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INSIGHTS

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MIDDLE EAST – 2020

Green Finance Reaches Positive Tipping Point

SOURCE

These exclusive insights are some of the key takeaways harvested from a webinar hosted by Mashreq Bank in November 2020. The esteemed participants have more than a century of knowledge of regional energy markets and finance between them.

- Badar Chaudhry, Senior Vice President and Sector Head of Energy, Mashreq Bank
- Bruce Johnson, Associate Director, Structured Finance, Treasury and Insurance, Masdar
- Atanu Das, Vice President, Acquisitions and Project Finance, ACWA Power
- Moderator: Sean Evers, Managing Director, Gulf Intelligence

Please click HERE for free access to the webinar recording.

Green Finance Reaches Positive Tipping Point. What's Next?

\$40trn. That is the minimum amount that is needed to put the world on a 2°C or lower pathway, according to Wood Mackenzie. Clearly, urgently nurturing a robust but flexible financial architecture to support green growth in the Middle East and worldwide is imperative. Funds must be available to all levels of business to safeguard economic and environmental stability at what is a time of great unpredictability. Amid the strain caused by the Covid-19 pandemic, how can green finance in the Middle East evolve in 2021 to achieve this immensely delicate balancing act?

A new era of energy finance is fast emerging – and it is a greener one. Amid the current surge of positive momentum, there is no shortage of private capital for renewable companies or for renewable projects in the Middle East. Globally, there is also clearly a shift of capital towards green financings, with banks and investors now considerably better versed in their risk-reward profiles.

The dramatic rise in appetite for green finance is despite the economic strain being driven by the Covid-19 pandemic and subsequent recession; global GDP is expected to contract by 6.5% in 2021 on pre Covid-19 levels, according to the International Monetary Fund (IMF). This trend – economic strife and united efforts to reduce CO_2 emissions running parallel – is very different to the trend witnessed in the 2007-2009 recession. Then, financial turmoil caused environmental causes on the global stage to be pushed back into the shadows somewhat. This time, the environmental agenda has been catapulted front and center. Now is the time for borrowers and lenders alike to capitalise on this dramatic shift in global sentiment.

> ***"I see absolutely no shortage of private capital for renewable companies or for renewable projects, whether it's here in the region or elsewhere. And banks and investors are incredibly better versed in risk profiles."***
>
> ***Bruce Johnson, Associate Director, Structured Finance, Treasury and Insurance, Masdar***

ADDITIONAL ACCELERATORS?

The net zero targets announced by some of the world's biggest economies this year – China (1st), Japan (3rd), the UK (6th), and potentially the US (1st) when President-elect Biden enters office this year – are also propelling appetite and necessity for more green finance. In addition, the increasingly low cost of renewables means that the green energy and low carbon market, plus the associated green finance market, are considered less risky. For one, solar PV and onshore wind have become the cheapest sources of new-build generation for at least two-thirds of the global population – hugely influential to bolstering investors' confidence in such markets. This is especially true considering that those two thirds live in locations that comprise 71% of gross domestic product (GDP) and 85% of energy generation, according to Bloomberg New Energy Finance (BNEF).

Proactively integrating green finance into your economic portfolio will save expensive backtracking or missed business opportunities later. This is especially as the energy market will only become more vast and cross-border as the global population nears 10bn by 2050. The Middle East and Africa alone will be home to around 3.4bn people by mid-century, likely exceeding the residents of China and India combined, said the World Economic Forum (WEF). Meeting this surge in energy demand while hitting environmental goals demands smart economics.

> ***"Liquidity is not an issue for us. What matters is the quality of the liquidity that we are trying to raise."***
>
> ***Atanu Das, Vice President, Acquisitions and Project Finance, ACWA Power***

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> ***"Green finance is fast gaining respect as an investment vehicle laden with opportunities. This is also increasingly visible with conventional hydrocarbon players in the Middle East and globally."***
>
> ***Badar Chaudhry, Senior Vice President – Sector Head of Energy, Mashreq Bank***

WHAT IS NEXT?

As part of 'building back better' from the damage wrought by the pandemic, sovereigns are eager to see significant reductions in CO_2 emissions as a cornerstone of their broader recovery plan. For example, there will be a rise in demand for government-owned and privately-owned corporates to have advanced green credentials (ESG is a starting point) to attract the funds they require, be it for energy-related spends or otherwise. Plus, companies will find they need to meet both domestic expectations and global standards as many inevitably seek to form global partnerships and joint ventures. The same may apply for international debt financings, an active market in the Middle East. It is also likely that a combination of financial strategies will emerge. One route, for example, would be the refinancing of existing hydrocarbon assets that then brings in new partners with strong ESG credibility, or a partner with an environmental platform, which leads to knowledge and technology sharing. Plus, it is critical that companies and financiers stay ahead of the curve to support many Arab Gulf countries' National Visions to become competitive global investment hubs and knowledge-based economies.

The global narrative is increasingly clear: green finance is rapidly heading into the mainstream, and in many regions, it has already arrived. It is time for all entities – from banks, to corporates, to government-owned entities, and many others – to embrace green finance. At the very least, they must educate themselves about its potential and vast relevance in the 21st century.

> ***"There is no doubt that more established innovators in the region have created a template for other start-ups to follow. They surged ahead over the last decade or so and opened a critical door, which others are now increasingly stepping through."***
>
> ***Badar Chaudhry, Senior Vice President – Sector Head of Energy, Mashreq Bank***

Leverage industry springboards

The Middle East has been aware of opportunities in the renewables space for longer than many nations worldwide. So, the seemingly sudden ramp up of efforts in 2020 is not the start of a greener journey. Instead, it is the acceleration of years of groundwork – much of which has been spearheaded by companies that prioritise innovation, such as Masdar and ACWA. Such entities have tried and tested new methodologies from scratch and explored jurisdictions worldwide, securing reputable partnerships and making sizable acquisitions. Masdar and ACWA's expanding global footprint also lends itself as a template for others trying to gain their footing and it could be especially valuable for start-ups and entrepreneurs. Masdar's global outlook encompasses the US and Europe, while ACWA focuses primarily on the Middle East and North Africa (MENA), sub-Saharan Africa and East Asia, i.e., Vietnam, Indonesia and the Philippines.

STEP CHANGES UNDERWAY?

51%+

Since the first ever green bond was issued in 2008, the global rate of green bond market issuances hit a record high of \$258.9bn in 2019. This marks a 51% growth from 2018-19, according to the Climate Bonds Initiative.

\$4.3bn

Total green sukuk volumes worldwide more than tripled year-on-year to \$4.3bn in 2019, with the UAE and Saudi Arabia spearheading this growth, followed by Indonesia and Malaysia. The UAE has especially made significant progress – its volume quadrupled that of Malaysia, for example, Climate Bonds Initiative detailed.

67%

A study by Invesco found that 67% of sovereign wealth funds in the Middle East have an ESG policy – up from 30% in 2017.

100+

In late 2019, the Principles for Responsible Investment, the largest global network of institutional investors committed to ESG, had signatories representing over \$85trn in assets under management. More than a hundred signatories were from the MENA.[1]

\$1.3bn

Saudi Arabia, the world's biggest oil exporter and OPEC linchpin, made its mark in green finance with state-controlled power giant Saudi Electricity Company's \$1.3bn deal with regional and international lenders in September 2020.

2025

Frost & Sullivan's recent analysis reveals that solar PV will generate \$182bn investment in the Middle East's renewables market by 2025.

1/ www.zawya.com/mena/en/wealth/story/Why_investors_in_the_Middle_East_may_have_a_head_start_in_ESG_investments-ZAWYA20201022154429/

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