HEINRICH BÖLL STIFTUNG
NORTH AMERICA
FINANCE

Overseas Development Institute

Climate Finance Fundamentals
www.climatefundsupdate.org

Brief 9

Written by **Smita Nakhooda** , **Alice Caravani**, and **Neil Bird**, Overseas Development Institute and **Liane Schalatek**, Heinrich Böll Stiftung North America with research support from **Allister Wenzel** and **Maria Apergi**

November 2011

Regional Briefing: Middle East and North Africa

The countries of the Middle East and North Africa (MENA) are highly vulnerable to the impacts of climate change, but share some responsibility for the global accumulation of greenhouse gas emissions, as their emissions are very high when considered on a per capita basis. Several MENA countries have historically resisted ambitious action on climate change that would curb the fossil fuel production on which their economies are highly dependent. Interest in renewable energy development in the region is growing, however, and countries such as the UAE and Morocco seek to position themselves as global leaders in clean technology. There is also significant private sector interest in this potential. While the GEF has been the most significant player, the World Bank's role is growing, especially through the Clean Technology Fund, as is European investment. There is evidence that the redistribution of fossil fuel subsidies, or increasing taxes on oil resources, could generate revenues that help MENA countries scale up their efforts to respond to climate change. The impact of the "Arab Spring" which caused major political changes in various countries across the region on national climate change policies remains to be seen.

Overview

The countries of the Middle East and North Africa (MENA) are highly vulnerable to climate change, which is likely to compound persisting development challenges. The IPCC predicts that climate change will reduce precipitation by up to 30%, and resulting hydrological changes will increase water scarcity, reduce agricultural productivity, and also heighten the risk of flooding in urban coastal areas.

57% of the world's proven oil reserves and 41% of proven natural gas resources are in MENA countries, and the exploitation of these fossil fuel resources is central to their economies. The prospect of reducing the consumption of fossil fuels in order to reduce greenhouse gas (GHG) emissions therefore strikes many countries as a costly proposition that will rob them of economic opportunity. Lifestyles and consumption patterns within these countries are also highly carbon intensive, and per capita emissions in many MENA countries are 60% higher than the average among developing countries. The United Arab Emirates (UAE), Saudi Arabia, and Iran rank among the world's top 50 CO2 emitters. Nevertheless there is great diversity amongst MENA countries: in Yemen and the Palestinian territories, many people live below the poverty line. As a result, in absolute terms, the region is a relatively small emitter, responsible for 5-6% of global emissions. The need for climate finance also varies greatly: for example, the World Bank estimates that responding to climate change will cost 2.1% of GDP in Tunisia, and 7.1% in Iran.

The political context for climate finance in MENA

The diversity amongst MENA countries consumption and emission patterns, as well as their income and socio-economic structures, results in divergent perspectives on climate change. These perspectives are in turn reflected in the complex politics of the UNFCCC negotiations. Oil rich states such as Saudi Arabia, Kuwait, and Qatar often push to maintain the status quo by highlighting the potential negative economic impacts of climate change mitigation activities. The Organization of Arab Petroleum Exporting Countries, for example, have advocated oil producing countries should receive compensation for economic losses to oil trade triggered by adaptation and mitigation. At the Cancun Conference of the Parties to the UNFCCC in 2010 countries agreed that compensation for foregone oil revenues would not be dealt with as adaptation, and would only be considered in the context of efforts to incentivise mitigation. This issue was a strong demand of Saudi Arabia as a member of the Transitional Committee efforts to design a new Green Climate Fund.

By contrast oil poor countries, which are also highly vulnerable to the impacts of climate change, have not yet built up strong or coordinated negotiating positions. Climate change is seldom a high level policy priority for these countries, given the immense political problems they confront. The wave of political change that swept the countries of North Africa in early 2011 has disrupted the implementation of approved climate finance programs in several MENA countries including Egypt, Tunisia, and Yemen. It remains to be seen how the new governments that have come to power in these countries will address climate change.

Nevertheless, there are some initial indicators of changing approaches to the climate change issue in a growing number of countries. The United Arab Emirates (UAE) is positioning itself as a leader in the race towards developing renewable energy resources and clean technology. It is now the host of the International Renewable Energy Agency, which facilitates access to information about renewable energy, and the sharing of best practices related to energy efficiency strategies both in developed and developing countries. The Kingdom of Morocco has also been actively developing renewable energy projects, particularly wind and concentrated solar thermal energy, framing these investments as part of a low carbon and sustainable development strategy. Morocco is the recipient of a growing volume of climate finance from both multilateral and bilateral channels. Even Saudi Arabia, whose role in the international negotiations is often perceived as overtly obstructionist, has indicated some modest intentions to diversify its energy base -- albeit based on receiving financial support through compensation measures.

Finally, it is worth noting that there are many opportunities to redirect public finance to incentivise low carbon development within the oil rich countries of MENA. For example, taxes on oil could help reduce energy consumption by creating economic incentives for efficiency, while also helping raise revenue to invest in adaptation and mitigation projects.

Funding delivered

As of October 2011, the Climate Funds Update (CFU) website reports that a total of $ $574 million has been approved for 8 of the 21 countries in the MENA region from 2004 - 2011. Only $79 million has been disbursed: $52 million has been directed to mitigation activities, while the remaining $27 million supports adaptation.

Climate Funds Update data suggests that Egypt has received the most financing for climate change projects in the region, with a total of $26 million disbursed to date. Funding has also been disbursed to Jordan ($15 million), Yemen ($10 million) and Morocco ($9 million).

The Clean Development Mechanism (CDM) of the Kyoto Protocol supports a small number of projects in MENA. The main recipients are Israel and Iran with respectively 22 and 7 projects

- Mitigation – The majority of climate finance to MENA has supported mitigation activities, given the carbon intensity of many of the economies of the region and the opportunities that exist to reduce their green house gas emissions. Some $61 million of financing from **Global Environmental Facility (GEF)** has been directed to MENA countries, of which $46 million has been disbursed, primarily for energy efficiency and renewable energy projects. Its largest project is the 'Integrated Approach for Zero Emission Project Development in the New Town of Boughzoul' in Algeria which receives $8 million. A new project in Egypt was approved in 2011.

The Clean Technology Fund (CTF) of the Climate Investment Funds (CIFs) is poised to direct substantial resources to MENA countries. It is supporting a $750 million regional program to finance Concentrated Solar Thermal Power

Chart: Adaptation funding going through dedicated multilateral climate funds

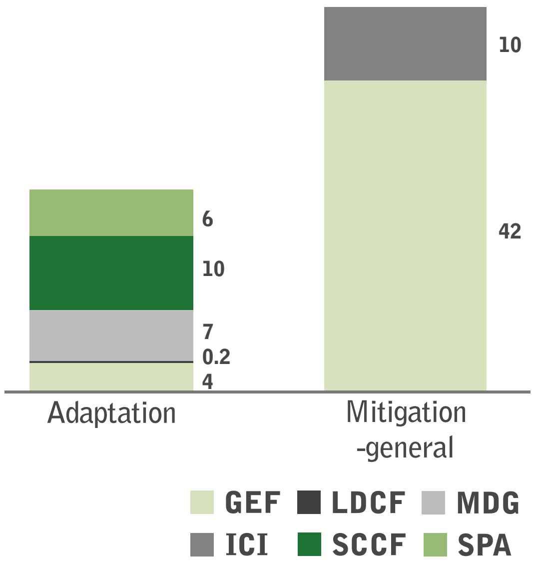
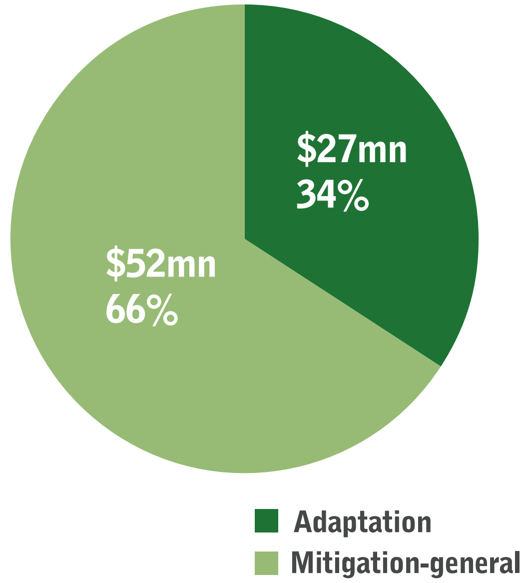


Chart: Disbursed funding for climate projects by theme for the MENA region



in Morocco, Tunisia, Algeria, Jordan and Egypt. Egypt and Morocco were also amongst the first countries to develop Clean Technology Investment Plans to be supported by the CTF for $300 million and $150 million respectively. The first approval of this regional program was made by the CTF in June 2011 for the 'Ouarzazate CSP' project in Morocco: one of the largest planned CSP plants in the world. It is based on a concessional loan of $197 million: with $100 million to be channelled through AfDB and $97 million through the World Bank,

A $151 million concessional loan for a wind power project in Egypt has been approved to date. However, the implementation of the Egypt investment plan has been delayed substantially as a result of the political unrest experienced over the past year.

Germany's **International Climate Initiative (ICI)** is also supporting two mitigation projects in the region, one in Jordan, one in Morocco and a regional program for a total of almost $10 million. Half of this amount has been disbursed in 2011.

Bilateral funders are increasingly engaged in MENA countries in the context of developing the region's abundant solar power resources. However, Europe would be a primary market for much of the renewable energy produced through such programs: indeed the high tariffs that European countries are prepared to pay for renewable energy in order to meet their emission reduction and renewable energy purchase obligations are integral to the long term financial viability of many of these programs. How much of this energy will meet domestic needs and local priorities remains to be seen. This issue has raised questions about whether it is appropriate to use climate finance, which is intended to help developing countries address climate change as part of their own development programs, to subsidise technologies that will help European countries meet their own emission reduction obligations.

- Adaptation – Adaptation has received a relatively small share of the climate finance directed to MENA countries. The Strategic Climate Fund has disbursed about $10 million to-date for three adaptation projects in countries including Morocco, where it has channelled $4 million to support the integration of climate change into development planning and disaster prevention to increase resilience of agricultural and water sectors. Although it has now closed, the Strategic Priority on Adaptation (SPA) housed at the GEF disbursed $6 million to Yemen and Tunisia. The Pilot Programme on Climate Resilience of the Climate Investment Funds had also begun work with the government of Yemen, but progress towards developing and supporting a national plan has been disrupted by recent political unrest.

Important players in climate finance

The MDBs, particularly the World Bank Group and the African Development Bank, have been actively involved in directing climate change finance to the region through the CIFs as well as the GEF. Programmes have built on their ongoing engagement with MENA countries in the energy, transport, agriculture, and water sectors. Their continued support for conventional energy has been a source of controversy particularly through the International Finance Corporation – the private sector lending arm of the World Bank – whose oil and gas portfolio in MENA has been growing. The European Investment Bank (EIB) has also been actively involved in the region. Questions have been raised about the MDBs continued support for conventional fossil fuels in the region. For example, the EIB committed over 1 billion in the last 4 years on natural gas projects, to ensure greater energy security within the EU.

In November 2008, the Organisation of Petroleum Exporting Countries pledged $750 million to tackle global warming through research into clean energy, including carbon capture and storage. Saudi Arabia pledged $300 million for this initiative.

Bilateral finance

The UNFCCC reports that a total of $854 million in climate finance was directed to MENA countries through bilateral channels by January 2010. However, there is a lack of clarity as to the period over which this funding was received, which makes it difficult to compare with the funding received from dedicated funds in the 2004 – 2011 period monitored on Climate Funds Update. Nearly 75% of this funding was directed to two countries: Egypt ($332 million) and Morocco ($294 million). The majority of bilateral finance has also supported mitigation in the energy sector. Germany has been a key actor, followed by Japan and Denmark.

In recent years, an increasing volume of finance has been directed to Morocco. France has provided $14 million through bilateral channels such as the French Development Agency (AFD) and the French Global Environmental Fund (FGEF) to improve Morocco's water network. The German Development Bank KfW contributed $14 million to co-finance the Ouarzazate concentrated solar thermal project (also supported by the AfDB, the World Bank, and the CTF). Germany has contributed an additional $3 million to promote renewable energy use throughout Morocco.

Targeting the sectors and people most in need

The heterogeneity of the MENA region – which includes some of the richest and poorest developing countries in the world – needs to be kept in mind when considering how to direct climate finance. The lack of financing for adaptation, particularly in the poor countries of the region, is a challenge given their vulnerability to the impacts of climate change.

Investments that enhance the adaptive capacity of these countries will also have real development benefits. In fact, some studies have shown that investments in the resilience of regional water resources would reduce demand for desalinated water, which currently costs the richer countries of the region millions of dollars per year.

The biggest investments to-date have been concessional loans for large mitigation projects. Private companies are increasingly interested in the opportunities presented by clean technology, but actual momentum and investment has been slow.

The recent political turmoil in the region has been a further impediment to the development and implementation of programs to address climate change that could be supported through climate finance. The trend towards increasing democracy in the region will impact development trajectories. The influence on national climate change policies has yet to be determined.

Overall, across the region there has been less focus on smaller scale mitigation projects that may benefit more vulnerable groups of people. Some efforts are being made to incorporate community benefit sharing considerations into the design of large scale mitigation projects more directly. Higher levels of grant funding are necessary, particularly in the poorest countries of MENA, to implement adaptation and community-focused mitigation projects.

References and useful link:

ActionAid (2011) Outcomes of the Cancun Climate Conference: An ActionAid Analysis.

BIC (2011). Middle East and North Africa Pilot Project. http://www.bicusa.org/en/Region.18.aspx)

Climate Funds Update: http://www.climatefundsupdate.org/

Luomi M (2010) Oil or Climate politics? Avoiding a destabilizing resource split in the Arab Middle East. Briefing Paper 58. The Finnish Institute of International Affairs.

Raouf M (2010) Climate Change Threats, Opportunities, and the GCC Countries. Policy Brief 12. The Middle East Institute.

World Bank (2011) 'MENA Facing Challenges and Opportunities' Regional Economic Update, World Bank (WB).