SAI-Egypt

Green Financing and its Audit

ASA's Presentation on "Green Financing and its Audit"

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What is Green Finance?

- It is a finance aimed at achieving economic growth while reducing pollution and greenhouse gas emissions , minimizing waste, and optimizing the efficiency of using natural resources.

Reasons behind trending towards Green Financing

01

Trending Toward Environmental Sustainability

02

International agreements to preserve the environment.

03

Technological development in the field of Clean Energy

04

Social Pressure and Transparency

Green Financing Tools

Green loans

Sustainable Loans

Green Bonds

Benefits of Green Financing

Accessing to new lenders and investors, achieving diversity in tools for obtaining financing, and not relying on specific tools or markets.

Attracting investors and financiers from the sector focusing on sustainable and responsible investments, and investors making environmental, social, and governance criteria part of their investment analysis.

Raising awareness of environmental programs.

Achieving a sustainable and resilient economy that can confront the challenges imposed by climate change and promote the transition to a low-carbon economy.

Contributing to enhancing the financial stability of countries.

Reducing unemployment rates through creating new job opportunities, especially in the agricultural and renewable energies sectors.

Directing resources towards environmentally friendly economic sectors in a way that reduces waste and emissions of greenhouse gases.

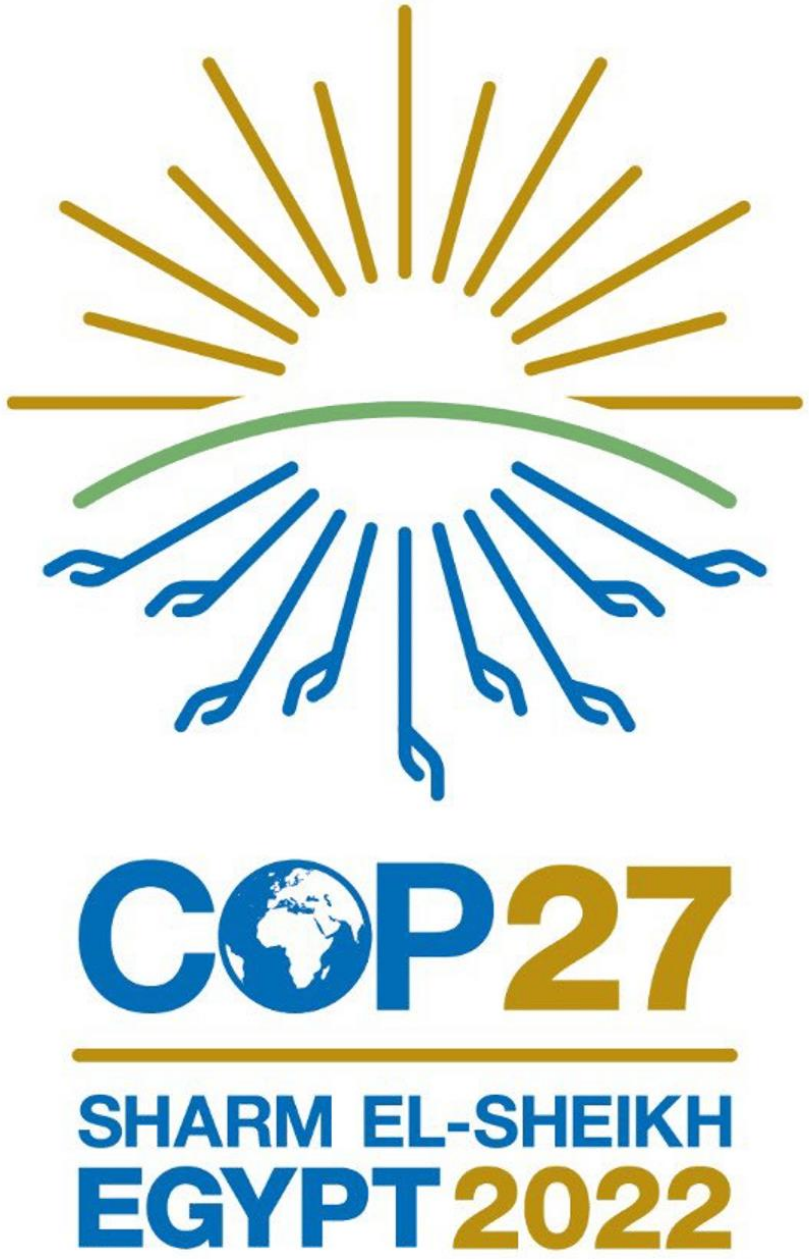
Challenges

- Providing diverse financing sources in terms of consumption sectors and projects' scale and giving priority to economically fragile and emerging countries to obtain low loan costs. This is something difficult to achieve in light of rising inflation rates over the past two years. So, countries will find themselves facing high costs that will force them to limit themselves to implementing projects that are of utmost necessity.
- Qualifying calibers in developing and emerging countries to manage loans and seize investment opportunities, especially with markets characterized by dynamics and liquidity, and then qualify them to address the risk of investment.

Egypt and Green Financing

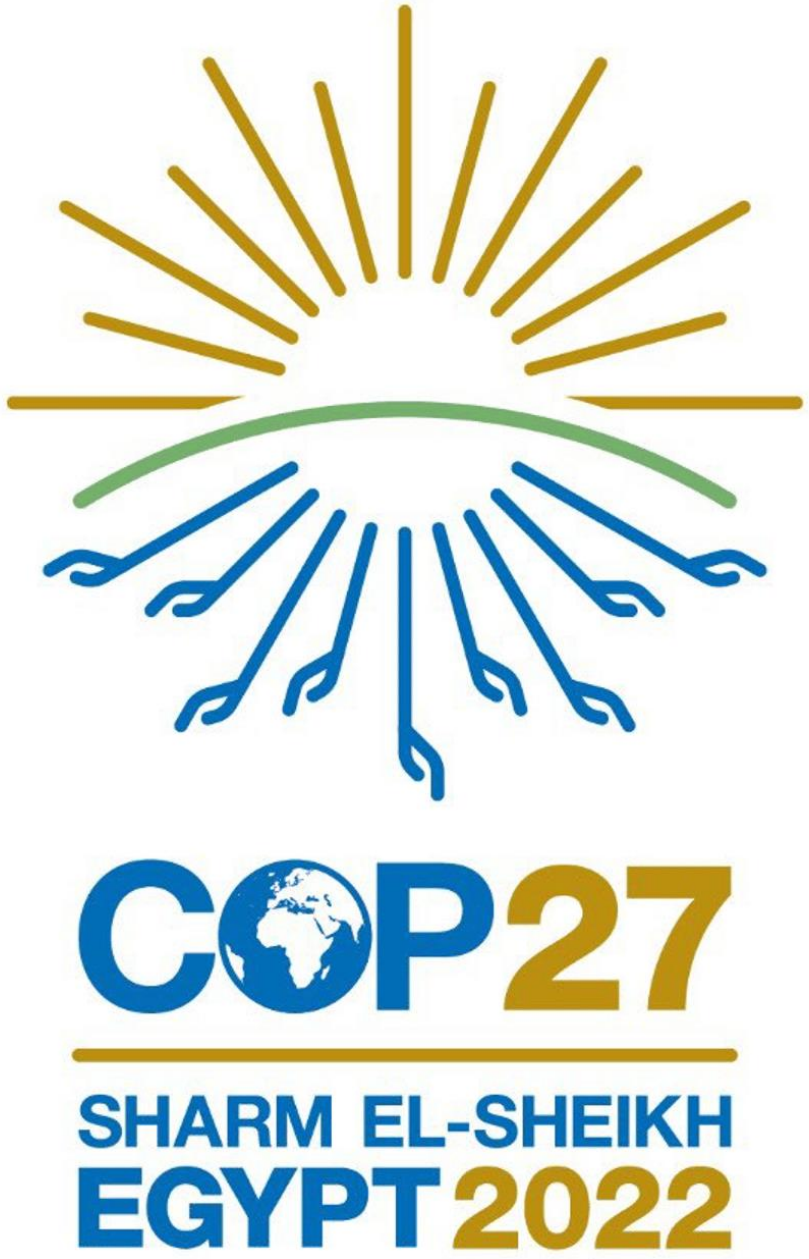
Egypt's green initiatives were quite clear at the COP27 that Egypt hosted in Sharm El-Sheikh during the period From November 6 to 18, 2022, and it included renewable energy projects, water sanitation recycling, and green hydrogen projects. Many projects have been agreed upon between Egypt and partners in the region and elsewhere in the world.

For the first time, the item on losses and damages was included on the Conference agenda after refusing to include this item for many years.



It was recommended to establish a compensation fund to finance losses and damages, to provide financing to countries, that are qualified to assume their responsibility in combating climate change, as the loss and damage clause continues to apply to Subsequent conferences.

Based on the recommendation, the Special Fund for Loss and Damage will work to constitute a committee with 12 members from developing countries and 12 from developed countries to establish governance mechanisms, sources of funding, and work mechanism.



- In light of Egypt’s commitment to the provisions of the Paris Agreement, which was signed in 2015, as well as the National Sustainable Development Agenda, “Egypt Vision 2030,” the fifth goal of which is “An integrated and sustainable ecosystem", which considers the protection of the environment and natural resources.
The Egyptian government has paid special attention to providing the appropriate financing to protect and sustain environmental systems, and achieving an efficient low-carbon green economy

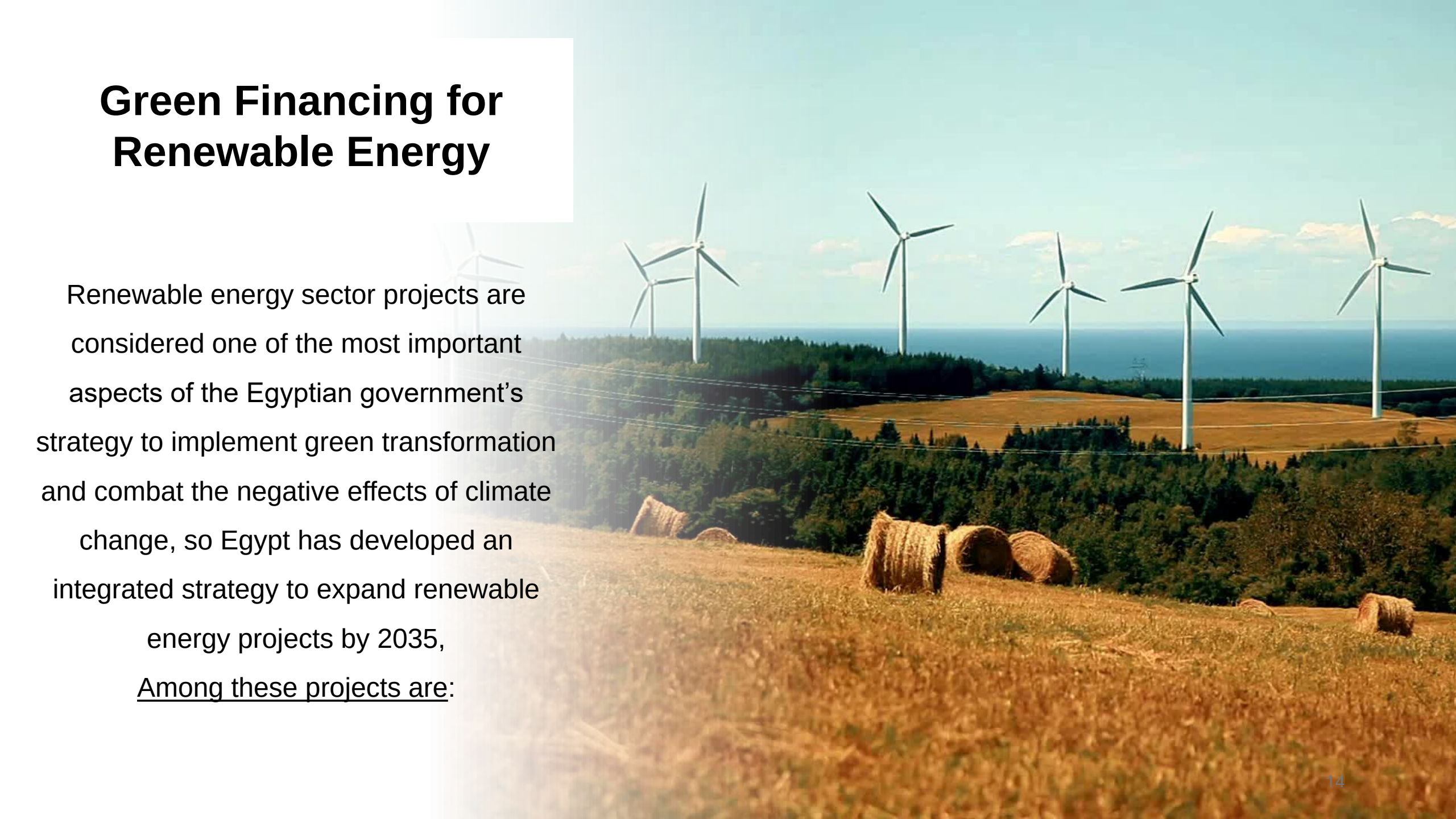
Eligible Green Project Category	UN SDGs Alignment	Eligibility Criteria	Examples of Projects
Clean transportation		Investment in electric rail and related infrastructure Projects incentivising public transport and related infrastructure, leading to reduced emission from transportation activities	- Electric train linking the new administrative capital (NAC) to other cities in the country through the fourth stage of the third line for Cairo Metro - Third line for underground Metro (Tharwa Line) - Upgrading and Modernization of Cairo Metro Line1 (Helwan - ElMarg)
Renewable energy		Renewable energy facilities such as solar energy, wind energy, hydro (<25MW), and biomass Transmission and distribution infrastructure associated with renewable energy facilities	- 240 M.W wid farm project in GabalElzayt - 50 M.W Photovoltaic project in komEmbo - Wind Projects In Gulf Of Suez - NagahHamadi Industrial Pipeline / Benban 3 Solar Park - Electric stations with Wind power (Gulf of Suez)
Pollution prevention and control		Waste collection, waste recycling and composting facilities	- Investments in Municipal Solid Waste (MSW) composting facilities (Mechanical Biological Treatment, MBT)
Climate change adaptation		Projects increasing resilience and adaptive capacities and reducing risk and vulnerabilities	- Adaptation projects in all sectors such as early warning systems, development of crop species resistant to salinity and temperature increase, coastal zone management, etc.

Eligible Green Project Category	UN SDGs Alignment	Eligibility Criteria	Examples of Projects
Energy efficiency		Projects leading to increase in energy efficiency of buildings	- Energy efficiency - Selection of building systems and materials - Indoor environmental quality improvement - Design and innovation process
Sustainable water and wastewater management		Infrastructure for transportation and treatment of wastewater, including for example, building new wastewater treatment plants (WWTP), sewer systems and pumping stations and maintaining and optimizing existing ones Infrastructure for sewage sludge treatment, including for example, using anaerobic fermentation of sludge in generating electric power Seawater desalination plants with most energy-efficient technologies Projects that reduce water consumption or improve the efficiency of resources e.g., collection, treatment, recycling or reuse of water, rainwater, or wastewater	- Sewage treatment plants - Sea water desalination plants - Sludge treatment facility of Abu Rawash W.W.T.P

Green Financing for Renewable Energy

Renewable energy sector projects are considered one of the most important aspects of the Egyptian government's strategy to implement green transformation and combat the negative effects of climate change, so Egypt has developed an integrated strategy to expand renewable energy projects by 2035,

Among these projects are:



Benban Solar Power Station project

- One of the most important clean energy projects in Egypt which was implemented by More than 40 companies from 12 different countries, to generate 1,500 megawatts of energy, enhancing the energy strategy Sustainable.
- In addition to the Kurimat solar station, which is considered the third station in the Middle East Solar heating technology.

Wind energy generation projects in Zaafarana and the Jabal al-Zayt.

Green Financing for Sustainable Transportation.

Egypt has adopted an ambitious strategic vision in sustainable transportation as Egypt is seeking to become a regional center for the “electric vehicles” industry in the Middle East and Africa

in addition to the national project to convert cars to run on natural gas, and the expansion of clean mass transportation projects such as the electric train project and the monorail is considered the largest project for clean transportation in Egypt

Green financing for Green Infrastructure

- Egypt has developed a plan starting from 2020 until 2050, to establish desalination stations to provide drinking water.
- Before 2020, stations were established that provide 1 million cubic meters per day, and at the beginning of 2023, the number of water desalination stations reached 97 plants.

Green Financing for Sustainable Agriculture

- In light of the increasing risks of greenhouse gas emissions from traditional agricultural activities, the Ministry of Agriculture and Land Reclamation, in cooperation with the Commercial International Bank, launched the Agricultural Development Program, which aims to provide soft loans to serve the agricultural sectors. The program also financed applied agricultural research as it is an important component of the agricultural development program.

Green Financing Channels:

- **Green Bonds:**

Egypt has issued green government bonds in the global markets worth $ 750 million for a period of 5 years, making Egypt the first country in the Middle East and North Africa region to issue these bonds

Also, Egypt was the first to succeed in issuing sustainable “panda” bonds in the Chinese financial market, at about 3.5 billion Chinese yuan (equivalent to 500 million dollars), with a low return of 3.5% annually for a period of 3 years in October 2023, and despite its newness Egypt entered the green bond market, as it was included in the list of emerging markets issuing green bonds, according to data from the Climate Bonds Initiative in 2022, as it came as the second largest African country in terms of green bond issuances after South Africa, with an amount of $800 million during the period from (2014- 2022).

- **Greening Public Investments:**

Egypt is working to increase the investments directed toward government projects that include an environmental dimension. By increasing the percentage of green public investments out of the total public investments from 15% in 2020/2021, to 30% in 2021/2022, reaching 40% for the fiscal year 2023/2024. The target percentage of green public investments out of the total public investments is also 50% during the fiscal year 2024/2025. The value of green public investments in the fiscal year 2022/2023 plan amounted to 410 billion pounds. It was directed to various investment sectors, about 78% of public investments were directed to mitigating the effects of climate change, and 22% were directed to projects to adapt to the impacts of these changes.

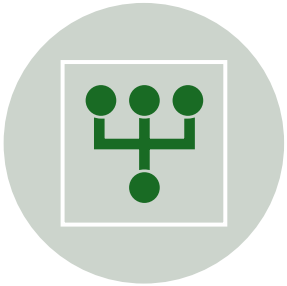
Attracting the private sector towards green investments:

- Many initiatives have been adopted, that allow the private sector to invest in several areas, the most important of which is: launching the National Initiative for Smart Green Projects in August 2022, which aims to develop a nationwide smart map for smart green projects, and attract the necessary investments for them

Tax exemptions ranging between 33% - 55% have been approved on income earned from green hydrogen projects that will begin production during the next five years, and an exemption for Production equipment, machinery, and raw materials required for these projects from VAT.

• Egypt has implemented the state ownership policy document issued in 2022, which aims to enable the private sector to contribute to all economic fields and activities. It opened the door for the private sector to contribute to projects' green financing, as the Commercial International Bank (private sector) issued green bonds for $100 million to finance and refinish loans for environment-friendly projects.

Audit Areas and scope of Green Financing



Project Selection Process

Budget and Expenditure

Guarantees and Permits

Detection and Verification

Green Financing Auditing standards

Environmental Impact Assessment (EIA)

Sustainability and Environmental Management

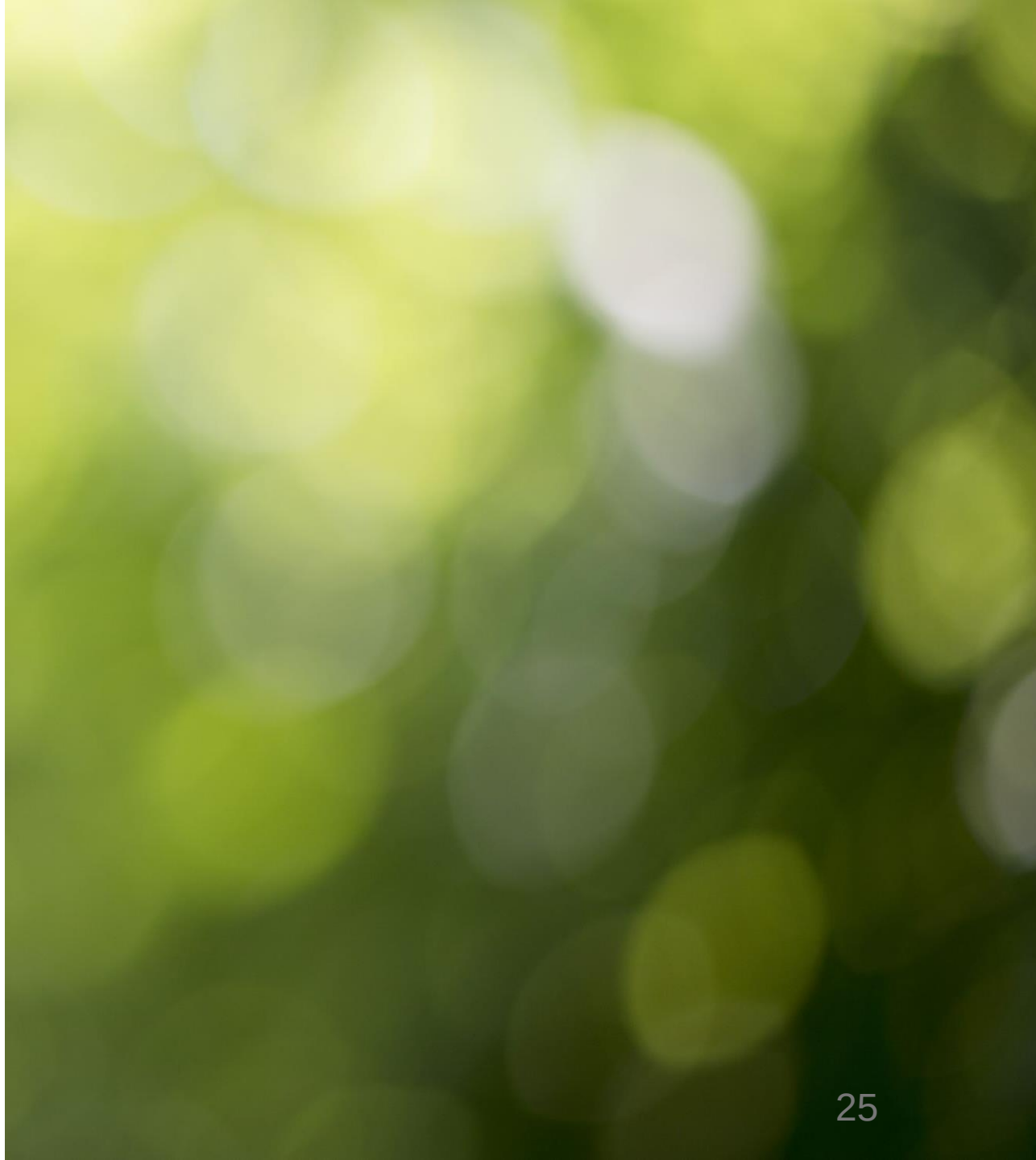
Compliance with environmental laws and regulations

Social and economic impact

Transparency and reporting

Risk Management

Financial Viability



ASA’s Recommendations

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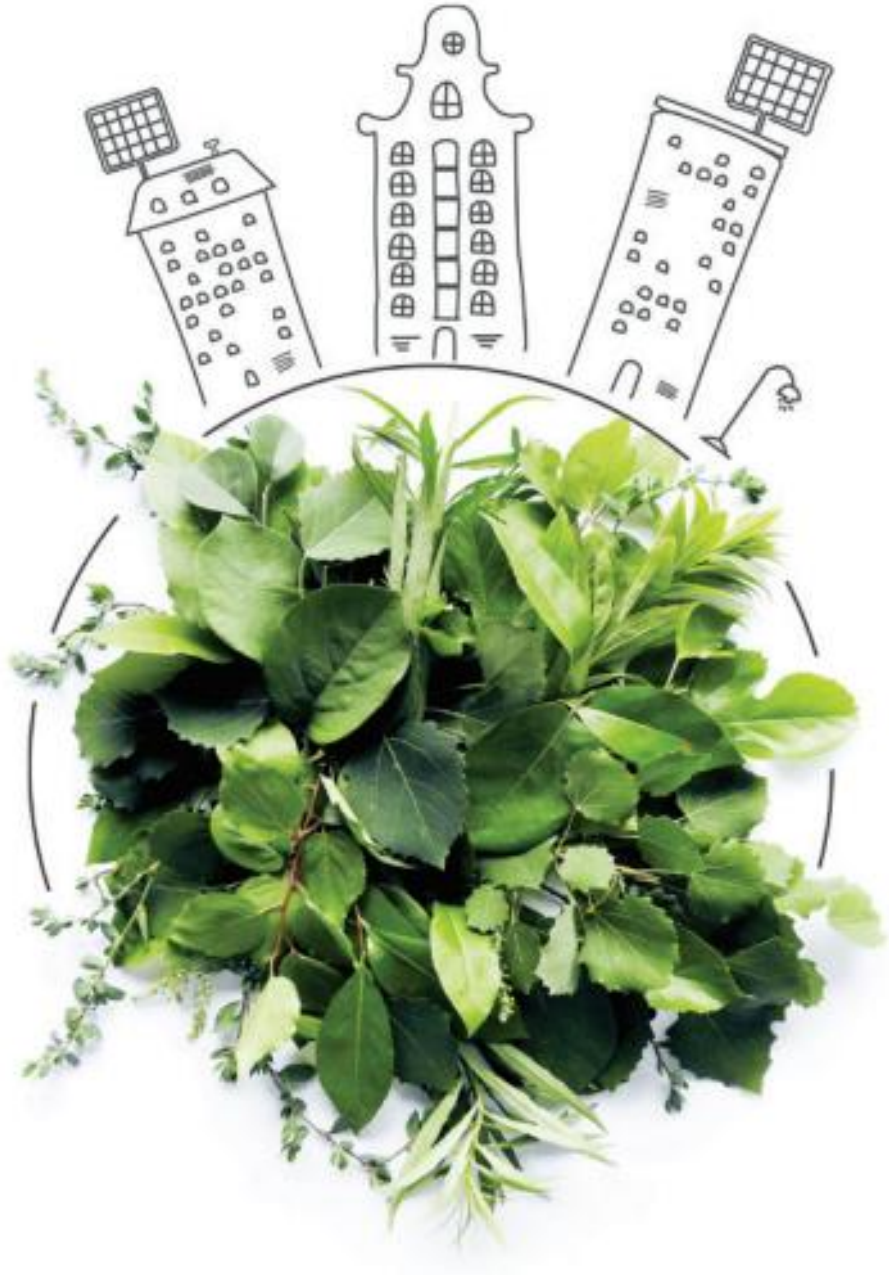
- Establish standard documentation procedures for green financing initiatives such as project selection procedures and environmental impact assessments.
- Conduct periodic audit reports to ensure compliance with green financing principles.
- Explore opportunities to leverage emerging technologies, such as blockchain and artificial intelligence, to enhance the efficiency, transparency, and accountability of green financing audit reports.
- Provide training and capacity-building programs for auditors to provide them with the necessary knowledge and skills to evaluate green financing project's environmental risks, assess project sustainability, and ensure compliance with green financing standards.
- Institutions must assess and report climate risks to anticipate and mitigate potential losses related to environmental factors.

Thank You



Investment decisions should take into account environmental, social, and governance factors to enhance risk-adjusted returns and encourage responsible investment.

Institutions must assess and report climate risks to anticipate and mitigate potential losses related to environmental factors.

Explore opportunities to leverage emerging technologies, such as blockchain and artificial intelligence, to enhance the efficiency, transparency, and accountability of green financing audit reports.

Ensuring the availability of comprehensive and comparable data on green finance activities.

Cooperation between financial institutions, governments, and the public to address the risks of climate change.