Green Investment in the Arab Region

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Definitions

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Green financing is to increase level of financial flows (from banking, micro-credit, insurance and investment) from the public, private and not-for-profit sectors to sustainable development priorities

(UNEP definition)

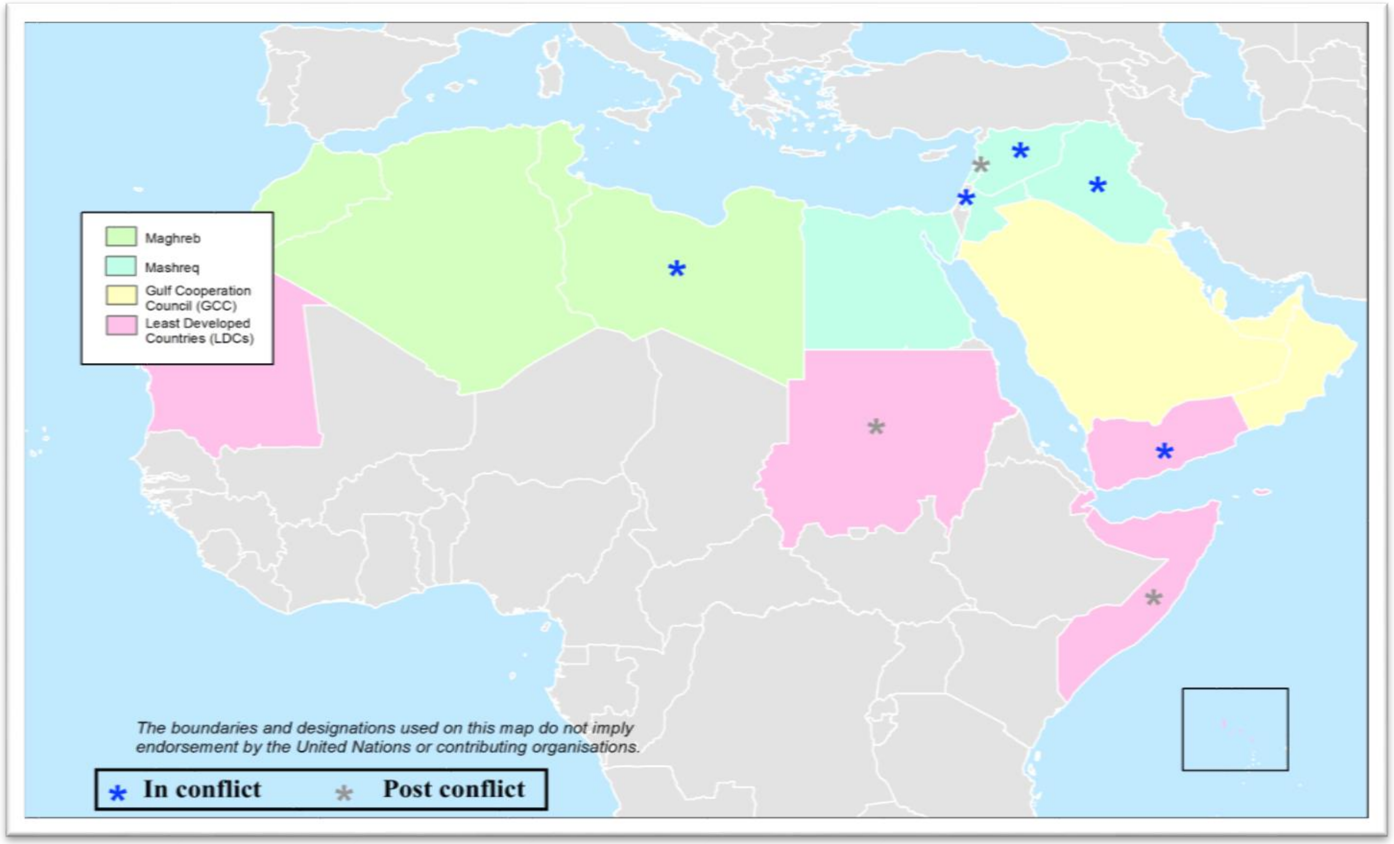
Green Finance Sectors/activities

- Adaptation (conservation, biosystems adaptation)
- Carbon capture and storage
- Energy efficiency (cogeneration, smart grid)
- Environmental protection (pollution control, prevention, and treatment)
- Green buildings
- Green products and materials
- Renewable energy (solar, wind, hydro)
- Sustainable land management, (sustainable agriculture, forestry)
- Transport (urban rail/metro, electric, hybrid)
- Waste management (recycling, waste management)
- Water (water efficiency, wastewater treatment).

Report Objectives

- Describe Green Finance instruments types
- Assess the status of Green Investment in the Arab region (Finance and Policy)
- Assess Green Finance and investments challenges and opportunities for Arab countries

Context



- Significant dependence on hydrocarbon revenues for the oil exporting countries.
- Financial sector in the region primarily driven by banking industry.
- USD 5 – 7 trillion needed each year to meet the SDGs worldwide, USD 230 billion of which in the Arab countries.
- USD 100 billion is the estimated annual SDGs financing gap for the Arab countries.
- Many wars and conflicts in the Arab region hinder any efforts to create a suitable environment for Green Investments. Those conflicts cost Arab economy USD 900 billion between 2011 and 2018.
- Unlike the other groups, Arab LDCs have experienced constant growth momentum since 2015 and this pace is anticipated to continue in the future.

AFED & ESCWA 2018 publications

Green Finance Instruments Types

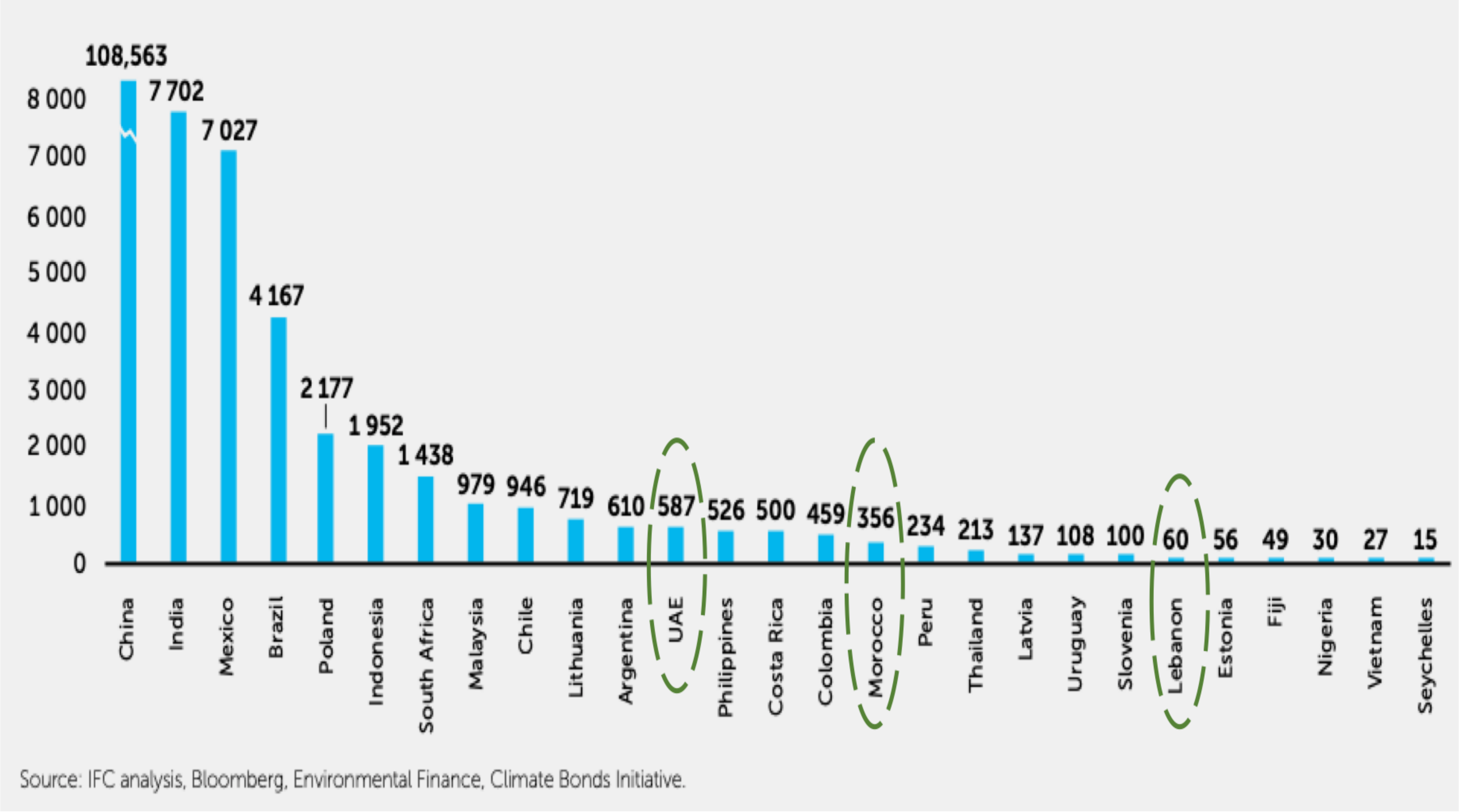
GF Instruments Types

- Green Bonds
- Green Sukuks
- Green Loans
- Novel Funding Methods
  - Blended Finance
  - Crowdfunding
- Combined Funding

Other Ways to Support Green Finance

1. Green Loan Guarantees
2. Grants and Donations

Green Finance Instruments in the Arab Region - Status



Emerging Market Green Bond Issuance, 2012 – 2018 (USD million)

Green Finance Instruments in the Arab Region - Examples

NAFAS

Green Bonds, Green Sukuks:

- First Abu Dhabi Bank issued the first Green Bonds in the region, back in 2017. The original issue was for USD 587 million by then National Bank of Abu Dhabi.
- Lebanon’s Fransabank was the first in the country and the Levant region to issue a green bond for USD 60mn in August 2018, showing the bank’s keenness to develop the green market.
- Morocco’s finance and business hub Casablanca Finance City (CFC) followed suit in September 2018 by raising 335 million dirhams (USD 35.8 million) via a green bond to finance its environmentally friendly real estate programme.
- Majid Al Futtaim Properties (private sector) raised over USD 600 million in Green Sukuks in May 2019, which were oversubscribed 6 times.

Green Loans:

- EBRD’s Green Economy Financing Facility (GEFF), where EBRD lends funds to countries, specifically for the benefiting financial institutions to lend to small and medium enterprises working on qualifying green projects: Morocco, Tunisia, Jordan, Egypt and Lebanon.
- Palestine’s SUNREF programme that was designed to help businesses and households in Palestine to seize the opportunities of the ecological transition.
- USD 2.0 bn ESG loan financing for DP World in the UAE.

Green Investment Status in the Arab Region

	Strategy / Policy in Place	Availability of Green Finance Instruments
Algeria	National Climate Plan (2015-2050)	
Morocco	National Strategy for Sustainable Development 2015-2020	
Tunisia	National Sustainable Development Strategy 2014-2020 The National Strategy for the Green Economy (2016-2036)	
Jordan	National Green Growth Plan (2017)	
Lebanon	National Action Plan on SCP (2015) Lebanon's Economy for Sustainable Development (2025)	
Egypt	Egypt's Vision 2030	
Palestine		
Syria		
Libya		
Iraq	The National Environmental Strategy and Action Plan for Iraq (2013 – 2017)	
Bahrain		
Kuwait		
Qatar		
Oman		
Saudi Arabia	KSA's Vision 2030	
UAE		
Sudan		
Somalia		
Mauritania		
Djibouti		
Comoros		
Yemen		

Good | Moderate | Weak or unavailable

Access to Green Finance: Challenges and Barriers

- **Unclear business case**: Perceived lack of opportunities, policy reversals, subsidies
- **Policy uncertainties**: Lack of meaningful action on climate.
- **Country risks**: Poor governance and inadequate investment processes.
- **Lack of track record** and experience.
- **Liquidity concerns**: Green infrastructure investments can tie up large capital, needed up-front.
- **Investment time horizons**: Financial performance assessed on short-term results.
- **Technology risk**: Impact of climate on certain technologies, grid connections.
- **Financial Sector**: Lack of awareness, inadequate risk assessment methodologies.

Access to Green Finance: Challenges and Barriers (Green Bonds)

- **Institutional barriers**: This is related to lack of technical skills to ensure adherence to the GBPs (e.g. monitoring and assessing use of proceeds); inappropriate institutional arrangements.

- **Market barriers**: These are three-fold:
  - ***a. Minimum size*****:** This refers to the minimum value that a green bond should bear to be appealing to green bond underwriters, who include major international banks.
  - ***b. High transaction costs*****:** This refer to costs incurred by the issuer to get a green label certification from the independent reviewer and to produce regular documents showing the allocation of the green bond proceeds throughout the project's life cycle.
  - ***c. Currency of issuance:*** A review of the Climate Bonds Initiative's database shows that, between 2005 and 2017, investors have mainly used the Renminbi (32%), the US dollar (26%), and the Euro (20%) to issue Green Bonds.

Green Finance Sources

Fund	Description	Applicability
Green Climate Fund (GCF)	Part of UNFCCC aims to address climate change issues (mitigation and adaptation in equal parts). It pays directly to the country supported.	All developing countries
Global Environment Facility (GEF)	Help developing countries and countries with economies in transition to meet the objectives of the international environmental conventions and agreements.	All developing countries
Adaptation Fund (AF)	Finances concrete adaptation projects and programmes in developing country that are particularly vulnerable to the adverse effects of climate change.	Parties to the Kyoto Protocol
Special Climate Change Fund (SCCF)	Operated by the GEF, it complements other funding mechanisms in these areas: adaptation; technology transfer and capacity building; energy, transport, industry, agriculture, forestry and waste management; and economic diversification. This fund should complement	All developing countries
Least Developed Countries Fund (LDCF)	Operated by the GEF, it supports, inter alia, the preparation and implementation of national adaptation programmes of action (NAPAs).	LDCs
Green for Growth Fund (GGF)	For energy efficiency and renewable energy investments. Also, to increase awareness of energy efficiency and small renewable energy products among companies and private households and to broaden and deepen the financial sector servicing those development needs.	Egypt, Jordan, Lebanon, Morocco Palestinian Territories and Tunisia
Climate Investment Funds (CIF)	To support high impact investments in renewable energy, energy efficiency, sustainable transport, climate resilience and sustainable forest management. Applies to Countries that have an active multilateral development bank (MDB) country program (World Bank and Regional Development Banks).	All
Clean Technology Fund (CTF)	- Invest in projects and programs that contribute to demonstration, deployment and transfer of low carbon technologies with a significant potential for long term GHG emissions savings. Applies to Countries that are eligible for ODA and that have an active MDB country program (World Bank and Regional Development Banks). - Applies to Countries that are eligible for ODA and that have an active MDB country program (World Bank and Regional Development Banks).	All

Green Finance Sources

Fund	Description	Applicability
International Fund for Agricultural Development (IFAD)	Mobilizes additional resources to be made available on concessional terms for agricultural development in developing Member States.	All Arab countries are members, except Bahrain and Palestine
Sustainable Energy Fund for Africa (SEFA)	Funding Renewable Energy and Energy Efficiency projects, developed by and in AfDB member countries.	AfDB African and non-African members
FEMIP Trust Fund (FTF)	• Part of the European Development Bank, focuses on: Finance and SMEs; Infrastructure; Environment; Human capital and research, development; and innovation	Algeria, Egypt, Jordan, Lebanon, Morocco, Palestine and Tunisia.
Technology Bank for LDCs	leverage existing initiatives within the UN system and beyond to implement its programme of work and promote STI in the LDCs.	LDCs
Country-Specific Support	SRTF (Syria Recovery Trust Fund). Created by many donors to help Syria recover. Offers funding as well as technical support and capacity building in specific sectors	Syria
Development Banks	Many banks such as Islamic Development Bank and The World Bank. Some of the funding is channeled through the UN-managed funds mentioned above.	All
International Development Agencies / Departments	These are individual countries own international development organizations, such as USAID (USA) and DFID (UK). Most of this funding is channeled through the UN-managed funds mentioned above.	All
Corporate Social Responsibility (CSR)	In most countries where large international or national companies operate, those companies would have special budgets for CSR. Those can be utilised for financing green projects. Examples of these are large oil and gas companies in hydrocarbon producing countries and large mining companies in minerals-rich countries	All
Other Examples	- Global Climate Partnership Fund (GCPF) - Global Energy Efficiency and Renewable Energy Fund (GEEREF) - Climate Action in the Middle East and North Africa (CAMENA) – Through FEMIP	All

Conclusions

- Green Finance in the Arab region is still nascent overall, and its status varies considerably from one country to another, not by sub-region.
- Funds required for executing green projects are available from a very wide array of sources, it just needs to be accessed.
- Accessing Green Finance requires the right strategies and policies to be in place in the Arab countries. This is not the case in the majority of them.
- Another important factor is the ability to apply properly for these funds, in terms of proposal write up, justification, guarantees, etc. Again, this varies from one country to another. However, support is available from many international bodies for those who request it.
- The Arab region has a huge potential for Green Investment if it chooses to fully reach it, especially pulling together as a united entity. That covers opportunities and suitability for green projects as well as finances.

Recommendations

- The Arab countries need to **develop a regulatory environment** that incentivises development of Green Finance instruments and encourages foreign green investments.
- The role of the **private sector needs to be activated and encouraged**, through facilitating admin steps, providing tax cuts, loan guarantees, etc.
- Effective **coordination between the Ministry of Finance and that of Environment**, is essential for the development of government-based Green Finance instruments.
- Reducing red tape will foster the emergence of **local Green Finance markets**.
- **Intra-regional collaboration** needs to be bolstered to the benefit of all parties. It can be facilitated by organizations such as ESCWA and the League of Arab States (LAS). This can create an **economy of scale** and help reach the minimum levels of investments required by many financial organisations.
- The regional organisations, such as ESCWA and LAS, in cooperation with CTCN and other international organizations, to create and keep up-to-date a list of Green Finance opportunities applicable to their member countries and to hold regular **awareness campaigns**.
- Arab countries to **use the support offered by the likes of CTCN for capacity building and proposals writing** and to ensure this knowledge is passed on further within their countries.