grant funding are called for to implement adaptation and community-focused mitigation projects. However, the current trend appears to be going in the opposite direction, with private companies focussing on large-scale mitigation (clean energy) activities.

Second, a small number of oil-rich countries are concentrating the region's contribution to the international political debate towards their interests. This has resulted in a strong influence within the UNFCCC negotiations to suggest that mitigation projects may harm economic growth. Poorer and oil-scarce countries within the region appear to have less of a voice in the negotiations. Nor do they receive the funding necessary to cope with and prevent the impacts of climate change in areas that are already experiencing reduced food security and increased water scarcity.

Third, oil-revenue dependent states are characterised by a lack of public awareness of the problems related to climate change. Here the oil price is likely to play an important role in determining future climate change policies. Higher taxes on oil prices could result in shifting consumer's energy choice towards other forms of energy and the revenue generated from the taxes could be spent on adaptation and mitigation projects. A recent ActionAid study showed that globally the redistribution of fossil fuel subsidies to climate adaptation and mitigation could generate considerable revenue.

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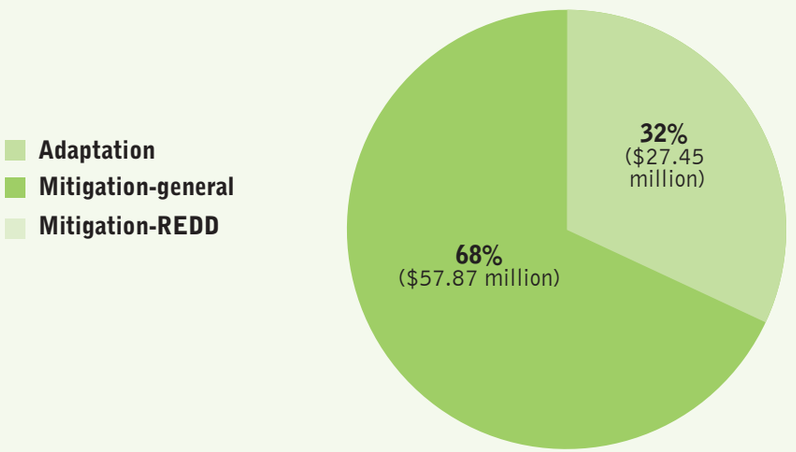
Funding for climate projects by theme for the Middle East and North Africa



NOTE: These numbers do not reflect the total amount of climate finance in the region, but only the public funding channeled through some 20 dedicated bilateral and multilateral climate fonds and funding mechanisms, for which tracking data is available.

SOURCE: www.climatefundsupdate; accessed in December 2010

HEINRICH BÖLL STIFTUNG
NORTH AMERICA

FINANCE

Climate Finance Fundamentals

Written by **Alice Caravani** and **Neil Bird**, Overseas Development Institute and **Liane Schalatek**, Heinrich Böll Stiftung North America

BRIEF 9

December 2010

Regional Briefing: Middle East and North Africa

The Middle East and North Africa is a region that is both vulnerable to the impacts of climate change and shares some responsibility for such change, as measured in terms of per capita emissions. International public sources that fund climate change projects in the region are extremely scarce. However, there is a rapidly expanding interest from private companies in clean technologies. Saudi Arabia and Egypt show the division between oil-rich and oil-scarce countries. The World Bank and the European Investment Bank are active international players in the region, although their support for oil investments is ultimately not helping the region to address the risks related to climate change. The Global Environmental Facility, the Strategic Climate Change Fund and the International Climate Initiative are also active, but with limited financial resources. There is evidence that the redistribution of fossil fuel subsidies to climate adaptation and mitigation could generate considerable revenue. Taxing oil resources could also generate revenues for financing adaptation and mitigation activities.

Overview

The Middle East and North Africa (MENA)[1] region is both vulnerable to climate change and shares some responsibility for global greenhouse gas emissions. The MENA region is vulnerable for a number of reasons, including persisting development and poverty challenges. It has extensive arid areas where water scarcity is an issue; it remains dependent on the agricultural sector which is highly sensitive to climate change; and finally, it has urban coastal areas that are exposed to flooding. All these risks have been exacerbated as a result of decreased precipitation and consequent decreased river flows, prolonged droughts in the eastern Mediterranean, and increased sand and dust storms, phenomena all attributed to climate change.

The region's responsibility for climate change can be measured in terms of per capita emissions, which are 60% higher than average among developing countries. In absolute terms the region is a relatively small carbon emitter, accounting for some 5-6% of global emissions, although the United Arab Emirates (UAE), Saudi Arabia, and Iran rank among the world's top 50 CO2 emitters. This contrasting situation stems from the economic and social differences present in the region that include rich, oil-exporting Gulf States (e.g. Saudi Arabia and Kuwait) and resource poor states such as Yemen and the Palestinian territories, where many people live below the poverty line.

1) The MENA region includes: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates, West Bank and Gaza, Yemen.

Funding needs - This high level of inequality across the region makes overall funding needs difficult to determine. However Brown et al. (2010) estimate that the annual net cost of adaptation for agriculture in the region will be approximately $250 million between 2010 and 2050 (at 2005 prices).

Funding delivered - The Climate Funds Update (CFU) website reports a total of $85 million disbursed to climate change related projects in the 21 countries of the region through dedicated bilateral and multilateral public climate finance mechanisms and instruments.

Furthermore, only 35 projects are registered under the Clean Development Mechanism (CDM) of the Kyoto Protocol. These include fossil fuel switch (e.g. from oil to natural gas), land-fill and solar power projects. However, private mitigation projects are expected to expand in the coming years as companies are showing interest in this or similar offsetting mechanisms and see the opportunity of good returns from reducing carbon emissions due to the region's richness in renewable energy sources for solar and wind power.

Country actions

The socio-economic inequality within the region is reflected at the political level. Two groups of countries, namely the oil-rich states such as Saudi Arabia, Kuwait, and Qatar, and the oil-scarce countries such as Egypt, Jordan and Yemen appear to have divergent interests. The former are seen to influence the international climate debate, pushing to maintain the status quo by highlighting the potential negative economic impacts of climate change mitigation activities. The stability of this group in the coming decades will depend on the continuing international demand for oil. The organization of Arab Petroleum Exporting Countries has advocated since the draft of the Kyoto Protocol that oil producing countries should receive compensation for economic losses to the oil trade triggered by adaptation and mitigation policies. However, one of the outputs at Cancun (COP16) was that compensation for potential losses of oil revenues to oil exporting countries was removed from the adaptation sector and will be dealt only with respect to mitigation.

In contrast, the oil-poor states have not been able to build a strong group of negotiators and other climate change policy experts. Thus they have not been prominent in the international climate negotiations nor have they been able to influence the policy stand of their oil-rich neighbor countries.

Saudi Arabia - As the world's biggest oil exporter, Saudi Arabia is the leading member state of the Organization of the Petroleum Exporting Countries (OPEC). The country has not established greenhouse gas reduction goals, nor does it currently have legislation requiring reductions. However, in November 2008, OPEC pledged a total of $750 million to tackle global warming through research into clean energy. Saudi Arabia pledged to invest $300 million for this initiative, which is aimed at finding technological solutions to climate change, notably carbon capture and storage. Saudi Arabia is also starting to show interest in diversifying its energy portfolio beyond oil. In April 2010, King Abdullah launched his plan to build a new renewable-energy city as a sign of the oil-rich nation's commitment to developing alternative fuel sources: the King Abdullah City for Atomic and Renewable Energy (KACARE), which will be based in the nation's capital Riyadh.

Egypt - Compared to Saudi Arabia, Egypt is a less resource rich country. This in part explains the country's greater interest in urgent climate actions. However this interest seems to be dominated by clean energy investments for low carbon growth, with little attention on adaptation projects. This pattern contrasts with the country's vulnerability to climate change, as shown by its dependence on the fresh water of the Nile River, and the risks of water scarcity which any change in rainfall patterns throughout the Nile Basin may bring.

Egypt is committed to generating 20% of its domestic energy from renewable sources, in particular wind power, by 2020. In May 2010, a Wind Power Development Project loan of $150 million was approved that aims to develop infrastructure and business models for scaling-up wind power in Egypt. It brings together financing from the International Bank for Reconstruction and Development (IBRD), the Clean Technology Fund (CTF), together with European donors led by the European Investment Bank, Agence Francaise de Development (AfD), Neighborhood Investment Funds (NIF) and Kreditanstalt für Wiederaufbau (KfW).

From the CFU database it appears that Egypt is the country that receives most international public funding for climate change projects in the region. It is followed by Jordan, Morocco and Yemen.

Funding across major themes

From the CFU website it emerges that of the total $85 million disbursed within the region from international climate funds, $58 million has been spent on the implementation of **mitigation** projects and the remaining $27 million on **adaptation** projects. While the bias towards mitigation projects may be justified by the favourable geographic conditions of the region, it seems counterproductive to concentrate efforts on mitigation in a region where already millions of people are experiencing food insecurity and water scarcity due to increasingly arid conditions.

Active players in the region

The **European Investment Bank (EIB)** appears to be the largest multilateral lender in the MENA region. At the same time, the region represents the fastest growing regional portfolio of the private sector arm of the World Bank: the International Finance Corporation (IFC). The IFC's investments in the region are concentrated in the financial markets, infrastructure, and the oil and gas sectors. International Financial Institutions have accelerated their investments in this region in recent years. However, their support for the private sector in the ownership and provision of public utilities such as water has raised concerns about water management and affordability in the world's most water-scarce region. Another area of concern is whether the World Bank and EIB, which have both made public commitments to combat climate change, should continue to make significant investments in oil and gas extraction, for example through the recently approved loan of $600 million for Egypt to support the Giza North Power Project.

The **Global Environmental Facility (GEF)** – has disbursed the largest amount of grant funding so far: approximately $53 million in the region. The 'Integrated Approach for Zero Emission Project Development in the New Town of Boughzoul', Algeria, is the biggest GEF-supported project amounting to $8 million. Other GEF projects are oriented towards energy efficiency and renewable energies.

The **Strategic Climate Change Fund (SCCF)** – The second most active climate fund in the region is the SCCF. It has disbursed about $10 million to-date. Morocco is one of the fund's recipient countries. Here the SCCF has implemented the $4 million adaptation project: 'Integrating Climate Change in Development Planning and Disaster Prevention to Increase Resilience of Agricultural and Water Sectors'.

The **Strategic Priority on Adaptation (SPA)** – this now closed fund, which was housed at the GEF, disbursed $6 million to Yemen and Tunisia.

The only bilateral initiative active in this area is the **International Climate Initiative (ICI)**, established by Germany. It is currently financing three mitigation projects, in Algeria, Jordan and Morocco for a total of approximately $5 million.

Lack of funding reaching the sectors and people most in need

There are several obstacles to delivering climate finance to the countries, sectors and people most in need within the MENA region. First, international public finance is very scarce and private companies have only started to show an interest in investing in clean energy. The data show that the biggest investments to-date come in the form of concessional loans and mostly for large mitigation projects (e.g. the $150 million loan from the CTF to Egypt). This, as already shown in other briefs of this series, prevents a focus on smaller scale mitigation and adaptation projects that benefit vulnerable groups of people who cannot afford loan repayment terms. Therefore, higher levels of