INNOVATIONS AND ROLE OF ENTERPRISES IN TRANSITION OF ENERGY SECTOR IN MENA REGION

Bradley Hiller
Climate Change Practice
31st March 2022
ARE THERE SPECIFIC RISKS AND/OR BARRIERS TO THE USE OF THESE NEW INDUSTRIES AND BUSINESSES?

• Public finance risks/barriers
  • MDBs welcome just transition – mandates centered around poverty alleviation and supporting marginalized communities – but public finance insufficient to finance just transition
    • Need to find ways to efficiently and effectively use public finance to leverage other sources

• Private finance risks/barriers
  • Requires return on investment
  • Requires bankable projects to attract investors
  • Risk needs to be manageable
  • Requires clear ‘rules of the game’ to protect and encourage investors

• Opportunities
  • Public private partnerships
    • PPP Project Preparation Facility – Helps prepare bankable projects for private sector investment
  • MDB can play re-risking role to help attract private sector investment
    • Guarantees, insurance
    • Working with Governments to provide feed-in-tariffs
What role should governments and the private sector play to promote these new industries and businesses, for example in terms of investments needed and the creation of required enabling environment?

• Governments
  • IsDB responds to Member Country requests, taking direction from Nationally Determined Contributions (NDCs), national/sector development plans, and other relevant policy guidance
  • Possible options for IsDB to support Governments to create attractive investment rules and regulations to encourage private sector engagement
    • Consider policy support, knowledge development, technical assistance and capacity building
    • Consider helping Governments to host matchmaking activities, etc. to encourage private sector investment
    • Consider support to Governments to undertake pilot demonstrations or establish regional partnerships and knowledge sharing to help de-risk for private sector investors

• Private sector
  • IsDB could consider helping private sector to become aware of new market potential
    • Production of knowledge products, undertaking of technical studies, disseminating market information
  • May be opportunities for first movers, who potentially compromise on short-term profit margins to help scale new industries and businesses, but which could offer higher profit margins later
What sustainable financing mechanisms can benefit the widespread development, deployment, diffusion and replication of these new industries and businesses?

• Emerging financial sources

• Islamic financing modalities
  • Green and sustainability sukuk, emerging Green Islamic microfinance

• Available funds in the market e.g. GCF, clean technology funds, etc.
  • Role for MDBs to help countries access such funds

• Private sector investment
  • Role for MDBs with concessional finance and helping to de-risk investments

• Additionally, important role for technical assistance, knowledge exchange and capacity building
  • IsDB has a Reverse Linkage Program
  • Building capacities and developing guidelines to support green lines of credit in Islamic Financing Institutions (which can then support private sector in respective member country)

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**STI Transform Fund Support –** IsDB supports investment in innovative private sector companies, SMEs focusing on climate-related solutions, including renewable energy

**Crowdfunding “Partnership for Impact”** - In 2019, IsDB and TRINE, a crowdfunding platform solely specializing in off-grid solar sector and actively operating in Sub-Saharan Africa, launched a “Partnership for Impact.” IsDB will match up to 33% of all eligible loans provided through the platform with Sharia-compliant financing.

**Reverse Linkage** is defined as “a technical cooperation mechanism enabled by the IsDB whereby member countries and Muslim communities in non-member countries exchange their knowledge, expertise, technology and resources to develop their capacities and devise solutions for their autonomous development.”
What are the potential roles for climate finance in support of new businesses and industries in developing countries?

• Climate finance can help member countries pursue low-carbon, climate resilient development pathways and for such transition to occur in a just manner
  • Beyond just transition, there have been calls for “affordable and just transition” and “just and equitable transition”

• MDBs have targets for climate finance, which they are raising
  • MDBs support Paris Alignment building blocks and have supporting working groups, including a focus on just transition
  • Cooperation between MDBs to create harmonized systems for classifying and measuring climate finance

• There is a need for scaling of climate-focused projects rather than projects with climate elements
  • The focus on climate finance measurement, reporting and ambition can help transition towards this
  • This can support progressive businesses and industries

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<thead>
<tr>
<th>Institution</th>
<th>Climate Finance Target</th>
<th>Target Date (by)</th>
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<tbody>
<tr>
<td>AfDB</td>
<td>Doubling of climate finance to US$25 billion</td>
<td>2025</td>
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<td>ADB</td>
<td>At least 75% of the number of its committed operations</td>
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<tr>
<td>AIIB</td>
<td>50% of total approvals</td>
<td>2025</td>
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<tr>
<td>EBRD</td>
<td>50% of green finance share of total investments</td>
<td>2025</td>
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<tr>
<td>EIB</td>
<td>More than 50% of its operations</td>
<td>2025</td>
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<tr>
<td>IaDBG</td>
<td>IaDB: ≥65%</td>
<td>2023</td>
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<tr>
<td></td>
<td>IaDB Invest: ≥40%</td>
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<td>IaDB Lab: ≥40%</td>
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<tr>
<td>IsDB</td>
<td>35% of total financial commitments</td>
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<tr>
<td>WBG</td>
<td>35% of its financing to have climate finance on average</td>
<td>2025</td>
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