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## Implications of COVID-19 for Climate Finance in Africa

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African perspectives  
Global insights

# Abstract

This occasional paper reflects on the impacts of COVID-19 on climate finance and how governments and financial institutions have responded to the challenge. It does so in the context of the upcoming COP26 in Glasgow, prior to which countries must make commitments to increase their mitigation ambition. Developed countries will also be assessed on the extent to which they have fulfilled their climate finance obligations. The paper reflects on material trends in climate finance that are likely to influence these negotiations, with a particular focus on the position of African countries, including the definition of climate finance and the extent to which historical climate finance targets have been met. It asks whether climate finance can be used better and discusses how stimulus packages can respond to both socio-economic and climate imperatives. It questions whether stimulus packages are in fact meeting this objective, but also observes a desire to do so, particularly in Africa. In addition, the paper reflects on other pandemic-initiated developments in climate finance, including renewed attention to adaptation, and attempts to bolster and mainstream private sector climate finance. It concludes that the pandemic has brought about a number of positive developments from a climate finance perspective, including an increased focus on and rise in commitments for adaptation expenditure. There is also a potential for large-scale stimulus measures to inject the necessary capital to realise both socio-economic development and climate-related goals. Challenges remain in overcoming national tendencies to support fossil fuel industries as part of stimulus packages, declines in public climate finance flows and a lack of consensus on the definition of climate finance.

## Introduction

Since 2009, developed countries have pledged to mobilise \$100 billion annually, by 2020 in climate finance for developing countries and least-developed countries (LDCs). The finance, from both public and private sources, will support greenhouse gas (GHG) emission reductions and build resilience to climate change impacts.<sup>1</sup> The developed world's financial commitments have always been viewed as central to global climate negotiations and were an important impetus for developing country and LDC mitigation commitments under the [Paris Agreement](#).<sup>2</sup> Climate finance commitments were due to be renegotiated in 2020 (with the \$100 billion as a floor) in parallel with Paris country Parties revising their

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1 UN Framework Convention on Climate Change, Decision 1/CP.15, *Report of the Conference of Parties on its Fifteenth Session Held in Copenhagen from 7 to 19 December 2009*, UN Doc. FCCC/CP/2009/11/Add.1 Paragraph 8 (Copenhagen Accord), states: "In the context of meaningful mitigation actions and transparency on implementation, developed countries commit to a goal of mobilising jointly \$100 billion a year by 2020 to address the needs of developing countries. This funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance."

2 UNFCCC, Decision 1/CP.21, *Agreement of the Conference of the Parties on its Twenty-First Session Held in Paris, 12 December 2015*, FCCC/CP/2015/L.9/Rev/1, Article 9(2) (Paris Agreement), provides that, in continuation of their existing obligations under the UN Framework Convention on Climate Change (UNFCCC), developed countries shall provide financial resources to assist developing countries with respect to both mitigation and adaptation.

Nationally Determined Contributions (NDCs), thus kickstarting a ‘decade of ambition’,<sup>3</sup> with 2020 pegged as a ‘super year for the environment’.<sup>4</sup> The COVID-19 pandemic and the ensuing economic crisis have derailed this process. While global governments and finance institutions have launched an unprecedented stimulus effort to uplift healthcare systems and revitalise economic growth, climate financial negotiations under the Paris Agreement were postponed to 2021.

Much has already been written about the potential and need for pandemic-driven stimulus measures that simultaneously decarbonise the world economy, build resilience and advance NDC objectives.<sup>5</sup> Calls have been made, for example, for green stimulus packages that finance low-carbon physical infrastructure, energy efficiency retrofits, investment in education and training, natural capital investment, and research and development in order to ‘build back better’.<sup>6</sup> A year into the pandemic, this occasional paper reflects on the impact of COVID-19 on climate finance. It is too early to make any definitive conclusions on the quantitative impacts of the pandemic on climate finance flows, but, by looking at case examples and preliminary estimates, we ask whether COVID-19 has been friend or foe to climate finance, and the implications this may have for climate finance negotiations in Glasgow in November 2021.

This paper builds on two earlier papers by the authors for the South African Institute of International Affairs, namely ‘[Improving sub-Saharan African Access to Climate Change Finance](#)’ and ‘[Implications of the COVID-19 Pandemic for Global Climate Change Responses](#)’.<sup>7</sup> It reflects on climate finance trends ahead of [COP26](#) in Glasgow, and contributes to the development of a post-COVID-19 African climate finance agenda.

## Climate finance trends

### Prior to the pandemic

Finance considerations have been entrenched in the international climate change legal regime from the outset, with developed country Parties to the [UN Framework Convention](#)

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3 Alliance of Small Island States, “[Statement by Belize on Behalf of the Alliance of Small Island States \(AOSIS\) at the opening plenary meeting of COP, CMP, CMA, SBSTA and SBI](#)”, December 2, 2019.

4 Including not only revisions of the NDCs under the Paris Agreement, but also COP 15 on Biodiversity where Parties are to negotiate a new post-2020 global biodiversity framework. See “Editorial: A Super Year for the Environment”, *The Lancet Planetary Health* 4, no.1 (January 2020). See also Andrew Gilder and Olivia Rumble, “[Updating Nationally Determined Contributions in a Time of Corona – Lost Momentum?](#)” (Multinational Development Policy Dialogue, Konrad-Adenauer-Stiftung, Brussels, 2020).

5 See Andrew Gilder and Olivia Rumble, “[Improving sub-Saharan African Access to Climate Change Finance: An Alternative View](#)” (Policy Brief 194, South African Institute for International Affairs, Johannesburg, April 2020); Cameron Hepburn et al., “[Will Covid-19 Fiscal Recovery Packages Accelerate or Retard Progress on Climate Change?](#)”, *Oxford Review of Economic Policy* 1, no. 36 (2020); Rachel Norton et al., “[Building Back Better: Ensuring Covid-19 Response and Recovery Builds Long-Term Resilience to Climate Impacts](#)” (Policy Brief, Flood Resistance Alliance, September 2020); Ziyad Cassim et al., “[The \\$10 Trillion Dollar Rescue: How Governments Can Deliver Impact](#)”, McKinsey & Company, June 5, 2020.

6 Hepburn et al., “[Will Covid-19 Fiscal Recovery](#)”. The authors have made similar arguments – see Andrew Gilder and Olivia Rumble, “[Implications of the COVID-19 Pandemic for Global Climate Change Responses](#)” (Policy Brief 200, SAIIA, Johannesburg, September 2020).

7 Gilder and Rumble, “[Implications of the COVID-19 Pandemic](#)”; Gilder and Rumble, “[Improving sub-Saharan African Access](#)”.

on Climate Change (UNFCCC) obliged to provide financial support to UNFCCC developing country Parties in framing and implementing their national climate change responses.<sup>8</sup> Among the innovations of the Paris Agreement is the removal of the UNFCCC's distinction between the obligations that country Parties assume in support of the agreement's overarching aims, including those pertaining to finance. For example, the agreement aims to strengthen the global climate response by making finance flows consistent with a pathway towards low GHG emissions and climate-resilient development. It also requires developed countries to provide financial resources to assist developing countries with respect to mitigation and adaptation and to communicate biennially on the levels of such support to the UNFCCC Secretariat. Developing countries are encouraged to provide or continue to provide such support voluntarily.<sup>9</sup>

If climate finance is not forthcoming from developed countries, then developing countries and LDCs may be unwilling to enhance their domestic contributions to the global mitigation response

Developed countries are required to report their climate finance contributions under the Paris Agreement as from 2020, with a view to this information being synthesised prior to November 2021.<sup>10</sup> The synthesised information will be used to inform a biennial high-level ministerial dialogue on climate finance beginning in 2021, which will also guide discussions on climate finance commitments under the Paris Agreement post-2025.<sup>11</sup> The COP in November 2021, to be hosted by the UK in Glasgow, is particularly important both for the dialogue on post-2025 climate finance commitments and because NDCs must be updated before this to include more ambitious emission reduction targets. If, as reflected by historical trends, climate finance is not forthcoming from developed countries, then developing countries and LDCs may be unwilling to enhance their domestic contributions

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8 UN General Assembly, United Nations Framework Convention on Climate Change, Resolution adopted by the General Assembly, 20 January 1994, A/RES/48/189, Article 4(3), 4(4) and 4(5), read together, impose this obligation upon Annex II country Parties to the UNFCCC. Annex I country Parties to the UNFCCC include those industrialised economies that were members of the OECD in 1992, along with so-called "economies in transition", while UNFCCC Annex II country Parties are the UNFCCC Annex I country parties required to provide climate financial support to UNFCCC developing country parties, also termed the UNFCCC non-Annex I country Parties.

9 Paris Agreement, Article 2(1)(c) and Article 9(1)(3) and (5), read together.

10 Decisions adopted by the Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement, FCCC/PA/CMA/2018/3/Add.1. See UN Framework on the Convention on Climate Change, "Decision 12/CMA.1: Identification of the Information to Be Provided by Parties in Accordance with Article 9, Paragraph 5, of the Paris Agreement" (March 19, 2019).

11 Decisions adopted by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement, UNFCCC, "Decision 12/CMA.1".

to the global mitigation response.<sup>12</sup> To complicate matters, the negotiations will undoubtedly be informed by evolving global and responses to the pandemic, including the channelling of funds within stimulus packages and fluctuations in overseas development assistance (ODA). An agreement in Glasgow on increasing climate financial flows that are aligned with the pandemic response will be underpinned by developing countries and LDCs' having received assurance that the \$100 billion target was achieved in 2020.

Prior to the pandemic, the UNFCCC's Standing Committee on Finance (SCF) and the Organisation for Economic Co-operation and Development (OECD) both noted improvements in the availability of climate finance,<sup>13</sup> indicative of a recently positive trend. Total climate financial flows – including domestic and international, public and private flows – were estimated at \$579 billion per year for 2017–2018. The most recent estimates for 2019 amount to \$608–622 billion, representing an increase of 6–8% from the averages of the previous years.<sup>14</sup> Mitigation finance continued to dominate these figures, accounting for about 93% of the total provided, with the remainder supporting adaptation actions.<sup>15</sup> Adaptation finance has increased in volume by about 35% since 2015–16, reaching \$35.4 billion in 2018, but remains proportionately low, mostly coming from public finance channels.<sup>16</sup>

## Even before the emergence of the COVID-19 pandemic, questions were raised around the sufficiency of the climate finance available

Even before the emergence of the COVID-19 pandemic, questions were raised around the sufficiency of the climate finance available. The total finance flows tracked by the Climate Policy Initiative are considerable. These numbers, however, record domestic and

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12 For example, the South African NDC specifies that mitigation and adaptation (under the NDC) will be enabled by finance and technology and capacity-building support (UNFCCC, "South Africa's Intended Nationally Determined Contribution (INDC)". In terms of UNFCCC Decision 21/CP.1, paragraph 22, country parties to the Paris Agreement are invited to communicate their NDCs to the UNFCCC no later than their ratification of the Paris Agreement, provided that a country party that has communicated an Intended Nationally Determined Contribution (INDC) prior to joining the agreement will be considered to have satisfied the NDC requirement. South Africa's INDC was communicated to the UNFCCC (in 2015) before South Africa joined the agreement (in 2016). Two issues arise from this situation: firstly, South Africa's INDC is now its NDC; and secondly, the NDC frames a pre-Paris negotiation stance from six years ago and is overdue for updating. The same applies for most Paris country parties.

13 UNFCCC, *Summary and Recommendations by the Standing Committee on Finance on the 2018 Biennial Assessment and Overview of Climate Finance Flows*, Report (New York: UNFCCC, 2018), 7; Organisation for Economic Co-operation and Development, *Climate Finance Provided and Mobilised by Developed Countries in 2013–2017*, Report (Paris: OECD Publishing, 2019), 8.

14 Rob Macquarie et al., "Updated View of the Global Landscape of Climate Finance 2019" (Climate Policy Initiative, London, December 18, 2020).

15 Macquarie et al., "Updated View of the Global". In line with previous years, renewable energy continued to be the most popular form of climate finance, accounting for 59% of all finance, followed by low-carbon transport at 24%.

16 Macquarie et al., "Updated View of the Global". Total climate finance flows – including domestic and international, public and private flows – were estimated at \$579 billion per year for 2017–2018.

international flows across both developing and developed countries, and thus are not fully representative of the 2009 financial commitments under the Copenhagen Accord, which apply only to flows from developed to developing countries and LDCs. When taken in that context, it is significant that only two-fifths of the \$608–622 billion estimated for 2019 went to non-OECD countries, with East Asia and the Pacific being the origin and destination of most of this finance.<sup>17</sup> Given that the Paris Agreement only counts flows to developing country and LDC parties as part of the \$100 billion target, it is revealing that the OECD reports flows of only \$71.2 billion in 2017 to such countries, up from \$58.6 billion in 2016.<sup>18</sup>

This invites some debate over what constitutes climate finance and how flows should be evaluated. For example, the UNFCCC defines international climate change finance to encompass local, national and transnational financing (from public, private and alternative sources) that supports developing countries' mitigation and adaptation actions. This definition is not universally accepted, however, which raises hurdles in the efficient deployment of funds.<sup>19</sup> Disbursement of climate finance is facilitated through greater stakeholder coordination,<sup>20</sup> and without a universally accepted definition of climate finance it will be challenging to achieve accountability, transparency, comparability and an aggregation of financial flows.<sup>21</sup> A common understanding of the concept will also assist in determining the climate finance needs of developing countries and allow more target-orientated national planning.<sup>22</sup> Although there is some support for a universal working definition of climate finance,<sup>23</sup> this notion can be challenged on various grounds, including:

- Whether or not to include private and non-grant finance: according to the Paris Agreement developed countries 'must provide climate finance from a wide variety of sources, instruments and channels, noting the significant role of public funds'.<sup>24</sup> Biennial assessments and overviews of climate finance flows issued by the SCF under the convention have traditionally accepted a blend between the two, as does the OECD. However, others, such as the African Group of Negotiators (AGN) and Oxfam, maintain that private and non-grant finance should be excluded.<sup>25</sup> By the same token, the AGN argues that loans as financial instruments, green bonds, and investments with a fixed

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17 Macquarie et al., "Updated View of the Global".

18 OECD, "Climate Finance Provided".

19 UNFCCC, *Summary and Recommendations*, Annexure B. The SCF identifies significant divergence in institutional definitions of climate finance and provides a comprehensive comparative list. It notes that differentiated institutional approaches to the definition of climate finance, and in turn the recognised sources thereof, increase the difficulty experienced by recipient countries in remaining informed on sources and requirements.

20 UN Climate Change Secretariat, *Climate Action and Support Trends* (2019), 33. Stakeholders include development banks, multilateral funds, national funds, aid agencies and private companies.

21 AOSIS, "Submission by Belize on Behalf of the Alliance of Small Island States (AOSIS) on the Operational Definitions of Climate Finance", August 28, 2020.

22 African Group of Negotiators, "Submission by the Republic of Gabon on Behalf of the African Group of Negotiators (AGN) on Operational Definition of Climate Finance", 2020.

23 See the discussion of the SCF's mandate below.

24 Paris Agreement, Article 9(3).

25 Oxfam, for instance, highlights that the amount of grant finance has barely changed since 2015. Tracy Carty, Jan Kowalzig and Bertram Zagema, *Climate Finance Shadow Report 2020* (Oxford: Oxfam, 2020). The Indian Ministry of Finance has made a similar argument. See, generally, Independent Expert Group on Climate Finance, "Delivering on the \$100 Billion Climate Finance Commitment and Transforming Climate Finance", December 2020.

rate of return over a period of time should be excluded, as these instruments are revenue generating, aimed at making a profit;<sup>26</sup>

- Whether financial support provided by other developing countries and non-annex II countries should be considered as climate finance, as these are voluntary and only encouraged as opposed to required under the Paris Agreement;<sup>27</sup>
- The use of methodologies that are not always consistent or transparent to count mobilised private and public finance, resulting in the potential overstatement of financial volumes;
- Different interpretations of UNFCCC guidelines in ways that have led to reporting errors and inconsistencies, a lack of transparency and, arguably, over-reporting; and
- Shortfalls in the quality and composition of finance from what is required by the Paris Agreement.<sup>28</sup>

This issue will likely come to a head in mid-2021 when the SCF issues its fourth Biennial Assessment Report on the overview of climate finance flows and the financial needs of developing countries. The SCF has been mandated to ‘consider’ ongoing work around an operational definition of climate finance,<sup>29</sup> and to invite the views of country Parties on the definition to enhance its operational work.<sup>30</sup> As part of this process, the SCF received 13 submissions with widely diverging positions, including:

- Canada, which cited technical challenges and limited utility in developing a single definition of climate finance;<sup>31</sup>
- the Independent Alliance of Latin America and the Caribbean (*Asociación Independiente de Latinoamérica y el Caribe*), which suggested that a taxonomy or classification system would be preferable to a definition;<sup>32</sup> and
- the AGN, which proposed a working definition.<sup>33</sup>

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26 AGN, “Submission by the Republic”.

27 AGN, “Submission by the Republic”.

28 Independent Expert Group on Climate Finance, “Delivering on the \$100 Billion”.

29 UNFCCC, Decision 1/CP.21, FCCC/CP/2013/10/Add.1.

30 UNFCCC, “Matters relating to the Standing Committee on Climate Finance”, Decisions 11/CP.25, paragraph 10, and 5/CMA.2, paragraph 10, reached at the Conference of the Parties on its 25<sup>th</sup> session, Madrid, 2-15 December 2019.

31 The Canadian submission suggests that any definition should be broad and include international and domestic climate finance flows, climate finance flows from developed to developing countries, UNFCCC funds, and South-South cooperation on climate finance. UNFCCC, “Submission by Canada: Views on Operational Definitions of Climate Finance”, May 2020.

32 ALLAC, “Definition of Climate Finance”, 2020.

33 AGN, “Submission by the Republic”. The AGN notes that it is important to keep a clear, simple and operational definition and proposes the following (at 4): “Climate finance is the financial resources provided by developed countries, and any other countries referred to (in) Annex II of the UNFCCC, from public sources, in line with fulfilling their relevant obligations under the UNFCCC and its Paris Agreement (PA), such resources are new and additional, predictable, in line with needs identified by developing countries, reflects progression, provided directly or through intermediaries, including bilateral, multilateral channels and the operating entities of the financial mechanism, or other climate related funds, on a grant and or concessional basis, and disbursed in developing countries, with the aim of providing full support to developing countries to complement their national efforts to implement climate related actions, including projects and programs as identified by the countries themselves, and fulfil their reporting obligations under UNFCCC and its PA”. The AGN further proposes that “mobilized climate (continued on page 8)

Although the SCF will not establish a binding definition of climate finance, its view and the definitional approach adopted will likely be influential in determining whether the \$100 billion target has been met, and impact climate financial negotiations at COP26. In addition to the SCF, the Independent Expert Group on Climate Finance has argued that it is almost certain that the target was not achieved in 2020.<sup>34</sup> Oxfam, on the other hand, has stated that the target may have been met but has flagged concerns regarding the process.<sup>35</sup> As a result there are likely to be contentious discussions around both the definition of climate finance and whether the agreed quantum has been achieved, which will have important ramifications for negotiations at COP26 regarding post-2025 climate finance obligations.

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Various other historically contentious issues remain on the COP26 agenda, including concerns over the relatively low levels and a declining share of grant finance; the relative paucity of adaptation finance; inadequate funding for LDCs and small island developing states (SIDS); and various administrative and institutional hurdles faced by developing countries in accessing climate finance.<sup>36</sup> The World Bank has also identified a number of issues that it believes hamper the effective use of climate finance.<sup>37</sup> It has noted that climate finance is typically used to fund project-specific interventions and not the systemic interventions (such as policies or ecosystems) that have the potential to be more transformative. Similarly, the funds are dispersed using a limited number of instruments, and alternatives such as policy-based finance, results-based finance, equity finance and guarantees are underutilised. Finally, most of the finance is provided through development finance institutions (DFIs), and allocation naturally follows existing development mandates

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(continued from page 7) finance is the grant [of] equivalent financial resources of other sources, including private sources and investments, using (a) range of financial instruments, provided directly or through intermediaries, and disbursed in developing countries for mitigation, adaptation and cross-cutting climate related activities, projects and programs".

34 Independent Expert Group on Climate Finance, "Delivering on the \$100 Billion".

35 Carty, Kowalzig and Zagema, *Climate Finance Shadow Report 2020*. A further issue is that vast sums, far beyond \$100 billion, are still required to meet science-based targets and expected needs in the medium and long term. For example, through 2050, over \$1.6–3.8 trillion in new climate investment is required for the supply side of the global energy system – see Intergovernmental Panel on Climate Change, *Global Warming of 1.5°C*, Report (Geneva: IPCC, 2018). Similarly, the flows of \$30 billion in adaptation finance in 2017 and 2018 are far below the expected needs of up to \$300 billion annually by 2030 – see Anne Olhoff et al., *2016 Adaptation Finance Gap Report* (Nairobi: UN Environment Programme, 2016). The report concluded that annual costs of adaptation in developing countries could range from \$140 billion to \$300 billion annually by 2030 and rise from \$280 billion to \$500 billion by 2050.

36 Independent Expert Group on Climate Finance, "Delivering on the \$100 Billion". See the discussion of a selection of such issues in Gilder and Rumble, "Improving sub-Saharan African".

37 World Bank, *Transformative Climate Finance: A New Approach to Climate Finance to Achieve Low Carbon Climate Resilient Development in Developing Countries*, Report (Washington DC: World Bank Group, June 2020).

that do not always prioritise climate needs.<sup>38</sup> As such, considerable work still needs to be done not only on achieving climate finance quantitative targets but also on ensuring that these funds are efficiently and equitably spent.

## The impact of COVID-19 on climate finance

The pandemic has had far-reaching repercussions, including on climate finance. Poverty has increased for the first time in more than two decades and food insecurity levels have more than doubled.<sup>39</sup> It is anticipated that more than 100 million additional people (or even twice this amount)<sup>40</sup> will be forced into extreme poverty,<sup>41</sup> primarily as a result of COVID-19, conflict and climate change.<sup>42</sup> The International Labour Organization has cautioned that almost half of the global workforce could be at risk from lockdown measures and ensuing impacts on various sectors.<sup>43</sup> The global recession triggered by COVID-19 is projected to reduce global gross domestic product growth by 4.9% in 2020, and is likely to be deep and prolonged.<sup>44</sup> Developing countries have faced disproportionate impacts, which have increased the pressure on their ability to raise sufficient funding for a COVID-19 recovery. Even before the pandemic the costs of servicing debt for developing countries and emerging economies had more than doubled between 2000 and 2019,<sup>45</sup> and global debt levels were already far higher than those at the time of the 2008 financial crisis.<sup>46</sup> Facing mounting debt crises, a sharp drop in commodity prices, an immense contraction in exports, a loss of remittances,<sup>47</sup> and unprecedented capital outflows,<sup>48</sup> emerging markets and developing economies are likely to experience more extensive and longer economic repercussions than developed countries. In this context, debt forgiveness is likely to top the 2021 economic agenda of many developing countries and LDCs, particularly those in Africa.<sup>49</sup> In addition, and after a short-lived decline, GHG emissions

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38 World Bank, *Transformative Climate Finance*.

39 World Bank, "[Projected Poverty Impacts of COVID-19](#)", June 8, 2020.

40 Andy Sumner, Chris Hoy and Eduardo Ortiz-Juarez, "[Estimates of the Impact of COVID-19 on Global Poverty](#)" (Working Paper 43, UNU-WIDER, Helsinki, 2020).

41 World Bank, "Projected Poverty Impacts".

42 World Bank, "COVID-19 to Add as Many as 150 Million Extreme Poor by 2021", Press Release, October 7, 2020.

43 "[COVID-19 and the World of Work – Fifth Edition](#)", *ILO Monitor*, June 30, 2020.

44 International Monetary Fund, "[Policy Responses to Covid-19: Policy Tracker](#)", April 6, 2021.

45 UN Department of Economic and Social Affairs, "[Covid-19 and Sovereign Debt](#)" (Policy Brief 72, UN/DESA, New York, May 14, 2020).

46 UN Conference on Trade and Development, *Trade and Development Report 2019* (New York: UNCTAD, 2019).

47 The OECD estimates that remittances, which have become a stable and increasing source of foreign income, could decrease by \$100 billion. See OECD, "[The Impact of the Coronavirus \(Covid-19\) Crisis on Development Finance](#)" (OECD, Paris, June 24, 2020).

48 Independent Expert Group on Climate Finance, "Delivering on the \$100 Billion".

49 Alex Vines, "[Debt Forgiveness Will Top the African Agenda in 2021](#)", *Mail & Guardian*, December 19, 2020.

have started to climb towards pre-pandemic levels and the world is set to see its warmest five years on record.<sup>50</sup>

The economic downturn exacerbates developing countries' vulnerability to future shocks, including climate change impacts, and makes sufficient, timely and accessible adaptation finance imperative. A UN Environmental Programme (UNEP) report recently noted:<sup>51</sup>

[T]he acute need to manage the direct public health impacts of the virus and its subsequent economic fallout has seen adaptation and related topics (for example, climate mitigation and environmental sustainability) fall down the political agenda at all levels of governance ... Concurrently, ongoing and scheduled adaptation planning and implementation processes at the global, national and local levels have seen large proportions of the human and financial resources (including bilateral and multilateral support) previously earmarked for them being reallocated towards efforts to manage the impacts of the virus.

The UNEP report concludes that in the longer term the pandemic is likely to have lasting implications for adaptation processes since the economic downturn will put additional pressure on public funds, in the context of reduced tax revenues. This is particularly the case for developing countries.<sup>52</sup>

**In the longer term, the recession may result in climate change budgets being placed under threat**

It is still unclear whether concerns regarding donor fund redirection will materialise. UNEP, for example, predicts that in the longer term, the recession may result in climate change budgets being placed under threat. A better possible alternative is that they may be redirected towards adaptation actions that are more likely to stimulate economic growth and job creation.<sup>53</sup> The Overseas Development Institute (ODI) has echoed this sentiment. It highlights a historical trend where a sense of solidarity among donors during a crisis counters expectations that ODA will fall,<sup>54</sup> resulting in, for example, a marginal rise in ODA in the 2008 global recession. However, the economic crisis prompted by COVID-19 is

50 World Meteorological Organization, *United in Science Report* (Geneva: WMO, 2020). Also see Gilder and Rumble, "Climate Change Considerations".

51 UNEP, *Adaptation Gap Report 2020* (Nairobi: UNEP, 2021).

52 UNEP, *Adaptation Gap Report 2020*.

53 UNEP, *Adaptation Gap Report 2020* and sources cited therein.

54 Adriana Quevedo, Katie Peters and Yue Cao, "The Impact of Covid-19 on Climate Change and Disaster Resilience Funding Trends and Signals" (Briefing Note, Overseas Development Institute, London, 2020).

estimated to be deeper and more widespread, which will likely undermine any sentiments of solidarity.<sup>55</sup> This has acute ramifications for African countries. The African Ministers on Environment (AMCEN) noted that:<sup>56</sup>

[t]he pandemic has also accelerated a trend whereby international support, especially for middle income African countries, has been in significant decline and grant based public sector funding is giving way to commercial arrangements with the private sector, in the form of loans. These loans are coming with ever higher levels of conditionality and co-financing, either excluding many countries from eligibility for support, or potentially exacerbating the debt trap which many countries are facing.

Similar experiences were noted by the ODI, which documented accounts from donors and development partners that multi-year climate change adaptation and disaster risk reduction programmes had been sacrificed to alleviate funding pressures caused by COVID-19 responses.<sup>57</sup> Some recipient countries of climate finance for adaptation had also asked that it be diverted for pandemic response purposes.<sup>58</sup> Many donors are permitting this, allowing additional flexibility in how funds are applied as well as no-cost extensions, and including COVID-19 in ongoing and new funding calls.<sup>59</sup> In view of the complexity and future uncertainties of the pandemic, the OECD has suggested three potential outcomes, namely a rise in ODA budgets, their stagnation at recent levels, or a decline in line with contracting donor economies.<sup>60</sup> It anticipates that this last scenario is the most likely, projecting that levels of ODA flows will fall over 2021 and 2021 by 7.1% and 11.8% in real terms.<sup>61</sup> In June 2020 it was thought that this may be as much as a \$700 billion drop in external finance (public and private) for low- and middle-income countries. For this reason, existing ODA flows, including dedicated climate change finance, are also likely to be directed towards health, poverty alleviation and economic recovery.<sup>62</sup>

While it is still too early to quantify the extent, it is anticipated that there will be a reduction in and redirection of flows of climate finance. There are also understandable concerns about adding to mounting debt, bringing to a head debates about including non-grant-equivalent public finance in the definition of climate finance. It has also prompted discussions about the alternative and innovative financial instruments that can be deployed, and how countries can make better use of available climate finance.<sup>63</sup> In that context, we have noted three climate finance issues which we believe frame some of these discussions and which

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55 Quevedo, Peters and Cao, "The Impact of Covid-19".

56 See UNEP, "Draft African Green Stimulus Programme", January 8, 2021.

57 Quevedo, Peters and Cao, "The Impact of Covid-19".

58 Quevedo, Peters and Cao, "The Impact of Covid-19", citing requests by India, Nepal and Pakistan to the Global Facility for Disaster Reduction and Recovery.

59 Quevedo, Peters and Cao, "The Impact of Covid-19"; Zoe Johnson, Isabela Vera and Raimund Zühr, "How Are Donor Countries Responding to Covid-19? Early Analyses and Trends to Watch" (Donor Tracker Webinar, May 13, 2020).

60 OECD, "The Impact of the Coronavirus".

61 OECD, "The Impact of the Coronavirus".

62 Quevedo, Peters and Cao, "The Impact of Covid-19".

63 Independent Expert Group on Climate Finance, "Delivering on the \$100 Billion".

are likely to take prominence in the run-up to COP26, namely stimulus packages and ‘green recoveries’, adaptation finance and private finance. While these are not the only issues relevant to the climate finance developments, we anticipate that they will be critical to the success of climate finance negotiations at COP26, and each is likely to be deeply influenced by the pandemic.

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## Climate finance priorities during the pandemic

### Stimulus packages

The economic response to COVID-19 – with more than \$12 trillion deployed by developed countries<sup>64</sup> – is one of the largest global stimulus measures to date. This amount is three times greater than the response to the 2008 financial crisis.<sup>65</sup> This underscores the immense opportunity for available climate finance to avoid being reduced or diverted, if stimulus measures can be aligned with climate objectives.<sup>66</sup> A number of investments are able to meet this dual objective. For example, investments in energy-efficient buildings can generate significant employment opportunities, reduce energy poverty and increase resilience to extreme weather events. Similarly, investment in climate-resilient agriculture and water management helps to preserve livelihoods and support ecosystem restoration, and investments in ‘shovel-ready’, low-carbon infrastructure help to support employment and assets.<sup>67</sup>

In the first wave of the pandemic, notable sums were channelled through climate stimulus measures and used primarily to support hardest-hit sectors, such as low-carbon mobility/transport, carbon and climate policies<sup>68</sup> and energy efficiency.<sup>69</sup> In December 2020 the Climate Policy Initiative estimated that green recovery packages amounted to

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64 As of October 2020, total G20 stimulus funding is estimated at \$12.1 trillion, roughly divided between budgetary measures and liquidity support. Vivid Economics, “Greenness of Stimulus Index”.

65 Ziyad Cassim et al., “The \$10 Trillion Rescue: How Governments Can Deliver Impact”, McKinsey & Company, June 5, 2020.

66 Dan Murphy, “G-20 Nations Have Now Deployed \$11 Trillion to Support a post-Covid Economic Recovery”, CNBC, November 11, 2020; Cassim et al., “The \$10 Trillion Rescue”.

67 Fiona Bayat-Renoux et al., “Tipping or Turning Point: Scaling Up Climate Finance in the Era of COVID-19” (Working Paper 3, Green Climate Fund, Incheon, October 2020).

68 Including some adaptation finance flows in nature-based solution projects.

69 Macquarie et al., “Updated View of the Global”.

approximately \$178 billion, with this number growing incrementally as new announcements are made.<sup>70</sup> However, only a limited number of countries are implementing such measures.<sup>71</sup> A ranking by *The Guardian* found that the EU had taken the lead, dedicating 30% of its EUR 750 billion (\$900.6 billion) Next Generation Recovery Fund to green purposes. France and Germany have budgeted approximately EUR 30 billion (\$36 billion) and EUR 50 billion (\$60 billion) respectively of their own additional stimulus measures for environmental purposes.<sup>72</sup>

However, in the early stages of the pandemic, carbon-intensive sectors benefitted the most from rescue policies. Up to \$866 billion was provided in the form of stimulus funding to carbon-intensive sectors and entities in October 2020, with the majority of this taking place in Asia.<sup>73</sup> Overall, the G20 has committed approximately \$208.73 billion to support to fossil fuel industries, compared to \$143.02 billion for clean energy, since the start of the pandemic.<sup>74</sup> By way of example, although Canada spent CAD<sup>75</sup> 6 billion (\$4.76 billion) of its infrastructure finance on home insulation, low-carbon transport and clean energy, its total stimulus package is approximately CAD 300 billion (\$238 billion) and contains significant finance for road expansion and tax relief for fossil fuel companies.<sup>76</sup> Equally, stimulus measures in South Africa have been criticised for largely reinforcing existing trends in environmentally intensive sectors.<sup>77</sup>

## Stimulus measures in South Africa have been criticised for largely reinforcing existing trends in environmentally intensive sectors

Even towards the end of 2020, spending priorities did not appear to change. Jason Eis of Vivid Economics, which prepared an index on green recovery spend, said in November 2020 that ‘the natural environment and climate change have not been a core part of the thinking in the bulk of recovery plans ... In the majority of countries we are not seeing a green recovery coming through at all.’<sup>78</sup> It is in this context that concerns have been raised that economic stimulus measures could directly or indirectly increase vulnerability to climate and disaster risks,<sup>79</sup> highlighting the importance of mainstreaming climate considerations into their design and implementation.

70 Macquarie et al., “Updated View of the Global”.

71 Fiona Harvey, “Revealed: COVID Recovery Plans Threaten Global Climate Hopes”, *The Guardian*, November 9, 2020.

72 Harvey, “Revealed: COVID Recovery Plans”.

73 Macquarie et al., “Updated View of the Global”.

74 Energy Policy Tracker, “G20 Countries”.

75 Currency code for Canadian dollar.

76 Harvey, “Revealed: COVID Recovery Plans”.

77 Vivid Economics, “Green Stimulus Index”.

78 Harvey, “Revealed: COVID Recovery Plans”.

79 Quevedo, Peters and Cao, “The Impact of Covid-19”.

There has been some movement to address this issue on the continent. AMCEN has underscored the importance of stimulus packages being 'green' and used to boost economies and social systems. To this end the African Green Stimulus Programme was developed under the auspices of AMCEN to respond to the pandemic and harness the opportunities it presents. The programme, which was adopted in January 2021,<sup>80</sup> provides an overarching framework and on-line system to consolidate and coordinate existing and new green economy and climate change initiatives on the continent.<sup>81</sup> The platform is meant to be hosted by a reputable African intergovernmental organization. Key to its success, according to AMCEN, will be the provision of international financial support from bilateral and multilateral sources.<sup>82</sup> The African Development Bank (AfDB) has also established a \$10 billion COVID-19 Response Facility and issued a COVID-19 social bond yielding \$3 billion to support regional member countries in their recovery efforts. It has further pledged \$25 billion in climate finance for 2020–25, and will adopt a new Climate Change Policy, Strategy and Action Plan in 2021.<sup>83</sup>

Not only are countries looking at measures to increase the availability of climate finance but they are also increasingly devoted to making available finance more effective in its impact. Some suggestions of how to do so have been put forward by the World Bank:

- programming climate finance considerations into long-term strategies for low-carbon, resilient development in each recipient country;
- ensuring more finance for activities that drive systemic change, such as policy change finance (instead of just project finance);
- using a wider variety of financial instruments, such as policy-based finance, results-based finance, equity finance and guarantees;
- enhancing the leveraging of projects by giving public finance to projects that have the greatest leverage of additional funds from other sources;
- ensuring more investment in climate-intelligent products such as physical climate impact and vulnerability maps and early warning technologies;
- understanding and managing the political economy to support a just transition by recycling welfare gains from clean development to compensate those who have lost out from such development; and

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80 See African Ministerial Conference on the Environment, "Eighth Special Session: Report of the Ministerial Meeting", December 4, 2020, which deems this date to be the effective adoption date post the inclusion of comments, and the statement by Minister Barbara Creecy – Government of South Africa, Department of Forestry, Fisheries and Environment, "African Group Statement at the Opening Session of UNEA -5", February 22, 2021 – confirming the adoption of the programme.

81 See UNEP, "Draft African Green Stimulus Programme". Specifically, it seeks to mobilise additional resources to upscale and enhance the implementation of a variety of programmes within 12 identified priority areas relating to the environment and climate change, and identifies areas requiring new interventions.

82 Minutes of the African Ministerial Conference on the Environment Eighth special session Ministerial Meeting (2020).

83 African Development Bank, Climate Finance Newsletter 48 (July to December 2020).

- ensuring better differentiation of support based on national income levels by, for example, having increased levels of finance conditionality for more advanced countries to enhance the impact of finance.<sup>84</sup>

While the World Bank's recommendations were expressed more generally as a means to improve how climate finance was disbursed and spent, they also have particular resonance for how stimulus packages are structured during the pandemic and how stimulus funds could be directed and applied in a manner that achieves dual recovery and climate objectives.

## The year for adaptation finance

More than in any other year, in 2020 considerable attention was paid to the issue of adaptation finance. It may be that the impact of the pandemic highlighted the vulnerability of social and economic systems to external shocks and served as a reminder of the importance of adequate preparedness (including financial) to anticipate, prevent and respond to such shocks. The year was also meant to be one in which a number of the [Aichi biodiversity targets](#) were achieved. The failure to meet these targets has underlined the vulnerability of the planet's ecosystem, particularly to climate change impacts. In addition, the global economic outlook has cast doubt on the financial viability of the long-term adaptation plans of many countries.<sup>85</sup> As highlighted earlier, adaptation finance makes up a small proportion of climate finance spend, accounting for as little as 5%.<sup>86</sup> Despite increases in available finance for adaptation, this finance gap is not closing at the required rate. Annual adaptation costs in developing countries alone are currently \$70 billion, with an anticipated rise to \$300 billion by 2030.<sup>87</sup> Considerable focus has been directed during the course of 2020 and early 2021 on how to increase this volume and close the gap.

The [Green Climate Fund](#) is seeking to bolster its adaptation spend, dedicating half of its \$7 billion portfolio to adaptation finance. Further, it intends for more than two-thirds of adaptation finance to reach the most vulnerable countries: LDCs, SIDS and African countries.<sup>88</sup> The AfDB has also committed to having 40% of its portfolio in climate change, and 52% of that financing in adaptation by 2021.<sup>89</sup> In addition, the Global Centre on Adaptation has made some important recommendations that are likely to advance adaptation finance in the context of the pandemic.<sup>90</sup> These include collaboration on

84 World Bank, *Transformative Climate Finance*.

85 UNEP, *Adaptation Gap Report 2020*.

86 Macquarie et al., "Updated View of the Global".

87 UNEP, *Adaptation Gap Report 2020*.

88 Green Climate Fund, "GCF Commits to Support Climate Resilient Transformation at Climate Adaptation Summit", Press Release, January 28, 2021.

89 AfDB, "Join Hands for a Strong Global Recovery from COVID-19, Urges African Development Bank President", Press Release, November 13, 2020.

90 Morgan Richmond et al., "Adaptation Finance in the Context of Covid-19" (Technical Paper, Global Centre on Adaptation, Rotterdam, 2021).

debt relief for some of the most climate-vulnerable countries while ensuring funds are channelled to a sustainable recovery, for example through the use of sovereign debt swaps with a resilience component. It also advocates for the mainstreaming of climate risk into emergency liquidity support offered by DFIs and commercial banks by adopting climate risk assessments at these institutions. Another means of supporting adaptation finance would be to better incorporate adaptation planning at a national and subnational level and integrate investment needs into fiscal planning and other budgetary processes. It also proposes improving climate risk data from both the private and public sector to demonstrate the full benefit of adaptation investments.<sup>91</sup>

## Bolstering private finance

The pandemic has refocused attention on the private sector as a means to support a sustainable recovery. Private finance remains one of the largest and mostly untapped pools of capital for climate finance.<sup>92</sup> In the face of economic scarcity as a result of the pandemic, attention has shifted to this source to bolster finance flows to developing

The pandemic has refocused attention on the private sector as a means to support a sustainable recovery

countries. Consequently, one of the objectives of the UK, in its capacity as co-host of COP26, is to ensure that every professional financial decision takes climate change into account. This is seen as critical to ‘foster a repricing of assets in global financial markets to reflect climate risks; address the low emission, resilient infrastructure investment gap; and ensure a sustainable recovery from the COVID-19 pandemic’.<sup>93</sup> To this end a COP26 Private Finance Hub, led by Mark Carney in his capacity as UN Special Envoy and Adviser to the Prime Minister, has been established and tasked with developing a system that mobilises private finance to support the transformation of the economy to achieve a net zero future.<sup>94</sup> In doing so the Hub is seeking to ensure that every company, bank, insurer and investor develops credible transition plans and implements them,<sup>95</sup> and that all firms and financial institutions have a credible strategy for reaching net zero carbon by 2050.

91 Richmond et al., “Adaptation Finance”.

92 Independent Expert Group on Climate Finance, “Delivering on the \$100 Billion”.

93 UNFCCC, “COP26 Private Finance Agenda Launched”, Press Release, February 27, 2020.

94 Mark Carney, *Building a Private Finance System for Net Zero: Priorities for Private Finance for COP26* (UK COP26, Glasgow, 2020).

95 Carney, *Building a Private Finance*.

To this end, the COP26 Private Finance Hub is seeking to:

- develop improved reporting to ensure better quantity, quality and comparability of climate-related disclosures;
- help the sector to manage and measure risks;
- support investors to identify low-carbon opportunities and report on how their own portfolios are aligned for the transition; and
- connect available capital with investable projects and encouraging new market structures in developing countries.<sup>96</sup>

## Recommendations and conclusion

While the world has returned to pre-pandemic GHG emission levels, 2020 saw an increased commitment to achieving a net zero world, with approximately 120 countries committing to net zero targets, including Europe, China, Japan and the Republic of Korea.<sup>97</sup> While ambition appears to be increasing, particularly within the G20, new commitments by emerging economies and developing countries are key to the successful achievement of a net zero future. The provision of climate finance to developing countries to achieve this remains a critical factor in their willingness to do so. Most African countries, except for South Africa,<sup>98</sup> have yet to come on board with net zero commitments to achieve such a target. However, sentiment is moving towards this goal, with LDCs, including 33 African states, expressing a general desire to achieve net zero emissions by 2050, subject to adequate financial support.<sup>99</sup>

In this context, the run-up to COP26 will be fuelled by heightened expectations regarding the outcome of the UNFCCC climate finance synthesis report and any preliminary determinations on the extent to which the 2020 \$100 billion target has been met, as well as whether it has been effectively allocated. The extent to which developed countries can demonstrate that they have provided new and additional climate finance that balances mitigation and adaptation spend will also likely inform the extent to which developing countries are willing to update and revise their NDCs. This is particularly so since most developing countries have put forward conditional and unconditional mitigation targets, with the former being more ambitious but subject to the receipt of climate finance and other support from developed countries. Developing countries are also more vulnerable to the impacts of climate change, and adaptation finance has a particular relevance in reducing their vulnerability. As such, we anticipate that the ability of developed countries to

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96 Carney, *Building a Private Finance*.

97 Energy & Climate Intelligence Unit, "Net Zero Tracker".

98 Government of South Africa, Department of Forestry, Fisheries and the Environment, *South Africa's Low Emission Development Strategy 2050* (Pretoria: Department of Forestry, Fisheries and the Environment, February 2020).

99 LDC Initiative for Effective Adaptation and Resilience, *LDC Vision 2050: Towards a Climate Resilient Future* (LDC, September 2019).

demonstrate that they have provided climate finance that is a ‘progression beyond previous efforts’<sup>100</sup> and that adequately supports adaptation will be pivotal to the success of COP26. It will also likely influence negotiations on the new climate finance target for 2025, which are also due to start this year.

This year will likely see further pandemic-related challenges and shifts in public and private spend as successive waves of the virus cross the globe. Early projections suggest that public climate finance will dip as a result of the pandemic, although it is not clear by how much. A reduction in public climate finance will affect developing countries disproportionately, since many are already experiencing economic recessions and face mounting debt crises. At the same time, both developed and developing countries have embarked on what is likely to become the biggest economic and social stimulus spend in history. To date, however, fossil fuel industries have benefitted the most from these packages, bringing to the fore the importance of aligning stimulus spend with climate goals. For the pandemic to prove a turning point, climate change responses and COVID-19 stimulus measures must be mutually supportive, with these funds being used to drive long-term transformation for low-carbon and climate-resilient growth. This should be supported by ambitious national and sectoral plans, including revised NDC implementation plans that have direct ties to pandemic relief support. Developing countries also need access to long-term and affordable finance to implement green stimulus measures. Accordingly, there are growing calls for multilateral development banks to make more finance available<sup>101</sup> and to embrace novel instruments such as debt-for-climate swaps.

## Adaptation considerations will need to be mainstreamed at all levels of the climate finance chain

The economic downturn increases developing countries’ vulnerability to future shocks, including climate change impacts. The pressing need to manage both the health impacts of the virus and the economic downturn has seen adaptation drop as a priority on political agendas, as has financing for adaptation. Public statements in 2020 and 2021, including the position of the Green Climate Fund, the UK, France and the AfDB, are, however, encouraging and hopefully indicative of increased attention to the availability of adaptation finance and its provision. If this issue is to gain the traction it needs during the pandemic, adaptation considerations will need to be mainstreamed at all levels of the climate finance chain, including debt relief, emergency liquidity relief, and national fiscal planning and other budgetary processes. With regard to private finance, the measures proposed by the

100 As contemplated by Paris Agreement, Article 9(3).

101 See “Editorial: IMF’s Plan for Special Drawing Rights Is Crucial to Help Poor Countries”, *Business Day*, March 4, 2021.

COP26 Private Finance Hub are likely to bolster private finance flows, if implemented. These efforts can be supported by ambitious national climate policies that provide certainty to the market and crowd in private investment.<sup>102</sup> In this manner, increased ambition in NDCs ahead of COP26 may have indirect knock-on effects on private sector investor appetite for low-carbon and climate-resilient developments, thereby creating a feedback loop in the relationship between climate ambition, NDCs and climate finance.

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<sup>102</sup> Available at Carney, *Building a Private Finance*.

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# About SAIIA

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SAIIA's occasional papers present topical, incisive analyses, offering a variety of perspectives on key policy issues in Africa and beyond.

## Cover image

The Abdelmoumen dam, some 60 kilometres from Morocco's coastal city of Agadir, October 23, 2020. Moroccan authorities have diverted water from dams that irrigated farms to residential areas, in order to guarantee water to nearly a million people, as drought bites increasingly hard. Water levels in reservoirs stood at an average of 37% of capacity at the end of October, down from nearly 46% from a year ago (Fadel Senna/AFP via Getty Images)

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