

RAISING PRIVATE SECTOR INVESTMENTS AND SOCIAL AWARENESS TO BOOST THE GREEN TRANSITION IN THE SOUTHERN NEIGHBOURHOOD: TWO PARTS OF THE SAME EQUATION

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A new agenda for the Mediterranean

The European Union (EU) adopted in February 2021 a new agenda for the Mediterranean: “Renewed Partnership with the Southern Neighbourhood” (EC, 2021). The strategy recognises that the Southern Neighbourhood (SN) is one of the main hotspots in the world as regards climate change and environmental degradation, and at the same time it outlines that the region is home to some of the world’s best solar and wind resources, presenting unparalleled opportunities for clean energy cooperation. By outlining that the European Green Deal represents a unique opportunity for Euro-Mediterranean cooperation, the strategy postulates that the EU and its partner countries in the SN should work together to strengthen environmental, energy and climate change resilience – with a view to helping mitigate risks to human lives and livelihoods and promote sustainable development, job creation and transition to high value sectors.

The strategy notably outlines four focus areas for cooperation in the green transition: i) climate and environmental governance, its link with public finances and fiscal initiatives,

and monitoring of targets; ii) supporting carbon pricing initiatives; iii) administrative capacity and targeted technical assistance to implement and enforce legislation both at the central and local levels; iv) education and awareness-raising, within both the private sector and the population at large as agents of change (EC, 2021).

In terms of tools, the strategy outlines that the EU is committed to using all its instruments to ensure the efficient, effective, swift and tailor-made rollout of the new agenda for the Mediterranean, taking into consideration the region's diversity, interests and needs (EC, 2021).

The Neighbourhood, Development and International Cooperation Instrument (NDICI) and the European Fund for Sustainable Development plus (EFSD+) are viewed as the main instruments for EU cooperation with partner countries in the region. The European Commission (EC) indeed proposes to mobilise up to €7 billion in this area between 2021 and 2027, with the aim of helping the mobilisation of private and public investments of up to €30 billion in the region (EC, 2021). On top of financing, policy dialogue with all relevant stakeholders is seen as a cornerstone of the cooperation, with special attention to be placed on the local level to ensure that the impact of cooperation is distributed geographically in an adequate manner.

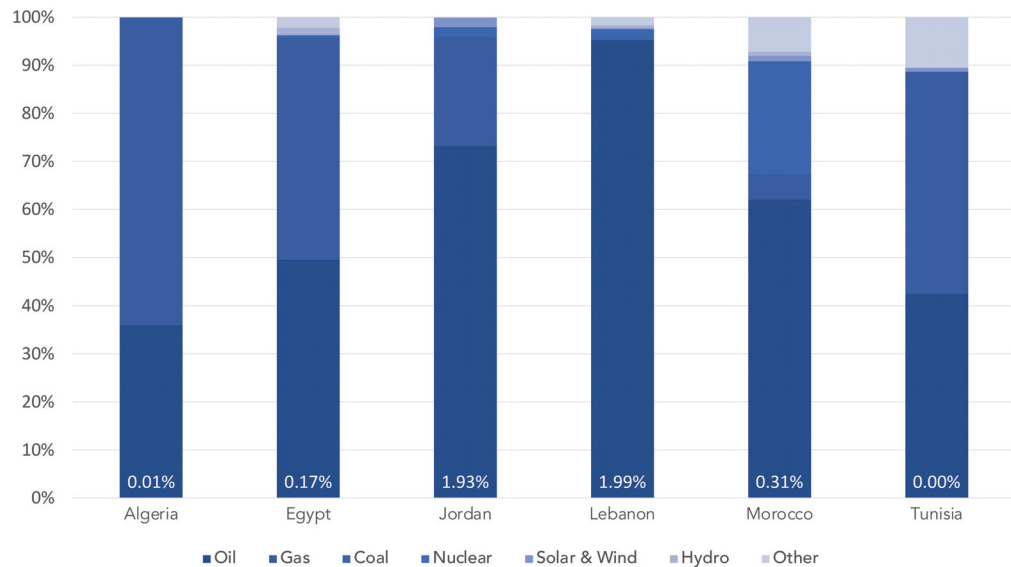
In the following, we review the current status of the green transition in the SN, and we provide a set of policy recommendations on how to raise private sector investments and social awareness to boost the green transition in the region.

The green transition in the SN

Partner countries in the SN are richly endowed with solar and wind energy resources, which are estimated to be among the best in the world (Global Solar Atlas, 2021). Solar photovoltaic potential is widespread in the region and can be tapped at both household and utility levels. Concentrated solar power performs optimally in utility-scale projects situated in the region's deserts, where the intensity of solar irradiation is among the highest in the world. Wind power also has great potential in the region, given the favourable wind conditions that characterise all these countries (Tagliapietra, 2018).

In recent years, partner countries have slowly started to exploit this potential. As outlined by Rovzar (2020), over the last 10 years regional countries have increased their renewable electricity generation by 40% by adding a total of 4.5 GW of wind, solar photovoltaic and solar thermal capacity to their renewable energy power fleet. As illustrated by the International Energy Agency (IEA, 2020), modern renewables remain poorly used in the region in the sectors of transport and heating. Traditional biomass continues to be the predominant renewable energy source used in heating, which represents a problem in terms of indoor air pollution, health and overall sustainability. The solar heat market continues to be underdeveloped, notwithstanding the important potential of the region. Likewise, renewables play a marginal role in transport in all regional countries, as electric mobility is still not developed and as biofuels are still poorly utilised.

Notwithstanding the initial progress on the renewable electricity front, wind and solar were still a minor contributor to partner countries' primary energy mixes in 2018, with shares of 0.01% in Algeria, 0.2% in Egypt, 2% in Jordan, 0.3% in Lebanon, 1.5% in Morocco and 1% in Tunisia (figure 1).

Figure 1. Primary energy mix in SN partner countries (2018)

Source: author's compilation based on the International Energy Agency database, accessed in April 2021.

It should be mentioned here that the reason why renewable energy sources continue to be marginal contributors to these countries' energy mixes relates to the persistent investment focus of these countries on fossil fuels. As illustrated by the IEA (2020), in 2019 regional countries invested \$30 billion in oil and gas supply, while only around \$7 billion in power supply – just a fraction of which goes to renewables.

SN partner countries do have decarbonisation plans, as in the framework of the Paris Agreement they have adopted some clear commitments in terms of emissions reduction, known as nationally determined contributions (NDCs). It should be noted that Algeria, Lebanon, Morocco and Tunisia also included in their NDCs specific targets for the deployment of renewable energy, while Egypt and Jordan adopted similar targets through national energy strategies (table 1).

Regional countries' NDCs present different levels of ambition, different targets and different priorities, but they do share a common feature: linking action to external (financial) support. The partner countries have indeed committed to only modest greenhouse gas reductions through their own efforts – and have promised much more substantial action only if external technical and financial support is made available (Tagliapietra, 2018).¹

¹ Conditionality in relation to climate goals is not just a Southern Mediterranean-specific issue, but a broader issue for all developing countries. About 78% of NDCs contained within the Paris Agreement include conditions. Of these, over 80% are attached to the provision of external financial support for all or part of the proposed measures.

Table 1. NDCs of SN partner countries under the Paris Agreement

	Unconditional emissions reduction targets	Conditional emissions reduction targets	Renewable energy implementation measures
Algeria	7% by 2030 compared to business as usual (BAU)	22% by 2030 compared to BAU	27% of electricity production by 2030
Egypt	<i>No specific target determined</i>	<i>No specific target determined</i>	<i>Not determined</i> (National strategy 20% of electricity production by 2022)
Jordan	1.5% by 2030 compared to BAU	14% by 2030 compared to BAU	<i>Not determined</i> (National strategy 10% of energy mix by 2020)
Lebanon <i>Not ratified</i>	15% by 2030 compared to BAU	30% by 2030 compared to BAU	15-20% of electricity production by 2030
Morocco	17% by 2030 compared to BAU	42% by 2030 compared to BAU	52% of installed electricity production capacity by 2030
Tunisia	13% by 2030 compared to 2010	41% by 2030 compared to 2010	30% of electricity production by 2030

Source: author's compilation based on the International Panel on Climate Change.

The key role of climate finance to unlock the green transition in the SN

International climate finance thus has a crucial role to play in fostering the green transition in the SN² – as it does play a fundamental role in developing countries all across the world.

Under the Paris Agreement, developed countries are committed to mobilising from various sources – public and private, bilateral and multilateral – \$100 billion per year by 2025 to support developing countries in their efforts to reduce emissions. With a contribution of €20.2 billion in 2016,³ the EU is the world's largest contributor of climate finance to developing countries.

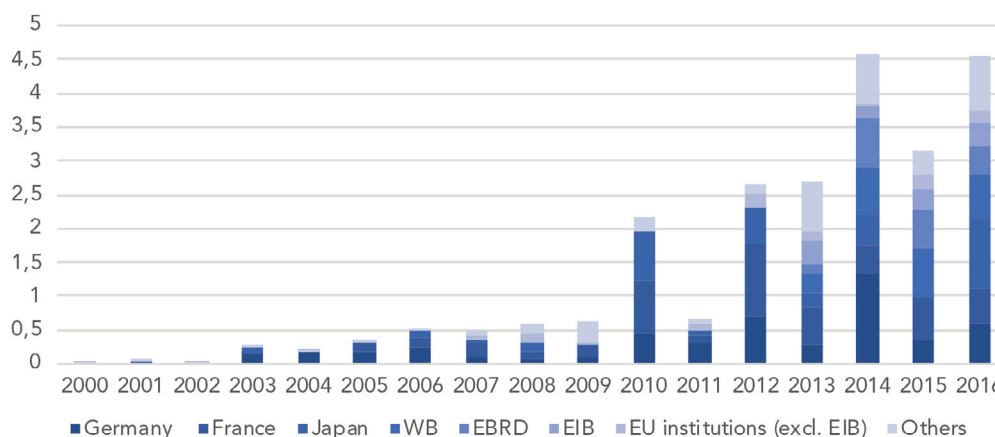
In recent years, SN partner countries have received increasing flows of European and international climate finance – here referred to as purely public sources, and not just private financing mobilised by them (figure 2). Between 2013 and 2016, Germany was the top contributor with a cumulative investment of \$2.8 billion, followed by the World Bank Group (\$2.4 billion), France (\$2 billion), the European Bank for Reconstruction and Development (EBRD, \$1.8 billion), Japan (\$1.7 billion), the European Investment Bank (EIB, \$1.2 billion) and other EU institutions (\$0.5 billion).

Looking at the latest available year, 2016, it is possible to see how half of the energy-related climate-finance flows to the SN was devoted to renewable energy generation, 30% to non-renewable energy generation, 15% to energy distribution and 2% to energy policy-related activities.

² This section largely draws on the in-depth analysis presented in Tagliapietra (2018). Unfortunately, latest data on climate finance made available by different sources (e.g., Organisation for Economic Co-operation and Development [OECD], Union for the Mediterranean [UfM]) still today only gets to 2016, as no updates have been made in respective datasets since 2018-19.

³ This includes contributions from the EU's own budget, from EU member states and from the European Investment Bank (EIB).

Figure 2. European and international flows of climate finance to the SN, by provider (2000-2016)



Source: author's elaboration based on the OECD DAC database, accessed in April 2021.

In absolute terms, the SN thus received \$0.8 billion of European and international climate finance to support renewable energy projects in 2016. This figure, amounting to 0.8% of the annual climate finance commitment pledged by developed countries under the Paris Agreement, could be scaled-up in the future, notably on the basis of a stronger EU commitment to the region (Tagliapietra, 2018).

More robust EU action to foster the development of renewable energy in the region via climate finance should, however, be linked to the implementation of certain energy reforms. These would be directed to removing the key barriers to the private sector's engagement in renewable energy in these countries.

Linking climate finance to a better governance for the green transition in the region

Scaling up renewable energy in the region in line with the countries' NDCs will be costly. For instance, the World Bank Group estimates that Egypt, Jordan and Morocco alone would need around \$100 billion in investment in renewable energy generation between 2016 and 2030 to meet their NDC targets (IFC, 2016).

International private investment is essential to meet this large investment need. However, various barriers in the region continue to prevent international investors from becoming more engaged in partner countries' renewable energy sectors. Two key barriers stand out:

1. Legal and regulatory barriers: all SN partner countries have renewable energy targets, but achieving them ultimately relies on the presence of sound and stable renewable energy regulatory frameworks. On this front, much remains to be done in the region. As also outlined by Poudineh et al. (2018), renewables have been "locked out" of many regional countries as a result of distorting fossil fuel subsidies, as well as the simultaneous presence of risk and uncertainties, weak institutions, and inadequate grid infrastructure. As indicated by a survey conducted by the Renewable Energy Solutions for the Mediterranean (RES4MED, 2017), frequent changes in feed-in-tariff schemes are also a concern for investors in several countries, while in other countries the lack of an independent regulatory authority or of a fully developed regulatory framework is a matter of concern for investors.

2. Financial barriers: currency convertibility, inflation and lack of foreign reserves are concerns for investors in several countries (RES4MED, 2017). The cost of financing and the limited availability of debt from commercial sources for renewable projects represent a general challenge in several countries, though to different degrees. These barriers are felt either through non-availability of finance or inflexible grace periods that are not adapted to the characteristics of such investments (Krupa & Poudineh, 2017).

Partner countries have the responsibility of taking action to overcome these barriers by reforming their energy sectors in order to unleash private investment. However, the EU can support this process by offering individual countries more ambitious climate financing, aimed at cutting the cost of capital for renewable energy projects and leveraging more private investment.

But such action should be conditional on the implementation of the reforms necessary to attract further private investment. To be clear, these reforms should not be aimed at replicating the EU frameworks and rules in the SN, but at formulating pragmatic solutions to the countries' specific legal, regulatory and financial bottlenecks.

In the legal and regulatory areas, concrete solutions to be promoted in specific countries might include measures to increase clarity and transparency of rules; to provide legal and administrative support to international energy companies willing to invest in the country; to enhance transparency and clarity of rules in dispute procedures and to shorten dispute resolution timeframes; to phase-out fossil fuel subsidies; to establish one-stop-shops for renewable energy permits. Positive experiences exist in the region. As flagged by the IEA (2020), Egypt managed to accelerate renewable energy deployment as it identified early the laws and regulations that could enable private investment in the sector. The country notably introduced feed-in tariffs in 2014 and allowed long-term power purchasing agreements (PPAs) in 2017 with a view to making investments by independent power producers more attractive. Morocco enshrined the right to sustainable development in the Constitution, set clear long-term renewable energy targets and put in place the necessary legislation to pursue this vision – for instance allowing tendering and auctions for large-scale solar and wind projects, and other measures encouraging private investments in the sector. The establishment of the Moroccan Agency for Sustainable Development (MASEN) also helped this regard, as it increased the country's institutional reliability in the field.

In terms of financing, concrete solutions to be promoted in specific countries might include measures to enhance local banks' capacities and ranges of instruments for supporting international investors; to establish a more stable central bank monetary policy; to encourage transactions and power-purchase agreements with a more stable currency; to establish favourable tax regimes for renewables (Tagliapietra, 2018). Greater climate finance support should be prioritised to SN partner countries that implement such solutions in practice.

Raising awareness is the other key element to unleash the green transformation in the region

Education and awareness-raising within both the private sector and the population at large can be important drivers of change; that is, the green transition should also be bottom-up. After all, the European Green Deal itself is an illustration of how important it is to mobilise people, foster behavioural change, and clarify costs and benefits of climate action.

Civil society organisations (CSOs) can play an important role in influencing climate policy formation and implementation. The complementary role to central governments' actions is thus important in raising awareness about the transition and promoting it. But how can CSOs help shape and support the green transition? There seem to be two most sensible actions in this field. First of all, environmental non-governmental organisations (NGOs), social organisations and networks can take up positions to support/call for stronger climate policy. Secondly, cities can play a key role in the green transition, for instance by promoting green mobility solutions. It must be noted that one of the main issues in most of those partner countries is the absence of unimpeded access to information and transparency. That is, NGOs and individuals can do little if access to public policy and public sector information is not guaranteed. The EU can play an important role in getting these countries to adhere to open access standards. This represents a key step in the process of raising awareness to unleash the green transformation in the region.

It should also be mentioned that civil society stakeholders are key to deal with "just transition" issues. It is thus important to illustrate to civil society the socio-economic benefits of the green transition (e.g., green jobs, green industrial opportunities, etc.) and this can also be done with devoted educational programmes. All this is key to ensure long-term stability of the green transition – in the SN as in Europe and elsewhere in the world.

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