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Navigating the debt, development and environmental crises: Role of sustainable budgeting.

Presentation at the CCDA XI, Safari Park, Nairobi, Kenya
September 01, 2023

Presentation outline

1. State of affairs: Inadequacy, inaccessibility and unsustainability of international financing in the current global fiscal cooperation and investment architecture

2. Investment at national and sub-national level: the case of Kenya

3. Elements of sustainable budgeting

State of affairs

Inadequacy and misalignment

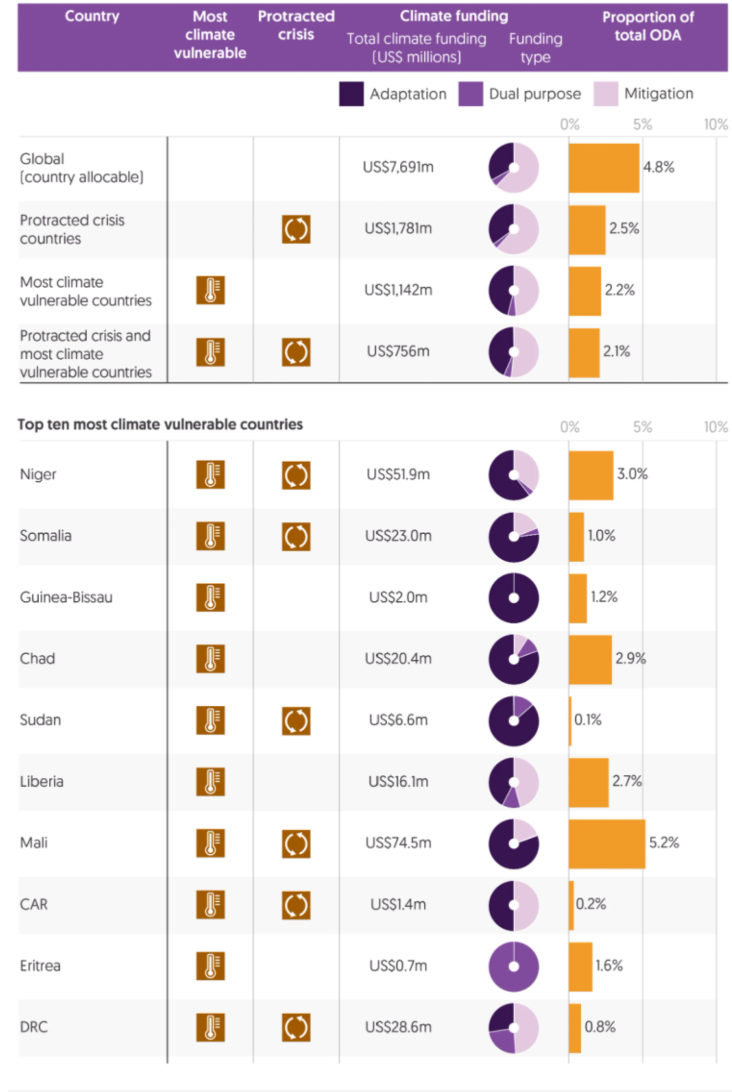
Countries highly vulnerable to climate impacts that also experience protracted crisis have received around US$1 per person from multilateral climate funds between 2003–2022 (GHA report 2022)

Source: Development Initiatives based on Climate Funds Update, UN Office for the Coordination of Humanitarian Affairs (OCHA) Humanitarian Programme Cycle (HPC), UN High Commissioner for Refugees (UNHCR) and UN World Population Prospects.

Notes: Data is in constant 2021 prices. Only country-allocable funding is included.

Climate finance to the countries most vulnerable to climate impacts

In the countries most vulnerable to climate impacts, climate finance represents a smaller proportion of ODA than the global average



Source: Development Initiatives based on Organisation for Economic Co-operation and Development (OECD)

It is not just inadequacy and misalignment but inaccessibility too

- Inaccessibility of available funds due to complex and rigid application procedures, misalignment of climate financing to national priorities and a range of other barriers.
- Not all are concessional. Only approximately 60 percent of debt-financed climate change projects in Africa have been on concessional terms.

Has Africa taken too much debt?

- Common misconception: African countries took too much debt. The average debt – GDP ratio of Africa is only 64% (vs Japan's 266%; US's128%, France's 98%; and UK's 80%). The issue is we are borrowing at expensive rates. [*A report out today by the One Campaign*]
- High borrowing costs (terms and rates) – less developed countries face interest rates up to 8 times higher than developed countries (UNSG). I.e., 'mafia-type' interest rate (Mo Ibrahim).
- E.g., loans to enable solar farms in Europe attract 4% interest rate vs 10% for South African solar farm.
- 'Borrowing from capital markets is costing African governments 500% what it could if G20 leaders delivered swiftly on financial reform.'
- Therefore, a tax-based approach for national and sub-national budgets for climate action is crucial.

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In-country investment: the case of Kenya

Kenyan domestic sources supplied 42% of total climate finance (2021)

Source	% on total finance tracked	Entities	Ksh Billion
Domestic - Public	28.3 %	Ministries, State Department	33.7
		Semi-autonomous government agencies (SAGAs)	35.0
Domestic - Private	14.0 %	Kenyan Banks	27.4
		Kenyan private sector	6.6
International - Public	31.1 %	Bilateral development partners	43.5
		Multilateral development partners and funds	32.1
International - Private	26.7 %	Project developers and investors	64.6
		Philanthropic Foundations	0.3
Total			243.3

Source: KIPPRA (*Landscape of Climate Finance in Kenya, 2021)*

Investment at sub-national level

- Devolved climate finance: Kenya has adopted a climate programme, the Financing Locally Led Climate Action (FLLoCA) Programme in 2021 to help county governments and local communities participate in climate action.
- FLLoCA targets 90% of the funding to be spent at the county and community levels. It is the first national model of devolved climate finance which builds on the pilot Kenya Accountable Devolution Program and the County Climate Change Funds (CCCF).
- Currently counties spend 2% of their revenues on climate action

Elements of sustainable budgeting

Elements that ensure impactful and sustainable budgeting

1. Interlinkages and coherence in investments: For e.g., our work in tracking DRR and CCA budgets in Ethiopia revealed domestically, 13% of government's direct DRR project activities from own resources have CCA objectives. This finding is similar to the finding in other risk-sensitive budget reviews carried out by UNDRR in sub-Sahara African countries (UNDRR, 2020. Coherence in activities and investments between DRR and CCA; health and CCA; water and CCA + holistic approach.

2. Budget tagging: Develop a system for tagging and tracking climate expenditure within the Government's budget system. One recommendation from our Ethiopia work is to use a simple and comprehensive method, which allows sectors to identify respective ministry's climate action expenditures. To achieve this, align the objectives, methodologies, and the institutionalisation process for CC action budget tagging and tracking systems within the IFMIS.

Elements that ensure impactful and sustainable budgeting

3. Institutional coordination and political commitment. An example from Kenya: The National Treasury and Planning has been at the forefront in mobilisation, tracking and reporting of climate finance flows to the Kenya. From July 1st 2020, all NSAs to track and report on quarterly basis detailed project/activity level expenditure data for climate and environment related projects and programmes in a template provided.

Table 1: Reporting of Climate Relevant Expenditures

Name of the Organization...................... ....

Telephone Number ....

Email Address ....

Name of CEO/MD/Head..

Name and contact details of contact person (in case of any clarifications) ....
....

PROJECT NAME	PROJECT DESCRIPTION	PROJECT OBJECTIVES	PROJECT ACTIVITIES	ACTUAL EXPENDITURE (KES)				SOURCE OF FUNDS	IMPLEMENTING PARTNERS
				Q1	Q2	Q3	Q4		

Category of disaster-related activities that require expenditure reporting

Mitigation	Preparedness	Recovery	Response
• Hazard identification [refer to a specific hazard] • Land-use planning/regulation of growth [refer to a specific area] • Promotion of construction standards [refer to a specific standard] • Adoption and enforcement of zoning • Enforcement of building codes [describe the action] • Retro-engineering of buildings	• Risk/hazard analysis and monitoring • Resource inventory and stockpiles • Disaster planning, training, and testing • Training and testing of local capability • Early warning and evacuation • Interagency and mutual aid plans	• Restoration of infrastructure • Restoration of public services • Debris removal/repair of infrastructure • Repair of public and private property [refer to a specific property] • Restoration of public services • Restoration of individual health	• Tangible assistance to communities • Interagency coordination [name agencies coordinated] • Damage assessment • Restoration of essential infrastructure • Emergency communications • Search, rescue, and evacuation • Fire, medical, and police actions • Provision of food, water and shelter

Elements that ensure impactful and sustainable budgeting

4. Ringfence climate finance to prevent delays in implementing climate related projects. Also remember allocation does not equate actual expenditure. Our work in Ethiopia finds that implementation of *response and relief* planned investments is almost 100% while there is low capacity for implementation for *prevention* (56%) and *preparedness* (40%). That is, earmarked budget for prevention and preparedness are often repurposed for emergency crisis management.

5. Significant investments at sub-national level: Since counties bear the impacts and brunt of climate change in the form of extreme weather events such as floods, droughts, and other nature related disasters. In Kenya for instance, the recommendations are to set aside at least 5% of their revenues to climate action + establish subnational/county Climate Change Fund and Regulations to complement the Financing Locally Led Climate Action (FLLoCA) Programme of 2021 at sub-national/county level.

Thank you!

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