AFRICA PROGRESS PANEL

Finance for climate-resilient development in Africa

An agenda for action following the Copenhagen conference

Africa Progress Panel
Policy Brief
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EXECUTIVE SUMMARY

Africa has contributed the least to historic emissions of greenhouse gases, yet the continent is projected to be hit hardest by climate change. Africa will therefore require substantial resources to adapt to the unavoidable consequences of climate change. These resources must be in addition to financing for development.

The vast majority of adaptation measures are known and proven development interventions that will need to be supplied in greater number (e.g., more bednets against infectious diseases, more investment in water storage) and/or higher cost (e.g., higher construction standards to withstand more extreme weather events). Consequently, "development" and "climate-change adaptation" are inseparable in operational terms. Not only do the interventions need to be implemented by the same entities, but also their financing must also be provided in a coherent manner.

More financing is required for achieving the Millennium Development Goals, climate-change adaptation and mitigation of greenhouse-gas emissions in Africa. While the private sector can play a substantial role in mobilizing resources for climate-change mitigation and key infrastructure investments, the bulk of required expenditure must be publicly financed.

Climate finance should be mobilized in the most efficient manner possible and ensure long-term predictability of resource flows. On balance, proposed levies on aviation and international maritime transport, perhaps in combination with the partial auctioning of rich countries' emission rights, are the most attractive options for mobilizing grants at the required scale. Such grants can then be blended with highly rated, publicly backed loans and private capital to achieve the necessary leverage and provide the full spectrum and volume of required climate finance.

The need	**Average external financing need (2010–2020, p.a.)**	**Type of finance**	**Source of finance**	**Status of financing**
Development (MDGs) & disaster response	$82.1 billion	Grants & concessional loans for infrastructure	External public finance	2009 ODA: $38.2 billion.
Adaptation	$10.8–20.5 billion	Grants	External public finance	~$100 million for adaptation
Mitigation including REDD-plus	1–2% of GDP ($13–26 billion)	Carbon finance, loans	Carbon markets, public finance	~$50–80 million through CDM

Disbursement of funds for development and adaptation should proceed without duplicating existing mechanisms. Where there are successful mechanisms for disbursing large volumes of development finance, such as the mechanisms managed by the African Development Bank (e.g. African Development Fund) and several sectoral finance mechanisms, such mechanisms should receive and distribute the incremental resources for adaptation measures that fall within their area of responsibility. New mechanisms should be established only where no effective multilateral mechanism exists for programming and disbursing additional resources. Since bilateral mechanisms tend to be smaller and have much higher transaction costs, incremental resources should, wherever possible, flow through multilateral mechanisms.

The Copenhagen Accord includes the commitment to provide an additional annual $100 billion in climate finance by 2020. Yet, critical operational issues remain unresolved. These include the sources of these funds, the split between grants and loans, and the share of public resources. The UN High-level Advisory Group on Climate Finance convened in the wake of the Copenhagen meeting provides an important mechanism for specifying appropriate mechanisms for raising and disbursing the required climate finance.

The financing commitments outlined in the Copenhagen Accord are a step in the right direction. However, governments in climate-vulnerable countries would be ill advised to programme any of this money into their medium-term expenditure frameworks. Making the finance commitments real and bankable is the test that the international community must meet in coming months if the upcoming COP16 in Cancun is to succeed. This will require action by developed and developing countries alike.

The year 2010 should be when key elements of the Copenhagen Accord and negotiation texts (on mitigation commitments, financing, REDD-plus, technology transfer mechanism, measurement, reporting and verification (MRV), etc.) are made operational. It would be naïve to presume that a binding international agreement can be reached without adequate financing for climate-resilient development. Taking some of the practical steps outlined in this brief will build trust and goodwill among countries and negotiators and, critically, permit the demonstration of real benefits on the ground. This route can take us towards a productive and successful COP16 in Mexico. Pushing aside the need to get real on financing will result in more recriminations and failure.

African countries have a vital interest in financing for development and climate change. It is therefore crucial that African-led processes develop to agree an effective common negotiation position in preparation for the Cancun meeting. Otherwise, African countries risk being pushed aside during the negotiations.

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The scientific evidence is incontrovertible. The Earth is warming rapidly because of human-made emissions of greenhouse gases, despite errors recently uncovered in the 2007 report of the Intergovernmental Panel on Climate Change (IPCC). Managing the unavoidable through careful adaptation to climate change, and avoiding the unmanageable by mitigating or reducing greenhouse-gas emissions are the defining challenges for international cooperation. This remains no less true after the failure of the Copenhagen meeting to come up with a binding international agreement for managing climate change.

Efforts to adapt to the inevitable effects of climate change must be designed and implemented in conjunction with development programmes. Nowhere is this more important than in Africa – the region that remains off-track for meeting every Millennium Development Goal (MDG), the world's shared goals for tackling poverty in all its forms, and that will be hit hardest by the effects of climate change. Clearly, meeting the MDGs will become harder in a more hostile climate. By combining the interventions needed to achieve the MDGs with incremental action to avert and manage the negative impacts of climate change on the poor, countries can achieve climate-resilient development.

This Africa Progress Panel brief summarizes the case for climate finance and synthesizes information on the financing needs for development in a more hostile climate. First, we identify key elements of a sound financing architecture for climate-resilient development in Africa, and we summarize Africa's position on these issues, which are both contrasted with the commitments made in the Copenhagen Accord. We conclude by outlining an agenda for action to mobilize the necessary resources and ensure the mutual accountability necessary for success.

1. THE CASE FOR INTERNATIONAL CLIMATE FINANCE

The Bali Roadmap agreed in 2007 affirms the central importance of climate finance as part of any global framework to manage greenhouse-gas emissions. However, subsequent negotiations have not seriously addressed the need to provide adequate volumes of predictable climate finance. So, it is worth restating the case for such finance.

First, developed countries are responsible for a disproportionate share of historic greenhouse-gas emissions. Even including the effect of land-use change, the cumulative per capita emissions in a typical high-income country are 38 times higher than those in a low-income country (Figure 1).

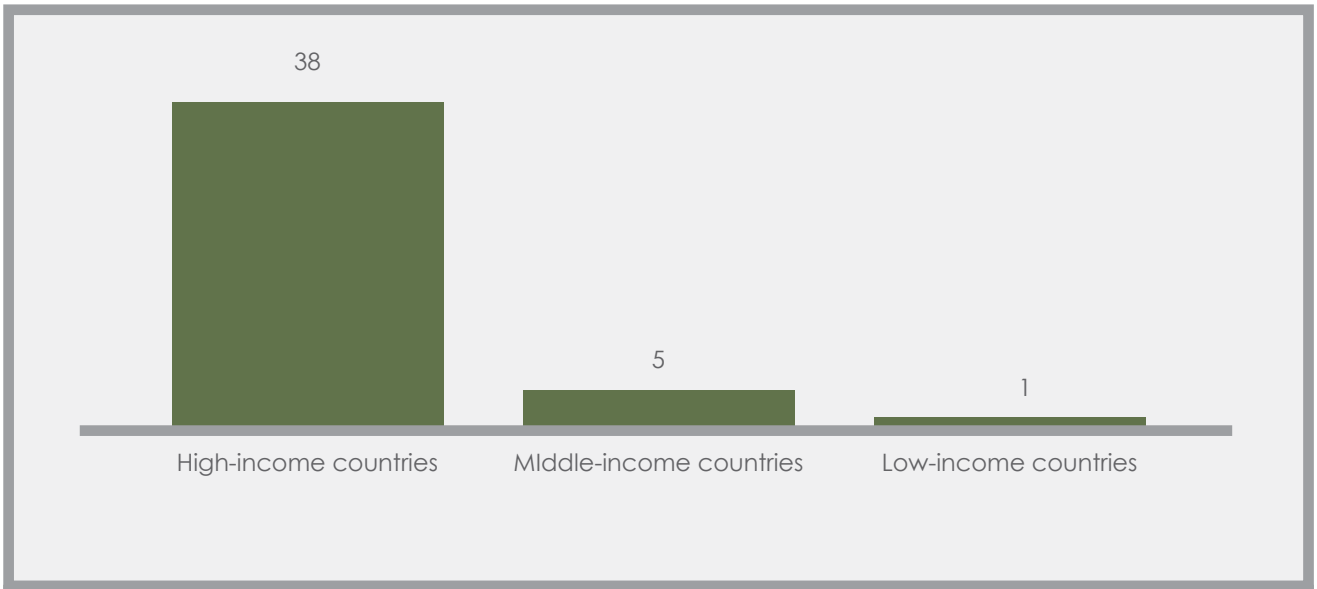

Figure 1: Cumulative per capita greenhouse-gas emissions, 1850–2005, including land-use change (indexed to LIC emissions, calculated from World Bank 2010)

Second, despite rapidly rising greenhouse-gas emissions in middle-income countries, Annex I countries will occupy a disproportionate share of the remaining per capita "carbon space" – the amount of greenhouse gases that can be emitted through to 2050 if the temperature increase is to stay within the 2°C band agreed in Copenhagen. Figure 2 shows relative per capita emissions under three scenarios:

1. Business as usual: No reductions in greenhouse-gas emissions are implemented.

2. Copenhagen scenario: Annex I countries reduce their emissions in line with commitments made in Copenhagen (15.5% and 80% through to 2020 and 2050, respectively, relative to 1990). The rest of the world is projected to occupy the remaining "carbon budget" consistent with maintaining a 75% likelihood of staying within +2°C.

3. Maximum effort scenario: Annex I countries reduce their emissions in line with the maximum requirements derived from the IPCC report (40% by 2020 and 95% by 2050, relative to 1990 levels). The remaining carbon budget is assigned to the rest of the world.

Under any scenario consistent with a 75% chance of staying within the temperature range deemed safe by the IPCC, an average person in an Annex I country will cumulatively emit 2–4 times as much as someone living in the rest of the world. Even if the likelihood of meeting 2°C is lowered to 50%, the Copenhagen Scenario will still result in Annex I per capita emissions, for 2011–2050, twice as high as in a non-Annex-I country.

Moreover, Figures 1 and 2 understate the true level of emissions attributable to Annex I countries since a substantial share of greenhouse-gas emissions assigned to non-Annex-I countries result from the production and distribution of goods and services ultimately consumed in Annex I countries. A recent inventory of "consumption-based" greenhouse-gas emissions suggests that emissions attributable to Annex I countries may be some 20–90% higher than traditionally reported (Davis and Caldeira 2010).

High emissions by Annex I countries enable higher living standards there, but they also drive climate change, which threatens the livelihoods of the poor. So for all practical purposes, Annex I countries must provide adequate finance for climate-change adaptation and mitigation in climate-vulnerable countries. Clearly, though, the need for additional climate finance does not obviate the responsibility to ensure that such resources are invested in a transparent and fully accountable manner. Governments in Africa and beyond owe it to both those providing financing

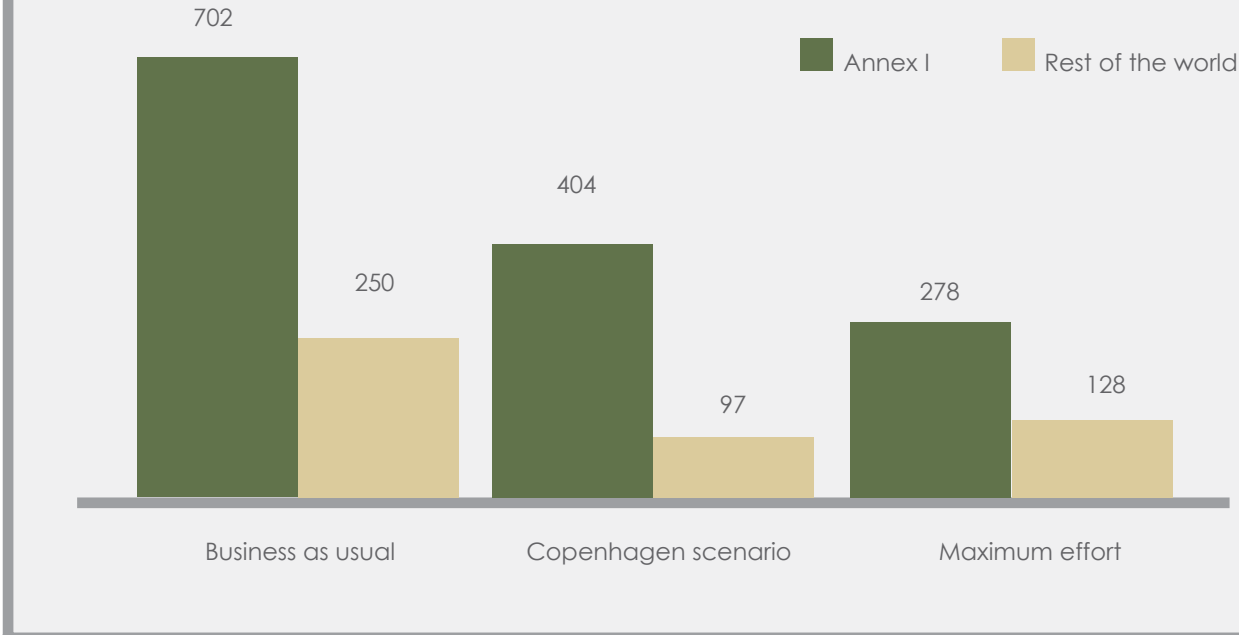

Figure 2: Cumulative p.c. emissions (tCO2e), 2011–2050, assuming a 75% likelihood of maintaining temperature increase at no more than 2°C (see text for explanations)

and their own populations to ensure that incremental resources are spent effectively on high-impact interventions (see also Section 5.3).

Incremental climate finance must also focus on countries most in need. The moral case for developed countries to finance adaptation and mitigation measures in climate-vulnerable countries is clear and unequivocal, but tremendous pressure on developed countries' public budgets is an inconvenient fact likely to become more pronounced in coming years. Moreover, per capita greenhouse-gas emissions in advanced developing countries already far exceed the 2t carbon dioxide equivalent per capita threshold deemed sustainable in the long term, so these countries will also need to reduce their own emissions.

2. AFRICA'S FINANCING NEEDS FOR DEVELOPMENT IN A MORE HOSTILE CLIMATE

Achieving the MDGs and meeting the climate challenge requires investments and operating expenditure commonly grouped into three areas: development, adaptation and mitigation. Yet, most adaptation expenditure is operationally indistinguishable from development expenditure, so both need to be programmed jointly[1]. Nevertheless, development and adaptation expenditure have different sources, and may differ in their classification as official development assistance (ODA). So "adaptation" should be a key theme for resource mobilization, but disbursement should follow structures that avoid an artificial distinction between "adaptation" and "development" interventions. We will return to this issue in Section 3.4.

Further to identifying the scale of required resources, there are three key operational issues, as follows.

1. Scope for private finance:

Will investments and operating expenditure be financed through public or private means, or a combination? Wherever market returns can be generated, private resource mobilization and programming should be the preferred option. However, much of the required expenditure cannot generate sufficient financial returns to mobilize private finance and therefore require public resources[2]. Likewise, some developing countries represent investment risks that can be only partially mitigated through improved government policies (e.g. in terms of small market size, proximity to unstable countries, high climate-induced volatility of agricultural output); they therefore rely on blending public and private finance to achieve acceptable risk–return profiles. Public resources can come as grants for expenditures that generate no long-term financial return, or concessional loans for needs that generate a return too low for private lending. Where public grants are required, it is imperative to find practical ways in which these can be leveraged using private resources. Overall, even where returns to investment and governance are adequate, there are tremendous obstacles to mobilizing private finance. So, in the short term, private finance can make only a modest contribution.

2. Domestic versus external resource mobilization:

Given the difficulty of mobilizing external resources for development and climate change, combined with the complexity of managing the donor–recipient relationship, African countries should rely as much as possible on domestic resource mobilization to finance their development needs. However, the scale of expenditure required far exceeds domestic resources, including the raising of public bonds on international capital markets, which must therefore be complemented by public external finance. The exceptions here are the few African countries with enough natural resources per capita, which can generate finance required for adaptation, development and mitigation.

3. Origin of the external resources:

External resources (public and private) must be mobilized through efficient and predictable means. Where possible, this should be through

automatic mechanisms, such as dedicated levies or taxes that do not require annual appropriation. For example, taxes or levies on greenhouse-gas emissions can be an efficient way to provide for investments in climate-change mitigation and adaptation.

We will apply each of these questions to the financing needs for development, adaptation and mitigation.

2.1. ACHIEVING THE MDGS

The MDG Africa Steering Group (Ban et al. 2008) has estimated that Africa requires some $112.7 billion in annual public expenditure to meet the MDGs. This increases to some $122.5 billion if disaster response and coastal protection measures are included (Table 3). Not included in these figures are privately financed investments in infrastructure and other areas totalling perhaps $11.4 billion per year, as well as private-sector contributions to social expenditure in the form of user fees and charges. The remaining $119.5 billion covers public goods and services or interventions for which no private market exists and therefore need to be publicly financed.

Countries in sub-Saharan Africa have limited potential to mobilize domestic resources and must finance additional public expenditure not included in these tables (such as administration, security and justice). Therefore, to meet the MDGs in Africa, an estimated further $72.3 billion is required each year in official development assistance (ODA). This figure increases to $82.1 billion if disaster response is included. As the MDG Africa Steering Group emphasizes, these financing needs are consistent with commitments made by developed countries at the 2005 G8 Summit in Gleneagles (UK) and subsequent meetings.

However, only $38.2 billion was provided in ODA to Africa in 2009. Analyses by the OECD Development Assistance Committee (DAC) suggest that only two-thirds of ODA is "programmable ODA", i.e. resources for directly financing the expenditure outlined in Table 3. So, in net terms, ODA is currently meeting less than half of Africa's external financing gap for the MDGs. In the absence of credible long-term commitments, ODA resources are unpredictable and therefore cannot be included in medium-term expenditure frameworks. Moreover, few resources are available to cover operating expenditure, which is the majority expenditure in social sectors.

2.2. CLIMATE-CHANGE ADAPTATION

Africa is extremely vulnerable to the effects of climate change, even though it has contributed a negligible share of global greenhouse-gas emissions. The most important projected impacts of climate change in Africa include a drop in agricultural yields; increased the number of people at risk of water stress; increased the exposure to malaria and other vector-borne diseases; and rising sea levels that may lead to increased severe flooding and severely affect mangrove forests as well as coastal fisheries.

Despite the wide range and context-specific nature of adaptation measures, there are five priorities for resources and attention from African policy-makers and their development partners[3].

1. Agriculture and animal husbandry:

Without countervailing investments in drought-resistant crops, new farming methods and improved water management, climate change will endanger the needed increases in agricultural productivity across the continent. More frequent droughts and changes in precipitation may lead to reduced output. Some 43% of Africa is drylands, where livestock rearing is the dominant source of livelihood. Dryland communities are

likely to be particularly affected by climate change and will require increased investments in water-management infrastructure and forage production.

2. Water management and irrigation infrastructure:

Water-resources management for agriculture, including expansion of efficient irrigation systems, will require large-scale investments across many parts of Africa. As a top priority, urban water infrastructure needs to be made climate- resistant.

3. Energy access, power and other infrastructure:

Investments in access to modern energy services will promote income-generating opportunities and empower communities to adapt to a changing climate. Power infrastructure must reflect possible consequences of changes in precipitation patterns on hydroelectric power potential. Likewise, transport infrastructure will require increased investments to withstand more extreme precipitation patterns and weather events.

4. Disease management and health systems:

To avert a possible expansion of infectious diseases, health systems need to be strengthened. Investments are also required in infectious disease control through vaccinations, residual indoor spraying, insecticide-treated bednets and other means of vector control; and expanded access to efficacious treatment.

5. Natural-resource management:

Key ecosystems such as wetlands, drylands, mangroves, forests, and lakes will be put under substantial stress by climate change. Only careful management can avoid the worst consequences and ensure the long-term sustenance of ecosystem services critical to economic development and human well-being. As just one example, improved watershed management, including substantial reduction in upstream soil degradation and erosion, is required across much of Africa to reap maximum benefits from investments in hydropower resources.

The vast majority of adaptation measures required to address these challenges are known and proven development interventions that will be needed in greater number (e.g., more bednets, more investment in water storage) and/or at higher cost (e.g., higher construction standards to withstand more extreme weather events). It is for this reason that "development" and "climate change adaptation" are inseparable in operational terms. Not only do the interventions need to be implemented by the same entities, but their financing must also be provided coherently.

Fortunately, these known interventions can be implemented at scale and will generate strong results given the required expertise, technology, financing and governance (Ban et al. 2008, UN Millennium Project 2005). In cases where committed leadership and accountable governments have been empowered with the necessary resources, tremendous progress has been achieved at national scales in a relatively short time[4]. These lessons remain inadequately appreciated outside Africa but show that effective development is possible even in a more hostile climate.

Additional expenditure to finance adaptation amounts to some $7.0–13.4 billion per year (Fankhauser and Schmidt-Traub 2010). Including resource needs for disaster response and coastal protection, this increases to $10.8–20.5 billion per year (Table 3). This brings the total financing need for climate-resistant development in Africa, i.e. achieving the MDGs in the presence of anticipated climate change, to some $100 billion per year.

Financial returns likely to be generated by these adaptation measures are generally too low and too risky for private investment, so public financing must cover up to 100% of the financing gap. Sources of this finance have to be external, since the financing of the MDGs discussed above already assumes maximal domestic resource mobilization by African governments (see also IMF 2008).

The figures in Table 3 provide a practical interpretation of the concept of financial additionality established in the Bali Roadmap which states that external resources for climate-change adaptation and mitigation must not displace existing ODA commitments for

development. In this sense "additional resources" for climate-change mitigation are in the order of $10.8–20.5 billion per year. They are in addition to the $82.1 billion in annual ODA committed for achieving the MDGs, but of which only half is provided. So in total, the financing gap for climate-resilient development in Africa is around $50–70 billion in external public finance that must be provided as ODA and additional climate finance.

To date, very little finance for adaptation has been made available and much of it is already counted as ODA. Perhaps some $50–100 million for adaptation flows each year to countries in Africa[5], but no reliable statistics are available for current adaptation finance. Whatever the correct figure, it is clear that it is only a fraction of the financing need for climate-change adaptation.

2.3. CLIMATE-CHANGE MITIGATION

Thirdly, countries in Africa need to invest in mitigation measures – chiefly in the areas of land-use change (forestry, agriculture, pastures), where Africa accounts for a disproportionately high share of per capita greenhouse-gas emissions. Lord Stern (2009) estimates that 1–2% of world GDP will need to be invested each year in climate-change mitigation. In Africa this would amount to some $13–26 billion each year. Given Africa's limited opportunities for mitigating greenhouse-gas emissions it seems likely that the true financing need will be at the lower end of this spectrum[6].

Mitigation is closely connected with development and adaptation. One of the overriding constraints on African development is a severe shortfall in access to modern energy services and power-generation capacity. Renewable grid-connected and distributed energy technologies can increase access to energy without locking in high per capita greenhouse-gas emissions. But with the exception of hydropower, these technologies will remain more expensive than fossil-fuel-based alternatives. It is clear that African countries cannot finance the incremental cost of using renewable energy technologies. Equally clearly, rapid expansion of hydropower capacity must be part of any strategy to increase access to energy services and mitigate greenhouse-gas emissions.

The Clean Development Mechanism (CDM) presently mobilizes very little climate finance for Africa – cumulatively a mere $50–80 million over a period of several years[7]. While this amount is increasing, major obstacles would have to be removed to enable the CDM or other international carbon markets to work effectively in Africa (see APP 2009). In particular, transaction costs must be reduced by shifting towards programmatic approaches, such as CDM Programmes of Activity (PoAs) that can provide carbon finance for large-scale deployment of emission-reducing technologies across countries and regions. While PoAs are relatively new in the CDM, they have great potential for African countries.

In addition, the scope of international carbon markets must be expanded to include land-use changes such as reforestation and forest preservation, given the nature of greenhouse-gas emissions in Africa. If the carbon markets are reformed to address Africa's needs (including an effective mechanism for Reduced Emissions from Deforestation and Degradation (REDD), and if a market-clearing price is established for carbon, it will be possible to mobilize a portion of the required financing for climate-change mitigation in Africa under commercial terms. The remainder will require highly rated loans with substantial concessionality.

2.4. PUTTING TOGETHER THE FINANCING NEEDS

African governments need to have a clear picture of aggregate resource needs, for planning medium-term expenditure frameworks and designing supportive macroeconomic frameworks. Table 1 summarizes the key financing needs, sources and current resource flows for Africa as a whole.

The need	Average external financing need (2010–2020, p.a.)	Type of finance	Source of finance	Status of financing
Development (MDGs) & disaster response	$82.1 billion	Grants & concessional loans for infrastructure	External public finance	2009 ODA: $38.2 billion.
Adaptation	$10.8–20.5 billion	Grants	External public finance	~$100 million for adaptation
Mitigation including REDD-plus	1–2% of GDP ($13–26 billion)	Carbon finance, loans	Carbon markets, public finance	~$50–80 million through CDM

Table 1: Summary of external financing needs for climate change and achieving the MDGs in Africa (see text for explanation and sources)

3. MOBILIZING THE RESOURCES AND DISBURSING THEM

The considerable challenge of mobilizing and programming resources at the scale and breadth needed to ensure climate-resilient development will require mutual accountability by rich and poor countries. An efficient and practical financing architecture also requires clear separation between resource mobilization and disbursement of development and climate finance. As illustrated in Figure 3, there are four sources of financing available to mobilize the required combination of grants, highly-rated/concessional loans and commercial capital including carbon revenues. Ideally, these resources will be disbursed through a small number of multilateral mechanisms and bilateral grant windows for capacity development and technical cooperation. Private project finance, including from the international carbon markets, can be blended with highly rated or concessional loans to finance investments in mitigation[8].

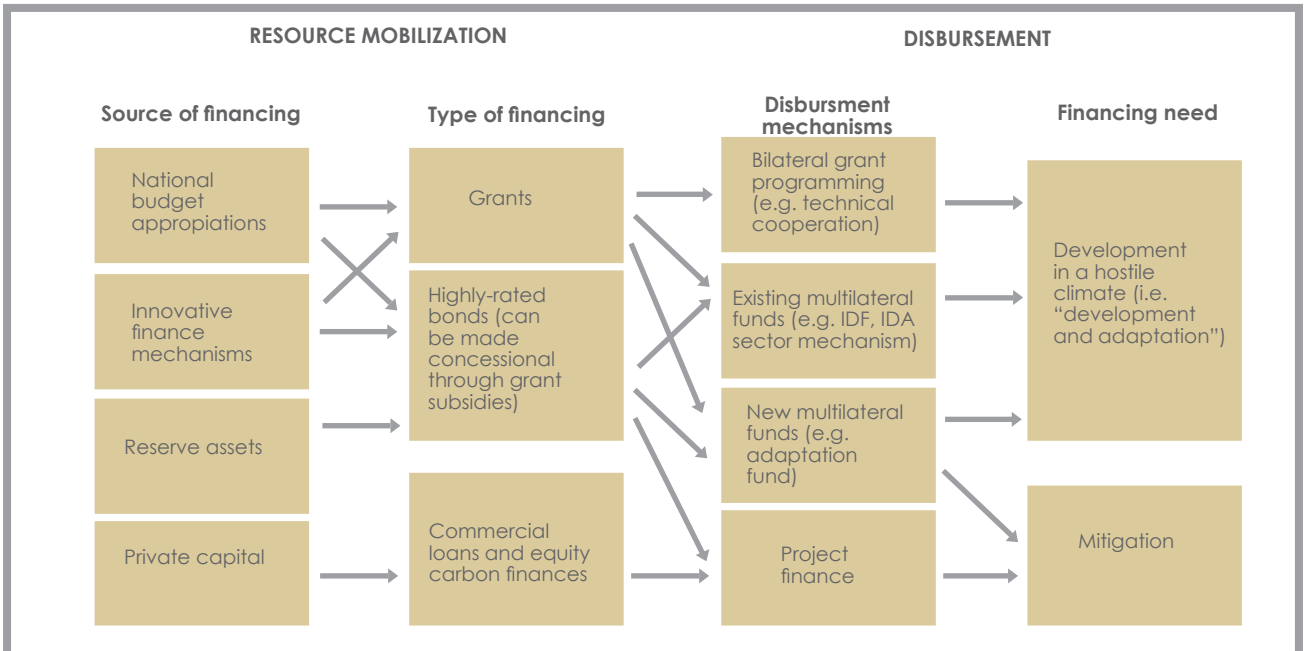

Figure 3: Schematic illustration of the resource flow for development, adaptation, and mitigation (not to scale, see text for explanations)

3.1. MUTUAL ACCOUNTABILITY AND EFFECTIVE RESOURCE USE

The mobilization and use of resources must be based on country-led strategies, transparent, and subject to careful monitoring, reporting and verification. Rich countries must specify how they will mobilize resources in a predictable manner. Critically, financing for climate-resilient development must be predictable over the medium-term – some 3–5 years – for only then can governments in recipient countries programme and manage the resource inflow and target expenditures effectively. Likewise, recipient countries must draw up detailed strategies for how additional resources will be spent, and report on their implementation. Without full transparency and accountability, countries cannot qualify for large-scale increases in climate finance[9]. Where money is misused, funding should ultimately be reduced or cut altogether.

Finance for climate-resilient development must be programmable and focus on resources for investment as well as operating expenditure. Poor countries struggle to finance operating expenditure, particularly in the social sectors, and donors often refuse to provide resources for salaries, consumables and working capital. While technical cooperation is important, it should not take up a large share of the incremental resources. Likewise, capacity development will be vital for success, but capacity-development programmes should be designed as part of the scaling-up of investment and operating expenditure in adaptation and mitigation programmes.

In practical terms, finance should be made available at the required scale only given sound implementation strategies drawn up by recipient governments and vetted by independent technical experts[10]. Such implementation strategies need to focus on mid-term quantifiable targets so that progress towards meeting the objectives can be tracked[11]. Where possible, finance must shift from a project approach towards programmatic funding. Project-based financing approaches should be considered only for infrastructure development, cross-border financing needs and where national-scale programmes cannot be implemented.

As much as possible, private finance and private markets should finance climate-resilient development. As seen in Asia and Latin America, there is great potential for investment led by the private sector, although to be scalable private finance requires sufficiently high financial returns. As explained above, such returns are not available for the bulk of MDG-related and virtually all adaptation expenditure needs. Therefore, these require public grants and/or concessional loans; where the domestic fiscal space is small, these resources must come from external public finance. Private enterprise can and should help to ensure efficient delivery through public–private partnerships (PPPs) and, over time, partial or full cost recovery, but it cannot replace the need for public finance at the level suggested in Table 1 above.

A pragmatic approach suggests that external public finance for climate-resilient development must focus on countries that could not otherwise afford these investments. The Copenhagen Accord refers to developing countries that are "particularly vulnerable, especially least developed countries, small island developing states and Africa". In recognition of this principle, China has already declared publicly that it does not require any resources from an international adaptation fund. This should also apply to other advanced emerging economies and the few countries in Africa that are wealthy or have high per capita natural resource endowments. As argued in Section 1, the moral case for rich countries to finance climate-resilient development across Africa is crystal clear, but so is the reality of tight budgets and limited public support for increased international transfers. Hence, it is imperative to maintain focus on the countries that are most in need and cannot themselves finance the required investments.

A central question for every government is whether increased inflows of ODA, climate finance and private finance will create destabilizing macroeconomic imbalances. Frequently, concerns centre on the danger of an appreciating real exchange rate that may adversely affect highly productive export sectors and thereby lower a country's competitiveness – a phenomenon sometimes referred to as "Dutch Disease".

As part of its contributions to the MDG Africa Steering Group, the IMF has investigated the risk of Dutch

Disease in several African countries. The conclusions of this work (Ban et al. 2008, IMF 2008) suggest that no macroeconomic barriers exist to scaling up the inflow of external resources to the level required to achieve the MDGs, provided that the inflow of external resources is predictable, programmed effectively towards high-impact interventions, and fully consolidated in the national accounts as well as macroeconomic frameworks. The research does not suggest that there are no macroeconomic risks associated with increased inflows of resources into African economies, but that these risks can be managed and pale in comparison to the benefits of well-targeted investments. It seems likely that these conclusions apply equally to the larger resource envelope required to finance climate-resilient development.

3.2. MOBILIZING CONCESSIONAL FINANCING AND GRANTS FOR "CLIMATE FINANCE"

As shown in Table 1, vast amounts of grants must be mobilized in support of development in a hostile climate. But how should this be done? Experience in development finance shows that annual budget appropriations for development and climate finance by dozens of national parliaments in developed countries is not a credible mechanism for mobilizing the required resources. Not only do such annual budget processes make the resulting finance highly unpredictable and unreliable, but they also increase the bias towards inefficient bilateral disbursement mechanisms and an excessive focus on technical cooperation at the expensive of resources for investments and operating expenditure (see also Section 3.4 below).

The UN High-level Advisory Group on Climate Finance, convened by the UN Secretary-General, is currently reviewing a number of other mechanisms for resource mobilization to provide predictable resource flows. These include: (i) a levy on kerosene used in international air travel and/or a similar levy on maritime transport, (ii) the Norwegian proposal of auctioning Assigned Amount Units (AAUs) by contributing countries, (iii) levies on the Clean Development Mechanism and/or Joint Implementation projects; (iv) the Swiss proposal of applying a global carbon tax on fossil fuels, and (v) a levy on financial transactions, sometimes referred to as a "Tobin Tax". Table 2 compares these four proposals with the alternative of mobilizing climate finance through annual budget appropriations[12].

Mechanism	Scale of resource mobilization	Ease of administration	Predictability of resource mobilization	Coherence with GHG mitigation objective	Opportunity to include emerging economies
National budget appropriations	0	-	-	0	+
Aviation/maritime transport levy	+	0	+	+	+
Auctioning of emission rights (Norway)	+	+	+	+	0
Levies on CDM/JI projects	-	+	0	+	-
Global tax on fossil fuels (Switzerland)	+	-	+	+	+
Levy on financial transactions (Tobin tax)	+	-	+	0	?

Table 2: Comparison of key mechanisms for mobilizing grant finance

On balance, levies on aviation and international maritime transport, perhaps in combination with the partial auctioning of rich countries' emission rights, are the most attractive options for mobilizing climate-finance grants at the required scale. These mechanisms can be structured to mobilize predictable resources, they are relatively easy to administer and can be aggregated across several countries (e.g. across EU member states) to reduce transaction costs. They have the added advantage of directly supporting the overarching policy objective of reducing global greenhouse-gas emissions.

A common objection to levies on aviation and maritime transport is that such levies will be partially financed by developing countries and therefore violate the principle of common but differentiated responsibilities. Yet, particularly in the case of airline travel the vast majority of such levies would be mobilized in developed countries. As necessary, exemptions can also be considered for traffic to and from specific countries that are particularly vulnerable to the effects of climate change. A second concern is that increases in transport costs through such levies may adversely affect developing countries that depend on export of bulky materials and/or tourism. This question has been investigated inter alia by Muller (2009) who does not find a significant effect on demand for such transport services.

In addition to grants, large volumes of loans that are highly rated or provide returns substantially below market rates must be mobilized[13]. In an excellent study, Bredenkamp and Pattillo (2010) of the IMF assume that some 40% of climate finance is needed in the form of such highly rated loans. This seems plausible in light of the financing needs reported in Tables 2 and 3, but has yet to be confirmed through in-depth analysis. The IMF economists show that by raising some $120 billion in equity using reserve assets, such as IMF Special Drawing Rights, a hypothetical Green Fund could mobilize some $1 trillion in highly rated loans to developing countries over the next ten years. Such a fund could be capitalized without any upfront budgetary costs to the contributing countries, which could also include advanced emerging economies. Through government guarantees of the fund's capital interests, rates payable on bonds issued by the fund would be low, and so would the annual interest charge to contributing shareholders[14].

Grants mobilized through one of the mechanisms described above can be used to increase the concessionality of bonds issued by a green fund or equivalent mechanism. In this way the full spectrum from grants to highly rated loans can be mobilized to support development, adaptation and mitigation (Table 1).

3.3. LEVERAGING PUBLIC RESOURCES THROUGH PRIVATE FINANCE

Public financing should be targeted at only the interventions and countries that cannot mobilize private finance on their own. As described in Section 2.3 on mitigation, a market-clearing carbon price and revenues from the sale of electricity can mobilize more private capital, particularly for energy access and infrastructure investments.

Because the vast majority of climate and development needs cannot be financed through private capital alone, the question is how far public resources can leverage additional private capital. Especially by financing senior tranches of loans, private capital can mobilize up to 2–5 times the public capital. This leverage ratio will vary across countries and sectors, with their perceived risks. It will also increase over time, because of falling country risk premia. In this way, recourse to public resources can be lowered over time so that the financing of mitigation and key interventions in development and adaptation can be privately financed.

3.4. DISBURSING CLIMATE FINANCE

While adaptation and development expenditure are operationally indistinguishable and therefore need joint programming, resource mobilization must extend from national budget appropriations to innovative financing mechanisms, as outlined in Section 3.2. Mobilizing resources for climate-change adaptation and investing them alongside "development" resources raises two important issues that need carefully management.

First, while "development finance" is classified as ODA, the additionality principle for climate finance enshrined in the Bali Roadmap may require a different classification for "climate finance". However, provided that the total resource envelope covers the needs for development in a hostile climate, i.e. "adaptation" and "development" as summarized in Table 3, this separate classification of ODA and climate finance becomes inconsequential.

Second, donor governments rightfully demand accountability concerning use of development and climate finance. If resources mobilized for "climate finance" are disbursed with "development finance", can they be accounted for precisely? Again, this concern dissipates once development and adaptation are recognized as two sides of the same coin. As with any multilateral financing mechanism where streams of income are converted into streams of disbursements, adequate accountability can be established for donor and recipient governments alike.

So what would be a sensible architecture for disbursing climate and development finance? Detailed institutional arrangements for climate finance in Africa are beyond the scope of this paper, but there are four important core principles, as follows.

1. No duplication of functioning mechanisms:
Existing institutions and their functioning mechanisms, such as the African Development Fund (ADF) managed by the African Development Bank and the World Bank's International Development Association (IDA), should receive the bulk of incremental resources. Some sectoral mechanisms can disburse large volumes of development finance (e.g. the Global Fund to Fight AIDS, TB and Malaria (GFATM) or the Education Fast Track Initiative) and are well positioned to disburse incremental resources for associated adaptation measures. For example, no new programme is needed for procuring and distributing insecticide-treated bednets against malaria, as the GFATM already does this.

2. Efficient multilateral disbursement:
Disbursement must proceed through effective and scalable mechanisms that offer minimal transaction costs. Bilateral mechanisms will remain important in finance architecture (e.g. for capacity building and technical cooperation). However, the need to mobilize and disburse large volumes of climate finance increases the importance of shifting towards multilateral facilities and funds, which will be a necessity for effective use of more resources.

3. Programme-based delivery:
Similarly, finance should flow through programme-based mechanisms, wherever possible. Project-based disbursement should be considered only where programme-based delivery is not possible, for example with large-scale energy infrastructure, or investments in regional or transboundary goods, and in countries that do not have the capacity to deliver programmes.

4. Efficient knowledge transfer:
Scaling-up development and climate interventions can succeed only if communities of experts are organized along thematic lines. To ensure maximum learning across countries as well as programmes, and to facilitate standardized reporting and accountability mechanisms, it makes sense to channel a large share of financing through sectoral mechanisms, particularly for education, health and agriculture. Vertically focused funds provide an important complement to broad-based programmatic mechanisms, such as the ADF and IDA[15].

Clearly, the resulting financing architecture will consist of a number of mechanisms for mobilizing and disbursing resources – and this is fine. The ADF and IDA are the two most versatile and scalable disbursement

mechanisms available for Africa to date. They or similar mechanisms should therefore receive the bulk of incremental climate finance. The ongoing replenishment round for ADF12 provides a critical window for programming some of the start-up climate finance promised in Copenhagen.

4.AFRICA'S POSITION AND THE COPENHAGEN ACCORD

In the run-up to Copenhagen, African countries made unprecedented efforts in developing a common negotiation position through a ministerial process coordinated under the Conference of African Heads of State and Government on Climate Change (CAHOSCC) and the African Ministerial Conference on the Environment (AMCEN). Key elements of this position include the need to: (i) reduce the rise in global average temperatures to no more than 2°C above pre-industrial levels; (ii) provide additional resources for adaptation, with a particular focus on climate-vulnerable countries, with the bulk of these resources channelled through the African Development Bank; and (iv) ensure the continuation of binding emission-reduction commitments made under the Kyoto protocol.

The Copenhagen Accord fell short of the high expectations placed on the 15th Conference of Parties of the UNFCCC and the African negotiation position. Although not formally endorsed by the conference, the Accord does carry political weight because over 100 countries, representing more than 80% of global emissions, have now associated themselves with the Accord. While it is short on operational details, notably on emission-reduction targets, the Accord does include some notable commitments. These include: limiting the rise in global temperatures to 2°C above pre-industrial levels; establishing a technology mechanism to "accelerate technology development and transfer in support of action on adaptation and mitigation"; establishing a REDD-plus mechanism to reduce emissions from deforestation and forest degradation; and recognizing the importance of robust monitoring, reporting and verification (MRV) of greenhouse-gas emissions.

Moreover, the Copenhagen Accord established the UN High-level Advisory Group on Climate Finance – co-chaired by an African head of state – that will deliver its findings ahead of the Cancun meeting in November/December 2010. Perhaps the most important breakthrough came in the area of climate finance. For the first time, concrete numbers were included in an international document. The Accord calls for "new and additional resources" starting at $10 billion per year and rising to some $100 billion per year by 2020, to be channelled through international organizations, including a new Copenhagen Green Climate Fund.

Unfortunately, the Accord fails to distinguish between public and private climate finance, so it is unclear how much public climate finance will ultimately be provided. Moreover, the Accord does not specify whether the incremental resources will be provided as loans or grants. Therefore, it is impossible to determine whether promised resources are sufficient, or whether they will be provided in a form consistent with countries' financing needs. Likewise, it is unclear if the resources will be targeted to countries most in need. For example, market-based mechanisms such as the Clean Development Mechanism will for the foreseeable future generate most benefits for emerging markets such as Brazil, China and India. Likewise, loans with no concessional elements may help to finance mitigation in much of Asia, but will not be a viable form of finance for adaptation or mitigation opportunities in the most vulnerable countries.

Yet, if a large share of the resources are provided as grants and highly concessional public finance directed towards adaptation and mitigation measures in the most climate-vulnerable countries, then the sum of $100 billion per year will be in the right ballpark so that African governments may wish to focus on securing implementation of this pledge rather than trying to negotiate larger volumes that may never materialize.

However, this applies only if the financing is additional to the resources already promised for development finance (summarized in Table 3)[16]. The Accord does not specify how "additional resources" will be defined, so this critical question requires urgent clarification. Here, the UN High-level Advisory Group on Climate Finance can make an important contribution ahead of the Cancun meeting.

The call for the Copenhagen Green Climate Fund to be established under the UNFCCC is welcome. This would give recipient countries greater say in how resources will be spent, and opens the door for using efficient multilateral financing mechanisms that disburse funds on the basis of countries' needs and the quality of their programmes. It remains to be seen how such a convention-based fund will be able to move large volumes of resources accountably and efficiently[17]. Crucially, however, the Copenhagen Accord does not specify where the money will come from, or how to establish this. Until spreadsheets are on the table, and African governments know which number to call and which processes to follow to access the promised financing, the Copenhagen Accord and any international climate-finance framework will remain at best an aspiration and at worst another empty gesture.

5. EN ROUTE TO CANCUN: OPERATIONALIZING FINANCE FOR CLIMATE-RESILIENT DEVELOPMENT

The financing commitments outlined in the Copenhagen Accord go in the right direction. However, governments in climate-vulnerable countries would presently be ill advised to programme any of this money into their medium-term expenditure frameworks. Making the finance commitments real and bankable is the test that the international community must meet in coming months if the upcoming COP16 in Cancun is to succeed. This will require action by developed and developing countries alike.

5.1.WHAT RICH COUNTRIES MUST DO

Rich countries are the members of the OECD Development Assistance Committee[18] (including all EU members) and possibly members of the Gulf Cooperation Council, and must make the following commitments.

1. Immediate start-up finance:

Developed countries' credibility is at stake unless they deliver on the promised start-up funding of $10 billion per year starting this year. To enable a large share of this climate finance to flow to Africa, the funds must be channelled through existing mechanisms and target available programmes. Large contributions towards the ADF12 replenishment round would be the clearest indication of developed countries' commitment to keep the promises made in Copenhagen.

2. Assessed contributions:

Each country or group of countries, such as the EU, must quantify the share of the $100 billion that it will meet – perhaps with an interim target of mobilizing $50 billion by 2015. Ideally, such contributions should be assessed, as with dues of member states to multilateral organizations. If it proves impossible to agree a formula, each country must at least publicly commit to its share of the resources. The UNFCCC secretariat should collect these pledges and ascertain if they are consistent with the commitments made in the Copenhagen Accord.

3. Predictable mechanisms of public-resource mobilization:

Finance for climate-resilient development must be predictable over long periods, and so must

come from clearly identified sources, such as taxes or levies on greenhouse-gas emissions. The two most promising proposals in this direction are the levy on kerosene used by the airline industry, and the Norwegian proposal to auction Assigned Amount Units or similar under a post-Kyoto climate framework[19]. In the EU it may be possible to collect such resources at community level, which would greatly reduce transaction costs and increase predictability. Moreover, such mechanisms will have the added benefit of curbing greenhouse-gas emissions in certain sectors. Rich countries need to specify which of these resource-mobilization mechanisms they will implement.

4. Multilateral disbursement mechanisms:
To keep transaction costs down and maximize the efficiency of climate finance, rich countries need to commit to using disbursement mechanisms such as the proposed Copenhagen Green Climate Fund. Wherever possible, existing functioning mechanisms, such as the GFATM in the area of infectious diseases, should be used as the channel for increasing financing to a particular sector.

5. Demonstrate and track additionality of resources:
To gain the trust of developing countries, the agreed principle of "new and additional resources" must be operationalized. Climate financing specified in any agreement must be demonstrably new funding, additional to existing and promised aid flows. Development finance promises of some $82.1 billion in annual ODA for Africa must be retained in full (currently only half of this is being provided).

6. Clear mechanisms for mobilizing private finance:
Private finance for mitigation requires clear price signals and incentives set through policies including emissions-trading schemes in rich countries. Where these do not exist, rules and systems should be established as quickly as possible so that private investment can eventually make a large contribution to financing mitigation and possibly other aspects of climate-resilient development.

5.2. WHAT ADVANCED DEVELOPING COUNTRIES MUST DO

Advanced emerging economies, such as the BASIC countries (Brazil, South Africa, India, China), have a two-fold responsibility in enabling financing for climate-resilient development.

1. Recognize the special needs of climate-vulnerable countries:
Given their much higher GDP per capita and greenhouse-gas emissions, the wealthier non-Annex-I countries do not require substantial public external financing for development and adaptation[20]. These countries should recognize the need of the climate-vulnerable countries for such financing, and rely instead on private investments and domestic public resources for their development, adaptation and mitigation needs.

2. Over time, provide financing to climate-vulnerable countries:
There can be no question that for the foreseeable future developed countries should provide the bulk of external resources for climate-resilient development in the most vulnerable countries. Yet, In line with the principle of common but differentiated responsibilities, advanced developing countries should commit to contribute over time to multilateral mechanisms that support climate-resilient development in the poorest countries. The Government of Mexico has presented the most advanced proposal to this effect. The idea of an international climate fund into which all countries contribute according to their ability to do so is compelling, and can become the cornerstone of an international agreement on climate finance.

5.3. WHAT THE CLIMATE-VULNERABLE COUNTRIES MUST DO

While it is the responsibility of rich countries to provide adequate financing for climate-resistant development, there is no "right" to such resources from vulnerable countries without full mutual accountability. Therefore, African and other climate-vulnerable countries should take the following steps.

1. Identify priority programmes and make them bankable:

If substantially increased funds were immediately available, it would not be obvious where to invest them since fully bankable project and programme proposals are relatively rare. This situation is untenable, so available programme and project ideas must be quickly translated into fully bankable programmes – with the help of international organizations such as the World Bank or the United Nations. This will be necessary to justify scaled-up financing, and the promised start-up funds can then flow as soon as incremental resources are available.

2. Ensure full accountability and transparency:

Governments owe accountability and transparency to their own populations, as well as to their development partners and private investors. Without full mutual accountability, the case for more resources will not be successful. Systems and processes for ensuring accountability and transparency need to be strengthened as necessary in developing countries.

3. Develop incentives for private-sector development:

Many governments in Africa and elsewhere can advance climate-resilient development through actions that are entirely under their control. This includes removing unnecessary barriers to trade and investment, and strengthening policy and regulatory frameworks – for example, in the area of power generation through granting long-term power-purchase agreements. While more external finance is necessary, there is no excuse for not undertaking these practical steps right away.

5.4. OUTLOOK: AN AFRICAN NEGOTIATION POSITION ON CLIMATE FINANCE FOR CANCUN

The year 2010 should be when the key elements of the Copenhagen Accord and negotiation texts (mitigation commitments, financing, REDD-plus, technology transfer mechanism, MRV, etc.) are made operational. This brief argues that the inequities of historic and future greenhouse-gas emissions leave us no choice but to address the financing issue in the practical operational terms outlined above. It would be naïve to presume that a binding international agreement can be made without adequate financing for climate-resilient development. Taking some of the practical steps outlined in this document will build trust and goodwill among countries and negotiators and – critically – permit the demonstration of tangible benefits on the ground. This route can take us towards a productive and successful COP16 in Cancun, Mexico. Pushing aside the need to get real on financing will result in more recriminations and failure.

African countries have a vital interest in financing for development and climate change. It is now crucial that African-led processes agree and promote an effective common negotiation position in preparation for the Cancun meeting, particularly with regards to mechanisms for mobilizing and disbursing the required climate finance. Otherwise, African countries risk being pushed aside during the negotiations.

MDG & adaptation costs for Africa	ODA needs for MDGs		Extra needs for adaptation
($bn p.a. for 2010–2020)	Cost 2010–2020	of which ODA	
Agriculture			
Agricultural inputs	5.7	4.0	1.2-2.4
Rural infrastructure	5.7	4.0	
Irrigation	0.8	0.8	0.0
Research	0.0	0.0	0.3
Sub-total	12.2	8.8	1.6-2.7
Nutrition & school feeding			
Sub-total	5.7	4.0	0.0
Education			
Primary	7.1	5.0	0.0
Secondary	4.7	3.3	0.0
Sub-total	11.9	8.3	0.0
Health			
AIDS	17.1	12.0	0.0
TB	2.4	2.4	0.0
NTDs	2.9	2.0	0.0-0.5
Malaria	0.9	0.6	1.2-1.8
Health systems (incl. maternal health)	14.3	10.0	
Family planning	1.4	1.0	0.0
Sub-total	39.0	28.0	1.2-2.3
Infrastructure			
Energy (incl. regional)	16.0	11.5	1.2
Transport (incl. regional)	16.2	5.4	
Water and sanitation	7.9	5.8	2.9-7.2
Trade facilitation	0.4	0.2	0.0
Sub-total	40.6	22.9	4.2-8.4
Statistics			
Sub-total	0.4	0.3	0.0
SUB-TOTAL: MDG cost	109.7	72.3	7.0-13.4
Additional interventions			
Capacity building/planning	-	-	0.2-0.4
Coastal protection	0.8	0.8	0.6-3.2
Disaster response	9.0	9.0	3.0-3.5
Ecosystem management	-	-	not assessed
SUB-TOTAL: additional cost	9.8	9.8	3.8-7.1
GRAND TOTAL	119.5	82.1	10.8-20.5

Table 3: Resource needs and financing for MDGs and adaptation ($bn p.a. over the period 2010–2020). Source: Fankhauser and Schmidt-Traub (2009)

* MDG costs will be met in part from national government budgets. For example, in the case of agriculture it is assumed ODA will cover $8 billion and African governments $3.4 billion of a total budget of $11.4 billion a year.

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ENDNOTES

1 For a detailed discussion of the financing needs for adaptation and development in Africa, see Fankhauser and Schmidt-Traub (2010).

2 The question of how resources are mobilized is distinct from the question of how they are programmed and spent. A substantial number of public investments, particularly in infrastructure but possibly also in health and education, can and ought to be delivered by private companies even though they are publicly financed. Assessing the potential for increasing the efficiency and effectiveness of public expenditure through such public–private partnerships is beyond the scope of this brief.

3 See Fankhauser and Schmidt-Traub (2010) for details on required adaptation measures.

4 See for example the 2008 Africa MDG Report (http://www.uneca.org/cfm/2008/docs/AssessingProgressinAfricaMDGs.pdf) and 2010 MDG report by the Secretary-General (http://www.un.org/ga/search/view_doc.asp?symbol=A/64/665).

5 Estimated from www.climatefundsupdate.org, accessed on 11 March 2010.

6 Africa does have considerable potential for reducing emissions from forestry, agriculture and other land-use change, but these reductions tend to be less costly than reducing emissions in industrial processes or household applications.

7 To date, some 5.6m CERs have been issued to projects in Africa (UNEP RISOE 2010). On average, project developers are likely to receive some $10–$14 per CER, which yields an aggregate number of $50–80m. Critically, Egypt (77%) and South Africa (22%) account for the vast majority of CERs issued so far, so currently the CDM is of marginal importance for the vast majority of African countries that have seen zero revenues to date.

8 Figure 3 does not distinguish capacity development, which is required across all financing needs and will require targeted grant financing.

9 It is sometimes argued that Annex I countries owe climate finance to developing countries. Even if the moral case for this argument is strong, it cannot imply that money should flow without full accountability. Not only do taxpayers in developed countries deserve full accountability on how such resources are spent, but equally importantly so do the citizens in recipient countries.

10 Many mechanisms for multilateral financing or resource-pooling operate successfully on this basis, e.g. GFATM, Education for All Fast Track Initiative.

11 Many countries in Africa and elsewhere have achieved tremendous progress in health, education, infrastructure, or agriculture on the basis of long-term policies and investment frameworks. It will be important to apply these lessons from the MDGS to adaptation and mitigation – areas that currently suffer from a high focus on short-term action and small-scale project activities. Civil society organizations can make important contributions towards programmatic approaches by helping ensure accountable and effective strategy design and implementation.

12 For more discussion of financing mechanisms, see EU Commission (2010), APF (2009) and Drouet (2009).

13 For example, highly rated loans are critical for closing the energy-access gap in Africa and to provide capital for upgrading and expanding water-resources management systems and infrastructure.

14 The "Green Fund" mulled by the IMF Managing Director and described by Bredenkamp and Pattillo (2010) was not approved by the IMF Board which objected to the Fund playing a role in climate finance. However, regardless of which institution ends up administering the Copenhagen Green Climate Fund, the sound technical principles outlined by the IMF economists should form the basis for structuring the fund in order to obtain maximum "bang for the buck".

15 In contrast, project-based mechanisms that provide financing across a vast range of areas (e.g. as sometimes proposed for the Adaptation Fund) are inefficient and less suitable for generating and propagating experience for successful scaling-up. In the absence of clear streamlined parameters for approving programmes, which require a thematic focus, such broad-based mechanisms are liable to become "process focused" and impose onerous application procedures.

16 Bredenkamp and Pattillo (2010) assume that some 60% of the $100 billion must be provided in the form of grants. Their assumption appears in line with the structure of the incremental financing needs outlined in Tables 1 and 3.

17 The Green Fund outlined by IMF economists provides a sound technical structure for providing the necessary volume of loans that can be blended with and complemented by grants, along the lines proposed by Bredenkamp and Pattillo (2010). This seems consistent with the various governance arrangements under discussion for the Copenhagen Green Climate Fund.

18 For a complete list see: http://www.oecd.org/linklist/0,3435,en_2649_33721_1797105_1_1_1_1,00.html

19 Table 2 shows these and other proposals.

20 After all, a considerable number of non-Annex-I countries are members of the OECD DAC or have per capita incomes substantially higher than those of some Annex I countries.

ABOUT THE AFRICA PROGRESS PANEL

The Africa Progress Panel (APP) was formed as a vehicle to maintain a focus on the commitments to Africa made by the international community in the wake of the Gleneagles G8 Summit and of the Commission for Africa Report in 2007.

Under the chairmanship of Kofi Annan, it pays equal attention to the implementation of Africa's commitments as set out in the Constitutive Act of the African Union and landmark international agreements.

The Africa Progress Panel's added value is in drawing upon first class research and using the Panel members' reach to:

- Track progress by highlighting good practices and positive change in Africa that have led to sustained development across the region.
- Monitor the role of Africa's trading, donor and investment partners in supporting the continent's progress.
- Support African initiatives driving social, economic and/or political progress on the continent whether it is brought about by African leaders, institutions or international partners.
- Identify key areas for the continent's development such as south-south partnerships, climate change, maternal health, infrastructure, technology or regional integration

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The APP promotes Africa's development by tracking progress, drawing attention to opportunities and catalyzing action.

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