

Climate Finance: mapping national delivery

IDB workshop on climate change and public finance
Westin Lima Hotel
Lima, Peru
2-3 April 2012

Neil Bird
Overseas Development Institute

Defining 'climate finance'

Preamble: There is no internationally agreed definition of 'climate finance'

Climate finance (climate-specific finance):

- capital flows that target low-carbon development, where GHG mitigation or adaptation are explicitly stated objectives or outcomes
- both domestic & international and public & private finance flows
- Initial analytical focus has centred on international public finance
- Now moving to issues associated with national delivery

Climate-relevant finance:

- a much broader set of capital flows that will influence (positively or negatively) emissions and/or vulnerability to climate change
- flows that support development and economic growth in key emitting sectors or to sectors affecting vulnerability to climate change

Climate finance: why is it important for national policy making?

- Climate change is a new area of public policy that will have a significant impact on people's lives in many countries
- However, at present there is a limited understanding of what the cost of responding to climate change will be, and what national structures will need to be in place for climate finance to be used efficiently, effectively and equitably
- Countries will have to draw up a strategic financing framework to manage the response to climate change. Determining what this framework should look like should be an early priority

Conceptualising climate finance delivery at the national level

Climate policies and strategies need
to be developed and mainstreamed

Impacts of climate
investments are
reported to
stakeholders

Climate actions are identified
and prioritised through
planning and budgetary
systems

Climate investments are made and
implemented through institutions

International initiatives

- Over the past 5 years there has been a proliferation of funding initiatives, both bilateral and multilateral, to support climate change actions
- These funding initiatives appear for the most part uncoordinated; and alignment with government systems is questionable
- Vast majority of support comes from voluntary contributions, with support from contributor government ODA budgets
- Less than half of the pledged funds have been committed, and a much smaller percentage actually disbursed.

How are national systems responding?

- What is the scale and trends on expenditure for climate change related actions?
- What are the expenditure patterns of climate sensitive spending agencies in the public sector?

Different channels for climate finance

Domestically sourced public finance	
National Budget	Hard to identify in the absence of a functional budget classification system
Extra-Budgetary Funds	National climate change trust funds
Internationally sourced public finance	
Climate Change Budget Support	Channelled through the national budget with policy dialogue on outcomes
Country-based multi-donor Trust Funds	A variant of domestic trust funds, but with significant involvement of donors
Global Vertical Funds	Examples include the Climate Investments Funds and the Green Climate Fund
Project Finance	A range of channels are used, often outside the national budgetary system

Country case study of a national assessment carried out in Nepal

- Analysis focused on the national budget
- There are no definitions of climate change expenditure within the Government Estimates
- The functional analyses of expenditure within the Annual Budget, the MTEF, and the national plan, do not make reference to climate change explicitly as a category or function
- The international standard for budget classification GFSM 2001, does not identify climate related expenditure either

Approach adopted in Nepal study

- Climate change programmes and projects were identified from budget and planning documentation using expert opinion
- 83 budget line codes within the Government's Budget Book were identified as being relevant to climate change
- 33 of these codes were considered highly relevant
- This represents an indicative, qualitative analysis
- Five year trend analysis



Overseas Development
Institute

Climate change activities continue to be seen as an environmental – rather than an economic – concern.

Analysis of number of relevant climate change expenditure codes

Ministry	High	Moderate	Low	Total
Forests and Soil Conservation	13	7		20
Physical Planning and Works	2	10	2	14
Environment	11	1		12
Local Development	1	8	2	11
Irrigation	3	6		9
Agriculture and Cooperatives	3	4	1	8
Energy		6	1	7
Industry		2		2
Total Codes	33	44	6	83



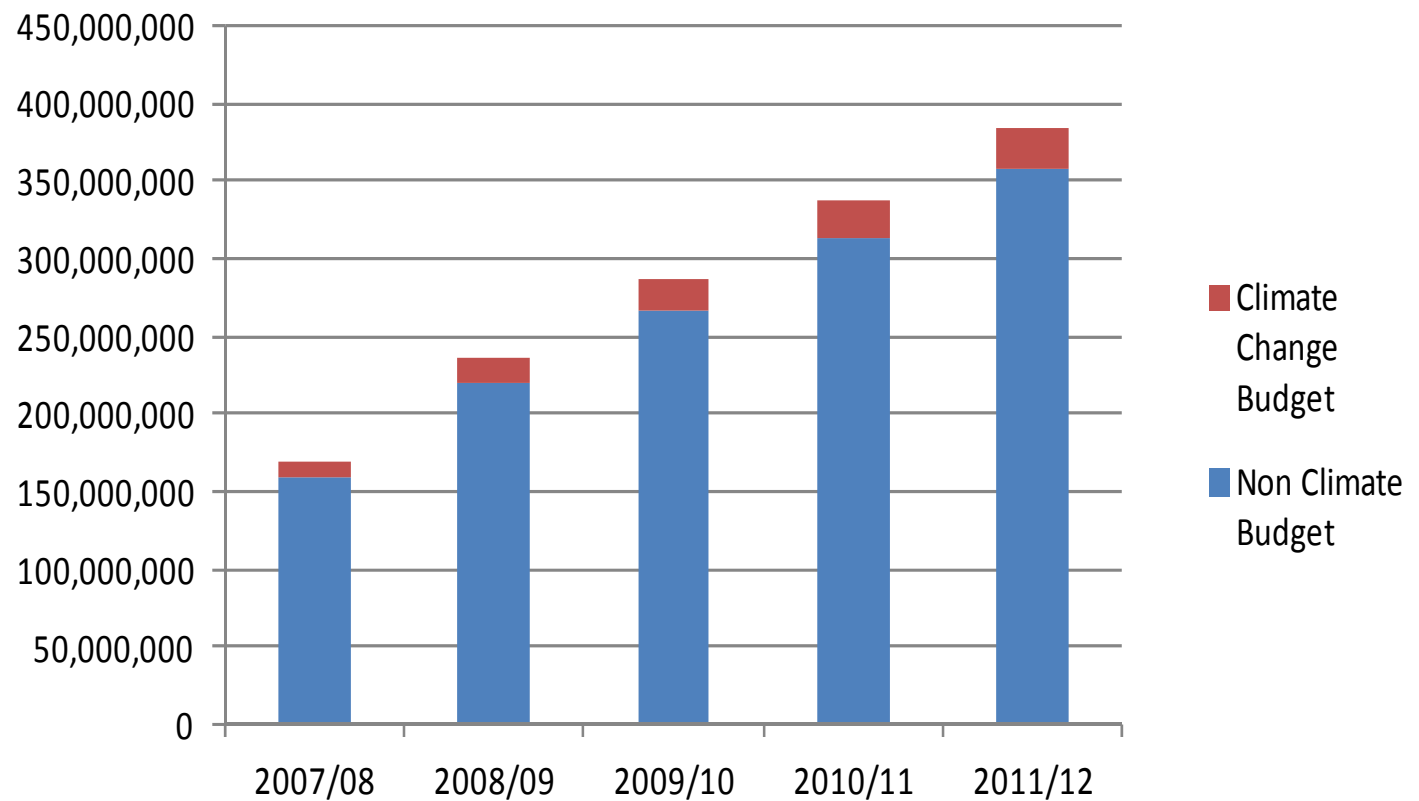
Overseas Development
Institute

Public Finance Management context

Rapid rise
in total
national
budget

Even more
rapid rise in
climate
change
budget

**Climate Budget as a Proportion of Total Budget
(Current Prices)**



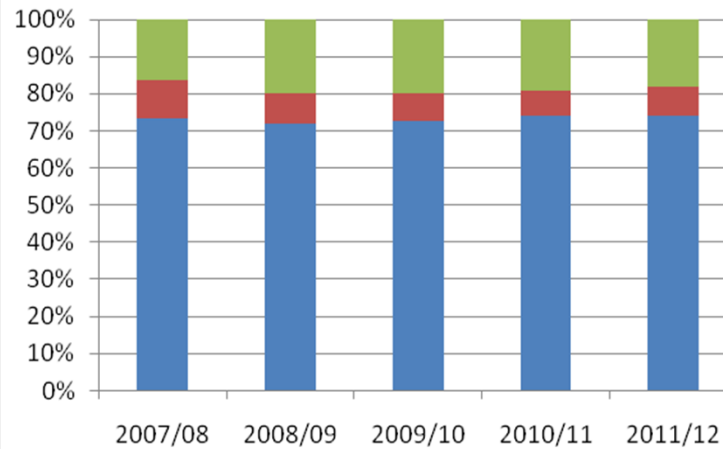


Overseas Development
Institute

Climate change
expenditure is
far more reliant
on donor funding
than
Government
Expenditure as a
whole

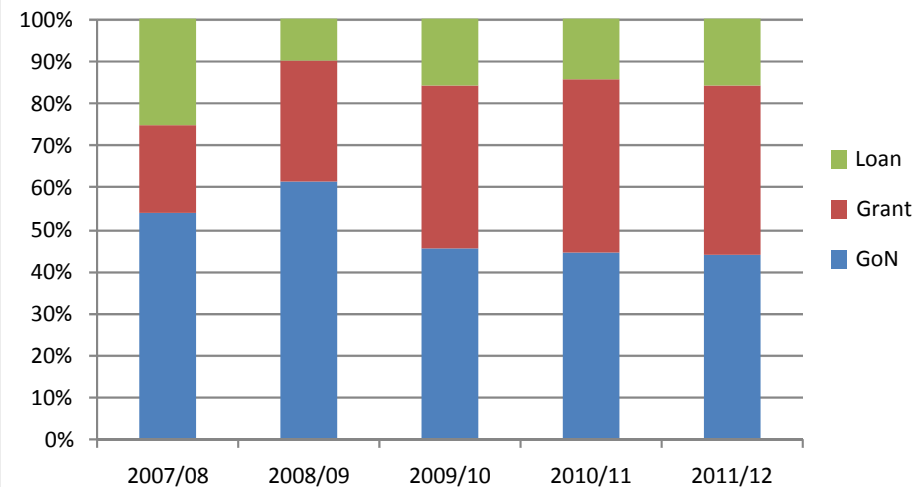
Funding sources for climate change

Sources of funding Overall Government



All
Government

Sources of Climate Funding



Climate
Change

Some headlines on climate change expenditure in Nepal - 1

- Climate change expenditure has been on average around 6.7% of the annual government budget over the past five years
- In general terms, planned climate change expenditure has increased year-on-year from 1.3% to 2.1% of GDP
- 76% of budget allocation in the five years reviewed has been for adaptation activities

Some headlines on climate change expenditure in Nepal - 2

- 13 programs, at a total cost of about US \$ 326 million, are funded or in the process of funding by international development partners
- Of these, about US\$ 225 million is grant finance and about US \$ 101 million is in terms of loans
- Approximately US \$ 13 million per year is 'off budget' in terms of international technical assistance
- A substantial amount is being spent by the private sector on clean energy investments

Improving climate finance delivery

1. Greater clarity is needed over the definition of climate change expenditure
2. The rapid growth and attendant governance and management issues need to be considered in the design and execution of climate change programs
3. The increasing donor share of funding highlights international support is forthcoming, but raises the issue of sustainability
4. Capacity of local government to handle large amounts of climate expenditure needs to be strengthened



Overseas Development
Institute

All these issues are heightened as the move to Direct Access takes place.

Direct Access reflects not only the transfer of scaled-up financial resources for developing countries, but part of a wider capacity development process that strengthens national ownership over the response to climate change



Empowered lives.
Resilient nations.

Discussion Paper

Direct Access to Climate Finance: experiences and lessons learned

November 2011

United Nations Development Programme

ENVIRONMENT AND ENERGY



ODI studies on national climate finance delivery

- Nepal and Bangladesh (supported by UNDP in 2011)
- Thailand, Cambodia, Samoa (supported by UNDP in 2012)
- Four additional countries (supported by DFID in 2012 onwards)
 - Applying a common methodology
- Others working or intending to work in this area: CKDN, GIZ, WRI, Agulhas etc.

Email: n.bird@odi.org.uk