



UNITED ARAB EMIRATES
MINISTRY OF CLIMATE CHANGE
& ENVIRONMENT

Unlocking Green Bonds & Green Sukuk in United Arab Emirates: Key Considerations

2022

www.moccae.gov.ae



Unlocking Green Bonds and Green Sukuk in United Arab Emirates: Key Considerations

Disclaimer:

This guide is created for general information about green bonds and it offers guidance on the steps of labelling bonds as green. This guide must not in any way be taken as a piece of advisory work on bond issuances. The bond-issuing process requires a set of specific steps that only Financial Advisors and Underwriters may advise on. The contents of this work are intended for general informational purposes only and are not intended to constitute legal, securities, or investment advice, an opinion regarding the appropriateness of any investment, or a solicitation of any type.

BRIEF

This document provides the reader with key consideration based on the situation analysis report on green bonds and sukuk report that has been developed with the Global Green Growth Institute (GGGI) and in consolidation with key stakeholders.

It is considered part of wider effort to expand the knowledge and understanding on Green bonds and Green sukuk issuance based on the viable international practices and experience that are applied.



WHO CAN ISSUE A GREEN BOND OR SUKUK?

Any given entity that has suitable green projects or assets can issue green bonds / sukuk. These green assets may include among others, renewable energy, low-carbon transport, low-carbon buildings, sustainable water and waste management, sustainable land use as well as climate change adaptation measures.

The bonds markets, in particular thematic bonds markets were first developed in a voluntary manner back in 2007, with the

with the European Investment Bank's first "Climate Impact Awareness" bond and the World Bank's first "Green Bond". Later the interest on such bonds had increased and several best practices have developed. therefore, resulting in the development in internationally recognized guidelines to support the development of these markets and maintain investors' confidence and limit the risks of green-washing.

The available guidelines:

The Green Bond Principles, 8 coordinated by the International Capital Markets Association (ICMA), provide process guidance around transparency on the use of proceeds, project selection process, management of proceeds and reporting.

The International Climate Bonds Standards, managed by the Climate Bonds Initiative⁹ and developed by a network of technicians, industry players and investors, incorporates the Green Bond Principles and adds science based criteria to identify assets that are compliant with a sub-two-degree world,¹⁰ in line with the Paris Climate Agreement.

PROCESS OF ISSUING A GREEN BOND: WHAT YOU NEED TO KNOW!

According to the Green Bond Handbook that was developed by the initiative of the International Finance Corporation (IFC) Green Bond Technical Assistance Program (GB-TAP), it lists four main steps that are critical in green bonds issuance. The Green Bond Principles (GBP) that are listed below, are voluntary process guidelines that 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. These steps are the cornerstones for the Green Bond Framework (GBF). Which is the document that sets out the 'green' characteristics of the bond to be issued, the processes that the issuer will follow in the evaluation and selection of eligible projects, and the reporting commitments of the issuer towards investors.

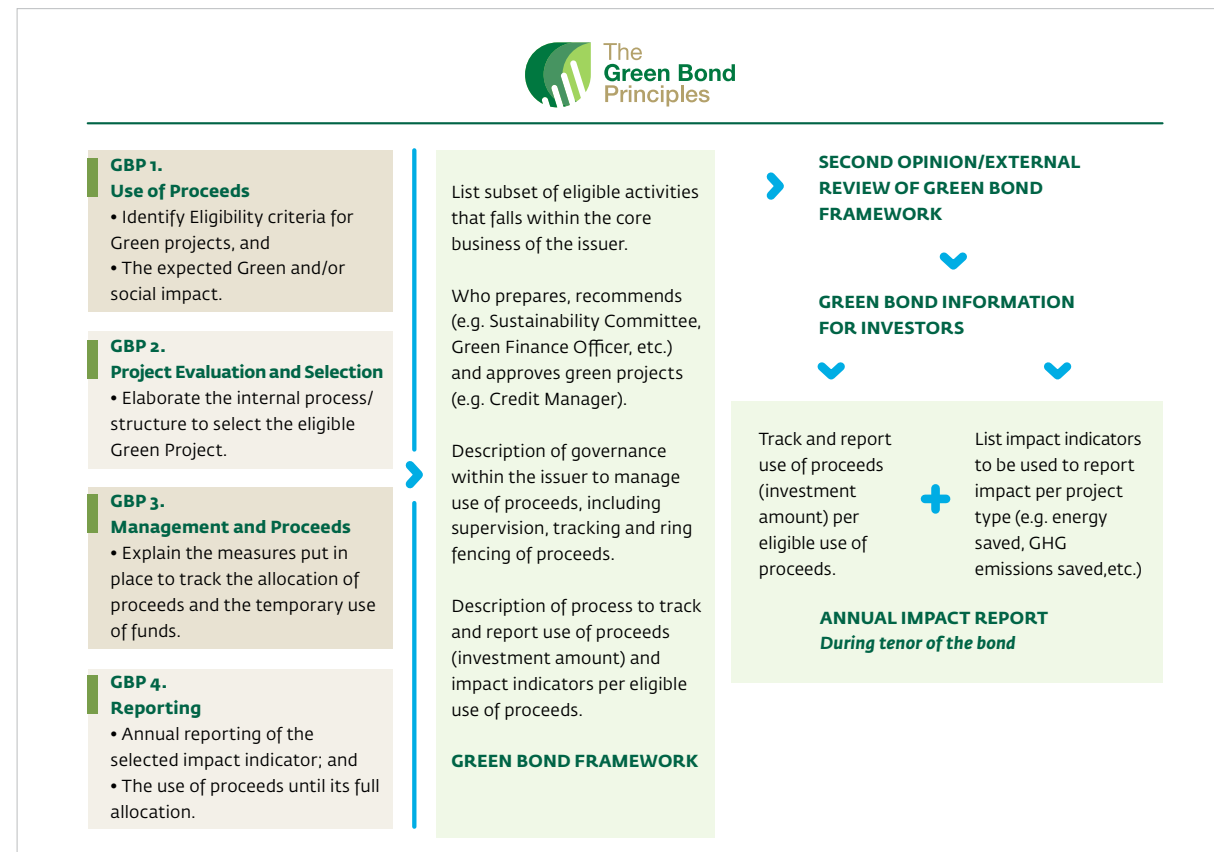


Figure 1: Green bond handbook - international finance corporation. (n.d.). Retrieved September 8, 2022, from <https://www.ifc.org/wps/wcm/connect/f11546a9-b986-4b0d-b1fc-93d798ce86dc/202203-IFC-Green-Bond-Handbook.pdf?MOD=AJPERES&CVID=n.wxr2b>

1. Use of proceeds:

The cornerstone of a Green Bond is the utilization of the proceeds of the bond for Green Projects (including other related and supporting expenditures, such as R&D), which should be appropriately described in the legal documentation for the security. All designated Green Projects should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer. The GBP explicitly recognize several

broad categories of eligibility for Green Projects with the objective to address key areas of environmental concern such as climate change, natural resources depletion, loss of biodiversity, and air, water or soil pollution. The following list is intended to be indicative and captures the most commonly used types of projects supported or expected to be supported by the Green Bond market. Green Projects may relate to more than one category.

Green Projects

It is well noted that the Green Bond Principles do not provide details on "green". The definitions of green are specified by

the issuer. Broad green project categories suggested by the principles include:

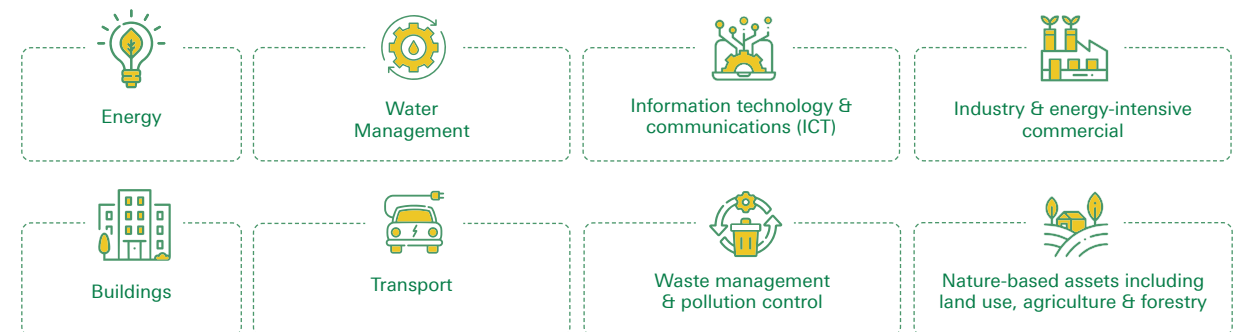


Figure 2: Green Projects categories (Deloitte, 2022) <https://www2.deloitte.com/au/en/pages/legal/articles/green-bond-as-pontential-tool-for-fund-raising.html>

The categories can be further detailed and listed in no specific order, to include, but are not limited to:

- renewable energy (including production, transmission, appliances and products);
- energy efficiency (such as in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products);
- pollution prevention and control (including waste water treatment, reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/emission-efficient waste to energy, value added products from waste and remanufacturing, and associated environmental monitoring);
- environmentally sustainable management of living natural resources and land use (including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection or drip-irrigation; environmentally sustainable fishery and aquaculture; environmentally-sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes);
- terrestrial and aquatic biodiversity conservation (including the protection of coastal, marine and watershed environments);
- clean transportation (such as electric, hybrid, public, rail, nonmotorised, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions);
- sustainable water and wastewater management (including sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation);
- climate change adaptation (including information support systems, such as climate observation and early warning systems);
- eco-efficient and/or circular economy adapted products, production technologies and processes (such as development and introduction of environmentally friendlier products, with an eco-label or environmental certification, resource-efficient packaging and distribution);
- green buildings which meet regional, national or internationally recognized standards or certifications

Your team

To apply the four main steps listed above, you would need a team of expertise that will support you through the process from the initial assessment phase,



Legal

Capital markets, finance, energy and corporate law experts, with extensive experience and knowledge in this field. The legal team of Deloitte Legal Hungary will support you throughout the whole transaction providing legal assistance and being responsible for the preparation of the issuance and listing documentation of the green bond.



Financial Advisory

Financial advisory experts with experience in financial documentation preparation.



Risk Advisory

Our risk advisory experts can help you either to identify assets that meet the relevant sector criteria for green bond issuance and create a Green Bond Framework for setting out the use of proceeds or conduct pre- and post-issuance certification of the issuance.



Tax

National and international taxation laws, subsidies, transfer pricing.

through the issuance and all the way to the post-issuance impact measurement and reporting, according to Deloitte.

Mapping out Key players in the Green Bonds Market:

The Green Bonds Market had witnessed exponential growth, and this interest various among different stakeholders. The global sustainable bond market has tripled in size to \$231bn year-on-year, to account for 9.4% of total debt issuance, according to Moody's. moreover, Pension funds look set to drive further rapid growth in both demand for and supply of such assets.

As seen in Figure 3, the primary stakeholders for this market include four main categories of issuers, investors, government and other nongovernmental stakeholders (like industry associations, third-party verifiers and academia). Although all stakeholders influence the market, primary stakeholders like investors and issuers can be especially instrumental in determining the future direction of this market. This is due to the more direct and 'on-the-ground' role they play in growing the market.

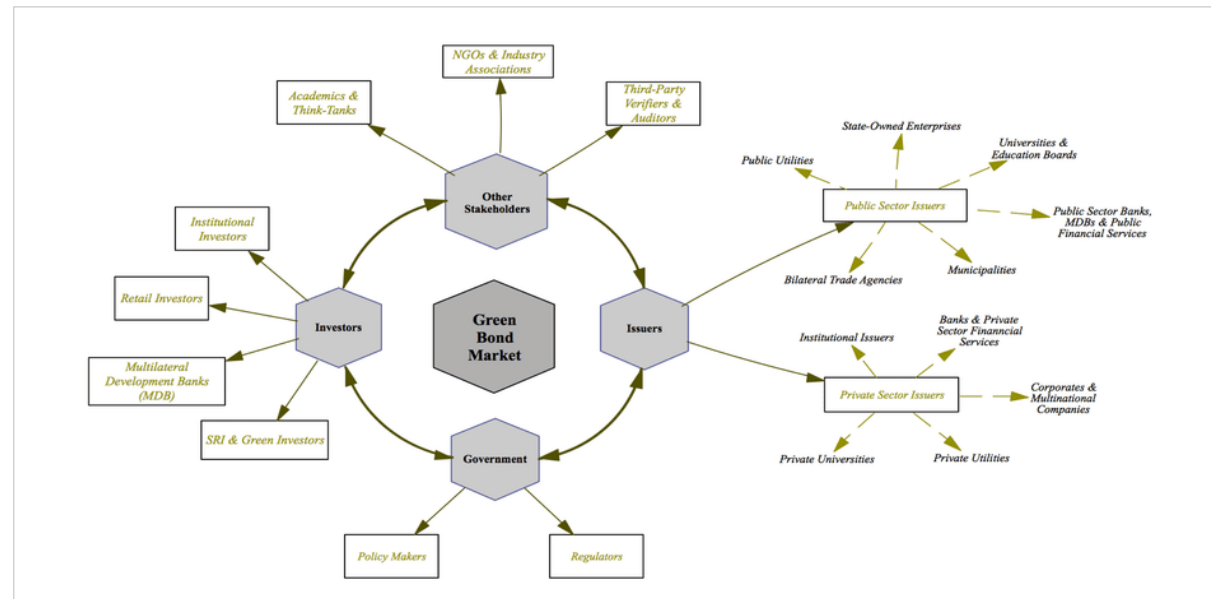


Figure 3: summarizes the various stakeholders and key players in the market. Reference: (Saravade & Weber, 2020)

Issuer Landscape

Any entity which is in a position to issue a conventional bond can similarly approach the market with a green bond or sukuk (after demonstrating a portfolio of eligible green projects). As companies seek to mitigate the impact of carbon transition effects, green bond issuance will continue to grow. As of 2021, corporate issuances represent nearly 60% of the new issuance volume of the green bond market. Notwithstanding the growth of corporate issuances, MDBs continue to play a significant leadership

role in expanding the green financing marketplace, particularly for Islamic financial instruments. Governments also have a critical role to play in catalyzing the development of their respective national green bond and sukuk markets. Green bonds can serve as a key tool for governments to raise capital to implement infrastructure plans in line with their national climate priorities, including the country's Nationally Determined Contributions (NDCs) as set out under the Paris Agreement.



Investor Landscape

As interest in green bonds and sukuk has evolved globally from niche to mainstream, the investor base has also become increasingly diverse, expanding much beyond solely environmentally responsible and impact investors. Through a statement released at the start of COP26 in November 2021, the Glasgow Financial Alliance for Net Zero (GFANZ) announced that a commitment of \$130 trillion of private capital towards achieving net zero emissions by 2050 has

been made collectively by over 450 firms across 45 countries. This staggering commitment by firms across the entire financial spectrum—which includes banks, insurers, pension funds, asset managers, export credit agencies and stock exchanges—presents a promising opportunity to tap into a robust investor base for further, large-scale development of the global green bond and sukuk market.



Step 2: Process for Project Evaluation and Selection

The issuer of a Green Bond should clearly communicate to investors:

- the environmental sustainability objectives;
- the process by which the issuer determines how the Projects fit within the eligible Green Projects categories identified above;
- the related eligibility criteria, including, if applicable, exclusion criteria or any other process applied to identify and manage potentially material environmental and social risks associated with the Projects.

Issuers are encouraged to position this information within the context of the issuer’s overarching objectives, strategy, policy and/or processes relating to environmental sustainability. Issuers are also encouraged to disclose any green standards or certifications referenced in Project selection. The GBP encourage a high level of transparency and recommend that an issuer’s process for project evaluation and selection be supplemented by an external review (see External Review section).⁴ roadmap based on the intervention.

Step 3: Management of Proceeds

The net proceeds of Green Bonds 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 a formal internal process linked to the issuer’s lending and investment operations for Green Projects. So long as the Green Bonds are outstanding, the balance of the tracked 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 proceeds. The GBP encourage a high level of transparency and recommend that an issuer’s management of proceeds be supplemented by the use of an auditor, or other third party, to verify the internal tracking method and the allocation of funds from the Green Bond proceeds.

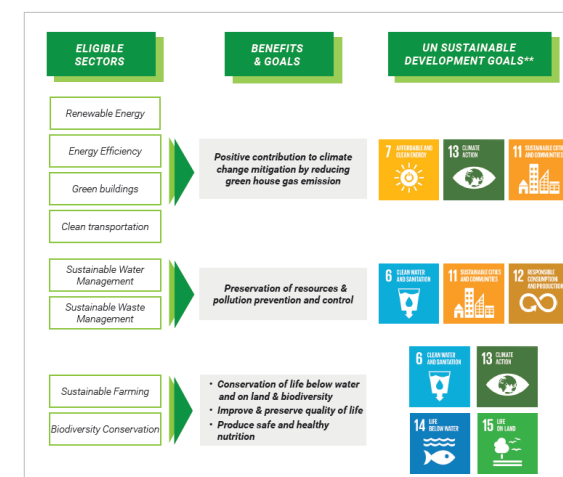
Step 4: Reporting

Issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and as necessary thereafter in the event of new developments. This should include a list of the projects to which Green Bond proceeds have been allocated, as well as a brief description of the projects and 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).

Case study example: Natixis

Green bond issuance framework



Methodology for renewable energy



Process for selection & evaluation



Figure 3: <https://gsh.cib.natixis.com/green-bond-reporting>

© UAE MOCCAЕ 2022

For further information or feedback:

Ministry of Climate Change & Environment

PO Box 1509, Dubai, United Arab Emirates

Email: info@moccae.gov.ae

www.moccae.gov.ae

     @MOCCAЕUAE