UNITED NATIONS

Economic and Social Commission for Western Asia

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Green Financing for Rural Areas

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Outline

- Regional challenges
- Challenges in rural areas in our region
- New approach: Green economy (GE)
- Barriers to shift to GE in the Arab region
- Main Green Financing stakeholders
  - Government
  - International and regional organizations
  - NGOs
  - MFIs
  - Private sector
- Moving towards GE … Key elements for Green Financing

Regional Priorities & Challenges

- **Political and social change** *:* challenge the Development process
- **High and rising unemployment rates:** especially among youth - Unemployment rate of 14.8% for the general population, reaching 27.3% among the youth
- **Crisis in governance & weak institutions:** participation, inclusive & accountable governance
- **Disparity:** between urban and rural areas
- **Financing:** skewed financial resources availability among countries

- **Water Security** – Water scarcity and water stress – 10% of Arab population lacks access to clean water
- **Food Security** – reorientation of policy framework from self-sufficiency to food security – Import bill for main food commodities was $30 bn
- **Energy Security** – implications for energy importing and exporting countries – 60 m Arabs lack access to affordable energy
- **Environmental Security due to Climate Variability & Climate Change** – exacerbating other threats to regional security & increasing uncertainty

Source for figures: AFED Green Economy Report 2011

Challenges in Rural Areas of the Region

- Concentration of poverty (76% of Arab poor people live in rural areas) *Source: World Bank/FAO/IFAD 2009; Improving Food Security in Arab Countries*
- Limited job opportunities/high rate of unemployment (youth)
- Limited/unstable income from agricultural activities
- Limited access to infrastructure and services including energy, water, and financial services
- Lack of diversification: Livelihoods activities in rural areas vary depending on countries (e.g. fishing, farming, raising animals, etc.)
- Heavy migration from rural to urban areas: Urban population as % of total has increased from 42% in 1975 to 55% in 2005 and is projected to reach 59% in 2015 *(Source: UNDP AHDR 2009)*

Challenges in Rural Areas of the Region

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- Weak rural institutional structures & organizations
- Agriculture accounts for 10% of economy in ESCWA region (goes as high as 25% in some countries)
- More than 20% of the population depends on agriculture for its livelihood
- Major natural resources challenges:
  - Climate change, arid climate
  - Land degradation & desertification
  - Rising water scarcity & droughts
- Limited financial resources from public & private sector to invest in improving the productive sector

New Approach: Green Economy (GE)

- The move to green economy in the region is driven by shortages of water, energy & food security.
- Green economy in the sustainable development & poverty alleviation context, aims to reinforce the three pillars : social, economic & environmental.
- Providing <u>financing & technology</u> is a must in this transition, with rural areas as top priority.
- Governments & international organizations have a responsibility, the evolving GE should not be left to private sector, or NGOs alone

Defining Green Economy

- In substance, development community agree with the definition proposed by UNEP*:
  - *"Green economy is an economy that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities"*

*Source: UNEP, 2011, Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication, www.unep.org/greeneconomy

Defining Green Economy

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- No globally agreed upon definition (a complex concept)
- Terminologies are sometimes used interchangeably (e.g. green growth, low-carbon growth)
- Supporters of Green Economy claim that it reinforces the integration between economic, social & environmental pillars of sustainable development.
- Forums & consultative bodies in the Arab region are still debating heavily the concept of green economy in the context of poverty eradication & sustainable development.

Regional Debate on Green Economy

Even if Green Economy is a well - meaning concept, the Region is skeptical:

The Green Economy*: "……not a substitute for sustainable development… not a standard model … not pretext to create trade barriers… not precondition for providing financial support… not to restrict the right of developing countries to freely utilize their natural resources… not to exempt developed countries from honoring their commitments towards developing countries.

However, willing to explore the potential of a gradual transition to a Green Economy "well adapted" to the socio-economic characteristics of the region.

*Recommendations of the Arab Regional Preparatory Meeting for Rio+20 on Green Economy (Cairo, 16-17 Oct 2011)

Why Shift to Green Economy?

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- Continued increase in oil and gas prices globally
- Persistent volatility in fossil fuel prices
- High(er) power tariffs as subsidies are removed
- New technologies available to save energy costs & use renewable energy
- Increased environmental awareness & interest of investors to work in energy saving and renewable energy projects & equipment
- New business opportunities for contractors/equipment vendors/energy service companies

Global figures reflect shift to GE… but not yet in the Arab Region

Despite the financial crisis:

- Global investment in clean energy reached a new high of $260bn in 2010 *(Source: Euractiv.com)*

However:

- Share of the Middle East and North Africa region: 1% or about $2.5bn *(Source: REN21 Renewables 2010 Global Status Report)*

Barriers to GE Transition… Arab Region

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- The need for transition to Green economy (including alternative energy sources) has not yet translated into demand in the Arab region
- Barriers to demand:
  - Lack of appropriate policies, legislations &/or incentives
  - Failure to mainstream Sustainability in planning
  - Technical issues (efficiency of the technology, lack of expertise)
  - Cost/investment issues (economies of scale)
  - Legislative issues (supporting regulations)
  - Difficulty of scaling up & replicating experiences
  - Paucity of data for planning
  - Awareness issues
  - Current "Arab Spring" is limiting Government funding in the short term as scarce resources are diverted elsewhere

Main Green Financing Stakeholders

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- Although there is a financing gap for Green Economy, diverse market players include a combination of the following:
  - Government: Policy makers & regulators
  - International & regional organizations
  - NGOs
  - Micro-finance institutions (MFIs)
  - Private sector
    - Banks
    - Private investors (including equipment manufacturers, product retailers, installation contractors, engineering consultants)

Main Green Financing Stakeholders: Government

- Governments are motivated by:
  - Achieving sustainable development goals
  - Developing less advantaged/remote rural areas
  - Limiting rural-urban migration
- Motivation for RE and GE differs between sub-regions:
  - Non oil: Budget deficits due to rising oil prices
  - Oil producing: increasing domestic use of oil means loss of sales revenue from oil exports
- The government is expected to provide grants or free of charge services (but not loans)
- Need for strengthened institutional frameworks

Main Green Financing Stakeholders: Government

- Governments take a leading role in Green Financing through:
  - Policies and laws to stimulate green markets
  - Financial and fiscal incentives: tax credits, tax reductions and accelerated depreciations, tax-equity legislation to facilitate investors participation, payment for environmental services
  - R&D subsidy and support
  - Green technology subsidies
  - Greening of governmental infrastructure
  - Poverty reduction, rural development and other programs
  - Social development and employment funds

Examples:
Lebanon - Environmental Loans

- Government encouraged private banks to give out environmental loans by reducing their reserve requirements
- Energy and non-energy related projects (e.g. ecotourism, organic agriculture, & landscaping)
- Repayment period for environment loans up to 10 years
- Projects must have an environmental rating to be approved

Source: Central Bank of Lebanon

Examples: Syria, Tunisia & Jordan – Income Tax Exemptions

- Syria: Tax Exemptions targeting enterprises committed to environmental protection (installing eco-technologies)
- Tunisia: Tax exemption or direct subsidies (soft loans) are provided to companies involved in energy efficiency or waste treatment businesses
- Jordan: Custom duty exemption scheme for all sales & importation of RE/EE equipment and systems

Examples: Egypt - Wind Energy

- The Egyptian government earmarked an area of 7,647 km^2 for the construction of wind farms, with almost free access to investors.
- Introduction of a feed-in tariff system aimed at smaller wind farms having a capacity of up to 50 MW, according to which, the government guarantees a fair purchasing price covering costs and returns on investment.
- Expected benefits: low-carbon emission certificates, boosting local manufacturing opportunities

Source: ESCWA 2011, Green Economy in the Context of Sustainable Development and Poverty Eradication: Principles, Opportunities and Challenges in the Arab Region, E/ESCWA/SDPD/2011/3

Main Green Financing Stakeholders: International & Regional Organizations

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- UNFCCC, Kyoto Protocol and its mechanism:
  - GEF
  - CDM
  - Many others
- World Bank
- Other UN agencies
- International aid and cooperation agencies (USAID, GIZ, EU, JICA, etc.)
- Arab Development Banks (AFESD, AGFUND, IDB, Kuwait Fund, etc.)
- Arab Environment Facility (under establishment)

Main stakeholders: International and regional organizations

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Opportunities	Challenges
• Building capacities • Bringing international experiences • Building regional cooperation • Developing pilot /model projects	• Involved in large projects • Partnering with governments (bureaucracy) • Donor based agenda not necessarily reflecting local needs • Conditionality of donors • Time bound projects

Main Green Financing Stakeholders: NGOs/CBOs

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Opportunities	Challenges
• Help in piloting projects/capability to be flexible • Comprehensive and integrated approach to development • Community-based organizations ➔ Social acceptance • Outreach facilitate awareness raising • Responsive to local realities/knowledge of local needs	• Rely on funding from government, international organizations, etc. Limited sustainability approach to development • Mostly project based • Limited technological expertise

Main Green Financing Stakeholders: Micro-Finance Institutions (MFIs)

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- **MFIs**: entities that provide access to financial services to poor / vulnerable clients (not catered for by formal financial sector)
- Characteristics
  - Can be NGOs, Government, Banks or Private Companies
  - Aim at financial inclusion for vulnerable individuals based on assessment of willingness and ability to repay (versus guarantees)
  - Provide micro/small, repetitive loans, limited documentation, for groups or individuals, wide outreach as extension officers reach clients
  - Provide access to micro saving, insurance and other financial services which help build assets
  - Rural development tool : ex. Grameen Bank in rural Bangladesh

Microfinance in the Arab region

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Opportunities	Challenges
• Sustainable mechanism to support Green Financing • Flexibility to tailor financing schemes to fit needs • Accessible to rural communities, local office with local staff • Green financing corresponds within MFIs social mission and financial sustainability	• Need government support/regulations in developing triple bottom line MFIs • Small amounts of financing (several cycles to reach sizeable amount) • Financing linked to income generating activities (not suitable for consumption purposes) • Limited technical capabilities to provide support in non financial services(green technology)

Microfinance in the Arab region

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- Number of MFIs in the Arab World: 502
- Number of current Microfinance Borrowers: approx. 4M (vs. total poor ~82M)
- 19 M potential microfinance borrowers
- Potential funding needed to meet current demand estimated at USD 17 billion
- Promising sector with proven results: ex. Tamweelcom & MFW /Jordan, enda/Tunisia, Tadamun & ABA/Egypt, Al Amal bank & Abyan/Yemen, AL Majmoua & Imkan/Lebanon, First MF/Syria, Faten/Palestine, PASSED/Sudan and many other successful MFIs in the region.

Source: Sanabel regional report 2- December 2010 data, Sanabel Regional Report, May 2011

Main Green Financing Stakeholders: Private Sector

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Banks and private investors:

Opportunities:	Challenges:
• Availability of financial resources • Scalability/expansion of projects • Positive image and market differentiation by being "green", enhanced brand reputation and other PR benefits • Private investors embark once projects demonstrate viability (profits/unless limited CSR)	• Banks are risk averse /conservative, need guarantees • Long list of requirements inaccessible for rural poor • Mainly deal with mega projects in urban areas • Lack technical capabilities to assess green projects • Now driven by government incentives or support from international organizations

Moving Towards GE ….Key Elements for Green Financing

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Regional integration	• Enhancement of planning, and piloting Arab regional green financing programs • Regional resource mobilization (e.g. AEF)
Knowledge & technology	• Improve access to easily understandable and applicable green technologies • Availability of small credit schemes;
Policies & institutional governance	• Strengthen rural institutional structures and organizations;

Moving Towards GE ….Key Elements for Green Financing

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Economic & financial aspects

- Mainstream environmental concerns into financing programs, rural development policies and cross-cutting sectors;
- Private-public partnership building in green financing schemes

Social & behavioural motivation

- Rural literacy and education especially environmental education, must be supported and promoted as a priority in achieving sustainable development goals.

SDPD/PSS Website:
http://www.escwa.un.org/divisions/teams.asp?teams=Productive%20Sectors&division=SDPD

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