that 60% of the total bilateral finance spending for climate change is directed towards Asia and the Pacific. The main contributing countries operating in this region are Japan through the Hatoyama Initiative (HI), Australia through the International Forest Carbon Initiative (IFCI) and Germany through the International Climate Initiative (ICI) (for details on these bilateral initiatives see Brief 2).

## Lack of funding reaching the sectors and people most in need

As previously highlighted, countries such as India, China and the Philippines are being severely affected by extreme weather shocks, despite the high level of climate finance they receive. A large proportion of finance delivered in India is in the

**References and useful links** 

McCauley, D. (2010) 'Water and climate change in Asia: facing up to the impacts and costs', Asian Development Bank. The Climate Group (2010) 'Climate Change and Finance in India: banking on the low carbon Indian economy' UNFCCC (2007) 'Climate Change: impacts, vulnerabilities and adaptation in developing countries'. Climate Funds Update: http://www.climatefundsupdate.org/



NOTE: These numbers do not reflect the total amount of climate finance in the region, but only the public funding channeled through some 20 dedicated bilateral and multilateral climate fonds and funding mechanisms, for which tracking data is available.

SOURCE: www.climatefundsupdate; accessed in December 2010

form of concessional loans. This could prevent the most vulnerable groups, who lack the financial resources to pay back such loans, from benefitting from these resources. In order for financial resources to be absorbed by the poorest groups there needs to be careful channeling of climate funding in the form of grants, with a significant role to be played by civil society organizations operating at the local level.

Overall, the main challenge is how to improve the allocation of resources, both between and within countries. In Asia and the Pacific, more than in any other region, the revenues generated from mitigation activities could be re-invested in adaptation actions in order to reduce the current high vulnerability of many of the region's poorest people to climate change.

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Climate Finance Fundamentals

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## **BRIEF 8**

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# **Regional Briefing:** Asia and the Pacific

Asia is the largest continent and has the world's most expansive Ocean – the Pacific – on its margins. It is also the region that has received the most international climate funding, which so far has concentrated on supporting mitigation activities. China and India both receive and spend the largest amount of climate finance, whereas some of the region's most vulnerable countries, particularly the small Pacific Island states, receive very little funding. The Asian Development Bank and the Global Environmental Facility are two major players in the delivery of climate finance in the region, with Japan, Australia and Germany active at the bilateral level. The main challenge for Asia and the Pacific is not how to raise climate finance, but how to allocate the resources raised effectively and equitably. At present, the gap in activity between mitigation and adaptation is considerable. One way of addressing this imbalance would be to invest the revenues gener-

### Overview

Asia is the largest continent on earth. It consists of four major climatic zones (the boreal, temperate, arid/semi-arid, and tropical), which means that the region is subject to a wide range of climate related threats. It is also bordered by the Pacific Ocean, the world's largest expanse of water. Land, water, air guality and ecosystems are all natural resources that are currently being degraded, undermining long-term food security. A number of major catastrophes have hit the region in recent years, such as the 2004 Indian Ocean Tsunami, the 2006 landslides in the Philippines and the 2010 floods in China. There is evidence of a marked increase in the intensity of extreme weather incidents due to climate change such as prolonged dry spells, tropical cyclones, heat waves and intense rainfall events.

**Funding needs** - Due to the huge dimension of this continent it is difficult to provide overall figures of climate financing needs: there is enormous country diversity. However, the Asia Development Bank has recently estimated that for the least developed countries of Asia and the Pacific alone, adaptation costs of about US\$15 billion will be required over the next decade.

**Funding delivered** - The Climate Funds Update (CFU) website reports a total of \$490 million has been disbursed to climate change related projects in the region via dedicated bilateral and multilateral climate finance mechanisms and instruments. This compares to \$344 million to Africa



and \$279 million to Latin America. Furthermore, almost two thousand projects have been registered under the Clean Development Mechanism (CDM) of the Kyoto Protocol in Asia and the Pacific, representing 78% of all CDM projects. They are mainly concentrated on hydro, wind power and biomass energy. The main challenge in the region is therefore not necessarily how to raise financing, but rather how to ensure that these resources are allocated within the region efficiently, effectively and equitably.

#### **Country actions**

Two countries, China and India, have received over half of the international support to Asia: 36% (\$178 million) and 24% (\$119 million), respectively. This is broadly in line with the size of their populations. However, some of the most vulnerable countries, such as Bangladesh, Sri Lanka and the small island states of the Pacific, appear to have received very little funding to-date.

China - China is a rapidly growing, emerging economy. In 2009, it accounted for nearly three quarters of the global increase in energy consumption. The country is also very vulnerable to climate change. In June 2010, 800,000 people were displaced and approximately 1.2 million acres of farmland were flooded after torrential rain led to the worst floods in over a decade. However. China was also the largest investor in green energy in 2010. The Chinese government dedicated one-third of its economic stimulus package, which amounted to \$221 billion, to infrastructure that will contribute to increasing energy efficiency in the medium to longer term. In addition to domestic support, external sources also finance the delivery of climate change related activities within the country. Some 1,402 CDM projects are registered in China. This corresponds to half of the Asian share and 41% of the global share of CDM projects. All these efforts are concentrated on supporting mitigation activities. The projects database on the CFU website currently records only one project (worth \$5 million) with an explicit focus on adaptation, with the remaining 27 projects in China all centred on emissions reduction efforts. The catastrophic weather incidents plaguing China, however, suggest there is a pressing need for additional adaptation projects, financed both domestically and internationally.

India - India is one of the most risk exposed countries in the world. Climate change is expected to increase the frequency and intensity of current hazards and the probability of extreme events. This is likely to degrade further the resilience of poor and vulnerable communities. The country has set voluntary targets to reduce carbon emissions intensity by 20-25% by 2020. However, in contrast to China, financial support in India predominantly comes from private sources. The country has developed a National Action Plan on Climate Change, which outlines a number of strategies to achieve climate change adaptation and mitigation objectives. Under this plan a Risk Guarantee Fund has been developed to provide commercial banks with partial coverage of their risk exposure against loans made for energy efficiency projects. Whilst demonstrating public financing support for risk management instruments, it also suggests an expectation that a large proportion of climate change related investment will be in the form of concessional loans.

India is the second largest recipient of CDM projects after China, with a total of 563 projects in the country. This represents 33% of CDM projects in Asia and 22% of global CDM projects. As with China, India has concentrated on mitigation efforts to-date, with the Climate Funds Update website recording \$172 million disbursed to mitigation projects compared to \$5 million spent on adaptation.

Small Islands Development States (SIDS) and Least Developed Countries (LDCs) - Of the approximately 50 SIDS globally, 22 are in the Asia and Pacific region. Their main characteristics of low lying coasts, remoteness and vulnerability to natural disasters make them particularly exposed to the risks of climate change, although their contribution to global emissions is less than 1%. Of the 49 LDCs, 15 are in Asia and the Pacific. These countries are hit hard by natural disasters, food insecurity and water scarcity caused by climate change aggravating existing poverty and vulnerability. Both these country groups are dependent on external funding for adaptation for their survival, yet so far they have received only USD 59 million from dedicated climate funds for this purpose. A recent decision at the climate talks in Cancun to establish a Green Climate Fund acknowledges their special vulnerability by pledging to prioritize future adaptation funding for the SIDS and least developed countries, such as Bangladesh.

### Funding across major themes

The current bias towards mitigation projects is most pronounced in Asia and the Pacific. This is despite the fact that the region is home to more than half of the world's poor, who will suffer the most from the adverse impacts of climate change. A breakdown of activities funded by dedicated climate funds, and tracked by the CFU website, is as follows:

- (i) Adaptation: \$66 million (14%)
- (ii) Mitigation general: \$395 million (83%)
- (iii) Mitigation REDD: \$17 million (3%)<sup>1</sup>

It is noteworthy that up to now only a small amount of resources have been directed to fund REDD projects. The region includes countries such as Indonesia and Papua New Guinea, both of which have extensive forest cover but are also experiencing high deforestation rates. However, several REDD-focused climate financing instruments have approved scaled-up funding for the region in the pipeline, primarily for Indonesia, which has created the Indonesia Climate Change Trust Fund to coordinate its externally funded climate related activities (including REDD).

#### Active players in the region

A leading actor of the region is the Asian Development Bank (ADB). Its strategic priorities to address climate change issues are:

- Expanding the Use of Clean Energy;
- Promoting Sustainable Transport and Urban Development;

1) These figures exclude \$11m disbursed to projects with multiple objectives • Managing Land Use and Forests for Carbon Sequestration;

- Stimulating Climate-Resilient Development;
- Strengthening Policies, Governance and Capacities.

Through the Carbon Market Program (CMP), the ADB provides financial and technical support for CDM projects. The programme aims to extend the provision of funding for CDM projects beyond 2012. One component of the programme is the Asia Pacific Carbon Fund (APCF), which co-finances projects with the ADB, helping to reduce the initial heavy capital requirements by providing upfront payments for carbon credits projects. Projects eligible under this fund are those that are supported by ADB through concessional loans, equity, guarantees or technical assistance.

Another important role of the ADB is to channel funding to recipient countries from the World Bank administered Climate Investment Funds (CIFs). Through the ADB and the World Bank Group, Vietnam, the Philippines, and Thailand were selected in 2009 to receive a total of \$800 million in support of a range of investment plans. These include catalysing private sector investments in energy efficiency and renewable energy through local banks, and significant urban transport improvements. Altogether, the three national investment plans are anticipated to mobilise nearly \$10 billion in co-financing from government, private sector, and other sources.

The Global Environmental Facility (GEF) is another major actor in the region. The CFU website reports that under its fourth replenishment, the GEF has disbursed as of November 2010, \$392 million in Asia and the Pacific, with the biggest projects being implemented in India.

The Global Climate Change Alliance (GCCA) is an initiative of the European Union and among its areas of focus are adaptation activities in the region. It has disbursed \$3.25 million to the Maldives to increase country capacity to adapt to the effects of climate change. Overall, \$11.4 million has been allocated for the Pacific Islands from this initiative.

The Stockholm Environment Institute estimates