Promoting regional cooperation to foster green growth in the Southern and Eastern Mediterranean[†]

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INTRODUCTION

As the Southern and Eastern Mediterranean (SEMED) region progressively embraces the notion of green economy, there is a pressing need to develop more synergistic regional actions that enhance strategic initiatives at the local and national levels. In the aftermath of the adoption of the Paris Agreement on Climate Change[2] in 2015 it became clearer that in order to translate the growing environmental awareness into a low carbon, inclusive and green economy, the key element to ensure success was the ability to finance this new economy. To this end, green and climate finance are indispensable tools to advance a green economy as there is a massive need in investments to finance this transition. Hence, the capacity to leverage and mobilise different sort of private and public finance from local, national, regional and international sources has become determinant to deliver a low-emission and climate resilient economy in line with the commitments adopted at the COP 21 in Paris and the subsequent meetings the years after.

This presentation aims to synthetically describe the main policies and instruments enacted to advance a green economy in the region, the role that the main regional organisations and International Financial Institutions are playing in the SEMED, the strategy deployed by national authorities, in particular of a champion in the sector of renewable energies like Morocco; and finally, some policy recommendations to foster green growth in the region.

[†] This paper has been written building on a joint research work conducted by the European Institute of the Mediterranean and Eco-union in 2017.

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[2] To read the conclusions of the COP21 kindly refer to: https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

BASIC DEFINITIONS, POLICIES AND INSTRUMENTS

There are several definitions that embody the concepts being discussed in this paper: green growth, green economy, green and climate finance. The OECD[3] defines green growth as "economic growth and development, while ensuring that natural assets continue to provide the resources and environmental services vital to human well-being"[4]. The UNEP[5] defines green economy as "an economy whose aim is to improve human well-being and social equity while significantly reducing environmental risks and ecological scarcity". In this vein, the European Environment Agency defines the green economy in simpler words as "the one that generates increasing prosperity while maintaining the natural systems that sustain us"[6].

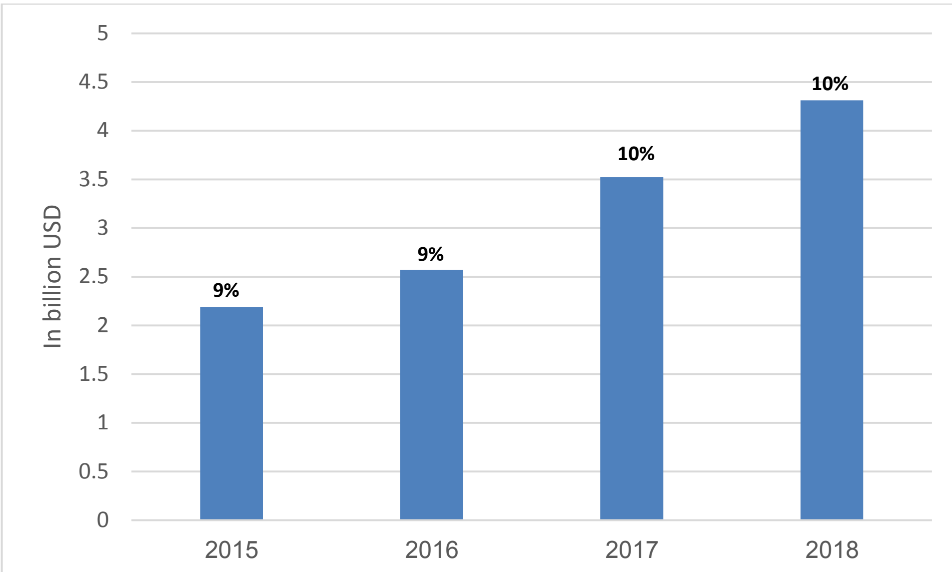
Unlike with the definitions of green growth and green economy, there is less available literature on green finance, despite the OECD created a Centre on Green Finance and Investments in 2016 in order to monitor the implementation of the 2015 Paris Agreement. Green finance often refers to the financing of public and private investments in environmental goods and services, alongside the prevention and compensation of damage to the environment and to the climate, whilst climate finance embodies a specific branch of green finance that aims to combat climate change through mitigation and adaptation investments. In more technical terms, climate finance is defined as the "financial resources paid to cover the costs of transitioning to a low-carbon global economy and to adapt to, or build resilience against current and future climate change impacts"[7].

In figure 1, an evolution of the geographical distribution of climate commitments by IFIs[8] for the Middle East and North Africa (MENA) region is featured since the year when the Paris Agreement was adopted and for the time span 2015-2018. The geographical scope of the data shown in this figure goes beyond that of the Mediterranean region, as it encompasses countries in the Middle Eastern region that are not part of the latter.

[3] Organisation for economic co-operation and development
[4] Read the OECD Green Growth Strategy at https://www.oecd.org/greengrowth/48012345.pdf
[5] United Nations Environment Programme
[6] See https://www.eea.europa.eu/themes/economy/intro
[7] Climate Policy Initiative (2014)
[8] International Financial Institutions is a term that encompasses multilateral development banks, regional development banks and the Bretton Woods institutions

Nevertheless, this figure shows how climate finance has been steadily growing in absolute terms, whereas the percentage over the total world investment by IFIs has remained rather stable.

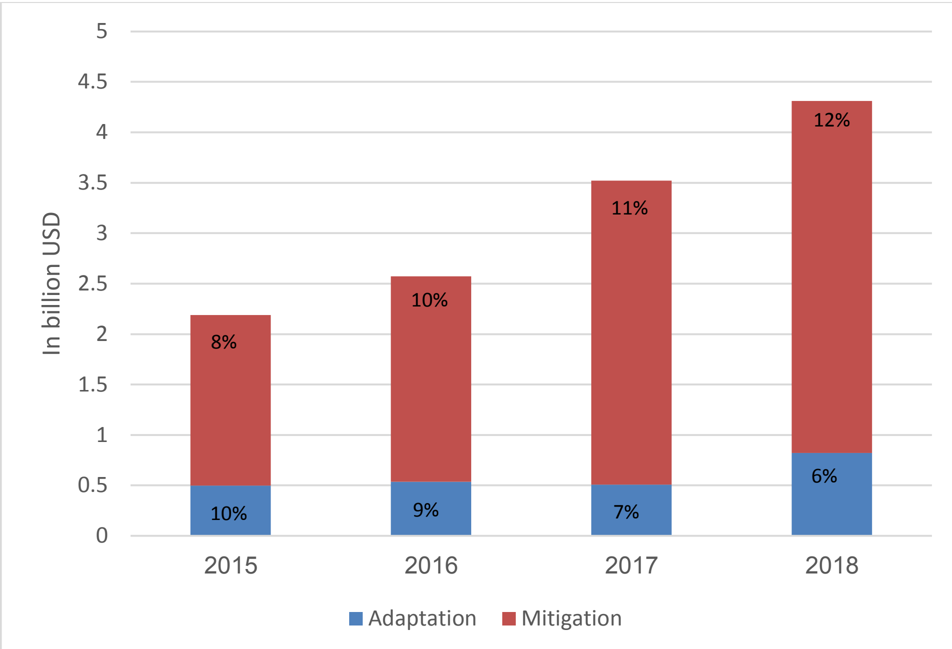
Figure 1. IFI climate finance invested in the MENA region (in billion USD, and in percentage of total world investment)



Source: Own elaboration based on data extracted from Joint MDB Reports

Figure 2 is featuring IFI climate finance invested in the MENA region based on the typology of the green projects, whether they fit in the typology of adaptation or that of mitigation. Like in Figure 1 the data used in this exercise exceeds the boundaries of the Mediterranean region. In general terms, the MENA region has been ramping up its financing for climate projects, particularly on mitigation, but the potential exists to grow the portfolio for adaptation. In particular, if we look at the percentage over the total world investment on green projects aimed at adaptation we will realise that it has decreased overtime, in spite of an increase for the amounts in absolute terms, especially for the year 2018. This reflects the enormous potential that exists for adaptation projects in the region.

Figure 2. IFI climate finance invested in the MENA region by type (in billion USD, and in percentage of total world investment by type)



Source: Own elaboration based on data extracted from Joint MDB Reports

With the aim to encourage the green economy the public sector at large is promoting a wide array of policies and instruments enacted and implemented by multilateral and regional institutions, as well as national and local ones. Environmental policies envisaged to help implement the 2015 Paris Agreement and mobilise financing for climate action encompass monetary and non-monetary instruments such as: a) environmental taxation that provides incentives for innovation, green investments, and generally speaking, incentives for further efficiency gains; b) trading systems as to facilitate emission reductions by allowing polluters who find it costly to reduce their emissions to buy allowances from polluters who can abate at lower costs; c) carbon pricing by assigning prices to the use of carbon as an economic signal that polluters decide whether to discontinue their polluting activity, reduce emissions or continue polluting and pay for it. This way the public sector can also promote clean technology and market innovation encouraging new low-carbon drivers of economic growth.

In addition to non-monetary instruments, there exist green financial instruments aiming to either the mitigation of the effects of climate change or to the adaptation of infrastructures to climate change. In this vein, international institutions, climate funds, national governments and even private sector stakeholders do provide some traditional financial instruments such as grants and loans, but also innovative financial instruments such as green bonds, credit guarantees, green equity and venture capital.

In this context, grants are non-refundable financial assistance provided by international or regional organisations addressing specific projects aiming to enhance the green economy. The advantage of this financial product is that it can tackle countries with poor financial resources in order to adequately support their struggle against climate change, even though international organisations such as Oxfam International claim[9] that grant-based assistance is decreasing in favour of debt. In this regard, loans are debt that are commonly used for developing countries to fund projects that show rates of return below market rates, and which are mostly granted by international or bilateral financial institutions. Private sector is also delivering loans through private banking institutions and infrastructure funds.

Among the non-traditional instruments there exist: a) green bonds, which use the debt capital market to leverage funds with the aim to finance large-scale low carbon and climate resilience infrastructure projects; b) credit guarantees schemes, which are particularly relevant to lower the risk associated to many of the initiatives in the environmental sector, a risk premium which normally hinders the capacity of the private sector to get involved in environmental projects; c) green equity and venture capital, which facilitate the private sector institutions to invest at the early stage of environmental and sustainable businesses and projects.

STRATEGIES DEPLOYED BY REGIONAL INSTITUTIONS AND IFIs IN THE SEMED

[9] See the report: https://www-cdn.oxfam.org/s3fs-public/file_attachments/bp-climate-finance-shadow-report-031116-en.pdf

For some years now a number of actors and funds are operational in the Mediterranean region with the purpose of supporting the transition to a green economy. Since the Paris Agreement was adopted in 2015 these institutions have been formulating specific approaches and proposals to improve their role in the struggle against climate change. To this end, many of the IFIs, in particular the Multilateral Development Banks, announced ambitious targets to rapidly and further expand their climate finance activities, and decided to scale up activities to strengthen policy, build institutional capacity, provide access to finance, and deliver technical support to member countries and their respective private sectors.

Table 1 reflects the evolution in percentage terms of climate finance over total portfolio for the four most active IFIs in the Mediterranean region. These percentages can be then compared with the commitments for the year 2020 acquired by these same IFIs following the adoption of the 2015 Paris Agreement. Despite the existing fluctuations the trend is overall very positive, even if one might argue that insufficient.

Table 1. IFI targets to support climate action

International Financial Institution (IFI)	Percentage of climate finance over total portfolio (2015)	Percentage of climate finance over total portfolio (2016)	Percentage of climate finance over total portfolio (2017)	Percentage of climate finance over total portfolio (2018)	Future commitments to support climate action (2020)
EIB	29.4	21	28	30	35
EBRD	28.9	32	40	31	40
AfDB	14.5	9	26	31	40
WBG	17.9	18	22	32	28

Source: Own elaboration based on data extracted from Joint MDB Reports (EIB: European Investment Bank; EBRD: European Bank for Reconstruction and Development; AfDB: African Development Bank; WBG: World Bank Group)

We will now assess the strategies enacted by the European Union as the major regional institution active in the SEMED region, as well as the four IFIs with the highest volume of portfolio in the region. For reasons of limited space, this paper will not examine the role that bilateral development agencies such as the French Agency for Development (and the financial subsidiary institutions: Proparco and FFEM) and the German Society for International Cooperation (and the German development bank, KfW) play in promoting the green economy and fostering climate finance in the region, which is remarkable and very meaningful.

In the first place, the European Union is a major stakeholder in combatting climate change, not solely within its boundaries but also in the neighbourhood and further beyond. The EU climate strategy and target to reduce greenhouse gas emissions are established in the 2020 climate and energy package and the 2030 climate and energy framework, as well as in the 2050 long-term strategy, which has eased the allocation of a maximum of 20% of the 2014-2020 multiannual financial framework to climate change related action. In this endeavour, it is foreseen that as much as EUR 14 billion to be devoted over the period 2014-2020 to climate spending in developing countries.

In addition, the EU environmental action for the Mediterranean region is supported from the Horizon 2020 initiative by fostering research that helps tackle pollution sources in the Mediterranean sea connected to industrial pollution and urban waste water through investment in green facilities, capacity building and shared environmental information systems.

Furthermore, the EU has developed other tools to mobilise public and private resources to support climate change action in the Mediterranean, alongside the existing grant modalities envisaged in the European Neighbourhood Instrument (ENI), which is the main funding mechanism for implementing EU policy in the Mediterranean countries, the so called European Neighbourhood Policy. One of these tools is, for instance, blending as a combination of EU grants with equity or loans from public and private donors, and also guarantees that attract financing for some of the initial capital (equity or risk capital). These blending and guarantee schemes are often used in the SEMED region with the aim to assist these countries in the transition to low carbon and climate resilient economies in areas such as energy and transport. In particular, this has been channelled through the Neighbourhood

Investment Platform (NIP)[10], which is part of the European Fund for Sustainable Development, the main pillar of the EU External Investment Plan[11].

The public bank of the European Union, the European Investment Bank (EIB), is the most capitalised public bank in the world and it has a commitment by 2020 to allocate at least 35% of its lending portfolio to low carbon and climate resilient growth initiatives, mainly in the fields of energy and transport, both inside and outside the EU. Specifically in the SEMED countries, the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) is the trust fund under which the EIB brings together the whole range of instruments to support socio-economic development in the region. Since 2014 more than 30%[12] of the funds disbursed by the EIB have been favourable to climate action in strategic sectors such as transport, energy, water and environment, with nearly 58% of the total approved FEMIP Trust Fund funds targeting regional initiatives and projects involving two or more than two countries in the SEMED. In particular, the EIB has established the CAMENA climate action envelope whose purpose is to help Mediterranean partner countries to fight climate change by providing grants targeted at specific climate initiatives[13]. Finally, the EIB is one of the major players in climate financing, being the first issuer (together with the World Bank in 2007) of green bonds.

The European Bank for Reconstruction and Development (EBRD) is an international financial institution participated by 65 countries, and in the aftermath of the 2011 Arab uprisings the Bank decided to extend the geographical mandate to the SEMED countries investing to date in 179 projects. The Bank adopted a Green Economy Transition (GET) approach in 2015 with the aim to increase green financing to 40% of its annual business volume by 2020 with a remarkable participation of the private sector in all projects. The EBRD works with partners like the Climate Investment Fund, the European Union, the

[10] The NIP was officially launched in 2008 as the Neighbourhood Investment Facility in 2008 with the aim to mobilise additional funding to finance capital-intensive infrastructure projects in the southern neighbourhood countries. By pooling grant resources from the EU budget, the Platform uses them to leverage loans from IFIs and contributions from the southern neighbourhood countries to develop projects in strategic areas such as energy transition or sustainable transport.

[11] For further information on the results of the EU External Investment Plan (2017-2018), kindly refer to: https://ec.europa.eu/europeaid/sites/devco/files/eip-operational-report_2018.pdf

[12] See the report: https://www.eib.org/attachments/country/femip_trust_fund_annual_report_2017_en.pdf

[13] See the report: https://www.eib.org/en/projects/regions/med/trust-fund/camena/index.htm

Global Environment Facility and the Green Climate Fund in order to accelerate the transition to low carbon and resilient economies through concessional financing and innovative financial instruments. In this vein, the Bank regularly issues Environmental Sustainability Bonds in accordance with the Green Bond Principles like the 250 million financing framework approved in 2015 for private sector renewable energy generation in Egypt, Jordan, Morocco and Tunisia. Since the bank extended its mandate to the region to date, the latter[14] has invested 9,525 billion EUR in Egypt, Jordan, Lebanon, Morocco and Tunisia, of which an average of 48% has been invested in sustainable infrastructure projects.

The African Development Bank comprises 54 regional (African) member countries and 26 non-regional member countries. In the Mediterranean region the bank is operational in the North African countries. The bank adopted in 2009 a Strategy of Climate Risk Management and Adaptation (CRMA), which aims at assisting member countries to tackle the consequences of climate change, very severe in the African continent. In addition, they adopted a Climate Change Action Plan[15] for the time span 2016-2020, which follows a first Action Plan (2011-15) that resulted in the channelling of USD 12 billion in financing for renewable energy, energy efficiency, sustainable transport, sustainable natural resources management, climate proofing of critical infrastructure and capacity building. This second Action Plan incorporates most of the policies, targets and instruments envisaged in the 2015 Paris Agreement and it uses a multiplicity of tools to finance and invest in climate resilient projects, as well as adaptation and mitigation. For instance, the bank's green bond initiative facilitates the achievement of green growth through the financing of eligible climate change projects such as remarkable renewable energy projects in Morocco and Egypt.

Finally, the World Bank Group adopted for the period 2016-2020 a Climate Change Action Plan[16] that intends to scale up climate action, integrating climate change across the group's operations, and working more closely with other multilateral institutions, while assisting its

[14] Data valid as of 30 June 2019
[15] See the report: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/AfricanDevelopmentBankClimateChangeActionPlan2016-2020.pdf
[16] https://openknowledge.worldbank.org/bitstream/handle/10986/24451/K8860.pdf

member countries to tackle climate change and deliver on the Intended Nationally Determined Contributions (INDCs). In the Mediterranean region, the World Bank Group is a relevant stakeholder ramping up its financing for climate projects, particularly on mitigation, but the potential exists to grow the portfolio for adaptation. A yearly average of USD 400 million has been invested in the region by the World Bank group. In this regard, one of the main priorities in the region is to support the shift toward clean energy in power, transport, water, and the rationalization of energy resources (including regional cooperation on issues such as water). Furthermore, urban development is also a priority, with a particular focus on improving the competitiveness and resilience of cities, while lowering environmental footprints. Other priorities include growing its portfolio of green buildings (for instance, in Lebanon), waste-water treatment and re-use, and clean tech innovation (in Egypt and Morocco).

STRATEGIES DEPLOYED BY NATIONAL AUTHORITIES: THE LEADING CASE OF MOROCCO

Despite the inconsistencies in existing databases to collect data about the capacity of SEMED countries to access climate finance, there is sustained evidence that over the past years countries like Morocco and Egypt have been more successful in accessing climate finance opportunities, whereas the other Arab countries in the region are lagging behind. For example, in 2016 a total of USD 4.6 billion was approved for more than one hundred new projects in the Mediterranean region. Most of these funds originated from IFIs like the EBRD, the AfDB and the EIB, whose purpose was for mitigation (47%), adaptation (9.3%) and both -mitigation and adaptation- (40%), being the remaining funds' purposes unspecified. The main recipients of these funds were Turkey with almost USD 2 billion, Morocco with USD 960 million and Egypt with USD 690 million[17].

In this context, of all the Arab SEMED countries, Morocco has emerged as a leading case in transitioning to a green economy capable of opening new opportunities for wealth creation and sustainable jobs. The country has well understood that environmental

[17] See the report: https://ufmsecretariat.org/wp-content/uploads/2017/11/UfM-Climate-Finance-Study.pdf

constraints such as land degradation, strong energy dependence, water stress and vulnerability to climate change, coupled with the limitation of economic growth and public policies to steer up job creation, require a shift in the economic model as to embrace a greener and more inclusive model. The latter had led the country to adopt a number of legislative and regulatory reforms such as a Constitutional reform (2011)[18], a National Charter for Environment and Sustainable Development (2012)[19], a Law on the Environment and Sustainable Development (2014)[20] and a National Strategy on Sustainable Development (2017)[21].

Some of these initiatives highlight the opportunities for green jobs by projecting investments amounting to EUR 20 billion in four key sectors of the green economy: renewable energy, waste management, energy efficiency and sewerage. These investments could help generate over 90.000 new jobs in the green economy sector, some of which with potential of integrating youth in the labour market, one of the main challenges that face the Moroccan labour market. To this end, over recent years Morocco has developed a strong public-private partnership to foster the green economy in the country. Not only the CGEM[22] has established a "Green Economy" commission to support companies in their environmental approach and commitment to the green economy, but it has also promoted the collaboration with the Moroccan Centre for Clean Production[23].

The four major flagship programmes currently being implemented with the aim to contribute to the green economy in Morocco are: (1) The Moroccan Solar Plan, which is developed in five sites: Ouarzazate, Ain Bni Mathar, Foum Al Oued, Boujdour and Sebkhat Tah, and which will supply 14% of national electricity needs; (2) the integrated wind programme, which includes the construction of three wind farms (Tanger II, Midelt and Jbel al Hadid) with an installed capacity of 450 megawatts structured through public-

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[18] The new Constitution establishes "the right to sustainable development" and extends the mandate of the Economic, Social and Environmental Council to environmental and sustainable development.

[19] This Charter reinforces the integration of the sustainable development in all public and sectorial strategies.

[20] See the text of the Law: http://extwprlegs1.fao.org/docs/pdf/mor134969.pdf

[21] See the text of an executive summary: https://www.4c.ma/medias/synthese-sndd_fr.pdf

[22] Confederation Générale des Enterprises Marocaines (CGEM) is the largest business support organisation in Morocco, and also the largest in the whole SEMED region.

[23] Centre Marocain de Production Propre (CMPP).

private partnerships; (3) the energy efficiency plan with an objective to save 12% energy by 2020 and 15% energy by 2030; (4) the national irrigation water saving programme, which aims at saving up to 2 billion m^3/year by 2030.

The main international indicators show the progress achieved in Morocco over the past years. For instance according to the Environmental Performance Index, Morocco was ranked country number 81 out of 178 in 2014 and is now ranked country number 54 out of 180 in 2018, the second in the SEMED region only behind Israel that stands on number 19[24]. In addition, Morocco stands as the undisputed leading country in the region according to the Arab Future Energy Index, above Jordan and Egypt[25].

POLICY RECOMMENDATIONS AND CONCLUSIONS

As shown in Table 1 there is a considerable absence of long-term targets amongst the international and regional institutions' strategies operating in the Mediterranean countries. In spite of a relative alignment of these institutions' strategies with the objectives set in the 2015 Paris Agreement, there are some of these institutions more ambitious than others in establishing long term goals. Ensuring more coordination among international and regional organisations, improving the measurement of green finance initiatives, increasing transparency and homogeneity amidst the initiatives promoted and financed by these institutions could create incentives for these organisations to establish more ambitious targets in the promotion of green economy and green finance in the region.

In the light of still many existing investments from public financial institutions, national and international, to the fossil fuel industry, there is an urgent need to start phasing them out with a view to enforce a coherent policy for a green economic transition that complies with the Paris Agreement. To this end, the leadership that can be exerted by public institutions such as regional organisations and IFIs is determinant in creating incentives and conditions for the private sector to move into that direction. Collaboration between countries, regional organisations, and multilateral financial institutions should underpin

[24] See the report: https://epi.envirocenter.yale.edu/downloads/epi2018policymakerssummaryv01.pdf
[25] See the report: http://www.rcreee.org/sites/default/files/final_afex_re_2016.pdf

common strategies to reach targets in the scope of green economy and green finance. By coordinating strategies and efforts from different institutions in the pursuit of single projects, it should become easier to scale them up and replicate those projects into other countries of the region, thus generating regional spill-overs that bring greater impact.

Investing in green projects might turn to be riskier than other equity strategies, as many companies in this arena are in the development stage, with low revenues and high earnings valuations. At least, the perception among private investors that risk is higher than in other economic sectors is a major impediment to promote a more robust green economy. Hence, expanding the granting capacity, loan portfolios, guarantees schemes and other non-traditional financing instruments of the IFIs, including multilateral, regional and bilateral development banks, is crucial to enhance the capacity to exert the leadership we were mentioning before and mitigate the risks associated to this sort of operations. Given that most of the countries in the SEMED region are still in the developing stage, it is relevant for EU countries to take that into account as to compensate them with the "polluter pays" principle[26].

The absence of stronger transnational regulatory frameworks hampers the facilitation of green financial products. By enacting such frameworks a more clear, controllable and standardised criteria for green financial markets with long-term incentives would be fostered. Similarly, many countries in the SEMED region lack an appropriate and effective regulatory framework, coupled with an operational climate change governance framework that allows public, private and civil society sectors to come together under an umbrella governance framework. Experience in the region like the one depicted by Morocco shows that an umbrella supported by governments can mobilise the required capacities to attract the financial resources necessary to reach a greener and more sustainable economic model.

[26] This principle is the commonly accepted practice that those who produce pollution should bear the costs of managing it to prevent damage to human health or the environment (Rio Declaration, 1992).

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