

GlobalCapital

Exploring New Funding Markets

NOVEMBER 2024

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Issuers set goals of spreading risk and expanding investor base

European sovereign issuers and African multilateral institutions are among those focused on how to achieve future funding goals. But expanding their investor base is also critical. That is why sukuk, Panda bonds and sustainability-linked products are commanding their attention as they look for more innovation.

GlobalCapital convened a discussion between funding executives from these organisations and other market specialists on their progress in 2024, where they see opportunities for doing things better in the future and why sustainable finance can be a contentious area when it comes to setting targets.



GlobalCapital: I'd like to start with our issuers first and really get a sense of your funding plans and expected use of currencies and markets for next year.

Banji Fehintola, Africa Finance Corporation: I can start because we don't have a funding plan yet. We are getting into the planning stage for 2025, so usually around November, December, we put together the funding plan for the next year. But if I just look back to how we've operated over the last couple of years, historically we've always had an ambition to do a minimum of \$2bn in net funding, and by that, I mean incremental funding. Depending on the maturities we have that year, gross funding could be significantly higher than that, \$3bn, \$4bn, \$5bn.

For us, the target is to spread the risk as much as we can and access as wide a pool of liquidity that is available. So, we have a bond market where we are typically active. We've

issued a Eurobond recently, and we plan to remain active in that space, especially as rates begin to normalise. We are active in the Middle East on the loan side as well as on the bond side. All those are on the radar.

We are also looking actively at Asia as an area where we would like to do some specific types of funding, be it on the loan or the bond side. So again, things like Pandas, Kimchis and Samurais.

Marjan Divjak, Ministry of Finance, Slovenia: In Slovenia in terms of the state budget's funding operations we are mostly done with the funding for this year. We are left with the remaining treasury bills auctions for this year. The funding programme for next year is estimated at around €5bn.

In previous years, we had the flexibility to reduce the funding needs by using the implicit and explicit reserves we had because of better-than-expected budget execution and other reserves which

we created. But going forward, the funding needs of the Republic of Slovenia are on average expected to be at around €5bn.

We are also starting to prepare how we will execute the funding programme next year. We expect to appear early in January in the euro market. Most of the funding we do is in the euro market. We maintain the curve of adequate liquidity, which is one of our main strategic objectives. We also have as broad an investor base as possible to participate during our primary market operations and to trade in the secondary market.

Other than that, we are preparing to issue a sustainability-linked bond (SLB) next year. We already have the framework in place and our objective is to execute this kind of transaction. Our thoughts regarding the choice of instruments are to increase duration next year, so something longer dated is on the table for us. Also, we are already have sizeable redemptions in 2035,

Roundtable participants



Rizwan Kanji , partner, capital markets, Akin Gump Strauss Hauer & Feld LLP	Hitesh Asarpota , chief executive officer, Emirates NBD Capital	Marjan Divjak , director-general, treasury directorate, Ministry of Finance, Slovenia	Moderator: Toby Fildes , managing director, <i>GlobalCapital</i>	Zoltan Kurali , chief executive officer, Government Debt Management Agency, Hungary	Chandi Mwenebungu , director and global head, treasury markets, African Export-Import Bank (Afreximbank)	Banji Fehintola , executive board member and head, financial services, Africa Finance Corporation	Modupe Famakinwa , senior vice president, head of corporate funding and investor relations, Africa Finance Corporation	Maryam Abdul Nassir , chief debt management executive, Ministry of Finance, Maldives
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so it means that the scope to issue in the 10-year sector of the curve is rather limited. We will also need to navigate around this maturity bucket, and we will look at other markets as well.

GlobalCapital: So not just euros but maybe other currencies?

Divjak, Ministry of Finance, Slovenia: In terms of strategy our objective is to be every third year in the global market in US dollars with a security of minimum issue size of \$1bn and we look at the yen market as well. We recently issued two Samurai bonds of three and five years maturity. This complements our euro funding well and adds to the flexibility of our funding programme execution.

We will look at other markets and might issue a Panda bond next year. Together it needs to add up to around €5bn of funding for next year.

GlobalCapital: I've got two Panda bonds already. What about you?

Zoltan Kurali, Government Debt Management Agency, Hungary: Here comes the third. In Hungary's case we have a domestic market that is actually very big. Over 70% of our debt is domestic currency. So, the foreign currency part, which is obviously the most interesting for this forum, is going to be very limited next year. Hungary has been issuing quite significant amounts in

euros and dollars and Japanese yen and Rmb for the last five years, well over \$5bn each year. This is going to be much less next year. We have to agree on the timing, but we will do it at some point. The size is still unclear, but it's not going to be big.

And then we will go back to the Panda market. We have been issuing in the Panda market since 2018 and we even had a green Panda programme that we utilised completely in 2022. Our aim is to go back, increase the size of the programme beyond Rmb5bn and try to see where we can do, maybe five years and things like that. Obviously, we have to swap everything into euros. We cannot keep this in Rmb, which constrains our ability to go for a long-dated Rmb because the soft market capacity is not always there.

We don't have too many maturities next year and in 2026, so that also limits our ability to do a lot internationally. The funding plan is not yet approved and not yet public so I can't give you numbers. We will announce it in December, but the ballpark actions are what I explained.

We also have a European commercial paper programme that we created in 2023, and we already have investors from the Middle East participating in dollar-denominated CPs. We don't have too much outstanding. Half of the programme is still free to be utilised and we will use it tactically and look to Middle Eastern investors to show interest in Hungary's CP.

GlobalCapital: Thank you. Panda bond?

Chandi Mwenebungu, African Export-Import Bank: Absolutely. Our funding requirement in 2024 was about \$10.6bn, of which I think roughly about \$4bn was new money, the rest is just refinancing. We have done over 87% so far. We have a residual which is a refinancing at the end of the year, and the refinancing process is underway.

I don't have the numbers for 2025 yet. We are in the planning stages at the moment, which should be completed by the end of November for submission to the board in December, when everything gets approved to roll out into 2025.

In terms of funding sources, diversification over instruments and geography is fundamental for us. We started a Panda bond a long time ago and we have had to slow down because the use of proceeds at that time was restricted. They changed the regulation at the end of last year and we resurrected the process. We just had a programme approved in China this year. So sometime next year, we should be looking at doing something in the Panda space.

Japan has proved to be a key area for us. We started engaging the Japanese market back in 2015. We want to get a little bit deeper and test the Samurai bond market, which is another area of opportunity in terms of funding for us and have

had a Samurai programme approved this year. We've been looking at that quite closely and had a roadshow last month. We were impressed with the feedback, which was pretty good.

But again, there's lots of work to be done and it's not going to be dissimilar to the work we did in the Samurai loan market. We see deep pockets there. We have a conventional bond programme where we have a few outstanding.

In 2014, we introduced a wholesale deposit programme where we take wholesale time deposits from institutions, in particular central banks and sovereign wealth funds, who were our targets at that time. The response has been great. Back in 2014 we only had two central banks in the programme and \$75m on the table, but we have raised, cumulatively, just under \$40bn since 2014. In terms of outstanding today, I think it's about \$7bn-plus, so a very good response, and we focus only on the continent. We've seen good diversification of participants. Aside from the central banks, we have banks, pension funds, a couple of sovereign wealth funds and insurance companies, so, yes, that really presents us with diversification in terms of instruments.

GlobalCapital: Maryam, what are the Maldives' funding plans and expected use of currencies and markets outside the traditional dollar/euro markets in 2025?

Maryam Abdul Nasir, Ministry of Finance, Republic of Maldives: We are in the midst of finalising Budget 2025, and we will be submitting it for parliament approval by the end of October. Once approved, we will be formulating our annual borrowing plan for next year and publishing it in early January.

Given that the external Maldivian debt portfolio mostly comprises US dollar-denominated loans and, to some extent, euros, we are not actively pursuing alternate currencies. However, based on the currency options available and that are under negotiation, there could be an alternative option to raise funds from the Chinese market. That being said, it would still be evaluated against the cost-risk benefit as this is not a primary source of income for the Maldives. In terms of investor diversification, we have not focused



"When banks are obsessed about league tables, sometimes we're just like: there are more important things to us than league tables"

Banji Fehintola, Africa Finance Corporation

on any particular segment as we have always sought funding options based on the costs and risks associated with each borrowing to the debt portfolio.

GlobalCapital: I want to turn to the use of the Middle East as a funding option. A key part of that is the use or interest in sukuk. Hitesh, what are the barriers to entry? How are they overcome? Are they a viable option for issuers outside the Gulf or Malaysia? Is there a difference between what local banks and internationals can provide in terms of help in structuring these?

Hitesh Asarpota, Emirates NBD Capital: I think over the last few years what we've seen is a definite increase in liquidity in the Middle East. As we know, the Middle East has always been an exporter of capital. High oil prices, increasing focus on diversification of the economy, and most of the other non-oil and gas sectors are doing extremely well; tourism, real estate, logistics and so on. As we've seen in the very small countries, relatively small populations have quite a bit of excess liquidity. And that is now being channelled into other opportunities.

For sukuk Islamic bonds, we have seen issuances from Hong Kong, the UK government, Luxembourg, South Africa, a lot of non-GCC entities as well, from triple-A to single-B, dive into that opportunity. And that has come with very strong diversification. We recently concluded a sukuk for a US-based corporate, the second one. The first one we did last year. And we did it for one of the largest leasing companies globally. They had an 80% allocation from the MENA region.

Whether you're a GCC-based issuer or not, the liquidity in the sukuk investor base is so strong that we've seen a take-up of issuers across geographies. That also comes at a significant advantage in terms of where these are priced at. This one had no issue premium and had no diversification premium. There were two very clear advantages there.

We continue to get a lot of enquiries to tap into that specific segment. One thing to note is when you do a Sharia-compliant or sukuk issuance, you're still predominantly getting all the financial liquidity, you're just adding the specific investor base on top of it. As we know, it adds to the book size, adds to the pricing power and that's allowed for a lot of issuers to take advantage of this space.

There are challenges the first time you try to do something different; it must be structured in a way that meets the requirements and there is a bit of investment in time and energy needed.

GlobalCapital: Which I presume the issuers here have probably done with Samurai and Panda?

Asarpota, Emirates NBD Capital: Correct. The first time with Samurai there's a bit of documentation required. The key aspect is that if you're a sovereign issuer, doing something like that is much easier than if you're a corporate. For two US corporates, and we've done it for other regions as well, the entire start-to-finish process was less than five months, from the time they said we want to understand the market to them having issued, so it wasn't that onerous.

Rizwan Kanji, Akin Gump Strauss Hauer & Feld LLP: On the sukuk side, for sovereign issuers, there are a few additional nuanced considerations with respect to the underlying Islamic structure. As part of the Islamic structuring and assuming a sale and leaseback structure containing real estate assets, the sovereign is required to contractually sell the real estate to make it compliant with principles of Islamic finance because, of course, with Islamic finance, you have a prohibition of interest, so the fixed income instrument is structured via a payment of rent.

Two things that of course sovereigns need to be cognizant of is that, currently as things stand, the sell is not a true sale. You don't have to go through a tender process to get approvals for the sale of government assets because they are contractual sales in accordance with Islamic finance.

Asarpota, Emirates NBD Capital: Just on that point, you already had sovereigns like Hong Kong, the UK government, South Africa, Luxembourg who have gone through that process. It's something that is doable, tested and so on. And you should look at the rating agency reports, they'll consider those to be at par with conventional bonds.

Kanji, Akin Gump Strauss Hauer & Feld LLP: The message to take home is that when you do a sukuk or fixed income conventional bond, the net result is similar in that both are structured as fixed income senior unsecured obligations of the sovereign. I just want to debunk the myth that it is too complicated; the net result is exactly the same.

Mwenebungu, African Export-Import Bank: What happens in

the unlikely event of a default? The referenced asset doesn't get encumbered?

Kanji, Akin Gump Strauss Hauer & Feld LLP: To answer the question, I will take two steps back, if I may. If you recall when I was explaining the sale and leaseback structure, I intentionally emphasised the contractual sale. As a practical example, you have a parcel of land and you set up an SPV. The state sells the parcel of land contractually to the SPV. I say contractually because you don't go to the land department of the state to register the transfer of the real estate asset, that is, the real estate asset is not registered in the name of the SPV.

Following the contractual sale, a contractual leaseback takes place. The SPV then leases it back to the state for a payment of rent and the rent is equal to the profit payment of the sukuk. The contractual documentation expressly provided it's a limited recourse provision, that is, no recourse to the underlying asset. Additionally, there is no true sell in the original transaction, so it's not an asset of the SPV in the first instance, so investors are unable to enforce against the parcel of land.

Perhaps, most importantly, the rating agencies acknowledge and opine on the fact that this is not a true asset-backed sukuk. In the event of default, there is a document part of the suite of transaction documents where the state promises to buy back that parcel of land from the SPV in the event of default or on maturity at an amount equal to the principal outstanding plus any accrued but unpaid returns.

Asarpota, Emirates NBD Capital: That's why the paper trades like senior unsecured risk of the issuer and not as secured risk as well.

Kanji, Akin Gump Strauss Hauer & Feld LLP: Remember, the whole structure is not for credit enhancement, it's not for granting security, it's simply to make it Islamic-compliant because of the fundamental prohibition in Islamic jurisprudence that money on money, that is, interest, is prohibited. I'd like to make it clear that a number of other Islamic structures are available to structure a sukuk. It doesn't have to be real estate or land; I just use that as an example.

And while we're at this, I think everybody loves a story. When we were working on a sovereign sukuk, the sovereign was unable to sell the parcel of land because the local applicable laws required the sovereign to go to Parliament for approval, even if this was a contractual sale. We addressed the limitation by tweaking the structure to a head lease/sublease structure.

There was a parcel of land that the state was contributing towards the underlying structure, and I recall one of the banks enquired if they would be able to inspect the land. The general counsel of the Ministry of Finance responded to the request: "Absolutely, but remember, you may need a submarine because the part of the parcel of land is the wet docks at the port if they want to inspect it."

But just so you know that there is a lot of flexibility in being able to identify what land and so on. And again, like I said, I use land as the simplest example, but there are a lot of other structures and assets that you can use from the underlying Islamic structuring.

Zoltan, absolutely there are local nuances that have to be taken into consideration. There are several things. One, tender rules and government rules, because you're dealing with a sovereign asset, which is one gating item that we would address before putting pen to paper. The second item that we want to address, and I think it's less relevant because you are a sovereign, is: Are there any tax implications when establishing the underlying Islamic structure? Because you're a state, you will normally get those exemptions, and you will be fine.

But that is an important hurdle that MDBs and all corporates have to go through, MDBs depending on where the asset is, but for corporates they have to go through because they don't benefit from it. Those are very relevant concerns but those are



"Most of the funding we do is in the euro market. We maintain the curve of adequate liquidity, which is one of our main strategic objectives"

Marjan Divjak, Ministry of Finance, Slovenia

the straight-off-the-bat gating items that we would address. Sometimes there are indications that require us to pivot to a slightly different structure.

I gave a very simple example of a sale because everybody gets it. But there are nuanced examples or structures that we would use to overcome any local obstacles. We would go through the process just to make sure that you are compliant. Local law issues are relevant and need to be addressed.

GlobalCapital: I think it would be remiss of me not to ask the question, but very quickly if we could address this, how will the proposed guideline changes from AOIFFI affect the sukuk market?

Kanji, Akin Gump Strauss Hauer & Feld LLP: Just for everybody's benefit, AAOIFI [Accounting and Auditing Organization for Islamic Financial Institutions] is the standard-setting body for Islamic finance. There are some regulators who require mandatory compliance with AAOIFI standards. The Central Bank of the UAE now requires its regulated entities that operate in the Islamic finance space to make sure that they comply with AAOIFI standards.

In 2009 we had a big change in AAOIFI, and everybody thought this would be the end of the sukuk market and there was a halt of issuances for a short period while stakeholders, banks and lawyers invested some R&D to come up with structures that adhered to the change proposed by AAOIFI.

The proposed changes being proposed by AAOIFI now will go through a similar process of adjustment, should the revised standards be implemented.

Asarpota, Emirates NBD Capital: It's a fairly large industry. We're going to consultation at the moment and I'm pretty confident it will not be drastic.

Maybe also stepping back, the advantages of going through the initial pain, in addition to diversification in the last 12 months we had three large issuers tap both markets. You had Aramco, which is one of the largest companies in the world, A+ rated, you've got Mubadala, which is double-A rated, one of the sovereign wealth

funds of the UAE, and you have the Saudi sovereign wealth fund, which is PIF. All of them did fairly large benchmark issuances, bond and sukuk, at different times, about \$750m to \$6bn each at one go. If you see Aramco today, the sukuk trades around 7bp tighter than the conventional. For an A+ rated issuer, that's exceptional. If you look at Mubadala, their sukuk trades 25bp-30bp tighter and if you look at PIF, they're about 15bp tighter.

There is a very clear pricing advantage that they've got even at that rating. And our view is when we do issuances for Turkey, and we've done quite a few for the Turkish sovereign in sukuk and bond format, there was one point in time where the difference was about 80bp for Turkey. There was a lot of volatility so the other advantage that comes in tapping this investor base is they are less, if I may call it, trigger happy, so they tend to be more long-term investors, holding on to the paper even during volatile times. And that's why you saw the gap.

Interestingly enough, Egypt was one of the last few sovereign sukuk issuances we worked on as a debut sukuk issuer, but they tapped the markets in the first quarter of last year when the Egyptian economy was going through probably the worst volatility it has seen in recent times. And at that time, I think access to conventional bond markets was very challenging, if they were open at all, and they went out and did a \$1.5bn issuance. At that point they priced about 50bp, 70bp below their conventional. They not only got access to financing, but they also got a diversified investor base, and they priced well below their conventional bond.

Fehintola, Africa Finance Corporation: When you say trading,

are we talking about trading or primary?

Asarpota, Emirates NBD Capital: With primary there is already a discount. And then when it trades, it trades either in line or that discount is sometimes a bit more.

Fehintola, Africa Finance Corporation: Could that be largely because of scarcity?

Asarpota, Emirates NBD Capital: Yes. Scarcity continues to be where the supply of sukuk is still very below where the real demand is at. Some of these funds can't grow in size because there aren't enough assets for them to invest in. Any time they have access to issuances, they tend to be very large investors.

Fehintola, Africa Finance Corporation: How active is the secondary market? I would reckon most of the sukuk investors are buy and hold.

Asarpota, Emirates NBD Capital: That used to be the case. What has now happened, and obviously when we are allocating as well, we are quite careful in terms of the pockets we allocate to. But now we see \$1.5bn, \$2.5bn issuances and there is some trading of these, so they are much more liquid than they used to be.

GlobalCapital: You talked about a five-month process around that. Could you talk through that process briefly around how much you would expect them to do roadshows in the region ahead of a debut?

Asarpota, Emirates NBD Capital: We recommend investor roadshows because about 30% to 40% of the

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“For a non-eurozone, European Union member like Hungary, issuing in euros is not like for a eurozone member, it’s a very different process”

Zoltan Kurali, Government Debt Management Agency, Hungary

investors you meet will be investors who do conventional as well as Islamic finance, so that’s one clear advantage. And then if there’s a view to do an Islamic issuance, then obviously, we will have investors in there who are unique in being able to participate only in sukuk issuances.

We recently did the first debut non-sovereign out of Turkey as well which was a Turkish sovereign wealth fund. They got a 17.5bp preferential pricing discount to where their conventional bonds were priced at. But in terms of process, your conventional bond documentation forms the base in terms of disclosure and so on.

And on top of that, you have the additional documents that go with the structure that you have prepared. That’s where it could take a few weeks, it could take a few months, but that’s the rough timeline.

Kanji, Akin Gump Strauss Hauer & Feld LLP: There isn’t a premium from a timing perspective to do a sukuk versus a conventional bond, provided, of course, that you opt for the right lawyer. It’s the same timeline, which is important. What I don’t want you to think is because of the additional documents that have to be drafted for the sukuk, that means that your timeline from start to going to market is going to be elongated; it is exactly the same.

GlobalCapital: Liquidity is very strong for both conventional and sukuk at the moment. There’s a statistic here that there have been some deals where allocations to the Middle East are bigger than the US. Hitesh, how do you expect that liquidity will evolve over the next two, three, four, five months?

Asarpota, Emirates NBD Capital: I know we have focused a bit more on sukuk issuances, but we work on a full variety of conventional debt for issuers outside the GCC as well. What we have seen is we raise funding for quite a few issuers from China, for example, in the conventional format and they’ve all started to engage with investors in the GCC. They’re looking to diversify their investor base as well. And even the A to A+ rated issuers from there get about 5% to 10% allocation on the conventional issuances in the GCC.

We’ve done over 35 deals from India, from high yield to top-tier banks. They started by saying we go to Singapore, London and the US for our investor roadshows. Is there appetite in the Middle East? Now we’re regular bookrunners for most of the issuances because they realise that — and they do conventional out of India, they’ve got about 10% allocation in the Middle East on their issuances on average. The same for top-tier names in China, the same for names out of Indonesia.

Turkey has been a big beneficiary over time. So when we started covering Turkey, conventional issuances were 60% US, 40% Europe. We’ve worked on trades where it was 20% Middle East, 15% US and the rest was Europe. It’s changed quite a bit for issuers in quite a few jurisdictions.

Modupe Famakinwa, Africa Finance Corporation: I have a question from a sukuk perspective, is there a preference in the Middle East for issuances in euro versus dollar.

Asarpota, Emirates NBD Capital: Given the currencies for UAE and Saudi are the petrodollar, the dollar becomes a home currency and

much more appetite in the dollar than in the sukuk space. We always recommend dollars and swap to euros, which I assume you do. I think one of the other factors to consider is in terms of appetite for tenor. Typically, these are 10 years — it’s where the sweet spot is.

The largest we have done has been \$6bn-plus. And typically, we do \$500m recommended benchmarks to \$2.5bn. The one thing that we can pretty much guarantee is that a sukuk issuance will have at least 50% allocation to the Middle East, so you’re guaranteed the diversification there. If you do a \$2bn issuance, at least \$1bn will come from the [Middle East]. And one of the largest issuers in that space, every single year, year after year, is Indonesia. They do anywhere from \$2bn to \$4bn in that space and they are counting on being able to price very efficiently in those markets.

GlobalCapital: Just switching back to our issuers, I’d like to ask how you choose your banks for your transactions. What do banks need to do to get on mandates? In Poland there is a primary dealership system, in Slovenia it’s being very active in secondary trading, for example. For some sovereigns it’s all about fees or paying no fees. For others it’s about investment in the country more broadly. Ideally, I guess you want all of these but what are you focused on as issuers looking at your banks?

Nasir, Ministry of Finance, Maldives: The fees are, of course, an important part of the evaluation of awarding mandates, but there are other factors we take into consideration including the relationships built over the years and continued collaboration, and also the success rates and engagements with other similar sovereigns and the market. We are still building on our domestic market and yet to introduce primary market dealership, but this is something we hope to commence within the next year following our debut issuance and listing in the secondary market last year.

Kurali, Government Debt Management Agency, Hungary: We have a primary dealer system so given that our local market is over 70% of our total debt, therefore

the emphasis should be on the dollar stake markets support that we receive from banks. So we have a primary dealer system with 13 primary dealers and one market maker, that is like the basis of us awarding the mandates in euro and dollar denominated, sort of conventional deals.

However, for Japanese and for Chinese we make an exception because those are typical of the market. If we were to venture into some sort of a structured solution in a third market, without naming the product, then we would be able to make an exception, but based on the merit of the service provider.

At the same time, clearly in the case of an onshore Chinese or an onshore Japanese, we look at league tables. So we would have to look at the league table in the case of a sukuk deal as well and see whether or not our existing primary dealers would be in those league tables and what is the value-add coming from the local banks in the region.

The way we award these mandates is basically standard fees, so the standard fees are set according to the European sovereign fee scheme, and we don't negotiate. It is take it or leave it. Obviously, the banks take it.

That's how the market is set up. Before I started to do this job, there was, in some cases, competition on these and they ended up badly in most of the cases. It doesn't work. Especially for sovereigns, the fee schedules are pretty standard across the board. You should basically play by those fee schedules and the banks should play alongside, otherwise it's going to be a distorted process.

Fehintola, Africa Finance

Corporation: A league table is not the deal-breaker for us. I'm not sure we spend much of our time reviewing league tables. Sometimes there are more important things to us.

What are the more important things? One, the value you can add, and I don't think value and number of transactions are necessarily correlated. If you have a very strong marketing team, you get on many mandates, but do you deliver on those mandates? That's a separate conversation. So for us it's about how much value you can add as an adviser or as a GLM on any of our bond issues.

The value you would see it, we have a panel of four or five banks, we know who is adding the most value from those conversations you have when people are guiding you towards making the best decision for you as an issuer, as against some banks that are guiding you to make the best decision for investors. It's a delicate balance.

There are so many houses which, as far as I am concerned, are working for the investors. They want you to issue as wide as possible so that investors are happy, and you have a book that is 10 times covered and you have a good or bad deal.

We have a policy where we rotate the banks. We've tried to do it by region, so GCC/Middle East region, we have American banks, European banks, Asian banks, and, interestingly, even African banks. Within those groups we try to rotate them in and out of different bond mandates. You obviously must be a bank that we respect, for you to be even part of that pool of banks that we are rotating.

Fees are important. Chandi and I have spoken about having a standard for African multilaterals, like the Europeans do, so that whether you are dealing with Afreximbank or AFC, the fee scale is the same. I hope that one day we will make it happen.

Asarpota, Emirates NBD Capital:

Maybe I can respond to your earlier question. One is, as you can imagine, it's standard for issuers to come to us and tell us we are looking to tap this new market. We want to ensure that our conventional curve is not affected. And second, we're doing it for diversification, so we want to ensure that we get the diversification.

To your point, we had a similar conversation with the recent issuance

we did for AerCap, which is the largest commercial aircraft leasing company. They're BBB+ rated, with lots of bonds outstanding. All the objectives were met. Eighty percent of that was allocated to Middle Eastern investors, which means that very little of their existing investor base was accommodated in that issuance. In addition to that, the pricing was flat or better than their conventional, so they met that objective as well.

Even more so, if you're a relatively scarce issuer in dollars, you want to ensure that whatever you do has clear advantages. And here the advantage is diversification at a discount, so it's two things in one.

Kanji, Akin Gump Strauss Hauer & Feld LLP:

Zoltan, absolutely there are local nuances that have to be taken into consideration. There are several things. One, tender rules and government rules, because you're dealing with a sovereign asset, which is one gating item that we would address before putting pen to paper. The second item that we want to address, and I think it's less relevant because you are a sovereign, is: Are there any tax implications when establishing the underlying Islamic structure? Because you're a state, you will normally get those exemptions, and you will be fine. But that is an important hurdle that MDBs and all corporates have to go through, MDBs depending on where the asset is, but for corporates they have to go through because they don't benefit from it. Those are very relevant concerns but those are the straight off the bat gating items that we would address. Sometimes there are indications that require us to pivot to a slightly different structure.

I gave a very simple example of a sale because everybody gets it. But there are nuanced examples

"In terms of funding sources, diversification over instruments and geography is fundamental for us"

Chandi Mwenebungu, African Export-Import Bank (Afreximbank)



or structures that we would use to overcome any local obstacles. We would go through the process just to make sure that you are compliant. Local law issues are relevant and need to be addressed.

GlobalCapital: How have you noticed how the investor base has changed over the last six months or so or a year in the markets where you operate in terms of the type of institution or how their appetite is changing as well?

Asarpota, Emirates NBD Capital: We've seen more allocation from fixed income than we have in the past. With the Middle Eastern investor base it's not the top five large sovereign wealth funds that matter, it's the family offices and we've seen more and more allocation to fixed income which is away from real estate and equities which is the bulk of what they used to invest in in the past.

Second, we've seen a lot of new entities set up in the UAE as well, so we've seen 60 hedge funds set up in Dubai in the last few years, top asset managers like Franklin Templeton and Fidelity, quite a few new investors coming and setting up base in the region which is also adding to the liquidity.

The third thing is, this year the UAE was ranked second for the largest migration of millionaires to the country. More than 6,500 people moving in and most of the wealth is then managed by the local institutions or institutions that are strong in the region, so we've seen a massive increase in private banking in the region as well.

Fehintola, Africa Finance Corporation: We keep talking about GCC in the sukuk space. What about Malaysia? What's happening

there? Is there access for issuers like us if we wanted GCC plus Asia?

Asarpota, Emirates NBD Capital: Yes, I think there's a slight differentiation in some of the Islamic structures that Malaysia uses, versus the GCC, which has the strictest version, if you can call it that. Once you issue to GCC standards, the Malaysian investors follow.

The reason that we haven't focused as much on Malaysia is that they're no longer a very large investor base for sukuk issuances that are issued from the GCC or elsewhere in the world. I would say they're probably less than 5% of the demand that we see, significantly less than 5% on our issuances.

So they have a very local currency market in Malaysia and sukuk providers, as well as conventional, are quite strong. Most of the issuers there now issue in local currency and we've seen very few dollar issuances that they issue as well. And the investor demand for dollar issuances globally has reduced.

GlobalCapital: Can I extend that question about how your investor bases have changed in any way in the last year?

Divjak, Ministry of Finance of Slovenia: The investor base is evolving given the monetary cycles. The Republic of Slovenia has also issued a 30-year bond, 40-year bond and 60-year bond on the euro market during the low yield environment. Insurance companies and pension funds are natural buyers of these kinds of instruments. Now that we have, in this monetary environment, scaled down the average maturity of the debt that the Republic issues, the investor base has changed accordingly.

I would like to give a couple of thoughts on how we select banks for primary market operations because we do it completely differently to what we've heard here. What we do is we measure secondary market performance; this is the only thing which matters. We have very precise metrics in place for how we evaluate secondary-market trading of dealers. What we believe is that all the banks which we have on board for our primary dealership can add value. Of course it is up to different bankers how they can interact with us. I liked to work with Zoltan a lot in the past, as an example. We have known each other for a long period of time now. But otherwise, these are big houses, they all can deliver through their sales force. It's about how they trade Slovenia bonds, and this is what matters in our view.

GlobalCapital: That applies to the non-euro deals?

Divjak, Ministry of Finance of Slovenia: The secondary market methodology is applied to the euro-denominated bonds trading, but the results are of relevance to both euro and dollar bond issuances. And I would like also to point out that euro funding represents 95% of our funding operations. The diversification to use other instruments is funding operations which complement euro funding, with the purpose to be present in other markets and to diversify the investor base.

In other words, when we do issue other instruments in other markets, we award the banks that perform best on the euro market by having them on board for our US dollar bonds. We had our best primary dealer on board for our recent Samurai bond issue. It's all about secondary market trading.

Kurali, Government Debt Management Agency, Hungary: On this fragmentation point, Hungary hasn't yet adopted the euro, so we have our own currency and therefore most of our debt is in this currency. The most natural currency for us other than the domestic currency is euros. This worked for some time until it didn't and for certain sizes that the euro market wasn't able to provide, we had to issue in dollars.

So this happened twice; once after 2008 and it happened during

"In terms of investor diversification, we have not focused on any particular segment as we have always sought funding options based on the costs and risks associated with each borrowing to the debt portfolio"

Maryam Abdul Nassir, Ministry of Finance, Maldives



Covid when simply the domestic savings base and whatever the euro-denominated traditional rates investor base could not provide, we had to go to the dollar market and get the excess liquidity from that. Obviously, these are very different types of deals.

So for a non-eurozone, European Union member, issuing in euros is not like for a eurozone member, it's a very different process. Simply, the order books and the price dynamics are much more beneficial in the case of a dollar deal than in the case of a euro deal. Then obviously the euro/dollar basis swap situation helps us to issue in dollars and then swap into euros and achieve a tighter level through the cross-currency swaps than if we issued in euros.

But this is wrong. It is not in line with the strategy that a potential future eurozone member, which every European country is, should follow. So in the next couple of years because we don't have that much of a funding need any more, we will have to scale back dollars and return and refocus on the euro market. We have a curve, but this curve is all over the place and we have to manage this curve and manage the investor base and attract as many investors as possible.

If there is a medium-term or short-term objective for us internationally, it is to rediscover a euro denominated and a European investor base and, to some extent, move away from this global macro, global EM, dollar-denominated community. But at the same time, diversification into other geographies like the Middle East is also very important.

Nasir, Ministry of Finance, Maldives: I agree with the points the other speakers have made. Since we aren't active in the market, I would not be able to comment on this from the Maldivian perspective.

GlobalCapital: A year or two ago EM investors were becoming alarmed by the number of EM sovereigns trading at distressed levels — 21 at its peak. But with the direction of travel for rates easing this, many are out of the woods. Maryam, can you tell us about the Maldives's experience of this and how it sees the next year playing out?

Nasir, Ministry of Finance, Maldives: Yes, with the volatile

market changes, we have also not been to the markets given that it is not an ideal time. Unfortunately, we just have a single sukuk at the moment for reference. As it is nearing maturity, it has been observed to move along the pathway as any other maturing instrument, that is, moving closer to par. Though the rates are easing, it is not favourable to the Maldives given our current credit rating. Thus, it is a mix of both and how we present ourselves to the investor community with the updates on our macro-fiscal and monetary projections that I believe can bring down the rates to a favourable position in the near future.

GlobalCapital: It was interesting to hear about the performance of sukuk during times of volatility and it tends to hold quite strongly, which is quite similar to what we've seen happening in general to ESG-type bonds. Which now brings me on to the topic of green bonds and ESG. Marjan, I just wanted to pick you up on your SLB plans for next year. A lot of people have done green bonds in the last 10, 15 years. Quite a few people have done social bonds. Sustainability-linked bonds are still quite rare for non-corporates, especially sovereigns, so tell us what your plans are.

Divjak, Ministry of Finance, Slovenia: Indeed, the objective is to issue an SLB and we are doing everything needed to do it. We are more or less ready with the framework and we are pursuing the process of obtaining second-party opinion for the framework. We are awaiting the

update of the National Environmental and Climate plan, which is to contain new updated targets.

GlobalCapital: Things like CO₂ reduction?

Divjak, Ministry of Finance, Slovenia: Exactly. And two other KPIs. I will not, at this stage, discuss what these KPIs are but all three are green KPIs. We discussed what potential KPIs could be for Slovenia, and we wanted also to have social KPIs on board but as we stand now, the decision was to have three green KPIs.

GlobalCapital: And is the structure likely to be coupons going up or coupons going down or just up?

Divjak, Ministry of Finance, Slovenia: What we assume is that we are to have a symmetric coupon structure, so that potentially it can be coupons step up or step down, like what Chile has done in terms of structuring their transaction. It's very important to have this symmetric structure in place, rather than asymmetric where downside only is the possibility.

GlobalCapital: Thinking about sustainability-linked structures, they really hold the issuer to account, you are achieving something. That's what you are describing there.

Divjak, Ministry of Finance, Slovenia: Indeed. With the sustainability bonds that the Republic issued, it was about earmarking the eligible green and social expenditures already in the budget. But by committing to concrete



"The net result is similar in that a sukuk or a fixed income conventional bond are both structured as fixed income senior unsecured obligations of the sovereign"

Rizwan Kanji, Akin Gump Strauss Hauer & Feld LLP



“We need to understand that it’s not one size fits all and have different standards to accommodate different markets. Hopefully, we can get that through ICMA”

Modupe Famakinwa, Africa Finance Corporation

environmental targets in our case, it is an additional level of commitment I would say, rather than showing what you already have in the budget.

GlobalCapital: Yes. In the markets that you operate in, Hitesh, is this a structure that you’re finding you’re talking about more and more?

Asarpota, Emirates NBD Capital: We issued our own sustainability-linked framework, so the Middle East was a bit behind. It’s caught up very quickly. It helped that we had COP 28 in the UAE. Investors and predominantly the banks have made a commitment to the central bank to reach a target of €1tr, it’s about \$270bn in labelled assets. So there is a strong push, top-down, and I think we’re seeing this across curves, so we’ve been fortunate enough to not only work on green financing but also blue, social, sustainability linked as well, bond and loan formats as well as capital markets. You see more and more of this strong investor interest in labelled issuances.

GlobalCapital: Our remaining issuers, are you interested in that structure, the sustainability-linked bond structure? Or are you happy to stick with use of proceeds?

Nasir, Ministry of Finance, Republic of Maldives: As a small state, we understand the need to raise financing through innovative mechanisms and have been working on a sustainable finance framework with our partners. There have been delays, I admit, due to the change in administration and certain policies, but this is something that we are very much focused on. As such, we have been exploring alternate mechanisms including coloured

bonds and also swaps given the current sukuk trade. I believe that each issuer needs to put in some colour for their issuances going forward as this is something that most investors would also expect going forward. On SLBs, it is something corporates could explore, but as a sovereign, it could be difficult at the moment.

Fehintola, Africa Finance Corporation: We looked at it. We issued a green bond many years ago, 2018 or 2019, in Swiss francs, and we have a green bond framework. Last year we tried to do a sustainability-linked loan. And like you, we were talking about issues around setting the appropriate KPIs for an African issuer. This is where the challenge is.

We sit somewhere in the world and set standards that you feel must apply to everyone, irrespective of geographic differences. For Africa, we strongly believe climate is not the problem, but when you apply the same yardsticks that apply in industrial Europe or the industrial United States to an African entity, it becomes challenging to agree those KPIs.

The transaction fell apart when we couldn’t agree to some of the KPIs because they don’t reflect the reality on the ground on the continent. One of the things we’re trying to do is work with the likes of ICMA to have an African voice and perspective in this conversation so that investors also understand that this geography is different from this geography, and I can’t just apply the same standard everywhere irrespective of where we are. So good luck to us, it’s a conversation we’ve started and I hope that through multiple efforts we will succeed.

Famakinwa, Africa Finance Corporation: The KPIs that would

apply to most African entities are deemed as not ambitious enough which is then a problem because what standard determines what is ambitious? What you then find is that some of these KPIs become a barrier to entry for African entities, which is a challenge. What we’ve found is that when AFC, or the likes of Afreximbank, issues, it starts to open the door to corporates to look at some of these products. Some of these institutions don’t have sustainability experts, though. They’re not there, so even setting that as a KPI, building your in-house expertise is ambitious for some institutions. But when you look at European institutions or other markets, it is deemed as standard.

That’s where we need intervention. We need to understand that it’s not one size fits all have different standards to accommodate different markets. Hopefully, we can get that through ICMA. The conversations have started.

Asarpota, Emirates NBD Capital: We’ve done the same. We’ve joined ICMA to have a Middle East voice in setting standards that are applicable for at least the GCC countries.

Mwenebundu, African Export-Import Bank: We don’t have a framework in place, but it’s something that we are looking at. We do have a framework which only speaks to the funding side of things. We realised that there’s a gap, that we needed a framework that speaks from funding through to the asset-generation perspective, so that we link the two.

Our view on climate change is completely different and we share the view of my AFC colleagues. The continent is the victim of climate change. But also, at the same time, we absorb a lot of climate change. We feel like we need to be paid for the good job that we’re doing to reduce carbon emissions. There are huge droughts in Southern Africa and East Africa today that are all consequences of climate change.

We’re looking from a much broader perspective to ask if we can start speaking about transition. It’s about getting an entire continent to come up with infrastructures that withstand the bad effects of climate change, and the question is: all this requires funding. How do we fit all these things into SLB and similar structures? That’s our perspective. **GC**