

Innovation required for Middle East to finance ambitious clean energy agenda

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"Renewable energy is traditionally a 'big money game', so the financing for these projects usually comes from corporations, mammoth funds, governments and international organisations," said Zoltan Rendes, Partner and CMO at SunMoney Solar Group.

"This year, the European Union launched a new renewable energy financing mechanism, which will make it easier for member states to work together to finance and deploy renewable energy projects across borders – either as a host or as a contributing country. The energy generated will count towards the renewable energy targets of all participating countries."

The EU has committed €5.4bn to its 2021 to 2027 LIFE Programme – the funding instrument for environment and climate action – which will be allocated across four sub-programmes, one of which is clean energy transition. The US Department of Energy is also setting up loan and project financing initiatives continuously to drive the energy change, while China spends around US\$1bn annually to subsidise clean energy projects through its Renewable Energy Development Fund, adding 20 GW onshore power to the grid yearly.

"Renewable energy projects are heavily subsidised and incentivised by governments globally with long-term feed in tariffs and tax cuts," Rendes explained. "Institutional investors are continuing to direct new money to the sector, but private investors are also very active in the market. Even small investors want to become part of the emerging clean energy business."

From sustainability and green finance to cleantech, the trend of financing clean projects is rapidly growing.

In the Middle East, the current largest source for such funding is development financial institutions, such as the IFC and EBRD, as well as a number of EXIM banks in countries that are interested in financing such projects. Focusing on decentralised projects, the main source of funding is from private sector equity as individual projects typically lack sufficient scale to attract debt financing.

"The market in the region is nascent and lenders are generally not familiar with the underlying risk associated with this particular asset class," said David Auriou, Managing Director of Creek Capital and Co-founder of SirajPower. "That being said, if approached in the right (manner), it is possible to bring in lenders at the portfolio level once a sufficient number of projects have been aggregated."

He gave the example of SirajPower signing a USD\$50 million long-term debt facility last year with the Arab Petroleum Investments Corporation (APICORP), an energy-focused multilateral development financial institution. "This first-of-its-kind portfolio financing for distributed solar in the Middle East was the culmination of many months of work and has paved the way for other market participants to follow," he added.

Expanding clean energy capacity is one of the top priorities of policymakers in the Middle East, with the world's largest and cheapest renewable energy projects built in the UAE and Saudi Arabia. Throughout the region, governments have set ambitious clean energy targets. "Solar energy development costs decreased over the years in the region, while new regulations mitigated commercial risks of clean energy investments," Rendes noted.

"The Middle East aims to become a clean energy and alternative fuel hub by producing hydrogen sustainably and cost effectively using cheap solar energy. The ambitious green goals drive innovation as clean energy-related startups are now in the focus of incubators and financing sources."

But some challenges remain in a region that is historically oil-based. And while clean energy is high on its agenda, it may take a while to build an adequate ecosystem and infrastructure.

"While we had the largest source of solar, it has not been a priority due to the abundance of oil and gas," said Ajay Bhandoola, Managing Partner at 360 Impact Capital. "Large projects need government guarantees so the biggest challenge is to change the map of the energy grid to cleaner energy sources."

Others believe the process of securing a grant in green energy remains very competitive in the region. "Research proposals should be convincing, realistic and address urgent needs of green energy with cost effective solutions," said Dr Adel Ben Mnaouer, Professor at the Faculty of Engineering, Applied Science and Technology at the Canadian University Dubai. "Solutions could be hardware or software oriented."

With the demand for electricity quickly and steadily rising in the MENA region, and available natural gas supplies unable to fulfil that demand, renewables are now in the focus of policymakers and investors.

But the region will have to overcome several structural and technical challenges, such as merging solar power into power grids, upgrading to smart grids to ensure flexibility and stability, and integrating innovative technologies for electricity storage. "Regulators have a lot on their (plate) for the forthcoming years," Rendes said.

"They need to come up with policy adjustments and new regulations to establish commercially attractive business models. For SMEs like our company, there are several ways to raise capital for growth and we are now considering an investment round in the MENA region and planning to go public on the new NASDAQ Dubai Growth Market."

According to Auriou, SirajPower's offtakers are focused on their core business and have more efficient uses of their capital. But without financing, the market would not be able to develop beyond a very minimal scale. Financiers, such as lenders or equity investors, therefore play a crucial role in unlocking the market.

"By shaping the asset class in a way that attracts debt financiers, there is an acceleration in the development of renewable energy capacities in the UAE and throughout the region, as the cost of capital for this asset class is brought down," he explained. "This, in turn, fully supports the various sustainable development goals that exist in Dubai, such as the Dubai Clean Energy Strategy 2050 launched by Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, and across the region. In the future, we foresee more sustainable and decentralised energy infrastructure in the region, as it is already unfolding in more mature markets."

As climate change continues to be the biggest driver of the renewable energy revolution, clean energy has now become an attractive business to be a part of. "In the post pandemic era, green energy will become the cornerstone of any progressive investment portfolio," Rendes concluded.

"From the last page of financial publications, renewables jumped to the front pages. Let's not forget that investing in renewable energy is not a horse race, it is more like betting on the slow-moving camel caravan in the desert, which will reach its destination surely and securely".

By Caline Malek

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