

EXECUTIVE INSIGHTS

Mashreq Sustainability Dialogues

Q4 2024

**How Can PPPs Be Effectively Leveraged
to Mitigate Risks and Facilitate Access to
Sustainable Financing Options?**



Executive Summary

Redefining public-private partnerships (PPPs) and aligning banks' ESG profiles with global climate action initiatives, are crucial to enhancing their effectiveness in addressing global challenges. Traditional PPP models often face significant risks, financial constraints, and complexities that can hinder their success. A new approach is needed to improve access to affordable, sustainable financing. This could involve greater collaboration between governments, private sector players, and multilateral organizations, focusing on transparent risk-sharing mechanisms and innovative financing structures, in addition to increased transparency in project planning. By embracing a more inclusive and flexible model, PPPs can better attract investment, promote sustainable development, and deliver long-term value. Redefining these partnerships is essential to creating resilient, equitable solutions that drive economic growth while meeting social and environmental goals.

"If we don't make finance accessible and incentivized, we risk making not available and missing key sustainability and net-zero objectives. The rules of engagement between the government and private sectors need redefinition, so sustainable and green financing becomes more appealing for all stakeholders involved."

Faisal Mohammed ALShimmari
Executive Vice President, Head of ESG & Corporate Strategy
Mashreq

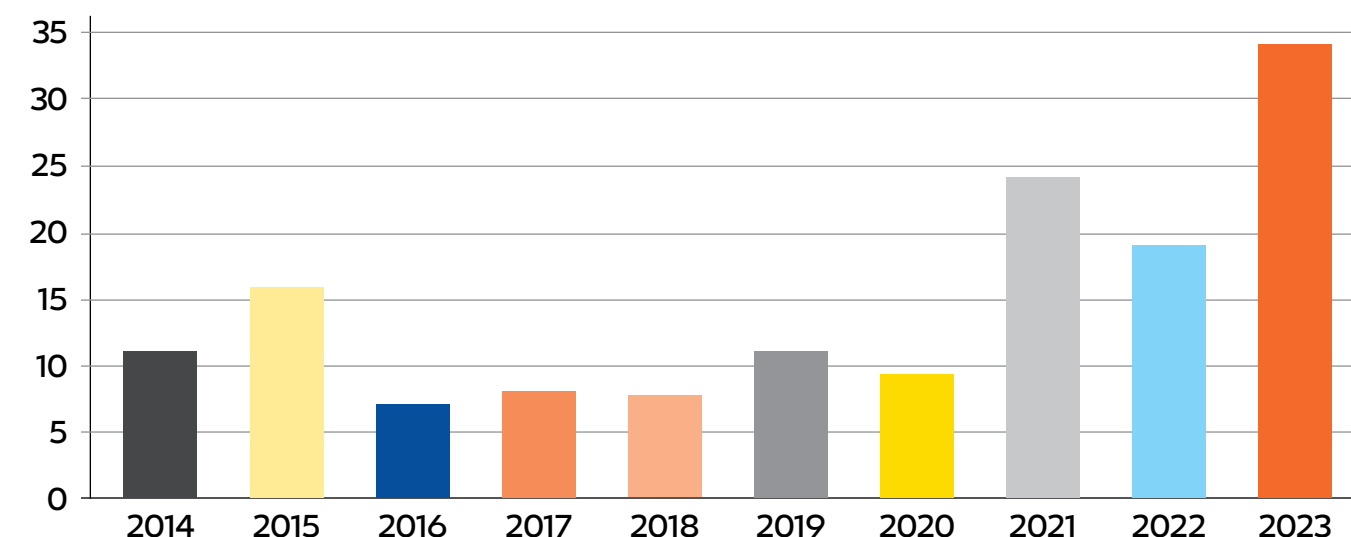
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VALUE OF MENA PPP PROJECTS 2014-2023

AVERAGE YEAR ON YEAR GROWTH IN VALUE = 27%

(USD billions)



Source: MEED Business Intelligence

ACHIEVING PPP 2.0

The finance industry faces many challenges when it comes to public-private partnerships on sustainable projects, such as complex directives and regulations on investments, and linking ESG goals with UNSDGs. Pragmatic implementation is crucial and necessitates an open discussion on the key enablers required to provide the necessary financing facilities, whether for private sector or government-backed projects. The focus is shifting from reputational risk to practical business impact. Financial and insurance sectors, for example, are reevaluating their involvement in high-risk areas like coastal real estate, as lack of insurance can limit banking options for mortgages. This affects corporate and retail banking and highlights the need for companies to adopt comprehensive ESG practices. Financial literacy now also includes ESG understanding, which is key to navigating today's complex ecosystem. Setting short and long-term goals for achieving net zero requires clear baselining and collaboration between governments and private entities. Governments alone cannot reach net-zero targets, so they're deploying regulations as a 'stick,' but private-sector engagement

\$332 BILLION
 Planned and as yet unawarded
 PPP projects - led by power, transport
 and water sectors

will be essential. In countries like India and Oman, we see net-zero regulations becoming government mandates, which shows that governments recognize they need private-sector engagement to achieve climate goals. This is crucial because industries like tourism, which account for over 8% of global emissions, present significant challenges and opportunities for improvement in areas like water management, energy transformation, and reforestation. Incentives like corporate profit tax rebates can also create a more viable risk appetite.

At COP 28, six banks in the UAE committed \$1 trillion to sustainable finance. With over 79 financial institutions in the region, and being on the cusp of the 'finance' COP29, the expectation would be for more capital commitment, but the rules of the game in the ecosystem must adapt and be functional for the financial sector to participate effectively.



SHIFTING MINDSETS

Traditionally, there's been a government-led approach to sustainable projects, with banks playing a secondary role. Now, we're shifting to a public-private partnership model, with governments diversifying funding sources, and that has catalysed the market. However, building capacity and creating the right culture takes time. That means establishing frameworks that actors can trust and work with, building a track record, and testing these structures. Over time, this will foster the confidence necessary to make projects bankable and profitable. The right balance between risk and profit sharing is key, and mechanisms need to be flexible—whether in Islamic or conventional finance. To open the market, we need frameworks and track records to build confidence. It's not just about setting principles; it's about creating a sustainable partnership.

ALIGNING RISK

When discussing project finance and partnerships, many factors come into play, such as risk appetite, reward, investment horizon, and impact. Typically, long-term projects like PPPs often don't align with the short-term nature of typical bank financing, which prefers three-to-seven-year horizons. Banks may participate in risk mitigation,

“When we discuss partnerships, one critical aspect is the balance of risk responsibility between the private and public sectors. If those responsibilities aren't properly aligned, you might assume more risk than anticipated, and that could manifest in issues like bureaucratic obstacles, service delivery, or even contract disputes.”

Dr. Morgan Eldred
Founder
Digital Energy

bridge financing, or syndications, but shifting their mentality to longer-term commitments will be crucial for developing successful PPPs in the region.

The private sector is typically more conservative and seeks quicker returns, while the public sector prioritizes broader ESG goals and sustainability mandates. Public entities can usually afford more risk due to government backing, while private firms focus on profitability. Recent events like COP27 in Egypt and COP28 in the UAE, have elevated the region's maturity and strengthened dialogue between the two sectors on project finance. They must now work together, along with domestic and foreign investors.



IMPACT, METRICS & TRANSPARENCY

It is crucial to ensure that sustainable finance is allocated appropriately. Financial institutions need to deepen their understanding of how to structure and monitor loans issued under this mandate and KPIs. Metrics like ESG and climate risk assessments are essential, and we're seeing more institutions, especially in the UAE, adopt clear ESG and climate risk protocols.

Yet, challenges remain. Banks, government agencies, and companies each have different priorities. For instance, banks may focus on cost overruns and budget shortfalls, while companies want to deliver tangible benefits beyond just getting paid. This lack of definition can create a disconnect in financial metrics. Digital technology and smarter KPIs could improve this, but often, we default to traditional KPIs instead of diving deeper, despite having data that could provide clearer insights. It's essential to invest the time

“Financial institutions must establish frameworks to verify that funds serve genuinely sustainable projects. Many banks are now setting up internal checklists and frameworks to ensure compliance with local regulations and standards, as well as requesting their clients to report emissions, even covering Scope 3.”

Fadi Al-Shihabi
Partner – Sustainability Solutions Leader
KPMG

upfront in accurately setting and measuring KPIs and ensuring transparency among all stakeholders. Technology enables this, but it also requires careful planning and agreement on priorities, as each party often has a different focus.



BUILDING A ROBUST ECOSYSTEM FOR INTERNATIONAL CAPITAL

The GCC's bond and sukuk markets have evolved considerably and contribute positively to the sustainable financing ecosystem. Today, about 45% of the region's sukuk is in hard currencies, showing stability and global appeal. However, balancing the risk-return profile remains a challenge, especially given that banks are accustomed to shorter investment horizons. This cultural shift towards longer-term financing models is essential for the continued growth and sustainability of project financing in the region. Unlike in other regions, the Middle East does not have large pension funds and substantial asset management and institutional investors. The reliance on banks highlights the need to further develop the debt capital markets. For regional projects to attract global capital, the appeal must increase. The region is still in the early stages of market development and lacks a track record. Key obstacles include unclear legal protections and enforcement mechanisms,

"In the GCC, Islamic Finance's inherent profit-and-loss sharing model offers an underutilized pathway for project finance. In Saudi Arabia, 85% of bank financing is Sharia-compliant, and in Kuwait, 50% of the banking sector is Islamic finance-based. This feature, aligned with risk-sharing principles, could be harnessed for sustainable and long-term financing."

Bashar AL-Natoor
Managing Director and Global Head
Islamic Finance
Fitch Ratings

which are essential for investor confidence. Developing these frameworks is crucial, but even after they're set, they need to be tested to build trust. The forward focus shouldn't be on a quick fix, but rather on building a robust ecosystem that will attract both local and international capital over time.

Challenges To Public-Private Partnerships In MENA

- Lack of Standardization in PPP Frameworks, Legal Uncertainties
- Immature Market, with Untested Precedents
- Complex Approval Processes
- Risk Alignment
- Fluctuations in Oil Prices and Government Budgets
- Limited Private Sector Access to Long-Term Financing
- Lack of Technical Expertise
- Transparency And Metrics



ABOUT: mashreq المشرق

Mashreq was founded in Dubai, 1967, and can be traced to humble origins as the oldest bank in the UAE. Today, Mashreq celebrates over five decades of excellence, and has emerged as one of the leading financial institutions in the United Arab Emirates (UAE), with strong presence through its international offices spanning Europe, Asia, Africa and the US, as well as financial capitals of the world. The creativity and unsurpassed reputation of the bank to provide innovative solutions has garnered the bank with several awards over the years. Just as the UAE has enjoyed strong and consistent growth in recent decades, Mashreq has continued to expand the range of services it offers to its valued customers. Mashreq has become an integral part of the financial landscape for businesses and individuals across the country.

Source: <https://www.mashreqbank.com/en/uae/about-us/our-company/history/>

