

Climate Finance

Introduction

Developing countries are likely to suffer disproportionately from the effects of global climate change. In recognition thereof, and of differences in historic responsibility, wealth, and capacities, the **UN climate regime seeks to make available finance from developed countries for climate action by developing countries** ('climate finance'). The term is also used to denote all financial flows, from private as well as public sources, directed at climate change responses globally (broad definition). In addition, donor countries track the amount of 'climate-related' aid they provide.

The UN climate regime stems from the **1992 Rio Conference** on Environment and Development where several key international legal instruments on the environment were adopted - including the UNFCCC whose objective is the "stabilization of greenhouse gas concentrations at a level that would prevent dangerous anthropogenic interference with the climate system." Article 3 of the UNFCCC establishes **the principle of 'common but differentiated responsibilities'** which has guided the evolution of international climate finance discussions. Decisions adopted by the UNFCCC COP underscore the obligation of developed countries to take the lead in combating global climate change, and recognise that developing countries' mitigation commitments are conditional on developed countries effectively implementing their obligations in relation to financial resources and technology transfer.

The **2009 Copenhagen Accord** states that scaled-up, new, additional, predictable, and adequate funding, as well as improved access to this funding, must be provided to developing countries for, inter alia, adaptation to climate change. The accord describes the collective commitment, confirmed by the Cancun Agreements, by developed countries to provide new and additional resources approaching \$30 billion for 2010–12, increasing to \$100 billion annually by 2020.

But **what counts towards these figures?** There is no **internationally-acknowledged definition of what qualifies as climate finance**. Also, promises of future climate funding need to be credible and protected from volatility, backsliding or 'repackaging'. Least developed and low in-

come countries in particular maintain that the bulk of assistance provided to them must be in the form of grants from developed country public sources. Such assistance for these countries will clearly be essential, and will have to be significantly scaled up and sustained – in particular for adaptation activities.

It is also increasingly understood that **the investment required for a serious response to climate change will likely dwarf the resources that can realistically be made available from public sources alone**. Hence, growing attention is being given to mobilising private finance. The threat to the global commons presented by climate challenge is of such a scale that it can only be addressed if we commit to doing things differently to the way in which we have to date ('paradigm shift'). This involves us all.

A number of estimates of climate finance **needs in developing countries** exist, giving a range of figures:

- **Adaptation:** annual investment of about **US\$ 71 to US\$ 81 billion** (WB EACC, 2010). Under a 3.5-4°C warming scenario, these could reach between US\$ 45- US\$ 50 billion p.a. by 2050; and by 2100, reach 4 % of Africa's GDP (UNEP, 2013).
- **Mitigation:** annual incremental investment (around 2030) of **US\$ 177 - US\$ 695 billion** (Various)

For **Africa**, recent estimates are:

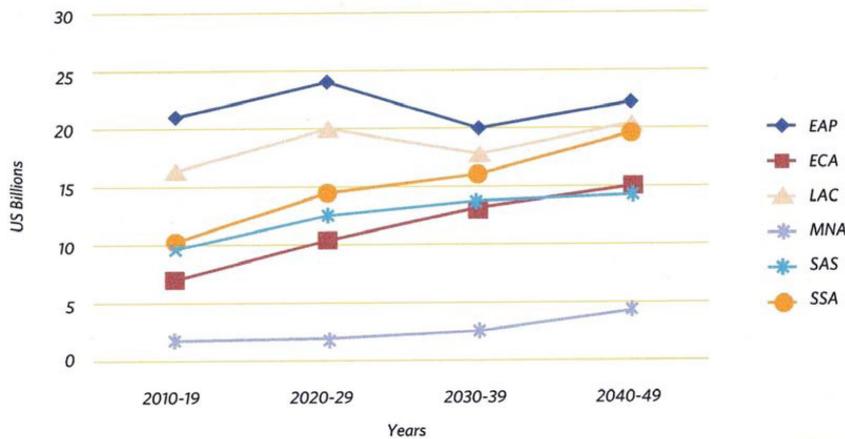
- **Adaptation:** about **US\$ 18 billion** per year (WB EACC, 2010); or **US\$20 – US\$ 30 billion** (including Africa's current 'adaptation deficit' - AfDB, 2011).

Mitigation: ('the costs of putting Africa on a low-carbon growth path') about **US\$ 22 –US\$ 30 billion** per year **by 2015**, and **US\$ 52 – US\$ 68 billion** per year by **2030** (AfDB, 2012).

The global 'broad definition' overview

- The latest comprehensive annual inventory of all climate finance flows (**public and private for 2012**) shows that these have plateaued at around **US\$ 1 billion per day**. About 94% was invested in mitigation and **6% went toward adaptation interventions; 51% was invested in developing countries** and 49% in developed. [It captures 'climate-specific' upfront capital investment costs and grants committed,

TOTAL ANNUAL COST OF ADAPTATION FOR THE NATIONAL CENTRE FOR ATMOSPHERIC RESEARCH (NCAR) SCENARIO, BY REGION AND DECADE (\$ billions at 2005 prices, no discounting)



Note: EAP is East Asia and Pacific, ECA is Europe and Central Asia, LAC is Latin America and Caribbean, MNA is Middle East and North Africa, SAS is South Asia, and SSA is Sub-Saharan Africa.

on a gross rather than net basis; it excludes ‘climate-relevant’ finance.]

- The authors note that this total is far below even the most conservative estimates of global investment needs. They observe that **public policies, resources, and money are the ‘engine room’ of the climate finance system**, and that these need to be strategically directed – notably towards incentivizing the private sector to significantly accelerate investment.
- Private sector climate finance made up 62%** of identified flows - almost entirely channeled into renewable energy generation projects (**made possible largely by public investments**). About three quarters of this went to three markets: **Europe (33%); China (30%); and the U.S. (12%)**.
- Public sources contributed the other 38%, and **100% of adaptation flows**.
- The vast majority of investments were funded by climate finance originating in the same country it was spent (72% in developing, and 81% in developed countries)**.
- About **50% of international climate finance streams flowed from North to South; public sector flows represented 80-90%** of this.
- Development Finance Institutions** channeled about one third of overall climate finance flows and contributed **81% of funding for adaptation activities**.

Climate-related aid overview

- Developed countries that signed the three Rio Conventions (on climate change, desertification and biodiversity) in 1992 committed themselves to assist

developing countries to implement these Conventions. The OECD Development Assistance Committee (DAC) monitors aid targeting the objectives of these Conventions (using the ‘Rio markers’).

- DAC members’ climate change-related aid was estimated at just over **US\$ 21 billion in 2010-11, representing 16% of total official development assistance (ODA)**.
- Of this, **58% was for mitigation, 24% for adaptation, and 18% for activities designed to address both**.
- Contributions by DAC members to multilateral climate-specific funds plus the climate-related share of their core contributions to multilateral organizations was about **US\$ 3.4 billion in 2011**

Climate-specific funds overview

- Global mitigation funding: Despite appearing reasonably even across developing regions, the distribution of funding approvals across states isn’t: **89% of the total went to only 20 countries. Of the four top recipients, though, two were in Africa (SA & Morocco)**. Although historically China and India received much of this, in 2013 they obtained modest additional approvals. The **top two funds by far were the CTF and GEF** (both managed by the WB).
- Global adaptation funding: **Sub-Saharan Africa leads the regional distribution (38%)**, followed by Asia and the Pacific (26%), then Latin America and the Caribbean (11%). **Two of the five top recipients were in Africa (Niger and Mozambique)**. The **top four funds were the LDCE, PPCR, AF and SCCF**.
- For **Sub-Saharan Africa, approvals for adaptation and mitigation focused activities is almost even** at just under 40% each; REDD+ and multiple focus

funding making up the remaining roughly 20%.

- **In terms of disbursements in SSA, adaptation funding leads with 50% of total finance paid out** (or 43% of the amount approved for adaptation activities); followed by REDD+ and multiple focus finance at 27% of the total disbursed, and mitigation funding at 23%.

• The **top funds supplying funding in SSA** are: [**M**=Mitigation, **V**=Various, and **A**=Adaptation focus; fund name & main contributors; sums approved for SSA in US\$ m, and as % of global approvals):

- ▶ **M** Clean Technology Fund (US, Japan, UK, Germany & France): US\$ 401 m (18%)
- ▶ **M** (REDD) Congo Basin Forest Fund (UK, Norway & Canada): US\$ 95 m (100%)
- ▶ **V** Global Environment Facility 4 & 5 (US, Japan, Germany, UK & France): US\$ 198 m (13%)
- ▶ **V** Global Climate Change Alliance (EU, Central Asia, Ireland): US\$ 185 m (48%)

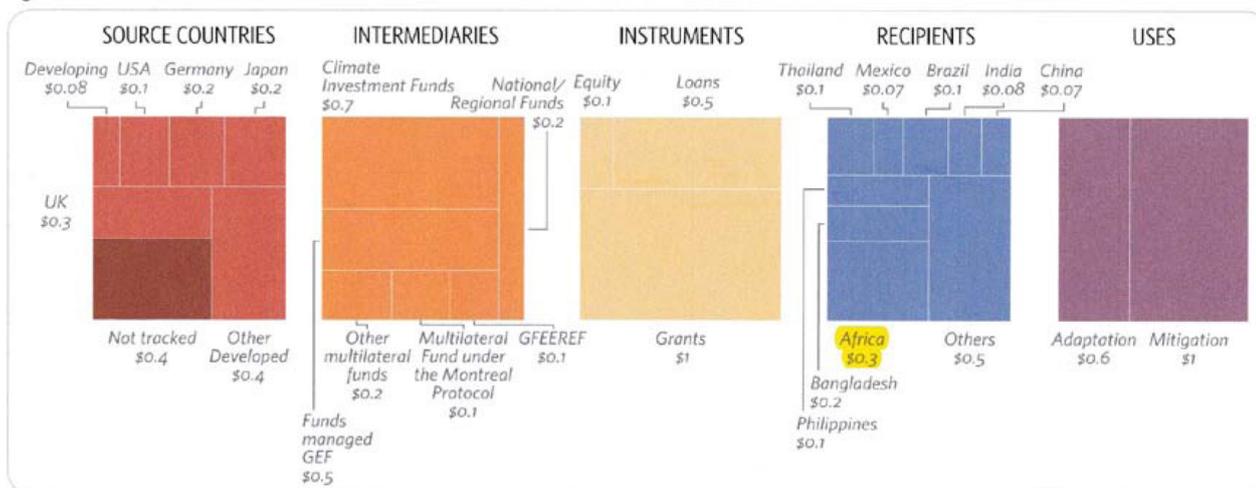
- ▶ **V** International Climate Initiative (Germany): US\$ 96 m (10%)
- ▶ **A** Least Developed Countries Fund (Germany, UK, Sweden, US, Netherlands): US\$ 320 m (63%)
- ▶ **A** Pilot Program for Climate Resilience (UK, US, Japan, Canada & Germany): US\$ 155 m (38%)

- **South Africa has received over 25% of SSA's funding approvals since 2003—largely for mitigation**, much of the finance received going to the largest approved project in the region: the **Eskom Renewable Energy Support Program (US\$ 350 m)**.

- The **largest approved country adaptation initiatives (PPCR) are in Niger (US\$ 98 m) and Mozambique (US\$50m)**.

- **In North Africa, approvals are concentrated in Morocco (nearly 60%) and Egypt (about 33%)**; most of this finance has been made available **as concessional loans for mitigation activities**.

Figure 7: Climate funds finance flows (USD billion)



Source: Climate Policy Initiative, The Global Landscape of Climate Finance 2013

Carbon Markets

- The most important for developing countries has been the **Clean Development Mechanism (CDM)** 'compliance market'. Between 2001 and 2012, over 1 billion **Certified Emission Reduction (CER)** units were issued under this instrument, but **Africa has hosted only 3% of the less developed world's CDM projects. Africa ranks 5th out of the world's six developing world regions**, ahead only of the Middle East, based on 4 indicators employed by UNEP Risoe. A key factor behind this is that the most cost-effective project development opportunities are usually to be found in larger, rapidly expanding 'emerging' economies.
- The economic slowdown and continuing uncertainty about whether agreement will be reached on a sec-

ond commitment period under the Kyoto Protocol (the first having ended in 2012), have resulted in plummeting CER prices due to oversupply— particularly in the European Union's Emissions Trading Scheme (EU-ETS), the world's largest compliance market that also provides most of the demand for CERs. The **CDM thus holds limited prospects for funding new projects at present**.

- The market for **Voluntary Emission Reductions (VERs)** – 'voluntary market' - has proven more resilient: although prices have fallen off somewhat, volumes have been rising. Notably, **Kenya was the world's 4th largest supplier country in 2012 (out of 65), producing over half of Africa's total transaction volume**.

The evolving international climate finance environment

Core principles for improving aid effectiveness established in the Paris Declaration and Accra Agenda for Action - including '**ownership**' (recipient countries setting their own strategies) and '**alignment**' (with domestic policy/ institutional frameworks and systems) also **inform the thinking about how international public climate finance should be delivered**. Current deliberations about what the flagship Green Climate Fund (GCF) should focus on, and how, incorporate these principles – and draw on the practices and experiences of a wide array of funds. A number of **important issues are currently being thought through**:

- How to harmonize national priorities ('ownership') with the global imperative of remaining within the planetary boundaries, or what should be the **balance between adaptation and mitigation funding in different contexts**? Achieving a global welfare-optimizing balance between the two is difficult because it requires weighing up impacts on people living in different places and at different points in time. **For Africa as a whole**, as for Small Island Developing States (SIDS) and Least Developed Countries (LDCs) generally, **adaptation is the overriding priority**.
- In the near term, **what priority should be given to general capacity-building and the strengthening of enabling frameworks versus investing in specific 'flagship' projects or programmes**? Which is likely to be most effective at overcoming existing barriers to climate compatible development in each country or group of countries?
- What provisions can be made to ensure that all important stakeholders are able to play a meaningful role within countries ('no-objection procedure')?
- **US\$ 400+ million is already being provided to support 'readiness and preparatory activities'** in developing countries; should this be targeted primarily at acquiring the **specific capabilities necessary to directly access international public funds**, or at **building lasting capacity within domestic institutions and entities** that will ultimately have to implement national climate change programs?

Key elements of a national climate finance governance framework

- **Political commitment and clarity of intent**. Depends critically on leadership and forging consensus among key stakeholders, particularly those that wield the most influence.
- **Strategic coherence**. Requires mainstreaming climate change into development planning and national

budgeting, and ensuring alignment between national development, sectoral and climate change goals.

- **Institutional coordination arrangements**. In support of achieving such coherence, and harmonization of policies, plans and processes -avoiding functional overlaps and lack of clarity on mandates, and minimizing the development of new institutions where possible. Provision for a multi-stakeholder platform to facilitate meaningful participation by NGOs, CSOs, academia, and big business as well as SMEs.
- **Transparency and accountability**. Proactive public dissemination of key information on climate finance and access to information protocol. Mechanisms for downward accountability in-country to complement upward accountability to donors.
- **Social and environmental safeguards**. To safeguard human rights and gender equality as well as environmental integrity.
- **Fiduciary principles and standards**. Tracking climate expenditure in national, sectoral and state-owned enterprise budgets; monitoring and evaluation of its impact (including independent civil society oversight); public financial management and procurement.

Additional Resources

International:

<http://www.climatemediapartnership.org>
<http://www.climatefundsupdate.org/>
<http://www.oecd.org/dac/environment-development/>
<http://climatepolicyinitiative.org/>
<http://www.odi.org.uk/>
<http://www.wri.org/>
<http://www.climateanalytics.org/>
<http://cdkn.org/>
<http://germanwatch.org/en>
<http://tckctck.org>
<http://cigrasp.pik-potsdam.de>
<http://alm@undp.org>
<http://unfccc.int>
<http://sdwebx.worldbank.org/climateportal/>

Africa specific:

<http://www.afdb.org/en/topics-and-sectors/sectors/climate-change/>
<http://new.uneca.org/acpc>
<http://www.africa-adapt.net>
<http://www.africanclimate.net>
<http://cenafrica.net>
<http://www.saccnet.org>
<http://africancentreforcities.net>
<http://pacja.org>

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