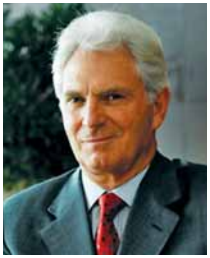

Sounding the Alarm in the Gulf

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The DIFC is an onshore financial center in the Gulf, offering independent regulation, a common law framework, and supportive infrastructure in a region of rapidly growing demand for financial services. Nasser Saidi is also executive director of Hawkamah, the Institute for Corporate Governance, which promotes corporate sector reform and good governance in the Middle East, assisting countries in developing sustainable corporate governance strategies adapted to their national requirements.

Q What are the major sustainability challenges facing your region?

A The main issue facing financial institutions in the Middle East is the macroeconomic risk arising from climate change and the vulnerability of one of the most fragile ecologies on earth. Two-thirds of water resources in the Arab countries arise outside the region, so water scarcity is a vital issue. Per capita water usage across the region is less than 10 percent of the global average. Unless we find rapid solutions, water scarcity will affect populations, businesses, and economic growth; and this could lead to water wars.

Q How are countries in the region addressing these challenges?

A The main reaction, especially in the Gulf, is the desalination of sea water and the financing of renewable energy. This has led to the combination of the two, with electricity generation always linked to desalination. New generating capacity supplies households and businesses in the day and desalination plants at night—a model that this region could export to the rest of the world.

Q What barriers does the banking sector face in dealing with those challenges?

A The main obstacle to financing this type of investment is the absence of a policy framework and strategy for clean energy and clean technology in the countries of the region. We need a strategy—with feed-in tariffs or incentives to produce renewable energy. In addition, energy generation in the region is dominated by governments so the private sector has not been involved and there are very few public-private partnerships.

There is no problem with availability of finance, however. The Clean Energy Business Council, which I chair, is working with governments to develop a policy framework. We're beginning to see a response with Dubai, Abu Dhabi, Saudi Arabia, and other countries setting renewable energy targets—but it's modest so far.

The alarm needs to be sounded. A recent report from Aramco said that, at the present rate of consumption growth in Saudi Arabia, the country will have no oil left to export by 2035. The country uses more oil than Germany with a quarter of the population and a tenth of the production. We need to start investing rapidly in renewables, especially in solar energy, given the time needed to build the capacity.

Q What policy measures would help you scale up in sustainable finance?

A Part of the problem is lack of awareness and company reporting. I'm certainly an advocate of mandatory integrated reporting on sustainability issues for listed companies and state-owned enterprises (which could lead by example), later moving on to all companies. The mere fact that they have to report raises public awareness.

Hawkamah has canvassed listed companies in the Middle East and North Africa on 200 indicators to create a Pan-Arab ESG index with strong support from IFC. It is the S&P-Hawkamah tradable index, comprising 50 companies which perform best in terms of environmental, social, and corporate governance reporting. We've been trying to get sovereign wealth funds, institutional investors, and others to adopt the criteria and this index; and we'd like to see more of this coming out of Rio+20.

Q How could more private finance be leveraged into sustainability projects?

A Government incentives need to be better structured. In the Middle East, they tend to subsidize the use of fossil fuels. In 2010, about $170 billion was used to subsidize fossil fuel, more than 40 percent of the global total. And this is happening in many other countries. Rio+20 should say that these subsidies be gradually withdrawn and the money used for renewables.

Even in the US and Western Europe, there is no consistent structure of incentives for renewables, and the cost of some has become unaffordable. Feed-in tariffs are probably the best instruments, with targets of reaching grid parity over a number of years. The investment made by China in solar generation could mean that this is achieved quite rapidly.

Clean energy finance needs more innovation. We've launched a Green Sukuk initiative to raise Islamic finance sources for clean energy, and I'd like to see more private equity and venture capital. Investing in clean energy is a long-term business, and sovereign wealth funds might be persuaded to invest, as they are meant to be "patient investors." After all, their role is to preserve resources for future generations.

Q What single result would you like to see coming out of Rio+20?

A Making sustainability reporting part of the reporting cycle would make a big difference. A global policy framework followed by negotiations with audit and accountancy bodies would make it happen through changes to International Financial Reporting Standards (IFRS). It would certainly be a big plus in our region, where sustainability reporting is very rare.

Q Is there one result that would concern you if it emerged from Rio+20?

A Every time there's a conference without any concrete results, we pedal backwards—especially with the financial crisis when governments need to cut resources. Not having something concrete would be hurtful to the process.