



The Regional Center for Sustainable Finance Case Study

Towards more Sustainable Financial Systems

- **SDGs Agenda and Regional Challenges to finance The Implementation**
- **Regional Demand for Sustainable Finance Roadmap**
- **The need for the Regional Center For Sustainable Finance (RCSF) to promote best practices.**
- **Introduction to the RCSF and its mandate**
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1. Problem or Challenge

In the MENA region, the full realization of the importance of green finance as the method to a transition towards a green and circular economy has not gathered enough momentum to become a critical agent of change. Despite government support, the awareness of private sector, civil society and other community stakeholders of the economic and social repercussions of environmental degradation, resource mismanagement, and climate change is not fully realized nor acknowledged to instigate the structural change needed to achieve the SDGs by 2030. Without understanding the drastic and grave status of the environment, and its link to the economy and human wellbeing, financing the transition to a green economy in the region

remains challenging and somewhat limited. There is a need to educate the community, provide access to information, knowledge and communication campaigns to create awareness and mobilize these actors to support sustainability as the main key to the future of humanity.

It is also important to acknowledge that sustainability has become an integral assessment element in designing strategies of economic growth. According to UNCTAD world investment report 2018, industrial strategies and policies should have a sustainability as design criteria. Within the context of the MENA region, economies are susceptible to economic shocks due to climate change, higher temperatures, and water scarcity, which will increase the costs of industrial production and impact also agriculture and food security. Already, the region has a serious food security concern that can only get worse with increasing rate of climate change side effect manifestation in the region. The agricultural sector provides income and work for more than 35 percent of the region's population and contributes 13 percent to the region's GDP¹. At the same time the region imports around 40% - 50% of its wheat, maize, rice and barely.

Public funding and international assistance cannot alone achieve the required threshold of investments for a green transition. This is further aggravated by the fact that a significant number of government in the region face structural and chronic economic problems such as poverty, limited access to financing SMEs and inadequate infrastructure and limited social protection.

According to UNEP's sustainable finance progress report in 2018, in order to meet the SDGs within the set timeframe of 2030, globally there is a need to invest from 5-7 trillion dollars annually.² Recently, the financial gap has widened considerably

¹ Why the MENA Region Needs to Better Prepare for Climate Change.

<http://www.worldbank.org/en/topic/climatechange/publication/turn-down-the-heat>

² UNEP, Sustainable Finance progress report, 2018. http://unepinquiry.org/wp-content/uploads/2019/03/Sustainable_Finance_Progress_Report_2018.pdf

from USD 2.5 trillion before the pandemic, to reach USD 3.5 trillion on the global scale³. On the other hand, the OECD's latest report (2020), developing countries are facing a shortfall of 1.7 trillion USD in the financing they would need to keep these countries on track for the 2030 Sustainable Development Goals (SDGs) Nonetheless, global green funding has considerably increased especially in Europe, United States and a number of countries in Asia led by China. In 2022, Issuance across Green, Social, Sustainability, Sustainability-Linked and Transition labelled bonds to date hit USD3.5trn in total.⁴ Meanwhile, Arab countries need more than \$230 billion to be able to achieve the goals of sustainable development, according to the recommendations of the annual conference of the Arab Forum for Environment and Development (AFED).⁵ While MENA countries depends on Official development assistance ODA, global climate fund facilities and public finance to fund sustainable development goals related projects, are still considered unattractive to local private investors. On a regional level, the private sector in the GCC countries is active in supporting climate and sustainability disclosures, and investing in green projects and funds due to their economic stability and financial resources. The Dubai declaration on sustainable finance was announced at the 14th UNEP FI Global Roundtable in 2016. More than 11 financial institutions became signatories to the declaration. However, other countries in the region lag behind, with the exception of public funds being spent on clean energy projects.⁶

The above MENA related trends in further validated by a sustainable finance survey in 2017 by HSBC. It indicates that 68% of global investors intend to increase their low-carbon related investments to accelerate the transition to a clean energy economy. However, the Middle East has the lowest percentage of just 19%.

Without promoting and introducing sustainable and green finance to stakeholders and initiating an inclusive dialogue about shared values and responsibilities of these stakeholders, the ability to mobilize the needed financial resources and direct them to reach a low-emission and climate-resilient economy in the region is more difficult to achieve. Governments and public institutions, as well as regulators are also required to issue regulations, offer incentives and introduce strategies to make sure that investments and finance are channeled with efficiency towards set targets and milestones.

³ Achieving the UN Agenda 2030: Overall actions for the successful implementation of the Sustainable Development Goals before and after the 2030 deadline
[https://www.europarl.europa.eu/RegData/etudes/IDAN/2022/702576/EXPO_IDA\(2022\)702576_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/IDAN/2022/702576/EXPO_IDA(2022)702576_EN.pdf)

⁴ <https://www.climatebonds.net/2022/11/green-bond-market-hits-usd2tn-milestone-end-q3-2022>

⁵ 11th annual conference of the Arab Forum for Environment and Development (AFED) "Financing Sustainable Development in Arab Countries", November 2018.

⁶ <https://www.unepfi.org/news/dubai-declaration-on-sustainable-finance-announced-at-unep-fis-global-roundtable/>

In a flagship report by IFC about sustainable finance in the MENA region, an important recommendation was to increase awareness and access to information for investors about the business case for sustainability and sustainable finance.

2. Demand

These recommendations highlights the severe need in the region for a regional sustainable finance-related think tanks, academic courses, centers of excellence, which are institutions that have a critical role in delivering the above highlighted needs in the region in an effort to lobby and engage private sector, youth, entrepreneurs, investors and even the public in general to become active agents of change. In comparison to Europe, Asia and the United States where the number of centers dedicated to sustainable finance are on the rise, the availability of think tanks and institutions in the MENA region is limited if not scarce.

Accordingly, initiating and launching a center with a regional mandate that support and bolster the sustainable finance practices become a critical necessity to the region's path towards a comprehensive adoption of sustainable finance and towards the green transition. The objective is to create a pioneer regional center for promoting just-transition and sustainability practices in the non-banking financial services ecosystem.

3. Solution

Despite the multiplicity of challenges compared to opportunities, yet initiating a center with a multidimensional action strategy will achieve the strategic objectives in enhancing the role of non-banking financial institutions subject to the Financial Regulatory Authority in the JUST- TRANSITION towards a more sustainable economy on both the local and regional levels in the Arab world and Africa.

The strategy for the Regional Center for Sustainable Finance is multi-dimensional strategy that is aligned with the "regional mandate" of the center, and these dimensions include the following:

- 1- **The local dimension:** *It is the national dimension that initially aims to establish the foundations of sustainable finance, and build a strategy/framework for sustainable finance that is aligned with nature of the entities operating in the Egyptian non-banking financial sector. Furthermore, enhancing the sector's capabilities to integrate sustainability practices to its operations, and manage climate-related risks in order to enhance the sector's resilience in a JUST-TRANSITION towards a sustainable economy.*

The local dimension also focus on strengthening means of cooperation between the non-banking financial sector and the banking financial sector to build and implement the national strategy for sustainable



finance that is basically based on Egypt's Vision 2030. This would be realized through initiating joint cooperation protocols between the Financial Supervisory Authority represented by the regional center, and the Central Bank of Egypt represented by Egyptian bank union.

- 2- **The regional dimension:** where the aim is to create joint cooperation with Arab and African centers concerned with sustainability and the JUST-TRANSITION of a sustainable economy for capacity-building, awareness-raising and training related to sustainability practices and new sustainable finance mechanisms and tools including carbon markets, through cooperation with regional institutions
- 3- **The global dimension:** This dimension includes the center's endeavors to build effective partnerships with international agencies and institutions concerned with the sustainability in non-banking financial markets, with the aim of transferring global experiences and best practices, harmonizing the standards and initiatives undertaken by the center, as well as devising local and regional standards and initiatives that are specific to the center.

The strategy of the center also will comprise multiple objectives that will help in achieving the main goal of the center.

1st objective: Enhancing the resilience of non-banking financial institutions in the process of Just-Transition towards a sustainable economy

The process of Just-Transition requires, first, **to promote the concept and practices of sustainability** among financial sector stakeholders. This is attributed to the significant role of the financial sector to provide the necessary funding to achieve the Just- Transition, by **disseminating the culture and concepts of sustainability**, which helps non-bank financial institutions **to include and integrate concepts of sustainability in business practices, and high quality disclosure** of these practices which are relatively in line with the steady increase in investor demand for sustainability-related information, known as **"Sustainable Finance Framework"**

Secondly, it requires **Building Sustainable Finance Framework** as an integrated **set of procedures, standards and guidelines** that are applied with the aim of determining the sustainability levels of the financial tools, products and services provided. This can be achieved by developing **a classification and standards for sustainability**, which helps to improve the resilience of non-banking financial institutions against the risks, associated with sustainability, and to ensures enhancing **integrity levels** through building evaluation, classification, validation and verification standards in the sustainable finance system.

Achieving this goal requires **aligning national and international standards and developing new initiatives at the national and regional levels**. Accordingly,



the “Egyptian Sustainability Disclosure Standards” can be launched, which is a set of standards that are aligned with both Egypt’s Vision 2030 and International Standards for Sustainability Disclosure.

2nd objective: Capacity Building of the entities affiliated with the Financial Regulatory Authority with regard to sustainability.

Within the framework of the FRA's endeavor to spread financial culture in order to activate its role in endorsing Financial Inclusion, the role of the Regional Center for Sustainable Finance is to spread the culture of Sustainability and Sustainable Finance among parties in the non-banking financial sector, through approved capacity-building programs in cooperation with the center's strategic partners. These programs will initially include training on sustainability concepts and practices, the development of sustainability disclosure mechanisms, and risk management mechanisms associated with both sustainability and climate change.

The center aims also to build the capacities of calibers who work in assessing, approving, and validation and verification projects related to sustainability, through training programs specialized in validation and verification in cooperation with international bodies such as the Climate Bond Initiative (CBI), the World Bank Group, and the International Finance Corporation (IFC).

Capacity building objective can be achieved through the following programs:

1. ESG Disclosures related to sustainability and TCFD disclosures related to the impact of climate change related to decree 107 & 108 of 2021 which states on obligating companies subject to the Financial Regulatory Authority to submit their ESG & TCFD Disclosures.
2. Capacity Building of the departments concerned with financing and sustainability at the Financial Regulatory Authority.
3. Mechanisms for integrating sustainability practices into corporate business.
4. Mechanisms for managing risks associated with sustainability and means to deal with them.
5. Modern sustainable finance mechanisms: Voluntary Carbon Markets.

3rd objective: Building strategic partnerships Locally, Regionally and Internationally

The center seeks to continue building strategic partnerships with the aim of strengthening its role with various entities locally, regionally and globally, in order to achieve the center's leadership as an accredited center for capacity building and raising awareness among non-banking financial entities regionally and globally.

4th objective: Availability and exchange of experiences and knowledge related to sustainable finance

Within the framework of endorsing the Center's regional role in providing, exchanging and transferring experiences and knowledge related to sustainable finance, the "Sustainable Finance Hub" is launched, which aims to disseminate the culture of sustainable finance, provide reports on the development of sustainable finance trends, and provide standards and guidelines for sustainable finance in the



non-banking financial sector. The portal also aims to exchange experiences and best practices between parties concerned with sustainable finance on the local and regional levels, in addition to providing a platform for education and culturing on sustainability by:

- Participate in events related to sustainability and sustainable finance locally and regionally.
- Issuing a monthly report on "sustainable financing trends".
- Issuing guidelines related to sustainable finance.
- Contribute to the preparation of scientific studies on issues of sustainability and sustainable finance in cooperation with research centers.

In this context, it is also intended for the center to cooperate with local and regional partners in the following:

- Preparing periodic round tables on sustainable financing developments.
- Preparing a regional annual conference for sustainable financing in the non-banking financial sector.

5th objective: Participate in raising recommendations regarding the rules, procedures and standards necessary to ensure the sustainability of markets and the development of new financial markets

The center is considered as the core for research and studies carried out by the Financial Regulatory Authority related to sustainability, sustainable finance, responsible investment, disclosure practices of companies' performance in the various dimensions of sustainability, and climate-related disclosure, especially with regard to studying international best practices with regard to rules and legislation that ensure the sustainability of markets and the development of new markets to endorse a Just-Transition towards a sustainable economy, such as the development of a voluntary carbon market.

In addition to the mechanisms for applying the international standards for sustainability issued by the International Sustainability Standards Board (ISSB) at the African level, in cooperation with the Council's working group to implement awareness and capacity-building programs.

4. Implementation and Expected Results

According to the SWOT analysis of the RCSF, the following following threats have been recognized:

1. Lack of awareness regarding the importance of sustainability concepts and the various mechanisms, such as sustainable finance and impact investment / responsible investment.
2. The failure to complete the legislative framework for sustainable financing compared to governance.



3. *Continuous development and innovation with regard to sustainability practices and disclosures standards.*
4. *Lack of specialized and accredited educational materials in the field of sustainable finance.*

However, on the RCSF endeavors to mitigate the threats, several steps has been conducted so far:

1 Policy Frameworks and Regulations Issuance Pillar: *in regard to the RCSF role to support the policy formulation and to create a sustainable finance*

1.1. Voluntary Carbon Market Launching: *In 2022 and during the COP27 summit, the EGX in cooperation with the FRA has announced the initiation of the first regional voluntary carbon market. However, and since the announcement, a multiple milestone has been conducted with a multidimensional cooperation channels between the FRA and EGX in addition to the Ministry of finance has been taking place*

1.2 Carbon Market Regulatory Landscape

- *Amending Executive Regulations (Decree no. 4664 of 2022) Dec 2022 that recognize the carbon credits as a financial instrument*
- *Initiated in cooperation with the EGX and the MOE to initiate high-level VCM committee that is responsible for setting the regulations for issuing and trading carbon credits as well as setting criteria for selecting VVBs for Carbon projects and maintain market integrity.*
- *Communicate with Egyptian Accreditation Council (EGAC) as member of the IAF to facilitate acquiring the international accreditation body for ISO-14056 ISO-14064 to build local VVBs.*
- *Communicating with international initiations such as World Bank, Integrated Council IC-VCM, VVBs and Project developers including Earthood and TUV Nord Egypt*

1.2 ESG – TCFD Disclosures:

Anticipating the need to align to international practices and out of the need to prepare market players to these practices, the FRA issued decrees regarding ESG and TCFD Disclosures No. 107-108 of the year 2021. The related decrees detailed the reporting process on developed ESG and TCFD matrices and have provided a grace period whereby companies can receive support and trainings from FRA to enable them to disclose if they have environmental, social and sustainability related governance practices. It is worth mentioning that those decrees considered to be the First of their kinds in MENA and were formulated in a way that consider the local status and knowledge level of the market in regard to the sustainability issues and principles.

1.3 FRA Green Bonds Regulations (Board of Directors Decrees):

- *Under the flagship of the climate action SDG that the FRA adopt in its latest strategy, the FRA has taken steps to pave the way for the financial market in Egypt to adopt and promote sustainable and green financial instruments throughout issuing regulations of Green Bonds and Green Sukuk and other related regulations.*
- *In 2022: Prime Minister Decree No. 3456/2022 on Amending Provisions of the Executive Regulations of the Capital Market Law. The amendment entails the introduction of six new financial instruments, namely Sustainable Development Bonds (SDBs), Sustainability-Linked Bonds (SLBs), Social Impact Bonds (SIB), Women Empowerment Bonds, Climate Bonds, and Environmental Bonds (Transition Bonds).*
- *The Board approved a 50% discount on current examination fees for the three funds upon issuing investment certificates whose proceeds are pumped into such projects.*
- *In year 2019: amendments of executive regulation of the capital market law to regulate and facilitate the issuance of green instruments including green bonds and green sukuk.*
- *In year 2019: decree No.113 of regarding initial list of international third party verifiers for green projects that included the most prominent institutions in the global market with a possibility to add additional institutions to the list.*
- *In year 2019: decree No.127 of Regarding registration requirements for local third-party verifiers registry in FRA for local experts and consulting institutions who may carry out the evaluation and testing of green and sustainable projects. It its worth mentioning that the aim of this decree is to develop the local market and create a list of efficient verifiers on the local basis to facilitate and support the green bond issuance.*
- *In year 2019: decree No.141 regarding reducing Green Bonds Issuers from total cost of FRA inspection services.*

2 Capacity Building Pillar: *With regard to the axis of capacity building and raising awareness of sustainability practices and sustainable financing mechanisms, the center has provided a number of training courses and workshops with accredited international and local bodies. These courses include the following:*

- *Sustainability experts' accreditation course, which has been conducted in cooperation with the British Embassy and Climate Bond Initiative (CBI).*
- *A workshop on the principles of sustainable insurance, which took place in cooperation with Principles of Sustainable Insurance (PRI).*
- *Several programs regarding the disclosures' regulations and implementation process with the local companies.*
- *A workshop on TCFD Disclosures for Sudanese Attendees*



- Conference on the role of insurance companies in activating sustainable development
- A series of workshops as a part of financial literacy on sustainable finance

Policy Frameworks and Regulations Issuance:

- 3 Active participation in sustainability activities:** the Center has adopted the preparation of the Pioneers of Excellence Competition in Sustainability Practices in the Non-Banking Financial Sector, and has also participated in the Green Marathon towards the COP27 Climate Conference
- 4 Creating a sophisticated partnerships network:** as a center with a regional mandate, creating a sophisticated partnership network is crucial for achieving the center's vision and creating a regional hub for sustainable finance. The RCSF has created a strong network with local and regional reputable academic and training centers.

Partnerships Mapping:

Current Partnerships

- **The local partners network includes**
 - Insurance Federation of Egypt (IFE)
 - Center for Economic and Financial Research Studies
- **The regional and international partners network includes**
 - Union of Arab Securities Authorities (UASA)
 - The London Institute of Banking & Finance
 - Arab Union for Sustainable Development and Environment
 - Arab Planning Institute

Partnerships in Pipelines

- **The local partners network includes**
 - The Cabinet - Information and decision support center
- **The regional partners network includes**
 - ZEST ASSOCIATES
 - Arab Monetary Fund
 - Arab League – Sustainable Development Department
 - Environmental center for Arab Towns
- **The international partners network includes**
 - Japan International Cooperation Agency (JICA)
 - United Nations Economic and Social Commission for Western Asia (ESCWA)
 - African Development Bank (AFDB)



- United Nations Industrial Development Organization (UNIDO)
- Toronto Center

5 Roundtables, Workshops and Events:

- *Pioneers of Excellence in Sustainability in the Non-Banking Financial Sector: The Regional Center for Sustainable Finance, launched in June 2022 the Competition for Pioneers of Excellence in Sustainability in the Non-Banking Financial Sector for the first time. The competition aimed to motivate and encourage all entities operating in the sector towards integrating sustainability practices (ESG) and promoting women empowerment in the non-banking financial sector.*
- *The winners (7 companies operating in the non-banking financial sector) were announced during the ceremony that was held in August 2022 at the authority's headquarters in the smart village.*
- **The Green Marathon, The Road to COP 27:** *Under the auspices of the Financial Regulatory Authority presented by the RCSF and the Ministry of Youth and Sports, the Egyptian Federation for Insurance organized its third annual marathon, entitled "We Run Together Towards a Better Environment and Sustainable Health", on Saturday, July 2, 2022, under Slogan: "The Green Marathon. The Road to COP27".*

6 Future Plans:

The RCSF recent strategy has identify a set of training programs that would be maintained throughout the upcoming period which mainly focus on the:

- *Capacity Building for Local Validation and Verification Bodies in cooperation with local and international partners.*
- *Capacity Building for NBFIs on disclosures ESG / TCFD*
- *Conducting multiple training programs to position the RCSF as Regional Hub for ISSB Training and Capacity Building*

Although the center is still in the inception phase, it is aiming to achieve many milestones on the regional scale. The center strategy is expected in the short to medium term to build a regional capacity regarding the sustainable finance that would significantly contribute in enhancing the resilience of non-banking financial institutions in the process of Just-Transition towards a more sustainable regional economy. The center also is expected to participate in policy formulation of the sustainable finance regulatory landscape in the region throughout policy



briefs and proposals to the competent authorities. The current and expected partnerships network is anticipated to reconcile the threats that face the RCSF to achieve its mission. Finally, the center is expected to be a regional hub to disseminate knowledge about the sustainability-related disclosure and specifically the adoption of the new ISSB disclosures and participate in regional adoption of the new standards.

5. Call-to-Action

For easier communication with the RCSF and for more information about the center, the RCSF use many platforms:

- *The Center has an active page on the LinkedIn platform to communicate with the targeted audience*
<https://www.linkedin.com/company/the-regional-center-for-sustainable-finance-rcsf/>
- *Currently, The RCSF is in the midst of initiating Sustainable Finance Hub website that is planned to be a regional knowledge hub for sustainability practices and sustainable finance.*
- *The RCSF team emails:*
 - *The Center's Email:*
RCSF@fra.gov.eg
 - *The Center's Executive Director: Dr. Ahmed Rushdy*
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