



ACTION ON CLIMATE TODAY

ACT Report

Regional Dialogue on Financing Climate Resilient
Growth in South Asia:
Workshop Report

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The opinions expressed in this report are those of the authors and do not necessarily represent the views of the Department for International Development.

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Abbreviations and acronyms

ACT	Action on Climate Today
ADB	Asian Development Bank
CCFF	Climate Change Financing Framework
COP	Conference of Parties
CPEIR	Climate Change Public Expenditure and Institutional Review
CSR	Corporate Social Responsibility
DFID	Department for International Development
GDP	Gross Domestic Product
INDC	Intended Nationally Determined Contribution
L&D	Loss and Damage
NAP	National Adaptation Plan
NDC	Nationally Determined Contribution
SAPCC	State Action Plan on Climate Change
UNFCCC	United Nations Framework Convention on Climate Change

Workshop Report

As governments in South Asia work towards achieving strong economic growth and improvements in living standards over the coming decades, addressing climate change and its potentially devastating impacts on lives, livelihoods, and growth trajectories, needs to be a central consideration. This recognition has led to the formation of an array of climate change action plans and strategies at national and subnational levels, with a clear focus on adaptation activities to minimise the loss and damage (L&D) and promote more resilient economic growth.

Successful implementation of these plans is contingent on appropriate levels of financing being available. To this end, a number of Governments in the region have begun to develop Climate Change Financing Frameworks (CCFFs) with the support of the UK Department for International Development (DFID) Action of Climate Today (ACT) initiative.¹ CCFFs provide a transparent framework for assessing the cost of climate change impacts on a country or state, measuring the level of funding currently allocated to adaptation and mitigation compared to the amount needed, and presenting a number of scenarios for how the financing gap could be filled. Whilst CCFFs have taken different forms in different contexts, they share a common objective which is to integrate these elements of climate finance management into standard techniques of public planning and budgeting, so governments may prioritise and monitor resources for climate change ends.

With climate financing being a relatively nascent addition to the development agenda of Governments, a Regional Dialogue was held on 26 – 27 September in Kathmandu, bringing together representatives from the Governments of Afghanistan, India (Assam, Bihar, Kerala, and Odisha), Nepal and Pakistan, to share experiences of securing and deploying finance for climate adaptation that supports climate resilient growth. It was hosted by the Ministry of Population and Environment, Government of Nepal, and also involved strategic partners from international organisations², civil society³ and the private sector⁴. This report distils some of the key messages which emerged from two days of rich discussion, structured around the following themes: the scale of climate change impact, the cost of adaptation, sources of adaptation finance, institutionalisation of CCFFs, the need for a common framework for managing climate finance, and the role of ACT support going forward.

The Scale of Climate Change Impacts

From the accounts of drought in India, to flooding in Pakistan, falling crop yields in Nepal, and the first winter without snow in Afghanistan, participants discussed the real impacts of climate change which are already being felt in South Asia, one of the most climate

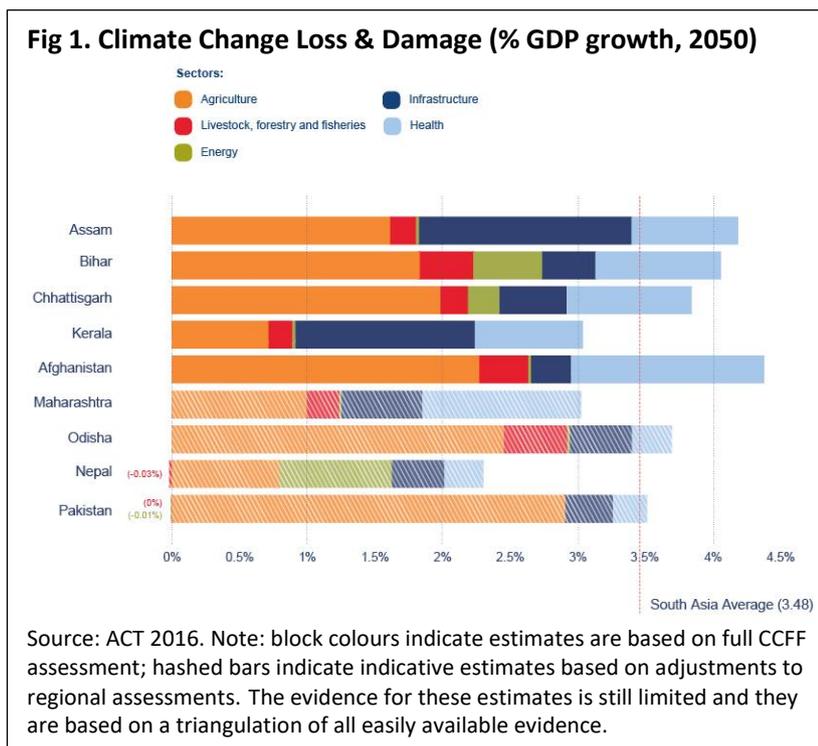
¹ The ACT programme works in Afghanistan, India (Assam, Bihar, Chhattisgarh, Kerala, Maharashtra and Odisha), Nepal and Pakistan. Related work has been supported in other countries by UNDP.

² Namely DFID, UNDP, ADB and GCF.

³ Practical Action and others

⁴ Including Alternative Energy Promotion Centre, Nepal; Iora Ecological Solutions, India, and ICICI Lombard General Insurance Company.

vulnerable regions in the world.⁵ The starting point of a CCFFs in these countries has been to distil this rationale by modelling the future impact of climate change on economic performance at country or subnational-level, and on outcomes in different sectors. A discussion of different methodologies used across countries underscored that such an undertaking is fraught with technical challenges and uncertainty⁶; nevertheless, the trend such models forecast is



unequivocal: climate risks and the impact of climate change are expected to increase significantly in the coming decades. New analysis was presented from a stocktake of progress with CCFFs in South Asia which indicated that in most countries, the L&D from climate change will mean that Gross Domestic Product (GDP) growth will be between 3% and 5% lower by 2050 (see Figure 1) (ACT, 2016). Behind these macroeconomic indicators are stories of huge human costs of climate change, which were relayed by all the participating Governments. ADB reminded participants, for example, that over 60% of the region's population work in agriculture, forestry or fisheries, the sectors most at risk from climate change, and may see devastating impacts to their livelihoods. At the same time, every 10% increase in food prices (forecasted to result from climate related drops in agricultural yields) will push 64 million people in Asia into poverty (ADB, 2016). Addressing climate change was deemed necessary then, not only to safeguard growth induced development gains, but also to protect lives and livelihoods of vulnerable citizens in the region.

The Cost of Adaptation

The costs of required adaptation is commensurate with the colossal scale of forecasted L&D, with Asian Development Bank (ADB) analysis estimating that \$40bn is required annually to help the Asia and Pacific region adapt to climate change impacts (ADB, 2016). Governments discussed their experiences in estimating national and state level costs through U.N. Framework Convention on Climate Change (UNFCCC) processes, including the development national adaptation plans (NAPs) which aim to facilitate the building of adaptive capacity and resilience and the integration of climate change adaptation into relevant new and

⁵ Second only to the Pacific, according to 2013 Climate Vulnerability index.

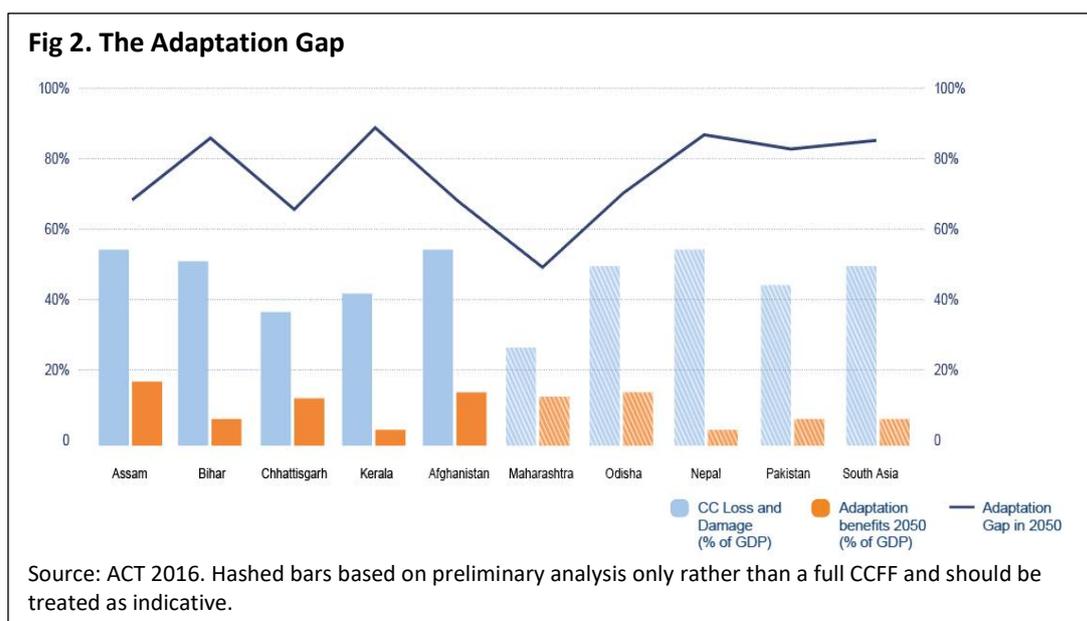
⁶ The impact of CC varies between different locations and also between different sectors, depending on available data. ACT 2016 Table 2 briefly describes some of the different methodologies used for estimating L&D.

existing policies, programmes and activities. Some of these plans have been costed; however analysis reveals substantial variation between localities (for example, the cost of Odisha’s CC Action Plan is over 300 times larger than that of Chhattisgarh) (ACT, 2016). What this serves to demonstrate is that each location has undertaken its costing on a very different basis, unavoidably making rather arbitrary assumptions, which hampers cross-Government comparability and aggregation.

The UNFCCC (Intended) Nationally Determined Contributions (INDC / NDC)⁷ process, where governments publicly outline the climate actions they intend/commit to take relating to climate change, is a mechanism wherein developing country governments could report on projected adaptation costs. In practice INDCs have typically focused on mitigation commitments, and although adaptation was included in INDC guidance in the run up to Conference of Parties (COP) 21, only 85% of INDC submissions included adaptation components. Furthermore, there is no prescribed format for (I)NDCs and as such, each country has adopted a different approach, undermining comparison and aggregation of projected adaptation costs. The planned introduction of Adaptation Communications as part of the UNFCCC reporting architecture may improve consistency, and it was suggested that South Asia take the lead in this.

Adaptation Financing

Despite the variation in adaptation costs as expressed through NAPs and INDCs, all the Governments were united in their assertions that the current level of adaptation financing falls far short of requirements. CCFFs introduce an approach for estimating this shortfall, which is based on the notion of the adaptation gap. The adaptation gap measures the amount by which current and planned spending on adaptation is lower than the socially desirable level⁸ and therefore provides an estimate of the adequacy of the existing effort on climate change. ACT presented analysis which suggests that in the locations it is supporting,



⁷ Intended contributions (INDCs) become NDCs once the Paris Agreement is ratified in a particular country.

⁸ That is, the amount required to reduce climate change loss and damage to the extent that only residual damage, which it is not cost effective to avoid, remains.

the adaptation gap for 2050 is between 65.3% (Chhattisgarh) and 86.4% (Nepal) (see Figure 2), although these estimates should be considered indicative.

Participants discussed three main approaches by which the CCFF facilitates Governments in closing the adaptation gap: i) using more of the government's own resources, and using them more impactfully; ii) accessing external financing from climate funds and development partner institutions by demonstrating clear climate relevance and priority; and iii) adopting of policies that encourage more private sector adaptation and mitigation. These are now addressed in turn.

Government financing

Given that adaptation is a public good, it was acknowledged that there is a strong case for public investment in it. Government representatives shared their experiences in applying a variety of climate expenditure tracking methodologies, including Climate Change Public Expenditure and Institutional Reviews (CPEIRs), such as have been conducted in Pakistan, and climate change budget codes, which are in place in Nepal. A common challenge faced in tracking exercises relates to the fact that climate change adaptation measures are usually part and parcel of broader programmes that promote sustainable development, and untangling the funding is problematic. Governments were found to be employing various measures of 'climate change relevance' (or CC%), which broadly fit into two categories: a benefits-based approach, which estimates the portion of total benefits which are due to adaptation/mitigation effects (this was used in Afghanistan and across India), and an objectives based approach, which weighs the relative importance of CC in the objectives (this was used in the CPEIRS in Nepal and Pakistan).⁹ ACT analysis reveals a fairly large degree of variation in weighted public expenditure on climate change, as a percentage of GDP, ranging between 0.2 – 0.3% in the case of Nepal, Bihar and Kerala; 0.7 – 0.8% for Afghanistan and Chhattisgarh; and 1.3% for Assam (ACT, 2016). The differences are in caused in part by differences in sectoral priority within the respective budgets, and differing levels of climate sensitivity.

Despite comparatively high growth rates in the region, the Government representatives identified a lack of fiscal space as a common constraint to increased public expenditure on climate change. Therefore alongside striving for growing budget allocations for climate change, the need to mainstream climate change into all development actions was recognised. Mainstreaming was viewed as a means of climate proofing government spending, which is most effectively done through the Government's public financial management systems. Participants were reminded by UNDP that it is possible to integrate climate change considerations into each stage of the budget cycle¹⁰, although in practice no country had managed to integrate it fully yet. Most of the experience to date which was shared has focused on integration into upstream phases of the budget cycle, including through policies and strategic plans (such as through the NAPs), through budget approval processes (for example by ensuring spending proposals are prioritised and assessed for

⁹ Largely these are complementary as objectives are a proxy for intended benefits. The problem occurs when comparing analyses that have used different approaches as the objectives-based approach arrives at inflated percentage scores.

¹⁰ The generic budget cycle distinguishes six stages: policy review, strategic planning, budget formulation and approval, budget execution, accounting and monitoring, and audit and evaluation.

relative importance of climate change using CC% scores, as in Kerala), and through budget monitoring (such as Nepal and Pakistan's CPEIR and climate budget code tracking experiences).

The experience of India was shared to demonstrate some of the particular challenges associated with mainstreaming within multi-level fiscal systems. A number of state governments, including Odisha, are limited in their capacity to increase budget allocations for climate change on account of substantive fiscal space constraints related to restricted revenue and borrowing options. One way to increase funding for states with high adaptation gaps is to incorporate the adaptation gap into the criteria determining a state's share of tax revenue. Something similar has been done to address lack of resources for forest protection and the needs of forest dwelling tribal communities in India, where in the state forest cover is used in the formula to determine a state's share of tax revenue transfer. While this is an interesting possibility, it was argued that there is always a natural tension when engaging with the intergovernmental fiscal transfers system around the earmarking of transfers, which needs to be managed within the prevailing politically economy landscape.

Climate funds and development partner financing

Beyond national revenues, there is a growing number of sources of external climate financing available to South Asian Governments. The ADB presented its commitment to double its annual climate financing to \$6 billion by 2020, to account for 30% of its overall budget. The UK Government's commitment of £5.8 billion in climate finance between 2016 – 2021 was also welcomed, £3.87 billion of which is to be channelled through DFID. Similar to its partner governments, DFID is pursuing a mainstreaming agenda as it seeks to define and monitor the climate benefits of each programme it implements, although it has yet to arrive at an organisation-wide approach to doing so, and could potentially learning from the CCFF experience applied in South Asia.

At the same time, international and national adaptation and mitigation funds are emerging as major players in the climate change financing landscape. The Global Climate Fund (GCF) presented its progress in mobilising climate financing (currently standing at \$10bn per year) and supporting adaptation and mitigation projects (of which 17 to date have been approved, totalling \$424m). Some of the key considerations taken into account by the GCF when reviewing funding proposals are: the degree of completeness, including whether necessary feasibility studies and stakeholder consultations have been undertaken; the level of projected climate impact, including evidence of a robust methodology for measuring climate relevance and impact; as well as the financial viability and sustainability of the proposal. A CCFF can potentially support all of these aspects, by strengthening project design, and M&E, from a climate change perspective, through a system which is embedded within government in the interests of sustainability.

Private sector adaptation and mitigation

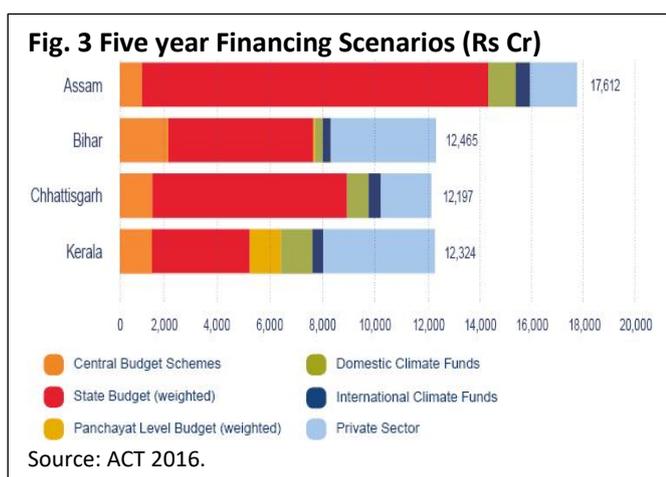
Participants were reminded that 37 out of the 100 largest economies in the world are companies. The private sector is therefore an important stakeholder not only in terms of contributing to reduced L&D, but also as a potential source of financing and innovation for adaptation. Indeed the drive to protect investments from climate related L&D, to sure up the livelihoods and spending power of a consumer base, as well as to maintain a positive

corporate social responsibility (CSR) profile, is leading a growing number of corporations to pursue adaptation investments.

A number of representatives of the private sector outlined their experiences and expectations for private sector engagement in adaptation. Three broad categories of potential investment were identified, in the areas of production risk reduction, including climate vulnerability assessments, supply chain diversification and conservation actions; new business opportunities in areas such as insurance, water conservation and agricultural technologies, and IT solutions to improving resilience; and community vulnerability reduction, including CSR investments. However, in view of the propensity towards market failure in the supply of this public good, public sector support was recognised as necessary to leverage private sector finance, through such means as the provision of high spatial resolution climate projections, financial incentives such as tax breaks, and the dissemination of successful case studies to a wider group of companies.

Financing scenarios and fostering accountability

Given size of adaptation gap, it was agreed that an adequate adaptation response is likely to need to draw on financing from each of these sources. CCFF work in some locations has included the development of financing scenarios, estimating the extent to which different sources of funding can be expected to help finance the Government’s climate change response. As depicted in Figure 3, in Bihar, Kerala, Chhattisgarh and Assam, most of the financing expected to come from State budget sources, followed by central budgets, and then private sector, whilst climate funds, both national and international, are expected to play more marginal roles.



With each of these sources of financing, there is a need to foster accountability, and as such a variety of accountability frameworks have been established. These range from (I)NDCs which track progress towards goals adopted under the Paris agreement, monitoring and evaluation systems for assessing impact of projects funded by the GFC and other donors/funds, and the introduction of CCFFs themselves. Set against the backdrop of broader but related reporting framework of the sustainable development goals, the regularity and duplication of reporting was highlighted by participants as a considerable burden. Whilst recognising that different institutions have different needs and requirements, it was felt that more progress could be made in converging some reporting formats or improving consistency between them. CCFFs for example, can include monitoring against NDC commitments, particularly those associated with adaptation, and can also be a tool for attracting and reporting against climate finance and foreign direct investment.

Institutionalising CCFFs

Sharing the stories behind the adoption of CCFFs revealed that overarching objective of work in all cases was to tackle L&D, but the specific operational objectives were highly

varied. Some governments were motivated by a desire to improve the overall efficiency of public expenditure, others to promote institutional reforms. In most countries, the possibility of raising new funds was one of the motivating factors. This has resulted in a variety of initiative being undertaken under the umbrella of CCFFs, as summarised in Box 1.

Box 1: Selective progress in CCFF implementation to date

Afghanistan has only started to work on a CCFF this year, beginning with a first draft CPEIR of reviewing existing expenditure on adaptation and mitigation in the budget, including a rapid assessment of CC%s.

Assam has formulated a State Action Plan on Climate Change (SAPCC) mainly as a plan to help raise new funding for climate change. An early draft financial framework was produced by in November 2015. It covers L&D; existing financing (budget and climate funds); financing scenarios; resource allocation; CC%; and reduction in L&D. Assam's vision 2030 document includes climate change as a key goal.

Bihar has also prepared a SAPCC and a provisional exercise in estimating the costs of the actions proposed has been undertaken. A draft financing framework focuses on options for improving the financial allocations for BAPCC actions.

Chhattisgarh's SAPCC is the basis for a draft financial framework which focuses on the financing scenarios and refining the costings to be consistent with these scenarios and with sectoral L&D. It makes forecasts on required expenditures and proposes a split between State and other partners for financing these.

Kerala's financing framework includes L&D estimates, actions are prioritized, costed and assessed for relative importance by use of a climate change relevance weight (CC%) and expenditure data is assessed and financing scenarios explored to arrive at an adaptation gap. The Kerala planning and budgeting system takes CC into account and the State Government has approved the SAPFIN report as a useful framework.

In **Maharashtra** a SAPCC was prepared in 2014. A first phase of CCFF work focused on assessing the Benefit Cost Ratio for 5 actions and the CC% for 13 actions to be used as part of a formal requirement for budget prioritisation.

Odisha was the first state to prepare a SAPCC 2010-2015, which identified the priority sectors and projects. It has since published a progress report and a successor action plan 2015-2020. It is looking to mobilise funding from various sectors.

Nepal has developed a National Adaptation Plan of Action which it has recently translated into Local Adaptation Plans of Action, with the aim of reducing climate vulnerability and increasing resilience of the poor and vulnerable. A NAP is currently being formulated. A CPEIR was conducted in 2011. Nepal is also developing capacity for climate resilient budgeting, through the introduction of the climate budget code.

Pakistan's response to climate change has focused on integrating adaptation and mitigation into policy formulation, establishing CC cells in all ministries and a climate change impact centre, as well as mainstreaming climate change in medium term development frameworks. CPEIRs have been conducted to quantify expenditure on CC at federal and provincial levels. Source: ACT 2016. dialogue discussions.

Whilst CCFFs have taken different routes in different localities, dialogue participants arrived at an understanding that they share a common destination, namely the institutionalisation of reforms into the normal practices of Government. Generating and sustaining political will is needed to underpin institutionalisation, which was noted to be challenging given the tendency of politicians to favour short-term wins. The need to respond to national drivers was emphasised by Governments, for example in Nepal and Afghanistan, comparatively slower growth rates mean linking the climate change cause with potential access to international funds is seen as key to selling the case. In other instances the need to connect it to politicians' parochial concerns – such as by highlighting the loss and damage caused to their constituencies – can be a driver of change. In Pakistan, buy-in was secured by working with younger, more climate-sympathetic members of parliament. In India, where access to politicians can be challenging, advocacy work has focused on bureaucrats, who are facilitated to make the case to their superiors. The need to balance messages on L&D, with positive prospects derived from success stories, was also discussed.

A variety of options for institutional leadership were discussed, including the Ministry of Finance (given its central role in financial allocations), the Ministry of Planning (which has control over the development budget where this is separated from the recurrent budget), or a specific climate change ministry (which is the primary source of knowledge on climate

change). Capacity needs to be built for mainstreaming CC across government, with sub-national governments needing climate expertise as much as central ones. Beyond government, the involvement of other actors including civil society and media, was considered important to the process of institutionalising CCFFs.

Working towards a common framework for institutionalisation

It was confirmed that there is much learning to be done around how institutionalisation of climate finance works. This includes learning from the experience of mainstreaming other cross-sectoral concerns including gender responsive budgeting. Cross-country dialogue is also an important source of learning, and there was discussion around whether a degree of methodological standardisation might be helpful, to help in demonstrating credibility of the analysis to citizens and external stakeholders, for facilitating more accurate, like-for-like comparison of emerging results, for aggregating a global response through channels such as UNFCCC, and for promoting shared learning around key elements. Specifically, some argued that greater standardisation is required around the calculation of L&D projections, the estimation of climate change relevance and the costing of adaptation plans.

The role for ACT going forward

Several participants, including delegates from Pakistan and Afghanistan, expressed their appreciation for the value of the regional dialogue, which was the first opportunity for regional stakeholders to come together since the 21st Conference of Parties in Paris. Looking forward, it was suggested that DFID, through ACT initiative, could provide further support in the following areas:

- Support further cross-country knowledge exchange on climate change finance and CCFFs.
- Providing a forum for engagement with a broad range of actors, including government at all levels, international organisations, civil society and media.
- Communicating and disseminating best practice in climate change finance.
- Providing practicable guidance and timely demand-led technical assistance to governments at all levels embarking on CCFFs.
- Generating more location specific evidence on the impact of climate change
- Sharing easy to understand narratives on the value of CCFFs for a range of audiences

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