T20 Policy Brief

G20 BRASIL 2024

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Task Force 02

SUSTAINABLE CLIMATE ACTION AND INCLUSIVE JUST ENERGY TRANSITIONS

Achieving Climate Justice and Equity Through Vulnerability-Based Financing

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Abstract

Socio-economic vulnerability and resilience to the effects of climate change should be the primary basis on which climate financing is allocated, especially for public funds under bilateral and multilateral arrangements. This would ensure an equitable distribution of these funds and therefore promote climate justice and equity. Unfortunately, not only are current climate finance levels inadequate, but they are also badly targeted, all to the detriment of countries with the most urgent needs. Some analysis by the OECD show that 70% of all climate finance provided and mobilized by developed countries between 2016 and 2020 went to middle-income countries. This trend contradicts the principles of climate justice and equity in the allocation of climate financing. With the climate change narrative mostly focused on the need for increasing available climate finance, matters of ensuring optimal allocation of the same have largely taken a backseat. This policy brief identifies key challenges and provides recommendations to ensure equitable distribution of climate finance, particularly focusing on African countries. Proposed strategies include establishing clear criteria for vulnerability and resilience assessment, increasing funding for regional climate initiatives, balancing adaptation and mitigation efforts, championing the Loss and Damage Fund, and supporting regulations for fair engagement in carbon markets. Implementing these recommendations could lead to a more equitable allocation of climate funds, better alignment with countries' priorities, and a significant reduction in the financing gap for climate adaptation and mitigation in Africa.

Climate Finance and African Vulnerabilities

This policy brief explores the role that the G20 can play in elevating climate change action in Africa, with a focus on potential policy actions that can help improving financing to climate vulnerable countries in Africa and other development regions. Specifically, it makes recommendations for a more equitable distribution of climate financing across countries and regions, ensuring that focus is not only on increasing the pool of climate financing to low-income countries, but also making sure that these resources are distributed consistently with the levels of vulnerability facing countries and the need for boosting the climate resilience of their economies.

Climate change is estimated to cost Africa US$40 billion annually thus making climate resilience a key factor to unlocking the continent's development potential (African Union 2022). From major droughts in the horn of Africa, to cyclones in the South-East, and floods in the south, climate change continues to cause significant damage to many African economies and has become one of the main development challenges being faced. As the frequency and magnitude of climatic shocks increase, addressing developmental matters such as food security and infrastructural development becomes a more challenging endevour that requires careful policy prioritization against a backdrop of financing and capacity constraints (Baptista et al 2022). While there have been positive trends in global finance allocation to bolster economic resilience to climate change, the financial gap for climate action in low-income countries (LICs) remain huge.

Africa requires approximately $277 billion annually to implement its Nationally Determined Contributions (NDCs) under the Paris Agreement, but the current annual climate finance flow to the region stands at only $29.5 billion - about 11% of the funds needed (Meattle et al. 2022, 8). While this financing gap is mainly due to the underfunding of climate action worldwide, it also reflects the misalignment between climate financial flows on one hand, and the level of vulnerability and/or resilience to climate change on the other, leading to lower-income countries getting relatively lower allocations of climate financing. Between 2016 and 2020, 70% of all climate finance provided by developed countries went to middle-income countries, leaving little for low-income countries most of which are in Africa (OECD 2022).

In 2021/2022, just over 2% of global climate finance flowed to or within LDCs (Buchner 2023). OECD countries allocated an average of $16 per person (in climate adaptation financing) to Africa, which is lower than the $20 per person allocated to non-African recipient countries whose economies happen to be relatively more climate resilient (Matola 2023). This suggests that its vulnerability or resilience to the impacts of climate change is not the primary basis for climate finance allocations, an issue that the G20 can and should help address. Moreover, while African countries are primarirly concerned with climate change adaptation, the distribution of climate funds shows a focus on mitigation, with adaptation only accounting for about 39% of the flow (Meattle et al. 2022, 8). This is so despite Africa's high vulnerability to climate change impacts while minimally contributing to global carbon emissions.

Against this backdrop, the urgency of improving the state of climate financing in Africa has been highlighted in many high level fora including the 2023 BRICS summit. The summit reiteriated the need for developed countries' increased support of developing countries' green transition efforts and the fulfilment of their climate finance commitments including the $100 billion a year pledge made in 2009.[1] Furthermore, the AU's elevation to permanent mebership of the G20 can be seen as an opportunity to elevate Africa's climate concerns, and help mobilise more funds for the region given it's vulnerability to climate change. If the AU can effectively advocate for African interests within the G20, it could bring much-needed attention and resources urgently needed to combat climate change on the continent (Gujallu 2023).

Enhancing Equity in Climate Finance Allocation

With the AU becoming a permanent member, the G20 can play a crucial role in making climate finance more equitably allocated, to the benefit of African countries. This can be done by focusing on several key areas including the following.

G20 should establish clear criteria of who is vulnerable and resilient.

Knowing which countries are more vulnerable and/or less resilient to the impacts of climate change is the first step to achieving equity in the allocation of climate finances. Although the discourse on climate financing has generally recognized developing countries as the desired destinations for climate financing, the criteria under which funds are distributed among these countries are not yet clear. This allows funding allocations to be driven more by the funder's interests than the needs of the recipient (Qi and Qian 2023) and in turn this has led to a misalignment between climate funds allocated and the

[1] See BRICS 2023 Summit Declaration

vulnerability/resilience of recipient countries (Matola 2023). Therefore, a clear criteria that indicates climate change vulnerability/resilience needs to be established and made the primary basis for climate finance allocations by the donor countries in the G20. The G20 should promote the use of such criterion by its members and encourage all financiers of climate action to use them as the primary basis for their funding allocations.

Financing regional climate initiatives

The G20 can enhance the equitable allocation of climate finance through increased funding to regional climate initiatives. This can be implemented by allocating climate funds towards initiatives in key regional strategies such as the Africa Adaptation Initiative (AAI) within the African Union Climate Change and Resilient Development Strategy and Action Plan (African Union 2022). By leveraging the financial muscle of its members the G20 can support the timely mobilization of resources needed for such regional initiatives which are designed to create wide-reaching benefits particularly for climate change adaptation. Through the AU, Africa must use its new status in the G20 to push for support for these continental initiatives including climate resilient infrastructure and climate smart agriculture in order to enhance the continent's adaptive capacity.

Furthermore, the AU can push the G20 to move quickly with the reforms aimed at improving Africa's access to multilateral climate funds for regional initiatives. Such reforms include the scaling up blended finance and risk-sharing facilities involving international financial institutions, and enhanced role of Multilateral Development Banks (MDBs) in mobilizing climate finance for low income countries.

Ensuring a balanced approach between adaptation and mitigation efforts.

Historically, accountability for climate finance has been structured upwards rather than downwards, with donor interests far outweighing the needs of recipients (Lopez et al. 2022). This has led to the prioritization of climate change mitigation over adaptation, contrary to the needs of developing countries most of whom are already in the crosshairs of climate change and continue to struggle with adaptation. Thus, achieving a better balance between mitigation and adaptation finance is essential for achieving a distribution of climate funds that is more equitable based on the needs of countries. This is so because the economies that are more vulnerable and/or less resilient to the impacts of climate change are those that most require adaptation funds and tend to emphasize adaptation in their NDCs and climate change strategies.

African countries see climate change adaptation as the number one priority given the impact that climate change is already having on their societies (Kabukuru 2023). The AU's presence in the G20 can push the climate change adaptation agenda forwads so that it receives the attention it deserves in as far as LICs are concerned. The G20 can initiate a more balanced approach between mitigation and adaptation, recognizing that increased financing of adaptation is more important for building resilience in vulnerable regions. This way, the G20 can help create a more equitable and effective climate finance system that supports global efforts to address the impacts of climate change while ensuring that financial resources are allocated where they are most needed.

Championing the loss and damage fund

The Loss and Damage Fund, if fully operationalized, will help achieve equity in climate action by mapping funds to actual losses and damages caused to different countries and regions in the world. Unfortunately, the fund has largely been opposed by many members of the G20 through different tactics aimed at delaying its establishment and operationalisation (Falzon 2023). Now that the fund has been established, the low amounts pledged indicate that there is still some resistance to the operationalization of the fund.

The presence of the AU at the G20 table puts Africa, a would-be major beneficiary of loss and damage finance, right at the center of the conversation. It amplifies the voice within the G20, advocating for the quick operationalisation of the loss and damage fund which is an important initiative for achieving climate justice. If the AU gets the G20 to be fully on board and proactive with the championing of this fund, the G20 will help achieve equitable distribution of climate funds through the provision of financial resources to countries that have already incurred substantial economic and non-economic losses to climate change despite haveing contributed very little to it.

Supporting carbon markets regulations in developing countries

Regulations in how different parties engage in carbon markets in developing countries can promote equitable climate financing by establishing frameworks that ensure fair participation and distribution of financial resources. Such regulations can play a crucial role in addressing issues related to transparency, accountability, and integrity within carbon markets especially with regards to carbon credits and offsets. These regulations are essential for fostering trust and ensuring that not only is more climate finance channelled to developing countries, but also that this is done in a non-exploitive manner. By setting standards for carbon trading, ensuring accurate accounting of emissions, and promoting high integrity practices, these regulations can help level the playing field and prevent exploitation or unfair practices. The G20 should support and champion regulations promoting integrity in carbon markets by supporting initiatives such as the Voluntary carbon markets initiative (VCMI) and the Integrity Council for the Voluntary Carbon Market (ICVCM) on top of assisting countries with the capacity to establish, implement and monitor adherence to these regulations. The AU should be vigilant in reminding the other G20 countries to ensure that their self-proclaimed green investors in developing countries do not engage in greenwashing of projects, expoitation of carbon markets in LICs and other exploitative behaviours.

Scenario of outcomes

As the impacts of climate change increase, the importance of adaptation and resilience by developing countries cannot be overstated. However, to achieve this, adequate funds directed at such efforts need to be made available to the countries that need them. With limited funds currently being supplied to developing countries, proper targeting across countries and regions needs to be pursued by using the right criteria for assessing vulnerability and resilience to climate change effects.

By establishing criteria that puts vulnerability and resilience at the center of climate finance allocation, the G20 will facilitate a shift towards a more equitable allocation of climate funds. This will likely see climate funds concentrate to low-income countries rather than middle income developing countries, a reversal of the current situation. Furthermore, since vulnerability and resilience to the impacts of climate change vary even within the low-income countries, this action will result in having those countries that are more vulnerable and less resilient receive more funding than the others. Specifically, countries with high vulnerability like Madagascar, Haiti, Uganda, Guinea-Bissau, and Central African Republic, along those with low resilience to climate change, including Libya, Guinea Bissau, Mali, Iraq, and Turkmenistan, would see their climate funds increase in per capita terms.[2] Thus, more African countries would see their receipts of climate adaptation funds increase, in line with their needs.

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[2] Based on criteria in Joseph Upile Matola, "Measuring Economic Vulnerability and Resilience to Climate Change"

Implementing the recommendations in this brief would also see improved distribution of funds between climate change mitigation and adaptation (with some funds going towards addressing loss and damage) which will result in a better alignment of funds and priorities in the NDCs of developing countries. Most African NDCs emphasize the need for climate change adaptation, a key concern in most countries in the region. The current distribution of climate funds, which is skewed towards mitigation implies that there has been a misalignment in this regard and a reversal of this scenario is needed. COP 28 brought to the forefront debate on climate financing, revealing a notable divergence in priorities between the Global North and the Global South. Developing countries stressed the urgent necessity to double adaptation finance by 2025, in line with the COP 26 resolution, with a current estimated gap of $194–$366 billion per year. This gap would be reduced should the G20 indeed implement the recommendations in this brief.

Regarding carbon markets as a source of climate financing in Africa, the UN efforts for setting standards for carbon markets under article 6 of the Paris Agreement offer financial hope for Africa and other developing regions, with the potential to close the financing gap for climate change adaptation and mitigation. The G20's support of enhanced regulations in these regions will ensure that countries can effectively leverage the global carbon market to meet their climate financing needs. Initiatives like channeling carbon finance into clean fuel for household cooking and providing access to income from carbon markets for small-scale farmers to help them adapt climate-smart agricultural practices stand to benefit from soundly operated carbon markets.

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