Needs-based Climate Finance Project

CLIMATE FINANCE ACCESS AND MOBILIZATION STRATEGY FOR THE EAST AFRICAN COMMUNITY (2022/23–2031/32)

United Nations
Framework Convention on
Climate Change

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"Effectively manage and reduce vulnerability to climate change impacts"

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I. Introduction

1. The nature and extent of climate change and its impacts will dictate the extent to which the sustainable transformation to an upper-middle income economy foreseen by the East African Community Vision 2050 can be achieved by partner States of the East African Community (EAC).[1] Climate-related crises already affect 2.8% of the population of EAC partner States (4.7 million people), and over 50% of the population depends on pastoralism and other forms of agriculture – that is, on a sector that is vulnerable to the impacts of climate change. East Africa is Africa's fastest-growing region; in 2019, gross domestic product grew by an estimated 5.0%. GDP growth is highly dependent on agriculture and other climate-sensitive sectors, which together accounted for 40.7% of the region's growth in 2018. To date, EAC partner States have incurred economic costs of between 1 and 3% of gross domestic product in addressing the impacts of hazards relating to climate change, and a sizeable portion of their budgets are committed to climate change programmes. Approximately 53% of public international climate finance is directed towards mitigation projects in the region.

2. This Climate Finance Access and Mobilization Strategy for EAC has been prepared under the Needs-based Finance project[2] which was initiated in response to a mandate from the Conference of the Parties.[3] The overall objective of the Strategy is to assist EAC in better positioning itself to rapidly mobilize and scale up climate finance for regional priority actions. The Strategy is based on a technical assessment of the climate finance needs and priorities of EAC partner States, as reported in their nationally determined contributions, national adaptation plans, national communications and biennial update reports, as well as in their policies and strategies relevant to implementing the 2030 Agenda for Sustainable Development. In addition to the overview of needs and priorities, the assessment provides details on current climate finance flows, sources and gaps, and barriers to accessing climate finance that should be addressed by this Strategy. The technical assessment is contained in Technical Assessment of Climate Finance in Eastern African Community.

[1] As at 2017, five partner States were least developed countries. The United Republic of Tanzania has since attained lower-middle income status.

[2] See https://unfccc.int/NBF_Project.

[3] Decision 6/CP.23, para. 10, reiterated in decision 4/CP.26, para. 22.

II. Strategic framework

3. The aims of the Climate Finance Access and Mobilization Strategy are to ensure climate finance is mobilized, accessed, used, scaled up, tracked and transparently reported in a manner that contributes effectively to the achievement of climate change goals and low-emission development in EAC partner States. The Strategy directly supports the EAC vision for 2050, especially its Environment and Natural Resource Management pillar, which emphasizes the sustainable use of natural resources in the face of climate change.

4. The intended **impacts** of the Strategy include:

(i) Increased access to international public climate finance;

(ii) Increased volume of domestic public climate finance;

(iii) Increased mobilization of private sector climate finance;

(iv) Increased domestic investment in climate change related projects;

(v) Increased use of innovative financing mechanisms and increased volume of finance from those mechanisms; and

(vi) Increased coordination with a sustainable regional climate finance framework.

5. The key **principles** guiding the design, implementation and monitoring of the Strategy indicate that it should:

(i) Recognize ownership by EAC partner States;

(ii) Align with national, regional and international climate change policies;

(iii) Demonstrate inclusiveness by benefitting vulnerable people, being gender-sensitive and engaging key stakeholders;

(iv) Facilitate accountability; transparency in governance and in reporting on greenhouse gas emissions, climate action and climate finance; and the avoidance of double counting;

(v) Integrate with, in particular, transboundary and cross-sectoral approaches and initiatives underway or planned;

(vi) Enable the transfer of technology;

(vii) Ensure the predictability, certainty and availability of sustained financial resources over a defined time frame; and

(viii) Adhere to the principles and common values of EAC partner States.

III. Situational analysis

6. East Africa is one of the most vulnerable subregions in Africa in terms of climate change. The updated NDCs of EAC partner States emphasize that adaptation is a priority, and thus the need for adaptation is clearly reflected in this Climate Finance Access and Mobilization Strategy. Between 2013 and 2018, EAC received an annual average of USD 2.5 billion from international public finance sources for mitigation and adaptation. However, to adequately respond to the impacts of climate change, the region's estimated climate finance needs, based on EAC partner States' NDCs, is USD 212.181 billion between 2021 and 2030, comprising USD 64.419 billion for mitigation and USD 147.762 billion for adaptation. This estimate, about USD 21 billion per year for the current decade, is not an exhaustive climate finance needs assessment because partner States have not costed all their sectoral plans. While countries consider adaptation and resilience a priority over mitigation in theory, current cost estimates show otherwise. Partner States have developed climate change policies and strategies that align with national development objectives and thereby ensure sufficient funding for climate action. However, the effectiveness of these policies and strategies in increasing climate finance mobilization cannot be fully assessed owing to the lack of comprehensive methodologies and systems for tracking domestic and private climate finance flows.

7. Across the region, energy, infrastructure, transport, agriculture, water resources, and land use, land-use change, and forestry have been identified as priority adaptation sectors. Industrialization is seen as key to enhancing climate change mitigation action. The existence of common priorities is an opportunity for further cooperation on climate change by and economic integration of EAC partner States.

8. According to the Organisation for Economic Co-operation and Development, public climate finance flows from developed countries to address EAC needs for 2013–2018 amounted to USD 15 billion, or an annual average of USD 2.5 billion. A comparison of needs with actual climate finance flows suggests that previous efforts have realized only about 11.90% of the annual climate finance required by EAC. Annual flows therefore need to increase about tenfold for partner States to effectively adapt to or mitigate the negative consequences of climate change and meet their emission reduction targets. However, variation in both needs and vulnerability among partner States as well as the lack of a common methodology for tracking and reporting climate finance flows currently make a comparison of flows with needs, for the most part, unreliable.

9. The most critical barriers to accessing and mobilizing climate finance in the region include (i) weak institutional capacity in two dimensions – to meet minimum criteria set by climate funds, large financial institutions and international capital markets, and to develop technically feasible and economically viable climate change projects and programmes; (ii) inadequate enabling environments to incentivize green investments, which is partially responsible for low private sector participation (another barrier in itself); and (iii) inadequate coordination among climate change stakeholders (especially those providing funding, capacity-building or project design) within and across EAC partner States.

IV. Strategic areas of collaborative action

A. Strategic area 1: Strengthening technical skills related to climate finance through capacity-building at the national and regional level

10. To address existing constraints in mobilizing and accessing climate finance, EAC partner States require capacity-building support to enhance technical skills in negotiation; fiduciary management; tracking and reporting; data collection, monitoring and research; access to finance; private sector engagement; transparency; and governance and regulation.

11. The required capacity could be built through training, research, education, certification and establishing public–private partnerships. Enhancing sustainable knowledge in the finance sector could be accomplished by incorporating climate finance components into sector-specific education and certification specific to the region. This would involve enhancing technical assistance for climate finance and sustainable investment, blended finance, capital market development, data reporting, climate tagging and transparency. The involvement of climate practitioners and expert institutions from the region as well as experienced technical organizations in project design is also paramount to addressing capacity gaps.

Actions:

(a) Build technical capacity through partnerships with institutions and organizations with expertise in international climate finance that can provide training to national and regional stakeholders. Such capacity should cover negotiation, proposal development, access requirements of international financial institutions, and international fiduciary management standards;

(b) Identify national, regional and global institutions that can provide technical assistance and training on climate financing for national and regional stakeholders to improve their understanding of the operational procedures of financial institutions, including procedures relating to financial instruments and to meeting monitoring and evaluation requirements, in order to enable them to design, implement and coordinate climate adaptation and mitigation initiatives that have an impact at the community level;

(c) Enhance public and professional education related to climate change at all levels, including by fostering long-term masters and doctorate programmes and by improving management of information on educational opportunities such as by maintaining an inventory of and exploring online courses developed by climate funds, financial institutions, United Nations agencies and other organizations; and

(d) Enable peer-to-peer learning and sharing of best practice in climate finance access through preparing policy briefs, conducting training, and developing project pipelines and concept notes, as a learning-by-doing approach could promote advances in access.

B. Strategic area 2: Enhancing capacity and establishing mechanisms for developing and implementing mitigation and adaptation projects, and development projects with climate change co-benefits, at the national and regional level

12. Transboundary and cross-sectoral approaches are critical to developing mitigation and adaptation projects and programmes. Participatory development is needed to ensure country ownership and to enable a flow of climate finance that has positive impacts on local communities. Improved project development can be achieved through enhancing the capacities of relevant national and regional institutions to design, implement and coordinate initiatives that have an impact at the community level. The identification of those initiatives should follow a participatory approach that is based on the needs of communities. Concerted efforts and actions are required to ensure that climate finance is channelled to both community-driven initiatives and region-wide initiatives.

Actions:

(a) Strengthen the role and capacity of the EAC secretariat in:

> (i) Facilitating partner States in coordinating their development of climate change projects, programmes and plans;
>
> (ii) Improving partner States' capacity to develop and fund regional and transboundary climate change programmes;
>
> (iii) Strengthen the role and capacity of in-house technical expertise regarding climate finance; and
>
> (iv) Monitoring and assessing implementation of the Climate Finance Access and Mobilization Strategy;

(b) Establish a regional platform under the EAC secretariat for:

> (i) Developing and tracking projects, programmes and plans;
>
> (ii) Developing, in a coordinated manner, an investor engagement guide;
>
> (iii) Tracking the alignment of policies and markets with the Sustainable Development Goals and climate goals;
>
> (iv) Exchanging knowledge and building technical capacity through an online climate information and knowledge hub for partner States;
>
> (v) Bringing key multilateral organisations together with central banks, finance ministries and systemically important financial institutions to finance mitigation and adaptation projects and programmes; and
>
> (vi) Tracking climate finance flows and offering matchmaking and coordination support between project developers and funding sources;

(c) Strengthen domestic institutional arrangements within relevant line ministries to address climate change related issues in a coordinated manner and enable effective participation in the implementation of the Strategy;

(d) Establish a participatory multi-stakeholder and cross-sectoral approach for developing EAC regional climate change programmes and initiatives that ensure positive impacts at the community level;

(e) Mobilize resources for improving the quality, accessibility and use of climate data and information for adaptation investments; and

(f) Establish new regional and national centres of excellence in climate change response and disaster risk reduction and equip both new and existing centres.

C. Strategic area 3: Enhancing enabling environments for mobilizing funding and catalysing public and private investment

13. Enabling policies and regulations are key to attracting investment in low-carbon, climate-resilient economic development. A policy and regulatory framework should provide targeted incentives, long-term predictability and risk reduction. It should also ensure that public funds are used in a manner that catalyses private sector investments at scale and allows public capital to be recycled and redeployed.

Actions:

(a) Promote favourable and targeted fiscal, investment and regulatory policies on:

- (i) Public spending and investment;
- (ii) Carbon pricing;
- (iii) Public–private partnerships;
- (iv) Climate quantitative easing; and
- (v) Integration of climate risk analysis into collateral frameworks and central bank portfolio management;

(b) Development of EAC partner States' policy and regulatory frameworks with harmonized regional guidelines for public–private partnerships to promote fiscal and operational accountability, transparency, appropriate pricing, quality of service and enhanced private sector engagement;

(c) Mobilize adequate catalytic capital that can bear higher risk and/or lower returns than the market would accept in order to attract private sector investment;

(d) Use centres of excellence to develop and promote adaptation and mitigation technologies through relevant projects;

(e) Advocate for favourable conditions for competitive markets;

(f) Mobilize technical assistance or grants for pre-investment work for projects and programmes;

(g) Support investment funds, credit lines for adaptation investments, insurance mechanisms and climate risk management schemes;

(h) Promote compliance and voluntary domestic and international carbon markets; and

(i) Establish regional and national monitoring systems to effectively measure, report and verify public and private climate finance flows and mitigation and adaptation action.

D. Strategic area 4: Identifying and mobilizing effective, innovative and appropriate additional finance for priority actions

14. To increase the mobilization of climate finance for EAC, non-traditional sources of finance and new and innovative financing instruments can be explored. Such finance sources include private finance, pension funds and insurance schemes, and such financing instruments include green bonds, de-risking instruments (e.g. insurance products, guarantees, liquidity facilities), funds and structured products. These instruments can be used to mobilize both public and private sector climate finance. A pipeline of regional and national projects will need to be in place to enable matching of demand for climate finance with available sources and appropriate instruments. The potential exists to scale up existing adaptation and mitigation projects and programmes in identified priority areas.

Actions:

(a) Explore, identify, establish, promote and support the development of innovative financing mechanisms or instruments and their coordination, including but not limited to:

- (i) Specialized lending facilities or funds;
- (ii) Green credit lines in commercial or development banks;
- (iii) Green bonds;
- (iv) Payments for ecosystem services;
- (v) REDD[4]+ programme;
- (vi) 'Blue economy' programmes;
- (vii) Debt for climate swaps;
- (viii) Payment systems for off-grid energy users; and
- (ix) Insurance mechanisms;

(b) Support credit enhancement for strategic public and private entities;

(c) Operationalize the EAC Climate Fund through capitalization and facilitate donor and multinational support to meet its objectives;

(d) Support innovative climate technologies and business incubators;

(e) Support locally led climate initiatives; and

(f) Encourage national development banks and related funds to finance local adaptation and mitigation projects and programmes with significant mitigation and adaptation potential.

[4] Reducing emissions from deforestation; reducing emissions from forest degradation; conservation of forest carbon stocks; sustainable management of forests; and enhancement of forest carbon stocks (decision 1/CP.16, para. 70).

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United Nations Framework Convention on Climate Change, the Kyoto Protocol and the Paris Agreement

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is available on the UNFCCC webpage

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