

OPINION

SUSTAINABLE FINANCE IN THE UAE**Thani bin Ahmed Al Zeyoudi**

As we look domestically and internationally, financing for sustainable development is a critical matter, particularly in meeting the ambitious sustainability agenda set forth under the UN 2030 Agenda for Sustainable Development as well as the Paris Agreement on climate change adopted in 2015. The UAE is at the forefront of taking proactive sustainability measures such as the deployment of clean energy, the introduction of building codes and appliance standards to increase energy and water efficiency, and the enhancement of climate-resilient infrastructures and transport systems. This is because we are committed to the shared global vision for sustainable development, but also because we are working to meet domestic strategic objectives to diversify its economy and to pursue green growth. This, however, cannot materialize without adequate financing, particularly from the private sector.

The UAE government is promoting public-private partnerships whereby the private sector can benefit from participating in, or financing, mega projects. The most successful area of green investment is renewable energy, where Power Purchase Agreements (PPA) between developers and the government have been progressively introduced as a new model of financing. Several local banks have already taken part in providing loans to finance such projects, which will be repaid through meeting long-term agreements.

A good example is Dubai's Mohammed bin Rashid Al Maktoum Solar Park. Developed in multiple phases, it will become the world's largest single plot solar park with a total capacity of 5,000 MW – enough to power 800,000 homes – when completed in 2030. As a flagship project of the Dubai Electricity and Water Authority (DEWA) requiring about AED 50 billion (USD 13.6 billion) in investment, the project has been receiving record-breaking tariff bids. In 2015, the second phase project of a 200 MW PV installation was awarded the then world's lowest price at 5.6 US cents per kWh to a consortium of ACWA Power and TSK. The price of PV technologies further halved in 2016 when the bid by a Masdar-led consortium for the third phase of the 800 MW PV installation recorded 2.99 US cents per kWh.

Similarly, in 2017, the Abu Dhabi Water and Electricity Authority (ADWEA) signed a 25-year PPA with the JinkoSolar and Marubeni Corporation consortium for developing the 1,177 MW Noor Abu Dhabi PV power plant for 2.42 US cents per kWh, which was also the lowest at the time. It is clear from these examples that the long-term PPA model works for renewable energy financing in the region and is driving down technology costs dramatically without relying on subsidies.

Attracting private sector financing and investment in green projects and businesses is in fact a decisive factor to ensure sustainable growth of the UAE economy in the long term. An earlier estimate indicates that green growth efforts would result in 4 to 5.5 percent higher GDP growth and creating 160,000 new jobs by 2030, while accelerating the country's economic diversification efforts and mitigating a substantial portion of carbon emissions. However, to materialize such economic and social gains, the investment of 1 to 2 percent of total GDP in green businesses and projects is required for the next 15 years.

Since sustainable finance is still a relatively new concept, the UAE Ministry of Climate Change and Environment (MOCCA) is leading the efforts of the federal government to raise awareness and build capacity of the UAE private sector. This effort is essential to the implementation of the UAE Green Agenda 2030 as well as the National Climate Change Plan 2050, which aim to shift the UAE into a more climate-resilient, low-carbon green development path, led by the ambitious 27 percent national clean energy target by 2021, and 50 percent by 2050.

As a first step in understanding the status of sustainable finance in the UAE better, MOCCA conducted a survey of around 80 financial institutions in 2015, in cooperation with the Central Bank of the UAE and UN Environment Finance Initiative (UNEP FI). The survey found that nearly half of the institutions were already providing sustainable finance products or services and were investing in a total of 75 domestic green projects at the time, half of which in energy and water projects. On the other hand, many institutions indicated that they were facing barriers and challenges to integrating sustainable

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finance into their regular operations, due to the lack of adequate enforcement, high risk of green projects, long payback period, etc.

Subsequently, MOCCAЕ formed a steering group consisting of several leading financial institutions and the Central Bank with the aim to identify best practices, exchange knowledge, and identify innovative ways to overcome the barriers. This led to the creation of the Dubai Declaration on Sustainable Finance, which was launched at the UNEP FI Global Roundtable held in Dubai in 2016 with 11 initial signatories from UAE financial institutions committing to support the UAE Green Agenda, the 2030 Agenda for Sustainable Development and the Paris Agreement. To date, 32 institutions have signed the Dubai Declaration, which is a clear indication that UAE financial institutions are well aware of their role in realizing sustainable development.

There is already a sign of progress among UAE financial institutions for increasing investment in sustainable projects and businesses through product innovation. For example, in January 2016 First Abu Dhabi Bank (FAB), formerly National Bank of Abu Dhabi (NBAD) announced its commitment to lend, invest, and facilitate a total of USD 10 billion (AED 36.7 billion) of financing within the next ten years to environmentally and socially sound business activities, defined in accordance with the Green Bond Principles. In March 2017, FAB announced the launch of the first green bond from a Middle East issuer. This USD 587 million 5-year Green Bond due on 30 March 2022, had been priced at a spread of 98 basis points over mid-swaps and pays a coupon of 3 percent per annum.

In the transport field, Emirates NBD launched a Green Auto Loan in January 2017 to promote electric and hybrid cars in response to the growing interest from residents to support a green economy in the UAE. Customers interested in investing in greener cars sold by approved auto dealers in the UAE are eligible to apply for this loan, which offers a 0.05 percent discount on applicable reducing rates. As an introductory offer, the bank is also waiving the full processing fee. HSBC Middle East started a similar scheme, both of which particularly target Tesla customers.

One of the most encouraging signs of sustainable finance in the UAE is the establishment of the AED 100 billion (USD 27 billion) Dubai Green Fund by DEWA. The fund is intended to stimulate investment in clean energy

and other green projects by providing seed financing, a de-risking facility, and by facilitating crowdfunding. The plan includes the development of the Dubai Green Zone dedicated to attracting mature and emerging cleantech companies, as well as the creation of a research and development center. National Bonds Corporation, a Dubai Declaration signatory, agreed in October 2017 to finance AED 2.4 billion (USD 650 million) as the first investor. This is a promising start to the Fund, which has great potential to stimulate investments to meet our sustainable development objectives.

Achieving ambitious clean energy and green economy targets in the UAE is not an easy undertaking. We are making good progress as presented above, however, a larger number of private sector-led projects will need to be implemented. For this to materialize, close collaboration between the government and the financial sector is critical. MOCCAЕ is currently engaging the Dubai Declaration signatories in three work streams for best practice sharing and knowledge development: 1) innovation in green investment products, including green bonds; 2) integration of environmental, social and governance risks into evaluation; and 3) promotion of internal sustainability management, including disclosure and reporting. It is hoped that such activities could encourage the UAE's financial sector to further take up sustainable investment practices and to make green projects bankable. Such activities will also help identify policy and market barriers to sustainable investment and explore areas where the government can intervene through new policies and initiatives.

The UAE believes that sustainable development is a collective global agenda, and hence, is not only concerned about domestic financing issues. On the commercial front, the UAE has invested around USD 2.7 billion in commercial renewable energy projects such as the UK's London Array and Dudgeon offshore wind farms. The UAE has also been providing support to developing countries with the deployment of renewable energy through grants and soft loans totaling around USD 1 billion in over 30 countries to date, including Egypt, Jordan and Oman. In addition to mitigation benefits, renewable energy deployment brings considerable socio-economic benefits such as better education, health and employment opportunities in those countries, thus getting us closer to meeting the 2030 Agenda for Sustainable Development. The UAE is doing its part in all fronts to meet the global goals, and invites others to follow suit towards realizing a sustainable future.