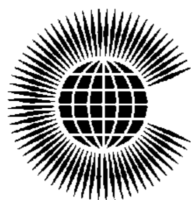
Commonwealth Secretariat



Commonwealth High-Level Meeting on Climate Finance

Wiston House, West Sussex, UK, 23–25 January 2011

Frameworks and Capacities for Using Climate Finance: Considerations for the Commonwealth

Paper for the Commonwealth Secretariat*

Commonwealth Secretariat
Marlborough House
London SW1Y 5HX

January 2011

* This paper has been prepared on behalf of the Commonwealth Secretariat by Neil Bird of the Overseas Development Institute. The views expressed do not necessarily represent the position of the Commonwealth Secretariat or member Governments of the Commonwealth.

Frameworks and Capacities for Using Climate Finance: Considerations for the Commonwealth

Executive Summary

This background paper focuses on the climate financing concerns of the most vulnerable countries of the Commonwealth: Small Island Developing States (SIDS), low-lying coastal states, Least Developed Countries (LDCs) and other African member states. The focus on the most vulnerable is significant in that these countries face both a high exposure to risks from climate change, and significant constraints in their human and institutional capacities in responding to the challenges.

Although climate finance is an imprecise term with no common definition, it is generally understood to mean those financial resources that are directed at supporting climate change related actions. It covers a wide range of sources and mechanisms. Much attention within the United Nations Framework Convention on Climate Change (UNFCCC) negotiations has been directed at international public sources of funding, which rely almost totally on budgetary contributions from Annex II countries.

The financing needs of Commonwealth countries remain incompletely known, which severely limits any analysis. For some of the most vulnerable countries, the development of National Adaptation Plans of Action (NAPAs) has given a first approximation of their most pressing needs for adaptation. To-date, the 15 LDCs of the Commonwealth have costed these needs at approximately USD 315 million. Overall, the level of proposed investment in these national plans is surprisingly modest, with ten of the 15 NAPA investment plans totalling less than USD 20 million. The need for financing voluntary mitigation actions within the Commonwealth is much less understood, as there is no equivalent national planning document for early mitigation measures as the NAPA provides for adaptation.

A number of initiatives, with funding derived largely from Annex II country budget contributions, have been established since 2008 to provide climate finance for developing countries. A total of USD 400 million has been disbursed to the Non-Annex I countries of the Commonwealth from these dedicated climate funds. Three countries: India, South Africa and Tanzania, have received just over half of the total funding. Two thirds of the disbursed funds support mitigation projects, with 22 out of the 49 Non-Annex I Commonwealth countries having obtained international support to assist national mitigation efforts. One country, India, has received just over half of this mitigation funding. Ten Commonwealth countries have secured over USD 5 million for adaptation projects. However, the finance available from these dedicated climate funds is as yet insufficient to meet the needs of the identified priority adaptation actions of the Commonwealth LDCs, as detailed in their NAPA reports. Overall, only 20% of NAPA needs are being met from these funds.

To-date, the Global Environment Facility (GEF) Trust Fund has supported the most number of climate change related projects within the Commonwealth, having disbursed USD 224 million. Major contributions to the GEF Trust Fund have been received from the US, Japan, Germany, France and the UK. Together with Germany's International Climate Initiative (USD 68 million) and the Least Developed Countries Fund (USD 46 million) these three funds have disbursed more than three quarters of all the internationally sourced climate finance for Commonwealth countries to-date. Multilateral disbursement channels dominate the climate funding initiatives, with 81% of the USD 400 million having been disbursed in this way.

<u>Accessing Climate Finance</u>

A number of challenges have to be addressed to secure the international architecture for accessing climate finance. First, there is a need to optimise the coherence between the multilateral and bilateral provision of climate finance, which requires an appreciation of the relative advantages and disadvantages of each mode of delivery. Second, whilst there is recognition that funding for climate actions can come from both public and private sources, there is limited experience to-date of how to blend these two sources to maximise impact. Most commentators acknowledge that reliance on public sources is unlikely to meet all the many challenges that climate change places on national development. A better understanding of the role that private sector finance can play in the most vulnerable countries is therefore needed. There is also scope to improve understanding on the contribution of different financing instruments within national climate change strategies. What is missing at

present is a set of recognised operating principles that would allow for the equitable matching of financial instrument with specific climate related action.

There are some concerns about the levels, and the distribution, of climate fund disbursements, which may reflect capacity and other challenges that highly vulnerable countries face. Four issues related to fund disbursement particularly affect the most vulnerable countries. These are (i) achieving an equitable allocation of climate finance between countries; (ii) improving upon the present understanding of need; (iii) the limited mitigation opportunities in many LDCs; and (iv) concerns over national capacities and the fragmentation of finance delivery.

Several opportunities exist for the Commonwealth to help improve access to international climate finance. For example, the Commonwealth could support a rapid review of presently unfunded NAPA priority actions within Commonwealth LDCs, with the intent of helping to identify the necessary funding from existing climate funds to complete these actions. Similar support could be devised for Commonwealth SIDS, low-lying coastal states and other highly vulnerable countries. The Commonwealth could also invest its collective resources in raising awareness of the scale and breadth of the international response to climate finance. At present, there is no overview of what existing climate funds are supporting. Having a Commonwealth summary of national actions underway would add considerably to international and national policy development and help create a more positive narrative around the undoubted progress being made.

Climate Finance and national development planning

The provision of international climate finance in support of actions in developing countries does not take place in a vacuum and there is a pressing need to align climate finance with national sustainable development frameworks. Although the relationship that underpins development assistance is structurally different to the one that frames climate finance there is still much that can be learned by looking at the former. In recent years, emphasis has begun to be placed on improving the delivery of international development assistance through a sharpened focus on identifying what makes aid effective. A similar focus is needed to ensure that climate finance meets its goals. One of the major lessons of aid effectiveness is the recognition that national ownership over the development process is paramount. This realisation has led international development agencies to move towards programmatic forms of support, with external finance underpinning national sector programmes which display coherence in terms of policy, strategy, budgeting and coordination. Determining what programmatic support might look like for climate finance is an urgent, yet un-met, task that the Commonwealth would be well placed to address.

It is already clear that national planning systems have to become more effective if they are to uptake the new resources provided by climate finance successfully. The management of international climate finance support will likely require the involvement of all parts of the government administration, including ministries of finance and economic planning. Climate finance spending should go through the national budget and be subject to the full rigours of national accountability for it to be utilised effectively. This will all require the further strengthening of national monitoring systems, which the Commonwealth could support.

National capacity to utilise climate finance

Many developing countries acknowledge that their existing capacity to oversee the efficient implementation of climate finance is limited. The Commonwealth could play a role in helping to strengthen the national climate change strategies and action plans now being prepared, perhaps by creating an informal working group to look at the financial planning aspects of such plans. Without credible costed programmes it is difficult for countries to tap into the international finance that exists. A second area where there is scope for across-Commonwealth support and lesson learning on capacity development is in the preparation of public policy frameworks that can attract private sector investment through encouraging good governance and economic stability. A third possible opportunity for the Commonwealth might involve supporting the development of national implementing entities as a vehicle to secure direct access from international funds.

Much still needs to be done to ensure that internationally sourced climate finance assists the more vulnerable countries efficiently, effectively and equitably. The Commonwealth has a significant contribution to make, drawing upon the broad range of perspectives that the Commonwealth uniquely contains.

Introduction

1. The *2009 Port of Spain Climate Change Consensus* highlighted the importance that the Commonwealth places on tackling climate change. Representing a third of the world's population spread over all continents and oceans, and making up more than a quarter of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC), the Commonwealth has a significant role to play in addressing this global challenge: both through its member states, which act individually and collectively to address the problem; and as an association, which is well placed to facilitate dialogue and practical action. In addition, the Commonwealth's membership includes some of the countries most vulnerable to climate change, in terms of both their exposure and their sensitivity to changes in the climate. Twenty-five Commonwealth countries are classified as Small Island Developing States (SIDS); 19 are African countries; and 16 are classified as Least Developed Countries (LDCs). These three country categories are recognised within the UNFCCC text as being the most vulnerable to the impacts of climate change. Collectively, they make up 80% of the Commonwealth's country membership. The imperative for the Commonwealth to act on climate change is clear.

2. All Parties to the UNFCCC share a vision that acknowledges common but differentiated responsibilities and respective capabilities. The Convention classifies Parties into three main groups: Annex I countries, which are the industrialized nations who collectively are responsible for most carbon emissions to-date and therefore have greatest responsibility to act; Annex II countries, a subset of Annex I countries that have the additional obligation to provide financial resources to enable developing countries undertake emissions reduction activities under the Convention and to help them adapt to the adverse effects of climate change; and Non-Annex I countries, those developing countries that have not been major emitters historically and are least well placed to cope with climate change. The Commonwealth consists of four Annex II countries (Australia, Canada, New Zealand and the UK) together with 49 Non-Annex I countries[1]. So, for the majority of Commonwealth nations the immediate challenge of climate change lies in determining how best to respond in ways that will not undermine their pressing economic and social development needs and, at the same time, securing the necessary financial resources to fund such actions.

3. This Background Paper focuses on the climate financing concerns of the most vulnerable countries of the Commonwealth: the SIDS, low-lying coastal states, LDCs and other African countries. It examines how the necessary actions within these countries will be funded, both now and in the years ahead. The paper begins by looking at the present international framework for climate finance. It then examines the challenges that the most vulnerable countries face in accessing and utilising the finance that is available. The paper concludes by suggesting some possible actions that would allow the Commonwealth to be better prepared for the climate compatible development that needs to evolve over both the short and medium term.

Part I: Finance needs, sources and challenges

Review of negotiations on climate finance under the UNFCCC

4. Financing was one of the four building blocks of the Bali Action Plan adopted at the thirteenth Conference of the Parties (COP) meeting in 2007. As agreed in Bali, the inter-governmental negotiations on financing have since been conducted within the framework of the Ad hoc Working Group on Long Term Cooperative Action (AWG LCA). The 2009 negotiations were pursued through four sessions before and during the COP15 meeting in Copenhagen. However, by the time the COP15 negotiations drew near, consensus remained far apart on a large number of issues.

5. Mindful of this, Commonwealth Heads of Government issued their Port of Spain Climate Change Consensus in November 2009. This statement emphasised the need for an early start to the provision

[1] Under UNFCCC COP Decision 3/CP.15 of December 2009, Malta was moved from non-Annex I to Annex I status.

for financial resources and welcomed the idea of a launch fund starting in 2010 and building to a level of $10 billion annually in 2010. Heads welcomed a proposal to provide immediate, fast disbursing assistance with a dedicated stream for small island states and associated low-lying coastal states of the Alliance of Small Island States of at least 10 percent of the fund. They also recognised the need for further, specified and comparable funding streams, to assist the poorest and most vulnerable countries, to cope with the adverse impacts of climate change; and recognised that funding would be scaled up beyond 2012.

6. The Copenhagen Accord that emerged at the end of the Copenhagen COP meeting made explicit reference to financial commitments by developed countries. The significance of the Accord owes to the fact that the goal of providing USD 30 billion for the period 2010-2012 and the mobilization of USD 100 billion dollars annually by 2020 in support of developing countries represents the highest amount of money promised collectively by developed countries. The Copenhagen Accord has subsequently figured constantly in the 2010 negotiations.

7. In February 2010, the UN Secretary General Ban Ki-moon established a High-Level Advisory Group on Climate Change Financing to identify the potential sources of finance to achieve the goal of raising USD 100 billion a year by 2020. The report of the Advisory Group was issued in November 2010[2] and concluded that this goal was 'challenging but feasible', although there was no unity of view on the balance between public and private finance in achieving the goal.

8. Financing of climate change-related actions in developing countries was also considered at an informal meeting of Finance Ministers and senior officials jointly convened by the Swiss and Mexican Governments in Geneva on 2-3 September 2010. Those present acknowledged that a substantial portion of international funding would have to come from non-public sources. Developing countries continue to argue that whilst investments from the private sector will be welcome, funding should come from public sources.

9. A significant outcome of the recently completed Cancun COP meeting was the decision to establish a Green Climate Fund as an operating entity of the financial mechanism of the Convention. The Fund is to be governed by a Board that will have equal representation of developed and developing country Parties. The World Bank has been invited to serve as the interim trustee for the first three years of the fund's operation and a transitional committee is to be created (with majority membership from developing countries) to design how the fund will operate. In addition, it was decided that a Standing Committee under the COP will be established to assist the COP in terms of improving coherence and coordination in the delivery of climate change financing.

10. The negotiations on climate finance can be expected to continue through to the next COP meeting in Durban and beyond. Whilst these negotiations are ongoing, the experience of the World Bank's Climate Investment Funds (CIFs) suggest that it may take several years before finance flows through the Green Climate Fund to support actions on the ground. Whilst securing the governance system for the international architecture is critical, attention also needs to be given to the early delivery of sufficient finance so that lesson learning can begin and national systems can strengthen so that they operate effectively at scale.

Current disbursement frameworks

11. Climate finance is an imprecise term that has no common definition. Whilst it is generally understood to mean those financial resources that are directed at supporting climate change related actions, it covers a wide range of sources (both public and private) and mechanisms (e.g. grant finance, loans and equity provision). The UN High-Level Advisory Group on Climate Change Financing identified four main types of finance that could potentially play complementary roles in funding climate actions. The four

---

[2] The report is available here:
http://www.un.org/wcm/webdav/site/climatechange/shared/Documents/AGF_reports/AGF%20Report.pdf

categories are: (i) public sources, (ii) development bank instruments, (iii) carbon markets, and (iv) private capital.

12. Much attention within the UNFCCC negotiations has been directed at international public sources of funding. This includes budgetary transfers from Annex II countries to developing countries as well as more innovative sources, such as revenues generated from taxes on international aviation and shipping. At present, the latter category remains a set of design options whose proposals have yet to be agreed upon, never mind tested, to determine the level of financing that could be generated. International public sources therefore rely almost totally on the direct budget contributions of Annex II countries. A major, and as yet unresolved, tension associated with direct budget transfers concerns the relationship between climate finance and official development assistance (ODA). This rests on the concern that, particularly at a time of fiscal constraint in many industrialised countries, climate finance may lead to a diversion of funds away from support for development assistance. Although the UNFCCC convention text refers to transfers of 'new and additional' funding, the meaning of 'additional' has not been defined.

13. Three main channels for the delivery of international public climate finance exist. First, several initiatives (none of which are discrete funds) deliver national funding to recipient countries through established bilateral relationships. Germany, Norway, Japan and Australia operate in this way, as does the European Commission with its Global Climate Change Alliance. Second, are a set of funds operating under the UNFCCC and other UN bodies, such as the Kyoto Protocol Adaptation Fund and the LDC Fund. Third, are a number of multi-donor trust funds administered by the multilateral banks. The World Bank's Clean Technology Fund and the Strategic Climate Fund are perhaps the most prominent of this third group, although they have yet to disburse substantial finance to Commonwealth countries.

14. Two major institutional actors within this disbursement framework are the Global Environmental Facility (GEF) and the World Bank. The GEF serves as an operating entity of the financial mechanism under the UNFCCC and currently administers two funds (the Least Developed Countries Fund and the Special Climate Change Fund) under the guidance of the UNFCCC Conference of Parties. The World Bank acts as the trustee of both the GEF Trust Fund and the Climate Investment Funds.

15. The Climate Investment Funds (CIFs) at the World Bank and the Kyoto Protocol Adaptation Fund[3] (AF) have shed important light on how financial resources should be administered in a transparent and accountable manner, with both breaking away from the donor country-dominated governance structure of development funding initiatives. Furthermore, a more equitable representation of all stakeholders has been established, although there remain differences between the CIFs' and the AF's approach to increasing developing countries' voice in fund governance. For example, within the two CIFs' Trust Funds decision-making is undertaken by trust fund committees, which have equal representation from both developed and developing countries. The Adaptation Fund Board is made up of 16 members representing Parties to the Kyoto Protocol, with developing countries having a slight majority.

Climate financing needs of Commonwealth developing countries

16. The provision of new and additional finance by the international community to support developing countries is a core commitment of the UNFCCC. However, determining the scale of this need has proved to be problematic. Great uncertainty remains, with most estimates to-date having employed a global, top-down approach. Widely differing figures have been published (UNFCCC, 2007; Parry *et al.*, 2009; World Bank, 2009). As one indicative example of the estimated level of need, the European

---

[3] The source of financing in the Adaptation Fund is somewhat different to other mechanisms in that it is financed from the share of proceeds on the clean development mechanism projects together with other sources of funding. The share of proceeds amounts to 2% of certified emission reductions (CERs) issued for a CDM project activity (UNFCCC).

Commission determined the total net additional costs for both mitigation and adaptation in developing countries will be €104-118 billion (in 2005 prices) per year by 2020 (EC, 2009). Of this figure, the costs for mitigation are estimated at €94 billion, with the costs for adaptation at €10 to €24 billion.

17. All the global estimates agree that the level of need over the next ten years lies in the tens to hundreds of billions of US dollars each year, suggesting an unprecedented flow of finance from industrialised to developing countries in response to climate change. Significantly, this finance is expected to come from a range of sources, both public and private. The political commitment contained within the Copenhagen Accord has set an explicit global target of USD 100 billion a year by 2020 to address the needs of all developing countries:

> '*The collective commitment by developed countries is to provide new and additional resources, including forestry and investments through international institutions, approaching USD 30 billion for the period 2010–2012 with balanced allocation between adaptation and mitigation. Funding for adaptation will be prioritized for the most vulnerable developing countries, such as the least developed countries, small island developing States and Africa. In the context of meaningful mitigation actions and transparency on implementation, developed countries commit to a goal of mobilizing jointly USD 100 billion dollars a year by 2020 to address the needs of developing countries.*' Paragraph 8, Copenhagen Accord 2009.

National Adaptation Programmes of Action and Least Developed Countries

18. For LDCs – some of the most vulnerable countries of the Commonwealth – early estimates of immediate needs for priority actions on adaptation have been documented in National Adaptation Plans of Action (NAPAs). These plans represent an important example in starting to determine the scale of national financing needs. Article 4.9 of the UNFCCC recognizes the special situation of the Least Developed Countries (LDCs), stating: *"The Parties shall take full account of the specific needs and special situations of the Least Developed Countries in their actions with regard to funding and transfer of technology".* Major decisions related to international support for LDCs were adopted at the seventh COP meeting, including: (i) Decision 27/CP.7: 'Guidance to an entity entrusted with the operation of the financial mechanism of the Convention for the operation of the least developed countries fund'; and (ii) Decision 28/CP.7: 'Guidelines for the preparation of national adaptation programmes of action'. These decisions created the opportunity for LDCs to access new international funding for adaptation.

19. NAPAs provide a process for LDCs to identify priority activities that respond to their urgent and immediate needs with regard to adaptation to climate change. The rationale for NAPAs rests on the limited capacity of LDCs to adapt to the adverse effects of climate change compared to other countries and the need therefore to identify those needs requiring external support for which further delay could increase vulnerability or lead to increased costs at a later stage. The development of a NAPA includes short, costed profiles of projects intended to address urgent and immediate adaptation needs. Upon completion, the NAPA is submitted to the UNFCCC Secretariat and the LDC Party becomes eligible to apply for funding for implementation of the NAPA under the LDC Fund, which is managed by the Global Environment Facility (GEF).

20. To-date, the 15 LDCs of the Commonwealth have costed their immediate adaptation needs at approximately USD 315 million, to be implemented through 138 projects (Table 1). The highest costed national adaptation programme of any Commonwealth LDC is Bangladesh, followed by Uganda and Sierra Leone. Overall, the level of proposed investment in these national plans is surprisingly modest, with ten of the 15 NAPA investment plans totalling less than USD 20 million.

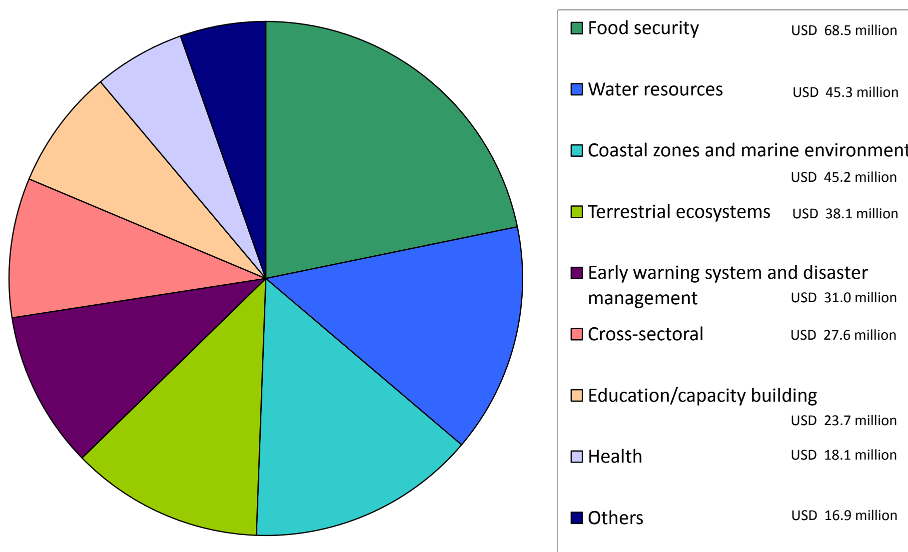
Table 1. Commonwealth National Adaptation Programmes of Action

Country	NAPA date	NAPA cost USD millions	Number of projects
Bangladesh	2005	77.8	15
Uganda	2007	39.8	9
Sierra Leone	2007	30.1	24
Maldives	2006	24.0	11
Malawi	2006	22.9	5
Solomon Islands	2008	17.2	7
Tanzania	2007	17.2	6
Gambia	2007	15.1	10
Zambia	2007	14.6	10
Lesotho	2007	12.8	8
Kiribati	2007	10.9	10
Mozambique	2008	9.2	4
Tuvalu	2007	8.7	7
Rwanda	2006	8.1	7
Vanuatu	2007	6.0	5
Total		**314.4**	**138**

Source:
http://unfccc.int/cooperation_support/least_developed_countries_portal/napa_priorities_database/items/4583.php

21. Additional insights into financing needs for adaptation can be obtained by examining the sectoral spread of the priority actions within these published NAPAs. Most immediate investment has been planned to go into agriculture and food security, with surprisingly few infrastructure projects planned, and little proposed investment in human health measures (Figure 1).

Figure 1. Value of Commonwealth NAPA adaptation projects by sector



Financing early mitigation actions

22. The need for financing voluntary mitigation actions within the Commonwealth is much less understood, as there is no equivalent national planning document for early mitigation measures as the NAPA provides for adaptation. Nationally Appropriate Mitigation Actions (NAMAs) have been defined within the UNFCCC negotiations as a means of outlining national actions and priority projects requiring international financial support, but such documents have yet to be prepared. The recent decision at

the Cancun COP meeting to support an international registry that would record NAMAs seeking international assistance, together with developed country finance, technology and capacity building support, appears to be an important step in clarifying this financial need.

National climate change strategies and action plans

23. At present, there is no global model for determining the overall need for climate change actions at the national level. The processes described above for costing adaptation and mitigation actions follow parallel paths, keeping to the building blocks that made up the Bali Action Plan agreed at the 2007 COP meeting in Indonesia (on mitigation, adaptation, technology development and transfer, and the provision of financial resources).

24. A small number of Commonwealth countries, including Bangladesh, India, Kenya, Singapore and South Africa, have published national climate change strategies that address both adaptation and mitigation in a more holistic way. However, these plans represent expressions of policy intent rather than costed action plans. For example, the ten-year Bangladesh Climate Change Strategy and Action Plan (BCCSAP), which was adopted by the government of Bangladesh in 2009, builds on and expands the scope of the country's 2005 NAPA, which had identified 15 priority activities. The BCCSAP lists 44 programmes, although, notably, none are costed. As a result, the external financing need is only very generally expressed: the Plan states (in paragraph 57) that USD 500 million will be needed to support immediate actions (cf. the USD 78 million costed NAPA projects) and that the total cost of programmes commencing in the first five years 'could be in the order of USD 5 billion'.

25. This brief review has highlighted the fact that financing needs of Commonwealth countries remain very incompletely known. For many of the most vulnerable countries, the development of NAPAs has given a first approximation of their most pressing needs for adaptation. This represents a start, but much more needs to be done. In particular, the costing exercises of NAPAs could be supported for other vulnerable countries (including SIDS, low-lying coastal states and African members of the Commonwealth) which have not yet done so.

Existing sources of international public climate finance and current levels of disbursement

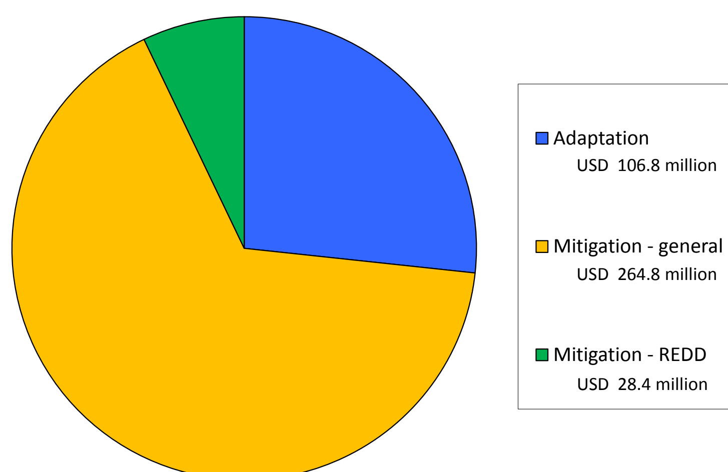
26. A number of initiatives, with funding derived largely from direct budget contributions from Annex II countries, have been established since 2008 to provide climate finance for developing countries. Collectively referred to as climate funds, these include bilateral and multilateral initiatives as well as national multi-donor trust funds (see Annex 1). Although this is an incomplete coverage of all existing sources of finance, it provides one important insight into the level of current disbursements to Non-Annex I countries. International development bank instruments and private capital have received less attention under existing mapping exercises because of the much greater difficulty in identifying and tracking such flows.

Climate funds support to Commonwealth countries

27. A total of USD 400 million has been disbursed to the Non-Annex I countries of the Commonwealth from these dedicated climate funds (Annex 2). Three countries: India, South Africa and Tanzania, have received just over half of the total funding, whilst 11 Commonwealth countries (including eight of the most vulnerable SIDS) appear to have received no funding, although these countries may have benefited from regionally funded projects.

28. The level of funding presently going to adaptation, mitigation and REDD differs significantly. Two thirds of the disbursed funds support mitigation projects (Figure 2). This is despite the broad political commitment to seek a balanced allocation between mitigation and adaptation. The level of funding in support of REDD measures is small, although two Commonwealth countries that have significant forest resources, Papua New Guinea and Cameroon, have begun to benefit from new forest-related funds.

Figure 2. Climate finance disbursed to Commonwealth countries by major theme



Funding received for priority adaptation actions

29. Ten Commonwealth countries have received over USD 5 million for adaptation projects. These countries, which include countries from all the most vulnerable categories, will soon be able to offer early lesson learning on the implementation of such actions. However, the finance available from these dedicated climate funds is as yet insufficient to meet the needs of the identified priority adaptation actions of the Commonwealth LDCs, as detailed in their NAPA reports (with one exception: Mozambique). Overall, only 20% of NAPA needs are being met from these funds (Table 2). Unless there is significant funding from elsewhere, this situation is a cause of concern as most NAPA plans are now three to five years old and their focus was on immediate, priority actions. In the absence of external funding the assumption is that these actions have not been undertaken.

Table 2. Funding of national adaptation actions by dedicated climate funds

Country	NAPA cost USD millions	Adaptation funds received USD millions	Adaptation funds received as a percentage of NAPA costs
Mozambique	9.2	12.5	135.8
Rwanda	8.1	6.4	79.3
Kiribati	10.9	5.3	48.3
Zambia	14.6	6.8	46.8
Vanuatu	6.0	2.8	46.3
Tuvalu	8.7	3.2	36.8
Maldives	24.0	8.8	36.5
Tanzania	17.2	5.1	29.5
Lesotho	12.8	1.8	14.0
Malawi	22.9	3.2	14.0
Sierra Leone	30.1	2.8	9.4
Gambia	15.1	1.1	7.5
Bangladesh	77.8	3.5	4.5
Solomon Islands	17.2	0.2	1.2
Uganda	39.8	0.2	0.5
Total	**314.4**	**63.7**	**20.3**

Funding received for mitigation actions

30. Twenty-two out of the 48 Non-Annex I Commonwealth countries have received international support from dedicated climate funds to assist national mitigation efforts. One country, India, has received

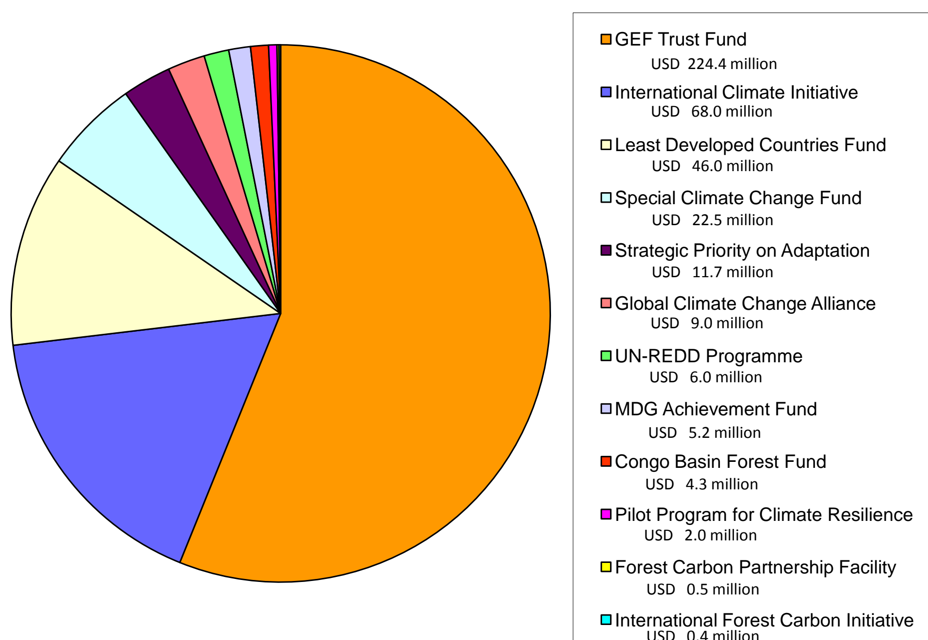
just over half of the total amount. Whilst mitigation opportunities may be limited for many developing countries at present, it remains an important strategic consideration for their future economic development.

Climate funds active in the Commonwealth

31. The 22 international climate funds, as mapped in Annex 1, aim to support Non-Annex I countries respond to the challenges of climate change. This set of initiatives covers a broad range of funds, with some embedded within the UNFCCC (such as the Least Developed Countries Fund) whilst others lie outside the ambit of the Convention, such as the World Bank administered Climate Investment Funds. Figure 3 shows those funds that have disbursed funding to Commonwealth countries by the level of funding received by the recipient countries. To-date, the GEF Trust Fund has supported the most number of climate change related projects, having disbursed USD 224 million. Together with Germany's International Climate Initiative (USD 68 million) and the Least Developed Countries Fund (USD 46 million) these three funds have disbursed more than three quarters of all the internationally sourced climate finance for Commonwealth countries to-date.

32. Multilateral disbursement channels dominate these climate funding initiatives, with 81% of the USD 400 million having been disbursed in this way. Germany is the only Annex II nation to have acted bilaterally to any significant extent. Major contributions to the GEF Trust Fund have been received from the US, Japan, Germany, France and the UK. Financial support to the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF) has mostly come from Germany, Norway, the UK and the Netherlands. Germany is unusual in being prominent at both the multilateral and the bilateral level (through its International Climate Initiative, ICI).

Figure 3. Climate funds active in the Commonwealth



Current international disbursement mechanisms

33. A number of challenges have to be addressed to secure the effectiveness of current disbursement mechanisms. An important issue relates to the need to optimise the coherence between the multilateral and bilateral provision of climate finance. Maintaining good communication between these two disbursement options is critical to ensure that they work in complementary, rather than competing, ways. There would appear to be advantages in working through both these channels:

bilateral efforts can work quickly (as demonstrated by the large number of projects already supported by Germany's ICI) whilst multilateral working offers the possibility of greater scale of action.

34. Whilst there is the recognition that funding for climate actions can come from both public and private sources, there is limited experience to-date of how to blend these two sources to maximise impact. Most commentators acknowledge that reliance on public sources is unlikely to meet all the many challenges that climate change places on national development. A better understanding of the role that private sector finance can play in the most vulnerable countries is therefore needed. The multilateral development banks are well placed to provide this necessary expertise, as they have experience of working with different financial instruments in the context of development finance.

35. The role of multilateral agencies in current disbursement mechanisms has been a source of debate, with developing countries calling for direct access to international finance. This has been driven in part by a concern over emerging new conditionalities over these financial transfers. Direct access has been operationalised by the Kyoto Protocol Adaptation Fund, with the recognition of national implementing entities (NIEs). However, securing this new arrangement is taking time, with only three NIEs accredited by the Adaptation Fund Board to-date.

36. Climate finance can take a variety of forms: it can be provided as grants, concessional loans, equity investments or through guarantees. Whilst the general presumption is that climate finance in support of adaptation actions in developing countries should be provided on grant terms, this does not apply equally to the funding of mitigation actions. It will therefore be important to secure a good match between the type of finance and the objects of financing, and this will be influenced by both country and project profiles.

<u>Disbursement to vulnerable countries</u>

37. Four issues related to fund disbursement particularly affect the most vulnerable countries. These are (i) achieving equitable allocation of climate finance between countries; (ii) improving upon the present understanding of need; (iii) the limited mitigation opportunities in many LDCs; and (iv) concerns over national capacities and the fragmentation of finance delivery.

38. The first concern has long been recognised in the Convention negotiations, leading to specific references to assist the least developed countries, small island developing states and Africa. However, going beyond such general statements to ensure that finance reaches the most vulnerable countries is proving difficult. The experience of the Commonwealth SIDS in securing finance from dedicated climate funds shows that only three countries (the Maldives, Papua New Guinea and Kiribati) have received more than USD 5 million (Annex 2). In order to secure a framework for the equitable allocation of climate finance there would need to be some international formula for fund disbursement between country groupings, backed up by a monitoring system of country flows from all the various climate funds, which is not happening at present. In the absence of such a framework, the allocation of finance rests with the individual funding initiatives. A second, related concern is there continues to be poor understanding of national need. National costing exercises are un-developed (as highlighted in the first section of this paper).

39. A third concern, and one that is reflected in current funding patterns, is that the mitigation opportunities in many LDCs are limited. By definition, such countries have relatively small economies and produce little carbon emissions. It should come as no surprise that the two Commonwealth countries that have received the most climate finance to-date, India and South Africa, are both rapidly industrialising middle income countries. There are possibilities created by 'off-setting', where Annex I countries are able to engage in emission reduction activities in developing countries, but these are generally poorly developed outside a limited number of countries. The present UNFCCC negotiating text that speaks of a 'balanced allocation' between mitigation and adaptation funding is a step in the right direction to support the more vulnerable countries, but this remains an aspiration of the international community rather than a reflection of present day realities.

40. The fourth concern is one associated with the national capacity to uptake climate finance. In the absence of significant financial flows there is less empirical evidence to substantiate this concern. Where there is more evidence of constraint is in the fragmentation of climate finance. The 22 climate funds recorded in Annex 1 is one measure of this; where the national administration is small having multiple funding channels raises transaction costs and reduces the efficient delivery of resources to those in need.

Aligning climate finance with national sustainable development frameworks

41. The provision of international climate finance in support of actions in developing countries does not take place in a vacuum. International relations between developed and developing countries are longstanding and complex. Major flows of finance have been associated with official development assistance for several decades, building up a rich experience of lesson learning of what works and what does not. Although the relationship that underpins development assistance is structurally different to the one that frames climate finance there is still much that can be learned by looking at the former. Development finance was for many years targeted at supporting public sector investments in much the same way that climate finance is intended to pay for the structural changes required by climate change adaptation. However, much of this investment did not achieve its intended goal and the overall impact of development assistance has been very mixed. In recent years, emphasis has begun to be placed on improving the delivery of international development assistance through a sharpened focus on identifying what makes aid effective. A similar focus is needed to ensure that climate finance meets its goals.

42. One of the major lessons of aid effectiveness is the recognition that national ownership over the development process is paramount. National governments, together with civil society and the private sector, have to decide the priorities of national investments. This suggests that one-off project interventions supported by external finance that are not embedded within some national priority setting process are unlikely to succeed. In fact, by working outside of national systems some development projects have tended to undermine national systems, or at least not taken advantage of the opportunity to improve them. This realisation has led international development agencies to move towards programmatic forms of support, with external finance underpinning national sector programmes which display coherence in terms of policy, strategy, budgeting and coordination.

43. An important consideration in the move away from uncoordinated project interventions is the opportunity created to move finance at scale. Larger investments can be justified if they are seen to be supporting a national programme. However, this raises the need for national planning to become more effective. National planning is an area of the public administration that has frequently been seriously weakened by years of project support going straight to sectoral ministries and their subordinate departments and agencies. There is now a need, more than ever before, to work across government, involving ministries of finance and economic planning, and ensuring that spending goes through the national budget and is subject to the full rigours of national accountability. The seeming absence of well costed national action plans for climate change therefore represents a major challenge for Commonwealth countries to address.

44. At the same time that national systems are being strengthened, supplementary channels for the provision of international finance will be necessary. At the global scale, a number of international multi-donor trust funds are already delivering climate finance, often involving quite innovative processes and channels. At the national scale, where experience is more limited, multi-donor trust funds are also being established. Within the Commonwealth, Bangladesh is playing a leadership role. These funds should soon begin to offer additional lessons on how to manage diverse sources of funding, ensure predictable flows of resources and secure coordination between funders and within-country sector based institutions.

Part II: Getting Prepared for Climate Finance

45. Many challenges, including those described above, face the global community in securing a predictable flow of adequate funding for those countries most vulnerable to climate change. These challenges need to be met both to secure the economic and social development of the countries concerned but also to stabilise the mean global temperature within safe limits for human development. As has been highlighted in this paper, perhaps the most pressing issue is to secure much higher levels of funding for already expressed immediate adaptation needs. For some countries, support for national actions will likely need to be complemented by assistance working at the regional level (e.g. for the Caribbean and Pacific SIDS of the Commonwealth).

46. There are a range of options that Commonwealth countries could now take to respond to these challenges and strengthen the delivery of climate finance. The final sections of this paper describe some of these opportunities.

Early scaling-up of climate financing

47. Several opportunities exist for the Commonwealth to assist in the early scaling-up of climate finance. First, support could be provided to allow a rapid review of presently unfunded NAPA priority actions within the 16 Commonwealth LDCs, with the intent of helping to identify the necessary funding from existing climate funds to complete these actions. Such an initiative would need to be carried out in collaboration with the GEF, which administers the LDC Fund and supports the implementation of NAPAs. This work could be complemented by undertaking similar assessments in other vulnerable countries that are not LDCs.

48. Another short-term action would be for Commonwealth countries to come together informally to share first lessons on adaptation interventions at the sector level. As highlighted in Part I, there is considerable across-Commonwealth interest in developing adaptation strategies, programmes and projects for agriculture and food security. Working collectively at the sector level may be a more promising strategy than attempting comparisons of national adaptation strategies at this stage.

49. The Commonwealth could also invest its collective resources in raising awareness of the scale and breadth of the international response to climate finance. At present, there is no overview of what existing climate funds are supporting. Having a Commonwealth summary of national actions underway would add considerably to international and national policy development and help create a more positive narrative around the undoubted progress now being made.

Capacity development measures

50. Many developing countries acknowledge that their existing capacity to oversee the efficient implementation of climate finance is limited. The Commonwealth could play a role in helping to strengthen the national climate change strategies and action plans now being prepared, perhaps by creating an informal working group with a specific focus on the financial planning aspects of such plans. Without credible costed programmes it is difficult for countries to tap into the international finance that exists.

51. A second area where there is scope for across-Commonwealth support and lesson learning on capacity development is in the preparation of public policy frameworks that can attract private sector investment through encouraging good governance and economic stability. Here there is scope for India to provide Commonwealth leadership: as part of its national action plan on climate change a Risk Guarantee Fund has been established to provide commercial banks with partial coverage of their risk exposure against loans made for energy efficiency projects. This sort of innovation has broad applicability.

52. A third possible opportunity for the Commonwealth to help build national capacity concerns the emergence of national implementing entities as a vehicle to secure direct access from international

funds. The Planning Institute of Jamaica is one of only three accredited NIEs to the Kyoto Protocol Adaptation Fund. The early experience of this government agency acting as a NIE could have much to offer other Commonwealth country institutions as they plan how to develop their own capacity to undertake this role.

Blending financing at the national level

53. The role that different financial instruments (e.g. grant finance and concessional loans) can play in climate finance is a contentious issue within the international negotiations. However, as mentioned earlier in this paper, there is scope to improve understanding on the contribution of different instruments within national climate change strategies. What is missing at present is a set of recognised operating principles that would allow for the equitable matching of financial instrument with specific climate related action. There may be scope within the Commonwealth to host a broad-based, non-partisan expert group to examine this issue in detail and make proposals in time for the Durban COP meeting.

54. The blending of financing at the national level is an issue where the experiences of the multilateral development banks have much to offer. These institutions have long been engaged with the challenge of bringing together public and private finance to secure maximum leverage of public investments. This is a highly specialised field where there is relevant Commonwealth experience and knowledge.

International co-ordination

55. The international system underpins the national delivery of climate finance. Two areas related to international co-ordination where the Commonwealth could focus its immediate efforts are: (i) helping to derive a country allocation framework for climate finance; and (ii) supporting the work of the transitional committee of the Green Climate Fund. The former exercise could be part of the support offered by the Commonwealth to the Green Climate Fund, as country allocation decisions can only become more contentious as the amount of climate finance increases. There needs to be a stronger, coherent framework for funding that supersedes the present 'first mover' advantage to accessing funding that appears to be in place with some funds.

56. Much still needs to be done to ensure that internationally sourced climate finance assists the more vulnerable countries efficiently, effectively and equitably. The Commonwealth has a significant contribution to make, drawing upon the broad range of perspectives that the Commonwealth uniquely contains.

References

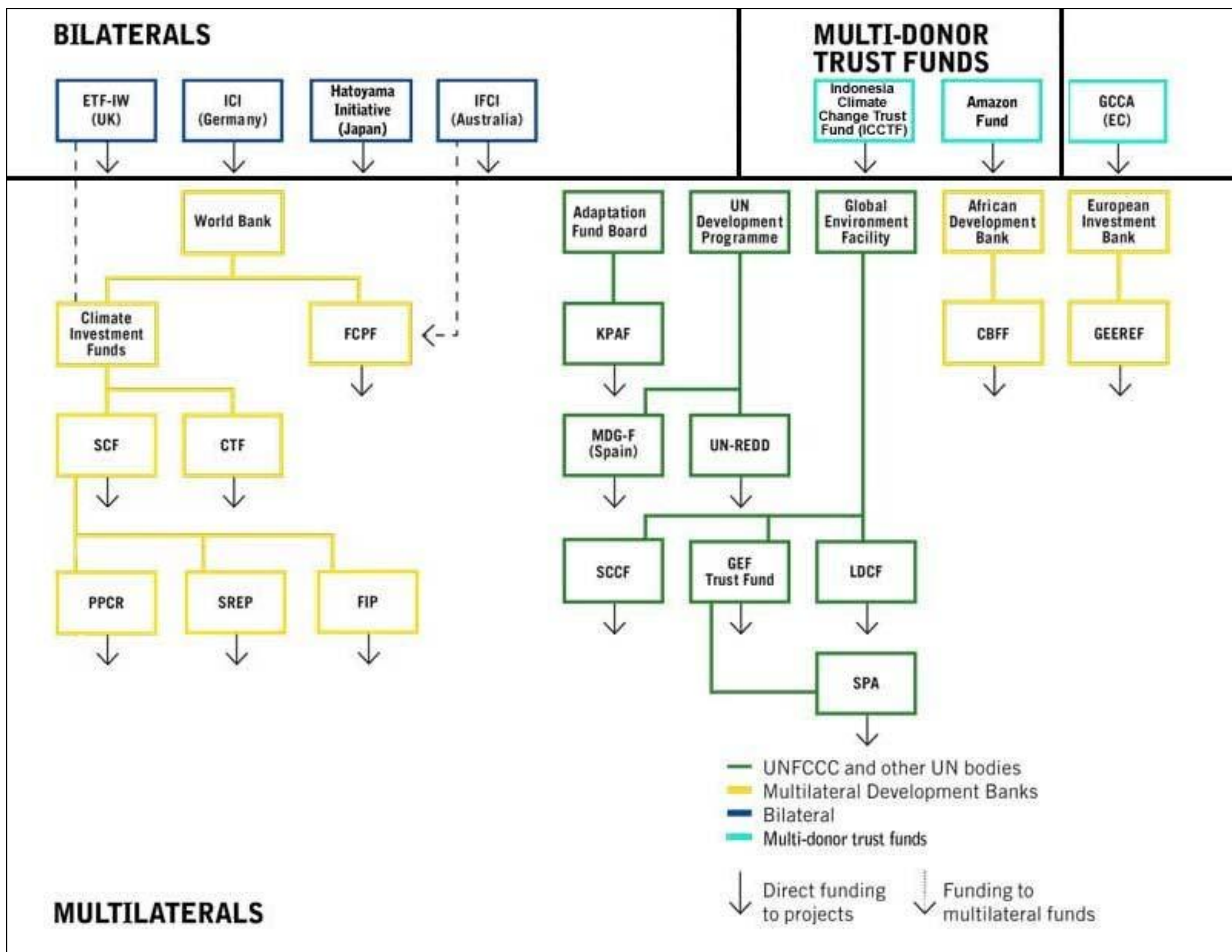
European Commission (2009) *Stepping up international climate finance: a European blueprint for the Copenhagen deal.* Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. COM (2009) 475/3. Brussels. Available at: http://www.eu-un.europa.eu/documents/en/090910_COMM_Blueprint_Clim_Chg.pdf

Parry M, Arnell N, Berry P, Dodman D, Fankhauser S, Hope,C, Kovats S, Nicholls R, Satterthwaite D, Tiffin R and Wheeler T (2009) *Assessing the costs of adaptation to climate change: a review of the UNFCCC and other recent estimates.* International Institute for Environment and Development and Grantham Institute for Climate Change, London. Available at: http://pubs.iied.org/pdfs/11501IIED.pdf

UNFCCC (2008) Investment and financial flows to support climate change. UNFCCC Secretariat, Bonn. Available at: http://unfccc.int/resource/docs/publications/financial_flows.pdf

World Bank (2009) Monitoring and reporting on financial flows related to climate change. Discussion Draft. The World Bank, Washington, DC. Available at: http://beta.worldbank.org/climatechange/sites/default/files/documents/ClimateFin-Monitoring-122909.pdf

Annex 1. The architecture of international climate funds



Source: www.climatefundsupdate.org

Annex 2. Disbursement of climate funds to Commonwealth countries (as of December 2010)

Country	Adaptation funds received USD millions	Mitigation funds received USD millions	REDD funds received USD millions	Total climate funds received USD millions
India	5.2	141.6	0.0	146.8
South Africa	8.9	25.2	3.0	37.2
Tanzania	5.1	9.9	7.5	22.5
Ghana	5.2	15.9	0.2	21.3
Zambia	6.8	4.5	3.1	14.4
Rwanda	6.4	4.5	2.4	13.3
Mozambique	12.5	0.0	0.0	12.5
Pakistan	2.6	8.6	0.0	11.2
Sri Lanka	2.1	8.0	0.0	10.1
Nigeria	0.0	9.8	0.0	9.8
Kenya	6.5	3.0	0.2	9.7
Malaysia	0.0	9.2	0.0	9.2
Maldives	8.8	0.0	0.0	8.8
Papua New Guinea	0.0	0.0	7.6	7.6
Bangladesh	3.5	3.0	0.0	6.5
Namibia	1.1	5.4	0.0	6.5
Kiribati	5.3	0.0	0.0	5.3
Samoa	4.6	0.0	0.0	4.6
Sierra Leone	2.8	1.8	0.0	4.6
Cameroon	0.0	0.0	4.3	4.3
Mauritius	0.0	4.2	0.0	4.2
Guyana	3.8	0.0	0.0	3.8
Swaziland	1.7	1.9	0.0	3.6
Malawi	3.2	0.0	0.0	3.2
Tuvalu	3.2	0.0	0.0	3.2
Jamaica	0.0	3.1	0.0	3.1
Gambia	1.1	1.8	0.0	2.9
Vanuatu	2.8	0.0	0.0	2.8
Seychelles	0.8	1.2	0.0	2.0
Lesotho	1.8	0.0	0.0	1.8
Bahamas	0.0	1.0	0.0	1.0
Barbados	0.0	1.0	0.0	1.0
Saint Vincent and the Grenadines	0.0	0.4	0.0	0.4
Uganda	0.2	0.0	0.1	0.3
Grenada	0.3	0.0	0.0	0.3
Tonga	0.3	0.0	0.0	0.3
Solomon Islands	0.2	0.0	0.0	0.2
Antigua and Barbuda	0.0	0.0	0.0	0.0
Belize	0.0	0.0	0.0	0.0
Botswana	0.0	0.0	0.0	0.0
Brunei	0.0	0.0	0.0	0.0
Cyprus	0.0	0.0	0.0	0.0
Dominica	0.0	0.0	0.0	0.0
Nauru	0.0	0.0	0.0	0.0
Saint Kitts and Nevis	0.0	0.0	0.0	0.0
Saint Lucia	0.0	0.0	0.0	0.0
Singapore	0.0	0.0	0.0	0.0
Trinidad and Tobago	0.0	0.0	0.0	0.0
Total	**106.8**	**264.8**	**28.4**	**400.0**

Source: www.climatefundsupdate.org