

# QFC Sustainable Sukuk and Bonds



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## Introduction

The Qatar Financial Centre (QFC) is an onshore business and financial center located in Doha, established by Law No. 7 of 2005 of the State of Qatar. A world-class platform for companies, QFC offers its own legal, regulatory, tax and business environment, contributing to the economic development and diversification prescribed by Qatar National Vision 2030.

As part of its effort towards the fulfilment of the Qatar National Vision 2030 and Qatar Central Bank's Second Strategic Plan (2017 – 2022) which identifies facilitation of green bond issuances as one of the action items under the second strategic goal of “Developing Financial Markets and Fostering Financial Innovation”, the QFC aims to support the development and advancement of a local debt capital market.

This would help investors and borrowers diversify their investments and source of funding respectively. QFC envisions that the development of this market will be most effective with the promotion of sound and best in class Sustainable Finance practices. These practices would take into account the environmental and social objectives of the State of Qatar under the national vision.

Under the Qatar National Vision 2030, four pillars have been identified as the base of the vision which aims at transforming Qatar into an advanced country by 2030, capable of sustaining its own development and providing for a high standard of living for all of its people for generations to come. These four pillars are Human Development, Social Development, Economic Development and Environmental Development.

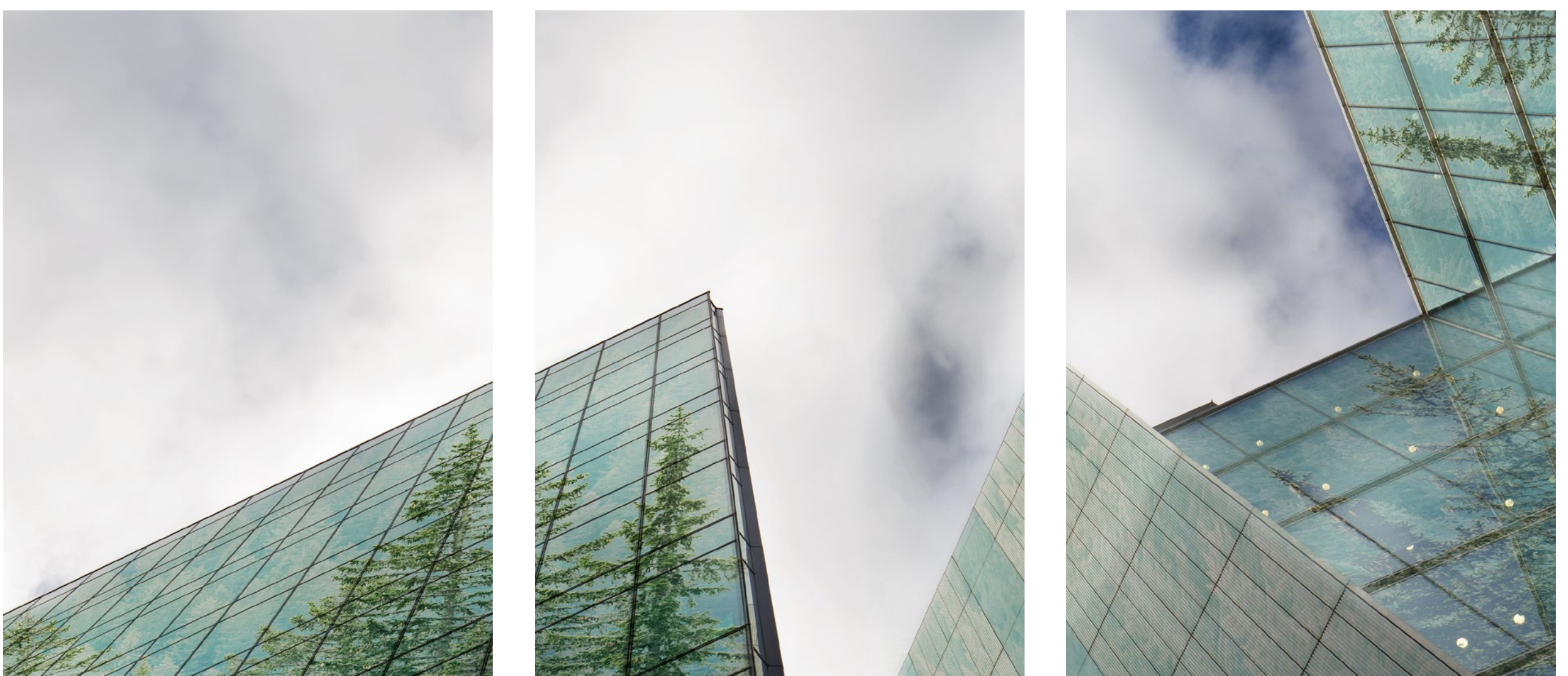


A key component of the successful development of a Sustainable Finance market in Qatar, is the presence of regional guiding standards that integrate the requirements and expectations of investors with the Issuers' processes and procedures to offer, issue and manage Sustainable Sukuk and Bonds. These standards would promote appropriate disclosures, flow of relevant information, reporting, and transparency and ensure these instruments meet their objectives and minimize risks of greenwashing.

For this reason, the QFC has developed The QFC Sustainable Sukuk and Bonds Framework, which is based on the International Capital Markets Association (ICMA)'s Green Bond Principles (GBP) 2021, Social Bond Principles (SBP) 2021, and Sustainability Bond Guidelines (SBG) 2021. This framework would collectively, provide voluntary yet internationally accepted principles and guidelines for the issuance of such instruments. The Principles, including the GBP, SBP and SBG have become the defacto global voluntary standard with an overwhelming majority of sustainable bonds globally<sup>1</sup> being aligned to them.

The QFC Sustainable Sukuk and Bonds Framework integrates local requirements and features, together with ICMA's globally accepted principles to create a harmonized ecosystem locally, that is set up based on international standards, which is important as it:

- Provides issuers and investors, with a unified framework that highlights the requirements of an impactful issuance.
- Allows investors to diversify their portfolios with instruments that enable them to assess their ESG impact and net zero targets / ambitions.
- Allows issuers to diversify their source of funding, widen their investor base, and embed their sustainability strategy / ambitions with their financing options.



<sup>1</sup>According to ICMA's website, as of 2020, 97% of the sustainable bonds globally (excluding Supra) were aligned with the GBP, SBP, SBG and Sustainability Linked Bonds Principles (SLBP).



# QFC Sustainable Sukuk and Bonds

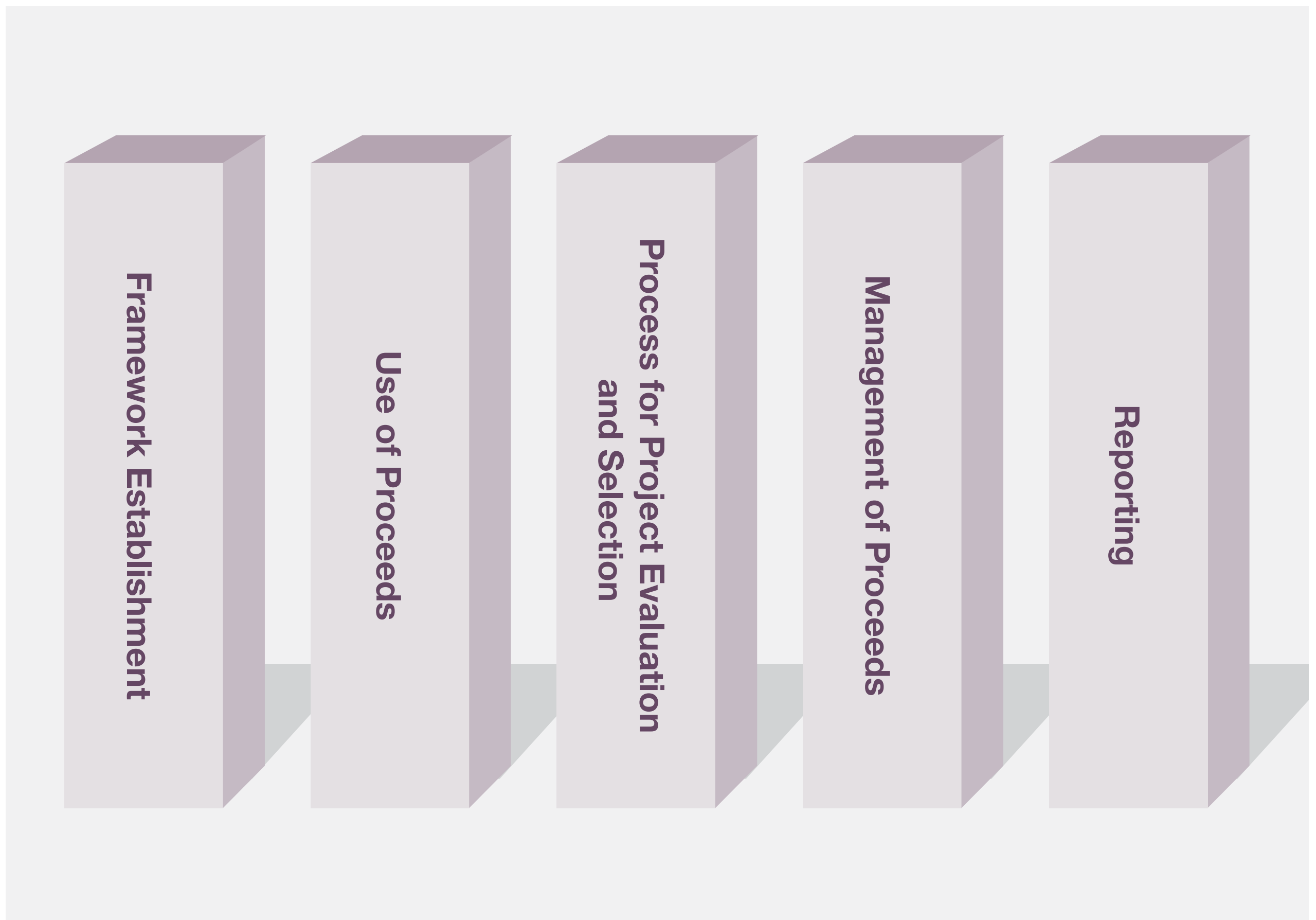
## Glossary of Terms:

Term	Definition
Eligible Projects	Eligible green and/or social projects as identified (but not limited to), project categories in Table 1 (see Use of Proceeds)
Green Sukuk / Bonds	Sukuk or bonds, whose proceeds are applied directly towards investments, financing or refinancing of Eligible Projects with environmental objectives
Look back period	A look back period as identified by an Issuer to include refinanced Eligible Projects
Social Sukuk / Bonds	Sukuk or bonds, whose proceeds are applied directly towards investments, financing or refinancing of Eligible Projects with social objectives
Sustainability Sukuk / Bonds	Sukuk or bonds, whose proceeds are applied directly towards investments, financing, or refinancing of Eligible Projects with a combination of environmental and social objectives



# Pillars of the QFC Sustainable Sukuk and Bonds Framework (QFCSBF)

The pillars of sustainable finance issuances under this framework are as follows:



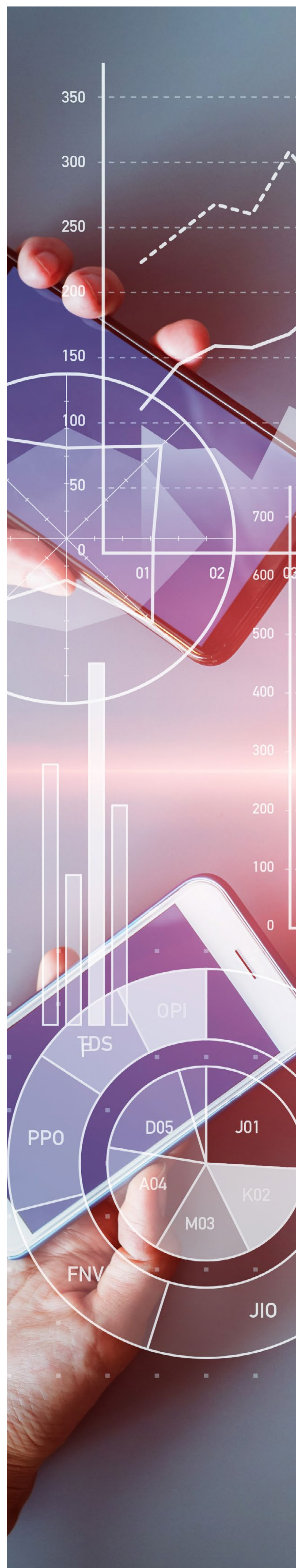
## 1. Establishment of a Green, Social or Sustainability Finance Framework

- 1.1 Depending on the ultimate use of proceeds from the issuance, issuers should develop a framework that explains how the issuer is aligning with the pillars of the QFCSBF and other principles referenced for the issuance.
- 1.2 Issuers are encouraged to develop their own frameworks to be aligned with their wider environmental, social or sustainability objectives and strategies.
- 1.3 For project or asset financing Sukuk / bonds, issuers can either develop a framework, or provide a detailed description of the use and ring fencing of proceeds in line with QFCSBF.
- 1.4 The issuer should make the framework publicly available on its website at the time of the issuance and throughout the life of the Sukuk / bond.



## 2. Use of Proceeds

- 2.1 The proceeds from any Sukuk / bonds must always be utilized solely for purposes that are aligned with the type of issuance (i.e. Green, Social or Sustainability) and provide clear environmental and/or social benefits.
- 2.2 The net proceeds from an issuance, can be used by way of investment in, financing and/or refinancing of Eligible Projects.
- 2.3 If there is an element of refinancing in the use of net proceeds, issuers should provide relevant information about the Eligible Projects that will be refinanced and indicate the look back period that will be used as a guidance for refinanced projects. These projects must be in line with the Eligible Project criteria set out in the Issuer's framework, and provide continuous positive impact at the time of issuance.
- 2.4 It is understood that the process of allocating the net proceeds to Eligible Projects requires time, which could result in a time gap between receiving the proceeds and having them allocated. In such circumstances, issuers must disclose how the net proceeds will be utilized until full allocation is achieved.
- 2.5 The following (Table 1) is a high-level illustration of potential categories of Eligible Projects. While most categories are explicitly referenced in the GBP and SBP, some categories are more specific to Qatar based issuances and are linked to the Qatar National Vision 2030.
- 2.6 The proceeds from an issuance may be applied towards either or a combination of Green and Social Eligible Projects mentioned in Table 1 below.





# Table 1: Sustainable Bonds & Sukuk - Eligible Projects

## Green

**Climate Change Adaptation or Mitigation:** (including efforts to make infrastructure more resilient to impacts of climate change, as well as information support systems, such as climate observation and early warning systems).

**Pollution Prevention and Control:** (including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/emission-efficient waste to energy).

**Renewable Energy:** (including production, transmission, appliances and products).

**Sustainable Water and Wastewater Management:** (including sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation).

**Energy Efficiency / Green Technology:** (such as in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products).

**Circular Economy Adapted Products, Production Technologies, and Processes:** (such as the design and introduction of reusable, recyclable and refurbished materials, components, and products; circular tools and services).

**Clean Transportation:** (such as electric, hybrid, public, rail, non-motorized, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions).

**Green Buildings:** (that meet regional, national or internationally recognized standards or certifications for environmental performance or projects that reduce pollution, produce energy through renewable energy).

**Environmentally sustainable management of living natural resources and land use:** (including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection or drip-irrigation; environmentally sustainable).

**Terrestrial and aquatic biodiversity conservation:** (including the protection of coastal, marine and watershed environments);

## Social

**Access to Essential Services:** (e.g. health, education and vocational training, healthcare, financing and financial services).

**Affordable Housing**

**Socioeconomic Advancement and Empowerment:** (e.g. equitable access to and control over assets, services, resources, and opportunities; equitable participation and integration into the market and society, including reduction of income inequality).

**Affordable Basic Infrastructure:** (e.g. clean drinking water, sewers, sanitation, transport, energy).

**Food Security and sustainable food systems:** (e.g. physical, social, and economic access to safe, nutritious, and sufficient food that meets dietary needs and requirements; resilient agricultural practices; reduction of food loss and waste; and improved productivity of small-scale producers).

**Employment generation and programs:** (designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance).

**Preserving Local and Cultural Heritage:<sup>2</sup>** (eg: Projects which address the preservation of archaeological sites).

**Examples of target populations include, but are not limited to, those that are:**

1. Living below the poverty line.
2. People with disabilities.
3. Undereducated.
4. Unemployed.
5. Aging populations and vulnerable youth.
6. Other vulnerable groups, including as a result of natural disasters.

<sup>2</sup> Preserving Local and Cultural Heritage is not part of the ICMA Social Bonds Principles 2021





### **3. Process for Project Evaluation and Selection**

- 3.1 The issuer's framework should clearly disclose the following:
  - 3.1.1 The environmental and / or social objectives of the Eligible Projects.
  - 3.1.2 The process of selection of Eligible Projects, including assessing the alignment between proposed Eligible Projects and the categories of Eligible Projects as shown in the use of proceeds as per Table 1.
  - 3.1.3 The identification, management, and mitigation of the environmental and social risks associated with the Eligible Projects.



## 4. Management of Proceeds

- 4.1 The net proceeds from the issuance should be either credited to a segregated account or tracked internally, until the maturity of the Sukuk / Bond.
- 4.2 Since funds are fungible, either the net proceeds or an amount equal to the net proceeds can be ring fenced or tracked throughout the tenure of the Sukuk / Bond.
- 4.3 It is understood that there could be a time gap between raising the net proceeds and allocating them towards Eligible Projects. As such, issuers should disclose the process of placement of the net proceeds during this time gap (it is encouraged to have ESG related placement).





## 5. Reporting

- 5.1 Issuers should report at minimum, annually, information related to the progress and performance of the net proceeds. The report should include the following:
- 5.1.1 The amount of net proceeds.
  - 5.1.2 The amount utilized under Eligible Projects.
  - 5.1.3 Any unutilized amount, and how such amount is placed pending utilization.
  - 5.1.4 A list of the Eligible Projects.
  - 5.1.5 A brief of each of the Eligible Projects (including the associated risks), including their expected impact to the extent permitted by confidentiality restrictions (if any).
  - 5.1.6 Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the Issuer may present the information in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories).
- 5.2 For material development, timely disclosure is required and shall be posted on the Issuer's designated website where the Issuer's Sustainable Finance Framework is being published.



# Key Recommendations

1. It is recommended that issuers appoint (an) external review provider(s) to assess through a pre-issuance external review the alignment of their framework with the five pillars of the QFCSBF (i.e. Framework Establishment, Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting) as defined above.
2. Post issuance, it is recommended that an issuer's management of proceeds be supplemented by the use of an external auditor, or other third party, to verify the internal tracking and the allocation of funds from the Green, Social, Sustainability Sukuk or Bond proceeds.
3. Provide information, if relevant, on the alignment of projects with official or market-based taxonomies, related eligibility criteria, including if applicable, exclusion criteria; and also disclose any green standards, UN SDGs, national environmental or social objectives mapping, or certifications referenced in project selection.
4. For Sukuk transactions, and the extent possible, issuers are encouraged to use underlying assets that are sustainable in nature, or at least, assets that have no negative impact on the environment or society.





# Disclaimer

The QFC Sustainable Sukuk and Bonds Framework is a voluntary guideline that neither constitute an offer to purchase or sell securities nor constitute specific advice of whatever form (tax, legal, environmental, accounting or regulatory) in respect of Green, Social or Sustainable Sukuk and Bonds or any other securities. The Framework does not create any rights in, or liability to, any person, public or private. Issuers opt to adopt and implement The Framework voluntarily and independently, without reliance on or recourse to The Framework, and are solely responsible for the decision to issue Green, Social or Sustainable Sukuk or Bonds.





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