

## Promoting Sustainability through Innovative Islamic Financing

**Purpose** – Addressing the massive gap in financing the Sustainable Development Goals (SDGs) with Shariah-compliant financial instruments across the 57 Member Countries of the Islamic Development Bank (IsDB).

**Solution** - A Sustainable Finance Framework that provides the foundation for mobilizing resources via Islamic financial instruments, especially Sukuk, from the global capital markets for building green, resilient, and sustainable economies. The Framework was established in line with the global Green, Social and Sustainability Bond Principles.

**Role of Sukuk** – Sukuk can be classified as a fixed income instrument just like a conventional bond, with the differences being that it is asset-based and complies with the principles of Islamic finance. In the context of the Framework, IsDB issues ‘labelled’ Sukuk such as Green, Social or Sustainability Sukuk to raise funds from the global capital markets.

**Targets** – The funds raised through Green, Social or Sustainability Sukuk are exclusively utilized to finance/refinance IsDB projects in the areas of renewable energy, clean transportation, energy efficiency, pollution prevention and control, environmentally sustainable management of natural living resources and land use, sustainable water and wastewater management, employment generation and SME financing, affordable housing, affordable basic infrastructure, access to essential services and socioeconomic advancement and empowerment.

Projects are eligible to be included only if they meet the stringent eligibility criteria as set out in the Framework.

**Reporting** – Under the Framework, IsDB commits to publish annual impact reports of all labelled Sukuk issuances. This also includes impact metrics of the projects such as the amount of CO<sub>2</sub> emissions avoided (tCO<sub>2</sub>e) or the amount of renewable energy generated (MWh) etc., are reported in detail for the stakeholders through the IsDB website. This includes reporting any international guidelines used (ex. the GHG protocol), description of the calculation methodology and any assumptions made, wherever applicable.

**Debut issuances** – Under the Framework, IsDB issued a €1 billion **Green Sukuk** in November 2019 for ‘green’ project financing. After the onset of the pandemic, IsDB issued a US\$ 1.5 billion **Sustainability Sukuk** in June 2020 to finance both ‘green’ and ‘social’ projects in MCs for sustainable recovery from the COVID-19 pandemic.

**Recognition** – The Framework was independently assessed by an external third-party CICERO, which assigned a rating of **Medium Green Shading** to the Framework.

Sample - A sample project financed under the Sustainable Finance Framework is presented below.

|                              |   |
|------------------------------|---|
| <b>Implementation</b>        | : Regional Hub, Almaty (Kazakhstan)   |
| <b>Project Title</b>         | : Irrigated Agriculture Development in Issyk-Kul And Naryn Regions  |
| <b>Country</b>               | : Kyrgyz Republic   |
| <b>Total Project Cost</b>    | : US\$ 59.50 million  |
| <b>IsDB Financing</b>        | : ID 14.49 million* of Loan (approximately US\$ 20 million) approved in 2019.   |
| <b>Co-financing Partners</b> | : Saudi Fund for Development – USD 30 million<br>Food and Agriculture Organization – USD 0.60 million<br>Government of the Kyrgyz Republic – USD 8.90 million   |
| <b>Project Description</b>   | : The project aims to improve the livelihood of the rural population in the Kyrgyz Republic through sustainable agriculture development and water resources management with adaptation to climate change. The project also aims to increase economic returns in the value chain for rural people through increase of post-harvest capacities and enhancing integration and market links.  |
| <b>Project Results</b>       | : The key project results include: (i) improved access to irrigation infrastructure for at least 13,200 small-holders and farmers producing crops on 20,600 ha land with resilience to the climate change impacts, (ii) increase in agriculture productivity by average 40% and production to 175,000 tons; (iii) reducing post-harvest losses approximately by 10% from improved storage/primary processing; (iv) providing access to shariah compliant and affordable financing; (iv) creation of at least 2,000 new jobs on-farm and off-farm level; (iv) capacity building around climate smart agriculture practices, with priority to benefit women and youth, and (v) institutional strengthening of farmers groups/cooperatives and water users associations. |
| <b>Targeted SDGs</b>         | : The Project directly supports the Government's efforts in achieving Sustainable Development Goals - Zero Hunger (SDG-2), Access to Water (SDG-6); and Climate Action (SDG-13). Project will also contribute to No Poverty (SDG-1); Gender Equality (SDG-5); Decent Work and Economic Growth (SDG-8).  |
| <b>Keywords:</b>             | : Food Security, Adaptation, Gender Equality  |
| <b>Project Officer</b>       | : Bekzod Parmanov, Operations Team Leader (Water)   |

\*ID is Islamic Dinar, which is the IsDB's unit of account and is equal to 1 Special Drawing Right of the IMF