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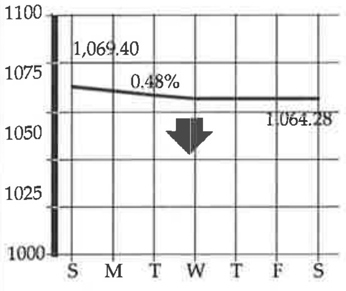

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Rush for renewables: Islamic investors leverage new energy opportunities

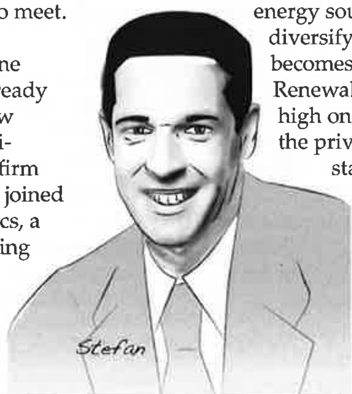
Rising investor interest in clean energy solutions and a growing urgency for renewable solutions across emerging Islamic markets are boosting opportunities for new players to enter the industry - and creating a market for Islamic investors to take advantage of the close fit between the 'clean and green' sector and the socially responsible foundations of Shariah compliant investing. With the developed world pulling back from clean energy investment, a gap in the market is opening up – which Islamic nations could (and should) step in to fill.

Funding focus

In 2012 the clean energy sector saw a reported 14% decline in investment as the EU pulled back its green subsidies, while the US focused on fracking over renewable energy sources. In December 2013 Bloomberg New Energy Finance reported that global investment in clean energy had declined yet further, from US$317.9 billion in 2011 to US$288.9 billion in 2012 and US$254 billion in 2013. This has resulted in a significant funding gap for the clean energy sector that Shariah compliant sources have the potential to meet.

The opportunity has not gone unnoticed, and firms are already taking steps to meet this new demand. Last month, Dubai-based investment advisory firm Greenstone Equity Partners joined forces with Capital Dynamics, a global asset manager investing in private equity and clean energy with assets under management of US$19 billion. The partnership plans to introduce the Capital Dynamics clean energy infrastructure platform to the Gulf region, focusing on sovereign wealth funds, institutional investors and family offices, and already includes a Shariah compliant investment vehicle; while a Shariah compliant option for the firm's private equity program is also underway and will be introduced in the near future.

The new venture plans to address the growing demand in the region for global private equity and infrastructure projects, with Capital Dynamics CEO Stefan Ammann commenting that: "We understand the importance of trust and building long-term relationships within the region. We are delighted that Greenstone's group of world-class professionals will be the face of Capital Dynamics in the GCC countries, building on the commitment we have made to the region over the past few years."



Expanding attraction

The project is just one of a recent spate of activities in the energy sector as the GCC region scrambles to invest in alternative energy sources as the need to diversify away from fossil fuels becomes increasingly urgent. Renewable energy ventures are high on the agenda not only for the private sector but sovereign states and development agencies across the OIC, and the sector is pulling in growing sums of foreign investment financing across multiple emerging markets as

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firms see the potential in this new public focus.

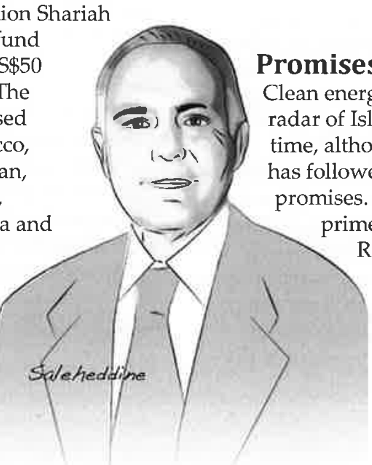
In December 2012 for example, French firm Fonroche Energie joined together with India's PR Clean Energy and Mahindra EPC to develop a solar power plant in Rajasthan; while the previous month it signed up with Jambil Hydroenergy to launch a photovoltaic power plant in Kazakhstan.

European pull-back

This is an area that has strong potential for Islamic investors, with many European entities pulling back from large investment projects in recent years due to alternative policy focus and various political concerns. Earlier this year for example, Morocco recruited foreign investors for a new US$9 billion solar project: but lenders including the World Bank, European Investment Bank and state-owned banks in Germany and across the EU reportedly refused involvement due to the location of some of the planned plants in disputed regions of the Western Saharah.

In response, Morocco's foreign minister Saleheddine Mezouar confirmed that the project had ample investment from alternative avenues including China and the Gulf countries, although he declined to name specific sources. However, in 2012 the first US$1 billion contract for Morocco's first solar plant (due to start operating in 2015) was awarded to Saudi Arabia's Acwa Power International, suggesting that GCC firms are keen to play a major role in the ongoing alternative energy game.

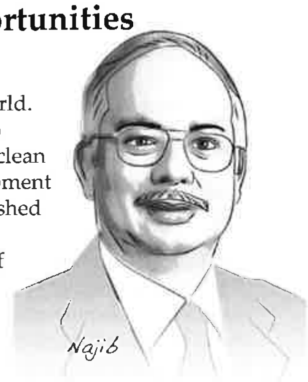
The IDB is already a significant player in the clean energy sector, with around US$1 billion in investment between 2010-12 inluding a US$35 million Shariah compliant clean energy fund for Central Asia and a US$50 million fund for Africa. The bank has already dispersed US$908 million to Morocco, US$896 million to Pakistan, US$886 million to Egypt, US$764 million to Tunisia and US$668 million to Syria, and in October 2013 announced a US$100 million investment with the Industrial Development Bank of Turkey for the development of renewable energy projects. Most recently in June this year the IDB announced a further US$180 million in financing for renewable energy projects in six African nations to reduce poverty and increase access to electricity. US$125 million has already been provided by the agency, which is currently in talks with the OPEC Fund for International Development to provide the balance. "This is just seed money. The goal is to enlarge it and to build a pipeline of projects," explained Sidi Mohamned Ould Taleb, the regional director for IDB.



> ***"In 2012 the first US$1 billion contract for Morocco's first solar plant was awarded to Saudi Arabia's Acwa Power International, suggesting that GCC firms are keen to play a major role in the ongoing alternative energy game"***

Promises, promises...

Clean energy has been on the radar of Islamic banks for some time, although not everyone has followed up on their initial promises. In 2010 Malaysian prime minister Najib Abdul Razak announced that the country was keen to lead an initiative to found a new bank to finance clean energy projects in the Muslim world. "I would like to propose that a clean energy development bank be established to accelerate development of green energy and related industries for the benefit of developing [Muslim] countries," he said. "Malaysia is prepared to spearhead this initiative."



However, nothing more has been heard and it seems as if the plan has fallen by the wayside. In the same year, Malaysia signed an MoU with Abu Dhabi investment vehicle Mubadala for clean energy project collaboration, with a number of projects planned including up to AED25 billion (US$6.8 billion) in the Sarawak renewable energy corridor. Although the entity did invest an estimated US$4 billion in an aluminium plant in the Sarawak Corridor, it is unclear how much of the original planned investment into renewable projects has taken place, with no further activity reported.

Cross-border cooperation

Despite the failure of some big promises to materialize, the clean energy sector nevertheless offers considerable opportunities for cooperation between Muslim nations, especially given the discrepancy between the vast natural resources of the Asian countries and the oil dependence of the MGulf region.

"The Middle East has their petrodollars," said Susilo Bambang Yudhoyono, the president of Indonesia, in a recent interview. "Indonesia has its vast natural resources. All of us have resources to contribute. We can pull these together and achieve synergy and prosper together."

New developments

And activity is gathering momentum as players recognize the potential both of the sector as a whole and the different strengths that different jurisdictions can bring to the table. In June this year TNB Energy Services (TNBES), the green

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energy arm of Malaysia's largest power supplier, Tenaga Nasional, announced that it was looking for partnerships in the Middle East in the sustainable energy sector.

Tenaga Nasional has a strong tradition of Sukuk issuance, suggesting that any major push into new markets could be sourced through Islamic channels. On the 3rd July the company announced the issuance of up to RM2 billion (US$627.8 million) in Sukuk to refinance existing debt. The firm's securities are rated 'AA+' by Malaysia Rating Corp, the second-highest investment grade; and the debt will be sold via Kapar Energy Ventures, which is 60% controlled by TNB and operates the largest thermal power station in the country. RAM Ratings also in April this year reaffirmed Tenaga Nasional's US$500 million 20-year Sukuk Murabahah program (due to mature in 2025) at 'AAA' based on its strong government support and monopoly of domestic energy distribution.

TNBES is a key player in the renewable energy sector, and its partnership with US giant General Electric (specifically with its R&D arm GE Research) has significantly enhanced its expertise in the industry. The firm focuses on green energy and efficiency projects including solar power, wind energy, hydro power and biomass, as well as designing renewable power plants, grids and hybrid systems. According to Mohd Azhar Abdul Rahman, the managing director of TNBES, the firm is keen to work with government-linked companies in the Middle East via joint ventures or special purpose vehicles, especially in the area of solar power given the high incidence of sunshine in the GCC.

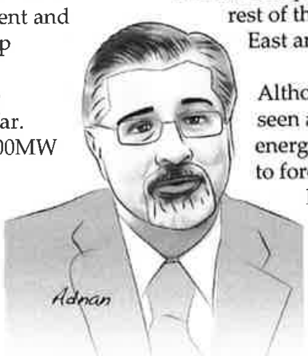
Exceptional investment

The move comes at a time when the Middle East is driving forward with renewable energy investment and pushing projects to develop alternative sources, which account for around US$4.5 billion across the GCC so far. Qatar aims to produce 1,800MW of clean power by 2020 (accounting for around 1.5 million barrels of crude oil per year or 2% of its power output) and recently built the largest solar technology manufacturing facility in the region; while the UAE has invested over US$1 billion in renewable energy projects; and Saudi Arabia is aiming to be the world's leader in renewable energy with a massive US$109 billion investment program and plans for a third of its power to come from alternative sources by 2032.

According to the director-general of the International Renewable Energy Agency (IRENA), Adnan Amin, there is "tremendous growth in renewable energy investment in the GCC," and "the leader in the process is the UAE". However, it is not just the Middle East that is getting involved. "One of the myths about renewable energy projects is that there is not enough of them out there," said Adnan. In fact, he claims: "There is a large pipeline of renewable energy projects that are viable today." IRENA in January this year announced loans of US$41 million for renewable energy projects in emerging markets including some of the poorest Islamic nations such as Mali, the Maldives, Mauritania: funded by IRENA and the Abu Dhabi Fund for Development and chosen from a shortlist of 80 projects worth over US$800 million. "We are expecting the volume for the next cycle of financing to be substantially higher," added Adnan.

Across the globe

But it is not just Islamic nations that are recognizing these opportunities, and investment is not restricted to emerging markets. Globally, Bloomberg New Energy Finance expects US$7.7 trillion to be invested in new generating capacity by 2030, with 66% going on renewable technologies including hydropower. Out of a total US$5.1 trillion to be spent on renewables, Asia-Pacific will account for US$2.5 trillion, the Americas US$816 billion, Europe US$967 billion and the rest of the world including Middle East and Africa US$813 billion.



Although the last few years have seen a decline in European clean energy investment, according to forecasts from Bloomberg New Energy Finance the next 15 years will see renewable energy increase its share of EU electricity generation from 40% in 2012 to 60% in 2030, while fossil fuel sources fall from 48% to 27%. In addition, as the private sector plays a bigger role, reliance on subsidies will fall meaning that the sector will become more sustainable. Seb Henbest, the head of Europe, Middle East and Africa for Bloomberg New Energy Finance, confirmed that: "Further improvements in the economics of solar and wind will mean they are increasingly installed without subsidy in the years ahead. We expect Europe to invest nearly US$1 trillion to increase its renewables capacity by 2030."

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Islamic opportunities

And while only a small proportion of the current market, this growth offers exciting opportunities for Islamic firms to get in on the act. Earlier this year UK financial advisory firm Simply Sharia announced the launch of the Shariah compliant Green Energy Enterprise Investment Scheme in collaboration with Gardner Asset Management and the Shariyah Review Bureau (SRB), offering investors the opportunity to participate as shareholders in a government-backed renewable energy project which plans to provide revenue from Renewable Obligation Certificates and the sale of electricity to the National Grid. The project will initially be based on a solar photovoltaic generation plant in the UK run by GAMIIp.

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"This will be the first certified Sharia Compliant Green Energy EIS offered to UK investors," said Faizal Karbani, CEO of Simply Sharia. "We believe the structure of the investment fits very well with the values and principles of Sharia."

The scheme uses an Investment Wakalah structure, whereby an agent (Wakil) is appointed by investors to manage and run the investment on their behalf. "For this project, GAMllp has been appointed as the Wakil, and will run the business for investors in return for a fee, comprising an annual management charge and a share of the profits," confirmed Faizal. "It is also the intention to operate without conventional interest bearing debt in the structure."

Yasser S. Dahlawi, CEO of SRB, which is acting as the supervisory board for the venture, commented that: "We are very excited about this project, which will allow both Islamic investors and consumers to play a role in a greener environment. We are continuously on the lookout for innovative ways to contribute to projects which help protect our environment and conserve scarce resources while offering clients cutting-edge Islamic investment opportunities. This Islamic green energy project is an ideal addition to our Shariah advisory business, and the scheme's environmentally responsible theme ensures that we're catering to the highest level of innovation available in the Shariah compliant market."

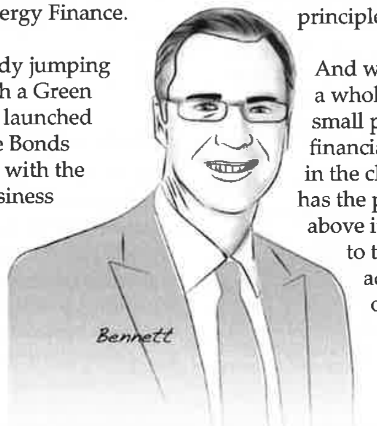
Capital market collaboration

But it is not just direct investment that offers opportunities. The capital markets offer another compelling avenue for alternative energy investment, with

> ***"Surveying the available financing models in the Middle East for sustainable infrastructure projects, Sukuk appears a viable option to match the region's growth"***

'green bond' issuance this year reaching a record US$16.6 billion as of the 2nd June 2014, driven by a surge in interest from international and supranational banks as well as self-labelled corporate issuance. "At its current pace, total 2014 volume could surpass US$40 billion, triple the US$14 billion issued in 2013," according to Bloomberg Clean Energy Finance.

Islamic bonds are already jumping on the bandwagon, with a Green Sukuk Working Group launched last year by the Climate Bonds Initiative in association with the NGO Clean Energy Business Council of the Middle East and North Africa and the Gulf Bond and Sukuk Association (GBSA). "Interest in both Shariah compliant and ethical investing is on the rise. Green Sukuk can support this trend by expanding the range of available financial instruments," said Michael Grifferty, CEO of GBSA.



In July 2014 Michael Bennett, the head of derivatives and structured finance at the treasury department of the World Bank, commented that: "Surveying the available financing models in the Middle East for sustainable infrastructure projects, Sukuk appears a viable option to match the region's growth." Referring to the World Bank green bond program, he noted that: "Green Sukuk have the potential to further broaden this market as well as to help bridge the gap between the conventional and financial worlds."

Bridging the gap

It is clear that Islamic finance has a role to play: not only by virtue of its position within the leading markets in Asia and the Middle East which are spearheading the renewable energy movement; but through its ability to bridge the gap between the conventional and Islamic world through its ethical and moral connections with the goals and principles of clean energy.

And while Islamic finance as a whole may only make up a small proportion of the global financial market; its position in the clean energy sector has the potential to punch far above its weight. It is now up to the industry itself to address these exceptional opportunities. — *LM*