ACT

ACTION ON CLIMATE TODAY

This briefing looks at climate finance and how countries in South Asia can improve their climate finance readiness to make best use of funding for climate change mitigation and adaptation actions. Focusing on the experiences of governments and lessons from previous ACT activities, it highlights the importance of a strong strategic vision that integrates climate finance with national planning and budgeting processes.

About the series
The ACT on knowledge series focuses on key emerging issues related to climate change and how they affect South Asia. Each leaflet synthesises existing knowledge on a topic and aims to stimulate discussion. Suggestions for further reading are provided at the end. Please see the full list of topics at **www.actiononclimate.today**

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ON KNOWLEDGE: 9

Climate finance readiness: domestic governance

What is 'climate finance'?

Climate finance refers to the funding channelled by national, regional and international entities for the purpose of climate change mitigation and adaptation projects and programmes. Developing countries have large climate change investment needs, but scarce resources for funding. Climate finance places an obligation on developed countries, for their disproportionate role in causing climate change. Therefore, international climate finance centres on the flow of funds from developed to developing countries.

In 2009, the United Nations Framework Convention on Climate Change (UNFCCC) committed to a goal of mobilising US$100 billion a year by 2020 from public and private sources to support climate action in developing countries. An analysis of climate finance scenarios by the World Resources Institute in 2015 shows that reaching this goal will require a combination of sources, including multilateral development banks, leveraging private sector finance, climate-related development assistance, and increased flows of public finance.[1]

The Green Climate Fund (GCF), based in South Korea, was designated as the operating entity of the financial mechanism of the UNFCCC in 2011. It has consolidated a previously fragmented climate finance landscape and is positioned to become the most important means by which climate finance is channelled. It places more emphasis on equitable access to funds, with equal representation from developed and developing countries on its board, the use of criteria-based investment decisions, a balanced funding allocation between mitigation and adaptation actions, and a dedicated allocation to particularly vulnerable countries.[2]


Photo: Dana Ward / Shutterstock.com

[1] Westphal et al. (2015).
[2] Shamsuddoha and Atikul Haque (2015).

What is 'climate finance readiness'?

Successful climate finance requires more than just resource flows to developing countries. An enabling environment should be created to provide incentives for local private investment, advantage should be taken of emerging tools and new types of funding (e.g. carbon markets), and climate finance needs to be integrated into national development planning. This all requires the building and strengthening of the necessary capacity, so that a country is prepared to manage climate finance. Therefore, climate finance readiness is defined as the capacity of a country to plan for, access, deliver, monitor and report on climate finance, in ways that are fully integrated with national development priorities.[3]

There is no 'one-size-fits-all' approach, but a typical Readiness Framework would comprise three functions – political and strategic; financial; and measurement, reporting and verification (MRV) – combined with the competences required by key actors to plan, manage and implement climate change actions. An application of such a framework in India is described in Box 1.

Box 1: India's climate finance readiness

An analysis of India's climate change readiness found that, overall, performance on political and strategic readiness was relatively stronger than that for financial and MRV functions. A high-level political commitment to the National Action Plan on Climate Change (NAPCC) was noted, but this was not sufficiently backed by a coherent finance strategy, while only limited private sector engagement in funding mechanisms to promote climate actions has occurred. The report made a series of recommendations to close the main readiness gaps it identified, including engaging the private sector, improving MRV systems and strategic coordination.[4]

Among the essential factors for climate finance readiness are being able to meet the fiduciary requirements of funding sources, aligning climate actions with national development planning, promoting coordination and harmonisation between donors and different funding streams, and establishing transparent accountability. Greater climate finance readiness can improve national ownership of climate-related strategies and projects. For example, in Nepal, 14 development partners signed a donor compact expressing their commitment to the government's climate change action plan.

Planning for climate finance

A strong strategic vision is important for the successful application of climate finance. Key components of climate action planning include the use of well-defined short- and medium-term indicators to help achieve long-term objectives, prioritised actions, and a good knowledge of the competences of the various actors.[5]

Complications can arise when administrations are decentralised, but this also presents further opportunities to implement climate change actions. In India, for example, the government asked all states to develop State Action Plans on Climate Change in 2009, as an extension of the NAPCC, to help decentralise actions.[6] A study of India's governance architecture for national climate finance proposed the creation of an Indian National Climate Fund, to increase institutional clarity, but with a greater devolution of funding decisions.[7]

Developing countries have implemented action plans and strategies to mainstream climate change considerations into other planning and policy areas at government, sub-government and local levels. For example, ACT is working with five Indian states (Assam, Bihar, Chhattisgarh, Kerala and Maharashtra) on various elements of a Climate Change Financing Framework, whose components include understanding vulnerability, reviewing past trends in climate change expenditure, defining climate change financing scenarios, and identifying the institutional change required to manage policy and funding in the future.

ACT's Long Range Planning Exercise for Pakistan found that cross-sectoral climate change planning was limited to the federal level. At the provincial level, the issue is understood predominantly as the responsibility of the Environmental Protection Agency or equivalent institutions. ACT is, therefore, supporting provincial governments in Pakistan to enhance their human resource capacities and skills bases in preparation for local climate actions.

National institutions for managing climate finance

Many governments, including those in South Asia, have explored the possibility of establishing National Climate Funds (NCFs) to manage climate finance. Incoming public, private, multilateral and bilateral sources of climate finance can be blended in these national schemes, with decisions being made at the national level concerning their distribution to mitigation and adaptation projects. In theory, NCFs can support national ownership of climate finance by allocating funds to projects aligned with national priorities. The costs of managing climate finance could be reduced, coordination between country-wide activities could be improved, and further resources catalysed for climate change actions.[8]

[3] Vandeweerd et al. (2012).
[4] Ricardo-AEA et al. (2014).
[5] The Nature Conservancy (2012).
[6] Dubash and Jogesh (2014).
[7] Sharma et al. (2015).
[8] Flynn (2011).

However, in practice, the added value of establishing separate national institutions to manage climate finance is a contested issue. The challenges facing national climate finance institutions include difficulties associated with direct access to international climate funds and in leveraging private sector investment through appropriate finance mechanisms.[9] The NCFs also risk compartmentalising climate issues, with climate finance being more effectively mainstreamed when it is channelled through existing government structures. The challenges are most acute for adaptation projects, as there are no internationally agreed eligibility criteria for climate adaptation funding and they can be more difficult to administer.

The international experience with NCFs has shown that they face serious challenges. Most initiatives (e.g. Indonesia and Bangladesh) have not been scaled up to handle a significant share of climate finance over a sustained period. For example, the Bangladesh Climate Change Resilience Fund was established in 2008 to receive national, bilateral and multilateral contributions and to channel the finance into prioritised interventions in the most climate-vulnerable areas of the country.[10] It managed substantial amounts of climate finance, but subsequently faced management challenges that resulted in its funding being significantly reduced.

NCFs, in particular, are demanding in terms of capacity and coordination. The main difficulties ACT has identified with NCFs are related to the cooperation between line ministries, overlapping responsibilities and the lack of clear rules on prioritisation. This is often compounded by a lack of confidence in public finance management, which leads donors to be cautious about distributing large amounts of funding.


Photo: Jimmy Tran / Shutterstock.com

[9] Frankfurt School – UNEP Collaborating Centre for Climate and Sustainable Energy Finance (2011).
[10] The World Bank (2013).

KEY MESSAGES

- 'Climate finance' is the funding that supports climate change mitigation and adaptation actions
- Climate finance readiness' relates to a country's ability to access and implement climate finance, and it requires the engagement of a wide range of institutional actors
- A crucial requirement for climate finance readiness is the existence of a robust strategic plan or policy detailing the mechanisms by which climate change is to be mainstreamed into national planning
- Integrating climate change into national planning and budgeting requires a comprehensive assessment of needs, gaps, actors and policy priorities, so that interventions can be designed to achieve a number of beneficial outcomes
- Countries must choose an institutional architecture to access and manage climate change funds, taking into account the issues of ownership, effectiveness, coordination and integration.

Sources and further reading

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