Economic of climate change

Lesson for MCCD at Vietnam Japan University

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2020

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15	Wrap-up and discussion

Grading

- Attendance and **active participation** in class 10%
- Problem-based assignment 15%
- Individual presentation 15%
- Exam 60%

Contents of class
(from 11-21 March 2020)

- Lesson 1: Climate policy and two sides of climate policy: Adaptation and mitigation (Wed, 11/3)
- Lesson 2: International agreements and implications to economics of climate change (Thu, 12/3)
- Lesson 3: Public finance and climate finance (Thu, 12/3)
- Lesson 4: Carbon market and carbon emission trading (Mon, 16/3)
- Lesson 5: Climate policy and climate finance in Vietnam (Wed, 18/3)
- Lesson 6: Students' individual presentations (Sat, 21/3)

Lesson 3
Public finance and climate finance

Public finance

"Public finance is a modern concept that determines the economic and **financial relations** that arise in the economic system among **public subjects** (agencies and units) and **other subjects** (enterprises, households, citizens, nonprofit organizations) "

So public finance is a **higher development of finance** in general, *it can be understood that public finance is* ***centralized*** *and* ***non-centralized monetary funds owned and controlled by the State****, formed and used on the basis of public authority through* *<u>legal documents in a certain period</u>*

Public finance

*"Public finance is the **activities of State income and expenditures**; reflects the system of economic relations in the form of value in the process of formation and use of state monetary funds to **serve the implement of functions inherent not intended to profit** of the State for with society"*

Climate Finance

- Climate finance has been known to be the **main source of capital** to support the development of **low-emission economies** and to **help countries, especially developing countries, respond to climate change**
- Climate finance come from international commitments (such as **Rio Earth Summit** in 1992, UNFCCC, and Kyoto Protocol,..)

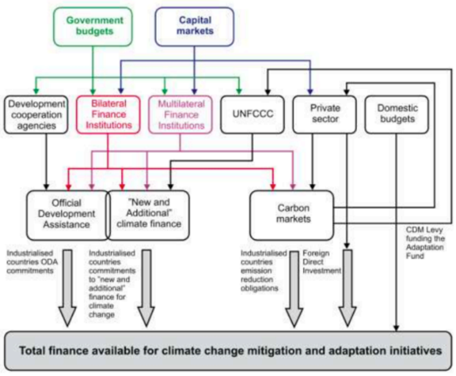
Why we need climate finance?

- Reducing 50% of global GHGs by 2050 cost 1-3% of global GDP (UNFCCC)
- Without money, can we do "effectively respond to climate change"?

Climate finance mechanism

- Article 11 of KP:
- mechanism for providing financial resources on a grant or concession basis between Annex and non-Annex Parties
- "through the entity or entities entrusted with the operation of the financial mechanism of the Convention"
- "…through bilateral, regional and other multilateral channels"

Financial and investment flows for climate change in developing countries



Pledged fast start finance commitments (2010-2012)[8]

Donor Country	US$ bn Pledge
European Commission	0.2
Belgium	0.2
Denmark	0.2
Finland	0.1
France	1.8
Germany	1.8
Ireland	0.1
Netherlands	0.4
Spain	0.5
Sweden	1.1
UK	2.4
Remaining 12 EU member states	1.2
Australia	0.6
Canada	0.4
Japan	15
Norway	1
Switzerland	0.1
US	1.7
Total	**28.8**

Global Climate Change Funds (2011)

Administrator	Fund	Adaptation	Mitigation	Global Pledge US$m	*Approved Funds to Africa to date US$m*
The Global Environment Facility (GEF)	GEF Trust Fund – Climate Change focal area (GEF 4)	✓	✓	$1,030	*$135*
	GEF Trust Fund – Climate Change focal area (GEF 5)	✓	✓	$1,150	*No data*
	Least Developed Countries Fund (LDCF)	✓		$262	*$95*
	Special Climate Change Fund	✓	✓	$149	*$28*
	Strategic Priority on Adaptation (SPA): Piloting an Operational Approach to Adaptation	✓		N/A ($50 deposited via GEF Trust Fund)	*$9*
World Bank	Clean Technology Fund (CTF)		✓	$4,400	*$601*
	Forest Carbon Partnership Facility (FCPF)		✓	$221	*$1*
	Forest Investment Programme (FIP)		✓	$558	*No data*
	Pilot Program for Climate Resilience (PPCR)	✓		$971	*$113*
	Scaling-Up Renewable Energy Program for Low Income Countries (SREP)		✓	$307	*No data*
	Strategic Climate Fund (SCF)	✓	✓	$1,800	*No data*
UNDP	Indonesia Climate Change Trust Fund (ICCTF)	✓	✓	$18	*$0*
	MDG Achievement Fund – Environment and Climate Change Thematic Window	✓	✓	$89+[7]	*$24*
	UN-REDD Programme		✓	$126	*$16*
African Development Bank	Congo Basin Forest Fund		✓	$165	*$17*
European Investment Bank (EIB)	The Global Energy Efficiency and Renewable Energy Fund (GEEREF)		✓	$169	*No data*
European Commission	Global Climate Change Alliance	✓	✓	$226	*$114*
UK	Environmental Transformation Fund – International Window (ETF-IW) (2008/09 – 2010/11)	✓	✓	$1,298*	*No data*
	International Climate Fund (ICF) (2011/12 – 2014/15)	✓	✓	$4,705	*No data*
Germany	International Climate Initiative (ICI)	✓	✓	$618	*$67*
Australia	International Forest Carbon Initiative		✓	$216	*$0*
Brazilian Development Bank (BNDES)	Amazon Fund		✓	$1,027	*$0*
Japan	Hatoyama Initiative	✓	✓	$15,000	*No data*
Asian Development Bank (ADB)	Climate Change Fund (Clean Energy Component)	✓	✓	$40	
Adaptation Fund Board	Adaptation Fund	✓		$216	*$80*
			Total	**$34,750**	***$1,228***

…however

It is still not clear how we define funding for climate change

While considerable global commitments have been made, a key problem hangs over the assessment of how well the funders and recipients make the most of climate change finance. Indeed, the key problem is we still have no clear way of defining what it is. For instance, funders have not agreed a common way of identifying how to capture *additionality*.

What is the eligibility for using climate finance?

- For fund from UNFCCC: projects must be able to demonstrate two things; their additionality and that the impacts on carbon are measurable, reportable, verifiable (MRV).

For fund from Kyoto: project-based mechanisms (i.e. the Clean Development Mechanism and Joint Implementation projects), concern for the mitigation of climate change. It is thus beyond a "business as usual" (BAU) project.

Discussion question:

How climate finance may be managed within recipient countries?

Who can use public finance? (GOs? NGOs?..)

Under what circumstances should funds go through government systems and when should extra-budgetary arrangements be used?

Public finance management – What are the challenges?

- being a new policy priority, there is **little guidance** on how to **incorporate climate change considerations into national budget planning**
- **extending** the perspective of the public finances beyond the annual budget cycle, typically by developing a **medium-term expenditure framework**
- Climate change also places a heightened premium on the **reliability of funding**, especially **for public service delivery** (e.g. through local government), as many climate change programmes are investment-orientated.

The Principles of the Paris Declaration

Ownership

Ownership is the foundational principle of the Paris Declaration. Development is something that must be done by developing countries, not to them. Policies and institutional reforms will be effective only so far as they emerge out of genuinely country-led processes. External assistance must be tailored towards helping developing countries achieve their own development objectives, leaving donors in a supporting role.

Alignment

Under the Paris Declaration, the principle of alignment refers to two important changes to aid practice. The first is that donors should base their support on the partner country's development priorities, policies and strategies ('policy alignment'). The second is that aid should be delivered as far as possible using country systems for managing development activities, rather than through stand-alone project structures ('systems alignment').

Harmonisation

Harmonisation refers to cooperation between donors to improve the efficiency of aid delivery. Donors are aware that multiple initiatives by different donors, each with their rules and procedures, can be very draining for developing country administrations. To reduce the transaction costs of aid, donors have been developing a range of new approaches, including programme-based approaches, pooled funding arrangements, joint country plans and other common arrangements.

Managing for results

Managing for results is a general principle of management that involves using information about results systematically to improve decision-making and strengthen performance. In the development field, it means ensuring that all development activities are orientated towards achieving the maximum benefits for poor men and women. It means ensuring that all initiatives, from individual aid projects through to national development strategies, are designed so as to generate performance information and use it for continuous improvement.

Mutual accountability

Mutual accountability is perhaps the most controversial of the Paris principles, and the most difficult to put into practice. It suggests that, in a true development partnership, there are commitments on both sides of the relationship, and both donors and partner countries should be accountable to each other ('mutual' accountability) for meeting those commitments. However, there are also many other accountability relationships involved in the development process that need to be taken into account.

One of the innovative aspects of the Paris Declaration is that the commitments are reciprocal in nature, applying both to donors and to developing countries. This is an advance on its predecessor, the Rome Declaration, where the commitments were all on the donor side, and to traditional aid practices where the obligations were mostly on recipients. Reciprocal commitments create for the first time the possibility of mutual accountability.

principles to follow if we want to make the most of climate finance

Want to know more in details? Let' s read more

http://www.oecd.org/dac/environment-development/48597031.pdf

- Six African countries' experiences in managing public climate finance
- It uses the development effectiveness principles to analyse the strengths and weaknesses of national systems.

principles to supporting climate change actions in recipient countries