Briefing

Governance

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Policy pointers

Climate finance is offering developing countries greater autonomy and flexibility than traditional development assistance and, where informed by local priorities, it can help achieve more equitable and sustainable development.

Donors, international expertise and development processes should support this process and help build capacity for it.

Post-2015 goals and targets should explicitly acknowledge that reducing climate vulnerability helps achieve goals on poverty, food security and other basic development priorities.

At the same time, international climate change debates and initiatives should give more attention to ensuring they benefit development.

Designing climate finance instruments so they deliver development co-benefits would support these synergies and help achieve globally agreed development goals.

How climate finance can support sustainable development

Climate finance — international and national finance for mitigating and adapting to climate change — is stimulating innovative national planning that links climate resilience with more sustainable and equitable economic growth. This paper explores some of those initiatives, and how climate finance could effectively contribute to both medium-term national development strategies and longer-term global development goals and targets, such as the Sustainable Development Goals that will succeed the Millennium Development Goals from 2015.

There has been considerable discussion about whether, or to what extent, climate change should be addressed in the global development strategies that will succeed the Millennium Development Goals after 2015. Yet in several countries climate change and climate finance are already triggering broad national planning processes that could ensure not just climate change, but also other post-2015 goals, targets and indicators, become a mainstream part of national policies and plans. The scale of pledged climate finance is growing and is expected to increase substantially over the next few years. If mobilised and invested well, it will make a major contribution, not only to climate change adaptation and low carbon development, but also to developing countries' overall economic development and resilience.

Given this growing engagement between climate finance and countries' broader sustainable development challenges, it seems clear that bringing climate change into international development goals and agendas would bring even greater benefits. But it will require closing the gap between the post-2015 discussions and the international climate negotiation processes.

Climate change is already affecting development

Climate change's profound implications for national development trajectories are already becoming apparent. Changes in rainfall patterns are affecting millions of small-scale farmers and pastoralists, many of whom already live in, or are close to, poverty. Poor urban communities are also increasingly affected by climate-related challenges such as flooding, and by accelerating migration from rural areas. Some economic activities are becoming unviable while new opportunities are emerging. Ending poverty and achieving universal wellbeing is now inextricably linked to meeting the challenges of climate change, and climate finance will be an important part of that (see Box 1).

Developing countries are already using climate finance as an opportunity to make radical shifts in the way they plan and orient their economic development strategies. Although climate finance is still in its infancy, a growing number of national experiments demonstrate how it can trigger more resilient, inclusive and equitable development models.

Linking climate adaptation, mitigation and economic transformation

Bringing climate change into international development goals will bring greater benefits

- **Ethiopia** has developed a Climate Resilient Green Economy Strategy[4] that aims to keep on track the country's national development objective of becoming a middle-income economy by 2025. The government is designing a host of new institutional, financial and policy instruments that will help and encourage sectors and regional entities to design and implement climate resilient and green economy development.
- **Guyana** launched its Low Carbon Development Strategy in 2009. The strategy aims to put the country on "a low-carbon development trajectory".[5] The main projected source of funding for this economic transformation is REDD+ carbon finance generated from protecting Guyana's vast rainforests.
- **Rwanda's** National Strategy for Climate Change and Low Carbon Development[6] sets out its vision to become a "climate resilient, low carbon economy by 2050". The vision is guided by the principles of sustainable and equitable economic growth, poverty reduction and natural resource management. The government aims to mainstream climate change into key national and sectoral development planning processes so as to achieve: "energy security and low carbon energy supply that supports the development of green industry and services"; "sustainable land use and water resource management that results in food security, effective urban development and preservation of biodiversity and ecosystem services"; and "social protection, improved health and disaster risk reduction that reduces vulnerability to climate change". The strategy also aims to build "robust local and regional knowledge to be able to respond to the impacts of climate change".
- **Nepal** has developed a policy framework to help integrate climate resilience into national and local development planning. The framework includes the National Climate Change Policy (2011), the National Framework on Local Adaptation Plans for Action (LAPAs) (2011), and the Low Carbon Climate Resilient Development Strategy (under development). Nepal is also making progress in integrating climate resilience into economic, social and environmental objectives at sector level. For example, in the energy sector the National Rural and Renewable Energy Programme (launched in 2011) is bringing together a number of existing initiatives and is providing a national platform for future work. Climate finance coming from the Scaling Up Renewable Energy Program (SREP) of the World Bank's Climate Investment Funds is contributing to this.[7]
- **Kenya** has put in place a national Climate Change Action Plan that includes initiatives for institutional frameworks, finance, mitigation, REDD+, adaptation, technology, knowledge management and monitoring and evaluation.[8]

These initiatives offer co-benefits (for example, the poverty reduction co-benefit of green growth); improved economic competiveness for a future low carbon global economy (through investment in renewable energy and efficient technology); and help with the need to invest in resilience in order to keep development on track in the face of climate change. Taking such holistic approaches could be quite a significant 'win' for sustainable development and for reducing growing inequity within and between countries. However, their full potential remains to be demonstrated as planning moves into implementation and scaling-up.

Innovations in climate finance management

Climate finance is not traditional development aid, and has the advantage that it can be more easily aggregated to achieve scale, and can be managed

Box 1. Climate finance — a definition

Climate finance covers local, national and international finance, whether drawn from public, private or alternative sources. Its overall aim is to help developing countries plan and implement climate adaptation, mitigation and low carbon development.

The UNFCCC's Cancun Agreements affirm that 'scaled-up, new and additional, predictable and adequate funding shall be provided to developing country Parties'[1]. This international climate finance offers several opportunities for countries to drive their own sustainable development agenda.

First, the stipulation for 'new and additional' funding over existing overseas development assistance is an opportunity for countries to exert control and ownership over resource allocation and investment decisions, since these are not governed as international aid.

Second, the emphasis on 'scaled-up' climate finance means international funds are designing innovative instruments that can also leverage resources and investments from other sources. This trend is expected to grow, providing a route to scalable national approaches to climate-resilient development.[2]

Third, an emphasis on climate finance helping integrate climate actions into development planning[3] is bringing adaptation efforts into national development planning (see examples in this briefing).

Box 2. Shifting financial control towards country ownership

Donors were keen to provide financial support to Bangladesh's Climate Change Strategy and Action Plan in 2009. But they were reluctant to turn over financial control to government agencies. In response, the government created its own Bangladesh Climate Change Trust Fund (BCCTF), capitalised by annual allocations from the central budget. At the same time the government pushed for full national control of the multi-donor Bangladesh Climate Change Resilience Fund (BCCRF). Bangladeshi government and non-governmental representatives dominate the BCCRF's governing council (there are two donor representatives on the 16-member council). The World Bank's role as non-voting fund trustee is due to end after 2014, passing full fiduciary responsibility to the government. It is notable that the nationally financed BCCTF is capitalised at a much higher level than the BCRTF (US$300 million versus US$215 million) — an indication of the country's political will to resource implementation of country-owned initiatives that address climate change impacts.[10]

The Government of Ethiopia has also created a fund to pool climate finance and aligned it to the country's Climate Resilient Green Economy Strategy (CRGE). The 'CRGE Facility' will mobilise public and private finance from the international level. As in Bangladesh, national institutions dominate the facility's governance, with the Ministry of Finance & Economic Development & the Ministry of Environment and Forests being responsible for all resource allocation decisions.

The Government of Nepal has accessed bilateral and multilateral finance to implement priority national and local adaptation actions, with investment expected to reach US$110 million in grants and loans in the coming years. There have been some tensions and disagreements over how funding will be allocated and used. For example the government had to negotiate intensely on how funding provided by the Climate Investment Fund's Strategic Program on Climate Resilience was allocated. Although the government ultimately managed to retain a good level of control, there was substantial initial disagreement. For example, the government wanted Nepal's National Adaptation Plan of Action (the NAPA) to be the basis for work under the Strategic Program on Climate Resilience (SPCR), but the funding agencies wanting them to be independent. Later stages of negotiation saw some of the NAPA priorities being reflected within the SPCR portfolio.[11]

Another (more successful) move towards greater flexibility and country ownership has seen Nepal creating a Central Renewable Energy Fund to pool and manage funds allocated for that aspect of climate resilience, including funding recently provided through the Scaling Up Renewable Energy Program.[12]

and used differently. Countries are assuming ownership over climate finance and applying it to their domestic development agendas. They are starting to create their own climate finance systems that let them pool different public and private sources to achieve more than the sum of each part. Countries such as Nepal, Bangladesh and Ethiopia are also designing 'programme-based approaches' to disburse their climate finance. These are already common in development aid, where they offer different donors opportunities to contribute at varying levels to to country owned strategies, and they look likely to become similarly common in climate finance.[9] Although donors have generally resisted turning climate finance over to autonomous national systems, recipient countries are increasingly demanding just that (see Box 2).

From technocratic to inclusive planning

A number of countries have established multi-stakeholder climate change steering or advisory committees to help align and integrate climate strategies with ministerial and industrial policies and programmes. A few countries have found innovative ways to achieve more widespread stakeholder engagement. Nepal's NAPA recognises the urgent challenge of supporting adaptation for the poorest and most vulnerable, and calls for district-level Local Adaptation Plans of Action (LAPAs) to be developed through extensive consultation with local people. LAPA planning processes are scaling out countrywide from ten original pilot districts. The national LAPA framework earmarks 80 per cent of climate finance for implementing local adaptation priorities,[12] ensuring LAPAs form the basis for a truly bottom-up integrated adaptation framework.

Early stages

These cases illustrate how climate change finance is creating the conditions for developing countries to move towards more resilient, sustainable, nationally driven and locally determined development. However, initiatives need time to evolve and mature, and will require investment, full national ownership and control, and effective frameworks for planning and management (including financial management).

While climate change adds complexity to integrated national development processes, it also makes them more important. Climate finance provides a potential route, as well as a funding source, as its structure and objectives move countries towards better integration for economic and social development, poverty reduction and climate resilience.

Learning from experience

The proliferation of new strategies and instruments does not offer a set of instant success stories, but rather an important opportunity for applied learning. The extent of benefits reaped from merging climate change and economic development strategies will depend on countries and donors making certain crucial changes in the way they operate:

1. **From patchwork funding to integrated, scaled-out finance.** The cost of making the shift to new economic models is enormous, and cannot be achieved through already over-stretched government budgets or old-style project-specific development assistance. Countries will need to actively mobilise and pool funds to achieve economic transformation along with climate resilience.

2. **From top-down to bottom-up planning.** Governments must shift away from the top-down, technocratic planning processes that they and donors are most comfortable with. These are largely driven by a few powerful stakeholders' priorities and agendas, and may not result in greater resilience or wellbeing at household and local levels.

3. **From donor led to country driven.** Donors need to develop new ways of working with countries when climate finance is involved, as country ownership is proving crucial for stimulating innovative approaches that ensure climate change becomes a mainstream issue in governance and development. At the same time, countries need to implement effective systems for managing funds, monitoring progress and providing accountability to citizens.

4. **Iterative planning.** Monitoring, reporting and verification is already an integral part of climate change mitigation approaches, and countries need similar systematic ways to appraise how climate adaptation investments contribute to development objectives.[13] Through robustly assessing early investments, countries will be able to judiciously incorporate climate adaptation in national development.

Building synergies

Post-2015 goals and targets should explicitly acknowledge that reducing climate vulnerability helps achieve goals on poverty, food security and other basic development priorities.

At the same time, international climate change debates and initiatives should give more attention to ensuring they benefit development. Both international climate change processes and international agendas on poverty reduction and sustainable development can learn from the innovative ways individual countries are bringing together these issues, and the funding to address them, at national levels.

To support these synergies, climate finance instruments should be designed and governed in ways that aim to deliver such co-benefits, thereby helping achieve globally agreed development goals.

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Knowledge Products

The International Institute for Environment and Development (IIED) promotes sustainable development, linking local priorities to global challenges. We support some of the world's most vulnerable people to strengthen their voice in decision making.

This paper is one in a series examining how new goals and strategies can address priority development issues in a way that integrates their environmental, economic and social dimensions. The series is based on a framework developed by the Independent Research Forum on a Post-2015 Sustainable Development Agenda. Copies of the framing paper can be downloaded at http://pubs.iied.org/G03559

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Notes

[1] Decision 1/CP.16. paragraph 95-97, Cancun Agreements. Report of the Conference of Parties on its sixteenth session, held in Cancun from 29 November to 10 December 2010. See: http://unfccc.int/meetings/cancun_nov_2010/session/6254/php/view/reports / [2] For example, in 2010-11 global climate finance flows reached approximately USD 343-385 billion, as reported in Buchner., B., Falconer., A., Herve-Mignucci., M., Trabacchi., C., 2012. *The Landscape of Climate Finance 2012.* Climate Policy Initiative. / [3] Decision 5/CP.17. paragraph 1. National adaptation plans. United Nations Framework Convention on Climate Change. See: http://unfccc.int/meetings/durban_nov_2011/session/6294/php/view/decisions / [4] Federal Democratic Republic of Ethiopia. 2011. *Ethiopia's Climate Resilient Green Economy: Green economy strategy.* See: www.epa.gov.et / [5] Republic of Guyana. 2013. *Transforming Guyana's Economy While Combating Climate Change: A low carbon development strategy update.* Office of the President, Government of Guyana. See: www.lcds.gov.gy / [6] Republic of Rwanda. 2011. *Green Growth and Climate Resilience: National strategy for climate change and low carbon development.* Republic of Rwanda. / [7] Rai., N. 2013. *Scaling up Renewable Energy Technologies: Incremental or transformational change?* IIED Blog. See: www.iied.org/scaling-renewable-technologies-incremental-or-transformational-change / [8] www.kccap.info/ / [9] A programme-based approach (PBA) in the international aid context is a policy planning and aid-management approach that can be funded by a variety of sources, including individual project support, common funds and budget support. Parties to the UNFCCC are debating whether to use PBAs to disburse adaptation funds and, though not explicitly recognised, emerging guidance and evolving funding mechanisms suggest a similar form is likely. For more, see Huq., S., Kaur., N., 2009. Mainstreaming Adaptation to Climate Change: The use of programme based approaches. *Liaison Énergie-Francophonie* 85. www.iepf.org/ressources/ressources-pub.php?id=1 / [10] Khan, S.M.M.H., Huq, S., Shamsuddoha.,M. *The Bangladesh National Climate Funds: A brief history and description of the Bangladesh Climate Change Trust Fund and the Bangladesh Climate Change Resilience Fund.* IIED and European Capacity Building Initiative. See: http://ldcclimate.wordpress.com/ldc-paper-series / [11] Rai, N. 2013. *Climate Investment Funds: Understanding the PPCR in Bangladesh and Nepal.* IIED, London. See: http://pubs.iied.org/17151IIED / [12] Government of Nepal. 2011. *National Framework in Local Adaptation Plans for Action.* Government of Nepal, Ministry of Science Technology and Environment. / [13] www.iied.org/tracking-adaptation-measuring-development