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CLIMATE FINANCE STUDY

Overview 2016



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Definition

The countries included in this assessment are: Albania, Algeria, Bosnia & Herzegovina, Egypt, Israel, Jordan, Lebanon, Mauritania, Montenegro, Morocco, Palestine, Tunisia, and Turkey, as well as (to the extent possible) Libya and Syria. In the report, we refer to these countries in short as the 'study region' or more precisely 'Southern and Eastern Mediterranean region' (or 'SEMed region').

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Abbreviations

AF Adaptation Fund

ADB Asian Development Bank

ADFD Abu Dhabi Fund for Development

AECID Spanish Agency for International Development Cooperation

AFD French Development Agency

AfDB African Development Bank

ASAP Adaptation for Smallholder Agriculture Programme

BMZ Federal Ministry for Economic Cooperation and Development, Germany

CIF Climate Investment Funds

CFU Climate Funds Update

CTF Clean Technology Fund

DANIDA Danish Development Agency

DEG Deutsche Investitions- und Entwicklungsgesellschaft

EBRD European Bank for Reconstruction and Development

EIB European Investment Bank

ENI European Neighbourhood Instrument

EU European Union

FFEM Fonds Français pour l'Environnement Mondial

FIP Forest Investment Program

FinnFUND Finnish Fund for Industrial Cooperation

FMO Dutch Development Bank

GCF Green Climate Fund

GEEREF Global Energy Efficiency and Renewable Energy Fund

GEF Global Environment Facility

GIZ German Development Agency

IBRD International Bank for Reconstruction and Development

IDA International Development Association

IFAD International Fund for Agricultural Development

IFC International Finance Corporation

IFI International Financial Institutions

IKI Germany's International Climate Initiative

IMP Integrated Maritime Policy

IsDB Islamic Development Bank

JICA Japan International Cooperation Agency

KfW German Development Bank

LDCF Least Developed Countries Fund

MDBs Multilateral Development Banks

MINEFI French Ministry of Economics, Finances and Industry

NDCs Nationally Determined Contributions

NICFI Norwegian International Climate and Forest Initiative

OECD DAC Organisation for Economic Co-operation and Development Assistance Committee

ODA Official Development Assistance

Proparco Promotion et Participation pour la Coopération Économique

SCCF Special Climate Change Fund

SEFA Sustainable Energy Fund for Africa

SEMED Southern and Eastern Mediterranean Sustainable Energy Financing Facility

SIDA Swedish International Development Cooperation Agency

SREP Scaling Up Renewable Energy Program

UfM Union for the Mediterranean

UNDP United Nations Development Programme

UNEP United Nations Environment Programme

UNFCCC United Nations Framework Convention on Climate Change

UNIDO United Nations Industrial Development Organization

WB World Bank

WBG World Bank Group

Summary

In 2010, developed countries committed to a goal of raising USD 100 billion per year until 2020 to support climate change mitigation, and to address the needs of developing countries to adapt to climate change (UNFCCC, 2010). In light of this, the Union for the Mediterranean (UfM), in the scope of the work program 2017 of the UfM Climate Change Expert Group (chaired by UfM co-Presidency), requested the Integrated Maritime Policy and Climate Change (IMP CC) project facility to provide funding to produce an overview of the climate finance flows to the region in 2016.

The assignment aimed to provide a preliminary overview of the amount and type of climate financing delivered in the SEMed region during 2016. This would identify the contribution of the USD 100 billion UNFCCC climate finance pledge to the region, with particular focus on public spending. Furthermore, the study aimed to provide background research and analysis to describe the context and current state of climate finance in the SEMed region during the last few years. The analysis included the purpose of the funding, the financial instruments used, the type of projects and the nature of the beneficiaries.

Overall in 2016, a total of USD 4.6 billion in climate finance was found to be approved to the SEMed region. Of this, USD 4.3 billion came from climate specific funding, and USD 252 million from dedicated climate funds. The major part of funding was channelled through multilateral development banks, the EU and the French Development Agency. The main recipients of climate finance in the SEMed region include Turkey, Morocco, Egypt and Jordan, who received large loans, mainly for renewable energy activities that had strong mitigation components.

The data recorded for 2016 was consolidated using a variety of alternative means. The OECD DAC showed reliable historical trends that enabled us to pinpoint the donors who consistently disbursed large proportions to the region and identify details to estimate our funding gaps. The aggregate data presented in the 2016 MDB Joint Report was then used to confirm that our numbers were in the correct order of magnitude.

Historical data on climate finance trends from 2013-2015 showed that the UfM received an average of USD 6.8 billion annually, primarily for mitigation-related projects in the form of investment loans. Multilateral Development Banks were the primary contributors over the last 3 years (primarily the EBRD, EIB and IBRD, IFC), providing 55% of total climate finance approved to the region. Bilateral donors also played an important role, primarily Germany (14%), France (10%) EU institutions (6%), the United Arab Emirates (3.6%), and Japan (3.5%). Dedicated climate funds contributed only 4% of total climate finance to the region over 3 years. The largest fund was the CTF (1%), whereas the GEF and its dedicated funds, the Special Climate Change Fund and the Least Developed Countries Fund, contributed less than 1% to the region. The GCF does not appear in the OECD database due to its relative newness (Schalatek, et al., 2016).

Overall, Israel, Libya, Palestine and Syria were underrepresented in the dataset of 2016, although historical trends show climate finance flows to the region in previous years. Several projects are underway in Palestine, although funding is yet to be confirmed. From 2013-2015, Palestine received USD 395 million for 160 grants, primarily to improve water supplies and sanitation (58%). The Syrian Arab Republic received over USD 18.3 million in grants primarily for emergency response. Libya received USD 5.3 million's worth of grants for coastal management. Israel did not receive country-specific funding, according to the currently available data, although it was included in several regional projects.

Total funding estimates are tentative, as donors are reluctant to release internal data on the project or country level before final figures and disbursements have been verified. A serious limitation to data availability is that although several donors, especially IFIs, track climate finance internally, they have yet to release these databases publicly (if at all) for confidentiality reasons. Information for MDBs is only released in aggregate form or through the OECD DAC database on a project level, after two years.

Other major limitations in collecting 2016 data stemmed from inconsistencies in the databases, gaps in climate tagging, and challenges collecting interviews from all representative stakeholders. Considering that abovementioned data gaps, the 2016 estimate of USD 4.6 billion was in the same order of magnitude as the expected finance flows to the region.

1. Introduction

In 2010, developed countries committed to raising USD 100 billion per year until 2020 to support climate change mitigation and the needs of developing countries to adapt to climate change (UNFCCC, 2010). This was confirmed in the 2015 Paris Agreement.

Such climate funding has been sourced and disbursed through a wide variety of public, private, bilateral, multilateral and alternative sources.

Dedicated climate funds such as the Green Climate Fund (GCF) and the Adaptation Fund (AF), for example, operate under the United Nations' Framework Convention on Climate Change (UNFCCC).

Multilateral sources include Multilateral Development Banks (MDBs), such as the World Bank (through its Climate Investment Funds), or the European Bank for Reconstruction and Development (EBRD) through its Green Economy transition approach².

Bilateral sources include the Norwegian International Climate and Forest Initiative (NICFI) or the German International Climate Initiative (IKI), to name a few. Bilateral development finance with climate objectives comes from donor countries through their national development agencies, for instance France's Agence Française de Développement (AFD), the German GIZ, the Swedish SIDA, the Danish DANIDA or the Spanish AECID. Funding may also be disbursed through collaborations between public and private entities and funds.

In view of this heterogeneous funding landscape, the Union for the Mediterranean (UfM) requested the Integrated Maritime Policy (IMP) and Climate Change project facility to fund technical support to produce an overview of the climate finance flows to the region in 2016. The primary aims of the assignment are to:

- Provide a preliminary overview on the amount and type of climate finance delivered to the UfM during 2016, with a view to identify the contribution of the USD 100 billion pledge to the UNFCCC.
- Subsequently, provide background research and analysis to describe the context and current state of climate finance in the UfM during the last few years.

The objective of the study is in line with the mission of the UfM's Regional Finance Cooperation Committee for Climate Action, who aim to initiate cooperation through information-sharing amongst International Financial Institutions (IFIs) and active donors in the region. The UfM Climate Change Expert Group also aims to ensure that all UfM Member States have an accurate understanding of the regional context for the development of their Nationally Determined Contributions (NDCs), and to create awareness of opportunities for synergies in the region. This report presents the results of the UfM Climate Finance Study, conducted by Climatekos, the specialist climate finance consultancy, between April and October 2017.

² For more information, see: <http://www.ebrd.com/what-we-do/get.html>

2. Methodology, scope, and main assumptions

Scope of work

- The analysis focuses on climate finance flows to the SEMed region, which have been committed³ by major international financial institutions and donors in 2016. Climate finance trends from previous years (specifically, from 2013-2015) were described for comparison purposes with the help of datasets compiled by the OECD Development Assistance Committee (DAC). Major multilateral and bilateral providers of climate finance report to the OECD database and the data are released within a two-year time interval. Verified data have been published from 2000-2015. However, as the Multilateral Development Banks only established a methodology for climate finance tracking in 2011, data for 2013-2015 was deemed to be most reliable and comprehensive for assessing historical climate finance flows to the study region.
- The countries included in this assessment are: Albania, Algeria, Bosnia & Herzegovina, Egypt, Israel, Jordan, Lebanon, Mauritania, Montenegro, Morocco, Palestine, Tunisia, and Turkey, as well as (to the extent possible) Libya and Syria. In the report, we refer to these countries in short as the 'study region' or 'the SEMed region'.
- This study includes relevant data gathered from bilateral donors, multilateral donors and 57 additional climate funds, programmes and initiatives from public and private donors, which form part of the OECD Climate Fund Inventory (OECD, 2015a)⁴. Annex II includes a comprehensive list of the funds investigated and their project numbers, informed separately.
- This study focuses on public funding. Finance flows related to the private sector and non-state actors were considered in a broad web search, but were not included as part of the main analysis. Private sector funding is often provided in the form of co-financing. However, company-level data are predominantly confidential. Records of private finance are therefore sparse.
- Co-financing in general was excluded from the main analysis to avoid double counting, as donors often only report co-financing aggregates and do not make the sources and amounts publicly available.
- Expected financing or pipeline projects in 2017 that are planned but not yet approved, are not included in this analysis.
- Where a single, overall figure was reported for regional projects, country estimates were established by dividing the total amount by the number of countries, and including the proportion relevant to the UfM.
- All figures were converted to United States dollars (USD) using the average exchange rate over 2016 (IRS, 2016).

³ As per the OECD Development Assistance Committee (DAC) (2016), a commitment is a firm written obligation by a government or official agency, backed by the appropriation or availability of the necessary funds, to provide resources of a specified amount under specified financial terms and conditions and for specified purposes for the benefit of a recipient country or a multilateral agency.

⁴ Climate Fund Inventory (OECD, 2015a), see: <https://www.oecd.org/env/cc/Climate-Fund-Inventory-Background-report- OECD.pdf>

Approaches and definitions

There is currently no universal, commonly applied definition of what constitutes 'climate finance'. Donors apply their own definitions that may be based on the Rio Marker methodology or, in the case of the Multilateral Development Banks, using the Joint MDB approach⁵. Climate finance tracking platforms, such as the Climate Funds Update, also establish their own criteria. To overcome the lack of a common definition, we established three different categories to identify climate funds in line with and derived from commonly-used climate finance definitions:

1. 'Dedicated climate finance' relates to activities listed by dedicated climate funds that are established specifically for the purpose of funding climate mitigation or adaptation activities. These include, for example, the World Bank Climate Investment Funds (CIFs), the Adaptation Fund (AF), and the Green Climate Fund (GCF).
2. 'Climate-specific finance' relates to activities funded within multi-purpose programmes or vehicles by donors, such as banks, that are not necessarily linked to climate objectives. Projects were considered "climate-specific" if they clearly labelled climate activities in the project documentation. Renewable energy projects, for example, were included if the project description made reference to climate change 'mitigation' or 'adaptation', or if an objective to reduce emissions was stated. In addition, projects were included if they were labelled as climate-specific by donors during interviews, or if data were received directly from donors' internal climate finance databases. In the latter case, this meant that

the project details were not always verifiable through secondary sources, as they were rarely made public.

3. Climate-related finance is a category of projects that are likely to benefit climate change agendas but that do not specify a link to mitigation or adaptation. Examples include renewable energy, waste treatment and land management activities without explicit climate objectives. These were excluded in this report due to ambiguity and challenges related to double counting⁶.

⁵ For more information, see the Joint Report on Multilateral Development Banks' Climate Finance (MDB Joint Report, 2016) and OECD, 2016.

⁶ In contrast to this approach, some donors such as the MDBs automatically consider all renewable energy projects as climate-specific.

Methodological approach

The research process was structured in two phases. The basis was a preliminary assessment covering all relevant climate funds identified in the OECD Climate Fund Inventory Report. A broader web search was also conducted, which included the Climate Funds Update (CFU) database (CFU, 2016) and information gathered from donor websites, databases, annual reports and related documentation. Questionnaires were sent to donors to gather more accurate information on their climate finance tracking records and climate finance definitions. Where possible, this was followed by interviews confirming the details of the projects.

In the second phase, an extended assessment was undertaken to bridge the gaps in public records and the lack of initial response to questionnaires during the first phase. Data accuracy was verified through a comparison with aggregates from the 2016 annual MDB Climate Finance Report, historical trends from the OECD DAC database⁷; and information provided by donors directly, during interviews. For this purpose, a total of nearly 70 stakeholders and institutions were contacted via email and telephone.

In addition, the second phase provided a detailed analysis of the identified climate finance projects in 2016 in terms of: In addition, the second phase provided a detailed analysis of the identified climate finance projects in 2016 in terms of:

1. Purpose of funding (i.e. mitigation, adaptation)
2. Financial instruments used (i.e. grants, loans and grant/loan combinations)

3. Type of project (i.e. “hard” infrastructural projects or “soft” funding for capacity building, credit lines, technical assistance or readiness support. “Hard and soft” projects had both a capacity-building element, and an infrastructural element).
4. Nature of the beneficiary (i.e. finance provided to public or privately entities)

Finally, a broad analysis of climate finance reporting and tracking procedures was conducted. An assessment of the eligibility criteria of selected IFI’s and donors that were found to be relevant in the SEMed region (Annex I) complemented the analysis. Overall, the data collected in this assignment provide only a snapshot of climate finance to the region. Nevertheless, the results provide an indicative overview of the magnitude of new climate finance approved or committed for UfM countries in 2016.

⁷ Although the OECD DAC database is publicly available, climate-related data were sourced and directly from the OECD DAC database consultants and analysed with guidance from an OECD DAC internal consultant

3. Results

Overall climate finance 2016

CLIMATE FINANCE BY CLIMATE FUND, 2016

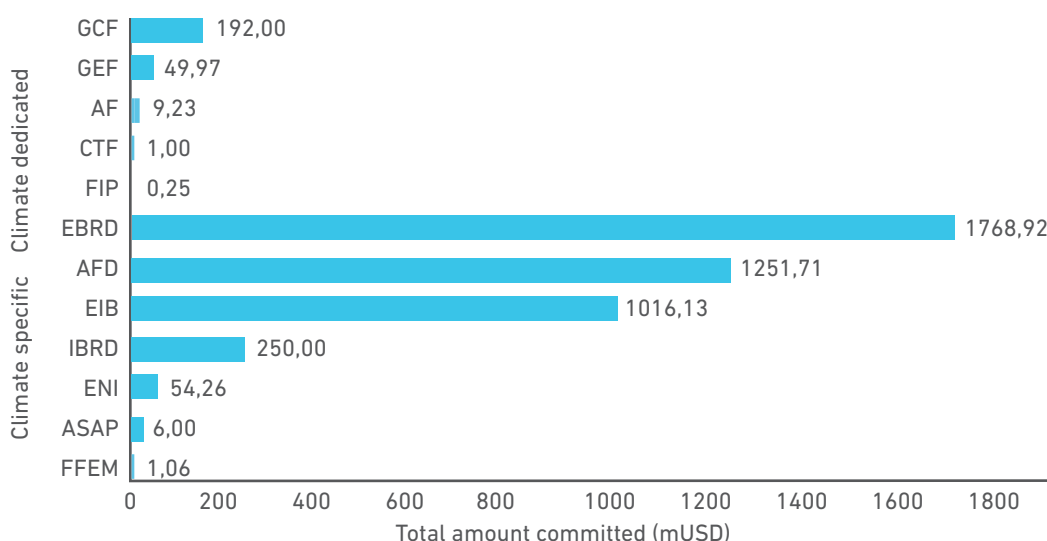


Figure 1: Total climate finance in million USD (mUSD) committed to the UfM in 2016 from climate dedicated and climate specific funds and institutions⁸

According to the collected data, a total of USD 4.6 billion of climate finance was approved for more than 100 new projects in the Mediterranean region in 2016. Out of the total funding identified, only 5% came from dedicated climate funds. The vast majority came from climate-specific finance originating from MDBs, in particular the European Bank of Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the International Bank for Reconstruction and Development (IBRD) (Figure 1).

Primary recipients of this finance were Turkey (USD 2 billion), followed by Morocco (USD 960 million) and Egypt (USD 690 million) (Figure 2). Most funding was country-specific; regional projects only comprised 3% of the total commitments.

CLIMATE FINANCE BY RECIPIENT, 2016

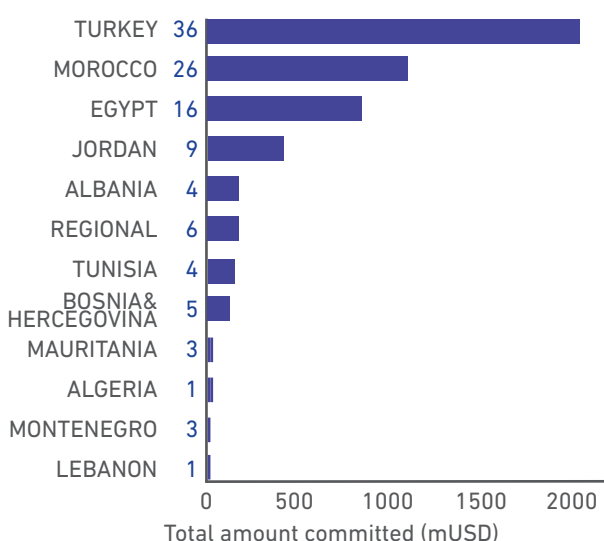


Figure 2: Climate finance in million USD (mUSD) to recipients, with brackets containing the number of newly approved projects in 2016

⁸ Data were derived from internal and public sources, i.e. interviews with experts (AFD, GEF, ASAP), general web searches (CTF, FIP, EIB, IBRD, ENI, FFEM) and a combination of the two (GCF, AF, EBRD). This is the case for all graphs and data for 2016.

No new approvals of climate finance could be identified in 2016 for Israel, Libya, Palestine and Syria. However, historical trends by the OECD DAC database reveal that a number of climate projects have been approved in 2015 and in previous years. The OECD estimates that overall Official Development Assistance (ODA) spending has increased in 2016, some of which has been due to higher expenditure on refugee-related activities (OECD, 2017a). Historical trends are in alignment with this, showing that in Syria, Libya and Lebanon, bilateral ODA assistance has been directed largely at developing social infrastructure and humanitarian aid (OECD, 2017b). ODA focused on humanitarian aid may account for low levels of expenditure on climate-specific activities in these countries.

In Palestine, several climate projects and extension plans are currently being undertaken, although funding for these activities has not been confirmed. Such projects include: extensions of effluent waste recovery and reuse schemes; a project to reduce greenhouse gas emissions in the energy sector; a climate change capacity development programme.

Libya was included in one regional project to enhance adaptation in the Mediterranean, along with Albania, Algeria, Morocco, Montenegro and Tunisia. This was funded by the GEF's Special Climate Change Fund (SCCF).

Regional funding in 2016 is presented in Table 1. Most regional funding was orchestrated by the GCF. Egypt, Jordan, Morocco and Tunisia received 80% of such funding together, which increases their total approved funding volumes by approximately USD 40 million each.

Table 1: Funding to regional projects and their relevant countries in million US dollars (mUSD)⁹

REGIONAL PROJECTS AND THE RELEVANT COUNTRIES INCLUDED¹⁰		
Regional (Egypt, Jordan, Morocco, Tunisia)	GCF	151,2
Regional (Egypt, Jordan)	GEF (GEF Trust Fund)	4,0
Regional (Africa¹¹)	GEF (SEFA)	1,2
Regional (Albania, Algeria, Libya, Morocco, Montenegro, Tunisia)	GEF (SCCF)	1,1
Regional (Morocco, Tunisia)	AFD/FFEM	1,1
Global (Mauritania)	GEF (GEF Trust Fund)	0,59

⁹ As mentioned above, all 2016 data were derived from interviews with experts (AFD, GEF, ASAP), general web searches (CTF, FIP, EIB, IBRD, ENI, FFEM) and a combination of the two (GCF, AF, EBRD). Regional data was therefore derived from interviews with the GCF, GEF, AFD and a review of the CFU database.

¹⁰ Only the proportion of funding estimated for the SEMed countries is included in regional and global aggregates. Funding sources include the GCF, the GEF Trust Fund and subsidiaries (i.e. Sustainable Energy Fund for Africa (SEFA), Special Climate Change Fund (SCCF)) and the AFD's Environmental Fund (FFEM).

¹¹ Funding here is reported for only African UfM countries (i.e. Morocco, Egypt, Tunisia, Algeria, Mauritania, Libya).

Climate-specific funding 2016

Climate-specific funding in 2016 amounted to USD 4.3 billion. MDBs, such as the EBRD, EIB and IBRD provided approximately USD 3 billion to the total. Most was through the EBRD (USD 1.7 billion) for 54 projects with mostly mitigation co-benefits. Projects with a primary co-benefit of adaptation were mostly directed at water management, and comprised less than 1% of the total committed amount. The EIB provided USD 1 billion for 9 projects, 62% of which had mixed adaptation and mitigation co-benefits. Such projects spanned sustainable transport, waste management, and sustainable energy credit lines. The IBRD provided USD 250 million in financing for geothermal development in Turkey.

Bilateral funding amounted to USD 1.3 billion, the majority of which was channeled through France's development-aid agency AFD. The AFD was the second largest contributor to the region (USD 1.25 billion, 18 projects). Over 50% of these projects were directed towards the transport sector, whilst almost 30% for water-related projects, such as dam construction, water strategy development and wastewater and sanitation management.

The AFD also committed funding through its dedicated environmental fund, the Fonds Français pour l'Environnement Mondial (FFEM). The FFEM provides regional-scale funding through initiatives such as "Mobilise Your City" (MYC), a sustainable urban mobility programme that aims to encourage over 100 cities globally to improve mobility and reduce greenhouse gas emissions¹². The intention was to raise USD 21-31 million in 2016, approximately USD 53 million in 2017 and USD 74-85 million in 2018. As of 2016, the FFEM contributed USD 2.1 billion to African cities. However, only USD 1 million was directed to the UfM, specifically Tunisia and Morocco. Given that overall, only USD 10.9 million was raised from various partners in 2016, the initial MYC target was not met (FFEM, 2016).

Interviews with the AFD revealed that 63% of France's development funding to the Mediterranean region had climate co-benefits in 2015. The AFD are developing a new strategy from 2016-2020 to support the implementation of NDCs, increasing the likelihood that projects with climate co-benefits will increase in coming years. Activities with climate adaptation co-benefits will be supported with grants in the sectors of water, soil, coastal

management and resilience, and insurance. Loans will be provided for infrastructure on renewable energy and urban development that have mitigation co-benefits.

Another initiative by the AFD, which is expected to increase climate finance to the UfM in the coming years is the African Renewable Energy Initiative. Developed within the framework of CoP21, it aims to scale up renewable energy in Africa in two phases from 2016 to 2020 and then from 2020 to 2030.

USD 54.2 million was committed for two renewable energy and irrigation activities in Algeria and Egypt by the European Neighbourhood Instrument (ENI)¹³. The ENI is under the European Commission, and has a funding window exclusively for UfM countries.

Other climate activities in the region were funded by the Adaptation for Smallholder Agricultural Programme (ASAP)¹⁴, which is part of the International Fund for Agricultural Development (IFAD). The ASAP is a financing source targeted at smallholder farmers to aid their access to information, tools and technologies for climate resilience. Their inclusive agricultural value-chain development programme, PRODEFI, is active in Mauritania, providing USD 6 million of funding. The programme has mitigation co-benefits through the application of solar energy in production, storage and processing of agricultural products, and by promoting sustainable management techniques in non-timber forest resources (IFAD, 2016).

In the past (2013-2015), finance to the UfM has been provided by a wider array of bilateral institutions through their national implementing agencies, such as Germany through the GIZ, Japan's JICA and the United Arab Emirates' Abu Dhabi Fund for Development (ADFD). This will be discussed in the following section. In our 2016 inventory of climate finance, some historically important bilateral donors are missing because updated project-level data for 2016 had not yet been released. For example, Spain's development aid agency, AECID, did not have public data available for climate finance in 2016 to the UfM, while Sweden's SIDA does not apply climate tags in their public project database. General environmental projects with no reference to climate adaptation or mitigation are not within the scope of this study, and so such information has been omitted.

¹² See: <http://www.codatu.org/wp-content/uploads/MobiliseYourCity-A3-BD.pdf>.

¹³ For more information, see: <http://www.euneighbours.eu/en/policy/european-neighbourhood-instrument-eni>

¹⁴ Data derived from interviews with IFAD.

Climate dedicated funding for 2016

Dedicated funds approved only USD 252 million for 28 new projects in the UfM in 2016, a proportionally much smaller commitment.

Funders to the SEMed region include the GCF, the GEF and the AF (Figure 1). The World Banks' CIFs, specifically the Clean Technology Fund (CTF) and Forest Investment Partnership (FIP), were also represented. The CTF provides investments to developing and emerging economies to scale up low-carbon technologies, particularly renewable energy, energy efficiency and transport. The FIP provides direct investments to benefit forests, development and climate.

The GCF committed 76% of the total USD 252 million to the region- approximately USD 192 million for 7 projects in Morocco, Albania, Mauritania, Montenegro and Tunisia. Three of these were grants and one was a mixed grant/loan, while other projects did not detail the financial instrument used. Although the GCF's commitments are substantial, hardly any funding has been disbursed as of yet (although some disbursements have been approved to implementing agencies like the AFD to non-UfM countries (AFD, 2017)). It is likely that this is because the GCF began approving the first projects towards the end of 2015 only.

The GEF, which contributed 20% of the funding in 2016, therefore, stands out as a consistent supplier of dedicated climate finance to the region. The GEF committed almost USD 50 million for 18 projects, disbursed to Morocco (39%), Mauritania (19%), Turkey (10%), with the remainder to Egypt, Jordan, Bosnia & Herzegovina, Montenegro and Lebanon through country-specific and regional projects.

Most of the finance was in the form of grants (>97%), although the GEF's Sustainable Energy Fund for Africa (SEFA) provided one non-grant instrument¹⁵ focused on project preparation to invest in renewable energy. Most of the GEF funding was for "soft" activities, such as project preparation, development of National Communications to the UNFCCC and Biannual Update Reports (40%), although 2 large projects were approved for sustainable resource management in agro-ecosystems (40%).

Grants were also provided by the Adaptation Fund to increase resilience of vulnerable communities to water and agricultural stress in Jordan in 2016. The World Bank provided grants to Turkey's Renewable Energy sector through the CTF and to prepare a forest investment plan in Tunisia through the FIP.

Overall, climate dedicated funds largely committed to regional activities (60%), although on a country-specific level Morocco was the main recipient of climate- dedicated funds in 2016 (USD 59 million), followed by Jordan (USD 11.8 million), Mauritania (USD 9.4 million) and Turkey (USD 4 million). Most of this funding was directed towards projects with both mitigation and adaptation targets.

Purpose of funding

In line with the objectives of the USD 100-billion pledge and also with the Paris Agreement, mitigation and adaptation purposes must be funded. In 2016, climate finance was predominantly for mitigation activities (Figure 3).

Over 47% of funding was directed towards projects with mitigation co-benefits, the largest being Turkey's Geothermal Development Project (USD 250 million). Approximately 40% of projects had both mitigation and adaptation benefits, the largest being Istanbul's underground rail network (USD 265 million). Projects specific to adaptation comprised only 9.3% (the largest being Morocco's national Water Strategy, costing USD 191 million). The remaining projects were unspecified.

In general, infrastructure and renewable energy projects had a clear mitigation focus, while water, land and waste management projects had adaptation co-benefits. Large investments are more likely to be directed towards mitigation rather than adaptation activities. This is because the measurement and reporting of mitigation benefits is better established than in adaptation. Projects in renewable energy and transport are also more widely accepted as having mitigation benefits/co-benefits and such projects often have a higher return on investment.

¹⁵ Debt, guarantees, some equity, performance-based loans/grants and "innovative" finance, as per Miller & Swan, (n.d.)

CLIMATE FINANCE BY PURPOSE, 2016

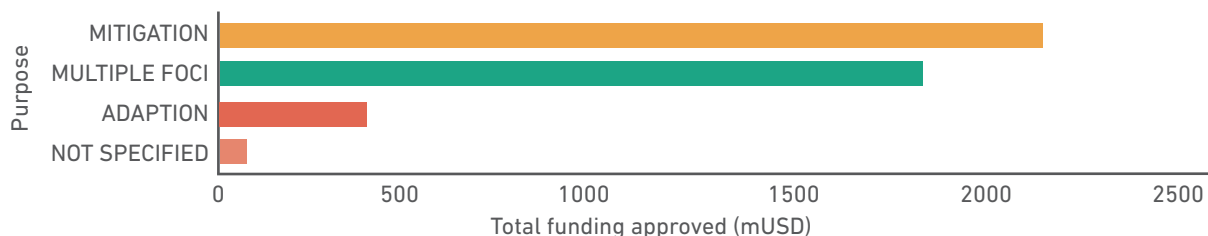


Figure 3. Climate finance in million USD approved in 2016 by project purpose: adaptation, mitigation or multiple foci (mixed adaptation/mitigation objectives) funds and institutions

Financial instruments, project focus and type of support provided to the UfM

Information on financial instruments was absent for almost 40% of the projects surveyed. Out of the projects where information was available, loans comprised over 74% of the financial commitment, mixed grant/loans almost 20%, and pure grants 6%. Nevertheless, grants were provided in greater numbers (28 to the region, valued at USD 182 million), whilst the 20 larger loans exceeded USD 2.1 billion.

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Loans were provided primarily to Turkey (USD 1 billion), Morocco (USD 565 million) and Egypt (USD 452 million) (Figure 4) for major transport and energy works. The largest grant/loan combinations were directed towards hard infrastructural projects in water, transport and renewable energy in Jordan, Egypt and Morocco.

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CLIMATE FINANCE BY RECIPIENT, 2016

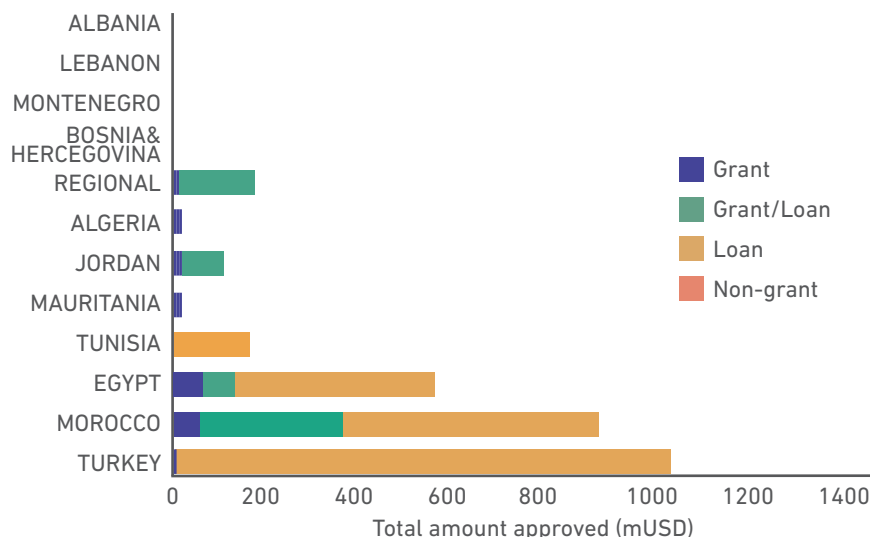


Figure 4. Climate finance in million USD (mUSD) by financial instrument in 2016 of newly approved projects in 2016

The GEF provided the largest number of grants, including one non-grant (described above on page 18), whereas the EBRD provided a grant of the highest value, USD 63.8 million, to Egypt through the Southern and Eastern Mediterranean Sustainable Energy Financing Facility (SEMED). The AFD provided a broad combination of grants, grant/loan mixed and loans, and the EIB which provided up to nine loans for energy and transport improvement. For dedicated climate funds such as the GCF, much of the support provided is for capacity building projects.

Overall, climate finance was channeled into a broad range of projects spanning the agriculture, transport, water, and energy sectors. Loans were mostly for hard¹⁶ mitigation projects (42% or USD 1.9 billion) for renewable energy and urban infrastructure/transport and for projects with hard and soft elements¹⁷. Grants were mostly for soft¹⁸ mitigation projects (Figure 5).

CLIMATE FINANCE BY RECIPIENT, 2016

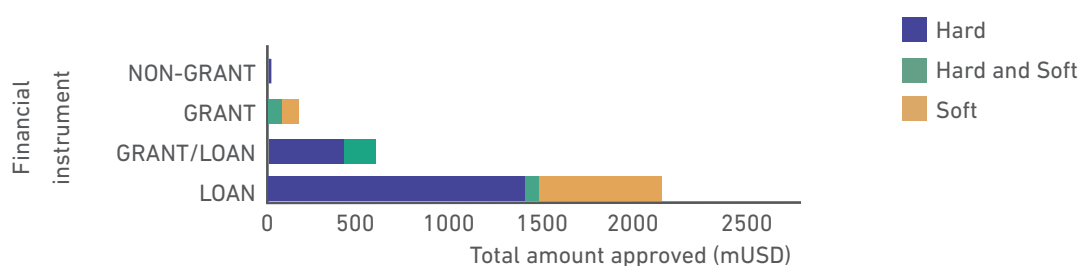


Figure 5. Total climate finance commitments in million USD (mUSD) by financial instrument and type of funding in 2016: "hard", "soft" or "hard and soft"¹¹

Beneficiaries, co-financing and the private sector in 2016

Co-financing, particularly from the private sector, is estimated to be a significant contributor to climate finance in the region. The MDB Joint Climate Finance Report (2016) estimates that, of the USD 65.3 billion committed worldwide in 2016, 58% was co-financed. A method of tracking co-financing amongst MDBs was only developed in 2015, and its implementation is still underway. At present, definitions and recommendations of the MDB Taskforce on Private Investment Catalysation are being developed to assess private co-financing on a project-by-project level and track the private

share of climate co-financing. In April 2015, MDBs also published a reference guide (From Billions to Trillions: Transforming Development Finance¹⁹) to explain how private investment mobilisation is calculated. However, MDB Climate Finance Reports record only proportions of co-financing that directly contribute to adaptation and mitigation. Therefore co-financing is not possible to track without guidance from donors, as aggregate numbers do not reveal the proportion of co-financing directed only at climate action.

¹⁶ "Hard" projects are considered projects that require hard infrastructure or construction, whereas "soft" projects include technical capacity building, credit lines, training and proposal development.

¹⁷ Some projects had both a hard, infrastructural element and a "soft" technical and capacity-building element ("Hard and Soft").

¹⁸ Information for both categories was only available for approximately 40% of the projects. Descriptions of the categories of hard, soft and "hard and soft" are provided above.

¹⁹ 'From Billions to Trillions; Transforming Development Finance' prepared jointly by AfDB, ADB, EBRD, EIB, IDB, IMF and WBG for the April 18, 2015 Development Committee meeting.

In terms of private-sector investment in 2016, it is extremely difficult to obtain information about pure private sector investment for climate action, which is why this category is beyond of the scope of this project. Public funding directed towards the private sector has greater transparency and is better recorded. One example of a public/private partnership in 2016 is the Catalyst MENA Clean Energy Project²⁰. This fund targets private-sector investments in clean energy in Jordan, focusing on renewable energy infrastructure projects and in mid-sized companies. The aim is to improve energy supply, foster employment growth, increase tax revenues and improve stability in Jordan (KfW, 2016). By the end of 2016, Catalyst had two solar PV projects in Jordan in its portfolio. Further investments may be made in Egypt, Morocco and Tunisia.

This is the second fund launched by Catalyst Private Equity, an energy fund manager in the region. Its major contributors are from a public and private bodies, particularly the DEG (Deutsche Investitions- und Entwicklungsgesellschaft) which is part of the German development bank (KfW), the Finnish Finnfund and the Dutch FMO, and the Global Energy Efficiency and Renewable Energy Fund (GEREEF), which is a fund-of-funds advised by the EIB. The GEREEF leverages public sector funds to catalyse private sector finance in renewable energy and energy efficiency projects, and has invested USD 16.6 million into the Catalyst MENA Clean Energy Fund.

Limitations and uncertainties in collecting 2016 data

Several challenges were encountered in the data collection process, which substantially hampered the establishment of a 2016 climate finance inventory for the UfM:

- Separating climate components from total project cost: Climate-specific projects rarely report the exact proportion spent on climate-specific activities. It is therefore not always clear if a project is climate-specific, climate-relevant or if it only has climate components. Under these circumstances, the whole project cost was recorded in this report. It is possible that this is the reason that 95% of the commitments were from climate-specific funds, although they only comprised 60% of the sample.
- Varying stakeholder response to interviews: Approximately 65% of stakeholders responded to the surveys, out of which 44% provided data. The major respondents were the AFD, AF, EBRD, FMDV, GEF, GCF, IFAD, and the UNEP. However, not all the data provided in interviews was at the required level of detail. The data collected in the interviews could therefore only partly be used to verify and complement the information collected in the web search.
- Unverifiable online information: Online databases are not always up-to-date, and rarely have transparent project-level or country-specific data. Project names may vary between databases, as may dates and project amounts. Information on funding instruments (grants or loans) and beneficiaries (private/public) is rarely included in such detail. Online data could only be used by Climatekos when detailed project-level information was provided, or if data were verified through interviews.

²⁰ For more information, see: <http://www.catalystpe.com/index.php/why-catalyst>

- Challenges tracking climate finance: Tagging of projects under a climate-specific category was rare. This led to the exclusion of a number of bilateral development aid donors who were unable to provide detailed project-level information in interviews.
- Restrictions on the accessibility of data: Many donors had yet to make their 2016 data public or were constrained by confidentiality agreements. This became clear during interviews. Therefore some significant bilateral and multilateral flows could not be included in 2016. For example, the World Bank has not yet publicly reported its project or country-level data for 2016, although it will do so for its major reporting partner, the OECD DAC, by early 2018. If trends follow that of the OECD's records in the last three years, the World Bank's IBRD contributed substantially to the region, although not all finance was able to be collected from them. It is therefore expected that the total amount of climate funding approved for 2016 may be underestimated.
- Delays in data release: There are often delays between project approval and the publication of annual data. Some MDBs and several implementing agencies only release country-level or project-specific data after closure of the project (which may take several years) or exclusively to the OECD. Interviews and correspondence with the World Bank, and governmental agencies such as Germany's GIZ and International Climate Initiative (IKI) revealed that information is usually published after a two-year time interval. More data for 2016 is likely only to be available in 2018.
- Collection bias in 2016 results: The combination of data gaps and incomplete contributions from interviewees may have led to an overrepresentation of certain donors in the dataset. For example, the EBRD, AFD and EIB were some of the few to provide their internal databases. In contrast, the GIZ/KfW and IKI did not share 2016 data and referred to the OECD database instead. The former institutions may therefore be over-represented in our database. For example, the 2016 inventory shows the AFD committing to 27% of the total, although in previous years (2013-2015) their contribution averaged at 9% (OECD DAC database). Nevertheless, the OECD DAC data revealed that the EBRD, AFD and EIB were amongst the top five contributors to climate finance over the past three years, which means their information is valuable in covering major climate finance flows to the region.

Inconsistencies and contradicting numbers from different sources are outside the direct control of Climatekos' analysts. Even though the project team tried to resolve such issues to the greatest extent possible, full quality assurance cannot be guaranteed for the results, as they are subject to several uncertainties. Data and overall estimates were therefore verified through alternative databases and tracking exercises.

4. Data verification and comparison: OECD and MDB data

The plausibility of our findings was tested by comparing the results to trends in previous years, as published by the OECD and the most recent MDB Climate Finance Report for 2016.

OECD: Historical reference of climate finance in the SEMed region, 2013-2015

The OECD DAC database contains annual information from bilateral and multilateral donors, including projects that are tagged as climate finance as per their internal databases. The OECD data from 2013 to 2015 show that total climate funding to the SEMed region amounted to USD 20.4 billion (Figure 6), or an average of USD 6.8 billion per year. With this, the UfM has received approximately 11% of worldwide funding for climate finance from all donors over the past 3 years, corresponding to 13% in 2013, 16% in 2014, and 13% in 2015. This is a substantial proportion.

Currently, our data estimates for 2016 climate finance are at USD 4.6 billion. Unless there have been significant factors decreasing public spending to climate finance, it is probable that the overall funding will be in the same order of magnitude as in previous years.

Using OECD data as reference, we identified main donors and recipients over the last three years (2013-2015) to provide context information. Figure 7 provides an overview of major donor categories, while Figure 8 provides more detail on the major donors covering over 95% of climate finance to the region from 2013-2015. In summary:

- Multilateral Development Banks were the primary contributors over the last 3 years (primarily the EBRD, EIB and IBRD, IFC), providing 55% of total climate finance approved to the region. Non-EU development banks such as the Islamic Development Bank and the African Development Bank provided 2.6% and 1%, respectively.

- Bilateral donors also played an important role, primarily Germany (14%), France (10%), EU institutions (6%), the United Arab Emirates (3.6%), and Japan (3.5%) (Figure 8).
- Dedicated climate funds contributed only 4% of total climate finance to the region over 3 years. The largest fund was the CTF (1%), whereas the GEF and its dedicated funds, the Special Climate Change Fund and the Least Developed Countries Fund, contributed less than 1% to the region. The GCF does not appear in the OECD database at all due to its relative newness (Schalatek, et al., 2016).

CLIMATE FINANCE TO THE REGION BY YEAR, 2013-2015

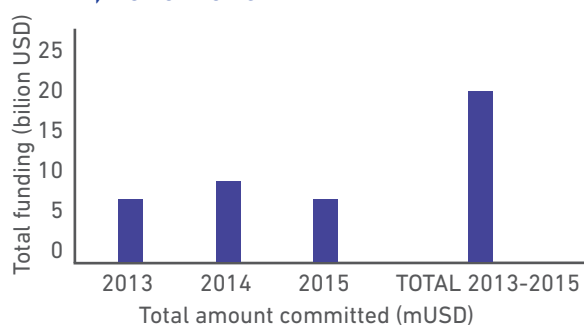


Figure 6. Climate finance (in billion USD) by year and their total, as per OECD data²¹

- Approximately 25 other bilateral and multilateral donors were active in the region from 2013-2015. However, these are not shown in Figure 8 as their contributions are below 1% each. For more detailed information, refer to the public OECD DAC database.
- Major donors to the region historically include Germany and France and major MDBs like the EBRD, EIB and World Bank. Primary recipients were Turkey, Morocco and Egypt, which corresponds to our findings for 2016.

²¹ Data in this graph were provided by the publicly-available OECD DAC database(2013-2015), as is the case for all data in this section and analysed with the aid of an internal consultant. This is true of all graphs in this section.

- Germany distributed most of its finance via the development bank (KfW, 80%) and through the Ministry of Development Cooperation (BMZ, 17%). France distributed most of its funds (87%) through the AFD, with smaller disbursements through other channels, such as the MINEFI and Proparco. The MINEFI is France's Ministry for the Economy and is one of the consortium ministries of the French Environmental Fund (FFEM) acting to implement climate and environmental related projects (FFEM, 2016). Proparco is a subsidiary of the French Development Agency (AFD), which focuses on private sector development. Proparco provides funding and support to businesses and institutions in the Middle East and elsewhere, focusing on investments in multiple environmentally-sensitive sectors.

There was an imbalance between the funding provided to different countries in the region. On a country-specific level, the largest flows to the region were loans from Germany and the IBRD to develop solar power plants in Morocco from 2014 onwards, for example the Noor Ouarzazate Concentrated Solar Power Project with the construction of Phase III to be completed in 2018.

While no climate finance flows were identified in 2016 to Palestine, Syria, Libya and Israel, these countries have received climate funding between 2013 to 2015 (Figure 9):

Palestine received USD 395 million for 160 grants over three years, primarily to improve water supplies and sanitation (58%) amongst other largely cross-cutting sectors. Its major bilateral donors include the EU, the United States, and the United Arab Emirates.

The Syrian Arab Republic received over USD 18.3 million in grants for 13 projects with both mitigation and adaptation objectives. These grants were primarily provided by Belgium (80%) and Germany (15%), amongst other bilateral donors like Greece, Iceland, Ireland, Spain and Sweden. The projects focused on emergency response (>84%), water and sanitation (7%) as well as construction and rehabilitation (6%).

Libya received USD 5.3 million's worth of grants for three projects, two of which were for mitigation in sustainable land management and conservation of oases granted by the GEF Trust Fund, and one for

adaptation in fisheries and coastal management, granted by Italy.

Israel did not receive country-specific funding, according to the currently available data, although it was included in several regional projects over the period. For example, Sweden's development agency, SIDA, provided USD 5.8 million in grants to a water supply and sanitation project in Israel, Palestine and Jordan in 2014. In 2015, Germany's Nordrhein-Westfalen also provided USD 4.3 million in grants for scholarship programmes to Jordan, Palestine and Israel.

Overall, the financial instruments channeled to the region comprised equity, grants, interest subsidies, loans and other securities (Figure 10). Approximately USD 15.7 billion over 3 years was provided for 363 major grants to the region, whereas 1083 smaller grants comprised a total of USD 3.2 billion. Most grants were provided collectively to Morocco (195), Palestine (160) and Turkey (100), while over a third of the loans were directed solely to Turkey (118). Equity only comprised USD 900 million over 3 years and was distributed mainly to Turkey by the Islamic Development Bank, as well as the IFC and EBRD.

Climate finance was approved for a wide range of beneficiaries. Most funding went to governments (17.6%), national NGOs (13.6%), the public sector (12%) and donor governments (12%). The rest were disbursed to a wide variety of development agencies, educational institutions, international implementing agencies (including the UNDP, IBRD, UNIDO, World Bank Group, FAO and others).

The financing to the region from 2013-2015 was dominated by projects for mitigation (USD 17 billion), as opposed to USD 5 million for adaptation. Only USD 1 million was for activities that were for multiple foci. The rest were unspecified. Most of the adaptation funding came from EU institutions (excluding the EIB) (19%), Germany (15%) and the World Bank (16%). Most funding for mitigation came from the EBRD (22%), EIB (16%) and Germany (13%).

Of the total USD 20.4 billion allocated to the SEMed region over 3 years, the major part was for energy-related projects (36%), water and sanitation (11%), transport (6.5%), and banking and financial services (6.5%) and agriculturally-related projects (5%).

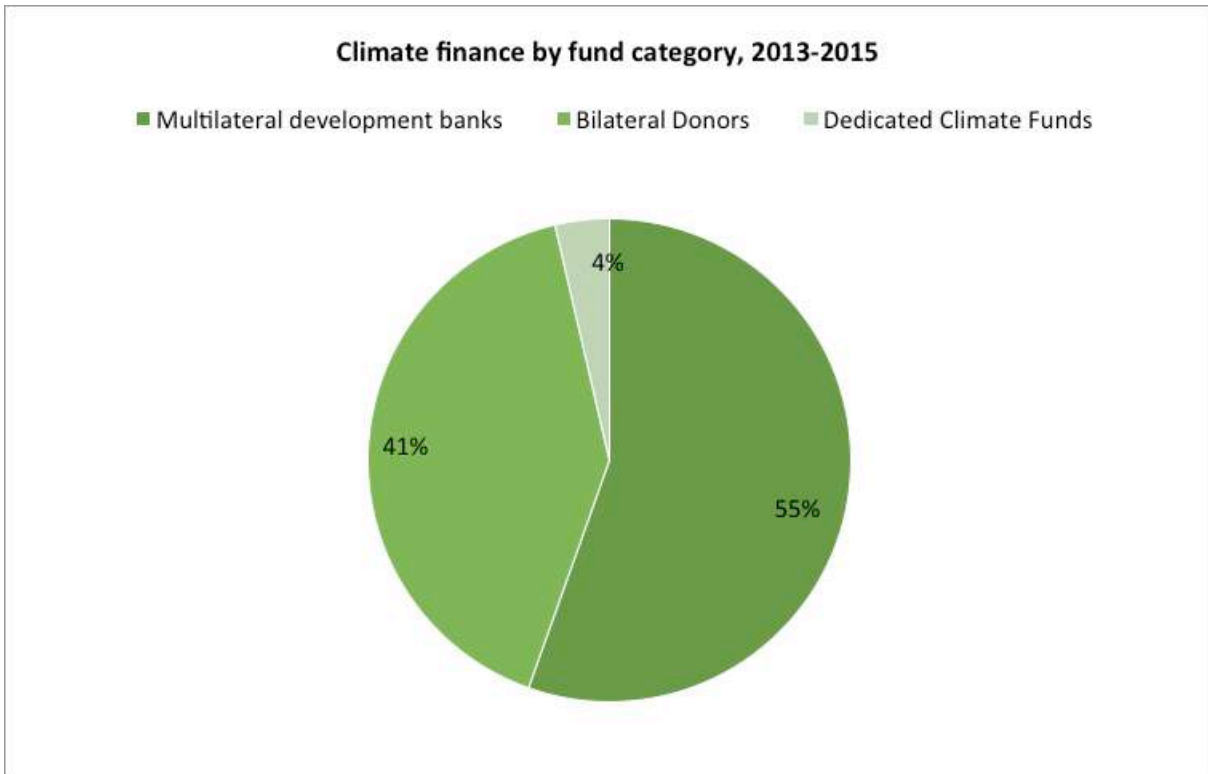


Figure 7: Proportional contributions of donor categories: MDBs, Bilateral Donors and Dedicated Climate Funds.

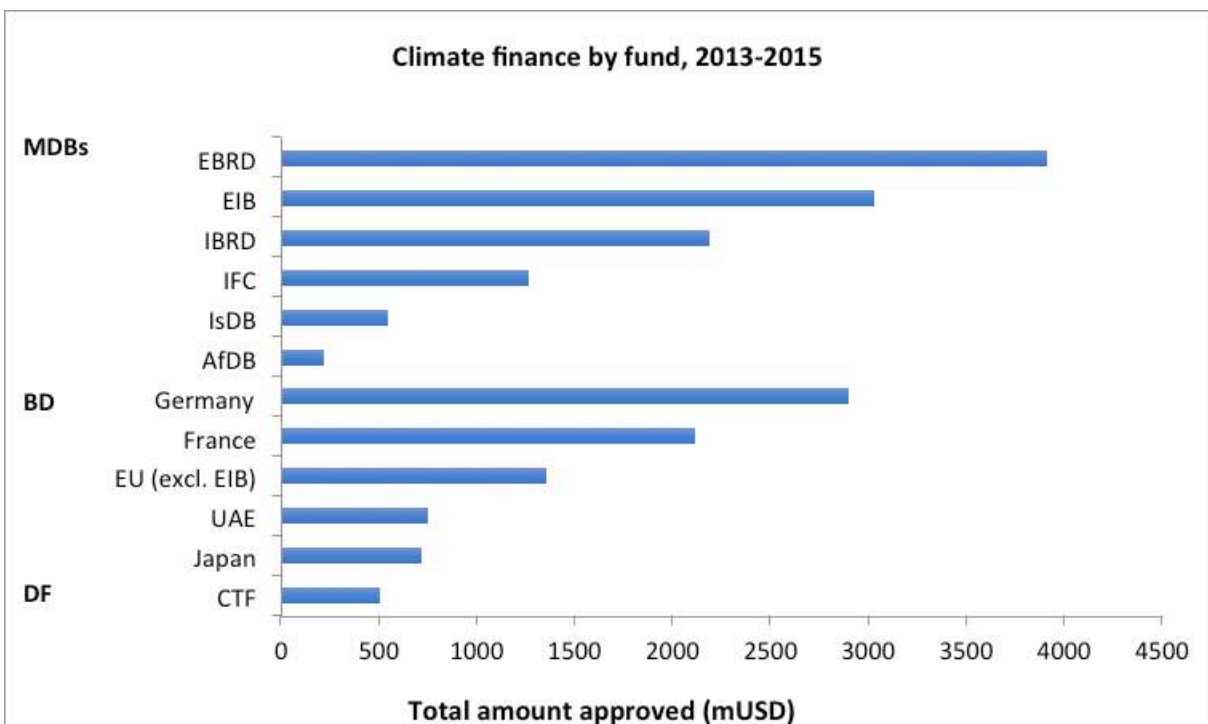


Figure 8. Climate finance (mUSD) approved by dedicated fund (DF: i.e. the CTF), bilateral donor (BD: Japan, UAE, EU, France, Germany) or MDBs (EBRD, EIB, IBRD, IFC, IsDB, AfDB) from 2013 to 2015.

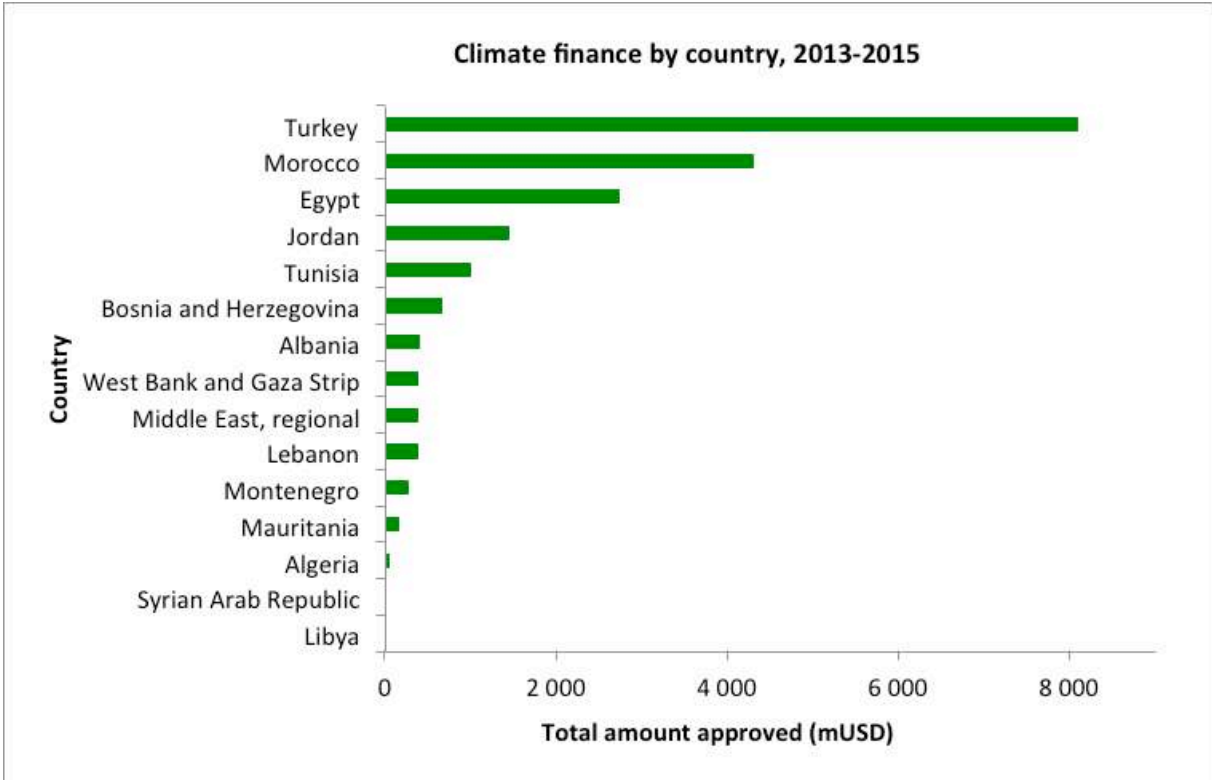


Figure 9. Climate finance (mUSD) by country from 2013 to 2015.

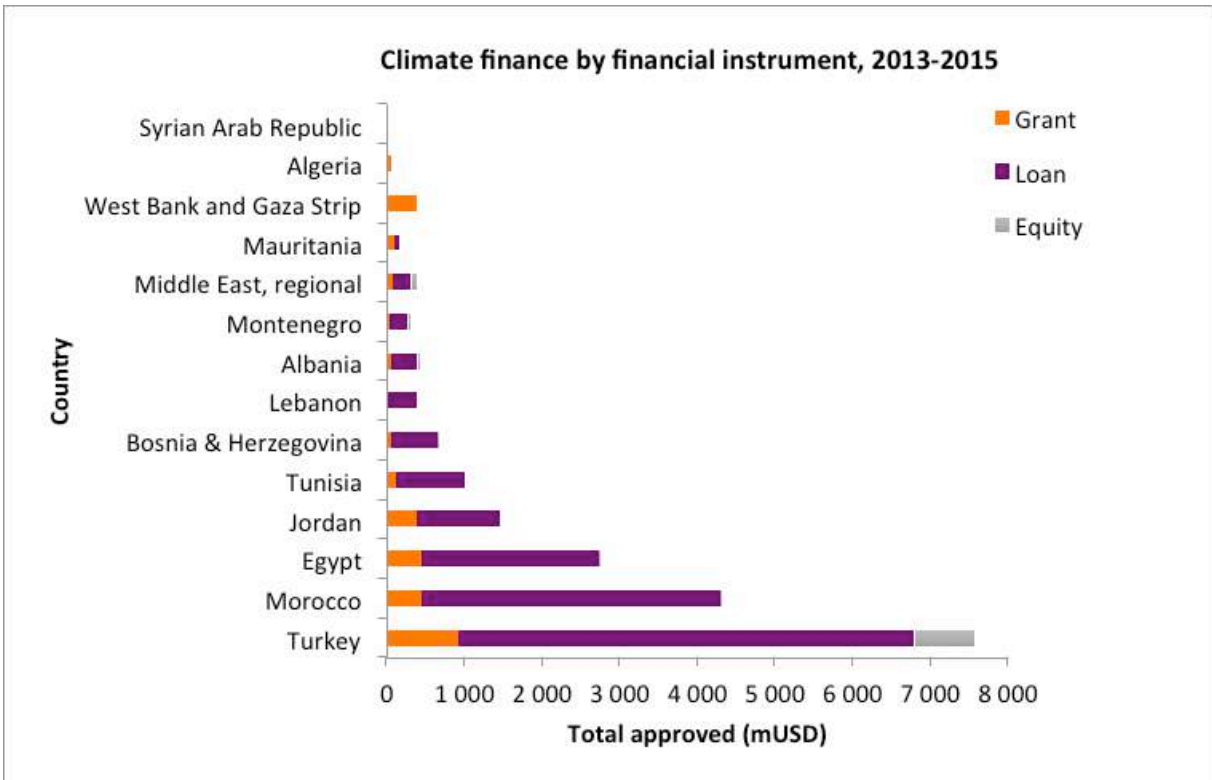


Figure 10. Climate finance flows in million USD (mUSD) by financial instrument for each country from 2013 to 2015.

The MDB Climate Finance Joint Report 2016

Another means of verifying our results was through the 2016 Joint Report on MDB Climate Finance. This is the only data received from MDBs, as project and country-level data were not available due to confidentiality restrictions. The Joint Annual Report provides aggregated data of the various regions financed by the major MDBs. Aggregates for the UfM could not be easily compared, however, as the UfM comprises two official regions in the MDB regional databases, which include other neighbouring countries.

Nevertheless, in 2016, the MDB Joint Finance Report shows that USD 2.5 billion was channeled to the Middle East and North Africa, which is 9% of the global total of climate finance (USD 27 billion). Our estimates show that MDB's channeled USD 3 billion to the SEMed region as a whole, which is in the same order of magnitude as the 2016 estimate.

In addition, the MDB Joint Report allows a review of certain pertinent issues still relevant in the 2016 climate finance landscape, for example:

- Mitigation is still overrepresented globally (77% of all funding approved),
- Investment loans are the primary financial instrument used (73% of all funding approved), with policy-based lending (9%), lines of credit (4%), grants (4%), equity (3%) and guarantees (2%) remaining underrepresented.
- The EBRD remains the only bank with a significant proportion of its funds given to adaptation activities in the private sector (54%), although for mitigation projects all MDBs provided a higher proportion of funding to the private sector, particularly the EBRD (70% of its funding).
- Most adaptation finance to the Middle East and North Africa went to crop and food production, water/wastewater systems, energy/transport and other agricultural/ecological resources.

- Most mitigation finance to the Middle East and North Africa went to cross-cutting issues (education, health, policy regulation, disaster risk), renewable energy and transport.

OECD and MDB Climate Finance Tracking Methodologies

Climate finance tracking is being continually improved. Climate finance is tracked both internally by MDBs, and through external bodies such as the OECD DAC, both of which have their own methodologies and criteria.

Since 2011, MDBs have begun to coordinate common definitions and climate finance tracking approaches, publishing their first joint report on climate finance in 2012. This report pioneered a methodology for tracking both climate change mitigation and adaptation finance disbursed by Multilateral Development Banks. The joint MDB methodology for adaptation finance is context-specific, location-specific and granular (i.e. considering only the proportion of the finance directed towards adaptation/mitigation), tracking only components and subcomponents of projects that directly contribute to adaptation (MDB, 2016). The joint MDB methodology for tracking mitigation finance tracks both greenfield and brownfield renewable energy projects. The intention is to include long-term structural changes that will contribute to low-carbon transport and energy systems, and so it excludes certain energy efficiency projects and renewable projects with high GHG emissions (MDB, 2016). For 2016, the tracking of mitigation finance is based on a set of common definitions and guidelines (including a list of activities) of what constitutes "climate" relevant activities, outlined in the Common Principles for Climate Mitigation Finance Tracking²².

²² See the IFC website: <https://www.ifc.org/wps/wcm/connect/65d37952-434e-40c1-a9df-c7bdd8ffcd39/%20MDB-IDFC+Common-principles-for-climate-mitigation-finance-tracking.pdf?MOD=AJPERES>

The OECD captures both bilateral and multilateral flows of development finance using their Creditor Reporting System (CRS) (OECD DAC, 2016). Government expenditure from Development Assistance Committee members (which comprises 30 developed countries globally) is measured using the Rio Marker System. They also capture the MDB flows as reported to them on an annual basis.

While this report considered both methodologies, there are still some limitations to how data from either of these sources can be used:

- Firstly, the MDB methodology reports aggregated numbers. No information is provided on a project-level that allows transparent third-party tracking. It is necessary to rely on their public annual reports, or after a two-year delay, the OECD DAC database. As finance flows cannot therefore be tracked independently, this limits the transparency and accountability of the MDB methodology.
- While the MDB methodology strives to be conservative in its estimates of climate finance, it is based on the assumption that care will be taken to avoid double counting, and exclude projects that might fit the typology but that do not actually contribute towards mitigation. Nevertheless, where a project includes both mitigation and adaptation components, some MDBs do report projects where the same components contribute to both mitigation and adaptation, as a separate category (MDB, 2016). This might lead to over-estimation of climate financing. On the other hand, some climate-related projects may also be excluded if their climate benefits cannot be tracked quantitatively, particularly in adaptation, where definitions may still be disputed.
- The Rio Marker system underlying the OECD's Creditor Reporting System requires donors to indicate if an aid project contributes "principally" or "significantly" to climate change mitigation or adaptation. However, there has been evidence of inconsistencies in this system, brought about by unclear definitions and political motivations that affect the use of the coding system (Michaelowa and Michaelowa 2011, Junghans and Harmeling 2012).

Shortcomings in these tracking systems may lead to a number of repercussions, for example:

- Lack of replication and transparency: the MDB Joint Report and OECD database only report on the proportion of financing directed towards mitigation and adaptation. However, online records are not necessarily up-to-date and do not always show the breakdown of these proportions. This makes replication of tracking results using different systems difficult. Aggregates provided by the MDB Joint report can only be used for the broad verification of finance magnitudes, but not for project-tracking.
- Inconsistencies stemming from self-reporting: a central pitfall of the OECD system is that it requires donors themselves to classify climate flows, as opposed to the recipients of climate funding. As donors have an interest in achieving their USD 100 billion pledge, it is likely that climate finance and development finance may overlap. This has already created conflicts between recipients and donors, who classify climate contributions differently. For example, the 2013-2014 climate finance estimates by the OECD were strongly challenged by the Government of India (OECD, 2015b), who claimed that only 4% of the reported totals were actually confirmed in the developing world (Dasgupta et al., 2015). A central issue in this debate is the degree to which climate finance needs to be 'additional' to development finance, i.e. how explicit new budget lines on climate must be, so avoid the re-labeling of existing ODA activities.

5. Difficulties with accessing climate finance

There are some key challenges with respect to accessing climate finance that are observed among recipient countries in the SEMed region. Three key observations are:

- It is challenging to design climate actions, in particular large-scale (investment) projects/programmes: Ongoing work with some governments in the SEMed region shows that the development of unilateral projects seeking funding is rather difficult. One area for improvement is understanding and designing projects that blend different finance sources and financial instruments; another is understanding underlying approaches and methodologies using results-based management and finance, which are required to access climate finance.
- Many countries lack (fully) functioning climate change and climate finance governance frameworks and related institutional structures/processes: Project/programme development is impeded when required actors from the public, private and civil society sector do not come together under an umbrella governance framework with its related structures and processes. Experiences elsewhere show that an umbrella framework with guidance and support by the governments, based on full mainstreaming of climate action and finance into the sector strategies and action plans can build and mobilise the required capacities and financial resources on an international and domestic level.
- Countries in the UfM experience differential access to climate finance: Some countries in the UfM are rather successful in accessing climate finance, whereas others have more difficulties to attract funds. For example, Turkey and Morocco have been able to access climate finance opportunities, while the rest lag behind. Reasons may be that they have had much better technical infrastructure and governance frameworks with respect to climate change for some time. This has led to the development and implementation of climate action projects, including large scale investment projects developed under the Kyoto regime.

Further analysis and investigation is necessary into the overall issues related to accessing climate finance in the UfM, the differences between countries and how best to position countries to access finance. This includes positioning them for the next paradigm shift, such as direct and enhanced direct access modalities that are pursued by the GCF for large-scale programmatic investments.

6. Conclusions

Despite the inconsistencies in the databases and challenges of collecting interviews on climate finance tracking, the data recorded for 2016 was consolidated using a variety of alternative means. The OECD DAC showed reliable historical trends that enabled us to pinpoint the donors who consistently disbursed large proportions to the region and identify details to estimate our funding gaps. The aggregate data presented in the 2016 MDB Joint Report was then used to confirm that our numbers were in the correct order of magnitude.

Nevertheless, total funding estimates are tentative, as donors are reluctant to release internal data on the project or country level before final figures and disbursements have been verified. A serious limitation to data availability is that several donors, especially IFIs, do track climate finance internally, but have yet to release these databases publicly (if at all) for confidentiality reasons. Information for MDBs is only released in aggregate form or through the OECD DAC database on a project level, after two years.

Overall, we were able to conclude that in 2016, a total of USD 4.6 billion in climate finance was approved to the SEMed region. Of this, USD 4.3 billion came from climate specific funding, and USD 252 million from dedicated climate funds. The major part of funding was channeled through multilateral development banks, the EU and the French Development Agency. The main recipients of climate finance in the SEMed region include Turkey, Morocco, Egypt and Jordan, who received large loans, mainly for renewable energy activities that had strong mitigation components.

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Annex. Eligibility criteria for multilateral and bilateral funds (selected funds and programmes)

1. Selected multilateral funds/programmes

Fund/programme & administering bodies	Sector	Target beneficiaries and eligibility requirements
Adaptation for Smallholder Agriculture Program (ASAP) International Fund for Agricultural Development (IFAD) (UN agency)	Agriculture	Smallholder farmers in developing countries (existing and new IFAD investment programmes in poor developing countries which are vulnerable to climate impacts)
	Natural Resource Management	The objective of ASAP is to improve the climate resilience of large-scale rural development programmes and improve the capacity of at least 8 million smallholder farmers to expand their options in a rapidly changing environment.
	Sustainable land Management	The project should increase the resilience of smallholder farmers and fall into one of the following sub-objectives:
	Water	<ol style="list-style-type: none"> 1. Improve land management and promote gender-sensitive, climate-resilient agricultural practices and technologies 2. Increase availability and efficient use of water for smallholder agriculture production and processing 3. Increase capacity to manage short- and long-term climate risks and reduce losses from weather-related disasters 4. Increase climate resilience of rural infrastructure 5. Document and disseminate knowledge on climate-smart smallholder agriculture
		<p>Key qualitative criteria are (i) the additionality of ASAP funding to the project that it is co-financing; and (ii) whether the ASAP supported project is given strong support from the beneficiary Government, the relevant IFAD Regional Division, country team and communities of smallholders including women and marginalised groups. Quantitative ex ante estimates of potential project contributions towards the ten key indicators of the ASAP Results Framework will provide the main criteria for project selection.</p>

Fund/programme & administering bodies	Sector	Target beneficiaries and eligibility requirements
Clean Technology Fund (CTF), one of the Climate Investment Funds (CIF) - World Bank	Agriculture	Middle-income and developing countries. Countries that have an active multilateral development bank (MDB) country program (World Bank and Regional Development Banks) including Algeria, Egypt, Jordan, Morocco, Libya and Tunisia.
	Energy Efficiency	
	Renewable Energy	Project eligibility and level of financing is assessed on potential "transformative" effects as well as project viability in the absence of concessional finance. CTF programs intend to "stimulate lasting changes in the structure/ function of a sector, or market" by improving internal rates of return on low GHG emissions investments. Eligible sectors: power sector (renewable energy and highly efficient technologies to reduce carbon intensity); transport sector (efficiency and modal shifts); energy efficiency (buildings, industry, and agriculture).
	Transport	
	Other	
GEF Trust Fund - Climate Change focal area (GEF 6) (GEF6) – Global Environment Fund (GEF)	Biodiversity	Countries must ratify the conventions that the GEF serves (incl. the CoP) or be eligible to receive World Bank (IBRD and/or IDA) financing or UNDP technical assistance, through its "Target for Resource Assignments from the Core" (known as TRAC-1 and/or TRAC-2).
	Chemicals and Waste	
	Climate Change	GEF support is provided to government agencies, civil society organizations, private sector companies, research institutions, amongst many other potential partners, to implement projects and programs in recipient countries.
	Energy Efficiency	
	Forestry	National priority: The project must be driven by the country (rather than by an external partner) and be consistent with national priorities that support sustainable development.
	Infrastructure	
	Land Degradation	GEF priorities: The project has to address one or more of the GEF focal area strategies (biodiversity, international waters, land degradation, chemicals and waste, and climate change mitigation, as well as cross-cutting issues like sustainable forest management).
	Land use	
	Renewable Energy	
	Transport	Financing: The project has to seek GEF financing only for the agreed incremental costs on measures to achieve global environmental benefits.
Water	Participation: The project must involve the public in project design and implementation, following the Policy on Public Involvement in GEF-Financed Projects and the respective guidelines.	

Fund/programme & administering bodies	Sector	Target beneficiaries and eligibility requirements
Global Climate Partnership Fund (GCPF) Board of Directors (BMU, IFC, KfW, Denmark government etc.)	All	<p>Requirements for financial institutions:</p> <p>Financial Institutions (e.g. local commercial banks) or ESCOS (small scale renewable energy and energy efficiency service and supply companies, which serve energy efficiency and renewable energy market in the target countries) that:</p> <ol style="list-style-type: none"> 1. Require financing of between USD 5m and USD 30m for on-lending to green energy projects 2. Are willing to initiate or develop further green energy products (renewable energy or energy efficiency) 3. Have a social and environmental risk management system or are willing to implement one <p>Requirements for direct project investments:</p> <p>Energy efficiency projects: these should improve energy efficiency and/or reduce greenhouse gas emissions of buildings, plants or processes by at least 20%.</p> <p>Renewable energy projects: preferred technologies include small-scale solar PV, mini-hydroelectric projects, onshore wind farms and biomass projects.</p>
Global Energy Efficiency and Renewable Energy Fund (GEEREF) - European Union	Energy Efficiency Renewable Energy	<p>As a Fund-of-Funds, the GEREFF invests in private equity funds that specialise in providing equity finance to small and medium-sized clean energy projects in developing countries</p> <p>As a Fund, the GEREFF focuses on renewable energy and energy efficiency projects which deploy proven technologies</p> <p>GEEREF NeXt adopts a five-phase approach to initial fund screening, assessment and investment decision-making and monitoring.</p> <p>For funds:</p> <ol style="list-style-type: none"> 1. Fund screening (appraisal authorization): review Environmental and Social (E&S) documentation, policies and ESMS if available against GEEREF Next requirements 2. Due diligence 3. Investment decision: Review of the materials submitted by GFO to the Investment Committee 4. Investment agreement: Negotiation of contractual agreement between GEEREF NeXt and Fund Manager <p>For direct project investments:</p> <ol style="list-style-type: none"> 1. Project screening: initial deal identification, review of E&S and assigning an environmental category for the project (A, B or C) 2. Due diligence: external due diligence for E&S for categories A and B 3. Investment decision: Term Sheet including standard general conditions regarding compliance; investment proposal 4. Investment agreement with appropriate E&S clauses

Fund/programme & administering bodies	Sector	Target beneficiaries and eligibility requirements
Green Climate Fund (GCF) COP (UNFCCC) and Green Climate Fund Board	All	All developing country parties to the UNFCCC The Fund finances the agreed full and agreed incremental costs of activities to enable and support enhanced action on adaptation, mitigation (including REDD-plus), technology development and transfer (including carbon capture and storage), capacity-building and the preparation of national reports by developing countries. (Example areas: readiness; innovation including technology research and improvement; institutional capacity; capacity building; policy, regulatory and enabling environment; collaboration with private sector; deployment of technologies; access to cleaner cookstoves and lighting through innovative business models) GCF Readiness programme: (i) Strengthening NDA and Focal Point; (ii) Developing strategic framework; (iii) Accreditation of implementing entities; (iv) Pipeline development; (v) Information and experience sharing Five cross-cutting investment priorities: (1) climate-compatible cities; (2) sustainable low-emission climate-resilient agriculture; (3) scaling up finance for forests and climate change; (4) enhancing resilience in SIDS; (5) transforming energy generation and access
	Agriculture	All developing country Parties to UNFCCC
	Energy Forestry Industry Transport Waste Management	The SCCF has four financing windows: (a) adaptation to climate change; (b) technology transfer; (c) energy, transport, industry, agriculture, forestry and waste management; and (d) economic diversification (for countries highly dependent on income generated from production, processing, and export or on consumption of fossil fuels and associated energy-intensive products). Project size can be small, medium or large, but must focus on the 'additional costs' imposed by climate change on the development baseline. Projects are intended to be nationally owned. Requires project concept and assistance from GEF implementing agency National GEF Focal Point needs to endorse project.
Sustainable Energy Fund for Africa (SEFA) – African Development Bank (AfDB)	Energy Efficiency	Private project developers/promoters to facilitate pre-investment activities for renewable energy and energy efficiency projects.
	Renewable Energy	For project preparation: cost-sharing grants and technical assistance to private project developers/promoters to facilitate pre-investment activities for renewable energy and energy efficiency projects. For equity investments: combined with TA deployed by Africa Renewable Energy Fund (AREF) solely focused on small/medium (5-50 MW) independent power projects from solar, wind, biomass, hydro as well as some geothermal and stranded gas technologies For enabling environment: capacity building and advisory activities for the public sector. Not more than 10% of a SEFA grant may be utilized for capital expenditures, including equipment and software licenses.

Fund/programme & administering bodies	Sector	Target beneficiaries and eligibility requirements
Adaptation Fund (AF) - Adaptation Fund Board (GEF/World Bank as Trustee)	All	<p>Developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change including low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas or areas liable to floods, drought and desertification, and developing countries with fragile mountainous ecosystems.</p> <p>The decision on the allocation of resources of the Adaptation Fund among eligible Parties shall take in to account: (a) Level of vulnerability; (b) Level of urgency and risks arising from delay; (c) Ensuring access to the fund in a balanced and equitable manner; (d) Lessons learned in project and programme design and implementation to be captured; (e) Securing regional co -benefits to the extent possible, where applicable; (f) Maximizing multi- sectoral or cross -sectoral benefits; (g) Adaptive capacity to the adverse effects of climate change.</p> <p>Project screening is done in two parts:</p> <ol style="list-style-type: none"> 1. Project document submission must be based on a template approved by the Board (see: Annex A at http://unfccc.int/files/adaptation/implementing_adaptation/adaptation_funding_interface/application/pdf/afbguide.pdf). Allocated submission periods are three times a year. 2. Projects are reviewed a) by the secretariat and b) by the Projects and Programmes Review Committee based on project criteria (Annex 3 in the above source). Committee then gives recommendations to Board.
Climate Action in the Middle East and North Africa (CAMENA) – European Investment Bank (EIB)	<p>Transport</p> <p>Agriculture, forestry and land use</p> <p>Waste and wastewater</p> <p>Other</p>	<p>CAMENA can be used:</p> <ol style="list-style-type: none"> 1. To identify, catalyse and prepare climate action investment projects, which could subsequently benefit from EIB financing 2. To fund actions to improve the enabling environment in relation to climate investments among public and private institutions within the Mediterranean partner countries 3. To finance equity operations <p>Eligible countries: Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco and Tunisia.</p>
Mediterranean Hot Spots Investment Programme (MeHSIP) - EIB	<p>Industry</p> <p>Waste and wastewater</p> <p>Water</p>	<p>Eligible countries: Egypt, Jordan, Lebanon, Morocco, Palestine and Tunisia.</p> <p>Providing technical and financial advice for the preparation of investment projects.</p> <p>Supports Horizon 2020's objective to reduce pollution of the Mediterranean Sea. Eligible areas:</p> <ol style="list-style-type: none"> 1. Wastewater 2. Solid waste 3. Industrial de-pollution 4. Water resources, supply and efficiency 5. Or contribute to climate change mitigation or adaptation in one or more of the above areas

Fund/programme & administering bodies	Sector	Target beneficiaries and eligibility requirements
Horizon2020 – Executive Agency for SMEs (EASME)	Energy efficiency	<p>Applicants from non-EU countries are almost always free to take part in Horizon 2020 programs. All applications must meet the minimum conditions in the Rules for Participation. Tunisia associates with Horizon2020 and is therefore automatically eligible for funding. Non-EU applicants may be granted funding if:</p> <ol style="list-style-type: none"> 1. There is a bilateral scientific / technological agreement or similar arrangement between the EU and the country where the applicant is based 2. The call for proposals clearly states that applicants based in such countries are eligible for funding 3. Their participation is deemed essential for carrying out the action by the Commission or the relevant funding body on the grounds that participation by the applicant has clear benefits for the consortium <p>You must be a consortium of at least 3 organisations if you want to apply to run a standard research project. Each consortium member must be an organisation that has legal standing such as a registered business, partnership or charity. Different funding competitions may have other conditions.</p>
	Renewable energy	
	Transport	
	Cross-sectoral and technology	
Finance and Technology Transfer Centre for Climate Change (FINTECC) – European Bank for Reconstruction and Development (EBRD)	Energy Efficiency	Two key areas:
	Water	<ol style="list-style-type: none"> 1. Creating enabling environments for climate technology projects: policy support and market insights 2. Providing project support: technical support and investment support
	Materials	<p>Three priority areas of policy support have been identified for SEMED:</p> <ol style="list-style-type: none"> 1. Preparing or upgrading National Energy Efficiency Action Plans as needed 2. Creating energy performance standards and labelling (S&L) schemes 3. Developing associated S&L monitoring, verification and enforcement processes

2. Selected Bilateral funds/programmes

Fund/programme & administering bodies	Sector	Eligibility Requirements
International Climate Initiative (ICI), German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU)	All	<p>GHG reduction measures in the context of building climate friendly economies and investment-related measures.</p> <p>Energy efficiency and renewable energy/sustainable energy systems.</p> <p>Eligible activities: mitigation GHG emissions, adapting to the impacts of climate change, conserving natural carbon sinks with a focus on reducing emissions from deforestation and forest degradation, conserving biological diversity.</p> <p>Potential beneficiaries: partner countries by federal implementing agencies, NGOs, business enterprises, universities and research institutes, international and multinational organizations and institutions.</p>
French Global Environment Facility (Fonds Français pour l'Environnement Mondial) – FFEM, AFD's Directorate for Strategy	Renewable Energy	<p>In line with the French commitments on issues related to climate change, in particular those relating to the organization of COP21, FFEM has sought to focus its operations on climate change mitigation and adaptation.</p>
	Energy efficiency	
	Industry	<p>Focus primarily on sustainable urban territories, innovative financing of biodiversity, integrated management and resilience of coastal and marine areas, the energy transition and agriculture and sustainable forests.</p>
	Agriculture	
	Infrastructure	
	Transport	<p>Potential beneficiaries: developing countries</p>
	Tourism	
Forestry		
International Climate Fund (ICF), DFID, DECC, DEFRA, FCO	All	<p>ICF will fund projects that display consistency with the DAC definition of ODA and ensure open and transparent project performance. Other critical eligibility factors include the choice of instrument and appropriate enabling environment.</p> <ul style="list-style-type: none"> • Low carbon future that reduces poverty, focusing on low carbon growth, low carbon energy, energy efficiency, clean technology innovation and finance; • Ensuring private finance contributions; • Eligible activities: building global knowledge and evidence; developing and scaling-up low-carbon and climate resilient programs; building capacity in the public and private sectors and supporting country level action; mainstreaming climate change into UK development aid; • Financing vehicles: funds are usually channeled through global multilaterally administered programs rather than towards specific country initiatives; • Potential beneficiaries: governments developing countries, civil society organizations, private sector entities.

3. Other bilateral and multilateral climate development finance

Financial instruments available

- Technical assistance grants: Grant schemes to promote and build the implementation capacities of market actors (i.e. project developers) for creating a critical mass of skilled users and to remove non-financial barriers (e.g. preparation/structuring of related financial transactions)
- Project development grants: Assisting project developers to achieve financial closure by covering some of the costs of the more expensive and time intensive project development activities
- Loan softening programmes: Incentives in the form of interest subsidies or the provision of a partial guarantee. These programmes are provided alongside other financial instruments through CFIs, with the benefits passed on to customers via lower interest rates, lower front end deposits and extended loan repayment periods
- Concessional loans: Loans with lower interest rates and/or lenient servicing conditions when investments generate stable cash-flows. Due to the need for the amount of the loan to eventually be paid back (i.e. principal and interest), efficient operations are encouraged
- Project loan facilities: Financing facilities of governments or MDBs that serve as special vehicles with a view to providing project finance in the form of debt financing. Applicable for projects that do not reach financial closure because of local CFIs not being able to provide the required financing
- Soft loan programmes: Loans to finance the gap during actual project preparation and pre-commercialization provided by semi-public agencies at concessional interest rates. They can introduce innovative technologies and help project developers through sharing some costs – leveraging more commercial finance by proving the viability of technologies and projects to CFIs
- Credit lines and subordinated debt: Debt finance to cover liquidity issues regarding medium and long-term financing requirements of projects, such as clean energy activities. For projects with high credit risks, limited or non-recourse credit lines may be applied so that the risk of the FI loans is shared by the DFI
- Equity investments: Investment capital via equity stakes may come not only from private sources but also from public partners who take a subordinated equity stake in a company or project – acting as a door opener for potential private equity partners (see below)

Procedures and processes

- Multiannual frameworks with priority countries are developed and defined: Projects can be developed according to recipient (country) demands. In some cases, regional strategies or programme documents create the framework for a couple of years. They can either be prepared by the donor country in consultation with recipient country or prepared by the recipient, or jointly prepared. The country strategies or plans are concretised by sector strategies or similar processes and documents, such as operational plans. Criteria and indicators are developed to determine the appropriate funding approach and provide a basis for the measurement of impacts.
 - Overall approach to bilateral development cooperation: The whole process can be rather decentralised and can involve or be led by local embassies and country offices of the donor country. In other cases, headquarters of technical or financial cooperation agencies are more involved. Donor countries with large development agencies, such as Germany (GIZ/KfW), France (AFD), and Sweden (Sida), tend to be more actively involved in the development of concrete project proposals, and management and monitoring of the projects. In countries with no large development agencies, development cooperation activities are often led by the embassies. If no other implementing agencies exist, the responsibility for implementation often lies with the recipient government, or consultants or civil society organisations (CSOs). Programming of bilateral development cooperation in Norway is based on requests from partner countries. After receiving a request, the embassy prepares an agreement document that needs to be signed by both parties. The responsibility for implementation lies with the partner country.
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- Funding channels: The majority of the bilateral ODA budget is channelled by the Ministry of Foreign Affairs or Development Cooperation (or the underlying development cooperation agency). In others countries, the bilateral ODA budget is more spread over different ministries (e.g. Ministry of Finance, Ministry of Economy, Ministry of Education). Furthermore bilateral ODA is channelled through CSOs, whilst the shares of bilateral ODA to CSOs however vary widely. Usually smaller countries tend to channel larger percentages through CSOs. ODA funding to CSOs is often channelled through the national development agency's budget. This can involve competitive bidding processes.
 - Tools for planning, monitoring, reporting and evaluation: There are tools commonly used to mainstream climate change into the development cooperation project cycle. These can be summarised as: A) Ex-ante screening of climate impacts of envisaged / planned development projects (e.g. AFD selectivity matrix, Hands-on Energy Adaptation Toolkit, Climate-Proofing for Development, Quality@Entry (Q@E) peer review process, Japan's Climate Finance Impact Tool, USAID's 6-step Vulnerability & Adaptation approach, AusAID's Integrating disaster risk reduction, environment and climate change (DEC) tool, GHG Protocol by the World Resources Institute and the World Business Council for Sustainable Development); B) Ex-durante and ex-post screening of ongoing projects and project portfolios (e.g. climate-proofing, OECD/DAC Rio markers) using a M&E protocol with specific climate indicators integrated into its conventional development project evaluation processes (UK) or climate proofing assessment processes with a handbook for climate and environmental assessments (Germany); C) 'Follow the money' or reporting on funds (most bilateral donors as well as multilateral climate funds have now developed results-based management frameworks to guide climate-related programmes).

Investment/Project criteria & principles

Sectors: Development cooperation is generally grouped into sectors, although these are often highly interlinked. The key sectors differ substantially between donor countries. E.g. the sectors that received the largest shares of bilateral ODA from the biggest European donor countries and the EU (2012) are education, government and civil society and humanitarian aid, while industry, construction and mining, general budget support and water and sanitation score the lowest (but are still in the top 5 of some donor countries). Mitigation mostly takes place in the infrastructure, industry, agriculture and forestry sectors. It involves three cross-sectoral actions: (1) switching to low-carbon energy sources; (2) enhancing GHG sinks; and (3) improving energy efficiency. Adaptation is generally more integrated in traditional development aid projects and approaches.

Mainstreaming strategies and approaches: There are various mainstreaming strategies and approaches recommended at the local/project level, in particular :

- Establishing climate profiling of the area to assess vulnerabilities and opportunities through the analysis of opportunities linked to an area's morphology and activities to strengthen resilience to climate change are crucial elements of such a profiling.
 - Including local initiatives in broader frameworks for better national governance of actions can mainstream climate change related actions and provide more confidence in their coherence. This can also improve national governance.
 - Providing and mobilising funding for the elaboration and implementation of integrated approaches by funding a variety of partnerships and types of cooperation. This can be achieved by using international funding provided by the
 - Various climate-specific and relevant bilateral and multilateral sources and channels
 - Local public resources (state budget, tax income)
 - Private sector resources (e.g. PPPs, investment in programmes of action, foundations, microcredit institutions).
 - Applying resilience and low-emission/energy criteria to local level actions with terms of reference specifying minimum low-emission and resilience conditions. These can be elaborated for local communities and applied to projects implemented, funded or subsidised by the community, and to the actions implemented in the area by local development stakeholders.
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- Strengthening participation by decision-makers, planners and citizens via awareness-raising actions by organising information and training campaigns for local populations, employees of local-development support organisations and local planners and decision-makers. This is best carried out during local climate profiling and early in planning processes. Examples here include disaster risk management programs changing community perceptions of risk.

“Building blocks” for mainstreaming climate into development (which are currently either being established and also funded by donors or expected to be in place)

- An enabling environment: This is usually established through climate-relevant components of national development policies or legislation, policies/strategies and action plans or climate objectives within sectoral policies and programmes. It may include the establishment or improvement of inventories and datasets, tools, methods and institutions generating and managing such data.
- Policy and planning: Actual and effective mainstreaming of climate change considerations through integration into annual, medium- and long-term sectoral and development plans, as well as annual and medium-term expenditure and budgetary frameworks. Furthermore, resource mobilisation strategies directing the resources needed over time to reach scale and capacities to access and manage climate funds (with on-budget disbursement) are needed.
- Projects and programmes: At this stage climate-proofing tools or similar approaches can be used to ensure that climate actions are integrated into existing or planned development planning initiatives.

Integrated approaches: Most of ODA is planned and programmed bilaterally between donor and recipient countries and integration is increasing for all bilateral donors. Individual donor priorities with respect to strategies and programmes need to be taken into consideration. E.g. Spain and the EU Institutions have a preference for integrating climate considerations in projects instead of setting up projects with climate mitigation/adaptation as the main objective. Difference between mitigation and adaptation: Mitigation projects are receiving a significant amount of finance. However, unless financing and project development are integrated into national plans, their overall influence on emissions will remain limited compared to if they are automatically part of the development plans of countries. Adaptation projects are, by contrast, further integrated into national plans but until they are scaled-up their overall potential to reach as many vulnerable people, communities and societies is inhibited.

Focus on bilateral funding channels and establishment of national climate funds: Donor countries provide the majority of their climate-related ODA through bilateral channels. Several countries have also established national climate funds/programmes (see also above) to support developing countries in climate actions.

Innovative financing approaches have emerged: Several innovative financing approaches for integration of climate and development cooperation have emerged in practice. The instruments focus on: 1. Mitigating investment risk (e.g. stress-testing, lending guidelines, credit agency regulation); 2. Reducing cost of capital (e.g. monetary policy, bond markets, tax incentives, public finance institutions' instruments); 3. Making less climate-friendly assets (“brown” assets) less attractive (e.g. taxing externalities, fiduciary duties, disclosure and reporting requirements).

Support country-owned and country-led programming and actions: Climate-related development aid needs to be developed in light of local climate considerations and plans. Ownership of projects by the recipient country is widely believed to be a feature of successful projects and programmes. By giving a greater share of authority in design and implementation to experts in local circumstances within a project boundary, projects have a higher chance of being implemented in a more efficient way, at lower cost, being more integrated and co-ordinated with other national and internationally implemented projects.

Capacity building is crucial: A lot of effort has and is also been put in capacity building in developing countries in order to create a strong basis for sustainable climate integration across the national development plans and implementation of climate actions.

Climate technology development and deployment: There is a preference to support technology transfer and development as part of packages and efforts in all climate policy streams such as mitigation, adaptation and forestry. Direct support to climate technology development, and/or access and deployment at scale in the context of adaptation or off-grid energy measures in rural development interventions is probably easier to integrate into development cooperation projects and programmes than mainstreaming of large-scale industrial mitigation activities, for example. Another issue linked to the technology question is the engagement and collaboration with the private sector.







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