

Climate and Development Outlook

Stories of change from CDKN



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Helping developing countries to design and deliver climate compatible development

Ethiopia Special Edition

ETHIOPIA'S LEADERSHIP ON CLIMATE CHANGE

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Ethiopia has long been associated with extreme climate events. From devastating droughts and famines – particularly in 1984 and 2003 – to the severe flooding in 2006, it has emerged not only as one of the countries most affected by a changing climate, but also as one of the African nations most committed to dealing with climate change. Strong political leadership and an understanding of the importance of climate finance have driven Ethiopia's commitment to the goals of sustainable development.

People at all levels of Ethiopian society have noticed changes in the climate, with 70–80% of the agrarian population already affected. There is an awareness that the traditional weather patterns have changed and that there is a need to do things differently and adapt to the new conditions. While local media outlets have updated, warned and advised Ethiopians on the changes in the climate, there is also recognition that the Government is trying to address the issue, with government and donor support working

on the ground to assist people to adapt to climate change.

Coupled with this action on the ground, the Government of Ethiopia has put efforts into improving its finance architecture, an area of work that CDKN has supported.

A SNAPSHOT OF ETHIOPIA

Agriculture remains the main driver of Ethiopia's economy, contributing to more than 42% of the national GDP and 84% of national exports, and providing over 80% of employment opportunities nationwide. Smallholder production is the dominant agricultural system in Ethiopia, largely based on rainfed agriculture. Against this background, and given Ethiopia's generally low level of economic development, it ranks as one of the countries at most "extreme risk" from climate change according to assessments by the Second National Communication to the United Nations Framework Convention on Climate Change (UNFCCC, 2014) and the National Adaptation Programme of Action (2007).

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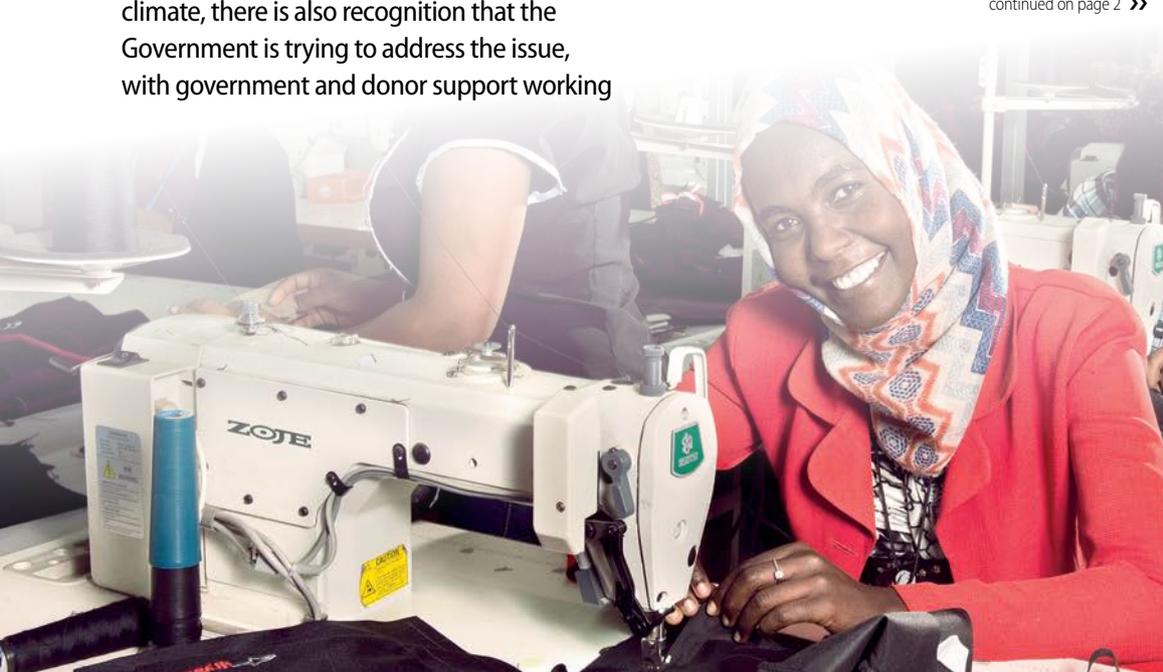
Key areas for CDKN support in Ethiopia

- Enhancing Ethiopia's capacity to attract and channel climate finance, and strengthening the ability of government ministries to design, manage and coordinate climate change programmes.
- Supporting the Government in delivering its Nationally Determined Contribution (following Ethiopia's 2015 submission of its Intended Nationally Determined Contribution, the first by a Least Developed Country).
- Strengthening the skills of Ethiopian climate change negotiators to navigate international processes and positively influence outcomes of the United Nations Framework Convention on Climate Change.
- Supporting government ministries to manage and disseminate information about the Climate Resilient Green Economy strategy, and increasing the prominence of the strategy's ambitions and achievements both nationally and internationally.

For more information see <http://cdkn.org/regions/ethiopia/>

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- national investment in green energy and transport
- supporting the market for geothermal risk insurance products
- lessons learned in climate finance
- assessing the green growth potential of Ethiopian industry





NATIONAL INVESTMENT IN GREEN ENERGY AND TRANSPORT

Ethiopia is making substantial investments in natural resource management, including afforestation or reforestation of several million hectares of degraded land. This action is attracting voluntary labour from local communities. At the same time, green energy is being developed through hydro, wind and solar technology. A low-emissions transport sector is also being promoted by constructing 5,000 km of railway network using clean energy. For example, the 34-km Addis Ababa Light Rail Transit started operating in 2015. It was built using national investment enabled through a loan from China's Export-Import Bank. The system will reduce 9 million tons of carbon dioxide equivalent (t CO₂e) per year from the business-as-usual baseline. Meanwhile, the recently completed 750-km railway connecting Ethiopia with Djibouti will help to boost the country's growing import-export trade.

- Ethiopia's INDC: <http://www4.unfccc.int/submissions/INDC/Published%20Documents/Ethiopia/1/INDC-Ethiopia-100615.pdf>
- Ethiopia's Climate-Resilient Green Economy Strategy: <http://www.undp.org/content/dam/ethiopia/docs/Ethiopia%20CRGE.pdf>

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In Ethiopia, there is a recorded increase in seasonal mean temperatures. This climate change threat has significant implications, given the reliance of many communities on rainfed agriculture. The dependence on agriculture, and challenge of persistent, inadequate access to water, has ensured that the dire situation facing these rural communities will continue.

Ethiopia's exposure to drought and floods is influenced by the El Niño/La Niña phenomenon. In 2015/16, Ethiopia experienced one of the worst droughts in decades, with below-average rainfall leading to 50–90% harvest failure, and dried-up water sources affecting more than 10.2 million people. In Ethiopia, drought episodes have been recorded every few years since the early 1970s, the worst episode occurring in 1984–85, and are becoming more frequent (in 1991, 1994, 1997 and 2003).

Despite this, Ethiopia has committed to rapid and sustainable development, and has achieved an average economic growth rate of 10.8% per year between 2003/04 and 2011/12. The Government and the International Monetary Fund expect the country's economy to continue to be one of the world's fastest-growing over the coming years. Ethiopia's Growth and Transformation Plan, a 15-year overarching national plan initiated in 2010, commits Ethiopia to reaching lower-middle-income status by 2025. The growth that has been achieved so far has seen the country's GDP per capita increase from US\$162.1 in 2006 to US\$631 in 2014. This growth has contributed to significant poverty reduction in urban and rural areas. Pro-poor spending on education, health and other essential aspects of the social safety-net system have further benefited the poor and marginalised. These efforts helped avert famine and mass suffering when

drought struck the country in 2011 and 2015, in contrast to the tragic events under similar circumstances in preceding decades.

At the end of 2015, the Prime Minister of Ethiopia, Hailemariam Desalegn, highlighted why his country is taking climate change seriously. "The impacts of climate change are undermining the fruition of our development efforts," he said, recognising that climate change has the potential to hold back economic progress, or even to reverse the gains already made in Ethiopia's development.

A few months before, in June 2015, Ethiopia had confirmed its climate leadership status, being the first Least Developed Country to submit its Intended Nationally Determined Contribution (INDC) to the UNFCCC. Ethiopia's submission was one of the most ambitious to be put forward ahead of COP21. The INDC pledges far-reaching short- and long-term actions that will meet Ethiopia's adaptation and emissions reduction goals, as set out in the national climate policy – the Climate Resilient Green Economy (CRGE) strategy. Ethiopia pledged its intention to reduce annual greenhouse gas emissions from 150 megatons (Mt) CO₂e in 2010 to 145 Mt CO₂e in 2030. This equates to a 64% reduction from the business-as-usual projection. The INDC also outlines how Ethiopia intends to address the implications of climate change with robust adaptation plans. As a country with low emissions and pressing development needs, Ethiopia is leading the way by setting ambitious targets in its INDC. The country's actions illustrate how 'going low-carbon' can actually be seen as an opportunity to take a path towards attaining middle-income status.

CDKN SUPPORT FOR CLIMATE FINANCE IN ETHIOPIA

Implementation of the CRGE strategy is estimated to cost US\$150 billion over the next 20 years. The Government of Ethiopia has established the CRGE Facility, a national fund to mobilise both national and international resources. CDKN support, designed to boost Ethiopia's prospects of accessing additional climate finance, has included assistance to the Ministry of Finance and Economic Cooperation (MoFEC) with its accreditation applications. MoFEC was accredited in March 2016 as the National Implementing Entity (NIE) for the Green Climate Fund and the Adaptation Fund, and is now able to access funds directly for adaptation or mitigation initiatives.

In parallel, CDKN facilitated knowledge exchange in which the CRGE Facility personnel learned from staff in Rwanda's Ministry of Natural Resources (accredited to the Adaptation Fund). This initiative was linked with a Kenyan workshop that brought African stakeholders together for the first time to gather awareness on accreditation to the fund. As a result, CDKN was able to help MoFEC align its fiduciary and environmental due diligence with the fund requirements and to submit its application for accreditation to the both the Green Climate Fund and the Adaptation Fund.

As part of this work, CDKN liaised with the Green Climate Fund readiness programme, which sent experts to Ethiopia to identify the support required to ensure Ethiopia is ready to obtain finance. CDKN also prepared a handbook to guide the Government in formulating its strategy and preparing proposals for the two funds.

Since accreditation was achieved, work has shifted to guide the submission of bankable programmes to the two funds. This work focuses on projects that increase resilience capacity, or deliver increased resilience with mitigation co-benefits for the most vulnerable communities. It is hoped that these proposals will unlock the necessary funds, enabling Ethiopia to implement its ambitious plans.

SUPPORTING THE MARKET FOR GEOTHERMAL RISK INSURANCE PRODUCTS: A NOVEL PRIVATE SECTOR PARTNERSHIP

Ethiopia has significant geothermal energy potential. The country plans to develop this resource through private sector participation and, in 2015, the Government signed a landmark power purchasing agreement with Corbetti Geothermal PLC. However, project developers face large upfront costs and high levels of uncertainty when exploring and developing new geothermal fields. Insurance can be a cost-effective solution to reduce these risks, but the Ethiopian insurance industry has limited experience in this sector.

To address this, CDKN supported Parhelion Underwriting and Geothermex to raise the awareness of industry stakeholders on insurance for development drilling wells

and to improve the local insurance industry's technical skills and capabilities. The initiative provided training for local insurance companies and geothermal project developers, prompting interest from Berhan Insurance and the Ethiopian Insurance Company in new products and opportunities to support geothermal resource development.

The process has resulted in underwriting proposals from Reykjavik Geothermal for further development. The project also engaged public sector donors to highlight how they can direct their investments strategically into drilling risk insurance and capacity building activities in Ethiopia.



LESSONS LEARNED IN CLIMATE FINANCE

- The process of accreditation to international climate funds requires assessment of a country's fiduciary management as well as in-depth understanding of a variety of governance aspects. The NIE is only one of the relevant institutions that need to be assessed, so it is important to include all relevant institutions early in the accreditation process.
- The NIE needs to present evidence demonstrating the effective use of existing systems and operational documents at different levels of government. In Ethiopia, close engagement between MoFEC and fund management staff during the accreditation process helped to achieve a successful result.
- Before submitting programmes for funding, it is important to strengthen existing national systems and practices, since fund disbursement depends on good national programme design practices.
- Finally, it is important to get the right balance between competing priorities in funding proposals. Finding a realistic solution requires a high level of flexibility, and a willingness to listen and to support national priorities and processes. It also demands an adaptive management system for learning and evaluation.

“We believe there are great opportunities in growing our country in a way that is green by developing clean energy sources including hydropower, wind, geothermal and others. We have embarked on ensuring that we are not only energy self-sufficient, but are also able to become a net exporter, contributing to greening the energy sector in neighbouring countries.”

HIS EXCELLENCY KARE CHAWICHA, STATE MINISTER OF ENVIRONMENT AND CLIMATE CHANGE

RESEARCH ASSESSES GREEN GROWTH POTENTIAL OF ETHIOPIAN INDUSTRY

In Ethiopia, great progress has been made to mainstream climate considerations into the agricultural and energy sectors, but more can be done to integrate climate in the fast-growing industrial sector. A CDKN research project, carried out by University College London, the Ethiopian Development Research Institute, the University of Reading and Quantum Global Research Lab aims to support industrial-sector green growth strategies at a crucial time in Ethiopia’s development.

It is expected that the industrial sector, currently growing at 21.2% a year, will feature heavily in Ethiopia’s next Growth and Transformation Plan. A CDKN-supported project will contribute to unlocking the green growth potential of this sector. Project leader Professor Yacob Mulugetta explains: “the leather and garment industries make up a substantial and growing

portion of Ethiopia’s exports and are expected to grow in the coming years. Similarly, the cement industry will continue to grow as Ethiopia industrialises and urbanises. These three sectors present significant opportunities for greening industrial processes in Ethiopia.” He adds, “mainstreaming the Climate Resilient Green Economy strategy into the country’s industrial policy and practices will have multiple benefits, such as implementing resource efficiency measures that add value to the economy in the long-term.”

The research team has evaluated the governance and policy frameworks, build baseline data on resource flows, and assess existing innovation systems. They will collaborate with policy-makers and development practitioners to identify sound proposals that the government and others could take forward.

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aims to help decision-makers in developing countries design and deliver climate compatible development. We do this by providing demand-led research and technical assistance, and channelling the best available knowledge on climate change and development to support policy processes at the country and international levels.

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