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Global climate financing: how effective is it at the country level?

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Context:

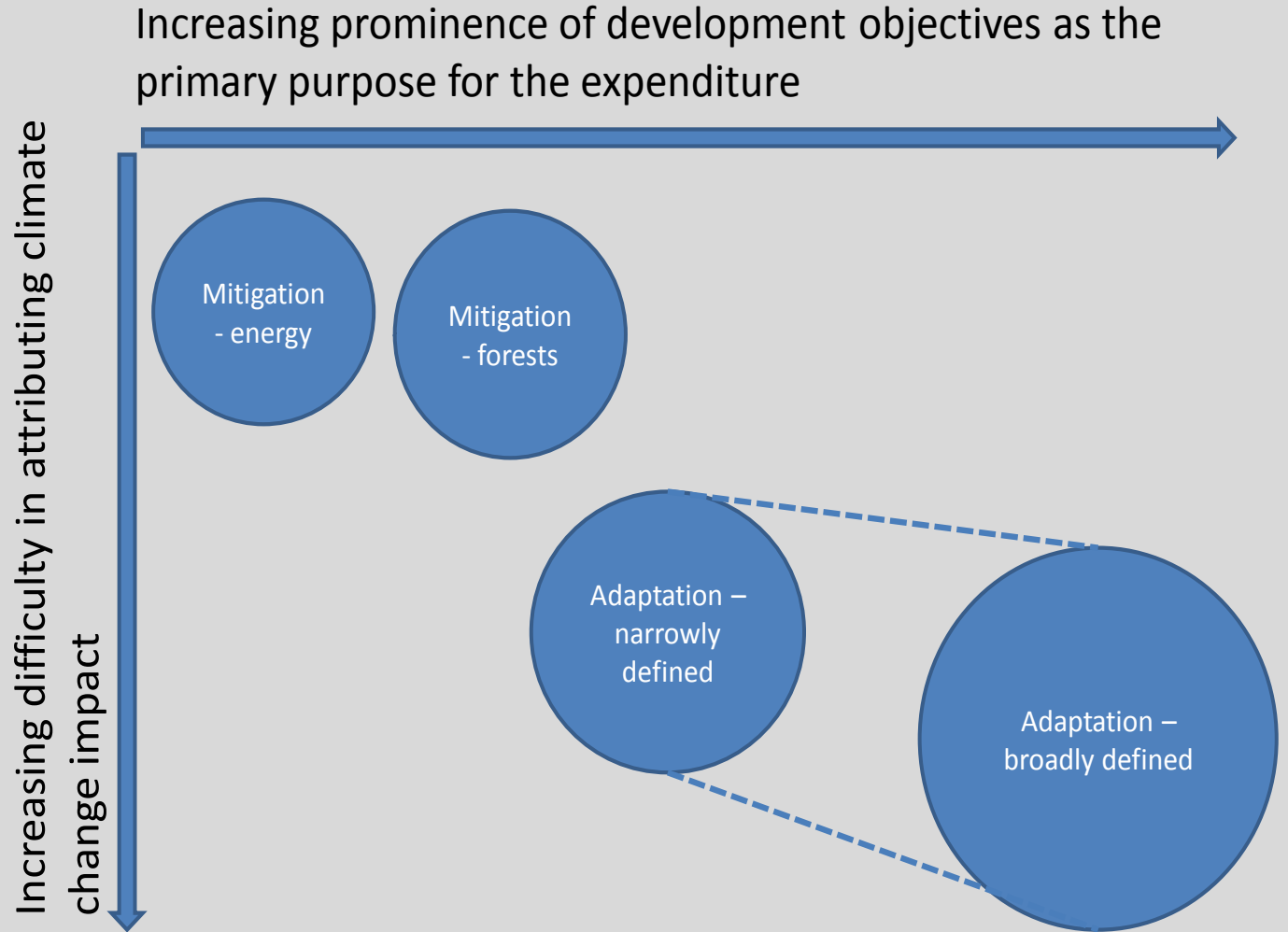
- In many countries climate change is a new area of public policy that will have a significant impact on people's lives, yet there is a limited understanding of what the cost of responding to climate change will be.

Focus on the effectiveness question:

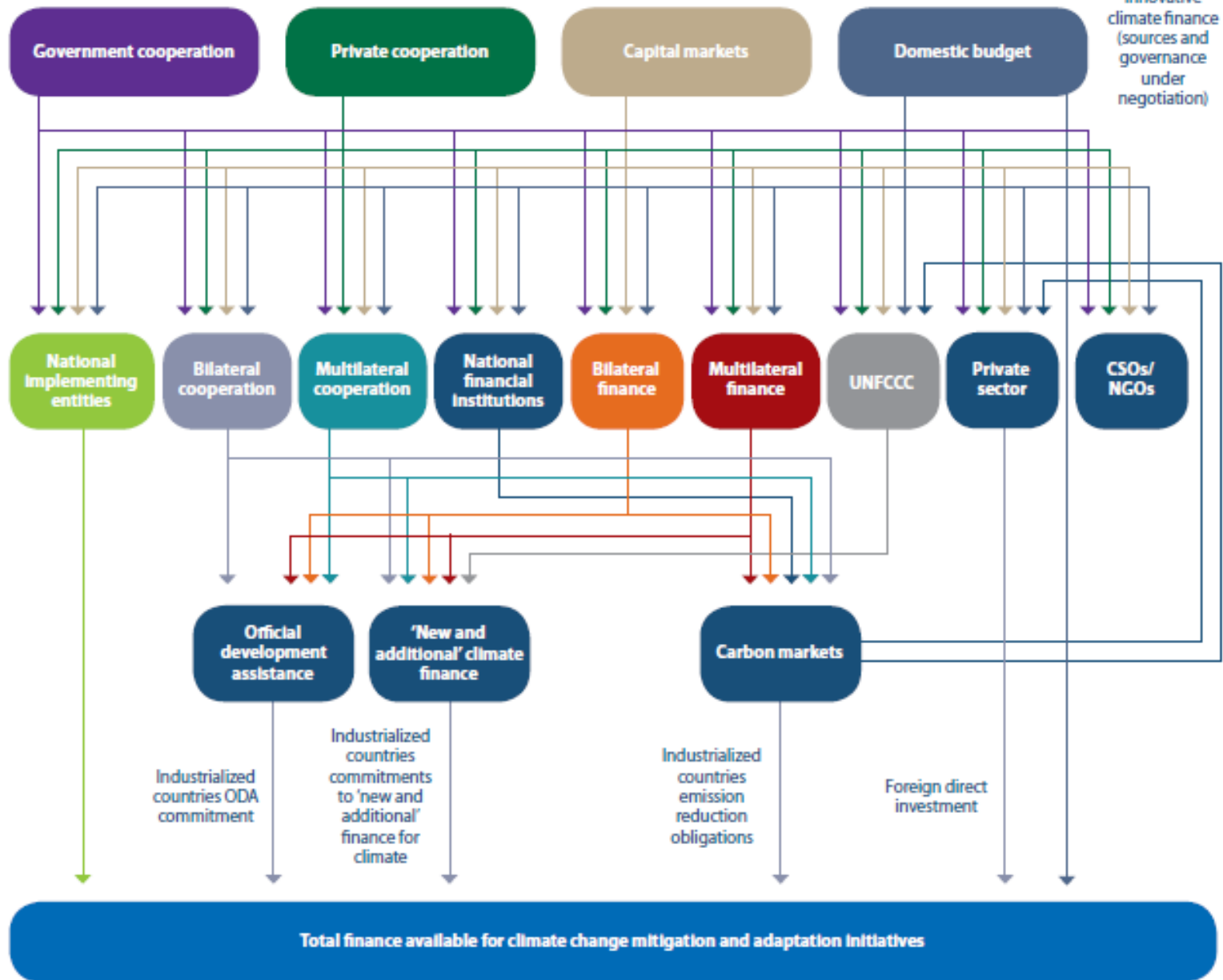
- How are financial resources currently utilised within countries to fund climate change-related activities?

Defining climate finance remains a major, unresolved issue

There will be varying levels of confidence that can be placed on different estimates of expenditure

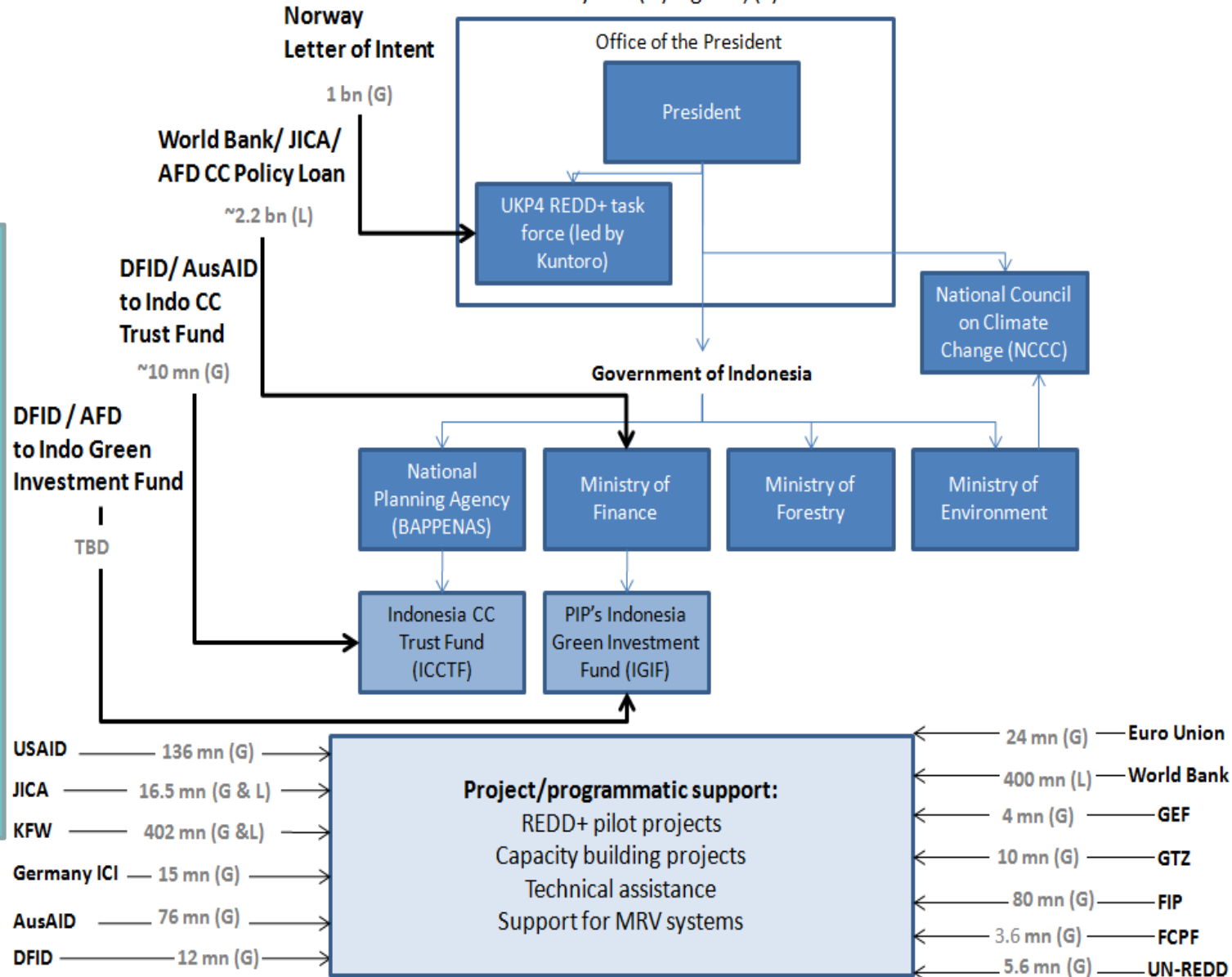


Climate finance: complexity of sources, agents and channels at the international level



Total funding: ~US \$4.4 bn committed over next several years (G) = grant, (L) = loan

Climate finance delivery is equally complex at the national level - Indonesia



How are national systems within countries responding?

- What is the scale and trends on expenditure for climate change related actions?
- What are the expenditure patterns of climate sensitive spending agencies in the public sector?

Country case study: Nepal



Current Situation on Climate Change Expenditure

- There are no clear definitions of climate change expenditure in use within Government Estimates.
- The functional analyses of expenditure within the Annual Budget, the MTEF, and the national plan do not make reference to climate change explicitly as a category or function.
- The international standard for budget classification GFSM 2001, does not identify climate related expenditure either.

Study Approach in Nepal

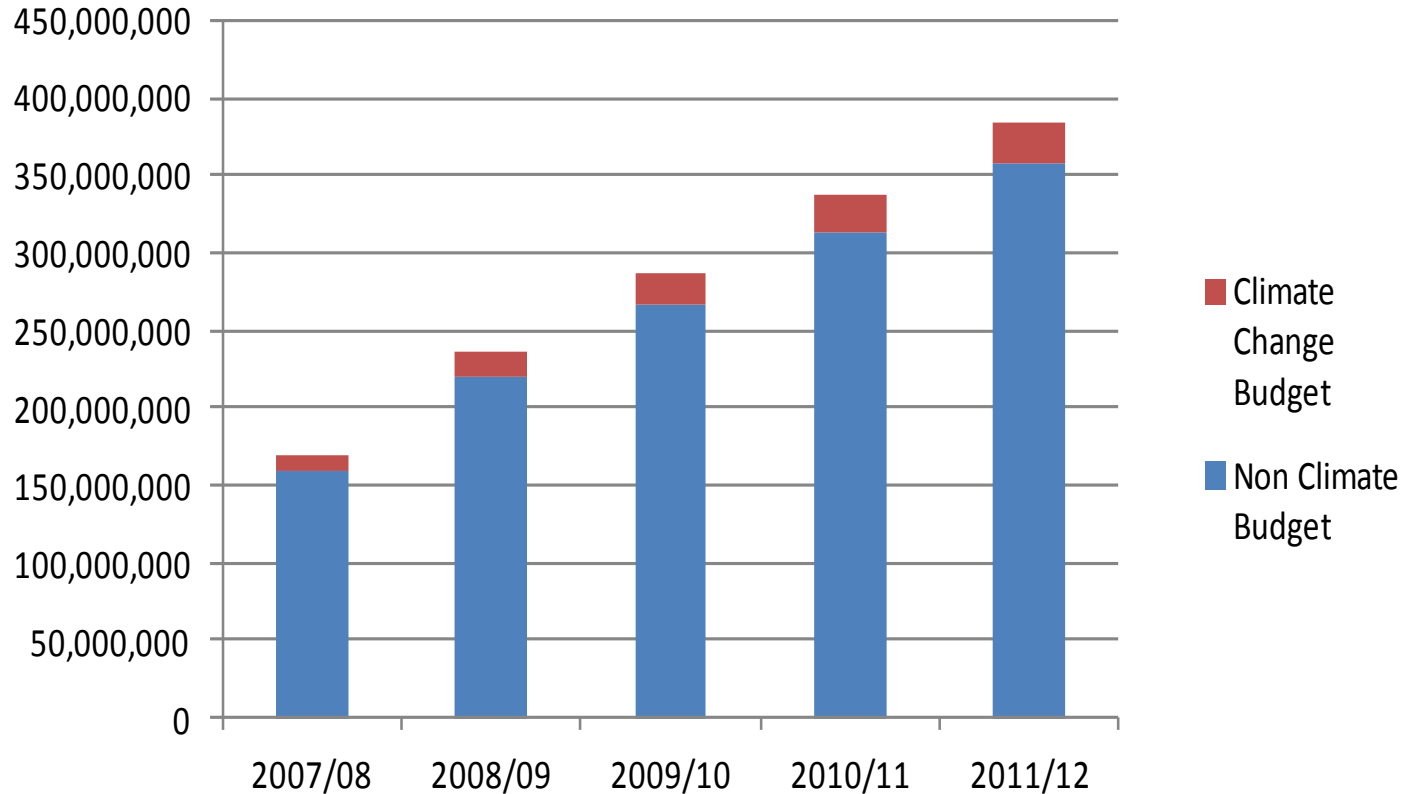
- 83 budget line codes with Government's Budget Book were identified as being relevant to climate change
- 33 of these codes were considered highly relevant.
- Represents a 'first cut' qualitative analysis
- Five year historical analysis

Public Finance Management context in Nepal

Rapid rise
in total
national
budget

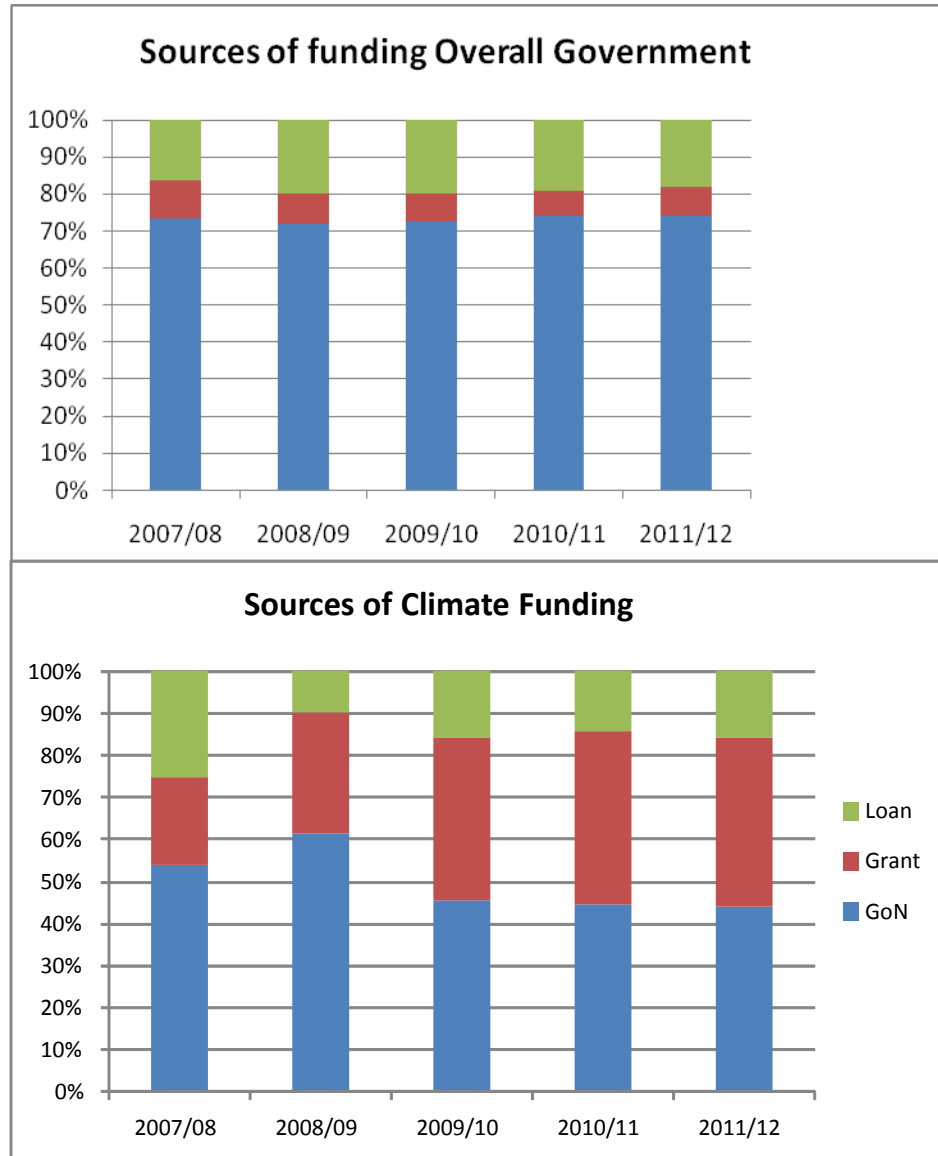
Even
more rapid
rise in
climate
change
budget

**Climate Budget as a Proportion of Total Budget
(Current Prices)**



Funding Sources for climate change

Climate change expenditure is far more reliant on donor funding than Government Expenditure as a whole



All Government

Climate Change

Analysis of number of Relevant Climate Change Expenditure Codes

Climate change activities continue to be seen as an environmental – rather than an economic – concern.

Ministry	High	Moderate	Low	Total
Forests and Soil Conservation	13	7		20
Physical Planning and Works	2	10	2	14
Environment	11	1		12
Local Development	1	8	2	11
Irrigation	3	6		9
Agriculture and Cooperatives	3	4	1	8
Energy		6	1	7
Industry		2		2
Total Codes	33	44	6	83

Some early headlines on climate change expenditure in Nepal - 1

- Budgeted climate change expenditure has been on average around 6.7% of the annual government budget over the past five years.
- In general terms, planned climate change expenditure has increased year-on-year from 1.3% to 2.1% of GDP.
- 76% of budget allocation in the five years reviewed has been for adaptation activities.

Some early headlines on climate change expenditure in Nepal - 2

- 13 programs, at a total cost of about US\$ 326 million, are funded or in the process of funding by international development partners.
- Of these, about US\$ 225 million is grant finance and about US\$ 101 million is in terms of loans.
- Approximately US\$ 13 million per year is 'off budget' in terms of international technical assistance

Some issues to be addressed to improve national climate finance delivery

- Greater clarity is needed over the definition of climate change expenditure
- The rapid growth and attendant governance and management issues must be considered in the design and execution of climate change programs
- The increasing donor share of funding highlights international support is forthcoming, but raises the issues of sustainability and how that support should be channelled
- Capacity of local government to handle large amounts of climate expenditure needs to be strengthened

All these issues are heightened as the move to Direct Access takes place.

Direct Access reflects not only the transfer of scaled-up financial resources for developing countries, but is part of a wider capacity development process that strengthens national ownership over the response to climate change

Discussion Paper

Direct Access to Climate Finance: experiences and lessons learned

November 2011

United Nations Development Programme

ENVIRONMENT AND ENERGY





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Thank you

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