ClimDev-Africa

Policy Brief 11

Climate Financing: Global Imperatives and Implications for Climate-Resilient Development in Africa

Climate financing is essential to reduce greenhouse gas emissions in both developing and developed countries. It is an essential part of securing a low carbon development future that does not sacrifice urgently needed development, but rests on climate-resilient economic and social systems. Financial support to developing countries in particular is needed for mitigation, adaptation, technology development and transfer, as well as capacity building. The demand for climate financing for developing countries substantially exceeds the existing financial flows from multilateral and bilateral financial sources. Estimates put the required financial support in the tens of billions of dollars. Mobilisation of such sums is challenging. Nevertheless, the emergence of assorted climate funds (UNFCCC funds, multilateral and bilateral funds, and carbon markets) provides opportunities to mobilise resources and bridge the current financial gap.

Key messages

- Various funds have been established to support climate financing in developing countries.
- The need for climate financing by developing countries is greater than the funding currently available.
- Developing countries desire more control over access and use of funds.
- The new Green Climate Fund is promising, assuming significant finance passes through this mechanism.

Overview of climate finance mechanisms

The United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol stipulate that developed countries should provide financial and technological assistance to enable developing countries to cope with and manage climate variability and change. Article 4(3) of the Convention stipulates that such funding should be *new and additional* to funding already provided for other purposes. Other articles state that developed country parties to the Convention should assist the developing country parties that are particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation to those adverse effects. They should also take all practicable steps to promote, facilitate and finance, as appropriate, the transfer of, or access to, environmentally sound technologies and know-how to developing country parties. There is also general consensus that developed countries should help developing countries cover the incremental costs of mitigation.

A number of different financial initiatives, funds, and proposals for new financial instruments have been launched, as follows:

- *The UNFCCC financial mechanism.* The UNFCCC provides for financial transfers by developed countries to developing countries, with the Global Environment Facility (GEF)

serving as its operating entity. The GEF manages a Trust Fund, which is replenished every four years and which has focused mostly on mitigation to date. The GEF also manages the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF). Another important fund within the UNFCCC framework is the Adaptation Fund created by the Kyoto Protocol. A shortcoming of the Adaptation Fund is that it is highly dependent on the performance of the carbon market, and the future of this market remains unclear.

- *Multilateral funds.* The best-known multilateral funds are the Climate Investment Funds managed by the World Bank. These include the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF), both of which focus mainly on mitigation activities. The CTF finances demonstration, deployment, and transfer of low-carbon technologies with significant potential for long-term greenhouse gas emissions savings. The SCF provides financial resources to new development approaches or to scale-up activities related to climate change challenges in various sectors. The Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing countries (UN-REDD) is run by UNDP in collaboration with FAO and UNEP. It seeks to generate resources to significantly reduce emissions from deforestation and forest degradation.
- *Bilateral funds.* Funds provided by a donor country to a recipient country are known as bilateral funds. One example is the International Climate Protection Initiative of the German Ministry of the Environment.
- *Fast-start finance.* The Cancun Agreement reaffirmed a commitment made by some developed countries under the Copenhagen Accord to provide 'fast-start' finance of some US$30 billion for the period 2010-2012, to support immediate action on climate change in developing countries. In addition, it specifies that fast-start resources should be *new and additional*, balanced between adaptation and mitigation, and prioritised for the most vulnerable developing countries, particularly LDCs, SIDS, and African countries.
- *Long-term finance*. The Cancun Agreements also established the Green Climate Fund (GCF). This fund is intended to support projects, programmes, policies, and other activities in developing countries related to mitigation, including REDD+, adaptation, capacity-building, and technology development and transfer. The Copenhagen Accord also included a commitment by developed countries to mobilise US$100 billion by 2020, of which a significant portion is expected to be channelled through the GCF.

Developing country concerns

Developing countries have expressed a number of concerns about the effectiveness of the various funding mechanisms, particularly given that funds established to address poverty, disease, agriculture and health in Africa have proven inadequate, fragmented and unpredictable in meeting core objectives. Governance concerns are important as climate funds have different governance structures and systems, rules and procedures, equity considerations, and transparency and accountability. For example, developing countries feel they are under-represented in the World Bank and that the GEF structures give more weight to developed countries. Access to funds by developing countries is often constrained by complex administration procedures, cumbersome conditionalities, and lack of capacity to develop fundable projects. Moreover, the GEF in particular requires that countries access funds through approved implementing agencies. Accounting and reporting procedures often seem extremely complex and usually must conform to donor requirements. Lack of coordination among funds has led to some duplication of activities and/or mismanagement. If funded projects are not well aligned with national policies and development goals, they can potentially distort those priorities, disrupt existing institutions and systems, and impose additional administrative burdens on recipi-

ent countries. Within Africa there are additional constraints. For instance, government institutions are often not well coordinated and their mandates may conflict or overlap, while inter-agency integration may be dysfunctional. Further, external donor reporting requirements may be excessively burdensome, there may be a lack of transparency and accountability, and financing may be inadequate.

Conclusions and recommendations

Developed countries must shoulder the responsibility to finance climate change mitigation in developing countries. Even if greenhouse gases are stabilised at a level required to achieve the ultimate objective of the convention by the end of the century, there will still be major adverse consequences for Africa. Thus, agricultural production will likely be reduced, the number of people exposed to diseases such as malaria is expected to increase, and substantial water stress is likely. Hard-earned development gains will therefore be eroded. African countries are already spending scarce financial resources on adaptation measures. Developed countries must help finance activities that minimise the physical and human costs of climate change and preempt damage that cannot be reversed. The commitment made by developed countries at Copenhagen to mobilise between 2010 and 2012 US$30 billion in new and additional financial resources to support climate change activities in developing countries is not likely to repair the problem of trust that is derailing international negotiations. Problems associated with the meaning of *new and additional* funding indicate that a robust and transparent framework is needed for monitoring the performance of developed countries with respect to their financial commitments.

The establishment of the Green Climate Fund is to be welcomed, particularly if significant finance passes through this mechanism. But the Fund, must give direct access, like the Adaptation Fund, and developing countries must be equitably involved in its governance. One major innovation of the international climate finance regime, the Clean Development Mechanism of the Kyoto Protocol, has not delivered for Africa. Urgent action is required to correct this failure. A decision by the European Union to recognise new credits only from projects in least developed countries is a step in the right direction.

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This document is an output from research carried out by the African Climate Policy Centre (ACPC) in collaboration with selected experts and editors. ACPC is part of the Climate for Development (ClimDev-Africa Programme, a joint initiative of the African Union Commission (AUC); the United Nations Economic Commission for Africa (ECA); and the African Development Bank (AfDB). The programme is supported by several development agencies and governments. However, the views expressed and information contained in the brief are not necessarily those of or endorsed by these partner institutions which can accept no responsibility for such views or information placed on them.

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