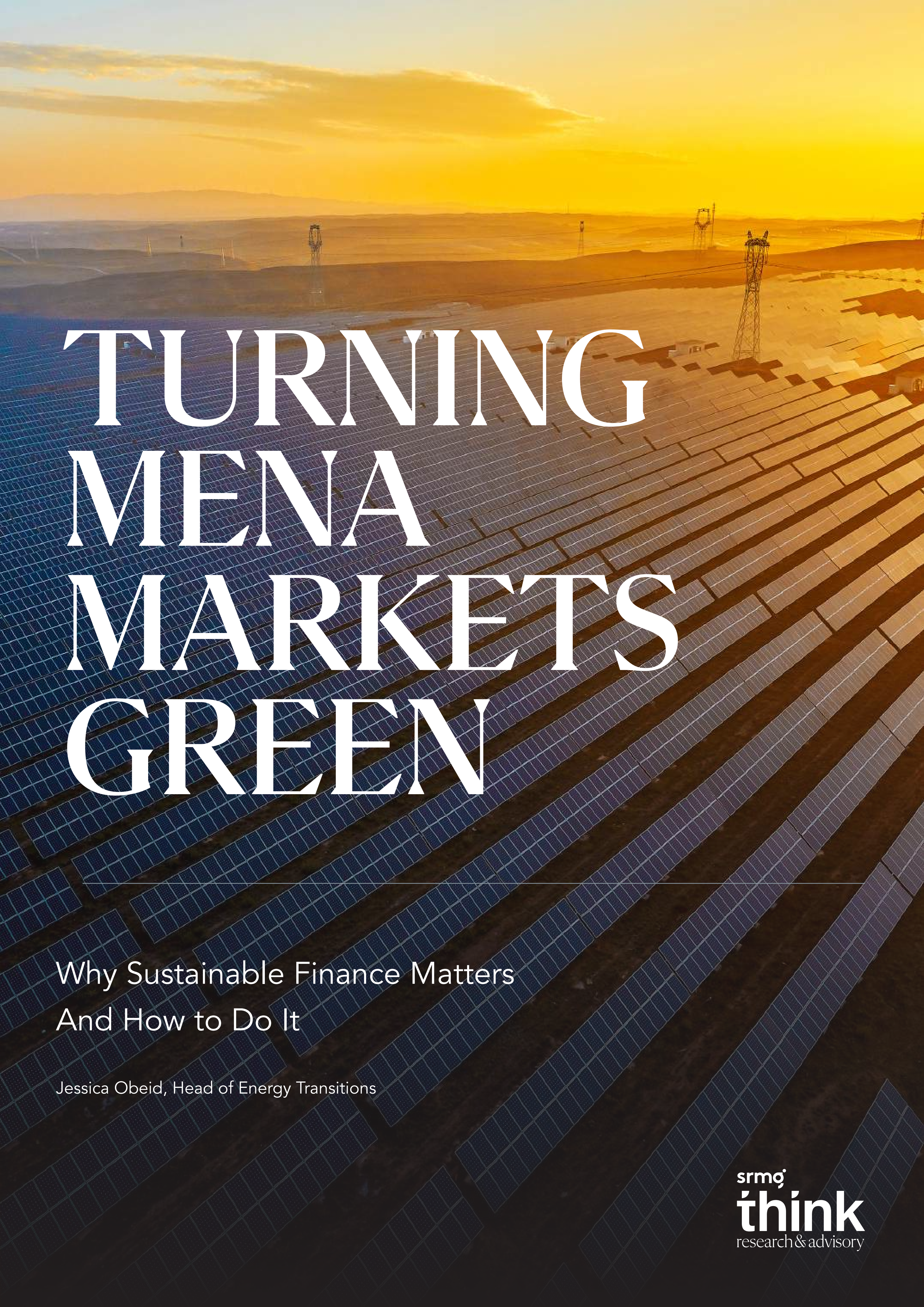

TURNING MENA MARKETS GREEN

Why Sustainable Finance Matters And How to Do It

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srmg think research & advisory

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TURNING MENA MARKETS GREEN

Why Sustainable Finance Matters And How to Do It

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Executive Summary

The global growth in sustainable finance is a unique opportunity to transition to a more sustainable economic model and mitigate the risks associated with climate change. The report "Turning MENA Markets Green" examines the progress of non-GCC MENA countries in attracting sustainable financing – particularly green financing, which specifically targets environmentally sustainable projects and practices.

The report draws on case studies of Egypt, Morocco, Jordan and Lebanon to assess the progress made by non-GCC MENA countries in 1. integrating environmental sustainability into the financial sector and 2. financing green projects and infrastructure.

Efforts to green the financial sector are gaining momentum in non-GCC MENA countries; however, MENA economies remain highly exposed to financial risks associated with the transition. The foundations have been laid to support the greening of the financial sector and the development of green financial instruments in the region, particularly green bonds.

Green loans are spearheading the growth in green financial instruments in the region. A total of 85 green loans from 31 unique issuers were issued by Egypt, Morocco and Jordan in 2020 to 2023. Green bond issuances are not on a linear path and markets for this type of instrument remain fragile.

Issuing green bonds requires technical know-how, capacity building, and resources; moreover, the pricing and marketing of bonds is challenging. However, the diverse issuer base of sustainable bonds in the region highlights institutional backing of bond instruments and their ability to meet NDC commitments.

Key enablers of green finance and insights into measures that could further facilitate the development of green finance in MENA:

Countries that are gaining momentum in green finance have put in place supportive policies and regulatory frameworks for green finance mechanisms and instruments. The other key enablers identified in this report are:

- Maintenance of political and economic stability
- Enhancement of the business investment climate
- Leveraging of international partnerships

Collaboration between regional countries and with international partners are two key, linked steps that could unlock green financing across MENA as a whole. Other recommendations of this report include:

- Harmonisation and standardisation of green bonds governance frameworks across countries to optimise resource use.
- Creation of a regional green finance centre to enhance capacity building and financial products' knowledge transfer.
- Further engagement with the private sector on mechanisms such as co-financing, risk-sharing, and joint ventures.
- Adoption of climate insurance products by lenders to increase the resilience of MENA economies to climate-related risks.

Glossary

Green finance: A subset of sustainable finance that specifically focuses on the climate and environmental pillar of environmental, social, governance (ESG).

Greening the financial sector: Involves integrating climate considerations into the whole of the financial sector, including strategy, governance and mainstream services that properly assess climate-related risks and support investments in sustainable practices and infrastructure.

Sustainable finance: Consists of integrating (ESG) factors into financial products and services. It seeks to both facilitate economic growth and better social and environmental outcomes.

Instruments

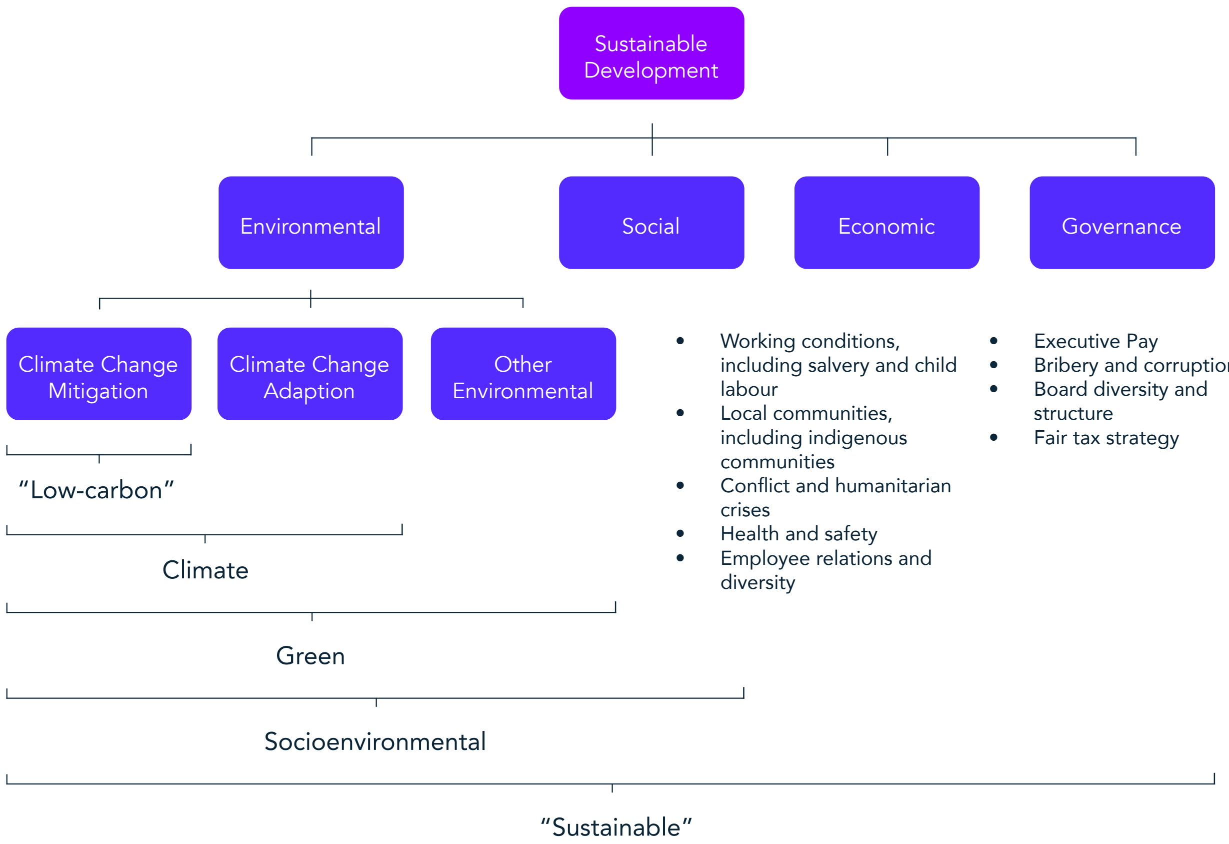
Green bonds: Securities sold to investors in the capital markets.

Green loans: Direct loans from lenders, typically banks, to borrowers

Green, social and sustainability (GSS) bonds: Prevalent debt instruments enabling investors to contribute to social and green impact projects.

This report adheres to the UNEP definition of terms to distinguish between green, sustainable, socio-environmental, and others in sustainable finance (see Figure 1 below).

Figure 1. UNEP definition of terms applied to sustainable financing



Introduction

In the past decade, Middle East and North African (MENA) countries have been diversifying and greening their economies. Governments, many of which have pledged to implement ambitious climate adaptation and mitigation measures as part of their Nationally Determined Contributions (NDCs) under the Paris Agreement, have adopted policies to support sustainable infrastructure – particularly the deployment of renewable energy projects. The region has also made progress towards creating an enabling environment for sustainable and green finance.

Attracting green financing is crucial for MENA countries to address climate vulnerabilities and support sustainable economic growth. The NDCs require a hefty capital investment – which countries are far from meeting. The cumulative financial requirement of the nine MENA countries that have costed their NDCs to date is $495 billion.[1] Adopting green finance practices will help MENA countries create green jobs, improve their economic competitiveness globally, and meet their NDCs.

What is Green Finance?

Green financial services and products, such as green loans and bonds, specifically seek to address climate-related vulnerabilities while promoting economic growth. They help fund projects that are environmentally sustainable in renewable energy, energy efficiency, and low-carbon transport, among others – essential for reducing carbon emissions and mitigating climate change.

As a subset of sustainable finance, green finance also includes social and governance aspects to ensure a comprehensive and holistic approach to development. Greening the financial sector, by integrating climate considerations into mainstream financial processes and promoting investments in sustainable practices and infrastructure, is a key component.

Across the region, national governments have been developing regulatory frameworks, including policies, regulations, and guidelines, for the issuance and disclosure of green, social and sustainability (GSS) financing, especially green bonds. The Gulf Cooperation Council (GCC) countries are the regional leaders in green finance. However, in non-GCC MENA countries there is significant potential for green financing. In several countries efforts to develop sustainable and green finance mechanisms and issuances are gaining momentum.

This report dives into the progress of green financing in four countries in the MENA region, excluding GCC countries: Egypt, Morocco, Jordan, and Lebanon. **It identifies key enablers of green finance and offers insights into important next steps for facilitating the development of green finance in non-GCC MENA countries.** The selection of countries was determined by the number of green finance issuances and the availability of data. The report builds on SRMG Think's 2022 report "The Future of Sustainable Finance and Green Economies in the MENA Region," which focuses on the progress of the GCC countries in greening their economies.[2]

Figure 2. Quantifying Climate Risks

- Past climate disasters have led to an economic loss equivalent to approximately 1.1% of GDP in the MENA region, according to estimates from the International Monetary Fund (IMF). The IMF expects this figure to reach 6-14% by 2050.
- The region has recorded 120 disasters in the past five years, resulting in annual losses of $1 billion. These disasters and the assosciate costs are forecast to increase in the future.
- The global economy stands to lose 19% of GDP by 2050 due to climate change, independently of future emission levels.
- The costs incurred outweigh by sixfold the mitigation cots required to limit global warming to 2 °C in the near term.
- The largest losses are concentrated in regions at lower latitudes and lower incomes.

Key Trends in Sustainable Financial Markets

Globally, investor interest in sustainability is on the rise. The global sustainable debt market has rapidly increased in size in the last few years, from $1 trillion in annual issuance in 2021 to $3.5 trillion in 2023; green bonds constituted 57% of issuances in 2023.[3] The share of sustainable bonds of the overall fixed income market reached 13.7% in 2022 from 11.8% in 2021 according to the latest available data.

Climate science findings and the financial performance of sustainable investments are key factors driving interest in sustainability among investors. Some 73% of respondents to a Morgan Stanley survey of investors carried out in the third quarter of 2023 said that strong ESG (environmental, social, governance) practices can lead to higher returns and better long-term investments.[4]

Emerging markets constituted only 12% of all sustainable bonds issued globally as of March 2023. However, in that year MENA's annual total GSS issuance doubled to $24 billion – a new record.[5] The bulk of MENA issuance came from the GCC countries.[6]

Saudi Arabia and the United Arab Emirates (UAE) are regional leaders in the sustainable bonds markets.[7] Saudi Arabia's Public Investment Fund was the region's largest issuer with issuances valued at $5.5 billion in February 2023.[8]

Islamic finance plays a key role in financing sustainable development and climate projects in MENA. The region, specifically the GCC countries, accounted for more than half of the global green sukuks issued in 2023, representing a value of $6.5 billion overall. Sukuk issuance is poised to grow both in number and value in the coming years.[9]

MENA's share of green financing from the big three climate funds remains minimal. The region accounts for just 6.6% of the total global financing from the Green Climate Fund, the Global Environment Facility, and the Climate Investment Funds, and their sub-funds.[10]

The United Nations Framework Convention on Climate Change (UNFCCC)'s Conference of the Parties 28 (COP28) has been vital for green financing in the region. The conference has leveraged substantial green financing into emerging markets, including MENA countries, with a particular focus on the GCC countries.

Only 12% of all sustainable bonds issued globally as of March 2023 came from emerging markets.

Greening Finance, Financing Green

Addressing the challenges and mitigating the risks associated with climate change requires a two-level action in finance: 1) greening the finance industry, 2) financing the green projects and infrastructure. Incorporating environmental sustainability into financial sector policies and practices is essential to mobilise the capital needed to safeguard MENA economies from the risks arising from climate change. Improved access to sustainable financing is needed to meet the high capital costs of putting their economies on a sustainable footing.

Greening the Financial Sector

In his famous speech in September 2015 Mark Carney, then-governor of the Bank of England, noted that climate change is the "Tragedy of the Horizon," for financial stability.[11] He identified three climate-related risks:

- *Physical risks:* The insurance liabilities and the value of financial assets that arise from climate-related events, such as floods and storms damaging property or disrupting supply chains.

- *Liability risks*: The impacts that could arise if parties that have suffered loss or damage from the effects of climate change seek compensation from those they hold responsible, particularly carbon extractors and emitters, and consequently their insurers.

- *Transition risks*: The financial risks resulting from the transition towards lower-carbon economies. The transition implies reassessing the value of assets as costs and opportunities with changes in technologies and policies.

MENA economies are highly exposed to transition risks since they remain heavily dependent on fossil fuel revenues – either as petroleum producers or through remittances from petroleum producing economies. Additionally, MENA countries have very low adoption of climate insurance products. Adoption was estimated at 2% in 2016.[12] Yet, developing this sector will become a necessity with the increased frequency of climate-related disasters.

Moreover, most financial institutions in MENA do not have a climate risk policy. Therefore, it is unlikely that most lenders are aware of their exposure risks and that climate-related risks are being assessed or mitigated.[13]

To mitigate some of these risks, the focus on sustainability is growing among financial institutions. Lenders play a crucial role in facilitating the transition to low-carbon systems, not only by financing it but by integrating sustainable practices into their operations. Yet, there is no one-package-fits-all solution for finance institutions to achieve sustainability. Lenders have different capacities, resources, infrastructures, and frameworks; therefore, the major challenges are building capacity and developing bankable projects. This means the demand side needs to be developed. Large lenders are currently better equipped to integrate sustainability into the core operations than smaller-scale ones.

Greening the financial sector is gaining momentum in MENA countries. Financial regulatory authorities across the region are developing sustainable financing regulations and guidelines. Disclosing ESG risks may soon become mandatory in some MENA countries.[14] Furthermore, lenders are expecting central banks across the region to set green finance lending targets. Morocco's investments in GSS bonds currently account for 7% of foreign exchange reserves. It has set a target of reaching 10%[15] in an unspecified timeframe. Meanwhile, the Central Bank of Egypt is expected to issue a 20% green lending target.[16]

Despite the progress, the path is beset with challenges. According to an Ernest & Young 2023 survey of the 20 largest banks in the region, 70% have introduced ESG strategies but few have put in place a solid ESG governance and accountability framework. This indicates that most banks may lack the resources to implement the ESG measures.[17]

Financing Green Projects

MENA countries could greatly benefit from sustainable financing to support their economic development and transition to low-carbon systems. The region has abundant renewable energy resources, including high insolation, viable wind speeds, and significant geothermal potential. Geothermal development, in particular, could leverage MENA's oil and gas drilling expertise. However, the region has yet to fully optimise its renewable energy use, largely due to limited access to capital.

The global rise in sustainable financing offers a unique opportunity to bridge this gap and foster an enabling environment for sustainable investments in MENA.

Green loans and green bonds are playing an increasing role among financial instruments in driving sustainable growth in the region.

Green loans and bonds are driving sustainable growth, with Egypt, Morocco, and Jordan issuing 85 green loans from 31 issuers between 2020 and 2023.

Green Instruments: Progress and Challenges

Loans Take the Lead

Egypt, Morocco, and Jordan issued 85 green loans from 31 unique issuers between 2020 and 2023, according to data from Bloomberg. Among the issuers are the Moroccan Agency for Solar Energy (MASEN), Egypt's New & Renewable Energy Authority, and Jordan Wind Project Company. This shows that there is active participation from both public and private entities in green financing, and that renewable energy is a major focus.

Most of the loans are categorised as "term loans," which indicates long-term investment in green projects. This is critical for the development of energy projects, which require considerable time and funding.
The loan tranche sizes vary widely, with substantial amounts allocated to renewable energy projects, highlighting major financial support for these projects. The average loan tranche size stands at approximately $74.28 million.

Maturity dates also vary significantly, with most loans extending into the late 2030s, and even reaching 2043 and 2048 in the case of Egypt's Amunet Wind Power Company and Red Sea Wind Energy, respectively. These projects are also among the highest value loans in the region. The long-term horizon and high value of the loans align with the nature of renewable energy projects. In fact, Egypt's Amunet Wind Power Company and Red Sea Wind Energy are valued at $518.37 million, and $486.2 million, respectively. Among the largest loan tranches are a $444.6 million loan for the Moroccan Office National de l'Electricite et de l'Eau potable (National Office of Electricity and Water) and $201.7 million for the Egyptian Electricity Transmission Company.

The data also reveals cross-border financial collaboration, with countries like Cyprus listed as the country of risk for Jordan Wind Project Company.

Green Bond Markets Kick Off

Countries in MENA have begun issuing sustainable bonds, particularly green bonds. Green bond issuance from Morocco, Egypt, Jordan and Lebanon collectively exceeds $1.9 billion from 11 issuances. Morocco led with the first issuance in 2016, followed by Lebanon in 2018, Egypt in 2020, and Jordan in 2023.

> Green bond issuance from Morocco, Egypt, Jordan, and Lebanon exceeds $1.9 bn across 11 issuances.

Table 1. Green Bond Issuance in Morocco, Lebanon, Egypt and Jordan

Country	Issuer	Currency	Original Value (Million)	USD Value (Million)	Issuer Type	Settlement Date
Morocco	Office National des Chemins de Fer du Maroc			100	Agency	2022
	Al Omrane Group	MAD	500	52.41	Financial Institution	23/11/2018
	Casablanca Finance City	MAD	355	37.83	Agency	24/09/2018
	BMCE Bank	MAD	500	48.17	Financial Institution	21/11/2016
	Morrocan Agency of Sustainable Energy S.A (MASEN)	MAD	1150	103.5	Agency	11/04/2016
	Banque Centrale Populaire	MAD	132	145.9	Financial Institution	15/11/2016
Lebanon	Fransabank SAL	USD	60	60	Financial Institution	26/04/2018
Egypt	Egypt (Panda)	Yuan	3,500	479	Sovereign	2023
	Commercial International Bank (CIB)	USD	100	100	Financial Institution	08/2021
	The Arab republic of Egypt	USD	750	750	Sovereign	10/07/2020
Jordan	Jordan Kuwait Bank	USD	50	50	Financial Institution	2023

Source: SRMG Think, IFC, HSBC, Environmental Finance

Morocco, one of the first lower-middle-income countries to issue a green bond, did so in November 2016 with an 18-year bond worth $103 million, issued by MASEN during COP 22 in Marrakech. The proceeds financed the 160-MW Noor I solar power plant. In 2018 another government agency, Casablanca Finance City, issued a $37 million green bond to finance three LEED-certified buildings.[18] By the end of 2018 Morocco had issued five green bonds totalling $387 million, including bonds from Bank of Africa, formerly known as BMCE Bank, Banque Populaire, and the financial institute Al Omrane Group ($104.2 million).[19]

Lebanon followed Morocco by issuing the Levant's first green bond in 2018, valued at $60 million, through commercial bank Fransabank. The International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) subscribed, investing $45 million and $15 million, respectively. It was the development bank's first debt issuance in Lebanon.

In 2020 and 2021 Egypt issued two green bonds totalling $850 million: a $750 million sovereign green bond in September 2020 with a five-year maturity, and a $100 million, five-year private sector bond in June 2021 from the Commercial International Bank and the IFC. The bond was to help the bank to develop industrial energy efficient financing.[20] In a move to diversify and access new sources of capital, in 2023 Egypt issued the first Sustainable Panda Bond by an African country in the Chinese financial markets, worth 3.5 billion RMB ($479 million). It was supported by partial credit guarantees by African Development Bank and Asian Infrastructure Investment Bank.

Jordan's first green bond is also the most recent, issued by Jordan Kuwait Bank in collaboration with the IFC in March 2023, valued at $50 million. The five-year note's financing comprised $36 million from the IFC, $10 million from the Canada-IFC Blended Climate Finance Programme, and $4 million from the Dutch-funded MENA Private Sector Development Facility.[21] The proceeds are expected to cover renewable energy, low-carbon transport and sustainable water and wastewater projects. Additionally, in October 2023 Arab Bank issued Jordan's first sustainable additional Tier 1 capital securities, a $250 million bond issued through a private placement and listed on the Sustainable Bond Market of the London Stock Exchange and the International Securities Market (ISM).[22]

Unlike Sukuk, green bonds do not require separate legislation from existing debt instruments. They are expected to be the main alternative to conventional debt instruments due to price advantages, typically lower interest rates, access to a new segment of investors, support for green national projects, and diversification of debt resources to mitigate the risks of debt volatility.[23]

Morocco and Egypt dominate the green bond market with 94% of the total issuance volume.

Issuance Discrepancies

Morocco and Egypt dominate the green bond market with 94% of the total issuance volume. Egypt witnessed unprecedented participation from investors in its first green sovereign bond issuance. Initially valued at $500 million, the bond was increased to $750 million after it was oversubscribed by more than seven times.

The two countries' dominance of the bond market as well as climate financing generally – they also account for 66% of MENA's total funding from the major global climate funds is reflective of the strong track records they have built in attracting finance, as well as strong investor appetite.[24]

Diverse Use of Proceeds

The major use of proceeds (UoP) from green instruments are for transport and energy. The UoP from the 2016–21 bonds were mostly for clean energy and water projects, whereas transport became a key focus of issuances in 2022 and 2023. This is similar to global trends. In the past decade, energy, transport, and buildings have constituted the three largest uses of proceeds, with a cumulative share of 75% of all green debt volumes.[25]

Other categories are expected to gain traction and shares of issuances in the future, such as water, waste, land use, in addition to cross-sectoral categories such as ICT. The focus on these categories will increase as the impact of climate change grows in the water and agricultural sectors.

Progress is Uneven

The movement in the green bonds market, however, does not imply that issuances are on a linear path. The market remains fragile; two issuers, Lebanon and Morocco, have stalled for divergent reasons.

Following the 2016–18 boom, Morocco's green bonds market stagnated until 2022, indicating either a lack of eligible projects or challenges on the supply side.[26] In 2022 the national railway operator ONCF launched the country's first green bond in infrastructure worth $100 million, guaranteed by the state-owned Tamwilcom. The proceeds will refinance debt from commercial banks for a new electrified high-speed rail line. The bond met the Low Carbon Land Transport Criteria of the Climate Bonds Standard. The EBRD subscribed with $20 million.[27]

Green bonds in Lebanon are halted indefinitely due to ongoing economic and financial crises. Although the IFC approved another $30 million after the initial issuance,[28] the country has been in a deadlock since the end of 2019, leading to its first default in March 2020. Successive governments have failed to resolve the crises, making future issuances highly unlikely.

> The primary use of green instrument proceeds is for transport and energy.

Issuer Type

The issuer base of sustainable bonds in the region is diverse. This highlights institutional backing of these instruments and their ability to meet NDC commitments. Government-backed agencies have been instrumental in the early development of green bonds markets in Morocco and Egypt.

Financial institutions are the dominant issuer, accounting for 67% of issuers. Globally, financial institutions were the second-largest green bond issuers in 2023, contributing 28% ($163.4 billion) of the global market share, mainly from Chinese banks. Non-financial corporate issuers were the largest with a 29% share ($171.8 billion).[29]

The private sector is also involved in issuances in the MENA region. This reflects strong investor appetite for sustainable, especially green, projects.

Key Enablers of Green Finance

To boost green finance momentum in the MENA region it is vital to identify lessons from the experiences of Morocco, Egypt, Jordan, and Lebanon and to leverage the key enablers. These enablers, detailed below, are key to strengthening the region's position as a destination for green finance.

Maintaining Political and Economic Stability

Egypt, Morocco, and Jordan have benefitted from relatively stable political and economic environments, which have facilitated the inflows of green finance, despite Egypt's recent economic challenges. In contrast, conflicts, political instability, and economic challenges in many MENA countries, including Lebanon and Tunisia, have adversely affected the effectiveness of sustainable development initiatives. In fact, a critical deterrent to attracting financing in the region, including green finance, has been political and economic instability.

Enhancing the Business Climate, Leveraging International Partnerships

Countries that are gaining momentum in green finance have an enhanced business investment climate compared to regional peers. Outside of the GCC, Egypt, Morocco and Jordan lead on attracting foreign direct investment (FDI) inflows. This reflects the successful implementation of some measures to streamline business processes and develop more attractive business environment.

Egypt, Morocco, and Jordan have shown that strategic partnerships with international finance institutes are key drivers for investments. International partners have facilitated access to funding and technical assistance to support green bonds and other sustainable finance instruments. For example, the support of the IFC enabled Egypt to develop green bond guidelines and the Amman Stock Exchange to produce sustainability reporting guidelines.

Adopting Policies and Regulatory Frameworks

Examining approaches to, and identifying the key stages in, establishing frameworks and policies to support green finance will help MENA countries chart a path in greening their own financial systems.

This section of the report offers valuable insights into the experiences of Egypt, Morocco and Jordan in building a policy and regulatory framework for green financing. Figure 3, Figure 4 and Figure 5 are timelines of measures introduced by the public authorities in each country.

Lessons From Egypt: Look beyond borders

March 2021: FRA launches the Regional Centre for Sustainable Finance (RCSF) to remove barriers to sustainable finance practices and instruments in Egypt, the Middle East and Africa.

Egypt aims to not only incentivise green investments domestically but enhance sustainable financial markets regionally. The Financial Regulatory Authority (FRA) has taken a structured approach to fostering sustainability across the financial sector. It has introduced green bond guidelines, reduced issuance fees, and established the Regional Centre for Sustainable Finance.

The Central Bank of Egypt and the FRA has issued guidelines on sustainable finance along with mandatory reporting for companies listed on the exchange market as of 2022. To level the playing field among banks, the Federation of Egyptian Banks enacted a strategic action plan addressing sustainability, governance, risk and product development.

The Central Bank has also granted the licencing and establishment of green banks. This is to provide low-cost funding for clean energy and environment projects.[30]

Egypt is the only country within the non-GCC MENA region currently developing the regulatory framework of a green taxonomy.[31] The Commercial International Bank, one of Egypt's largest commercial lenders, is promoting an African finance taxonomy, similar to the EU taxonomy.[32]

Figure 3. Timeline of key green finance measures in Egypt

2009: Egypt's Financial Regulatory Authority (FRA) is established.

July 2018: FRA, with IFC support, approves guidelines for green bond issuance.

August 2019: FRA announces 11 international institutions to oversee green bond issuance

November 2019: FRA reduces green bond issuance fees by 50% to encourage issuance.

January 2020: Ministry of Finance announces plan to issue green bonds to attract investors and diversify funding.

Lessons From Morocco: Strong foundations yield benefits

Morocco's comprehensive approach to green finance demonstrates a commitment to sustainability across the financial sector. The introduction of Green Bond Guidelines and the issuance of the first green bond in 2016 set a strong foundation for sustainable finance that was further strengthened by its expansion of guidelines to include Social and Sustainability Bonds in 2018.

Morocco has made significant advancements in greening the financial sector. In 2016 the country was at the forefront of the development of climate risk insurance in the region. The insurance covers agricultural cereal and spring crops, particularly in flood-prone rural areas.

Morocco also co-launched the Advancing Climate Risk Insurance Plus initiative. This was in collaboration with China, Ghana, and Barbados to foster integrated and inclusive insurance solutions across all phases of risk management. The 2021 directive from Bank Al-Maghrib enhances climate risk management.[33] As part of a wider strategy to green its policies, the Central Bank of Morocco announced in February 2024 new guidelines for banks on climate disclosures.

Figure 4: Timeline of key green finance measures in Morocco

October 2016: Morocco launches the Roadmap for Aligning the Financial Sector with Sustainable Development, including measures for capital markets, banking, and insurance to promote sustainable finance.

November 2016: The Moroccan Capital Market Authority (AMMC) issues first Green Bond Guidelines with IFC support, and MASEN issues Morocco's first green bond

July 2018: AMMC updates the Green Bond Guidelines to include Social and Sustainability Bonds and issues a sustainable finance module.

March 2021: Bank Al-Maghrib publishes directive n°5/W/2021 aimed at improving the management of climate and environment-related risks for credit institutions.

Lessons From Jordan: Focus on transparency

The Amman Stock Exchange's 2018 guidelines is evidence of Jordan's commitment to integrating sustainability into the financial sector. The issuance of detailed guidance documents by the ASE laid the foundation for transparent sustainable business practices in Jordan. It culminated in Jordan's first green bond issuance in March 2023. This marks a significant step toward attracting green investments in the country.

Figure 5: Timeline of key green finance measures in Jordan

August 2018: Amman Stock Exchange (ASE) issues sustainability reporting guidelines for publicly listed companies.

September 2018: ASE releases "Sustainability 1 Guidance" on Sustainable Development Goals (SDGs), sustainable practices, and reporting.

October 2018: ASE issues "Sustainability 2 Guidance" on advanced sustainability reporting.

March 2023: Jordan issues its first green bond.

Way Forward

The non-linear trajectory of green bonds reflects a set of challenges in each country. The region's green bond market is still nascent, requiring further development of market infrastructure, regulatory frameworks, and increased involvement from private sector issuers. Development is hindered by the small size of the financial sector of most non-GCC MENA countries, as well as economic and political instability in some.

Issuing green bonds requires technical know-how, capacity building, and resources. Aligning a green bond issuance with the country's overall debt management strategy requires technical expertise that is different from that needed for conventional bonds. The key distinction is that issuers must establish a governance framework that ensures the green credentials of the bond. The framework also ensures proceeds go to eligible projects, identifies independent evaluators, and enables monitoring and reporting of the impact to the investors.[34]

Pricing and marketing bonds are challenging but essential. The strategy to achieving good pricing depends on investors' demand and the credibility of the issuer. Reaching a wide pool of investors is challenging as evaluations, verification processes, and insurance fees and rating agencies differ between markets. For example, some investors look to evaluate the issuer's capacity and resources, while others may evaluate the issuer against certain standards.[35]

Sustainable, particularly green, bonds lead to an increase in green investments. The issuance of GSS bonds is instrumental in driving an increase in green investments. MENA countries like Egypt, Jordan and Morocco will continue to use green bonds to fund renewable energy projects and sustainable infrastructure. Through issuances complemented by robust regulatory frameworks, these countries will attract a growing number of domestic and international investors.

Harmonising and standardising green bonds governance frameworks across countries would optimise resource use. The bulk of green bond investors are looking beyond the proceeds of the bonds into the governance of the issuers. Developing a well-structured and transparent green bond governance framework is vital for attracting green investment.

Establishing a regional green finance hub would enhance capacity building and financial products' knowledge transfer. Financial centres can optimise the development of financial solutions tailored to the regional context. Collaboration to promote green bonds and loans among MENA countries, including the GCC as they have built a solid track record, will improve the capacity to finance its sustainable economic transitions in the region as a whole. This is essential as there are many disparities across countries.

Encouraging lenders to adopt climate insurance products is key to safeguarding businesses and populations against climate-related risks. Climate insurance products provide financial protection against extreme weather events, such as the now-frequent floods and droughts, and can support faster economic recovery by providing coverage for losses in the infrastructure, agriculture, and other climate-impacted sectors.

More engagement with the private sector and international organisations is key in unlocking green financing for the region. Encouraging collaboration between governments and the private sector can mobilise additional resources. Mechanisms are various and include co-financing, risk-sharing, and joint ventures. International partnerships with the IFC among others can provide not only access to financing institutions but also much-needed technical assistance.

Engaging the private sector and international organisations is key to unlocking green financing for the region.

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