Policy Brief

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THE GOVERNANCE OF CLIMATE FINANCE IN AFRICA, ASIA AND LATIN AMERICA: SOME CRITICAL REFLECTIONS[1]

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Africa, Asia and Latin America, which combined account for the vast majority of the world's population, as well as the greater part of its poor people, have historically contributed least to the problem of climate change yet face some of its most severe impacts. Climate finance, if democratically governed, can play an important role in assisting these vulnerable peoples and communities to withstand and adapt to the impacts of climate change. As the climate finance regime is developing, we explore in this policy brief how and to what extent finance is effectively addressing the vital needs of developing regions. In particular, we discuss three significant regional trends in climate finance, namely the balance between adaptation and mitigation, public versus private financing and the role of regional development banks.

The context for this briefing paper is a civil society meeting hosted by the Corruption and Governance Programme of the Institute for Security Studies (ISS) in Cape Town in September 2010. Experts based in Africa, Asia and Latin America presented papers discussing the regional contexts and the national and subnational experiences with climate funds in their regions. These papers have been compiled into an ISS report on monitoring the governance of climate finance. The study offers an approach that is grounded in the realities and common experiences in funding arrangements across developing countries in the three regions studied. The issues raised here reflect on some of the findings of that report.

This briefing paper is the first in a series of three. The second will discusses national and subnational experiences with the Adaptation Fund, Clean Development Mechanism (CDM) and Reduced Emissions from Deforestation and Forest Degradation (REDD). The third brief will present the priorities and principles required for developing a just and effective system of climate finance at national and subnational levels.

REGIONAL CONTEXT OF CLIMATE CHANGE

Over 80 per cent of the world's population lives in Africa, Asia, and Latin America. Sixty per cent of the global population lives in Asia alone, which is also home to half of the world's poor. Sixty per cent of Asia's population is dependent on agriculture, fishing, forestry and other ecosystem-based pursuits for its livelihood. The continent contributes 31,4 per cent of global greenhouse gas (ghg) emissions, although in per capita terms most Asian countries have low emissions. Of its emissions, 55 per cent derive from energy production and 5,2 per cent from industrial processes. Agriculture, land-use changes and forestry account for 35 per cent of emissions. Four countries, namely China, India, Japan and South Korea, lead with carbon dioxide fossil fuel emissions, thus making such emissions highly uneven across the continent.

Africa is home to around 14 per cent of the world's population and accounts for 3,8 per cent of global ghg emissions. The largest emission sources are the production of commercial energy and the burning of traditional fuels such as wood. Ninety per cent of the continent's people have no access to electricity and other conventional energy sources.

Latin America houses around nine per cent of the world's population and accounts for around eight per cent of global ghg emissions. Although its emission rate is rising at a 2,3 per cent annually because of a greater reliance on natural gas and coal, its contribution to global emission remains modest.

The long list of the actual and predicted effects of global warming across Asia, Africa and South America include more severe and frequent droughts and floods, species extinction and biodiversity loss, the loss of coral reefs and coastal mangroves, a rising sea level and reduced fresh water supplies. The impact on humans is predicted to be catastrophic, with a threat to food sovereignty through loss of agricultural lands, a decline in livestock productivity and certain staple crops, forced migration, and the development of new diseases causing increased health risks and higher mortality rates. Asia faces the specific threat of the ultimate drowning of low-lying islands. In Latin America the gradual replacement of tropical forests by savannah in the eastern Amazon is of concern. Climate change poses a further threat to Africa given the existing multiple stress inducers such as water scarcity, disease and ecosystem failure. These potentially devastating impacts are inextricably linked to a high number of vulnerable populations that have poor adaptive capacities.

UNDERSTANDING THE NATURE OF THREE SIGNIFICANT REGIONAL TRENDS

The balance between adaptation and mitigation funding

Adaptation is the main area that needs urgent attention in all three regions. Globally, mitigation receives ten times the resources of adaptation, at least in terms of pledges. Of the US$38 billion provided for mitigation, almost half comes through the Clean Development Mechanism (CDM).

Mitigation receives the major share of Asia's funding focus. There are 113 mitigation projects compared to just 40 for adaptation, despite adaptation being the area of priority. To date, regional institutions, multilateral development banks and national governments have by and large focused on mitigation. In Latin America, US$ 222 million has been committed for mitigation, compared to US$ 57 million for adaptation. Similar to Asia, the greater part of funding goes to richer countries. The funding is partly politically motivated, for example where it is tied to the signing of the Copenhagen Accord. Reduced Emissions from Deforestation and Forest Degradation (REDD) and CDM funding could inflate the funding enormously. Africa receives the lowest level of funding given that mitigation finance is prioritised in fast developing economies. For the same reason, CDM financing is also weak, although REDD is expected to bring in more finance. Finance from the Adaptation Fund under the United Nations Framework Convention on Climate Change (UNFCCC) is so far only being provided to Senegal. In all regions, other funding is linked to development aid and it is difficult to determine the split of such funding for programmes aimed at addressing climate change.

Private sector interests have driven mitigation finance because of the incentive of big returns on investments. Mitigation funding through carbon markets is also more attractive to developed countries because it can be used as a mechanism to offset domestic emissions. Adaptation funding is politically and economically more difficult to attain because of the absence of incentives, and comes largely from public sources. The experience with Official Development Assistance (ODA) has shown that its delivery is uneven and marked by an absence of transparency. The lack of an effective global mechanism to fund adaptation, in comparison to the flexible mechanism of mitigation and its coverage by the Kyoto Protocol, is also a hindrance to its widespread and abundant application.

Public versus private finance

Private in contrast to public funding to counter climate change is more prevalent in all three regions despite its problematic implementation thus far. This usually also means that mitigation efforts take precedence over adaptation initiatives. The opportunistic approach also signifies that democratic governance principles, such as public participation and consultation, prior and informed consent, the investigation of alternatives, and the assessment of the social and environmental implications, are relegated in importance when funding decisions are made. As indicated by national experiences discussed below, the actions determined by funders are often incompatible with local funding needs and safeguards. Furthermore, the predominance of private finance is not aligned with the needs of many developing countries, which see public finance as a means of redressing historical climate debt. Ongoing debate also suggests a movement towards using public funds to leverage the provision of private funds. In this context, bilateral funding can be used to stimulate private investment.

The role of regional development banks

In all three regions we observe the positioning of regional development banks as key players in climate finance. For

example, the African Development Bank (AfDB) is pressing for the location of funds earmarked for the continent to be based in Africa through its proposed Africa Green Fund. The biggest fund in Latin America, the Amazon Fund, is managed by Brazilian Development Bank. In 2009, the Asian Development Bank (ADB) disbursed US$ 600 million in grants for low-carbon, climate-based investments. However, compared to their total lending activity, climate change funds are still relatively small.

The role of regional development banks in this regard is being secured through the setting up of climate funds, the hosting of and participating in strategic conferences, and the recruitment of skilled personnel. More significantly, both the AfDB and the ADB are setting climate change policy in their regions. International development banks, such as the World Bank, have been criticised for their historical role in promoting growth-oriented economic policies and infrastructure developments that impact negatively on the environment and the people. More often than not these experiences have been marked by a lack of participation by the supposed beneficiaries and poor redress for those who have been affected negatively.

The ADB plans to integrate climate change into its overall planning and investment scenarios to ensure continued economic growth despite the realisation that economic growth is one of the drivers of climate change. It remains to be seen whether and how the funding of climate change initiatives by development banks will transcend historical legacy in the three regions. Another issue is that development banks place great emphasis on investments in the energy sector, many of which are fossil-fuel based. The funding of both 'dirty' (fossil-fuel based) and 'clean' (renewable) energy creates a conflict of interest. Questions also remain with regard to the effectiveness of regional banks as channels for climate change finance, given their business principles that include the provision of more loans than grants (developing countries see loans as further debt creation), their accountability to shareholders that include not only member countries but also international investors, and their focus on economic growth and development as the means to progress. Their legitimacy and/or their relationships to the UNFCCC are also questioned as they establish funds outside the official process.

GLOSSARY OF TERMS

The following terms are defined in the context of this briefing paper:

Mitigation refers to initiatives that are aimed at reducing the concentrations of greenhouse gas emissions in the atmosphere in order to curb global warming.

Adaptation refers to initiatives that are aimed at helping humans respond to global climate change in a way that protects them, reduces harm and increases their resilience.

Adaptation Fund: The Adaptation Fund was established by Parties to the Kyoto Protocol of the UN Framework Convention on Climate Change (UNFCCC) to finance adaptation projects in developing countries. The fund is financed with two per cent of the emission reduction credits from the Clean Development Mechanism.

Clean Development Mechanism (CDM) is a flexible mechanism under the Kyoto Protocol of the UNFCCC that allows industrialised/developed countries with a greenhouse gas reduction commitment (called 'Annex 1 countries') to invest in projects that reduce emissions in developing countries. CDM is commonly referred to as 'offsetting'.

Reduced Emissions from Deforestation and Forest Degradation (REDD) is a market-based scheme to reduce global concentrations of greenhouse gas emissions by creating a financial value for the carbon stored in trees. REDD projects are situated in developing countries and it is considered an offsetting mechanism. It is currently being discussed in the UNFCCC international negotiations process, but there are already many pilot projects on the go (some through existing CDM initiatives), while the infrastructure for REDD is being set up.

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NOTES

[1] This policy brief is based on an ISS Report on monitoring the governance of climate finance in Africa, Asia and Latin America, which is due to be published in July 2011. A full list of references is included in the upcoming ISS Report on monitoring the governance of climate finance in Africa, Asia and Latin America.

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[2] Some of the findings of the ISS Report in question are quoted verbatim from report chapters to allow the authors' voices to be reflected and to guide the presentation of conclusions. Refer to the ISS Report for the names of all the contributing authors.