0% in 2024, still remaining below the historical average of 4.8%. The projected decline reflects, in a number of cases, worsening climate shocks, the global slowdown, and domestic supply issues, including, notably, in the electricity sector.

In 2022, says the WTO in its World Trade Statistical Review (WTSR) 2023, world trade has lost momentum, largely due to the supply chain disruptions due to the Ukraine conflict and global economic shocks including high inflation, monetary tightening, and widespread debt distress. In volume terms, world merchandise trade rose by 2.7% in 2022, well below the 12.4% growth in value terms. Trade in goods and services amounted to US$31 trillion in 2022, a 13% rise year-on-year. The latest State of Food Security and Nutrition in the World (SOFI) report published by five UN specialized agencies, reveals that 735 million people are currently facing hunger, compared to 613 million in 2019 – all highly pertinent to ICIEC member states.

As a Group operating under Shariah principles, Islamic finance has and will play a crucial role in assisting OIC states in transforming and mitigating climate change. In its near 50 years of operations, the industry has contributed impactfully to the development agendas of OIC member states.

While the direction of Islamic finance is towards Green Finance and Green Sukuk, the volumes compared with the conventional finance remain underwhelming. Green Sukuk only account for some US$20 billion outstanding compared with some US$4 trillion of Green and Sustain-able Bonds. Our industry needs to understand the urgency of a dramatic

upscaling of resources. While ICIEC's Sukuk Insurance Policy could be a important facilitator as a third-party guarantor, the IsDB Group should urgently consider leading a new Global Gateway for Green Sukuk Issuance which would elevate volumes in excess of hundreds of billion of dollars.

COP28 is important for the IsDB Group and its sister entities, especially ICIEC in several other respects. In Dubai, the IsDB Group will once again have a proactive presence and dedicated pavilion with several side events planned, including panel discussions on 'Aggregation and scalability in accelerating climate finance for development' and 'The rol of de-risking in addressing the climate finance gap for mitigation.' ICIEC and other Group entities will showcase their current and future planne activities and operations in the climate action landscape, especially in light of the realigned strategic direction of the Group.

ICIEC specifically apart from signing several MoUs and agreements witl partners ranging from the International Renewable Energy Agency (IRENA), Atradius, , the Global Green Growth Institute (GGGI), the West African Development Bank (BOAD), The Export and Investment Fund o: Denmark (EIFO) and GE Energy Financial Services, Inc (GE Vernova), will launch the flagship ICIEC Climate Change Policy and ESG Framework on 2nd December 2023 which will effectively be our playbook for the Corporation's future involvement in climate-related projects, financing: risk mitigation and credit enhancement activities, harnessing member state government agencies, peer multilaterals and partners, financial institutions and above all private capital engagement.

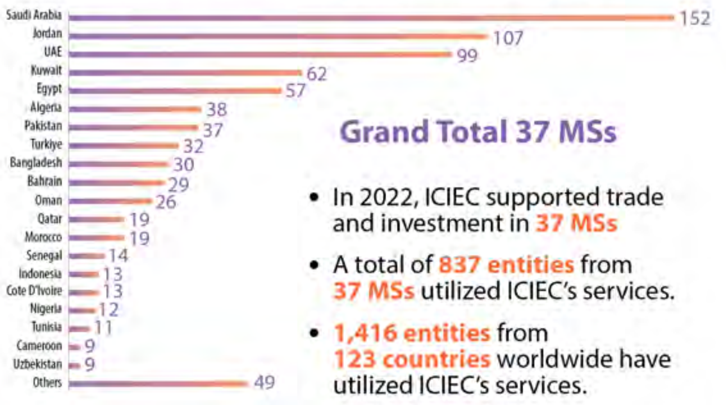
Private investors after all are expected to shoulder much of the financing requirements needed in climate finance. There is ample demand and liquidity available globally. The challenge is to match this demand with bankable projects and capacities to ensure a just and orderly transition to clean energy and progress towards achieving the 17 UN SDGs and the Net Zero ambitions of the 2015 Paris Climate Agreement.

The needs of heavily impacted IsDB member states relating to climate action, mitigation, adaptation and finance, and the consequences of inaction and resource deficit are well documented. It is the delivery of promised climate finance and other support mechanisms consistent with the specific development agendas and stages of socio-economic transformation of member states, many of whom are Low-and-Medium-income-Countries (LMICs) and some of the most vulnerable ones to the impact of climate change, that have fallen short very badly.

As a signatory to the Principles for Responsible Insurance and the fact that it is the only Shariah-compliant multilateral insurer in the world, sustainable investment is firmly embedded in ICIEC's due diligence process through linking all new business and other queries with SDG and climate action indicators. ICIEC is committed to further boosting its green and sustainable finance operations. ICIEC's insurance policies, whether the policyholder is a financial institution, specialised company, or contractor, that offer cover against political and commercial risks, can enhance contributions to the flow of Climate Action related investment, specialised technology, and services to Member States. These projects help reduce electricity imports, lessening dependency on fossil fuels. creating jobs, supporting the local economy via local procurement, fostering technology transfer, empowering local people with new knowledge about renewable energy and improving local infrastructure via road construction and improvements in transmission lines and electricity distribution.

ICIEC actively targets real impact and change in all its financing, insurance policies it underwrites and projects it supports, and acts as a catalyst for private sector capital mobilization towards achieving the SDGs. Cumulatively, over 29 years, ICIEC has insured US$100 billion in trade and investment, which includes US$80 billion in supporting exports and imports, and US$20 billion in support of FDI. ICIEC's gross business insured in support of trade and investment in 2022 amounted to US$11.6 billion. its activities were directed to specific sectors including US$2.35 billion to clean energy projects.

Number of Entities Utilizing ICIEC's Services during 2022



Source: ICIEC Annual Report 2022

Major Member States by Export Business Facilitated (USD Million)

Source: ICIEC Annual Report 2022

As the data above shows, the UAE is an important partner for ICIEC. We strongly endorse and support the UAE COP28 Presidency and its priorities of delivering a "solutions and inclusive" discourse. We will be actively consolidating our partnerships and engagement with the UAE in enhancing and upscaling the provision of our unique Shariah-compliant de-risking solutions to UAE companies, banks and projects such as the Waste-to-Energy Project in Sharjah, to banks such as Emirates NBD Capital and First Abu Dhabi Bank to cover their exposure to facilities to the Egyptian Ministry of Finance for its Green agenda, and a 7-year US$68 million Foreign Investment Insurance Policy (FIIP) to cover Breach of Contract and PRI to UAE-based Alcazar Energy for its equity investment in the Benban Solar Complex in Aswan.

We strongly commend the UAE's growing leadership in the climate action discourse and its invaluable contribution and engagement through its capacity as UN Climate Change High-Level Champion and host of COP28.

Oussama Abdul Rahman Kaissi

Chief Executive Officer, ICIEC

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IsDB-led Arab Coordination Group Pledges US$50bn for Supporting African Infrastructure, Climate Resilience and Food Security

Riyadh – The Arab Coordination Group (ACG), in a move to upscale their development support for African countries ahead of the COP28 climate change conference, announced at a meeting in the Saudi capital on 9 November 2023 that it is allocating a record US$50 billion to help build resilient infrastructure and inclusive societies in the African continent.

Announcing the initiative at the consecutive Arab-Africa and Saudi-Africa Summit Economic Summits Economic Conference held in Riyadh, Dr Muhammad Al Jasser, President of the Islamic Development Bank (IsDB) and Chairman of the Board of Directors of ICIEC, emphasized that many countries in Africa are particularly vulnerable to climate change, making strengthening climate resilience and adaptation an urgent priority.

In a joint statement the Group of Ten development institutions commented: "Recognizing that the link between sustainable development and climate financing is cross-cutting and complex, the ACG reaffirms its commitment to scaling up financial assistance for climate change in line with the Paris Climate Agreement and to helping bridge investment gaps in energy access, including low-carbon energy sources, climate mitigation, adaptation and resilience, as well as food security."

The Arab Coordination Group ACG is a strategic alliance that provides a coordinated response to development finance. Its current members comprise some of the most liquid development finance institutions in the world, including the Abu Dhabi Fund for Development, the Arab Bank for Economic Development in Africa, the Arab Fund for Economic and Social Development, the Arab Gulf Programme for Development, the Arab Monetary Fund, the IsDB, the Kuwait Fund for Arab Economic Development, the OPEC Fund for International Development, the Qatar Fund for Development and the Saudi Fund for Development.

The ACG financing will support initiatives in areas such as energy security and energy transition, regional integration and connectivity, trade finance and facilitation, gender and youth initiatives, enhanced support for fragile states, enhanced development effectiveness, private sector financing, food security and poverty and unemployment.

"We acknowledge the pressing need to address these challenges through timely and coordinated actions. Our conviction in the promise of Africa, its dynamic societies, and its spirited youth is unwavering. Nevertheless, we are acutely aware of the development challenges the continent faces - the repercussions of the recent global pandemic, the challenges of food security, and the escalating climate crisis. We are committed to working hand-in-hand with African nations, regional entities, civil society groups, the private sector, and fellow development institutions," explained Dr Al Jasser on behalf of ACG.The ACG has been a long-standing supporter of African partner countries and has cumulatively invested over US$220 billion in the region to date. "We reaffirm our commitment to supporting the sustainable development of countries on the African continent," added Dr Al Jasser.

This of course excludes a series of other financings allocated under bilateral arrangements such as the US$4.5 billion allocated by Abu Dhabi to accelerate clean-energy projects in Africa funded by clean-energy company Masdar, the Abu Dhabi Fund for Development, Etihad Credit Insurance and the Dubai-based renewable energy company AMEA Power in cooperation with Africa50, an investment platform established by African governments and the AfDB. In addition, there are spate of other multilateral initiatives such as the Arab-Africa Trade Bridges Programme and the Africa Co-Guarantee Platform (CGP) which facilitates bankable projects in Africa to attract private capital from the Middle East and beyond.

The Arab African business, trade and investment proposition is already a trade bloc in all but name. Some 21 Sub-Saharan African countries are members of the 57-member state Organisation of Islamic Cooperation (OIC) and its development organ the IsDB. If you add the six North African states, the continental membership rises to 27 countries.

UK Export Finance Provides Improved Terms for Climate-friendly Exporters as Electronic Trade Documents Act 2023 Gets Royal Assent

London – British exporters are to benefit from more flexible and competitive support from UK Export Finance (UKEF), the state export credit agency and partner entity of ICIEC, as part of the Government's drive to encourage them to use and offer finance solutions and other options which are consistent with the Green Finance agenda in line with the UN SDGs and the Paris Net Zero ambitions.

The initiative is also in line with new international trade measures in which the UK as a participant in the OECD Arrangement on Officially Supported Export Credits, announced in July 2023, has agreed to a significant modernisation package meaning that export credit agencies like UKEF can offer greater incentives for climate-friendly and green transactions. According to the export credit agency, "UKEF can now offer longer repayment terms and more flexible repayment structures for an expanded range of renewable and green transactions. UKEF will also be able to provide longer repayment terms and a more flexible approach for standard transactions too, ensuring that it can offer customers competitive finance options in many other sectors."

The UK is also spearheading a pioneering game-changing development in the global electronic

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trade documentation architecture with the Electronic Trade Documents Act (ETDA) 2023 in the UK receiving Royal Assent from King Charles the III on 20 July becoming legally effective on 20 September in an effort to make Global Britain's trade with partners all over the world more straightforward, efficient and sustainable.

Digitalization of trade could be a great equaliser and facilitator by providing new opportunities for those economies that have so far been left behind by allowing them to overcome some of the most important barriers to trade that they face, such as transportation costs and institutional disadvantages. There is no doubt that the biggest boost can come from the UK's ETDA with the British Government's initial estimate that the UK economy is set to receive a £1.14 billion boost over the next decade through the "innovative trade documentation digitalisation act." With less chance of sensitive paper documents being lost, and stronger safeguards through the use of technology, digitalising trade documents is also set to give businesses that trade internationally greater security and peace of mind.

"The Electronic Trade Documents Act," says Chris Southworth, Secretary General of the UK

Chapter of the International Chamber of Commerce (ICC), "is a game changing piece of law not just for the UK but also for world trade. The act will enable companies to finally remove all the paper and inefficiency that exists in trade today and ensure that future trade is far cheaper, faster, simpler and more sustainable. This presents a once in a generation opportunity to transform the trading system and help us drive much needed economic growth." The ICC estimates 80% of trade documents around the world are based off English law, and this act serves as the cornerstone to truly digitalising international trade.

With English law being the very foundation of international trade, several Islamic finance contracts such as the Commodity and Syndicated Murabaha and Sukuk issuance, this act puts the UK ahead and in the lead of not only other G7 countries, but almost all other countries in the world.

The UK, says Minister for International Trade, Nigel Huddleston, is widely seen as a leader in

digital trade and this new act will make it easier for businesses to trade efficiently with each other, cutting costs and growing the UK economy by billions over time. "It's exciting to see the power of technology being harnessed to benefit all industries, reduce paper waste and modernise our trading laws, an approach which the rest of the world will seek to follow," he added.

Indeed, the Electronic Trade Documents Act recently implemented in the UK according to the World Trade Organisation (WTO) removes requirements for the majority of paper trade documentation. Varying degrees of progress are also being made towards implementation in the remaining G7 countries, with each taking unique approaches to amend and introduce legislation.

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

Abu Dhabi - 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 earlier this year.

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 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.

GHGSat's Vanguard Satellite Launch a Gamechanger in Carbon Monitoring

Montreal – GHGSat, the Canadian global leader in high-resolution emissions monitoring from space, launched the world's first commercial hosted-payload focused on monitoring sources of carbon dioxide (CO_2) especially from coal-and-gas fired plants, oil refineries and steel mills on 11th November 2023. GHGSat-C10, known as Vanguard, will use the same sensor technology proven by the company's pioneering fleet of high-resolution methane-hunting satellites.

According to GHGSat, the high-resolution instrumentation will monitor carbon-intensive industrial sites, worldwide, making accurate, independent satellite CO_2 data at the source available for the first time. At the national and international level, high resolution CO_2 data will add to the accuracy and efficiency of emissions inventories and reporting, scientific modelling of emissions and the Global Stocktake, the latest of which will be unveiled at COP28 in Dubai. This latest initiative is also expected to help build confidence in the estimated US$1 trillion global carbon trading market.

"With our patented imaging interferometer, we have been able to observe emissions like never before. By merging multiple sources of light, our satellites are able to create an interference pattern, which enables us to measure and pinpoint emissions from individual sites across the world," explained the company.

The successful launch of the first orbital sensor able to pinpoint carbon dioxide emissions from individual industrial facilities, such as cement or power plants, was from the company's Vandenberg Space Force Base in California. Vanguard is the precursor to a new generation of space instruments that will build on GHGSat's extensive experience with methane emissions to provide frequent, accurate and independent high-resolution CO_2 data from individual sites. This says GHGSat will transform the way CO_2 emissions are monitored, reported and traded.

GHGSat pioneered industrial greenhouse gas emissions monitoring from space in 2016, with the launch of Claire, a demonstrator satellite. Its high-resolution technology, able to image down to 25m on the ground, revolutionized the understanding of man-made methane emissions. Today, GHGSat is the global leader in greenhouse gas emissions intelligence, currently making over two million facility measurements per year, on and offshore, with a constellation of nine satellites. The company also provides data to NASA, ESA and the United Nations.

Thanks to its high spatial resolution, Vanguard can hone in on individual targets and accurately attribute emissions. "Public CO_2 satellites already in orbit," maintains Stephane Germain, CEO at GHGSat, "are not designed to do this. For the first time, operators of steel mills, power plants and petrochemical complexes will have access to independent, accurate and globally standardized emissions monitoring and data.

Although many will have Continuous Emissions Monitoring Systems (CEMS) in place, independent verification can help them optimize day-to-day operations to reduce emissions. It will also improve the quality of Environmental Social and Governance reporting.

"Our high-resolution satellites helped put methane - a greenhouse gas that was out of sight and out of mind – at the top of the climate agenda. Now our goal is to harness this experience and change the conversation around CO_2. With regulators, investors and the public increasingly holding companies to account, for both their direct and indirect emissions, there is little doubt that better CO_2 data is needed. Trusted, independent data will help incentivize industry to manage its emissions effectively. It will ensure that climate policies are well-founded. Above all, it will help all of us stay on track to achieve Net Zero by 2050."

Space-age technology is increasingly being used to hold polluting industries accountable for their contributions to climate change. GHGSat's data is available for sale to industrial emitters who want to reduce their emissions, as well as to governments and scientists.

Carbon dioxide accounts for nearly 80% of US greenhouse gas emissions from human activities and tends to enter the atmosphere from large industrial sources like power plants. Satellites monitoring carbon dioxide in the atmosphere currently are not focused on facility-level emissions, GHGSat said. Satellites have already shown that methane emissions are broadly higher than estimated and the company suspects the same is true of carbon dioxide.

Lancet Report Warns of Alarming Impact of Climate Change on Health and Warns of a Serious Looming Global Health Crisis if Emissions are Not Reduced

Geneva – It is just as well that the COP28 Presidency will be hosting the first ever Health Day and Climate Health Ministerial Meeting in Dubai to address the global health crisis and adopt priority actions to reduce emissions and protect health from the impacts of climate change.

According to the World Health Organisation (WHO), 7 million deaths a year can beattributed to air pollution, and climate impacts like heat are a serious threat to human health with billions exposed to extreme heat and weather events in 2023. In fact, the 8th Annual Report of the authoritative Lancet Countdown on Health and Climate Change, released in November 2023 in collaboration with WHO, points to an alarming convergence of factors that jeopardize thewell-being of individuals, public health, and healthcare systems on a global scale.

The Lancet Countdown on Health and Climate Change is an international research collaboration that independently monitors the

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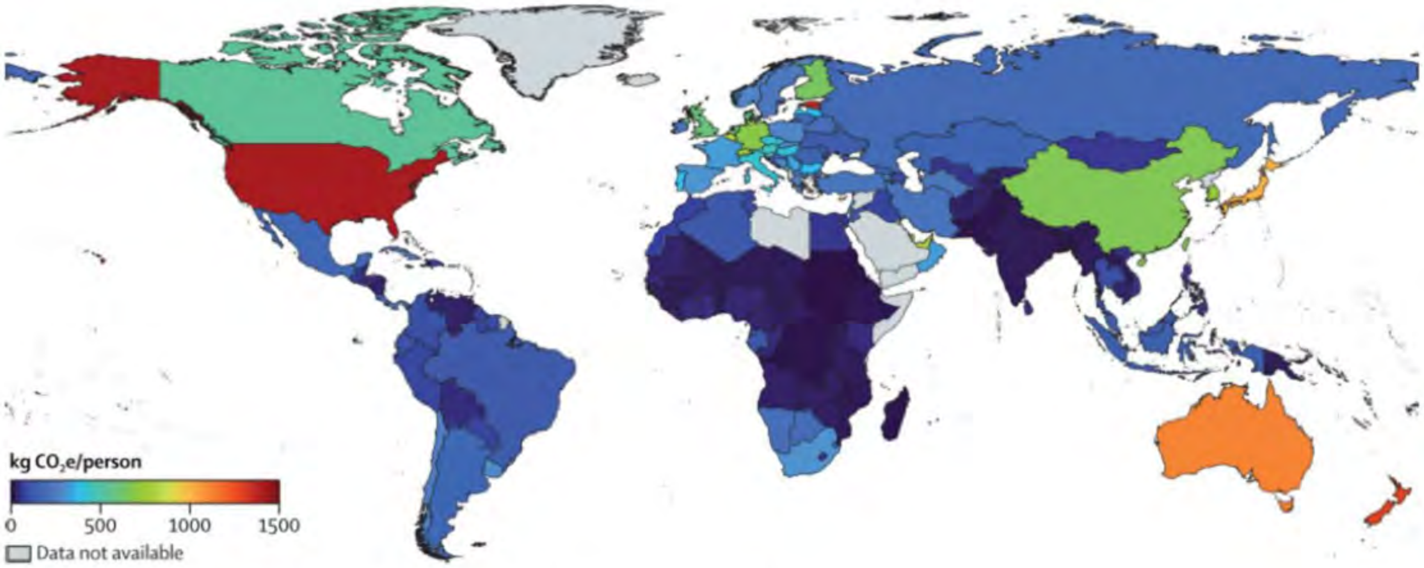
evolving impacts of climate change on health, and the emerging health opportunities of climate action. This 2023 Report draws on the expertise of 114 scientists and health practitioners from 52 research institutions and UN agencies worldwide to provide its most comprehensive assessment yet.

The Lancet Countdown Report reveals that the health impacts of climate change are surging worldwide, causing a devastating toll on lives and livelihoods. Adults over 65 years of age and infants under one year old, who are particularly vulnerable to extreme heat, are now experiencing twice as many heatwave days per year than they would have in 1986-2005.

The increasing destructiveness of extreme weather events jeopardizes water security and food production, putting millions of people at risk of malnutrition. The alarming statistics of more frequent heatwaves and droughts were responsible for127 million more people experiencing moderate to severe food insecurity in 122 countries in 2021, compared the annual numbers seen between 1981 and 2010.

Similarly, a changing climate is accelerating the spread of life-threatening infectious diseases. For example, warmer seas have increased the area of the world's coastline suitable for the spread of Vibrio bacteria that can cause illness and death in humans by 329km every year since 1982, putting a record 1.4 billion people at risk of diarrhoeal disease, severe wound infections, and sepsis.

The threat, says WHO, is particularly high in Europe, where Vibrio-suitable coastal waters have increased by 142km every year. These rising risks of climate change are also worsening global health inequities. Health systems are increasingly strained, and 27% of surveyed cities declared concerns over their health systems being overwhelmed by the impacts of climate change.



National GHG emissions per capita from the health-care sector in 2020

"WHO is very pleased to contribute to this critical report, highlighting trends, and playing a key role in shaping urgent responses to address the pressing challenges posed by the health and climate crisis," says Dr Maria Neira, WHO Director for Environment, Climate Change and Health. "The path to a sustainable future starts with taking bold and urgent steps, transitioning to renewable energy, reducing emissions across all sectors, and building adaptation and resilience, to name just a few. The occasion of COP28 is a watershed moment to address health, with the potential for ambitious outcomes that will ensure a healthier and more resilient world."

The reality is that the climate crisis manifests itself through various pathways, including the exacerbation of food insecurity, the proliferation of climate-sensitive diseases, and the increasing frequency and intensity of extreme weather events. These factors are placing unprecedented strains on the world's health systems, calling for immediate and comprehensive action. While the urgency of today's health threats is evident, emphasises WHO, it also serves as a dire warning of the dangers looming on the horizon. As the report underscores, the world is heading in the wrong direction, continuing its dependency on fossil fuels and leaving the most vulnerable communities behind in the essential transition to sustainable energy sources.

The implementation of the Paris Agreement is not only a global imperative for the environment but a critical public health necessity. Failing to take meaningful action toward the Agreement's 1.5°C goal, warns Dr Maria Neria, will result in severe consequences for humanity and its health. More children will suffer from malnutrition, outbreaks of diseases will become more frequent and widespread, and deaths from respiratory diseases will continue to rise.

A holistic, health-centred approach is needed to address the climate crisis. Health-centric climate action holds the potential to save millions of lives annually and promote health equity. At its core, this approach upholds the human right to health, closely intertwined with the right to a clean, healthy, and sustainable environment.

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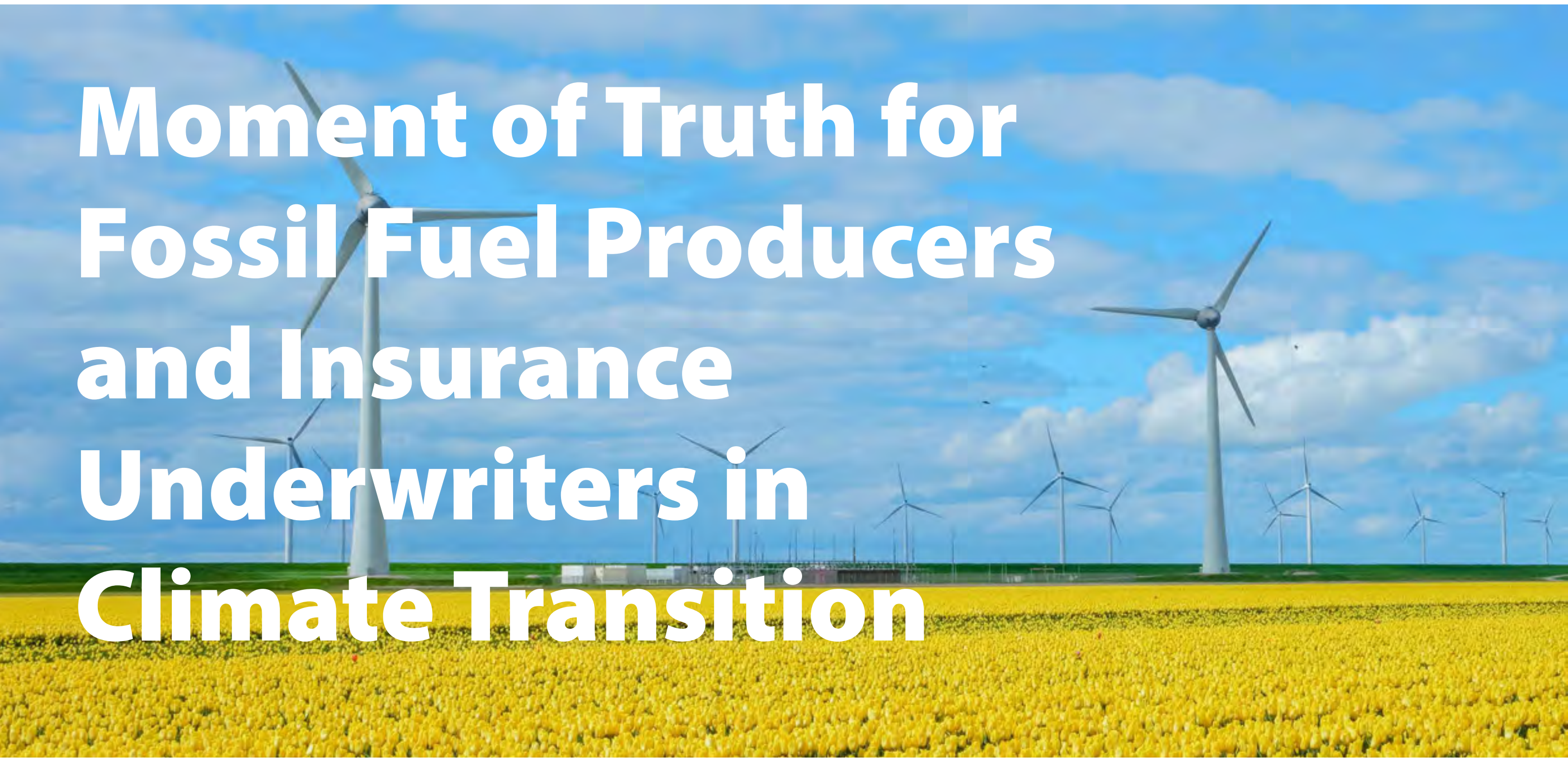
8th Lancet Countdown on Health and Climate Change – Recommended Priority Actions

- Promote a health-centred energy transition that maximises health gains, ban and cease funding to all new oil and gas projects.
- Reduce the health harms of energy poverty by supporting a just zero-carbon transition.
- Accelerate mitigation in food systems through support for, and promotion of, healthier, low-carbon diets.
- Deliver public health programmes that simultaneously improve public health and reduce greenhouse gas emissions.
- Lead by example by building sustainable, efficient, and zero-emission health systems in alignment with the ambitions of the 26th Conference of the Parties (COP26) Heath Programme.
- Accelerate the development of climate-resilient health systems, in agreement with the COP26 Health Programme.
- Increase the capacity of health systems to prepare for, and respond to, climate-related health risks.
- Increase climate finance to promote a healthy, just transition, including through the UN Framework Convention on Climate Change (UNFCCC)'s financial mechanisms and funding provided by multilateral development banks.
- Rapidly phase out all subsidies for, lending to, and investment in oil and gas companies and projects, including their exploration and extraction activities
- Strengthen global capacity for health and climate change research and knowledge generation.
- Increase support to maintain and strengthen monitoring of health and climate change at global, regional, and national levels.

Moment of Truth for Fossil Fuel Producers and Insurance Underwriters in Climate Transition



The narrative is clear and present, marked by a rhetoric of aspirations, a myriad of doomsday scenarios, a playbook of inclusive solutions, ever-evolving ingenious technological toolkits, the distractions of deniers and delayers, and the dearth of disbursed climate dollars and de-risking tools. Never mind the havoc caused by climate change which is threatening to push global warming well beyond the IPCC-recommended 1.5°C by a projected whole percentage point. Never mind the catastrophic climate events plaguing the world with increasing frequency and destructive power, claiming lives and livelihoods, and undermining real economies and development agendas. Is it any surprise that against this backstory of divisive geopolitics, sluggish global economic recovery, political posturing, the sheer perceived one-sidedness of the decision-making and policy processes, there remains an unhealthy push back against any rapid decarbonisation, climate adaptation and mitigation as fossil fuels continue to dominate the global energy mix aided and abetted by record subsidies, despite handsome progress towards a clean energy future dominated by renewables? ***Oussama Kaissi****,* ***CEO of ICIEC****, ponders some pathways of how to navigate the seemingly ambivalent and competing demands of decarbonisation especially from the purview of effective insurance regulation and the involvement of both public and private insurers.*

Is COP28 Dubai like the previous Conferences of the Parties a hostage to fortune – both historical, current and the future, across a spectrum of carbon change, political, economic and social metrics?

China, the US and India are the Big Three emitters of carbon in the world accounting for 51.7% of total global emissions at end 2021 according to data from Visual Capitalist's Global Carbon Atlas. In absolute terms, China is by far the single largest polluter currently with a percentage of global emissions at 30.9%, followed by the US at 13.5% and India 7.3% respectively.

Yet, in terms of CO_2 emissions per capita (metric tons), the US is relatively high at 15.32%, while China and India rank lower at 7.44% and 1.89%, respectively. Historically, the US has been the largest carbon emitter, releasing 422 billion metric tons of CO_2 into the atmosphere since the Industrial Revolution. This is equivalent to almost a quarter of all CO_2 produced from fossil fuels and industrial activities.

It is not surprising that activists, NGOs and governments in Low-and-Medium-Income-Countries (LMICs), disproportionately affected by the effects of climate change and some of the most vulnerable to catastrophic climate events, have clamoured for retrospective liability to be paid by historical polluters, often past colonial powers, through climate reparations.

The dichotomies are starker when considering the Net Zero timelines of the Big Three emitters. While the US targets net-zero emissions by 2050, China aims for carbon neutrality by 2060 and India by 2070. It is as if China and India are rewarding themselves with a premium timeline discount to offset the historical polluting excesses of the US and the West in a development catch up race, as if climate change carnage respects borders and past transgressions.

Given their massive populations and the fact that countries typically increase their emissions as they become more developed, China and India may continue to grow their shares even further. The International Energy Agency (IEA) forecasts that India's share of global emissions could rise to 10% by 2030.

The reality is that financing climate action and underwriting climate-related risks, guaranteeing investment in bankable adaptation and mitigation projects are essential elements of the global response to climate change. The cost of transitioning to a low-carbon economy is significant, and it is beyond the capacity of any single government or organization to finance alone.

Public Private Partnerships (PPPs) have emerged as a critical tool for mobilizing the necessary resources especially private sector capital and expertise to finance climate action in the LMICs

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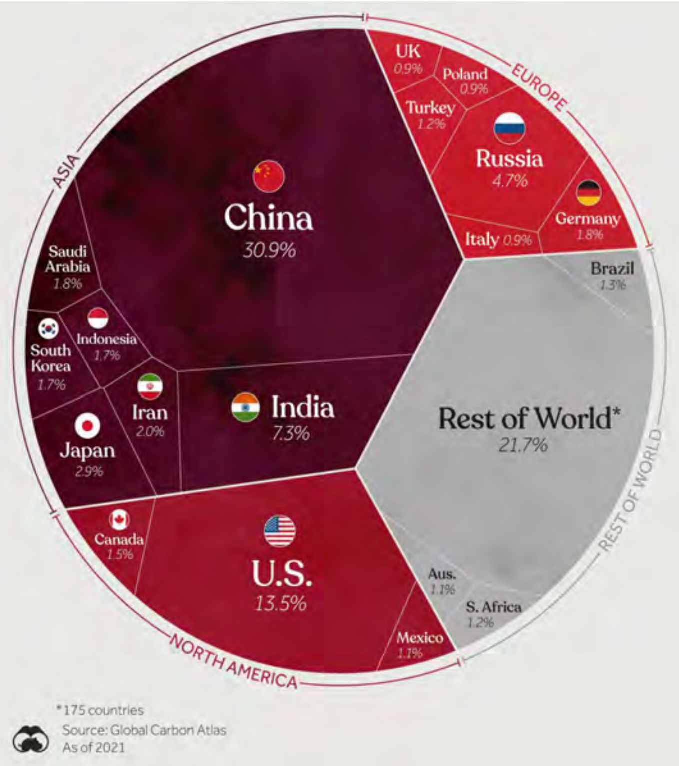
Global CO_2 Emissions by Country Percentage of Global Emissions



Rank	Country	Region	Total Emissions (%)
#1	China	Asia	30.9%
#2	U.S.	North America	13.5%
#3	India	Asia	7.3%
#4	Russia	Europe	4.7%
#5	Japan	Asia	2.9%
#6	Iran	Asia	2.0%
#7	Germany	Europe	1.8%
#8	Saudi Arabia	Other	1.8%
#9	Indonesia	Asia	1.7%
#10	South Korea	Asia	1.7%
#11	Canada	North America	1.5%
#12	Brazil	South America	1.3%
#13	Türkiye	Europe	1.2%
#14	South Africa	Africa	1.2%
#15	Mexico	North America	1.1%
#16	Australia	Oceania	1.1%
#17	UK	Europe	0.9%
#18	Italy	Europe	0.9%
#19	Poland	Europe	0.9%
n/a	Rest of World	Other	21.7%

Lag in Climate-related Underwriting

The importance of export credit and political risk insurance in the global economy, including trade and investment-related climate finance, cannot be overstated. According to the latest data from The Berne Union (International Union of Credit and Investment Insurers), the not-for-profit professional association representing the global credit and political risk insurance industry, the latter industry supported US$2.83 trillion of cross-border trade and investment (up 5% on 2021) with an additional US$68.6 billion in non-cross-border support for exporters. Berne Union Members, which include ICIEC, collectively provide payment risk capital worth US$2.5 trillion each year, insuring some 13% of the value of total global cross-border trade.

However, the 2022 Annual Report of the Berne Union is quite revealing. Climate-related underwriting lagged other economic segments in new MLT and PRI commitments in 2022 and almost exclusively confined to the renewable energy sector. According to Maëlia Dufour, President of the Berne Union, "beyond regional shifts, the industry has been exploring new territory in a multitude of other avenues. The first is in support for renewable energy, where members of the Berne Union almost doubled the value of new transactions, they are supporting annually over the last four years. This growth in renewable support has been delivered alongside: (i) multilateral cooperation on a wide variety of climate-positive initiatives such as the Export Finance for Future (E3F) initiative, net zero targets and updates to the OECD arrangement, (ii) creation of financial incentives for sustainable projects.

"Members are also adapting their products to constantly meet the needs of exporters no matter how the world is changing. New products have been developed to mitigate various risks and adapt to the new demands from the clients. Working capital support, direct loans and import-securing financing has supported trade through new avenues as members continue to innovate."

Figure A.10: Sectoral share of new MLT + PRI Commitments by Region (2022, USD bn.)

USD bn.	East APAC	Europe	MENA	North America	S.S. Africa	LATAM & Caribbean	South Asia	Russia & CIS
Energy	6.2	2.3	2.1	3.0	0.8	1.2	1.6	0.8
Infrastructure	6.1	2.5	1.1	2.0	1.4	0.2	0.3	5.4
Manufacturing	12.3	6.4	3.0	6.4	3.7	1.7	1.3	1.1
Natural Resources	2.7	1.8	3.5	0.4	0.4	1.0	0.2	2.2
Renewable Energy	2.5	3.7	2.4	0.7	1.2	0.7	0.7	0.9
Transportation	8.5	8.4	6.2	4.0	5.3	0.9	1.9	5.2
Other/Multiple	1.6	5.1	0.4	0.3	1.1	0.3	0.4	1.1
Nonspecific	3.7	17.6	1.1	4.0	6.9	0.3	0.8	2.0

Berne Union Members reported a total of US$2.9 trillion in new business during 2022 across all business lines:

- US$2.83 trillion. in products directly supporting cross-border trade and investment
- A further US$69 billion in other trade-related support for exporters, indirectly supporting trade and investments.

The strongest growth region was Middle East and Africa, registering 39.8% increase in the value of merchandise exports. Perhaps as an indicator of the future trajectory of climate-related credit and investment underwriting, since 2019, new business in Natural Resources (-67%) and traditional Energy (-26%) sectors has declined in favour of Renewables (+88%). Renewables, which have supported the recovery in new business, continue a four-year trend of growth and now account for 5% of all new business (from 3% in 2019).

Credit and investment insurance has the potential to substantially upscale its risk mitigation solutions and services especially as a mobiliser of private capital for sustainable development and climate adaptation and mitigation, and how the risk mitigation instruments deployed by public and private sector underwriters of credit and political risk can help leverage private sector investment for projects with sustainable economic impact, and opportunities for a more integrated system of public finance which can bring together export and development capital.

In this respect, the Berne Union's Climate Working Group stresses that cross collaboration between insurers and multilaterals is absolutely vital. There is a momentum for action against climate change among credit insurers which cannot be slowed down but remains a work in progress. The Group collaborates closely with the UN-convened Net-zero Export Credit Alliance (NZECA) through the launch of their incubator initiative, which aims to become a platform dedicated to bringing together a high ambition group of export credit agencies and export-import banks to deliver on net-zero commitments by 2050 or sooner.

As a signatory to the Principles for Responsible Insurance, Shariah-compliant SRI and ESG finance are firmly embedded in ICIEC's due diligence process through linking all new business insured, guarantees and reinsurance with the UN SDG and Paris climate action indicators. Crucially ICIEC actively targets real impact and change in all its financing, insurance policies it underwrites and projects it supports, and acts as a catalyst for private sector capital mobilization towards achieving the SDGs and Net Zero targets.

The Berne Union Members support the following sectors through medium / long-term export insurance products:

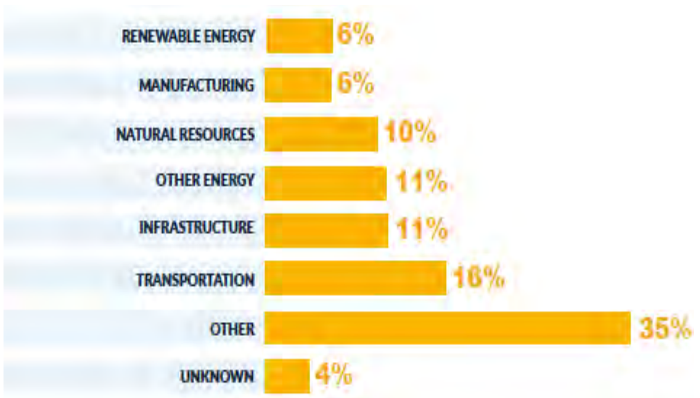
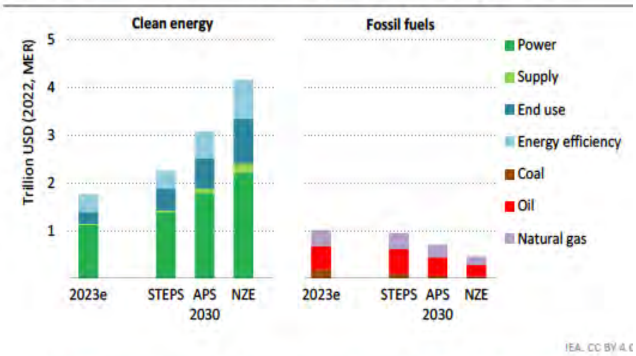


Figure 1.30 ▷ Investment in clean energy and fossil fuels by scenario



In the NZE Scenario annual fossil fuel investment drops by USD 500 billion to 2030 while clean energy investment increases by more than USD 2 trillion.

Note: 2023e = estimated values for 2023.

Cumulatively, over 29 years, ICIEC has insured US$100 billion in trade and investment, which include US$80 billion in supporting exports and imports, and US$20 billion in support of FDI. ICIEC's gross business insured in support of trade and investment in 2022 amounted to US$11.6 billion. Our activities were directed to specific sectors including US$2.35 billion to clean energy projects.

Clean Energy Transition Regulatory Frameworks Fit for Purpose

Decarbonization however means a new risk landscape and new strategic skill sets especially for insurers. But not all is quiet on the climate action front especially with regards to regulatory frameworks and the increased involvement of both private and public insurers in underwriting the fossil fuel industry – seen as a fundamental contradiction.

Unfortunately, to date the global regulatory environment on insurance and climate-related financial risk is patchy at best, and nature-related risk still needs to be integrated into the regulatory framework. This has led to a huge "protection gap" especially relating to catastrophe and climate events. With the adoption of new climate and sustainability disclosure rules in several jurisdictions across the world, environmental risk management is also evolving.

In November, a group of more than 30 climate, environmental and consumer protection groups, including the Berne Union and World Wildlife Fund (WWF), wrote an Open Letter calling on the International Association of Insurance Supervisors (IAIS) to scale up regulatory action on climate and shift away from environmentally harmful economic activities.

Crucially, Maud Abdelli, WWF Greening Financial Regulation Initiative Lead, in a recent social media post observed that the global regulatory environment on insurance and climate-and environment related financial risk is not yet sufficiently developed to ensure a smooth transition to a net zero, nature positive financial system.

"Our recent report "Underwriting our planet: how insurers can help address the crises in climate and biodiversity" underpins this, finding that many economic activities underwritten by insurance companies are fuelling climate change and nature loss rather than addressing those risks. With US$6.86 trillion in gross written premiums (2021), insurance companies are an economic heavyweight with enormous potential to reduce the negative impact on climate change and nature loss through their underwriting business," she maintains.

Insurance regulators and supervisors have a critical leading role to play in this. They can help advance insurance companies to reach global climate and biodiversity goals by aligning

insurance regulation, policies and supervision to the recommendations below as part of their transition planning by:

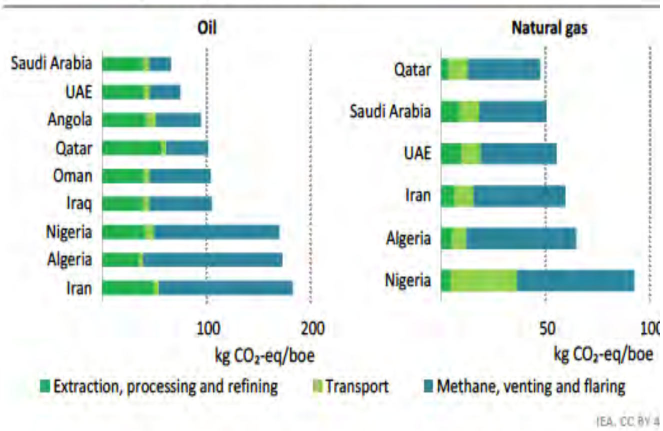
- Aligning underwriting policies with global climate and biodiversity goals.
- Implementing credible, transparent and measurable transition plans.
- Reviewing policies to eliminate "harmful" incentives that impact the environment.
- Excluding the most environmentally harmful economic activities and sectors, such as expanding fossil fuel industries, deep sea mining, deforestation, or illegal, unregulated and unreported (IUU) fishing from insurance policies, she adds.

Already Lloyds of London inter alia have been urged to temper down their involvement in underwriting harmful climate-related investments and projects. In the Open Letter, the proponents commended the work of the IAIS but stressed that "we need to see a faster and stronger response from the global network of insurance regulators in the face of the urgency of the climate crisis." Since 2017, they added, the insured losses from natural disasters (mostly human-made climate disasters) averaged US$110 billion per year, more than double the average amount in the previous five years. In response, reinsurance and primary insurance rates have increased rapidly, while the industry warns that growing parts of the world other countries risk becoming "uninsurable."

Moment of Truth

A week before COP28, the International Energy Agency (IEA) warned in a Report titled: The Oil and Gas Industry in Net Zero Transitions that the oil, gas and coal industries face a moment of truth in the climate playbook. They must choose between contributing to a deepening of the climate crisis or seize the opportunity by becoming a part of the solution by embracing the shift to clan energy.

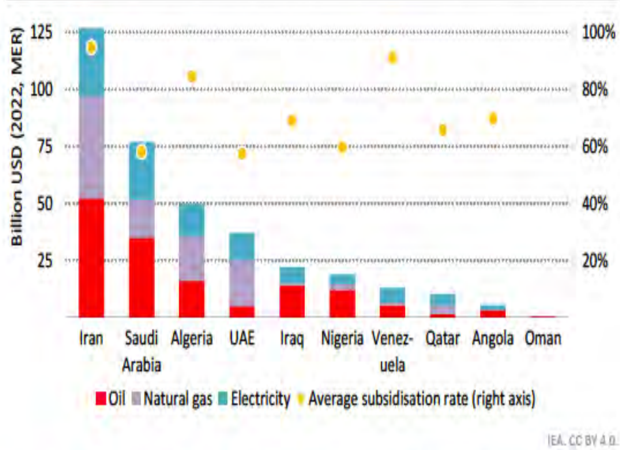
Figure 4.15 ▷ Emissions intensities of oil and gas production in selected producer economies, 2022



A very wide spread in emissions intensities exists between the best and worst performing producer economies.

Notes: kg CO_2-eq/boe = kilogramme of carbon dioxide equivalent per barrel of oil equivalent. One tonne methane is considered to be equivalent to 30 tonnes of CO_2 based on the 100-year global warming potent (IPCC, 2021). Shows producer economies that produce more than 1 mb/d or 20 bcm of gas.

Figure 4.8 ▷ Fossil fuel subsidies in established producer economies, 2022



Fossil fuel consumption subsidies are prevalent in many producer economies and account for one-third of global fossil fuel subsidies.

Notes: UAE = United Arab Emirates. The average subsidisation rate is the combined ratio of subsidies for oil and gas and electricity produced from fossil fuels to international reference prices.

The main findings of the Report are unequivocal:

- Global demand for both oil and gas is set to peak by 2030. Stronger action to tackle climate change would mean clear declines in demand for both fuels. If governments deliver in full on their national energy and climate pledges, demand would fall 45% below today's level by 2050. In a pathway to reaching net zero emissions by mid-century, which is necessary to keep the goal of limiting global warming to 1.5 °C within reach, oil and gas use would decline by more than 75% by 2050.
- The oil and gas sector – which provides more than half of global energy supply and employs nearly 12 million workers worldwide – has been a marginal force at best in transitioning to a clean energy system, currently accounting for just 1% of clean energy investment globally – and 60% of that comes from just four companies.
- The US$800 billion currently invested in the oil and gas sector each year is double what is required in 2030 on a pathway that limits warming to 1.5 °C.
- The oil and gas industry invested around US$20 billion in clean energy in 2022, or roughly 2.5% of its total capital spending. Producers looking to align with the aims of the Paris Agreement would need to put 50% of their capital expenditures towards clean energy projects by 2030, on top of the investment required to reduce emissions from their own operations.
- In transitions to net zero, oil and gas is set to become a less profitable and riskier business over time.
- The oil and gas sector is well placed to scale up some crucial technologies for clean energy transitions.

> The industry needs to commit to genuinely helping the world meet its energy needs and climate goals

"The oil and gas industry," maintains IEA Executive Director Fatih Birol, "is facing a moment of truth at COP28 in Dubai. With the world suffering the impacts of a worsening climate crisis, continuing with business as usual is neither socially nor environmentally responsible. Oil and gas producers around the world need to make profound decisions about their future place in the global energy sector.

"The industry needs to commit to genuinely helping the world meet its energy needs and climate goals – which means letting go of the illusion that implausibly large amounts of carbon capture are the solution. The fossil fuel sector must make tough decisions now, and their choices will have consequences for decades to come. Clean energy progress will continue with or without oil and gas producers. However, the journey to net zero emissions will be more costly, and harder to navigate, if the sector is not on board."

The logic of the Report is that transition to lean energy is not a zero-sum game pitting the fossil fuel producers against clean energy ones especially producers of renewables, Green Hydrogen and Green ammonia. The evolving playbook is "a fair and feasible way forward in which oil and gas companies take a real stake in the clean energy economy while helping the world avoid the most severe impacts of climate change."

A Fossil Fuel Economy Blessed with Liquidity and a Stated Commitment to Climate Adaptation, Mitigation and Finance

The UAE government has embarked on an ambitious reform strategy under the umbrella of UAE 2050 Strategy and Climate Neutrality Goal by 2050. Reform efforts have been undertaken to boost trade and FDI, further modernize labour markets, and increase digitalization and investments into green and sustainable initiatives to facilitate growth, energy transition, and diversification of the UAE non-oil sector. These efforts and ongoing climate initiatives are commendable and should be sustained to ensure the UAE's resilience to long-term vulnerabilities from global risks and decarbonization efforts. In this respect, the UAE is one of the best placed economies in the world to "successfully" push ahead with a decarbonisation agenda and growth and development process based on a commitment and mindset in greening of the economy, leveraging Greenium through its investments, and promoting Green Finance, especially Green Islamic Finance and Sukuk issuance. However, as a major oil exporter, contends ***Mushtak Parker***, *the UAE economy like other commodities-based ones, will be beholden to the vagaries of the volatility of the markets and commodity prices, the success of the growth of its non-oil sector and its contribution to GDP, and the implementation of manifold much-needed structural reforms.*

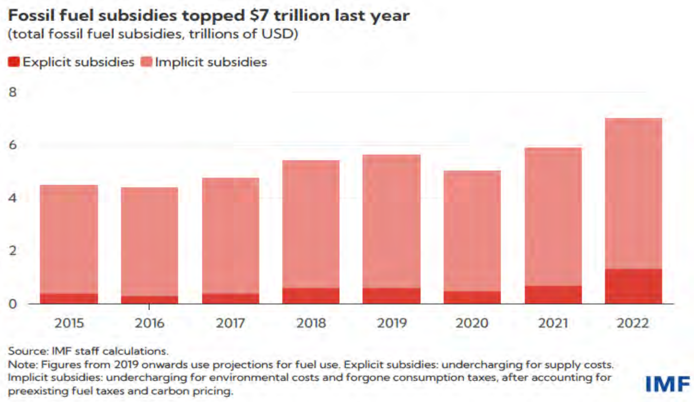
Concomitant with the hype surrounding the climate and decarbonisation debate in general, and the" Solutions and Inclusive" ambitions of COP28 per se, there is a realisation about the dangers of climate and net zero over-thinking and raising expectations to unrealistic levels beyond what is achievable and what global policy, financial and societal capacity can absorb given the uncertainties ravaging the global economy.

Getting the correct narrative is vital. It would help if it is backed by actual resources as opposed to pledges which oft materialise three or more years down the line. The fact remains that liquidity is not the issue – as the European Commission maintains there is plenty of it around. The challenge is to match this promise of liquidity with deliverable mechanisms, requisite regulatory frameworks, investment and structural transparency and recourse, and of course bankable projects serving the real economy and societies.

Precedence has shown that both COP26 in Glasgow and COP27 in Sharm El Sheikh feigned to delude turning out to be largely procedural with modest gains. This is not to belittle the hard work put in by the various stakeholders.

But, the push back by the UK government despite its claim of continued commitment to Net Zero goals of the Paris Agreement by granting new oil and gas licences in 2023 for operators in the North Sea, and the unprecedented rise in fossil-fuel subsidies, which according to the International Monetary Fund (IMF) surged to a record US$7 trillion in 2022 as governments supported consumers and businesses during the global spike in energy prices caused by the Ukraine conflict and the economic recovery from the pandemic, has similarly served to further undermine any progress in the COP processes.

When this push back is couched in the ideological fog of populism, unfettered market capitalism, the self-defeating development catch-up consensus of Low-and-Medium-Income-Countries (LMICs), the involvement of organised crime and corrupt politicians in the destruction of rainforests for logging profits, and the antics of climate deniers and delayers, then the future is as bleak as the growing number of warning signs and policy deficits piling up including the slow inclusion of nature-based and biodiversity metrics.



"As the world struggles to restrict global warming to 1.5°C and parts of Asia, Europe and the United States swelter in extreme heat, subsidies for oil, coal and natural gas are costing the equivalent of 7.1% of global GDP. That's more than governments spend annually on education (4.3% of global income) and about two thirds of what they spend on healthcare (10.9%)," observed the IMF in a recent Blog.

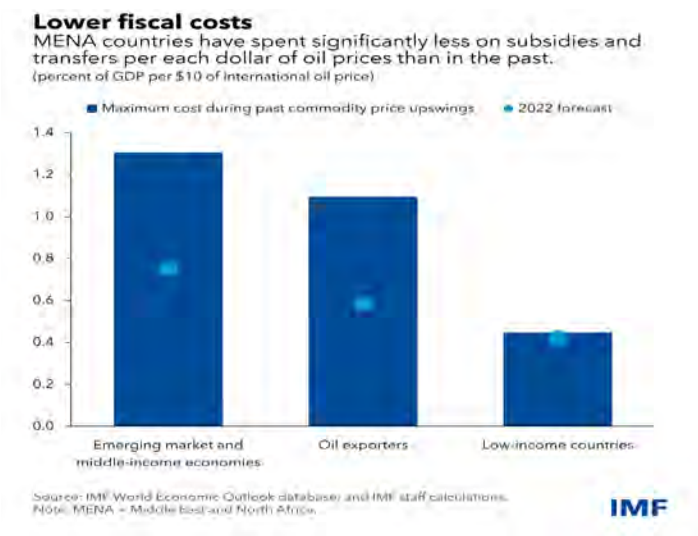
The World Meteorological Organization (WMO) recently reported that July was the hottest month on record, underscoring the urgent need to curb human-induced climate change. There is a growing consensus that with the current levels of greenhouse gases (GHGs), the rise in fossil fuel licences, explorations and subsidies, a reluctance to phase out coal and gas-fired power stations, that the dream of restricting global warming to 1.5°C will in fact be actualised by the reality of a 2.5°C increase.

For the UAE Presidency the goal of a "Solutions and Inclusive" COP is commendable. But given the above anomalies and competing dependencies especially of LMICS, many of which are primary commodity producers dependent on export revenues to support their national budgets and many some the most vulnerable and disproportionately affected by the devastating effects of climate change despite being the least carbon emitters, surely the playbook must be a balancing of priorities which respect the development needs of LMICs with that of an orderly transition to Net Zero, decarbonisation and a just transition to clean energy.

Above all, we need a bonfire the of the insanities associated with the climate and causes of climate change!

Environmental Costs of Inaction

The IMF warns that consuming fossil fuels imposes enormous environmental costs - mostly from local air pollution and damage from global warming: "The vast majority of subsidies are implicit, as environmental costs are often not reflected in prices for fossil fuels, especially for coal and diesel. We estimate that scrapping explicit and implicit fossil-fuel subsidies would prevent 1.6 million premature deaths annually, raise government revenues by US$4.4 trillion, and put emissions on track toward reaching global warming targets. It would also redistribute income as fuel subsidies benefit rich households more than poor ones."



The dichotomy of fossil fuel subsidies especially relating to LMICs is clear. They are projected to grow as developing countries - which tend to have higher-polluting power plants, factories, and vehicles, along with dense populations living and working close to these pollution sources - increase their consumption of fossil fuels toward the levels of advanced economies.

Yet removing fuel subsidies, says the IMF, can be tricky. It behoves governments to design, communicate, and implement reforms clearly and carefully as part of a comprehensive policy package that underscore the benefits. As such, COP28 has got its Carbon roadmap cut out.

It is against such a background that the UAE seeks to imprint its COP28 presidency backed by strong economic growth and robust economic activity and buoyed by high fiscal and external surpluses on the back of high oil prices.

In October 2023 an IMF team visited the UAE and concluded that the "economy continues to grow, benefitting from strong domestic activity. Non-hydrocarbon GDP growth is expected to exceed 4% in 2023 and to remain at a similar pace in 2024, driven by tourism, construction, and real estate related developments. Social and business-friendly reforms and the UAE's safe haven status continue to attract foreign inflows of capital and labour, underpinning growth and contributing to elevated real estate prices, particularly in high-end segments."

Following the OPEC+ production cuts, hydrocarbon GDP growth is expected to slow in 2023, but to accelerate next year with the UAE's 2024 OPEC+ production quota increase. Overall real GDP is expected to grow around 3.5 percent this year. Average inflation will remain contained at around 3% in 2023, down from 4.8% in 2022.

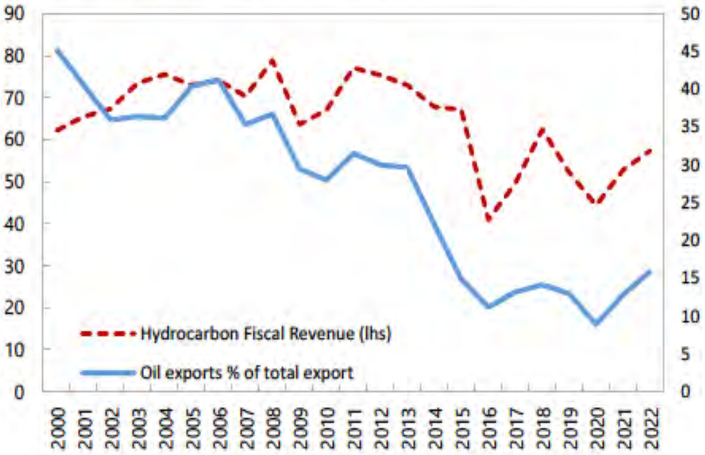
That the UAE has got several positive economic indicators unfolding which augurs well for its medium-term growth. These include:

- The fiscal balance is expected to be around 5% of GDP in 2023, driven by oil revenueand strong economic activity.
- The phased introduction of a corporate income tax regime that began in June 2023 will support higher non-oil revenue over the medium term.
- Public debt is projected to continue to decline, falling firmly below 30% of GDP in 2023, including with the benefit of the Dubai Emirate reducing its public debt by AED29 billion dirhams in line with its Public Debt Sustainability Strategy.
- The current account surplus is expected to be notably above the medium-term level in 2023 and 2024.
- Adequately capitalised and liquid banks, albeit rising real estate prices and tighter financial conditions underscore the importance of continued close monitoring of financial stability.

Insufficient Non-Oil Growth

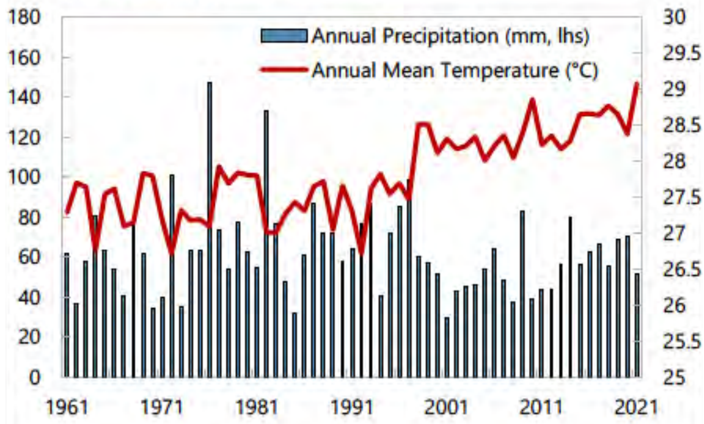
The elephant in the room is the generation of adequate non-oil GDP activity and revenues, which are set to be the main growth driver in GCC countries in 2023 and subsequent years, supported by a moderate expansion in investment, while private consumption is set to remain subdued in relation to pre-pandemic historical trends.

Hydrocarbon Revenue and Oil Exports
(Percent of fiscal revenue and total exports)



Sources: Country Authorities; IMF staff estimates

Precipitation and Mean Temperature
(mm,lhs ; °C)



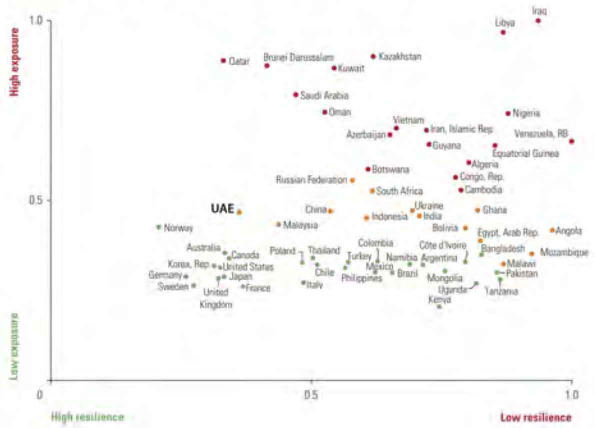
Source: World Bank Climate Change Knowledge Portal

While the slowdown of oil GDP has been partially offset by continued strong non-oil GDP growth, driven by robust manufacturing activity and surging services, and despite ongoing efforts to diversify GCC economies away from oil, the World Bank in its Autumn 2023 MENA Regional Outlook, warns that "non-oil growth is projected to be insufficient to offset the decline in oil growth over the medium term, as productivity gaps in the non-oil sector persist, posing challenges for job creation and inclusion."

Growth in GCC oil exporters is projected to slow markedly in 2023 to 2% (from 6.1% in 2022) before improving moderately to about 3.4% next year and setting at below 3% in the medium term- below its pre-pandemic historical average. Growth forecasts for 2023 are revised downward from April (by 1.1 percentage points), reflecting deeper than expected oil production cuts this year—including from unilateral cuts by Saudi Arabia—and the impact of foreign currency rationing on import-dependent sectors in Iraq.

The UAE is one of the least exposed to climate transtion and comparatively resilient to its impacts.

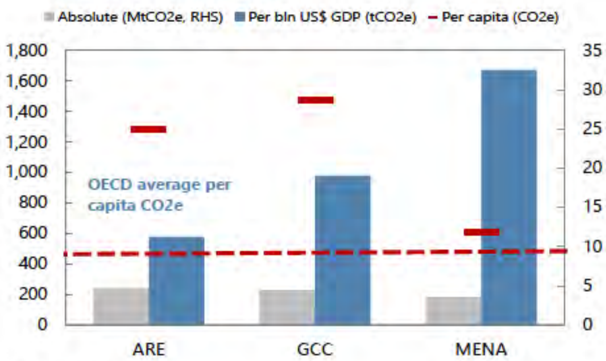
Countries' Preparedness for a Low-Carbon Transition



Source: Based on several databases
Note: Some poorly prepared countries are not in the figure because the data sets were not available . Example include turkmeeinstan and papua new guinea

UAE CO2 emissions per capita are high relative to the OECD average...

Average Emission Levels



Source: CAIT.

Energy sectors are the largest emitters of CO2.

Nevertheless, both the IMF and World Bank maintain that the UAE's sustained reform efforts support medium-term growth and a smooth energy transition, but prioritization and sequencing remain key to ensure effective outcomes.

"Advancing a medium-term fiscal framework, underpinned by careful coordination of emirate-specific fiscal anchors and rules, would promote long term sustainability, and help meet climate policy challenges. Ongoing efforts to boost private sector employment, further develop the domestic capital market, and leverage trade and investment in digital and green initiatives will further advance diversification and lift medium-term growth. Building on recent improvements in economic data collection, sharing, and dissemination will buttress these efforts," they emphasise.

Managing climate change challenges and energy transition policies will be key to ensuring sustainable long-term growth. The UAE is committed to climate adaptation and mitigation policies that would ensure necessary transition of its economy away from fossil fuels. The IMF in its 2022 Article IV Consultation Report published in June 2023 shows that scaling up investments in clean energy and renewables while continuing to invest in the development of diversified and greener traditional energy products and markets under the UAE 2050 Energy Strategy would increase potential non-oil GDP in the medium-to-long-term to 6%. The growth benefits could increase to about 8% in the medium-to long-term.

The Report however highlights a mixed climate policy landscape and urges urgent and sustained efforts in closing the gaps. They include:

1. The UAE has the most advanced sustainable finance framework in MENA. The UAE Sustainable Finance Framework (SFF) 2021-2030 envisages enhancing both supply and demand of sustainable finance and strengthening the enabling environment for diversified and innovative sustainable finance products.
2. The UAE Sustainable Finance Working Group (SFWG)13 identified three actions to support the development of the nation-wide SFF: (i) strengthening consistent sustainability disclosures across UAE, (ii) fostering sustainability focused corporate governance, and (iii) developing UAE taxonomy of sustainable activities.
3. To operationalize the SFF, the UAE Ministry of Climate Change and Environment (MoCCAE) is working on defining a common green taxonomy at the sectoral level, identifying eligible green projects, and matching them with the least-cost financing instruments.
4. There is also work done to facilitate public-private collaboration (including PPP laws) for green projects. The UAE is also developing green finance capacity building programmes including issuance of Green bonds and Sukuk.
5. Efforts are also being undertaken to green the financial system. The CBUAE has added climate change to the list of its strategic priorities and is promoting standards in line with international best practices, focusing on risk management, stress testing, and data collection, as well as on deliverables related to the UAE taxonomy of sustainable activities.
6. The downside is that sustainability considerations have only been partially mainstreamed into key businesses activities and the level of green finance remains low. Although issuances of green and green-linked bonds.Sukuk and loans in the UAE have increased, volumes remain quite low relative to estimated US$163 billion financing need. Moreover, issuances have been mostly undertaken by the energy and financial sectors, and most of the pioneering green projects in the UAE are government funded or led, with limited private-sector participation.
7. There is huge cope to strengthen private green and sustainable finance through a number of avenues – upscaling the issuance of Green bonds and Sukuk, There is significant potential for the UAE SWFs to catalyze green investments.
8. Supportive climate policies, including carbon pricing, could further enhance green finance options. A carbon trading platform is being explored by the Dubai Carbon Centre of Excellence, while ADGM is working on carbon credit markets.
9. Other tools, like government, multilateral and private sector guarantees and risk insurance, as well as credit and investment insurance mechanisms are also increasingly playing a role by institutions such as Etihad Credit Insurance (ECI) and ICIEC, the multilateral insurer of the Islamic Development Bank (IsDB) Group.

In the end the UAE climate playbook and taxonomy is only as good as the quality of its governance, legislative and regulatory frameworks and their enforcement to create an enabling environment for private green finance markets. The focus should remain on setting a coherent UAE wide set of standards for ESG products to guide investors and avoid "greenwashing."

UAE Corporate Climate Complementarity

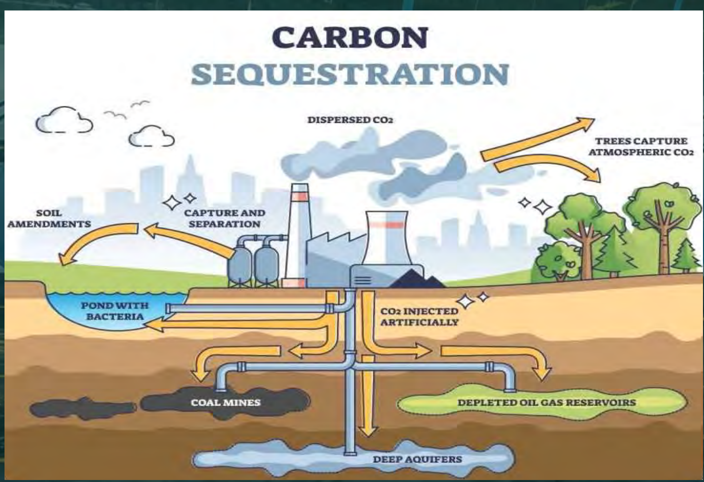
That the UAE's hosting of COP28 has precipitated a spate of climate-related activities, policy announcements, funding pledges and projects is not surprising. Some of the measures, assuming they are carried through, have the potential of game-changing implications for the UAE's climate adaptation and mitigation strategy.

Leading from the front is Abu Dhabi National Oil Company (ADNOC) which in July 2023 brought forward its net zero carbon emissions target by five years to 2045. The UAE state oil giant, which aims to expand its oil and gas output in the coming years, also disclosed for the first time the emissions from its operations, which reached about 24 million metric tons of carbon dioxide equivalent in 2022. The UAE supplies nearly 3% of global oil, which is a major source of greenhouse gases.

According to ADNOC its upstream carbon intensity was around 7 kilograms of carbon dioxide equivalent per barrel of oil equivalent, which is among the lowest in the world. ADNOC had previously said it aimed to cut greenhouse gas (GHG) emission intensity by 25%, as well as boost carbon capture, utilisation and storage capacity by 500%, by 2030. In July it confirmed a similar target to cut carbon intensity by 25% by 2030.

ADNOC is also in the midst of implementing its wider carbon management programme which includes Carbon Capture, CO2 Mineralisation and full Carbon Sequestration in saline aquifers. In September ADNOC finalised its investment in the Habshan carbon capture project in Abu Dhabi City, one of the largest integrated carbon capture projects in the MENA.

The plant, according to ADNOC, will have the capacity to capture and permanently store 1.5 million tonnes per annum (mtpa) of carbon dioxide (CO2) within geological formations deep underground. The project is part of an accelerated decarbonisation plan and will triple its installed carbon capture capacity to 2.3 mtpa, which, the company maintains is the equivalent of removing 500,000 petrol-powered cars from the road per year.



At the International Solar Alliance (ISA) Asia Regional Meeting in Abu Dhabi in July, Suhail Al Mazrouei, UAE Minister of Energy and Infrastructure also re-affirmed the country's commitment to renewables and clean energy.

"The UAE sees renewables, practically solar, as an integral element in our response to climate change. The UAE is the home to three of the world's largest solar power plants, with many other large-scale projects planned or under development," he explained. They include the Noor Abu Dhabi Solar Power Plant – the world's largest independent solar power plant, the Shams Solar Power Station in Abu Dhabi – one of the world's largest operational Concentrated Solar Power Plant stations, the Mohammed bin Rashid Al Maktoum Solar Park in Dubai – world's largest single-site solar energy project under the Independent Power Producer (IPP) model, and the Al Dhafra Solar PV facility in Abu Dhabi, the world's largest independent solar power plant.

According to a report by the Energy Institute Statistical Review of World Energy, the UAE ranks as the 6th highest per capita consumer of solar energy in the world, behind only Australia, The Netherlands, Japan, Israel and Chile.

The UAE government has also pledged US$4.5bn in a financial initiative to accelerate clean-energy projects in Africa. The initiative will be funded by Abu Dhabi's clean-energy company Masdar, the Abu Dhabi Fund for Development, Etihad Credit Insurance and the Dubai-based renewable energy company AMEA Power. Africa50, an investment platform established by African governments and the AfDB, has also joined the initiative.

The UAE through the Abu Dhabi Fund for Development (ADFD) is also a member the Arab Coordination Group (ACG), an alliance of some of the wealthiest development financing institutions on earth, which in November 2023 announced that it is allocating some US$50 billion to help build resilient infrastructure and inclusive societies in the African continent.

To date, the ACG has cumulatively invested over US$220 billion to support the sustainable development of countries in Africa. ADFD is also a major contributor to the US$1.5 billion Special Agro-Industrial Processing Zones (SAPZs) Alliance comprising the AfDB, the IsDB and the EIB. Once operational, SAPZs will increase food processing efficiency, capacity in agricultural value addition, and create employment and trade.

Carbon trading and credits is also gaining momentum. The UAE Ministry of Climate Change and Environment, according to a Bloomberg report, is in the process of developing a carbon registry aimed at tracking companies' efforts to reduce emissions and involving various industries. It could be the precursor to establishing a nationwide trading programme for carbon credits. The national registry initiative is expected to be formally announced during COP28. The UAE was the first oil producer in the Middle East to declare a net zero target by 2050.

In October, First Abu Dhabi Bank (FAB), the UAE's largest bank and a founder member of the UAE Carbon Alliance, signed MoU agreements with Blue Carbon and Masdar for the supply of high-quality carbon credits and to support the development of high-integrity carbon markets. FAB recently launched its dedicated carbon trading desk, part of its Global Markets offering, in line with the bank's mission to expand its carbon capabilities!

Trilemma of Trade-offs - Rising Public Debt, Inequality, Climate Fragility

H.E. Mohammed bin Hadi Al Hussaini, ***Minister of State for Financial Affairs for the United Arab Emirates (UAE),*** in his statement to The International Monetary and Financial Committee (IMFC) at the Autumn Meetings of the World Bank/IMF Group in Marrakech, Morocco in October 2023, explores the gamut of acute challenges facing policymakers in the emerging market and developing economies (EMDEs) against a background of subdued global GDP growth, the urgent remedies that must be adopted especially by international gatekeeper institutions such as the World Bank/IMF to effect any chance of sustainable trade-and-investment led recovery and resilience, and the priorities for the UAE's COP28 Presidency in supporting policy and financial efforts towards just energy transition in vulnerable member states to ensure debt-free scaling up of climate finance, resilience, adaptation and mitigation.

H.E. Mohammed bin Hadi Al Hussaini,
Ministry of State for Financial Affairs for the United Arab Emirates

Although the global economy is recovering, the recovery is slow und uneven. Tight monetary policies, needed to fight inflation, and the withdrawal of fiscal policy support to prevent further accumulation of debt are also headwinds to growth. Geopolitical tensions, rising risks of geoeconomics fragmentation and related global headwinds also present new challenges for sustaining the recovery. The challenges are particularly acute for emerging market and developing economies (EMDEs) where prospects for income convergence have declined.

Policymakers are faced with difficult trade-offs, indeed a trilemma between preventing rising debt levels, protecting the vulnerable to prevent a large rise in poverty and income inequality, and meeting their development needs. Many EMDEs in the Middle East region face the additional challenges of fragility and hosting large refugee flows.

Against this background, central banks need to focus on durably restoring price stability while protecting financial stability. Fiscal policy needs to be supportive of monetary policy infighting inflation by reducing elevated debt levels, while continuing to protect the vulnerable from the elevated cost-of-living with targeted and temporary measures. At the same time, complementary structural policies are needed to boost supply capacity in the long-term.

These include employment, especially youth and women employment, gender and income equality, as well as economic diversification, which are major challenges facing the Middle East region and EMDEs more broadly. In this challenging environment, multilateral cooperation should strive to strengthen the global financial safety net, including IMF quota resources, ensure food security, strengthen trade, support economies needing debt reduction, and promote climate finance, while supporting climate transition efforts.

Subdued Growth Prospects in MENA Region and Constituency Members

Growth in the MENA region is projected to slow this year. The slowdown reflects tight macroeconomic policies to safeguard macroeconomic stability and debt sustainability, heightened fragility from ongoing conflicts, particularly in Sudan, and developments in the oil market among the region's oil exporters. Economic activity is expected to rebound in 2024 and further improve in 2025 as some of the factors weighing on growth in 2023 begin to dissipate.

Restoring price stability remains a high priority for our policymakers. Monetary policy generally remained tight across the region, with central banks in MENA continuing to increase rates in 2023. Countries with pegs to the USD raised interest rates broadly with or following the US Federal Reserve's rate increases. As a result, inflation has declined on average, although it remains high in some countries. Policymakers are also closely monitoring financial system vulnerabilities that could arise from continued monetary tightening.

Fiscal policy in the region is striving to preserve debt sustainability, build buffers, and support monetary tightening. Variations in fiscal balances remain wide in 2023 between oil exporters and importers in our constituency. Oil importers in our constituency have limited fiscal space. Moreover, in some of our middle-income oil importing countries, considerable fiscal consolidation efforts are expected to be partly offset by higher interest expenses. Despite large cumulative primary balance improvements, the increased interest burden would overwhelm the fiscal effort, resulting in a deterioration of overall fiscal balances. This is a pressing dilemma for many Ministers of Finance, especially that they are faced with rising social pressures amidst high and persisting inflation, as well as continued development needs.

A key vulnerability for the low-income countries (LICs) and fragile and conflict-affected states (FCS) in our region is their persistent lack of fiscal space to protect their vulnerable

"The slow and uneven global economic recovery, coupled with geopolitical tensions and rising risks of fragmentation, presents challenges for emerging markets. Policymakers face a trilemma in balancing debt levels, poverty prevention, and development needs, particularly acute in the Middle East region."

populations and the challenges associated with food insecurity and rising oil prices. Many FCS also face debt sustainability constraints. In these countries, any news shocks could stoke social tensions and weigh further on growth. We wish to reiterate, in this context, the importance of PRGT support in helping vulnerable countries meet their increasing financing needs.

In Somalia, prolonged drought and food insecurity present continued challenges for the Government and the people of Somalia. According to the Integrated Food Insecurity Phase Classification (IPC), by December 2023, one in four of the population (4.3 million) are expected to face a high acute food insecurity up from the current 3.7 million people (22 % of the population). In Yemen, the rise in global commodity prices and conflict in Ukraine are exacerbating the economic and humanitarian crisis. According to the World Food Programme, the number of food insecure people is projected to reach 19 million (two-thirds of the population) this year as rising global food prices and the recent exchange rate depreciation have pushed inflation to nearly 60%.

The Maldives' economy has recovered rapidly from the COVID-19 pandemic, with strong performance across all major sectors, particularly the tourism sector. Tourist arrivals in 2023 are projected to surpass pre-pandemic levels, boosted by the resumption of tourist arrivals from China. Real GDP is projected to grow by 9.4% in 2023, following the 13.9% growth recorded in 2022.The Maldives' authorities are well aware of the need for prudent and well-coordinated fiscal and monetary policies to safeguard macroeconomic stability, restore debt sustainability and sustain the current exchange rate peg, while supporting sustainable growth. To that effect, the authorities raised the tax rates on tourism and domestic goods and services taxes in 2023.

All the members of our Constituency are striving to strengthen resilience and growth prospects by pressing ahead with structural reforms for inclusive and resilient growth. They are fully aware of the need to accelerate reforms to create job opportunities for female workers and the youth as unemployment in some countries remains higher than its pre-pandemic 2019 level. As part of their efforts to achieve the Sustainable Development Goals (SDGs) and their commitment to addressing global challenges, several members of our constituency are accelerating investments in renewable energy, promoting sustainable finance, and supporting climate resilience in vulnerable nations. Our region is also keenly aware of the importance of regional integration and cooperation. This includes promoting trade and investment, harmonizing regulatory frameworks, and enhancing regional financial safety nets.

Following the achievements of COP27 that was hosted by Egypt in 2022, the United Arab Emirates will host COP28 this year. COP28 will focus on pragmatic solutions to keep the 1.5C goal alive and ensure that the world responds to the first Global Stocktake with a clear plan of action, including measures that need to be put in place to bridge the gaps in progress, with a special focus on the Global South and countries most vulnerable to the effects of climate change.

Expectations for the IMF

We welcome the Managing Director's Global Policy Agenda (GPA). We also appreciate the responsiveness and support of the IMF's Middle East and Central Asia and other departments to our region's needs. In the context of continued uncertainty, we look forward to the IMF's agile support to members, particularly FCS, low-income, and middle-income countries, through tailored policy advice, timely and adequate financial support, flexible conditionality and understanding of political-economy considerations. as well as targeted capacity development. The IMF is our member countries' trusted advisor and lender of last resort, it also has an exceptional convening power.

Economic Stability Priorities for the Coming Period

Restoring macroeconomic stability hinges on a global debt restructuring architecture that can durably address debt vulnerabilities. Over half of LICs are in or at a high risk of debt distress and about a fifth of emerging market economies also vulnerable. Building on recent progress, we, therefore, support further efforts to enhance the effectiveness of the G20 Common Framework so that it delivers in a timely and predictable manner.

We support the Global Sovereign Debt Roundtable (GSDR) initiative that facilitates discussions on key issues, such as comparability of treatment, cut off dates, and the treatment of domestic debt and restructurings. We support the IMF's work on improving public debt transparency and fiscal risk management, as well as envisaged reform options to promote the IMF's capacity to support countries undertaking debt restructurings. We call for enhanced work to alleviate debt vulnerabilities in middle-income countries, as warranted, and to expanding the Common Framework to include these countries.

Safeguarding economic stability needs to assess the implications of "higher for longer" interest rates. The IMF rightly highlights the adverse impact of rising interest rates on debt levels. For instance, in the MENA region, primary fiscal balances are expected to improve in the region's emerging market and middle-income economies though higher interest payments will offset a considerable portion of consolidation efforts. It would be useful for the IMF to assess the implications of "higher for longer" interest rates on financial stability and debt sustainability in the MENA region and EMDEs more broadly.

The IMF structural reforms agenda needs to include key challenges facing EMDEs. We welcome the focus in the GPA on the benefits of well-calibrated and sequenced structural measures, including governance, business regulation, and external sector, that can provide substantial output gains (up to 8 percent over four years for EMDEs with large structural gaps), while easing macroeconomic pressures. It is essential for the IMF to work on structural reforms to include job creation, gender and income equality, as well as economic diversification, which are key challenges facing EMDEs.

The IMF needs to further stress the call for multilateral cooperation on trade policies. The IMF work on trade fragmentation is indeed striking, with the cost estimated at about 7 percent of output, and 12 percent for some vulnerable EMDEs, when technological decoupling is added. Against this background, a clearer message by the IMF on the adverse implications of trade restrictions, including on global food security, would be useful. The IMF could also stress the need for multilateral cooperation on trade policies.

We support efforts to ensure that the IMF's lending toolkit continues to meet members' needs. The Resilience and Sustainability Trust (RST) is an important complement to the Fund's lending toolkit. The current crisis is a reminder that, in addition to climate change and pandemic preparedness, the RST should cover the structural challenges that affect EMDCs most. These include job creation, more equal opportunities, and economic diversification, as mentioned above. We look forward to the interim RST review to take stock of experiences, notably the speed with which an RST is put in place, the weight of conditionality and the scope of the RST.

We remain concerned that FCS facing debt sustainability concerns remain unable to access the Food Shock Window and encourage staff to explore ways to better support them. We encourage IMF staff to carry out country-specific analyses of the implications of refugee flows. This includes detailed assessments of the direct and indirect economic costs for hosting communities. Geopolitical tensions have brought attention to challenges related to refugee flows, an issue that Jordan and Lebanon in our constituency have been faced with since the onset of the Syrian crisis about twelve years ago. Such work would be instrumental to the effort to mobilize adequate and timely donor support.

Embracing New Digital Technologies to Mitigate Risks and Promote Inclusion

IMF policies should aim to leverage on the benefits of new digital technologies while mitigating risks and promoting financial inclusion. The IMF's work with relevant institutions on modalities to improving cross-border payments, including through new payment infrastructures, and developing a framework for effective policy responses to crypto assets, is helpful. We emphasize the need for evaluating the potential benefits and the development of a suitable framework for the implementation of Central Bank Digital Currency (CBDC). Several central banks within our constituency have initiated studies to explore the feasibility of CBDC implementation, and how it could be a new form of currency, envisioning that it may have a cascade of benefits to the financial system and markets.

Adequate budgetary resources are needed if the IMF is to support the membership meaningfully in the area of digitalization. We support the IMF's work on informing a comprehensive, consistent, and coordinated policy framework for crypto assets and support its use to guide staff's policy dialogue with country authorities and capacity development activities. We also support the IMF's participation in discussions with standard-setting organizations. We emphasize the importance of financial inclusion, and the role digital technologies can play in achieving this objective. This includes supporting fintech innovation, enhancing digital infrastructure, and implementing regulatory frameworks that promote financial inclusion and consumer protection.

Climate-related work in multilateral surveillance needs to include climate finance, climate adaptation, and transition efforts, which concern a large portion of the membership. We recognize that the scale of climate finance needed to meet the goals of the Paris Agreement requires a new ambitious framework that would address the mitigation and adaptation needs from all sources of finance, including public, private, philanthropic both domestic and international, and we encourage the COP28 Presidency to work with all parties to lay the foundations of such a framework.

UAE Priorities for COP28

Climate adaptation and climate just transition were central themes in Egypt's COP27 and will remain top priorities of the COP28 that is also hosted by our region. The UAE's COP28 Presidency encourages the Fund to continue supporting policy and financial efforts towards just transition and building climate resilience in member countries. It is crucial that climate finance be scaled-up without worsening developing countries' debt situations, and Fund support will be crucial in this regard, including in supporting the re-channelling of SDRs. A large share of climate finance will have to come from the private sector. The Fund also plays a key role in this regard by helping to promote enabling environments in member countries and develop their domestic capital markets.

We fully support the IMF's capacity development (CD) work. We welcome the envisaged 18 percent increase in the Middle East and Central Asia department's CD workplan in FY24 relative to FY23. We trust that this trend will be sustained in the coming years owing to the activities of METAC, the launch of CCANTAC and the opening of the new Saudi regional office, where the Saudi contribution is expected to alleviate funding constraints and help meet demand. We support the focus of planned CD on priority countries, namely program countries and FCS. In this connection, METAC continues to play a central role in CD efforts in our region as it provides technical assistance and training courses to fourteen countries, nine of which are FCS. Particular attention to deepening domestic local currency markets and pension reforms to support domestic resource mobilization is warranted. We also welcome enhancing CD delivery in improving cross-border payments and supporting countries' consideration to introduce CBDCs.

We support the GPA's recognition that the strength of the Fund comes from its talented and diverse employees. The 2022 Risk Report made a concerning assessment of human resources risks that warrant attention and mitigation. The Fund's decreasing competitiveness and staff wellbeing are concerning matters that need to be addressed seriously. The GPA could usefully refer to measures to mitigate these risks. We encourage efforts to achieve geographic diversity and inclusion benchmarks in underrepresented regions, particularly MENA.

A strong, quota-based, and adequately resourced Fund, at the centre of the global financial safety net, is more essential than ever in the current global environment. Given the critical role the IMF will play in the future shock-prone global economy, we welcome the GPA's emphasis on a successful completion of the 16th General Review of Quotas for an adequately resourced, quota-based IMF at the centre of the global financial safety net. After completing the Review, we fully support the proposal to review the GRA access limits and modify the Fund's surcharge policy.

We also support creating a twenty-fifth chair at the Board to provide an additional chair for Africa and thus improve the continent's representation, learning from the World Bank's experience in this regard. Against a background of rising borrowing costs amidst continued uncertainty, the surcharges risk more than ever to disproportionately affect vulnerable EMDEs that require large amounts of Fund financing. The surcharges also unduly penalize those countries at a time when they need Fund financing most. We also support aligning PRGT and GRA access limits to ensure uniformity of treatment and avoid leaving the Fund's vulnerable members behind.

Editor's Note: This is an abridged version of the statement by Minister Mohammed bin Hadi Al Hussaini to the IMFC. He was speaking on behalf of the UAE and the Group's Constituency Members compromising Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, Somalia and Yemen.

Interview - ECAs in a World of Ever Evolving Risks

The UAE is Confidently Moving Towards a Sustainable Economy with Deliberate and Informed Action

*In a world of increased uncertainties, geopolitical tensions and heightened concerns over the devastating impacts of climate change, the role of export credit agencies (ECAs) assumes an even greater importance especially as absorbers and underwriters of a motley of emerging risks. Here **Raja al Mazrouei**, **CEO of Etihad Credit Insurance (ECI**), the state ECA of the UAE, in a wide-ranging interview, discusses the vital role credit and investment insurance plays in the economy, especially its pivotal task of supporting the development of the non-oil sector and providing a safety net for green investments in renewable energy projects thereby boosting the confidence of stakeholders to fund and support sustainable initiatives, the importance of Shariah-based de-risking solutions and how to upscale these, and the UAE and ECI's leadership role in promoting gender empowerment, smart partnerships, digitalization, export market diversification and supporting the crucial SME sector, while never losing sight of the emerging trends in export trade, FDI flows and the decarbonization discourse.*

H.E. Raja Al Mazrouei,
CEO, Etihad Credit Insurance

What is the uptake culture and market penetration of credit and investment insurance in the UAE and the GCC region in terms of business insured, guarantees, claims, and so on? In May, ECI hosted the annual meeting of the Aman Union. The Aman Union released a report on the state of export credit and political risk insurance ecosystem in member states. At best, the report suggested that the culture of credit insurance is fragmented and dominated by a few markets and players, including ICIEC, Turk Eximbank, ECI, and Saudi EXIM. How do we widen the spread, reach, and uptake of credit insurance in the member countries?

The culture of credit and investment insurance in the UAE and the GCC region is still in its developmental stages. Currently, the market penetration of these services is relatively modest, primarily due to a lack of awareness, perceptions of high costs, and the complexity of insurance products. According to the recent Aman Union report, despite these challenges, the UAE, under the support of Etihad Credit Insurance, has carved out a leadership position responsible for 30% of the region's export credit guarantees in 2021, with a predominance of short-term contracts.

To widen the spread and reach of credit insurance across member countries, it's crucial to embark on a multifaceted approach. First, we need to intensify educational efforts to raise awareness about the protective and growth-enabling benefits of credit insurance. Simplification of product offerings is also essential, making them more understandable and accessible to businesses not versed in insurance complexities. Concurrently, the cost structure must be revisited to ensure competitiveness and affordability.

In addition to these measures, strengthening partnerships with financial institutions can effectively promote the adoption of credit insurance, as banks can offer it alongside their existing financial products. Moreover, governments in the region could incentivize the use of such insurance through subsidies or by mandating it for specific business transactions, such as international trade. In essence, through combined efforts in education, simplification, cost reduction, and strategic partnerships, the GCC can elevate the profile and adoption of credit and investment insurance, fostering a more secure business environment conducive to economic development.

The UAE government has declared 2023 as 'The Year of Sustainability.' As we approach COP28 in Dubai in December,

how does this translate into real economy action and delivery? This initiative aims to promote sustainable development and environmental conservation, encouraging governments, individuals, and organizations to act more responsibly, reduce their carbon footprint, increase the adoption of renewable energy, and promote sustainable consumption and production of energy. This is a tall order and would require a cornucopia of partnerships and a huge pool of resource mobilisation. Are we raising expectations too fast and too unrealistically?

The UAE's declaration of 2023 as 'The Year of Sustainability' and its role as the host of COP28 is a natural progression of its established environmental strategy, not an abrupt escalation of ambition. Long before this declaration, the UAE had been laying the groundwork for a sustainable future through meticulous planning and a series of strategic initiatives aimed at achieving net-zero emissions. With substantial investments in renewable energy, evidenced by projects like the Mohammed bin Rashid Al Maktoum Solar Park and a proven track record of reducing carbon emissions by 25% since 2010, the UAE is not just envisioning a sustainable future, it is actively constructing it.

This commitment is supported by a strong vision from the leadership and detailed, comprehensive plans that have been put into place across all levels of government. These efforts are rooted in in-depth studies to ensure that each goal is pragmatic and achievable. This narrative of progress is bolstered by the UAE's strategic initiatives across various sectors, aiming for 50% of its energy to come from renewable sources by 2030. The country has become a model for sustainable urban planning, with pioneering projects like Masdar City and Sustainable City Dubai.

As we move towards COP28, the UAE's approach involves leveraging partnerships and mobilizing a broad spectrum of resources to realize these sustainable objectives. The scale of these ambitions is significant, yet the UAE has repeatedly demonstrated that with clear strategies and collaborative effort, such aspirations are well within reach. In essence, the UAE is not raising expectations too fast or unrealistically but is confidently moving towards a sustainable economy with deliberate and informed action.

COP28 will underscore the critical role of oil and gas economies in combating the climate crisis. As the energy crisis continues to dominate global concerns, the oil and gas economies will be in pole position to set the pathway towards clean and just energy transition both at home and abroad. Can you outline the progress of the UAE towards its stated strategy of promoting a green economy, investing in clean and renewable energies, and setting a net-zero pledge by 2050? What are the priorities, and what role does an institution such as ECI have to future play? What portion of ECI's funding and underwriting is dedicated to Green projects and sustainability?

The UAE has been steadfast in its journey towards a sustainable and diversified economy, decisively pivoting from its traditional oil-based economy to one that is innovative, knowledge-based, and environmentally responsible. A testament to this transition is the significant contribution of the non-oil sector to the nation's GDP, which stands at an impressive 71 percent, driven by advancements in sustainable finance, technology, and innovation. This strategic shift is anchored in the country's substantial investments in clean energy, evident from the solar and wind projects that dot the landscape and its pioneering sustainable urban development exemplified by Masdar City.

The UAE's updated Energy Strategy 2050 and the ambitious 'Net Zero by 2050' and 'UAE Vision 2031' initiatives mirror the government's resolve to balance economic growth with ecological sustainability. These strategies are complemented by large-scale projects like the Mohammed bin Rashid Al Maktoum Solar Park and the Barakah Nuclear Power Plant, cornerstones in the UAE's transition to a green economy. Moreover, the nation's active role

in international sustainable platforms, such as the International Renewable Energy Agency (IRENA), showcases its commitment to global collaboration for a sustainable future and reducing carbon footprint.

In July 2023, the UAE announced its plans to invest up to AED200 billion in sustainable development projects over the next five years. This investment will support the development of renewable energy, energy efficiency, and sustainable infrastructure projects. In this context, institutions like Etihad Credit Insurance (ECI) are pivotal. ECI underwrites the risks for renewable energy projects, facilitating the nation's transition to a sustainable future. Its role is instrumental in providing a safety net for green investments, thereby boosting the confidence of stakeholders to fund and support sustainable initiatives.

ECI supports the development of the country's non-oil exports, trade, and strategic sectors by offering trade credit insurance and risk management services. Which sectors and markets are you prioritising? The UAE recently pledged $4.5bn of investments in the renewable energy sector in Africa and ECI is one of the cohort participants. You are also active in the IPP sector in various countries, including Uzbekistan. Do you have any targets in terms of business insured, resource allocation and impact measurement? In this respect, we are living in a world of poly-crises and uncertainties. This means increased risks – both existing and new ones. What are the challenges in terms of your risk management strategy?

The UAE's commitment to shaping a robust and sustainable future is well embodied in ECI strategic priorities. Our mission aligns perfectly with the country's vision for a sustainable and diversified economic future, focusing on bolstering non-oil exports, trade, and strategic sectors that fortify the nation's position as a global hub for trade and innovation. Our role in facilitating trade credit insurance and risk management services is tailored to support industries such as renewable energy, advanced technology, agriculture, and infrastructure development that promise high growth potential. We prioritize markets where there is a confluence of UAE strategic interests and developmental impact, as exemplified by our $4.5 billion investment in Africa's renewable energy sector target of delivering clean energy to 100 million people by 2035, backed by ECI's pledge to secure US$ 500 million in credit insurance and our participation in the Independent Power Projects in Uzbekistan.

In terms of targets, we aim to ensure that our business insurance and resource allocation enhance the UAE's export competitiveness while contributing to the global transition to sustainable energy. The measures of our impact are twofold: first, in the economic growth and diversification of the UAE, and second, in the contribution to sustainable development in the regions we operate. Risk management in today's environment of heightened uncertainties demands vigilance and adaptability.

Our strategy encompasses a comprehensive and robust risk assessment framework that considers a spectrum of factors, including political stability, economic policies of partner countries, market volatility, environmental sustainability, and social impacts, ensuring that our clients are safeguarded against the multifaceted risks in international trade and project financing. ECI's approach is characterized by a continuous and proactive reassessment of its risk management frameworks to safeguard the interests of the UAE's economic diversification goals while promoting sustainable and socially responsible trade practices globally.

ECI offers both conventional and Shariah-compliant credit and investment risk insurance solutions. How important is Takaful-based de-risking solutions for ECI, given that the Islamic finance sector in the UAE continues to grow and has a sizeable market share of the banking sector and is of systemic importance to the UAE economy and in the context that the UAE economy is fast diversifying away from oil and gas and boosting its non-oil exports? Can you give a breakdown of the data for the two conventions?

Takaful-based de-risking solutions are an integral part of ECI's portfolio, especially in the context of the growing Islamic finance sector in the UAE, which commands a significant share of the banking industry. As the country diversifies its economy and enhances its non-oil exports, the need for Shariah-compliant financial instruments becomes even more pronounced.

We recognize the potential of Takaful to not only provide security and compliance with Shariah principles for our clients but also serve as an instrument for new market penetrations, particularly beneficial for non-oil sector expansion. By offering conventional and Takaful-based solutions, including trade credit insurance, investment insurance, and surety insurance, all aligned with Shariah principles, we ensure inclusivity and support the financial preferences of businesses that contribute to the UAE's economic diversification. To date, we have facilitated a suite of Takaful products to 18 corporates, illustrating our capacity and dedication to meet the growing market demand, which stands at a 30% share for Takaful within our portfolio.

The demand for Takaful products reflects the UAE's commitment to economic innovation and its respect for cultural and financial practices prevalent in the region. The data indicating the uptake of conventional versus Takaful-based solutions is dynamic and reflects a nuanced market. While I cannot provide specific breakdowns, I can affirm that the growth in the Takaful segment is robust, mirroring the overall expansion of Islamic finance. We continuously evaluate our offerings to ensure they are competitive and in sync with market dynamics, reaffirming our commitment to the economic vision of the UAE.

In this context, partnerships and collaboration are very important. Can you elaborate on your relationship with ICIEC, the Aman Union, and industry organisations such as MIGA and the Berne Union? How important is it for UAE-based businesses to access global trade opportunities?

Partnerships are central to Etihad Credit Insurance's (ECI) strategic approach, serving as an instrument for UAE-based businesses to tap into global markets and nurture a robust trade finance ecosystem. Our partnerships are carefully curated to encompass mutual benefits, leading to more resilient and sustainable support for businesses engaged in global trade.

Through our collaboration with ICIEC, we leverage synergies to enhance the reach and effectiveness of our Shariah-compliant solutions. This partnership enriches our risk management framework and amplifies our collective expertise in Islamic finance, thereby facilitating the expansion of UAE businesses into new markets while adhering to Islamic principles. On the other hand, our membership with the Aman Union strengthens our regional cooperation, offering a platform for knowledge sharing and fostering best practices in export credit and investment insurance within the Middle East and North Africa (MENA) region.

This collaboration ensures that UAE businesses are well-equipped to navigate the regional trade landscape with minimized risks. Additionally, engaging with global industry organizations such as MIGA and the Berne Union broadens our perspective and capabilities. These interactions not only enhance our understanding of global trade challenges but also provide UAE businesses with the assurance and backing they need to pursue cross-border ventures confidently.

The result of such synergistic partnerships is multifaceted: from risk mitigation, which encourages favorable financing terms, to fostering innovation and skill development that fortify the local business landscape. Moreover, our collaborations provide invaluable insights into cultural nuances and regulatory landscapes, enabling us to tailor trade finance solutions to local and international needs and to ensure that these businesses, particularly SMEs, are empowered to compete on the international stage with a solid risk management foundation.

You are a keen proponent of digital transformation and for businesses and stakeholders adopting the latest technologies and developing an interconnected global ecosystem and a diverse portfolio of transformative projects to drive national exports geared toward diversifying the country's economic streams. How important is digitalization in climate and energy transition, in trade and real economic transformation, business and SME development?

Digitalization acts as a crucial catalyst across various facets of economic transformation. In the context of climate and energy, digital technologies like AI and IoT enable smarter energy grids and more efficient resource management, which are vital for fostering sustainable practices and the shift towards more sustainable energy sources, thereby supporting the UAE's commitment to a green economy.

For trade, technologies such as blockchain and data analytics revolutionize transactions and supply chain oversight, ensuring transparency, streamlining operations, and reducing barriers to entry, allowing even small players to participate in the global marketplace. For

businesses and SME development, the impact of digitalization is particularly profound. It levels the playing field, allowing SMEs to scale rapidly and access global markets with reduced capital expenditure, enabling them to optimize their operations and compete with larger enterprises like never before. At ECI, we recognize the transformative power of digitalization. We invest in digital platforms that offer seamless and efficient service delivery to our clients. By embracing the latest, we are improving our operational efficiencies and empowering our stakeholders to make informed decisions, mitigate risks, and capitalize on emerging opportunities.

You are also a keen supporter of gender empowerment in the Emirati workplace, business and in society in general. In your keynote speech at the Emirati Women's Day celebration, you alluded to Emirati women: "Your journeys are inspiring narratives of resilience, strength, and success, and they have the power to inspire others to reach for their own dreams, no matter how audacious they may seem." What is the trajectory in the UAE of gender parity in business, industry, government, at the board level, and senior management? Are there any more glass ceilings to be broken, especially in the corporate sector? How many women does ECI employ? How important is it for women in the world to fully partake and be acknowledged in the climate action and delivery discourse?

The UAE has emerged as a global leader in promoting gender parity, particularly in business, industry, and governance. The UAE's robust approach towards women's empowerment is demonstrated by its legislative frameworks, governmental strategies, and dedicated institutions that foster an environment conducive to women's success in various fields.

The statistics and initiatives outlined point to a positive trajectory where Emirati women are not only participating in the workforce but are also occupying key positions in tech, finance, and other traditionally male-dominated industries. Women in the UAE now hold 29% of ministerial positions, run projects worth over AED 50 billion, and occupy 15% of positions on the boards of chambers of commerce and industry. These figures underscore the breaking of glass ceilings and creating an enabling environment for women to thrive.

Reports indicate a disparity in senior leadership positions held by women globally, however, the UAE's efforts to bridge this gap have been significant and multifaceted. For instance, the mandate for listed companies to have at least one woman on their boards has borne fruit, with the percentage of companies with female board members on the Abu Dhabi Securities Exchange jumping from 10% in 2019 to 65.7% in 2022. ECI aligns with this national ethos, supporting women through equal pay for equal work, flexible work arrangements, mentorship programs, and the potential introduction of diversity KPIs. Such measures are designed to cultivate a supportive workplace that acknowledges and leverages the skills of women in leadership and specialized roles.

As for climate action, Women's perspectives and leadership are critical in shaping sustainable and inclusive policies, and They offer unique views and solutions that are crucial in tackling climate change, one of the most pressing issues of our time. Their involvement ensures that climate action is comprehensive and inclusive, leading to more effective and sustainable outcomes. Acknowledging and incorporating women's contributions in climate-related initiatives is not just a matter of equity but also of tapping into a wealth of knowledge and experience that can drive better environmental stewardship and foster a resilient and environmentally conscious world.

Looking ahead, what are the key trends in the global export market? In terms of your sector priorities, which are the most urgent – food security, climate action, decarbonisation, sustainable development, clean and just energy transformation, and the role of SMEs in driving GDP in the economy?

Navigating the future landscape of the global export market requires a keen eye on the emerging trends that are rapidly defining the trade ecosystem. The increase in consumer demand within developing nations offers expansive opportunities for a diverse range of products. E-commerce continues to revolutionize trade, breaking down traditional barriers and opening up new channels for cross-border commerce.

Simultaneously, the shift in trade patterns is a clear signal for exporters to explore fresh markets, with regions such as Africa and Latin America presenting fertile ground for diversified trade relationships. Within this evolving framework, specific sectors emerge as urgent priorities. Ensuring food security is a formidable challenge, demanding innovative solutions in the face of climate adversity and an expanding global population.

The imperatives of climate action and the journey towards decarbonization are intertwined, mandating a cooperative push from both the public and private sectors to build a low-carbon future. Sustainable development threads through these priorities, encapsulating a holistic approach that harmonizes environmental stewardship with economic and social progress. Similarly, the transition to clean and accessible energy is pivotal, not just for environmental health but as a cornerstone of global energy security.

Central to this discussion is the critical role of SMEs, which are engines of economic growth, innovation, and diversification. Their potential to drive job creation and regional development is profound. By nurturing an entrepreneurial and innovative environment, coupled with support in finance and skill development, SMEs can be empowered to drive the economy forward. In line with ECI's vision to drive the global competitiveness of the UAE and its mission to support the diversification and growth of the UAE economy, the role of SMEs is clearly pivotal.

With 557,000 SMEs contributing 63.5% to the non-oil GDP as of mid-2022, these enterprises form the backbone of our national economic fabric. Our commitment is reflected in the support structures we have in place to facilitate the growth and global outreach of SMEs. As we look towards having 1 million SMEs by 2030 in UAE, ECI's strategic priorities include providing trade finance and credit insurance solutions that enable these businesses to expand confidently into new markets, ensuring they remain competitive and robust in the global export market.

Stage is Set at COP28 Why Fossil Fuels Aren't Going Away...

Samar Hana,
Senior Energy Policy Specialist,
European Electricity Entities

On the eve of COP28, parties from around the globe will assemble to evaluate progress against the objectives set out in the Paris Agreement at COP21. The 2015 Agreement established the first legally binding framework for international climate action since the 1997 Kyoto Protocol, effectively superseding the latter treaty. Unlike Kyoto, the Paris Agreement does not impose strict, legally binding targets for emissions reductions, but instead seeks to improve capacity building and reporting capabilities, requiring 196 signatories to devise, update and regularly account for Nationally Determined Contributions (NDCs) to the collective effort to reach net-zero emissions by 2050, and limit global warming to at least 2°C. But as ***Samar Hana, Senior Energy Policy Specialist at two European Electricity Entities, maintains,*** COP28 Dubai will be a painful reality check because it will unveil the Global Stocktake, an impact assessment of the progress towards achieving the Paris goals and the gaps that need urgent redress.

For the first time since the Agreement was signed, a UN Climate Change Conference (UNCCC) will engage in a Global Stocktake (GST), a quinquennial process designed to assess the impact of efforts thus far and provide a framework for building new ambition. Countries will be required to submit a second round of NDCs in 2025, with targets for 2035.

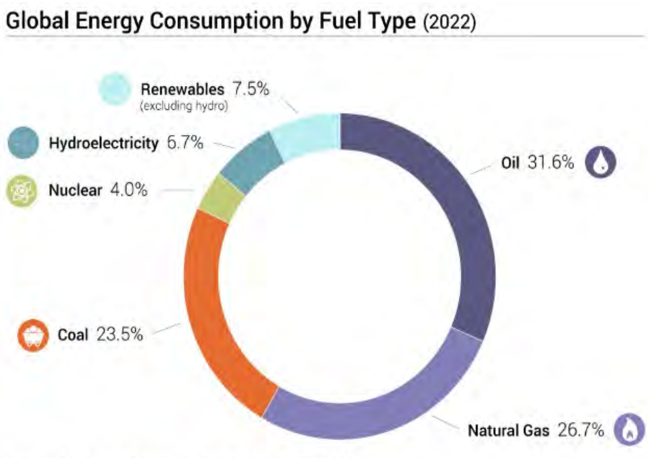
Starting in 2024, countries will also be required to establish an enhanced transparency framework (ETF), a biannual reporting process to track the progress of climate change mitigation and adaptation measures, as well as climate investment. The ETF also provides a procedure for expert multilateral review of NDCs, and a requirement to disclose GHG inventories, although several dispensations are made for developing countries.

Challenges Ahead

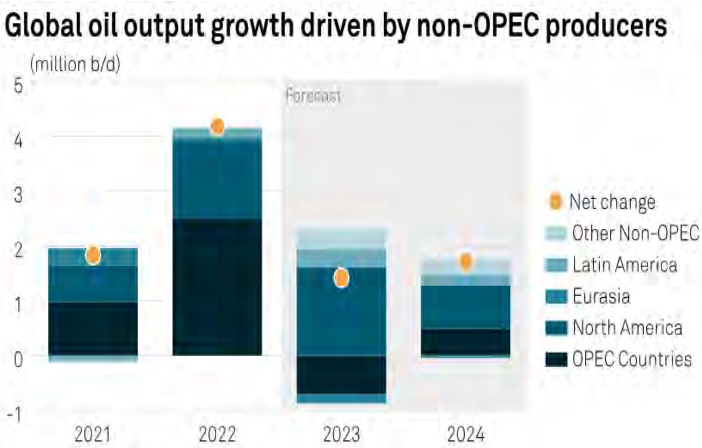
Each year, to inform the work of the UNCCC, the UN Environment Programme (UNEP) produces three key publications to assess the adequacy of collective progress in: i) reducing global GHG emissions, ii) restricting fossil fuel production, and iii) securing investment in climate adaptation.

While past performance does not preclude future success, evidence would suggest that despite ongoing efforts, the climate outlook is grim, as global average temperatures and greenhouse gas (GHG) emissions reach all-time highs.

The 2023 Emissions Gap Report reveals an increase in global GHG emissions by 1.2% between 2021 and 2022, to reach a new record of 57.4 gigatonnes of CO2 equivalent. And the world is on track to achieve a global average temperature rise of 2.5-2.9°C above pre-industrial levels this century, well above the upper threshold of 1.5-2°C prescribed by the scientific community and enshrined in the Paris Agreement.



Source: Statistical Review of World Energy, June 2023



Source: US Energy Information Administration

At the time of writing, 97 parties responsible for 81% of global GHG emissions had adopted net-zero strategies but none of the G20 countries were reducing emissions at a pace consistent with their respective targets.

The report suggests the world needs to cut GHG emissions by a further 28% compared with current policy scenarios by 2030 to stay on the least-cost pathway to limit global warming to 2°C. However, existing NDCs (if realised) are estimated to drive only an 11% reduction in global emissions by 2030, compared with current policies.

The 2023 Production Gap Report suggests that when taken together, existing national climate plans would result in an increase in global coal output until at least 2030, while global oil and gas production isn't expected to peak until at least 2050. It also shows that fossil fuel producers plan to extract more than double the amount of fossil fuels in 2030 than is consistent with the 1.5°C target, calling instead for at minimum a complete phase-out of coal-fired electricity production by 2040, and a 75% reduction in oil and gas use by 2050 compared with 2020 levels.

The 2023 Adaptation Gap Report delivers an equally damning assessment of the state of climate adaptation across finance, planning and implementation, estimating that developing countries will need to invest in the range of US$215-387 billion per year this decade to mitigate the worst impacts of climate change.

The current adaptation finance gap stands at US$194-366 billion per year based on 2021 figures, with aggregate multilateral and bilateral adaptation finance flows to developing countries of only US$21 billion in 2021. Another study suggests that the 55 most climate-vulnerable countries have already suffered losses of over US$500 billion due to climate change, and the environmental impacts of fossil fuel production, over the last two decades.

Profits Above All

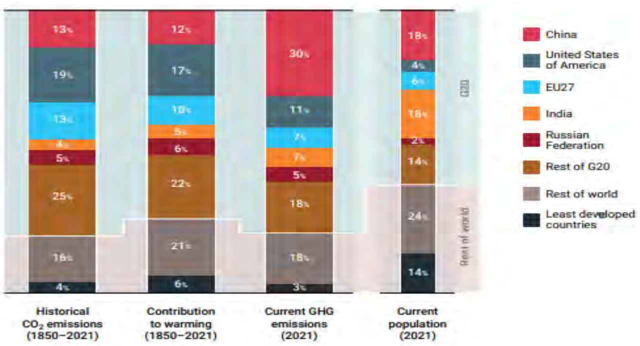
Neither developed, nor developing countries, appear willing to divest from fossil fuels if divestment comes at the expense of economic growth. In several countries fossil fuel production and exportation accounts for a large portion of GDP, including close to 4% in the US, 16% in Russia, and as much as 40% in Saudi Arabia.

If the ongoing gas crisis has underscored the importance of reducing national reliance on imported fuel, with several developing countries continuing to suffer daily blackouts due to shortages, it has also provided a strong signal for greater investment in fossil fuel exploration and production amid record profits.

The revival in exploration activity is a response to pressure from investors to maximise profits from high-value oil and gas products rather than invest in renewable energy, which is typically far lower margin. Upstream oil and gas have historically returned 15-20% while most renewable projects have delivered around only 8%.

The International Energy Agency (IEA) (see https://www.iea.org/reports/world-energy-investment-2023/overview-and-key-findings) forecasts that upstream oil and gas investments will grow by 7% year-on-year to US$528 billion in 2023, the highest level since 2015.

Current and historic contributions to climate change (% share by countries or regions)



Source: Statistical Review of World Energy June 2023

Total investment in unabated fossil fuel supply and power is expected to amount to around US$1 trillion versus around US$1.7 trillion invested in clean energy, including renewable power, nuclear, grids, storage, low-emission fuels, efficiency improvements and end-use renewables and electrification.

Subsidies for fossil fuels paid out an aggregate of US$7 trillion in 2022, or 7.1% of global GDP, according to the International Monetary Fund, far outstripping equivalent schemes for renewable energy.

The boom in fossil fuel investment comes at a time when rising interest rates, high inflation and supply chain costs have led offshore wind developers in the UK and US to refrain from biding in capacity tenders or withdraw from their commitments altogether. For example, shares in the world's largest wind company, Ørsted, fell 25% in early November, after it withdrew from two US-based projects incurring a US$4.2 billion impairment charge.

Investor outflows from clean energy funds are also accelerating, with record net withdrawals amounting to US$765 million in January-August this year from the world's largest clean energy exchange-traded fund, iShares Global Clean Energy ETF (ICLN), as investors flock to higher value propositions, including technology stocks. And the Chinese government last year committed to add an unthinkable 106 GW of coal-fired capacity in the coming years to complement renewable additions, a after record drought in 2022 led to a drop in hydroelectric production, causing factories to shut down.

Setbacks are only natural for relatively new renewable entrants in a global energy market structured to service an established fossil fuel industry. Even in developed, liberalised energy markets in Europe and the US, the vast majority of utility-scale green energy projects will likely remain heavily reliant on government subsidies, and state aid, including market-based financing instruments such as contracts for difference (where government bodies play counterparty). And governments must also continue to play a vital role in supporting the decarbonisation of hard-to-abate sectors such as heating, the production of certain industrial goods, and transport, where electrification may be an unduly expensive and inefficient option at current prices.

Climate Justice

The share of fossil fuels in the global primary energy mix has remained unchanged for decades at around 80%, with renewable additions unable to offset the rise in aggregate demand.

By 2050 global energy consumption is expected to almost double from current levels according to various industry projections, driven by population growth and rapid economic development in emerging economies. Governments will come under enormous pressure to provide enough energy to satisfy consumer and industrial demand which will require a significant increase in power and fossil fuel production, as well as expansions to storage and grid infrastructure capacity.

The longevity of demand for oil, gas and coal is intertwined with the climate justice debate, which seeks solutions to the climate crisis that not only reduce emissions, but also facilitate the transition to a fairer, more equal world in the process. There is a strong ethical case for requiring developed countries to adopt an earlier date for net-zero commitments, to offset increases in emissions in developing countries as governments strive to lift billions of people out of poverty.

The success of the Paris Agreement rests on the ability of the international community to put aside national concerns and acknowledge that a unified approach to setting and achieving emission reductions must be adopted.

Only then can we expect to guarantee the viability of the global energy system, maximise social welfare gains for generations of consumers to come, and perhaps most importantly, consolidate the concept of sustainability as a key driver of economic growth.

OECD Capitalises on EU Initiative to Modernise the Orderly and Equitable Use of Officially Supported Export Credits for Climate Projects

One of the intended consequences of the agreement in principle reached by OECD member countries on 31 March 2023 on a wide-ranging European Union 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, writes ***Oussama Kaissi, CEO of ICIEC,*** is precisely to allow more generous and flexible financing terms for a wide range of climate-friendly projects.

Under the newly modernised Arrangement on Officially Supported Export Credits, which include Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland, Türkiye, the United Kingdom, and the United States, participants agreed in principle to specifically allow countries to offer greater support for green projects while also expanding the use of export credits in the context of an evolving world economy and an increasingly competitive landscape.

Mathias Cormann, OECD Secretary-General, is confident that "the modernisation package agreed by Participants to the Arrangement on Officially Supported Export Credits is a great milestone to help increase the impact of trade and finance flows on securing our climate objectives. It will allow the scaling up and a better targeting of public and private finance to support climate-friendly investments and help us meet our global net zero emissions objective."

The deal to update the Arrangement on Officially Supported Export Credits, he added, "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 include those related to:

- Environmentally sustainable energy production.
- C02 capture, storage, and transportation.
- Transmission, distribution and storage of energy.
- Clean (green) hydrogen and ammonia.
- Low emissions manufacturing.
- Zero and low emissions transport.
- clean energy minerals and ores.

The current financial terms are in the process of being 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 within the next few months, once the participants complete their formal internal decision-making processes and agree to the new Arrangement text. The EU initiated the modernisation process in June 2019 and put a 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. The 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 on 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 competing for overseas sales. Such support can take the form either of "official financing support," such as direct credits to foreign buyers or refinancing or interest-rate support, or of "pure cover support," such as export credits insurance or guarantee cover for credits provided by private financial institutions. ECAs can be government institutions or private companies operating on behalf of governments.

The OECD has a long tradition of rule making in the area of officially supported export credits, dating back to 1963. It provides a forum for exchanging information on member countries' export credits systems and business activities and for discussing and coordinating national export credits policies relating to good governance issues, such as anti-bribery measures, environmental and social due diligence, and sustainable lending. These discussions take place under the auspices of the Working Party on Export Credits and Credit Guarantees.

The OECD is also a forum for maintaining, developing and monitoring the financial disciplines for export credits, which are contained within the Arrangement on Officially Supported Export Credits. These disciplines stipulate the most generous financial terms and conditions that Members may offer when providing officially supported export credits. Discussions relating to the Arrangement take place under the auspices of the Participants to the Arrangement on Officially Supported Export Credits.

The Ethics of Carbon Credits and Certification

The world of carbon credits and offsets is in upheaval on the eve of the COP28 proceedings in Dubai following allegations of flawed methodologies, human rights abuses at projects certified, and approved projects which diametrically oppose the very ethos of sustainability and the ethics of carbon credits and certification. Given that there has been a dramatic proliferation of so-called "independent" carbon certifiers in the last few years in the wake of an intensified global campaign towards decarbonization and transition to a just clean energy dispensation, these developments could not have come at a worst time. Its tentacles have spread across the mainstream carbon credit ecosystem and beyond in the alternative Islamic carbon credit domain. ***Mushtak Parker*** navigates the controversial carbon credit certification landscape and suggests that the faith-based Islamic carbon credit certification, once fully developed and applied, which has sustainability and social responsibility embedded in its very ethos at the onset, may have some important lessons for the mainstream players to contemplate.

When the world's largest and leading carbon offset certifier, Verra is accused of several alleged shenanigans over the last few months, ranging from serious allegations of physical and sexual abuse at the Kasigau Corridor REDD Project in Kenya, to approving projects that have caused deforestation and human rights abuses in Cambodia in Cambodia, then the world of carbon trading and offsetting are forced to sit up and take notice.

After all, Verra has issued over one billion carbon credits since 2009, which it claims have enabled billions of dollars to be channeled to urgent climate action, which is vital to keeping us on track for the Paris Agreement goal.

These are allegations which Verra has vowed to investigate. Suffice to say, the company did briefly respond: "This morning, Verra was made aware of serious allegations of physical and sexual abuse at the Kasigau Corridor REDD Project in Kenya. These allegations originate from the Kenya Human Rights Commission (KHRC) and the Centre for Research on Multinational Corporations (SOMO). Verra is taking immediate action."

Similarly, in a UK Channel 4 documentary, 'The Great Climate Scandal', the investigation follows alarming claims that Verra – one of the key organisations responsible for certifying carbon credits around the world – has given approval to carbon reduction projects alleged to have contributed to rainforest destruction in Cambodia. The documentary "further reports of forest offsetting projects around the Global South that appeared to be doing more harm than good, not just to the planet but also local people. A number of these projects appeared to be located in Cambodia, where there is widespread corruption and illegal logging."

The push back by Verra was explicit. "This documentary misrepresents the VCM and Verra's role within it and failed to engage with Verra in good faith throughout the production process. Verra is a mission-driven non-profit organization, committed to integrity and continuous improvement of its Standards and methodologies. This is so that projects upholding these standards can continue the critical work of investing in nature," said the company in response to the Channel 4 documentary.

However, on the wider allegations the company stressed that "pursuant to the rules of the Verified Carbon Standard (VCS) Program, the Climate, Community & Biodiversity Standards (CCBS) Program, and the Sustainable Development Verified Impact Standard (SD VISta) Program, Verra is initiating an investigation of the Kasigau Corridor REDD Project. The rules and requirements of these programs provide a path to corrective action when Verra has concerns about a project's integrity as well as a project's impact on the integrity of Verra's programs and the market. The project and any further credit issuances will remain on hold until Verra completes the investigation."

Integrity Business

Since we are discussing the integrity business it is only fair to give the company a chance to respond. At risk is Verra's ethical and operational integrity, let alone is reputation. Often regarded as the first stop to independent carbon certification, without which the US$36 billion global carbon credit and offset market would not be able to function effectively, Verra was effectively the de facto 'Carbon Certifier of Last Resort.'

Whether it is the mainstream conventional VCM or in a Shariah-compliant one, Verra has touched sustainability business like no other certifier. Its carbon credit certification and registry is mentioned in the Fatwa Ruling 21 of the Bursa Malaysia on 'Voluntary Carbon Market and Takyif Fiqhi of Carbon Credits' and was the main certifier of the carbon credits and projects involved in the two auctions held by the Saudi-owned Regional Voluntary Carbon Market Company (RVCMC).

The reality is that the science on carbon markets is still evolving, as such revisions and even mistakes are inevitable. There is also opposition to carbon credits on ideological, conceptual and ethical grounds in that one of its unintended consequences could lead to heightened "greenwashing." The rapid development of the market and the super-urgency for carbon reduction, has forced many politicians not to be left behind, perhaps unwittingly beguiled also by the promise of billions of dollars becoming available for climate finance projects, which is more likely over-stated given the complexity of the certification, trading and settlement mechanisms. It is disingenuous to dismiss anti-carbon credit activists as politically motivated to discredit carbon offset practices and business.

This raises the genuine issue of the lack of trust and transparency in the carbon offset process, which even supporters of carbon trading have highlighted. Company's such as Sylvera point out that the tools to improve measurement and certainty in carbon trading already exist, such as its rating system which according to CEO Allister Furey, "makes carbon credit performance visible so that buyers can select high-quality projects that are delivering real impact, make credible claims, and build diversified portfolios of credits representing tonnes removed or avoided.

"These issues are not a reason to write off an entire solution outright, especially when the technology exists to observe and improve them. That's why we created Sylvera—to develop better data and insights providing transparency into the carbon markets so that we can incentivize investment into real climate action."

Carbon Trading and Offsetting – a Shariah Perspective

The above discourse surrounding Verra is very relevant to the nascent Shariah-compliant carbon credits and offsetting market especially

the Voluntary Carbon Markets (VCMs) mushrooming in several OIC countries. The most recent ones being Egypt, the UAE and Indonesia, in which Islamic finance is either on the pathway to or already systemically important.

Take for instance, Indonesia the most populous Muslim country, where Islamic finance is on a steady upward trajectory and fast becoming systemically important in line with the stated policy proposition on promoting Islamic finance of President Joko Widodo.

Indonesia is the world's most proactive issuer of Green Sukuk raising US$4.75 billion through five issuances. This excludes its ultra-retail Green Sukuk issued in 2019 to engage ordinary investors in the country's Green and Sustainability journey. In 2022 it issued its fifth Green Sukuk Wakala - a US$1.5 billion 10-year year (Green) Reg S/144A Trust Certificates due in June 2032. Prior to that it issued a 30-year US$750 million Green Sukuk Wakala in 2021, a 5-year US$750 million Green Sukuk Wakala in June 2020, and a similar 5.5-year US$750 million Green Sukuk Wakala 2019, and a 5-year US$1.25 billion Reg S/144A Green Sukuk Wakala in February 2018.

Its Green Sukuk certificates are issued under the government's ESG and Sustainable Finance Framework, but they are not certified by an independent carbon offset certifier. Instead, they receive a second opinion regarding the "green" credentials and structure of the transaction which climate activists stress is a waste of resources and lacks credibility if not integrity.

Indonesia is also one of the largest producers and exporters of coal and is one of the original participants together with South Africa and Vietnam in the US/Europe-led Just Energy Transition Programme (JETP) which aims to wean off coal producers from dependency on coal-fired power plants and to transition them to use clean energy alternatives including, wind, solar and wave power.

The move towards carbon trading some would say is a logical step in the financial decarbonisation ecosystem. But given the huge proliferation of carbon off setters in the last few years, it has become like the Wild West as certifiers rush to formulate their systems, criteria and methodologies. The problem is that on the whole these activities are largely unregulated, which leaves room for major flaws, oversight and monitoring loopholes, and of course enforcement. Unfortunately, governments, their agencies, MDBs, corporates and the entire spectrum of cohorts, all want to be seen into buying into the carbon credit hype, they become so beguiled and swept with the tide, without having the adequate architecture and safeguards in place. To them the slogan is simple: 'VCMs is good – for the Green economy, for business and decarbonisation!'

Even in the Islamic finance space, the enthusiasm can be misplaced and hubristic - not backed by the data, which in any case is largely absent simply because carbon credits have yet to make a dent in the Islamic finance ecosystem. In a recent tweet, Osman Büyükmutlu, Director, Strategy, Policy and Research, at the Islamic Corporation for the Development of the Private Sector (ICD), the private sector funding arm of the IsDB Group, declared that "Islamic finance is inextricably linked to the growth of the carbon market. The industry is currently estimated to be worth around US$2-3 trillion and is expected to grow to US$4 trillion by 2025, however, only 5% of this amount is allocated to carbon markets and green financing. This provides a good opportunity to use Islamic finance as a key climate action tool."

This may suggest that the Islamic carbon market is a given and all it needs is substantial upscaling. The reality is that the market has hardly taken off and that it will take time for actual developments and their delivery to match the rhetoric of aspiration. When I recently enquired from a prominent global Shariah Advisory professional body whether carbon credits were on their deliberations radar, the answer was to the point: "Carbon credits have never been on our agenda. We have never discussed it. We must get involved."

In September, the Indonesia Stock Exchange (IDX) launched a carbon trading bourse, as the country seeks to mobilize market incentives to support its Net Zero emission cut targets. The Financial Services Authority (OJK), the banking regulator, appointed the IDX as the operator of Indonesia's carbon trading market, following the passage of an omnibus law on the financial sector in February that includes mandatory carbon trading for coal power plant operators. OJK identified 99 coal power plant, and various projects from forestry, agriculture, waste, oil and gas, processing and marine industries to participate in the market.

President Joko Widodo projects the potential for carbon trading at the exchange to reach more than US$194 billion over the medium term. Under the IDX carbon trading mechanism, companies engaged in renewable energy or decarbonization activities will be able to sell carbon credits, while emitters such as coal power plant operators can buy those credits to compensate for their carbon emissions. Participants must register with the Ministry of Environment and Forestry to engage in carbon trading at the IDX.

The VCM supporters stress that voluntary carbon markets are particularly relevant to the Middle East and North Africa (MENA) and Sub-Saharan African (SSA) regions. On a per capita basis, carbon emissions are substantially higher in MENA compared to peer economies. The region is also one of the most affected by climate change impact according to the United Nations Framework Convention on Climate Change (UNFCC) as it strains its already scarce water and agricultural resources.

Voluntary carbon markets allow carbon emitters to offset their emissions by purchasing carbon credits emitted by projects targeted at removing or reducing greenhouse gas from the atmosphere. In essence a carbon credit is a tradeable certificate that represents the rights of the holder to emit one ton of carbon dioxide or greenhouse gas equivalent.

Outrageous IEA Optimism on African Climate Goals

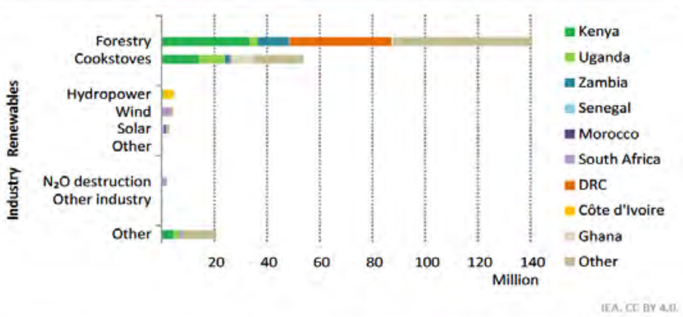
The IEA's Financing Clean Energy in Africa Report published in September 2023 in collaboration with the AfDB adopts an over-optimistic Sustainable Africa Scenario (SAS), which "sees the continent achieve by 2030, in full and on time, all of its energy and climate-related goals, including universal energy access and its Nationally Determined Contributions (NDCs)." This despite the huge resource mobilisation needs that lie ahead.

Realising the SAS, says the Report, "requires mobilising over US$200bn annually by 2030, but energy investment has been declining in Africa and in 2022 was under US$90 billion. Clean energy spending was a fraction of this at around US$25 billion – only 2% of the global total despite the recent rise in global clean energy investment. This is far from what is required to meet the growing energy needs of 20% of the global population.

"Under current financing norms, project developers often struggle to access adequate capital and capital providers to identify investable assets. Resolving this disconnect requires effort on both demand and supply, with African governments, donors, development finance institutions and private companies all playing a role. Increasing the availability of affordable capital can be a key lever to trigger a series of reinforcing positive outcomes, including driving the development of more bankable projects."

Dr Mahmoud Mohieldin, UN Climate Change High-Level Championfor COP27 in Sharm El Sheikh last year, has called for creditors, including in the G20, to write off climate debt of low-and middle-income countries (IMICs). "Given that around 60% of low-income countries better, cancelling debts would greatly improve their ability to respond to the damaging effects of global warming. Multilateral development banks need to implement Climate Resilient Debt Clauses in loan contracts for poorer countries, which the World Bank announced this year. Moreover, debt-for-nature and debt-for climate swaps could enable recipient countries to repay their debts by investing in biodiversity protection and climate action," he wrote in a recent article. Others have called for Debt-for-Climate Action Swaps for LMICs.

Figure 3.5 ▷ Volume of VCM carbon credits issued in Africa by project and country, 1996-2023



IEA. CC BY 4.0.

Around 85% of VCM credits in Africa have been issued from projects relating to forestry and land use and clean cookstoves in a handful of countries

Source: IEA analysis based on Berkeley (2023). *Voluntary Registry Offsets Database*

The new kids on the climate finance bloc are carbon credits offsetting and pricing of which Kenyan President William Ruto is a strong proponent albeit he wants greater transparency in the mechanisms. Collectively, all 54 African countries, says the IEA, accounted for only 3% of Clean Development Mechanism (CDM) credits issued globally, moreover, four countries (Egypt, South Africa, Uganda and Kenya) accounted for 83% of these. One single nitrous oxide (N2O) destruction project in Egypt alone represented almost 30% of all CDM credits issued in Africa.

Article 6 of the Paris Agreement post 2020 presents new opportunities for African countries to engage in carbon markets. They can exchange Internationally Transferred Mitigation Outcomes (ITMOs) among each other or with other bilateral partners or issue credits in a new UNFCCC-governed international carbon market, At least, 42 African countries have expressed their interest in or intention of engaging under Article 6 in their latest NDC submissions, with the majority seeing themselves as a seller of credits. The IEA estimates that carbon credits could generate US$225-US$245bn by 2030 for African countries.

Saudi Arabia, the New Kid on the VCM Bloc

In June 2023, the Regional Voluntary Carbon Market Company (RVCMC), "completed a highly successful auction in Nairobi, Kenya of more than 2.2 million metric tons of carbon credits in what the company claims was "the biggest-ever voluntary carbon credit auction."

The basket of credits for the Nairobi auction includes 18 projects representing a mix of CO2 avoidance and removal, including projects such as improved clean cookstoves and renewable energy projects. Some 75% of the carbon credits originated from countries across the Middle East, North Africa and Sub-Saharan Africa, including Kenya, Uganda, Burundi, Rwanda, Morocco, Egypt and South Africa.

The clearing price was SAR23.50 (US$6.26) per tonne of carbon credits yielding SAR51.7 million (US$13.772 million) from the auction for investment in projects – hardly capable of making a dent in the African climate finance ask. The projects included a combination of CO2 avoidance and removal, with the majority originating from the Middle East and Africa.

Trove Research in a recent report estimated that that a total of US$36 billion as invested in carbon credit projects from 2012 to 2022, with more than US$18 billion raised in the last 2.5 years alone, signalling great traction in the carbon credits market and the potential for LMICS especially, to raise scarce resources for climate-adaptation projects. However, global efforts are still short of the US$90 billion needed to meet the 2030 carbon reduction targets. However, the essential moral dilemma and dichotomy remains how to balance this meagre US$90 billion carbon credit pool of funds with the US$800 billion spent on fossil fuel subsidies last year.

Cynicism of the whole process is rife. With world leaders, dignitaries, celebrities and the cornucopia of attendees clocking up the carbon miles just getting to COP28, the integrity of its very processes is at stake. The danger is that of greenwashing both the form, substance and integrity of COP28.

The issue of carbon credits has been circulating in the Shariah advisory universe for some time, advises prominent Saudi Shariah scholar and economist, Dr Mohammed Elgari: "The first time I saw this was probably ten years ago. An enquiry was presented to a Shariah board by one of the international banks on whether it is permissible to trade carbon credits. The Fatwa was on the affirmative. Lately, Saudi banks got interested in this issue as the Saudi government is now engaged in a project concerning sustainability and ESG metrics."

The Core Shariah Rationale on Carbon Credit and Trading

"Sale" in Shariah is the exchange of "value" for "value", meaning that the exchange of "valuable thing like wheat against valuable thing like money". But how to determine that something is "of value"?

According to Dr Elgai, firstly, it has to be useful in the normal circumstances, meaning if it is useful in exceptional cases or dire need this doesn't meet the criteria because it comes under the "necessity" doctrine. Furthermore, useful can only be confirmed if it is also supported by "orf" i.e., habitual or customary practice (off course if already established based on Quran and Sunnah as Haram they become valueless regardless of any orf). So, in terms of "rules of Shariah" we can say that carbon credit is something that is of value because it meets the shariah requirements.

Vetting the Shariah position will not be complete until we also check Maqasid Al Shariah (Objectives of the Shariah), he maintains. "This carbon credit programme is part of the campaign to improve life on earth. We all know that all the goals of the ESG and objectives can easily be found, verbatim, in the Quran and Sunnah. Muslims need not go into pain to accept the global standards for Green and ESG, they only need to go back to their scriptures. In conclusion, carbon credit is something of value and can be traded," he explained.

Bursa Malaysia's Shariah Committee last year issued a Ruling 21 on Voluntary Carbon Market and Takyif Fiqhi of Carbon Credits (see Ruling below) even though there was "no legislation in Malaysia prescribing the legal characteristics of Carbon Credits."

"The Committee has reviewed the trading mechanism of VCM and contract specifications of the Carbon Credits that will be offered on the VCM. We, the members of Shariah Committee of Bursa Malaysia Islamic Services Sdn. Bhd., to the best of our knowledge, do hereby confirm that it is compliant with Shariah principles," said the Ruling.

There is no doubt that carbon credits and offsetting have the potential for being a "force for good." The ID64 million question remains – "To which metrics are carbon credits beholden to – Maqasid Al Shariah or the Net Zero Goals of the 2015 Paris Climate Agreement?" For a truly functional and credible Shariah-compliant carbon credit system there can be only one answer – BOTH, as long as the metrics of the Paris arrangement too are certified as Shariah-compliant.

At the RVCMC auction held in Nairobi in June, Christian Aid's Pan-Africa senior advocacy advisor Joab Bwire Okanda, stressed: "The call for a global carbon tax on fossil fuels is welcome. But to make polluters really pay, false solutions like carbon credits that allow polluters a free ride to operate without taking meaningful action must be consigned to the dustbin." Does Christian Aid have a valid point? Are Islamic investors too easily beguiled by the hype of carbon credits and trading as it is currently practiced?

Bursa Malaysia Fatwa

The Bursa Malaysia Fatwa, clear as it is to my layman's eye, seems to be heavy on the form and functionality of concepts such as what constitutes a sale, the trading, settlement and retirement of carbon credits, but lighter on the substance relating to the ethics of the source of emissions, funds and whether this may constitute "greenwashing,"

It is noteworthy that one of the credit certifiers mentioned in the Fatwa is Verra, which in the last few months have been subject to string of allegations regarding its flawed methodology especially relating to carbon credits relating to rainforest metrics.

The questions that need considering include:

- Doesn't the current system of carbon trading – essentially a conventional finance concept – violate the principle of Gharar in that the polluter is 'legitimising' an essentially environmentally destructive practice through carbon emissions, thus contributing to casuistry, uncertainty, confusion in the climate adaptation, mitigation and financing discourse?
- Maybe the underlying principle of carbon trading is sound and acceptable. But without the requisite and transparent Shariah guidelines and frameworks it is inevitable that there will be lots of cynicism among the Muslims in the streets, especially at a time when the world seeks clear guidance on ethical approaches to financing climate action, food security, infrastructure etc. Is the Islamic finance sector getting left behind by their seeming inertia and lack of leadership?
- Does the end justify the means in carbon credits and trading? Based on a principle popular in LMICs: 'Let the Polluter Pay,' how do you price carbon trading from an ethical point of view? If the source of carbon polluting activity is dubious, is it justified to use Islamic finance contracts such as syndicated Murabaha, Green and Sustainability Sukuk etc to finance carbon offsets?

The Islamic finance gatekeepers surely have their work cut out in this evolving but flawed 'Wild West' carbon credit ecosystem!

Pronouncement of the Shariah Committee of Bursa Malaysia Islamic Services Sdn Bhd

Voluntary Carbon Market and Takyif Fiqhi of Carbon Credits

Ruling No. 21

19th Muharram 1444H – 17th August 2022

The Shariah Committee of Bursa Malaysia Islamic Services Sdn. Bhd. ("Committee") during its 40th Meeting held on 17 August 2022 had discussed on the proposed Voluntary Carbon Market ("VCM") and Takyif Fiqhi (Fiqh Adaptation) of Carbon Credits.

VCM facilitates trading of Carbon Credits in Malaysia. VCM allows corporations to offset their unavoidable emissions by purchasing Carbon Credits issued from verified projects targeted at removing or reducing Greenhouse Gases (GHG) equivalent emissions from the atmosphere. Each Carbon Credits, which corresponds to one metric ton of reduced, avoided or removed GHG equivalent can be used by corporations to compensate for the emission of one ton of GHG equivalent. When a Carbon Credits is used for this purpose, it becomes an offset. It is moved to a register for retired credits, or retirements, and it is no longer tradable.

On the VCM, the Committee has been presented with the following metrics:

- Onboarding Process
- Account Management
- Product Listing and Linkages with Carbon Registries
- Pre-trade Condition
- Trading
- Settlement
- Retirement or Transfer of Carbon Credits

In addition, the Committee was presented on the different types of Carbon Credits and Carbon Registries namely:

- Verra
- Gold Standard
- ART Trees.

The Committee was presented on the verification processes, its principles, methodologies and has deliberated on the Takyif Fiqhi of Carbon Credits. Carbon Credits issued as the result of a carbon-reduction project either from Nature-Based Solution (NBS) project or Non-NBS/ Tech- Based Solution project is a certificate with a unique serial number on a Carbon Registry, representing one metric ton of GHG equivalent that is either prevented from being emitted or removed from the atmosphere.

The Committee then deliberated on the Takyif Fiqhi of Carbon Credits where the Committee first discussed the legal nature and the legal implications of Carbon Credits as provided by the legal firm appointed for the VCM.

It was presented that in the absence of legislation in Malaysia prescribing the legal characteristics of Carbon Credits, it is likely to be regarded as "intangible property" with the holder of such "intangible property" which are digital in nature being entitled to the relevant rights and subject to the obligations which are prescribed under the rules of the relevant Carbon Registries.

The legal firm also shared precedence cases where the court in determining one as "property" requires the satisfaction of the requirements of being "definable, identifiable by third parties, capable in its nature of assumption by third parties, and have some degree of permanence or stability".

For the Carbon Credits, it appears to fulfil all elements of the definition of "property" by the court as:

i. There is a certificate with a unique serial number and is therefore definable.

ii. It is identifiable by third parties as it is recorded on a Carbon Registry.

iii. It is capable of assumption by third parties given that it is tradeable, subject to the rules of the relevant Carbon Registry.

iv. It has permanence and stability since it continues to exist on the Carbon Registry until it is retired.

The Committee then considered the elements for a property or an asset to be recognized in Shariah. There are four elements of an asset that can be recognised in Shariah (see: Sheikh Ali Muhyiddin Al-Qaradaghi, Al-Mal fi al-Islam – Dirosah Fiqhiyyah Ta'siliah, 18th Conference of the European Council for Fatwa and Research, Paris, 2008) based on the classical views of the Hanafis and Jumhur as follows:

1. The asset (whether an item, benefits or rights) must have an attached value - كل عين ، أو حق له قيمة مادية

Carbon Credits are issued from verified projects where the verification processes follow a specific standard to ensure the amount of GHG removed or reduced from the atmosphere. The Carbon Credits gives rights to its holders based on the rules of Carbon Registries to offset their unavoidable carbon emission with a value based on Carbon Pricing mechanism which include Carbon Tax where economic value or price tag is attached to carbon emissions. Attached value of Carbon Credits is also influenced by the volume of credits traded at a time (demand and supply), the geography of the project, its vintage, and the delivery time.

A similar concept can be deduced from Mufti Taqi Usmani when he commented on the issue of trade license and trademarks in government registries as contemporary assets with value and can be traded:

"Like electric power or gas, which in previous times was not counted as valuables and valuable objects, because it is not a self-existing thing, and its attainment was not within human capacity, but it is now become one of the dearest and most valuable assets that there is no doubt about the permissibility of buying and selling it, for its huge benefit, and the possibility of acquiring it, and it is known to people for its worth and its value. Likewise, the trade name or trademark has become very valuable with government registration in the business custom, and it is certified that it is achieved by obtaining its written testimony before the government.

"The reality in this license is that it is not a physical asset, but rather it is the right to sell the goods in abroad or buying it from them, so what we have mentioned in the trade name is that this right is authentically established. It is permissible to exchange it with money, and since obtaining this license from the government requires both efforts, time and money, and gives its holder a legal status represented by written certificates and the facilities provided by the government to their holders are deserved by the traders, and this license has become in the business custom the same great value with which to follow the path of other valuables, so it is not unlikely that it will join the physical assets in the permissibility of selling and buying it." (Taqi Usmani, Buhuth fi Qadaya Fiqhiyyah Al-Mu'asoroh - Bai' al-Huquq al-Mujarradah, pg. 120)

2. The asset must prove to be beneficial according to prevalent customs - منفعة حسب العرف السائد

Corporations today are aligning themselves with the sustainable and net-zero agenda. Based on McKinsey, the number of companies with net-zero pledges doubled, from 500 in 2019 to more than 1,000 in 2020. To meet the worldwide net-zero target, corporations need to reduce their own emissions as much as they can. For some corporations, certain sources of emissions cannot be eliminated so purchasing Carbon Credits is one way for a corporation to address emissions it is unable to eliminate.

Purchasing Carbon Credits in the current business environment increases the holder's reputation, attracting socially conscious investor and assisting corporations in their sustainability and carbon reporting to shareholders and stakeholders. Finally ensuring corporations to be accountable for their sustainable and net-zero agenda.

3. The asset must be able to be owned and controlled by a party. - تحقق الحيازة

Carbon Registries such as Verra issues a certificate and a unique serial number for each issued Carbon Credits. Furthermore, each Carbon Credits will be able to be traded by involved parties until it is used as offset and retired from the Carbon Registries.

4. The asset must be allowed to be utilized by the Shariah. إباحة الانتفاع به شرعاً

Carbon Credits does not fall under the categories of Shariah-prohibited assets both as Haram Lizatihi (prohibited in essence) or Haram Lighairihi (prohibited based on external factors), hence are considered Shariah-recognized assets.

The Committee are of the opinion based on the legal and Shariah considerations that Carbon Credits is to be considered as an asset recognised by Shariah. Based on the relevant rights and obligations which are prescribed under the rules of the Carbon Registries, corporations holding Carbon Credits may among others offset their unavoidable GHG equivalent emission which resulted from their business activities.

Considering the legal opinion of Carbon Credits as intangible asset or intangible property due to its digital nature, it can also be recognised in Shariah based on both the International Islamic Fiqh Academy - Organization of Islamic Cooperation ("IFA-OIC") and the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") which have considered intangible assets as real property:

"Business name, corporate name, trademark, literary production, invention or discovery, are rights belonging to their holders and have in contemporary times, financial value which can be traded. These rights are recognized by Shariah and should not be infringed." (IFA-OIC Resolution no. 43 (5/5)).

AAOIFI endorsed the IFA-OIC resolution by adopting word by word the IFA-OIC Resolution in defining intangible assets. The Committee hoped that the establishment of the VCM and the Takyif Fiqhi of Carbon Credits will assist various stakeholders in meeting their carbon commitment focusing on reducing GHG equivalent emissions and achieving carbon neutrality as soon as possible for the sake of humanity.

ظَهَرَ الْفَسَادُ فِي الْبَرِّ وَالْبَحْرِ بِمَا كَسَبَتْ أَيْدِي النَّاسِ لِيُذِيقَهُم بَعْضَ الَّذِي عَمِلُوا لَعَلَّهُمْ يَرْجِعُونَ

Calamities have appeared on land and sea because of what the hands of the people have earned, so that He (Allah) makes them taste some of what they did, in order that they may return (to the right way)." (Ar-Rum: 41)

The Committee has reviewed the trading mechanism of VCM and contract specifications of the Carbon Credits that will be offered on the VCM. We, the members of Shariah Committee of Bursa Malaysia Islamic Services Sdn. Bhd., to the best of our knowledge, do hereby confirm that it is compliant with Shariah principles.

Editor's Note: This is a slightly abridged version of the Bursa Malaysia Shariah Committee Ruling 21 on Voluntary Carbon Market and Takyif Fiqhi of Carbon Credits

Offsetting Carbon Emissions Through Integrity, Transparency, Standardisation and Real Economy Impact in the Global South

Riham ElGizy,
CEO, Regional Voluntary Carbon Markets Company

Riham ElGizy is a climate action facilitator in a hurry. As CEO of the Regional Voluntary Carbon Markets Company (RVCMC), a joint venture between the Public Investment Fund (PIF), the sovereign wealth fund of Saudi Arabia, and Tadawul, the Saudi Stock Exchange, she is championing the role of voluntary carbon markets (VCMs) in driving funding to deliver climate finance, to move the world closer to its Net Zero ambitions, empower the Global South to lead the way in global climate action, and deliver a just transition. VCMs allow companies to offset their emissions by purchasing carbon credits generated by projects reducing future emissions or actively removing greenhouse gases from the atmosphere. RVCMC has already held two defining carbon credit auctions which attracted wide-spread participation by 16 Saudi and international companies. If RVCMC has its way, the aim is to help reduce more than 100MT of emissions each year by 2030. Here, RVCMC's CEO, Riham ElGizy discusses the potential, promise, problems, and policies associated with the nascent carbon credit market, which according to estimates by the Taskforce for Scaling Voluntary Carbon Markets could reach more than 1GT of emissions by 2030.

You have rightly said that we need to use every tool at our disposal to tackle the devastating impacts climate change is already having. The Nairobi auction of carbon credits you sold demonstrates the role voluntary carbon markets (VCMs) can play in driving funding where it is most needed to deliver climate action and improve livelihoods across the Global South. What are your rationale and justification underpinning your above sentiments?

Today, climate change is the most important challenge that the world is facing. As efforts to decarbonize ramp up and countries around the world pledge to achieve net zero, it is also important to recognize these efforts are likely to have unequal socio-economic impacts. Hence, we need both a rapid and a just transition to Net Zero.

Voluntary carbon markets have the potential to not only accelerate decarbonization, especially in the hard-to-abate sectors, but to do so in a just manner by channelling finance to projects in communities that need it the most.

In the voluntary carbon credits auction we held in Nairobi in June 2023, the underlying carbon credit projects not only reduce carbon emissions but also contribute to the UN Sustainable Development Goals (SDGs) – including No Poverty, Gender Equality and Decent Work and Economic Growth.

Let me give you an example with clean cooking stoves. These give communities, and in particular women, time back for more value adding work. They also reduce in home pollution and associated health problems. At RVCMC, we champion voluntary carbon markets because we recognize that they are one of the most powerful tools we have at our disposal right now.

Based in Saudi Arabia, we want to drive climate action from the Global South and believe that the region has immense potential to lead the way.

You seem to have made the business case for VCMs, which is commendable. But there have been a number of ethical issues raised regarding both compliance and voluntary carbon markets. These include a lack of transparency, disclosure and adequate regulatory oversights. Even your host, Kenyan President William Ruto, called for greater transparency in the mechanism. To what extent does third party independent verification, such as high-quality CORSIA-eligible and Verra-registered carbon credits, help mitigate the concerns and give certainty and comfort to both buyers and sellers of carbon credits?

Third-party independent verification and certification is essential to ensuring the integrity of carbon credits. First, it incentivises project developers through demand and pricing to ensure the integrity of carbon credits generated through their project. Second, it reassures investors and buyers that they are indeed contributing to reducing or removing emissions.

Regulatory bodies, standard setters and international agreements are still shaping how the voluntary carbon market can, and should, evolve. While significant improvements have already been made, what is clear is that greater standardization is required. The market needs to further consolidate definitions of high-quality carbon credits.

The Integrity Council for Voluntary Carbon Markets is one body doing so. Article 6 of the Paris Agreement is also crucial, as it aspires to create internationally applicable methodologies for carbon credits, which would naturally be supported by greater standardization and transparency.

At RVCMC, we are unequivocally committed to integrity. We have independent due diligence teams that assess each project, and that ensure we are only working with industry leading standard setters and project developers. As part of our due diligence process for our second carbon credit auction in Nairobi – the largest in the history of the market – we screened out 85% of the supply we were offered, and our buyers have later told us that independent audits found that the quality of our credits was unquestionable.

Resolving these integrity and standardization concerns will make a huge difference in instilling confidence in the market, ultimately leading to its growth and the scaling of transition finance.

The Voluntary Carbon Market:

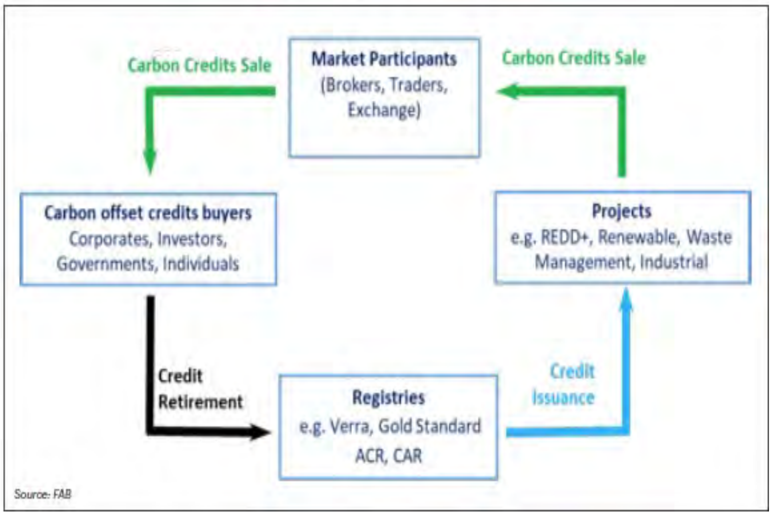
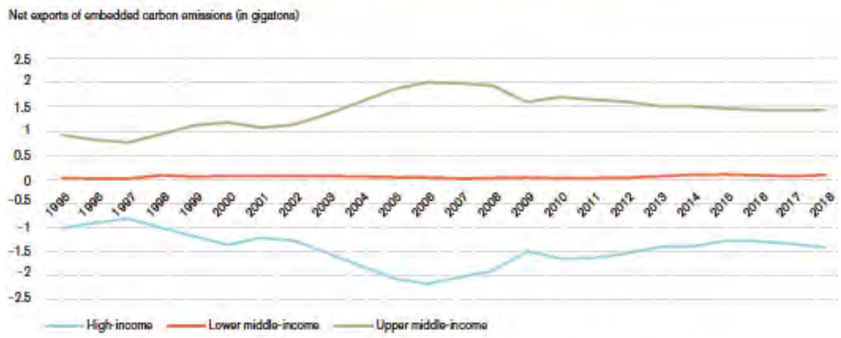


Figure E.1: High-income economies tend to be net importers of carbon emissions



Source: Author's calculation based on OECD database on carbon dioxido missions embodied in international trado (ToCO.)Note: Not exports of carbon emissions are the differance between carbon emissions embedded in exports and imports. Negatio not exports corraspond to nat imports of carbon emissions. The income groups aro based on 2023 World Bank classifications

Regarding the Nairobi auction, Christian Aid's Pan-Africa senior advocacy advisor, Joab Bwire Okanda, said: "The call for a global carbon tax on fossil fuels is therefore welcome. But to make polluters really pay, false solutions like carbon credits that allow polluters a free ride to operate without taking meaningful action must be consigned to the dustbin." Are the VCM's giving the big polluters a free ride and potentially aiding and abetting greenwashing? Who benefits the most, the buyers or sellers of carbon credits?

Tackling climate change starts with reducing one's own emissions. This is the first and most urgent priority. However, that is not enough. Companies need to take responsibility for the emissions they are putting into the atmosphere today while they decarbonize. We need to hold companies to account on both fronts, their own decarbonization and high-quality approaches to compensating in the meantime. Therefore, the voluntary carbon market absolutely does not give buyers a free ride, rather the opposite, it puts a very concrete price on their carbon emissions and funnels this money to the actors around the world who have the most attractive opportunities to decarbonize. This leads to making the biggest climate positive impact for every dollar spent. As mentioned before, the ultimate beneficiaries are not only climate, but the communities where carbon credits are generated.

Conversely, according to the Islamic Corporation for the Development of the Private Sector (ICD), the private sector funding arm of the IsDB Group, Islamic finance is inextricably linked to the growth of the carbon market. The industry is currently estimated to be worth around US$3.5 trillion and is expected to grow to US$5 trillion by 2025, however, only 5% of this amount is allocated to carbon markets and green financing. This provides a good opportunity to use Islamic finance as a key climate action tool. Do you concur with this view of the potential for carbon trading in the Islamic finance sector? After all, Saudi

Arabia is the largest single Islamic finance market in terms of AUM and direction of funding?

Last year, the International Islamic Trade Finance Corporation (ITFC), the trade fund of the Islamic Development Bank (IsDB) Group, stated its intention to offset some of its own financial offerings and to explore Islamic financing for the generation and purchasing of carbon credits. In response, we cemented an innovative partnership between ITFC and RVCMC to make this a reality and to help address the liquidity challenge in voluntary carbon markets.

Together, we secured the first ever Fatwa issued for carbon credits to be traded as an enabling commodity, potentially capturing a part of the predicted US$5 trillion Islamic finance market by 2025. There is an opportunity through this partnership and others like it, that the share going to green projects will grow significantly beyond the current 5%.

Our early partnership is already opening many doors to investment in the MENA region, including working with ITFC to support the conservation and development of precious natural resources like our mangroves and seagrass with leading governments. Merging the worlds of Islamic finance and climate finance can unlock substantial benefit to the region and support its decarbonisation journey.

What is the scope of VCMs in playing a meaningful and scalable role in assisting the transition to a low carbon global economy? The task is huge, and the resources required near infinite given that climate change is an on-going phenomenon beyond the control of governments, investors and all stakeholders, and dependent on real progress towards achieving the holy grail of the Paris Net Zero targets.

There is no doubt that scaling high-integrity, transparent voluntary carbon markets is indispensable to tackling climate change. We at RVCMC are constantly striving towards this vision. We held our first voluntary carbon credits auction in October 2022 where we sold 1.4 million tonnes of voluntary carbon credits – the largest at the time.

In June this year, we beat our own record and organized the world's largest voluntary carbon credits auction to-date where we auctioned 2.2 million tonnes of high-integrity, CORSIA-eligible voluntary carbon credits to companies from the MENA region and beyond.

This is only the beginning – we believe our market can help reduce more than 100MT of emissions each year by 2030. That is significant and about as much as reforesting a country the size of Germany – but will be far from enough. Thousands of actors from across the world must come together and all pull in the same direction to reduce global emissions by more than 30GT in order to meet the international goal of global warming remaining within 1.5°C.

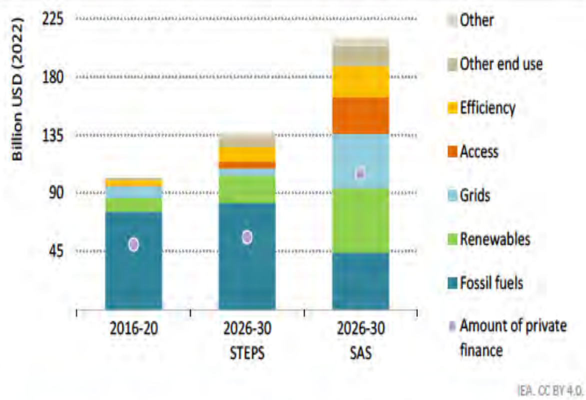
You have called carbon credits a "win-win trade". You strongly believe that carbon offsetting is a natural corollary of decarbonisation in pursuit of net zero, at the same time driving positive climate action through 'beyond value chain mitigation.' Interestingly, you also see RVCMC's activities as a form of Global South-South Cooperation. Are you thinking of exporting this model in the carbon credits space, and which markets are you targeting initially?

RVCMC aspires to lead climate action from the Global South. While the Global South as a whole has relatively low per capita emissions, we believe it has immense potential to lead the way in global climate action.

Additionally, it is important to remember that the Global South is home to marginalized communities who are disproportionately vulnerable to climate change, and we are committed to delivering a just transition to net zero for them. Our track record to date is primarily across MENA and other parts of Africa, which are central for us, but we will continue to build partnerships all across the Global South.

There is also a case to be made for moving towards multi-regional and ideally even global order books for carbon credits. A single market would mean more concentrated liquidity leading to more efficient markets, better price discovery and ultimately more better financing and returns for project developers, which in turn benefits the communities that are home to climate positive projects. Assuming a global order book adhered to the highest international standard, it could also achieve greater positive outcomes on carbon credit integrity.

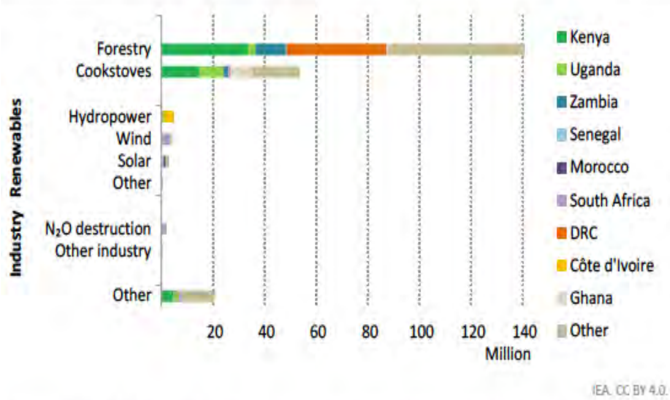
Figure 1.1 ▷ **Annual energy investment in the SAS, 2016-2030**



Energy investment nearly doubles by 2030 under the SAS, with a shift to clean power, including achievement of universal energy access, and accompanying grid infrastructure

Notes: Other = clean fuels, nuclear, battery storage, and fossil fuel power with carbon capture, utilisation and storage. Other end use = non-efficiency investments in buildings, industry and transport.

Figure 3.5 ▷ **Volume of VCM carbon credits issued in Africa by project and country, 1996-2023**



Around 85% of VCM credits in Africa have been issued from projects relating to forestry and land use and clean cookstoves in a handful of countries

Source: IEA analysis based on Berkeley (2023). *Voluntary Registry Offsets Database*

The challenge in the end is acceptability, viability, deliverability, scalability, efficacy, and regulation of VCMs. A recent report by Trove Research revealed that there's a total of US$36 billion invested in carbon credit projects from 2012 to 2022, accelerating with more than US$18 billion raised in the last 2.5 years. But global efforts are still short of US$90 billion to meet the 2030 carbon reduction targets. Do you think that investors – institutional, private or otherwise – are committed enough to upscale a nascent market or are the nagging doubts about carbon trading and offsetting an irritating distraction?

There is no silver bullet when it comes to tackling climate change, and voluntary carbon markets provide an immediately effective tool for us to wield. Action, not words is the only thing that will be effective in tackling the adverse effects of climate change. If current emissions continue at their current rate, average global temperatures could rise by 2.6°C to 2.9°C above pre-industrial levels by 2100. This would be catastrophic.

I do believe that voluntary carbon markets can scale up to meet the 2030 carbon reduction targets. By 2030, the market could grow to US$50bn USD with demand for offsets equivalent to 1GT of CO2e. However – you are right to recognise that to get there, we will need more financing than is available today. RVCMC is working on that.

There seem to be competing sets of market ideas emerging relating to carbon reduction, capture and offsetting. Apart from VCMs, we have had calls about the imposition of a global carbon tax on fossil fuel-producing countries, the operationalization of the Loss and Damage Fund agreed upon in Sharm El Sheikh, the call for carbon debt relief of vulnerable low-income-countries and even debt for climate projects swaps. Do you welcome these developments, after all, the VCMs cannot, on their own, effect meaningful impact, given the huge task and funding required for decarbonisation and risk mitigation?

We must use every tool at our disposal to tackle climate change. Carbon taxes, loss and damage, climate-linked debt relief, will all contribute. We welcome every additional dollar spent on climate mitigation regardless of where it comes from.

RVCMC aims to be one of the largest voluntary carbon markets in the world by 2030, one that enables compensation of hundreds of millions of tonnes of carbon emissions per year and contributes to global Net Zero goals. Are you confident that this objective is achievable? Other countries such as Egypt, Indonesia, Kenya, and South Africa have all recently launched their own VCMs. Is there any scope for collaboration, engagement or even mergers to create greater market impact, reach and benefit from economies of scale?

In the short time span of two years, RVCMC has managed to organize the world's largest voluntary carbon credit auctions, bringing together private and public sector investors together to invest in tackling climate change. This is an incredible feat for such a young company.

We're driven by our vision to scale high-integrity voluntary carbon markets in the Global South and I'm very confident we will be able to achieve this successfully. We've already developed partnerships in Africa, and will continue to work towards further strengthening them, while also seeking to develop new partnerships in the region. Interconnection is key. Harmonizing tax, legal and accounting treatment of carbon credits will enable stronger cross border trading of carbon credits, ultimately accelerating the growth of the market.

What is the near-to-medium-term trajectory for RVCMC? Have you got a target in terms of the number of auctions, the volume of carbon credits traded, an increased universe of carbon credit buyers and sellers, a diversified pool of projects offset and invested in? What is your outlook for the VCMs, and which are your priority regions and types of projects to invest in?

In line with Saudi Vision 2030, RVCMC will help to grow the Kingdom's green economy and will work with companies and organisations to cover a fair share of emissions through voluntary carbon markets by 2030. That would imply 100-200 million tonnes of CO2 emissions being offset each year in the MENA region – the equivalent of reforesting an area the size of Germany.

We're proud that RVCMC was recognised in the World Economic Forum's latest Energy Transition Index for creating the first voluntary carbon market in the region, and that Saudi Arabia was recognised in the Index as a country that's leading in energy sustainability owing to its investment in energy conservation, renewable energy projects and energy storage - including establishing RVCMC. There is a long road ahead, but we've made great strides towards creating a thriving market for carbon credits in the region and beyond.

Partnerships for Net Zero

How the Greening of North Africa Can Transform Europe’s Energy Transition

Samar Hana,
Senior Energy Policy Specialist,
European Electricity Entities

The EU’s Carbon Border Adjustment Mechanism (CBAM) is set to enter into full force in 2026 and will have a significant impact on exporters and importers of goods into the EU. It is designed to prevent “carbon leakage” by making the import of carbon-intensive products - power, hydrogen, iron, steel, aluminium, and fertilisers —subject to a carbon levy linked to the price of certificates exchanged in the EU Emissions Trading System (EU ETS), expressed in €/tonne of CO2 emitted. Currently, EU industries with exposure to the EU carbon levy receive a certain number of free carbon “allowances” which can be traded in the EU ETS, although the practice of issuing free certificates will be phased out alongside the introduction and expansion of the CBAM to cover more sectors and goods between 2026 and 2034. ***Samar Hana**, a Senior Energy Policy Specialist at two European Electricity Entities,* maintains that the CBAM presents a timely opportunity to enhance de-carbonisation efforts and the greening of industrial production in Africa.

In 2020, the European Commission approved the European Green Deal, a set of policies designed to help Europe achieve a 57% reduction in carbon emissions by 2030, and climate neutrality by 2050. To achieve these goals, the EU plans to invest over €1 trillion via various existing EU funding mechanisms. Commission President, Ursula von der Leyen, vowed to "leave no-one behind" as Europe embarked on what she described as Europe's "man on the moon moment". EU green diplomacy was touted as a key enabler of a wider, global green transition, of which Europe, not China or the United States, was to be the leader.

The impending introduction of the CBAM mechanism suggests an important opportunity and challenge with regards to de-carbonisation efforts and the greening of industrial production in Africa. A 2023 report by the African Climate Foundation and The London School of Economics and Political Science (LSE) (https://www.lse.ac.uk/africa/assets/Documents/AFC-and-LSE-Report-Implications-for-Africa-of-a-CBAM-in-the-EU.pdf) suggests that the impact of CBAM on African countries would be greater as a share of GDP, than for any other region.

The study suggests a decline in African GDP by about 0.58% per year from 2021 levels where the carbon price is €40/tonne of C02 emitted, or 0.91% from 2021 levels under a €87/tonne carbon price, equal to around US$25 billion per year. Under the €87 scenario, EU import tariff revenue would rise 416% to €128 billion. This reduction in GDP is driven by a projected fall in African exports of aluminium by up to 13.9%, iron and steel by 8.2%, fertiliser by 3.9% and cement by 3.1%.

Impact of CBAM on African Economies

One study suggests that South Africa, followed by Egypt and Morocco - as well as predominantly fuel exporting countries such as Cameroon and Nigeria - are likely to be worst affected by the new rules in the initial phase of the scheme.

For example, 80% of industrial production in South Africa is fuelled by coal-fired generation, which suggests the country will be hard hit by the incoming rules unless it accelerates its shift away from coal.

While a reorientation in commodity exports to other markets, including India and China, could be on the table for African countries with failing or undefined de-carbonisation ambitions, the introduction of the new rules represents an important opportunity for the North African region and its Net Zerto ambitions.

Investment Potential in North African Renewable Energy Sector

The North African region possess much potential to become an important partner in the European green energy transition, particularly in light of geographic proximity, existing trade, investment, and diplomatic ties, and relative levels of economic development. The regional economy is also substantially diversified and, with the exception of Libya (which continues to suffer from acute political instability), presents an attractive investment opportunity.

Arab North Africa is notably different from the rest of continent (with the exception of South Africa) in that the urban-rural electrification divide has been largely eliminated thanks to considerable reinforcements to transmission and distribution grid, and fossil fuel-based power generation infrastructure in recent years, allowing power output to increase more than 250% since 2000.Unlike most of sub-Saharan Africa, per capita consumption is in the same order of magnitude as the "affluent rate" seen in the EU and other developed economies.

Table 5: Impact of the CBAM on Africa's exports, by sector, carbon price at €40 per tonne and €87 per tonne (% change)

	CBAM with carbon price of €40	CBAM with carbon price of €87
Agriculture	3.43	1.09
Fertiliser	–2.13	–3.91
Electricity	–6.49	–9.22
Iron and steel	–5.71	–8.12
Aluminium	–9.6	–11.57
Cement	–2.01	–3.14
Energy	1.45	0.06
Manufacturing	–4.23	–5.97
Transportation	–5.78	–7.06
Other services	–6.87	–7.39
Public administration	–5.96	–8.01
Overall	**–3.99**	**–5.75**

Source: CGE analysis results

For example, Egypt's per capita consumption is about 1,500kWh per year, or 25% of the affluent rate (see CIA World Factbook 2022). While the region remains overwhelmingly dependent on fossil fuels for power generation, it also possesses some of the best wind and solar resources on the continent, with exploitation potential concentrated in Egypt and Morocco.

While renewable generation capacity has been growing at an annual compound rate of 6% since 2011, non-hydro renewable generation contributed just 3% to total electricity generation in North Africa. In a 2022 report, the International Renewable Energy Agency (IRENA) estimated that 2,792 GW of solar thermal and PV could theoretically be installed in the region, up from just 10.4 GW currently. North Africa also has a technical on-and offshore wind capacity of 223 GW but had just 6 GW installed as of last year. Egypt and Morocco have benefited disproportionately from renewable energy investment in recent years. As of 2021, planned investment in power generation and transmission for the period 2021-2025 amounted to US$36 billion in Egypt, US$23 billion in Algeria, US$12 billion in Morocco, US$3 billion in Tunisia, and USD $0.3 billion in Libya (APICORP 2021). Renewable energy investment as a share of total investment is considerable in all cases, 62% for Morocco, 39% for Tunisia, 36% for Algeria and 15% for Egypt. This amounts to a regionwide US$5 billion annual renewable investment average during the period 2021-2025.

Bilateral and multilateral development banks have historically been a key source of funding for the region. In Egypt and Morocco, Germany's Kreditanstalt fuer Wiederaufbau (KfW) has been prime financier. The European Investment Bank and the African Development Bank have also deployed significant funds towards the development of North Africa's energy sector. Independent Power Producers (IPPs) invested approximately US$$13.3 billion in energy between 2010 and 2020, of which 67% was invested in renewable generation.

North Africa benefits from special treatment under the EU neighbourhood policy in the southern

Mediterranean, which includes cooperation on biodiversity conservation, climate action, and sustainable energy. It is in the EU interest to make use of existing provisions under the European Green Deal, including the Sustainable Europe Investment Plan and the Just Transition Mechanism, to promote renewable development in North Africa. Some €79.46 billion has already been earmarked for investment in North Africa for the 2021-2027 period, of which 30% will go towards supporting climate objectives, including reducing the carbon footprint of key industries, grid reinforcement, and to foster technical support for the integration of renewable energies, building on existing partnerships the EU has signed with governments in the region.

Figure 11: Cumulative renewable energy investment

Source: BNEF

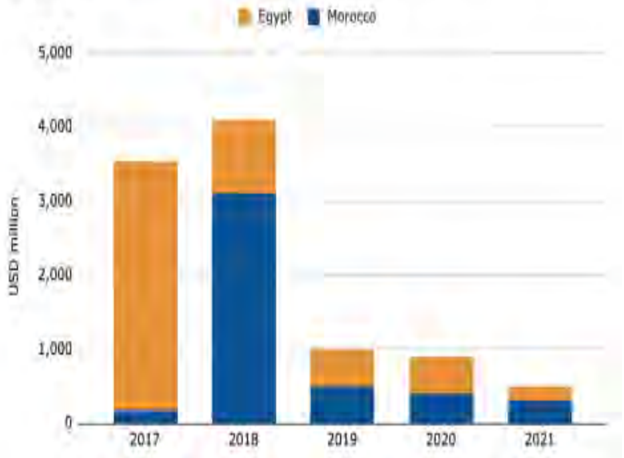
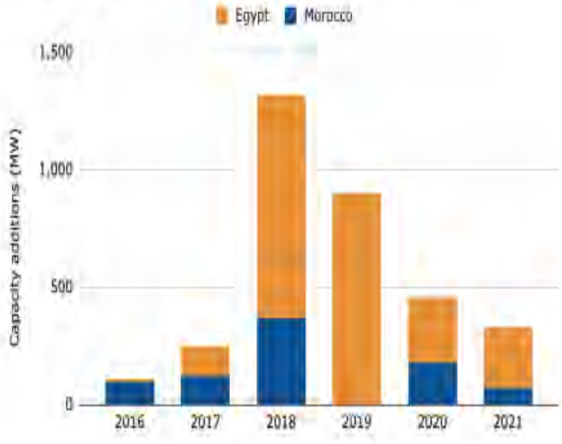


Figure 12: Annual renewable energy capacity additions

Source: IRENA

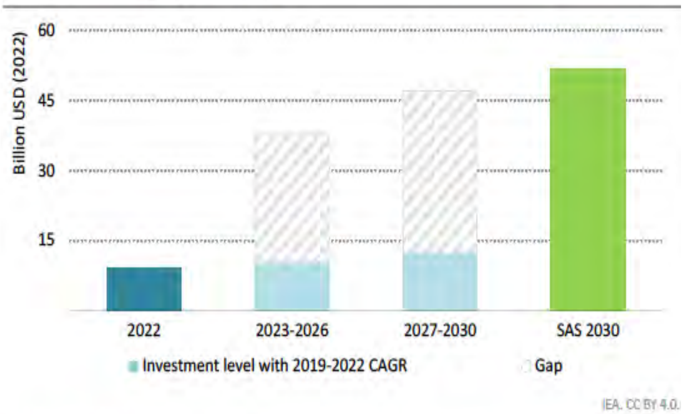


Coordinating Grid Infrastructure with Renewable Build-out

A detailed plan to coordinate the development of grid infrastructure with renewable build-out will be vital to ensuring a secure North African system transformation at lowest possible cost. States would do well to learn from the European experience with Internal Energy Market (IEM) integration and pan-European HV grid expansion under the Ten-Year Network Development Plan (TYNDP) process.

The role of interconnection in this regard has already been noted. North African electricity systems are already interconnected, which could facilitate an increase in intra-regional power trade under the right conditions as a solution to the grid stability issues which are likely to worsen as more renewable capacity comes online.

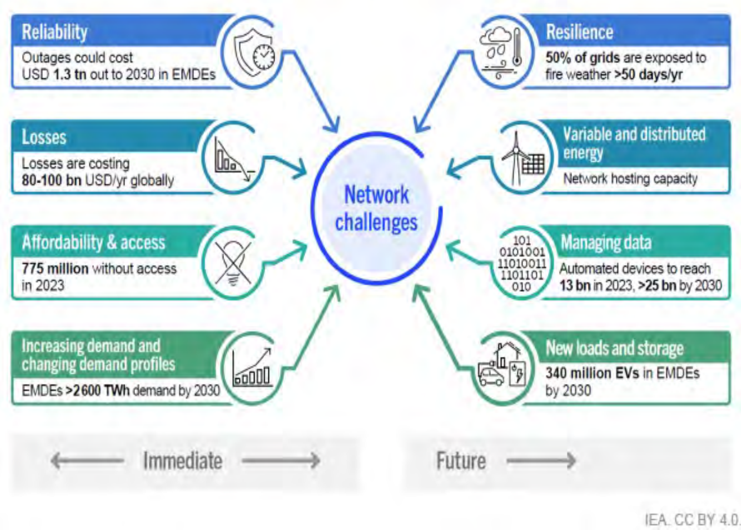
Figure 2.7 ▷ Annual grid investment to 2030 based on recent growth rates, Africa, 2022-2030



Growth in grid investment over recent years has been minimal; continuing at this pace would leave investment at roughly only a quarter of the level necessary under the SAS

Note: CAGR = compound annual growth rate.

Current and future challenges for electricity grids in emerging markets and developing economies



IEA. CC BY 4.0.

The North African Power Pool or Maghreb Electricity Committee (COMELEC) was set up in 1974 with the principle aim of promoting regional power grid interconnection among member states, Algeria, Libya, Mauritania, Morocco, and Tunisia. With technical assistance from the EU in areas such as commercial electricity trading, such sales could play a critical role in facilitating cross-regional electricity trade and political cooperation.

And the benefits o cross-border cooperation in electricity trade between North Africa and Europe are already being realised. In Morocco, Tunisia, Algeria and Egypt, investors have detailed plans to build mammoth solar parks for export to Europe.

Two HV grid interconnections already exist between Spain and Morocco, with a third line set to become operational by 2026. The £16 billion, 3.6 GW XLinks Interconnection project planned between the UK and Morocco could meet 8% of GB power demand if it becomes operational. The project has received support from investors including the Abu Dhabi National Energy Company and Octopus Energy, and is chaired by former Tesco chief, Dave Lewis. Further plans aim to construct direct connections between Tunisia and Italy (TuNur Interconnector), and Egypt, Cyprus and Greece (EuroAfrica Interconnector), among others.

While North African governments can benefit from an influx of European investment and technical expertise to aide in its energy transition, there are ethical questions which must be considered when contemplating an export model in countries where consumer demand for electricity is rising - particularly in Tunisia and Morocco.

Parties to COP28 must keep in mind the importance of interregional cooperation on the road to achieving Net Zero, as much as the ethical imperative of ensuring a just energy transition for all.

Navigating Sustainability Disclosure in Finance - Towards a Global Sustainable Finance Disclosure Taxonomy

Sustainability reporting like other disclosure metrics in an environment of constant regulatory change is fast gaining traction in a number of jurisdictions. The aim is to make corporate sustainability reporting more common, consistent, and standardised like financial accounting and reporting. The European Union is leading from the front through the Corporate Sustainability Reporting Directive (CSRD) which is based on a detailed set of disclosure standards developed by the European Financial Reporting Advisory Group (EFRAG) in tandem with the sustainability disclosure standards issued by the International Sustainability Standards Board (ISSB). If and when companies fall into the scope, CSRD will require firms to comply with reporting requirements that are extensive in nature covering Environment (E), Sustainability (S) and Governance (G) metrics. Companies will be required to provide, metrics, commentary risk statements and corporate goals, as well as relevant policies and practice information. ***Deepa Nair, Chief Compliance Officer (Wealth Platform), Principal Asset Management,*** gives a snapshot of the latest developments in the sustainability disclosure architecture and why the new frameworks hold the promise of accelerating sustainable economic development through the availability of better data.

Deepa Nair,
Deepa Nair, Chief Compliance Office, Wealth Platform, Principal Asset Management

Source: Deepa Nair, Principal Asset Management Compiled from various sources 2023

In recent times, corporations across the globe have faced growing scrutiny as investors, lenders, and other stakeholders are increasingly inclined to incorporate environmental, social, and governance (ESG) factors into their investment decision-making processes. Consequently, there is a rising demand for transparent, consistent, and comparable disclosures on sustainability matters in corporate sustainability reporting.

A pivotal step towards bolstering investor confidence in sustainability reports would be the adoption of widely accepted sustainability reporting frameworks and the implementation of external assurance. Recognizing this demand, regulatory bodies and standard-setting organizations in various jurisdictions have put forth proposals to mandate sustainability-related disclosure requirements. The overarching objective of these proposals is to transform sustainability reporting to a mandatory practice.

These initiatives are driven by the belief that sustainable investing not only generates long-term financial returns but also creates positive social and environmental impact. By obligating companies to disclose their ESG practices and performance, regulators aim to provide investors with the necessary insights to make informed investment decisions and direct capital towards more sustainable businesses.

The proposals put forth by regulators and standard setters encompass a broad spectrum of aspects related to sustainability reporting. They typically include reporting requirements on critical ESG areas such as climate change, biodiversity, human rights, labor practices, diversity, and corporate governance.

Today there are more than 600 different sustainability reporting standards, industry initiatives, frameworks, and guidelines around the world, which can make sustainability reporting a complex, research-heavy, and repetitive process. The summer of 2023 ushered in a new era of sustainability disclosure for businesses, whether Europe-based or active in Europe, replacing the current fragmented reporting landscape.

In June, the International Sustainability Standards Board ("ISSB") issued its first set of sustainability disclosure standards, IFRS S1 and S2, potentially creating a common language and globally consistent baseline for disclosing the effect of climate-related risks and opportunities on a company's projects.

Despite these positive steps, the proliferation of distinct and overlapping disclosure regimes poses challenges for businesses operating internationally.

Priorities of Sustainability Disclosure Standards

On 31 July 2023, the European Commission announced its adoption of the European Sustainability Reporting Standards ("ESRS") for companies subject to the EU Corporate Sustainability Reporting Directive ("CSRD"), with European Union (EU) member countries having until July 2024 to implement the rules. By far the most comprehensive sustainability reporting standards are the EU's new CSRD requirements, which are now being implemented over the next several years.

In support of a global baseline, the standard setters appreciate that where different sets overlap, they must be interoperable. IFRS and the Global Reporting Initiative worked with EFRAG in developing ESRS. ISSB has agreed to reference ESRS as a source of guidance to identify metrics and disclosures.

The three key priorities for navigating sustainability disclosures and where companies can start are:

1. Bolster Sustainability Governance

Disclosures around procedures, controls and practices for the oversight and management of sustainability matters are central elements of both ESRS and the ISSB's standards. Information requirements about sustainability skills and competencies on committees and boards as well as the integration of sustainability-related performance in incentive schemes are likely to prove particularly challenging.

2. Define Materiality

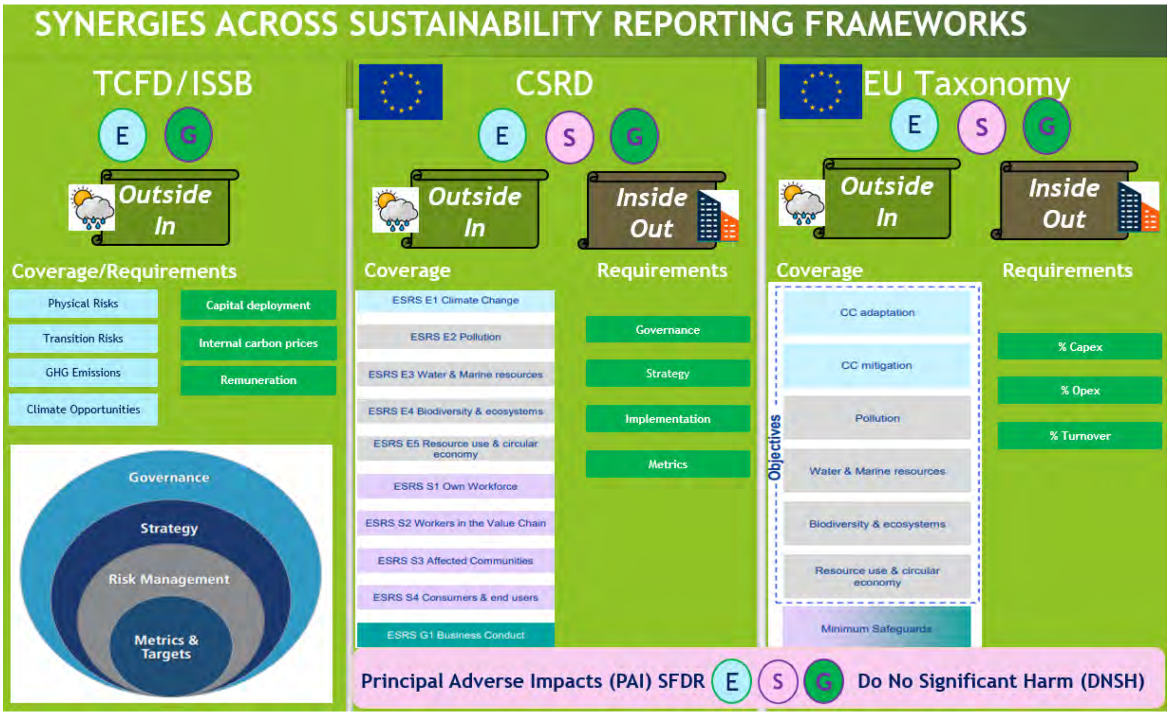
The information to be disclosed is largely based on a company's materiality assessment under both ESRS and the ISSB's standards. Nearly 85% of European large and mid-cap companies disclosed they had carried out a sustainability materiality assessment, according to ISS Data and that compares with 52% in North America. The "double materiality" approach underpinning the EU framework demands companies identify and evaluate both their impact on people and the environment and the effect on their financial performance through engagement with stakeholders and based on scientific research and scenario analysis.

3. Entrench Sustainability in Business Strategy

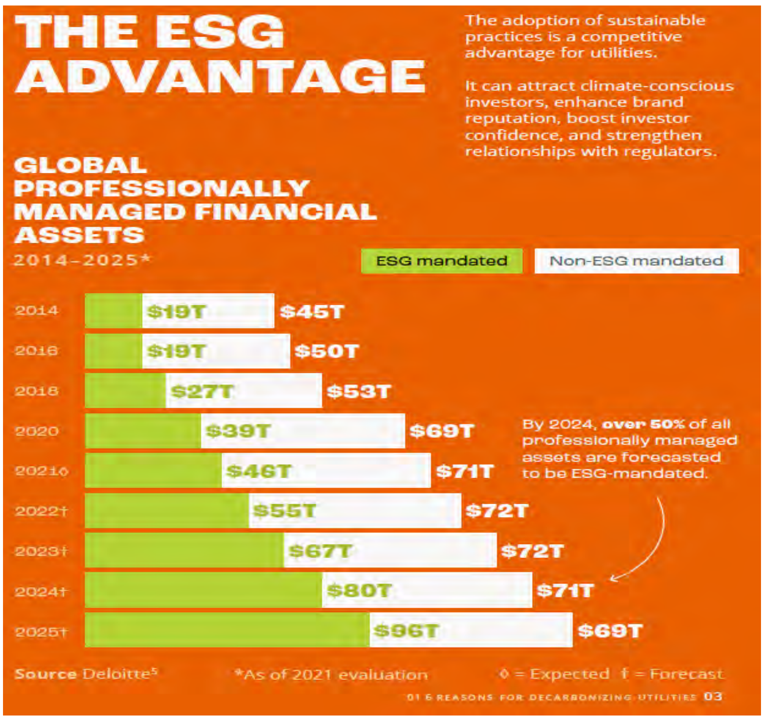
Sustainability disclosures should be aligned with financial disclosures. Both ESRS and IFRS S1 emphasize the importance of connectivity between sustainability disclosures and financial statements and require the integration of sustainability disclosures in financial reports. CSRD-compliant sustainability statements, based on the requirements set out in the ESRS and incorporating EU Taxonomy disclosures, must be integrated into the company's management report.

Next Steps with Sustainability Reporting

The EU's adoption of the ESRS for companies subject to the Corporate Sustainability Reporting Directive is a significant development, gradually expanding coverage to nearly 50,000 companies by 2026. Importantly, both ESRS and ISSB standards apply a value-chain approach to sustainability disclosures. The European Commission and EFRAG have worked closely with the ISSB and the Global Reporting Initiative (GRI) to increase interoperability.



The release of the new sustainability disclosure frameworks signals monumental progress in the harmonization efforts in which key stakeholders globally participated over several years. It holds the promise of accelerating sustainable economic development through the availability of better data. However, organizations must be prepared to invest in expertise and capabilities to effectively comply with the evolving disclosure requirements.



The Rise and Rise of Green and Sustainable Bonds

Sustainability-linked Bonds are an Important Link Between Sustainable Development and Capital Market

Paul Horrocks,
Head of Unit for Private Finance for Sustainable Development, OECD

Haje Schütte,
Deputy Director of the OECD Development Co-operation Directorate

Green, social and sustainability (GSS) bonds are proliferating at a rapid pace and according to S&P Global could reach a cumulative US$4 trillion by end 2023. But differentiation is useful – the two main category cohorts in the GSSS bond group being 'use-of-proceeds' instruments (UPIs) and sustainability-linked bonds (SLBs). In UPIs issuers commit to using the proceeds to (re-) finance specific projects considered to have a positive environmental and/or social impact. On the other hand, the proceeds of sustainability-linked bonds (SLBs) can be used for general purposes, and hence are more fungible. ***Paul Horrocks, Head of Unit for Private Finance for Sustainable Development, OECD*** and ***Haje Schütte, Deputy Director of the OECD Development Co-operation Directorate,*** discuss why COP28 presents a unique opportunity to showcase SLBs especially its important contribution to the development of the GSSS bond market, their role in scaling up the use of SLBs in mobilising donor support for climate-related and clean energy transition projects in developing countries, bringing together stakeholders from across the bond ecosystem – from public sector and corporate issuers to investors.

https://www.icmagroup.org/market-practice-and-regulatory-policy/secondary-markets/bond-market-size/

As COP28 begins, we in the development community are facing increasing pressure on our limited Official Development Assistance (ODA) to deliver on our mandates. The needs are significant and growing, thanks to an increasing number of development challenges, geopolitical events, and the climate emergency.

There is also an increasingly loud voice looking for reform of how development actors conduct their business and of the financial architecture more broadly, with calls from the owners of the MBDs being joined by those of the Global South. Though not always in tandem, the mood music is very much around mobilising the private sector. Meanwhile, there is growing interest in impact and sustainability-aligned investing from the private sector, which is looking for greater exposure to the Sustainable Development Goals (SDGs). In this context, capital markets hold significant potential for private finance mobilisation due to their size: the global bond market stands at approximately US$128.3 trillion.

Yet despite this alignment, we are not seeing the transformative movements in finance that the interest and agenda would suggest. New investment formats – such as green, social, sustainability and sustainability-linked (GSSS) bonds – are emerging and can meet the needs of both impact investors and more traditional institutional investors. However, most GSSS bond activity is found in developed rather than developing countries, where the SDG gaps are the deepest.

This is despite the huge potential these instruments hold for developing country issuers, since they provide a way for such issuers to tap into a new, deep pool of capital while also signalling their commitment towards sustainability.

The latest S&P outlook expects GSSS bond issuance to continue to outpace that of traditional bonds for the rest of 2023 – claiming its highest-ever share of global bond issuance.

Use-of-Proceeds Instruments

This GSSS bond group can be divided into two categories. Green, social and sustainability (GSS) bonds are 'use-of-proceeds' instruments, meaning that issuers commit to using the proceeds to (re-) finance specific projects considered to have a positive environmental and/or social impact. On the other hand, the proceeds of sustainability-linked bonds (SLBs) can be used for general purposes, and hence are more fungible.

Crucially, the structural and/or financial characteristics of these bonds change depending on whether issuers meet pre-defined sustainability objectives. As such, they reward or incentivise sustainability performance, and can be linked to existing sustainability objectives like the Nationally determined contributions (NDCs).

While GSS bonds and SLBs may not be appropriate for all types of issuers, when they are they should be viewed as complementary. Here, issuers should not have to choose between either one or the other – but rather chose between both instruments based on their ultimate financing needs. The SLB market is still in its infancy, with the first issuance taking place in 2019, and has so far been dominated by corporate issuers– which make up 98% of issuances.

Meanwhile, 2022 saw the successful issuance of the world's first two sovereign SLBs: Chile issued the first and Uruguay followed suit in October.

Of course, it is important to note that SLBs remain debt instruments at their core. They may not be appropriate for all issuers and should not be viewed as a one-size-fits-all solution. Issuance requires significant capacity which some entities in developing countries may lack.

Broader considerations with regards to countries' macro-fundamentals and overall risk setting are also relevant, and debt sustainability concerns also need to be carefully evaluated. Still, for many entities they do hold a unique opportunity and it is important to scale their use – both in developing countries, and for public sector issuers more specifically.

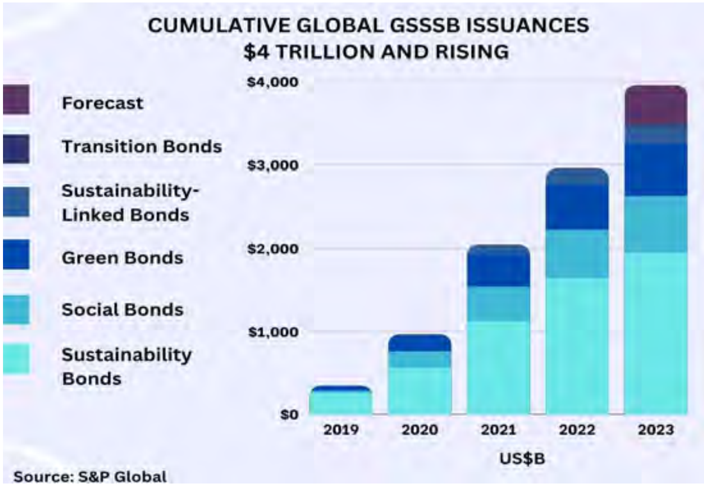
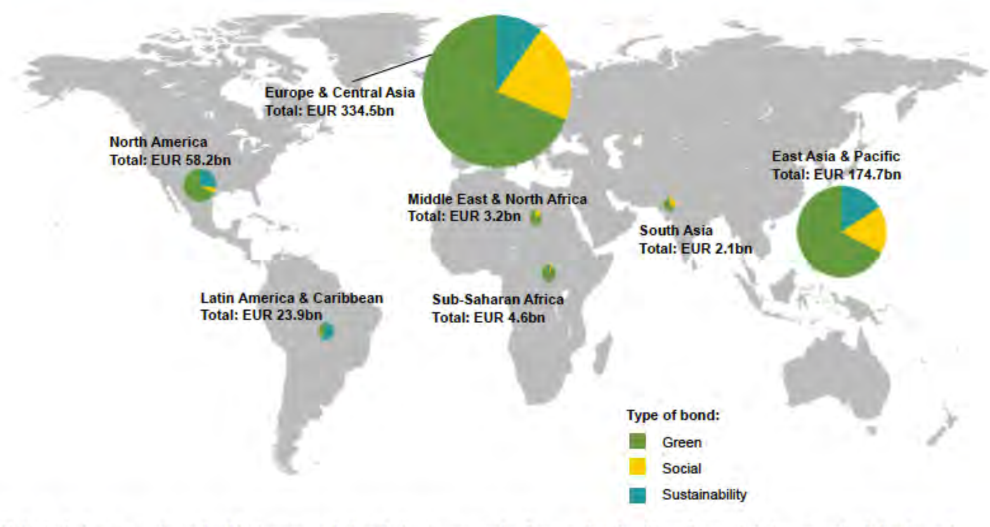


Figure 1.3. Green, social and sustainability bond issuances by region, in 2022 (EUR billion)



Note: Includes corporate and public issuances but excludes issuances by Supranational entities. Sizes of circles are not relative to scale.
Source: Authors' calculations based on Luxembourg Green Exchange (20233). Luxembourg Green Exchange, https://lgxhub-premium.bourse.lu/
Source: OECD Green, Social and Sustainability Bonds in Developing Countries: The Case for Increased Donor Co-ordination Report

https://www.spglobal.com/esg/insights/featured/special-editorial/global-sustainable-bonds-2023-issuance-to-exceed-900-billion

SLBs are a particularly important new tool for developing countries with a significant ambition to transition their economies and align with sustainability goals. Unlike GSS bonds, SLBs don't require a pipeline of bankable projects – which is often lacking in developing countries. This means that these instruments can be used by a wider range of entities. As debt instruments, they're also an important tool to enable developing countries to access both local and foreign currency funds. Despite the novelty of the SLB market, SLBs seem to be gaining particular importance in countries that need access to development finance and can benefit from ODA.

Scaling up Support for SLBs

Indeed, in some developing countries SLBs make up a larger share of overall GSSS bond issuances than they do in advanced markets. This suggests that SLBs are particularly attractive to issuers in developing countries – particularly corporates which currently dominate issuance.

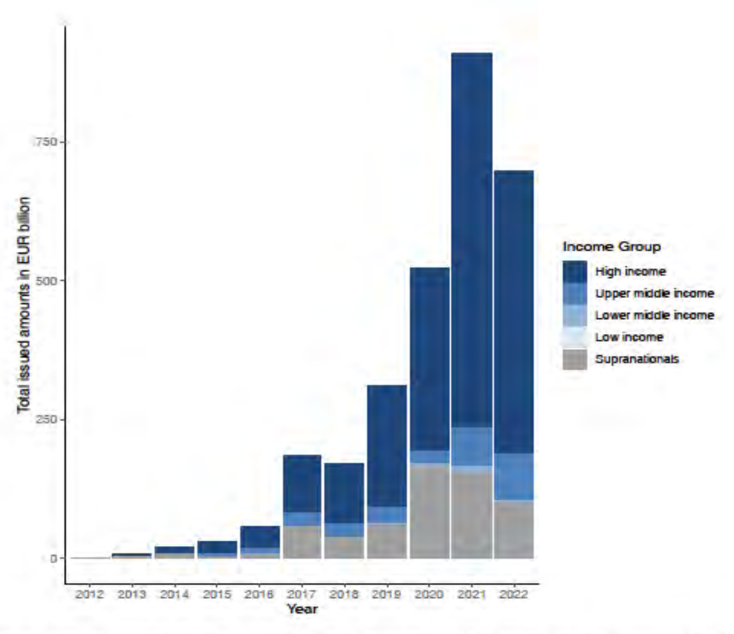
Despite the low number of public sector SLB issuances to date, the instrument demonstrates significant potential for these actors as well. Based on their ability to reward and incentivise sustainability performance, SLBs complement the suit of financing tools used to meet developing countries' sustainable development and climate objectives.

Aside from mobilising investors, SLBs can be signals of credibility of a sovereign's commitments towards net zero and delivering the SDGs. SLBs can often be seen as an intermediary step in the transition to full-fledged SDG and Paris Agreement alignment in the financing profile of an issuer, who may not have enough projects initially for a GSS bond that is tied to green or social assets. Here, SLBs can be particularly powerful for meeting targets tied to areas like biodiversity, climate change adaptation or social outcomes – with urgent financing needs but fewer, or no, bankable assets.

There is therefore an important need to scale up support for SLBs. The good news is that the investor interest is there. Consultations with international investors regarding SLBs have been positive since they are perceived as adding to the development of sustainability investment options. Private investors like the flexibility of SLBs and the fact that they could, in theory, be greater in issuance size and typically have longer tenors than GSS bonds.

At the same time, given the novelty of SLBs, they remain the subject of investor scrutiny – in particular due to greenwashing or transparency concerns. When seeking investment opportunities, investors also look at the broader bond market and then potentially at thematic bonds, including GSS bonds and SLBs. An issuer's credit fundamentals remain crucial to investment decisions. In the context of regions such as sub-Saharan Africa, the number of countries with low credit ratings can impact the number of private sector actors involved in bond issuances.

Figure 1.1. Green, social and sustainability bonds issued amounts by country income group (EUR billion)



Source: Authors' calculations based on Luxembourg Green Exchange (20230), Luxembourg Green Exchange, https://lgxhub-premium.bourse.u

Source: OECD Green, Social and Sustainability Bonds in Developing Countries: The Case for Increased Donor Co-ordination Report

Using this investor interest as momentum to scale SLB markets in developing countries, support is needed in a number of areas. For example, a strong sustainable finance infrastructure, including local SLB Principles and Frameworks, will be important. These are all fundamental building blocks for the creation of SLB markets which are credible, accountable and harmonised. On the flipside, their absence can lead to fragmentation between issuers in different sectors and markets. For investors, this hampers comparability and familiarity, therefore limiting confidence and cross-border investment flows.

For issuers, the burden of having to operate in an environment lacking clear expectations can disincentivise issuance altogether. Donors can play an important role in ensuring that the SLB Principles and Frameworks are effectively developed through capacity building. Strong data measurement and reporting practices also underpin the credibility and ambitiousness of SLBs.

These can be enhanced via technical assistance and funding from donors. These recommendations, and others, are explored in depth in a forthcoming OECD report which focuses on how donors can facilitate SLB market growth in developing countries, with a view to public sector issuances.

COP28 will be an important point to shed light on SLBs – and sustainability-linked Islamic bonds can play an important contribution to the development of the GSSS bond market. The key will be to use some of the momentum around COP28 to scale up the use of – and donor support for – SLBs in developing countries. By bringing together stakeholders from across the bond ecosystem – from public sector and corporate issuers to investors – COP28 is a unique opportunity to do so.

Editor's Note: Paul Horrocks is the Head of Unit for Private Finance for Sustainable Development, Financing for Sustainable Development, at the Development Co-operation Directorate, OECD. Haje Schütte, is Deputy Director of the OECD Development Co-operation Directorate, who focuses on how to address the dual challenges at the core of the 2030 Agenda, mobilising unprecedented volumes of resources, and leaving no-one behind. Haje oversees the provision of data, standards as well as policy analysis and guidance to OECD Members, the OECD Development Assistance Committee (DAC) and other stakeholders, in support of an integrated and holistic view of all development finance flows required for reaching global development goals.

Green Sukuk – Unsustainable Strategy to be Relevant?

Mushtak Parker
Consultant Editor

The rhetoric of aspiration is almost embarrassing! Report after report from a motley of organisations – the G20, IsDB Group, UNDP, UKIFC, the Asian Development Bank to name a few – eulogize the suitability and potential of Green Sukuk (the generic term encompassing the cohorts of Ethical, Sustainable, Socially Responsible Investment (SRI) and ESG Sukuk) in raising finance for climate adaptation, mitigation and the just transition to clean energy as per the Net Zero goals of the 2015 Paris Climate Agreement. At the 2015 G20 meeting in Antalya the leaders in their final communiqué stressed the suitability of "alternative financing structures, including asset-based financing (namely Sukuk)," for SMEs and infrastructure investment. But this narrative has and continues to persist for almost a decade. The aspirations are simply not backed by the required level of action and upscale in terms of volume and value of Green Sukuk. ***Mushtak Parker*** considers the fragmented global Green Sukuk ecosystem and argues that unless key entrenched structural issues are urgently addressed, issuance inertia will continue to limit the impact and role of Sukuk in sustainability, infrastructure, climate and development finance.

A few swallows doth not make a Summer. One might get the impression that on the cusp of COP28, the global Green Sukuk market is vibrant following the issuance of €550 million and US$500 million Public Green Sukuk by the Islamic Development Bank (IsDB) and Abu Dhabi Islamic Bank in November.

On the contrary, Green, ESG, SRI and Sustainability (GESS) Sukuk has remained irrelevant as a meaningful contributor to the huge amounts of funds required to finance the growing demands for climate finance, food security, transition to clean energy and infrastructure of all sorts in the 57 member states of the Organisation of Islamic Cooperation (OIC).

Whatever data there is, at best is unflattering. At worst, up-to-date data collation on GESS Sukuk is poor, incomplete, dated, non-transparent and piecemeal. This is a pity because Fitch Ratings in its Q3 2023 Sukuk Dashboard stresses that "global Sukuk supply remains limited compared with demand." As the climate crisis heightens, this will be even more so with GESS Sukuk.

Global Green & Sustainability Sukuk Issuances 2023

DATE	ALLOCATED AMOUNT	PRICING/ PROFIT RATE/YIELD	TENOR	ISSUER	MATURITY	TYPE OF FINANCING
8 November 2023	€550m (US$601.36m)	3.456% p.a. 5-Yr EUR Mid Swap (MS) plus 33 bps	5 years	Islamic Development Bank	7 November 2028	Public Green Sukuk
12 November 2023	US$500m	5.695% p.a. Yield of 5-Yr US Treasuries + 115bps	5 years	Abu Dhabi Islamic Bank	November 2028	Public Green Sukuk
15 October 2023	RM90m (US$18.81m)	n/a	1 year	Cagamas Berhad Malaysia	14 October 2024	ASEAN Green SRI Sukuk
26 September 2023	US$1.75bn	4.906% p.a. 5-Year US SOFR MS plus 52 bps	5 years	Islamic Development Bank	25 September 2028	Public SOFR (Se-cured Overnight Financing Rate) Sustainable Sukuk
20 July 2023	AED1.3bn (US$350m)	4.93% p.a.	3 years	First Abu Dhabi Bank	19 July 2026	Public UAE Dirham Green Sukuk
30 May 2023	RM1bn (US$220m)	4.05% p.a.	5 years	SME Development Bank Malaysia	29 May 2023	Sustainability Sukuk Wakalah
15 May 2023	US$500m	4.875% p.a.	10 years	Aldar Investment Proper-ties, Abu Dhabi	14 May 2033	Senior Unsecured Green Sukuk
4 April 2023	US$1.2bn	4.632% p.a. – Spread of 120bps +10-Yr US Treasuries	10 years	Saudi Electricity Company	3 April 2033	Senior Unsecured Green Sukuk
29 March 2023	US$1bn	4.75% p.a. Yield of 5-Yr US Treasuries + 110 bps	5 years	Islamic De-velopment Bank	28 March 2028	Public SOFR (Se-cured Overnight Financing Rate) Sustainable Sukuk
6 March 2023	US$2bn	4.598% p.a. Yield of 5-Year US SOFR MS plus 55 bps	5 years	Alrajhi Bank	5 March 2028	Public SOFR (Se-cured Overnight Financing Rate) Sustainable Sukuk
13 February 2023	US$1bn	4.8% p.a. - Yield of 5-Yr US Treasuries + 102.4 bps	5.5 years	Dubai Islamic Bank	12 July 2028	Sustainability Sukuk
GRAND TOTAL 2023	**US$9,140.17M**					

Source: Compiled by Mushtak Parker from various official sources November 2023

In general, global outstanding Sukuk volumes, according to Fitch, expanded by 10% y-o-y in Q3 2023 and for the first time crossed US$800 billion, with sovereigns being the key issuers.

"Both outstanding and issued sukuk continued to hold 30% of the total funding mix in core markets. Outstanding Fitch-rated Sukuk were US$148.4 billion, up 5% q-o-q. ESG sukuk were a key theme, with US$30.5 billion outstanding, up 22.5% q-o-q. Local-currency issues held 75.2% of total Sukuk outstanding," explained Bashar Al Natoor, Global Head of Islamic Finance at Fitch.

Incentives by governments and regulators come and go. In the UAE, the Securities and Commodities Authority for instance issued regulations exempting companies wishing to list their green or sustainability-linked bonds or Sukuk in a local market from registration fees for 2023. But it this an expediency measure in supporting debt capital markets, broader sustainability and the COP28 agenda in the UAE?

In Malaysia Prime Minister Ibrahim, who is also the Minister of Finance, in his 2023 National Budget prioritised the issuance of SRI Sukuk through tax and issuance cost incentives spanning five years. The Securities Commission Malaysia (SC) earlier this year introduced the framework on Sustainable and Responsible Investment Sukuk (SRI) which enables fundraising by companies through financing towards improving sustainability practices and supporting the transition to low carbon activities. The framework on SRI-linked Sukuk aims to address a wider range of financing needs for companies at different stages of their sustainability journey, providing companies more opportunities for transition to net zero carbon targets and further meet the Government's desire to achieve net zero carbon emissions targets by 2050.

According to Finance Minister Anwar Ibrahim, "to provide an innovative Shariah compliant financing and place Malaysia as a regional hub of SRI-linked Sukuk issuance, it is proposed tax deduction on the cost of issuing SRI-linked Sukuk that is approved or permitted or deposited with the Securities Commission Malaysia be given for a period of 5 years. The effective date is from the year of assessment 2023 until the year of assessment 2027."

This is part of a focussed strategy linking and aligning Islamic finance to sustainability and manifested through the Government's Belanjawan MADANI vision on how Islamic finance can further leverage on the sustainability concept for the development of the sector. Its three pillars are i) Inclusive and sustainable economic growth, ii) Institutional reforms and good governance to restore confidence, and iii) Combating inequality through social justice.

According to Adnan Zaylani Mohamad Zahid, Assistant Governor of Bank Negara Malaysia, the word MADANI has its roots in Arabic and means "being developed in terms of thinking, spirituality and mentality". The Malaysia MADANI concept – or civil society, he emphasised, "envisions a country that looks beyond economic wellbeing and materialism to one which emphasises humanity and good values like fair, just and effective governance. MADANI is an acronym for a policy that embraces six core values – keMampanan (Sustainability), KesejAhteraan (Prosperity), Daya Cipta (Innovation), hormAt (Respect), keyakiNan (Trust) and Ihsan (Compassion)."

Similarly, the SC's Capital Market Masterplan (CMP3) identifies SRI as one of the key development thrusts for the capital market over the next five years. It highlights the importance of SRI towards shaping a more sustainable and socially inclusive stakeholder economy in Malaysia that facilitates long-term value creation beyond short-term profits that would cater to broader stakeholder needs. "Several key trends, including the new wave of global climate action, are also expected to give rise to greater efforts surrounding SRI which are geared towards supporting Malaysia's transition to a net-zero economy, including greater integration of environmental, social and governance (ESG) considerations into investment risks, facilitating transition finance and encouraging greater transparency on sustainability-related data and reporting standards," says the SC.

The Commission recognised that an SRI Taxonomy for the Malaysian capital market will further accelerate the development of the SRI ecosystem towards achieving national environmental and sustainability objectives. In line with the recommendation of the SC's SRI Roadmap, a principle based Sustainable and Responsible Investment Taxonomy (SRI Taxonomy) has been developed to enable the Malaysian capital market and its constituents in identifying economic activities that are aligned with ESG objectives.

Global Green & Sustainability Sukuk Issuances 2022

DATE	ALLOCATED AMOUNT	PRICING/ PROFIT RATE/YIELD	TENOR	ISSUER	MATURITY	TYPE OF FINANCING
5 January 2022	US$750m	4.0% p.a.	Perpetual Sukuk	Riyad Bank Saudi Arabia	-	Additional Tier 1 Sustainability Sukuk
15 March 2022	US$900m	7.5% p.a. – Initial Period 8.5% p.a. – First Call Date	Perpetual Sukuk	Infracorp Bahrain	-	Green Mudaraba Exchangeable Sukuk
4 April 2022	2-Tranches RM300m (US$69.91m)	Tranche 1 – RM200m 4.36% p.a. Tranche 2 – RM100m 4.73% p.a. Yield for both Tranches Malaysian Government Securities + 95 bps	Tranche 1 – 5 years Tranche 2 – 7 years	MBSB Bank Malaysia	Tranche 1 – 3 April 2027 Tranche 2 – 3 April 2029	Sustainability Sukuk Wakalah
20 April 2022	US$1.6bn	3.213% p.a. Yield of 5-Year US SOFR MS plus 50 bps	5 years	Islamic Development Bank	19 April 2027	Public SOFR (Se-cured Overnight Financing Rate) Sustainable Sukuk
2 June 2022	RM1.5bn (US$340m)	Tranche 1 – RM150m 4.7% p.a. Tranche 2 – RM750m 5.05% p.a. Tranche 3 – RM600m 5.20% p.a.	Tranche 1 10 years Tranche 2 15 years Tranche 3 20 years	TNB Power Generation Bhd	Tranche 1 – 3 April 2033 Tranche 2 – 3 April 2038 Tranche 3 – 3 April 2043	Sustainability Sukuk Wakalah
6 June 2022	US$1.5bn	4.70% p.a.	10 years	Government of Indonesia	5 June 2033	Green Sukuk Wakalah
30 June 2022	RM150m (US$32.02m)	45 bps above Malaysian Government Investment Issue	3 years	Cagamas Berhad Malaysia	29 June 2024	ASEAN Green SRI Sukuk
14 August 2022	RM285m (US$60.84m)	45 bps above Malaysian Government Investment Issue	2 years	Cagamas Berhad Malaysia	13 August 2024	ASEAN Green SRI Sukuk
30 September 2022	RM4.5bn (US$990m)	4.662% p.a.	15 years	Government of Malaysia	29 September 2037	MGII Lestari Sustainability Sukuk
19 October 2022	US$1bn	4.74% p.a.- Yield of 5-Year US SOFR MS plus 62 bps	5 years	Islamic Development Bank	18 October 2027	Public SOFR (Se-cured Overnight Financing Rate) Sustainable Sukuk
1 November 2022	RM500m (US$108.7m)	n/a	3 years	Cagamas Berhad Malaysia	30 October 2025	Public SOFR (Secured Overnight Financing Rate) Sustainable Sukuk
22 November 2022	US$750m	5.493% - Yield of 5-Yr US Treasuries + 155 bps	5 years	Dubai Islamic Bank	21 November 2027	Sustainability Sukuk
GRAND TOTAL 2022	**US$7,101.47M**					

Source: Compiled by Mushtak Parker from various official sources November 2023

"Given Malaysia's global leadership position in Islamic finance and the alignment of Islamic finance with sustainability, particularly from the social and ethical investing perspectives," stressed SC Chairman Dato' Seri Dr Awang Adek Hussin, "the development of the SRI Taxonomy in Malaysia also includes a social component, in addition to the environmental component. The SRI Taxonomy will serve to enhance the standardisation and comparability of sustainable investment assets, and act as a critical building block to facilitate greater product diversity. This will in turn accelerate the development of SRI as an asset class, in line with the aspiration and recommendations of the SRI Roadmap."

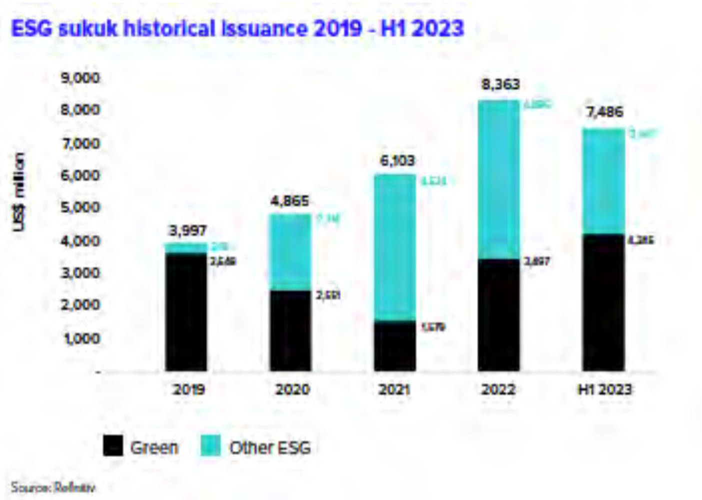
Not surprisingly, Dr Awang Adek Hussin, welcomed the tax deduction on the cost of issuing SRI-linked Sukuk. "This demonstrates the role of the capital market in enabling the country's transition towards a greener and more sustainable economy, by mobilisation of capital towards initiatives that provide more positive impacts to society," he stressed.

Despite these grand achievements, the Islamic finance sector, maintained Prime Minister Anwar Ibrahim, has still not reached its full potential based on values to fulfil contemporary economic and social needs. Therefore, new initiatives are needed "to empower the Islamic finance system by emphasising the principle of driving growth, wider participation, and equitable wealth distribution, and not only focused on company and conglomerate profits."

Re-inventing the Wheel

Governments, corporates and various entities are rushing to embrace sustainability, ESG and other such strategies, frameworks and memberships of conventions including the Principles for Responsible banking, Principles for Responsible Insurance, Equator Principles on Sustainability by joining the Equator Principles Association (EP Association), and the Partnership for Carbon Accounting Financials (PCAF).

The fact remains that GESS Sukuk is the Cinderella of the global Islamic capital market (ICM). Malaysia's sustainability and GESS Sukuk



ecosystem is the most advanced in countries in which Islamic finance is of systemic importance in terms of frameworks, enabling legislation, and government incentives. Where it falls short is in terms of market depth, critical mass in terms of volumes and value, a degree of non-transparency, lack of capacity and independent quality research.

Part of the playbook is the attachment of many in the global Islamic finance and associated space, especially by a younger cohort, to an emotive and near atavistic vision of Islamic finance per se and in recent times of sustainability and Green Sukuk in particular as a panacea for societies' and economies' woes. The ethos of the faith-based system of financial intermediation incorporated in the body of Fiqh Al Muamalat (Islamic law relating to financial transactions) does not need any defence nor validation.

It is the commitment to its principles, its enabling legislation in a contemporary financial system, its regulation and supervision, its reporting and prudential standards, transparency and disclosure, shareholder, board and other stakeholder awareness and market education, institutional capacity, independent research and development that fall short.

IsDB €550m Public SOFR Sustainable Green Sukuk

Country	Saudi Arabia – Supranational & Multilateral Development Bank
Issuer	IsDB Trust Services Limited
Obligor	Islamic Development Bank (IsDB)
Date of Issuance	7 November, 2023
Volume	€550 million
Issuance Programme	US$25 billion Trust Certificate Issuance Programme
Sukuk Type	Public SOFR (Secured Overnight Financing Rate) Sustainable Green Sukuk
Tenor	5 Years
Maturity Date	6 November 2028
Overall Profit Rate	3.456% per annum payable semi-annually
Yield	5-Year Euro Mid Swaps (MS) + 33 bps
Orderbook Final Allocation	58% to Middle East & North Africa, 34% to Europe, 6% to Africa, 2% to Asia investors
Investor Type	56% was allocated to central banks and official institutions, 40% to bank Treasuries and 4% to asset managers, fund managers and others.
Joint Lead Managers & Bookrunners	Abu Dhabi Commercial Bank, Crédit Agricole CIB, HSBC, J.P. Morgan, Societe Generale and Standard Chartered Bank.
Ratings – Parent and Certificates	Aaa/AAA/AAA by S&P, Moody's and Fitch (all with Stable Outlook)
Use of Proceeds	The proceeds of this issuance will be directed towards IsDB commitments for sustainable development in its Member Countries under its Realigned Strategy. The Strategy focuses on three overarching, interconnected strategic objectives. These are (a) boosting recovery, (b) tackling poverty and building resilience, and (c) driving green economic growth.
Listing	Nasdaq Dubai

Source: Compiled by Mushtak Parker from IsDB Data. November 2023

No amount of re-inventing the wheel with a surfeit of non-arguments will help. The latest is the sudden realisation that Islamic finance must move beyond 'Shariah-based' to 'Shariah-compliant' to 'Tayyib' – the latter denoting for the good of and wholesome in society. As if Tayyib is a recent 'invention' and that the scholars and practitioners somehow forgot to incorporate it in the ethos of Islamic finance and their products, services, behaviour and code of ethics. Needless to say, anyone in the Islamic finance/ICM industry merely for chasing yields and profits, should not be there. But you cannot legislate against that. It is a matter of conscience and principles.

Previously there were some detractors who thought that the proscription on riba (interest) merely referred to excess not ordinary interest, whatever that means. I still come across literature today which pushes this nefarious agenda. Some of the other non-arguments relate to 'debt or equity finance' and 'form or substance', as if these are zero sum issues, when common sense tells us that they are both valid and necessary in today's complex market conditions.

This mindset challenge also impinges on the GESS Sukuk sector. The challenge is how to add the urgency and scale in terms of issuance, impact, innovation and measurement. This is a medium-to-long-term challenge which has to be resourced creatively, led by proactive policy makers, innovative regulators, incisive oversight, daring government agencies such as sovereign wealth funds and state pension funds, multilateral financiers and insurers, market educators, NGOs and community leaders, and Shariah advisories who must not sit on the fence and who are perceived to merely push the agenda of the corporates they serve.

Abu Dhabi Islamic Bank US$550m Public Green Sukuk

Country	United Arab Emirates – Abu Dhabi – Islamic bank
Issuer	ADIB Capital Invest 1 Ltd
Obligor	Abu Dhabi Islamic Bank
Date of Issuance	8 November, 2023
Volume	US$500 million
Sukuk Type	Public Senior Green Sukuk
Tenor	5 Years
Maturity Date	7 November 2028
Overall Profit Rate	5.695% per annum payable semi-annually
Yield	5-Year U.S. Treasury Rate. + 115 bps
Final Orderbook	US$2.6 billion – 5.2 times oversubscription
Final Allocation	78% to MENA, 13% to Europe 9% to Asia and USA (Offshore Accounts)
Investor Type	26% was allocated to private banks, 42% to commercial banks, 17% to asset managers, fund managers and others 16%.
Joint Lead Managers & Bookrunners	Standard Chartered Bank - Sole Global Coordinator and Sustainability Structurer along with ADIB, Emirates NBD, First Abu Dhabi Bank and Sharjah Islamic Bank as Joint Lead Managers and Bookrunners
Ratings of Certificates	A+ by Fitch Ratings, A2 Moody's Investors Service
Use of Proceeds	The proceeds of this issuance will be used by ADIB to allocate an amount equal to the net proceeds of this issuance to fund eligible green projects to accelerate climate transition, which may include the financing or refinancing of green projects as well as financing customers for eligible green projects as described under the Eligibility Criteria in the ADIB sustainable finance Framework.
Listing	London Stock Exchange's International Securities Market and Sustainable Bond Market.

Source: Compiled by Mushtak Parker from IsDB Data. November 2023

Structural Ideas That May be Worth Exploring include:

- The establishment of a multilateral Global Green (or GESS) Sukuk Alliance, with a clear agenda of how to take that great leap forward in issuance volumes and value, incorporating governments, agencies, SWFs and the whole spectrum of potential issuers. The alliance would come up with required issuance guidelines, frameworks and taxonomies which are just, based on a non-stereotypical perception of country credit risk, not necessarily rated, encourages cross-border issuances and distribution through user-friendly access to local bourses or through direct investment, gives priority to local currency offerings in an agreed exchange rate mechanism and where relevant profit repatriation, listing on national and regional bourses to unlock further liquidity, building up a strong primary dealer and investor base, and ring-fencing a portion of the certificates to ultra-retail investors to promote social and financial inclusion. The surfeit of global alliances, conventions and compacts are all based on conventional finance and societal metrics which may conflict with Islamic concepts albeit there may be some overlapping. This has led to issuers of GESS Sukuk to be sub-consumed by the prevailing architecture and stakeholders.
- b) Toning down the rhetoric of aspiration, the blatant marketing narrative of Sukuk issuance, and refraining from looking at Green Sukuk through the looking glass of Green and Sustainable Bonds. Green bonds cannot be the benchmark for GESS Sukuk. The anomalies are self-evident.
- A declaration of commitment to Islamic finance and Sukuk as a viable fund-raising instrument using the appropriate terminologies. This so especially by governments, their agencies, SWFs, utilities and the wider corporate, financial, philanthropic and social sectors to include the unique Islamic institutions of Zakat, Waqf and Sadaqah.
- Consistent with the demands of the UN SDG agenda, the Net Zero Goals, Transition to Clean Energy and the objectives of Maqasid Al Shariah and its concomitant Fiqh Al Muamalat, there has to be a behavioural change away from merely chasing yields, profits, and returns in favour of a more inclusive, sharing and real economy mindset and impact of the ICM stakeholders. However, for a long-term market to be established and for Greenium levels to develop in regard to pricing, a number of factors will need to be put in place such as the right regulatory framework, a flow of transactions by both sovereign and corporate issuers and awareness and interest by private sector investors. Greenium or green-premium refers to the savings an issuer of a green bond/ Sukuk realises on the associated coupon payment because the instrument is green. Green bonds/Sukuk are debt instruments that fund specific projects/activities categorised as 'green' under national or international green taxonomies.
- Which would require independent impact assessment for each offering and a methodology of measuring this impact by third parties.
- Encourage a statutory involvement of SWFs and government-linked entities in GESS Sukuk issuance and investment. Malaysia's state pension fund, EPF has to invest a portion of its premiums in Islamic instruments. In contrast, the Public Investment Fund (PIF) is heavily involved in the halal economy market and in the voluntary carbon market through two joint ventures and a strong supporter of Islamic finance industry. Yet last year the PIF saw fit to issue a US$3 billion inaugural green bond instead of a Green Sukuk as part of its commitment to develop 70% of Saudi Arabia's renewable energy capacity, in line with Vision 2030. Khazanah Nasional, the Malaysian SWF has issued modest ad hoc social and sustainability Sukuk, but most of the SWFs from OIC countries are bereft from the GESS Sukuk market. Like the private issuers, SWF issuers will be the game changer of the GESS Sukuk market if only they have a clear vision and action

plan and pathway to the Sukuk market.

- Get the industry standard-setting bodies such as IFSB and IIFM to concentrate more on developing relevant standards relating to sustainability, governance, disclosure, the environment, climate finance and so on. If mandates need to be changed then do so post haste.
- Research data collection on GESS Sukuk and ICM can be a nightmare. After over 40 years covering and researching the industry, I still find disclosure and transparency especially on Sukuk structures, sources of funds and end use, guarantees and pricing, seriously lacking. There is a formulaic approach to disclosure of information including final terms, Shariah governance and structures, which is further compromised due to the poor communication culture in many of the institutions and entities, and the propensity to hide behind confidentiality metrics and irrelevant chat rooms.
- As such publishing Final Terms of a Sukuk transaction should become mandatory – a public right for both public issuances and private placements. It would enhance the visibility of GESS Sukuk and confidence in the instrument and its variants.
- A major anomaly which I cannot comprehend is Shariah Governance responsibility in Sukuk prospectus and documentation. "The transaction structure relating to Trust Certificates to be issued under the Programme (as described in this Base Prospectus) has been approved by the Shariah Supervisory Board of Citi Islamic Investment Bank, the Executive Shariah Committee of HSBC Saudi Arabia, the Shariah Supervisory Board of Morgan Stanley and the Global Shariah Supervisory Committee of Standard Chartered Bank as compliant with Shariah principles as applicable to, and interpreted by, them. Prospective Certificate holders should not rely on the approval referred to above in deciding whether to make an investment in Trust Certificates and should consult their own Shariah advisers as to whether the proposed transaction described in the approval referred to above (including, without limitation, any trading of the Trust Certificates) is in compliance with Shariah principles (see "Risk Factors – There may be differing views with respect to Shariah compliance"), says the prospectus of one issuer. With four Shariah Boards approving the transaction, what is the rationale behind asking prospective certificate holders to consult their own Shariah advisories, as if the latter would actually have such advisers? It's like asking customers in a supermarket buying halal certified meat not to accept the certification and get their own Shariah adviser to say whether it is halal or not. It is ridiculous and an exercise in legal hubris simply adding to the cost of Sukuk finance and issuance.

- Data collation has other serious debilities – in terms of transaction classification and the intermingling of conventional and Islamic terminologies. ACWA Power, the renewable energy company owned by PIF, recently issued a SAR1.8 billion Senior Unsecured Sukuk. No mention in the public documents whether this was a sustainability offering. Similarly, Energy Development Oman (EDO) and nogaland in Bahrain and a spate of fossil fuel-involved companies have issued Sukuk but they are not classified as sustainability issuances albeit some claim that the proceeds will be used in their energy model and business transition process. Do we include such issuances in the data?
- Invest in an informed, professional financial journalism and analysis capability. Most publications in the industry publish press releases, most of which are sheer marketing propaganda, verbatim. There is no attempt in general to gather further information, clarifications or explanations. They are effectively cloned in a disinformation parade in a motley of media outlets. The use of the words Sukuk bond and interest payment on the Sukuk, especially by the likes of most of the international financial media, are an insult to the industry and disrespect to the ethos of Islamic finance. As if they are entitled and set the neo-colonial agenda for the global Islamic finance industry. And yet the industry institutions, participants and many OIC media outlets are simply willing or unintentional partners in perpetuating the disinformation.

Green Sukuk Market Dynamics

Sukuk issuances linked to Sustainability, ESG, SRI and Green Finance continues to gain traction in domestic and international markets albeit the volume issued thus far falls way short of with the level of issuance in the global Green Finance and Bond market. In 2022, a record US$2 trillion of green, social and sustainable bonds were issued globally, according to the European Commission. The Commission expects this figure to rise by 50% in 2023, albeit this remains about 15% of the total global debt capital market. The latest data from S&P Global projects Green, Social, Sustainability and Sustainability-linked (GSSS) bond issuance to reach just under US$4 trillion in 2023 and rising. The momentum is both remarkable and admirable with a number of caveats.

In contrast, total Green and Sustainable Sukuk, according to Fitch Ratings, reached a mere US$15 billion in 2021. This figure is estimated to have increased to US$19 billion in 2022, led by sovereign, multilaterals and corporate issuers in Indonesia, Malaysia, the GCC states, Türkiye and Pakistan. Sukuk remains the preferred format for ESG-linked debt in core Islamic finance markets, albeit the pace of issuances could be far more urgent given the huge challenges OIC countries are faced with in terms of climate adaptation costs and finance and transition to just clean energy. In the wake of the Glasgow Climate Pact following the COP26 Climate Conference, and the inertia of COP27 in Sharm El Sheikh, this transition for emerging countries will be difficult, given also that many of the OIC countries are primary commodity producers including agriculture and fossil fuels – oil, gas and coal – and dependent on these revenues to finance their budgets and development.

My data shows that there were 11 Green and Sustainability Sukuk issued in 2023 aggregating US$9,140.17 million issued by issuers in three countries – Saudi Arabia, Malaysia and the UAE. In 2022 there were 12 issuances aggregating US$7,101.47 million issued by issuers in Saudi Arabia, Malaysia Bahrain, UAE and Indonesia. The cumulative issuance of Green/Sustainability Sukuk in 2022/23 totalled US$16,241.64 million.

Saudi Arabia is the key. Saudi Arabia, sys Fitch Ratings, is a key sukuk issuer, with a 25.1% share of the global US dollar sukuk market in 3Q23. It has the largest Debt Capital market (DCM) in the GCC and has 69.4% of the GCC Sukuk market (all currencies), as well as 23.4% of the US dollar global ESG Sukuk market. Sukuk issuances (all currencies) were US$12.3 billion in 3Q23 (down 2.1% q-o-q), while bonds issuances were US$1.4 billion (up 16.8% q-o-q), 90% of issuances in 3Q23 were in Sukuk format.

"With the Saudi Vision 2030, we expect the Kingdom to continue developing its DCM, supported by funding diversification, ambitious giga projects and capital market development initiatives" says Bashar Al-Natoor, Global Head of Islamic Finance at Fitch. "We expect continued initiatives to diversify funding – not only by the sovereign, but also by banks, corporates and projects that are likely to seek alternative channels like DCM".

The corporate funding culture in Saudi Arabia is still geared mostly towards bank financing, but this is gradually changing. Saudi riyal issuance was almost solely dominated by sukuk across all sectors over the past five years, and the government only issues local-currency debt in sukuk format.

Is the Future Green Sukuk?

The are several positive developments but they seem to be scattered, arbitrary and piecemeal – lacking the glue of collaborative engagement.

IsDB Group's Strategic Re-aligment Strategy 2023-2025 crucially hinges on three overarching objectives: boosting recovery, tackling poverty and building resilience, and driving green economic growth agenda. These objectives will be achieved by focusing the Bank's interventions on two key pillars over the next three years (2023-2025): (1) developing green, resilient, and sustainable infrastructure, and (2) supporting inclusive human capital development through projects and capacity development initiatives.

Not surprisingly, the above strategy will rely on the Bank's resource mobilisation activities. The IsDB remains the most proactive and prolific issuer of AAA-rated Sukuk in the international market. But to date it has issued only five Public Green/Sustainability Sukuk in 2022/23 totalling just under US$7 billion.

At the ICMA AGM in Paris in May 2023, IsDB President Dr Muhammed Al Jasser struck an optimistic note on "the Group's critical role in plugging the huge financing gap through our resources, bringing in co-financiers from around the world, and leveraging upon IsDB's AAA-rating to tap the capital markets through Sukuk issuances."

As a frequent issuer the IsDB has issued more than US$42 billion since 2005. Dr Jasser has been highly encouraged by the investor response in both the Green Sukuk and Sustainability Sukuk transactions. "We were very pleased to see institutional investors from France, Germany, Japan, and the U.K. participate for the first time. Our Sustainable Finance Framework was assigned a very strong Second Party Opinion, and we also have a solid ESG risk rating," he added.

But the overall nascent low base for Green Sukuk implies huge growth and sustainability potential on the back of the requisite political and corporate will. Here ICIEC's rolling out of its Sukuk Insurance Policy as a Third-Party credit enhancement guarantee initially for unrated or below investment grade sovereign issuances could play an important knock-on market driver role especially in unrated and below investment grade member states.

According to Oussama Kaissi, CEO of ICIEC, "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."

Indonesia is the world's most proactive sovereign issuer of Green Sukuk having issued five issuances totalling US45 billion. However, the Sukuk issuance ecosystem once again is top down, and there have been questions raised as to the Third-Party verification of Green assets and activities. The verification process regarding Indonesian Green Sukuk is in fact a second opinion as opposed to a certification.

In Nigeria, the Debt Management Office (DMO) issued its sixth domestic Sukuk in October "to sustain the laudable achievements recorded so far in the use of Sukuk proceeds for the construction and rehabilitation of Nigerian roads, and thereby, continue to enhance ease of commuting and doing business, safety on our roads, job creation, economic growth, and the prosperity of our nation." According to Patience Oniha, Director of General of the DMO, the FGN Sukuk embodies two key sustainability features – infrastructure and financial inclusion. "We consider Sukuk to be one of the useful and accepted products for raising funds," she explained. "The proceeds from the issuance will be used solely for the construction and rehabilitation of 44 arterial roads across the six geopolitical zones of the country."

On the corporate front, First Abu Dhabi Bank (FAB), one of the largest in the Middle East, as part of its ESG strategy, has set a new target to finance or facilitate over US$75 billion sustainable finance projects by 2030. How much of this would be through GSS Sukuk is not clear. FAB in July issued its debut UAE Dirham Green Sukuk raising AED1.3 billion.

Ultimately one of the biggest boost to GESS Sukuk could come from greater connectivity between Islamic finance and the Halal economy also remains fragmented, under-researched exacerbated with under-reporting, poor data collection, confusing methodology in terms of criteria, metrics and certification 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.

Tackling Climate Change ... the Right Way

Tania Swanepoel
Head of ESG at Old Mutual Alternative Investments

All eyes will be on global leaders in December at COP28 in Dubai. With talks centred on restricting global warming to below 2°C and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, there is likely to be a push from the European Union for deals to phase out CO2-emitting fossil fuels, triple production of renewable energy and halt the building of coal power plants. ***Tania Swanepoel**, **Head of ESG at Old Mutual Alternative Investments (AIIM),*** which has a track record of investing in IPPs in renewable and clean energy projects, and in transport, logistics and digitisation infrastructure, argues that doing it the right way, means leaving no one behind.

Since the advent of the industrial revolution, and the subsequent increases in anthropogenic greenhouse gas emissions that have resulted in the climate change impacts we are witnessing, large industrialised economies in regions like the US, China and Europe as well as the United Kingdom have been the biggest emitters of carbon dioxide.

It follows then that the very same economies who have contributed to the problem have a responsibility to show their commitment to counter climate change and lead the transition away from fossil fuels, as well as invest in those developing- and least developed economies that stand to be most affected. This is why significant amounts of funds was committed to helping these economies with their Just Energy Transition Programmes (JETPs) at COP27 – something that was hailed as acknowledgement of the vast disparity between developed and developing nations when it comes to the impacts of climate change.

But the reality is that very little of the funding that has been promised has been seen on the ground. In 2022 South African President Cyril Ramaphosa called on parties to honour their pledges because their failure to do so after COP26 in Glasgow and COP21 in Paris had created lack of trust between developing and developed countries.

There remains a perception that much of the money that was promised is a donation to underdeveloped countries. Emerging economies not only bear the burden of carbon taxes for their development but also endure the disproportionate impacts and costs of climate change. When funding is committed, it needs to be in the interests of everyone.

Tackling climate change and the Just Transition the right way means leaving no one behind. Is change fast enough? Are we moving in the right direction? These questions will get us nowhere. For our economy, which is still heavily reliant on fossil fuels, the real threat is doing it in a disorderly fashion and coming unstuck due to a lack of planning. We must recognise that the transition and road to decarbonisation needs to take place over a time span. Hurrying the transition without due consideration could have a disastrous impact on all South Africans who remain dependent on our major industries such as mining, and coal generation infrastructure.

That's why we are hard at work in trying to provide a sustainable ecosystem for generations to come. Old Mutual Alternative Investments, through African Infrastructure Investment Manager (AIIM) on the equity side and its Infrastructure Debt Division, is making a significant contribution to addressing South Africa's current load shedding crisis and supporting our renewable energy industry.

Infrastructure Debt is one of the largest institutional investors in the three Scatec Kenhardt projects in the Northern Cape currently in construction under the Risk Mitigation Independent Power Producer Procurement Programme (RMIPPPP), which will have a total solar capacity of 540 MW and battery storage capacity of 225MW/1,140MWh, and provide 150 MW of dispatchable power. AIIM's IDEAS Fund, arguably SA's largest infrastructure equity fund, has investments in 10 wind farms, 16 solar farms and 3 off-grid solar power supply companies with a combined capacity of 2GW.

Preparing for Climate Change at a Business Level

The reality is that the African continent is largely not the culprit of climate change, yet we are going to be most vulnerable to its impact. The electricity crisis in the country has shifted the priority to renewable energy with rapid adoption of solar energy and wheeling projects to address the shortage. In addition, the relaxation of regulatory requirements for the licence-free, private generation of power is unlocking various parts of the value chain, enabling business to take advantage of these opportunities.

As one of Africa's leading private alternative investment managers with over R127 billion in assets under management, we proactively seek investment opportunities that create value through positive sustainability outcomes. This means that it is imperative that the companies we are invested have mitigation strategies to ensure resilience to climate change. We work with the boards of companies to ensure that there is a plan in place to assess and manage both physical and transition risks of the business, and make sure that this informs business decision-making every step of the way.

In preparing for the impact of climate change, the most important first step is to take it seriously. Understanding how your business is impacted will allow you to have meaningful conversations in terms of business preparation. Look at where your business can have the most material impact in terms of mitigating or adapting to the impact of climate change, and then where you are most vulnerable. Consider forming partnerships with trusted advisors to help assess your risks.

In the run up to the world's target of net zero by 2050, start with what you can do in the short term, and then move on to longer-term initiatives. By asking what the big-ticket items are you can plan and budget accordingly. Crucial for planning is to remember that although we may not have the technology readily available today at a reasonable cost, this is likely to change.

For example, green hydrogen – a gas that presents significant opportunity for SA – should be in place by 2035, if not sooner. What can be done by 2030 given where technology will be then? This insight may influence or shape your company's decarbonisation plan. Already we have seen that when the advent of technology in renewable energy increases, the cost of making such technology accessible decreases as it comes online. We have already seen this play out in the case of solar photovoltaic panels (PV).

Fair and Responsible Clean Energy Investment

The South African power sector must transition to a lower carbon energy mix, become more resilient through diversified energy sources and grow the supply of energy. But we must also address climate change by investing in a fair and responsible manner, and not lose sight of this imperative and critical outcome for the future generations of all South Africans.

What should this look like? We need to work towards minimising harm and maximising benefits, with a just transition emphasising the urgent protection and empowerment of those most vulnerable to climate change. We need to invest in reskilling and upskilling programs for workers in the fossil fuel industry, ensuring their meaningful employment in the emerging energy economy.

AIIM is a major direct and indirect investor in solar energy projects in South, East and West Africa Additionally, fostering innovation and technology development is crucial, not only for achieving sustainability goals but also for stimulating economic growth and job creation. There are gaps in the grant component in international financing that needs to be addressed through action, not promise, for any real chance of a just transition.

And critically urgent private sector participation and investment in renewable energy projects will pave the way for a more inclusive transition.

Note: AIIM is a subsidiary of Old Mutual Alternative Investments (OMAI), which in turn is a member of the global Old Mutual Group of South Africa. AIIM actively manages investments in East, West and Southern Africa and has assets under management of USD2.7 billion with a track record extending across eight African infrastructure funds.

> Addressing climate change responsibly means transitioning to a lower carbon energy mix, fostering innovation, and ensuring a just transition by investing in reskilling programs for workers in the fossil fuel industry

Source: AIIM

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Towards a Universal Social-Related Financial Disclosure Standard

Elia Trippel,
Elia Trippel, Policy Analyst, Green Finance and Investment, Organisation for Economic Cooperation and Development

As the financial sector is starting to take action to integrate climate change and broader sustainability concerns into investment and lending decisions, taxonomies have been gaining traction in several jurisdictions including China, the EU, Japan, France and the Netherlands. Most related efforts by jurisdictions have so far been focused on climate change taxonomies, and in particular climate change mitigation taxonomies. However, recent concurrent crises have once again highlighted the interdependencies between climate change, the environment, and social objectives. Therefore, the attention of policymakers and the private sector is increasingly turning towards broader sustainability objectives, including social sustainability. In this context, social taxonomies will likely have a key role to play. ***Elia Trippel, Policy Analyst, Green Finance and Investment, Organisation for Economic Cooperation and Development (OECD),*** considers why social taxonomies are as vital as other taxonomies in Climate Action albeit there needs to be greater standardisation to mitigate differences and complexities between competing taxonomies especially for international investors.

Recent overlapping shocks related to energy supply-demand imbalances after the COVID-19 crisis, as well as energy and supply chain disruptions caused by Russia's invasion of Ukraine, have once again brought the importance of a socially just and equitable net-zero transition to the forefront: to ensure broad societal acceptance and support, policymakers will need to prioritise a holistic and systemic approach to the sustainability transition.

Even though the topic of a just transition has already been on the horizon for several years, it does not yet receive the same amount of attention as climate change mitigation.

Taxonomies are classification systems that provide definitions and nomenclatures for sustainable economic activities and related investments. Most related efforts by jurisdictions have so far been focused on climate change taxonomies, and in particular climate change mitigation taxonomies.

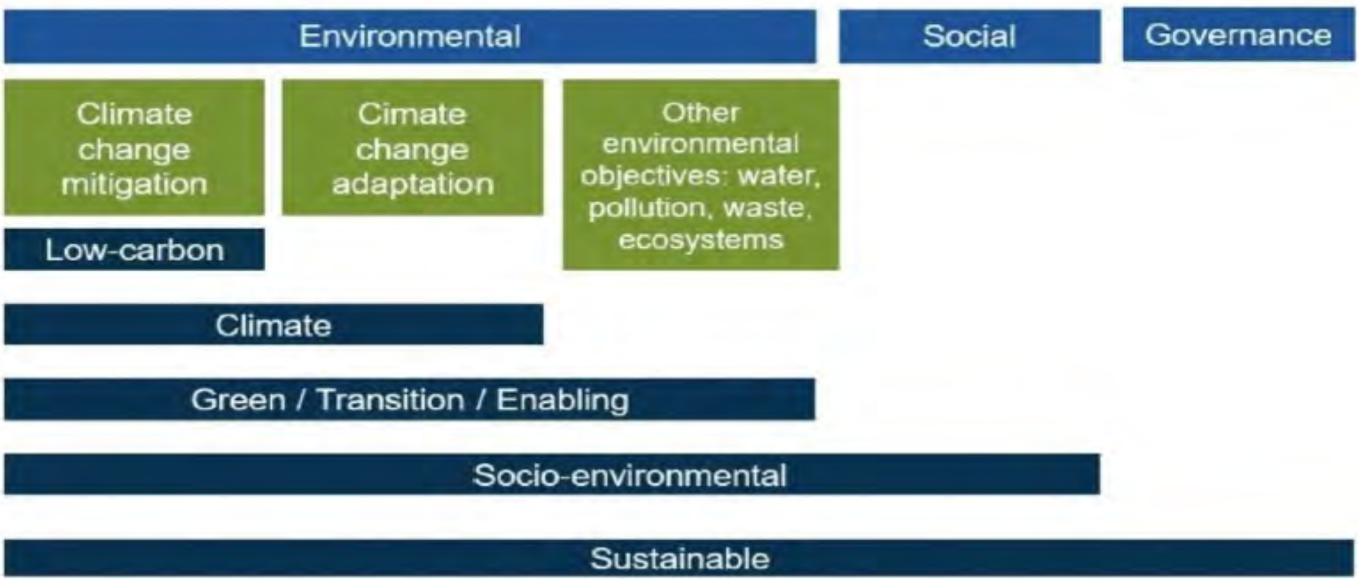
But the just transition is one of several important pillars of social sustainability, and one of the most relevant ones when it comes to the net-zero transition and climate action, as it aims to ensure that decarbonisation does not come at the expense of communities and livelihoods. This is recognised in recent OECD work on the net-zero transition, such as the OECD Guidance on Transition Finance,1 which highlights just transition aspects as a key element of corporate climate transition plans.

Other pillars of social sustainability that are worth highlighting are: the mitigation of material financial risks for companies and the financial sector, arising from social grievances and human rights violations, the demand by investors for socially oriented investments, with visibly increased sales of social bonds and social-impact bonds over recent years, and lastly, the opportunities arising from social investments, such as job quality, which contributes to the overall productivity of a firm. The latter has been agreed as a priority by G20 leaders and is a key priority for OECD policy work.3

Why do we need social taxonomies?

A social taxonomy can advance these manifold aims, while also ensuring that claims made by financial and non-financial corporates on their social sustainability performance are accurate and not misleading. That means that it can help prevent "social washing", notably by strengthening the definition and measurement of social investment. Environmental, Social and Governance (ESG) ratings can provide fundamentally different results, depending on the provi-der of the ratings, which creates confusion and makes them difficult to use by financial markets. According to a recent paper by MIT researchers, measurement divergences are especially pronounced for issues related to human rights and product safety, which are both part of the social dimension of ESG.4 This has been confirmed by a 2019 survey among 350 investors, which found that almost half of them consider the social aspect of ESG to be the most difficult to analyse and to embed in their strategies.

Sustainable finance taxonomies can have multiple objectives



Source: OECD Developing Sustainable Finance Definitions and Taxonomies Report 2022

A social taxonomy has the potential to address these issues and harmonise how social sustainability is measured, in the same way that green taxonomies aim to fight greenwashing and introduce clarity into what should be considered environmentally sustainable.6 It can enable investors to make informed and consistent decisions while also helping to direct resources towards socially responsible activities and companies.

This will be crucial in the years to come, as it is becoming increasingly clear that the green transition will require significant changes in sectors like power generation, transport, manufacturing, and agriculture. Without additional investments, these changes will have a substantial negative impact on the lives of workers in these sectors and their communities: Transitioning from a carbon-intensive economy and delivering net-zero commitments will generate major disruptions through economic restructuring, workforce displacement, job loss and creation, as well as localised disruption in the availability and price of goods and services.

Ensuring that adverse socio-economic impacts of the path to net zero are addressed will be key to fostering a fair distribution of benefits and eventually a just transition. Therefore, even though existing green taxonomies in some cases contain minimum social safeguards, they need to be complemented by social taxonomies to support this redirecting of capital flows towards social sustainability and to actively support a just transition.

Existing data around social issues remains fragmented and unreliable and the lack of consistent standards for measuring social sustainability is a key reason for this fragmentation. As the Platform on Sustainable Finance has argued in their recent report on a social taxonomy taxonomy,7 this means that currently "social measurement evaluates what is most convenient, not what is most meaningful". Moreover, current disclosures are unlikely to show to investors which companies are leaders when it comes to social sustainability, while creating additional confusion in the ESG industry.

Meanwhile, investors are sorely underequipped to meet the rising demand for socially responsible investment strategies and products. Such issues can be addressed by developing and implementing a social taxonomy that can provide a benchmark for social investment and ensure that market actors disclose the relevant information with regards to the activities covered in the taxonomy.

The EU Taxonomy

Progress on social taxonomies, so far, remains limited. The most notable example is that of the European Commission's expert group, the Platform on Sustainable Finance. The Platform published a report8 in February 2022, setting out recommendations to the European Commission on a possible social taxonomy framework.

Sources, incentives and objectives in sustainable finance definitions and taxonomies considered in the report

	China Taxonomy	EU Taxonomy	France Definitions	Netherlands Definitions	Japan Definitions
Sources					
Sovereign Green Bond			✓	✓	
Green loans definitions in legislation	✓	✓	✓	✓	
Green bonds definitions in legislation	✓	✓	✓	✓	✓
Incentives					
Interest rate incentives	✓		✓	✓	
Tax incentives or subsidies	✓		✓	✓	✓
Monetary policy/collateral incentives	✓				
Objectives					
Social objectives included	✓	✓	✓		
Climate change adaptation		✓	✓	✓	✓
Climate change mitigation	✓	✓	✓	✓	✓
Water and marine protection	✓	✓	✓	✓	✓
Pollution prevention and control	✓	✓	✓	✓	✓
Waste and recycling	✓	✓	✓	✓	✓
Ecosystems/Biodiversity	✓	✓	✓	✓	✓

Source: OECD Developing Sustainable Finance Definitions and Taxonomies Report 2022

The European Union's Taxonomy Regulation9 requires the European Commission to publish a report describing the legal changes that would be needed to extend the existing Taxonomy beyond environmental sustainability, to cover other sustainability objectives, including social objectives. The Platform's report is a first-of-its-kind analysis of what a social taxonomy may look like within the existing European legal framework. Specifically, the Platform was asked (i) to define what constitutes a substantial social contribution, (ii) to implement the Principle of Do-No-Significant-Harm, and (iii) to analyse what would be considered a 'harmful activity' as part of a social taxonomy.

In line with the main stakeholder groups identified in the relevant EU law, the Platform defined the three main social objectives of a potential European social taxonomy as:

(i) Decent work (including value chain workers).

(ii) Adequate living standards and well-being for end-users.

(iii) Inclusive and sustainable communities and societies.

To achieve these objectives, qualifying economic activities could broadly fall under three categories:

- Activities that help "avoid and address adverse impacts", targeting, amongst others, high-risk sectors with documented human rights abuses, with the aim of acknowledging transformational impacts on society, while going beyond binary conceptions of "positive" and "negative" impacts.
- Activities that have "additional inherent social benefits", including social goods and services for basic human needs and basic economic infrastructure with direct relevance to the right of an adequate standard of living.
- "Enabling activities", which are activities that have the potential to enable substantial risk reductions in other sectors or enable the positive contribution of others, such as social auditing activities.

What about supply chains?

Investors are today facing a multitude ESG risks, such as social grievances and human rights violations of companies, which can directly lead to reputational damage, issues of liability, and supply chain disruptions. These are financially material risks for investors, which reinforces the view that a company's impacts on social objectives (positive or negative) increasingly have financial implications for them and that the impacts of the company and the risks they are exposed to cannot be treated in isolation from each other.

A social taxonomy can help identify and mitigate these risks and impacts, specifically when it comes to supply chains, which are today involved in about 70% of international trade. Acute environmental and social risks like greenhouse gas emissions, hazardous waste, poor working conditions, as well as child and forced labour, can be found across all tiers of supply chains, and as such can be complex and difficult to identify and assess.

One way to address the complexity of supply chains and enhance visibility is through risk-based due diligence. It has become an important tool to mitigate the actual and potential adverse environmental and social impacts of businesses. Over the past decade, the OECD has developed a set of guidance on risk-based due diligence to help companies map their supply chains to identify and address their adverse impacts on people and planet.10

When companies have visibility over their supply chain, they can more comprehensively collect data, which can in turn inform their risk management and decision-making process. If done correctly, this can lead to more sustainable outcomes. This is also acknowledged by the Platform on Sustainable Finance: the report on the social taxonomy recognises that conducting risk-based due diligence to protect worker and community rights in global supply chains should be rewarded and recognised as a substantial contribution so social sustainability.

What's next?

Given that an increasing number of jurisdictions are developing frameworks on sustainable finance, the topic of interoperability, comparability, and reliability of ESG data, including social factors, is high on the agenda. While the focus of international alignment efforts so far has been on climate metrics, the G20 Sustainable Finance Working Group has also flagged general concerns over the lack of consistency of ESG data, lack of comparability of metrics and methodologies, and a range of approaches that undermines the meaningfulness of ESG.

Therefore, a Taskforce on Social-related Financial Disclosures (TSFD) is currently under discussion, as a natural next step to Taskforce on Climate-related Financial Disclosures (TCFD) and the Taskforce on Nature-related Financial Disclosures (TNFD). In addition to social indicators, developing indicators on what constitutes robust due diligence, and ESG risk management practices will be essential to guide investors toward activities that do not contribute to social washing.

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7 Platform on Sustainable Finance's report on social taxonomy (europa.eu)
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How Diversity Can Foster Innovation to Navigate Turbulent Times

Dr. Celia de Anca,
the Deputy Dean for Ethics, Diversity, and Inclusion, and the Director of the Center for Diversity in Global Management at IE University in Madrid

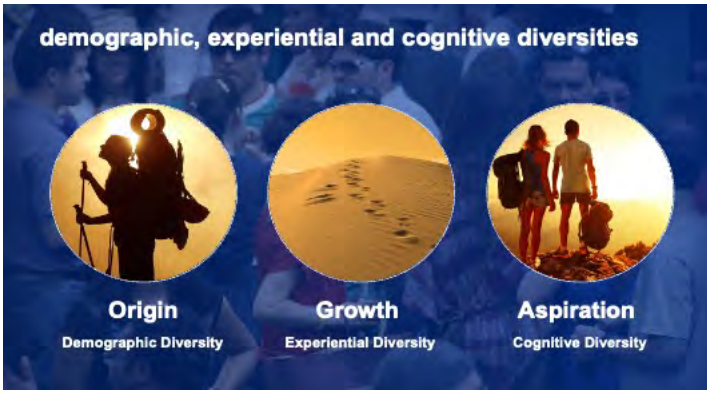
Dr. Celia de Anca, currently ***the Deputy Dean for Ethics, Diversity, and Inclusion, and the Director of the Center for Diversity in Global Management at IE University in Madrid*** is an acknowledged specialist in the ethics of diversity and inclusion especially in the workplace. A fluent Arabic speaker, she has also pioneered research into Diversity and Islamic Finance, of which she remains a Professor at IE University. Here Dr de Anca explores the main diversity and inclusion ecosystem and various pathways, and maintains that corporates and the financial sector should sincerely embrace diversity and inclusion because in a globalized world it has successfully fostered innovation in financial services as the world faces multiple uncertainties and challenges including a global cost-of-living-crisis, the impact of climate change and the urgent need for climate finance, food insecurity, vaccine inequality and accessibility, rising inequality and unemployment, and the lack of gender empowerment.

There is little doubt we are living through turbulent times, with overwhelming uncertainty at all levels created by complex problems. A globalized financial sector is particularly sensitive to turbulence, as we saw during the 2008 crisis. Moreover, the financial sector is being transformed through new technologies and is in desperate need of disruptive talent to design fintech products and services.

Diversity can help us to navigate this complexity, since diversity is complex and only complexity understands complexity. Diversity is a journey and like any journey, requires careful navigation. This article is designed to provide a better understanding of diversity and provide some guidelines about applying the model of the three diversities towards an inclusive culture that fosters innovation through belonging, in particular in the financial sector.

What we mean by diversity?

Diversity refers to the differences among peoples or things, however, in an organizational context, diversity refers to the mix of similarities and differences among the members of the organization, including gender, culture, age, physical appearance, experiences and mindsets. Going deeper into our understanding of diversity, we can classify the different diversities by the three-diversity model, which illustrates the journey of our identities over the course of our lives. 1



When we set out on a journey, we take our backpack. This is where we will find the resources we are going to need... Likewise, our groups of origin, families, ethnicity, physical features, etc. Represent the communities that we have at the beginning of our life journey. Our communities of origin help us understand demographic diversities, those that are often part of general statistics: gender, religion, age, etc. In general, these are given to us, either by birth or by circumstances outside our control, like age or losing one of our senses or a physical function.2

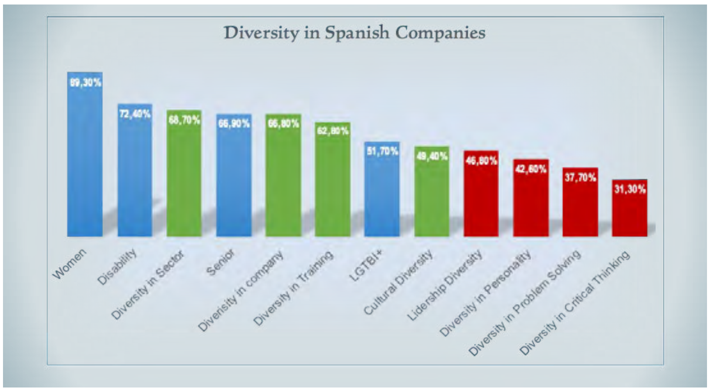
Throughout our life, we join more groups, based on our experiences, friends, sports groups, hobbies or professional interest. These identities help us in our development as individuals, representing our communities of growth. In turn, our communities of growth help us understand experiential diversities, meaning the differences resulting from life events and the personal stories that emerge from our choices and circumstances in life. At the same time, in an organizational context, experiential diversity means the expertise we are able to create, develop and exploit over the course of our professional career, including education- industry- and organization-based expertise.

Finally, as we progress through our journey, there are groups we aspire to join because we identify with their work or their ideas. Our communities of aspiration help us understand our cognitive diversity, that is, our mindset, our unique way of thinking that helps us define goals and objectives. Cognitive diversity refers to our individual differences in acquiring and processing information, as well as depicting the beliefs, perceptions and perspectives we acquire from our demographic and experiential communities.

Thus, we can understand cognitive diversity as the sum of our demographic and experiential diversities added to our mental ability to perceive, interpret, and process information, conveyed in our personality, leadership style and the way we solve problems, or our ability to think creatively.

How are different diversities managed in financial organizations?

In recent research conducted with 784 Spanish companies, we explore the weight of each type of diversity in different business sectors. The survey explored 12 different diversity variables, four of which were demographic diversities. (Women, People with disabilities, seniors and LGBTI+).

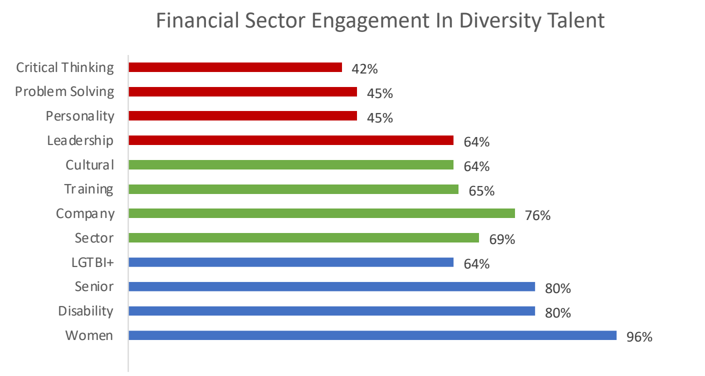


Source: Innodiversity Index 2022. https://centerfordiversity.ie.edu/es/idi/

The next four variables represented experiential diversities (sectorial diversity, diversity of experiences in different companies, diversity in training backgrounds and cultural diversity). The last four variables belonged to the category of cognitive diversities, (different leadership styles, diversity of personalities, and diversity of problem solving and diversity of critical thinking). As we can see in the graph, the two leading variables of demographic diversity are women (89% of the total sample are interested in managing female talent in their organizations) and 72% of the total sample are interested in managing the talent of people with disabilities. The leading variable of experiential diversity is sectorial diversity (68, 7% of the total sample include diversity in sector when setting team criteria). Finally, we observed that almost half of the companies represented map their employees to understand their differences leadership styles (46, 8%) or their diverse personalities (42, 6%).

When analyzing the results by business sectors, we discovered that 96% of the financial companies represented were interested in managing the female talent in their organizations, 80% in managing the talent of senior people and people with disabilities, and 64% of the companies of the survey were interested in managing the talent of people of the LGTBI+ community. Therefore, out of the ten sectors surveyed (agriculture, energy and water, industry, health, legal and professional services, technology, transportation, telecommunications, third sector and financial sector) the financial sector, which represents 7% of the total sample, leads all four demographic diversity variables.

When analyzing the results of the four variables representing experiential diversity, we discovered that 76% of companies in the financial sector represented in the sample were interested in managing the experience of their employees in working in different organizations. Some 69% of financial companies considered the experience of their employees in different industries to be relevant. 65% of companies considered that the background training of their employees was worth taking into account. Finally, 64% of companies included cultural diversity as a relevant factor. Out of the ten sectors surveyed, the financial sector obtained the fourth position after technology, telecommunications and industry.



Source: Innodiversity Index 2022. https://centerfordiversity.ie.edu/es/idi/

Finally, for cognitive diversity, the financial sector obtained the third position after energy and water, and transportation. Some 64% of the financial companies represented performed evaluation mechanisms to map the differences in leadership styles of their employees, 45% mapped the different personalities and problem-solving styles, and 42% the differences in critical thinking.

We can conclude that companies in the financial sector score highly in managing diversity in their human resources policies, particularly in terms of demographic diversity. This is relevant since the complexity of the market requires all different talents to be represented, regardless of their origins. However, the financial sector could improve the management of cognitive diversity since the market requires disruptive ideas and thus working in teams with diverse styles of thinking.

The Journey of Diversity, Inclusion and Belonging

The complexity of diversity requires a different approach to managing the different types of diversities. One of the most proven mechanisms managing diversities efficiently is through inclusion and belonging. Inclusion refers to recruiting and managing talent without bias. The organization needs to eliminate all barriers that individuals might encounter to entering or developing their professional careers based not on their capabilities and merits, but for being part of a certain social category and the social norms and expectations of that category.

Inclusion in organizations creates a level playing field where each individual - regardless of religion, race, sexual orientation, or physical traits - among other variables - is only judged by the contribution they make to the community. Once inclusion is achieved, the second approach belonging can occur. Belonging is when a workplace becomes a community and its employees have formed sentimental, psychological, and emotional attachments to the organization, its mission, and its people.

Once employees feel that they belong to the organization, the different experiences and ideas of all members can be channeled through teams and projects to improve common objectives and goals.

Diversity represents the power of difference each individual brings to the commonality, and that it is only through independent thinking and experience that organization can be resilient and create new ideas, products, and services. But for that to happen, it is necessary to create level playing field for all. Only if people feel secure and included as one equal among the others, can people bring the best of themselves, their ideas and their experiences into the community. 'Business as usual' or cosmetic measures for diversity will not work in these turbulent times. All companies, and particularly those in the financial sector undergoing technological transformation, can evolve and even be disruptive through better management of diversity, helping them navigate the storm and reach harbor.

Notes and References:

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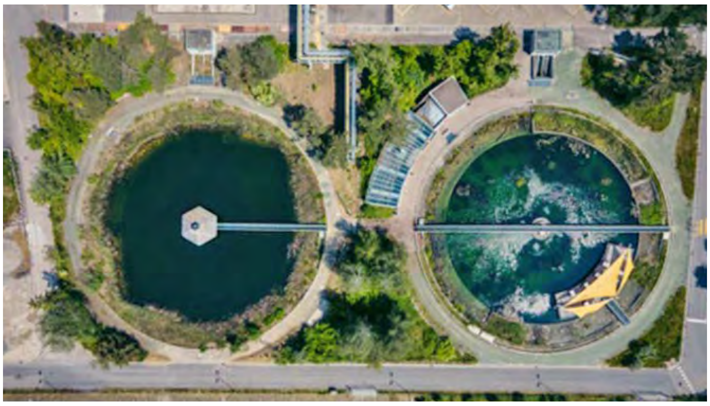
Selection of ICIEC Green and Climate-related Transactions & Case Studies in 2023

Supporting the Promotion of Egypt's energy sector

ICIEC provided a seven-year Breach of Contract and Political Risk Insurance cover under its Foreign Investment Insurance Policy to the UAE-based Alcazar Energy for its **USD 68 million** equity investment in the Benban Solar Complex in Aswan. The project involves constructing and operating four 50 MW solar power plants, providing the generated electricity to the Egyptian national grid under a 25-year power purchase agreement.

Supporting the Green Projects in Egypt



ICIEC has provided **USD 56 million** insurance coverage to support eligible green projects in Egypt. The projects are expected to have a significant positive impact on the environmental and social programs of Egypt. Plans for the Green Facility include funding the construction of seawater desalination plants with energy efficient technologies to reduce water consumption and improve the efficiency of resources. In four Egyptian governorates, 1.2 million people expect to have access to better sanitation and sewerage upon completion of the Sanitation and Sewerage Infrastructure projects. These projects will not only support the creation of employment for many locals, but they are also targetted to contribute to the achievement of SDG 6- Clean Water and Sanitation, as the projects include the building of infrastructure for transportation and treatment of wastewater.

Rehabilitation of Wastewater Collection in, Senegal

ICIEC provided **EUR 50 million** in non-payment cover as part of a **EUR 126 million** facility to Société Générale. The facility is being used to rehabilitate the Hann-Famm wastewater collector in Dakar, Senegal, built more than 70 years ago and is in an advanced stage of degradation. The collector provides approximately 8 km of evacuation and treatment of wastewater, covering more than ten city districts. The rehabilitation will significantly improve the city's wastewater safety, enhancing resilience against sanitation-related health issues for the population, especially during the flood season. A more effective wastewater collector will also increase the attractiveness of Dakar to foreign direct investment

Supporting Access to Clean Water in Cote d'Ivoire

ICIEC provided **EUR 107 million** for the Non-Honoring of Sovereign Financial Obligation (under a Loan Guarantee) to Société General Paris to support the construction of a water supply facility in Abidjan, Cote d'Ivoire. Since 2002, rural-to-urban migration in Cote d'Ivoire has increased, placing high demand on the existing water supply. Prior to this project, the majority of the population relied on underground water, which is often unreliable and unsafe for consumption. ICIEC's support for this project has a significant human development impact, delivering clean water to nearly 2 million citizens and creating 450 jobs for local citizens. Moreover, the project allows for more sustainable management of the aquifer around Abidjan, preventing both the depletion and pollution of groundwater resources. The development of basic infrastructure such as water, sanitation and distribution facilities iscrucial to achieving sustainable development and empowering communities in Cote d'Ivoire.

Supporting SharjahWaste-to-Energy Project in United Arab Emirates

ICIEC provided **USD 32.5 million** insurance cover for the WtE project's construction financing, working in partnership with fellow financial institutions SMBC, Siemens Bank, Abu Dhabi Commercial Bank, Abu Dhabi Fund for Development and Standard Chartered. For its contribution to the project, ICIEC was awarded a 2018 Project Finance International Award for Middle East Clean Energy Deal of the Year. The Sharjah Waste-to-Energy (WtE) project is the first WtE scheme to be financed in the Gulf region as the Gulf states move away from landfills to more environmentally friendly disposal solutions. The project, led by UAE clean energy firms Masdar and Bee'ah, helped Sharjah reach its zero waste to landfill target by 2020 and contributed to the UAE's 2021 goal of diverting 75% of solid waste from landfills.

Facilitating the Development of Renewable Energy in Türkiye

Wind farm projects in Türkiye get a boost after ICIEC reinsured Eksport Kredit Fonden (EKF) – the leading Danish ECA – for **USD 80 million** to support the construction of four wind farm projects to generate electricity with a total capacity of 316 MW. The wind farm projects will contribute to reducing Türkiye's electricity imports and lessen its dependency on fossil fuels. The project also helps to create jobs, support the local economy via local procurement of services and equipment, foster technology transfer, empower locals with new knowledge about renewable energy and improve the local infrastructure via road construction and transmission line improvements.

Supporting Transportation Sector in Saudi Arabia

Infrastructure is an important component of the KSA Vision 2030. The Riyadh Metro Project started in 2013, is an iconic manifestation of infrastructure delivery driven by a rapidly rising local and regional population and traffic flow. The project is in the process of being built and, when completed, will be the world's largest metro system. It is being implemented by an international consortium called FAST, of which Dutch contractor, Strukton Civiel Projecten B.V., is a key member. ICIEC's contribution to the Riyadh Metro Project and to the KSA Vision 2030 is through reinsurance support for the project. ICIEC provided a **USD 360 million** Shariah-compliant reinsurance facility to Atradius Dutch State Business N.V., the state-owned Export Credit Agency (ECA) of the Netherlands and one of the leading ECAs in the world, in support of Strukton for its role in the construction of the metro project in Riyadh. The Riyadh Metro Project is a network covering 176 kilometers. The project aims to reduce traffic congestion in Riyadh and is expected 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 20% of the city's inhabitants will use the underground once the metro is fully operational in 2023. This will reduce the individual trips of the residents of Riyadh, which will affect the quality of life and the carbon emission as well. In addition, the stations will be powered by solar cells that will contribute to 20% of the entire station's energy. The service will contribute to the decrease of nearly 250,000 car journeys a day, thereby reducing the city's fuel requirement of 400,000 liters. 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.

Financing the Purchase of Food Commodities in favour of the General Authority for Supply Commodities GASC

ICIEC signed a **US$210 million** Bank Master Policy (BMP) in favour of banks participating in the syndication of the Islamic Trade Finance Corporation (ITFC), the trade finance arm of the Islamic Development Bank (IsDB) and a sister entity of ICIEC in the IsDB Group.

Under the 2-year facility signed in October 2023, Banks participating in the ITFC syndication were seeking insurance cover of the Non-Honouring of Sovereign Financial Obligation (NHSFO) of the Government of Egypt, to cover a Murabaha Syndicated Facility in which ITFC acted as Lead Arranger, and Agent. The syndicated facility is a collaborative effort among a consortium of banks aimed at financing the purchase of food commodities for the General Authority for Supply Commodities (GASC).

Notably, this facility benefits from a guarantee provided by the Ministry of Finance of Egypt. As part of this arrangement, ICIEC's policy will play a crucial role in mitigating non-payment risks associated with the Government of Egypt due to both commercial and geopolitical factors. This underscores ICIEC's commitment to facilitating and safeguarding trade and economic activities in the region.

The development impact and expected results of the ICIEC facility, which align with the UN SDGs 1,2,8,11 and 17, are implicit.

ICIEC's support to import strategically important essential commodities will help the country address the challenges related to food security. Importing food can help to strengthen Egypt's relationships with other countries. This can lead to increased trade and investment, which can benefit both Egypt and the countries that it imports food from. That assists in meeting the UN SDG Number 17 - Partnerships for the Goals.

Importing food commodities can help to reduce Egypt's reliance on its own resources, such as water and land. This can help to conserve these resources and make them available for other uses, such as growing crops for export. That assists in meeting the UN SDG Number 12 - Responsible Consumption and Production. The transaction also supports synergy with ITFC within the context of greater collaboration and integration of IsDB Group entities.

The syndicated Murabaha Financing facility amounting to USD 210 million is in line with the objective of the Food Security Response Programme (FSRP) of IsDB Group. ICIEC pledged an amount of US$500 million for FSRP during the period (July 2022 - December 2025). Total approvals reached US$573 million, where Egypt's share is US$100 million related to four policies with one financial institution for the purpose of importing grain and other soft commodities.

Agricultural Development West Bank, Palestine

ICIEC, in a landmark transaction, issued a **US$7.6 million** Risk Sharing of Foreign Investment Policy (RSFIP) in favour of Nakheel Palestine for Agricultural Investment (Nakheel) – the Corporation's first transaction in the Occupied Palestinian Territories. The transaction marks the first partnership between ICIEC and the Multilateral Investment Guarantee Agency of the World Bank Group (MIGA) for a project in the West Bank, Palestine. MIGA is the administrator for the West Bank and Gaza Investment Trust Fund (WBGTF) on behalf of its sponsors, the Palestinian Authority and the Government of Japan. This latest transaction covers foreign investments into a flagship Dates Farm Project in the West Bank, Palestine. The guarantees, enabled by the WBGTF, were issued to Palestine Development and Investment Company, Ltd. (PADICO) of Liberia (US$10.38 million), Siraj Fund 1 (US$4.05 million), and Siraj Fund Management Company (US$2.18 million). ICIEC is providing risk participation (akin to reinsurance) for the guarantee that was issued to PADICO.

The guarantees cover these investors' equity investments in Nakheel Palestine for Agricultural Investment against the risks of expropriation, war and civil disturbance, including temporary loss of income, for a period of up to 5.5 years. Nakheel specializes in the production and sale of high-quality dates. The Nakheel project includes seven farms, a packaging facility for post-harvest handling of dates, a sorting and grading house, a cold storage facility, and a rooftop solar power plant – all located in the West Bank.

ICIEC provided coverage for equity investments in Nakheel, which is based in Jericho on the West Bank in Palestine, against the risks of expropriation, war and civil disturbance, including temporary loss of income. The maturity of the facilities falls on 31 December 2028. Nakheel is the number one domestic producer of high-quality Mejdool and Barhi dates, with a local market share of 20 percent.

The Nakheel Project's main objective is to cultivate date palm trees and produce and sell high-quality dates to cover the demand in the local market while also expanding in the international markets. Since 2018, Nakheel has exported around 60 percent of its production annually to customers in ICIEC member states and in non-member countries.

ICIEC is the risk-sharing partner (akin to reinsurance) relating to the guaranteed contract issued by MIGA to cover risks of expropriation, war and civil disturbance, including the temporary loss of income. The guarantees, enabled by the WBGTF, were issued to Palestine Development and Investment Company, Ltd. (PADICO) of the Republic of Liberia (US$10.38 million). ICIEC is providing reinsurance for the guarantee to PADICO. The investment covers the operations of (i) the farms, (ii) the packaging facility that serves post-harvest handling of dates, (iii) the sorting and grading house, (iv) the cold storage facility, and (v) the rooftop solar power plant on top of the packaging, sorting, and grading facilities located in the West Bank. The intervention of ICIEC and MIGA relates to additional equity investments into Nakheel Palestine for Agricultural Investment Project by, among others, Palestine Development and Investment, Ltd. (PADICO) of Liberia. In addition to strengthening the dates production capacity of the Palestinian Territories, generating employment, and integrating gender action plans, the collaboration and joint support of ICIEC and MIGA as multilateral partners demonstrating UN SDG 17 Partnership .

The development impact of the ICIEC/MIGA-backed guarantees and the Nakheel agricultural project are "closely" aligned to the UN Sustainable Development Goals (SDGs) – Goal 1, No Poverty, stressing access to basic human needs of health, education, and sanitation, Goal 2, which promotes Zero Hunger, Goal 3, which supports good health and wellbeing, Goal 8 which promotes decent work and economic growth, and Goal 17, which stresses the importance of collaboration through partnerships.

Goal 17 - Partnership for the Goals, targets the mobilization of additional financial resources for developing countries from multiple sources, so as to significantly increase the exports of developing countries, in particular, to double the least developed countries' share of global exports by 2030. ICIEC's contribution is reflected in its financing and underwriting aimed at improving access to finance for SMEs and infrastructure investments through risk mitigation instruments for banks and medium/long-term finance. In this respect, in the 2019-2022 period, business insured by ICIEC of national ECAs in Member States totalled US$5,996 million, including US$57 million of business insured for the national ECAs in LDMSs.

The development impact and expected outcome of the Nakheel Project and the ICIEC/MIGA intervention are implicit. The Project aligns with the ICIEC priority area of supporting the IsDB Group's Food Security Response Program (FSRP) to which ICIEC pledged US$500 million in insurance capacity over the July 2022-end 2025 period, and with achieving SDG2 relating to food security, promoting sustainable agriculture, empowering small farmers, promoting gender equality, ending rural poverty, ensuring healthy lifestyles, and contributing to generating foreign exchange earnings for the Palestinian economy by exporting 60% of its production to the international market.

The Nakheel project also has a crucial social inclusion dimension. It is considered a critical employer in a region hard hit by unemployment and poverty where most of the population makes a living from agricultural and dates cultivation sectors. Nakheel employs 74 permanent and 741 temporary employees, of which around 30% are women, and 60% of the employees come from low-income families.

Procurement of Strategic Goods Sub-Saharan Africa

ICIEC signed an agreement with Bank of Africa (UK Limited) to provide a **US$23.5 million** Bank Master Policy - Conventional Financing to cover the non-payment risk of obligors procuring fertilizer and related agricultural inputs from ICIEC Member States. In this particular transaction, the goods were imported from various ICIEC Member States, and the Obligor was based in the UAE.

The Bank Master Policy is typically used to support the financing of the procurement of strategic goods, fertilizers, petrochemicals, steel, and agricultural commodities to and from ICIEC Member States. ICIEC's Bank Master Policy (BMP) is a flagship credit insurance solution for banks and financial institutions that provides financial institutions the confidence and ability to offer conventional trade financing to corporates engaged in the export and import activities with ICIEC Member States, the policy is for a one year period which covers upto 90% the principal loan amount against potential losses.

The Bank Master Policy (BMP) Conventional Finance is a single/multiple (portfolio) risk non-payment policy which provides credit enhancement to conventional banks or financial institutions. The policy is designed to facilitate conventional trade finance loans, the purpose of which is to promote trade transactions that fall within the scope of ICIEC's mandate of promoting the exports of Member States, supporting the bilateral trade between Member States therefore intra-OIC exports and imports, and the procurement of strategic goods by a Member State.

The cover facilitates financing by conventional lenders towards trade transactions involving either exports from ICIEC Member States and/or import of strategic goods by ICIEC Member States. The BMP being offered to non-Member States banks is also expected to increase strategic exports/imports from Member States for fertilizer, petrochemicals, steel and agricultural commodities.

The development impact of the ICIEC-backed facility is "closely" aligned to the UN Sustainable Development Goals (SDGs) - Goal 12, which promotes responsible consumption and production, and Goal 15, which supports Life on Land. Similarly, they are also closely aligned to ICIEC's own sustainability strategy, which is based on the firm belief that trade and investment facilitation is an effective vehicle to achieving the SDGs. ICIEC contributes to the achievement of the SDGs in three keyways. Firstly, it contributes to the Islamic Development Bank Group's 10-Year Strategy (2015–2025), which is aligned with the SDGs. Secondly, the ICIEC mandate is to support sustainable economic development in its Member States through the provision of its services. Thirdly, ICIEC acts as a catalyst for mobilizing private sector capital and directed towards achieving the SDGs.

Gross utilization of ICIEC support since inception reached US$189.90 billion from 138 countries, of which ICIEC Member States reached US$138.31 billion. A key priority of ICIEC is supporting intra-trade and intra-investment among OIC Member States. In 2022, ICIEC supported a combined US$6.11 billion of intra-trade and intra-investment among OIC states, representing a 36% increase as compared to the previous year. Out of that figure, US$5.34 billion represented intra-OIC trade among OIC states, and US$0.77 billion represented intra-investment among OIC states.

The transaction also falls within the scope of promoting trade and investment between Arab and African countries under the Arab African Trade Bridges (AATB) Program, of which ICIEC is the insurance lead, and the Africa Co-Guarantee Platform (CGP), comprising six members, including ICIEC, AfDB, ATI, AUDA-NEPAD, GuarantCo (part of PIDG, the Private Infrastructure Development Group), and Afreximbank, which is committed to better leverage guarantee and insurance products to de-risk investment, resulting in more trade and investment across Africa.

Unveiling ICIEC's Climate Change Policy and ESG Framework

COP28 Dubai is an ideal opportunity for stakeholders in the Climate Action and ESG space to showcase, introduce and engage their progress, aspirations, ambitions, deficits, gaps and manifold initiatives in technology, finance, strategies, frameworks, standards, adaptation.

This is precisely what The Islamic Corporation for the Insurance of Export Credits and Investments (ICIEC), the only Shariah-compliant multilateral insurer in the world and a member of the IsDB Group, is doing when it unveils its Climate Change Policy and ESG Framework on the side lines of COP28 on 2 December 2023.

Given the fluidity and volatility in the current global climate discourse, it is only understandable that every Climate Change, Sustainability and ESG policy and framework is subject to continual revision, updating and where relevant change. ICIEC's Climate Change Policy and ESG Framework are no exception.

Rationale, Objectives and Pillars

Climate change represents a threat to global stability, security, and prosperity, and it is one of the most significant challenges of modern times. Addressing climate change is a priority to ensure sustainable development and economic growth, both of which are fundamental to ICIEC's mandate.

The Corporation aims to fully integrate considerations on the impacts of climate change into its operations and to adapt its operating model. In doing so, it may better support its clients, Member States and their societies. It will also adopt new policies and approaches to reorient its business model in a manner that is coherent with the policies and practices of the whole IsDB Group, fully integrated into the ecosystem, and in line with the principles set forth under the Paris Agreement and the MDB Framework Alignment.

Crucially also, ICIEC also commits to incentivizing climate change actions and investment initiatives, and to decreasing the climate footprint of its operations, including offsetting emissions in travel, and to mobilize climate finance up to 35% of its underwriting and activities within the next 5 years.

The rationale of the Climate Change Policy include:

a) Incorporating climate change principles into all ICIEC activities.

b) Prioritizing the needs and aspirations of its Member States, supporting national climate ambitions and sustainable development agendas.

c) Increasing and innovating its financing capacity for higher positive climate impact.

d) Sharing and promoting knowledge and awareness and assist Member States to embrace modern climate practices.

e) ICIEC will also support the decarbonization and increased adoption of technologies to facilitate trade and reduce costs to both producers and consumers through collaboration with industry peers and Member States.

In addition, the Climate Change Policy incorporates three operational Objectives:

- Supporting the Member States
- Alignment with The Islamic Development Bank Group
- Engagement with Financial Institutions

and five Pillars, four of which are linked to how ICIEC organizes its work, serves its clients, and funds its activities, and the fifth relate to climate-related reporting and disclosure:

- Internal Operations
- Insurance and Reinsurance
- Risk Management
- Contribution to Capacity Building
- Communication

Climate Change Policy

ICIEC Climate Change Policy serves as a testament to our dedication to addressing climate change head-on. It is our blueprint for a greener, cleaner, and more sustainable world. Through this policy, we outline our commitment to reducing carbon emissions, protecting our planet's invaluable natural resources, and promoting sustainable economic growth.

The ICIEC Climate Change Policy establishes to:

- Support Member States to meet their commitments under the Paris Agreement, particularly their Nationally Determined Contributions (NDCs).
- Promote investment and trade opportunities that support resilience, playing a pivotal role in reducing greenhouse gas emissions and enhancing adaptability to climate change.
- Be aligned with The Islamic Development Bank Group by guaranteeing projects and investments that are in line with the Group's climate action objectives.
- Engage with Financial Institutions to promote business models and investments that are focused on renewable, energy-efficient, natural capital, among other environmental themes, aligning with the broader transition towards the low-carbon economy.

ICIEC Climate Change Policy

Internal Operations	Insurance and Reinsurance	Risk Management	Contribution to Capacity Building	Communication
Operationalization of climate change management across ICIEC internal operations focusing on decarbonization initiatives, policies, and plans to manage the organization's own carbon footorint.	Opportunities for ICIEC to incentivize and contribute to scaling up climate agenda across member countries.	Approach to climate-related risks in Risk Management.	Integration of climate change in ICIEC capacity building support and engagement with member countries.	Development of climate change-specific reporting at the level of the organization and its development impact intervention in member countries.

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Similarly, the ICIEC ESG Framework is a comprehensive strategy that reflects the organization's strong commitment to Environmental, Social, and Governance (ESG) principles. It is designed to integrate ESG values into every aspect of ICIEC's operations and decision-making.

ESG Guidelines

The ICIEC ESG Framework is a comprehensive strategy that reflects the organization's stronq commitment to Environmental, Social, and Governance (ESG) principles. It is designed to integrate ESG values into every aspect of ICIEC's operations and decision-making.

Key elements of the ICIEC ESG framework include:

- The framework underscores the importance of embedding ESG principles at the core of ICIEC's operations.
- ICIEC's governance structure ensures oversight of ESG initiatives and their integration into the overall business strategy.
- ICIC focuses on developing ESG-centric products and services while incorporating ESG criteria into risk assessment and underwriting.
- ICIEC implements various measures to promote sustainability throughout its internal processes, from HR to supply chain management and policies.
- ICIEC actively aligns with global sustainability obiectivescollaborates on initiatives and that contribute to these goals.
- ICIEC's framework includes a robust ESG reporting mechanism that promotes transparency and accountability, ensuring stakeholders are informed about ICIEC's ESG performance.

At the core also of ICIEC's Climate Action Policy are the importance of Partnerships (UN SDG 17 – The Importance of Partnerships in Achieving the SDGs) and the recognition that export credit insurance and political risk insurance are essential tools to bridge the Climate Action finance gap by de-risking investments and access to capital goods and green technology. The Corporation is committed to helping our 49 Member States achieve their development goals, including resilience, mitigation and adaptation to the threats posed by climate change.

Green Sukuk Insurance Policy

Climate Action encompasses the range of vital value chains that span the Water- Energy-Food cycle as relates to climate change resilience, mitigation and adaptation, which is reflected in the range of projects and interventions that ICIEC continues to support in its Member States.

ICIEC's innovative solutions provide protection against nonpayment risks associated with international trade transactions, while also providing support for green investments in renewable energy projects, low-carbon transport systems, clean technology transfers and other sustainable initiatives. Its underwriting has been directed towards various sectors over the years, with US$2.35 billion going specifically into clean energy initiatives such as solar energy systems and wind farms - assisting with their importation and use in national infrastructure projects. With this commitment to ICIEC Member States' development goals, we strive to help mitigate threats from climate change so that all may benefit from a better future together.

The Corporation over the years has forged an extensive partnership network with peer institutions, through membership of international gatekeeper associations such as Berne Union, MIGA and the AMAN Union, private sector insurers and manifold export promotion associations, ECAS and trade and investment financial institutions.

In recent months ICIEC has signed several key partnerships to provide a framework for joint action in promoting climate action, green projects, extending training and capacity-building opportunities, and organizing joint seminars and workshops. To underscore its commitment to the Climate Action cause, ICIEC has become a part of the InsuResilience Global Partnership, aiming for climate disaster risk finance and solutions. This move solidifies ICIEC's position as a pioneer among its industry contemporaries. Presently, ICIEC is in the negotiation phase for MoUs with GGGI, Boskalis, and Atradius. It's worth noting the significance of the ICIEC agreement to join the Energy Transition Accelerator Financing (ETAF) Platform, managed by International Renewable Energy Agency (IRENA).

In the same vein, ICIEC has signed an agreement with "Aware for Projects", a landmark online climate risk screening software solution. This new tool will help the Corporation identify potential climate change risks and develop a consistent approach to assessing them.

A further innovative step by ICIEC is the Green Sukuk Insurance Policy, facilitating sovereign Sukuk issuers to secure capital for viable green initiatives. Furthermore, The Corporation is also providing de-risking solutions for regional funds in Africa, focusing on mitigation and adaptation measures.

Towards a sustainable financial horizon, ICIEC has proposed the idea of a climate-centric fund in collaboration with institutional partners. This fund is poised to offer discounted insurance premiums for financing Climate Action initiatives, especially in the Least Developed Member States. Additionally, ICIEC is dedicated to capacity building; hence, Climate Change training for its staff is set to commence accordingly.

According to Oussama Kaissi, CEO of ICIEC, "ICIEC's engagement at COP28 marks a momentous occasion in the global fight against climate change. The launch of the Climate Change Policy and ESG Framework, the commitment to ETAF, and the hosting of two influential side events exemplify ICIEC's proactive role in fostering sustainability and resilience worldwide. These collaborations will enable us to better understand our shared challenges related to climate change mitigation efforts as well as help create a more sustainable future for all. We are confident that these initiatives will bring positive changes both locally and globally by providing access to resources that can help reduce emissions while also creating jobs through green investments.

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