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Climate Finance Policy Brief

Climate Finance in Sub-Saharan Africa

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This policy brief reviews general trends in African climate finance. It considers the key actors in the region and their evolving role in negotiations over the global architecture for climate finance, and finds that funding that is currently delivered is far from fulfilling the demonstrated needs of SSA. There is a particular need to increase finance for adaptation. There are serious challenges associated with directing finance to the sectors and people most vulnerable to climate change. The brief reviews how institutions are positioning themselves to channel future scaled-up climate finance, and concludes by highlighting issues that require policy attention to improve the effective and equitable distribution of climate finance in the region.

The challenge of climate change for Africa

Sub-Saharan Africa (SSA) has contributed the least to the global accumulation of greenhouse gas emissions: less than 4% of global CO_2 emissions come from the African continent. However, this region will be more vulnerable to the impacts of climate change than any other. The Intergovernmental Panel on Climate Change (IPCC) predicts that by 2020, crop yields from rain-fed agriculture in SSA may fall by up to 50%, and 75-250 million people could be affected by increased water shortages. SSA is already highly susceptible to droughts, which are linked to decreases in agricultural yields and in turn, increases in food prices. Subsistence farmers, the majority of whom are women, are likely to be particularly affected. The region's vulnerability to climate change therefore creates a compelling case for SSA to receive significant funding for adaptation.

Funding Needs and Delivery

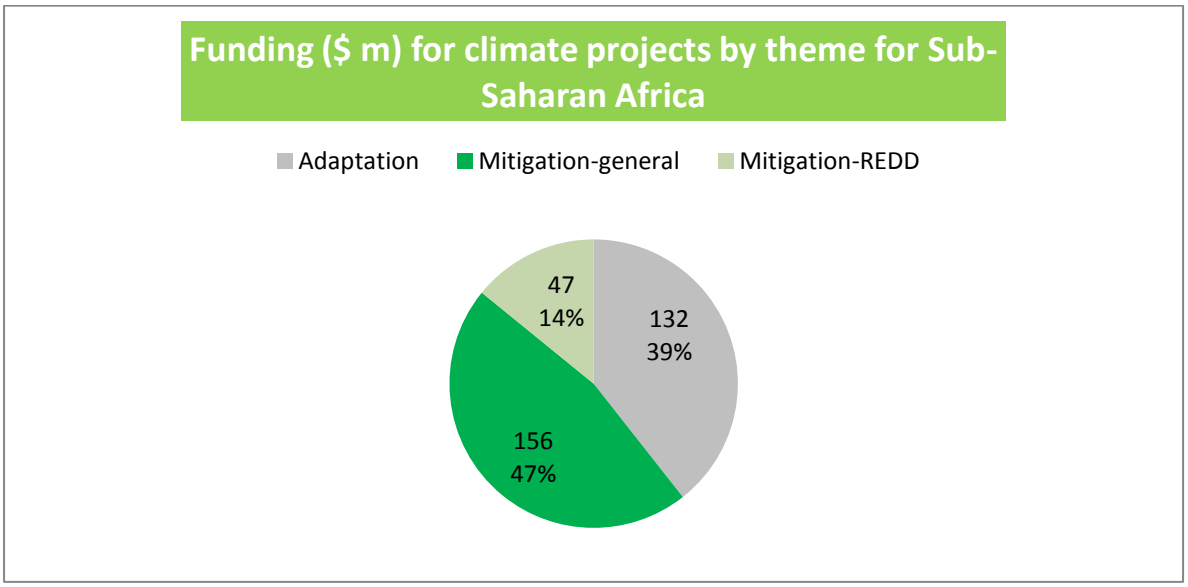
The World Bank estimates that between 2010 and 2050, the annual cost for adaptation to climate change in SSA will be at least $18 billion, not including funding necessary to place SSA countries on a low-carbon development pathway. While such financial estimates have been the subject of much debate, there is a general consensus that the level of financing currently reaching African countries is nowhere near enough to meet demonstrated needs, especially for immediate adaptation measures.

The Climate Funds Update (CFU) website reports that a total of $1.16 billion[1] has been approved for SSA, of which only $379[2] million has been disbursed to date. The large gap between funding approved and funding spent on projects suggests serious bottlenecks in program implementation. The top recipients of dedicated climate finance initiatives in SSA are South Africa ($488 million), Mozambique ($30million), the Democratic Republic of the Congo and Tanzania (with $25 million each). As South Africa is the largest recipient of climate finance in SSA, and the host of the 17th UNFCCC COP, Box 1 considers the particular role that climate finance has played in that country's efforts to address climate change. Many poorer countries appear to have been neglected by international climate finance support. For example, Uganda and Chad combined received less than $0.5 million over the last three years from dedicated climate funds monitored by CFU.

Figure 1 shows the distribution of climate finance across Mitigation, Adaptation, and REDD+, and suggests that although mitigation projects have received the most support, finance is also being directed to adaptation and REDD projects.

[1] This amount also includes $73 million approved for multiple foci.
[2] This amount also includes $44 million disbursed for multiple foci.

Figure 1:



The failure of the Clean Development Mechanism (CDM) of the Kyoto Protocol to support projects in SSA has been controversial. 72 CDM projects were registered across Africa in 2011, accounting for only 2% of CDM projects. The majority of these projects are in South Africa and Egypt, with the rest distributed broadly among the remaining African countries.

Box 1: Climate Finance in South Africa

South Africa is the largest emitter of GHG emissions in SSA and one of the twenty largest GHG emitters in the world. The carbon intensity of its economy results from the large role of energy intensive mining and extractive industries, and its dependence on coal to generate electricity. An upper-middle income economy, South Africa is both a donor and a recipient of climate finance. While it has contributed $2.2 million to the GEF, South Africa is the largest recipient of climate finance in the region, with a total amount of $488 million approved and $35 million disbursed, primarily for mitigation activities. The main contribution comes from the Clean Technology Fund (CTF) through the $350 million Eskom Renewable Energy Support Program. Unfortunately, concerns have been raised about whether this financing will be effective, in light of the institutional, political and regulatory barriers to investment in clean energy that exist.

In 2007, South Africa's cabinet gave the Department of Environmental Affairs a mandate to develop a set of Long-Term Mitigation Scenarios that outlined options through which the country could reduce its emissions to levels "required by the science" of climate change. These scenarios were the basis for a commitment to reduce South Africa's emissions by 34% relative to business-as-usual made by President Zuma in anticipation of the Copenhagen COP in 2009, contingent on the international community mobilising support for South Africa to realise these goals. The government of South Africa has therefore been proactive in seeking access to climate finance in order to catalyze investment in renewable energy and energy efficiency technologies and begin the difficult process of decarbonising the country's electricity sector. The environmental and social benefits of diversifying the energy mix are great – for example, renewable energy technologies can help deliver energy services to the millions of South Africans who still live without access to electricity. Furthermore the use and processing of conventional fossil fuels has caused substantial air and water pollution that has negatively impacted people in poor rural communities. But the additional costs of taking action are significant given the low cost of domestic fossil fuel reserves.

After a lengthy national process of deliberation and engagement, South Africa's cabinet approved a new Climate Change Response Policy in October 2011, focused on both mitigation and adaptation. The Policy seeks to effectively manage the inevitable climate change impacts through interventions that build and sustain South Africa's social, economic and environmental resilience and emergency response capacity. It also seeks to make a fair contribution to the global effort to stabilise greenhouse gas (GHG) concentrations in the atmosphere at a level that avoids dangerous anthropogenic interference with the climate system within a timeframe that enables economic, social and environmental development to proceed in a sustainable manner.

Adaptation

Africa's vulnerability to climate change suggests an urgent need to finance adaptation activities. Historically, very little financing for adaptation has been directed toward the region. CFU data suggests that this trend may finally be changing in absolute terms: between 2004 and 2011, $328 million has been approved for 75 adaptation projects. $132 million has been disbursed to date, which represents about 30% of finance disbursed for adaptation globally ($439 million) through dedicated climate financing instruments. The general trend is one of an increasing number of adaptation projects, although the volume of financing directed to each of these remains very low. This is a larger problem that points to a project focused approach to adaptation finance, rather than strategic programmatic interventions. Despite an increase in approved finance in absolute terms, however, Africa has received only a small proportion of new adaptation finance to date. In 2011, climate finance was disbursed to 31 projects adaptation globally, but only five of them were in SSA. Figure 2 and Table 2 below present the contributions of dedicated climate funds monitored by CFU to adaptation in SSA.

Figure 2

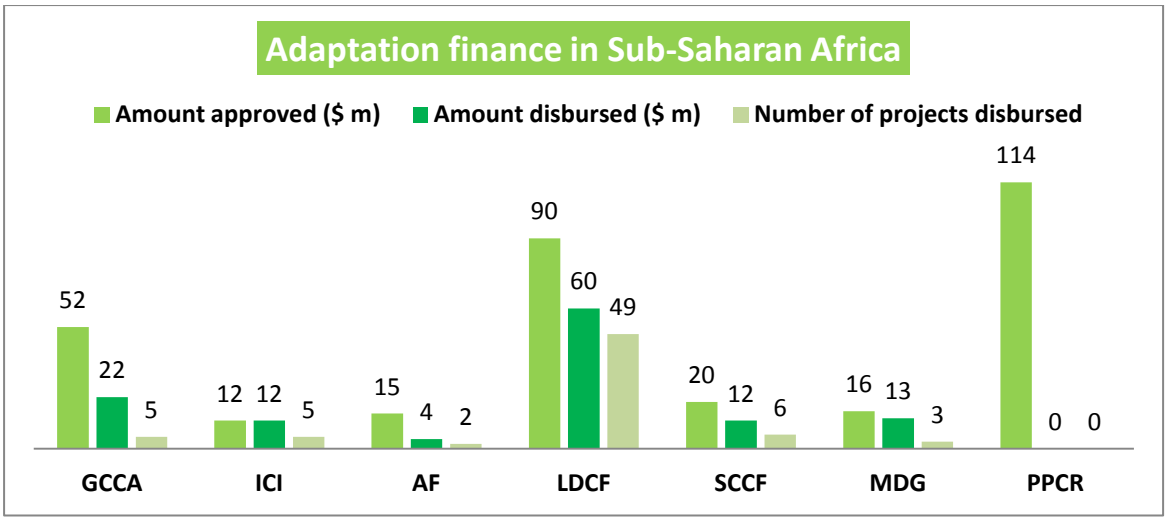


Table 1

	Amount approved ($ m)	Amount disbursed ($ m)	Number of projects disbursed
Global Climate Change Alliance	52	22	5
International Climate Initiative	12	12	5
Adaptation Fund	15	4	2
Least Developed Countries Fund	90	60	49
Special Climate Change Fund	20	12	6
Millennium Development Goal Fund	16	13	3
Pilot Program for Climate Resilience	114	0	0
Total for SSA	**319**	**123**	**70**

The Least Developed Countries Fund (LDCF), which has been operational since 2001, has approved the largest volume of adaptation finance for SSA to date ($90 million), disbursing $60 million to 49 projects. The LDCF under the Global Environment Facility (GEF) is tasked with supporting the development of National Adaptation Programmes of Action (NAPAs) as well as financing the implementation of projects that the countries self-identified in NAPAs as their most urgent adaptation priorities. The LDCF has been successful in funding NAPA preparation, reaching a large number of countries. Only small amounts of funding are available for the implementation of NAPA priorities, compared with the $800 million - $1.5 billion that the UNFCCC estimated would be necessary. Funds have been evenly distributed across countries that have submitted NAPAs, however.

The Global Climate Change Alliance (GCCA) is a European Union initiative that focuses on Least Developed Countries and Small Island Development States as well as African countries affected by drought, desertification and flooding. Between 2010 and 2011, the GCCA approved $52 million and disbursed $22 million for the implementation of five projects in SSA, including the largest ($14 million) adaptation project in the region to date with the Government of Mozambique.

The Special Climate Change Fund (SCCF) and Millennium Development Goal Fund (MDG - which is now closed) have approved $20 million and $16 million respectively for adaptation. The Adaptation Fund (AF) has approved less finance to date, largely because it only began funding in 2010. African countries have been first movers in establishing national implementing agencies to directly access its funds, which we discuss further in Section 5.

The Pilot Program on Climate Resilience (PPCR), part of the World Bank's portfolio of Climate Investment Funds (CIFs), is the largest fund directed at supporting adaptation, having approved $114 million to date, although it has only disbursed finance for administrative fees so far ($27 million). The PPCR represents a first effort to take a programmatic approach to adaptation and resilience finance rather than pursuing piecemeal investing (a problem discussed earlier in this brief), although it works only with a small number of pilot countries, including Niger, Mozambique and Zambia in Africa; the African Development Bank is the regional implementing entity for these programmes.

The PPCR offers recipient countries concessional loans to finance adaptation activities in addition to grants, which has been an issue of some controversy. Some groups have questioned the fairness of such an approach given the fact that adaptation finance can be seen as compensation for damage caused by developed countries under the polluter pays principle. Furthermore, they have flagged concerns about the impact of adaptation loans on the debts of low income countries. The PPCR Trust Fund Committee has recently reacted by tightening its guidelines so that highly indebted poor countries will not be offered loans and will only have access to PPCR grants.

Mitigation

CFU data suggests that a total amount of $645 million from dedicated climate funds for 60 mitigation projects in SSA has been approved; $156 million for the implementation of 42 projects has been disbursed. The Global Environment Facility has been the longest standing source of finance for mitigation in SSA and disbursed $92 million under its 4th replenishment period (GEF 4). In 2011, the GEF approved 5 new projects under its 5th replenishment period, the largest of which ($18 million) is the African Rift Geothermal Development Facility, a UNEP Technical Assistance program with six African countries (Ethiopia, Eritrea, Djibouti, Kenya, Uganda, and Tanzania) to facilitate the development of 1000 MW of geothermal energy.

South Africa and Nigeria are the only two recipients of the World Bank's Clean Technology Fund (CTF) funding in SSA, implemented by the African Development Bank (AfDB). The CTF focuses on large emission reductions in middle-income countries; however, there is presently not enough funding pledged in the CTF to finance the $250 million Nigeria investment plan. The Scaling Renewable Energy Program (SREP) of the World Bank CIFs has initiated pilot programs in the low-income countries of Kenya, Mali, and Ethiopia to help address energy poverty and access through the deployment of renewable energy and energy efficiency technologies, with the AfDB the regional lead agency. Mali's SREP investment plan was approved in 2011.

Reducing Emissions from Deforestation and Degradation (REDD+)

Forests and woodlands occupy more than 20% of the land area in Africa, particularly in Central Africa where the Congo Basin holds the world's second largest continuous block of tropical rain forest. Climate Funds Update (CFU) data reports show about 40 projects in SSA, 10 of which have been approved in 2011 for a total committed funding of $119 million. Funds have been disbursed for 32 of these projects for a total amount of $47 million.

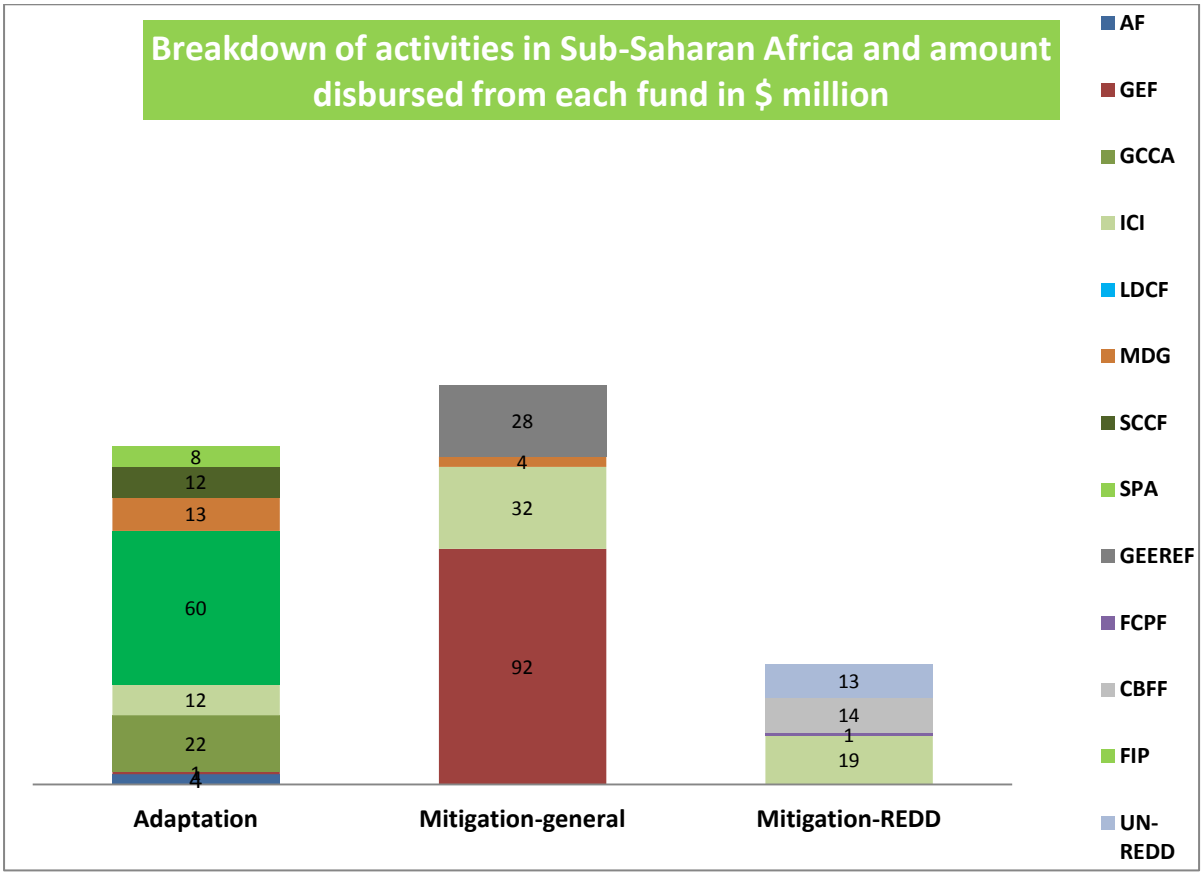
The main dedicated funding initiative in the region is the Congo Basin Forest Fund (CBFF). The CBFF, which is managed and implemented by the AfDB, supports relatively small-scale projects that range from promoting land tenure rights, to incentivizing innovative forms of community controlled protected areas. Some 13 projects for a total amount of $14 million are currently being implemented under the fund. The Forest Investment Program (FIP) of the World Bank CIFs has committed the largest amount of finance to REDD+ in Africa to date. A $32 million FIP program in Burkina Faso was approved in 2011, which will support the decentralization of sustainable forest management, the protection of state forest reserves, and information-sharing. In addition, a $60 million program was approved for the Democratic Republic of Congo to address

deforestation and degradation and provide small grants to promising small-scale initiatives. A FIP investment plan for Ghana is also under development.

The World Bank's Forest Carbon Partnership Facility (FCPF) is actively engaged in the region, with 8 projects approved and 7 disbursed, but has very limited resources with a budget of less than $1 million per project. Finally, the UN-REDD Programme is working with Tanzania, the Democratic Republic of the Congo, and Zambia, and has disbursed $13 million for the preparation and implementation of National Programs with the technical support of the Food and Agriculture Organisation, the UN Environment Programme, and UN Development Programme .

Figure 3 shows the breakdown of activities of the themes above discussed in the region, and the amount disbursed by each fund.

Figure 3



Direct Access to Climate Finance

African countries have been vocal advocates of direct access to climate finance, which may help reduce the transaction costs associated with projects that presently involve a large number of intermediaries. Direct access, however, demands that national institutions have the capacity to meet fiduciary standards and manage and spend this money well.

A major innovation of the AF was to give institutions based in developing countries direct access to financing for projects through National Implementing Entities (NIEs). Senegal, Benin and South Africa have all established NIEs. Senegal was the first to seek direct access, and appointed an NGO experienced in coastal resource management to act as its designated NIE. This innovation demonstrates the important role that NGOs can and are playing in helping to access and manage climate change finance, particularly on a continent where governments' institutional capacity is often limited. Nevertheless, strengthening institutional capacity within governments in SSA will be crucially important to build resilience to the impacts of climate change over the longer term.

Direct access is an intended modality for the new Green Climate Fund (GCF), which should include support for building the capacity of national institutions to help them access climate finance, which is not presently available through the AF.

Targeting the people and sectors most in need

A major barrier to investment in climate finance is the transaction costs of small-scale projects that are often required in the poorest areas and for the benefit of the poorest, most vulnerable population groups, such as women and Indigenous Peoples. It is an immense challenge to design and implement programs in ways that are financially viable, and can also be scaled-up and replicated. This challenge is further compounded by the poor investment climate in many African countries, the aforementioned weak capacity of government institutions to manage finance, political instability and governance problems. However, some efforts have been made to help direct investment to these smaller scale projects. For example, the Economic Community of West African States (ECOWAS) established a fund to purchase carbon credits upfront to provide start-up capital for domestic small and medium sized enterprises and NGOs. The Central African States Development Bank (BDEAC) has developed similar instruments to facilitate access for CDM project developers to access funding. Nevertheless, even with increased private sector involvement in small-scale projects in SSA, a large and sustained contribution of public sector grant financing in the region will be essential. This is particularly true for climate action needs that will not provide a financial return on investment, but instead produce significant intangible gains in the form of environmental, developmental and social, including gender, co-benefits.

Active players in climate finance

The World Bank has long been an important actor in development finance across SSA, and has built on this ongoing engagement to play a central role in climate finance in the region. UN agencies have also been active, not just through the UN REDD program, but through UNDP engagement at the country level and through UNIDO efforts to engage countries on access to energy for industrial purposes.

Bilateral donors including the UK, Norway, and Germany are playing a significant role in the region. Germany, through the International Climate Initiative (ICI), disbursed $56 million to 23 projects in SSA. The UK and Norway were instrumental in their support in setting up the CBBF.

Efforts have been made to engage African leaders in the international process for designing the international architecture of climate finance. Ethiopian President Meles Zenawi co-chaired the UN High Level Advisory Group on Climate Change Finance in 2010, together with Norwegian Prime Minister, Jens Stoltenberg. Similarly, South Africa's former Minister of Finance and present Minister of the Planning Commission, Trevor Manuel, co-chaired the Transitional Committee on the design of the Green Climate Fund (GCF), whose recommendations will be approved by the COP17 in Durban. Nevertheless, the capacity of African countries to engage with the global negotiations process on climate finance has been relatively limited as a result of inadequate capacity and financial constraints, reflected in part in the small size of their delegations to the UNFCCC.

The complex role of the African Development Bank

The African Development Bank (AfDB) is a major player in climate finance in SSA. It is an implementing partner in the Climate Investment Funds (CIFs) together with the World Bank, administers the Congo Basin Forest Fund (CBFF), and hosted the Partnership Forum showcasing the achievements of the CIFs in South Africa in June 2011. The AfDB has played an increasingly prominent role in international processes to mobilise global climate finance, as its President, Donald Kabureka, was appointed to the High Level Advisory Group on Climate Change Finance in 2010.

Over the past year, the AfDB has proposed a separate "Africa Green Fund," as a way to deal with the current lack of climate finance on the continent, with some support from a number of African governments and regional institutions such as the African Union. The relationship of such a Fund with the future GCF is unclear.

This development warrants reflection in light of the status of climate-related policies, sector strategies and implementation capacities at the AfDB. The AfDB is still in the earliest stages of incorporating climate risk into its portfolio and has yet to operationalise a long overdue Climate Risk Management and Adaptation Strategy. Although its lending for renewable energy and energy efficiency is increasing, a detailed review of its energy investments from 2004 to 2010 suggests that 80% of its energy portfolio has supported conventional fossil fuel

power. The AfDB's largest loan to date was $2.5 billion to Eskom for the 4,000 MW Medupi supercritical coal fired power plant in South Africa, co-financed with the World Bank. Furthermore its energy portfolio is concentrated in richer member countries (mainly South Africa, Egypt, Morocco and Tunisia), with only 25% of its energy lending directed to poor countries, primarily for transmission and distribution projects. The AfDB is in the process of drafting a new energy sector policy and strategy which acknowledges the need to transition to clean energy solutions by 2016 and to increase access to energy for the poor. Nevertheless concerns have been raised about proposed new investments in coal-fired power plants, export-oriented biofuel projects, and large hydropower, which would be permitted under the new strategy, and could pose serious environmental and social problems.

The AfDB has begun to develop a new integrated safeguards system, as the environmental and social safeguard provisions it presently uses are weaker than those of other MDBs. It is also poised to revise its disclosure policy, which is also less comprehensive than those in place at other MDBs at present. A new Strategic Gender Plan of Action will be developed in 2012. These initiatives suggest that the AfDB is well-aware of the need to integrate climate considerations into its operations. Improving its policies and performance will be essential if it is to be entrusted with managing a large portion of the multilateral climate funding for SSA.

Conclusions

Climate change and development are closely linked, particularly in Sub-Saharan Africa. Climate change presents an important potential opportunity to make progress on the difficult agenda of achieving environmentally and socially sustainable development. The draft instrument for the GCF, to be approved at the "African COP" in Durban, refers to the promotion of such environmental and social co-benefits --including gender equity considerations-- as an objective of the GCF and as a guiding principle for its future funding on mitigation and adaptation.

Overall, the countries of SSA, particularly the least developed countries, face challenges at each stage of climate finance delivery. These need to be addressed to improve the effectiveness and equitable distribution of funding for climate action in the region. Further policy attention needs to be directed at the following issues:

- Enhancing resource mobilisation to better meet the needs of the region. It is particularly important to strengthen and increase financing for adaptation, which remains structurally underfunded, and to focus it on poor and vulnerable people, as well as women and indigenous groups.
- Allocating resources and enhancing the equity of funding distribution among and within SSA countries to emphasize the most vulnerable sectors and societal groups. This must involve gender considerations more comprehensively and explicitly.
- Developing a viable pipeline of small scale programs and projects that effectively target the poor, which will require time, and inevitably entail different –though not necessarily higher-- transaction costs than large scale projects, especially if options to replicate successful pilot approaches on a grander scale are explored.
- Supporting the elaboration of broader national development plans as low-carbon growth strategies in coordination with national coping strategies and medium- to long-term national adaptation plans (NAPs). These plans and strategies need to be developed in transparent, fully participatory country-led processes with the involvement of relevant stakeholders, particularly local communities, vulnerable groups, women and Indigenous Peoples.
- More efficient and less costly disbursal, as well as the synchronization of disbursal practises and requirements of different bilateral and multilateral funders. This might include considering an "equivalency" or common approach for fiduciary standards, and application and reporting requirements.

Fundamental changes in approach are likely to be required to direct climate finance to the countries of SSA, particularly the poorest people in the poorest countries. This will require a greatly strengthened focus on building institutional capacity to conceptualise climate compatible development projects and manage climate finance well. It will also require investments in good governance of climate finance. Good governance in turn requires strengthening the capacity of civil society organizations across the region to engage constructively in the design and implementation of programs that receive funding, and to seek accountability for effective use of climate finance. The challenge lies in balancing such long-term goals with the immediate imperative of moving money quickly to support on-the-ground actions.

References and useful links

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Climate Funds Update: http://www.climatefundsupdate.org/

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