

## Terms of reference



Empowered lives.  
Resilient nations.

### GENERAL INFORMATION

**Title:** International Consultant for Green Sukuk Knowledge Product Development (*International Consultant*)

**Project Name:** Innovative Financing Lab (IFL)/ Green Sukuk Knowledge Product Development

**Reports to:** Technical Advisor for Development Finance, UNDP;

**Duty Station:** Home-Based

**Expected Places of Travel:** N/A

**Duration of Assignment:** Thirty (30) working days within 3 months  
(November 2020 - January 2021)

### REQUIRED DOCUMENT FROM HIRING UNIT

✓	TERMS OF REFERENCE
7	<b>CONFIRMATION OF CATEGORY OF LOCAL CONSULTANT, please select:</b> (1) Junior Consultant (2) Support Consultant (3) Support Specialist (4) Senior Specialist (5) Expert/ Advisor <b>CATEGORY OF INTERNATIONAL CONSULTANT, please select:</b> (6) Junior Specialist (7) <b>Specialist</b> (8) Senior Specialist
	APPROVED e-requisition

### REQUIRED DOCUMENTATION FROM CONSULTANT

✓	P11 or CV with three referees
✓	Copy of education certificate
✓	Completed financial proposal
✓	Completed technical proposal

#### ***Need for presence of IC consultant in office:***

✓partial As the international consultant is based overseas, the presence of the consultant will not be possible due to the COVID-19 situation. Thus, any consultation will be done through online

☐full time/office based (needs justification from the Requesting Unit)

#### **Provision of Support Services:**

Office space: ☐Yes ☒No

Equipment (laptop etc): ☐Yes ☒No

Secretarial Services ☐Yes ☒No

If yes has been checked, indicate here who will be responsible for providing the support services:

n/a

## I. BACKGROUND

### Islamic Finance in Indonesia

Since the first establishment of Shariah bank in 1992, Islamic finance in Indonesia has been going through its development phase – and in the recent years, such growth has been relatively rapid. As per April 2020, Islamic finance is contributing up to 9.03 percent (IDR 1,496 trillion worth of asset) to Indonesia’s financial market, an increase from an 8 percent share in 2019. The Islamic capital market serves as the biggest contributor to the Islamic financial asset for about IDR 851.72 Trillion. Followed by Islamic banks and Non-Bank Financial Industry for about IDR 534.86 trillion and IDR 109.47 trillion, respectively. Interestingly, a significant contribution from the Islamic capital market was driven by the issuances of Sukuk (Islamic bonds), particularly from the government. Furthermore, Moody’s (2020) expects that Indonesia’s sukuk issuance to increase to USD 27 billion this year (from USD 16 million in 2019), as the government seeks more financing to fund the fight against COVID-19 pandemic<sup>1</sup>.

### Climate Change

Climate change presents the single biggest threat to sustainable development around the world. From shifting weather patterns that threaten food production, to rising sea levels that increase the risk of catastrophic flooding, the widespread, unprecedented impacts of climate change are global in scope – and they continue to disproportionately burden the poorest and most vulnerable.

Indonesia - as the world’s largest archipelago, comprising more than 17,000 islands, is among the regions that are highly susceptible to climate change. The nation’s vulnerability to climate change is not only limited to physical and environmental threats, but also socio-economic conditions – making it critical for the country to take part in the global commitment and scale up its climate actions. In order to reduce the drivers of climate change and its impact, the Government of Indonesia (GoI) issued the National Action Plan on Climate Change Mitigation ([RAN-GRK](#)) in 2011 – which commits to reducing GHG by 26 percent independently and up to 41 percent with international support, against the business as usual model by 2020. In addition, the government developed the National Action Plan for Climate Change Adaptation ([RAN-API](#)) in 2014 to ensure the alignment of low carbon development with the country’s resilience in anticipating the adverse impacts of climate change. Indonesia’s commitment is also set forth in the Nationally Determined Contribution ([NDC](#)), released in 2015, which stated the emissions reduction target of 29 percent below business-as-usual (BAU) and a conditional reduction target of 41 percent below BAU by 2030, with international support.

In order to achieve these ambitious targets and realize the national commitment, however, a substantial amount of funding is required – and one of the greatest challenges here lies in the existing gap between the needs and the available state financial resources, which is estimated to be USD 247.2 billion or around IDR 3.461 trillion annually as stated in the Second Biennial Update Report (BUR) in 2018, indicating that the reliance on the national budget alone will not be sufficient.

Leveraging untapped financial resources and innovative financing thus become an urgent alternative in order to close the financing gap for climate actions and accelerate progress towards the SDGs. Over the recent years, innovative financing instrument i.e. Green Bonds, has emerged at a rapid rate – with issuances coming largely from financial institutions, governments, and municipalities, due to its ability

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<sup>1</sup> <https://www.thejakartapost.com/news/2020/08/13/indonesias-sukuk-issuance-to-rise-to-27b-to-finance-covid-19-battle-moodys.html>

to strengthen investors' assessment of risk and return as well as allowing the investment community to take part in creating positive environmental impacts. In 2020, the global issuance of sustainable and green bonds totalled a record of USD 99.9 billion total issuance in the second quarter of 2020, amid the COVID-19 crisis, with investors' increasing focus on ESG risks and looking to take part in the green recovery movement – in addition, Moody's estimated that the total global green bond issuance in 2020 would reach USD 175 – 225 billion<sup>2</sup>.

Successful stories are emerging from around the world – including from Indonesia, which has taken progressive steps to scale up climate finance, through its Green Sukuk. Since 2014, the Government of Indonesia, with the support from United Nations Development Programme (UNDP), has developed and implemented a climate budget tagging system – which allows for the tracking and monitoring of government's spending on climate change mitigation and adaptation activities. Building on this initial work, in March 2018, the government successfully issued the world's first global green sukuk – a shariah-compliant bond, where a hundred percent of its proceeds goes to refinancing and financing government's climate change mitigation and adaptation projects, in accordance with the [Republic of Indonesia's Green Bond and Green Sukuk Framework](#). The issuance raised USD 1.25 billion - reaching a broad range of traditional, Islamic, and green investors, and has showcased the government's commitment in addressing climate change and mainstreaming innovative financing to achieve Sustainable Development Goals (SDGs), while at the same time strengthening the Government of Indonesia's position in the global Shariah market.

Building on this success, Indonesia issued the second and third global sovereign green sukuk in 2019 and 2020 respectively - raising a total of USD 2.75 billion from the three issuances, with continued support from UNDP throughout the process. In order to reach wider domestic investor base as well as to further expand the domestic Shariah financial market, in November 2019, the Government of Indonesia has also issued retail green sukuk worth IDR 1.46 trillion, which became the very first in the world – reaching over 7,500 Indonesian investors, where the majority are millennials. Indonesia's green sukuk initiatives have become an excellent example of the pioneering role of governments in leveraging untapped financial resources for green and sustainable development – they also highlight the underlying potential to scale up both public and private investments in adaptation and building resilience, while also reducing carbon emissions.

## II. SCOPE OF WORK, ACTIVITIES, AND DELIVERABLES

The objective of the assignment is for the consultant to produce a knowledge product on green sukuk with a more practical orientation to aid practitioners gain insights on the financing mechanisms and to develop the Shariah financial market. These will also highlight the impacts of Islamic financial investment towards the society - while also creating a narrative of building back greener, that provides institutional thinkers with policy alternatives and practical solutions to leverage sukuk as an innovative source of financing to accelerate green and sustainable development.

The knowledge product aim to benefit policymakers and regulators across the globe and facilitate the development of Islamic finance ecosystem in various countries - highlighting its contribution to economic growth, financial diversification and stability. It will also be used to expand the concept of Islamic finance, particularly in the context of green sukuk, to a wider population across broader capital market stakeholders, through exchanges with other UNDP offices, Government DMOs, as well as listing agents and authorities.

<sup>2</sup> <https://www.edie.net/news/7/Moody-s--Global-green-bond-issuance-reached-record-high-amid-Covid-19-crisis/>

## Scope of Work

The knowledge product should reflect on the experience from Indonesia's global and retail green sukuk initiatives (including key successes and lessons learned), which will:

- Provide an overview on the approach of green sukuk issuance, including the regulatory/policy basis, mechanisms and framework - use of proceeds, project evaluation and selection process, management of proceeds, and impact reporting;
- To develop a platform that will serve as a basis to encourage participation from Islamic finance sector in leading UN initiatives, such as principles for responsible investment, principles for responsible banking, and principles for sustainable insurance that support financial institutions to align with the SDGs and the achievement of NDCs;
- To develop a model that showcases the ability of green sukuk as a form of Islamic financial instrument to help bridge the gap between conventional and Islamic financial worlds;
- Present the method to align the SDGs, including climate action, with the *Tayyib* (wholesome) concept - which contends that the focus of Islamic finance products and services should be on the evaluation of wider societal impact rather than overly legalistic analysis of Shariah compliance;
- Serve as a thought piece which would highlight the opportunities for Islamic finance to tap into emerging agnostic global liquidity pools seeking SDG-aligned products and increase tactical alignment with development bank funders;
- Provide recommendations to push forward Islamic alternative to conventional finance, contribute to the achievement of mid- to-long term price stability, and support larger-scale strategic planning and sustainable development.

The consultant is expected to use appropriate methodologies, including:

- *Desk review* to identify and elaborate the factors/ aspects that distinguish Islamic and conventional finance (including their instruments, i.e. bonds). Such method may also be leveraged to review the scope and features of green sukuk in particular, various approaches to its issuance, its trends and areas of growth, as well as the relative cost and benefit on the uptake;
- *An online Focus Group Discussion (FGD) and in-depth interviews* with identified key stakeholders (e.g. the government, corporates, financial institutions) to identify opportunities and challenges of green sukuk issuance that have been and can be further leveraged/ addressed to support the government within its commitment to achieve its climate ambition as well as SDGs. These methods may also be useful to analyze the current and future potential for Islamic financing (i.e. green sukuk), identify its enabling factors and barriers, as well as the trends and areas of growth, including in the context of COVID-19 economic recovery;
- *Review and assessment* to identify the potential risks and challenges that may be encountered in the development of the knowledge product. This includes providing detailed analysis and recommended mitigation tactics to overcome such challenges;
- Other relevant/ appropriate methodologies.

The approach to the assignment may be a data driven approach and performed using statistical evidence and inference.

#### Expected Outputs and deliverables

Deliverables/ Outputs	Number of Working Days	Due Date	Payment Schedule
Deliverable 1:  <b>Inception report including the detailed work plan for the development of knowledge product, proposed methodology and approach, study outline, timeline, and stakeholders mapping.</b>	6 Wds	Week 2 of November 2020	20%
Deliverable 2:  <b>Draft of the report comprising analysis on the Green Sukuk - demand and supply for such instruments, the scope, features, and approaches to the instrument's issuance, including the enabling environment, risks/ barriers to the uptake, as well as the opportunities, trends, areas of growth, and alignment with SDGs.</b>	12 Wds	Week 2 of December 2020	40%
Deliverable 3:  <b>Submission of the final report - the consultant will present the final document of the Green Sukuk report/ knowledge product.</b>	12 Wds	Week 4 of January 2021	40%

### III. WORKING ARRANGEMENTS

#### Institutional Arrangement

- The consultant will have close supervision and coordination with the Innovative Financing Lab of UNDP and UNDP Bangkok Regional Hub;
- The consultant's draft reports will be reviewed by UNDP and other relevant counterparts;
- The consultant will report to the Technical Advisor for Development Finance, Innovative Financing Lab of UNDP;
- The payment will be made to the consultant at each payment schedule, upon technical clearance and approval of the satisfactory submission of results from Technical Advisor for Development Finance, Innovative Financing Lab of UNDP. Estimated lead time for UNDP or Project Implementing Partners to review outputs, give comments, certify approval/acceptance of outputs is 2 weeks.

**Duration of the Work**

The consultant is expected to work 30 working days within 3 months. Final report expects full completion not later than 30 January 2021.

**Duty Station**

The consultant is expected to work home-based.

**Travel Plan**

*There will not be any travelling required for this project.*

**IV. REQUIREMENTS FOR EXPERIENCE AND QUALIFICATIONS****Academic Qualifications:**

- At least a master's degree or equivalent in the field of finance/ economics, public administration, business administration, environmental/ climate studies, sustainable development, economics, investment/ finance, environmental studies/ engineering, natural resources management, environmental policy, and/ or other related fields.

**Years of experience:**

- At least 10 years of experience in the sector of Islamic finance (Islamic Commercial Law, Islamic Financial Institutions, Islamic Capital Market), policy analysis, public financial management, framework and instruments development, strategic private sector engagement, partnerships and financing for green or climate-related activities, with 5 years of post-qualification experience in areas related to environmental and natural resource management, environmental assessment, environmental monitoring and environmental stewardship;
- Substantive experience in country/ regional level work, in close collaboration with central government agencies – e.g. Ministries of Finance and Planning, as well as local governments in Asia and Pacific region, including in leading consultations with senior government officials and facilitate discussions among a wide group of stakeholders will be an advantage;
- Substantive working experience on sustainable development, climate change, poverty, and gender-related issues in Asia-Pacific region is an advantage.
- Experience on researching, reporting, writing and editing manuscripts of UN and other international development partners is preferable.

**Competencies and special skills requirement:**

- Prior complex mix of technical knowledge on Islamic Financing, Public and Private Finance, Capital Market, Environmental and Climate Change, and Sustainable Development;
- In-depth knowledge of the Islamic finance sector and the best international practice and standards in the development of Islamic finance regulations;
- Strong command of financial and macroeconomics concepts and key drivers of growth, productivity, profitability and efficiency as well as impact of global sector trends on market opportunities, risks and constraints;
- Demonstrated knowledge in sustainable development financing as well as environmental and social risk management is preferable;
- A good knowledge and experience in developing and managing the implementation of Environmental and Social Impact Assessments (ESIAs), Environmental and Social Management Plans (ESMP), Environmental Management Frameworks, the social aspects of development projects (health and safety aspects, involuntary resettlement and gender issues, etc.), monitoring, evaluation and conformity assessment will be an advantage;

- A good knowledge and experience of multi-criteria assessments, stakeholder engagement and consultation; analytical skills to assess institutional capacity and to design/ review practical arrangements for implementing complex projects;
- Excellent report writing and drafting skills along with a grasp of Islamic finance operations in the context of Indonesia, as demonstrated by previous research/analytical reports/policy notes on relevant topics;
- Able to work independently with little or no supervision.

## V. EVALUATION METHOD AND CRITERIA

Individual consultant will be evaluated based on the following methodologies:

### Cumulative analysis

When using this weighted scoring method, the award of the contract should be made to the individual consultant whose offer has been evaluated and determined as:

- a) responsive/compliant/acceptable, and
- b) Having received the highest score out of a pre-determined set of weighted technical and financial criteria specific to the solicitation.

\* Technical Criteria weight; 70%

\* Financial Criteria weight; 30%

Only candidates obtaining a minimum of 70 point would be considered for the Financial Evaluation

Criteria	Weight	Maximum Point
<u>Technical</u>		100
Criteria A: qualification requirements as per TOR:	(70%)	
1. At least a master's degree or equivalent in the field of finance/ economics, public administration, business administration, environmental/ climate studies, sustainable development, economics, investment/ finance, environmental studies/ engineering, natural resources management, environmental policy, and/ or other related fields.	20	
2. At least 10 years of experience in the sector of Islamic finance (Islamic Commercial Law, Islamic Financial Institutions, Islamic Capital Market), policy analysis, public financial management, framework and instruments development; strategic private sector engagement, partnerships and financing for green or climate-related activities	15	
3. Within those 10 (ten) years of experience to have at least 5 years of post-qualification experience in areas related to environmental and natural resource management, environmental assessment, environmental monitoring and environmental stewardship	15	
4. Substantive working experience on sustainable development, climate change, poverty, and gender-related issues in Asia-Pacific region	10	

5. Substantive experience in country/ regional level work, in close collaboration with central government agencies – e.g. Ministries of Finance and Planning, as well as local governments in Asia and Pacific region, including in leading consultations with senior government officials and facilitate discussions among a wide group of stakeholders;	10	
Criteria B: Quality of Proposal	(30%)	
1. Understanding the scope of work and objectives of the assignment	10	
2. Approach and methodology proposed - comprehensiveness & fitness against requirements	10	
3. Quality of proposed implementation plan, i.e. report outline, how the bidder will undertake each task, and time-schedules	10	