



# CLIMATE CHANGE SPENDING IN ETHIOPIA

Recommendations to bridge the funding gap for  
climate financing in Ethiopia



Civil Society and government representatives attending the round table discussion on 'Ethiopia's climate finance study' on 9<sup>th</sup> November 2015, Hilton Hotel, Addis Ababa. Photo: Tigist Gebru, Oxfam

The Government of Ethiopia considers climate change as one of its priorities in responding to the country's long-term development needs. The nation's widely acclaimed Climate Resilient Green Economy strategy has called for annual spending of USD 7.5 billion. With federal budgetary resources for climate change relevant actions estimated to be in the order of USD 440 million per year, and international sources adding an uncertain amount that may be in the tens of USD million per year, there appears to be a major financing gap. Therefore, if the CRGE strategy is to be delivered, much more effort needs to be exerted to mobilise additional resources both domestically and externally.

## **Key recommendations to improve the effectiveness of climate finance delivery**

- Consideration should be given to develop a national system to track climate change spending on adaptation and mitigation within the federal budget. An entry point for the development of such a system could be through its integration with the GTP II planning and budgeting process.
- Climate change relevant spending that does not pass through the federal budget (from both domestic and international sources) should be collated in a manner consistent with the federal budget to allow for a comprehensive assessment of all relevant funding.
- The Government's National Capacity Development Programme (2016-2020) provides an opportunity to raise awareness among sector ministry planners on the likely climate change outcomes of their development planning, and to develop an appropriate planning, reporting and budgeting structure to ensure that public investments are climate 'smart'.
- Awareness raising and technical support relating to planning for and reporting on climate change are identified gaps; and these should be provided to Regional, Zonal and Woreda level staff. Options to develop the budget system at these levels of the government administration to capture climate change relevant programme/project spending should also be explored.
- Rural communities' engagement in activities that enhance landscape carbon stocks should be valued for capturing domestically mobilised climate mitigation finance.
- Climate change policy development would benefit from creating additional space for non-government actors (including micro and small business entrepreneurs and community leaders) to participate in policy influencing platforms around climate finance.
- Increased financial support from the international community is needed to complement the significant domestic resources being allocated to climate change actions. International commitments on climate finance need to be realised. This is now a matter of urgency for Ethiopia, and for many other African States.

## Introduction

Public spending on climate change actions, either for measures that increase the resilience of communities to climate-related shocks or those that promote low carbon development, is expected to increase as new government programmes and projects are implemented and existing programmes augmented to address climate change issues. In this context, the present level of such spending can offer important insights as to how far the country's climate change policy, the Climate Resilient Green Economy strategy, has progressed. However, this type of analysis - a public expenditure review of climate change actions - has not been made before in Ethiopia. In response to this gap, in 2014 the Climate Science Centre of Addis Ababa University, in collaboration with the Overseas Development Institute of London, carried out an analysis of federal spending to estimate the level of public spending on climate change.

Public expenditure on climate change can come from a variety of sources. These include international climate funds, bilateral and multilateral donor funds, public funds, and private sector finance. As a starting point, public funding allocated through the federal budget was selected for study, as such spending is most closely aligned with national policy setting and institutional arrangements. In the 2014 study, a four year period was reviewed, between 2008/2009 and 2011/12, which represented the most recent available budget data.

Twenty three Federal Agencies were identified based on their policy engagement and spending over the four year period and a total of 158 expenditure lines from the development budget were classified as being climate change relevant. All these expenditures were then categorised based on the degree of their relevance to climate change. This approach allowed a first, broad estimate to be made of climate change relevant expenditure that passes through the federal budget<sup>1</sup>.

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<sup>1</sup> The detailed methodology and in-depth results are documented in the report '*Climate Finance in Ethiopia*', available at: <http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8995.pdf>

## The policy context

The vulnerability of Ethiopia to the adverse impacts of climate change has spurred much policy debate in recent years and Ethiopia is one of the few countries to have formally merged its aims of developing a green economy with building greater resilience to climate change under a single policy framework: the 2011 Climate Resilient Green Economy (CRGE) Strategy. Significantly, the CRGE has now been mainstreamed into the national development plan, the Growth and Transformation Plan II (2015-2020).

Public investment initiatives that have been selected to fast-track the implementation of the green economy element of the CRGE strategy include hydropower development, rural cooking technologies, the livestock value chain, and forestry development. These initiatives represent a rational policy prioritization as they offer the prospect of immediate economic growth, large carbon abatement potential, and are attractive to international climate finance funding sources. The adaptation (or climate resilience) part of the strategy has developed more slowly and this now needs to be enhanced so as to secure the livelihoods of those most vulnerable to climate change. In that context, the fast tracking of the climate resilient strategies for the agricultural, forestry and water sectors demonstrates effective sector prioritisation by Government.

## The institutional context

Following the 2009 climate change conference in Copenhagen the then Environmental Protection Authority (EPA) became the national flagship institution for climate change. The EPA oversaw the development of the CRGE strategy that has shaped Ethiopia's approach to climate change. In 2014 the EPA evolved into a new Ministry of Environment and Forests and then, in 2015, it became the Ministry of Environment, Forests and Climate Change (MEFCC). This new ministry will play a leading role in matters relating to climate change, nationally as well as internationally. This rapid institutional evolution demonstrates the government's determination to consider climate change as one of the priority areas in dealing with the country's long-term development needs.

A second institutional innovation is the CRGE Facility established within the Ministry of Finance and Economic Development, now the Ministry of Finance and Economic Cooperation (MoFEC). Designed as a single, national funding mechanism, this Facility is intended to make the administration of funds easier for the government to drive and manage international climate funds, donor funds and domestic resources in a coordinated manner. The inter-ministerial collaboration between MoFEC and MEFCC in managing the CRGE Facility is a key institutional arrangement that will underpin the effective implementation of the programmes set out in the CRGE strategy.

Implementing the CRGE strategy will require a major transformation of the entire government administration. As already acknowledged in government's National Capacity Development Programme, considerable public investment is now necessary to strengthen the capacity of the government ministries and agencies charged with the responsibility for implementing climate change programmes at all levels of government.

## Climate change public spending at the federal level

The public expenditure analysis of the federal budget found that climate change relevant spending fluctuated quite considerably between 2008 and 2012, reflecting the start-up of major development projects. The estimated average annual percentage share of such expenditure over the four years was 15 percent of total government expenditure, representing 1.8 percent of GDP.

*Figure 1: Climate change relevant expenditure at federal level as a percentage of GDP (million Birr)*

Budget year	Total climate relevant expenditure (million Birr)	Climate change relevant expenditure (% GDP)
2008/09	5,945	1.5
2009/10	10,263	2.3
2010/11	8,409	1.7
2011/12	9,970	1.8

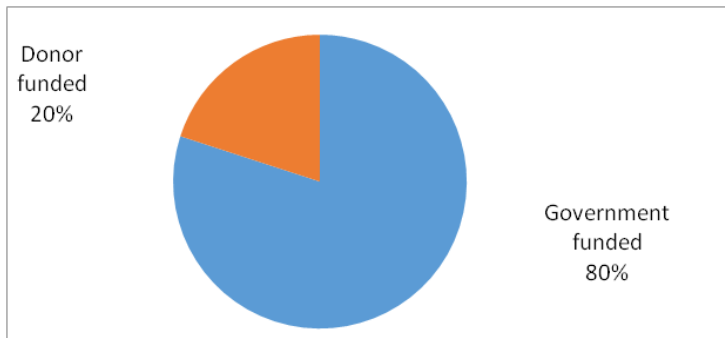
Most climate change relevant spending over the four year period was found in investment programmes where responding to climate change was a secondary objective of the expenditure. This pattern of spending is consistent with a government resource prioritisation plan that focuses on economic development, whilst taking climate change into consideration. Significant investments were found in agriculture and infrastructure development, such as renewable energy generation (e.g. hydro, geothermal and wind power), to ensure food security and the promotion of industrial growth. However, this expenditure was found to have low budget credibility, with execution rates of between 25 and 35 percent, suggesting that many climate change related programmes are suffering from delays in implementation.

Spending was concentrated in relatively few federal Ministries and Agencies. The Ministry of Agriculture and the Ministry of Water, Irrigation and Energy hosted approximately three quarters of the total climate change relevant programmes in 2011/12, followed by the Ministry of Health, the Environmental Protection Authority, and the Ministry of Urban Development and Housing Construction. This represents a logical prioritisation of sectors where the early impacts of climate change can be expected to be significant.

At least for its on-budget spending, Ethiopia depends mostly upon its own resources for financing the public investment programmes designed to address climate change. The international community has yet to meet its various commitments of pledged support.

For example, government federal spending on climate change relevant development investments in 2011/12 accounted for approximately 80 percent of the relevant expenditure; donor support accounted for 20 percent.

*Figure 2: Source of climate change relevant funding, 2011/12*



## Climate change spending at the Woreda level

Financial resources at the Woreda level come mainly from federal transfers through the regions. Local government planning, and corresponding budgeting, is carried out to comply with national development plan targets, following a framework plan determined at federal and regional levels. At the Woreda level there is therefore very little flexibility, if any, to include additional activities beyond this framework. This raises significant challenges for new demands on public spending, such as for climate change actions. However, with the mainstreaming of the CRGE strategy into the GTP II, there is now potential for climate change related funding opportunities to appear at the Woreda level.

A major constraint to such actions is that the causes, impacts and possible responses to climate change are poorly understood amongst district government officials. A range of activities that are relevant to the response to climate change, e.g. early warning systems for floods and droughts, integrated watershed development and the diversification of income sources that increase the resilience of vulnerable communities, need to be explicitly recognised as such.

## The effectiveness of public spending on climate change actions

The effectiveness of climate finance delivery depends on the linkages between policy formulation, the institutional architecture of implementing agencies and the national budgetary system. These interactions are complex and are dependent on there being sufficient capacity to secure successful implementation. Much progress has been made on developing an overarching policy framework for climate change in Ethiopia: the CRGE strategy. This national strategy, which is now fully mainstreamed into the national development plan, provides guidance for both the coordination and implementation challenges that confront the country's response to climate change. In many respects, the trajectory of the government's delivery programme has been set.

There is now an opportunity to build on this first climate change public expenditure review to develop a system that tracks the level of public spending on both mitigation and adaptation actions within the national budget. Such a system would allow the government to readily identify gaps in funding, thus improving the coordination and management of the CRGE strategy. By demonstrating Government's own investment on climate change actions in a transparent way, it would also strengthen the case for an increased contribution from international climate funds.

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