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Arab NGO Network for Development
شبكة المنظمات العربية غير الحكومية للتنمية

Series of analysis on European Financial Institutions engagement in the Arab Region

Paper #2

European Investment Bank and European Bank
for Reconstruction and Development
and Climate Change

Arab NGO Network for Development

European Investment Bank and European Bank for Reconstruction and Development and Climate Change

The following paper comes in a series of other papers, each tackling a different sector of focus within the EIB and the EBRD's interventions in the Arab Region. The purpose of this one is to provide information on the EBRD and the EIB's involvement in the region in the energy sector.

Introduction

Climate change is a global crisis. Arab region on the other hand is identified as “the region most severely affected by climate change” by the Intergovernmental Panel on Climate Change¹. Climate change impacts in the region include among others²:

- Higher temperatures and more frequent and intense heat waves
- Sea-level rise that leads to losses of agricultural land and with adverse effects on fisheries
- Less rainfall that brings drought and further hydric stress to already scarce water resources
- Negative impacts on terrestrial ecosystems, including forests, mangroves and rangelands, risk of desertification
- New areas exposed to dengue, malaria, and other vector- and waterborne diseases affecting people’s health and productivity due to changing rainfall and temperature patterns.

Although the region overall has a limited contribution to global GHG emissions, about 4.7%, the impacts of the climate change is to affect the 340 million Arab countries inhabitants -amongst which around 100

million are poor and less resilient to impacts of the climate change.³ These impacts are felt in various aspects including human health, coastal areas, fresh water, food production/agriculture, tourism and overall human well-being. In addition, climate change exacerbates the already problematic energy, water and food security. Arab region already faces insecurity in energy due to increasing energy demand, lack of energy supplies, problematic energy efficiency and limited renewable energy development. On the other hand in terms of water security , the Arab region is one of the most water-scarce regions, with less than 1% of global renewable water resources. Climate change as well constrains food security for the region while it is already importing 50% of its food consumption being a most food import dependent region.

The abovementioned climate change impacts bring together as well huge financial costs. Around “a 30 year cost of climate change related disasters in the region is calculated as US\$11.5 billion; yet the estimate does not reflect the real costs because the costs of damages are reported for only 17 percent of disasters and rarely capture the suffering that follows loss”⁴.

To address climate change, most of the Arab region countries, being signatory to the UN

¹ The Intergovernmental Panel on Climate Change (IPCC) is the leading international body for the assessment of climate change. It was established by the United Nations Environment Programme (UNEP) and the World Meteorological Organization (WMO) in 1988 to provide the world with a clear scientific view on the current state of knowledge in climate change and its potential environmental and socio-economic impacts. www.ipcc.ch

² ANND publication on Climate change: <http://www.annd.org/english/data/publications/pdf/36.pdf>

³ <http://www.worldbank.org/en/news/video/2012/12/05/adaptation-to-a-changing-climate-change-in-arab-countries>

⁴ http://siteresources.worldbank.org/MENAEXT/Resources/MENA_climate_facts_COP18_English.pdf

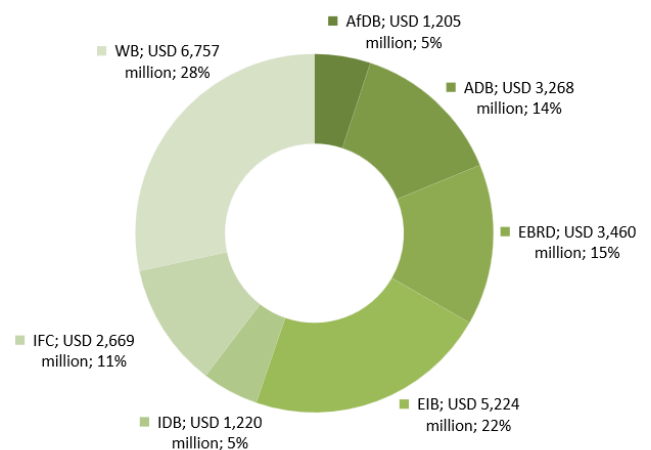
Framework Convention on Climate Change (UNFCCC) consider Article 3 and 4 of the Convention as the basis for international cooperation. This include the principle of common but differentiated responsibility, equity and the responsibility for historical emissions and the absolute priority for developing countries to achieve sustainable development and poverty eradication in line with their national strategies and priorities.⁵ International financial institutions with energy efficiency financing and investment, supporting renewable energy financing, emissions reducing financing and investment play an important role in addressing climate change.

European Financial Institutions and the Climate Change

The EBRD and the EIB as European financial institutions join other multilateral development banks (MDB) in their commitment to the implementation of climate action both to combat climate change and to manage its inevitable consequences principally by leveraging resources to reinforce climate finance, developing innovative ideas i.e. mobilizing equity investments and guarantees, and providing technical assistance as well as technological and financial training to governments, project developers and lenders, working on

technology transfer, and developing renewable energy legislation to create markets.⁶ Moreover, the banks announce to mainstream climate throughout their core operations.

Since 2011, the MDBs are developing joint reports on climate financing, to track and report financial flows that support climate change mitigation and adaptation. Accordingly in 2013, the MDBs provided USD 23.8bn in financing to address the challenges of climate change, out of which 15.8bn benefitted public sector operations,



while the remaining USD 8bn were invested in private sector operations. From the total amount allocated 80% (USD 18.9bn) was spent for mitigation activities, while 20%, or USD 4.8bn was dedicated to adaptation activities. The former included efforts to reduce or limit greenhouse gas emissions while the latter aimed at addressing climate vulnerability and covered sectors as water

⁵ Arab Group Statement, Closing of ADP 13 June 2013, https://unfccc.int/files/meetings/bonn_jun_2013/in-session/application/pdf/adp2-2_closing_plenary_statement_arab_group.pdf

⁶ <http://www.eib.org/attachments/press/joint-mdb-statement-on-climate-finance.pdf>

and wastewater systems, coastal and riverine infrastructure, other built infrastructure, as well as industry and agriculture⁷. Alongside other MDGs, EIB and EBRD share a good percentage in climate financing, respectively 22% and 15% of the total in 2013. (See figure) Arab region as well benefits from this climate finance, yet relatively with a small amount, 2% only, compared the other region

Region	MDB Resources			External Resources			Total MDB Climate Finance per region	Total MDB Finance per region
	Investments and technical assistance		Policy-based instruments	Investments and technical assistance		Policy-based instruments		
	Public	Private		Public	Private			
SOUTH ASIA	2,246	514	100	230	30	1	3,120	16,600
EAST ASIA AND THE PACIFIC	2,459	798	70	704	276	1	4,308	19,016
MIDDLE EAST AND NORTH AFRICA	416	57	67	17	2	0	559	4,749
SUB-SAHARAN AFRICA	1,480	1,204	64	201	107	0	3,057	17,517
LATIN AMERICA AND THE CARIBBEAN	1,195	827	467	179	138	1	2,806	24,528
EU 13	2,056	1,243	-	54	12	-	3,365	18,143
NON EU- EUROPE AND CENTRAL ASIA	2,624	2,266	10	112	105	0	5,117	22,4463
REGIONAL	895	497	-	55	22	1	1,471	5,921
Sub - Total	13,371	7,407		1,552	691			
TOTAL	20,779		778	2,243		4	23,804	128,937

⁷ http://www.eib.org/attachments/documents/flyer_joint_report_on_mdb_climate_finance_2013_en.pdf

a) EIB, climate change and the Arab region

EIB considers climate change mitigation and adaptation as a priority and climate action as a transversal public policy goal, meaning that climate action needs to be integrated fully across the wider public policy goals of the Bank: increasing growth and employment potential, promoting economic and social cohesion and supporting environmental sustainability more generally⁸. In this regard, the EIB states that the climate action focuses on low-carbon investments that mitigate greenhouse gas emissions and on climate-resilient projects that improve adaptation to climate change impacts.⁹ While EIB climate action covers both mitigation and adaptation, following project types are recorded as contributing to the Bank’s climate action target¹⁰

- Energy efficiency
- Renewable energy (wind, solar, aerothermal, geothermal, hydrothermal and ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas and biogases)
- Transport (reducing emissions)
- Forestry and land use (afforestation, reforestation, forest and cropland

⁸ http://www.eib.org/attachments/thematic/climate_strategy_external_mandate_countries_en.pdf

⁹ http://www.eib.org/attachments/thematic/climate_action_en.pdf

¹⁰ http://www.eib.org/attachments/thematic/climate_strategy_external_mandate_countries_en.pdf

management, avoided deforestation, reduced tillage, and re-vegetation.)

- Research Development and Innovation (photovoltaic, off-shore wind, concentrated solar power, second generation biofuels, low-emission Engines)

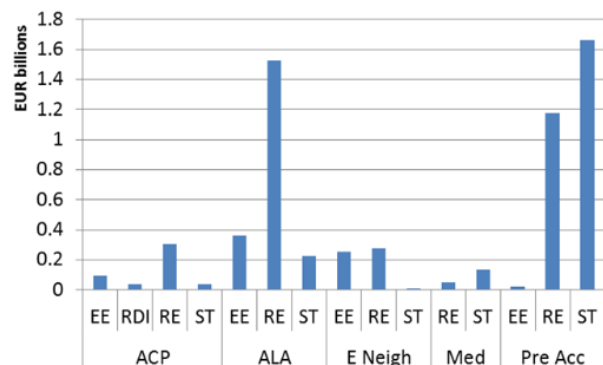


Figure 4: EIB climate action lending outside Europe 2008 to 2011 broken down by major sector

Note: EE= energy efficiency, RDI = research, development and innovation; RE = renewable energy, ST =sustainable transport. ACP = Africa, Caribbean and Pacific, ALA = Asia and Latin America, E Neigh = Eastern Neighbourhood, Med = Mediterranean, Pre Acc = Pre-Accession. Lending to adaptation is not shown.

The EIB through Facility for Euro-Mediterranean Investment and Partnership (FEMIP) aims at assisting the economic and social development of the Mediterranean partner countries, within which in 2014 only, the EIB notes 30% of signed operations as in support of climate action. As the figure 3 represents, **climate action lending has focused on sustainable transport and renewable energy sectors, yet comparatively much lesser than the other external EIB lending regions.** It is important to note that there has not been any **lending categorized as “energy efficiency” between 2008-2011 for the Mediterranean region.**

Indeed, the EIB is criticized with its external lending being focused on co-financing large-scale infrastructure operations, energy projects aimed at increasing energy security for the EU and private sector development interventions- including the private financial sector in the global South – so that most EIB loans have first benefited European companies and exporters before local communities’ needs.”¹¹ Thus, the EIB energy focused projects often meant bringing energy to EU markets rather than addressing the local people’s energy needs, increasing their energy efficiency. Nevertheless if well supported energy efficiency would provide the most effective way to reduce emissions, address energy security challenges and be “a well-documented source of job creation”¹² for addressing further unemployment and poverty challenges in the region.

While the EIB notes that “carbon footprint of a project per se cannot and should not be construed as an expression of the merit or value of that project, either broadly or more narrowly in climate change terms alone,” it is an important aspect to be considered. Nevertheless even with regard to the methodology applied, concerns remain that “the EIB does not count the whole project’s CO₂ emissions, but only a proportion according to how much of the project it

financed although its financing often determines a project’s realization...Also it should be considered to examine as the baseline (for accounting absolute and relative project emissions) the most environmentally acceptable alternative which would also be economically feasible, rather than a fossil fuel baseline”.

With respect to climate change, EIB engagement in the region should be also considered in terms of the Greenhouse gas emissions from EIB projects (see figure 2).

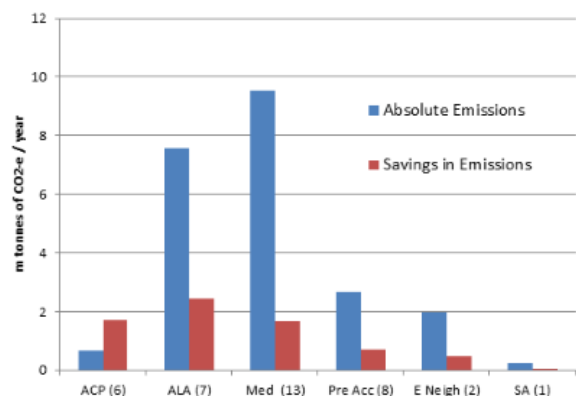


Figure 5: Greenhouse gas emissions from EIB projects outside Europe

Note: Given the small sample size, it is prudent to avoid drawing strong quantitative conclusions at this stage. ACP refers to Africa/Caribbean/Pacific; ALA refers to Asia and Latin America; Med refers to Mediterranean Countries; Pre Acc refers to Pre Accession countries; E Neigh refers to Eastern Neighbourhood; SA to South Africa. The number shown in brackets refers to the number of projects with emissions over the threshold in the period 2009 to 2011 e.g. six in ACP. The blue column reports the absolute emissions taken across all EIB projects in the region that were above the thresholds of the footprint exercise. The red column shows the savings in emissions compared with a baseline without the project – i.e. the negative relative emissions.

Currently, the EIB is undertaking a consultation for its support in climate

¹¹

<http://www.socialwatch.org/book/export/html/12052>

¹² <http://bankwatch.org/sites/default/files/briefing-EnergyLending-22Apr2013.pdf>

action.¹³ Nevertheless it is important to underline that **climate action should not be considered as of technical solution to only greenhouse gas emissions but rather be a mainstreamed approach supporting the new consumption and production patterns.** Thus EIB, alongside other development actors, should put more emphasis on resource efficiency in investments it supports, so as to deliver more output per unit of input, as well as less associated environmental damage. In addition, the EIB in its climate action puts emphasis on European RDI and Bank's support to emerging low carbon technologies, yet this should take into consideration as well the R&D needs of developing countries and the challenges faced in technology transfer, particularly due to intellectual property rights. While within the climate challenge we face globally, business as usual cannot apply in relation to the way production and consumption is made; business as usual cannot apply to the dominant business model of intellectual property either. Developing countries need to get access to technology and be able to use it to curb their carbon emissions and in their fight against climate change. In this regard, EIB support to low

a) EBRD, climate change and the Arab region

Sustainable development, providing climate

finance for energy efficiency, renewable energy, climate change mitigation, climate adaptation and carbon finance projects are considered as the EBRD's main priorities. Initially established in response to the major changes in the political and economic context in Central and Eastern European countries, the EBRD notes that these transition countries were characterized as most-energy intensive, energy-wasteful economies in the world and "to tackle this energy intensive legacy in the region, the EBRD has developed specific capacities in innovative energy efficiency and climate change mitigation financing".¹⁴ In fact, the EBRD was the first international financial institution to establish a specialized energy efficiency team in 1994. In 2006, the EBRD launched the Sustainable Energy Initiative (SEI), which aims at scaling up sustainable energy investments, improving the business environment for sustainable investments and removing key barriers to market development. Whereas the emphasis on the objectives of the initiative is more on "business and market", it's important to note that the initiative addresses climate change by developing specific projects with carbon reduction impacts¹⁵. Furthermore and as a positive achievement in 2010, the Bank developed a toolkit on climate change risks to investments. The toolkit includes "guidelines

¹³
<http://www.eib.org/about/partners/cso/consultations/item/public-consultation-on-eib-approach-to-supporting-climate-action.htm>

¹⁴
<http://www.ebrd.com/pages/sector/energyefficiency/climate.shtml>

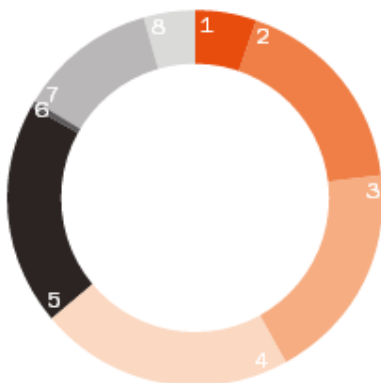
¹⁵
<http://www.ebrd.com/downloads/research/factsheets/sei.pdf>

for climate change screening and risk-profiling, as well as guidance on integrating risk assessment and adaptation into project feasibility studies, environmental and social impact assessments (ESIAs), environmental action plans and water audits”¹⁶.

While with the Deauville partnership in 2011, the EBRD expanded its work to the Arab region -- EBRD refers to the region as Southern and Mediterranean Region (SEMED) climate financing is relatively minor in the region under the SEI (see below).

their availability to developing countries encouraging technology transfer and as well developing countries’ ability to use, maintain and adapt it. Thus, the EIB, in its support to European RDI, should promote the transfer and dissemination of clean and environmentally sound technologies to developing countries as well, highlighting that sustainable development could be achieved only if new technologies are available and accessible to developing countries’ use¹⁷.

The EBRD’s SEI investments (2006-2013)



	€ million, rounded
1 Central Asia	733
2 Central Europe and the Baltic states	2,375
3 Eastern Europe and Caucasus	2,553
4 Russia	2,927
5 South-eastern Europe	2,575
6 Southern and eastern Mediterranean	94
7 Turkey	1,572
8 Regional*	590
Total	13,418

* Regional projects are those which cover several countries and/or regions.

Source:

<http://www.ebrd.com/downloads/research/brochures/sei.pdf>

Carbon technologies should support as well

On the other hand, as in the case of the EIB, **energy financing by the EBRD creates concerns as out of the EUR 8.6bn allocated to energy projects from 2006 to October 2013, only EUR 2 bn are dedicated to**

¹⁶ http://www.ebrd.com/downloads/research/factsheets/7830_adaptation.pdf

¹⁷ See more on Arab civil society input to the EIB consultation, available at <http://www.annd.org/english/data/latest/file/207.pdf>

renewable energy, meaning that a substantial part of the remaining investments in the energy sector are dedicated to fossil fuels – energy security and efficiency being the main arguments to give a justification to high-carbon energy. In this respect, the new EBRD's energy strategy that became public by December 10th 2013 is a positive achievement, as it notes the Bank's commitment to cleaner production and distribution of energy switching from coal to gas. The strategy reads as “*EBRD will support the cleaner production and distribution of energy through greater energy and resource efficiency, for example by reducing gas flaring or investing in cleaner transport fuels or fuel switching from coal to gas. In the case of coal-fired generation, the low-carbon transition necessitates a fundamental shift away from coal as a source of electricity and heat*”¹⁸. Yet, when compared with EIB, the lack of an ambitious stance¹⁹ should be well noted, as well as Bank's reservation that “Bank will not finance investment in this sector except in rare and exceptional circumstances, where there are no feasible alternative energy sources.”²⁰

In addition to this, **with regard to the projects implemented in the SEMED**

¹⁸ <http://www.ebrd.com/downloads/policies/sector/energy-sector-strategy.pdf>

¹⁹ <http://bankwatch.org/news-media/blog/sounding-out-ebrds-energy-strategy-little-ambition-besides-scrapping-coal>

²⁰ <http://www.ebrd.com/downloads/policies/sector/energy-sector-strategy.pdf>

region, the environmental categorization made by the EBRD remains problematic and challenging with their further impacts on climate change. For instance, raised as well by civil society groups from Egypt, the KEC Gas Flaring project was miscategorized as B. Accordingly, together with serious flaws in the project assessment-- including the lack of additionality of the EBRD involvement and the current violation of the basic principles of democracy and pluralism as set out in Article 1 of the Agreement Establishing the Bank in Egypt--the environmental impacts of the project remain miscategorized. This is on the basis of a supposed focus on a reduction of gas flaring and “environmental improvements” whereas it is likely that the “field development” element will be the real focus of Kuwait Energy activities in Egypt²¹. Such a miscategorization was as well done with regard to the Serinus project in Tunisia²² with a major loan (US\$ 60 million) to the Kulczyk Venture Company ; the latter particularly famous for its damaging fracking techniques concerning shale gas extraction in Ukraine. The EBRD considers the project in „category B”, meaning that investors expect limited environmental impact of this project. Nevertheless, local communities raise concerns on environmental degradation including that “the exploitation of shale gas requires massive amounts of water and chemicals and could have disastrous

²¹ <http://www.annd.org/english/data/folders/132.pdf>
²² <http://www.ebrd.com/work-with-us/projects/psd/serinus-energy.html>

consequences in a country that faces serious water scarcity such as Tunisia,” and “the type of shale identified in the Serinus Energy concessions in Tunisia is 'hot shale' which means that the rock is radioactive. Radioactive particles mix into the fracking fluid and drilling mud, and are brought to the surface.”²³

Conclusions and recommendations

Achieving sustainable development is at the center of coping with direct and indirect impacts of climate change for the Arab region. This requires reforming development paradigms and adopting coherent strategies to revive productive sectors and capacities. In this regard, the role of the state should shift from a rentier state to a developmental state. The latter necessitates the state to be a “regulator of production forces and market relations and the protector of national interests as well as the guarantor and upholder of the rights of vulnerable groups.”²⁴ Moreover, policies of weakly managed unsustainable energy policies, production and

consumption patterns both at national and global level, trade and investment policies need to be reformed and revisited to correspond to the development necessities of people and to ensure a human rights-based approach. Indeed, within the post-2015 process, there is an emphasis on the need for sustainable consumption and production patterns (under proposed Goal 12), which makes it clear that the issue is not merely environmental within the overall development framework. As all development actors, there is a significant role that the European financial institutions should play, particularly for the Arab region through their engagement. Thus the Banks’ lending and projects in the region should correspond to the related climate change challenges and aim at achieving sustainable development.

In this regard, below are recommendations to both banks’ engagement, particularly in relation to climate change:

- The EIB and EBRD should imply with international 2050 **de-carbonization declared target at the 2014 Lima Meeting of Parties**. In this regard while the recent steps taken by EIB to cut off lending to coal and EBRD’s strategy towards less coal are positive, yet needs to be genuinely implemented with immediate steps to stop support for coal and to ensure that energy efficiency and renewable energy options are prioritized in Bank’s engagements.

²³ <http://bankwatch.org/news-media/for-journalists/press-releases/who-jan-kulczyk-man-behind-serinus-energy>

²⁴ Sustainable Development and the renewed role for the state in the Arab region, ANND paper based on the submission by the Arab NGO Network for Development to the UN consultation for preparation of zero draft of the outcome document, available at: <www.uncsd2012.org/rio20/index.php?menu=115>, and on the outcomes recommendations of the regional convening organized by the Arab NGO Network for Development in Cairo (May 2011) and entitled: Towards a new social contract: Declaration of key principles by civil society organizations in the Arab region. Available at http://www.socialwatch.org/sites/default/files/ArabRegionSD2012_eng.pdf

- The projects implemented by the banks in partner countries- both in the EU and outside EU should meet **local and EU standards in terms of environmental and social issues**. This requires an in-depth consultation with all relevant stakeholders on possible social and environmental impacts of the engagement. Local population, especially those that are directly impacted (i.e. farmers, rural population) must be consulted to assess the impacts in depth. The consultation process must be participatory, transparent and inclusive. This would as well prevent mis-categorization of the projects.

- Whereas both banks adherence to “Green Economy’ and green economy correlation to the process of achieving sustainable development seems positive, it is crucial to **ensure that the concept of green economy is not merely used as a rhetoric**. The policies of the Banks should ensure that the concept of “the ‘Green Economy’ is approached solely within the context of accepted and consensual definitions and principles of ‘Sustainable Development’ set in the 1992 Rio Summit. The concept of ‘Sustainable Development’, as it emerged from the 1992 UN conference in Rio, had a comprehensive agenda, which extends *‘beyond environmental agreements but are rather legally binding agreements that requires development paradigm shifts in accordance with the principle of common but*

differentiated responsibilities, that is based on equity and the historical responsibility of developed countries”.²⁵

- Due to implementation of strict intellectual property rights regime, developing countries face challenges of monopolization of technology by developed countries. This creates further restrictions on research in developing countries, slows down the pace of innovation and increases the costs of using these technologies by already poor developing countries. All these in turn, add to increasing the knowledge gap and inequalities between the developed and developing countries. Thus, the EIB and EBRD, in their research development and innovation should **promote the transfer and dissemination of clean and environmentally sound technologies to developing countries as well, highlighting that sustainable development could be achieved only if new technologies are available and accessible to developing countries’ use**. EIB and EBRD support in climate action should **encourage technology transfer and as well developing countries’ ability to use, maintain and adapt it**.

- **“Energy efficiency” should be centralized in both banks engagement in the Arab region**, given the potential for renewable energy in the region (i.e. solar). This requires a clear cut on fossil fuels and a strategy towards the region that contributes

²⁵ ibid

to the development of alternative energy sources with less dependence on oil production and exports.

- Given the increasing stress on water resources in the Arab region due to climate change impacts, and in line with respecting the right to water as a fundamental human right, **both Banks should ensure that privatization projects implemented-including those related to water alongside energy, roads etc.-consider initially these sectors as basic**

rights of the people in the region.

Accordingly such projects should not hamper people's access and enjoyment of their rights. It is important to highlight that privatization without implementing a regulatory framework and irrespective to the national development levels and national priorities merely bring negative impacts.