A CLEAN INVESTMENT

Green private equity investments are helping close a funding gap that was existent across the sustainable projects. Can it become mainstream and end the financing woes faced by sustainable tech entrepreneurs and developers?

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Green investments help project developers to secure funding for sustainable projects.

Green investments, which has grown by leaps and bounds in recent years, provide a strong linkage between the financial industry, environment protection and economic growth. "The transition to a greener, more sustainable economy is not a matter of technology - we already have the tools and techniques to make a switch to low-carbon economy," says Sylvia Wisniwski, Managing Director at Frankfurt-based Finance in Motion, an alternative investment management firm focused on development finance, impact investment and responsible finance. "The issue is one of capital - trillions of dollars will be needed to accomplish this transition, and these amounts are far in excess of what governments can allocate to this issue," adds Wisniwski. And that is where private equity (or private investment) comes into the picture.

Statistics show that private equity industry too has identified a financing gap for green projects. Last year, the venture capital and private equity investment in clean energy firms amounted to a whopping $7.5 billion.

Importance of Green Private Equity

Green private equity helps project developers and entrepreneurs in securing venture capital for sustainable projects. Investors and funds make direct investments into private companies which lead to delisting of public equity. "Private equity firms are an important part of the ecosystem as they provide the riskier portion of the transaction that includes development and construction risk," says Martin Haupts, CEO of Dubai-based Phanes Group, an international solar energy developer, investment and asset manager.

Equity for renewable energy projects can come from a utility that is financing the whole project; or from the developer who is contributing partial equity (usually 20% to 40%) of the investment cost; or it may originate from outside investors such as infrastructure funds, private equity funds and insurance companies. Capital from private equity can be used to finance new technologies, expand working capital, make acquisitions, or to strengthen balance sheet.

Whether they are venture capital in a start-up electric vehicle company or the financing of a solar power project, green technologies represent investments that are crucial to our transition to low-carbon economy. "Private equity is among the most important enablers that would boost innovation and increase the adoption of green solutions and practices across different industrial sectors in the Middle East," says Ruba Al-Zu'bi, a cleantech expert from Jordan. The prime beneficiaries of private equity are renewable energy, energy efficiency, clean transport, forest management, water management, sustainable land use and other low-carbon projects, all of which are urgently required in the region.

Middle East Going Strong

The Middle East is making steady progress towards green growth and low-carbon economy. "The sector is booming in the Middle East with Dubai emerging as a hub for renewables-oriented investments," says Haupts. "This can be observed especially at the example of family groups and local investment houses becoming receptive and interested in the green sector," he said.

With rising popularity of green technologies in the Middle East, private equity is helping in bridging the financing gap for private sector-led green projects, especially renewable energy, energy efficiency, waste management and water management. "Since green is obviously the most sustainable approach, access to finance makes it more appealing for SMEs and entrepreneurs to take the right decision," says Al Zu'bi.

In the Middle East, private equity is taking a growing interest in sustainable investments, partly due to emerging cleantech investment opportunities in sectors that are essential to the region such as solar power. "Solar, especially PV and CSP, has been one of the fastest growing segments in the green space with large-scale projects in the GCC and sub-Saharan Africa showing the way," says Haupts.

The Middle East region is witnessing rapid activity in planning and implementation of alternative power projects, besides energy efficiency, climate change mitigation, water conservation and waste management. Major private equity players in the Middle East are seeking green opportunities with low-risk regulatory agreements such as power purchase agreements (PPAs). However, equity investment from the public sector can be invaluable for high-risk projects, such as those at an early development-phase or at the pre-commercial stage.

Abraaj Capital, the largest private equity company in the Middle East, has created a dedicated Clean Energy Platform to develop and invest in clean energy assets in global growth markets. As of June 2016, the company has invested more than $1 billion in conventional and renewable power generation all over the world. Infact, Abraaj's leadership has acted as a catalyst for implementation of sustainable investment by the private equity sector which will in turn boost sustainable development in the Middle East.

Mubadala, the strategic investment company in Abu Dhabi, is also advancing the development, commercialization and deployment of renewable energy solutions and clean technologies while establishing Abu Dhabi as a global center of excellence in the renewable energy and clean technology sector. Masdar, the wholly-owned subsidiary of Mubadala, has already achieved iconic status in the clean energy industry worldwide.

Bottlenecks

The Middle East region has been experiencing hurdles in raising capital for private equity investment due to inadequate technical capacities of financial institutions and lack of awareness. "Wider availability of project finance for renewable energy projects and the wider availability of governmental support/collateralization mechanisms are among the key hurdles in the progress of green finance in the region," says Haupts.

A key factor in the progress of green private equity in the region is the concentration of private equity among a small number of firms. Overall, the industry in the Middle East is still quite small due to the relatively young age of the cleantech industry in the region.

Many private equity companies are not familiar with the earnings and risk structure of green investments, which makes them reluctant to offer suitable financing products. But with rising popularity of green private equity, it is expected that private investors will quickly adapt to funding requirements of green projects.

Policy interventions for supporting green SMEs, especially in developing nations, are also needed to provide impetus to equity-based financing in the green sector. Some of the essential steps include knowledge-sharing, raising environmental awareness, enhancing financial support, assisting skill development and skill formation, improving market access and implementing green taxation.

Green private investment is a major enabler for local, regional and international financing needs of green projects. Environment awareness has rapidly increased in the Middle East in recent years and it is expected that business opportunities for private equity firms will also show an upward trend. Short-term sustainability issues, such as water management or energy management, and longer-term issues like renewables and waste management, are already on the radar and the coming years will witness a heightened activity from private investors and equity firms in the region. Green private equity promises to play a big role in aligning financial systems with the financing needs of a sustainable Middle East. F