

Iran's SEO mulls green Sukuk regulations

MARC ROUSSOT writes that the Securities and Exchange Organization of Iran (SEO) has started working on the development of a potential green Sukuk framework or regulation in April as the Islamic Republic seeks financing for the development of renewable energy projects to meet its target of installing 5,000 MW of renewable energy by 2020.

Struggling to raise funds, developers of renewable energy projects need new ways of financing. To help them, the Department of Environment, which falls under the supervision of President Hassan Rouhani, approached the SEO two months ago to discuss the idea of developing a dedicated framework or regulation on green Sukuk.

"Besides the Department of Environment, a few companies have also approached us on this topic lately. 'If a company wants to issue green Sukuk, what advantages may be given to the originator? Are there any fiscal advantages for instance?' [These] are the kind of questions that we have been asked," shares Majid Pireh, an Islamic finance supervisory expert at the SEO.

The SEO's consideration on green Sukuk initiated in April is only in its preliminary stages and finalizing the details will take some time, IFN was told.

Interest from market players in issuing green Sukuk exists, affirms Dr Ahmad Khonsari, a partner at Watson Farley & Williams. "Green Sukuk is very attractive for investors and for developers. However, I am not aware of any company in an advanced stage of preparations to issue green Sukuk. In a nutshell, there have been talks on this topic but nothing concrete thus far," he says.

Finding funds

A green Sukuk framework or regulations would be helpful in financing renewable energy projects, a tough task due to various risks including geopolitical ones, which have dramatically increased since the US pulled out from the nuclear deal, holding back international investors and financiers from channeling funds into Iran. In fact, even before US President Donald Trump's decision, international market players rarely dared to tap the Islamic Republic as they were afraid of potential US sanctions.

The inherently riskier nature of infrastructure projects due to the potential for cost overruns, delays or the need for variations is likely to reduce the potential pool of investors to those that are experienced and knowledgeable enough to fund green projects, believes

Neale Downes, a partner at Watson Farley & Williams.

"This probably means many green/renewable projects remain backed by banks or specialist funds and outside of sovereign or multilateral agency-backed issuance, capital market solutions will tend to be privately placed, until the market further matures. The obvious connectivity between Islamic finance and SRI [sustainable and responsible investment], however, means huge potential for green Sukuk, [in the] long term," he says.

Overall, although Iran is part of the Global Sun Belt, hence with high photovoltaic power potential, the amount of MW produced from solar farming is low. Only about 1% of the total energy supplied in Iran is produced by renewable sources, mainly through hydroelectric sources.

According to its 6th Development Plan, Iran intends to install over 5,000 MW of renewable energy by 2020. In 2016-17, only three solar projects in the Esfahan, Hamadan and Kerman provinces with a combined capacity of 51 MWp were successfully commissioned, funded by banks providing financing facilities. (2)

Iran's financial system is fully Shariah compliant.

Nigerian state government pledges financial support to establish country's second fully-fledged Islamic bank

A Nigerian state government is backing an Islamic banking initiative, support which is likely to catalyze the formation of the country's second fully-fledged Islamic bank. VINEETA TAN reports.

Throwing in its support to establish an interest-free bank in the north of Nigeria in the form of NGN1 billion (US\$2.77 million), the Sokoto state government confirms that half of the amount has already been disbursed.

"We resolved that we should subscribe to NGN1 billion-worth of shares and become a shareholder of the bank. We are just waiting for the Central Bank of Nigeria to complete the formalities for the takeoff of the bank," said Sokoto Governor Aminu Waziri Tambuwal, as quoted by local daily This Day.

Nigeria is seen as one of the region's most promising Islamic finance markets, supported in part by its large Muslim population; nearly half of its 186 million people profess to be Muslim, most of whom are concentrated in the northern region. Yet, the interest-free banking needs of its Muslim citizens are currently being met by only one Islamic bank, Jaiz Bank, headquartered in Abuja; limited products are being offered by Stanbic Bank and Sterling Bank on a window basis. On a microfinance level, about three out of some 900 institutions specifically cater to the Muslim population.

The idea of another fully-fledged Shariah banking institution has been floating around — IFN understands a consortium of investors, known as Taj, is working

toward launching a non-interest bank while Governor Aminu also reportedly revealed that the Northern Governors Forum, a non-partisan institution comprising all 36 Nigerian states, is also considering setting up a Muslim-friendly bank in the north. It is not immediately clear if the Sokoto state's share capital contribution is part of any of the aforementioned endeavors.

Governor Aminu's pledge of support affirms hopes that Africa's most populous nation is on the right track in positioning itself as a serious Islamic finance player as its neighbors rally up resources to provide Shariah compliant financial instruments to their people while creating a name for themselves in this niche sector. (2)