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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Topics

• 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.

<table>
<thead>
<tr>
<th>United Nations Framework Convention on Climate Change (UNFCCC)</th>
<th>Establishes responsibility of developed countries to provide new and additional financial resources to developing countries (Article 4, paragraph 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copenhagen Accord</td>
<td>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)</td>
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<td>(UNFCCC COP 15 2009, not endorsed)</td>
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<td>Paris Agreement</td>
<td>Adopted the financial mechanisms of the UNFCCC and its operating entities as the financial mechanisms of the Agreement. No specific Financial Target</td>
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<td>(UNFCCC COP 21 2015)</td>
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<td>Katowice Package</td>
<td>Agreed on rules for transparency framework for climate finance under the Paris Agreement, with more standardized reporting</td>
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<td>(UNFCCC COP 24 and Paris Agreement CMA 1.3, 2018)</td>
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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

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
- Public flows from OECD DAC minus Rep. of Korea to OECD DAC eligible countries via MDBs
- Public flows via UNFCCC multilateral climate funds
- Public flows via other multilateral climate funds (non UNFCCC)

Source: Elaborated by ESCWA based on UNFCCC 2018 Biennial Assessment
Private participation varies by sector. Adaptation has a higher share of grant finance; MDBs provide mostly debt finance.
Private participation varies by sector. Adaptation has a higher share of grant finance; MDBs provide mostly debt finance.

![Bar chart showing public international flows from developed countries to Arab States by purpose, 2016.](chart.png)

- Bilateral Climate Finance:
  - Adaptation: 9.2 USD billions
  - Mitigation: 15.9 USD billions
  - Cross-Cutting: 6.7 USD billions

- MDB Climate Finance:
  - Adaptation: 5.1 USD billions
  - Mitigation: 19.3 USD billions

- Multilateral Climate Funds:
  - Adaptation: 0.5 USD billions
  - Mitigation: 0.3 USD billions
  - Cross-Cutting: 1.1 USD billions

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.

All values in USD Billions

<table>
<thead>
<tr>
<th>Private Channels</th>
<th>Public - Domestic Flows</th>
<th>Public - Other International Finance Flows</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Public flows from Annex II to non-Annex 1 via bilateral, regional, and other channels</td>
</tr>
<tr>
<td>455.3</td>
<td></td>
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<tr>
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</tr>
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<td></td>
<td>Public flows via other multilateral climate funds (non UNFCCC)</td>
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Source: Elaborated by ESCWA based on UNFCCC 2018 Biennial Assessment
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 3rd 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

Regional Total
- Mitigation: $3,676
- Cross-Cutting: $243
- Adaptation: $679

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.

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.

![Graph showing 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)
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.
Over 90% of MDB mitigation finance in the region is for energy and transport

Source: UNFCCC 2018 Biennial Assessment

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

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.


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

A pre-blended deal is not attractive to private investors due to low risk-adjusted return.

Source: Developed by ESCWA building on: UNCDF and others (2018).
Blended Finance can be an efficient tool to align market incentives for impact

Blended deal reduces risk to private investors, making investment attractive

Blended deal enhances return and reduces risk of private investors, making investment attractive

Optimal risk-adjusted return to private investor

Pre-blended deal is not attractive to private investor due to low risk-adjusted return

Return (%)

Risk-free rate

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

- **Blended deal provides private investors a higher risk-adjusted return than is needed to attract investment, suggesting inefficient use of public resources.**

- **Blended deal enhances return and reduces risk of private investors, making investment attractive.**

- **Optimal risk-adjusted return to private investor.**

- **Pre-blended deal is not attractive to private investor due to low risk-adjusted return.**

- **Blended deal enhances return of private investors, making investment attractive.**

Source: Developed by ESCWA building on: UNCDF and others (2018).
Blended Finance can be an efficient tool to align market incentives for impact

Blended finance requires strong, specialized technical capacity to be used strategically and ensure positive additionality without excessive risk or return enhancements. Strong transparency and accountability mechanisms are critical.

Example further reading:

- UNCDF, 2018 *Blended Finance in the Least Developed Countries*

Source: Developed by ESCWA building on: UNCDF and others (2018).
The off-grid solar market has grown quickly with targeted grant support.
The share of grant finance decreased over time. Equity came in before debt; debt is driving scale.

A case study from Bangladesh exemplifies that the need for subsidy can decline over time as markets become self sustaining.
The key elements of the enabling environment may evolve over time.

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Value (USD Billion)</th>
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<tr>
<td>Private Channels</td>
<td>455.3</td>
</tr>
<tr>
<td>Public - Domestic Flows</td>
<td>102.6</td>
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<td>Public - Other International Finance Flows</td>
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<td>Public flows from OECD DAC minus Rep. of Korea to OECD DAC eligible countries via MDBs</td>
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<td><strong>Public flows via UNFCCC multilateral climate funds</strong></td>
<td><strong>1.6</strong></td>
</tr>
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<td>Public flows via other multilateral climate funds (non UNFCCC)</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: Elaborated by ESCWA based on UNFCCC 2018 Biennial Assessment
Accessing the Funds

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

GCF

- National Entities: 31
- International Financial Institutions (private sector): 11
- International NGOs: 8
- Multilateral Development Banks: 5
- 75 entities; 2 Arab national entities (Morocco); 1 Arab regional (Tunisia)

AF

- National Entities: 28
- International Financial Institutions (private sector): 6
- International NGOs: 7
- Multilateral Development Banks: 5
- 18 entities none from the Arab region

GEF (including LDCF and SCCF)

- National Entities: 2
- Regional Entities: 3
- International Financial Institutions (private sector): 6
- Bilateral Development Agencies/Banks: 4
- United Nations: 3

Source: compiled by ESCWA from the database of the Adaptation Fund, the Green Climate Fund and the World Resources institute
Accessing the Funds: accredited entities

• 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

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

- Grant, 47%
- Loan, 42%
- Equity, 9%
- Guarantee, 2%

Source: Compiled by ESCWA from Green Climate Fund
Distribution of GCF financing, 2015-2018

Adaptation is the priority for developing countries

- Adaptation, 25%
- Mitigation, 38%
- Mitigation-Adaptation, 37%

Source: Compiled by ESCWA from Green Climate Fund
GCF financing by instrument, 2015-2018

Source: Compiled by ESCWA from Green Climate Fund
Distribution of GCF Financing, 2015-2018

Source: Compiled by ESCWA from Green Climate Fund
Five multiple country projects covered more Arab countries: Djibouti, Egypt and Tunisia (in two projects), Jordan and Morocco (in three projects).

Source: Compiled by ESCWA from Green Climate Fund.
Risk mitigation: guarantees

• 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)
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)

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

Source: Source: Climate Bond Initiative (CBI), 2018b. Green bonds as a bridge to the SDGs.
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