

# Access to Climate Finance in the Arab Region

Expert Group and Focal Point Meeting on Green Technology Investments and Access to Sustainable Financing in the Arab Region

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Economic and Social Commission for Western Asia



UNITED NATIONS

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# Topics

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- International Climate Finance Flows
  - Brief Global Overview
  - Flows to the Arab Region
- Blended Finance
- UNFCCC Climate Funds: Arab Perspective

UNFCCC negotiations cover climate finance, among other topics such as GHG emissions. These negotiations are separate from other development finance negotiation processes, including the Addis Ababa Action Agenda

## United Nations Framework Convention on Climate Change (UNFCCC)

(Adopted in 1992, entered into force in 1994)

### Copenhagen Accord

(UNFCCC COP 15 2009, **not endorsed**)

Establishes responsibility of developed countries to provide new and additional financial resources to developing countries (Article 4, paragraph 3)

Target for developed countries to mobilize USD 100 Billion per year in new and additional financial resources for developing countries (**not endorsed, but pledge reiterated in 2010 at COP 16, Cancun**)

### Paris Agreement

(UNFCCC COP 21 2015)

Adopted the financial mechanisms of the UNFCCC and its operating entities as the financial mechanisms of the Agreement. No specific Financial Target

### Katowice Package

(UNFCCC COP 24 and Paris Agreement CMA 1.3, 2018)

Agreed on rules for transparency framework for climate finance under the Paris Agreement, with more standardized reporting

## Addis Ababa Action Agenda

(Third International Conference on Financing for Development, 2015)

Separate from UNFCCC process, no climate specific focus; Notes that developed countries need to step up efforts to meet ODA targets of 0.7% of GNI overall, and 0.15% to LDCs

# The UNFCCC Reports USD 681 Billion in Climate-Specific Finance Flows Worldwide in 2016.

*Blue shaded boxes represent public international flows*

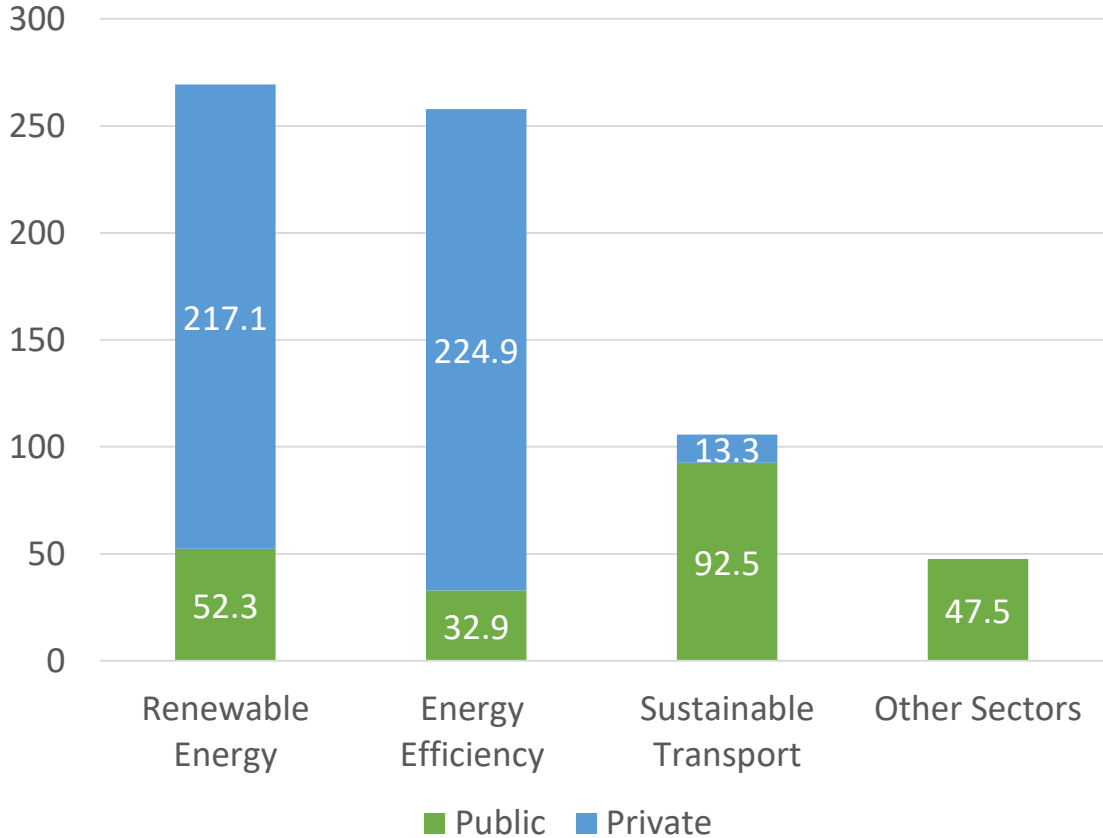
*All values in USD Billions*



- Private Channels
- Public - Domestic Flows
- Public - Other International Finance Flows
- Public flows from Annex II to non-Annex 1 via bilateral, regional, and other channels
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- Public flows via other multilateral climate funds (non UNFCCC)

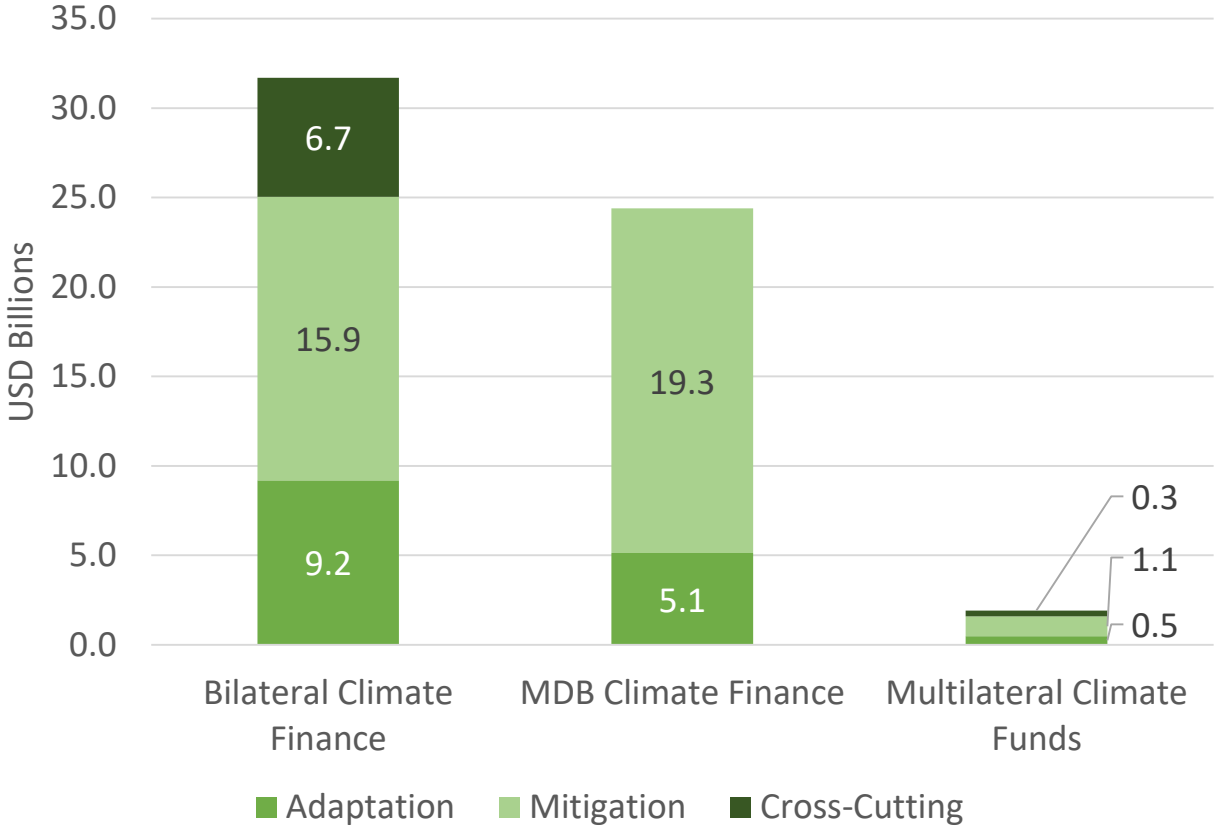
Private participation varies by sector. Adaptation has a higher share of grant finance; MDBs provide mostly debt finance

**Total international public and private investment by sector, worldwide, 2016, USD Billions**



Private participation varies by sector. Adaptation has a higher share of grant finance; MDBs provide mostly debt finance

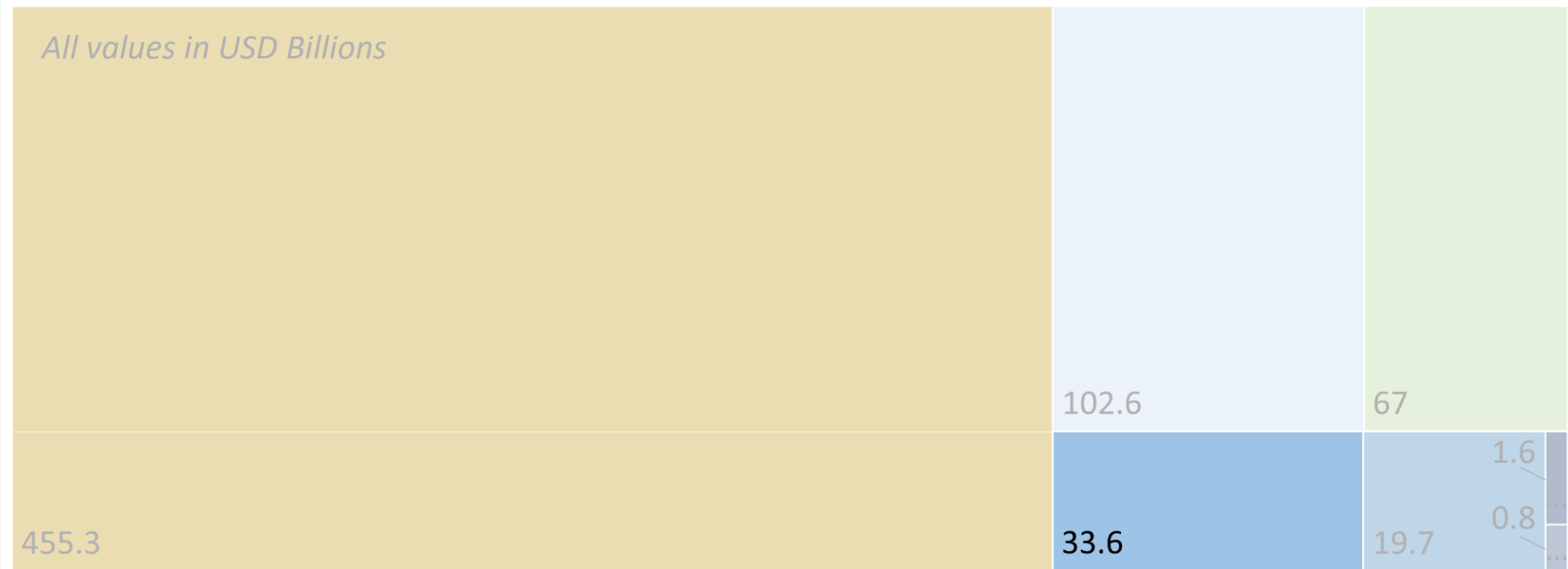
**Public International Flows from Developed Countries to Arab States, by Purpose, 2016**



Source: ESCWA Forthcoming, Based on UNFCCC 2018 Biennial Assessment

# The UNFCCC Reports USD 33.6 Billion in Climate-Specific Bilateral, Regional, and Other Finance Flows Worldwide from Developed to Developing Countries in 2016.

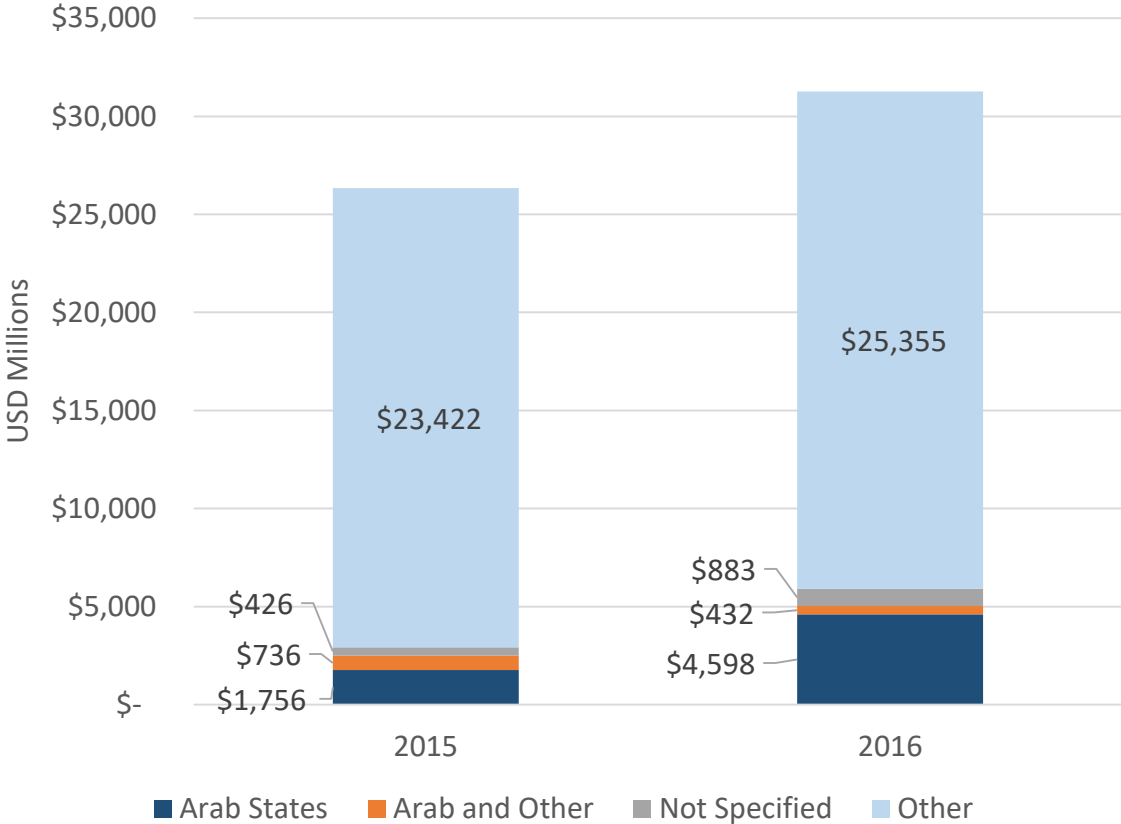
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# Bilateral Climate Finance Flows to the Arab region increased nearly threefold from 2015 to 2016, including two Japanese loans totaling nearly 1.9 Billion

**Public financial support from developed to Arab countries through bilateral, regional and other channels, 2016**

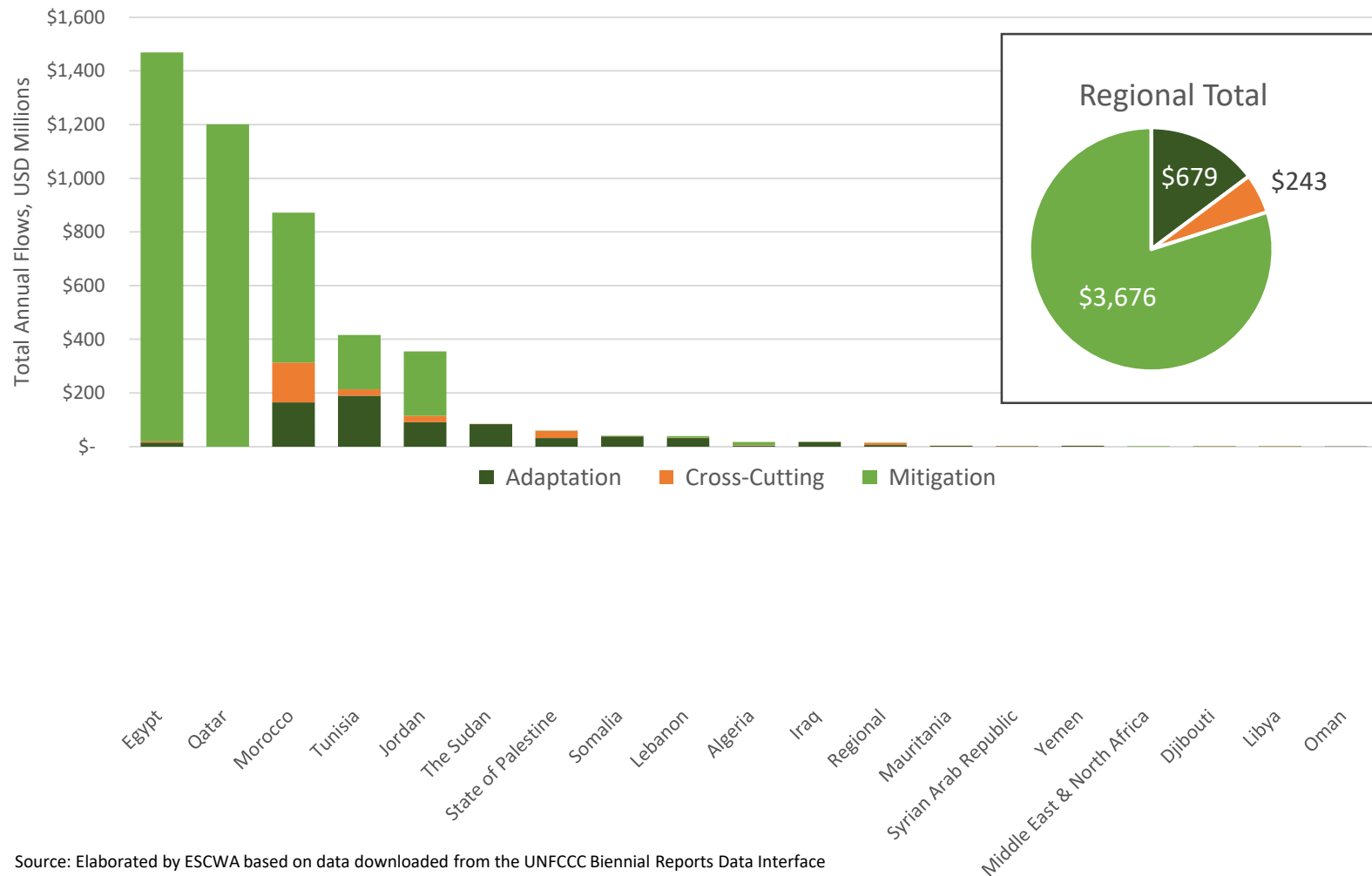


Notes: Developed Countries refers to countries listed in UNFCCC Annex II.  
 Data from the United States was not available and is not included. Data from the United Kingdom is based on the official PDF submission of the 3<sup>rd</sup> Biennial Report, which is inconsistent with the Excel submission  
 Source: Elaborated by ESCWA based on data downloaded from the UNFCCC Biennial Reports Data Interface



Mitigation accounted for the majority of flows in the region in 2016, although adaptation is more of focus in some countries

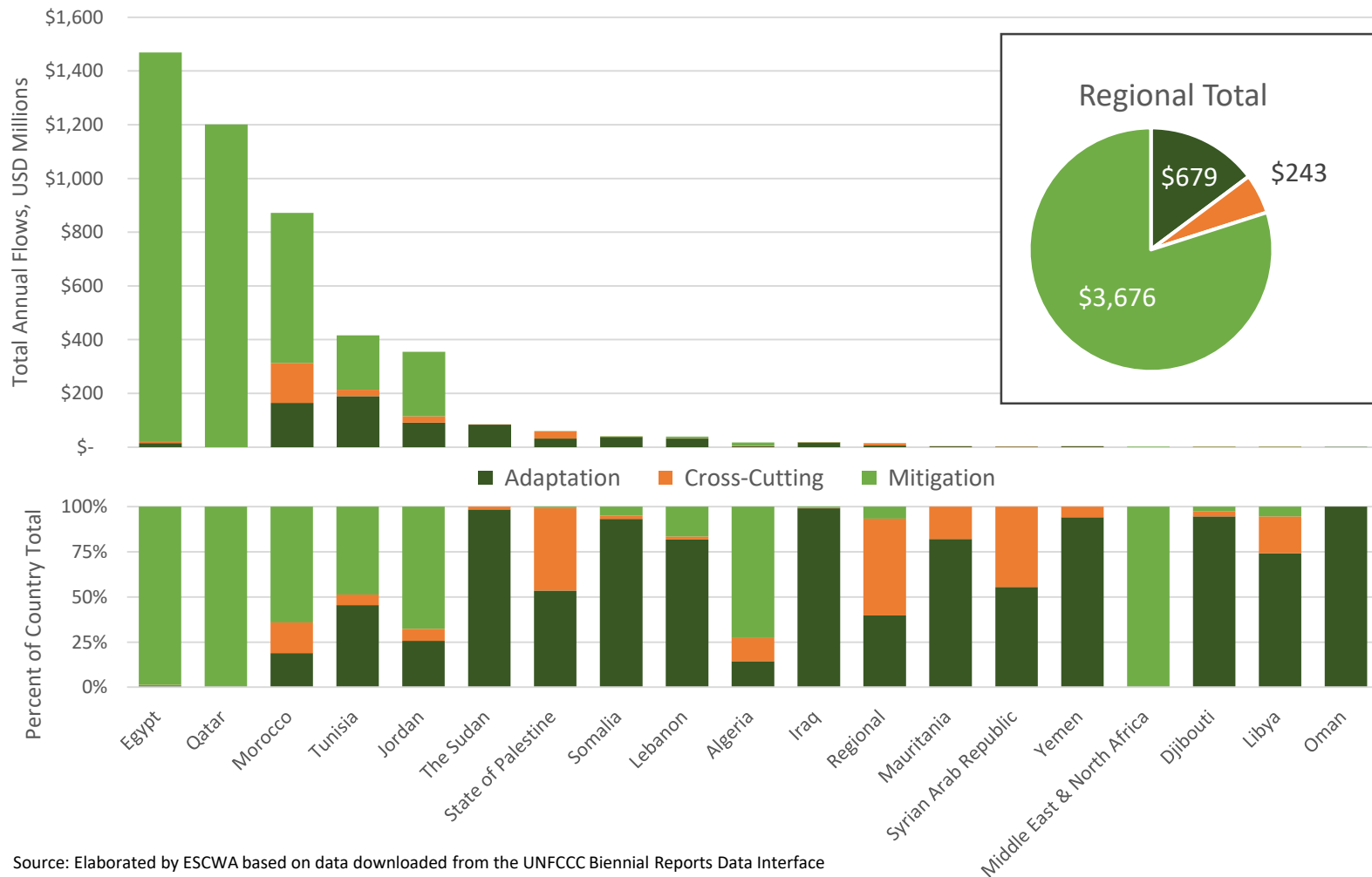
**Public Finance Support from Developed to Arab States through Bilateral, Regional and Other Channels, 2016: Purpose of Finance**



Source: Elaborated by ESCWA based on data downloaded from the UNFCCC Biennial Reports Data Interface

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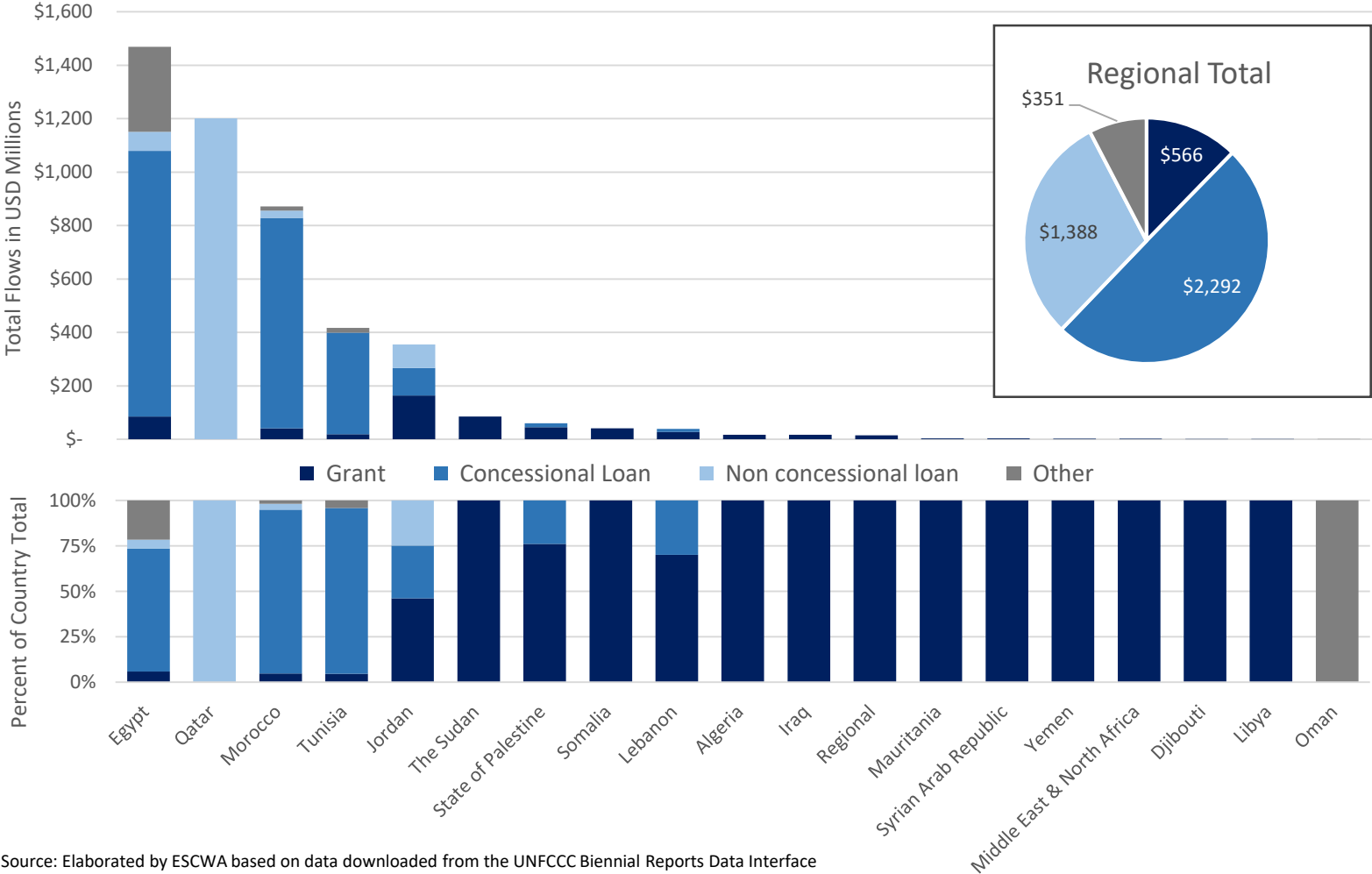
**Public Finance Support from Developed to Arab States through Bilateral, Regional and Other Channels, 2016: Purpose of Finance**



Source: Elaborated by ESCWA based on data downloaded from the UNFCCC Biennial Reports Data Interface

# Grants accounted for just 12% of public international climate finance flowing to the region through bilateral, regional, and other channels in 2016

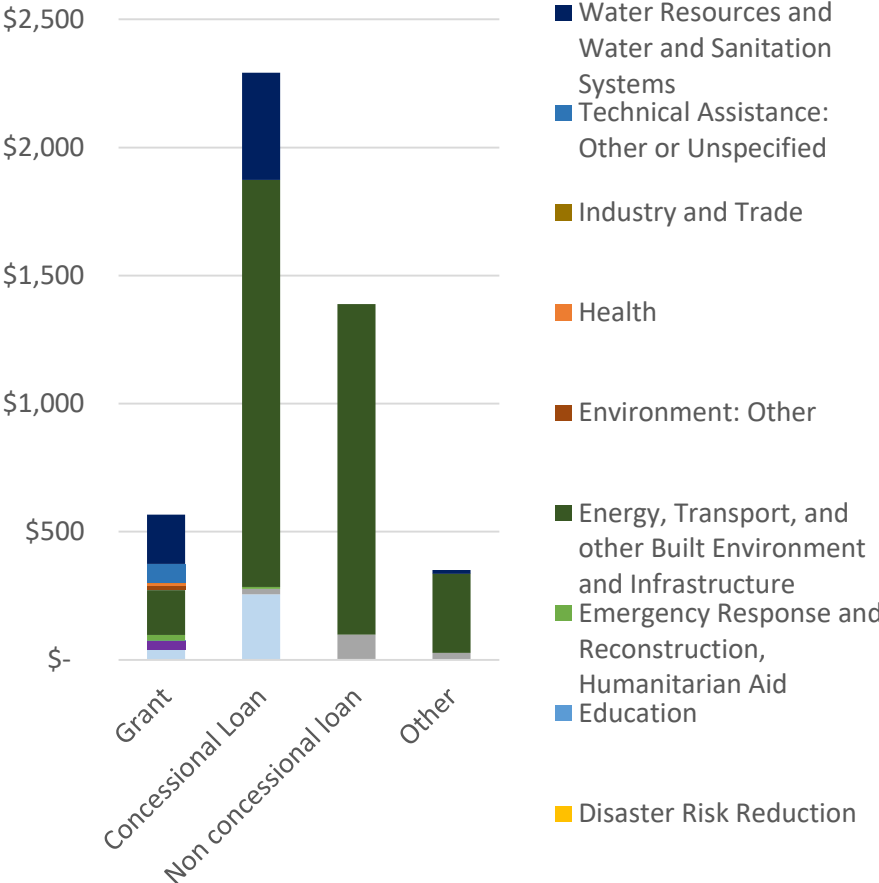
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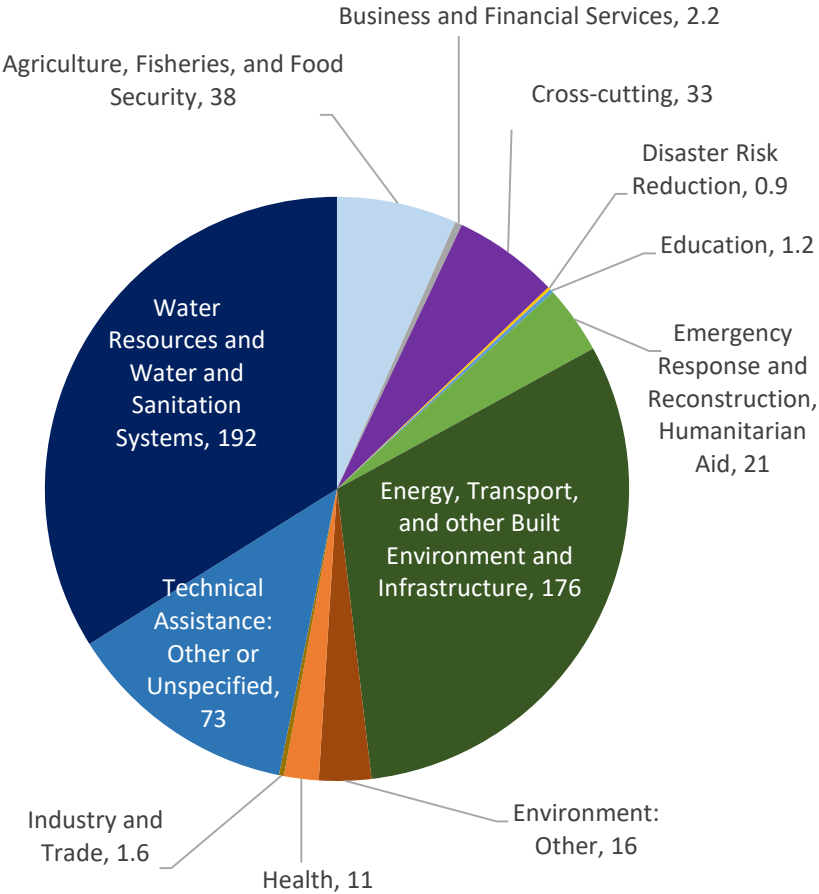
Source: Elaborated by ESCWA based on data downloaded from the UNFCCC Biennial Reports Data Interface

Energy, transport and built infrastructure received 73.2% of all bilateral funding in the region in 2016 (USD 3.4 billion out of 4.6 billion total). This includes 31% of grant finance.

**International Public Finance Flows from Developed Countries to Arab States through Bilateral, Regional, and Other Channels, by Sector and Type of Instrument, 2016**



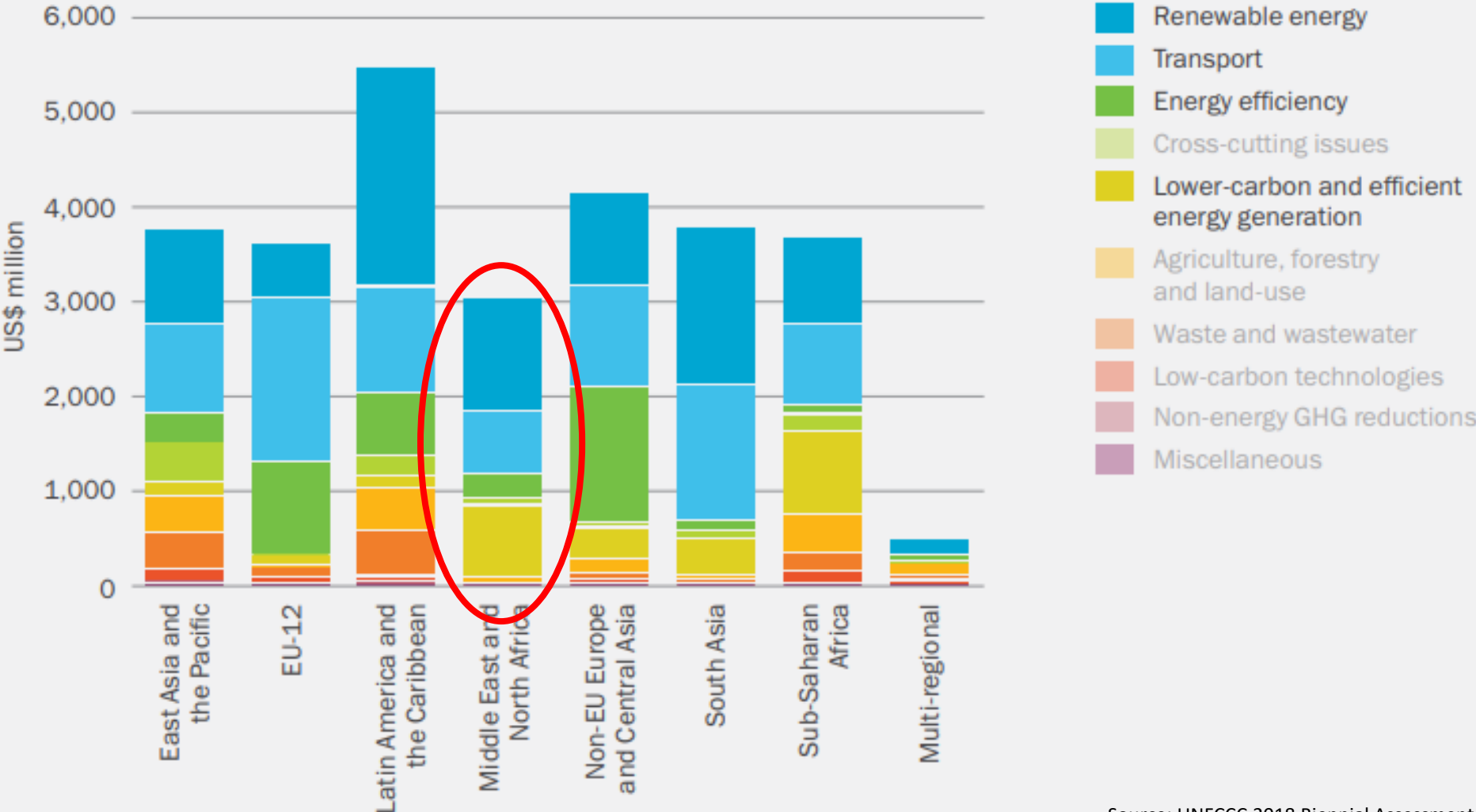
**International Public Grant Finance Flows from Developed Countries to Arab States through Bilateral, Regional, and Other Channels, by Sector, 2016**



Source: Elaborated by ESCWA based on data downloaded from the UNFCCC Biennial Reports Data Interface

# Over 90% of MDB mitigation finance in the region is for energy and transport

**Multilateral Development Bank Mitigation Finance by Sector and Region, 2016**



Source: UNFCCC 2018 Biennial Assessment

Adaptation finance flows were six times lower than mitigation (500 million vs 3 billion USD) in 2016

Multilateral Development Bank Adaptation Finance by Sector and Region, 2016



Source: UNFCCC 2018 Biennial Assessment

# Blended Finance: Leveraging Public Finance to Catalyze Private Investment

## Definition

Blended finance “combines concessional public finance with non-concessional private finance and expertise from the public and private sector” under clear accountability mechanisms.

UNGA, 2015. Addis Ababa Action Agenda. Annex II (C), paragraph 48

AAAA and Paris Agreement note the opportunity to scale financial resources through private sector engagement and partnerships.

To be used strategically and unlock positive additionality without excessive risk or return enhancements, blended finance requires specialized, **strong technical capacity**. There are also significant governance risks when using public resources to provide risk and return enhancements to the private sector, so an **appropriate enabling environment** is critical.

Concessional Public Finance

+ Non-Concessional Private Finance

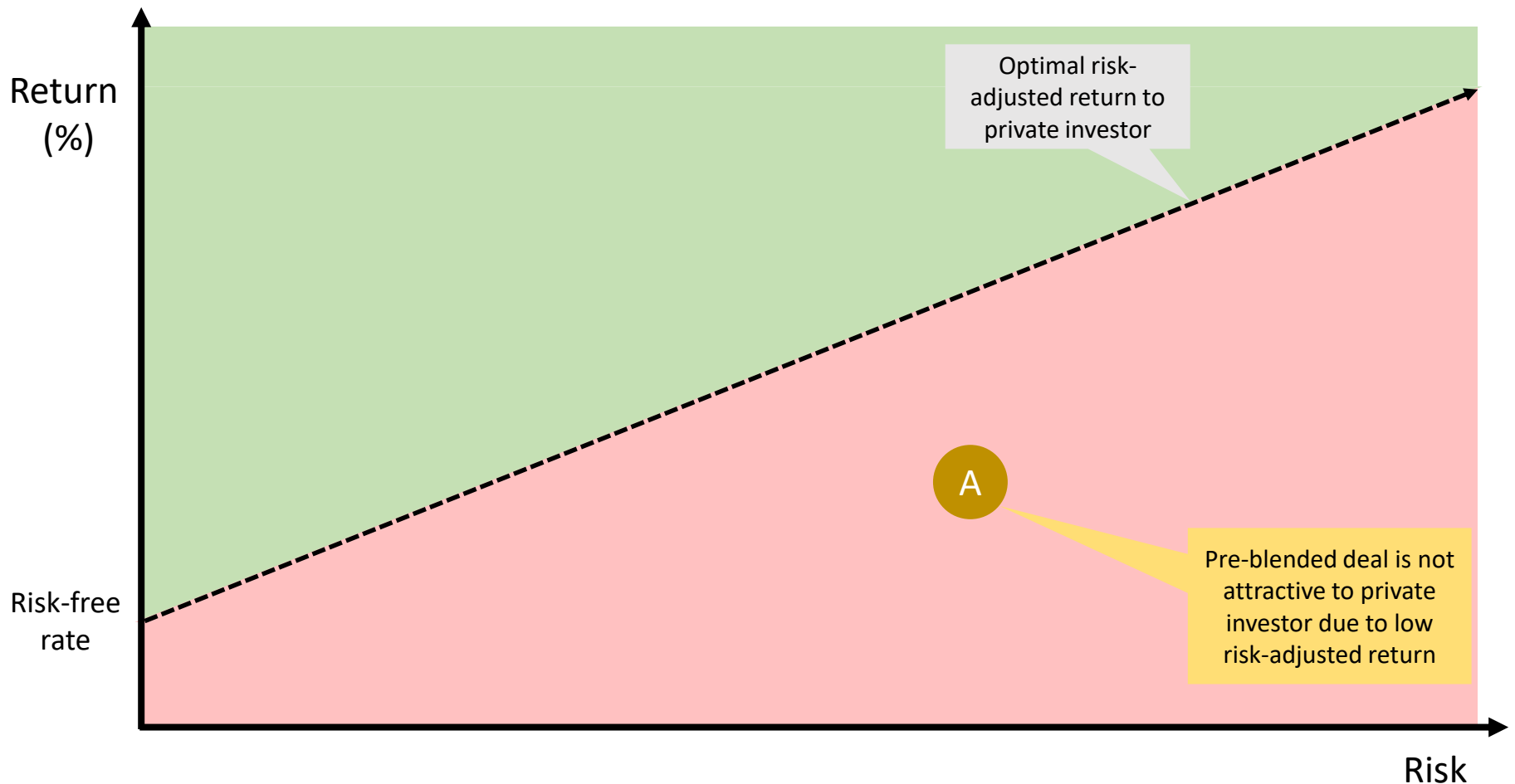
= Blended Finance

## Ouarzazate Solar Power Station, Morocco



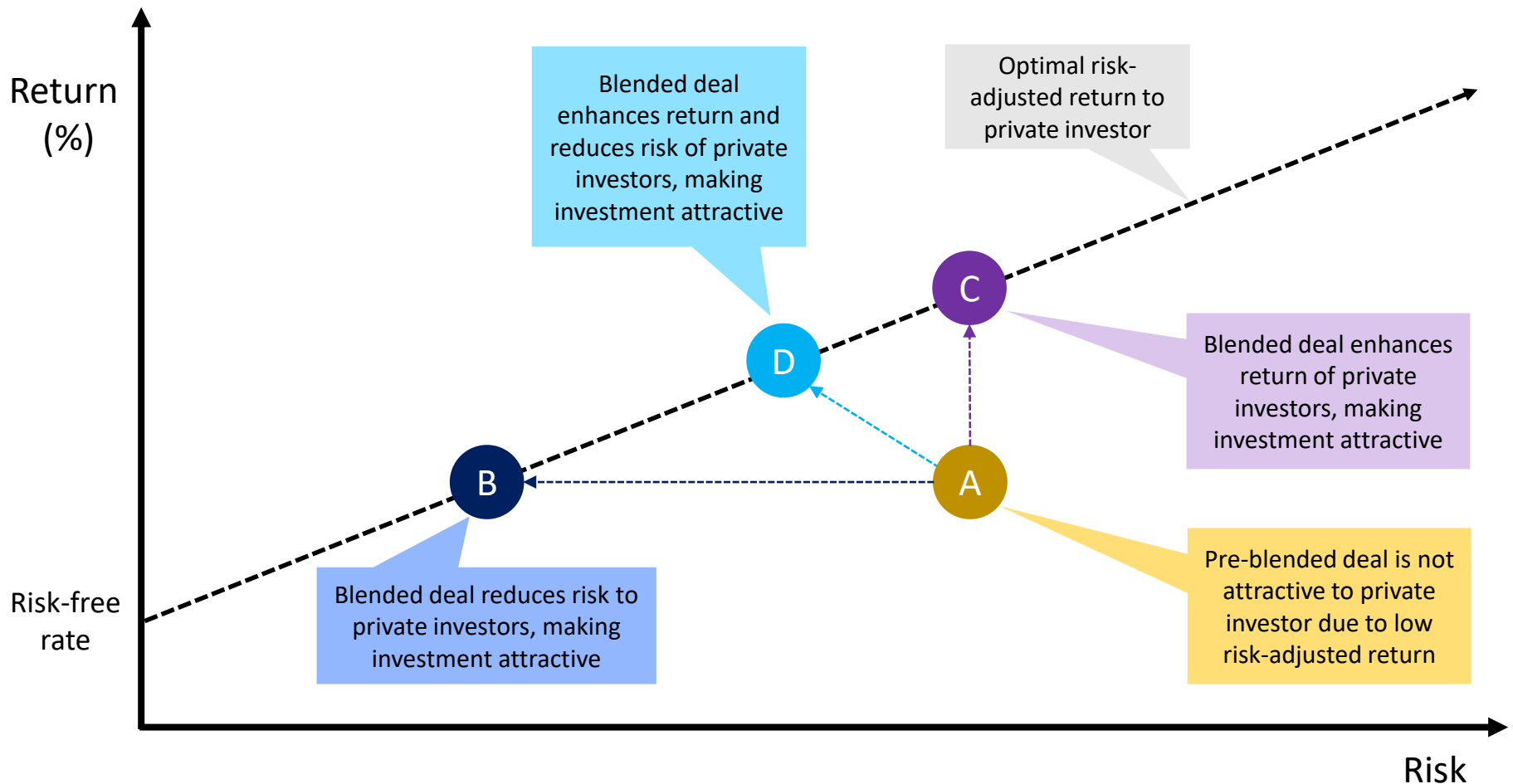
Image Source: World Bank

# Blended Finance can be an efficient tool to align market incentives for impact

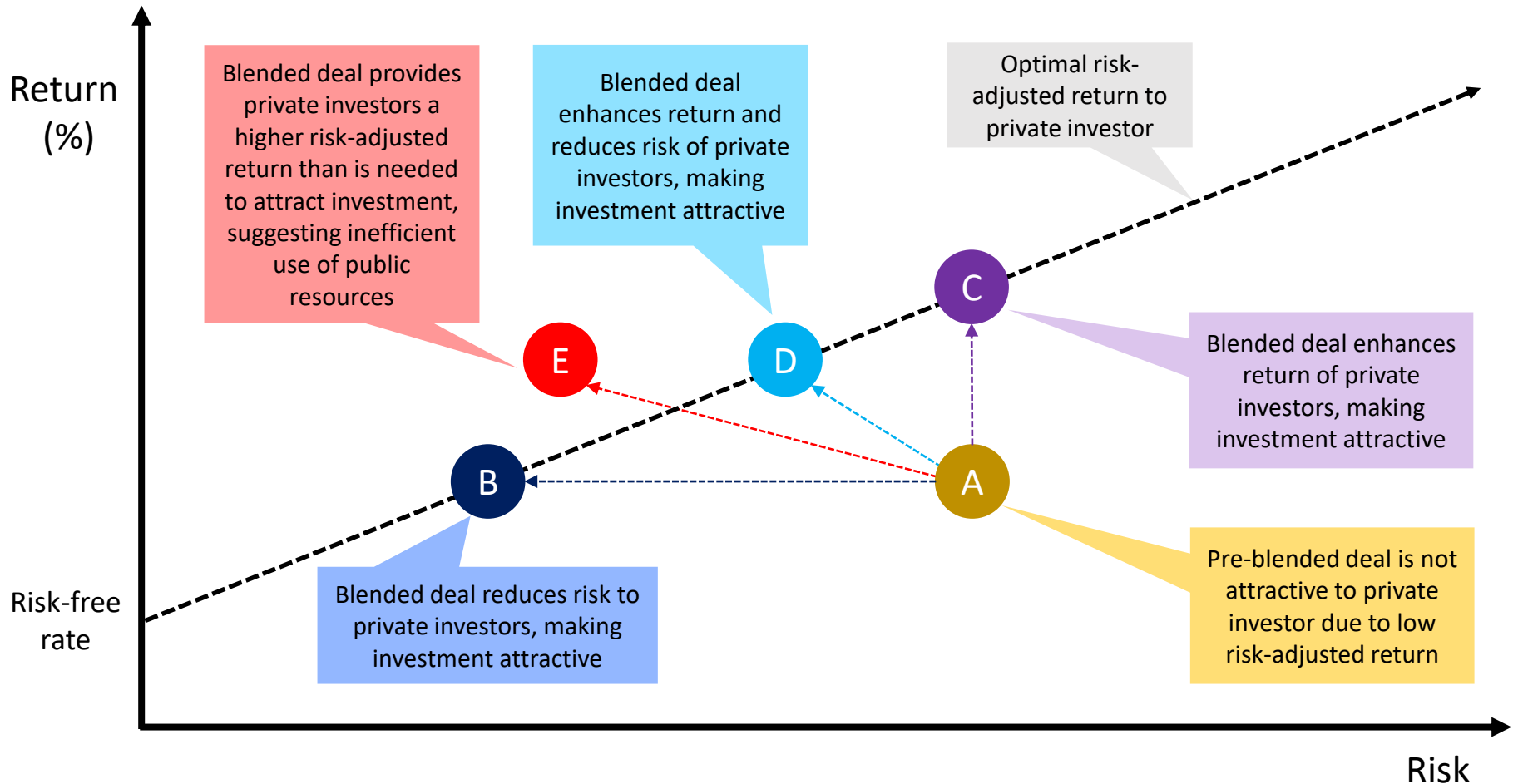




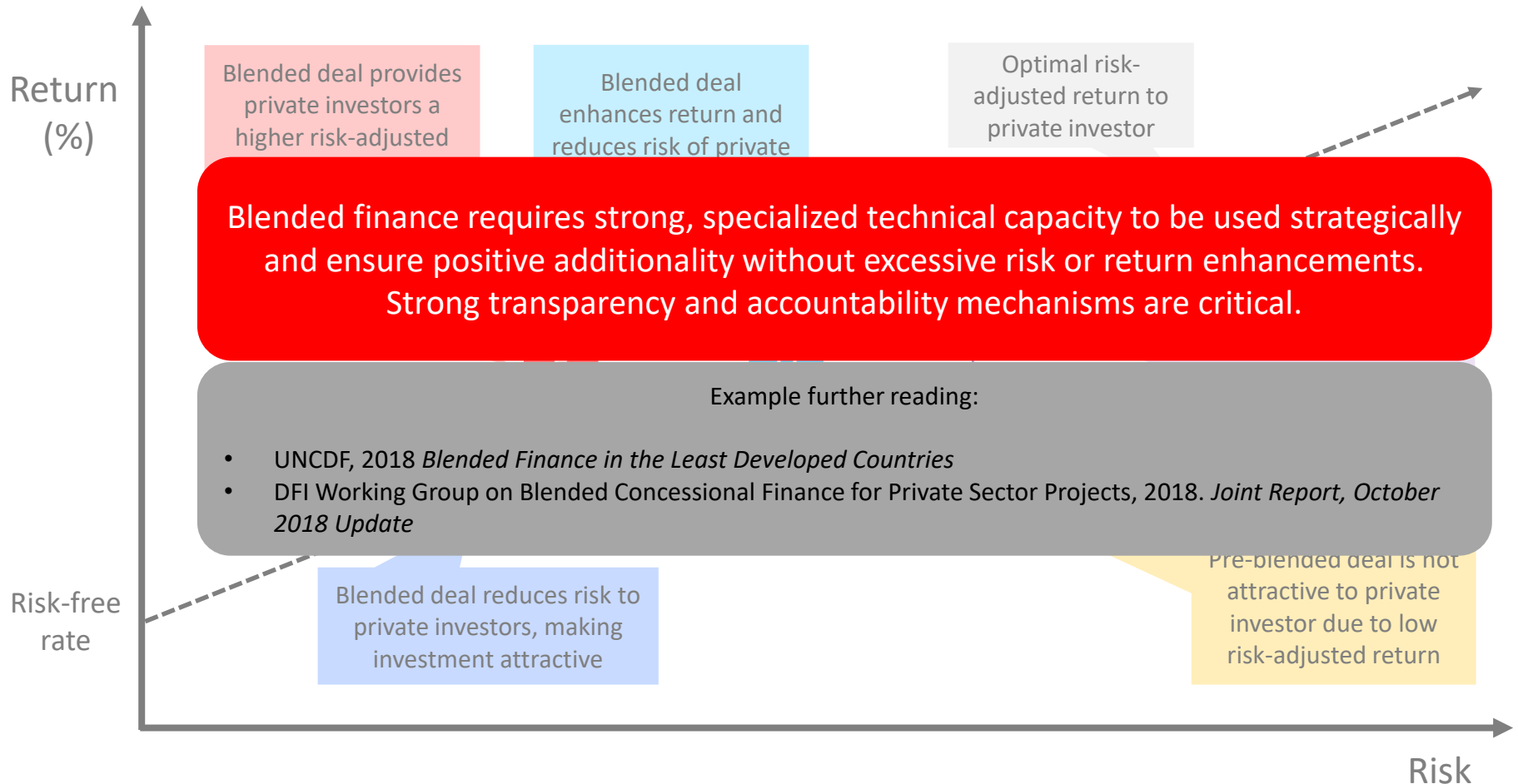
# Blended Finance can be an efficient tool to align market incentives for impact



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# The off-grid solar market has grown quickly with targeted grant support

**Figure 68: Annual investment in the OGS sector over time, by financing instrument<sup>239</sup>**  
Millions USD (2012-17)

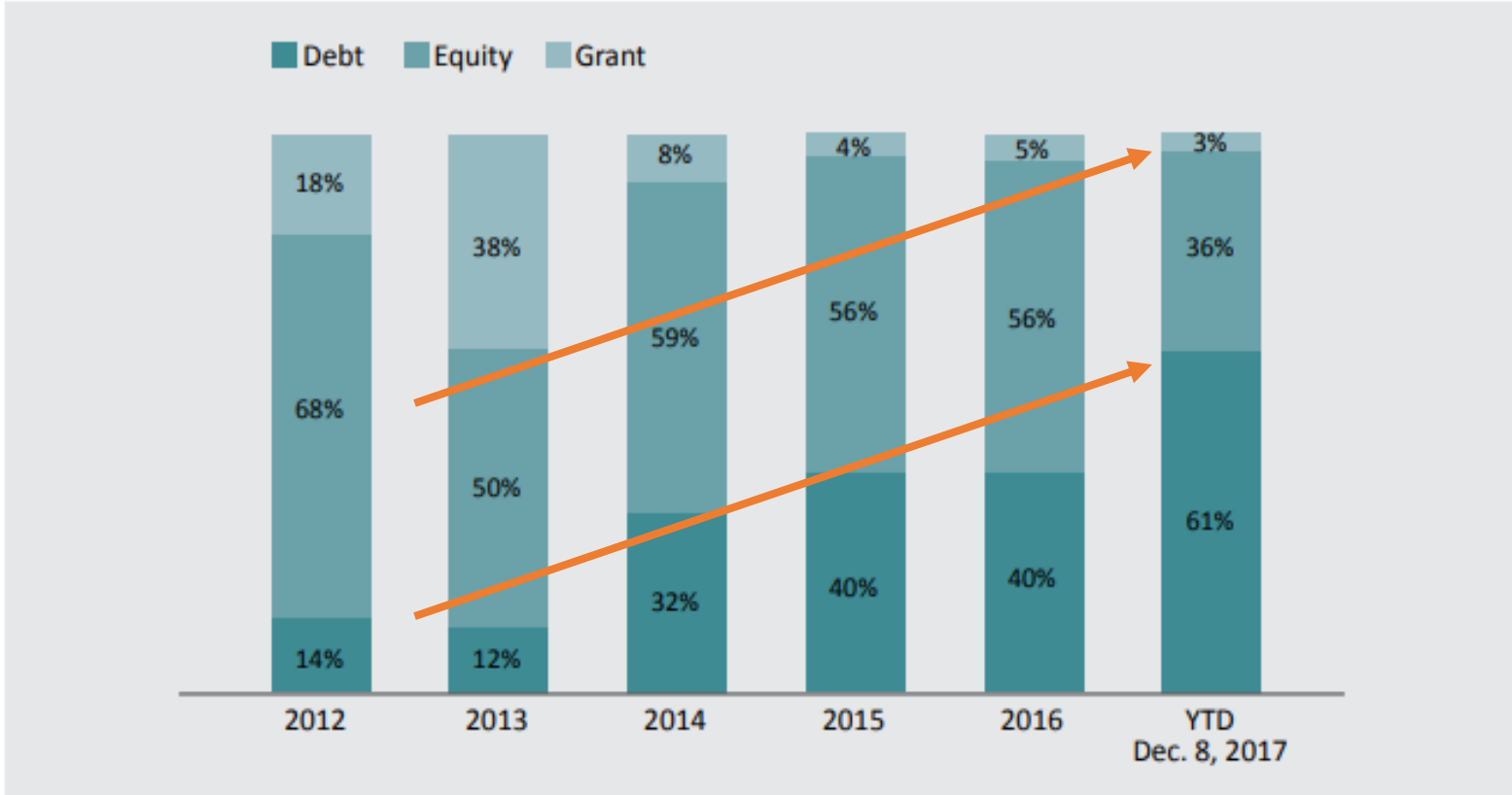


<sup>239</sup>Note: Figures may not add to 100% due to rounding. 2017 figures include estimates regarding the acquisition of Fenix International by Engie and a follow-on investment from a consortium of investors led by Investec Asset Management into Mobisol. This study has not been able to verify the size of these transactions, and estimates that they collectively fall in the range of USD 30-45 million. Source: GOGLA 2018 Deals Database

The share of grant finance decreased over time. Equity came in before debt; debt is driving scale.

**Figure 75: Breakdown of total funding by type<sup>255</sup>**

% of total funds raised (2012-17)

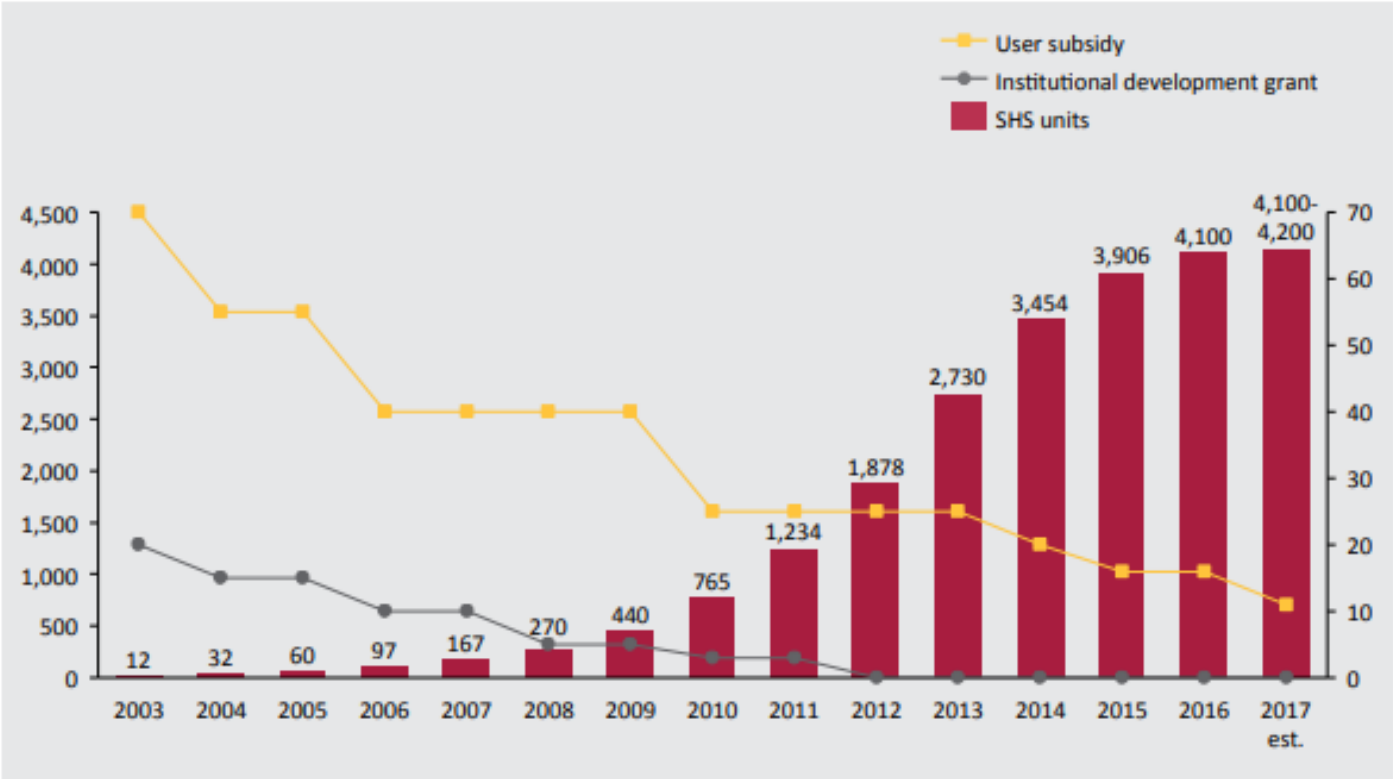


Source: International Finance Corporation, 2018. *Off-Grid Solar Market Trends Report*.

# A case study from Bangladesh exemplifies that the need for subsidy can decline over time as markets become self sustaining

**Figure 95: Annual IDCOL SHS installation and phased-out subsidies per unit<sup>350</sup>**

Left axis: SHS units, thousands; Right axis: grants and subsidies, USD/unit (2003-17)

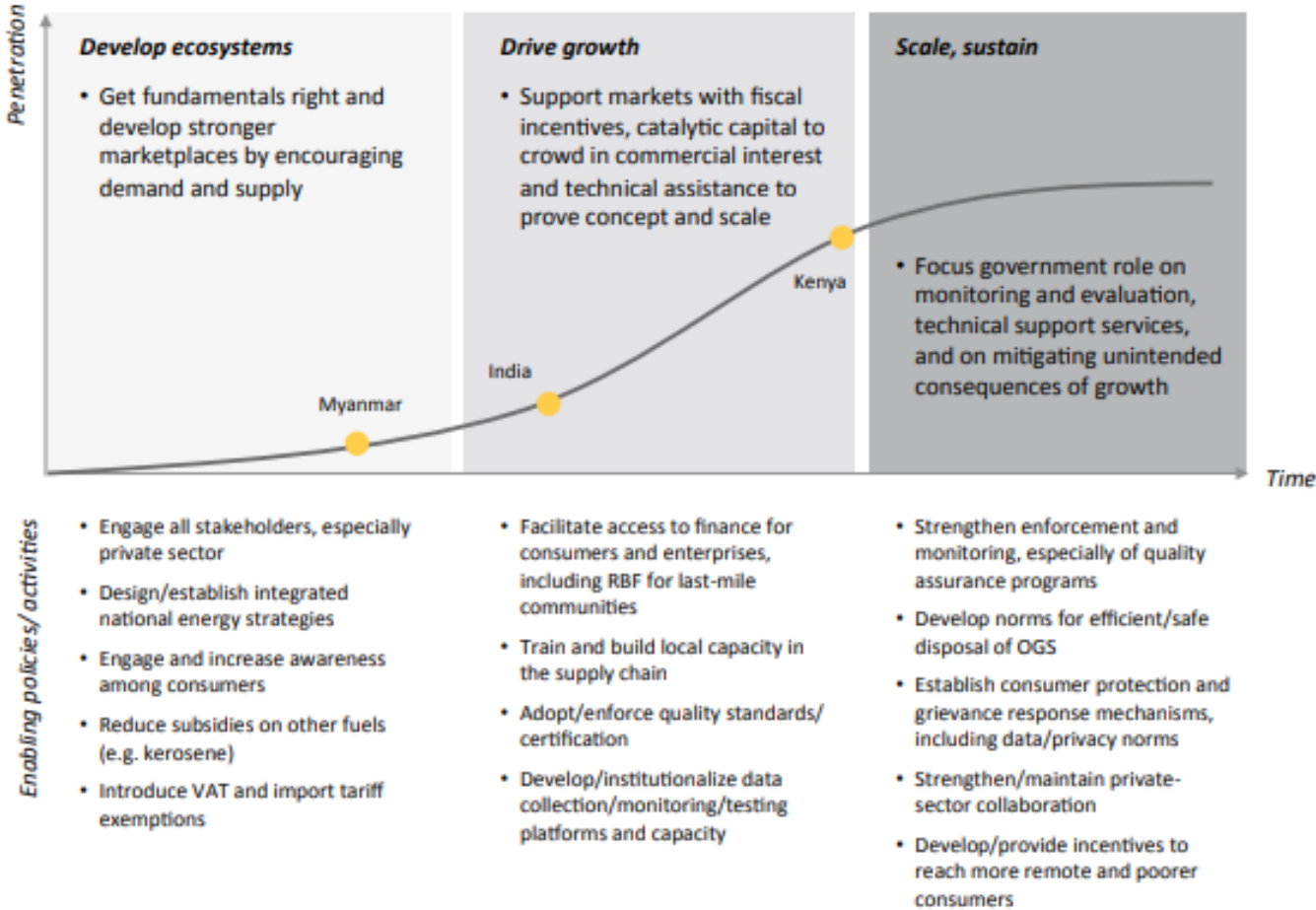


<sup>349</sup>Source: (GOGLA, 2017)

<sup>350</sup>Source: (ADB, 2015); (Quddus, 2015); industry interviews; Dalberg analysis

# The key elements of the enabling environment may evolve over time

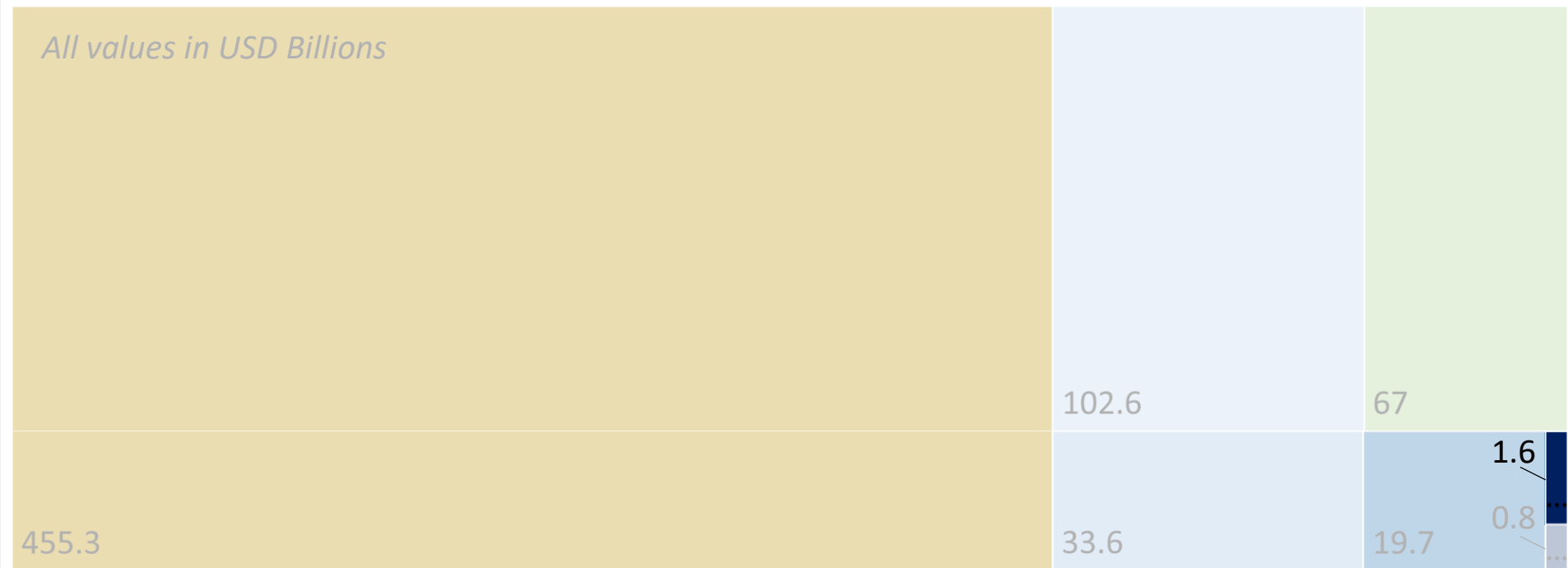
**Figure 96: Long term evolution of policy and regulatory support for OGS markets (Illustrative)**



Source: International Finance Corporation, 2018. *Off-Grid Solar Market Trends Report*.

# The UNFCCC Reports USD 1.6 Billion in Climate-Specific Finance Flows Worldwide via UNFCCC Climate Funds in 2016.

All values in USD Billions

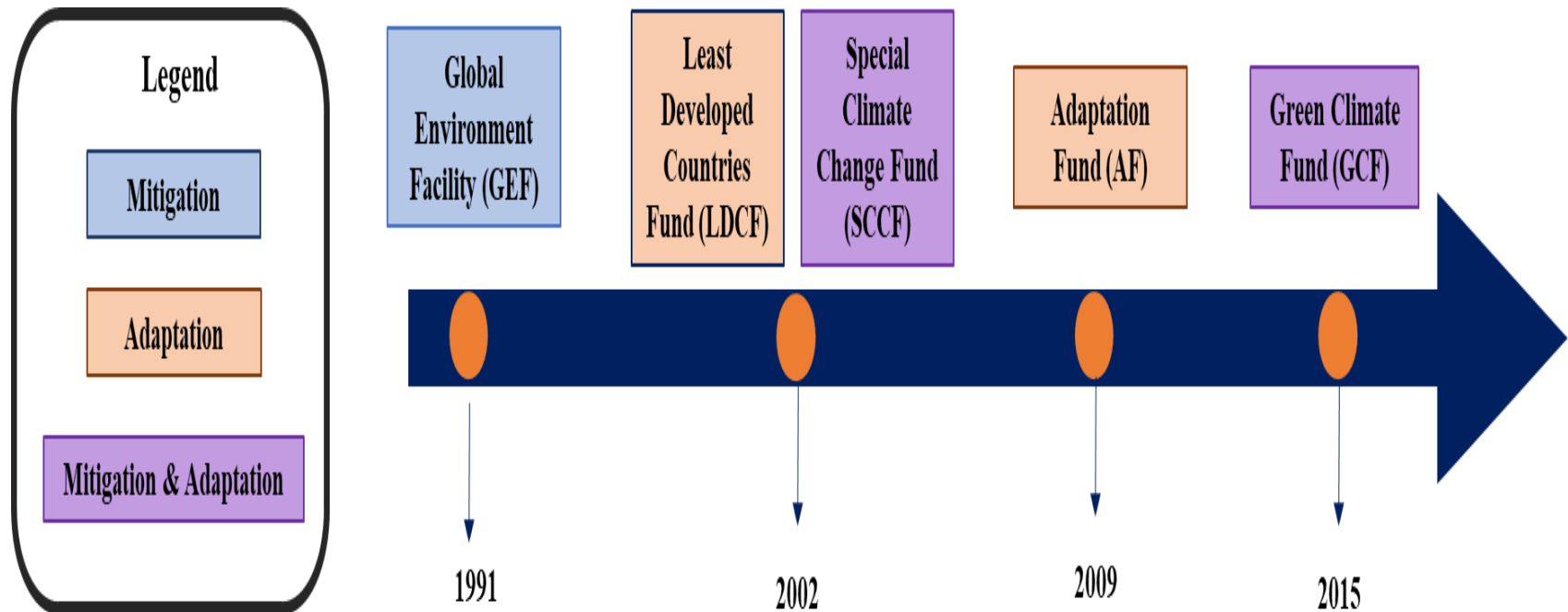


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# Climate-dedicated funds

GCF accounts for 75% of UNFCCC funds since 2016



# Accessing the Funds

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Developing countries

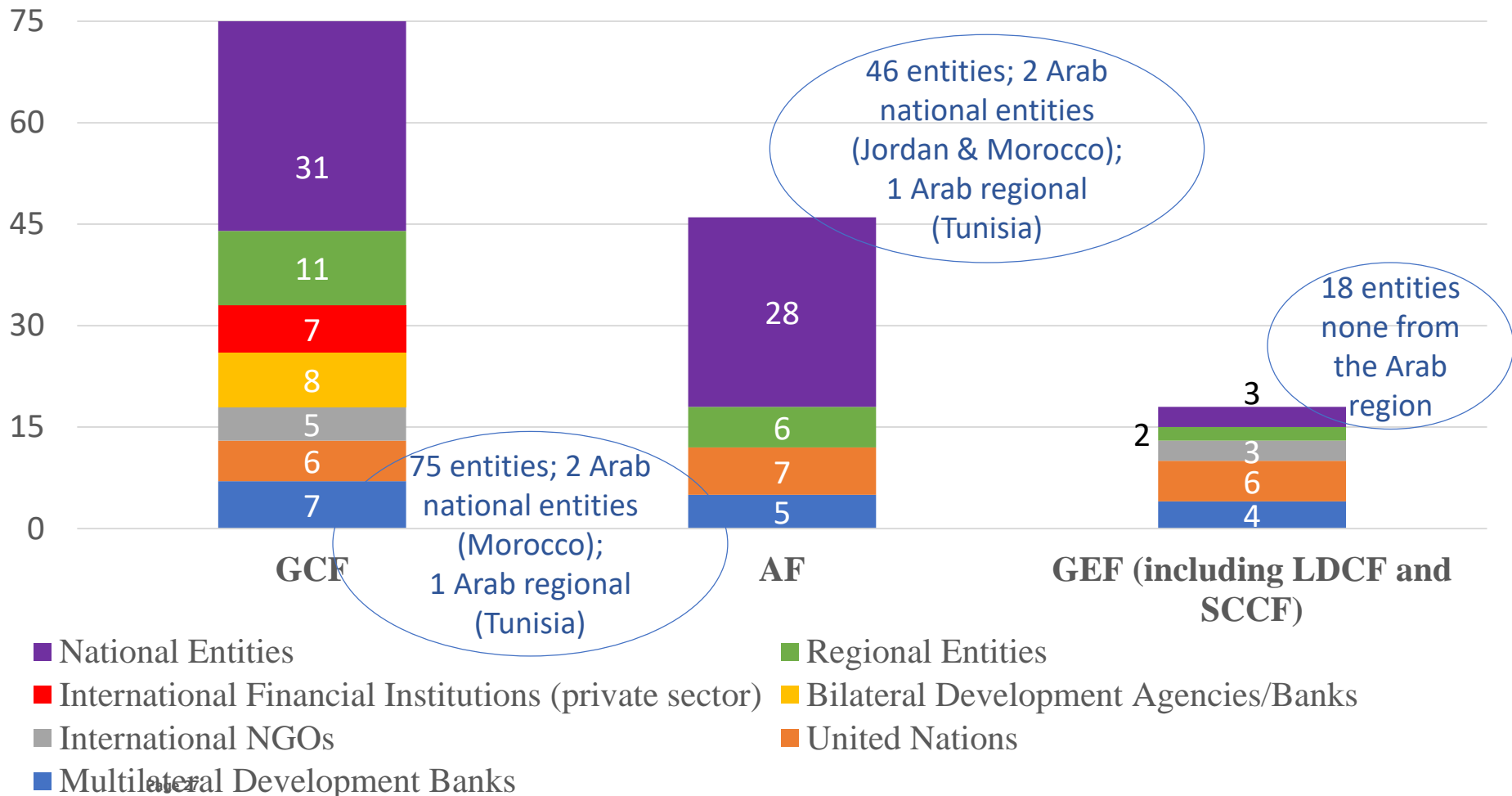


- Public or private entities can request financing

Accredited entity

- Public, private, governmental and non-governmental, national, regional and international entities can apply for accreditation
- GEF requires that projects fall within its priorities and endorsed by national focal point
- LDCF requires submission of NAPA to UNFCCC Secretariat
- GCF requires “no-objection” of NDA

# Accessing the Funds: accredited entities



## Accessing the Funds: accredited entities

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- Accreditation process takes on average between **17 and 27 months** for Adaptation Fund and takes on average **9.9 months** for GCF (WRI 2017)
- Time from submitting a proposal to getting the approval takes on average **18 to 22 months** for GEF, **8 and 12 months** for Adaptation Fund and disbursement is significantly delayed for GCF as a result of legal documentation and other requirements imposed on projects after the approval (WRI 2017)
- There are 10 national projects from 8 Arab countries in the pipeline of GCF (some of them since 2016)

# Financing instruments

- Mainly grants
- Non-grant instruments available
- Pledges: \$3 billion (2010-2018)

GEF

- Grants
- Pledges: \$1.2 billion (2002-2017)

LDCF

- Grants
- Pledges: \$350 million (2002-2017)

SCCF

- Grants
- Pledges: \$541 million (2009-2016)

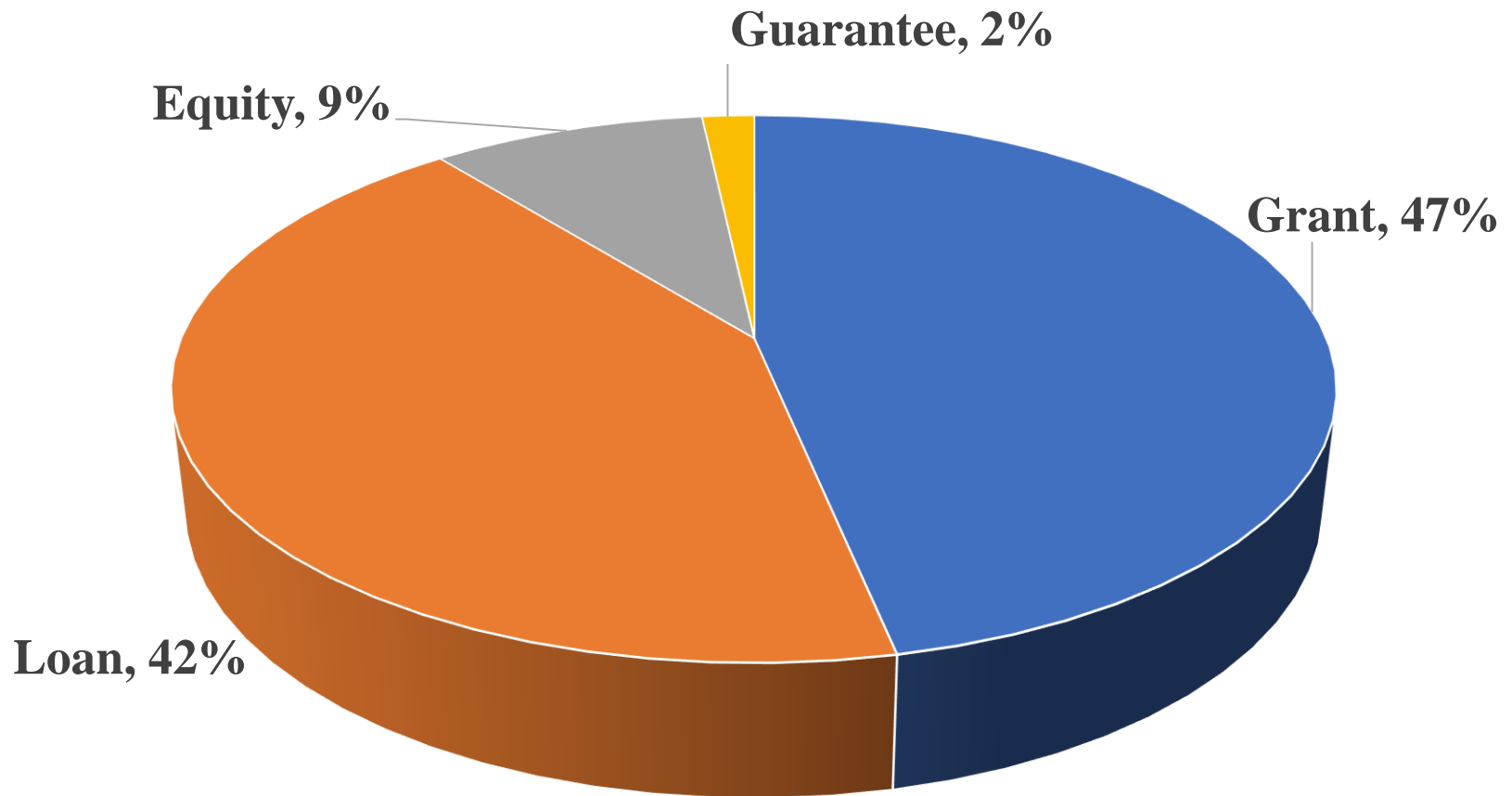
AF

- Grants
- Loans
- Equity
- Guarantee
- Pledges: \$10.3 billion (2015-2018)

GCF

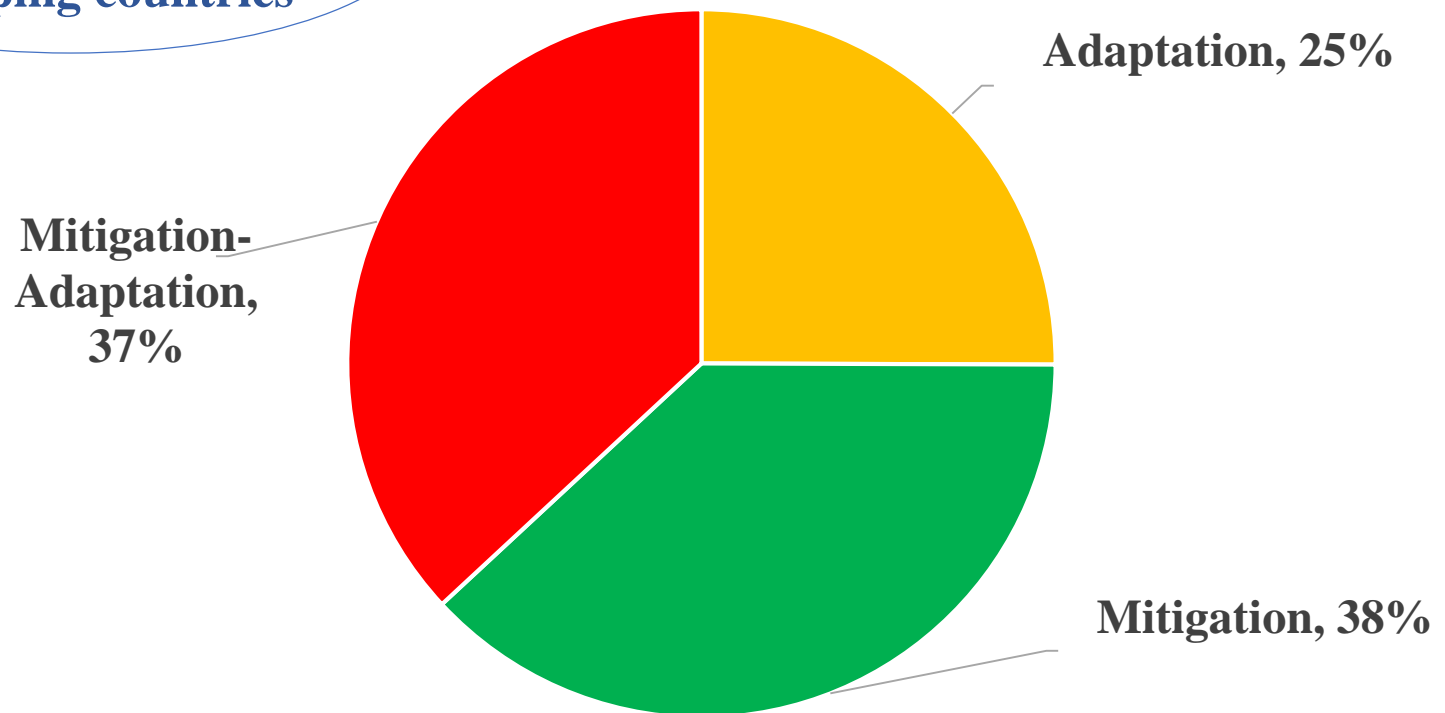
## Type of GCF Financing, 2015-2018

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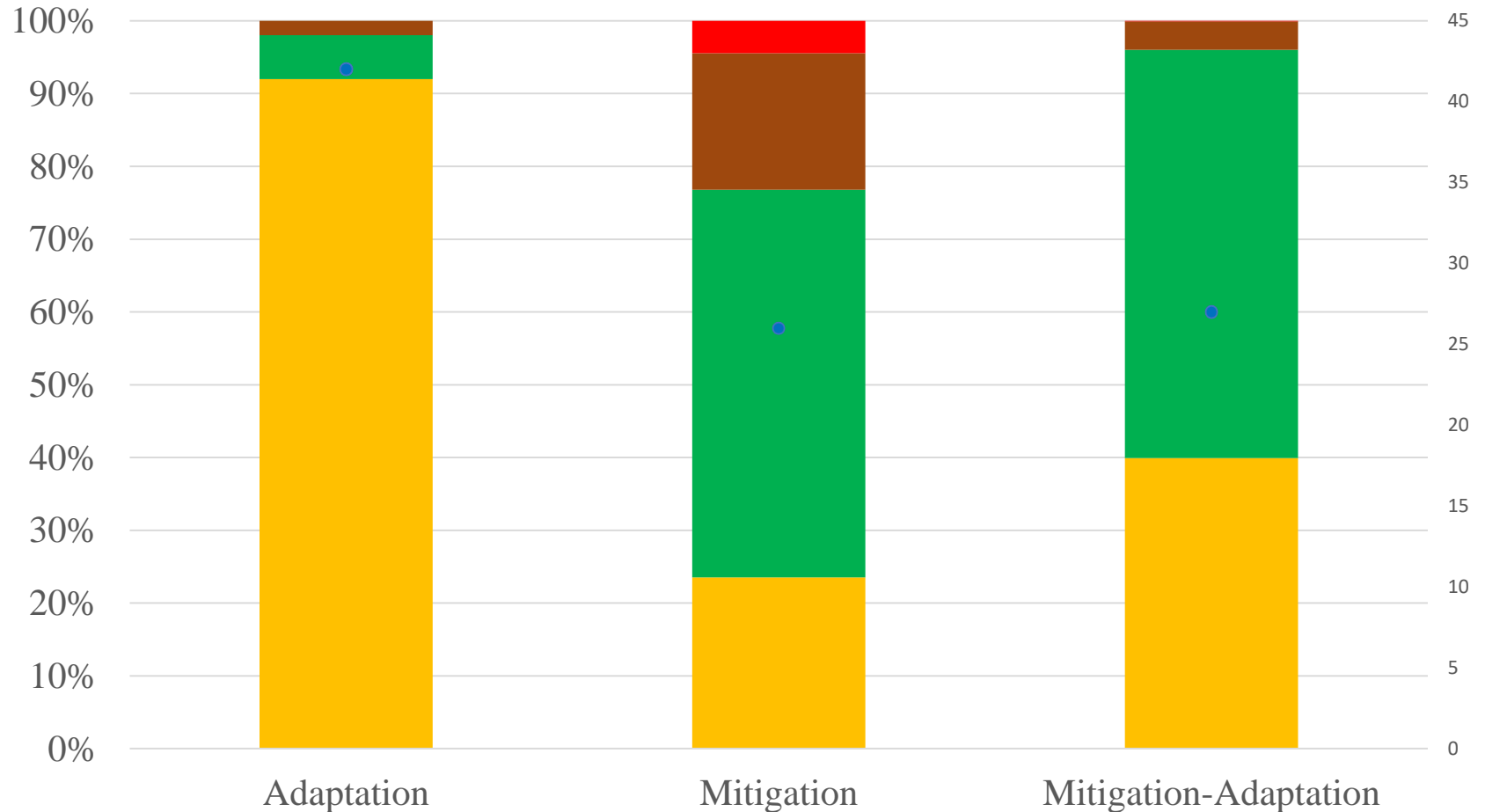


# Distribution of GCF financing, 2015-2018

**Adaptation is the  
priority for  
developing countries**

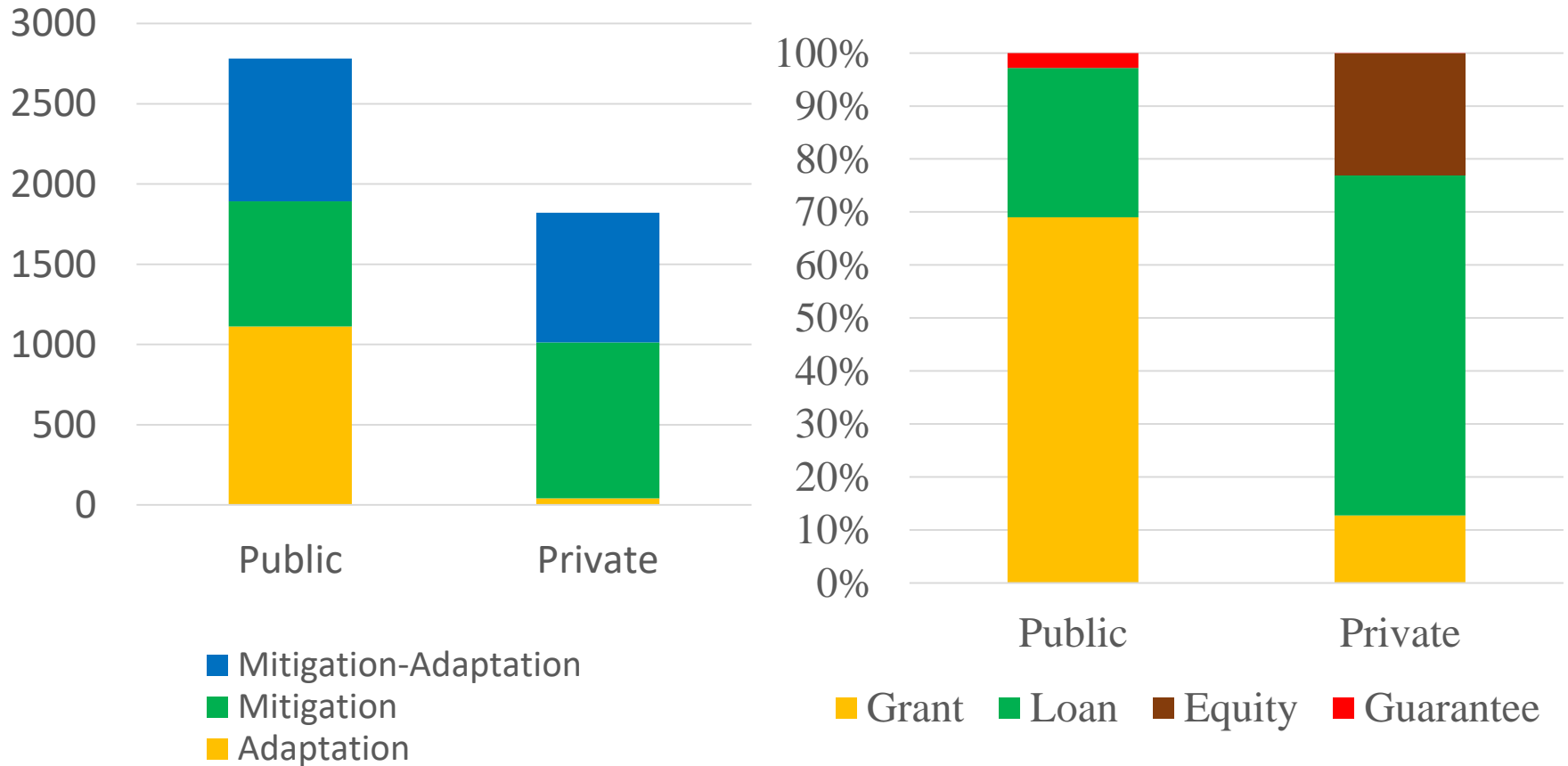


# GCF financing by instrument, 2015-2018

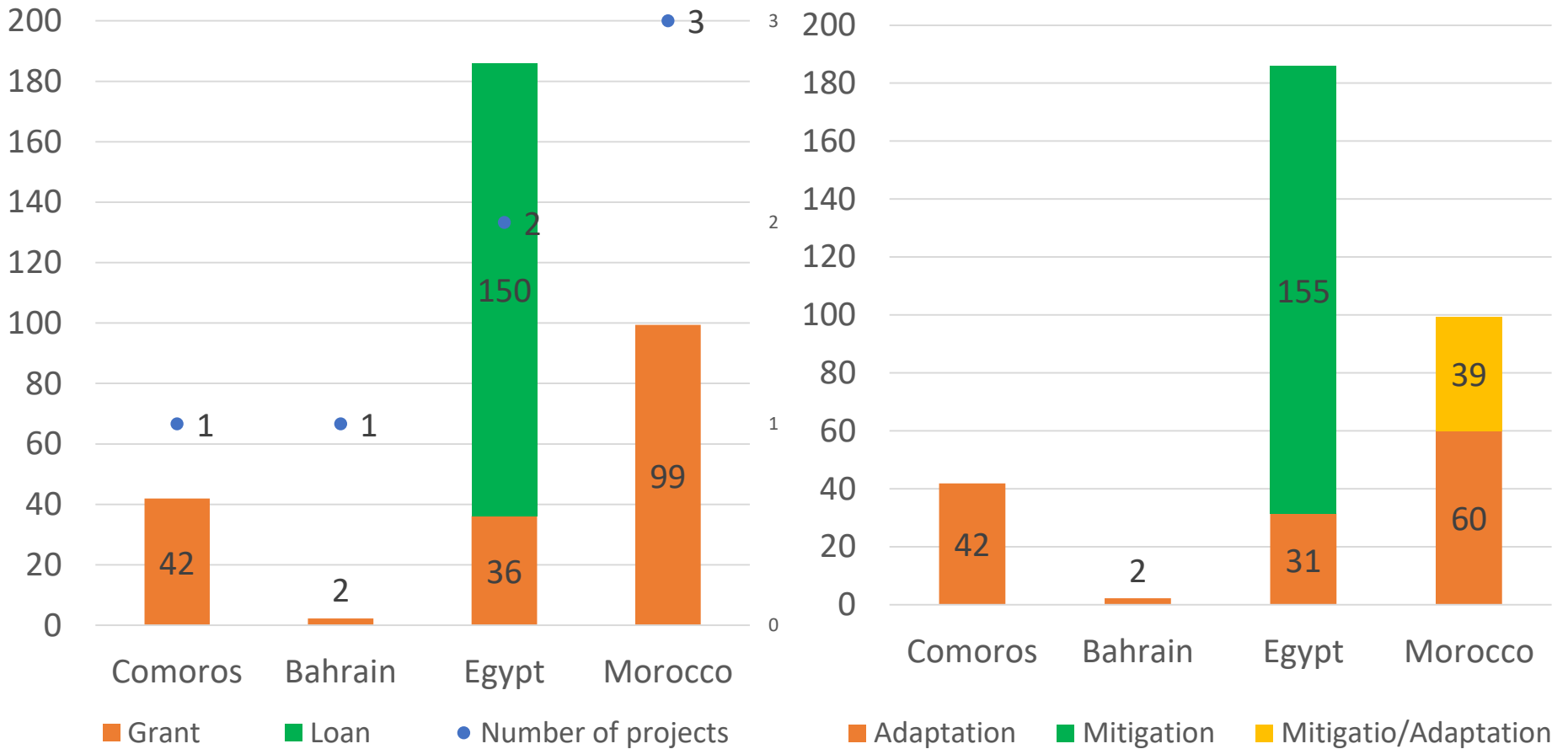




# Distribution of GCF Financing, 2015-2018



# GCF Financing to Arab countries, 2016-2018



Five multiple country projects covered more Arab countries: Djibouti, Egypt and Tunisia (in two projects), Jordan and Morocco (in three projects)

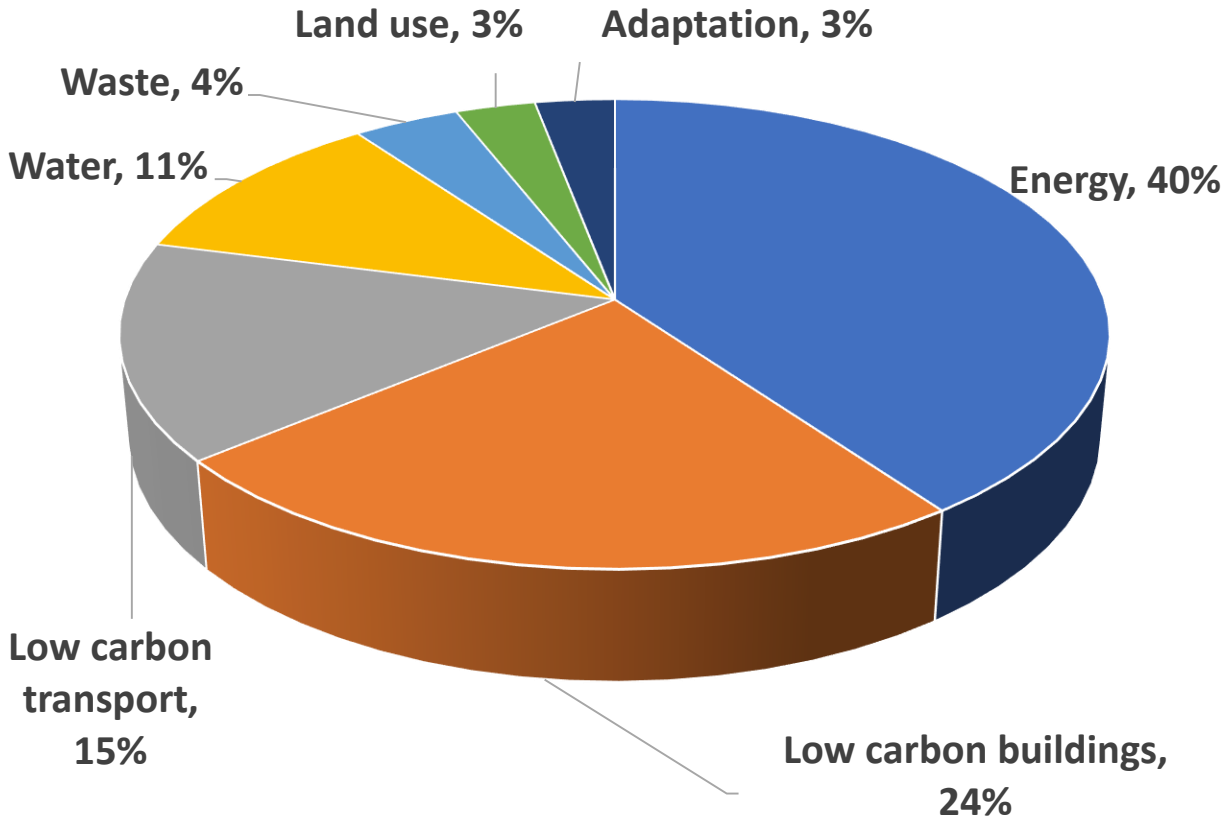
## Risk mitigation: guarantees

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- Guarantees protect investors against the risks of expropriation, war, breach of contract, currency inconvertibility and transfer restriction.
- To make a high risk investment attractive to private sector by mitigating the associated risks and compensating on low returns or delayed profits.
- Multilateral Investment Guarantee Agency (MIGA), member of the World Bank Group, is lead institution.
- In 2015, MIGA introduced climate change as one of its core priorities. In 2017, MIGA issued \$4.2 billion for climate-change projects.
- MIGA provided guarantee for Jordan (\$215.6 million for a gas-fired power plant and \$15.6 million for solar power generation) and Palestine (\$1.53 million for biogas plant)
- GCF extended 3 investment guarantees: two public sector mitigation projects, one in Vietnam (energy efficiency, \$75 million guarantee) and one in Burkina Faso (rural electrification, \$3.2 million) and a private sector mitigation-adaptation project in Guatemala and Mexico (low-emission agriculture, \$1.5 million)

Green bonds are financial debt instruments whose proceeds are allocated to “green” projects;  
Green sukuk are shariah-compliant green bonds

## Use of green bond proceeds



- Good for infrastructure financing which is low risk and long-term payback
- Green bonds market is expanding rapidly and is projected to reach \$1 trillion in 2020.
- GCF approved two projects for the issuance of green/climate bonds: a mitigation project in Mexico (energy efficiency); mitigation-adaptation project in Madagascar (smallholding farmers)

# Concluding Remarks

- **Accessing financial resources from climate funds remains a priority for Arab countries.** Adaptation finance is a need in the Arab region; grants have accounted for a large share of adaptation finance.
- **Green bonds, guarantees and other instruments may complement** grants, loans and equity, as financing options for green technology projects. Tailored financing instruments can be identified case-by-case based on project characteristics
- **Private finance represent an opportunity** for scale in some climate projects, more often mitigation projects, but requires strong technical capacity, an appropriate enabling environment, and clear accountability mechanisms.
- **Energy, transport and built infrastructure capture the majority of public and private international climate flows to the region,** while other sectors receive significantly lower shares of finance across channels. Adaptation receives a higher share of grant finance but a significantly lower overall share of funding than mitigation across channels.

**Thank you**

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