Climate finance needs and flows in the Arab region

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Shared Prosperity Dignified Life

E/ESCWA/CL1.CCS/2022/Policy Brief.1

Introduction

The Arab region is highly vulnerable to climate change. The adverse effects of climate change are already being felt by rural and urban communities and across sectors. Regional climate models project that the average annual temperature could increase by almost 5°C before the end of the century under the high emission scenario.[1] Precipitation levels are projected to follow a decreasing yet volatile trend overall. More frequent droughts and forest fires will be witnessed in some areas, while an increase in the number of flash floods is expected in others. This is affecting water security, agricultural productivity, tourism, ecosystems and health. Socioeconomic and environmental impacts are projected to worsen in the future, with risks to security and stability. To enhance resilience, countries need to reinforce their adaptative capacity. This includes

Average annual temperature could increase by almost

5°C

1 ESCWA and others, Arab Climate Change Assessment Report: Main Report, 2017, p. 87.

strengthening progress towards the achievement of national targets in support of the Sustainable Development Goals, and ensuring a just and inclusive energy transition that provides countries with the sustainable energy resources necessary to achieve those goals.

Addressing the challenges posed by climate change requires investment. Currently, many Arab countries have limited fiscal space, curbing their ability to meet expenditure commitments or allocate additional funds for climate action. The gross public debt in the Arab region reached a historic high of $1.4 trillion in 2020.[2] National efforts to fight the impacts of the COVID-19 pandemic have exacerbated an already elevated public debt trend. Given recent interest rate hikes, current inflationary pressures and the war in Ukraine, the debt service burden is likely to rise further.

Consequently, international climate finance is urgently needed to help Arab countries enhance their resilience and adapt to the adverse impacts of climate change, and to pursue efforts to limit additional warming. For climate finance to be effective, both the quantity and quality of flows should be considered to meet the region's needs.

The gross public debt in the Arab region reached a historic high of

$1.4
trillion in 2022

Costed climate finance needs in the Arab region

While almost all Arab States submitted a nationally determined contribution (NDC) in accordance with their Paris Agreement commitments,[3] only 11 provided cost estimates of their financial needs to implement their initial or updated NDCs, namely Comoros, Djibouti, Egypt, Iraq, Jordan, Mauritania, Morocco, the State of Palestine, Somalia, the Sudan and Tunisia.[4]

Based on the costed climate finance needs of these 11 Arab States, the region needs a total of $570 billion until 2030.[5] A large share of this amount is conditional on public international support or external finance, particularly to achieve mitigation targets, with less than 5 per cent of costed needs expected to come from domestic sources.

The costed climate finance needs of 11 Arab States is

$570 billion
until 2030

Egypt, Iraq and Morocco account for

$425 billion
of the total support requested

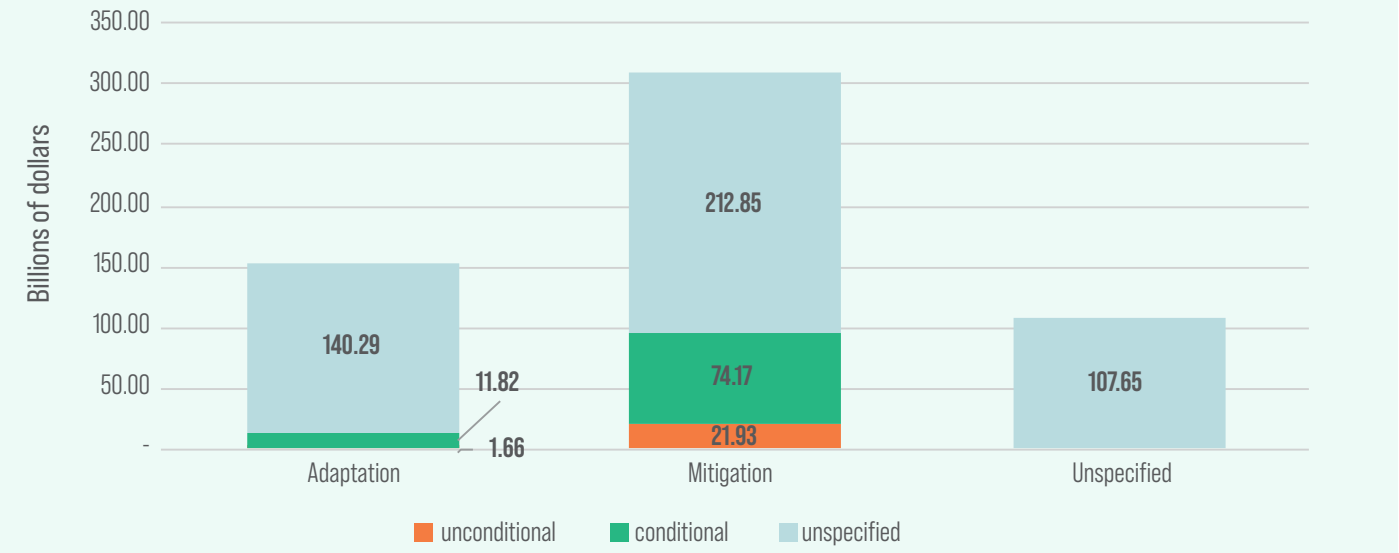
2 ESCWA, Liquidity shortage and debt: obstacles to recovery in the Arab region, 2021.

3 Of 22 Arab States, only Libya has not yet submitted an NDC.

4 A total of 17 Arab States submitted their updated NDCs, namely Bahrain, Comoros, Egypt, Iraq, Jordan, Kuwait, Lebanon, Mauritania, Morocco, Oman, the State of Palestine, Qatar, Saudi Arabia, Somalia, the Sudan, Tunisia, and the United Arab Emirates. Of these, Comoros, Egypt, Iraq, Jordan, Mauritania, Morocco, the State of Palestine, Somalia, the Sudan and Tunisia provided finance needs estimates in their updated NDCs, while the costed climate finance needs of Djibouti are articulated in its initial NDC submission.

5 Arab States with costed financial needs specified a time frame of up to 2030 to secure the needed funds, with the exception of Iraq and Tunisia that did not specify a time frame for NDC implementation as well as the State of Palestine which sets different time frames.

Figure 1. Costed climate finance need in the Arab region



Source: Compiled by ESCWA.

Note: Costed needs are based on the updated NDCs of 10 Arab countries and the initial NDC of one Arab State.

Three Arab countries (Egypt, Iraq and Morocco) account for $425 billion of the total support requested, representing roughly 75 per cent of this total. To receive financing, it is important that all countries cost and articulate their financing needs. Tailored support can help develop capacity to do so.

Weak public international climate finance commitments to the Arab region

Over the past decade, Arab States received a total of $34.5 billion in public international climate finance.[6] Relative to the financing required to implement the NDCs of 11 Arab countries, this amount is equivalent to less than 6 per cent of the financing needs of the Arab region for the coming decade. The amount includes flows from bilateral and international donors and from private finance mobilized by international climate finance.

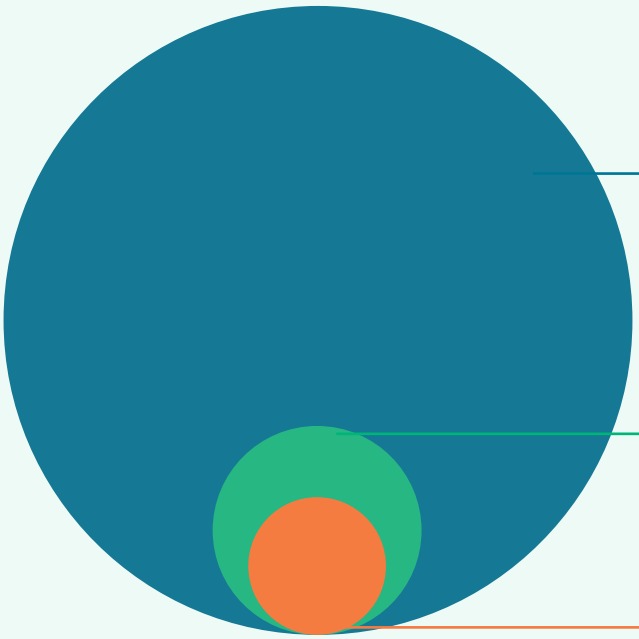
Adequately identifying and counting climate finance requires a clear and common definition to make reported numbers comparable and coherent. The Rio marker framework is a tool that categorizes public climate finance based on the intended purpose of the financial transfer.[7] Markets therefore differentiate between flows that meet "principal" climate objectives and those that meet "significant" climate objectives. Projects with a significant climate objective are those that would be undertaken even without a climate component, while projects with a principal climate objective would not. International finance with climate as a principal objective can thus be counted as core or "pure" climate finance. The climate finance flows discussed in the present policy brief count only public international finance with climate tagged as a principal objective under Rio markers, and climate components reported by multilateral development banks. The figures presented should thus be considered a lower bound of the total climate finance flows committed to the region.

Other international finance flows to the region could be counted as climate finance. This includes finance that is tagged as only "significant" in its degree of climate purpose; funding provided by global climate funds, such as the Green Climate Fund (GCF) and Adaptation Fund; and private finance. Public international finance to the region in which climate is only a "significant" (not a principal) objective totalled $14 billion over the period 2010–2020. By contrast, total GCF financing received by the Arab region over the period 2016–2020 is negligeable, amounting to only $90 million annually for country-level projects in the region. On average, GCF commits to funding less than two national projects in the Arab region per year.

6 All figures on received climate finance presented in the present policy brief are ESCWA calculations, which are based on the OECD database entitled "Climate-related development finance at the activity level: Recipient perspective 2000–2020".

7 More information on the Rio markers is available at OECD DAC Rio Markers for Climate: Handbook.

Figure 2. Climate finance received over the past decade relative to financing needs expressed for NDC implementation over the coming decade



$570 billion

Total financing required for NDC implementation for 11 Arab States until 2030

$62 billion

Public international climate finance received in the period 2010-2020 (principal and significant climate objectives, including mobilized private finance)

$34.5 billion

Public international climate finance received in the period 2010-2020 (principal climate objectives only)

Source: Compiled by ESCWA based on the OECD database entitled "Climate-related development finance at the activity level: Recipient perspective 2000–2020".

Data on private finance that is not mobilized by public international climate finance is not widely available. There are some figures on private investments in renewable energy projects in the region. These totalled $14 billion during the period 2013–2018.[8]

Even when considering these additional financial flows as climate finance, the Arab region received a total of only $62 billion in climate finance over the past decade. This is equivalent to just 11 per cent of the articulated financing needs for NDC implementation over the coming decade (figure 2).

Public Climate finance flows in the Arab region: Excessive debt financing

Despite a historically high debt service burden, the region receives far more debt financing than grants. Over the period 2010–2020, loans totalled $30 billion, which is more than seven times the amount of grants the region received over the same period ($4 billion).

In addition, there seems to be a worrying trend away from concessional climate finance. The share of non-concessional debt finance has increased significantly, while concessional debt and equity finance have stagnated or even declined in recent years. In 2019, non-concessional debt represented 75 per cent of total public climate finance flows, and concessional debt accounted for only 13 per cent of all debt financing the region received that year.

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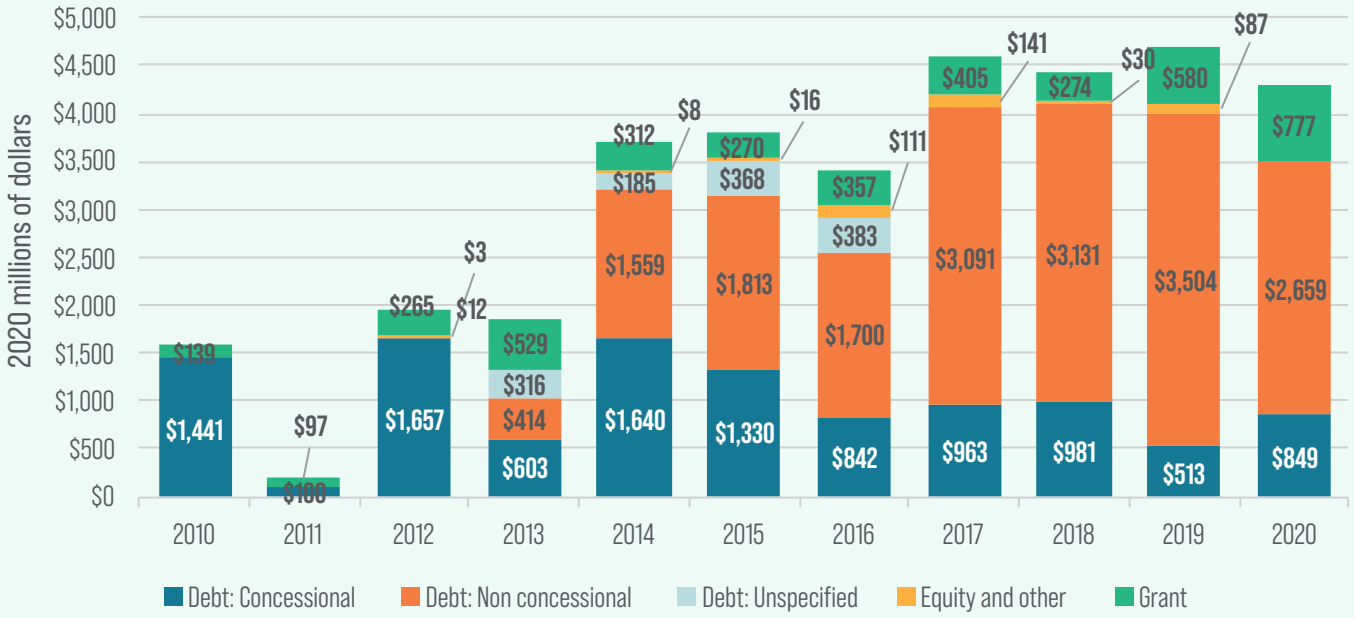
8 UNFCCC, ESCWA and League of Arab States (LAS), (2022). Technical Assessment of Climate Finance in the Arab States. Annex to the Arab States climate finance access and mobilization strategy, available from https://unfccc.int/sites/default/files/resource/UNFCCC_NBF_TA_AS_final.pdf.

Figure 3. Total climate finance in the Arab region by type of financial instrument



Source: Compiled by ESCWA based on the OECD database entitled "Climate-related development finance at the activity level: Recipient perspective 2000–2020".

Note: Figure 3 evaluates bilateral and multilateral climate finance flows to the Arab region based on reporting to OECD, from the recipient's perspective. It includes commitments with climate marked as a principal objective (Rio tag), and includes climate components reported by multilateral development banks. Flows with climate marked as a significant objective are not included. GCF reports all flows to OECD with a significant objective, and are therefore not included in figure 3.

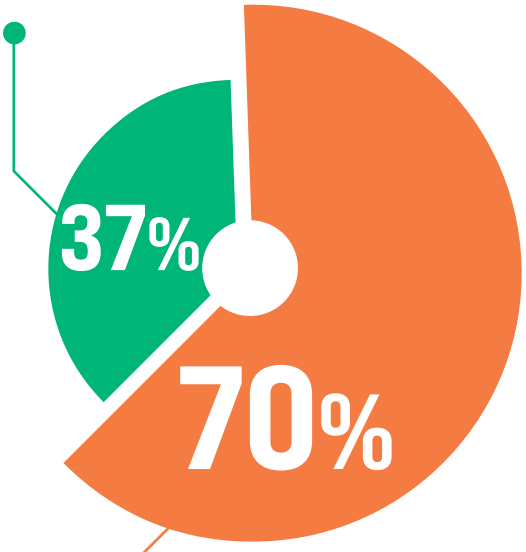
The source of international climate finance has also shifted from bilateral to multilateral channels. Flows from multilateral development banks to the Arab region increased by 70 per cent between 2014 and 2018, while bilateral climate finance flows (stemming from both members and non-members of the OECD Development Assistance Committee) declined by 37 per cent over the same period. This might further limit Arab countries' ability to mobilize concessional or grant financing.

In addition, only 4 per cent of climate finance in the Arab region is sourced from climate funds. This indicates that Arab countries are facing challenges in accessing those funds, which could be linked to the complex mechanism for accrediting suitable local entities, as well as the time- and resource-intensive process for project development, approval and disbursement.

Public climate finance flows in the Arab region: Underfunded adaptation

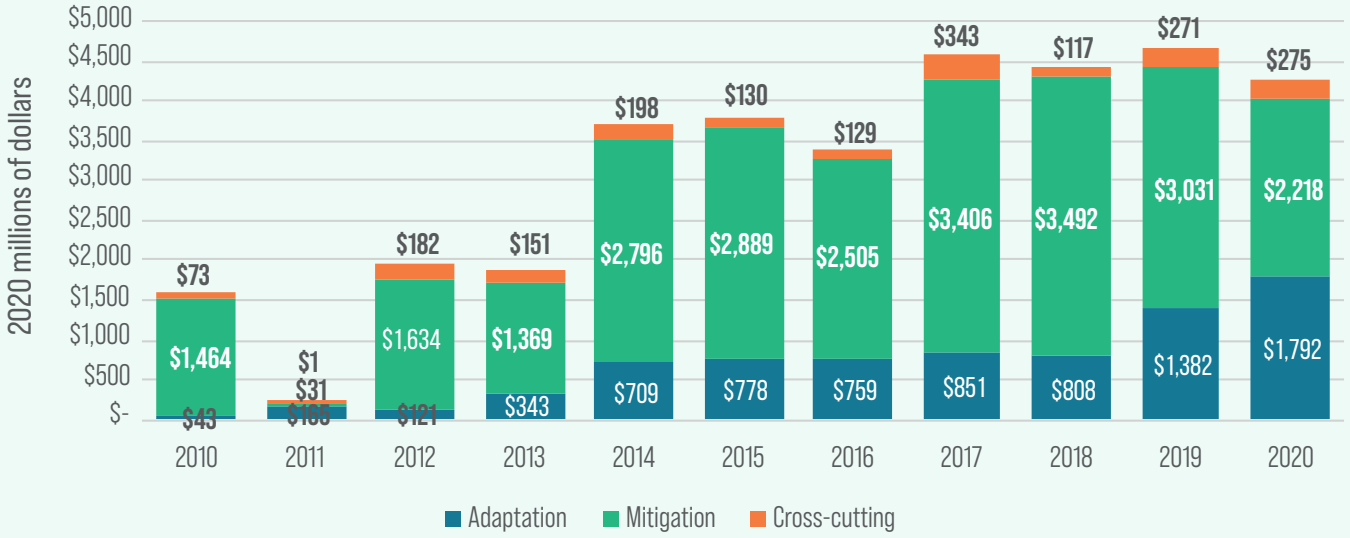
Arab countries have voiced a priority for adaptation interventions, calling for a focus on the water and agricultural sectors given their particular vulnerability to climate change impacts. However, adaptation finance consistently remained at less than 20 per cent of total flows until 2018.

Over the same period bilateral climate finance flows declined by



Increased flows from multilateral development banks to the Arab region between 2014 and 2018

Figure 4. Public international climate finance commitments to the Arab region by purpose (2010–2020)



Source: Compiled by ESCWA based on the OECD database entitled "Climate-related development finance at the activity level: Recipient perspective 2000–2020".

Note: Figure 4 evaluates bilateral and multilateral climate finance flows to the Arab region based on reporting to OECD, from the recipient's perspective. It includes commitments with climate marked as a principal objective (Rio tag) and includes climate components reported by multilateral development banks. Flows with climate marked as a significant objective are not included. GCF reports all flows to OECD with a significant objective, and are therefore not included in figure 4.

While adaptation finance increased in 2019 and 2020, its share in total climate finance remained below parity with mitigation finance, which was at 30 per cent in 2019 and 42 per cent in 2020. Summed over the period 2010–2020, flows to mitigation (totalling $24.84 billion) were three times greater than flows to adaptation (totalling $7.75 billion)

Part of this imbalance may be linked to challenges in demonstrating a clear climate rationale and the difficulty of costing proposed adaptation interventions. As a result, for international financing flows in which climate is only a significant objective (as opposed to a principal one), the share of adaptation finance exceeded 50 per cent of all flows on average over the past decade. In addition, the costed needs for financing adaptation interventions over the coming decade specified in the NDCs of 11 Arab countries are only half the size of those for financing mitigation interventions. These difficulties in costing climate change adaptation measures could be linked to uncertainties related to future climate trajectories, the choice of costing method, and to limited experience in applying costing methods in different sector. This contributes to adaptation needs being costed much less than more easy to cost mitigation measures.

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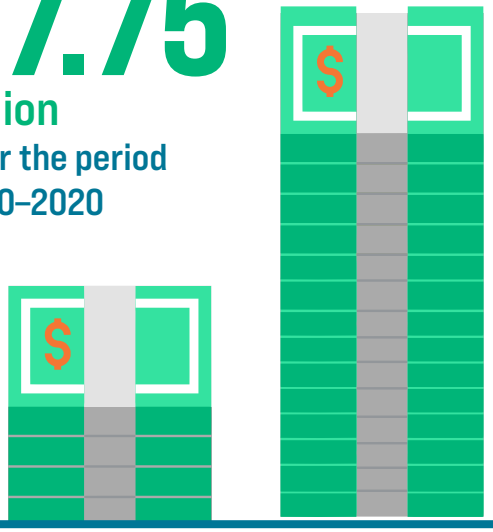
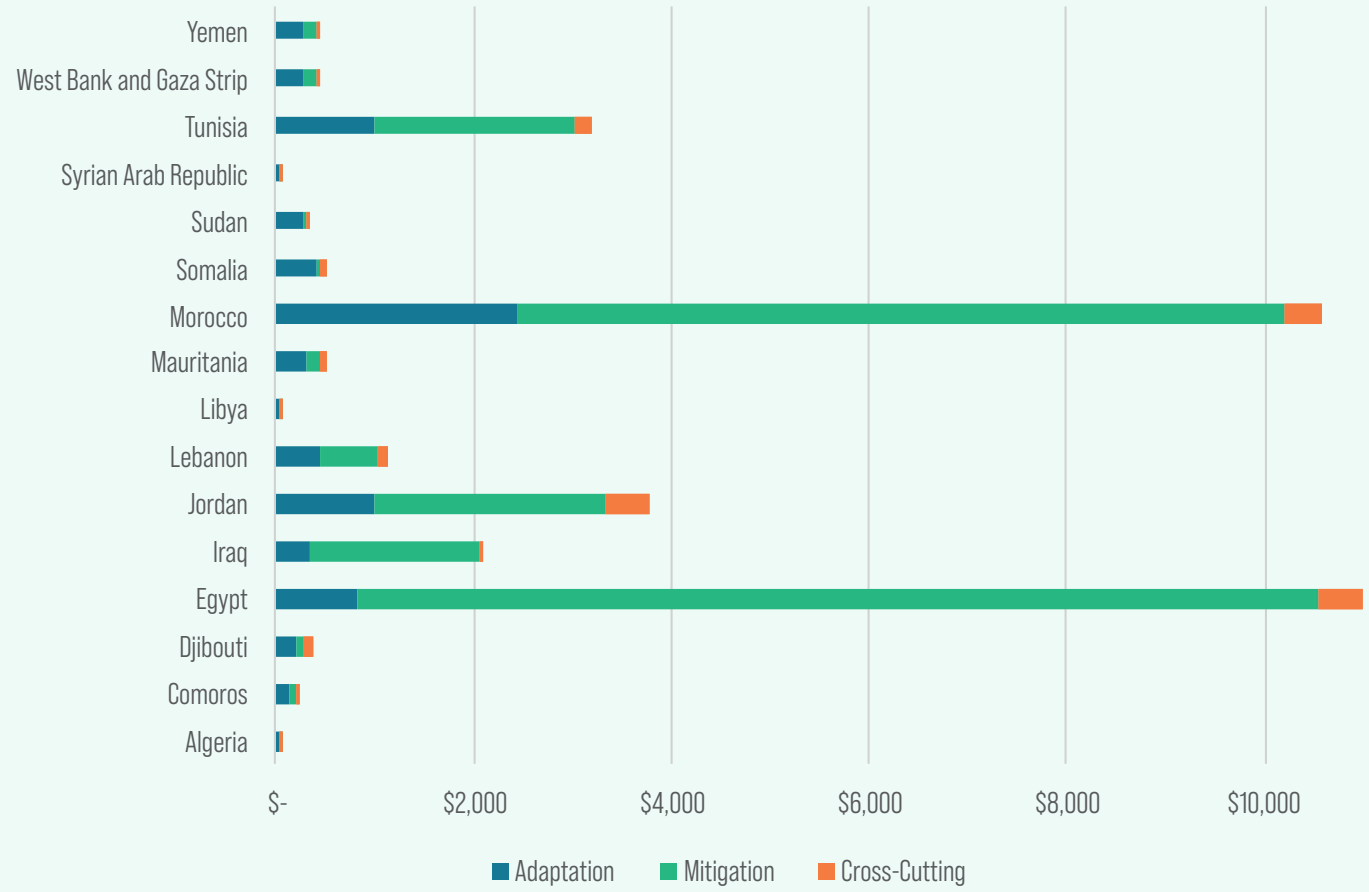


Public climate finance flows in the Arab region: Large geographic disparities in the distribution of funds

Figure 5. Climate finance flows in the Arab region by country and purpose, 2010–2020 (In 2020 millions of dollars)



Source: Developed by ESCWA based on the OECD database entitled "Climate-related development finance at the activity level: Recipient perspective 2000–2020".

Note: Figure 5 evaluates bilateral and multilateral climate finance flows to the Arab region based on reporting to OECD, from the recipient's perspective. It includes commitments with climate marked as a principal objective (Rio tag) and includes climate components reported by multilateral development banks. Flows with climate marked as a significant objective are not included. GCF reports all flows to OECD with a significant objective and are therefore not included in figure 5.

There is an imbalance in the distribution of funds across Arab countries, with 92 per cent of flows over the period 2010–2020 going to just six countries: Egypt, Iraq, Jordan, Lebanon, Morocco and Tunisia. Egypt and Morocco have been the most successful in costing and mobilizing climate finance to meet their needs, receiving more than 60 per cent of the region's flows ($21.6 billion) over the same period.

Countries most in need have been less successful in accessing financing. The six Arab least developed countries (Comoros, Djibouti, Mauritania, Somalia, the Sudan and Yemen) have received just 6.6 per cent ($2.27 billion) of climate finance support provided to the region over the past decade. Conflict-affected areas face particular difficulties in accessing funding. Libya and the Syrian Arab Republic have received negligible assistance to date.

Egypt and Morocco have been the most successful in costing and mobilizing climate finance to meet their needs, but only received

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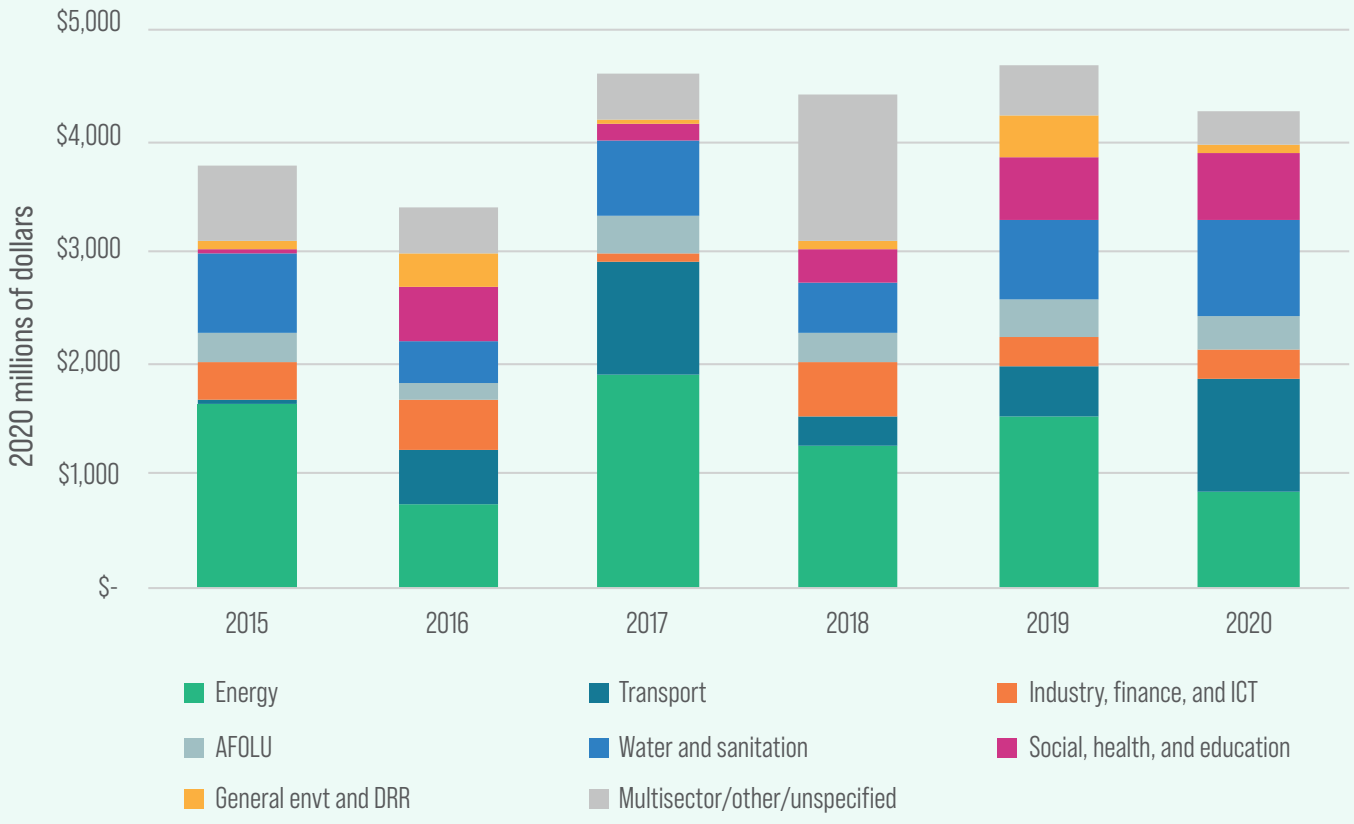
billion

over the period 2010–2020

Sectoral disparities in climate finance flows

Figure 6. Public international climate finance flows to the Arab region by sector



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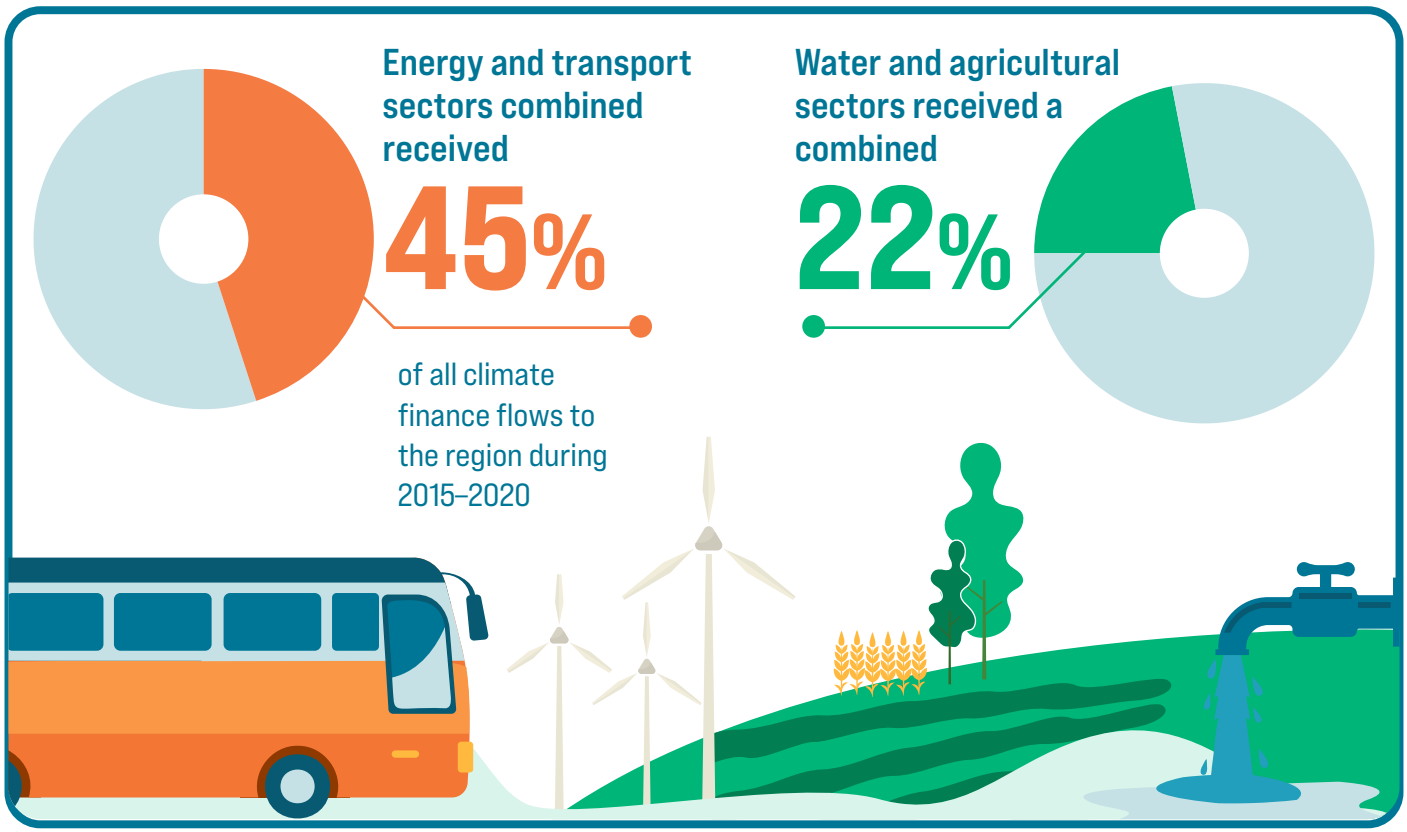
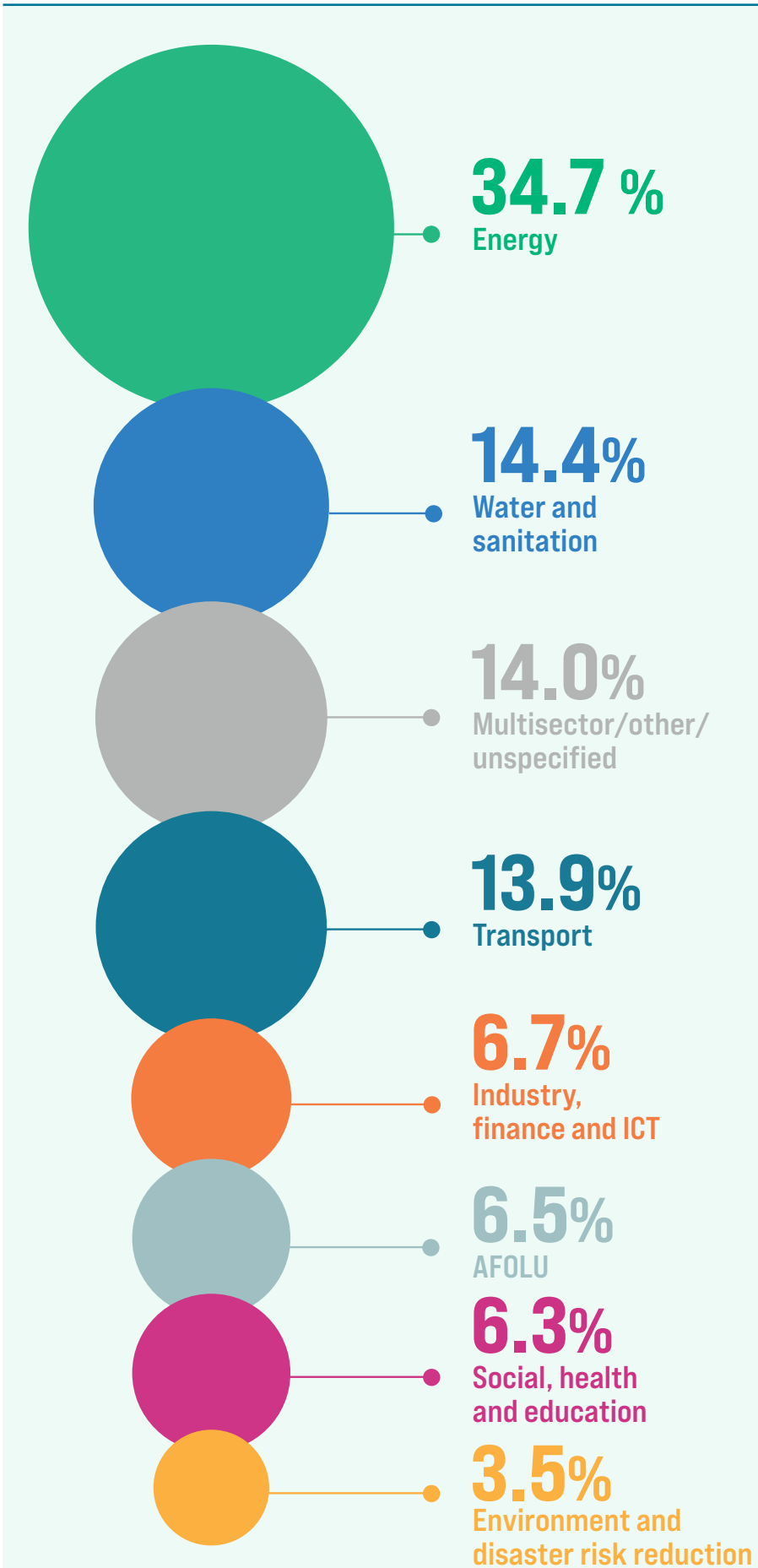


The water and agricultural sectors continue to be a priority for adaptation in the Arab region, given their particular vulnerability to the adverse impacts of climate change. However, the energy sector received twice as much support compared with the water and sanitation sector, and almost five times as much support as the agriculture, forestry and land use (AFOLU) sector, on average, between 2015 and 2020. The energy and transport sectors combined received 45 per cent of all climate finance flows to the region during that period, whereas the water and agricultural sectors received a combined 22 per cent only. Furthermore, only 4 per cent of all public international climate finance support is dedicated to environmental and disaster risk reduction interventions.

Figure 7. Public international climate finance received, percentage of total flows 2010–2020



Source: Developed by ESCWA based on the OECD database entitled "Climate-related development finance at the activity level: Recipient perspective 2000–2020".

Policy recommendations

1 Develop a climate finance strategy:

Identifying, articulating and costing adaptation and mitigation needs is a prerequisite to accessing financing. To ensure country ownership and sustainability of climate action, this strategy should take local contexts into account, and be aligned with national development strategies and goals.

2 Provide capacity-building to support the costing of needs:

The more detailed the identified needs and project ideas are, the easier it is for potential donors and investors to understand the benefits and potential risks involved, and thus the more likely these interventions will attract funding. To date, only half of all Arab States have specified cost estimates for the implementation of their NDCs in their submissions under the Paris Agreement. Developing the capacity of all stakeholders can support the formulation of sound costing estimates.

3 Facilitate the quantification of the costs of adaptation interventions:

The costs of adaptation interventions are hard to quantify because of uncertainties related to the choice and application of costing methods. Specific capacity-building efforts and cooperation between all stakeholders can help to enhance the amount of adaptation financing received.

4 Build capacity to demonstrate the climate rationale of projects:

Climate-related data and analyses, as provided under the RICCAR project,[9] for example, can help identify the geographic areas, economic sectors, and parts of society that are most vulnerable to the impacts of climate change. This can support the prioritization in the design and implementation of climate action. A sound understanding of available climate and vulnerability analyses can also assist in formulating a clear climate rationale for projects.

9 www.riccar.org/.

5 Provide capacity-building to help access climate fund financing:

Only 4 per cent of climate finance in the Arab region is sourced from climate funds. This indicates that Arab countries are facing challenges in accessing these funds, which could be linked to the complex mechanism for accrediting suitable local entities, and to the time- and resource-intensive process for project development and approval. Tailored efforts to develop the capacity of relevant stakeholders and the enhanced use of readiness funding can increase access to climate fund financing.

6 Provide more grant and concessional financing:

With gross public debt in the region reaching $1.4 trillion, efforts are needed to enhance the share of grant or concessional financing. International financial institutions could adjust their lending structure and the type of financing instruments offered for climate action. Greater efforts to mainstream climate into official development assistance are also needed.

7 Use public international climate finance strategically and catalytically to attract additional financing from the private sector:

The private sector is showing an increasing interest in financing green or climate-related projects. At the same time, private capital is needed since public financial resources are insufficient to fund the enormous interventions required to address climate change challenges. So far, however, international public finance has not mobilized any private finance for interventions with a principal climate objective. Existing climate finance should therefore be used catalytically alongside stronger institutional frameworks. This could help de-risk private sector investments, for example, through credit-guarantee schemes or public-private co-financing.

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