



REPUBLIC OF KENYA

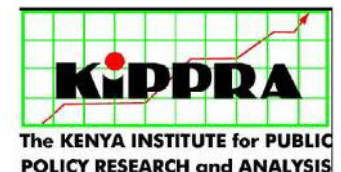
## Finance

# Annex B: Development Partner Climate Change Activities in Kenya

February 2012



: vivideconomics



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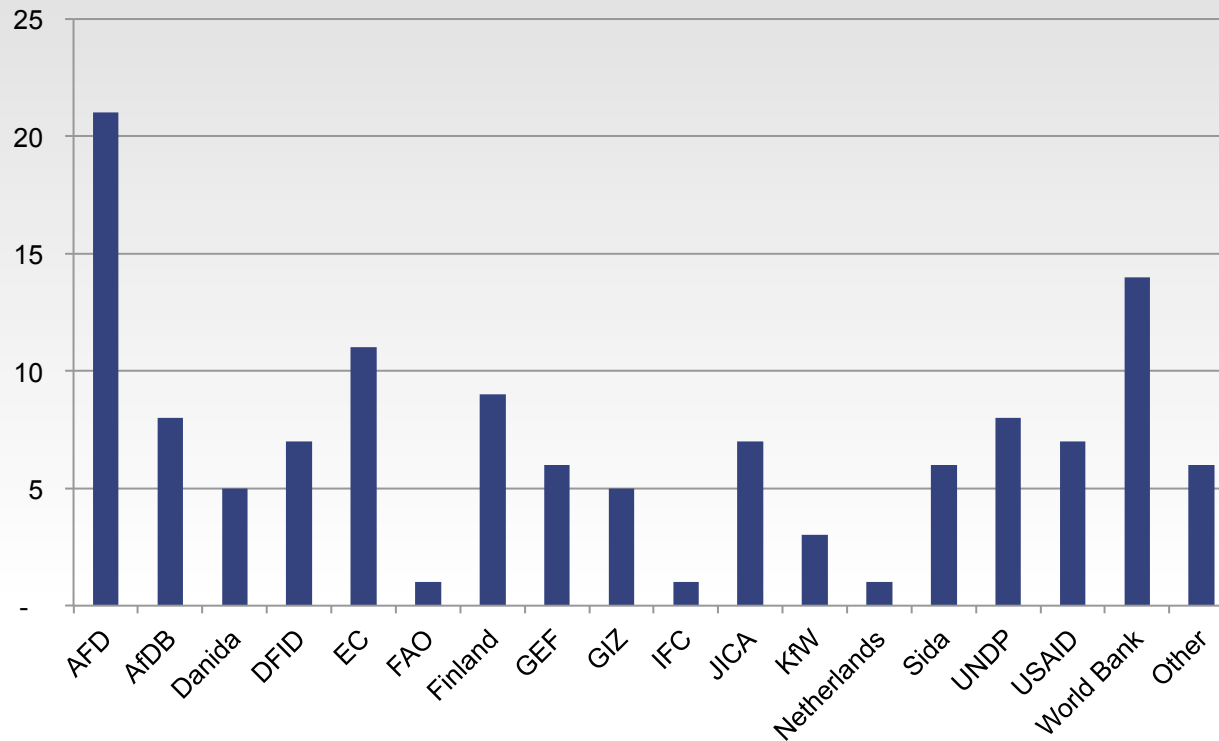
# Introduction and key messages

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- » A scoping of climate-related finance shows that development partners play a significant role in funding climate change activities in Kenya.
- » By our estimation, there are currently 127 active climate-relevant projects in Kenya, with a value of \$2.29 billion, mainly across energy, agriculture, forestry, coasts and water. The data spans roughly ten years: the oldest active projects launched in 2005 and the most recent will continue until 2015.
- » Current activities are aligned to Kenyan government priorities in terms of theme (adaptation vs. mitigation) and implementing agent (government, private sector, NGO or development partner) but less so in terms financing type (loan vs. grant).
- » Greater transparency and clarity in climate finance spending and the activities of development partners would be beneficial for both themselves and the Kenyan government.
- » Better financial management and absorptive capacity by implementing agencies would enable more efficient and effective roll-out of climate finance and projects.

# Development partner activity

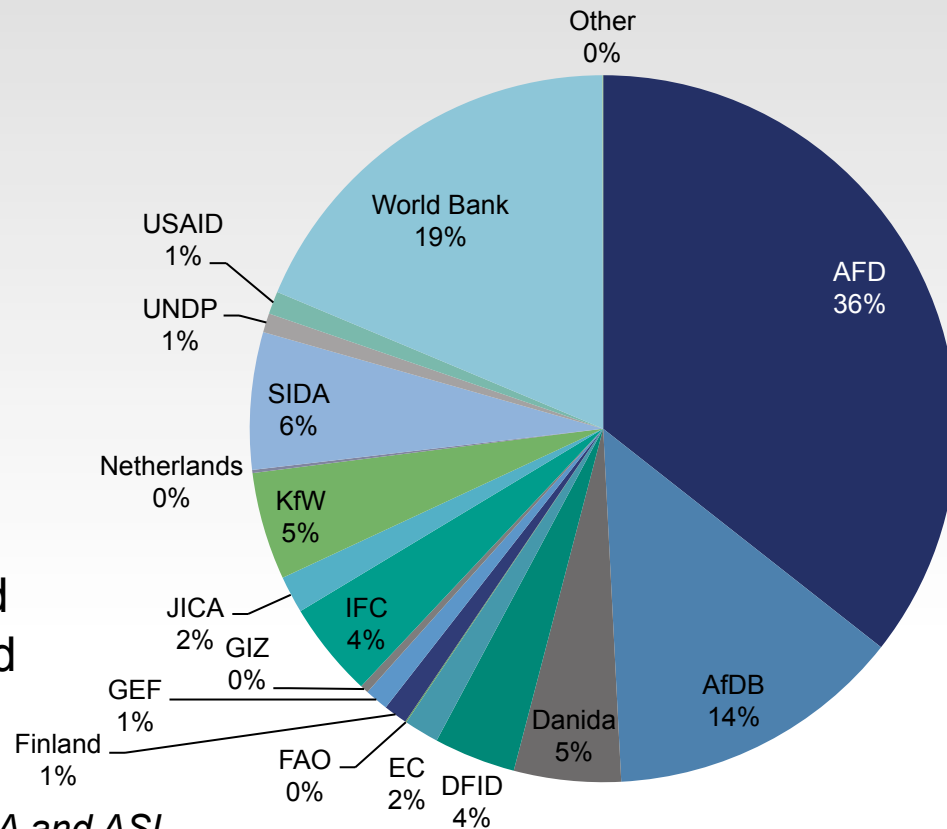
- » The largest three development partners are the AFD, the World Bank, and the European Commission, in terms of number of projects. Project duration varies from short (1-2 years) to medium (3-5 years).



Source: KIPPRA and ASI

# Development partner activity

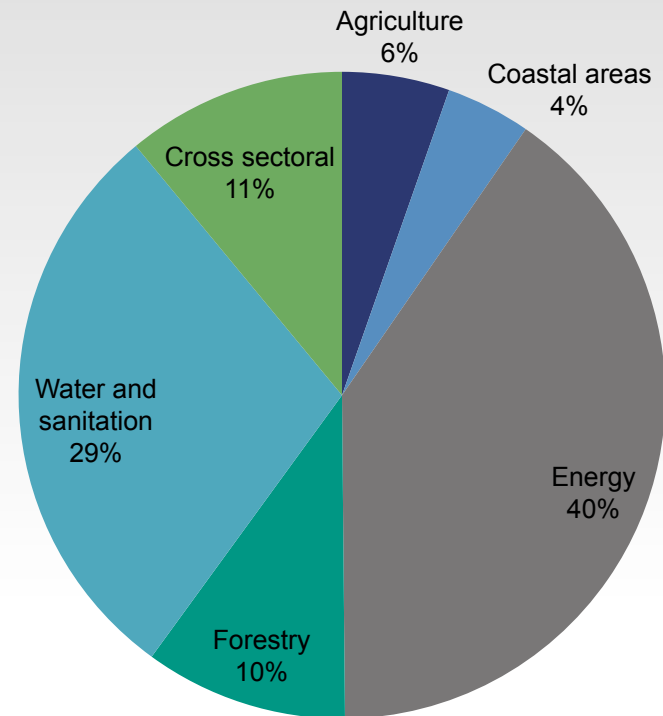
- » The largest three development partners, in terms of finance, are the AFD, the AfDB and the World Bank, followed by SIDA, KfW, Danida, DFID and the IFC.
- » There is no evidence of widespread pooling of funds among development agencies; most fund projects independently.
- » Activities vary widely in size, from a few hundred thousand to one hundred million dollars.



Source: KIPPRA and ASI

# Sector (\$)

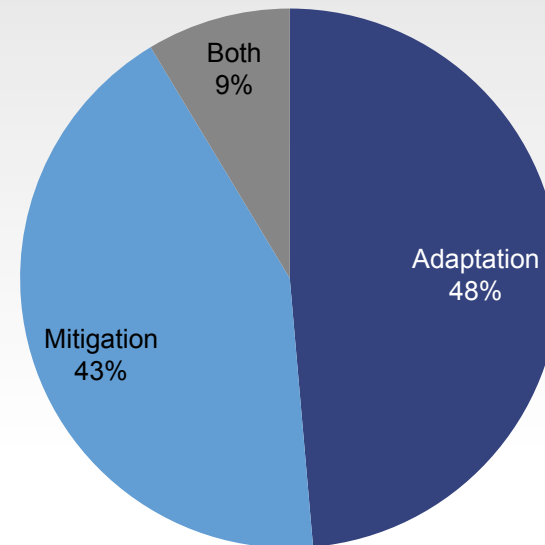
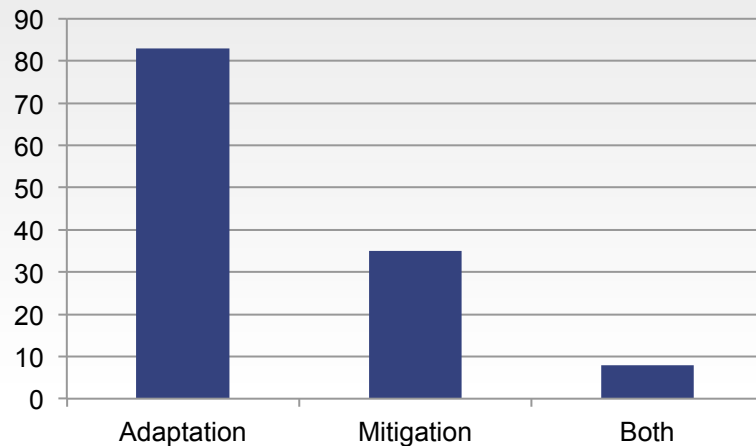
- » It is evident that substantial climate change funding is integrated into wider sectors, such as energy, water, agriculture or forestry. As a sign of climate change mainstreaming, that funding is integrated into wider projects is positive.
- » Direct climate change funding is only discernible where projects are specifically focused on climate change, e.g. coastal areas, some renewable energy; i.e. it is hard to assess the additionality of climate finance
- » Thus, not all projects in these sectors will be 100% climate-related though (and many may have low climate impact). But as it has been impossible to disaggregate them focus is placed on climate-relevant sectors.



Source: KIPPRA and ASI

# Theme

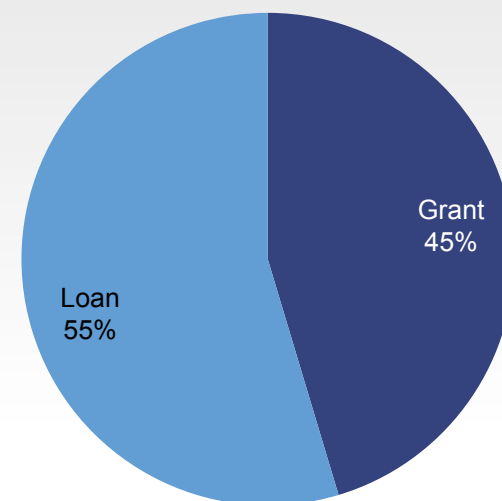
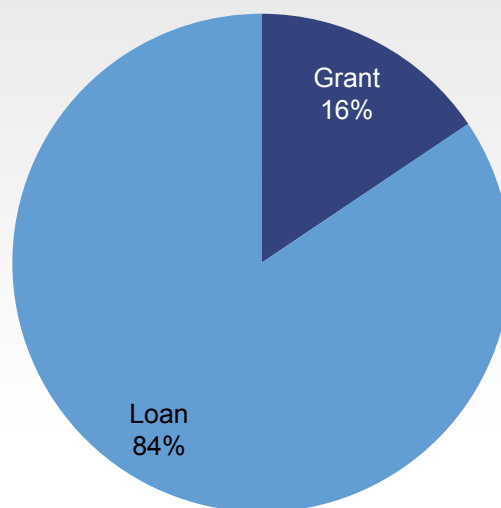
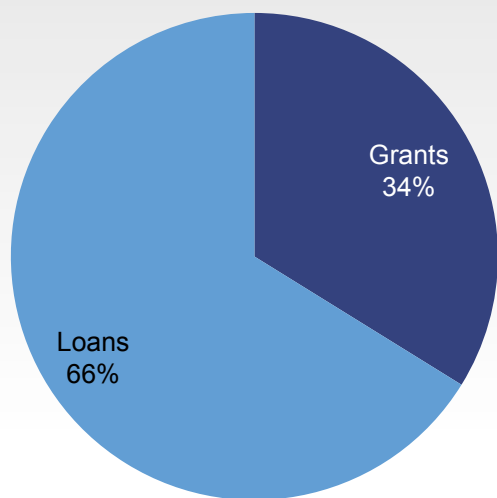
- » There is a greater number of projects (left) labelled as adaptation, but roughly equal amounts of finance flowing to mitigation (\$, right), as should be expected for a climate-vulnerable country such as Kenya. The greater weight of mitigation in terms of finance reflects the amount of assistance to the energy sector.



Source: KIPPRA and ASI

# Financing type (S)

- » Finance is delivered as loans and grants, in a roughly two thirds to one third split respectively (left). The high proportion of loans is a result of the emphasis given to the energy sector by development partners.
- » Looking at adaptation (middle) alone, the split is more even, as should be expected in sectors that are often public goods in nature, whereas loans forms the majority of mitigation (and energy sector) spending (right).

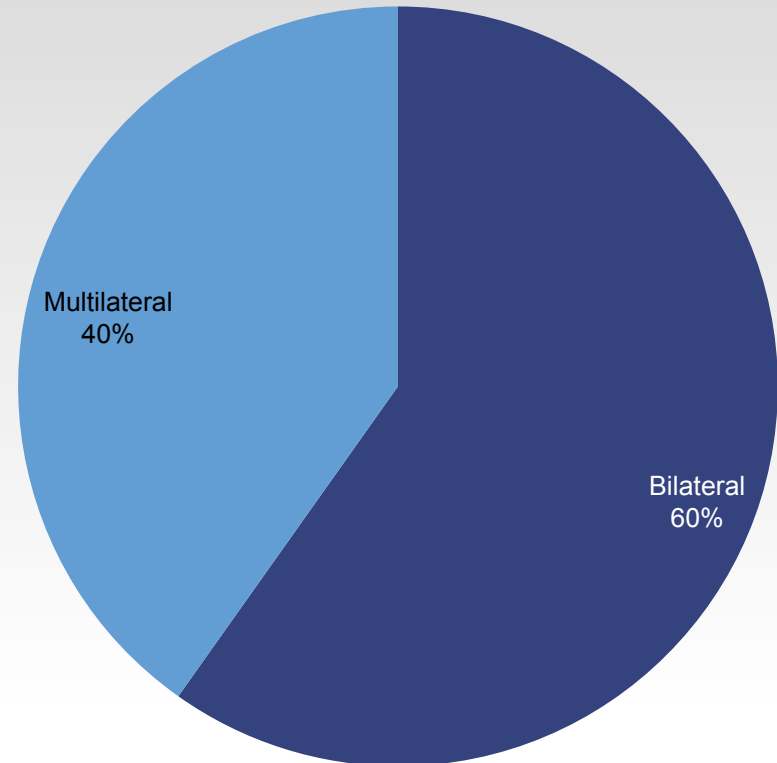


Source: KIPPRA and ASI



# Channel (\$)

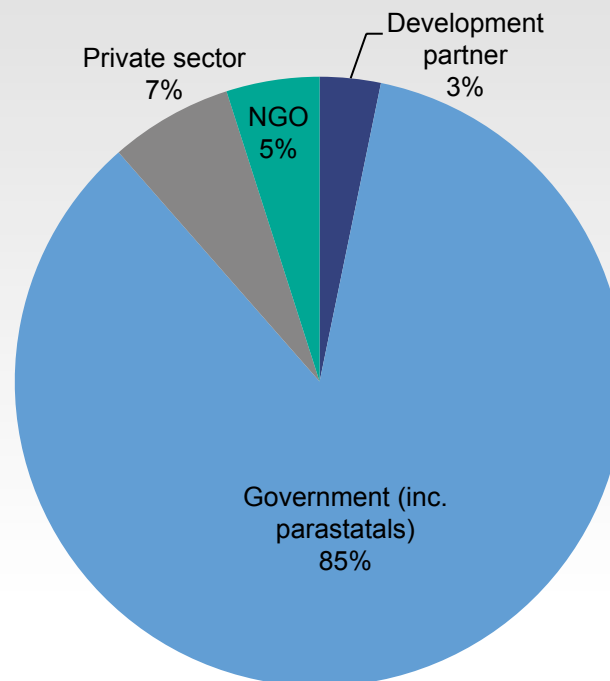
- » External finance for climate change is provided both bilaterally and through multilateral funding mechanisms.
- » Finance is on budget if it is either 'revenue', i.e. channelled via the Treasury, or as 'appropriations in aid', i.e. it goes directly to the line ministry in question.
- » Finance also goes directly to non-governmental agencies for project implementation, i.e. NGOs and the private sector.



Source: KIPPRA and ASI

# Implementing agent (\$)

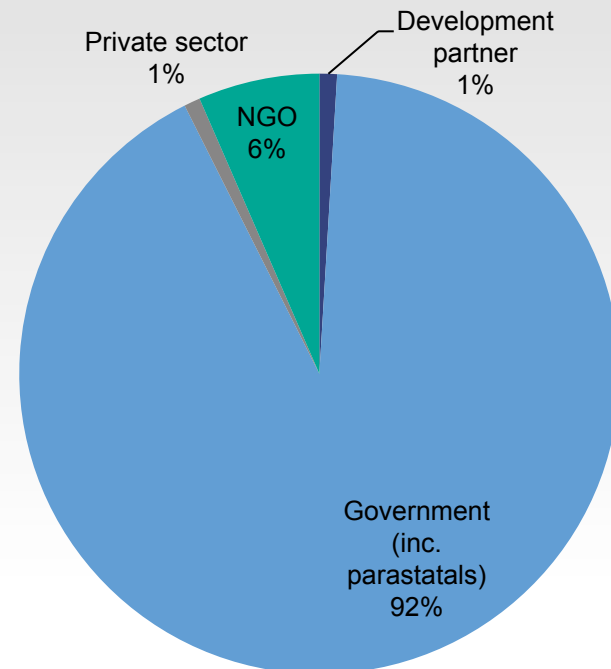
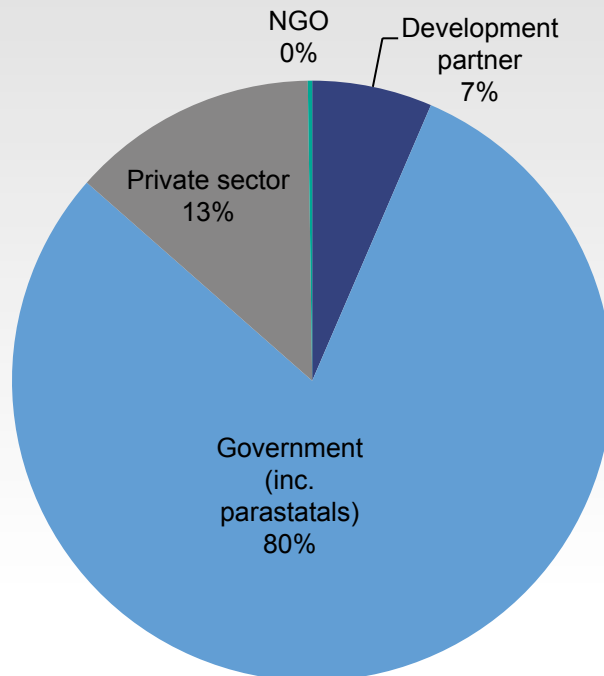
- » The vast majority of climate-financed activities are implemented by the government and parastatals, followed by the private sector and NGOs. Parastatals account for roughly two thirds of government funding.
- » The range of implementing actors and institutions has implications for absorptive capacity and the effectiveness of spending.
- » Of the three groups of implementing agent, each has different levels of capacity to absorb, spend and manage the flows of climate finance.
- » Finance made available to government, NGOs or the private sector is often not spent due to a lack of such capacity.



Source: KIPPRA and ASI

# Implementing agent 2 (\$)

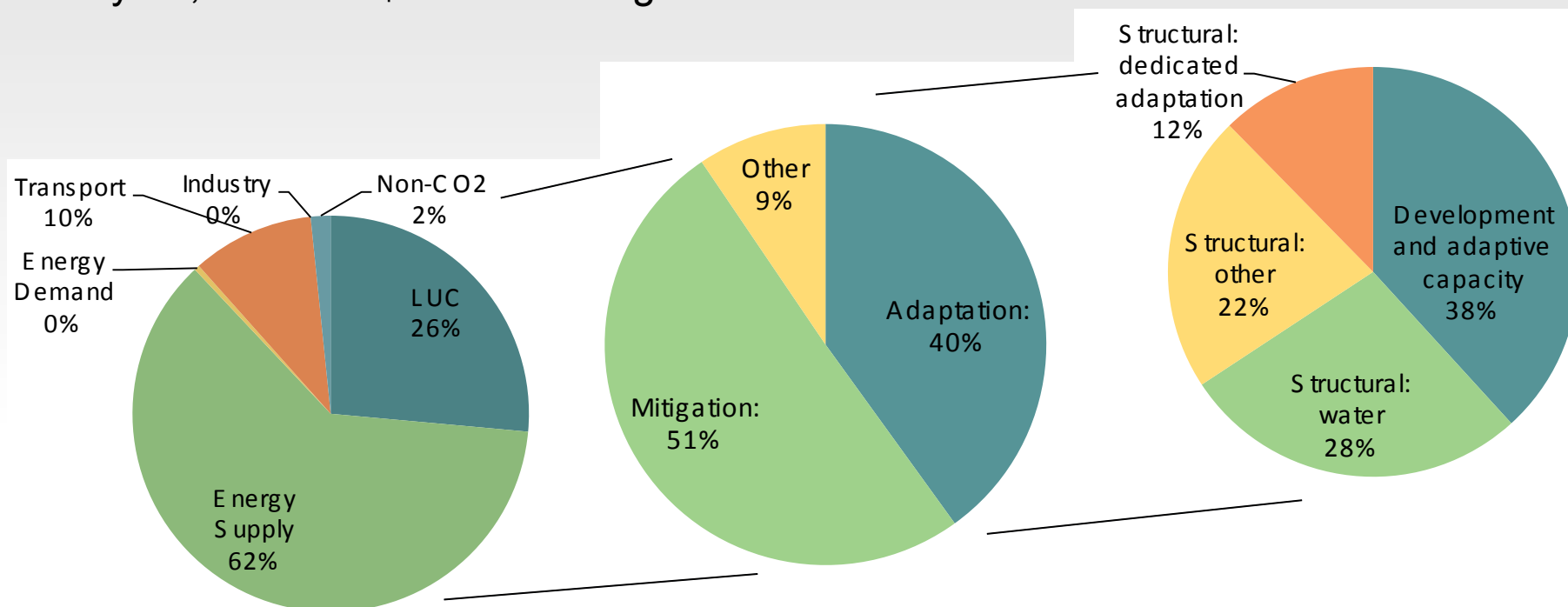
- » Separating mitigation (left) and adaptation (right), the roles of the each change. The private sector becomes a slightly more prominent player in mitigation and the government and NGOs in adaptation.



Source: KIPPRA and ASI

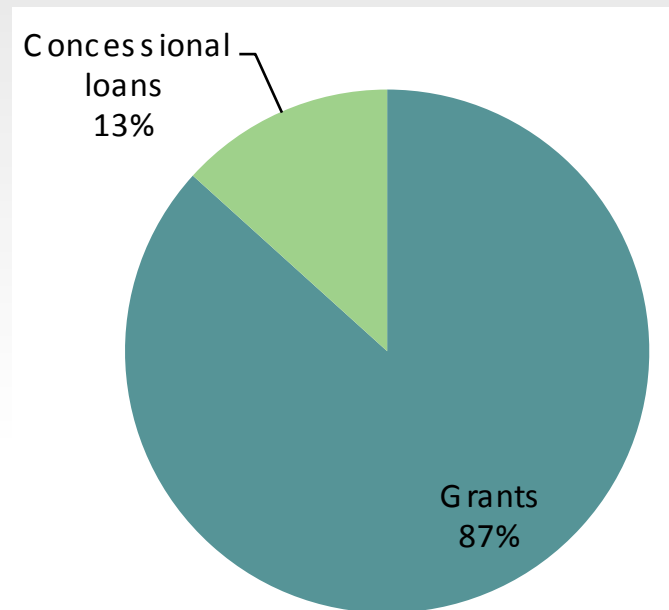
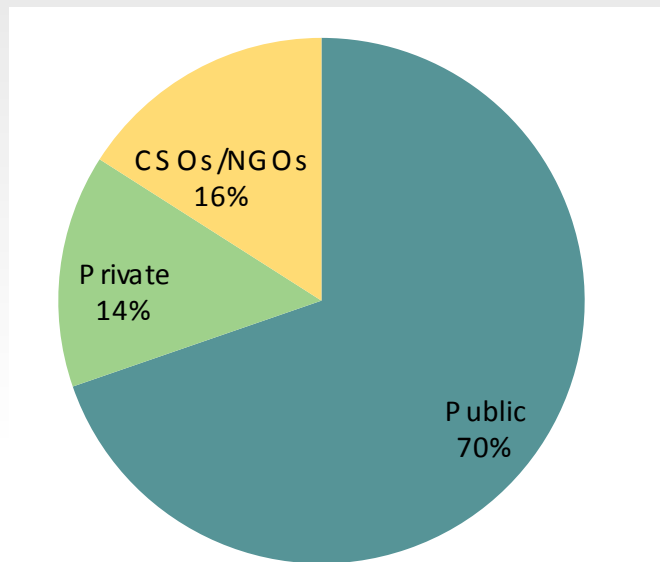
# Comparison with the NCCRS

- » There has been no formal commitment for donors to align their climate change support behind government priorities, although individual donors acknowledge the NCCRS as the basis for such alignment.
- » The NCCRS estimates a total resource requirement of \$2.75 billion per year, of which \$1.5 billion might be best-suited for climate finance.



# Comparison with the NCCRS 2

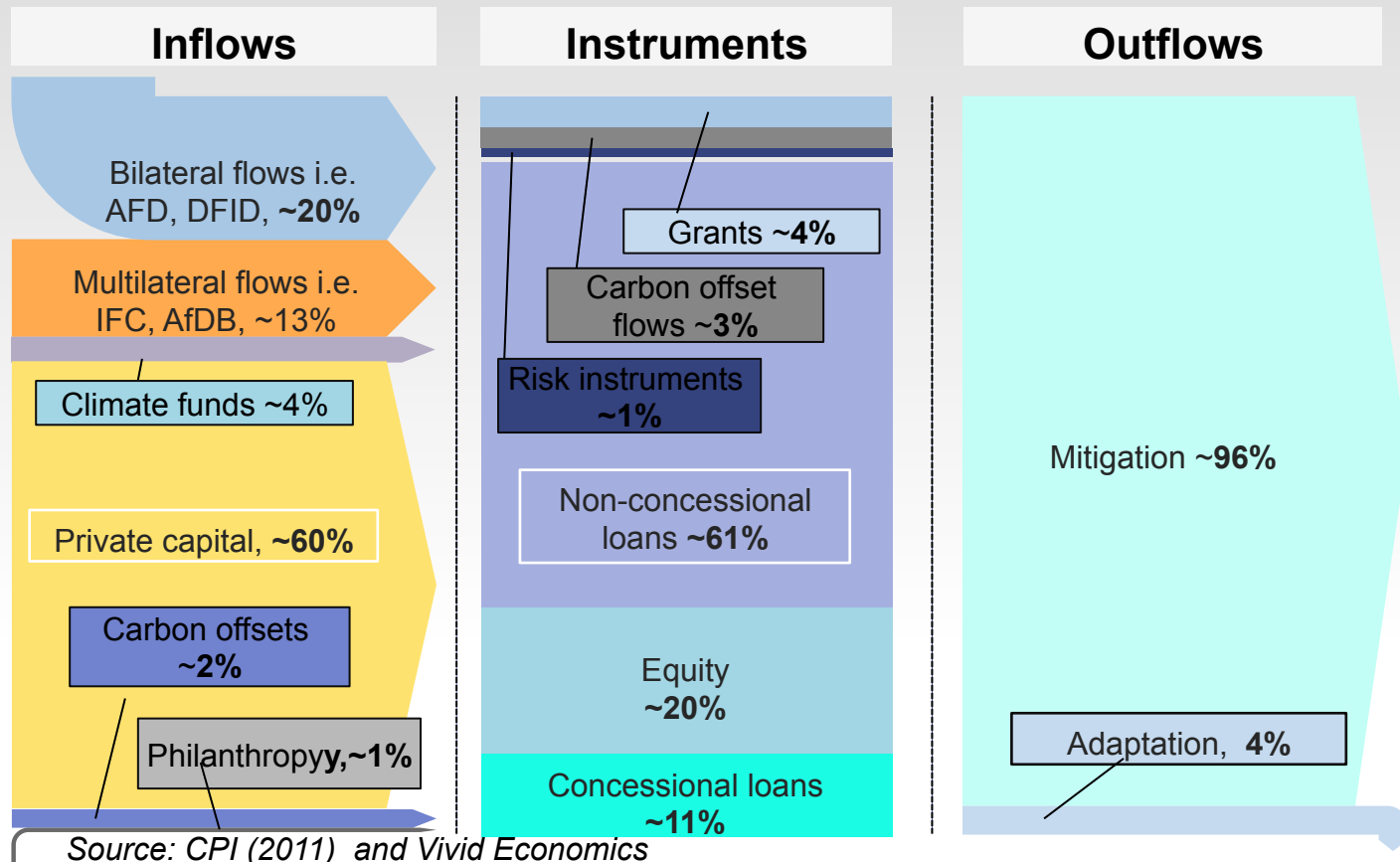
- » The proportion of mitigation vs. adaptation spending in the NCCRS is roughly equal, but adaptation accounts for a greater share in reality than estimated, and mitigation for less.
- » Like the reality, the government is forecast to be the largest implementer. But the NCCRS implies that the majority of climate financing should be in grants, the opposite of what is currently the case.



Source: NCCRS (2010) and Vivid Economics

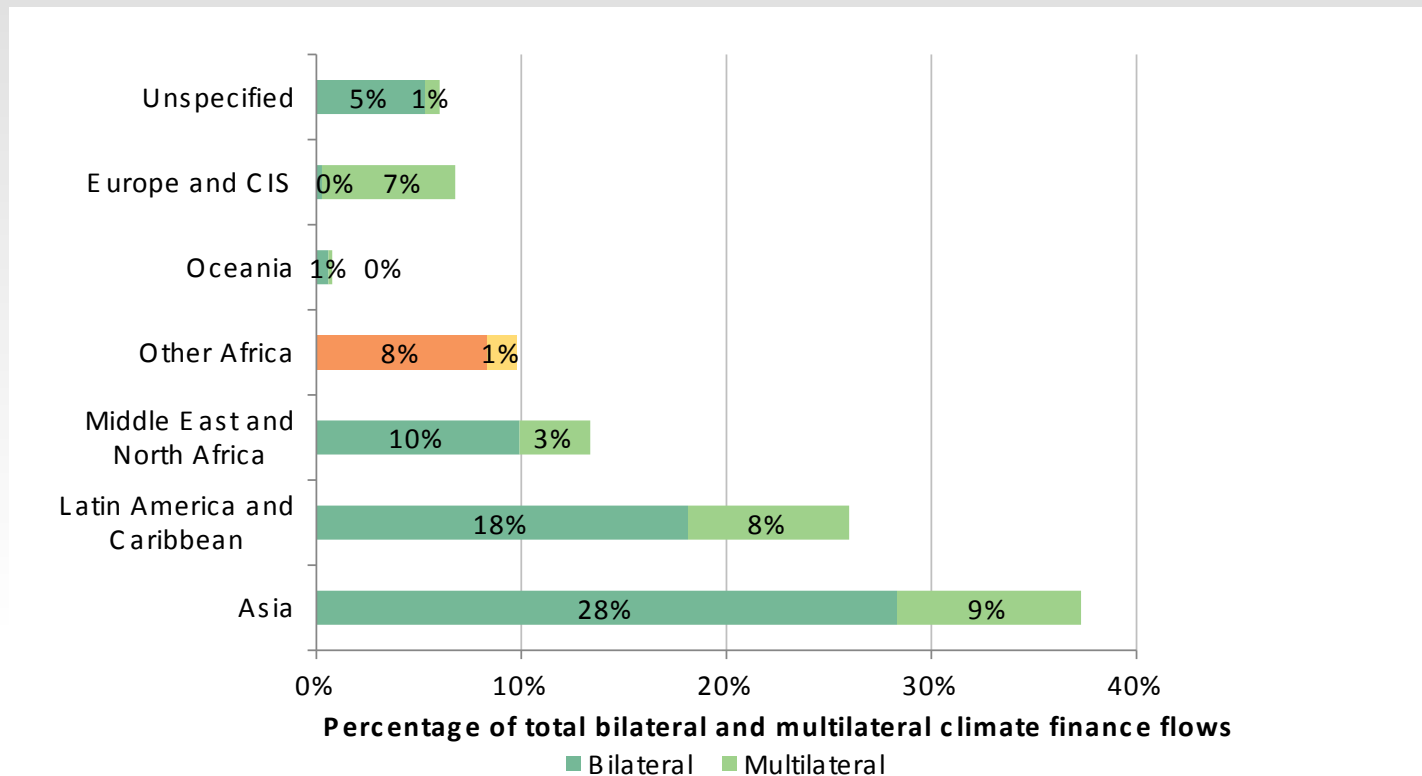
# Comparison with international context

- » The current, international climate finance architecture is dominated by private capital investing in mitigation projects.



# Comparison with international context 2

- » Sub-Saharan Africa receives around 9% of climate finance disbursed by bilateral and multilateral agencies.



Source: CPI (2011) and Vivid Economics

# Coordination of information

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- » Efforts to coordinate climate change financing and harmonize activities are currently conducted through the Joint Sector Working Group and informal discussion between development partners. It is intended to align strategies with Vision 2030 and the Medium Term Plan 2008-2012, but is not legally-binding.
- » The lack of a comprehensive tracking limits the ability to capture all the external climate change finance in Kenya. To a large extent, each development partner independently decides on issues they fund, which leads to issues of coordination and harmonization.
- » There is a big discrepancy between OECD data, fast start finance data and the data (see following slides) we have gathered, pointing to inconsistencies in development partner and recipient institution reporting.
- » Further transparency in the flows of climate finance in Kenya would be desirable, as would the creation of a database or information platform. Such information is currently hard to come by and such an effort should be led by Kenya's development partners. Not only would it facilitate integration by development partners, but it would make it easier for host government to understand the flows of climate finance and their implications.



# Fast start climate finance

Title	Country	Theme	Channel	Financing type	Amount
Fast Start Climate Change Programme 1 and 2	Denmark	Adaptation	Bilateral	Grant	\$10.7 million
Adaptation Learning Programme for Africa	Finland	Adaptation	Bilateral	Grant	?
Development of a National Renewable Energy Development Plan	France	Mitigation	Bilateral	Loan	?
Risk Management Strategies for Adaptation to the Impacts of Climate Change in the Kenyan Highlands	Germany	Adaptation	Bilateral	Grant	\$3 million
Scaling-up Renewable Energy Program	United Kingdom	Mitigation	Multilateral	Loan	?

# Fast start climate finance 2

Title	Country	Theme	Channel	Financing type	Amount
Scaling Up Renewable Energy Program in Low Income Countries	Netherlands	Mitigation	Multilateral	Grant	?
Partners for Resilience Programme	Netherlands	Adaptation	Multilateral	Grant	?
Africa Biogas Partnership Programme	Netherlands	Mitigation	Bilateral	Grant	?
Improved Cooking Stoves	Netherlands	Mitigation	Bilateral	Grant	\$3.25 million
Strengthening transparency, accountability, anticorruption and public oversight in governance and finance for climate change	Germany	Both	Multilateral	Grant	?
Ex-Im Bank - Geothermal energy generation	USA	Mitigation	?	?	\$6.3 million

Source: [http://www.faststartfinance.org/recipient\\_country/kenya](http://www.faststartfinance.org/recipient_country/kenya)

# OECD DAC's Rio Markers

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- » Under the OECD Development Assistance Committee's Rio Markers, development partners classify their activities as being either:
  - » 0 – with no climate-related objective
  - » 1 – with significant climate-related objective or
  - » 2 – with principal climate-related objective
- » According to the database, there were, in 2010, 157 mitigation projects and 143 adaptation projects active, with values of \$760 million and \$380 million respectively, which is different to the information here gathered
- » The data is however incomplete: for many projects there is no financial information available, rather just a title, and sector.
- » Discrepancy issues notwithstanding, the data reveals a broad range of development partners, though the proportion of mitigation vs. adaptation spending is the reverse of that collected in this survey.