AGENDA

A lack of financial resources remains one of the biggest hurdles to achieving the COP 21 goal of limiting global temperature increases to 2 degrees Celsius.

The UN Framework Convention on Climate Change (UNFCCC) estimates that investments must increase by about $210 billion annually through to 2030 to meet adaptation and mitigation goals. This represents less than 0.5% of expected global GDP in 2030 and 1.7% of global investment.

Developing countries will account for 46% of the amount invested by 2030. Most of this money will be directed at the energy sector. Another major area of investment will be in real estate and transportation, each of which are major contributors to carbon dioxide emissions.

In real estate, growing urbanization will focus investment opportunities onto cities, with total construction spending expected to reach $15.5 trillion by 2030, supporting what will be a $69 trillion market of investable real estate according to a report by the World Economic Forum.

Real estate investors interested in considering environmental, social and governance (ESG) in their property portfolio hold $3.7 trillion in assets under management, which while economically significant is still a small share of sector investments. Real estate accounts for around one-third of global greenhouse gas (GHG) emissions and 40% of global energy usage, according to UN Environment’s Sustainable Buildings & Climate Initiative, so there is considerable scope for further climate action within the sector.

Reducing emissions caused by transportation will require a gradual switch to electric vehicles to replace internal combustion vehicles and also a shift away from building infrastructure designed to maximize vehicle flow and towards infrastructure that maximizes the efficient, green movement of people.

Financing these projects cannot come solely from governments. The financial services industry must play a critical role in this transition. Already, a number of financial institutions are focusing on sustainability initiatives, and green economy opportunities are becoming a key area of investment.

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SESSION OUTCOME

SUMMARY POINTS

1. Green finance is no longer a niche market, but several structural barriers remain.
2. Access to finance for small and mid-sized projects are limited by project heterogeneity.
3. Regulatory approaches to green finance can often differ vastly.
4. There is limited awareness about green finance among governments, within the financial sector and with project vendors and developers, which is constraining growth.
RECOMMENDATIONS

1. Encourage standardization of power purchase agreements and deployment of feed-in-tariffs to connect projects costing less than $10 million to financing sources.

2. Increase sources of risk capital to provide equity to newer project developers.

3. Promote education on green finance in governments, financial institutions and society at large.

4. Provide liquidity support for banks, and tax incentives for capital market issuance of fixed income instruments to finance or refinance green projects.
ROUND TABLE DISCUSSION

THE MAINSTREAMING OF GREEN FINANCE

Green finance is no longer niche and has gone mainstream, led by renewable energy, which will account for $7 trillion in new energy investment (out of a total of $12 trillion) over the next 10 years. This new investment will increase renewables’ share of the total energy mix. The transition from niche status has been enabled by lower renewable energy tariffs as technology improves. Green finance’s new-found mainstream status has created new anxieties about what structures should finance community and rooftop solar installations.

The intermittency of some forms of renewable energy remains a problem, and batteries seem the best solution, particularly because batteries in combination with distributed generation can lead to lower transmission losses as well as greater system reliability.

There remains a disconnect between differing definitions of what constitutes ‘green’ investment. This has created some gaps where the financial sector needs to decide whether existing structures can be adapted for new sources of energy generation.

LARGE FINANCING NEEDS TO REACH RENEWABLES TARGETS

Following on from these opening comments, participants heard about the huge size of regional investments required to reach renewable energy targets. For example, Dubai needs $160 billion in investments to achieve its aims.

Regional capital markets seem too shallow to meet governments’ financing requirements for renewable energy projects. In many renewable schemes, a long legal tenor is set for project finance on the expectation that refinancing (including through capital markets issuance) will occur after 5 – 7 years. Other projects, as mentioned previously, are small and will not be able to access capital markets, with existing approaches to renewable finance also not necessarily suitable.

GROUP DISCUSSIONS ON ISSUES FACING REGULATORS, PROJECT DEVELOPERS AND FINANCIAL INSTITUTIONS

Following these introductory remarks, the panelists were separated into three groups, with each asked to address one of the following questions:

- What are the regulatory barriers to green finance and what do governments need to do to address them?
- What must project developers do to attract financing?
- What can the financial sector do to develop innovative financing for these projects?

The groups were asked to report back to the full roundtable the problems they identified and recommend solutions that could address the problems.

GROUP REPORT: ADDRESSING REGULATORY BARRIERS

The group identified a lack of integration between different government departments in order to ensure that their actions were moving in the same direction and at the same speed with regards to green finance. In addition, government fuel and electricity subsidies distort markets. These problems are compounded by policy uncertainty that makes it difficult for market participants to price future returns. A shift towards tender auctions for new projects has led to record low energy prices for renewable projects, with notable examples of this trend being new solar facilities in the UAE. This should help make renewables a more viable alternative to fossil fuels.

More generally with regards to green finance, there are concerns over lenders’ recourse should creditors default, as well as how to develop more liquid and efficient capital markets.

To address these problems, the group suggested removing fossil fuel subsidies, although in many cases the falling cost of renewable technology has offset some of the market-distorting effects of subsidies. In addition, governments should express a clear policy commitment to renewable energy, which requires building awareness both within government and among the wider public.

Looking specifically at structural market issues impeding green finance, there is a discrepancy between the size of many projects and the size that financial institutions can finance in an efficient manner. A solution may include the creation of a vehicle to aggregate small investments, but this would require regulatory actions to enable a steady stream of compatible projects.

This could include developing standardized project specifications such as power purchase agreements (PPAs) for projects with non-government off-takers and standardized solar PV project documentation. Additionally, a feed-in-tariff could support very small projects such as rooftop solar projects to facilitate bundling of projects.

GROUP REPORT: SUPPORTING PROJECT DEVELOPERS

For projects enjoying hefty government support, sourcing financing should be straightforward. Other project developers, including those whose projects are below the size that can easily access the green bond market, face major funding challenges. This is especially acute in frontier markets where long-term financing of any kind is scarce relative to total demand.

To ease these difficulties, project developers should look to establish a successful track record to reassure potential lenders and in early projects commit a larger amount of equity themselves, thereby lowering leverage and risk.
During the process of bringing projects to completion, every developer must seek to educate stakeholders including vendors and banks. This can help attract funding because potential backers will understand the project better and so will be more comfortable providing finance. For developers of small projects, banks can play an important role in aggregating many smaller projects into a fundable scale through cross-selling to existing customers.

GROUP REPORT: LINKING PROJECTS TO THE FINANCIAL SECTOR

The group looking at the specific challenges that prevent the financial sector from becoming more involved in green finance found similar problems to those already identified. The financial sector’s main role is to facilitate connections between other parties. As the project developer group identified, there is little issue with utility-sized projects receiving financing, but these still face structural issues such as a need for a capital market take-out after five years. Project developers must work more explicitly towards this outcome from the outset.

For small projects, the main challenges are sourcing financing and standardization to make them more cost effective such as through a PPA or feed-in-tariff. Without standardization, $10 million is the minimum-sized project that can be financed.

WITH EVERY CITY TRYING TO GROW AND BECOME MORE COMPETITIVE, IT IS IMPERATIVE TO REMAIN ATTRACTIVE AND PROVIDE HIGH LIVING STANDARDS TO ENCOURAGE PEOPLE TO LIVE AND WORK THERE.