

# Green Bonds & Sukuk and Crowdfunding Cleantech in MENA

## Green Financing – Merging of Shariah and Conventional?

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# Green Bonds



# What is a Green Bond

## Classification

- Under the umbrella of Socially Responsible Investments

Short for 'qualified green building and sustainable design project' bonds.

- Issued by municipalities or federally qualified organizations

Tax-exempt bond for the development of brownfield sites.

- Underutilized areas of land
- Abandoned buildings
- Underdeveloped and low industrial pollution

Created to encourage sustainability, aimed at

- Energy efficiency
- Pollution prevention
- Sustainable agriculture

## Benefits

- Enhance issuer reputation
- Provide access to specific set of investors
- Reduce cost of capital

# Examples of Green Bonds

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The World Bank (First to issue green bonds, 2008)

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The Commonwealth of Massachusetts (First state to issue green bonds, 2013)

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The City of Johannesburg

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Toyota Financial Services

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The Regency Centers Corporation

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The Environmental Defense Fund

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Export Development Canada

- The green bond market has taken off in recent years, with the market really starting to take off in 2015 when **USD 42 billion** was issued; almost four times the 2013 issuance (**USD 11 billion**).
- This momentum has continued strong, with **USD 200 billion** in green bonds currently outstanding. There are projects for possibly **USD 130 billion** to be issued this year.

# Green Bonds in MENA

- National Bank of Abu Dhabi (NBAD), the largest UAE bank by assets, launched its debut US\$587million 5-year Green Bond earlier this year. This transaction is the first ever Green Bond from a Middle East issuer.
- Issuance was capped to align with NBAD's existing portfolio of green assets and the proceeds of the Notes will be directly used to fund or refinance environmentally eligible projects within NBAD's Green Bond Framework.

# Green Bond from Shariah Perspective





# Green Bonds & Sukuk

- Investments are typically used towards renewable energy, energy efficiency and low-emissions, although other projects also get labelled as “green” if there is a positive environmental impact.
- Green bonds/sukuk can be seen to form part of Socially Responsible Investment or SRI – covering environmental, social and community objectives.
- Results based approach – proceeds used to establish positive end result for the environment and society.

# Risk Sharing vs Risk Shifting

Islamic finance advocates for the adoption of risk sharing principles in transactions

Green bonds/ sukuk offer an opportunity to illustrate the potential beneficial impact.

Limited market take-up due to unclear impact on environment and society.

Perception is slowly changing & gap between theory and practice is being bridged -> leading to more sustainable tools being developed.

# Similarities with Ethical Finance

Ethical Principles	Maqasid al-Shariah
Safeguard the value of human life <ul style="list-style-type: none"> <li>• Human rights</li> <li>• Faith</li> </ul>	Protection of Life
Safeguard Human self <ul style="list-style-type: none"> <li>• Self</li> <li>• Mind</li> </ul>	Protection of Faith
Safeguard the value of society <ul style="list-style-type: none"> <li>• Prosperity</li> <li>• Social entity</li> </ul>	Protection of Intellect
Safeguard physical environment <ul style="list-style-type: none"> <li>• Wealth</li> <li>• Environment</li> </ul>	Protection of Wealth
	Protection of Posterity

# Similarities with Ethical Finance

- ✓ Roots from religious doctrines – moral & ethical investing
- ✓ Using money & wealth in a way that conforms to certain moral standards & beliefs – opposite of traditional practice driven by maximizing returns, so take into consideration economic & social returns
- ✓ Negative screening vs impact investing
- ✓ Embody the principle of risk sharing
- ✓ Encourage corporate social responsibility & protecting & preserving benefits & interests of society – in line with principle of maqasid al Shariah
- ✓ Growth is demand driven – FIs response to demand

# Diversity and Impact

- Creates a diversity in product offerings and adds a social impact to investments, without necessarily sacrificing commercials.
- SRI is certainly lacking, although growing.
- Purpose of green bonds/sukuk is Shariah compliant
- Focus on structuring and screening of financial ratios.
- Tainted income/waqf assets – need to be managed efficiently and performance monitored.

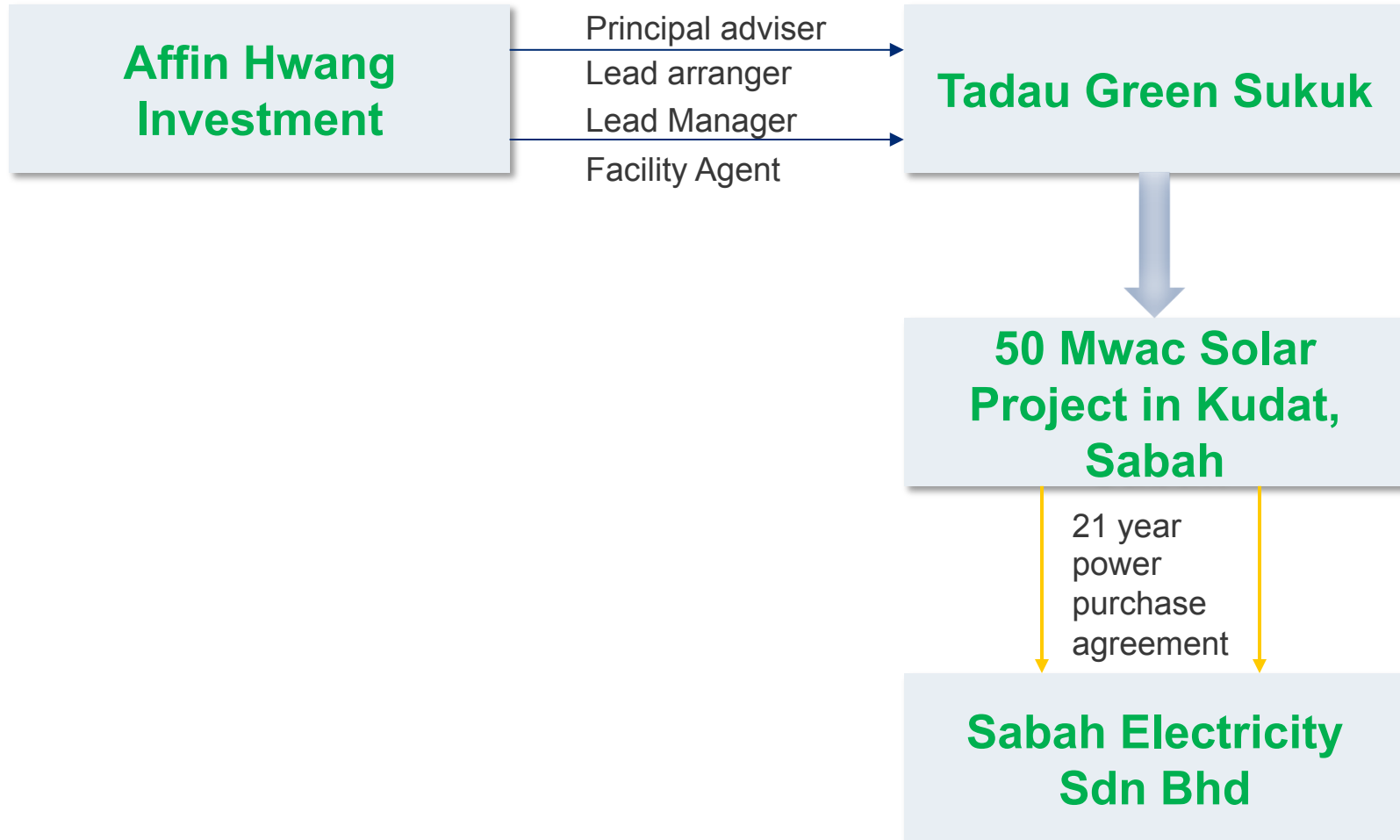
# Examples of SRI Sukuk



# Tadau Energy Green SRI Sukuk

- Malaysia's first green Sukuk and issued under Malaysia's SRI Sukuk Framework, which is a collaboration between the Securities Commission, Central Bank of Malaysia and the World Bank
- Certified by the Centre for International Climate and Environmental Research, Oslo
- Issuance size is circa USD60m with a tenure of between 2 – 16 years and rated AA3 by RAM Rating

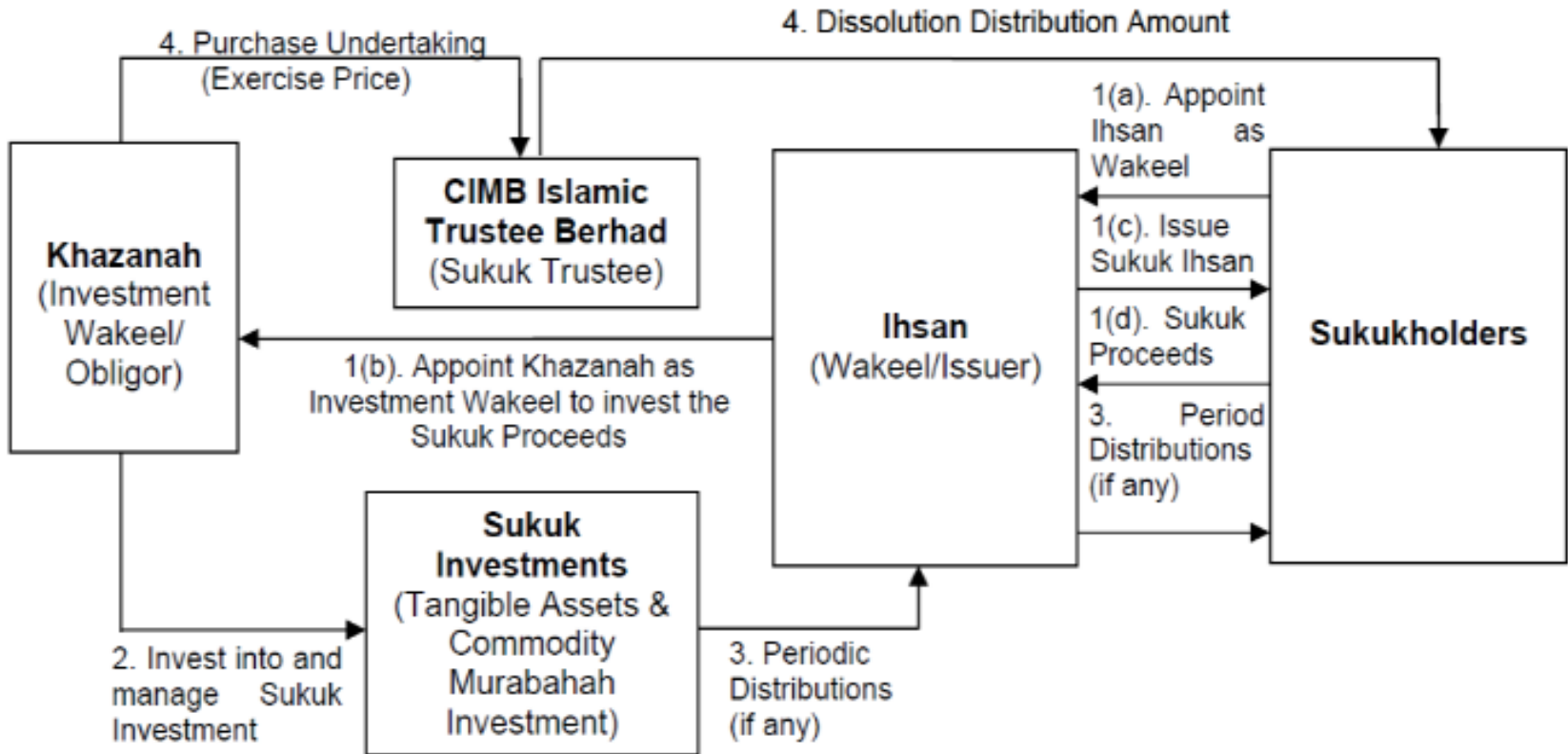
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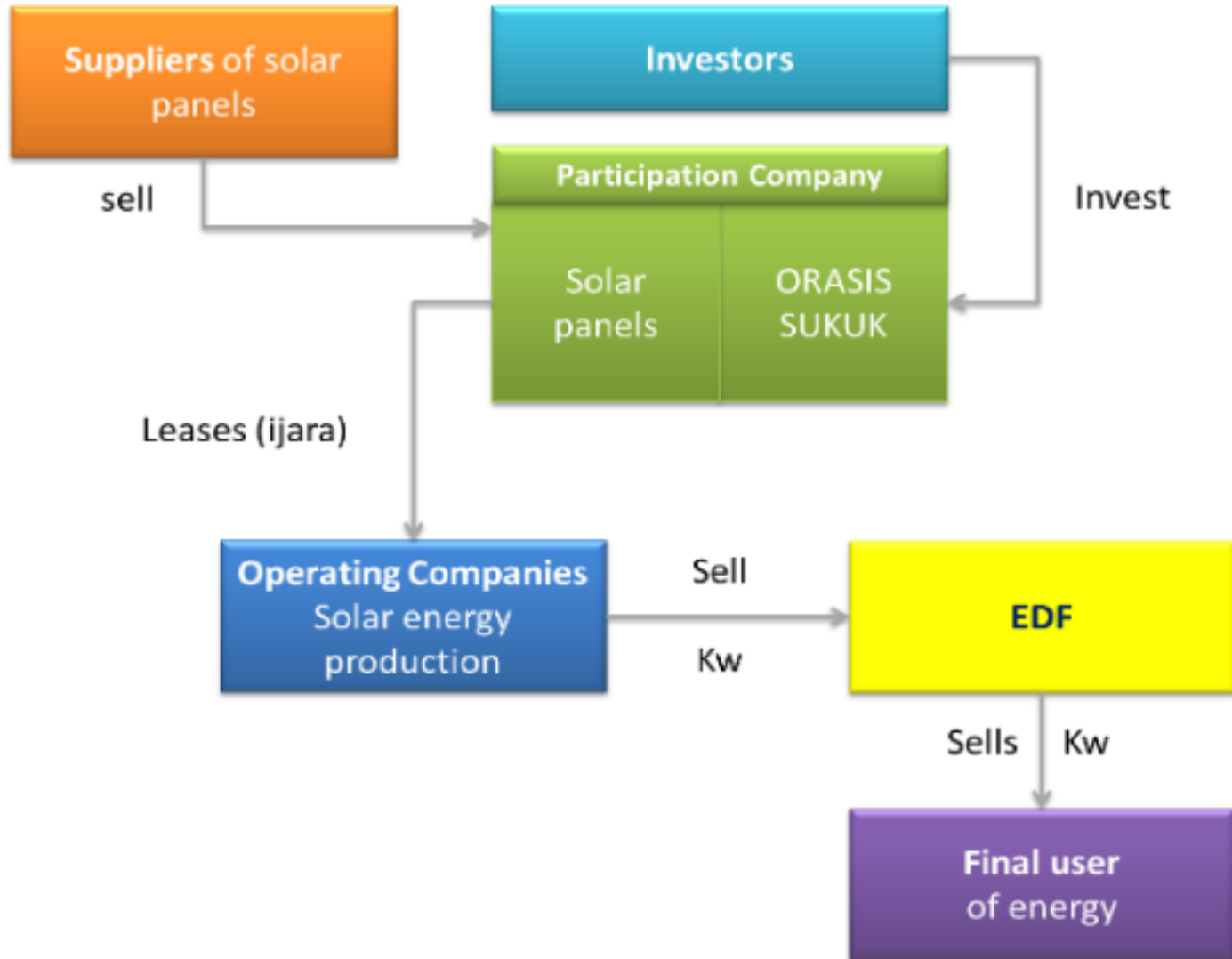


- Malaysia's first green SRI Sukuk and issued under Malaysia's SRI Sukuk Framework, which is a collaboration between the Securities Commission, Central Bank of Malaysia and the World Bank
- Innovative structure, KPI-driven
- 2 tranches issued – institutional and retain investors, all taken up.

# Khazanah SRI Sukuk

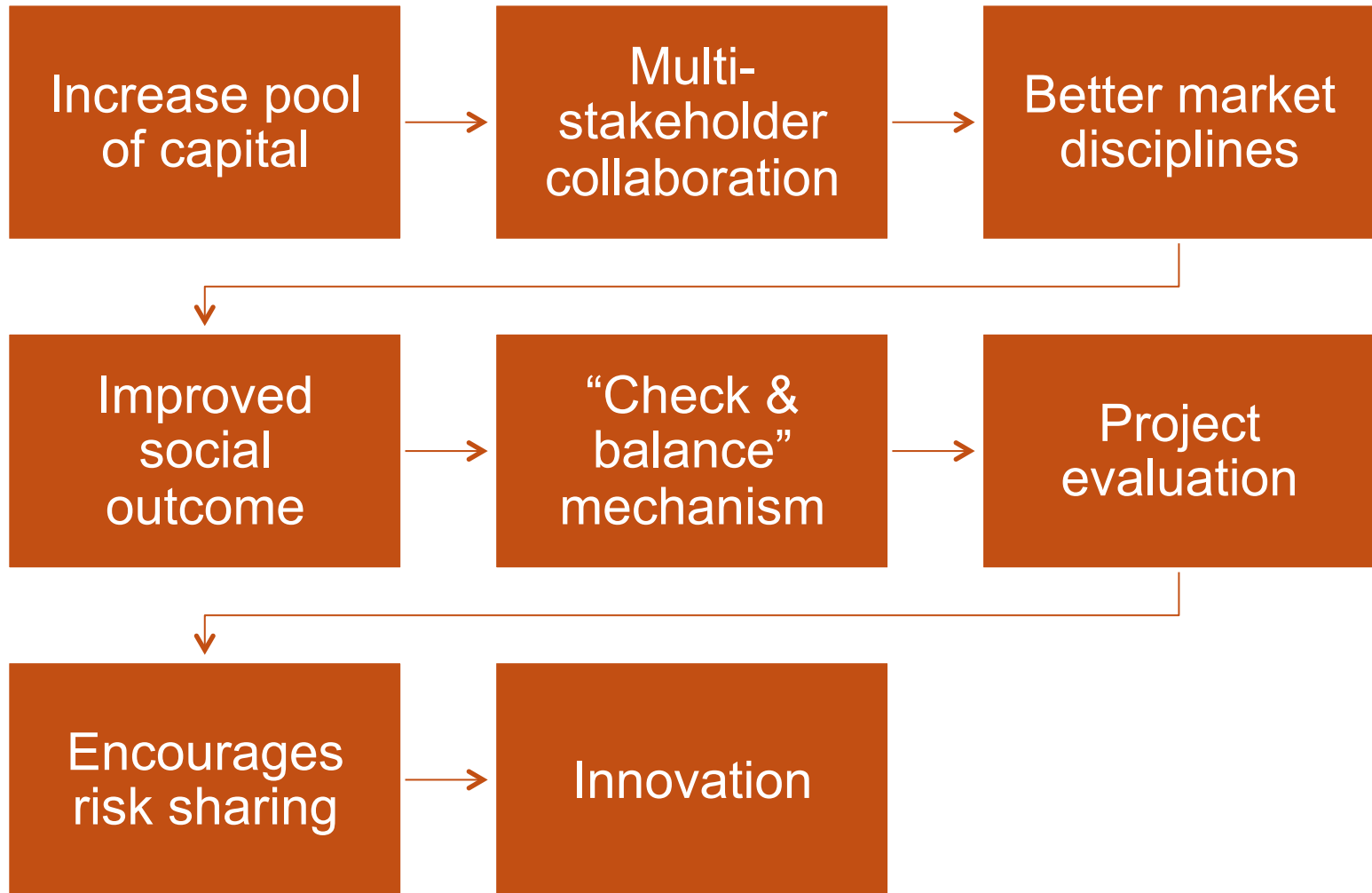


# Orasis Sukuk



# Benefits of Green Sukuk





# Demand Drivers



# Demand for Green Sukuk

## Increase Demand for Energy Supply

- The need for clean energy and energy efficiency will increase in the future due to the growth of population. For example, the GCC population is projected to grow to over 53mln by 2020, a 30% increase over population in 2000.

## Increase Demand for Energy Financing

- The significant increase of population will eventually increase the demand for energy funding and investment to finance the clean energy and energy efficiency projects to meet the needs of the future population.

## Growing Awareness of Investors Toward SRI

- In September 2014, the global investors who represented over USD2tn in asset under management issued an investor statement indicating their commitment to the growing of global market in the financing of climate change solutions.

## ME Demand for Sukuk

- There is a growing demand in the Middle and Far East for Shariah-compliant or Islamic bonds, but a shortage of products.

- Malaysia SRI Sukuk Framework 2014 - addressed utilization of proceeds, eligible SRI projects, disclosure requirements, appointment of independent parties and reporting requirements.
  
- Details out disclosure requirements for issuer and statement affirming that issuer has complied. Eligible areas include:
  - Environment & natural resources
  - Energy conservation
  - Renewable energy



## Other Initiatives (continued)

- Recently added several incentives to promote green sukuk
  - Tax deduction until year of assessment (2020)
  - Tax incentives for green technology activities
  - Financing incentives under the Green Technology Financing Scheme (GTFS) with total funds allocation of RM5 billion until 2022
  
- Waqf projects may also be eligible.

# How to Move Forward



Professional benchmarking



Impact measurement



Special task force with authority



Social investment bank



Tax incentives



Thank You

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