AU-AIP MULTI COUNTRY GCF READINESS SUPPORT PROGRAMME FOR CLIMATE RESILIENT WATER INVESTMENTS

Module 1: Introduction to Climate Finance

Module 01: Introduction to Climate Finance

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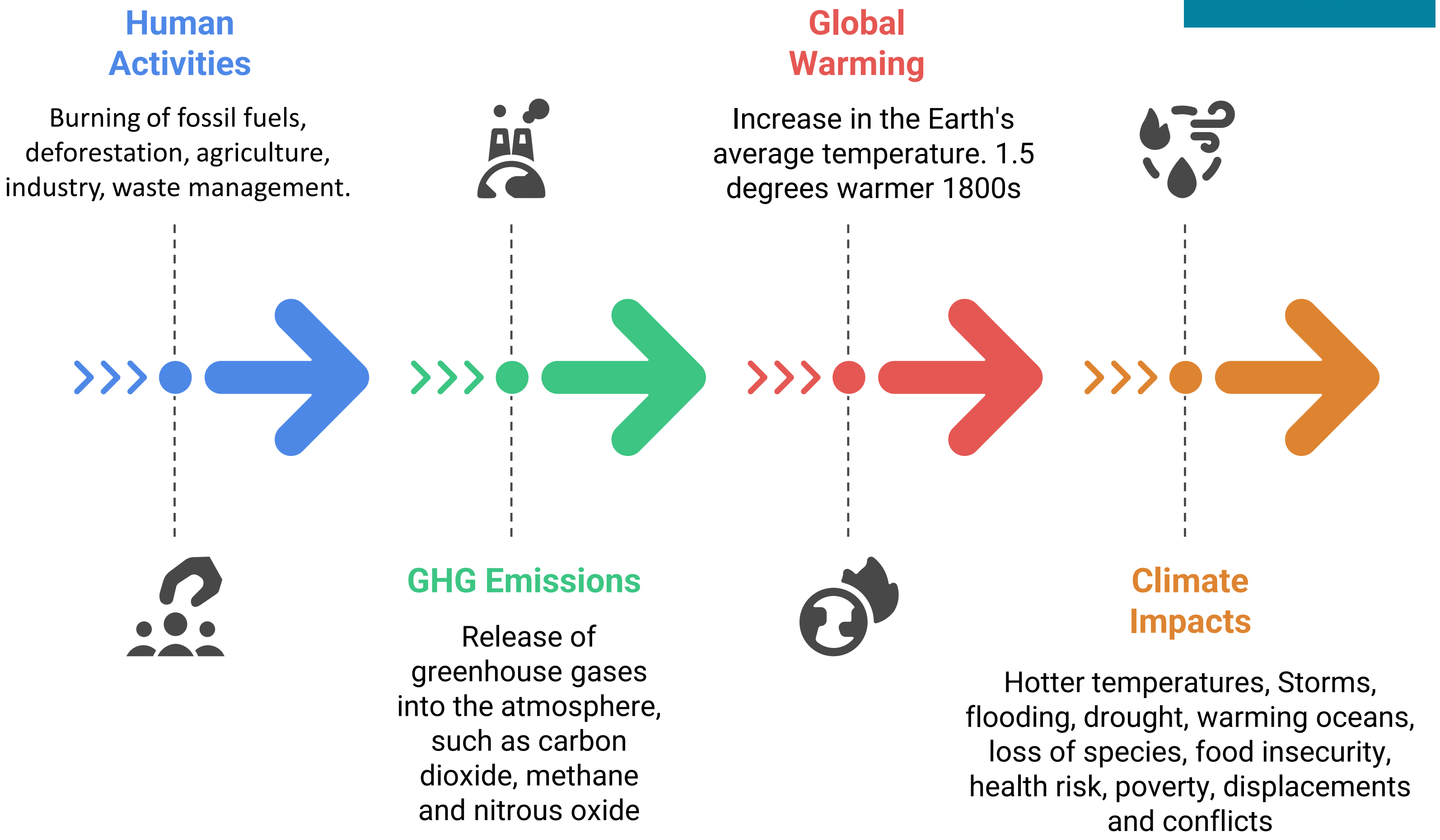
By the end of this module, participants will be able to:

- Explain the science and policy background of global climate change.
- Describe the evolution of international climate frameworks.
- Distinguish between development finance and climate finance.
- Define climate finance and identify key sources, instruments, and actors.
- Understand the climate policy architecture.
- Recognize recent trends and developments in climate finance.
- Identify barriers and opportunities for accessing climate finance.
- Know key best practices for improving access to climate finance.

What is Climate Change?

Climate change refers to long-term shifts in temperatures and weather patterns. Caused by natural and human-induced factors.

Climate Change Causal Sequence



Origins of Global Climate Change Negotiations.

Early Scientific Concern (1960s–1970s):
Scientists began raising concerns about the link between rising global temperatures and increasing atmospheric carbon dioxide concentrations.

Establishment of the Intergovernmental Panel on Climate Change (IPCC) (1988):

- Formed by the World Meteorological Organization (WMO) and UNEP in 1988.
- The Intergovernmental Panel on Climate Change (IPCC) is the UN body responsible for assessing climate science.
- Provides regular assessments of the scientific, technical and socio-economic knowledge about climate change, its impact and future risks and strategies for adaptation and mitigation.
- Has three Working Groups:

Working Group I: Deals with the physical science of climate change

Working Group II: Deals with CC impacts, adaptation and vulnerability

Working Group III: Deals with mitigation of climate change

Origins of Global Climate Change Negotiations.

United Nations Framework Convention on Climate Change (UNFCCC) – 1992

- 198 countries have ratified the Convention, referred to as Parties to the Convention
- The foundational treaty establishing the global response to climate change
- Conference of Parties (COP) is a gathering of all member countries (Parties). It is the supreme decision-making body of the Convention.
- Has annual meetings where Parties gather to assess progress on tackling climate change, negotiate new measures, and review the implementation of the convention.

Relationship between IPCC and UNFCCC

IPCC

The IPCC provides the scientific assessments on climate change that inform the policy discussions and negotiations under the UNFCCC.

UNFCCC

The UNFCCC, in turn, relies on the IPCC's reports to guide its work in addressing climate change.

Global Frameworks on Climate Change?

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COP 3, Kyoto Protocol – 1997
- First legally binding agreement under the UNFCCC
- Set emission reduction targets for developed countries
- Superseded by Paris Agreement (2015)

COP 16, Cancun-2010
- The decision to create the GCF was made, solidifying its role as a key financial mechanism under the United Nations Framework Convention on Climate Change (UNFCCC).

COP 21, Paris Agreement – 2015
- Legally binding international treaty to limit global warming to well below 2°C, aiming for 1.5°C above pre-industrial levels
- All countries submit Nationally Determined Contributions (NDCs)

COP27, Sharm el-sheikh– 2022
- Agreement to establish a Loss and Damage Fund to assist vulnerable countries in dealing with the impacts of climate change

COP28, Dubai– 2023
- Agreement to operationalise the Loss and Damage Fund.
- agreed to triple renewable energy capacity and double energy efficiency improvements by 2030

COP29, Baku– 2024
- Agreement on a new global climate finance goal, the "New Collective Quantified Goal" (NCQG).
- This goal aims to mobilize at least $1.3 trillion per year by 2035, with developed countries leading the way by mobilizing at least $300 billion annually by 2035.

Climate Policy Architecture

Nationally Determined Contributions (NDCs)

- NDCs are national climate action plans that countries submit under the Paris Agreement to outline their commitments to reduce greenhouse gas (GHG) emissions and adapt to the impacts of climate change.
- Updated every 5 years (2025, 3rd NDCs)

National Adaptation Plans (NAPs)

- NAPs are strategic planning documents that help countries identify, prioritize, and address their medium- and long-term adaptation needs to climate change.
- Country-driven, and helps integrate climate resilience into development planning.

Long-Term Low Emissions Development Strategies (LT-LEDS)

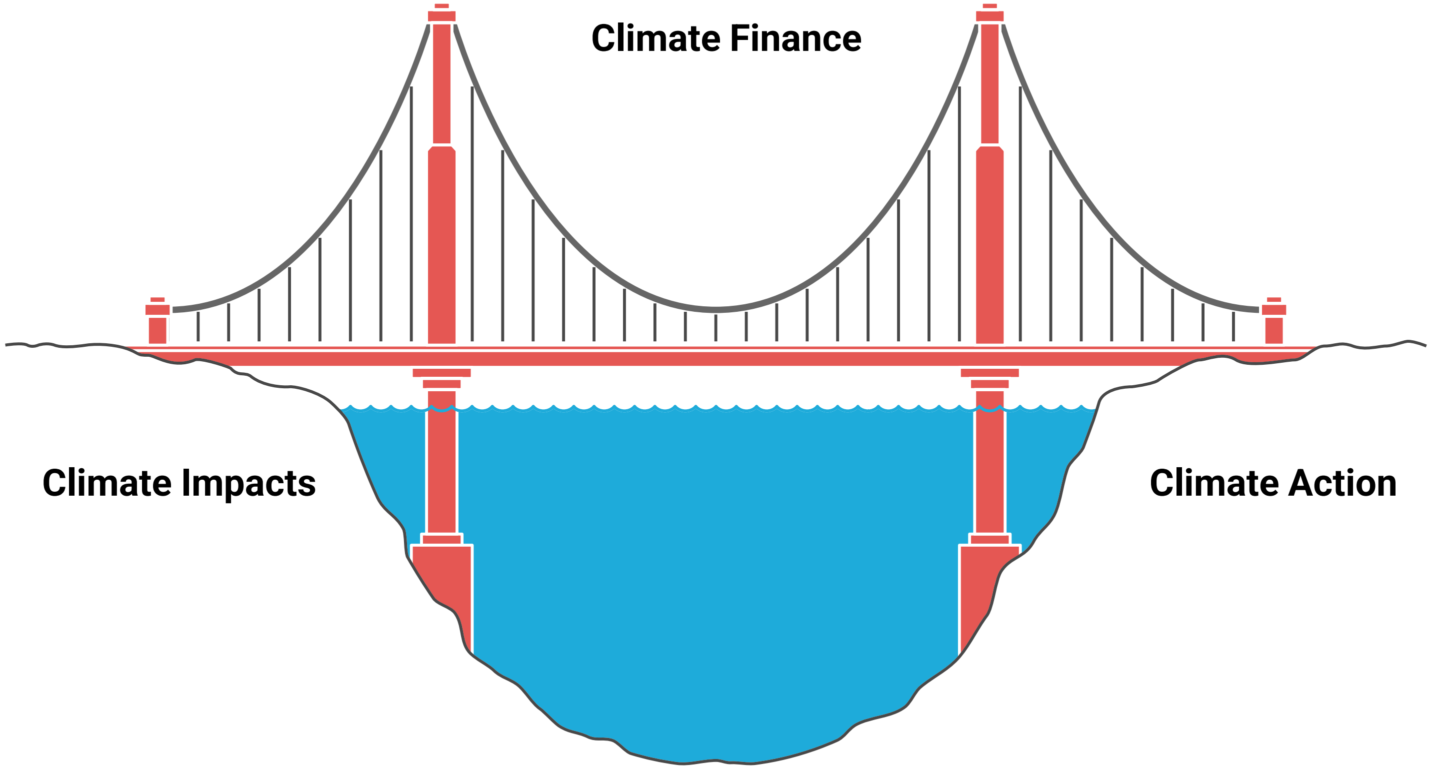
- Strategic frameworks that outline how a country intends to transition to a low-carbon, climate-resilient economy over the long term, typically looking ahead to 2050 and beyond.
- Voluntary but strongly encouraged commitment under the Paris Agreement

National Climate Change Policies and Laws

- Country-specific frameworks that define the institutional, legal, and policy basis for responding to climate change

Responding to Climate Change?

- **Climate Impact:** The emissions that cause climate change come from every part of the world and affect everyone, but some countries produce much more than others.
- Some countries are more vulnerable than others, e.g., LDCs and SIDS.
- Climate impacts are intensifying, particularly in developing countries with limited resources.
- **Climate Action**: Cutting Emissions (Mitigation); Adapting to Climate Change (Adaptation); Financing the required adjustments.
- **Climate Finance**: Climate action requires significant financial investments by governments and businesses. But climate inaction is vastly more expensive.



What is Climate Finance?

Climate finance, according to the United Nations Framework Convention on Climate Change (UNFCCC), refers to local, national or transnational financing drawn from public, private and alternative sources that seeks to support mitigation and adaptation actions to address climate change.

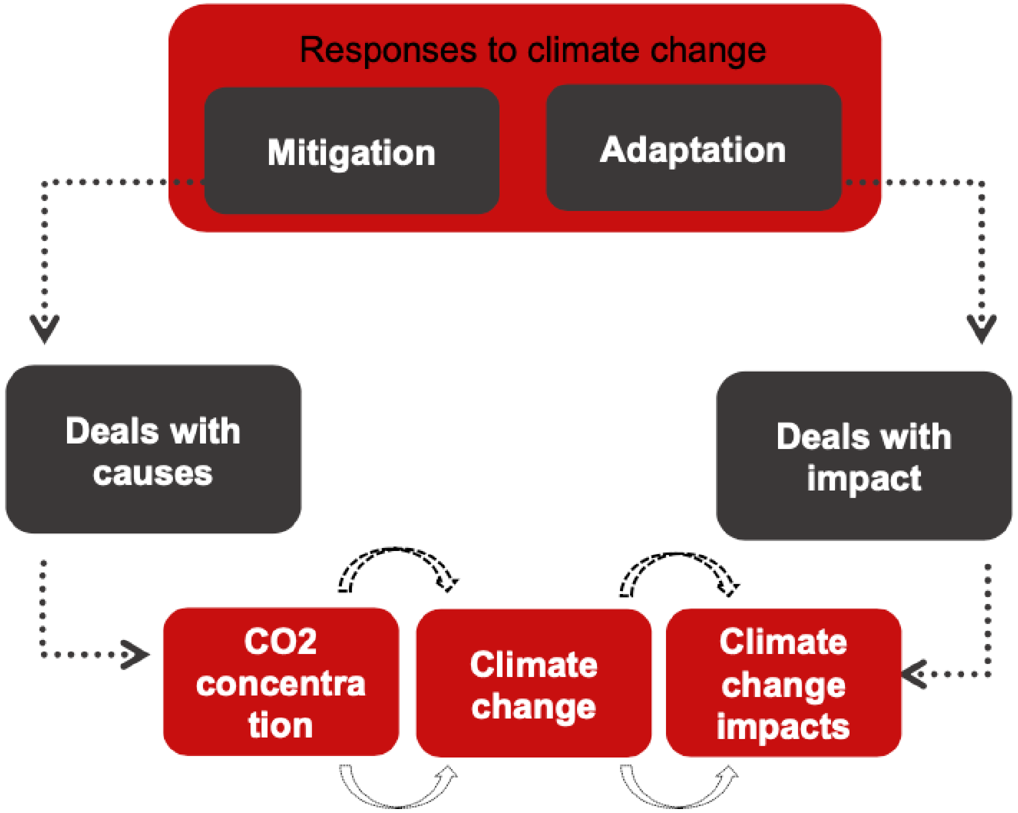
The principle of **Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC)** was first established in the 1992 UNFCCC.

- All countries must act on addressing climate change.
- Individual country capabilities and historical contributions to the problem differ.
- Developed countries, with greater historical emissions and resources, have a greater responsibility to act and assist developing countries.

Mitigation vs. Adaptation

Mitigation:
Interventions that aim to reduce the emission of greenhouse gases (GHG) and/or enhance carbon sinks.

Climate Finance is needed for Mitigation because large-scale investments are required to significantly reduce emissions.



Adaptation:
Actions taken to adjust to the actual or expected impacts of changing climate by reducing the harmful effects or taking advantage of the beneficial opportunities.

Climate Finance is needed for Adaptation as significant resources are needed to adapt to the adverse effects of changing climate.

What are the Sources of Climate Finance?

Public Finance:

- Domestic public finance
- Green Climate Fund (GCF)
- Global Environment Facility (GEF)
- Adaptation Fund (AF)
- Climate Investment Fund (CIF)
- Least Developed Countries Fund (LDCF)
- Special Climate Change Fund (SCCF)

Private Finance:

- Commercial Financial Institutions
- Institutional Investors
- Corporate Investors

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Multilateral Development Banks (MDBs)

Agency
World Bank
African Development Bank (AfDB)
Asian Development Bank (ADB)
International Finance Corporation (IFC)
United Nations Development Programme (UNDP)
Food and Agriculture Organization of the United Nations (FAO)
International Fund for Agricultural Development (IFAD)
World Meteorological Organization (WMO)
Global Green Growth Institute (GGGI)
International Renewable Energy Agency (IRENA)

Climate Finance Instruments

Grant

Non-repayable funds for specific projects or activities.

Loans:

Low-interest loans with favourable terms.

Equity

Direct investments in projects or companies to generate returns.

Guarantees:

Risk mitigation instruments to encourage private sector investment.

Climate Finance vs. Development Finance

Climate finance is a specialized subset of development finance that ensures climate goals are integrated into broader development priorities, without substituting core development funding.

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Aspect	Development Finance	Climate Finance
Core Objective	Promote economic and social development	Support climate change mitigation and adaptation efforts
Scope	Broad (health, education, infrastructure, etc.)	Specific to addressing climate change impacts and causes
Drivers	Poverty reduction, growth, human development	Emission reduction, resilience building, environmental sustainability
Sources	ODA, MDBs, bilateral aid, government budgets	GCF, GEF, Adaptation Fund, CIFs, climate bonds, private sector
Eligibility	Typically based on income levels or development status	Based on vulnerability, climate rationale, and ambition
Instruments	Grants, loans, guarantees, equity	Similar instruments, but often with concessionality tailored to climate risk or transition costs
Link to Policies	Aligned with development plans	Must align with NDCs, NAPs, or national climate strategies
Monitoring Focus	Development outcomes (e.g., GDP, health indicators)	Climate impact metrics (e.g., GHG reductions, resilience indicators)

Recent Trends in Climate Finance

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- At the COP15, Copenhagen 2009, developed countries committed to mobilize $100 billion per year by 2020 to support developing countries.
- The commitment was formalized at COP16 in Cancun and reaffirmed at COP21 in Paris, where it was also extended until 2025.

OECD Climate Finance Provided and Mobilised by Developed Countries: 2024 Edition

USD 100 Billion Goal Achieved

Developed countries exceeded the collective annual goal of mobilising USD 100 billion for climate action in developing countries for the first time in 2022, reaching **USD 115.9 billion.**

Public Finance Growth

Public climate finance (bilateral and multilateral, attributable to developed countries) accounted for close to 80% of the total in 2022, increasing from USD 38 billion in 2013 to USD 91.6 billion in 2022.

Private Finance Increase

Private finance mobilised by public climate finance increased significantly to USD 21.9 billion in 2022, a 52% (USD 7.5 billion) increase compared to 2021.

Adaptation Finance Progress

Total adaptation finance provided and mobilised by developed countries reached USD 32.4 billion in 2022. However, mitigation finance still represented the majority in 2022, accounting for 60% (USD 69.9 billion) of the total

Recent Trends in Climate Finance

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New Collective Quantified Goal on Climate Finance (NCQG)

- The global climate finance target agreed at COP29 in November 2024 in Baku, Azerbaijan, to replace the previous $100 billion annual goal set for developed countries.
- The NCQG consists of two main components:

Core financing of at least USD 300 billion per year by 2035 for developing countries, with developed nations taking the lead in mobilizing this amount. This triples the previous $100 billion target and is designed to support both climate mitigation and adaptation in developing nations	• An overall ambition to scale up total finance for developing countries to at least **USD 1.3 trillion per year by 2035**, drawing from all public and private, bilateral and multilateral, and alternative sources. • Developed countries are expected to lead, but all actors (including private sector and, for the first time, voluntary contributions from wealthier developing countries) are encouraged to contribute

"Global financing needs to mitigate climate change are estimated at USD 5 trillion a year until 2030. Financing needs for climate action in developing economies alone are estimated at USD 2.4 trillion a year between now and 2030." OECD 2024

Recent Trends in Climate Finance

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The Loss and Damage Fund (LDF)

- A dedicated multilateral fund, established at COP27 (2022) and made operational at COP28 (2023), designed to support developing countries in addressing losses and damages from climate change, including both economic (such as destroyed infrastructure or lost crops) and non-economic impacts (like loss of cultural heritage, biodiversity, or mental health).
- To cope with the unavoidable impacts of climate change, beyond mitigation and adaptation.
- LDF is in the Start up phase.
- World Bank serves as the interim trustee and host of the secretariat for 4 years.
- USD 788.68 million pledged as of June 2025
- USD 560.57m in contribution agreement signed as of June 2025
- Prioritization of grants.
- Blanket approval for entities accredited to AF, GEF and GCF. Simplified screening for new entities.
- Examples of activities to be financed:
    - *Restore roads, bridges, connecting power supply systems, water and sanitation facilities.*
    - *Strengthen institutions and strengthen social protection schemes.*
    - *Develop and implement financing mechanisms to ensure predictable financing for recovery efforts.*
    - *Relocation and resettlement and alternative employment/ livelihood programmes.*
    - *Temporary housing for displaced persons, particularly vulnerable groups.*

Climate Finance: Barriers and Opportunities

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Climate Finance

Barriers

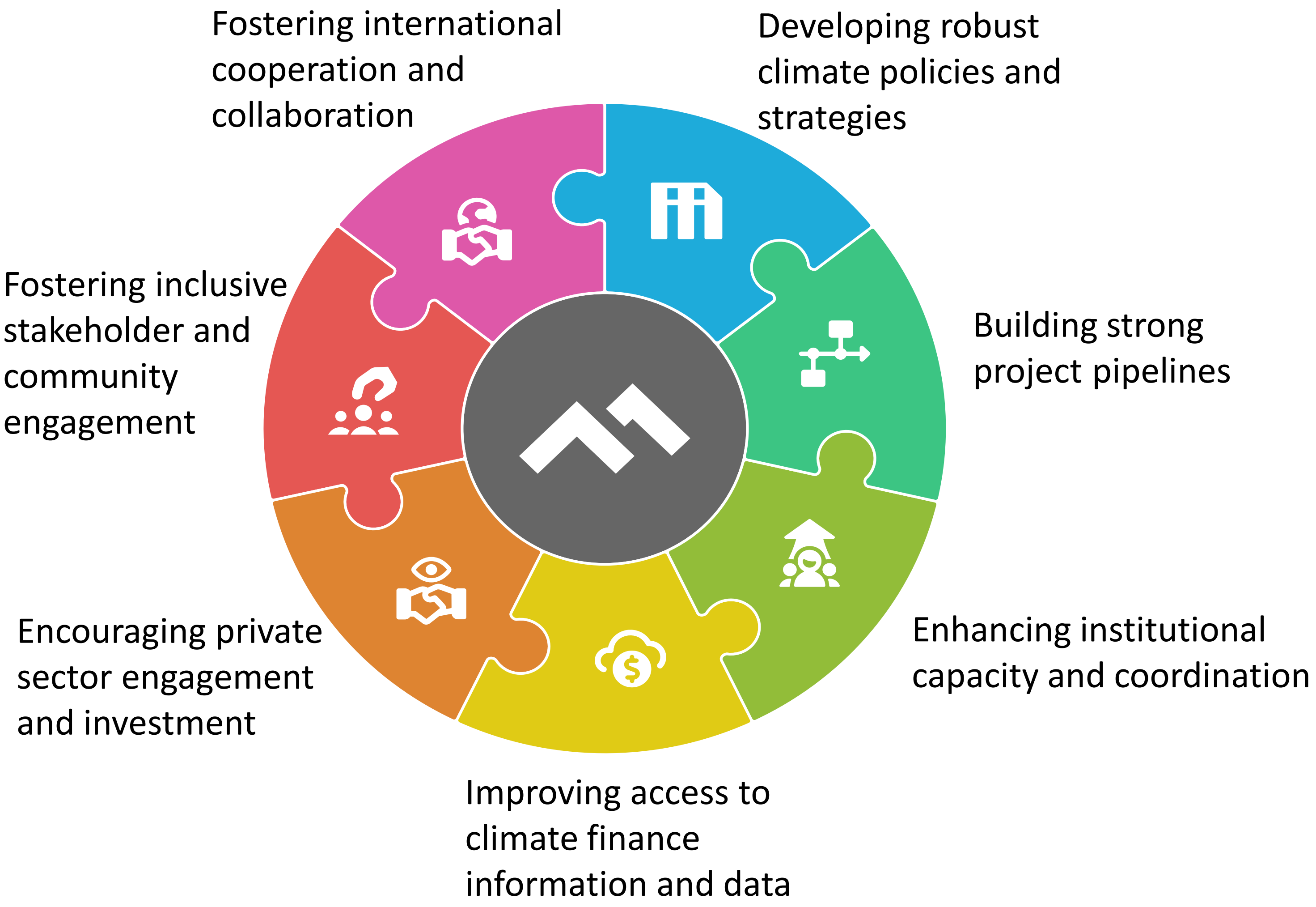
- Limited Institutional Capacity
- Complex Access Requirements
- Fragmented National Coordination
- Insufficient Climate Data
- Inadequate Co-financing
- Low Absorptive Capacity
- Limited Awareness

Opportunities

- New Financial Instruments
- New Public Finance Mechanisms
- Advances in Technology and Data Analytics
- Increasing Demand for climate-friendly investments
- Increasing Private Sector Participation

Best Practices to Increase Access to Climate Finance

Best Practices



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THE END

African Union

GREEN CLIMATE FUND

Global Water Partnership Africa