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A 2012

:vivideconomics

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1. A

AFD	Agence Fran aise de D veloppement
AfDB	African Development Bank
CDM	Clean Development Mechanism
CERs	certified emission reductions
COP	Conference of the Parties
CSR	corporate social responsibilit
DFID	Department for International Development
EU ETS	European Union Emissions Trading Scheme
GCF	Green Climate Fund
GW	Giga att
IFC	International Finance Corporation
KCCAP	Ken an Climate Change Action Plan
KES	Ken an shilling
KfW	Kreditanstalt f r Wiederaufbau
MDBs	Multilateral development banks
MW	Mega att
NCCRS	National Climate Change Response Strateg
RDBs	Regional development banks
SIDA	S edish International Development Cooperation Agenc
UNFCCC	United Nations Frame ork Convention on Climate Change
USD	United States Dollars

2. I

K C C A P (KCCAP)

. The initial anal sis ithin the National Climate Change Response Strateg [1]

3.

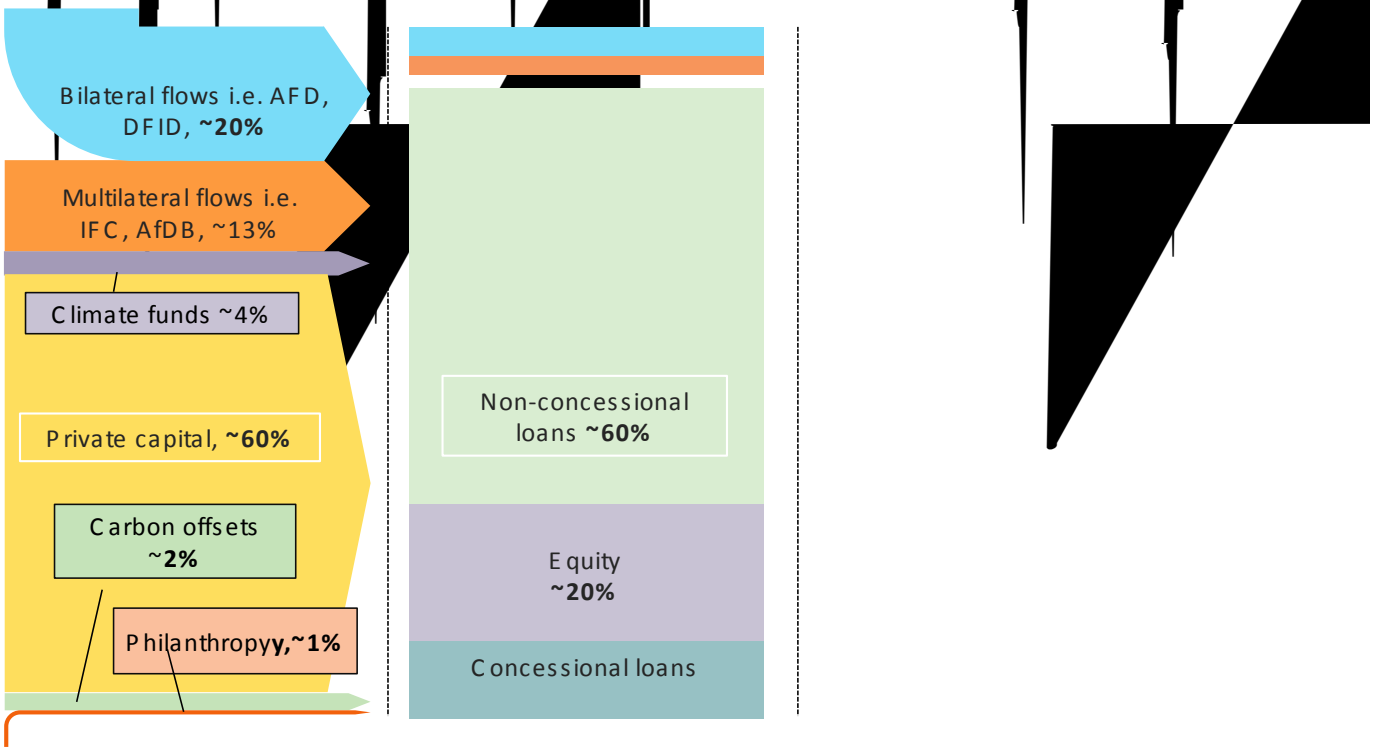
This chapter provides an overvie of the current climate finance landscape, and Ken a s e isting interactions ith it. It divides the anal sis into international and domestic sources of finance.

3.1 I

I , $97 [4].

Figure A1 belo provides a use ul a of depicting the international climate finance landscape. The left hand side depicts different sources of climate finance, e.g. bilateral agencies, multilateral agencies, the private sector and philanthrop ; the middle column specifies the financial instruments provided b these different parties; and the final column sho s the activities that are supported b these financial resources. In other ords, climate finance flo s from bilateral sources account for around 20 per cent of climate finance flo s, around 4 per cent of total climate finance is provided as grants and 96 per cent of climate finance flo s are directed to ards mitigation.

F A1 E , 2009-2010



S : V E (a CPI (2011) T La a C a F a . A a a 2009-2010.

A number of ke features can be seen from this figure:

- Private capital flo s account for a significant proportion of international climate finance flo s. Acces s to this source of finance ill be crucial if Ken a is to finance its ambitions.
- Consistent ith thi , the majorit of financial resources are provided as either non-concessional debt o equit .
- Globall , th vast m ajorit of climate finance is flo ing to ards mitigation; less than 5 per cent used to finance adaptation. This i inconsistent ith Ken a s needs: the NCCRS ha a m ch more even split of required financial resources bet een adaptation nd mit gation.

The t o follo ing sub-chapters go into more detail on public an private internat nal climat tttrti(i) -1 et t) 2 (a) -1 rlub

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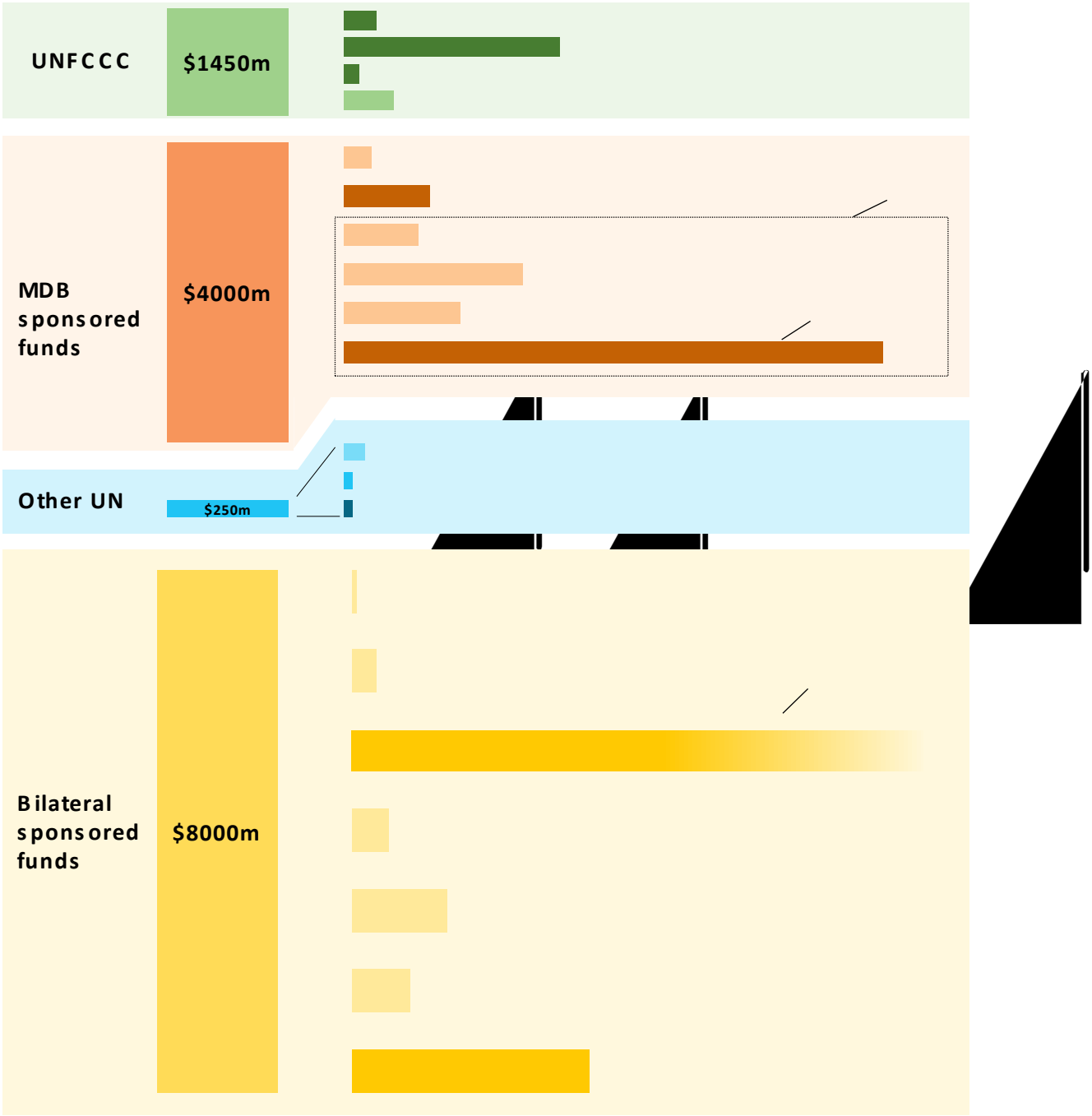

S : V E a . a a . T a a . a a . a a a a a . Ca a a a .

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- In terms of bilateral development partners, it is estimated that projects and programmes valuing around $1.4 billion are currentl supported b bilateral agencies in Ken a. The AFD has the largest programme in Ken a (ith projects valuing more than $400m) ith the Danish International Development Agenc , the S edish

International Development Cooperation Agenc , DFID and KfW being other ke development partners supporting climate change activities.

- Multilateral development partners have climate change relevant activities ith a value of $0.9 billion, ith the World Bank and the African Development Bank being easil the most important partners.
- In terms of climate funds, the Scaling-Up Rene able Energ Programme has an investment plan of $85 million in Ken a[5], of hich around $25 million has been disbursed to date; hile the Special Climate Change Fund, the Global Environment Facilit Trust Fund and the Forest Carbon Partnership Facilit Readiness Fund have all disbursed resources to Ken an projects. In total around $300 million both of resources have been disbursed from climate funds to projects in Ken a.
- Of the total $2.3 billion invested in Ken a b development agencies, roughl $920 million is in the ener sector and $670 millio in ater and sanitation. Forestr , agriculture and coastal areas account for most of the rest.
- The amount of funds devoted to mitigation and adaptation is roughl equal, ith adaptation accounting for slightl more, as is appropriate for the Ken an situation.

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. As the World Bank s World Development Report[6] notes:

T a [a] a a - a . F a a a a a , a a a a , a , a a . Ea a , a a , a a . T a a (a a a a), a a (a a a a) a a a - .

K . Although Ken a has been relativel successful at attracting international public support, this has come at the cost of fragmentation. There are at least 15 different agencies supporting climate change activities and programmes in Ken a, each carr ing their o n administrative costs and ith different rules and processes concerning both the e tent, and means, of engagement ith the Government of Ken a. There is little evidence of the pooling of resources. Although the Climate Change Coordination Group provides a forum for harmonisation, it is informal and not legall binding.

K : at the global level, the likel emergence of the Green Climate Fund (GCF), hich ma facilitate consolidation of the e isting arra of climate funds, and, at the national level, a greater interest in the role of national climate funds to manage the flo s of international public climate finance ithin countries.

G F

. It as launched at the 17th Conference of the Parties (COP 17) in Durban in 2011 it the intention of making a significant and ambitious contribution to combatting, and adapting to, climate change. It is plausible that, over time, this ill supersede the e isting proliferation of different funds; indeed, the Climate Investment Funds contain an e plicit sunset clause linked to the establishment of the GCF. A further ke feature of the GCF is a commitment to provide balanced funding bet een

adaptation and mitigation, hich ould impl a different allocation to that currentl achieved globall (as sho n in Figure A1).

N ( )

. he aim of such funds is to provide a centralised pool of resources that can be allocated to individual projects and programmes according to a common, nationall -relevant set of priorities and criteria. Bangladesh, Bra il and Indonesia are among the countries that have developed a national funding entit . B allo ing funding decisions to be made at a national level, it is e pected that climate change financing ill be better placed to address or respond to developing countr concerns or priorities (such as formulated in the Ken a Climate Change Action Plan). B reducing the multiplicit of different procedures and processes associated ith acquiring funding from different sources, the can also reduce transaction costs.

. The Governing Instrument for the Green Climate Fund states that *T B a a a a a a a a a a* [emphasis added] *a a a a* [8]. The GCF is also committed to pursue countr -driven approaches and promote and strengthen engagement at the countr level through involving relevant institutions and stakeholders.

K N C F (B) K

KCCAP.

3.1.2 P

P , , - . As sho n in Figure A1, the best estimates suggest that around 60 per cent of international climate finance currentl comes from the private sector, and the Copenhagen Accord commitments e plicitl note that in pursuing the $100 billion target private sources of finance ill be used. As the Report of the Secretar -General s High Level Advisor Group on Climate Change Financing notes*: E a a a a a a - a* [9]. The are particularl relevant for (and in practice focused on) mitigation.

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A . As part of the consultation e ercise among international investors undertaken as part of the FiFit

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. Carbon market activities are (predominantl) private sector projects here it can be demonstrated that the project results in a deviation from a business-as-usual level of emissions. The deviation in emissions can be cr stallised as a credit that

- Public engagement ith sources of private finance.

As e plained in section E on the Investment Climate for Climate Investment, a ke element of financing the Climate Change Action Plan ill be to introduce reforms consistent ith these ideas, so as to catal se greater (international) private sector investment.

3.2 N

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K - , - . Belo e discuss the current state, and ke areas of debate, in relation to these resources. As above, e distinguish bet een public and private sources.

3.2.1 P

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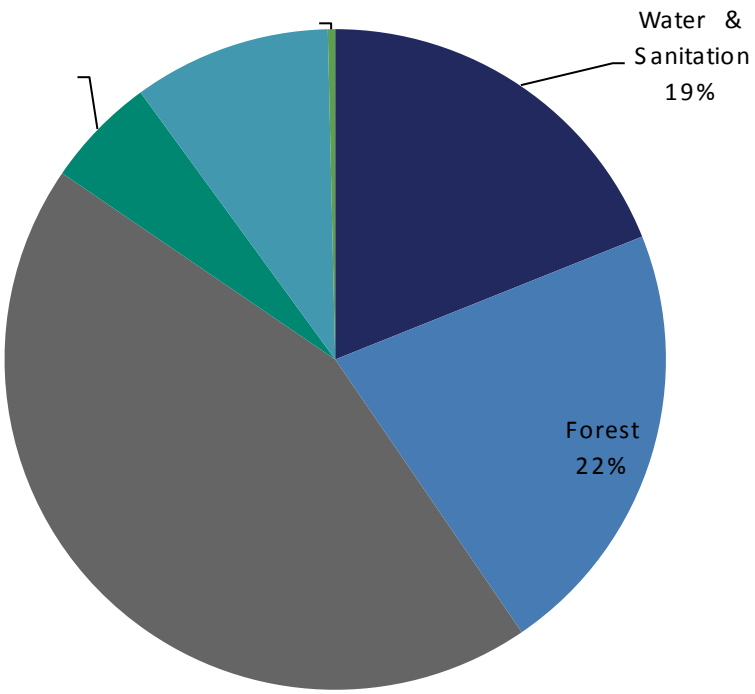
KE 37 ($450).

This is derived from some 30 to 35 ongoing projects and activities. As Figure A3 sho s, the bulk of these resources, around 45 per cent, are in the energ sector, ith forestr and land-use projects and ater and sanitation activities accounting for a further 20 per cent of resources each. Consistent ith this, the Ministr of Energ and Ministr of Environment

F A3: G K



S : KIPPRA a ASI

3.2.2 P

K

- , - , and it can build on the strong base alread established. The Ken an private sector is estimated to have invested close to $150 million in rene able energ projects alone to date, a figure that rises to in e cess of $1.2 billion if the Ken a Electricit Generating Compan and the Ken a Tea Development Authorit parastatals are included. Much of this investment has been focused on geothermal activit , but rel tive to international investors the Ken an private sector has also sho n interest in othe rene able technologies, especiall small h dro and biomass.

K

K C C A P

. It ill require a supportive investment climate ith clear and transparent regulation an ell-designed polic incentiv s. Complementing this, he judicious use of public finance can help to leverage Ken an priv te sector inv stment. This can build on the e perience Ken a alread has through such models as the Geothermal Development Corporation, a 100 perce publicl -o ned compan hich is absorbi g the earl stage drilling risks of geothermal po r production.

4. F C C A P

K C C A P

. It builds on the overall conte t provided in the previous chapter and sho s ho the ke challenges can be overcome. Further details are provided in the four subsequent sections (B-E). The e tensive research and anal sis underpinning this anal sis is also anne ed to this report.

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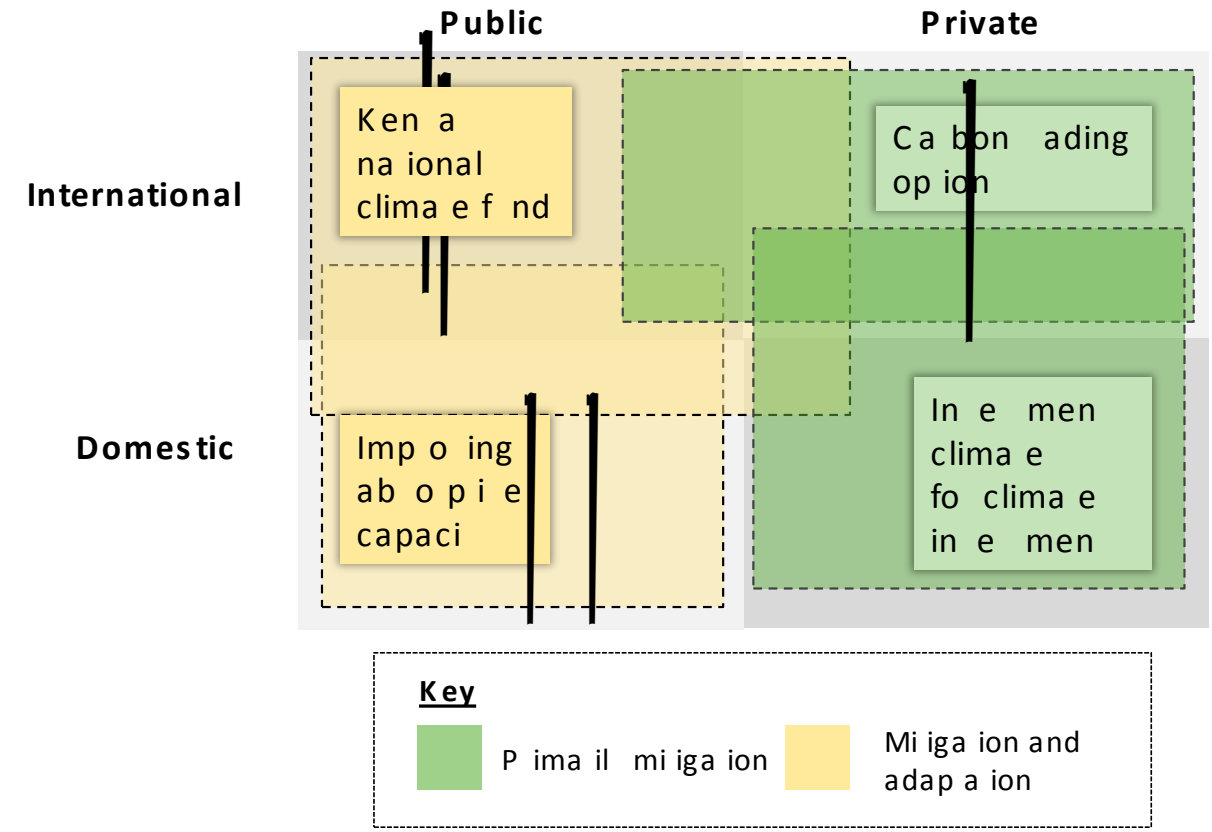
. The strateg has been developed over a series of 9 months through a revie of background literature, quantitative data anal sis (for instance, on carbon market trends) and anal sis of international precedents and e perience. A crucial part of the ork has been e tensive engagement ith Ken an and international e perts: over 70 e perts have been engaged as part of this ork. The relevant institutions consulted on are listed at the end of each section. In addition, the strategic insights and guidance provided b the Thematic Working Group (a bod of Ken an e perts convened speciall guide to this ork) have been invaluable.

. Earlier chapters in this section identified that climate finance sources can be helpfull divided into international and domestic, and, ithin this, public and private. The anal sis and actions are intended to increase the scale and effectiveness of all four of these sources. This is displa ed in Figure A4, It sho s the different forms of climate finance public and private, domestic and international and ho the recommendations cover all of these sources of climate finance. Each bo represents a section and associated set of recommendations ith the chart sho ing the e tent to hich the relate to public or private, domestic or international resources. For e ample, the absorptive capacit paper relates to domestic and international public resources. As such, the recommendations form a coherent package of actions intended to ma imise the flo s of climate finance into and ithin Ken a.

F A4:


Public
Private
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S : V E

B K N C F .

It is intended that this ould become the primar vehicle for receiving and disbursing international climate finance. In doing so, it ould aim to overcome the challenges of fragmentation associated ith the current disbursement of international public climate finance in Ken a, and build an institution ithin Ken a ith core climate finance e pertise. This e pertise, together th the adoption of robust governance arrangements, safeguards and a clear set of funding priorities (the KCCAP) should help strengthen Ken a s position as a credible and attractive destination for international public climate finance flo s. The Fund could also become a vehicle for providing public finance that might leverage greater amounts of private finance from both Ken an and overseas investors. The Government of Ken a could also commit public resources to this Fund.

C N C F
G K ,

. The process b hich the government manages funds from development agencies (as ell as its o n revenue) has a major bearing on the speed of funds disbursement to implementing agencies (e.g. line ministries or NGOs), and consequentl on the effectiveness of project implementation. The section identifies that the absorption rate of climate finance, and development finance more broadl , is lo . This is due to a range of factors, from budgeting and fund flo challenges on the part of the Treasur and line ministries, to the non-alignment of government and development partner fiscal policies and procedures, to the lack of prioritisation of climate change ithin the budget. It makes a series of recommendations to improve absorptive capacit , including continuing improvements to the government s PFM s stem, the creation of a climate change code in the budget, the standardisation of government and development agenc fiscal practices, and improvements to the modalities of project implementation. All of these ill have a direct bearing on the full design and establishment of the National Climate Fund.

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. As referenced above, and discussed in more detail in the second paper, e ternal factors mean that Ken a s access to carbon finance ill be limited in the short to medium term. This demands a strategic response: balancing the greater need for action resulting from the tough e ternal environment against the fact that the e ternal environment makes an action more risk . The paper makes a series of recommendations consisting of both institutional reforms, e.g. capacit building of the Designated National Authorit and the creation of a modest unit tasked ith promoting and marketing Ken an carbon market activit , as ell as broader polic reform options.

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. This investment climate ill be ke to unlocking the resources of the private sector, both in Ken a and verseas, so as to move Ken a onto a lo -carbon climate resilient gro th trajector . The paper identifies that, despite Ken a s strengths, there are a number of a s in hich the investment climate is hindering private sector engagement. This includes a project development process that is long and comple , a polic environment that is either deficient (in the case of rene able energ) or non-e istent (in the case of energ efficienc), a finance communit that does not et full meet the needs of projec developers and a lack of technical capacit among project developers and financial institutions. It identifies a series of targeted interventions to overcome these eaknesses including the creation of a one-stop

rene able energ ; improvements to the Feed-in Tariff regime; the development of a national energ efficienc polic and greater co-ordination of technical assistance programmes. The implementation of these interventions ould be an important complement to the Ken a National Climate Fund and carbon trading platform.

1 Government of Ken a, National Climate Change Response Strateg , (April 2010)
2 UNFCC, Draft decision -/CP.15 Copenhagen Accord (18th DecembDecemTf (th)[(De) 4 (c) 5 T 2010)