Policy Brief

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Building the capacity towards climate financing in Africa

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Introduction

Climate change is one of the major challenges facing global sustainable development with experts warning that the most vulnerable populations and developing countries face its harshest threats despite their minimal contribution to GHG emissions. The impacts of climate change have far-reaching implications across all sectors of the economy, with direct implications on food security, human health, and biodiversity (Das et al.,2020).

The dependence of African economies on climate-sensitive sectors particularly agriculture and natural resources coupled with low adaptive capacity and high poverty levels makes the continent prone and highly vulnerable to the adverse effects of climate change (Thornton et al.,2006). This trend is projected to continue in the future, putting a strain on most African countries' development agenda. A significant number of resources and coordinated efforts among different stakeholders from both public and private sectors is required to address these challenges. According to the African Development Bank (AfDB), the continent will require $7–15 billion per year to adapt to the climate change impacts.

Climate finance is critical to achieving the nationally determined contributions (NDCs) established under the 2015 Paris Agreement. At the forefront of improving knowledge on climate finance, ACTS recently explored a study on "Mobilizing Development Finance for Strategic and Scaled-up Investment for Climate Change Adaptation" in partnership with International Institute of Sustainable with funding from International Development Research Centre (IDRC). This study sought to share experiences on tackling climate financing challenges and contribute to knowledge on the opportunities to scale up adaptation financing in developing countries using case study examples from Kenya. Some of the emerging messages are highlighted in this brief.

Recognizing both the challenges posed by climate change and the unique capacity of climate finance, African Center for Technology Studies (ACTS) conducted a Climate Action Peer Exchange (CAPE), following a training on capacity building of technical institutions under the climate change education, training, and scientific research (CAPCET) project in March 2022. The training workshop brought together key government policy makers, researchers, academia, civil society and private sector drawn from Zimbabwe and Ethiopia to learn and reflect on climate finance challenges and opportunities with case study examples from Kenya .This brief presents highlights of the reflections of participants and those of the "Mobilizing Development Finance for Strategic and Scaled-up Investment for Climate Change Adaptation" study on climate finance architecture, challenges and policy pointers on climate finance in African countries .

Key Policy Messages

- Enhancing local capacities for climate action would accelerate mobilization of domestic resources to complement international financing sources.
- Capacity building on climate finance is critical to ensure consistency between funding needs and national priorities.
- Coordinated climate action needs contextually relevant capacity building approaches to curb the fragmented climate finance architecture.
- Bankability of climate financing requests in Africa needs progressive, strategic and foresighted capacity development.

Policy Recommendations

- Build capacity in Africa on Innovative financial instruments that can be used to leverage domestic sources of financing and achieve a low carbon development pathway.
- Climate finance flows need to align with national climate priorities of the countries.
- Establish national coordination structure to foster coherence between line ministries and agencies in the climate finance space.
- Enhance capacity to develop bankable climate proposals to unlock private sector sources of climate finance.

Policy Messages

Capacity building on climate finance is critical to ensure consistency between funding needs and national priorities

Most countries have put in place policies and strategies to support climate action and more specifically climate finance to support their alignment to the Paris Agreement. Kenya has a diverse set of policies, strategies and plans to support climate change frameworks and climate finance actions. These include: the Climate Change Act (2016); the National Adaptation Plan (2015-2030); the National Climate Change Action Plan (2018-2022); National Policy on Climate Finance (2018); and the NDC Finance Strategy. Kenya's NDC financing strategy is guided by the National Policy on Climate Finance, 2016 which was established to mobilize and effectively manage and track and report CC finance.

Ethiopia's policies that support climate action include: the Climate-Resilient Green Economy (CRGE) strategy (FDRE, 2011), Second Growth and Transformation Plan (2015-2020; National Forest Sector Development programme (2018-2028); National Adaptation Programme for Action (2019); Sustainable Land Management (2008). Zimbabwe's key policies supporting climate action include: National Climate policy (2017), National Climate Change response strategy (2014), Long-term Low Greenhouse Gas Emission Development Strategy (2020-2050), National Climate Change Learning Strategy (2020-2030). The formulation of these policies demonstrates commitments by African nations to achieve a low carbon and climate resilient development.

Adaptation remains a priority for these nations yet compared to mitigation, it is relatively underfunded. In 2018 for instance, 79% of all climate finance flows in Kenya was channeled to climate change mitigation measures which is in contrast with the country's NDC priority - adaptation. Although climate finance received in Ethiopia predominantly targets adaptation, only 58% of donor adaptation projects report gender co-targets, with 41% of adaptation finance not addressing gender equality.

This presents a large blind spot in the focus of adaptation projects in Ethiopia (CCC-E), 2020). Government organizations and development finance institutions (DFIs) were created with a variety of goals in mind, none of which included combating climate change. Nonetheless, these organizations are critical in ensuring climate finance flows are aligned with national needs and priorities. In light of this, there is need to build capacity of these institutions to ensure that funds are channeled to where they are needed most in support of climate commitments by countries.

Enhancing local capacities for climate action would accelerate mobilization of domestic resources to complement international financing sources

Most countries have a shortfall in their finances to support climate action. The estimated cost of implementation of the updated Kenya's National Determined Contribution (NDC) is USD 62 Billion. Kenya commits to locally mobilize resources to meet 13% of this budget but will require international support for the remainder of the budget. In 2018, climate related activities in Kenya received KES 243.3 billion (USD 2.4 billion) from both public and private sources. This amount is just a third of the annual funding Kenya requires to meet its NDC goals. Overall, government investment (from both domestic and international sources) totaled KES 144.3 billion (59.4%), while private sector investment totaled KES 98.9 billion (40.7 percent) (Odhengo et al., 2021).

The cost of NDC implementation in Ethiopia is 316 billion. Approximately 20% of the total estimated finance is unconditional while 80% is conditional with domestic sources expected to contribute USD 63.2 billion and US$252.8 is to be sourced from international sources. The Climate Resilient Green Economy (CRGE) strategy estimates annual spending of $7.5billion to support climate action. Approximately US$440 million per year is allocated by federal budgetary resources for climate change relevant actions complemented by international support (Eshetu et al. 2014).

This potentially signals a major financial gap and the need to focus on leveraging additional sources of finance.

According to Zimbabwe's long-term low emission Development Strategy, Zimbabwe requires US$ 7.88 to support climate mitigation measures. The Country's National Climate Change Response Strategy (NCCRS)'s fifth pillar recognizes the need to mobilise different sources of funding ranging from domestic, bilateral and international sources to support climate action (GoZ, 2014). Over the last 2 decades, Zimbabwe's access to a range of funding streams has been difficult especially bilateral funding due to corruption and political sanctions imposed by the UK, EU and USA (Lorimer et al., 2018).

Innovative financial instruments have the ability to mobilise new and additional sources of finance by mitigating risks and removing barriers that hinder the local financial institutions from financing climate action through closing the climate finance gap in developing countries. Examples of emerging innovative climate financing instruments that could be adopted be to mobilize climate financing include Green bonds, blue bonds, blended financing, and risk-sharing instruments. (GoK) & UNDP, 2019, Atieno et al., 2021). Enhancing local capacity and creating awareness on the emerging innovative financial instruments is critical to enhance their utilisation in attracting climate finance.

Coordinated climate action needs contextually relevant capacity building approaches to curb the fragmented climate finance architecture

Coordination between line ministries and agencies is a common challenge in developing countries with Kenya, Ethiopia and Zimbabwe being no exception. Concerns have been raised about inefficient use of already scarce climate funds, misalignment between donor interventions and government policies, and inconsistencies between climate change interventions and other development efforts due to poor coordination (Amerasinghe et al.2017).

For instance, in Kenya, the technical management of climate change is undertaken within the Ministry of Environment and Forestry while planning and financing is done within the National Treasury - Ministry of Finance (Wachira et al.,2021). Ethiopia bears a similar case whereby; the Ministry of Finance and Economic Development is responsible for financial management of the Climate Resilient Green Economy (CRGE) facility while the Ministry of Environment and Forest provides technical support. Lack of proper coordination results in information and climate finance access challenges, and duplication of efforts (Wachira et al.,2021) which may pose a challenge to the already limited climate finance flows.

Multi-stakeholder committee and or country focal points could be established to oversee overall coordination of climate finance in countries. These focal points need to be

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Lack of proper coordination results in information and climate finance access challenges, and duplication of efforts (Wachira et al.,2021) which may pose a challenge to the already limited climate finance flows. Multi-stakeholder committee and or country focal points could be established to oversee overall coordination of climate finance in countries. These focal points need to be strengthened to enable them to play their facilitative and coordination role effectively. Additionally, the focal points can provide a valuable source of knowledge and information management, disseminating lessons learned. Such information can be useful in building capacity, and encouraging innovative solutions to implement country driven climate ambitions.

Bankability of climate financing requests in Africa needs progressive, strategic and foresighted capacity development. Low level of awareness and limited understanding on funding proposal requirements and modalities as well as the ability to design competitive bankable proposals continues to be a hindrance in access to climate finance in developing countries. According to Lorimer et al., (2018), majority of the Zimbabwean civil society's stakeholders are not aware of the available sources of international climate finance to fund their climate actions. The case is similar in Kenya whereby discussions with government, civil society and MDB representatives indicate that this challenge is multifaceted and include but is not limited to 1) Weak capacity to design competitive adaptation programs; 2) the complexity/question of distinguishing change adaptation from mitigation initiatives and finance from development; and 3) challenges with quality program implementation (Wachira et al.,2021).

Adequate capacity building and formation of strategic partnerships is necessary to enhance the ability to design competitive bankable proposals with inclusion of key elements that enhance climate rationale in order to demonstrate a business case, especially for adaptation which remains largely underfunded.

Policy Recommendations

Establish national coordination structure to foster coherence between line ministries and agencies in the climate finance space. In an attempt to mobilize domestic resources, National Climate Change Funds (NCCF) have emerged as one of the ways to raise the necessary funds to support climate action in most developing countries. The NCCF facilitates the blending of multiple sources of finance in a coordinated way to mobilise new and additional resources to support climate action. Therefore, Ethiopia and Zimbabwe should consider establishing these funds or strengthen existing institutions that execute similar functions. Rwanda's For a Green and Resilient Rwanda (FONERWA), is a great example of an institution that mobilises funds from bilateral donors and multiple domestic sources including local banks, environmental, forestry and other natural resources.

Opportunities exist for Zimbabwe, Ethiopia and Kenya to meet Nationally Determined Contributions (NDCs) especially on adaptation through elaborate climate financing arrangements. However, national priorities have to be aligned to these NDC targets and institutions mandated to oversee the achievement of these goals should follow up to ensure they are attained. Transparency and frequent systematic in-country reporting arrangements could enhance accountability and shed light on the level of alignment of climate change-related country priorities to NDC targets.

Build capacity on Innovative financial instruments that can be used to leverage domestic sources of financing and achieve a low carbon development pathway. Public Private Partnerships (PPP), carbon pricing, green bonds among others, are some innovative climate financing initiatives that could be considered to scale-up climate financing. The PPPs approach, for instance, ensures that risks associated with investment in adaptation and mitigation projects are distributed between the public and private entities. Carbon taxes or emission trading systems are primary methods of carbon pricing that could be adopted to enable corporate organizations to buy emission allowance and contribute to the attainment of NDC goals.

Enhance capacity to develop bankable climate proposals to crowd in private sector financial sources in addition to other sources. African countries should ensure they have sufficient capacities to attract, absorb and manage climate finances to establish national climate-friendly patterns of sustainable development. Capacity building on climate finance should encompass individuals, institutions and systems as provided for in the Paris Agreement. Creating awareness and building capacity could be achieved through networking (e.g., through conferences, workshops, networks of excellence), conducting seminars, webinars, e-learning, benchmarking and technical assistance through expert missions.

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