“The Middle East needs a bank for climate adaptation”, Op-ed in Arabian Gulf Business Insight (AGBI), 22 Nov 2023

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The article is published below.

The Middle East needs a bank for climate adaptation

Given Mena’s high climate risk exposure, the GCC should seize the initiative

Our planet is sitting on a time bomb. Global heating is pushing the world closer to climate tipping points where change is irreversible.

Current climate action plans fall way short of engineering the 43 percent reduction in emissions required by 2030 to limit temperature increase to 1.5C.

It is unlikely that countries will meet their net-zero emission commitments and deploy sufficient resources to prevent, let alone reverse, climate change.

The Mena region has already crossed the 1.5C threshold, with visible and growing climate-induced stresses: heightened desertification, lower agricultural productivity, persistently higher temperatures, water stress, rising sea levels, and an increasing frequency and strength of Mediterranean hurricanes, so-called “Medicanes”.

All these grim factors are stoking migration, producing socioeconomic pressures and increased inequality across the region, with poorer countries unable to combat climate change.

Addressing adaptation

To address the challenges, we need to shift to climate adaptation. This means moving beyond policies and investment which focus on the “energy transition”, such as clean energy, electric vehicles, and energy efficiency.

Legacy infrastructure, such as power systems, ports, airports and transport systems, water and waste management, and housing have not been designed to deal with climate change and related extreme weather.

This is why when dams collapsed in Libya more than 11,000 died; this is why floods displaced 30 million in Pakistan.

New infrastructure must be planned, designed, built and maintained to be climate resilient and deliver climate resilient services.

In addition, existing infrastructure – including buildings and housing stock – must be urgently retrofitted for the better protection of life, habitats and assets.

Every $1 invested in climate adaptation can yield up to $10 in net economic benefits – as countries become resilient against natural disasters and benefit from new climate adaptation technologies that lift productivity and produce environmental benefits.

The four-pillar action plan from the UAE’s Cop28 president Sultan Al Jaber includes fast-tracking the energy transition by slashing emissions before 2030, transforming climate finance to make funding more affordable and accessible, and protecting nature, lives, and livelihoods with a focus on inclusivity.

It calls on donors to double adaptation finance by 2025, and emphasises the urgency of donor countries honouring their commitments by making good on the $100 billion pledge this year.

Climate risk mitigation and adaptation investments complement each other, but climate adaptation requires even higher investment levels, over longer horizons, with large upfront capital expenditure, and the retrofit of existing infrastructure.

Current proposals, which have featured an acrimonious debate around a blueprint for a “loss and damage” fund for climate justice, pale in comparison to what is needed.

The bottom line is that developing countries, excluding China, require some $2 trillion per year by 2030 in climate funding. Where will the finance come from?

Finding the finance

Given existing high levels of debt and interest rates, many governments do not have the fiscal and debt space to finance adaptation.

Relying on public spending to fund de-carbonisation and adaptation investment on this scale would cause a substantial run-up in debts, possibly to the tune of 45-50 percent of GDP for a large, high-emitting emerging market. This is an unsustainable option.

Poor and developing countries face a daunting challenge. They are unable to adapt, which leads to further climate disasters and a growing divide with advanced countries.

The scale and urgency of climate action requires new institutional arrangements and increased reliance on the private sector as a source of finance and technology.

A dedicated, independent and global climate bank is needed. Given the high climate risk exposure of the Mena region, and the GCC at its core, the GCC should seize the initiative.

It should set up an International Climate Bank to provide finance (including grants and concessional finance) for climate resilient infrastructure and climate tech, providing project finance and funding for public private partnerships.

The founders of the climate bank would include the GCC and partner countries, sovereign wealth funds, and development funds, along with multilateral partners (Asian Infrastructure Investment Bank, Islamic Development Bank and other development banks) and private stakeholders.

A major focus should be on the private sector.

This should be served by an International Climate Finance Corporation, which aims to increase research and development and funding of climate tech, to de-risk climate finance, and scale up by using innovative financial instruments such as green insurance and fintech.

The International Climate Bank could set up specialised funds and tap international capital markets through climate bonds and sukuk.

The new body could become a global financial powerhouse funding a new growth and development paradigm, based on investment and job creation in green and climate tech boosted by AI, aiming to be inclusive in addressing the needs of developing economies.