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ARAB TRADE UNION CONFEDERATIO

Financing a Just Energy and Climate Transition in Iraq



**Financing a Just Energy and
Climate Transition in Iraq**

1) Introduction

Iraq faces escalating climate and environmental risks desertification, severe water scarcity, more frequent dust storms, and extreme heat while its economy remains overwhelmingly dependent on oil. This creates a central dilemma: oil revenues finance the state and a large share of livelihoods, yet the fossil-fuel model contributes directly to emissions, pollution, and climate vulnerability.

In this context, a just energy and climate transition is the planned shift toward a cleaner, more resilient economy without sacrificing social justice. It requires that the costs and benefits of transition are shared fairly, and that vulnerable groups and affected communities are protected through targeted support, decent jobs, and inclusive decision-making.

A just transition in Iraq is therefore inseparable from climate justice and social justice. It prioritizes:

- Protecting poor and vulnerable households from “energy poverty”
- Supporting rural communities and farmers most affected by drought and land degradation
- Ensuring that workers especially those linked to carbon-intensive sectors are not left behind through reskilling, social protection, and new job creation
- Ensuring transparency and accountability in the use of climate finance

2) Main Sources of Financing for a Just Transition in Iraq

2.1 Domestic Public Financing (Government & State Institutions)

Domestic funding is largely tied to the public budget financed by oil revenues. Historically, climate and environmental spending has been limited, but recent years show the emergence of national initiatives.

A major development is the Central Bank of Iraq’s green lending initiatives, launched to support renewable energy and environmental projects. These programs aim to provide concessional credit (low interest rates, longer repayment periods) for:

- Solar energy systems for households and businesses
- Clean energy projects for municipalities and public institutions
- Conversion of highly polluting industrial activities (e.g., certain brick factories) to cleaner fuels
- Afforestation, green belts, and environmental rehabilitation projects

Alongside this, Iraq has announced new or specialized financing entities and instruments (e.g., “green banking” initiatives), though their effectiveness depends on governance, clarity of mandate, and transparency.

Despite these steps, domestic public financing remains constrained by:

- High current expenditure pressures (wages, subsidies, emergency spending)

- Dependence on volatile oil prices
- Institutional capacity gaps and coordination challenges

2.2 International Climate and Development Finance

International finance constitutes a critical pillar for Iraq's climate and just transition agenda, especially given the scale of investment required.

Key channels include:

a) Green Climate Fund (GCF)

Iraq has begun accessing GCF-backed support, particularly for adaptation and resilience in vulnerable rural areas. Such projects typically focus on:

- Climate-resilient agriculture
- Efficient irrigation and water management
- Solar-powered water pumping and improved water services
- Support for women and youth livelihoods in climate-affected regions
- Capacity building and early-warning systems

b) World Bank and Multilateral Development Banks

International financial institutions provide financing and technical support linked to reforms and sector modernization, including:

- Energy sector governance and reform programs

- Sustainable finance frameworks and ESG integration in national banking systems
- Infrastructure investments aligned with climate resilience (water, electricity, urban services)

c) EU and Bilateral Donors (Germany, Japan, France, etc.)

Bilateral partners and the EU support Iraq through:

- Grants and technical cooperation for renewable energy and climate policy
- Water security projects in drought-affected governorates
- Vocational training and capacity building in clean energy fields
- Support to local and municipal resilience initiatives

International finance often reaches communities through UN agencies and international NGOs due to governance concerns, which can speed implementation but also risks fragmentation if national coordination is weak.

2.3 Private Sector Financing and Partnerships

Because the costs of transition are very large, private investment domestic and foreign is essential.

Key patterns include:

- Large-scale solar projects through PPP/IPP models (independent power producers)

- Investment deals with global firms (solar expansion, gas capture, grid-related projects)
- Partnerships with regional investors for renewable capacity

However, private financing in Iraq faces challenges:

- Investor concerns about policy stability, payment reliability, and security risks
- Limited domestic capital markets
- Risks of low transparency in major contracts
- Need for strong procurement rules and social/environmental safeguards so that projects genuinely serve climate justice goals

2.4 Civil Society and NGO Financing

Civil society and NGOs play a major operational role in Iraq's climate action landscape, mobilizing donor funding for:

- Community resilience and adaptation projects
- Local livelihood programs and climate-smart agriculture training
- Water and sanitation improvements
- Awareness campaigns, environmental rehabilitation, and grassroots afforestation

This channel is vital for reaching vulnerable groups quickly, but it may also lead to:

- Project fragmentation across regions
- Unequal geographic distribution of funding

- Short-term funding cycles without long-term sustainability unless integrated into national planning

3) Key Financing Instruments and Mechanisms

Iraq is using or exploring a mix of traditional and emerging instruments, including:

- Concessional loans / green credit lines (via the central bank and participating banks)
- Grants (especially for adaptation, community resilience, and capacity building)
- Public–Private Partnerships (PPP) and long-term contracts (e.g., PPAs in electricity)
- Municipal financing windows for solar street lighting, water pumping, and local services
- Specialized funds and institutions (green banks / green finance initiatives)
- Potential future tools: green bonds, blended finance, guarantees, results-based financing, and carbon market revenues—provided transparency and governance are strengthened

4) Priority Programs and Sectors for a Just Transition

4.1 Energy

A just transition in Iraq does not mean abrupt shutdown of oil and gas; it requires sequencing:

- Expanding renewables to reduce dependence on diesel generators and reduce pollution
- Capturing and utilizing associated gas (reducing flaring)

- Improving energy efficiency and reducing grid losses
- Supporting training programs for solar installation and maintenance to build “green jobs” pathways for youth and workers

4.2 Agriculture and Water

Because climate change hits Iraq hardest through water stress and land degradation, just transition financing prioritizes:

- Efficient irrigation systems and modern water management
- Solar-powered agricultural water pumping
- Soil rehabilitation and sustainable land management
- Climate-resilient crops and farmer support systems
- Women and youth livelihood support in vulnerable rural areas

4.3 Cities and Urban Resilience

Urban climate finance initiatives include:

- Green belts and afforestation to reduce dust storms and heat stress
- Improved waste management and methane reduction where feasible
- Upgrading public services to reduce climate-related health risks

4.4 Transport

A just transition approach includes:

- Cleaner public transport pilots
- Better urban mobility planning
- Gradual efficiency improvements and cleaner fuels

Across all sectors, climate justice requires prioritizing:

- Communities most exposed to climate harms (especially in the south and rural zones)
- Low-income households facing energy insecurity
- Workers and informal laborers vulnerable to economic shocks

5) Major Challenges to Just Transition Finance in Iraq

Key barriers include:

- Oil dependency and revenue volatility
- Weak economic diversification and limited domestic private investment capacity
- Governance and transparency gaps, including procurement and monitoring challenges
- Institutional fragmentation and limited coordination
- Geographic inequality in how projects and funding are distributed

- Scale mismatch: climate needs are massive compared to funds currently mobilized
- Political and security risks influencing investor confidence
- Limited public participation and civic space constraints, which weakens accountability and justice outcomes

6) Future Opportunities

Despite the constraints, Iraq could expand just transition finance through:

- Loss and Damage Fund and other new global climate finance mechanisms
- Potential Just Energy Transition Partnership (JETP)-type packages (if a credible plan and governance framework is negotiated)
- Carbon markets (Article 6) by monetizing emissions reductions (e.g., reducing flaring, land restoration projects)
- Debt-for-climate swaps and blended finance tools
- Regional green partnerships and cross-border energy/water initiatives
- Guarantee instruments to reduce risk and mobilize private investment under strong safeguards

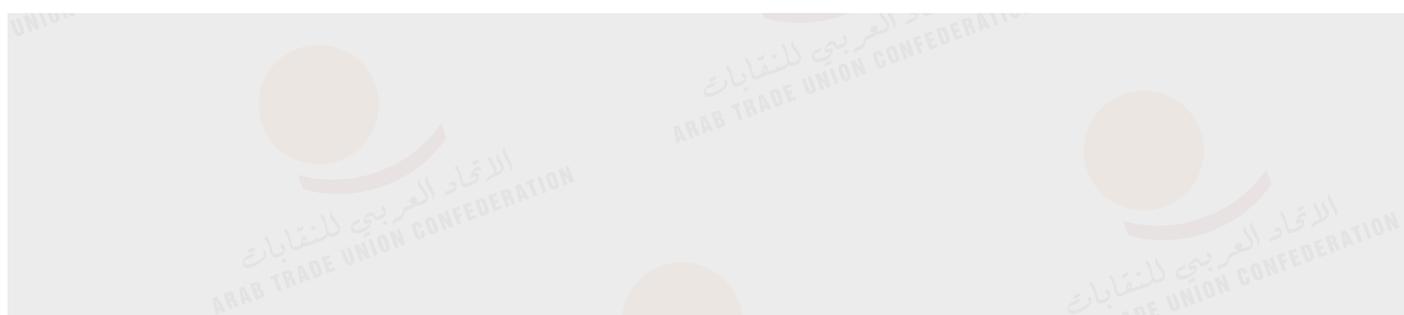
7) Role of Civil Society, Trade Unions, and Local Institutions

A just transition cannot be achieved through finance alone. It requires governance and social participation.

- Civil society helps ensure transparency, local needs assessment, and social accountability.
- Trade unions are essential to protect workers' rights, negotiate reskilling programs, and embed decent work standards in climate-financed projects.
- Local authorities can ensure place-based justice: funding reaches the communities most affected, not only the most visible or politically connected.

In Iraq, strengthening these actors' participation is key to ensuring that climate finance does not reproduce exclusion, corruption, or unequal development patterns.

FINANCE MAP: JUST ENERGY & CLIMATE TRANSITION – IRAQ



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