Climate Finance: Fears and Hopes for Developing Countries

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Abstract

This article looks at the current climate finance architecture and its impact on developing countries climate change responses. The primary aim is to capture the contradictions that exist in the climate finance architecture particularly between those recommended by the United Nations Framework Convention on Climate Change (UNFCCC) and those advanced by developed countries otherwise known as non-UNFCCC climate financing mechanisms. The overall observation is that once non-UNFCCC climate financing mechanisms emerged and the more they were justified using the UNFCCC, the global response to the climate change problem was fatally wounded through a procedural derailment of UNFCCC objectives. This article calls for a review of non-UNFCCC with the aim of divesting them of the profit factor which in this case is the problematic.

Keywords: Climate, Finance, Mechanisms, Governance, Privatization, Stalemate.

1.0 Introduction

Observations of increases in global average air and ocean temperatures, widespread melting of snow and ice and rising global average sea level provide evidence of increased global warming which has led to change in global climate\(^1\). Africa has been singled out as one of the most vulnerable continents to climate change and climate variability with projections of increased water stress, adverse food insecurity and malnutrition, and human displacement\(^2\). According to the Intergovernmental Panel on Climate Change (IPCC) there is need to reduce and limit global temperatures increase to two degrees. The IPCC recommends climate change mitigation as a means through which this reduction and limitation can be achieved while also recommending climate change adaptation as the means through which we can respond to already existing effects of climate change\(^3\). Mitigation and adaptation measures require substantial financial investments thus making climate finance central to the achievement of the IPCC’s two degrees global temperatures increase recommendation.

Continuous deadlock has characterized global negotiations on the climate change phenomenon with the main subject of discussion in the climate change discussions being climate financing. However, 20 years into climate change negotiations, little has been achieved in these negotiations. Indeed, it is be concluded that the only achievement so far has been that of establishing profit oriented climate finance mechanisms outside the United Nations Framework Convention on Climate Change (UNFCCC). This has transformed climate change negotiations to become platforms for promoting, defending or camouflaging these profit interests creating climate negotiations stalemates and an impairment of Greenhouse Gases (GHGs) emissions reductions. The question therefore is what makes these interests so powerful that they have strangled progress in climate change negotiations and what effects such interests have on the global concern for climate change?

Scientists have noted that global temperatures should be below 2 degree Celsius threshold above pre-industrial levels to avoid the dangerous impact of climate change. Also, global emissions will need to peak by 2020 and


\(^2\) ibid

\(^3\) ibid
Climate change has remained a dominant subject in global development discussions since the Rio Conference of 1992. These discussions have led to various instruments such as the UNFCCC in 1994, Kyoto Protocol in 2005 and the Copenhagen Accord in 2009. None of these instruments documents has, however, successfully addressed the subject of climate finance with any desired finality as expected of developed countries within the UNFCCC. This paper attempts to explore factors underlying climate financing at the global stage. It aims at putting several interventions, transitions and transformations that take place during and after the Conference of Parties (COP) into a historical perspective. The paper focuses on how non-UNFCCC climate financing mechanisms have interacted with developing countries and the resultant adverse effects they have had on these countries’ climate change responses.

1.1 Why Climate Finance?
Climate finance is aimed at not only having parties to the UNFCCC scale up their efforts towards a clean energy development path (mitigation) but also to enable them, where applicable, to adapt to the unavoidable impacts of climate change (adaptation). The term, climate finance, was used for the very first time through the UNFCCC in 1994. However, the design of the UNFCCC’s finance component was informed by previous Multilateral Environmental Agreements (MEAs) especially the 1987 Montreal Protocol on Substances that Deplete the Ozone Layer. The implementation of this Protocol remains a model on how the financial and technological challenges that could lead to non-compliance of MEAs by poor countries could be addressed. Earlier, the role of finance in the implementation of MEAs had already been acknowledged in Article 7 of the 1972 Stockholm Declaration. The discussions around climate finance gathered increased momentum following developing countries’ demand for increased funding prior and during COP 15 meeting in Copenhagen, Sweden. This momentum continued into COP 16 in Cancun, Mexico and later into COP 17 in Durban, South Africa during which a decision to establish the formation of the Global Climate Fund was made. It is therefore important for one to examine not only the genesis but also the framework, considerations and implications that climate financing could have on efforts to contain global climate change.

1.2 Climate Finance Framework
According to the UNFCCC, developed countries are to provide developing countries new and additional financial resources to meet the agreed full costs to develop, implement and communicate various national policies. This position has never been contradicted in any of the COPs meetings. Developed countries are also required to cover developing countries’ full incremental costs of implementing mitigation measures. Developed countries are further required to assist the developing countries in meeting costs of adaptation. Indeed, the extent to which developing country Parties will effectively implement their commitments under the Convention depends on the effective implementation of developed countries’ commitments on financial resources and transfer of technology. Initially the financial operating entity of the UNFCCC was the Global Environment Facility (GEF). However, in 2011, the 17th COP adopted the Green Climate Fund (GCF) as UNFCCC’s new financial operating entity. These operating entities receive guidance from the COPs on policy, programme priorities, and eligibility criteria as well as on specific issues. Whereas the Kyoto Protocol affirms UNFCCC’s requirements to have developed countries provide climate mitigation and adaptation support to developing countries, the Protocol also introduces what it terms as flexibility mechanisms that Annex I Parties can use to meet their emission limitation commitments and to also aid them in providing support required by developing countries. However, in 2007, developed countries began availing climate finance through other sources that are not subject to the UNFCCC. These sources had climate finance delivered in the form of loans, non-concessional funds, carbon credits and foreign direct investments parallel to GEF and bilateral grants. A 2009 study established an inventory and explanation of Bilateral Financial Institutions (BFIs) finance for climate change mitigation and adaptation to inform discussions on financial flows under a future climate change financing architecture. The study illustrated the scale of Official Development Assistance (ODA) and non-ODA financing, the collective global share of Bilateral Financial Institutions (BFIs) financing for climate change mitigation and adaptation;

References:
2. UNFCCC, (1994) Article 4.3
3. Ibid, Article 4.3
4. Ibid, Article 4.4
5. Ibid, Article 4.7
6. GEF (2010), Table 6
and the types of funds and facilities that are used for channelling finance to recipients. A 2010 report examined how governments can design a climate financial mechanism in a way that is widely perceived as legitimate using three dimensions of legitimacy, which are power, responsibility, and accountability. The report findings indicated that perceptions of the legitimacy of a financial mechanism were inherently subjective and that this subjectivity informed preferences expressed by contributor and recipient countries. It established that the failure to address the distribution of power, responsibility, and accountability may have led to a proliferation of financial mechanisms that are underfunded. It further established that perceptions of a financial mechanism’s legitimacy will also depend upon an institution’s performance which is its demonstrated capacity to commit funding to investments that reduce greenhouse gas emissions and build resilience to climate change. It recommended for significantly redistribute power, responsibility, and accountability between traditional contributor and recipient countries for a successful global partnership on climate finance. One may, argue that for this power, responsibility and accountability relations conflict to be addressed; the underlying factors, in particular, the justification for non-UNFCCC climate financing mechanisms, must be brought to the fore.

2.0 Why Should non-UNFCCC Climate Financing be a Concern in Sub-Sahara Africa?
Concerns that arise from non-UNFCCC climate change financing mechanisms relate to their implication to developing countries’ fulfilment of the UNFCCC commitments. This has potential to hurt the entire global concerns about climate change. These concerns include the following:-

2.1 Introduction of Contestation in the Definition of Climate Finance
The definition of climate finance remains contentious. However, in 1992, there was consensus among UNFCCC UNFCCC member Parties that climate finance refers to the responsibility that developed countries have for historical emissions that occurred in their process of becoming rich, a process which is responsible for today’s and future’s climate change. Accordingly therefore, the perception of the UNFCCC is that climate finance for adaptation is indeed compensation for damage caused by developed countries in their industrialization process and within the polluter pays principle. However, through the emergence of developed countries’ non-UNFCCC mechanisms, a resultant developed countries’ perception views adaptation financing as a business opportunity. Whereas the former perception is accused of loading climate financing responsibility on developed countries, the later perception is a cause for alarm considering that Africa is not only the continent likely to be most adversely impacted by adverse effects of climate change, it is the least producer of GHGs.

2.2 Inadequacy of Climate Finance
Rarely do any climate change commitments, especially those by non-UNFCCC mechanisms, translate into remittances. According to climate funds update, whereas a total of $1.16 billion had been approved for Sub-Sahara Africa, only $379 million had been disbursed by end of 2011. In 2011, climate finance was disbursed to thirty one adaptation projects globally, but only five of them were in Sub-Sahara Africa. Nearly 56% of climate finance in Sub-Sahara Africa (SSA) is directed to mitigation activities with the largest projects approved in SSA being the $256 million Olkaria I Unit 4 and 5 Geothermal Power Project in Kenya, through Japan’s Fast Start Finance program. It is not explained why no disbursement had ever been effected by the fund by 2011.

Moreover, the reliability and potential of the 2% Clean Development Mechanism (CDM) projects levy to raise funds for the Adaptation Fund as it had been anticipated, has been questioned. Thus, even if the emergence of the non-UNFCCC mechanism was to solve GEF’s failure of not making climate finance adequate, accessible and predictable, non-UNFCCC mechanisms have not adequately solved these problems. Indeed, they may have as well complicated and rendered UNFCCC objectives completely unattainable.

2.3 Debt Accumulation
Generally, private sector’s finance is delivered through instruments like commercial debt, direct foreign investment and equity instruments in carbon markets. Essentially, this causes private sector’s climate finance to be in the form of loans or non-concessional funding. This does also apply to funding from such sources as

2 Nafo (2012) op cit
3 UNFCCC, op cit Article 4
6 The US Energy Information Administration, 2008 website.
7 Schalatek, L and Bird, N, 2011.
8 The Climate Funds Update (CFU) data.
9 Nakhooda et al, 2011, op cit, pg 3
10 Schalatek. L and Nakhooda, S et al 2011, op cit pg 2
Multilateral Financial Institutions (MFIs) and Bilateral Financial Institutions (BFIs). When financing for climate change is turned into these forms of financing, it does not only effectively translate a global problem which is climate change into a debt burden for victims but leaves the culprit unpunished and deterred from creating a similar problem in the future, contrary to the polluter pays principle.

2.4 Privatization of Public Finance

There exist two aspects to private sector’s finance. One, the private sector can play the role of an independent provider/lender of climate finance to developing countries, MFIs and BFIs. Secondly, the private sector can also receive climate finance from MFIs and BFIs respectively. Obviously, when the private sector provides climate finance to developing countries, it does it for profits. However, concern arises when MFIs and BFIs, which are essentially public institutions, provide funding to the private sector to invest, most occasionally, in climate change mitigation. Whereas the receiving private sector entity make profits from the publicly funded investment, that profit becomes privatized and never finds its way back into public entities. This effectively makes climate change the new front for the much criticised public-private partnerships that are a pet project of the World Bank and the International Monetary Fund (IMF). If the water sector is anything to go by, then the privatization of climate finance becomes even more suspect. One may argue that many developing country governments were enticed into by water sector privatization due to the World Bank’s initial claims that private companies would actually invest in the rehabilitation and expansion of much-needed water and sanitation infrastructure.

Indeed considering that privatization entails a transfer of public control and rights to a corporation, privatization could in turn result in corruption due to lack of checks for transparency and accountability, transfer of accountability to company shareholders and not the general public and an increased public debt. All these could spell doom to the realization of IPCC’s 2 degrees global warming threshold targets. To a very large extent, this serves as a vindication to developing countries argument for the confinement of climate finance to be public finance alone.

2.5 Country Capacity to Access Climate Finance

The experience of Mozambique with Pilot Program for Climate Resilience (PPCR) brings developing countries climate finance capacity to focus. Mozambique’s initial process of the PPCR was externally-led. Donor agencies did everything from the identification of the opportunity, the setting of the timetable and leading of the activities. Both the initial scoping mission that was done in July 2009 and the full joint mission that happened from November to December 2009 that set in motion the preparation of Mozambique’s proposal were planned, designed and led by the World Bank and the African Development Bank (AfDB), who were the lead Multilateral Development Banks (MDBs) for the country’s PPCR. Considering that developing countries have had to apply for GEF funds through various intermediary agencies such as the United Nations Development Program (UNDP), United Nations Environment Program (UNEP) and the World Bank, rather than presenting proposals directly to GEF (GEF Council, 2001), the idea that these countries have the capacity to effectively engage with the more complicated non-UNFCCC climate financing mechanisms, such as PPCR, is quite untenable.

This reality is once again revisited when one examines the World Bank’s Forest Carbon Partnership Facility (FCPF). FCPF has been the main financier of most Reducing Emissions from Deforestation and Forest Degradation (REDD+) projects and programmes in 14 African countries. An external review of Democratic Republic of Congo’s (DRC) Readiness Plan Idea Note (R-PIN), an instrument of FCPF, raises serious concerns regarding the R-PINs consultation process and its ownership. It explicitly points out that the proposal has a strong sense of having been the work of outsiders, rather than properly owned by its stakeholders. It further points out that the proposal does not contain a discussion of the main issues related to forest law enforcement and governance in addition to not having data on indigenous peoples living in Congo’s forests nor their role in REDD processes. Despite the many serious shortcomings identified by the external review, the R-PIN for DR Congo was approved.

This display of World Bank’s authority points at developing countries’ incapacity to effectively engage with the dominant climate financing actors or agencies. Indeed, a deficit in domestic leadership in climate change financing efforts in six African countries has been established. One may thus conclude that not only has there been lack of capacity to access these finances in developing countries, but also that the developed countries and MFIs have found it appropriate to stifle the development of these capacities. This makes developing countries climate change responses susceptible to external influence, determination and control. This is not sustainable in

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2 Masum, S. J.H, (undated).
4 Ibid pg 17
5 Forest Carbon Partnership Facility (FCPF) (a)
6 Forest Carbon Partnership Facility (FCPF) (b)
7 Thornton, N, 2011, pg 24-25.
the long run and often leads to frustration in accessing finances to deal with climate change related impacts.

3.0 Factors influencing the current climate finance regime

Whereas several explanations may be adduced to explain the push towards non-UNFCCC climate finance, the following two are the most pertinent to this explanation:

3.1 Political Considerations

Domestic political and policy factors increasingly dominate global climate negotiations. These factors explain the divergence of concerns by both developed and developing countries. One may argue that concerns have continuously influenced perceptions of both developed and developing countries in understanding climate finance. For instance, on one hand, the concern for the financial implication of GHGs reduction and market competitiveness may be influencing developed countries’ climate change thinking. On the other hand, enhanced commitments for emission limitations by developed countries and ability to cope with the emerging adverse effects of climate change may be factors influencing developing countries positions on climate change. The implication of these domestic considerations would imply that global pre-agreement bargaining and post-agreement implementation are subservient to domestic political and economic considerations. The effects of this would be that for developed countries, climate finance is subject to domestic political cost no matter the long term future economic benefits of the global agreements. For developing countries, however, climate finance is not necessarily subject to climate science, development needs and opportunities, but international political economy.  

3.2 Economic Considerations

Whereas ability and responsibility on one hand and poverty and effects on the other may have been the ideals that guided the formulation of UNFCCC’s climate finance clauses, these long ceased to be. Economic interests have taken the centre stage and have seen developed countries pushing to have the World Bank and its network of regional banks, manage climate finance. On the other hand, developing countries perceive the involvement of the World Bank as undermining the process of negotiations under the UNFCCC. Considering that the World Bank and its regional hubs only offer climate finance in the form of loans and non-concessional funding, it would therefore be concluded that the Bank and its financiers perceive climate finance as a lucrative economic interest.

Using Steward’s country domestic political and policy analysis, one may argue that for developed countries, the World Bank and the regional banks; climate financing is a voluntarily shared concern by all regardless of history and must be especially driven by market or economic interests and at best supplemented by Overseas Development Assistance (ODA). In itself, this perception negates the thinking of the UNFCCC but is still used to justify non-UNFCCC finance mechanisms as complementary mechanisms. For developing countries, climate finance can neither be an economic interest nor can it be aid. Rather, it is compensatory, obligatory and rights-based public funding from developing countries which results from historical pollution facts and within the polluter pays and common but differentiated responsibilities and environmental principles. For developing countries, climate finance is primarily about climate change adaptation and private sources of climate finance, which would then be about mitigation, are thus just meant to supplement public finance but within strict regulations.

As currently configured, multilateral and bilateral financial institutions may be having undue influence over climate change policy formulation and financial mobilization globally. This configuration is further cemented by the involvement of the private sector. As evident in national climate change plans, this configuration puts climate change mitigation far above adaptation against developing countries’ priorities and development needs. Besides, the lacklustre engagement of government with the civil society and the total failure to engage the general populace on climate financing denies developing countries governments the much needed impetus to push their concerns beyond the developed countries interests at the global negotiations meetings. It would be interesting to see if the unveiling of the GCF on December 4th, 2013 will change or affirmation the current climate finance configuration.

4.0 Conclusion

This article has highlighted some of the challenges confronting the UNFCCC and the GCF. It has discussed

1 Stewart, R.B, Kingsbury B., and Rudyk B. (eds). 2009, pg 6
2 Ibid, pg 6-7.
3 Ibid, pg 6-7.
4 Third World Network (TWN), 2008 (website)
5 Stewart (2009) op cit. pg 6
6 Civil Society Demands on Climate Finance, Busan Civil Society Forum (BCSF), (2011).
7 Ibid
some of the factors that are influencing the metamorphosing of global climate financing regime, how climate change is defined and being redefined. It explores the basis for the concerns by developing countries regarding the existence of non-UNFCCC climate financing mechanisms. It has been noted that whereas there exists real challenges in the mobilization and disbursement of climate finance, these could be less conspicuous. Besides, the problem of climate change has been transformed from being a concern about GHGs emissions reduction alone into also being a concern about the failure by developed countries to meet their UNFCCC obligation, primarily the provision of climate finance to developing countries for both adaptation and mitigation. We have established that the unprecedented proliferation of climate change financing mechanisms by developed countries outside the UNFCCC in 2007 was informed by business interests. Further, developed countries either deliberately misinterpreted or chose to totally ignore international environmental governance principles such as the polluter pays principle, the principles of equity and the principle of common but differentiated responsibilities, when establishing the non-UNFCCC climate financing mechanisms. It is also worth noting that developed countries have totally ignored UNFCCC’s requirement to provide new, additional, adequate and predictable climate finance to developing countries. Two questions remain unanswered. One, given the growing emphasis on the private sector for climate financing, it is increasingly pertinent to ask whether adaptation benefits can be commodified, marketised and even traded within current and future global climate governance? Two, what can be done to rescue climate change negotiations from climate finance related economic and political interests by developed countries?

It is apparently clear that climate finance cannot be driven by market forces and that there cannot be a justification whatsoever for profits. This implies that non-UNFCCC climate finance mechanisms are a risk that must be avoided in the management of global climate change. Moreover, utmost faith, which is the basis for the formation of the United Nations Organization, dictates that international environmental governance principles are observed and that public goods are protected from private interests. Since it is true that climate change is a global problem that requires a global solution, then it provides the right platform on which these principles can be affirmed especially by those who claim leadership at the international arena.

There are four areas that the authors would recommend for future research. These are, one, assessing developed countries climate finance ‘readiness’, in this particular case, Kenya’s climate change ‘readiness’. The term, ‘readiness’ would in this case imply the legal, policy and institutional framework(s); the access to and delivery of climate finance; monitoring, evaluation and verification of use and impact of climate finance. Two, assessing the effectiveness (comprehensiveness, transparency and accountability) of Kenya’s country systems as the main flow channels of climate finance. Three, assessing the potential for the financing model of the Green Climate Fund to transform the global climate finance architecture. Four, understanding and unmasking the effects of increased private sector participation in financing social development, as currently advanced by the Global North, particularly the USA, looking at climate finance as the case of study.

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