The MENA Green Finance Frontier

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- **With international energy markets ever so vulnerable, oil-reliant economies in the region are expected to accelerate the transition to renewables and embark on their environmental, social and governance (ESG) policies. This is expected to scale up private investment and expand the green financing market.**
- **The surge in demand for clean energy and the growing investments in the pipeline are propelling governments to push for green financing regulatory frameworks. This is designed to position the region at the forefront of the green market.**
- **While MENA's green bond market remains in its infancy, we expect issuance and project deals will continue to grow, possibly exponentially, over the next decade. With green sukuk on a high, this is will likely create attractive opportunities for private investor participation.**

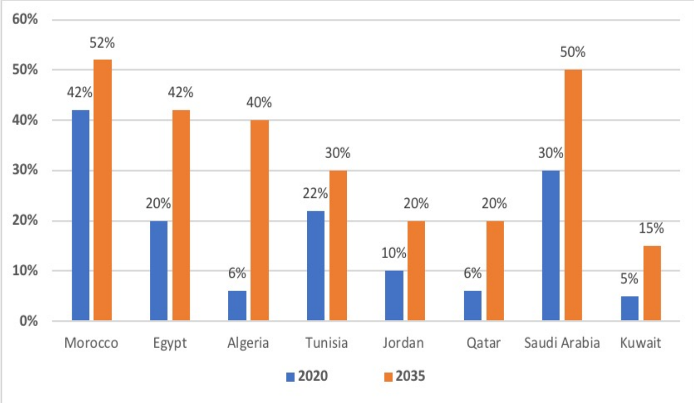
Financing the green transition

The urgency of addressing climate change has driven investors across the globe to prioritise green finance. To date, there are at least USD 31T held in sustainable or green investments globally, up 34% from 2016. In MENA, the market is still meagre, as green financing commitments account for only 1% (around USD 2B) of the global share. But this is changing as countries in the region seek to embrace ESG investments.

- With energy markets sensitive to technological disruption, geopolitical risk and more recently the pandemic-induced economic shock, countries in the region are rapidly seeking sustainable forms of development. This has propelled governments to take part in -- and expedite private capital into -- projects that alleviate climate change.
    - To meet the 2030 UN Sustainable Development Goals, it is estimated that emerging markets require an investment of USD 2.5T annually -- with a large portion of this focused on MENA. Over the past decade, renewable-energy capacity across the region has been rapidly growing, doubling to 40GW, and is set to reach 80GW by 2024.
    - Investments are expected to grow by 18 times from current levels, to reach USD 180B in the next five years.

- In the Gulf alone, renewable energy capacity grew by an annual rate of nearly 180% between 2018 and 2020 to 7 GW. While this is still small compared with the global average (and less than half, for example, of the UK's 14.9 GW), it is an untapped market that can easily grow and create new investment opportunities, particularly where economic diversification has become urgent.
    - Saudi Arabia's Vision 2030 aims to increase the share of clean energy to 30% of its total energy mix, which will require investments in renewables of between USD 30B-50B.
    - Similarly, by 2021, the UAE aims to make 27% of its energy consumption "clean" and 50% by 2050. In turn, this entails an annual investment of USD 4.6B for the next 31 years.

Figure 1 – Renewable Energy Targets[1]



- The renewable energy transition is not limited to the oil-exporting countries in the region. Jordan, which imports around 93% of its energy requirements -- worth over USD 3.5B, or 8% of GDP -- has been a regional leader in accelerating renewable energy through the deployment of green financing.
    - Jordan plans to switch 10% of its power consumption to green energy by the end of this year (with estimated investments reaching USD 1.7B) and 14% in 2030. That compares with a low of 1% in 2014.
        - While the unexpected economic hit from the pandemic is likely to flatten progress, the kingdom has been paving the way for financing green projects for years. We believe it will be able to meet its goal in the coming quarters.
    - The Renewable Energy Law was approved in 2012 along with an energy efficiency fund. The law provides a legislative framework for the cleantech sector. As a result, green financing became increasingly offered through public channels, commercial banks and micro-finance institutions.
        - In 2018, the Innovative Startup Fund[2] was also set up with the Central Bank of Jordan for nearly USD 49M to help meet the country's energy goal.
- Sustainable financing is fast-growing in Jordan, and for that the country has been seeking international support to meet its energy target. On the back of the increasing demand for energy, which is growing at 3% annually, we expect investments to continue on an upward trend, driven by both domestic and international investors.
    - In 2019, the EBRD financed a loan of USD 15M along with two local banks -- Jordan Kuwait Bank (USD 9M) and the Arab Jordan Investment Bank (USD 6M) -- to finance 70 GW projects and reduce carbon emissions by 41,500 tonnes annually.
        - In December 2019, the Green for Growth Fund provided the first subordinated debt in the region for green financing, valued at USD 12M to a local bank, Cairo Amman Bank.
- There has been considerable demand for renewable energy across Morocco as well. So far, 34% of power capacity stems from renewable sources (around 3.7GW), a considerable feat, from the mere 10% in 2014.
    - To unlock green financing, the government passed the National Climate Plan for 2030, which requires an investment of USD 50B for the next 10 years. By completion, it aims to increase power capacity by 18 percentage points from current levels.

[1] Arabia Monitor; Ministries of Energy of respective countries.

[2] The fund was set up by the Ministry of Planning and International Cooperation.

- In June, the EBRD agreed to step up its green financing to Morocco and offered a USD 24.7M grant, in addition to the USD 23.5M already secured in February to allow businesses to invest in green technologies.
    - In total, the EBRD's green portfolio in Morocco is worth USD 2B, distributed across 60 projects.
- While green projects are becoming more plentiful across the MENA region, the green finance market has yet to fully develop. We believe the increasing demand for renewables and growing interest from international financial institutions to invest alongside local governments will further encourage private investors to take part in the project pipeline in coming years.
    - The entry of private investors is significant, not only does it serve to alleviate the pressures of current lower oil prices, it also helps to further promote sustainable practices across the region.

Governments across the region are rapidly working to accommodate the necessary regulatory groundwork to build an attractive green finance sector, which will assist reaching the set energy targets.

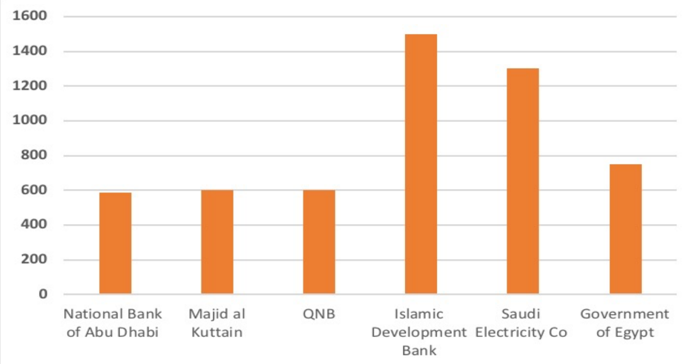
- The UAE in particular is emerging as a leader in this field. Earlier in January 2020, the first guiding principles on sustainable finance in the country were agreed upon by the Dubai Financial Services Authority
    - These are expected to facilitate the transition of the UAE to a regional green hub, as the principles create a standard framework for financial firms that seek to incorporate ESG considerations.
    - In 2018, the UAE also passed legislation providing the framework for bond issuance in green financial markets.
        - The Dubai Electricity and Water Authority established the Dubai Green Fund, which aims to raise USD 27.2B in green-tagged assets to finance green projects.
        - Abu Dhabi is also replicating these steps. In 2018, Masdar City, a planned project, signed the first green revolving credit facility in the MENA region to fund the emirate's sustainability projects, totalling USD 75M.
    - We expect these steps to be picked up by others in the region, as the lack of standardised regulations will likely obstruct the transparency and growth of green finance in the long run.
    - Given the considerable growth potential, this will incentivise local and international stakeholders to take part as the frameworks will create the space for a viable, and impact-driven market.

Green Bonds: The shift to sustainable capital markets

Traditionally, green financing lenders in the region have been local and international banks, but more recently capital markets are playing a more important role. While the green bond market remains nascent in MENA, it has shown impressive growth over the past three years and is set to continue on an upward trend, especially with the emergence of green sukuks.

- The MENA green bond market has been limited so far: as of 2019, the region's region share was USD 2B out of the USD 230B global green bond market.
    - Similarly, green sukuks account for less than 3% of global sukuk issuance. Yet with the demand for sustainable finance rising in the region, prospects for growth are promising.

Figure 2 – MENA Green Bond Market (USD, M)[3]



    - Governments, particularly across the GCC, are working to increase their focus on sustainable strategies internationally and to support the growth of Islamic capital markets.
        - GCC states are among the 14 highest per capita carbon dioxide emitters globally, so have a strong incentive to push forward this new green identity.
- We are already seeing this happening in some countries.
    - In 2017, the first green bond in the region was issued by the National Bank of Abu Dhabi for USD 587M.
    - In September 2020, Qatar National Bank (QNB) issued Qatar's first green bond, worth USD 600M. This is aimed at achieving Doha's sustainable development goals.
    - The green bonds market is expanding beyond the GCC. In September this year, Egypt issued the MENA region's first-ever sovereign five-year green bond, worth USD 750M at a yield rate of 5.25%.
        - The issuance was oversubscribed more than five times, attracting around USD 3.7B in bids, 89% from foreign investors.
    - We expect Egypt's green bond market to grow in competitiveness in the coming years as it begins to pull in a higher investor base from abroad.
        - Egypt has a green portfolio worth USD 1.9B, distributed across renewable energy (16%) generation, clean transportation (19%), sustainable water management (26%) and pollution reduction and regulation (39%).
- Sukuks are taking on a new shade of green across the region -- which given the demand for sharia-compliant vehicles suggests large potential.
    - Last month, Saudi Electricity Company issued the kingdom's first green sukuk, a multi-tranche at USD 1.3B.
    - The GCC's first green sukuk was only issued in May 2019 by Dubai real estate firm Majid Al Kuttaim, for USD 600M.
    - This was followed by the Islamic Development Bank issuing a USD 1.5B debut green sukuk, the first to be AAA-rated in global capital markets.
        - The first green sukuk ever was launched in 2017 by Malaysia's Tadau Energy.
- We expect the sector to grow exponentially over the next few years, and the demand for green issuance to continue on an upward trend.
- The need for a new energy paradigm in the region is irreversible, as oil prices stay lower for longer and countries are compelled to diversify, including via clean energy.

[3] Arabia Monitor; Moody's Investors Service.

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