

**ECONOMIC AND SOCIAL
COUNCIL****Economic and Social Commission for Western Asia (ESCWA)**

Regional Preparatory Meeting Series for Rio+20:
Meeting on “Economic Policies Supporting
the Transition to a Green Economy in the Arab Region”
Beirut, 20-21 July 2011

**GREEN FINANCING FOR THE ARAB REGION:
BACKGROUND PAPER****Summary**

A “green economy in the context of sustainable development and poverty eradication” and the “institutional framework for sustainable development” constitute the two thematic focus areas of the United Nations Conference on Sustainable Development (UNCSD, also known as Rio+20), which is being organized in June 2012. Rio+20 seeks to secure renewed political commitment for sustainable development, assess the progress to date and the remaining gaps in the implementation of the outcomes of the major summits on sustainable development, and address new and emerging challenges.

Green economy has been put forward by the international community as a way of overcoming the many concurrent and interlinked global crises experienced during the past few years – namely the financial, food and climate crises – through a reallocation of capital into green and greener forms of development. Pursuing a green economy within the context of sustainable development and poverty alleviation aims to reinforce the integration between economic, social and environmental pillars of development.

This background paper reviews the concept of Green Finance by analyzing the role of public financial sector specifically tackling the reform of economic policies in Arab countries in order to facilitate channelling of capital into green areas and to stimulate a fair, advantageous and timely transition to a green economy in the region.

Tax, subsidies, incentives and new financing mechanisms have to be mastered by national governments and coordinated with the emergence of international green financing mechanism active in the international community and at the regional level.

CONTENTS

	<i>Paragraphs</i>	<i>Page</i>
Introduction	1-4	1
<i>Chapter</i>		
I. A RESPONSE TO THE FINANCIAL CRISIS	5-10	1
A. The impact of the financial crisis in the Arab Region.....	5-7	1
B. The Global Green New Deal.....	8-10	2
II. THE ROLE OF THE PUBLIC SECTOR IN GREEN FINANCING	4-26	3
A. Public Financing and Fiscal Stimulus	12-16	3
B. Public Support for Private Financing	17-19	4
C. Green Public Procurement	20-21	5
D. The Institutional Framework: Ministries of Finance.....	22-26	5
III. ENVIRONMENTAL TAXATION AND INCENTIVES	27	6
A. Full Cost Pricing	28-33	6
B. Subsidies	34-38	7
C. Green Incentives	39-41	8
D. Green Financing for Small and Medium Sized Investments	42	8
E. Alternative Financial Responses	43	8
IV. GLOBAL AND REGIONAL COOPERATION	44-50	8
A. Global Markets for Ecosystem Services	51	10
V. ARAB ENVIRONMENTAL FACILITY	52-55	10
VI. CONCLUSIONS	56	11

Introduction

1. A “green economy in the context of sustainable development and poverty eradication” and the “institutional framework for sustainable development” constitute the two thematic focus areas of the United Nations Conference on Sustainable Development (UNCSD, also known as Rio+20), which is being organized in June 2012. Rio+20 seeks to secure renewed political commitment for sustainable development, assess the progress to date and the remaining gaps in the implementation of the outcomes of the major summits on sustainable development, and address new and emerging challenges.
2. Green economy has been put forward by the international community as a way of overcoming the many concurrent and interlinked global crises experienced during the past few years – namely the financial, food and climate crises – through a reallocation of capital into green and greener forms of development. Pursuing a green economy within the context of sustainable development and poverty alleviation aims to reinforce the integration between economic, social and environmental pillars of development.
3. However, while a green economy promises key benefits in terms of environmental sustainability, long term economic growth, and employment creation, it is still not clear who will be the winners from such an economy and who will be the losers. In addition, there is still no consensus on how to translate broad policy options into economic and financial instruments, and what enabling conditions need to be put in place by national governments to realize the promised benefits of a green economy. Of particular importance to this region is to identify sectors and measures that can be adopted by Arab countries for fostering economic activities that can have a competitive advantage in a global green marketplace. Some sectors already show promise, including the renewable energy industry, desalination and tourism. Several measures have also been already adopted in Arab countries to support a green economy, such as green investment incentives and programs that promote clean production.
4. As part of its mandate to lead regional preparations for Rio+20, ESCWA is organizing with regional partners a series of national and regional workshops and seminars targeting different stakeholder groups in government, civil society and the private sector. This proposed preparatory meeting targets the public financial sector and will specifically tackle the reform of economic policies in Arab countries in order to facilitate channelling of capital into green areas and to stimulate a fair, advantageous and timely transition to a green economy in the region.

I. A RESPONSE TO THE FINANCIAL CRISIS

A. THE IMPACT OF THE FINANCIAL CRISIS IN THE ARAB REGION

5. Green Finance in the Arab Region cannot be discussed without taking into account the 2008 financial crisis that developed into a worldwide economic crisis.

Despite initial positive reactions in both mainstream and Islamic finance institutions, that might have led to a lessened impact, important marketplaces like the Saudi Arabian Stock Exchange and the Kuwaiti Stock Exchange, lost respectively 30% and 42% in 2008. This put bank share prices under pressure, considering the tight correlation between share and stock market performance in the Arab region. But, in general, Arab banks fared better in the stock market downturn than their Western counterparts (-32% for Al Rajhi Bank and -15% for Arab Bank, compared to - 72% for CitiGroup).

6. The financial crisis in the Arab Region triggered a process of financial, economic and social instability, which had far reaching implications on macro-economic policies. The situation also prompted calls from a range of stakeholders in the public and private sectors and from civil society organizations to revisit the established development paradigm. This was echoed in socio-political movements spreading across the region, which also bring their toll on choices that governments will need to make for transitioning to green economy – if that choice is to be made.

7. The combination of financial and political crises that bring such a dramatic changes in the socio-economic environment can push countries to take decisive actions to redesign their development paradigm to incorporate greener economy concepts. This includes putting in place green financial policies to facilitate green investments and promote more environmentally-friendly business practices in key developing sectors and technologies.

B. THE GLOBAL GREEN NEW DEAL

8. The Global Green New Deal offered a practical option for rethinking the current global socio-economic and financial scenario. Its basic argument is that if the public sector has to spend money to revive the economy after the crisis, why not consider the option of spending it through a series of investments in new green technologies, renewable energies, small holder food agriculture or environmental processes that are needed to address sustainable management of natural resources in the twenty-first century?

9. More specifically, the Global Green New Deal proposed by the United Nations Secretary-General in December 2008¹ and elaborated by UNEP in 2009² revolve around three basic concepts:

- First, if the old financial and economical system seems to have failed, why not consider new solutions?
- Second, why not refocus the use of the important fiscal resources being released towards greener investment and employment opportunities a new, sustainable paradigm?
- Third, considering that the architecture for the financial system had to be re-written, while at the same time the next generation framework for global emissions governance, why not combine the two elements?

10. Hence, the Global Green New Deal aimed to accelerate economic recovery and job creation while addressing sustainable development, climate change and food security challenges.

The rationale for the “New Green Deal” has already encouraged and inspired a number of countries like the Republic of Korea and China to channel stimulus packages towards investments in renewable energy, public transport, waste management, and integrated water management. However, the bulk of the work has yet to be done. A series of pertinent questions should be posed in this regard: Where does the Arab world position itself vis à vis this emerging paradigm? What range of policies, including financial measures, could countries in the region embrace to transition to a green economy? Who will benefit? Who will pay? How can should the region move forward?. Responding to these questions requires the collective efforts of institutional public and private stakeholders of the Arab States and cooperation among all sectors of society.

¹ UN News Centre, “Secretary-General calls for ‘Green New Deal’ at UN climate change talks,” 11 December 2008, <http://www.un.org/apps/news/story.asp?NewsID=29264>

²http://www.unep.org/pdf/A_Global_Green_New_Deal_Policy_Brief.pdf

II. THE ROLE OF THE PUBLIC SECTOR IN GREEN FINANCING

11. According to a recent ESCWA publication³, after the financial crises of 2008, governments around the world had committed around US 3.0 trillion in fiscal spending to re-inflate demand and allow their economies to slightly recover. As discussed earlier in this paper, and according to the option of a New Green Deal, a substantial portion of this spending should have been channeled towards an environmentally-sustainable economy.

A. PUBLIC FINANCING AND FISCAL STIMULUS

12. According to an analysis conducted by HSBC in January 2009, the average green investment was about 14 percent of the total monetary commitment. Sectors interested by this spending have been those considered able to combine economic, employment, and environmental benefits. Namely renewable energy, sustainable transport, efficient buildings, agriculture and freshwater.

13. It is estimated that US\$ 445 billion was allocated for various sectors such as railways, energy efficiency, renewable energies, water and wastewater, transport, etc., within the context of reducing ecological scarcities and environmental risks⁴. For instance, China allocated US\$ 218 billion as a green fund half of it was allocated for railway infrastructure. The Republic of Korea has been efficient in spending green packages as it spent approximately US\$ 2.3 billion in 2009⁵. In the United Kingdom there are plans to establish a Green Investment Bank, the world's first national green development bank. The UK Government has guaranteed £ 3 billion for the initial capitalization of the bank and legislation will be brought forward to ensure both the operational independence and enduring nature of the bank⁶.

14. In general terms and in an effort to establish good permanent practices, governments in the building sector can direct spending on retro-fitting public buildings to achieve much higher energy efficiency and the use of renewables. And they can provide tax incentives to private businesses or families to improve insulation and install energy and resource efficient appliances. New investment can be directed towards developing an integrated approach to transportation planning and financing, or investing in energy efficiency and low carbon mobility.

15. Arab countries governments can also invest in energy projects, in particular in "smart" grids, and expand their investment in renewables infrastructure. The recent energy crisis called for an urgent development of renewable energy sources such as wind, solar, tidal and geothermal. Governments are asked to assume a leading role to help financing clean energy projects as banks in some cases lack liquidity due to the credit crisis to finance the growth of clean energy markets.

16. Among the measures that can be taken by governments to stimulate these markets we can mention tax-equity legislation to facilitate ordinary investors participation, credits for research and development (R&D) and the greening of governmental infrastructure. Governments can also invest in sustainable agriculture and freshwater systems. Specially in the Arab region where water scarcity and land degradation are of main concern, increasing the water efficiency and agricultural productivity through investments in infrastructure

³ ESCWA, *Green Economy in the Context of Poverty Eradication and Sustainable Development: Principles, Opportunities and Challenges in the Arab Region*, forthcoming in 2011.

⁴ UNEP, *Global Green New Deal: A policy Brief*, March 2009.

⁵ USBC, *Delivering the Green Stimulus*, 9 March 2010,

⁶ Nick Clegg, *Speech on the Green Economy*, May 2011, http://www.libdems.org.uk/latest_news_detail.aspx?title=Nick_Clegg%E2%80%99s_speech_on_the_green_economy&PK=0e1da756-bb98-489e-9e72-d97c95a0715b

can represent a crucial step towards sustainable development in rural economies. With their fiscal spending and appropriate trade measures, governments can establish a level playing field for sustainable agricultural production, through increased investment in sustainable agricultural practices, organic farming, transportation networks, warehousing and cold storage.

B. PUBLIC SUPPORT FOR PRIVATE FINANCING

17. In the Arab region public-private partnerships will play a key role as a driver for green investments. The question is how governments can facilitate these kind of investments especially when and if the private sector is in crisis? Once again, to be stressed is the role of governments, and in particular, of some ministries in their capacity of enablers of private activities for green financing.

The necessity of combining public and private financing is becoming more and more strategic for stimulating green investments in the future.

18. One of the primary roles to be played by the public sector seems the ability to provide the necessary guarantees on private loans. UNEP's Division of Technology, Industry and Economics (DTIE) lists a set of different public financing tools and the context in which they can be used for stimulating green investments⁷:

• Credit lines to local commercial financial institutions (CFI) for providing both senior and mezzanine debt to projects
• Guarantees to share the commercial credit risks of lending to projects and companies with local CFIs
• Debt financing of projects by entities other than CFIs
• Carbon finance facilities that monetize the advanced sale of emissions reductions to finance project investment costs
• Grants and contingent grants to share project development costs
• Loan-softening programmes to mobilize national sources of capital
• Inducement prizes to stimulate R&D or technology development
• Technical assistance to build the capacity of all actors along the financing chain
• Private equity (PE) funds investing money in private equity, often to gain control over companies to restructure them.
• Venture capital (VC) funds investing risk capital in technology innovations for start-up firms and small businesses with exceptional growth potential with managerial and technical expertise often provided

19. A recent study by the ANIMA Investment Network, a multi-country platform supporting the economic development of the Mediterranean, shows a consistent growth of private equity funds in the Arab region, with 139 in 2008 compared to 30 in 2005 with the average amount per fund increasing. But the current trend is towards mega-funds, focusing more on project finance or real estate/tourism than for financing SMEs, which is a priority for the region.

⁷ UNEP/DTIE, "Public Finance Mechanisms to mobilise investment in climate mitigation – An overview of mechanisms being used today to help scale up the climate mitigation markets, with a particular focus on the clean energy sector." UNEP 2008, as cited in UNIDO, Round Table Arab Regional Programme: Investing in and Financing Green Business: Background Paper," 9 December 2009, p.13 (http://www.unido.org/fileadmin/user_media/UNIDO_Header_Site/Subsites/Green_Industry_Asia_Conference__Maani_la_/GC13/ARB_BCKP_FINAL.pdf)

Specific and interesting venture funds are the “green capital fund” also called “green venture fund”. These funds invest venture capital in different environmental technologies. Among the different eligible projects considering green technologies are those related to water purification, air quality, nanotechnology, alternative fuels, manufacturing, recycling and renewable energy.

Also to be mentioned Green Sukuk to finance green infrastructure, in light of Saudi Arabia's stimulus package, which is the largest among all other G20 countries as a percentage of GDP.

C. GREEN PUBLIC PROCUREMENT

20. Another form of direct public action for developing green economy is Green Public Procurement.

The public sector is the largest consumer in an economy: on average governments spend 45 per cent to 65 per cent of their budgets and 13 per cent to 17 per cent of their GDP on procurement of goods, services and works. In principle, governments committing to purchase sustainable products and services, have the power to initiate a virtuous economic circle through their substantial buying power. This can start or drive markets for sustainable production and consumption both at the national and international level.

21. In the era of budget austerity it would be extremely interesting to analyse how Sustainable Public Procurement (SPP) can be implemented in the Arab Region.

Sustainable Consumption and Production is implemented at the international level through the Marrakech approach, which also works towards mainstreaming environmental concerns into government procurement. One of the task forces established under this approach is the SPP led by Switzerland, which promotes and supports the implementation of SPP at the international level by developing practical guidance, carrying out research and policy papers, organizing trainings and assistance and facilitating a multi-stakeholders involvement in the development and implementation of SPP.

D. THE INSTITUTIONAL FRAMEWORK : MINISTRIES OF FINANCE

22. If we assume that the public sector is supposed to take the lead on the transformation of the Arab economies into Green Economies, it is important to clearly identify roles and responsibilities of the different Ministries involved in this process and namely, the Ministries of Finance, considered as strategic institutions.

23. As identified in the recent ESCWA publication⁸, over the past two decades, Arab countries have exerted notable efforts to strengthen institutions and institutional arrangements for the governance of sustainable development. These have resulted in measures to improve inter-ministerial coordination, institutionalizing public consultation, facilitating processes of governance for sustainable development, and introducing institutional reforms to allow ministries of environment to mainstream sustainable development principles and measures in national and subnational plans. In some countries, like Oman and Bahrain, new ministries for the environment and sustainable development were established to translate this vision into the policy domain.

24. The effectiveness of these institutional measures yielded mixed results at the level of implementation, particularly in terms of mobilizing the necessary resources. Increasingly, decision-makers have come to

⁸Regional Review of Institutions for Sustainable Development in Arab Region, ESCWA, due 2011.

realise the pivotal role that Ministries of Finance could and should play to operationalize sustainable development strategies and translate policies into actions.

25. The integration of environmental and social issues into sectoral planning and decision-making requires a high level of expertise in the relevant disciplines. A possible avenue of development is that Ministries of Finance include Sustainable Development Departments, responsible for incorporating environmental, social and economic issues in the formulation of the ministry's policies and plans. In doing so they could consider through an integrated lens the formulae for financing and allocating government expenditures.

26. While Ministries of Finance provide the budgetary framework within which ministries of planning and line ministries prepare their national development plans, there is also a need to be responsive to shifting priorities and approaches to development that emerge through planning discussions and sector implementation. This provides an opportunity for finance ministries to create innovative financial instruments or propose alternative financial mechanisms that can support the achievement of changing development goals. This can draw from local experience or benefit from international or regional financing opportunities to support green or greener development pathways. In doing so they can create the enabling environment for pursuing green economy policies that reaffirm and strengthen sustainable development principles and commitments.

III. ENVIRONMENTAL TAXATION AND INCENTIVES

27. Another tool the Arab governments can utilize in the field of Green Finance is taxation.

Environmental taxation schemes help in "getting the price right", which is an enabling condition for the development of a green economy. Best practices in designing different forms of environmental taxation include waste and wastewater disposal taxes, carbon taxes, etc... Taxation revenues can be channeled through national environmental funds for their effective use.

A. FULL COST PRICING

28. Pricing policies can play a key role in the transition towards a greener economy.

Full-cost pricing define the correlation between the individual costs and benefits of a transaction and the external costs that this transaction creates through its environmental damages on the society. Pricing can be particularly effective primarily in areas like climate change, where carbon emissions can be efficiently reduced through these instruments. But full-cost pricing may also be applicable in areas such as local pollution, , agriculture, waste and fishery.

29. Pricing instruments still seems to create some perplexities because of their subsidies and leakages effects and distributional implications. Still, full cost pricing play a key role in shifting the demand as consumer preferences respond to relative prices and when relative prices incorporate the true cost of producing goods and services, previously cheap or affordable commodities become no longer viable. Consumers curbing their demand of such goods and services, the result is increased demand for sustainable and green products.

30. In the field of climate change the mechanism of full cost pricing can oblige emitters of carbon to internalize the external costs they create to the society in terms of aggregate damage. In a nutshell, full-cost carbon pricing identifies a "fair" price of carbon that equalizes the monetized damage from extra emissions: this is defined as the social cost of carbon (SCC). The SCC can be applicable also to

changes in agricultural output, damages from increased flood risk, harm to human health, and the reduced value of ecosystem services.

31. Full-cost pricing is also strategic because it can also raise substantial amounts of public revenue in an efficient way. For instance, with global emissions of around 8.5 billion tons of carbon a year, a global tax of say US\$ 60 per ton of carbon would raise approximately US\$ 500 billion, or 0.9 percent of world's GDP.

32. The ways the public sector could use these revenues are multiple, from reducing distorting taxes or cap-and-trade (a limit on the amount of a pollutant that can be emitted) schemes. This cap can be sold or allocated to firms in the form of emissions permits representing the right to emit specific volumes of pollutants. These permits are also known as carbon credits and are equivalent to their emissions. Firms that exceed their caps and need to increase their emission credits must buy them from those who don't require them. The transfer of permits is a real trade for which, the buyer is paying a charge for polluting, while the seller is being rewarded for having reduced emissions.

33. The difference in this case stands on the fact that taxes directly impose a price on damaging activities, while a cap-on-trade creates an implicit shadow price, which in the case of trade will become an explicit price on the market for emission rights. Moreover revenues can be used to easing the pressures on the public finances by reducing public debt, to reduce other distorting taxes, or to an increase public spending.

B. SUBSIDIES

34. The other side of the coin of environmental taxation can be considered subsidies. If taxes, as we saw, can play an important role in the promotion of Green Economy, Subsidies seriously risk to jeopardize the achievement of substantial goals in terms of green development. A number of perverse subsidies are, as a matter of fact, present in the national policy architecture of most countries.

35. An example where negative effects can be noticed is the constant presence of subsidies on fossil fuels, which inhibit the growth of renewable energies. Countries spend considerable amounts of public resources on inefficient fossil fuel subsidies. The International Energy Agency (IEA) estimates that fossil fuel subsidies amounted to \$557 bn in 2008, which is approximately 1% of world GDP. In emerging and developing countries, subsidies on kerosene, LPG and electricity are generally motivated on equity grounds as they give poor households access to basic needs. However, studies suggest that the benefits of most fuel subsidies in emerging and developing countries accrue mainly to higher income households (Coady et al, 2010)

36. Another critical area for subsidies is agriculture. Agricultural subsidies are for example significant, in particular in developed countries, but for the promotion of sustainable forms of agriculture, subsidies on synthetic inputs need to be reformed to allow organic farming inputs are to be more competitive and more accessible to the mass of producers.

37. Global subsidies for fisheries are also significant being estimated at US 15-35 billion annually and including modalities such as direct cash grants, tax breaks, and loan guarantees. The main problem stands on the assumption that some subsidies promote responsible fishing practices, but in reality most of them directly contribute to over-fishing.

38. Member States should review the whole spectrum of subsidies to avoid perverse consequences, and to ensure that the principle of the "polluter pays" is fully operationalized, in order to promote the internalization of environmental costs.

C. GREEN INCENTIVES

39. Green incentives help correct market failures, encourage private green investments and may be critical for the establishment and short-term survival of infant green industries. The main measures applicable for facilitating the investments include feed-in tariffs (i.e for electricity from renewable resources), green lending, green technology subsidies, research and development support, and innovative schemes such as payment for environmental services.

Governments can also provide direct subsidies to mobilize the market or for covering first investment risks.

40. For what relates to fiscal incentives we can mention tax credits, tax reductions and accelerated depreciations. These are considered direct financial instrument and can be designed to provide positive market-based incentives. As a matter of fact states can directly influence investments through tax exemptions for specific desired developments or by penalty taxes for unwanted developments,

41. Concrete examples in the Arab Region come from Syria, where it was conceived an income tax exemption scheme for enterprises committed to environmental protection by installing eco-technologies. Or Tunisia, where tax exemption or direct subsidies are agreed to companies involved in energy efficiency or waste treatment businesses and 50% of the investment can be complemented by soft loans.

In 2008 Jordan introduced custom duty exemption scheme for all sales and importation of Renewable Energy & Energy Efficiency equipment and systems in to the country as an incentive for investors and consumers to reduce their fossil fuel dependence and to minimize the country's imports of crude oil.

D. GREEN FINANCING FOR SMALL AND MEDIUM SIZED INVESTMENTS

42. In the Arab Region there is very little "green" financing for small or medium sized investments. This results from the lack of awareness about the green financing concept and leads to limited demand of this product by possible clients and, on the other hand, on the limited interest from banks to the risk issue.

If we take analyse, for example, the issue of sustainable energy applications, these have a very high market development cost and the initial transaction costs are also quite high. It is clear that financial institutions are a little bit reluctant to create the new financial instruments unless there is no new development in the sector in terms of new products or guarantees. The sector needs to develop.

Investing in the early stages of such a business carries a high perceived risk, due to the possibility of failure. Banks are pushed to compensate these risks with higher interest rates and more restrictive lending conditions that often hinder development of economically sound projects.

E. ALTERNATIVE FINANCIAL RESPONSES

43. Considering the difficulties in accessing bank finance, innovative companies that cannot produce necessary collateral can benefit from alternative financing tools these tools are venture or risk capital funds that are ready to invest in technology innovations for start-up firms and small businesses with interesting growth potential.

There is also "angel" or informal investors, affluent individuals who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. Angel investors are also organizing themselves into angel groups or networks to share research and pool their investment capital.

IV. GLOBAL AND REGIONAL COOPERATION

44. It is essential to consider all financing options in the global green economy including the climate investments as there is an increasing number of global climate funds available to invest in climate change mitigation and also adaptation activities. It is estimated that US\$ 521 billion was allocated to climate change measures by the end of 2009. The delivery in 2009 was weaker than expected as it accounted for only US\$ 82 billion⁹.

45. Globally, the funding available through the United Nations Convention on Climate Change (UNFCCC) and the Kyoto Protocol is the most important source of international funding for climate projects. These sources include the Clean Development Mechanism (CDM), the Joint Implementation program (CCAP-JI), the climate change programmes of the Global Environment Facility (GEF) and the adaptation fund. For instance, the GEF's climate programmes provide about \$250 million per year for projects in energy efficiency, renewable energy and sustainable transportation. The GEF funds also manage two small specialized funds for UNFCCC, the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF). The latter fund has a broader mandate to address adaptation, technology transfer and other related areas. These funds are mainly contributions from developed national governments. These contributions reached \$172 million for LDCF and \$90 million SCCF till 2008. Also, the World Bank provides some other sources such as the Climate Investment Funds and bilateral initiatives supported by developed countries¹⁰.

46. The Climate Investment Funds had contributions up to \$6.1 billion in 2008 from ten donor countries in response to Bali Action Plan, which are allocated as grants and loans. Other funds include the Clean Technology Fund, which includes funding opportunities for electric power, transport and energy efficiency and the Strategic Climate Fund assigned for new developments in adaptation projects¹¹. Current availability of funding for climate change projects is nevertheless small compared to what has been promised by developed countries as there is less than \$10 billion per year made available from the UNFCCC channels mainly from the CDM, in addition to about \$5 billion from the World Bank Investment funds as explained earlier.

47. Another global initiative is the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD) a cooperation mechanism of the World Bank's Forest Carbon Partnership Facility (FCPF) and UN agencies like UNDP, FAO and UNEP. Created in 2008, REDD appears as a multi-donor trust fund that secure resources for forest conservation in developing countries.

48. The above financial mechanisms for both climate change adaptation and mitigation provide good opportunities to initiate new projects or modernize existing ones within the context of green economy and eradication of poverty through creating new jobs and improving income of people. Green Funds (both new and/or existing sources) are also debated among the developing and developed countries during the negotiation forums that are held in preparation for Rio+20 in 2012.

49. It should be mentioned that during the Conference of Parties in Copenhagen (COP-15) developed countries were committed to provide new and additional resources through international institutions,

⁹ HSBC, Delivering the green stimulus, 9 March 2010.

¹⁰ United Nations Conference on Trade and Development, Financing the Climate Mitigation and Adaptation Measures in developing Countries. G-24 Discussion Paper Series, No. 57, December 2009.

¹¹ *ibid.*

approaching US\$ 30 billion for the period 2010–2012 with balanced allocation between adaptation and mitigation. Investments for adaptation will be prioritized for the most vulnerable developing countries, such as the least developed countries. Another funding will come from a wide variety of sources and such funding should flow through the Copenhagen Green Climate Fund ¹² In Cancun during COP-16 the process to design the Green Climate Fund was established and a new Cancun Adaptation Framework was set up to allow better planning and implementation of adaptation projects in developing countries through increased financial and technical support ¹³ .

50. One important element of the Cancun Agreements is that it formalized the finance goals set in Copenhagen to mobilize fast-start and long-term climate finance. The positive news is that developed countries committed ‘to provide new and additional resources through international institutions, approaching US\$ 30 billion in fast start finance for the period 2010-2012’. Moreover, developed countries committed to mobilize US\$ 100 billion a year in public and private finance by 2020 to meet mitigation and adaptation needs of developing countries that are ‘particularly vulnerable to the adverse effects of climate change.

The next climate change conference in Durban, South Africa in December 2011 and its preparatory meetings are expected to focus on finalizing and adopting the institution-building arrangements launched in Cancun including financing mechanisms.

A. GLOBAL MARKETS FOR ECOSYSTEM SERVICES

51. Another field of application is the Market for Services related to the conservation of the Ecosystems, as the problem here stands on the assumption that the costs of preservation are borne at the national level while beneficial consequences are enjoyed globally.

It is evident that it would be important to establish a mechanism to compensate those nations actively and positively involved in the preservation of the global commons. As a reference mechanism for these cross-borders payments, we could again consider the positive success of UN-REDD.

Nobel Laureat Joseph Stiglitz proposed otherwise the creation of “Green Paper Gold” to invest in environmental infrastructure. The proposal is still under definition but time will say if it will be effective.

The main issue here seems to be how to generate prices for externalities. The “cap-and-trade” carbon market is a concrete example for price discovery but other systems could be devised using the range of sophisticated green valuation/accounting techniques developed over the last two decades.

V. ARAB ENVIRONMENTAL FACILITY

52. Upon the recommendation of the Lebanese Ministry of Environment, the Council of Arab Ministers Responsible for the Environment (CAMRE) initiated the establishment of an Arab Environment Facility as a concrete mechanism to attract financial resources for environmental projects and programmes conceived to improve sustainable development in the Arab Region. The recommendation built upon the directives laid out in the *Initiative for Sustainable Development in the Arab Region*, adopted by CAMRE and issued at the World Summit for Sustainable Development in 2002. The Initiative identifies the need for “*creating and*

¹² Report of the Conference of the Parties on its fifteenth session, held in Copenhagen from 7 to 19 December 2009. Decision CP.15. <http://unfccc.int/resource/docs/2009/cop15/eng/11a01.pdf>.

¹³ Report of the Conference of the Parties on its Sixteenth session, held in Cancun from 29 November to 10 December 2010. Decision CP.16. <http://unfccc.int/resource/docs/2010/cop16/eng/07a01.pdf>.

enabling an environment for new investments in the Arab Region and inviting the international and regional bodies to enhance this increased investment towards the Arab Countries.”

53. The World Summit for Sustainable Development also recognized the importance of financing to achieve sustainable development in the Johannesburg Plan of Implementation that calls the international community to:

“Assist in the mobilization of technical and financial assistance, and facilitate the provision of adequate financing for the implementation of regionally and sub-regionally agreed sustainable development programmes and projects”.

54. While there are several social and economic development banks and funds in the region that serve Arab countries as well as developing states in other parts of the world, the Arab Environment Facility can be considered as a pioneering idea at the regional level as it recognizes that targeted resources can help to finance environmental improvements and progress. This recognition by the international community was the similar justification for the Global Environment Fund and the Adaptation Fund that was established by parties to the Kyoto Protocol of the UNFCCC. This recognition is also echoed in other regional mandates, such as the outcome document of the VIIth Euro-Mediterranean Conference of Ministers of Foreign Affairs, which recommended that the mobilization of financial resources to support Euro-Mediterranean countries in the area of sustainable economic development and reform for environment and sustainability in May 2005.

55. The success of Arab Environment Facility will depend heavily on the commitment of the different institutional and private sector stakeholders to support the facility with a sustainable source of funding that can be directed to support environmental projects in the Arab region. Ensuring that appropriate and sustainable environmental projects are identified and supported for funding and able to improve the Arab environment will be yardsticks that the Facility will need to establish and measure. The Government of Lebanon plays a crucial role in organizing this initiative and following-up on its implementation in the expectation that the work of the Arab Environmental Facility is operationalized and made available to support environmentally sustainable development in the Arab region.

Still some questions remain open for further discussion among the stakeholders: how is it possible to operationalise the AEF? How to ensure its sustainability and high standard of delivery and how to engage the partners in the process?

VI. CONCLUSIONS

56. The role of green finance in supporting the achievement of sustainable development goals is a crucial element of deliberations centered on moving towards a green economy. Ministries of Finance have a central role in fostering an enabling environment for creating and provide opportunities to access green financings for environmental-friendly projects or processes. This places Ministries of Finance as a strategic stakeholder in preparations for the forthcoming United Nations Conference on Sustainable Development within the context of its two thematic areas of focus, namely (a) a green economy for poverty eradication and sustainable development, and (b) an institutional framework for sustainable development.

A shared and common position from the Member States on these issues is sought as an outcome of this preparatory meeting so that the outcomes of these deliberations can be presented and further discussed during the Arab Preparatory Conference for Rio+20 that will inform deliberations at Rio+20, and function as a reference for post Rio+20 agenda in the region.