Seventh African Development Forum

Acting on Climate Change for Sustainable Development in Africa

Financing Climate Change Adaptation and Mitigation Actions

Issues Paper #7

ADF VII • 10 - 15 October 2010 • United Nations Conference Centre • Addis Ababa, Ethiopia

African Union

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I. Overview

1. For Africa, the most critical climate change issue is to obtain sufficient financial support to manage adaptation and mitigation processes successfully, attend to development needs and continue to develop infrastructure, particularly energy. At present, there are huge gaps between needs and available financial, technological and human resources.

2. As Africa is one of the regions of the world most severely affected by climate change, adaptation is urgent, and will be costly. While African countries are not obliged, under the Kyoto Protocol, to mitigate their emissions to a fixed timescale, there are advantages in developing bold and specific strategies for special finance to hasten the process to further reduce global warming. This would ensure their retaining the moral high ground and nourishing the Green Economy through access to modern technologies.

3. ***Green Economy:*** A Green economy with low-carbon development pathway holds much promise for Africa. There could be sizable long-term employment opportunities (green jobs), infrastructural development in particular, from investing climate change funds. Movement towards significantly better use of natural resources – the backbone of the rural economy – can only be beneficial. Africa stands to gain from genuine sustainable development pathway. Being a late developer, the continent is in a unique position to catch up, once a strong global agreement is reached to minimize global warming.

4. ***Existing climate funds***: The many climate-related funding mechanisms can be grouped into two categories: existing international public financing initiatives and the Clean Development Mechanism (CDM). Some of the public funds and strategies are organized under the authority of the United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol (Convention funds), while others are managed directly by bilateral agencies or the World Bank and other multilateral agencies (non-Convention funding). These include the Climate Investment Funds (CIFs) jointly managed by multilateral development banks (MDBs), with the World Bank as trustee[1]. The African Development Bank (AfDB) has also established the Climate for Development in Africa (ClimDev-Africa) Special Fund (CDSF), the Africa Water Facility and the Congo Basin Forest Fund. It is also in the process of setting up an Africa Green Fund (AGF), based on Copenhagen (COP15) commitments.

5. UNFCCC funds include the Special Climate Change Fund (set up to fund projects in capacity building, adaptation, technology transfer and climate change mitigation) and the Least Developed Countries Fund (designed to help such countries with their National Adaptation Programmes of Action).

6. ***Clean Development Mechanism*** (CDM). Established under the Kyoto Protocol, CDM promotes low-carbon development projects in developing countries and assists developed countries in complying with emission reduction commitments. The CDM market is a significant source of mitigation finance, especially for emerging economies. Africa must take greater advantage of existing carbon market opportunities and develop a clear position for post-2012 negotiations.

7. ***Insufficiency:*** Resources generated under these funds are far from meeting Africa's needs. Significant new financing for all developing countries is currently under negotiation, as part of global climate change agreements, along with important governance issues. A global agreement should include adaptation finance, public mitigation funding and private funding through carbon markets, to meet costs

1 The CIFs comprise two funds: the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF).

of low-carbon technologies, accelerate technology development and deployment, and build technical, financial, and policy level governance capabilities. The recently-established Adaptation Fund under the Kyoto Protocol issued its first call for "concrete" adaptation proposals from developing countries in 2010 (www.adaptation-fund.org).

8. ***Important financing issues*** include:
   a) Working with uncertainty;
   b) How big is the climate change problem? How much financing is required?
   c) How much financing might be made available?
   d) New and reformed financing mechanisms; and
   e) Domestic stakeholders in a Green Economy.

II. The main issues at stake

A. Investing in uncertainty

9. Although climate change is a critical global problem that could make the world uninhabitable if left unchecked, many of its aspects are still uncertain. For instance, the size and sequence of sectoral impacts at specific locations are not yet clear. Some particularly weak and vulnerable countries may suffer a series of ever- increasing disasters, with greater stress exacerbating existing pressure points. This makes it a struggle to keep up with current changes, let alone develop. Other countries with stronger economies and less affected by early changes will have time to get ahead of the game and invest wisely in adaptation for the future. *The inherent uncertainty demands a well-informed risk management approach to precautionary planning and investment decision-making within the perspective of a Green Economy, together with development of a pervasive climate risk management culture throughout African society. In the short term, climate uncertainties require better preparedness for disaster risk management. In the longer term, uncertainties in climate projections suggest that policymakers will have to weigh the costs of investments against their benefits over a range of potential climate outcomes, which will not only render development management significantly more complex, but also increase the cost of adaptation.*

B. How big is the problem? How much finance might be required in Africa?

10. While climate change presents mankind with its biggest challenge ever, the true scale of the problem is still uncertain, partly because we continue to make it worse day by day. Climate uncertainties, and therefore, the costs of climate adaptation are expected to rise as global warming becomes more significant. The emissions reduction target should thus be ambitious. The "final" size depends on the developed countries and emerging economies, and the rate at which they can (or do) transform the global economy to low-carbon. Until there is firm global agreement with urgent and total commitment to reducing emissions everywhere, the size and scope of the overall problem remains undefined – somewhere between manageable (<2˚Celcius) and impossible (>4˚Celcius).

11. ***Adaptation:*** Several recent assessments find that the potential cost to Africa of adapting to climate change will be around US$20 to US$40 billion per year by 2025 (for example, the United Nations Development Programme (UNDP), World Bank and UNFCCC). Early adaptation to change will be much

more cost effective than delaying and then responding to a flood of emergencies. Both considerations demand an early, fair and robust global agreement, with resources for immediate implementation of "soft" and no-regret measures.

12. ***Mitigation:*** The potential costs of **mitigation** in Africa are less uncertain. Up to now, emissions from Africa have been relatively small – three or four per cent of global emissions. However, with economic takeoff and rising living standards across the continent, future emissions could become more significant. Mitigation costs for Africa are estimated at around US$5 to US$10 billion a year by 2030 to meet a 2˚Celcius stabilization target.

13. A combined low-carbon development pathway that is well adapted to a changing climate in Africa might therefore cost between US$25 to US$50 billion per year over the next 30, 40 or 100 years. These rough estimates provide a useful perspective. More important than the cost though, is the fact that strong mitigation actually happens soon and comprehensively.

C. How much finance might be available?

14. At present, Africa is far from meeting its own development investment needs from domestic resources, let alone coping with climate change. Fortunately, the "polluter pays" principle prevails and the developed economies have recognized their obligation to support African adaptation and mitigation, in addition to normal development flows. In Copenhagen, developed countries committed US$100 billion a year by 2020 to help poorer nations cope with the impacts of climate change, with $30 billion in financing by 2012.

15. Africa might expect 40 per cent of this global agreement. The African negotiating position is not unreasonable as this approximately doubles the existing $44 billion per year of development assistance. Paying for mitigation in Africa is less controversial: the whole world needs the reduction in greenhouse gas emissions, and this is the basis for carbon trading in the CDM.

D. Governance and new financing mechanisms

16. Africa seeks control over new finance for addressing climate change and development. To obtain maximum benefit from available finance, there should be additional and predictable *flows so that investments can be scheduled in sequence and delivered effectively*. While new finance should not be provider driven, the mechanisms and institutions involved (for example the African Development Bank) must be significantly more effective, efficient, and accountable than previously. Developed countries are not yet confident that new funding will be invested wisely and transparently, hence their limited current support for the UNFCCC Adaptation Fund. There may be need for institutions like the Africa Climate Policy Centre (ACPC) to become multilateral implementing entities for the fund to help raise implementation standards.

17. Fundamental reform of existing **mitigation** financing mechanisms is required to provide sufficient capital for Africa to develop in a low-carbon sustainable way. The CDM and World Bank Climate Investment Funds are inadequate. Carbon markets could hold promise, if reformed in ways more appropriate to African interests. Requirements include the expansion of types of projects eligible for CDM, with improved methodologies for sectors with high potential in Africa and integration of

Reducing Emissions from Deforestation and Degradation (REDD) actions together with support for the concept of sectoral CDM.

E. Domestic and private sector investment in a Green Economy

18. While the United Nations system should support the mobilization of sufficient resources to enable States to implement climate policies with a clear timeframe, governments in Africa should be urged to mobilize sufficient resources to ensure that they have clear budget lines that support implementation of adaptation actions, and put in place robust monitoring and evaluation mechanisms for easy tracking of progress over time.

19. Mobilization of the domestic private sector to actively participate in financing climate change mitigation strategies could provide fresh resources. This might be achieved through incentives in the fiscal system which rewards contribution to such causes, along with industrial strategies that promote environmental stewardship in the product life cycle, so contributing to mitigation initiatives. Further analysis is required to bring out possible roles of the private sector either in the form of Public-Private Partnerships (PPPs) or wholly private sector initiatives. Policies that facilitate private sector participation are required, including foreign direct investments.

III. Conclusion

20. The world has declared war on pollution. It is preparing a campaign of economic and environmental transformation to help the earth maintain its heat balance, but hasn't yet completed a time-bound global strategy, or agreed exactly on who will provide the necessary finance. This uneasy peace is unsettling and leaves a policy vacuum. Business as usual is sure to lose the war, although coherent alternatives like a Green Economy are still under development. In such a situation, Africa must roll up its sleeves and prepare and prepare again. While current funding committed for adaptation to climate change is grossly insufficient in comparison with the scale of the problem, it does exist and is significantly underutilized. Africa should be employing these funds as if there was some urgency in addressing a crisis critical to the future of the continent, and learning how to obtain the most impact. It should also be planning to invest much larger financial resources likely to be available in the near future.

21. While politicians complain of inadequate finance to invest in development, donors bemoan the lack of adequate policies and programmes in which to invest. Now the world is changing. More financing will become available. Africa must refocus development policies, programmes and action plans on addressing climate change through low-carbon development in a Green Economy if its people are to have a future worth living. The world has a clear and direct interest in helping Africa with such a programme, in the form of finance plus technology and capacity. Most importantly however, Africa now needs to help itself by getting organized, and showing that it is totally committed and prepared. This forum, ADF-VII, is a firm step in that direction.

IV. Key questions

A. Managing uncertainty

22. How best can a culture of climate risk management be developed throughout Africa? Are climate services up to the task of providing the required baseline information? Can Africa afford not to invest in climate change research and improved climate services to help manage future climate risks?

B. The problem is big and getting bigger

23. Are we doing everything we can to avoid runaway climate change? Is everyone aware of the risks of delay in reducing emissions and missing the <2˚Celcius target – and the consequences in terms of lives, livelihoods and financing adaptation? Why are existing climate funds underutilized?

C. How much finance might become available?

24. Are UNFCCC negotiations likely to result in sufficient resources for Africa to adapt to climate change, assisting with transformation to a Green Economy? Are tabled commitments of about US$40 billion per year by 2020 likely to be sufficient? Can such sums be invested in ways that attract further foreign direct investments of the kind required?

D. Financial governance

25. How can Africa exercise more control over new climate finance for addressing its own climate change and development agenda? Can finance flows be made more predictable and longer term so that investments can be scheduled and delivered effectively? Are adequate financial structures in place at national level? Are governance processes sufficient to ensure best use of funds?

E. Reforming mitigation finance

26. What other changes in existing **mitigation** financing mechanisms are required to help provide resources for Africa to develop in a sustainable low-carbon way? How should carbon markets be adapted to make them more appropriate to Africa's interests?

F. Facilitating change

27. Is there a requirement for an annual African meeting to assess progress in relation to climate change and development of a Green Economy? Can momentum for change be increased through exchange of knowledge and ideas for scaling-up best practices, and through building trust between different stakeholders by brokering programmes and financing? Or do we need to wait until all the resources are lined up on the table before we think about disbursement?