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Environmental protection and climate change mitigation - challenges for international development cooperation

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INTERGOVERNMENTAL GROUP OF EXPERTS ON FINANCING FOR DEVELOPMENT

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1. Climate finance: rough chronology

1980s

Public sector official development assistance (ODA) - 1980s debt-for-nature swaps

1990s-2000s

UNFCCC Kyoto Protocol, Clean Development Mechanism, carbon accounting, sequestration, Carbon Emissions Reductions (CERs)

late 1990s

Financialisation part I: assets and income streams, biodiversity offsets, ecosystem services, REDD + forest conservation late 1990s neoliberal counterrevolution

2000s

Financialisation part II: Green bonds and capital markets: derivatives, indexes and synthetics, species bonds, conservation bonds

2011

Hybrid fund-of-funds: Green Climate Fund

2014

Insurance-linked securities

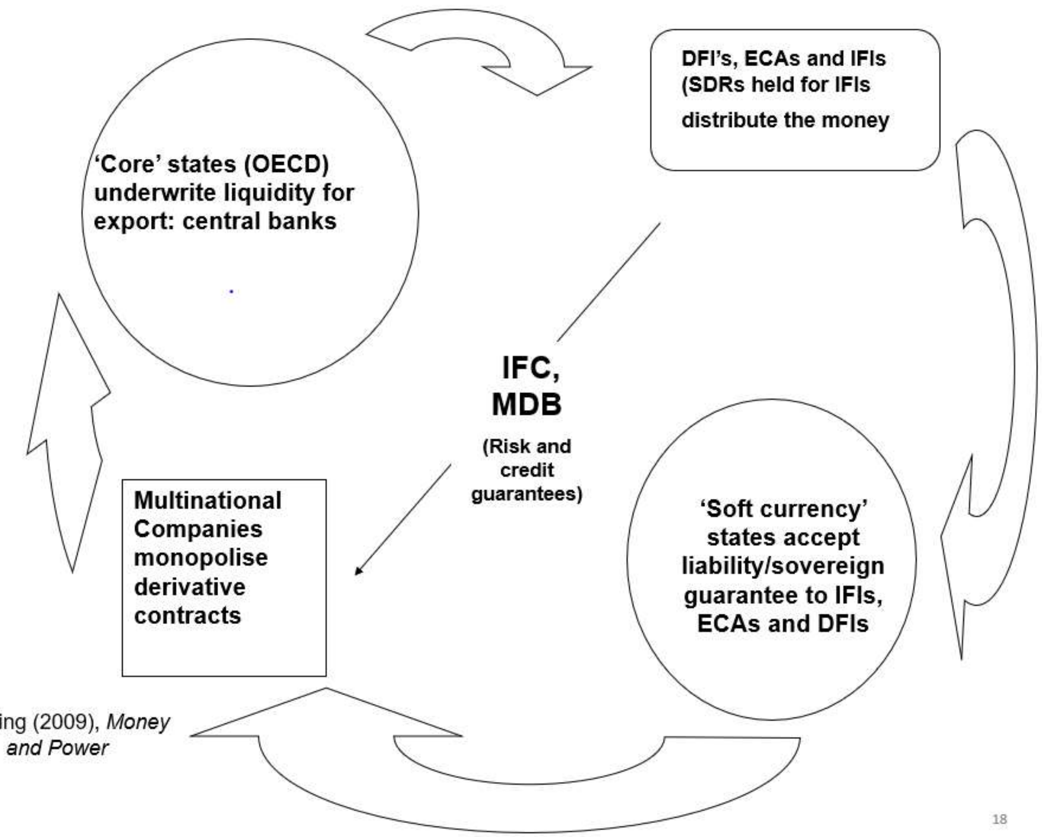
Sovereign catastrophe bonds

1.1 return flows from climate-related ODA to donors

There are many indicative cases which show:

- projects with full operating costs recovery
- large proportions of funds spent on consultancy, planning and management using Northern based firms or DFIs;
- excessive claims for knowledge products which underuse pre-existing knowledge and domestic capacity.

Recycling value: the global Keynesian multiplier for ODA



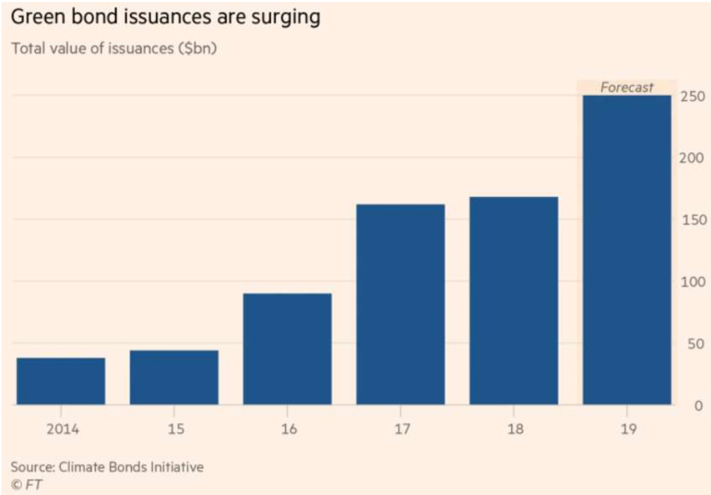
Bracking (2009), *Money and Power*

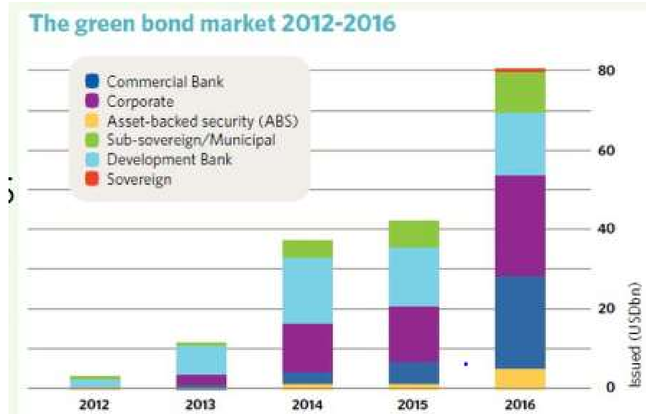
1.2 Blended finance: Kasigau

- For example, a case study:
    - October 2016 the IFC sold a $152 million forestry bond for the Kasigau Corridor in Kenya, one of the largest REDD + projects globally
    - The bond allows investors to be paid in cash or carbon credits, or a combination of the two.
    - IFC is underwriting as a guaranteed purchaser of the carbon credits from Kasigau, and will distribute them to investors when due.
    - BHP Billiton provides a liquidity support mechanism

2. What is ‘green’ in Green Bonds?

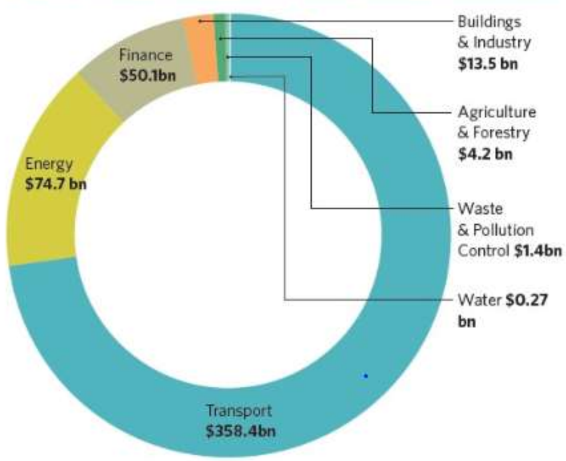
- ‘green’ is currently determined by two main qualifications:
  - either the proceeds of the bond are (supposed to be) spent on environmentally beneficial projects – called ‘use of proceeds’ bonds;
  - and/or the issuers themselves badge them as ‘green’ with an accompanying narrative – called ‘self-labelled’ bonds
.



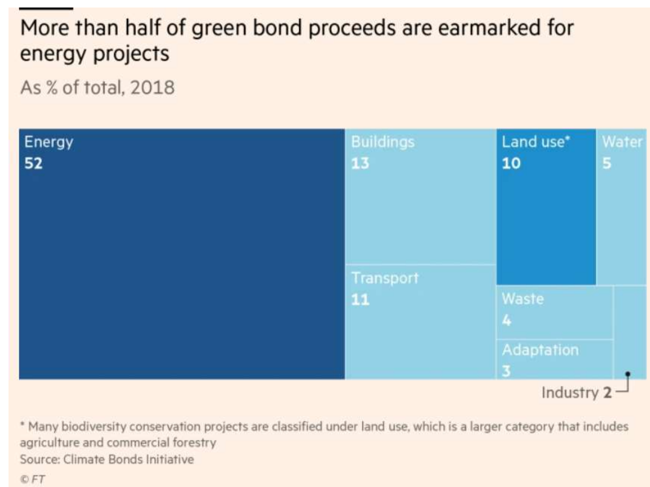


Green bond market 2012-2016. Source: CBI (www.climatebonds.net).

Figure 1. Thematic breakdown of climate-themed bond universe



2014



"'Green bond' market leaves wildlife behind"

Financial Times 2019

3. Insurance: risk pooling in catastrophe bonds

"Africa needs solutions. The XCF [extreme climate facility] will offer African nations a new financing mechanism to manage climate risks by providing direct access to new private capital and by leveraging development partner contributions. We are leading the way in innovative climate finance"

Dr. Ngozi Okonjo-Iweala, Nigeria's Minister of Finance and Chair of Africa Risk Capacity (ARC)'s Governing Board, 23rd September 2014

"XCF will ensure that African countries and the international community appropriately monitor climate shocks and will be financially prepared to implement specific adaptation measures in an effective and accountable manner, leveraging ARC's existing public-private infrastructure. The XCF allows us to leverage private capital against the risk of increased frequency of severe climate events, while using public money to fund immediate and certain adaptation requirements"

Dr. Richard Wilcox, founding Director General of ARC

“The XCF will be designed to be objective and data-driven, using a baseline of 30-year climatology data for Africa. Consistent meteorological information covering the entire continent is available since the start of the satellite era in the early 1980s and will be used to calculate a multi-hazard extreme climate index for each region”

“climate cat bonds will use a trigger structure linked to a parametric index constructed from various types of climate and weather data, which will parametrize increases in the severity and impacts of weather events, so the bonds will trigger should the index reach above pre-defined levels”

3.1 Climate Change: an uninsurable, systemic risk?

- IMF paper: “..expected damages caused by unmitigated climate change will be high and the probability of catastrophic tail-risk events is nonnegligible.”
- “There is growing agreement between economists and scientists that the tail risks are material and the risk of catastrophic and irreversible disaster is rising, implying potentially infinite costs of unmitigated climate change, including, in the extreme, human extinction”

  - Signe Krogstrup and William Oman (2019). Macroeconomic and Financial Policies for Climate Change Mitigation: A Review of the Literature. IMF Working Paper 19/185

3.2 Insurance cannot cover slow-onset crises that are predictable

- “The absolute unbankability of an insurance response to slow-onset events such as sea-level rise epitomizes the difficulty of stretching risk’s spaces not just spatially, but also temporally: sea-level rise is a risk materializing in slow(er)-motion, the accumulation of hundreds of years of fossil fuel combustion and the inertia of the climate system. **And when the outcome is slow and certain rather than quick and random, no willing buyers can be found: risk becomes a certainty to be brutally borne by territories and populations who must engage in ‘transformational adaptation’ or cease to exist**”
    - (Christophers, B., Bigger, P., & Johnson, L. (2018). Stretching scales? Risk and sociality in climate finance. *Environment and Planning A: Economy and Space*. P. 14 https://doi.org/10.1177/0308518X18819004)

Going forward

- Climate finance too small in relation to the required needs of climate change mitigation and adaptation in terms of the environment and human-built environments for a sustainable future.
- Climate change mitigation, adaptation and resilience appear as defensive practices, reactive and palliative
- Solutions
- Needs a massive 'capital switch' in favour of a climate mitigating, climate adapting, new socioeconomic reconfiguration which rewrites humans' relationship with ecology
- Need a new commitment to mainstream change across government (national and global) to create policy that tackles climate change production

- People, animals and nature need a Green New Deal

Traditional public finance in Green New Deal

An investigation into the poverty reduction co-benefits of climate change-related projects in eThekwini

Background

Although the impacts of climate change are experienced by all, the poor are the least adapted and are therefore more adversely impacted when climate change disasters occur. In addition, the realities of climate change are eroding the livelihood opportunities of vulnerable communities and pushing them further into poverty. Against this backdrop, the inclusion of poverty reduction co-benefits in climate change-related projects has gained prominence in recent years.

Objectives

This research project aimed to evaluate climate change adaptation programmes and their poverty reducing co-benefits in the eThekwini Metropolitan Municipality of KwaZulu-Natal in order to both improve local and national practice, and to influence wider debate at national and global scale. The project also aimed to develop a measurement instrument which could evaluate climate finance initiatives and expenditures most likely to demonstrate poverty co-benefits.

Methodology

This study examined 13 purposively selected climate change-related projects in eThekwini Municipality to determine their poverty reduction potentials, building on the document analysis of the poverty reduction co-benefits of 134 climate change-related projects in the municipality. Using a qualitative research approach, municipal staff and project beneficiaries were interviewed to gain insights into the co-benefits of these projects.

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Conclusion

Findings of the study show that all 13 projects that were qualitatively assessed had poverty reduction co-benefits and are important sources of livelihood and income for project beneficiaries. Some of the projects have improved local communities' access to and appreciation of nature, others have provided accredited training for participants which they have leveraged to access employment beyond the climate change projects, while most have resulted in increased well-being.

In light of the benefits of the climate change projects, there is a need to move beyond a project-based approach to institutionalising climate change activities in order to provide permanent employment. Climate change projects also have great potential to contribute to national development and poverty reduction in its many dimensions if scaled to provincial and national levels.

planning, monitoring & evaluation

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PROGRAMME TO SUPPORT PRO-POOR POLICY DEVELOPMENT


KwaMashu, climate change adaptation workers May 2016
SIYABONGA! All our participants