Action Report:
Introducing Green Bonds in Djibouti for Climate Change Financing

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Abbreviations

AFAC: African Financial Alliance on Climate Change

AfDB: African Development Bank

BCI: Banque pour le Commerce et l'Industrie

CBI: Climate Bonds Initiative

DSA: Debt Sustainability Assessment

ECA: Export Credit Agency

ESG: Environmental, Social and Governance

EUR: Euro

FDED: Fonds de Développement Économique de Djibouti

GBP: Green Bond Principles

GHG: Green House Gas

GDP: Gross Domestic Product

GGGI: Global Green Growth Institute

ICMA: International Capital Markets Associations

INDS: National Initiative for Social Development

IsDB: Islamic Development Bank

MAS: The Monetary Authority of Singapore

MDB: Multilateral Development Bank

NDC: Nationally Determined Contribution

PDNAS: Drought Damage and Needs Assessment

PPP: Public-Private Partnership

SDGs: Social Development Goals

SWF: Sovereign Wealth Fund

SWOT: Strengths, Weaknesses, Opportunities, Threats

TCFD: Task Force on Climate-related Financial Disclosures

UAE: United Arab Emirates

UNDP: United Nations Development Program

UNICEF: United Nations International Children's Emergency Fund

USD: United States Dollars

Introduction

Climate change is a global challenge that requires innovative and collaborative solutions to mitigate its impacts and ensure sustainable growth for all. Djibouti, like many other countries, is experiencing the adverse effects of climate change, including rising temperatures, changing precipitation patterns, and increasing frequency of extreme weather events. These impacts pose significant risks to the nation's economy, infrastructure, and the well-being of its citizens. Investments are required to build the resilience of the country through infrastructure that can withstand the effect of global warming, rising sea levels, extreme heat and unusual weather patterns. These investments require huge amounts of capital to deliver the required response. In this context, green bonds offer a viable financial instrument to mobilize the much-needed capital for climate change adaptation and mitigation projects in Djibouti.

A green bond market in Djibouti will support the country's economic goals. By attracting capital towards green projects that will have a positive economic impact, it will also support the transition to a low-carbon, climate-resilient economy by providing a dedicated funding source for sustainable agriculture, renewable energy, clean transportation, low energy buildings and other environmentally friendly projects. This will contribute to the Nationally Determined Contribution of the country, by reducing greenhouse gas emissions that would otherwise arise from an economic growth based on traditional models of development, but also create new job opportunities and stimulate economic growth. The development of green bonds can also support the development of social protection in the country, which has been a major project undertaken by UNICEF. Climate change impacts the most vulnerable the most and social protection is becoming even more critical, as it will ensure that the negative impacts of warmer temperatures, rising sea levels and more unpredictable weather patterns can be dealt with appropriately.

Green bonds can also create a conduit for investing local savings in the domestic economy and an access for Djibouti to a larger investor base and channel international capital into the domestic economy. By issuing green bonds, the country can tap into the growing global demand for sustainable investments, thereby strengthening its financial resilience, supporting social programs to build the resilient of impacted populations and reducing its reliance on traditional sources of funding. Green bonds can also contribute to the development of a robust domestic capital market in Djibouti. This can be achieved by establishing a clear regulatory framework, promoting transparency and accountability, and fostering a culture of responsible investment among local stakeholders.

Djibouti bridges the Arab Islamic world and the African continent. It has registered robust economic growth over the years. Islamic banking assets constitute about 17 percent of the banking industry. We note that this level of market share far exceeds that of Islamic banking in Indonesia, where Islamic finance is well-integrated into the national SDG plan.

Djibouti is one of the most rapidly urbanizing African countries, with an estimated 78% of the current population residing in urban areas, and it is expected to reach 85% in 2050. This prompts the government to find project solutions to support rural areas facing climate change and environmental risks and social problems (e.g., poverty, unemployment, inequality). Thus, sovereign sustainability projects are an appropriate option for Djibouti to achieve its climate ambitions and SDGs. Additionally, through green/sustainability Sukuk, Djibouti appeals to a wider pool of investors who are looking to support social and environmentally friendly initiatives and align their investments with their values and taps into the growing Islamic finance market. Moreover, Djibouti finds an opportunity to diversify its investor base, support its sustainable development projects, and contribute to the transition to a more sustainable economy.

The purpose of this report is to make recommendations on how Djibouti can build a pathway towards the issuance of a green or sustainability bond to finance infrastructure that will make the country more resilient to nature-related shocks and social challenges.

Green bonds are a type of fixed-income instrument specifically designed to finance projects that have positive environmental benefits, such as renewable energy, clean transportation, and sustainable agriculture. Globally, the green bond market has experienced a very significant growth over the past decade, driven by the increasing recognition of the need for sustainable investment and the global push towards environmental, social, and governance (ESG) principles.

At the international level, the green bond market has developed rapidly since the first issuance in 2007 by the European Investment Bank. Initially, the intention was to raise financing using EIB's credit standing in the financial markets to create a greater awareness on the impact of climate change. The market has expanded from a niche segment to a mainstream investment vehicle, with the outstanding green bonds reaching over $2.2 trillion by the end of 2022.[1] This growth has been fueled by the increasing demand from institutional investors, governments, and corporations, who are seeking to align their investment portfolios with their sustainability objectives.

Introducing green bonds in Djibouti for climate change financing is a crucial step towards building a sustainable future for the country. In this document, we present an action plan that Djibouti can implement, in order to create an active green bond market.

1. –Key Messages

The following are the key messages that have been identified as a result of this mission:

There is a lack of understanding of how green bonds can be issued.

In general, there is a low level of knowledge about what green bonds are and how they are regulated by international standards. Admittedly, these are very new types of instruments that started to become used from 2017-18 onwards, even if the first one was issued in 2008. The standards have also been evolving over time, with existing standards being revised and new standards being added constantly. Also, given that there is no active financial market within Djibouti, a number of stakeholders are unfamiliar with the concepts of financial instruments and how they apply to different cases.

Despite this lack of knowledge, there is a broad interest in green bonds and environmentally friendly projects from various stakeholders.

There is a consensus that Djibouti has a real potential to build resilient infrastructure using local, regional and international sources of capital looking for investment opportunities. It was explained that the banking sector holds a lot of cash deposits from domestic entities and that a significant amount of this available capital is invested abroad, due to a lack of bankable investment opportunities

[1] "Global State of the Market Report 2022", Climate Bonds Initiative, April 2023

locally. In addition, the concessionary capital available in support of environmental and social project is reaching its limits, with increased pressure to find co-financing from private sources and demonstrate tangible impacts from existing programs. Also, multilateral agencies are increasingly seeing climate finance as a core component of aid, as it can be used to scale up the amount of capital available to the country. Social protection, as supported by UNICEF, complements well the efforts to build the green bond markets, as relevant projects can also be supported, if they relate to the impact of climate change on the livelihood of vulnerable populations.

Mor specifically, there is a strong interest in a sustainability Sukuk format to tap into Islamic finance flows.

There has been a consensus among people we interviewed that a sustainability Sukuk format could be a very good opportunity to capitalize on the demand for Islamic financial products from banking institutions inside Djibouti, but also in the Gulf region and beyond. Djibouti has already attracted a number of funders from the Arab region to fund its development, bust mostly in the form of bilateral financings. The mention of several examples of green/sustainability sukuk transactions in the UAE, Indonesia and Malaysia raised a lot of interest during our discussions.

As a country that is interested in urbanization and the government's commitment to renewable energy and sustainable infrastructure development, Djibouti is a potential candidate for sustainability Sukuk issuances to finance environmentally and socially responsible projects and support sustainable infrastructure development.

Strong support within the government and the ministries.

The support from the government is apparent, as the international consultant discovered during its high-level meetings with His Excellency the Minister of Finance, as well as other representatives of government, and agencies. There is also a strong interest to explore further the “debt-for-nature” swap, which could be a possible avenue for Djibouti to renegotiate the loans outstanding with international lenders.

We noted a strong positive interest from the banking sector.

The banks are a core channel for the implementation of a green bond development strategy. They are regulated entities and must comply with international banking standards, which is something that will comfort investors in their quest for transparent investment opportunities. They can use the capital raised in the debt capital markets under their name and fund new types of loans to their customers, with a focus on green impact. The financing of the renewable energy sector, as well as clean transportation, shipping, green buildings, water treatment and conservation and waste management are core sectors, where the banks are actively engaged with their clients to arrange long-term financing, which can be the basis for green bond issuance. By doing so, banks can be a conduit for green finance to flow from international investors to local SME clients.

Green bonds are debt instruments, and it is important to ensure that the borrowing entity is capable of supporting the burden of debt.

A green bond is a debt instrument: its yearly interest, as well as its principal, must be repaid during its legal life and at maturity. It is very important to ensure that the borrowing entity is able to take on such debt burden. A credit rating is a way to demonstrate to investors the level of risk associated with a bond financing. Only projects that can achieve a high credit rating will be attractive to investors. Otherwise, it will be necessary to seek a credit enhancement mechanism, such as a third party guarantee, to respond to investors’ demand for an appropriate risk level.

Outstanding loans in arrears with Chinese lenders represent a bottleneck.

The question of the viability of the debt position of the country has been mentioned several times as a stumbling block. The government of Djibouti has failed to pay some of its loans with Chinese banks, which impacts the credit rating of the Sovereign and the ability to convince investors that the country is able to return to the debt capital markets. This is affecting the ability of the country to get an international credit rating from the major rating agencies, which is seen as a precondition of issuing a Sovereign green bond by the country. The experience of contracting external debt that is unsustainable has also definitely left its mark among market practitioners in the country. Several people have indicated that adding to the country's net indebtedness would be a risk that could have negative consequences.

2. Problem statement

Djibouti is very exposed to the effects of climate change and requires a large volume of financing to create the conditions of its development. Both issues represent an opportunity, if they are embraced with cohesion and method.

The green bond (and loan) market has grown very rapidly in the global financial markets, with a large variety of issuers choosing these instrument to finance their investments into new climate-resilient infrastructure and projects. While this has happened in the context of a the developed debt capital markets, where it is possible to capitalize on the ongoing financing of large borrowers and the earmarking of expenditures towards green investments, it has also benefited a number of Sovereign, state-owned and private borrowers in emerging economies.

There is broad support among the development financial institutions and several channels have been opened to make new sources of capital available to build the climate-resilience of highly vulnerable economies, which are often in the emerging markets, like the Geen Climate fund or other initiatives. With development aid being rebranded under various themes of "sustainability", "climate" or "SDG-focused", governments are being targeted to put in place various types of policies and frameworks to create the conditions for creating more resilient infrastructure projects.

This evolution represents a radical shift in the way financing is available and demand a new definition of what types of projects can be considered as environmentally friendly. As such, this requires a new level of understanding by the authorities and the decision-makers.

Djibouti, in this context, can take advantage of this momentum and create credible infrastructure projects that will help capture new sources of funding, but this requires the training of its decision makers, the launch of specific policies and the support mechanisms that can accelerate a climate-resilient development for the long-term, as well as focus on social protection to address the climate-related challenges faced by underserved populations.

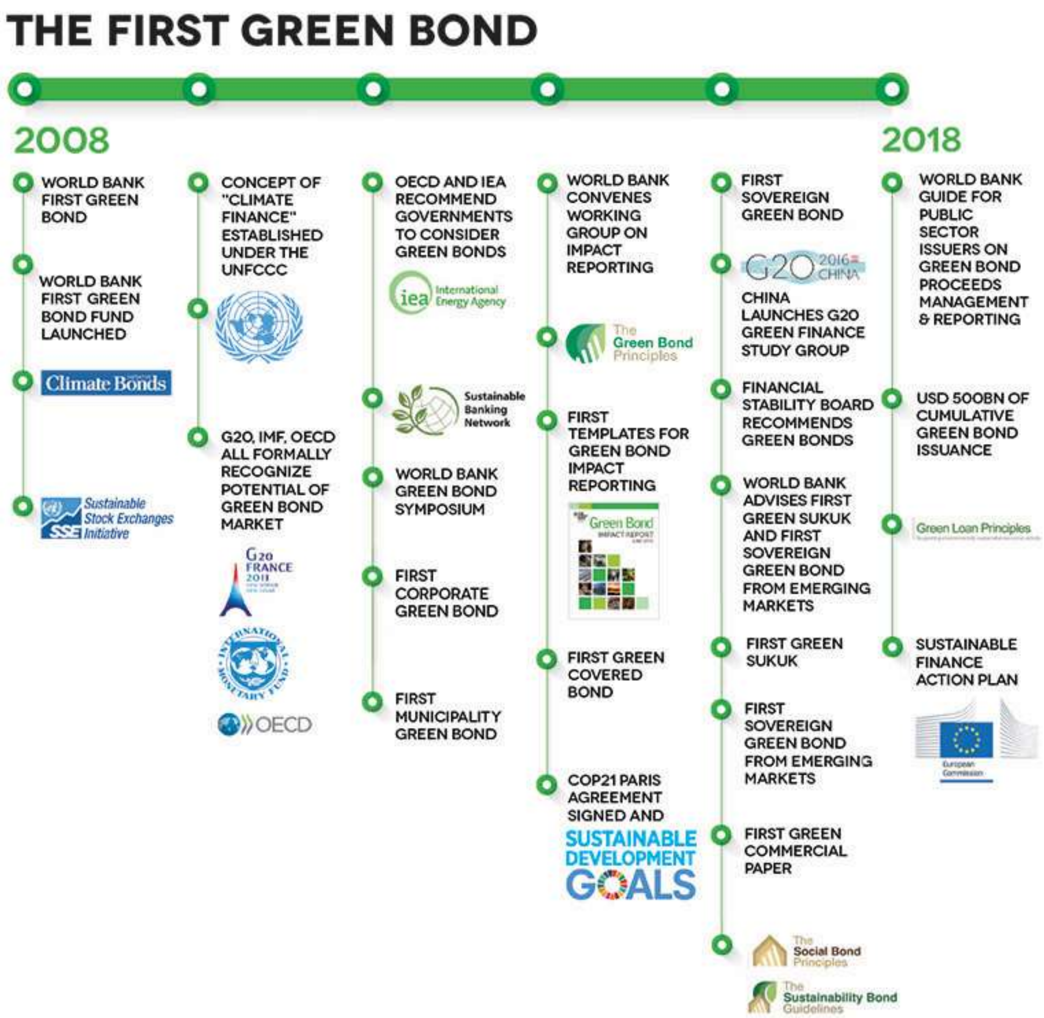
In this report, we review the conditions that are necessary to capture this opportunity. After an introduction of the green bond markets, we analyze how it is possible to kickstart a green bond market in Djibouti.

3. About green bonds

Green bonds are part of a wider toolkit of financing instruments that include, in addition to the traditional characteristics of financial instruments, a number of extra-financial parameters that make possible to track the expenditure and determine whether the financed projects are aligned with a long-term objective of lowering the carbon footprint of economic activity.

Financial products have long been associated with extra-financial characteristics to align with a number of social objectives. For example, in the Islamic world, sukuk instruments have long been issued to represent financial obligations that are in conformity with the Shariah, with the first such instrument dating back to the 7th century AD, but more recently, the first contemporary sukuk being issued by in 1990 in Malaysia.

In 2007, the Intergovernmental Panel for Climate Change, a United Nations agency, published a report linking global warming to human activities. Several investors took notice and started to consider investing in projects that contribute positively to the protection of the environment.



Source: World Bank

The proceeds from this issuance were allocated to projects and activities that contributed to climate change adaptation including renewable energy and energy efficiency projects. In 2008, the World Bank issued the first labelled “green bond”, as several Swedish pension funds were looking to invest in climate-friendly projects.

In 2010, the Climate Bonds Initiative was launched to create a taxonomy of green projects, under the “Climate Bond Standard”, that would ultimately be aligned with the objectives of the Paris Agreement signed in 2015. Another milestone in the market was the launch of the Green Bond Principles (GBP) by the International Capital Markets Association (ICMA), which gave market practitioners voluntary process guidelines to promote transparent green bond markets. Although the GBP were not very specific on the kinds of projects that can be considered “green”, they nevertheless established a process for the issuance of these securities, with four pillars that issuers must comply with. The Principles have been revised in 2021 and the focus on the impact of green bonds has been reinforced.

Alongside green bonds, other types of thematic bonds have also been issued, although in lesser amounts. Social Bonds are designed in a similar way to the green bonds but focus on social projects. Sustainability Bonds are securities that combine the characteristics of Green and Social bonds. These securities define the types of projects and activities that are being financed. As such, they are “use of proceeds” bonds, a technical term that defines instruments, where the allocation of the capital is decided at the time of the issuance, and governed by the categories chosen by the issuers in its green, social or transition bond framework.

The Green Bond Principles (GBP) are voluntary principles that define a Green Bond as “any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects aligned with the four core components of the GBP.” It must be accompanied by a Green Bond Framework, which explains how it aligns with core components of the Principles, and an External Review by a third party “verifier” capable of assessing whether the categories selected for the use of proceeds are indeed considered “green”.

There are 4 pillars that constitute the core foundations of the Principles:

The **First Pillar** is the concept of the “use of proceeds” as eligible green, social or sustainability project categories, which restrict the types of spending that an issuer can do with these instruments. “Use of Proceeds” is a technical term that is included in the documentation of a conventional bond to describe how the issuer intends on spending the funds it has raised. In a conventional bond, this is usually provided as an indication and, very often, remains very broad. But for the green, social and sustainability bond markets, this must be specific for projects that are respectful of the environment, that comply with social objectives, or both. By segregating the expenditures that are possible, green, social and sustainability bonds ensure that investors are informed before the issuance on the types of activities that the issuer is going to fund.

ICMA has provided a high-level list of eligible Green and Social projects, but this remains only an indication and can be changed by an issuer, as it sees fit.

For Green projects, this includes Renewable Energy, Energy Efficiency, Pollution Prevention and Control, Environmentally sustainable management of living natural resources and land use, terrestrial and aquatic biodiversity, clean transportation, sustainable water and wastewater management, climate change adaptation, circular economy and green buildings.

The **Second Pillar** addresses the process for the evaluation of projects that will be financed by the green, social or sustainability bond. This process must be clearly laid out for the investors to understand how the decision will be made to allocate the financed amounts to the relevant projects and activities.

The issuer of the green, social or sustainability bond must state what are the environmental or social sustainability objectives of the eligible projects, how the selected projects are aligned with the eligible categories and any additional information relative to the potential environmental or social risks associated with the projects. The recommendation to issuers is to disclose the relevant information as part of their overall strategy, as well as provide any information on the green standards or certifications that they use in their project selection. A process must be in place to correctly assess the risks of not meeting the green and social objectives, as well as the mitigating actions that the issuer intends on using to reduce the non-compliance risk.

Typically, issuers of green, social and sustainability bonds establish a specific group of persons taken from the business, under the supervision of a top management executive, to validate the selection process of eligible projects, their risks and their expected outcomes. This process seeks to minimize the risk of "greenwashing", defined as the misrepresentation of the green benefits of projects, when it comes to their environmental benefits.

The **Third Pillar** seeks to ensure that the capital raised in solely used to the eligible projects and activities. If not allocated, such capital must remain on deposit or in a cash account. ICMA recommends the creation of a sub-account for the proceeds of the green, social or sustainability bond. If no such sub-account is created, a formal internal process is necessary to track the allocation of the funds. The issuer must also disclose to the investors how it has temporarily reserved the unallocated proceeds. The proceeds of green bonds can be tracked on a bond-by-bond basis, or also on an aggregated basis for several green bonds, which is called a "portfolio approach". The purpose of such strict tracking of the proceeds is to ensure that investors are fully informed on the use of the invested capital. This ensures a greater transparency and creates trust in the green, social and sustainability bond markets.

The **Fourth Pillar** addresses the reporting requirements, to ensure that issuers commit to a high level of disclosure on green, social and sustainability projects. The disclosure is recommended to be made annually until full allocation, or in a timely basis in case of any material change in the project. A Harmonised framework for impact reporting has also been published by ICMA to provide some guidance on how issuers can report on certain impact metrics that can demonstrate the outcomes that the projects are having, with respect to environmental and social parameters. This disclosure is another way of building trust and credibility and create transparent green, social and sustainability markets.

As part of the green bond development process, a new role has emerged for third party consultancies to provide an assessment of whether a green, social or sustainability bond aligns with market standards. Such service, performed by a "verifier", is essential to the process of issuing a green, social or sustainability bond. It ensures that the issuance process remains transparent and provides investors with an independent assessment of the selection of projects. The certification offered by the Climate Bonds Initiative under its Climate Bond Standard is also delivered through the services rendered by pre-approved verifiers.

Over the last few years, the market has grown very strongly to reach $4trn of issued thematic bonds mid-2023. Investors have shown a great interest for green, social, sustainability and transition instruments. During the book-building process of publicly offered green, social, sustainability or transition bonds, it is not uncommon to see a very large over-subscription by institutional investors for these types of securities. One reason may be that investors are looking to use these types of instruments to respond to their increasing focus on ESG parameters, when selecting investments. Another may be that these new securities are providing a long-term hedge against climate risks in portfolios. Investors may also value the additional disclosure, which accompanies the issuance of these securities.

As a result of the very high demand for these types of instruments, the yield achieved by issuers on green, social, sustainability and transition bonds appears to be lower than on conventional bonds. For green bonds, this yield advantage has even received a specific name: the "greenium", which is the pricing difference, measured in yield, between a green bond and its equivalent conventional bond. The Greenium is particularly attractive to issuers, as it lowers the cost of financing new projects. In the case of sustainability-linked transactions, the pricing difference is embedded in the instrument itself: in case of not achieving certain Sustainability Performance Targets, the issuer may pay a higher coupon, which can sometimes translate into a lower cost of financing during the period preceding the observation of the linked Key Performance Indicator.

Examples of green bonds

UK Sovereign Issuance

In 2021, the UK Debt Management Office (UKDMO) issued the first sovereign green gilt and the National Savings and Investments (NS&I), the UK Government's retail savings organisation, issued the world-first green retail product in the form of a Green Savings Bond to allow retail investors to benefit from these types of securities. The framework, aligned with the ICMA Green Bond Principles, listed several categories for spending on green projects: clean transportation, renewable energy, energy efficiency, pollution prevention and control, living and natural resources and climate change adaptation, with several exclusions, such as vehicles powered through fossil fuel and ethanol, fossil fuel exploitation and exploration, large-scale hydroelectric energy, weapons, tobacco, gaming, palm oil and the direct manufacturing of alcoholic beverages. In September 2021, the UK government sold GBP10 billion of its maiden green gilt paying a coupon of 0.875% and with maturing in July 2033, attracting as much as GBP137 billion of demand from investors. It was estimated by market practitioners that the issue achieved a 3bps "greenium", or a 3pbs lower yield, compared to a conventional gilt.

Low-carbon transport infrastructure in Thailand

In Thailand, the BTS Group is a privately-owned, listed group in Thailand, with the exclusive concession to operate the BTS Sky Train and the Bus Rapid Transit system in Bangkok, plus the Pink and Yellow monorail line concessions. To finance its investment in new infrastructure, the BTS Group has issue a Green Bond Framework, which includes, as eligible green assets, clear transportation and related infrastructure for the electric mass transit system it is operating. The project selection process and the allocation of funds was aligned with the ICMA Green Bond Principles. The framework also received the certification under the Climate Bond Standard's Transportation Criteria delivered by the Climate Bonds Initiative, through the second party opinion undertaken by Sustainalytics. As of March 2023, fourteen green bonds have been issued by the BTS Group or its subsidiaries for a total of THB31.8 billion, with maturities ranging from 2 to 10 years. The projects financed from this issuance include the MRT Pink Line, the MRT Yellow Line, the Northern Green Line Extension and the Southern Green Line Extension of the BTS Skytrain.

Separately, Thailand's Public Debt Management Office has issued a sustainability bond in August 2020 and in September 2022, with maturities to December 2035 and June 2037, respectively, to fund projects including the MRT Orange Line (East), plus other green and social projects. After the issuance, Climate Bonds Initiative delivered the certification for the green tranche financing the low carbon land transport projects.

Blue Bond in Seychelles

In 2018, the Republic of Seychelles issued a USD15 million "blue bond", with the assistance of the World Bank. Three investors subscribed to this new type of "green" bond, which focuses on sustainable marine and fisheries projects: Calvert Impact Capital, Nuveen and US-based Prudential Financial Inc. The funds were earmarked for the support of grans and loans provided through the Development Bank of Seychelles and the Seychelles' Conservation and Climate Adaptation Trust. The bond was partially guaranteed by a USD5 million guarantee from the World Bank and a USD5 million concessional loan from the GEF.

4. Green Bond Issuance in Djibouti

4.1 Public policy supporting green bonds.

Because of its geography, Djibouti is highly vulnerable to climate change impacts from droughts, storms, floods, sea surges and epidemics. From 1984 to 2010, 24 natural hazard events have been registered and 1.5 million people have been affected, according to the World Bank.[2] The country ranks 7th in the world for its vulnerability to climate variability and change among small developing states. According to the Drought Damage and Needs Assessment (PDNAs) undertaken by the Government of Djibouti since 2011, together with international partners, the country may lose between 1.5-5% of GDP per year because of climate impacts, rising temperatures, desertification, reduced rainfall, floods, storms and rising sea levels.

Increasingly, countries with coastal borders realize that climate change is causing floods and increased sea levels.[3] Around Djibouti, predicted values of the water level in the second and third 25 years after 2020 is growing at a faster rate compared with the first 25 years after 2020, according to scientific data.[4] The Gulf of Aden is already seeing some unusual patterns causing damages to its populations.[5] Coastal populations are affected by the desertification and the threats posed by unpredictable weather. Fishing communities will have to cope with reduced fish stocks and learn to understand new weather patterns. Land-based populations are impacted by the increased temperatures, which can lower agricultural yields and cause forest fires.[6]

Economically, Djibouti is in a unique position. It has one of the most liberal economies in Africa, with a strong focus on service provision, particularly in the logistics and transportation sectors. This is largely

[2] "Djibouti", Climate Change Knowledge Portal, accessed on 20th Aug 2023.
[3] "Sea-level rises caused by climate change will destroy island countries", The National News, 5 Nov 2022.
[4] "Sea level rise in Persian Gulf and Oman Sea due to climate change in the future periods", Faculty of Geography, 31 Jan 2018.
[5] "Will sea water swallow the Southern City of Aden?", South 24, 5 Sep 2021.
[6] "Oasis dreaming: regreening the Djiboutian desert", UNEP, accessed on 20th Aug 2023.

due to its strategic location along one of the world's busiest shipping routes. However, its economic development is hampered by several factors, including a lack of natural resources, a small domestic market, and high levels of poverty and unemployment. Despite these challenges, Djibouti has seen steady economic growth in recent years, driven by foreign investment and large-scale infrastructure projects.

Table 1. Selected macroeconomic indicators – Djibouti (2014-2022)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP Growth	7.1%	7.4%	7.1%	5.5%	4.8%	5.5%	1.2%	4.8%	3.0%
Unemployment Rate	26.5%	26.3%	26.2%	26.1%	26.2%	26.3%	28.1%	28.0%	27.9%
Poverty rate	80.6%			78.5%					
GHG emissions	388k	432k	380k	392k	385k	393k	363k	379k	
Public debt	53.7%	68%	46%	47.9%	46.5%	39.1%	41%	43.2%	47%
Renewable Energy	36%					35%			

Source: World Bank, Statista, IRENA

Djibouti faces significant vulnerability in the face of climate change. This vulnerability is primarily due to its geographical location and arid climate, which exacerbates the impacts of global warming. The country experiences extreme temperatures, erratic rainfall patterns, and frequent droughts, all of which are predicted to intensify with climate change. These conditions pose serious threats to the country's water security, agricultural productivity, and overall socio-economic stability.

In terms of potential for green growth, Djibouti has significant untapped potential. The country has abundant renewable energy resources, particularly in the form of geothermal, wind, and solar energy. Currently Djibouti has tapped clean hydropower energy production from its neighbor Ethiopia, but the development of its own energy projects would allow the country to ensure its independence for energy production.[7] These resources, if properly harnessed, could not only contribute to Djibouti's energy security and independence, but also create jobs and drive sustainable economic growth. The government has already taken steps in this direction, with plans to source 100% of the country's energy from renewable sources by 2030.

There are multiple opportunities for green growth across various sectors, such as renewable energy (including geothermal, solar for residential, industry and services, as well as desalination), sustainable agriculture, green infrastructure, and eco-tourism. To assess the potential for green growth, a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis is shown below to present the current state of the economy and the environment, as well as identify potential areas for improvement and investment.

Strengths	Weaknesses
- Geographical location - Geopolitical importance for the region - International agreements (military bases) - Access to the sea + shipping channels - Biodiversity, ecotourism - Political stability	- Underdevelopment - Instability of neighbors - Non-performing loans - Small size - Exposure to climate risks - Knowledge deficit - Lack of international recognition

[7] "Djibouti redesigns energy systems to increase power generation", Oxford Business Group, accessed on 15 Aug 2023.

Opportunities	Threats
- Untapped biodiversity resources - Examples to follow (e.g. Singapore) - Islamic finance developing fast - Support from international donors - Need for financial center in the Horn of Africa	- Climate change impact - Volatility of global capital markets - Instability of neighboring countries - Limited concessionary capital - Changing regulations of ESG markets - Anti-money laundering regulations

However, realizing this potential will require overcoming several challenges. These include a lack of technical expertise and capacity, limited access to finance, and the need for regulatory and policy reforms to create an enabling environment for green growth. It will also require building resilience to climate change, for example, through the development of climate-smart agriculture and the sustainable management of natural resources.

The government's priority must be to create policy frameworks that will help develop a stronger risk management framework. The Djibouti Framework for Adaptation and Resilient Green Growth has detailed four pillars as priority interventions for societal and resilient growth:

- Manage drought and floods.
- Streamline coordination.
- Adapt to the changing climate.
- Green growth development.

Using a methodical approach to building appropriate development frameworks, Djibouti can follow on the path of other international centers, which have developed an international reputation as a financial, logistical and growth center.

4.2 How to create a broad effort in support of green bond issuance.

Several factors have contributed to the global development of the green bond market. Firstly, the establishment of the Green Bond Principles (GBP)[8] in 2014 by the International Capital Market Association (ICMA) has provided a voluntary framework for the issuance of green bonds. The GBP outlines the process for the identification, management, and reporting of eligible green projects, ensuring transparency and credibility in the market. Secondly, the growing awareness of climate change and its potential impact on financial markets has led to a surge in demand for green investments. This has been further reinforced by regulatory developments, such as the European Union's Sustainable Finance Action Plan and the Task Force on Climate-related Financial Disclosures (TCFD), which encourage greater disclosure and integration of climate risks into investment decisions.

In Africa, the green bond market has been relatively slow to develop compared to other regions. Only a few transactions have been able to close, with many projects still looking to develop a framework that will allow borrowing entities to tap regional or international markets. However, there has been a growing interest in recent years, with several African countries and institutions issuing green bonds. The first African green bond was issued in 2017 by the Republic of Seychelles, followed by Nigeria, South Africa, and Kenya, among others. The African Development Bank (AfDB) has also played a pivotal role in promoting green finance on the continent, issuing its first green bond in 2013 and subsequently

[8] "Green Bond Principles", ICMA, June 2021

launching the African Financial Alliance on Climate Change (AFAC) to mobilize financial resources for climate-resilient development.

The potential for green bonds in Africa is vast, given the continent's significant infrastructure needs and abundant renewable energy resources. Given large deficits and inequality in access to electricity and high potential of renewable energy in Africa, the continent provides fertile ground to expand efforts on clean energy solutions. Over 645 million Africans lack access to electricity, which corresponds to 6 out of 10 Africans. An additional 45 million Africans are estimated to be added to this deficit by 2030 in the absence of urgent action. Bottlenecks and power shortages in the energy sector cost around 2-4% of African GDP per year, undermining economic growth and investment especially in Sub-Saharan African countries where access to electricity rates and electricity consumption per capita are among the lowest internationally[9]. At the same time, Africa offers promising potential for diverse energy resources with over 10 terawatts of solar power and 110 gigawatts of wind potential.[10] Annual average surface solar irradiance is 260 W/m2, while Africa's global share of installed solar capacity stands only at 0.8%.[11] Satisfying the need for sustainable and stable energy in the African continent can help realize great achievements towards the Sustainable Development Goals (SDG) Agenda, while providing better livelihoods for millions of people. However, the International Renewable Energy Agency (IRENA) estimates that USD32 billion will be needed per year from 2015 to 2030 to fully exploit Africa's significant potential in renewables.[12] It is therefore crucial to develop innovative products to close the financing gap for renewable energy projects in the continent in a context where the costs of installing and operating renewable energy facilities are today competitive and in some cases cheaper than traditional fossil fuel power plants[13].

However, several challenges need to be addressed to unlock this potential. These include the lack of a robust regulatory framework for green bonds, limited awareness and understanding of green finance among market participants, and the need for capacity building and technical assistance to support the development of bankable green projects.

Lack of a robust regulatory framework.

To remedy this problem, Djibouti needs to implement a framework that will set the stage for the requirements of green finance mechanisms. This is a prerequisite for the development of long-term green finance markets in the country. This can be done via guidelines published by the Ministry of Finance, the Central Bank or the Regulatory Authority. This can also be done via the creation of a Green Finance Taxonomy that will guide market players on the types of projects that can be considered green

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9 *"*How the contınent can chart a low emissions, high growth path*"*, FTI Consulting, 2019. *Energising Africa*

10 "Light Up and Power Africa*"*, African Development Bank Group, 2019.

11 *"*Transforming lives through renewable energy access in Africa*"*, UNDP Regional Bureau for Africa, 2018.

12 *"*Financing Renewable Energy in Africa in the SDG Era*"*, International Centre for Trade and Sustainable Development, 2018.

13 "Falling costs make wind solar more affordable", IMF

(e.g. Nepal[14], Mongolia[15], etc). It can also include some of the work done by UNICEF on social protection, so as to include the negative impact that climate change has on vulnerable populations.

Limited awareness and understanding of green finance.

To develop a greater understanding of green finance in Djibouti (and the region), it is necessary to develop a communication plan that will help inform various stakeholders. First, there must be one or several organizations that can take a leadership role in communicating the purpose of green finance. In some countries, it is the Central Bank that has been at the forefront of this development (e.g. Monetary Authority of Singapore, etc.). In other countries, it is the Ministry of Finance that has taken on the role of developing the local understanding of green finance (e.g. Coalition of Finance Ministers for Green Finance[16]). In other countries, the financial regulator has acted resolutely to develop the market knowledge (e.g. Securities Commission Malaysia[17], Thailand's Securities and Exchange Commission[18], etc.). In some other countries, an association has been established to promote green finance (e.g. Mongolia's Sustainable Finance Association[19]). In West Africa, the AMF-UMOA regulatory agency has taken on a project to develop the green bond market for its member countries.[20] It is also possible to use some civil society organizations to help develop this knowledge (e.g. GGGI's role in Vietnam[21]).

Need for capacity building.

Several international donors have created some programs to support developing nations to build their knowledge and become more aware of the opportunities that green finance can offer. Among these programs, we note the following important opportunities:

- UNDP's Capacity Development Program for local authorities[22]
- UNEP's Capacity Building program[23]
- IFC's SME Capacity Building Program[24]
- The Global Green Growth Institute (GGGI)[25]
- Islamic Development Bank (IsDB)[26]
- Islamic Corporation for the Development of the Private Sector (ICD) of Islamic Development Bank (IsDB).
- Global Islamic Finance and Impact Investing Platform (GIFIIP) Green Sukuk Initiative[27].

[14] https://www.undp.org/sites/g/files/zskgke326/files/2022-05/UNDP-NP-GF-PolicyPaper-2022_0.pdf
[15] https://www.greenfinanceplatform.org/policies-and-regulations/mongolia-green-taxonomy
[16] https://www.financeministersforclimate.org/
[17] https://www.sc.com.my/development/sri
[18] https://www.sec.or.th/EN/Pages/News_Detail.aspx?SECID=9077
[19] https://www.bcmongolia.org/mn/members-2/organizations/item/mongolian-sustainable-finance-association-a-k-a-toc.html
[20] https://www.amf-umoa.org/actuality-details?actualiteId=1000047
[21] https://gggi.org/project/enhanced-policy-for-increased-green-finance-in-viet-nam/
[22] https://www.undp.org/mauritius-seychelles/news/undp-supports-capacity-development-programme-local-authorities
[23] https://www.unep.org/explore-topics/biosafety/what-we-do/capacity-building
[24] https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/msme-finance/sme-capacity-building
[25] https://gggi.org/tag/capacity-building/
[26] https://isdbinstitute.org/capacity-development/
[27] Home - GIFIIP

Through these various programs, Djibouti can tap into donor resources to train its policymakers and develop the necessary frameworks that will create a credible framework for the country.

Need to include social protection, as climate change is particularly harsh on vulnerable populations.

The creation of an active green bond market can be complemented by the development of projects linked with social protection, as the impact of climate change is particularly acute on populations living in exposed areas, such as coastal areas, deserts, and at the periphery of cities. Rising temperatures, floods and rising sea levels are caused by climate change and can affect the populations living in these ecosystems.

4.3 Green bonds and the development of Djibouti as a financial center

Green Bonds are part of the global financial ecosystem. Through the development of green bond markets, Djibouti has an opportunity to develop as a regional logistics and financial center. By putting in place the required framework and policies, it can leverage on its unique position to become the investment hub that will help fund a long-term development for the region.

Can Djibouti become a financial center?

We can take some clues from several examples of financial center development around the world, which draw some parallels with the situation of Djibouti. While the time period over which these financial centers were developed differs significantly, they also demonstrate that it is possible to envisage a multi-decade development leading to a full development.

A few examples exist of financial centers, which can be used as long-term models for Djibouti:

- **Singapore as a financial center.**

Singapore's rise as an international financial center can be attributed to a combination of strategic government policies, robust regulatory framework, political stability, and its strategic geographical location. The government's proactive approach in implementing policies that attract foreign investment played a significant role. These include tax incentives, strong protection laws for investors, and the ease of doing business. The Monetary Authority of Singapore (MAS), the country's central bank and financial regulatory authority, has established a robust regulatory framework that is in line with international standards. This has helped in building trust and confidence among global investors.

Political stability is another key factor. The consistent and predictable environment in Singapore has been conducive for business and investment, thereby attracting global financial institutions to set up their operations. Lastly, Singapore's strategic location at the heart of Southeast Asia has made it a gateway for investors looking to tap into the emerging markets of the region. Its world-class infrastructure and connectivity further enhance its appeal as an international financial center.

The origins of Singapore as a financial center date back to the establishment of a trading post of the British East India Company in 1819 by Stamford Raffles, before becoming a British colony in 1826, leading to the emergence of trade and shipping activity as a foundation for financial services. The access to shipping routes supported the development of financing and insurance services for shipping firms and warehouse owners in the colony. After the independence, the development of Singapore as a financial center took a more targeted approach, with the establishment of an Asian Dollar Market (ADM) in 1968 to bridge the gap between the close of the American markets and the opening of European markets on next day, together with the creation of the Asian Currency Unit (ACU) to attract foreign banks and financial institutions.

The government took decisive action to grow the financial services industry, like for example the creation of the Monetary Authority of Singapore (MAS) in 1971 or the Stock Exchange in 1973, which was subsequently demutualized and merged with the Singapore International Monetary Exchange to growth the depth and diversity of the capital markets in the country. In addition, the creation of the Central Provident Fund (CPF) Board to regulate and manage the mandatory pension funds system, as well as the Accounting and Corporate Regulatory Authority, which regulates business activity, helped further strengthen the financial sector. In the 1980s and 1990s, the government identified 7 areas of growth for the financial sector, at a time when the asset management industry started to emerge. The expansion of the capacity of local banks, such as the Development Bank of Singapore (DBS) or the United Overseas Bank (UOB) was seen as critical to support the development of Singapore. This was supported by the role of MAS as the lead developmental agency for Singapore’s financial industry.

Today, Singapore has emerged as a key location for the trading of foreign currency, commodities, stocks and bonds. The trading of offshore RMB market has also become a potential growth sector for Singapore. The financial center has also seen the development of the insurance and fintech sectors, in addition to the expansion of the asset management industry. In the view of MAS, the three value propositions of Singapore as a global financial centre are: i) a conducive pro-business environment, ii) a cost competitive and business infrastructure, and iii) a skilled workforce. This development has been achieved through sectorial targeting, long-range policy planning, policy co-creation with the private sector, and the development of digital and data technology as a core enabler of development.

- Dubai as a financial center.

Dubai's emergence as an international financial center can be attributed to strategic planning, proactive government policies, and its geographical location. The government's vision to diversify the economy away from oil led to the creation of the Dubai International Financial Centre (DIFC) in 2004. The DIFC operates under a unique legal and regulatory framework, offering financial institutions a platform to access the region's rapidly growing demand for financial services. Dubai's strategic location, bridging the gap between major global markets, has also been instrumental in its growth as a financial hub. Furthermore, the city's world-class infrastructure and business-friendly environment have attracted a myriad of international corporations and financial institutions.

Dubai's transformation into an international financial center is a testament to its strategic vision, favorable business environment, and relentless pursuit of innovation. The emirate's journey to becoming a global hub for finance was not an overnight success but the result of careful planning and execution over several decades.

Central to Dubai's financial ascent was the establishment of the Dubai International Financial Centre (DIFC) in 2004. The DIFC is a special economic zone that operates with its own legal system and regulatory framework, separate from the wider UAE. This has allowed the DIFC to adopt a regulatory environment that is aligned with international best practices, making it an attractive destination for global financial institutions. As of today, the DIFC is home to some of the world's largest banks, asset managers, and insurance companies.

Dubai's strategic location, bridging the time zones between major financial markets in the East and West, has also played a pivotal role in its rise as a financial center. The emirate's world-class infrastructure, coupled with its connectivity to key markets in Asia, Africa, and Europe, has made it an ideal hub for businesses looking to access emerging markets in these regions.

Moreover, Dubai's commitment to innovation and technology has been a key driver in its financial sector development. The emirate has positioned itself as a leading center for fintech, with initiatives like the Dubai Future Foundation and the Fintech Hive accelerator program providing a supportive ecosystem for startups and innovators in the financial technology space.

However, Dubai's rise as a financial center has not been without challenges. The emirate has had to navigate issues related to transparency and corporate governance. Nevertheless, Dubai has shown a commitment to addressing these concerns, with ongoing efforts to enhance its regulatory framework and adherence to international standards.

In conclusion, Dubai's emergence as an international financial center can be attributed to its strategic vision, favorable business environment, and commitment to innovation. Its continued success will hinge on its ability to adapt to the evolving needs of the global financial community and maintain its reputation as a transparent and well-regulated market.

- Panama as a financial center.

Panama's rise as an international financial center can be traced back to several strategic initiatives and inherent advantages. One of the key factors is Panama's unique geographical position. Situated at the crossroads of the Americas, it has long served as a transit point for international trade. This strategic location, coupled with the Panama Canal, has made the country a crucial hub for global commerce and finance.

The establishment of the Colon Free Trade Zone, the second largest free port in the world, further bolstered Panama's status as a financial center. This special economic area allows for the duty-free import, storage, and re-export of goods, attracting a multitude of international businesses and boosting economic activity.

In addition to these geographical and economic advantages, Panama's government has also played a significant role in fostering a conducive environment for financial services. The country has a dollarized economy, which eliminates currency risk for international investors. Furthermore, the government has enacted laws and regulations to encourage foreign investment, including tax incentives and the protection of intellectual property rights.

However, it's important to note that Panama's reputation as an international financial center has not been without controversy. The country has been criticized for its lack of transparency and lax financial regulations, culminating in the infamous 'Panama Papers' scandal in 2016. This incident underscored the need for Panama to enhance its regulatory framework and improve its financial practices to maintain its status as a global financial hub.

In conclusion, Panama's emergence as an international financial center is a result of its strategic geographical location, favorable economic policies, and the proactive initiatives of its government. However, moving forward, the country will need to address its regulatory shortcomings to sustain its position in the global financial landscape.

- Luxembourg as a financial center.

Luxembourg's rise as an international financial center is a result of strategic policy decisions, economic diversification efforts, and a favorable regulatory environment. The country's transformation into a financial hub did not occur overnight but was a gradual process that spanned several decades.

One of the key turning points was the decision in the 1960s to diversify the economy away from its dependence on steel production. The government identified the financial sector as a potential growth area and began implementing policies to attract banks and other financial institutions. The establishment of the Eurobond market in 1963 was a significant milestone, marking Luxembourg's emergence as a major player in international finance.

The regulatory environment in Luxembourg has also played a crucial role in its financial sector development. The country has a reputation for having a flexible and business-friendly regulatory regime. Luxembourg was one of the first European countries to implement the UCITS directive in 1985, which allowed for the cross-border sale of investment funds. This move laid the foundation for Luxembourg to become a leading global hub for investment funds.

Furthermore, Luxembourg's strategic location at the heart of Europe, along with its multilingual workforce and political stability, have made it an attractive destination for international financial institutions. The country's commitment to innovation and digital transformation has also been a driving force, particularly in the area of fintech.

However, similar to other financial centers, Luxembourg has faced criticism over issues such as tax transparency. Despite these challenges, the country has continued to strengthen its regulatory framework and has shown a commitment to adhering to international standards.

In summary, Luxembourg's rise as an international financial center can be attributed to a combination of strategic economic diversification, a favorable regulatory environment, and its geographical advantages. Its ongoing commitment to innovation and regulatory compliance will be crucial in maintaining its status as a global financial hub.

How can Djibouti leverage these examples?

Djibouti can learn from other examples and develop as a major financial centre for the Horn of Africa. This can be supported by active public policies, for example through the establishment of a free economic zone, which could be developed as a core centre for the development of sustainable finance. Tax incentives can be introduced to support financial institutions that choose to establish themselves within that zone. A modern technological infrastructure can be developed, for example through the establishment of green data centres capable of processing high quantity of data for financial transactions, which will support the emergence of high-quality jobs for the benefit of local populations.

Given the geographical situation of Djibouti, a financial centre built on green financing for project infrastructure for the region would be a good way to create a strong image for the country. Foreign Exchange and the trading of commodities can be developed as a backbone of financial transactions. Local banks can be developed to support the emergence of Djibouti as a financial centre, similar to the role played by the Development Bank of Singapore, UOB and OCBC Bank in Singapore.

Financial centres also need a population of highly trained financial specialists to be able to develop, from accountants, bankers, lawyers and sustainable finance specialists. It would be possible to attract knowledge institutions to set up campuses in Djibouti to train the personnel that the financial centre will require. Shipping, like in Singapore, can also become a driving force for the development of a reputable financial centre, with trade finance a cornerstone of banks' activity.

In order to leverage the momentum around green financial instruments, Djibouti can develop its financial centre in line with the growing number of international standards, such as the Green Bond Principles, the Green Loan Principles, etc. There will be some support from various development agencies to provide some technical assistance to help financial institutions to develop frameworks tht are on par with international standards. Djibouti can leverage its military agreements with France, the US, Japan and China to attract reputable universities or business schools, which can establish a training centre to educate a pool of future white collar executives who are necessary to support the growth of the financial services industry, including banking, securities trading, investment banking, international trade, money market services and insurance products.

4.4 Current sources of capital for infrastructure projects for Djibouti

The consultant has reviewed the existing sources of capital for infrastructure projects in Djibouti, including domestic and international financing, public and private investments, and donor support and identified the gaps and opportunities for introducing green bonds as an innovative financing instrument.

After assessing the proportion of funding coming from domestic sources (such as government budgets and private sector investments) and external sources (such as loans, grants, and foreign direct investment), it is possible to ascertain the current sources of funding for infrastructure projects in Djibouti.

The main sources of financing for Djibouti's long-term development are:

- Local savings

The 13 local banks[28] are able to collect deposits from their clients and offer loans, which can be transformed into "green" loans over time. In order for this to happen, the banks must develop a green finance framework, which will guide the selection of projects that can be financed under the "green" label. Also, the development of Islamic finance, which is growing fast, is a strong driver for the development of local savings into investable projects.[29]

- Regional savings

Regional banks can be attracted to set up a presence in Djibouti and take advantage of the development of Djibouti as a regional financial hub.[30] Some public policies can be put in place to attract such banking institutions to Djibouti. If regional banks decide to set up financial activities in Djibouti, they will drain into the local economy some additional savings, which can be invested into new "green" projects. This goes hand in hand with the development of Djibouti as a regional financial center. [31]

[28] https://oxfordbusinessgroup.com/reports/djibouti/2023-report/financial-services/growth-driver-a-rising-number-of-banks-compete-for-untapped-market-potential-overview/

[29] https://www.islamicfinancenews.com/djibouti-great-opportunities-for-islamic-finance.html

[30] https://oxfordbusinessgroup.com/reports/djibouti/2023-report/financial-services/growth-driver-a-rising-number-of-banks-compete-for-untapped-market-potential-overview/

[31] https://newafricanmagazine.com/22630/

- International savings

By developing a local framework for green finance that is aligned with international standards, such as ICMA's green bond principles or a green finance taxonomy, Djibouti will be able to attract foreign investors beyond the region. Investors in the Middle East will be interested in contributing to the development of a green financial center. Investors from Europe, leveraging on the existing agreements governing the presence of military bases in Djibouti, will also be attracted by green projects, as they look for diversification opportunities. Investors from further afield, from the United States to the United Kingdom to Northern Europe and Asia, will also be interested in participating in projects that are aligned with global standards.

5. Mission findings and recommended actions

5.1 Summary of the mission.

The mission took place from 10th to 17th June 2023, when the international consultant visited Djibouti for high-level consultations with various stakeholders in Djibouti, with the support of UNDP's local team. The trip went very well and facilitated some meaningful exchanges between the consultant and the relevant stakeholders. The help of the UNDP team was critical in organizing the appropriate discussions with relevant stakeholders.

Meetings with government entities

The international consultant met with a number of government entities during his visit to Djibouti. All these are important institutions that have in charge the country's response to the effects of climate change. During these meetings, it became apparent that there is very strong interest among policy makers in using green bonds as a way to raise much-needed financing from both public and private sources to finance new infrastructure projects in the country. Yet, the knowledge of exactly how green bonds can be used and by which entities they can be issued appeared to be relatively limited. These financial instruments are new and there is little infrastructure already set up in Djibouti to organize the debt capital markets.

Meetings with government-owned entities

The international consultant met with the Sovereign Wealth Fund, a representative of the Ports Authority, the PPP center, the Directeur General of the Fonds de Garantie Partielle and the FDED. These entities, each with its relevant mandate, are critical institutions that can play a very important role in developing the green bond markets for Djibouti. They benefit from political backing and their objectives are very specific. The Sovereign Wealth Fund, for example, is mandated with the task of investing in infrastructure projects throughout the country. The Ports Authority is looking to deploy significant amounts of capital to build a state-of-the-art logistics hub for the country and the region. Other institutions also have specific objectives that can contribute to the development of green bonds.

Meetings with private entities

One meeting was organized with BCI, the leading private bank in Djibouti. Given its joint ownership by the State of Djibouti and BRED, BCI is very interested to support the development of green bonds. Its loan portfolio's share of green assets remains relatively limited, but the Directeur General expressed a great interest in looking into green projects. The example of the 60MW wind project of Ghoubet[32] was mentioned as a case in point. This project can be partially financed with the use of green bonds, which will useful in raising long-term capital for infrastructure financing.

Meetings with international agencies

The presentation to several members of the technical staff of UNDP and subsequent meetings with UNICEF were an opportunity to discuss the importance of climate action in the international projects funded by multilateral donors. For many of the participants, the green bonds remain an elusive concept and they are not familiar with the process of issuance. Yet, in many of the projects they are working on, the green bonds could be utilized to raise long-term capital for delivering on the UN SDGs and the long-term climate objectives of Djibouti.

This is something that is common among developing nations around the world. Debt capital markets are sophisticated ecosystems, where the intermediation of capital mostly takes place among sophisticated players. The absence of developed financial markets in the country leads to a dearth of knowledge among local experts. The international consultant stressed the importance of using the technical expertise of development agencies in the identification of projects, the management of milestones and the design of impact measurement, verification and reporting practices in support of the green bonds. There is much knowledge that UN agencies have accumulated over the years that can be a reinforcing factor for the development of green bonds, in particular for the monitoring of project execution and the delivery of environmental and social goals, in line with the SDGs.

5.2 Create a working group to foster sustainable finance in Djibouti.

A sustainable finance working group in Djibouti could significantly contribute to the development of sustainable financial markets by leveraging the expertise of various sectors. This group could consist of representatives from the public and private sectors, including government, financial institutions, non-profit organizations, and academia. By harnessing the collective knowledge and experience of these diverse sectors, the group can identify opportunities and challenges in the current financial landscape and strategize ways to promote sustainable finance.

One of the key roles of the working group would be to create a conducive regulatory environment for sustainable finance. This could involve advocating for policies that incentivize green investments and discourage unsustainable practices. For instance, the group could push for tax benefits for companies that demonstrate a commitment to sustainability, or penalties for those that don't. The group could also work with the financial regulator to ensure that sustainability risk is integrated into the risk management frameworks of financial institutions.

Another crucial role of the working group would be to foster capacity building in sustainable finance. This could be achieved through various means, such as organizing training programs for financial institutions, developing educational materials on sustainable finance, and promoting research in this field. By enhancing the knowledge and skills of financial industry professionals, the working group can help to ensure that sustainable finance becomes a mainstream practice in Djibouti's financial markets.

Additionally, the working group could facilitate the development of green financial products and services. This could involve collaborating with financial institutions to design innovative financial

[32] "Red Sea Power", accessed on 15th June 2023

solutions that support sustainability, such as green bonds, green loans, and sustainable investment funds. The group could also work with companies to improve their environmental, social, and governance (ESG) reporting, which is crucial for attracting sustainable investment.

A sustainable finance working group, through its multi-sectoral composition, can play a pivotal role in supporting the development of sustainable financial markets in Djibouti. By creating an enabling policy environment, building capacity, and facilitating the development of green financial products, the group can help to steer Djibouti's economy towards a more sustainable path. A program of regular meetings, combining learning opportunities and the presentation of case studies, with the support of international partners, such as UNDP or UNICEF, will also contribute to the development of knowledge among the participants of the financial sector in Djibouti.

An example of such working group is the Mongolian Sustainable Finance Association (MSFA, a.k.a ToC), which was founded in December 2017 between banks and the Mongolian Bankers Association as a not-for-profit. It counts 11 commercial banks, 6 non-banking financial institutions, one insurance and one asset management company and one NGO. It works in close collaboration with the different branches of the government and the international partners present in Mongolia to advance sustainable finance.[33] The first green bond was issued in Mongolia in March 2023 by Khan Bank, with the support of the International Finance Corporation (IFC).[34]

5.3 The importance of a domestic taxonomy for Djibouti

A domestic green taxonomy is a critical condition for Djibouti, as it will provide a clear and standardized definition of what can be considered as "green" sectors for the economic development of the country and align with its international commitments. This is particularly important for a country like Djibouti, which is vulnerable to climate change and environmental degradation. By defining what constitutes a green sector, Djibouti can better channel resources and investments towards sectors that are sustainable and environmentally friendly, which can help stimulate green growth and foster a more sustainable economy.

Moreover, a green taxonomy can help Djibouti align its economic development strategies with its environmental and climate goals. It can provide a framework for policymakers, investors, and businesses to identify and prioritize green sectors, making it easier to invest in and promote these sectors. This can also help Djibouti attract international investments in its green sectors, as many international investors are increasingly looking to invest in green and sustainable projects.

A green taxonomy can also help Djibouti manage its environmental and climate risks more effectively. By identifying green sectors, Djibouti can better understand where its environmental and climate risks lie and take steps to mitigate these risks. This can help Djibouti build a more resilient economy that is better equipped to deal with environmental and climate challenges.

A domestic green taxonomy is necessary for Djibouti to define its green sectors and guide its economic development towards a more sustainable and resilient path. It can help Djibouti attract green investments, manage environmental and climate risks, and align its economic development strategies

[33] "Mongolian Sustainable Finance Association", Business Council of Mongolia, accessed on 5 July 2023.
[34] "IFC invests in Mongolia's first ever green bond in a bid to spur climate-smart investments", IFC, March 2023

with its environmental and climate goals. A well-defined green taxonomy can thus play a pivotal role in shaping Djibouti's green growth and sustainability agenda.

The first step is to conduct a comprehensive review of the country's current environmental policies and regulations. This involves identifying the existing green initiatives, their strengths, weaknesses, and gaps. It's also important to understand the country's unique environmental challenges and opportunities. This initial assessment will provide a solid foundation for the taxonomy.

The next step is to engage with key stakeholders, including government agencies, businesses, environmental organizations, and local communities. Their input will be invaluable in shaping the taxonomy. Workshops, surveys, and consultations can be used to gather their perspectives and insights. It's crucial to ensure that the taxonomy is aligned with Djibouti's national priorities and is relevant to the local context.

After the stakeholder engagement, the next phase involves drafting the taxonomy. It should clearly define what constitutes a 'green' activity, taking into account international standards and best practices. The taxonomy should be comprehensive, covering various sectors such as energy, agriculture, transportation, and waste management. It should also be flexible to accommodate future advancements in green technologies and practices.

Once the draft taxonomy is developed, it should be publicly released for consultation. This will allow for further input from stakeholders and the general public. Any feedback received should be carefully considered and incorporated into the final version of the taxonomy.

The final step is the implementation of the taxonomy. This includes developing guidelines and tools to help businesses and investors apply the taxonomy. Regular monitoring and evaluation should also be conducted to assess the taxonomy's effectiveness and make necessary adjustments.

Developing a green taxonomy for Djibouti involves a systematic process of review, stakeholder engagement, drafting, consultation, and implementation. It's a critical step towards promoting green investments and achieving sustainable development in the country.

5.4 Find "first issuer" opportunities to demonstrate the feasibility of green bonds.

In order to kickstart a green bond market in Djibouti, it is critical to find a number of possible issuers of bonds that can serve as a test case and demonstration deal for the country. There have been multiple examples of such deals in countries without debt capital markets, which we list below.

Example of Singapore's first private and first sovereign green bonds

In April 2017, City Developments Limited, through its subsidiary CDL Properties Ltd, issued SGD100 million ($71 million) of green bonds certified under the Climate Bond Standard to repay a loan for the financing of Singapore's tallest skyscrapers.[35] In August 2022, the Singapore government issued its first sovereign green bond, a SGD2.4 billion issue with a 3.04% yield and a 50-year maturity.[36] Multiple

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[35] "CDL issues Singapore's first green bond", Climate Bonds Initiative, April 2017

[36] "Singapore prices inaugural SGD2.4 billion of 5-year sovereign green bonds to yield 3.04%", The Business Times, August 2022

other issuers have issued green bonds and other thematic bonds in the Singapore markets. The domestic stock exchange, SGX, has created a segment to list these types of bonds and offer greater transparency to the investors and other market participants.[37]

Example of Indonesia's Sovereign Sukuk program

The Republic of Indonesia's Green Sukuk issuance program is a pioneering initiative in the realm of sustainable finance, representing a significant stride toward integrating Islamic finance with environmentally conscious investment. Green Sukuk are Sharia-compliant bonds, the proceeds of which are exclusively applied to finance or refinance green projects. The Indonesian government, recognizing the urgency of addressing climate change, has utilized the Green Sukuk as a mechanism to raise funds for environment-friendly projects. These include renewable energy initiatives, green tourism, and sustainable waste management, among others. The Green Sukuk issuance aligns with the country's strategic objectives under the National Medium-Term Development Plan and its commitments under the Paris Agreement on climate change.

The Green Sukuk program has attracted a wide array of investors, both domestic and international, owing to its dual appeal of providing investment returns and contributing to environmental sustainability. The program has been lauded for its transparency and robust governance framework, with clear guidelines on the use of proceeds, project selection, and reporting. This has instilled investor confidence and has been instrumental in the program's success. However, the Green Sukuk program is not without its challenges. Similar to traditional Sukuk, Green Sukuk also face issues related to the complexity of structures, higher transaction costs, and the need for a robust regulatory framework. Additionally, the relatively nascent stage of green finance globally implies a lack of standardization and understanding among potential investors. Furthermore, the monitoring and reporting of the environmental impact of the funded projects present additional challenges.

The Republic of Indonesia's Green Sukuk issuance program represents an innovative and strategic approach to sustainable finance. It has the potential to play a pivotal role in the country's journey toward sustainable development and climate resilience. However, for the program to realize its full potential, it is imperative that the inherent challenges are effectively addressed and that ongoing efforts are made to educate potential investors about the benefits and mechanics of Green Sukuk.

Example of Morocco's first green bond

The Moroccan Agency of Sustainable Energy S.A. (MASEN), a state-owned company, issued the country's first green bond in November 2016 for MAD1.15 billion ($117 million) to finance three photovoltaic plants under an independent power producer scheme for the design, financing, construction, operation and maintenance of the Noor Phase I concentrated solar power facility in Morocco. It was followed by a MAD1 billion green bond certified under the Low Carbon Land Transport Criteria of the Climate Bond Standard for the rail operator Office National des Chemins de Fer du Maroc (ONCF), refinancing a debt contracted for the Al Boraq electrified high-speed rail line. The European Bank for Reconstruction and Development (EBRD) invested MAD200 million.

Example of Luxembourg green bonds

The European Investment Bank (EIB) issued the world's first green bond in 2007, then called a "Climate awareness bond", as a EUR600 million issuance. It has issued several other green bonds, even using separate blockchain platforms listed on the Luxembourg Stock Exchange Securities and the Green

[37] "Sustainable Finance", SGX, accessed on 5th July 2023

Exchange.[38] In September 2020, the government of Luxembourg issued a EUR1.5 billion sovereign sustainability bond with a 12-year maturity for green and social projects.[39]

5.5 Launch of a local bond market as a long-term objective

Djibouti has a relatively underdeveloped financial sector, limited to private lending between banks and other financial institutions. The absence of a debt capital market is a significant indicator of this underdevelopment. Debt capital markets are essential for the growth and development of an economy as they provide a platform for the exchange of debt instruments such as bonds and debentures. They facilitate borrowing and lending between various entities, thus driving economic activity. However, in Djibouti, such a market is virtually non-existent, which severely limits the opportunities for businesses to raise capital and for investors to diversify their portfolios.

The lack of a robust financial infrastructure in Djibouti also contributes to the absence of a debt capital market. Financial infrastructure includes a variety of systems and processes that enable and support financial transactions. These include payment systems, securities depositories, clearing and settlement systems, and credit reporting systems. In Djibouti, these systems are either absent or not sufficiently developed to support a thriving debt capital market.

The regulatory environment in Djibouti also plays a role in this scenario. Without a strong and clear regulatory framework, it is challenging to develop and maintain a debt capital market. Regulations are essential for protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. However, in Djibouti, the regulatory framework for financial markets is still in its infancy.

Furthermore, the lack of financial literacy among the population and the limited access to financial services also contribute to the underdeveloped state of Djibouti's financial sector. Many people in Djibouti do not have a clear understanding of financial concepts and products, which makes it difficult for them to participate in the financial markets. Additionally, access to financial services is limited in many parts of the country, which further exacerbates the situation.

The absence of debt capital markets in Djibouti and the lack of financial infrastructure are interrelated issues that stem from a variety of factors, including an underdeveloped financial sector, a weak regulatory environment, limited financial literacy, and restricted access to financial services. Addressing these issues will require a comprehensive and coordinated effort from the government, the private sector, and international development organizations.

5.6 Specific support needed.

In order to develop its green bond markets, Djibouti needs the following support:

- **Government's green funding**: Djibouti's government can allocate funds from its annual budget for the development of green infrastructure development, using tax revenues and other sources of income. With a green taxonomy, it will be easier to earmark public expenditure towards projects that are aligned with the objectives of the Paris Agreement and other international commitments by the

[38] "EIB issues its first blockchain-based digital green bond", Ledge Insights, June 2023
[39] "Sustainability Bond Framework", Government of Luxembourg, September 2020

government of Djibouti. Several governments have developed specific programs of green investments, using Sovereign Green Bonds as a way to source the needed capital:

- Singapore's Green Bond issuance program has successfully raised large amounts of capital towards its Green Plan 2030, some of it with a 50-year tenor, the longest green bond issued by a Sovereign issuer in the world.[40]

- Benin's Sustainable Development Goals Bond issued in 2021.[41]

- Egypt issued a green bond in March 2022.[42]

- **Multilateral development banks (MDBs)**: Institutions such as the World Bank, African Development Bank, and European Investment Bank can provide green loans, green grants, and technical assistance for green infrastructure projects in Djibouti. A list of such support opportunities will contribute to supporting the development of green finance in the country.

An example of green financing in Africa from multilateral agencies is as follows:

- IMF's loan to Kenya for climate resilience.[43]

- **Bilateral assistance**: Djibouti can seek financial aid and technical support from individual countries, such as China, which has invested heavily in the country's infrastructure through its Belt and Road Initiative. A debt-for-climate swap could be considered to solve the issue of the outstanding loans currently in arrears.[44]

Here is an example of such deal:

- Gabon's debt-for-nature swap.[45]

- **Public-private partnerships (PPPs)**: Djibouti can collaborate with private sector investors to co-finance and implement green infrastructure projects, leveraging the expertise and resources of both parties.

Here is an example of such deals:

- The African and Middle East SAFE Initiative.[46]

[40] https://www.mof.gov.sg/policies/fiscal/greenbonds
[41] https://www.greenfinanceplatform.org/policies-and-regulations/republic-benin-issued-sovereign-green-bond
[42] https://www.worldbank.org/en/news/feature/2022/03/02/supporting-egypt-s-inaugural-green-bond-issuance
[43] https://www.theeastafrican.co.ke/tea/business/imf-to-review-551m-climate-linked-loan-in-november-4358680
[44] "Explainer: how China could offer 'debt swaps' to help developing nations tackle climate change", Carbon Brief, January 2021
[45] https://www.downtoearth.org.in/news/africa/gabon-announces-500-million-debt-for-nature-swap-deal-for-marine-conservation-91240
[46] https://economicconfidential.com/2023/09/ppp-scheme-targets-food/

- **Project financing**: Djibouti can secure green loans from commercial banks and other financial institutions to fund specific infrastructure projects, with repayment terms tied to the project's cash flows.

- **Export credit agencies (ECAs)**: Djibouti can access green financing from ECAs of countries providing equipment and services for infrastructure projects, often at favorable terms.

- **Sovereign wealth funds (SWFs) and pension funds**: Djibouti can attract green investments from SWFs and pension funds, which seek long-term, stable returns from infrastructure assets.

By exploring these diverse financing options, Djibouti can secure the necessary funds to develop its green infrastructure and drive economic growth.

5.7 Restoring national finances using climate swaps.

A 'debt-for-climate' swap can be an effective strategy to help Djibouti restore its public finances while simultaneously addressing the pressing issue of climate change. This innovative financial mechanism involves the conversion of a portion of Djibouti's external debt into new funding for local climate change projects. In this way, Djibouti can reduce its debt burden, free up resources for public spending, and invest in climate resilience and low-carbon development.

The premise of a 'debt-for-climate' swap is that creditors agree to cancel a portion of the debt owed by Djibouti in exchange for the country's commitment to invest in climate adaptation and mitigation initiatives. This could include projects related to renewable energy, sustainable agriculture, water management, or coastal protection, which are particularly pertinent given Djibouti's vulnerability to climate change.

This mechanism offers a win-win solution for Djibouti and its creditors. For Djibouti, it provides a way to reduce its external debt, which stands at around 85% of GDP, according to the World Bank. This high debt level constrains public spending and hampers economic growth. By reducing its debt burden, Djibouti can free up resources to invest in public services and infrastructure, thereby promoting economic development and improving living standards.

For creditors, a 'debt-for-climate' swap can be an attractive option. While they may receive less in debt repayments, they contribute to global efforts to combat climate change. This can enhance their reputation and align with their own commitments to sustainable development. Furthermore, by supporting Djibouti's climate resilience, creditors can help to create a more stable and prosperous country, which could reduce future financial risks.

However, the successful implementation of a 'debt-for-climate' swap will require careful planning and negotiation. It will be important to ensure that the funds released through the swap are effectively used for climate projects and that these projects deliver real benefits. This will require strong governance, transparency, and accountability mechanisms.

A 'debt-for-climate' swap can offer a powerful tool for Djibouti to restore its public finances and address climate change. It offers a way to turn the challenge of high debt levels into an opportunity for sustainable development. However, it will require careful design and strong oversight to ensure that it delivers the desired benefits.

5.8 Other capacity building actions.

Creation of a local stock exchange.

The creation of a local stock exchange in Djibouti can play a pivotal role in fostering the development of sustainable finance markets. One of the primary ways this can be achieved is through the mobilization of capital for sustainable projects. A stock exchange can act as a platform for companies to raise funds through the issuance of shares or bonds. By setting clear guidelines and criteria for sustainability, the exchange can ensure that the funds raised are directed towards projects or initiatives that contribute to sustainable development.

The establishment of a stock exchange can also facilitate the growth of sustainable finance by enhancing transparency and disclosure. Companies listed on the exchange would be required to adhere to certain reporting standards, which could include disclosing information related to their environmental, social, and governance (ESG) practices. This increased transparency can help investors make more informed decisions and encourage companies to adopt more sustainable practices.

Moreover, a local stock exchange can stimulate the development of sustainable finance markets by promoting financial inclusion. By offering a wide range of financial products and services, the exchange can attract a diverse group of investors, including those who are particularly interested in sustainable investments. This can lead to an increased demand for sustainable financial products, thereby stimulating their development and growth.

Additionally, the stock exchange can play a crucial role in capacity building. By providing training and education on sustainable finance, the exchange can help build the knowledge and skills of market participants. This can increase the understanding and acceptance of sustainable finance, thereby promoting its integration into mainstream financial practices.

The creation of a local stock exchange in Djibouti can support the development of sustainable finance markets in several ways. It can mobilize capital for sustainable projects, enhance transparency and disclosure, promote financial inclusion, and facilitate capacity building. However, the successful implementation of these strategies would require the active involvement of various stakeholders, including government agencies, regulators, and market participants.

Development of a credit carbon registry.

The creation of a carbon credit registry in Djibouti can significantly contribute to the development of sustainable finance markets. A carbon credit registry is a platform that tracks the issuance, ownership, and retirement of carbon credits. These credits represent a reduction or removal of greenhouse gas emissions and can be traded on the market, thereby creating a financial incentive for sustainable practices. A carbon credit registry can mobilize capital for sustainable projects. Companies that undertake initiatives to reduce their carbon emissions can earn carbon credits, which they can then sell on the market. The proceeds from these sales can provide a source of funding for further sustainable initiatives, thereby facilitating the mobilization of capital for sustainable development. A carbon credit registry can enhance transparency in the sustainable finance market. By tracking the issuance, ownership, and retirement of carbon credits, the registry can provide clear and reliable information on the carbon market. This can help investors make informed decisions and can also serve as a tool for regulators to monitor and enforce compliance with environmental regulations.

A carbon credit registry can stimulate demand for sustainable financial products. By creating a market for carbon credits, the registry can attract investors who are interested in sustainable investments. This can increase the demand for carbon credits and other sustainable financial products, thereby stimulating their development and growth. A registry can contribute to capacity building. By providing a platform for the trading of carbon credits, the registry can help market participants gain experience and expertise in sustainable finance. This can increase the understanding and acceptance of sustainable finance, thereby promoting its integration into mainstream financial practices.

The creation of a carbon credit registry in Djibouti can support the development of sustainable finance markets in several ways. It can mobilize capital for sustainable projects, enhance transparency, stimulate demand for sustainable financial products, and contribute to capacity building. However, the successful implementation of a carbon credit registry would require the active involvement of various stakeholders, including government agencies, regulators, and market participants.

Fiscal incentives for the issuance of green bonds.

The implementation of fiscal incentives in Djibouti can play a pivotal role in fostering the growth of sustainable finance markets. Fiscal incentives, such as tax breaks, subsidies, or grants, can provide the necessary impetus for businesses and investors to pivot towards more sustainable practices and investments. Fiscal incentives can make sustainable investments more attractive. By providing tax breaks or subsidies for investments in sustainable projects, the government can reduce the financial risk associated with these investments. This can make sustainable investments more competitive compared to traditional investments, thereby encouraging more investors to invest in sustainable finance markets. Fiscal incentives can stimulate the development of new sustainable technologies and practices. Grants or subsidies can provide much-needed funding for research and development in sustainable technologies. This can accelerate the development of new sustainable technologies and practices, which can in turn contribute to the growth of sustainable finance markets. Fiscal incentives can encourage businesses to adopt sustainable practices. For instance, tax breaks for businesses that reduce their carbon emissions can provide a financial incentive for businesses to adopt more sustainable practices. This can lead to a reduction in carbon emissions and can also stimulate demand for carbon credits and other sustainable financial products. Fiscal incentives can support the development of a skilled workforce in sustainable finance. By providing grants or subsidies for training and education in sustainable finance, the government can help build a skilled workforce that can support the growth of sustainable finance markets.

The launch of fiscal incentives in Djibouti can significantly support the development of sustainable finance markets. By making sustainable investments more attractive, stimulating the development of new sustainable technologies and practices, encouraging businesses to adopt sustainable practices, and supporting the development of a skilled workforce in sustainable finance, fiscal incentives can provide a powerful tool for fostering the growth of sustainable finance markets. However, for these incentives to be effective, they need to be well-designed and targeted, and they need to be part of a broader strategy to promote sustainable finance.

5.9 The importance of impact measurement

Green bonds and sustainable financial instruments that require, according to the Green Bond Principles, which investors consider as the main global standard for the issuance of green instruments, ongoing reporting on the allocation of the capital raised through a bond issuance, as well as on the impacts that the green projects have on the green growth and the resilience of the local ecosystems.

For issuers of green bonds, it is important to be aware, prior to the issuance, of the necessary development of their reporting systems, in order to be able to cope with the requirements of such issuance. These reporting systems must be able to choose the appropriate impact measures, which will be reported upon. It is likely that there will be a gap, among likely issuers of green bonds in Djibouti, of data reporting capacity. To address this shortcoming, it is important to train the relevant stakeholders in the frameworks that exist to support the reporting for the purpose of a green bond offering.

Examples of reporting

International Capital Markets Association

In June 2022, the ICMA has published its "Harmonised framework for impact reporting",[47] based on the Pillar 4 of the Green Bond Principles, which requires issuers of green bonds to report on the impact that the green projects financed by the green bonds have. In this framework, several key sectors are covered, which can be used by Djibouti as a pipeline of projects for the issuance of green bonds.

The sector specific guidance and reporting metrics are available for the following sectors:

- Renewable energy
- Energy efficiency
- Sustainable water and wastewater management
- Waste management and resource efficiency
- Clean Transportation
- Green Buildings
- Biodiversity
- Climate change adaptation
- Circular economy and eco-efficient projects
- Living natural resources and land use projects

For each of these sectors, ICMA is providing a list of "core indicators", which are the most likely data points that issuers can use to report on the impact of their projects, as well as other indicators, which can complement the core indicators and provide additional levels of information, including from the social angle. Some examples are given that can be used by stakeholders to establish their own reporting framework. In most sectors, the core indicators are relatively straightforward and Djibouti should be able to have access to this data. For a few sectors, such as green buildings, where a local standard does not exist yet, it is possible to rely on third-party assessments.

Global reporting initiative (GRI)[48]

[47] "Harmonised framework for impact reporting", ICMA, 30 Jun 2022.
[48] "The global standards for sustainability impacts", GRI, accessed on 12 Aug 2023.

The GRI Standards allow a green bond issuer, be it small or large, public or private, to report on the impact measures of the selected projects funded by the green bond issuance in a comparable and credible way. It is organized in modules that, combined, give an exhaustive picture of the material areas of the issuing organization. At the top of the standard sit the Universal Standards, with incorporate elements of reporting on Human Rights and environmental due diligence, applying to all organizations. Below sit the new Sector Standards, which are more granular and relevant to each standard, to allow for reporting on sector-specific impacts.

Carbon Disclosure Project (CDP)[49]

The Carbon Disclosure Project is a not-for-profit charity that has developed a global disclosure system for organizations, including governments, regions, cities, companies and investors, to manage their environmental impacts.

Sustainable Development Goals from the United Nations

The 17 Sustainable Development Goals compiled by the United Nations can be used as a framework for reporting on the allocation of the proceeds from a green bond issuance. Several of these goals are directly related to climate change, such as SDG 6 (Clean water and sanitation), SDG 7 (Affordable and clean energy), SDG 11 (sustainable cities and communities), SDG12 (responsible consumption and production), SDG 13 (Climate action), SDG 14 (life below water) and SDG 15 (life on land).

[49] "About us", Carbon Disclosure Project, accessed on 8 Aug 2023.

Conclusions

The mission that the consultant went on in June 2023 was an opportunity to meet with relevant stakeholders in Djibouti and evaluate the opportunity to develop green bond markets for the country. This mission was possible with the help of the local UNDP team, who was in charge of arranging some meetings at very high level to discuss how local stakeholders were perceiving the opportunity.

Through these high quality meetings, the consultant was able to engage directly with the key stakeholders in the country and identify a strong interest in developing the capacity of the country for attracting green bond investment opportunities.

Several action points have been identified to help develop the green bond markets in Djibouti:

- Identify a primary proponent for the development of green bond markets, either under the leadership of the Ministry of Finance, the Ministry of Environment, the Central Bank, the local regulatory agency or a dedicated association for sustainable finance.
- Organize a capacity building workshop on the process to issue a green bond with relevant stakeholders, including local banks, together with UNICEF, who can help link the challenges of climate change with the question of social protection in the country.
- Organize a workshop on the use of proceeds or the support provided by UNDP, in conjunction with a green finance taxonomy and the work done by UNICEF on social protection.
- Develop a green finance taxonomy for Djibouti and get endorsement from key stakeholders.
- Strengthen the capacity of local stakeholders by delivering capacity-building opportunities across the country, using existing programs from international agencies.
- Identify several pilot projects that can be seen as examples of green bond issuance and lead the way towards a broader involvement of all local players.
- Select a banking partner to help explore local issuance or listing, if possible.
- Establishment of a Sustainability Sukuk Taskforce in Djibouti to develop the framework, including evaluating potential projects for the pilot Sustainability Sukuk
- Develop policies at the Central Bank, the Ministry of Finance and the regulatory agencies in support of the development of green finance and social protection for climate-related underserved populations.
- Develop some incentives in support of the development of green finance.

There are clear opportunities that Djibouti can build on. First, its geographical location and its political stability place the country in an ideal position to attract global investors, should bankable investment opportunities be found that can align with global standards. Second, the search for green investment opportunities by global investors means that capital is available for Djibouti. In particular, green Islamic financial instruments, such as green sukuk, can help attract Islamic investors to infrastructure projects for the country.

As future areas of development, we recommend the following action points:

1. Identify the key proponent of green finance and create a working group under their leadership and establishment of a Sustainability Sukuk Taskforce to develop the framework, including evaluating potential projects for the pilot green bond/Sustainability Sukuk
2. Find resources to develop the local knowledge of key stakeholders among the public and private entities in Djibouti.
3. Develop a green finance taxonomy aligned with global standards.
4. Negotiate a debt-for-climate swap to solve the debt arrears for the country and restore Djibouti's credential in global markets.
5. Prepare a communication plan to showcase Djibouti's green projects to global investors.
6. Development of Sustainability Sukuk Framework as a guidance document for future issuances
7. Defining stakeholders including potential issuers, regulators, implementers of green and social projects, government authorities, etc.
8. Launch demonstration deals from high-quality issuers in the form of green bonds or green loans.
9. Establish support policies that will turbocharge the development of green bonds or green sukuk for the country.
10. Support measurement, reporting and verification of "green" credentials among key issuers.

Annex I: meetings held in Djibouti

The mission took place from 10th to 17th June 2023, when the international consultant visited Djibouti for high-level consultations with various stakeholders in Djibouti, with the support of UNDP's local team. The trip went very well and facilitated some meaningful exchanges between the consultant and the relevant stakeholders. The help of the UNDP team was critical in organizing the appropriate discussions with relevant stakeholders.

The following entities have been met during the two fact-finding missions undertaken by the international consultant:

- Ministry of Finance
- Ministry of Environment
- Ministry of Budget
- Sovereign Wealth Fund
- Partial Guarantee Fund
- Central Bank
- Banque Commerciale et Industrielle
- UNDP
- UNICEF

Annex II: questionnaire

The following questions have been used during the meetings (summary):

- What is the level of understanding of green bonds?
- What are the objectives of development of infrastructure financing in Djibouti?
- What are the sources of savings that can be tapped for environmentally friendly projects?
- What is the size of the local holdings held by banks?
- How do banks invest the liquidity that they collect?
- What are the initiatives to create new instruments to invest the available liquidity?
- What sectors represent a national priority for the creation of a climate-resilient development?
- Which entity could be selected to be the most ardent supporter for the development of the green bond market in Djibouti?

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