

Sustainable Finance

Can Sukuk become a driver of solar and green energy growth ?

Launching Deloitte Solar Energy Report, Solarex Istanbul, 4th April 2019, Istanbul, Turkey

In the Middle East
since 1926

Acknowledgments

Report contributors, research institutions and industry supporters

Deloitte Team:

- Dr. Hatim El Tahir, Director
- Sakinah Jamil, Senior Manager
- Sajida Ali, Consultant
- Faisal Hamid, Consultant

ISRA Team:

- Dr. Said Bouheraoua, Associate professor Director of Research Development and Innovation Department, ISRA
- Dr Salma Sairally, Research Consultant, ISRA
- Dr Marjan Muhammad, Head, Research Quality Assurance Office, ISRA

Industry Contributors:

- Professor Yelena Kalyuzhnova, Vice Dean (International), Henley Business School, Director, the Center for Euro-Asian Studies, the University of Reading.
- Dr Irum Saba, Assistant Professor, Center of Excellence in Islamic Finance (CEIF), Institute of Business Administration, Pakistan.
- Dr Nihat Gumus, Financial Sector Specialist, Center for Applied Research in Finance (CARF), Bogazici University.

Research Institutes Support



Centre for Excellence in Islamic Finance
Institute of Business Administration

Industry Support

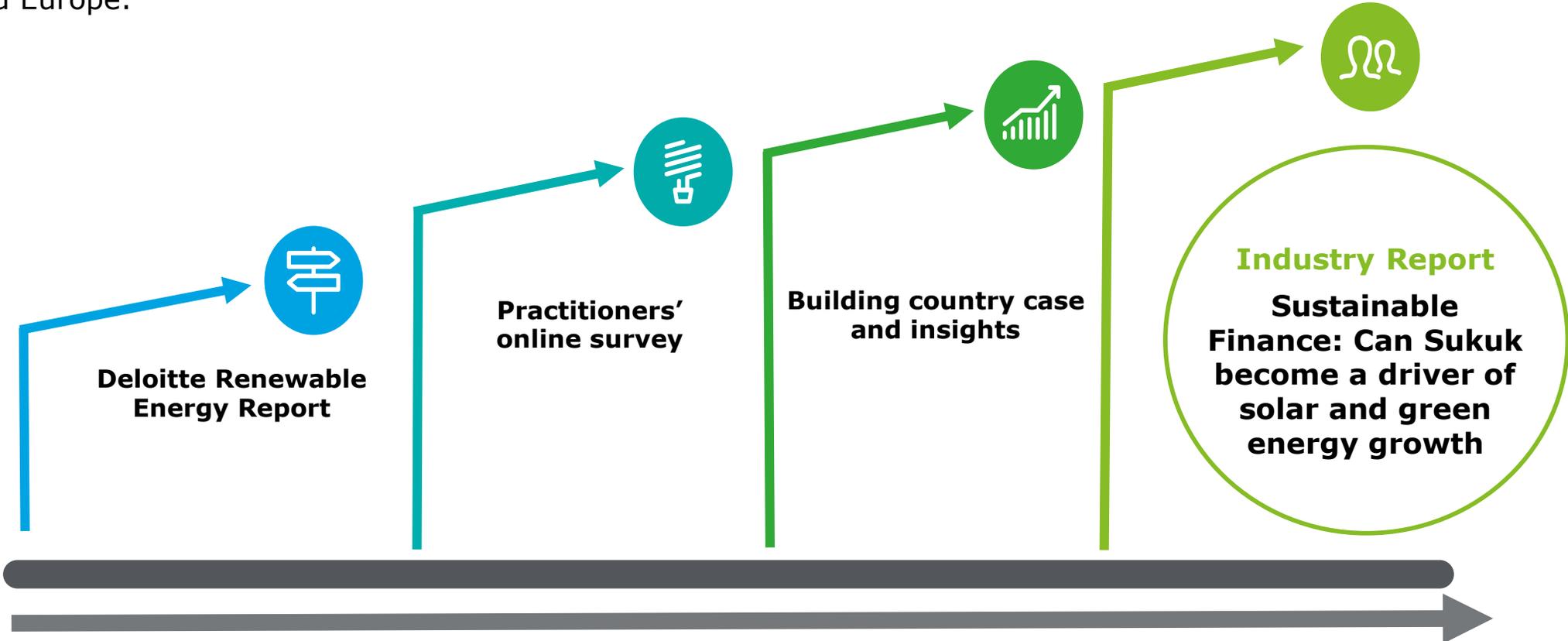


The Report

An OIC-focused study

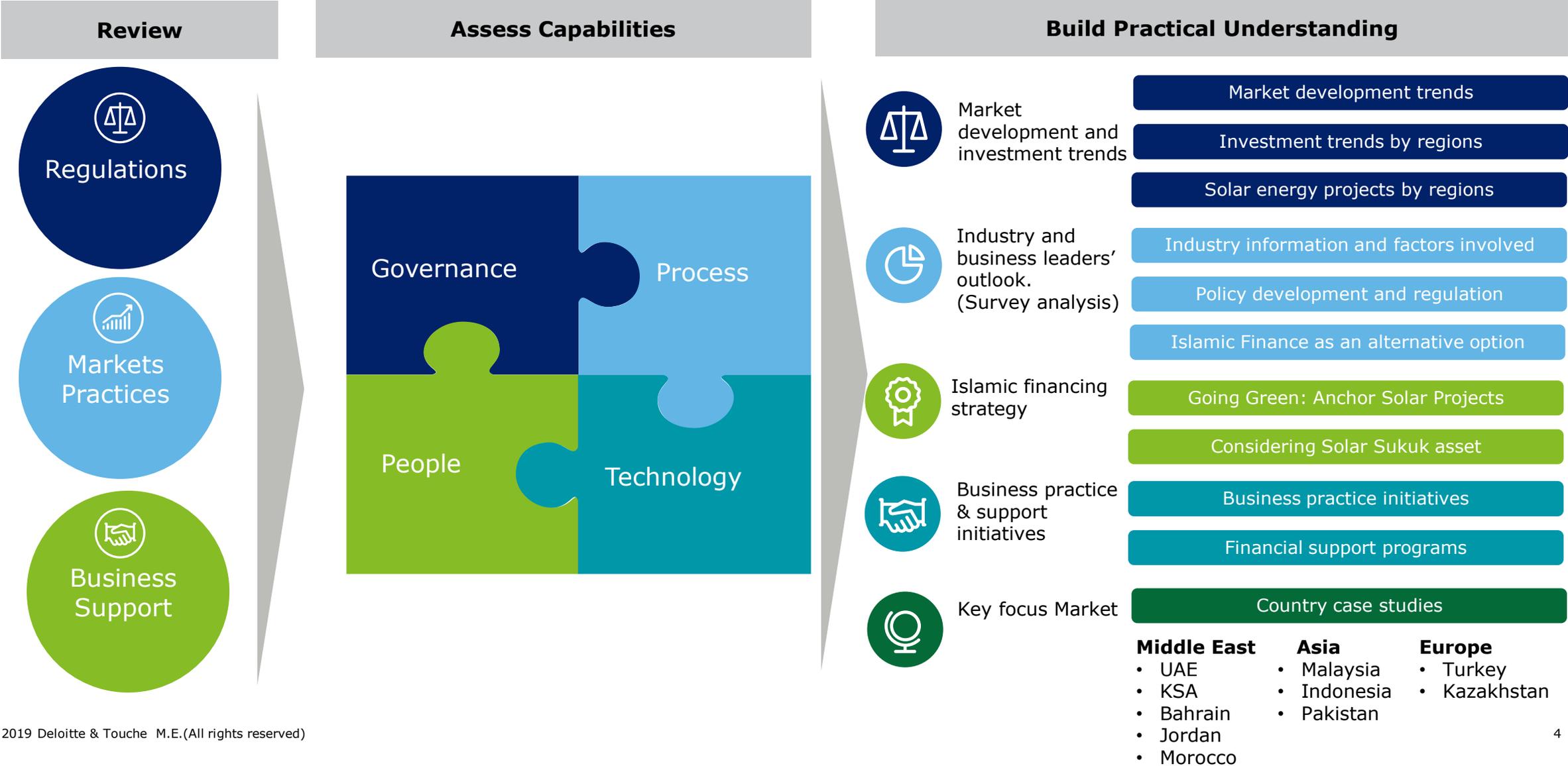
Research methodology

The **'Solar report'** is a follow up issue of our 'renewable industry study' in which we examined the prospects of Islamic finance as a source of financing solar projects in several OIC markets based on three geographical regions: Asia, Middle East and Europe.



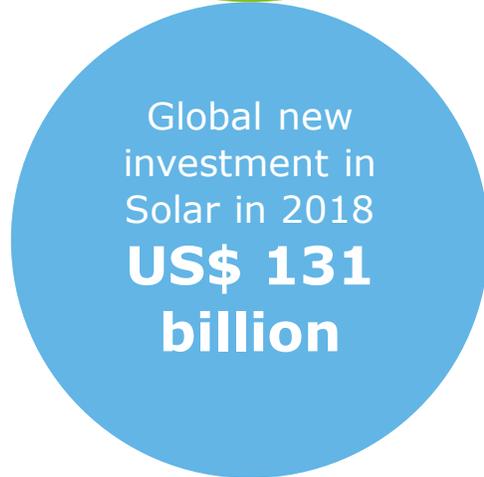
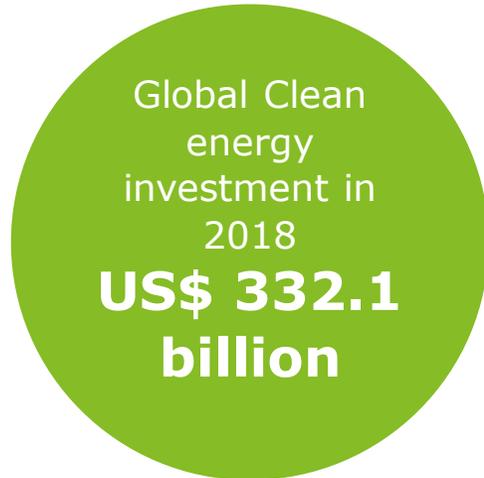
Scope and Approach

Cross-functions, across OIC markets



Introduction

Global Solar Energy Landscape



Global clean energy investment reached US\$ 332.1 billion in 2018, down 8% in 2017, according to Bloomberg NEF.

Increasing renewable energy deployment by various countries contributes to numerous policy objectives, including:

- Boosting national energy security and economic growth
- Creating jobs
- Developing new industries
- Reducing emissions and local pollution, and providing affordable and reliable energy.

Market Development and Investment Trends

Solar energy growth and investment



Market development and investment trends

In 2017, emerging markets accounted for 63% of global new investment in renewable energy, widening the investment gap with developed countries to a record high.



Solar energy growth

Enabling trends	Demand trends
Lower solar cost	<ul style="list-style-type: none">• Focused approach by government to support growth of non-conventional energy sources
Expanding investor interest	<ul style="list-style-type: none">• Population growth, increasing economy and climate changes are fueling demand for power
Technology innovation	<ul style="list-style-type: none">• Persistent energy deficit

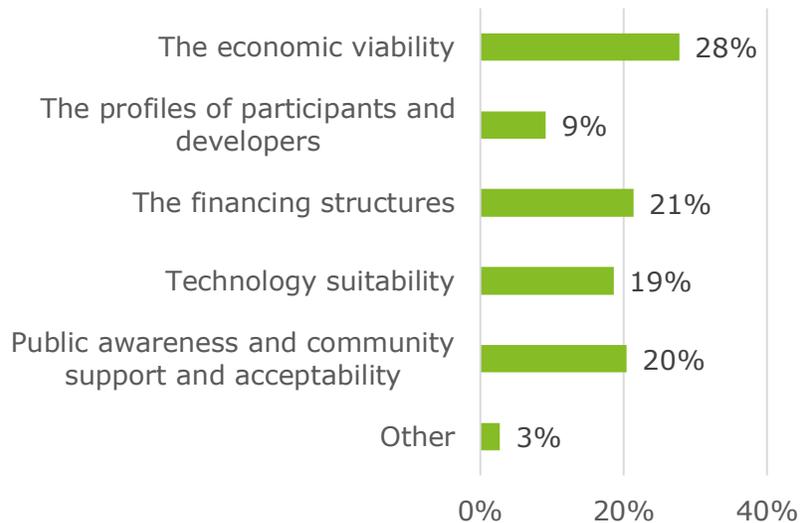
Industry and Business Leaders' Outlook

Survey analysis – Key findings



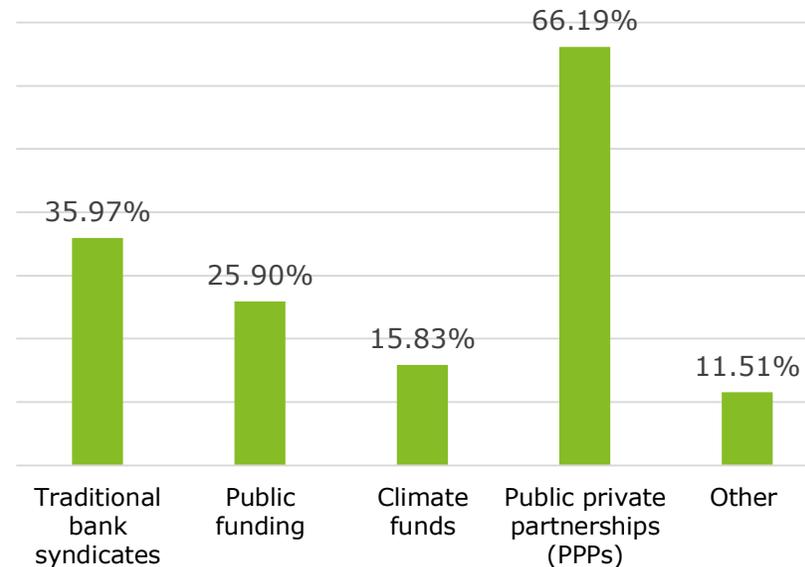
Industry and business leaders' outlook.
(Survey analysis)

Figure 8: Which factors do you think will influence the growth of solar energy projects in your country?



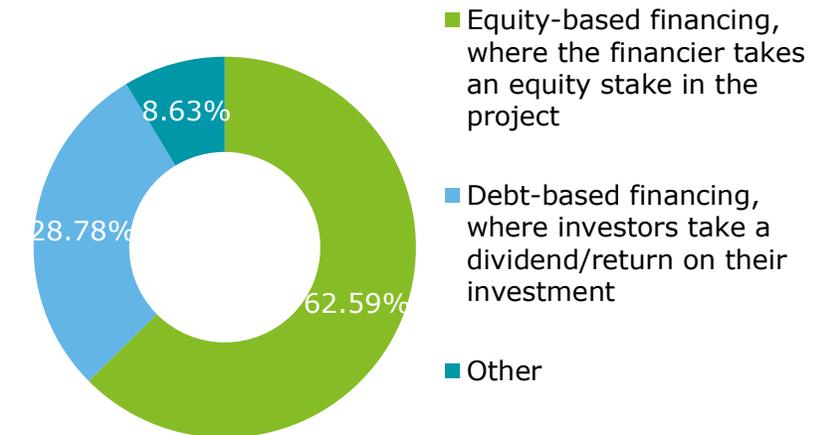
The economic viability is the major influencer to the growth of solar energy. While 60% attribute to the technological suitability, financing structures and public awareness and communication.

Figure 12: Which of the following is more suitable to solar financing projects?



- Most of the respondents (43%) believe Public Private Partnerships (PPPs) are suitable for financing projects followed by traditional bank syndicates and public funding.
- Few respondents (7%) suggested that Islamic Finance instruments like Mudarabah and Sukuk would be the ideal way to invest in solar projects.

Figure 14: If you are considering Islamic Finance for solar projects, which of these options suit you more?



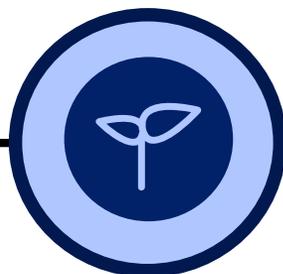
- Investment in equity-based and debt-based investments (collectively ~90%) are considered best options for investing in solar.
- A small amount of respondents suggested that diversified option between debt and equity could be a good method rather than investing solely in one type of financial instrument.

Islamic Financing Strategy

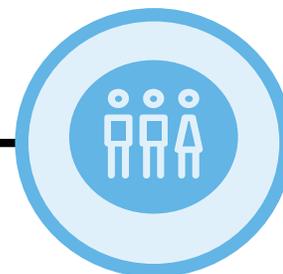
Going Green: presenting anchor Solar projects in OIC



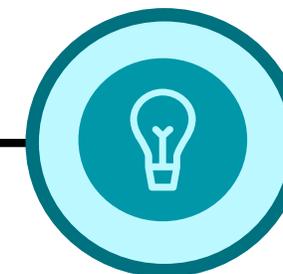
Green financing



Sustainable projects



Social cohesion and inclusion



Environmental

UiTM Solar Power Sdn Bhd

In April 2018, UiTM Solar Power Sdn Bhd, an indirect subsidiary of Universiti Teknologi Mara, issued Green SRI Sukuk of up to RM240 million to finance the development and operation of the 50MW utility solar power plant in Gambang, Pahang. It is the first institute of higher learning in the world to issue a Green SRI Sukuk.

Transaction details:	Murabahah
Issuer	UiTM Solar Power Sdn Bhd
Country	Malaysia
Use proceed	The green SRI Sukuk will finance a 50MW utility solar power plant in Gambang, Pahang, Malaysia.
Rating	AA- by Malaysian Rating Corporation Berhad ("MARC")
Facility	Green SRI Sukuk
Issue size	MYR 222.3 million (US \$ 56.8 million)
Tenor	18 years
Issue date	27-Apr-2018
Islamic structure	(via Tawarruq arrangement)

Solar and green energy financing decisions have been affected by the continuing global credit crunch impact such as banking regulatory capital requirements, which triggered corporates to actively seek alternative financing sources such as green bonds and green Sukuk private equity investments and other methods.

Conclusion

Key messages



Balanced commercial & social financing strategy

- Financing solar and renewable energy projects in countries challenged with environmental and climate set of rules, responsible investment guidelines, green energy principles, sustainable finance, social impact attributes and investment governance more than ever. Success in achieving a balanced commercial and social financing strategy will require inclusive industry stakeholders partnerships that embrace sustainable finance and responsible investment.



New innovative project financing strategies

- Governments and private sector enterprises are under increasing pressure to provide sustainable and competitive energy prices to meet growing economies and energy demands. This will require new innovative project financing strategies to access a diversity of international investors and perhaps tap into Islamic financial Institutional investors .



Disruptive innovation and sustainable finance

- Energy and solar companies need to be mindful of the disruptive technological and regulatory and policy reforms which are shaping the industry investment space, and hence develop commercially viable and sustainable financing structures.



This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte & Touche (M.E.) would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte & Touche (M.E.) accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 225,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

Deloitte & Touche (M.E.) is a member firm of Deloitte Touche Tohmatsu Limited (DTTL) and is a leading professional services firm established in the Middle East region with uninterrupted presence since 1926.

Deloitte provides audit, tax, consulting, and financial advisory services through 26 offices in 15 countries with more than 3,300 partners, directors and staff. It is a Tier 1 Tax advisor in the GCC region since 2010 (according to the International Tax Review World Tax Rankings). It has also received numerous awards in the last few years which include best employer in the Middle East, best consulting firm, the Middle East Training & Development Excellence Award by the Institute of Chartered Accountants in England and Wales (ICAEW), as well as the best CSR integrated organization.