THE GEOECONOMICS OF SOVEREIGN WEALTH FUNDS AND RENEWABLE ENERGY

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PREFACE

For over three thousand years – since the time of Phoenician and Greek colonization and up to the discovery of America – the Mediterranean region was a crossroads of people and cultures, as well as the greatest free trade area in the world. After such a flourishing period, the Med Area experienced a gradual decline, to the point of losing its preeminence for the benefit of other regions, namely Northern America and Northern Europe. The result of this process was a sort of partition of the Mediterranean Basin into two parts: the developed Northern region – with European countries and rich in natural resources Gulf countries – and the backward Southern region, including underdeveloped countries of North Africa and Middle East.

With the coming of the globalization, the Mediterranean entered a new era. Due to the economic boom of the Asia-Pacific region and to the start of the Middle-East and North Africa development process, in fact, the Mediterranean basin is now living a new centrality, being in a strategic position along the trade routes which link the Far East and Africa to Europe.

In the next decade the world will experience a period of unprecedented change as economic, political and energy pressures will thoroughly reshape international equilibria. This phenomenon will particularly regard the Mediterranean area which, despite great opportunities, will have to face two main issues: on the one hand, the sovereign debt crisis of the Northern Med countries which threatens the economic recovery of the whole Europe, on the other hand, the course of the so called "Arab Spring" which has generated a climate of political uncertainty in the Middle-East and North Africa.

In addition, governments will still be committed to face the effects of the recent global financial crisis, hence overshadowing other long term objectives, such as infrastructure development and energy efficiency. However, the need of huge investment in infrastructure and energy – as underlined by the author - will re-emerge in all its urgency in the next years.

Actually, the future of the Med area, and of Europe above all, will depend on delivering together fiscal consolidation, social inclusiveness and durable sustainable growth. Only a steady and substantial economic growth can ensure debt sustainability in the long-term and at the same time create favorable conditions for improvements in labour markets and welfare. As we all know, one way to increase potential growth, job creation and social inclusion is to enhance long-term investments in tangible and intangible infrastructure and in the real economy.

Policies for enhancing investments in infrastructure, energy, environment and TLC, but also in innovation, high education, R&D and SMEs should become one of the central pillar of the new European "Growth Compact".

Nevertheless, this type of policies can no longer be financed by public resources only, at least in the high public debt countries; the contribution of private capital markets and, more generally, of global long-term private saving, is crucial to ensure the necessary resources to finance huge investment projects. Consequently, Governments and international regulators should work together to create the most favorable conditions to foster long-term investments, among which there are a stable political and regulatory framework, a reliable judicial system and an efficient public administration.

From the regulatory point of view, in order to give a strong boost to investments in infrastructure it is crucial to rephrase the regulatory framework (Basel III, Solvency II, the international accounting rules and EBA norms) that – as it is today – penalizes LTIs. It is not a question of easing the financial stability framework, but to find fine-tuning solutions which assure financial stability and at the same time help the financing of economic growth, without which financial stability, as a whole, could tomorrow itself be at risk.

The Mediterranean region is hence facing the big challenge of joining forces in order to overcome domestic constraints and become again a centre of worldwide economic and political power. To do this, Northern and Southern Mediterranean countries need to think to new forms of integration and cooperation, especially if they want to increase their international competitiveness and front the emerging of the new global economies.

On the one hand, North Africa and Middle-East could offer demographic dynamism, new market opportunities and high energy potential, on the other hand, Europe could add technological know-how, organizational support and a friendlier investment framework.

In this context, the author's proposal of triangulating the Gulf Cooperation Council, North Africa and the European Union into a unique cooperation scheme, focused on renewable energy, seems to be extremely interesting.

As discussed in details, North Africa - with its high renewable energy potential - could be the recipient of large scale renewable energy projects; the Gulf Cooperation Council countries, aiming at diversifying their hydrocarbon-based economies, could provide - through their Sovereign Wealth Funds – the necessary financial resources; finally, the European Union could play a key role in providing technical and administrative support, as well as dedicated financial facilities. The project would have positive returns in terms of energy security and efficiency, economic development and social inclusiveness for the whole Mediterranean region.

Europe has given a huge contribution to the integration process of the Mediterranean, as shown by the large number of projects and initiatives set up in the last decade. And yet there is still much to be done.

Project financing and public-private partnerships for investments in infrastructure should be encouraged through a system of tax incentives, guarantees and other initiatives aimed at reducing risks.

On the equity side, following the successful experience of the Marguerite, Energy Efficiency and Inframed Funds, Europe and the other Mediterranean countries could think of new long-term equity funds for investments, not only in infrastructure but also in innovation, SMEs, venture capital, public utilities, urban development and heath. On the debt side, long-term investors with a public sector mandate may also consider to join forces in financing strategic projects through the capital market by providing ad hoc guarantees for the issuance of debt instruments such as common funds and project bonds.

Inframed is a successful example of equity instrument for infrastructure. It is a long-term equity fund, the largest operating in the Region, created by five major investors: the European Investment Bank(EIB), Cassa Depositi e Prestiti (Italy), Caisse des Dépôts et de Consignations (France), Caisse des Dépôts et de Gestion (Morocco), and EFG Hermes (Egypt-Qatar).

The Inframed mission is to move private and public capitals in order to finance infrastructure investments in energy, environment, TLC, transport and urban development in the Southern and Eastern Mediterranean countries, preferably greenfield investments. Its strength is an experienced team in project finance, investment banking, private equity development and asset management in global infrastructure, with special focus on MENA countries. Both the governance (Investment Board and Strategic Board) and the management are characterized by the presence of Europeans, Egyptians and Moroccans working together. Moreover, the fund benefits from core investors' regional networks, yet maintaining full independence in decision making. It also combines the benefits of investing in one of the most dynamic region in the world but in a secure regulatory and policy framework. Because of all these aspects, Inframed could represent the prototype of new similar funds for investments in the Mediterranean.