THE FLOW OF CLIMATE FINANCE
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Editor: Francesca Predazzi
It seems calamitous that at precisely the moment when the need to scale up climate finance is most urgent, the public finance engine room of climate investment could ‘run out of steam’. In this issue, we consider why there are actually many reasons to be optimistic about the future of climate finance, especially in a post-COVID-19 world.

Governments’ capacity to scramble together eye-watering volumes of emergency relief proves that money can be raised when there is the will to do so. The scientific likelihood of a serious, flu-like pandemic has been understood for decades. In 2015, a commission established after the Ebola outbreak by the US National Academy of Medicine estimated that investing USD 4.5 billion globally would minimise the risks of future pandemics. In a case of ‘too little, too late’, the cost of COVID recovery puts that original USD 4.5 billion into context. By June 2020, COVID-19 rescue packages alone had exceeded USD 15 trillion.

Since 2016, the International Energy Agency has called for USD 1.5 trillion in annual investments to 2030 in the energy sector alone, to align it with Paris Agreement goals. In 2018, however, total climate finance flows reached USD 579 billion, topping half a trillion for the first time – but still dramatically short of the levels needed. If COVID-19 has proven one thing beyond any doubt it is that the costs of inaction do vastly outweigh the costs of action.

The sheer value of the finance available has provided an opportunity to make the green transition irreversible, an objective the EU’s EUR 1.8 trillion Next Generation recovery plan is aiming to achieve. The package prioritises climate neutrality and digitalisation on the back of a pathway already mapped in the EU Green Deal and sets a starting point for others to follow.

COVID-19 has not impacted countries and communities equally. Indeed, external shocks, such as climate change and COVID-19, hit the poorest and most...
“External shocks, like climate change and COVID-19, hit the poorest and most vulnerable communities hardest.”

“The sheer value of finance available provides an opportunity to make the green transition irreversible, an objective of the EU’s EUR 1.8 trillion Next Generation recovery plan.”

Since a healthy planet is the foundation for healthy and resilient societies, the Green Deal should be a model for COVID recovery. We will have to put environment and climate change at the heart of our action and use all of our tools to mobilise our partners to join us on a sustainable path: policy and regulatory work, green investments, budget support, green budgeting and procurement, fiscal reforms, research and innovation, education, diplomacy, and engagement with the private sector. The EU can use its political and economic influence, expertise and financial resources. In line with this, the Neighbourhood, Development and International Cooperation Instrument (NDICI) includes a target to spend 30% of its 2021–2027 budget on action supporting climate objectives.

Carla Montesi, Director Green Deal and Digital Agenda, EU DG for International Partnerships (INTPA)
Climate forward

Blended finance supports private investment in sustainable infrastructure

Well-designed economic and social infrastructure (e.g. transport links, energy and utilities, schools and hospitals) is the backbone of economic productivity and social and environmental well-being.

Emerging and developing countries have huge demands for better mobility and energy-generation infrastructure to deliver improved living standards. In advanced economies, there is an urgent need to replace high-carbon infrastructure or to upgrade ageing assets to accommodate new technologies. Infrastructure investments last for decades.

Getting these milestone investments right can speed up low-carbon, climate-resilient transitions and leapfrog generations of polluting and inefficient technology. Getting them wrong could lock in emissions for decades and create risks of stranded assets costing hundreds of billions of dollars, for example, in investments that have already been made in oil and gas, coal and other fossil fuels.

In 2017, the Organisation for Economic Co-operation and Development (OECD) estimated that, from 2016–2030, USD 6.9 trillion dollars were needed annually to align planned infrastructure with the Paris and Sustainable Development Agenda goals. The estimated shortfall is around USD 3 trillion each year, a sum few public actors can afford.

Blended finance aims to mobilise private investors to help fill the financing gap. It strategically uses public and philanthropic development finance to reduce financing risk for profit-seeking actors whose actions can support job creation and reduce conflict and instability. Development capital is paid into funds that combine with commercial finance or are delivered directly through vehicles such as default insurance and loan-guarantee instruments. Blended funds report that they can mobilise up to 12 dollars in private-sector funding for every dollar raised in grants.

In 2017, the European Union launched the External Investment Plan (EIP) flagship initiative to provide blended finance through loans and guarantees to mobilise private investment, including in Africa. Under the EIP, EUR 4.6 billion is expected to mobilise EUR 44 billion in sustainable investments by the end of 2020. In addition to supporting renewable energy and urban infrastructure, through the European Sustainable Development Fund, the EIP also seeks to support small and medium-sized enterprises, digitalisation and agricultural initiatives.

Other blended initiatives include platforms such as a Sustainable Development Investment Partnership, and Convergence, the Blended Finance Network.

Post-COVID-19, there are new opportunities for governments to direct recovery packages towards green infrastructure. This will no doubt include measures that build on the learning already achieved through blended approaches targeted at unlocking even larger investment pools, such as the USD 89-trillion global institutional investor market.

“Blended finance strategically uses public and philanthropic development finance to reduce financing risk for profit-seeking actors.”

“Blended finance was launched to provide blended finance: EUR 4.6 billion is expected to mobilise EUR 44 billion in sustainable investments.”

“The estimated shortfall to align planned infrastructure with the Paris Agenda is around USD 3 trillion each year, an amount few public actors can afford.”

Jane Wilkinson
### Mozambique: Increasing public finance for climate change requires more monitoring

**Country:** Mozambique

**Type:** Least Developed Countries (LDC)

**Vulnerability (CRI Index):** 56th most vulnerable country

**EU GCCA+ Project:** Building local climate resilience in Mozambique

> In Mozambique, 2019 was marked by two cyclones severely hitting the country. The United Nations Development Programme estimates the yearly economic loss due to environmental degradation and the inefficient use of natural resources at 17% of gross domestic product (GDP) (Poverty Environment Initiative). This specifically affects vulnerable groups that are directly dependent on natural resources (crops, fish, forest, etc.) for their livelihoods.

As Mozambique’s exposure to extreme climate events continues to increase, building resilience to climate shocks becomes ever-more critical. The impact of climate change is felt horizontally across the traditional sectors, such as agriculture, energy, transport, etc., which are usually organised through governmental action. Integrating climate-change issues into public action therefore implies working through tools that are common to all sectors. In particular, this can be done in the planning, programming and budgeting processes that sectors perform on a yearly basis.

In Mozambique, since 2016, line ministries have been using a programmatic approach. Since then, mandated institutions at the sector level can apply a climate ‘marker’ to their budget lines. This allows them to highlight and track investments made towards achieving national climate goals, and reconciling the ambitions of the National Climate Change Adaptation and Mitigation Strategy, to be completed in 2025, with national and local instruments that create entry points for mainstreaming climate change adaptation into all policies, strategies and plans.

The government’s Five-Year Program (2020–2024) and the National Development Strategy (2015–2035) are the two key overarching plans for development. At the local level, 71% of the country’s districts have drawn up local adaptation plans and 34% of municipalities have adopted Urban Resilience or Climate Change Adaptation Plans.

The country’s Nationally Determined Contribution (NDC) indicates its largest constraint on implementation is the lack of funding and the need for more resources for its mobilisation.

Another function of climate financial tracking involves relating the allocations initially made during budget preparation to the actual budget execution, as reported at the end of the yearly cycle. These can help to provide information on climate expenditure and the related efficiency of the various sectors.

However, to secure the real lessons learned, identify investment gaps at the sector level, and build more climate-relevant sector budgets in future exercises, this analysis should also be enhanced with Mozambique’s progress towards climate adaptation and mitigation. This is the role of the National System for Monitoring and Evaluation of Climate Change which has been in place since 2014. This still needs strengthening with the view to establishing results-based climate-sector budgets and consolidating the considerable past and ongoing efforts towards climate action.

> “Since 2016, institutions at the sector level can apply a climate “marker” in their budget lines.”

> “Mozambique’s Nationally Determined Contribution indicates its largest constraint on implementation is the lack of funding.”

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**Geraldo Carreiro**
Case study

Cambodia: Climate vulnerability spurs the adoption of new budgets

Country: Cambodia
Type: Least Developed Countries (LDC)
Vulnerability (CRI Index): 29th most vulnerable country
EU GCCA+ Project: Cambodia Climate Change Alliance

In recent years, Cambodia has suffered from severe flooding and drought and, once again, it is being seriously affected by these natural disasters. According to a recent United Nations Office for the Coordination of Humanitarian Affairs report (3 November 2020), more than 792,000 people have been affected by flooding and are in need of humanitarian assistance, over 388,000 of whom are recognised as poor and vulnerable households.

About 80% of Cambodia’s population lives in rural areas and about 50% work in the agricultural sector, which remains 80% dependent on rain irrigation. According to the Ministry of Agriculture, rice alone accounts for about 26% of GDP and employs more than 3 million people in a total population of 16 million.

Cambodia has long-standing experience in responding to climate change. In 2013, it was one of the first countries to launch a Climate Public Expenditure and Institutional Review in preparation for a Climate Change Strategic Plan (CCSP). The priorities defined then were reinforced in 2015 by the preparation of the nationally determined contribution to the Paris Agreement. The process involved launching a Climate Change Financing Framework (CCFF), a groundbreaking instrument which was unique in combining an analysis of climate change expenditure, an assessment of adaptation effectiveness, and future financing scenarios.

The ambition was to guide future policy and climate-change-related expenditure for nine line ministries and agencies in sectors particularly sensitive to climate change and, ultimately, to reduce climate-negative impacts on the economy. These public organisations prepared sectoral Climate Change Action Plans (CCAPs) with a total of 117 actions, including investment projects, policy and institutional strengthening.

In a further step, the Ministry of Economy and Finance and the National Council for Sustainable Development recently developed a Climate Economic Growth Impact Model (CEGIM) which interprets the economic impacts of climate change at the sector level. The CEGIM and its antecedents, including the CCSP, CCFF and CCAPs, were directly supported by the EU-funded Global Climate Change Alliance (GCCA).

CEGIM projects that climate change will reduce average GDP growth from 6.9% to 6.6% in the period 2017–2050. It also concludes that a stronger focus on adaptation could avoid over half of the estimated loss and damages, without having a major impact on development investment.

Recently, Cambodia increased its budget for climate change resilience to about EUR 750 million, a four-fold increase over previous years. This reflects the country’s awareness of the impacts caused by climate change and its efforts to rehabilitate flood-damaged infrastructure, find solutions for drought-affected farmland, and to support affected households.

“Projections show climate change will reduce average GDP growth from 6.9 % to 6.6 % in 2017–2050.”

“Cambodia increased its budget for climate change resilience four-fold, to about EUR 750 million.”

Geraldo Carreiro
Interview

Chour Chheng: Shaping a climate-smart business in Cambodia

Chour Chheng, 64 years old, is the owner of Ky Siv Chheng Protein Food Enterprise and has run the company for more than 19 years. He participated in a project to help him shift his business from using coal to gas as a source of energy to process the company’s dry food products.

What was your motivation to get involved in the project?

I saw this project as an opportunity to improve the technical quality and efficiency of our production processes and to improve the conditions for my workers. Before, when we used coal, the production was much unhealthier for my workers. There was smoke everywhere, and even the products sometimes had black stains. Furthermore, the project helps to reduce greenhouse gas emissions and is good for the environment, which I learnt through the project.

Why does this matter to you?

I am part of society and we have to take care of our climate. I also want to motivate others to change their businesses towards cleaner and greener technologies. I regularly talk to other owners of SMEs and tell them that it is not only about profit.

What kind of changes to the workers’ daily routine do you see?

Before, they needed to stand next to the frying pans where we dried the fruits, which required a lot of manual work – moving the pans, adding coal to the ovens, etc. – it was hot and there was quite a bit of smoke. They got tired and complained. Now, they only have to operate the new equipment, which is physically much less demanding. I employ mostly women so that is better for them. I may even be able to increase the salary as a motivation for them. I regard my workers as an extension of my family.

Interview by the Cambodia Climate Change Alliance

Mr Chheng benefitted from technical advice as well as a subsidy from the ‘Demonstration of RECP, EMS and GHG mitigation and adaptation in industrial and handicraft sectors’ project provided by the Ministry of Industry and Handicraft, funded by the Cambodia Climate Change Alliance.
Success story

The Gambia: Bringing jobs, skills and finance with climate resilience

Metta Sabally is a successful young businesswoman from Wellingaraba village at Bureng Ward. She sells sandwiches to construction workers, turning in a profit of over USD 5 a day, thanks to an innovative programme that unlocks finance for youth and women while making communities more climate-change resilient.

Ms Sabally’s small business is made possible by the ‘Jobs, Skills and Finance (JSF) for Women and Youth Programme’ in The Gambia. Ms Sabally joined the ‘cash for work’ component of the JSF Programme, saving her earnings which she then used to set up her business. ‘Soon, I will start a big shop,’ said the 21-year-old, sitting proudly behind her stall of neatly stacked ingredients and employing her mother to help run the business.

Ms Sabally is just one of many young people and women who have benefitted from the JSF Programme, which is funded by the European Union and implemented by the UN Capital Development Fund (UNCDF) in partnership with the UN’s International Trade Centre. The programme is operated in close coordination with the Government of The Gambia.

The JSF programme provides training and skills development to target groups. It also increases access to essential finance that can enable entrepreneurship, as demonstrated by Ms Sabally, to flourish. Furthermore, it has a strong sustainability component as it works closely with local communities to identify local needs and build long-term climate resilience through the UNCDF’s specially designed ‘LoCAL mechanism’.

For example, in Ms Sambally’s hometown of Bureng, some 200 kilometres east of the capital Banjul, local authorities identified the need for a small infrastructure project that could reduce land erosion and simultaneously improve access and transport in the area. A plan to construct a culvert soon took shape and, through the JSF programme, a cash for work initiative was set up. Workers have not only secured a temporary wage but have also received skills development and training, including how to access finance.

Nanding Sanneh is the community development advisor in Bureng. She has worked on many projects in the area but believes that the JSF Programme is unique.

‘JSF brings jobs, skills and finance together – this is what is needed in this impoverished area,’ said Ms Sanneh. ‘We believe our capacity has also increased to make local development more environmentally friendly.’

LoCal is supported by the European Union through the Global Climate Change Alliance Plus (EU GCCA+) initiative.

Bhuwan Adhikari
THE EU GCCA+ BAROMETER

49 COUNTRIES

45 PROJECTS

EUR 284 MILLION

50 % OF TOTAL ALLOCATION
COUNTRIES OF INTERVENTION

BANGLADESH, BENIN, BHUTAN, BURKINA FASO, CAMBODIA, CAMEROON, COOK ISLANDS, CÔTE D’IVOIRE, DJIBOUTI, DRC, ETHIOPIA, GHANA, GUINÉE-BISSAU, HAÏTI, KIRIBATI, LAO PDR, LESOTHO, LIBERIA, MADAGASCAR, MALDIVES, MALI, MARSHALL ISLANDS, MAURITANIA, MAURITIUS, MICRONESIA, FEDERATED STATES OF MOZAMBIQUE, MYANMAR, NAMIBIA, NAURU, NEPAL, NIGER, NIUE, PALAU, PAPUA NEW GUINEA, RWANDA, SAMOA, SÃO TOMÉ AND PRÍNCIPE, SENEGAL, SEYCHELLES, SIERRA LEONE, SRI LANKA, SOLOMON ISLANDS, TANZANIA, TCHAD, TIMOR-LESTE, TOGO, TONGA, TUVALU, UGANDA
## EU GCCA+ ACTIVITIES INVOLVING CLIMATE FINANCE

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<th>ACTION</th>
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<td>SUPPORT FOR CLIMATE CHANGE MAINSTREAMING OF PUBLIC BUDGETS AND/OR DEVELOPMENT OF FRAMEWORKS FOR PUBLIC CLIMATE EXPENDITURE (MANAGEMENT OF PUBLIC FINANCE FOR CLIMATE ACTION)</td>
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<td>16</td>
<td>INSTITUTIONAL STRENGTHENING AND CAPACITY BUILDING WITHIN PARTNER COUNTRIES FOR BETTER SOURCING OF INTERNATIONAL CLIMATE FINANCE FROM EXISTING CLIMATE FUNDS (ADAPTATION FUND, GREEN CLIMATE FUND, ETC.) AND FROM THE DONOR COMMUNITY</td>
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Where private actors can balance risks and returns, investment will follow. Private actors bring efficiencies and management skills, have access to innovation and technology, and own many of the assets that generate emissions or will need to be adapted to a climate-changed world. Close to home, financial disclosure standards, fiscal approaches and carbon pricing provide excellent examples of policies and measures that can change investment behaviour.

As regards development cooperation, with their unique toolkits of financial instruments, it comes as no surprise that, from 2013 to 2018, multilateral development and national development banks doubled their support to unlock local public-private partnerships across regions as part of the global effort to mobilise climate finance.

The Green Climate Fund’s (GCF) private-sector facility provides good examples of the types of tools that can de-risk private capital. As of October 2019, 25 private-sector projects had been approved for USD 2.2 billion, which was expected to mobilise an additional USD 7 billion in co-financing. The associated mitigation portfolio is expected to cut 1.1 gigatonnes of CO2 equivalent, while the adaptation portfolio is projected to reach 47 million beneficiaries.

Green standards and taxonomies, such as the EU Taxonomy for Sustainable Activities, the Green Bond Principles, and the World Bank’s National Green Taxonomy for Emerging Markets guidance, are gaining traction as tools to help direct capital towards low-carbon and environmentally safe projects. By identifying opportunities and investment parameters, they can inform investors of potential projects and reduce reputational risks, while reducing due diligence risks for banks and financial institutions. In so doing, taxonomies reduce perceived risks of climate investments and lower costs of finance.

The COVID-19 pandemic has also opened up a new path for development finance – institution-led public-private-sector collaboration. The GCF, with its USD 100-million Energy Access Relief Facility, aims to support access to energy for 308 small and medium-sized enterprises (SMEs) from nine countries in Africa that have suffered severe liquidity constraints due to the impacts of coronavirus. This has helped them to remain solvent during the COVID-19 crisis while providing employment to vulnerable communities.

As governments roll out COVID-19 recovery packages, however large or small, priority must be given to ensuring SMEs and local communities benefit. Without the private sector on board, a green transition will remain beyond reach.
EU GCCA+ THE ALLIANCE FOR A CHANGING WORLD

The Global Climate Change Alliance Plus (EU GCCA+) is a flagship initiative of the European Union helping most vulnerable countries respond to climate change. It started in 2007 and has become one of the EU’s major climate initiatives with a worldwide scope, with over 80 programmes in Africa, Asia, the Caribbean and Pacific region.

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