ISLAMIC DEVELOPMENT BANK GROUP

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The Role of IsDB Group Private Sector Development in Climate Change

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1. Profile of IDB Group Private Sector Institutions

The IDB Group was established in 1975 with the mandate of fostering social and economic development in Member Countries (MCs) and Muslim communities, in compliance with the principles of Shariah. Between 1975 and the early 1980s, the Bank was lending primarily to sovereign member countries to fund development-oriented projects. However, over a period, the Group diversified its product offerings to include private sector financing and insurance services. Initially, these operations were managed by separate departments in the Bank. Over time, the Bank chose to set up independent organizations (ICIEC in 1994, ICD in 1999 and ITFC in 2008) for this purpose. A recent addition to IDB operational management is the Enterprise Development Department. It has been created to undertake the Bank's policy and operational work related to Public-private partnerships (PPP) and non-sovereign guaranteed operations in MCs.

Islamic Corporation for Insurance of Investments and Export Credits (ICIEC)

The ICIEC was established in 1415H (1994) to enlarge the scope of trade transactions and investment flows amongst IDB Member Countries. The ICIEC offers the following services to exporters, banks, and investors: (i) Export Credit Insurance to cover the risk of nonpayment in relation to cross border trade and trade finance transactions; (ii) Investment Insurance to cover country risk associated with Foreign Investments among MCs; (iii) Reinsurance of operations covered by ECAs in Member Countries. For more information: http://www.iciec.com/

Islamic Corporation for the Development of the Private Sector (ICD)

The ICD was established in Rajab 1420H (November 1999) as an independent entity within the IDB Group. The mission of the ICD is to complement IDB through the development and promotion of the private sector. It serves as a vehicle for MC economic growth and development. The main objectives of the ICD are: to identify investment opportunities in the private sector in MCs, thereby speeding up economic growth; to provide a wide range of Shari'ah-compatible financial products and services; and, to expand access to Islamic capital markets by private companies in Member Countries. For more information: http://www.icd-ps.org/

International Islamic Trade Finance Corporation (ITFC)

The IDB Board of Governors approved the establishment of the International Islamic Trade Finance Corporation (ITFC) its meeting held in Jumad Awwal 1426H (June 2005). The ITFC Articles of Agreement were adopted during the Annual Meeting of the IDB held in 1427H (2006), in Kuwait. The purpose of the Corporation is to promote trade in Islamic Development Bank MCs through providing trade finance and engaging in activities that facilitate intra-trade and international trade.For more information: http://www.itfc-idb.org/

The Enterprise Development Department (EDD)

The Enterprise Development Department of IDB is responsible for undertaking policy and operational work related to Public-private partnerships (PPP) and non-sovereign guaranteed operations in MCs.

It is mandated to undertake non-sovereign guaranteed operations including PPP financing, investment in funds, and non-financial sector equity investments. EDD serves as the principal center of enterprise development, including the development of an investment climate and an enabling environment that fosters the creation and growth of enterprises in MCs, in close conjunction with the private sector development activities of the IDB Group entities. The department is also responsible for promoting entrepreneurship, innovation, capacity building and enterprise development in MCs, in cooperation with governments, private sector associations, financial institutions, and other entities. For more information: http://www.isdb-pilot.org/

2. IDB Group's Aspirations in Supporting Climate Change through Private Sector Development

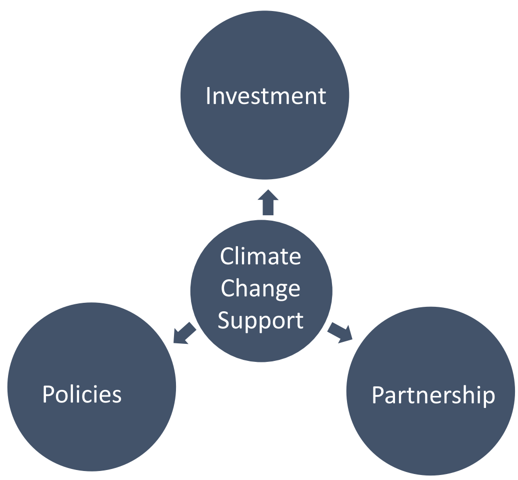
Climate change is one of the largest threats to the prosperity of developed and developing countries. According to the World Economic Forum's "The Global Risks Report 2016", failures in climate change mitigation and adaptation have been listed amongst the most impactful risks for the years to come. Its manifestation in various forms (e.g. heat waves, natural disasters, floods, droughts, vector borne diseases, low agricultural yields, and food insecurity) requires immediate interventions as well as massive financial resources. As the global community has acknowledged, governments taken individually are unable to fully implement actions and investments needed to address issues related to climate change. Much larger private financial investments and the involvement of multilateral financial institutions are also essential.

Climate change equally presents a big challenge to all multilateral development banks, including the IDB Group, whose MCs have publicly declared their post-2020 climate actions to reduce global greenhouse gas emissions under the international agreement, known as Intended Nationally Determined Contributions (INDCs). However, the threats posed by climate change still throw up significant barriers to meeting development goals in a number of MCs. In this regard, the IDB Group also has a big role to play to support of its MCs promoting climate-resilient and low-carbon development.

Today, the IDB Group serves as a catalyst for the private sector development in its 56 MCs. Its much-needed capital, knowledge, and partnership activities are available in all its countries of operations. The IDB Group offers a range of products to the private sector, which can be categorized under four major groups: 1) project financing operations; 2) trade financing operations; 3) insurance operations; and 4) advisory services and TA operations.

The IDB Group recognizes that it is in an unique position to support the private sector in MCs growing on a low carbon path and building resilience to climate change. Thanks to a wide range of investment and advisory products, private sector clients in IDB MCS are able to capture the opportunities and avoid the risks that climate change can and/ or will cause. In this regard, the IDB Group is gradually and systematically incorporating

Figure 1. Three-channels of the IDB Group in Private Sector Development for Climate Change



climate change mitigation and adaptation into its private sector development goals. The IDB Group pledged to increase its focus on climate change and broaden its participation in climate-related businesses of the Member Countries through three channels:

A. INVESTMENT. Scaling up its own private sector financing in climate change. Currently, the IDB Group is undertaking a number of direct climate-related investment operations. The Group's plan is to explicitly incorporate climate change into its private sector financings and scale up these investments significantly. These investment vehicles shall include, but are not limited to, the financing of:

- Renewable energy and energy efficiency, transition to a low carbon economy, green buildings, green Sukuk, clean infrastructure, clean technology, sustainable agribusiness, waste and recycling, etc.

B. PARTNERSHIP. Mobilizing external resources for private sector financing in climate change. As a multilateral institution, the IDB Group could have a much bigger influence on addressing the effects of climate change by mobilizing external funds and capital to support its private sector investments. The IDB Group shall mobilize additional capital through:

- Public-private partnerships (PPP) projects, private sector co-financing, use of joint capital with other donors/multilaterals, and tapping resources from global climate funds.

C. POLICY. Building, as well as strengthening its internal policies, procedures and strategies with regard to climate change. The IDB Group aspires to give priority to climate change as a development goal. In addition, the following actions shall be taken by the Group:

- Developing its own climate change policy and environmental safeguard policy, updating data classification system to track the investment volumes in climate change action, integrating climate risks into existing risk identification and mitigation systems.

3. The IDB Group's Success Cases in Supporting Climate Change through Private Sector Development

The following is a brief illustration of some successful projects recently intiated by the IDB Group in order to address climate change related issues.

Case 1: Green Tech Valley Project, Kingdom of Morocco

Green Tech Valley is an integrated project combining the latest technological innovations in sustainable development and energy savings. This new place for business, wellness and leisure is part of the development of the Bouregreg Valley in Rabat, Kingdom of Morocco.

Built on an area of 150,000 square meters, the project aims to become a reference project in line with the Sustainable Economic and Social Development Goals.

The Green Tech Valley's total investment is in the range of US$ 230 million, where IDBG's participation stands at US$ 25 million as an equity investor. The project is expected to create an estimated 10,000 direct and indirect jobs.

The Green Tech Valley project will focus on energy transition. Six main innovations will be implemented in the project:

- Concentrated photovoltaic (CPV) solar modules and trackers: a solar farm will be created nearby the project in order to enable clean and renewable electricity at lower costs
- Electric Vehicles with charging stations for residents, visitors and business owners
- Blue LED panels expected to achieve 50 - 70% energy savings, and reach up to 80% savings when coupled with smart controls
- Energy positive houses with a unique design combining, for the first time, reduced energy demand, renewable energy supply, and energy storage using excellent building insulation and solar control glazing.

Case 2: New Bong Escape Hydro Power Project, Pakistan (Laraib Energy Ltd.)

Laraib Energy is the first independent run-of-river type hydropower project in the country. It has an installed capacity of 84 MW. The plant commenced commercial operations in 2013.

The Project has been developed under a Build-Own-Operate-Transfer (BOOT) basis, financed by the Asian Development Bank, Islamic Development Bank, International Finance Corporation, and Société de Promotion et de Participation pour la Coopération Economique (PROPARCO). Local financing is provided by Habib Bank Limited (HBL) and National Bank of Pakistan (NBP). The project total estimated cost is US$ 233 million which is funded 75% by senior debt and 25% by equity. IDBG committed US$ 37.3 million financing for the project.

The project is Pakistan's first hydropower project to be registered with the United Nations' Framework Convention on Climate Change as a clean mechanism development (CDM) Project, and it has made a solid contribution to offsetting greenhouse emission, globally. It is expected to avoid greenhouse gas emissions equal to 218.988 tons of carbon dioxide annually by supplanting fossil fuel-fired power plants.

Case 3: Foundation Wind Energy (FWE) I and II Projects, Pakistan

FWE I and FWE II Projects have a combined installed capacity of 100 MW and were completed in 2015 and 2014, respectively.

The two projects are located in the Gharo wind corridor 54 kilometers southeast of Karachi, Pakistan's industrial and commercial hub. The two project sites are only 6 kilometers apart and have been simultaneously developed to benefit from economies of scale.

The actual cost for the FWE I was US$ 128.3 million and US$ 127.9 million for FWE II. The IDBG committed US$ 140 million financing for the two projects.

Both projects encompass engineering, design, procurement, construction, turbine erection, grid tie-in, commissioning, and operation and maintenance (O&M) for two 50 MW wind power plants. The projects have been constructed under a date-certain, lump sum, fixed-price EPC contract. Power evacuation from both projects to the national grid is done through a 132-kilovolt line built and operated by the National Transmission and Dispatch Company (NTDC), the national grid operator.

The FWE I project is expected to avoid greenhouse gas emissions equal to 68.000 tons of carbon dioxide per year and 68.250 tons for FWE II, and support the government's target of generating 6% of power from renewable energy sources, by 2030.

Case 4: Patrind Hydro and Triconboston Wind Power Projects, Pakistan

The Patrind Hydropower Project is a 147 MW run-of-river scheme in Pakistan undertaken by Star Hydro Power Limited (The Company). The Project location is in the Azad Jammu & Kashmir (AJ&K) and Khyber Pakhtunkhwa (KP), Pakistan. US$ 60 million long term financing was approved by IDBG to assist this project. The co-financiers in the project are Asian Development Bank (ADB) for US$ 60 million, International Finance Corporation (IFC) for US$ 97 million, and Korea Exim Bank (KEXIM) for US$ 110 million.

The Project is the first hydro-electric project under the Government of Pakistan's Power Policy 2002 and it is developed based on a Build, Own, Operate and Transfer (BOOT) basis. The project is expected to be completed by the first quarter of 2017. Once completed, the project will contribute to annual savings in greenhouse gas emissions of an estimated 269.278 tons of carbon dioxide.

IDBG also recently approved a US$ 75 million financing for Triconboston Wind Power Project, with a total installed capacity of 150 MW, in September 2016. The project is located in the southern part of Pakistan, near Karachi. This project is expected to generate carbon emission reduction (CERs) through the clean development mechanism of the Kyoto Protocol. The Project is a power generation project with renewable resources and zero emissions. When put into operation, the Project can provide power supply to the southern Pakistan power grid. Therefore, it is expected to help reduce annual greenhouse gas emissions from oil-fired power generation amounting to 204,000 tCO_2/year.

Case 5: Onshore Wind Farms in Turkey

Turkey's National Climate Change Action Plan for the period spanning 2011-2023 identifies the energy sector's reliance on fossil fuels as the largest contributor to greenhouse gas emissions. The Action Plan also highlights the potential of wind energy in contributing to Turkey's renewable energy generation mix. IDBG is currently supporting the construction of four onshore wind farms in Turkey. Combined energy generation from the four windfarms is 316 MW. These wind farms are located on the Mediterranean Sea and Sea of Marmara coasts, as well as in Central Anatolia and Western Anatolia.

The parties insured by the insurance of ICIEC (a member of IDB Group) are commercial financial institutions that have extended financing facility or have guaranteed the project companies, both supplying the manufactured machinery needed for the wind farms, as well as constructing them. The ultimate beneficiaries of this support to Turkey's wind power sector are future generations, who will enjoy the economic fruits of energy sourced from a clean, renewable and carbon neutral source.

Case 6: Pre-export Supporting Facility for the Coffee Sector in Indonesia

El Nino has had an adverse impact on coffee production in Indonesia over the years and where irrigation infrastructure is not optimally developed in the world's fourth-largest coffee grower. Moreover, local smallholders, who lack the financial means and technical skills to offset the negative impact brought about by El Nino, own most of the coffee plantations in Indonesia.

The ITFC, a member of IDB Group, in collaboration with the Indonesian Coffee Exporters Association (AICE), developed the Indonesian Coffee Export Development Program in 2016 to create fairer trading conditions for farmers, while supporting farmers in adapting to and mitigating climate change. This program is a successful continuation of the US$ 1 million national trade financing operation of the IDBG, enabling the coffee sector to meet pre-export financing requirements, in 2011. Expected outputs from the pre-export support facility from this new IDBG program will extend to 200,000 farmers over 3 years. The most interesting aspects of the program is its (a)

Fairtrade Premiums, supporting beneficiary farmers to make their communities more resilient to climate change, and (b) Climate Standards, helping farmers access the carbon market by developing Fairtrade Carbon Credits projects.

Corporate profile of the Islamic Development Bank

Establishment

The Islamic Development Bank (IDB) is an international financial institution established pursuant to Articles of Agreement done at the city of Jeddah, Kingdom of Saudi Arabia, on 21 Rajab 1394H corresponding to 12 August 1974. The Inaugural Meeting of the Board of Governors took place in Rajab 1395H (July 1975) and the IDB formally began operations on 15 Shawwal 1395H (20 October 1975).

Vision

By the year 1440H, the Islamic Development Bank will have become a world-class development bank, inspired by Islamic principles, that has helped significantly transform the landscape of comprehensive human development in the Muslim world and helped restore its dignity.

Mission

To promote comprehensive human development, with a focus on the priority areas of alleviating poverty, improving health, promoting education, improving governance and prospering the people.

Membership

The IDB has 57 member countries across various regions. The prime conditions for membership are that the prospective country should be a member of the Organization of the Islamic Cooperation (OIC), that it pays the first instalment of its minimum subscription to the Capital Stock of IDB, and that it accepts any terms and conditions that may be decided upon by the Board of Governors.

Capital

At its 38th Annual Meeting, the IDB's Board of Governors approved the 5th General Capital Increase whereby the Authorized Capital was increased to ID100 billion and the Subscribed Capital (available for subscription) was increased to ID50 billion. By the same Resolution, the Board of Governors agreed to the calling in of the callable (in cash) portion of the 4th General Capital Increase. As at the end of 1436H, the subscribed capital of the IDB stood at ID49.92 billion.

Islamic Development Bank Group

The IDB Group comprises five entities: the Islamic Development Bank (IDB), the Islamic Research and Training Institute (IRTI), the Islamic Corporation for the Development of the Private Sector (ICD), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), and the International Islamic Trade Finance Corporation (ITFC).

Head Office, Regional and Country Offices

Headquartered in Jeddah, the Kingdom of Saudi Arabia, the IDB has four regional offices in Rabat, Morocco; Kuala Lumpur, Malaysia; Almaty, Kazakhstan; and in Dakar, Senegal and Country Gateway offices in Turkey (Ankara and Istanbul), Indonesia, and Nigeria.

Financial Year

The IDB's financial year used to be the lunar Hijra Year (H). However, starting from 1 January 2016, the financial year will be Solar Hijra year starting from 11 of Capricorn, (corresponding to 1 January) and ends on the 10 of Capricorn (corresponding to 31 December of every year).

Accounting Unit

The accounting unit of the IDB is the Islamic Dinar (ID), which is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund.

Language

The official language of IDB is Arabic, but English and French are also used as working languages.

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