

Sustainable Sukuk Issuances, Green Bond Principles and Regulatory Framework

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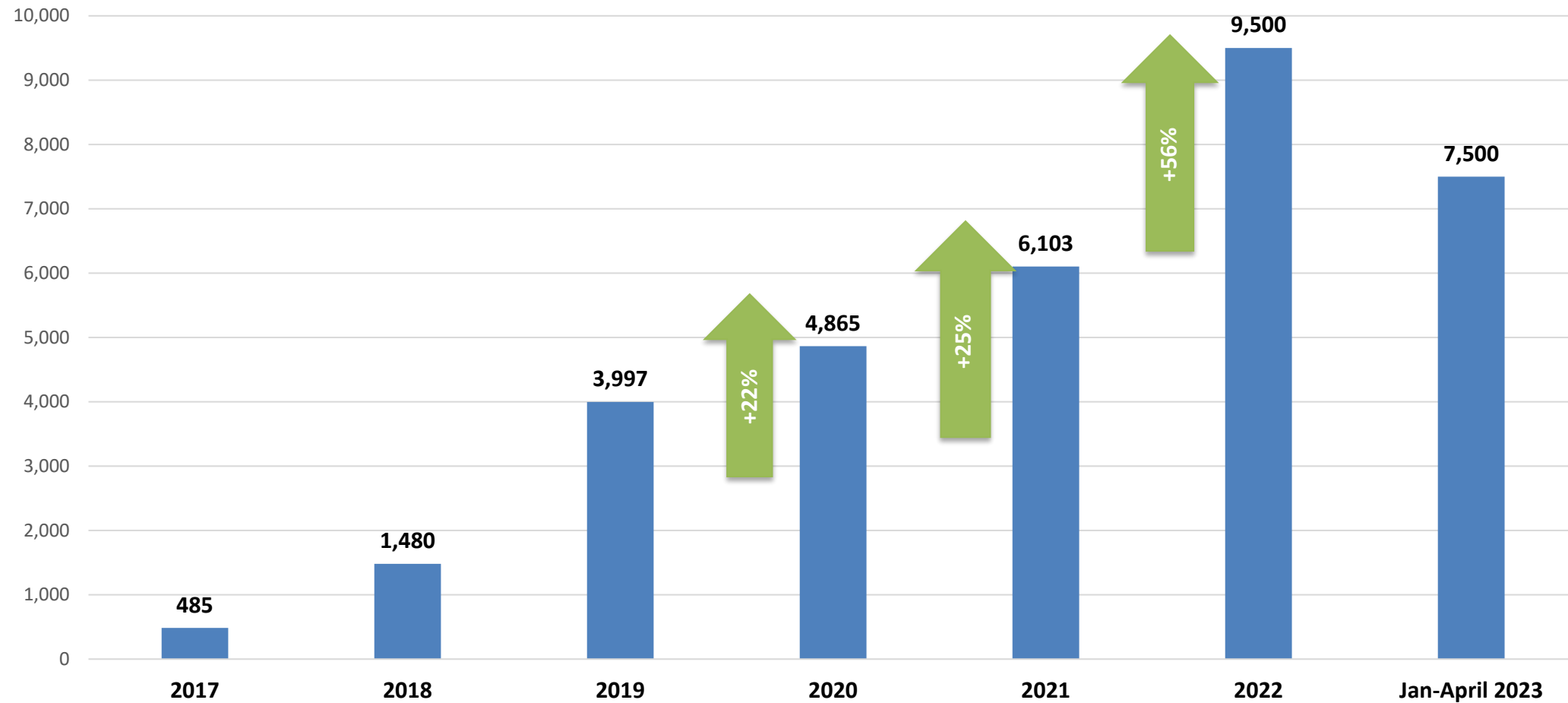
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Sustainable Sukuk issuances (2017- Q1 2023) & Sukuk Issuance Process

Sustainable Sukuk Issuances

2017 –April 2023 (Amounts USD Millions)



Sustainable Sukuk Issuance Process



Source: Pioneering the Green Sukuk: Three Years On - World Bank

Sustainable Sukuk Case Studies

Case Study 1: Saudi Electricity Company Green Sukuk

Saudi Electricity Company (SEC)

USD 1.3 billion Dual tranche USD Green Sukuk

In September 2020, Saudi Electricity Company Issued a USD 1.3 billion Dual tranche USD Green Sukuk. The transaction was the first USD denominated Green Sukuk Issuance from Saudi Arabia

Issuer SPV & Obligor	Saudi Electricity Global Sukuk Company 5 & SEC
Instrument	Regulation S, Senior Unsecured Fixed Rate Green Trust Certificates
Structure	Sukuk Al Ijarah
Tenor, Size & Return	5-Y: USD 650 Mio @ 1.740% and 10-Y: USD 650 Mio @ 2.413%
Issue Date	10 September 2020
Purpose of issue	To finance certain eligible green capital projects (as described in SEC's Green Sukuk Framework (GSF)).
Issuer Rating	A2 by Moody's and A- by Fitch

Source: IIFM Sukuk Report (10th Edition)

Saudi Electricity Company Green Sukuk - Deal structure

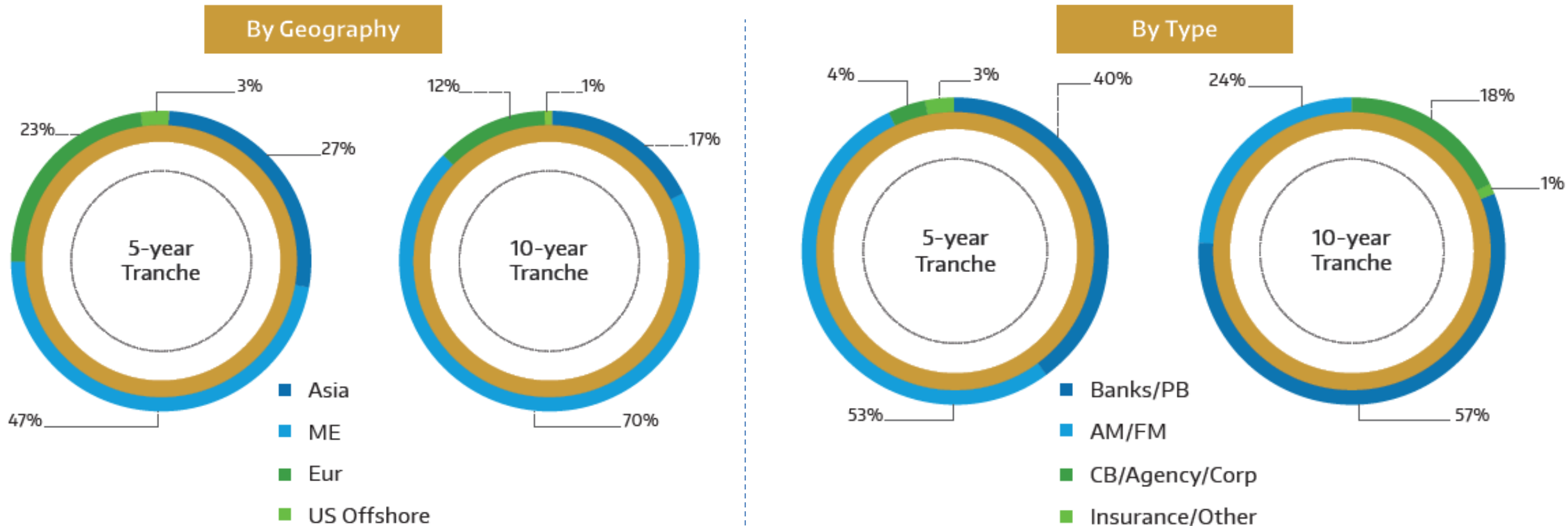


- ❖ Since SEC enjoys a healthy asset base given the nature of its business, the JLMs advised the client to opt for an “Ijarah Sukuk” structure, which is widely acceptable amongst investors
- ❖ the Trustee (in its capacity as the Purchaser) will use the amount of such issue proceeds to purchase from SEC (in its capacity as the Seller) a percentage interest in the Seller’s undivided rights, title, interests, benefits and other entitlements in and to certain electricity distribution assets (the “Ijarah Assets”)
- ❖ Thereafter, the Issuer/SPV leases the underlying assets to SEC against payment of rental. The rental payments to the Issuer/SPV will be used to pay the Periodic Distribution Amount due to the Sukuk holders.
- ❖ SEC (in its capacity as Servicing Agent) for and on behalf of the Trustee (in its capacity as the Lessor) will be responsible for insuring the Ijarah Assets relating to each Series, paying proprietary and other taxes and performing all major maintenance and structural repairs.
- ❖ SEC has provided a unilateral undertaking in favor of the Issuer/SPV to purchase the underlying assets at maturity of the Sukuk or in case of a dissolution event

Source: IIFM Sukuk Report (10th Edition)

Saudi Electricity Company Green Sukuk- Investors by Geography and Type

The 5-year tranche achieved a phenomenal geographical diversification with 51% of orders allocated outside MENA, while the 10-year was evenly distributed between regional/Islamic and international accounts.



Source: IIFM Sukuk Report (10th Edition)

Sustainable Sukuk Case Studies

Case Study 2: The Islamic Development Bank Sustainability Sukuk

The Islamic Development Bank (IsDB)

Sustainability Sukuk

In March 2021 IsDB successfully priced 5 YR Sustainability Sukuk. The issuance was a drawdown under USD 25bn Trust Certificate Program & Sustainable Finance Framework and represents third sustainable issuance

Issuer SPV & Obligor	IsDB Trust Services No.2 SARL & IsDB
Issue Ratings	Aaa/AAA/AAA (by Moody's/S&P/Fitch)
Issue Date, Tenor & Maturity	31 March 2021 , 5 Years & 31 st March 2026
Currency, Size & Return	USD 2.5bn & Return 1.262% p.a.
Structure	Wakalah
Profit Rate	1.262% Fixed, Semi-annual, 30/360
Listing	Euronext Dublin and Nasdaq Dubai
Law	English Law

Source: IIFM Sukuk Report (11th Edition)

The Islamic Development Bank - USD 2.5bn 5 Year Sustainability Sukuk

- ❖ The Sukuk structure was based on a Wakalah structure following IsDB's existing programme allowing IsDB to benefit from its diversified pool of Islamic assets
- ❖ On the issue date, the Trustee has applied at least 51% of the issuance proceeds to acquire Tangible Assets (Lease Assets, Disbursing Istisna'a Assets, Shares, Sukuk and/or Restricted Mudaraba Assets) from IsDB. The remaining proceeds are to be utilized by the Trustee to acquire intangible assets), all together with the Tangible Assets, the Portfolio.

Source: IIFM Sukuk Report (11th Edition)

The Islamic Development Bank - USD 2.5bn 5 Year Sustainability Sukuk - Use of Proceeds

Social (90% towards SRI projects)

- ❖ Employment generation / small and medium enterprise financing, Affordable housing, Affordable basic infrastructure, Access to essential services and Socioeconomic advancement and empowerment

Green (10% to finance or refinance green projects)

- ❖ Renewable energy, Clean transportation, Energy efficiency, Pollution prevention and control, Environmentally, Sustainable water and wastewater management

Source: IIFM Sukuk Report (11th Edition)

Sustainable Sukuk Case Studies

Case Study 3: Dubai Islamic Bank Sustainable Sukuk

Dubai Islamic Bank PJSC inaugural Sustainable Sukuk

On 22 November 2022, Dubai Islamic Bank PJSC (“DIB” or “Bank”) successfully priced an inaugural Sustainable Sukuk issuance in the form of a USD 750 Million 5-year senior unsecured RegS Sukuk offering. The deal represents the first ever sustainable Sukuk issuance from a UAE bank

Issuer SPV & Obligor	DIB Sukuk Limited & DIB
Issuer Ratings	A3 (Stable) / A (Stable) (Moody’s / Fitch)
Status & Issue Size	Senior and unsecured obligations of the Obligor, USD 750,000,000
Issue, Maturity Date & Tenor	30 November 2022, 30 November 2027, 5 years
Profit Rate	5.493% per annum payable semi-annually in arrear
Listing	Euronext Dublin and Nasdaq Dubai

Source: IIFM Sukuk Report (12th Edition)

Sustainable Sukuk Case Studies

Case Study 4: Government of Indonesia Global Green & SRI Sukuk Issuances

Government of Indonesia Global Green Sukuk issuances

The Indonesian government issued the world's first sovereign green Sukuk of USD1.25 billion in March 2018.



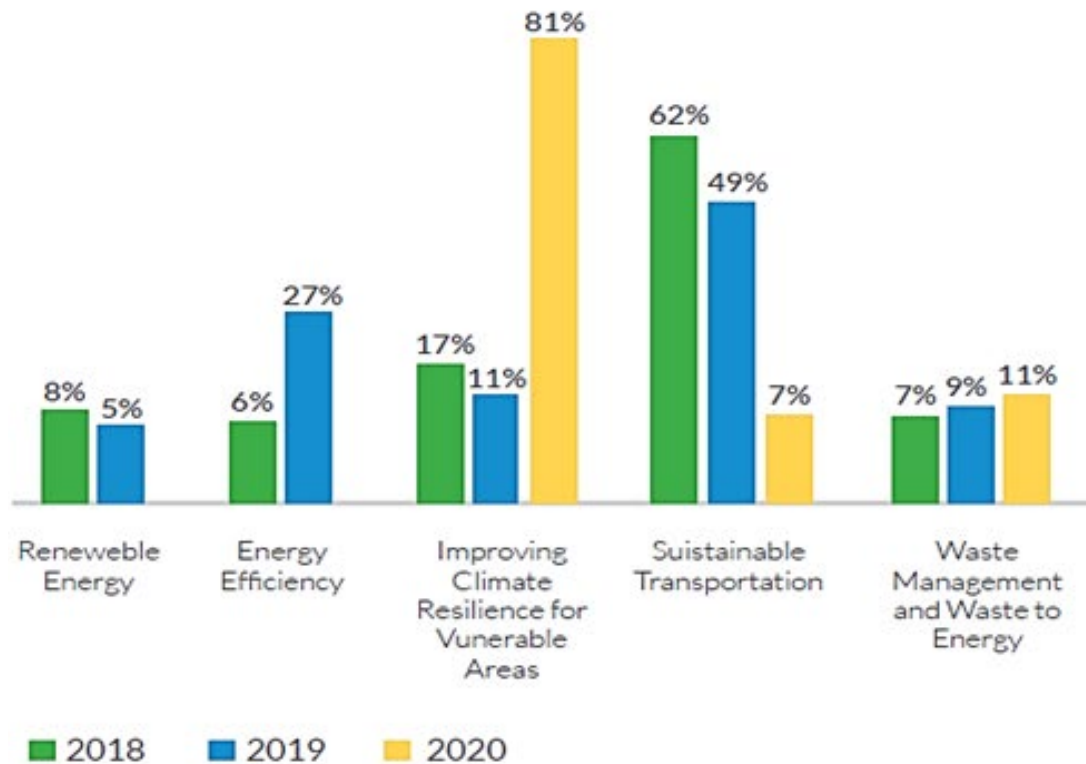
Government of Indonesia Global Green Sukuk issuances

	Date of issuance	Amount	Tenor	Yield	Structure
1st Issuance	1-Mar-18	USD 1.25 billion	5 years	3.75%	Wakalah
2nd Issuance	1-Feb-19	USD 750 million	5.5 years	3.90%	Wakalah
3rd Issuance	June 2020	USD 750 million	5 years	2.30%	Wakalah
4th Issuance	1-Jun-21	USD 750 million	30 years	3.55%	Wakalah
5th Issuance	1-May-22	USD 1.25 billion	10 years	4.70%	Wakalah

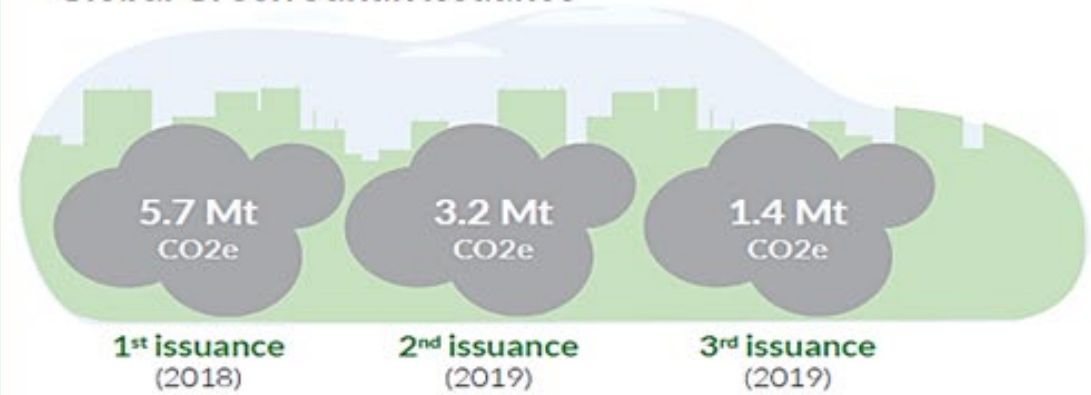


Use of Proceeds and Impact

Green Sukuk Issuance only finance and/or re-financed mitigation and adaptation activities of climate change. Expansion for next issuance could consider inclusion of biodiversity preservation activities.



Projected Emission Reduction from Global Green Sukuk Issuance



Other measured contributions



Over **690 km** of railway track construction



7.3 million kWh of electricity capacity generation



Over **7 million households** benefitted from the improved waste management

Green Sukuk Projects Highlights

Green Sukuk issuance finances a number of projects dedicated to climate change mitigation and adaptation activities.



Double Track Railway Project in North Java Line

*Double track railway from Jakarta to
Surabaya (727 km)*



Development and Management of Railway Transport Infrastructure and Supporting Facilities

*Cipinang Locomotive Depot, East
Jakarta, DKI Jakarta Province*



Source: Ministry of Transportation

Green Sukuk Projects Highlights



Renewable
Energy

Solar Power Plant Project

*Tambolaka Airport, Sumba,
East Nusa Tenggara*



Resilience to
Climate Change
for Highly
Vulnerable
Areas

Management of Dam, Lake, and Other Water Retention Facilities

*Karas Island, Batam City,
Riau Islands Province*



Source: Ministry of Public Works and Housing

Sustainable Sukuk Case Studies

Case Study 5: Tadau Energy SRI Sukuk Sk

Tadau Energy SRI Sukuk Sk

Obligor	Tadau Energy
Issuer Ratings & Size	AA3' from RAM Ratings, RM250.0 million (\$59 million)
Issue Date & Tenor	27 July 2017, Two to 16 years
Profit Rate	4.8–6.2%
Islamic structure	Istisnah, Ijarah
Purpose	Renewable energy – To develop a large-scale 50MW a solar project



On 27 July 2017, Tadau Energy issued the world's first green Sukuk, raising MYR 250 million (USD 59 million) to finance a solar power plant in Sabah, Malaysia. Issued under Malaysia's SRI Sukuk Framework, it was as reviewed by independent second party, the Center for International Climate and Environmental Research at the University of Oslo

Tadau Energy Sukuk (Structure)

- ❖ The Istisna-Ijarah Sukuk is based on a hybrid model of two types of underlying contract: Istisna and Ijarah. An Istisna structure is usually combined with a forward lease in order to generate returns for sukuk holders during the construction phase of projects
- ❖ An Istisna contract is a sales contract under which Purchaser orders the Seller to manufacture an asset according to particular specifications. Istisna Sukuk are usually issued for funding large construction, manufacturing and infrastructure projects
- ❖ An Ijarah contract is essentially a leasing arrangement. An Ijarah Sukuk is a security the holders of which share in the right to the revenues from certain assets which have been leased by the owner to another party in exchange for the payment of rent

Sustainable Sukuk Case Studies

Case Study 6: The Malaysian Sovereign Sustainability Sukuk

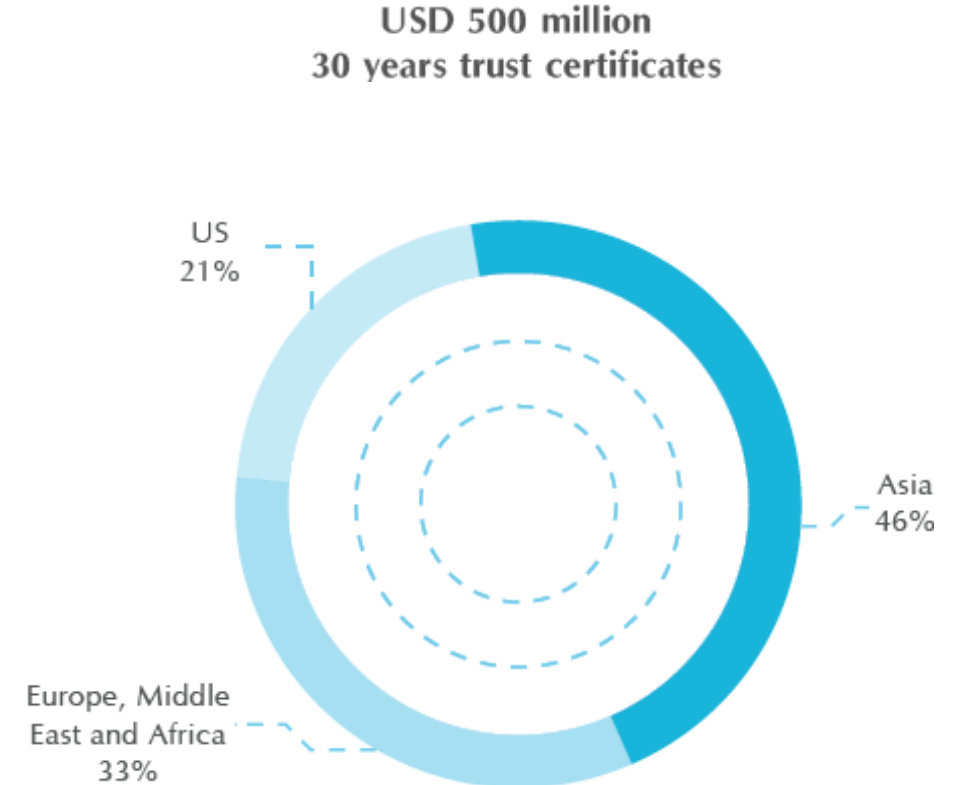
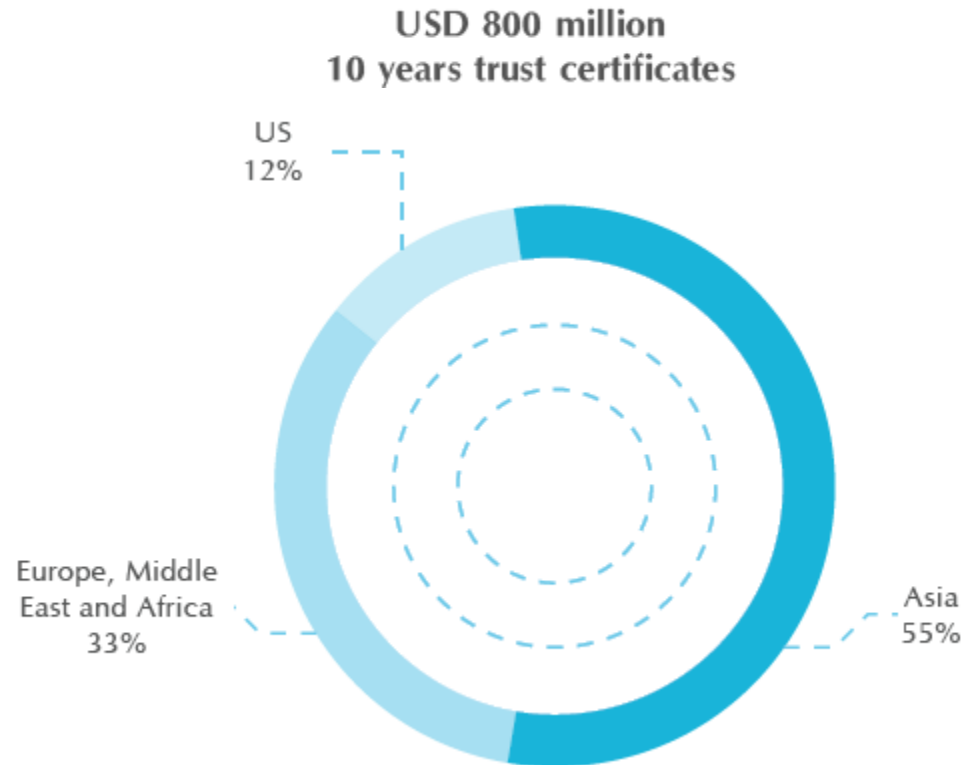
The Malaysian Sovereign Sustainability Sukuk

Obligor	Government of Malaysia	
Underlying Assets	Travel vouchers representing entitlements on Malaysia's Light Rail Transit, Mass Rapid Transit and Monorail networks	
Series	Series 1	Series 2
Tenor	10 Years	30 Years
Issue Size	USD 800 million	USD 500 million
Maturity Date	28 April 2031	28 April 2051
Structure	Wakalah	Wakalah
Periodic Distribution Rate	2.070% p.a.	3.075% p.a.
Issue Ratings	Moody's: A3 S&P: A-	

The Malaysian Sovereign Sustainability Sukuk

- ❖ On 21 April 2021, the Government of Malaysia issued a dual-tranche offering comprising a 10-year USD 800 Mio Sukuk due 2031 and a 30-year USD 500 Mio Sukuk due 2051
- ❖ The Issuances are unique in that, not only the first ever USD Sustainability Sukuk offered by a sovereign, whereby proceeds will be used for eligible green and social projects, but the underlying assets of the Issuances are also based on sustainable assets, being vouchers representing travel entitlement on Malaysia's Light Rail Transit, Monorail and Mass Rapid Transit networks

Investors Distribution by Geography



Source: IIFM Sukuk Report (11th Edition)

Sustainable Sukuk Case Studies

Case Study 7: Majid Al Futtaim Green Sukuk

Majid Al Futtaim green Sukuk – USD 600 Million

Issuer SPV & Obligor	MAF Sukuk & Majid Al Futtaim
Issue Size	USD 600 Million
Issue & Maturity Date	14 th May 2019 And 14th May 2029
Profit Rate	4.64% Semi-annually
Structure	Murabahah
Listing	NASDAQ Dubai

Majid Al Futtaim (MAF) Sustainable Sukuk

- ❖ In May 2019 MAF, a leading shopping mall, communities, retail and leisure developer across the Middle East, Africa and Asia, successfully issued World's First Corporate Benchmark Green Sukuk
- ❖ MAF is working on various initiatives in the green sector. The company has pledged to be net positive in carbon and water by 2040 across all of its operations, tenants and developments; and has also committed to a 37% reduction in operational carbon and water footprints by 2022. It is also looking to be net positive in carbon and water footprints for its own operations by 2030. These efforts make MAF the first company in the MENA region to commit to being carbon and water
- ❖ MAF has developed a Green Finance Framework under which Sukuk proceeds will be used to finance or refinance its existing and future projects to provide positive environmental impacts and support the transition to a low-carbon economy



Use of Proceeds

ELIGIBLE GREEN PROJECTS

1. Green buildings

- Acquisition, construction or refurbishment of buildings which meet recognised standards, such as:
 - BREEAM (Very good and above)
 - LEED (Gold and above)



2. Renewable energy

- Generation or procurement of energy from the following renewable energy sources to power the company's operations
 - Solar
 - Wind



3. Sustainable water management

- Water recycling projects
- Investment in projects technology, product or system(s) which will lead to a reduction in water usage / demand of a minimum of 30%



4. Energy efficiency

- Investment in technology, product or system(s) which will result in at least a 20% improvement in energy efficiency



1. Use of Proceeds

2. Project evaluation and selection process

3. Management of proceeds

4. Reporting



Project Selection and Management of Proceeds

Green assets selection process

Screening for eligible assets



Green Finance Committee, comprising of members of MAF's Sustainability Committee and a member of MAF Holding's Treasury team to remove the ineligible assets



Eligible assets

Management of proceeds

◆ Green Finance Register

- It will contain relevant information on all green bond (s) or green sukuk (s) issued, including:
 - Issuance size
 - ISIN
 - Pricing date
 - Maturity date
- The register will be reviewed annually

◆ Proceeds earmarking

- The green bond or green sukuk proceeds will be earmarked towards the green eligible project portfolio using the green finance register



1. Use of Proceeds

2. Project evaluation and selection process

3. Management of proceeds

4. Reporting

IIFM Sukuk Al Ijarah Standardized Documentation

IIFM Standard Sukuk Al Ijarah Documentation

- ❖ In 12th October 2020 IIFM published the Sukuk Al Ijarah Standard Documentation to assist the development of Sukuk market where existing and new Sukuk issuers can issue Sukuk more efficiently and with greater cost savings.

- ❖ Following are the typical documentation required for issuing Ijarah Sukuk:
 1. **Prospectus**
 2. **Sale and Purchase Agreement**
 3. **Lease Agreement**
 4. **Service Agency Agreement**
 5. **Purchase Undertaking**
 6. **Sale and Substitution Undertaking**
 7. **Declaration of Trust**

ICMA Green Bond Principles

ICMA Green Bond Principles (GBP)

- ❖ International Capital Market Association (ICMA), GBP (June 2021 Edition) are Voluntary Process Guidelines for issuing Green Bonds. GBP recommend transparency and disclosure and promote integrity in the development of the Green Bond Market by clarifying the approach for issuance of a Green Bond
- ❖ GBP are widely referred and used as core principles in issuance of Green Sukuk also
- ❖ ICMA has also published Socially Responsible Investing (SRI) related bond issuance principles as well
- ❖ The 2021 edition of the GBP identifies key recommendations regarding Green Bond Frameworks and External Reviews alongside the four core components of the GBP. It recommends heightened transparency for the issuer-level sustainability strategies and commitments, and encourages information, if relevant, on the degree of alignment of the projects with official or market-based taxonomies
- ❖ GBP provides guidance on issuer processes to identify mitigants to know material risks of negative social and/or environmental impacts

ICMA Green Bond Principles (GBP)

- ❖ The GBP recommend a clear process and disclosures for issuers, which investors, banks, underwriters, arrangers, placement agents and other may use to understand the characteristics of any given Green Bond
- ❖ The GBP emphasizes the required transparency, accuracy and integrity of the information that will be disclosed and reported by issuers to stakeholders through core components and key recommendations as follows:
 - I. Use of Proceeds
 - II. Process for Project Evaluation and Selection
 - III. Management of Proceeds
 - IV. Reporting
- ❖ The key recommendations for heightened transparency are:
 - Green Bond Frameworks
 - External Review

GBP Core Components - Use of Proceeds

- ❖ The cornerstone of a Green Bond is the utilization of the proceeds of the bond for eligible Green Projects, which should be appropriately described in the legal documentation of the security
- ❖ All designated eligible Green Projects should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer
- ❖ The eligible Green Projects categories would be Renewable Energy, Energy Efficiency, Pollution Prevention & Control, Environmentally Sustainable Management of Living, Terrestrial and Aquatic Biodiversity, Clean Transportation, Sustainable Water and Wastewater Management, Climate Change Adaptation, Circular Economy Adapted Products, Production, Technologies and Processes

GBP Core Components

Process for Project Evaluation and Selection

- ❖ **The issuer of a Green Bond should clearly communicate to investors:**
 - The environmental sustainability objectives of the eligible Green Projects
 - The process by which the issuer determines how the projects fit within the eligible Green Projects categories (examples are identified above); and
 - Complementary information on processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)
 - Issuer should position the information within the context of the issuer's overarching objective, strategy, policy and processes relating to environmental sustainability

GBP Core Recommendations - Management of Proceeds

- ❖ The net proceeds of the Green Bond, or an amount equal to these net proceeds, should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner, and attested to by the issuer in a formal internal process linked to the issuer's lending and investment operations for eligible Green Projects.
- ❖ So long as the Green Bond is outstanding, the balance of the tracked net proceeds should be periodically adjusted to match allocations to eligible Green Projects made during that period. The issuer should make known to investors the intended types of temporary placement for the balance of unallocated net proceeds
- ❖ The GBP encourages a high level of transparency and recommend that an issuer's management proceeds be use of an external auditor as well as internal tracking method

GBP Core Component - Reporting

- ❖ Issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and on a timely basis in case of material developments
- ❖ The annual report should include a list of the projects to which Green Bond proceeds have been allocated, as well as a brief description of the projects, the amounts allocated, and their expected impact
- ❖ Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the GBP recommend that information is presented in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories)
- ❖ Transparency is very important and GBP recommend the use of qualitative performance indicators and quantitative measures and disclosure of the key underlying methodology and assumptions used in the analysis

GBP Appendix I – Types of Bonds

❖ **As per GBP there are currently four types of Green Bonds:**

1. Standard Green Use of Proceeds Bond
2. Green Revenue Bond
3. Green Project Bond
4. Secured Green Bond

➤ The Secured Green Bond category may also include covered bonds, securitizations, asset-backed commercial paper, secured notes and other structured securities where generally, the cash flows of assets are available as a source of repayments or asset serve as security for the bonds in priority to other claims

Regulatory Framework

Malaysia – Sustainable Finance Framework

- ❖ The green finance agenda has been a high priority in Malaysia, with top down support from government
 - In August 2014 the Securities Commission Malaysia (SCM) revised its Sukuk guidelines to incorporate new requirements for the issuance of SRI Sukuk, which included green Sukuk
 - To promote issuance of Green Sukuk, the SCM also offered a number of financing and tax incentives to those projects which qualified as green Sukuk under these guidelines
 - Within this enabling environment and as per technical working group recommendation on 27 July 2017, Tadau Energy issued the world's first Green Sukuk.
 - In November 2019, BNM issued the "Value-based Intermediation Financing and Investment Impact Assessment Framework - Guidance Document" (VBIAF) to implement an impact based risk management system to assess financing and investment activities of Islamic financial institutions and non-Islamic financial institutions

Indonesia – Sustainable Finance Framework

- ❖ In furtherance of Indonesia's Sustainable Finance Roadmap and its 2016 plan to promote Sukuk issuance, in 2017 the regulatory body OJK adopted two national regulations to promote green bond and Sukuk issuance by creating a legally binding framework for green issuance that not only included stipulations as to what was a green Sukuk but also included a reporting system to promote transparency
- ❖ In July 2017, the OJK enacted the Regulation No. 51/POJK.03/2017 on the Application of Sustainable Finance under this regulation financial services institutions, issuers and publicly listed companies are required to prepare sustainable finance action plans and ensure that they have sufficient environmental and social management policies and processes in place
- ❖ In December 2017, Regulation No. 60/POJK.04/2017 on the Issuance and the Terms of Green Bonds (POJK 60) for green bond issuance in Indonesia was issued. It is an amalgamation of globally accepted green bond standards, such as ICMA's Green Bond Principles, the ASEAN Green Bonds Standards and the Climate Bond Initiative, with adaptations for the Indonesian market

Indonesia – Sustainable Finance Framework

- ❖ **Regulation POJK 60 builds on the existing issuance regulation by requiring 4 additional stipulations for those issuances which desire a green designation:**
 - I. A minimum of 70% of the proceeds from the issuance must be used to finance a green project
 - II. The use of those proceeds must be applied to at least one of 11 eligible project types (renewable energy, energy efficiency, pollution prevention and control, natural resource management, biodiversity conservation, clean transportation, sustainable water and wastewater management, climate change adaptation, green products, green buildings and other environmentally sound activities)
 - III. Issuers must manage the proceeds of the issuance, and report on the use of proceeds. Issuers should create a separate account to manage the proceeds or disclose the use of the proceeds in a specific note in the financial statement.
 - IV. The environmental benefit of projects should be clearly defined and verified by an independent third party. Review should cover the performance of the green bond and projects by an independent third party and the result shall be reported annually to the OJK.

UAE – Sustainable Finance Framework

- ❖ In October 2018, UAE Federal Decree No. 9/2018 on Public Debt was established where a framework for UAE federal bonds and Sukuk issuances specifically states that public debt can be allocated for infrastructure projects. This is the first step to a sovereign green issuance to support a renewable energy infrastructure projects
- ❖ In January 2020 UAE published its “Guiding Principles on Sustainable Finance. The UAE Principles are rooted in the UN Agenda for Sustainable Development and the intention is for the UAE Principles to support the implementation of the UAE’s sustainability priorities nationally
- ❖ In April 2023 The Securities and Commodities Authority (SCA) of the UAE has issued a decision regarding the regulation of green and sustainability linked Bonds and Sukuk. The regulation is mainly based on ICMA’s Green Bond Principles where GBP’s four core components are referred as regulation or law

IIFM Policy Recommendations

IIFM Policy Recommendations

1. Importance of standardized Sukuk documentation and its implementation/use
2. Law to facilitate asset based and asset backed Sukuk issuances and tax incentives
3. Ruling or incentive on asset transfer fee particularly for asset backed Sukuk (title transfer)
4. Use of IIFM hedging standards to cover currency risk exposure

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