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The Untapped Potential of Global Climate Funds for Investing in Social Protection

Summary

Social protection plays a central role in achieving several of the social and environmental goals of the 2030 Agenda for Sustainable Development. As a result, this policy area is gaining increased recognition at the nexus of global climate change and development debates. Various social protection instruments are deemed to have the potential to increase the coping, adaptive and transformative capacities of vulnerable groups to face the impacts of climate change, facilitate a just transition to a green economy and help achieve environmental protection objectives, build intergenerational resilience and address non-economic climate impacts. Nevertheless, many developing countries that are vulnerable to climate change have underdeveloped social protection systems that are yet to be climate proofed. This can be done by incorporating climate change risks and opportunities into social protection policies, strategies and mechanisms. There is a large financing gap when it comes to increasing social protection coverage, establishing national social protection floors and mainstreaming climate risk into the sector. This necessitates substantial and additional sources of financing.

This briefing paper discusses the current and future potential of the core multilateral climate funds established under the United Nations Framework Convention on Climate Change (UNFCCC) in financing social protection in response to climate change. It further emphasises the importance of integrating social protection in countries' Nationally Determined Contributions (NDCs) to access climate finance and provides recommendations for governments, development cooperation entities and funding institutions.

To date, investments through the Green Climate Fund (GCF), the Adaptation Fund (AF), and the Global Environment Facility (GEF) for integrating climate change considerations into social protection programmes, policies and mechanisms are generally lacking, even though social transfers and subsidies have often been used to implement climate change projects. Yet, these climate funds can support governments in mainstreaming climate risk into social protection-related development spheres and aligning social security sectoral objectives with national climate and environmental strategies. This, in turn, can help countries increase their capacity to tackle the social and intangible costs of climate change.

This paper makes the following recommendations:

- Funding institutions should make explicit reference to opportunities for financing projects on social protection under their mitigation and risk management portfolios.
- National governments and international cooperation entities should use climate funds to invest in strengthening social protection systems, work towards improved coordination of social protection initiatives, and utilise the potential of NDCs for climate-proofing the social protection sector.
- Proponents of social protection should make the most of two major opportunities to boost climate action in the social protection domain: the 2021 United Nations Climate Change Conference (COP26) and the momentum to build back better after the COVID-19 crisis.

Introduction

Social protection is an essential policy area in the 2030 Agenda for Sustainable Development. Sustainable Development Goal (SDG) 1.3 acknowledges the need to establish national social protection systems, including floors that provide the poor and vulnerable with basic income security and access to essential healthcare. SDG 10.4 stipulates the importance of achieving equality through labour and social protection policies. Key instruments of social protection include (1) social assistance programmes (non-contributory social transfers, such as cash transfers, public works programmes, social pensions, family allowances, subsidies and fee waivers); (2) contributory social insurance and microinsurance schemes; (3) social health protection; (4) social services and housing; and (5) labour market interventions. These mechanisms have the potential to strengthen the capacity of the most vulnerable to respond to climate-related shocks, adapt to a changing environment, and cope with irreversible losses due to climate change (e.g., loss of land and ecosystems) (Aleksandrova, 2019). Importantly, many social protection schemes are suitable tools for facilitating a just transition to a green economy through support of workers and affected communities and can help promote environmental conservation and restoration initiatives. A distinct benefit of investing in social protection systems is the opportunity to build intergenerational resilience and address social and intangible climate impacts, such as those on health, inequality and social cohesion.

To date, social protection coverage in developing countries remains inadequate, while fragmented social assistance programmes dominate the development and humanitarian aid to countries with high poverty levels. There is also a huge financing gap in social protection – recently estimated (in light of the COVID-19 pandemic) at USD 1.2 trillion or 3.8 per cent of the gross domestic product of developing countries (Durán-Valverde et al., 2020). The physical effects of climate change put additional pressure on countries with weak social protection systems as they undermine efforts to fight socio-economic deprivation, create new risks not covered by existing schemes, and put more people in need of temporal or permanent social assistance. Therefore, finding additional sources of finance to climate-proof the sector (i.e., incorporating climate change risks and opportunities into social protection policies, strategies and mechanisms) is of utmost importance to the numerous developing states that are highly vulnerable to the impacts of climate change. Encouragingly, world leaders pledged an ambitious increase in climate finance for adaptation and resilience at the recent Climate Adaptation Summit (25-26 January 2021).

Tapping climate finance for social protection through the Financial Mechanisms of the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement can help countries increase their capacity to tackle the social and intangible costs of climate change.

UNFCCC's climate funds: a missed opportunity to invest in the social protection sector?

A review was conducted of selected adaptation and mitigation project portfolios of the Global Environment Facility (GEF) Trust Fund, the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF), the Adaptation Fund (AF) and the Green Climate Fund (GCF) to explore what role these funds have played in fostering climate action in the social protection domain. The main findings are presented in Table 1 and discussed below.

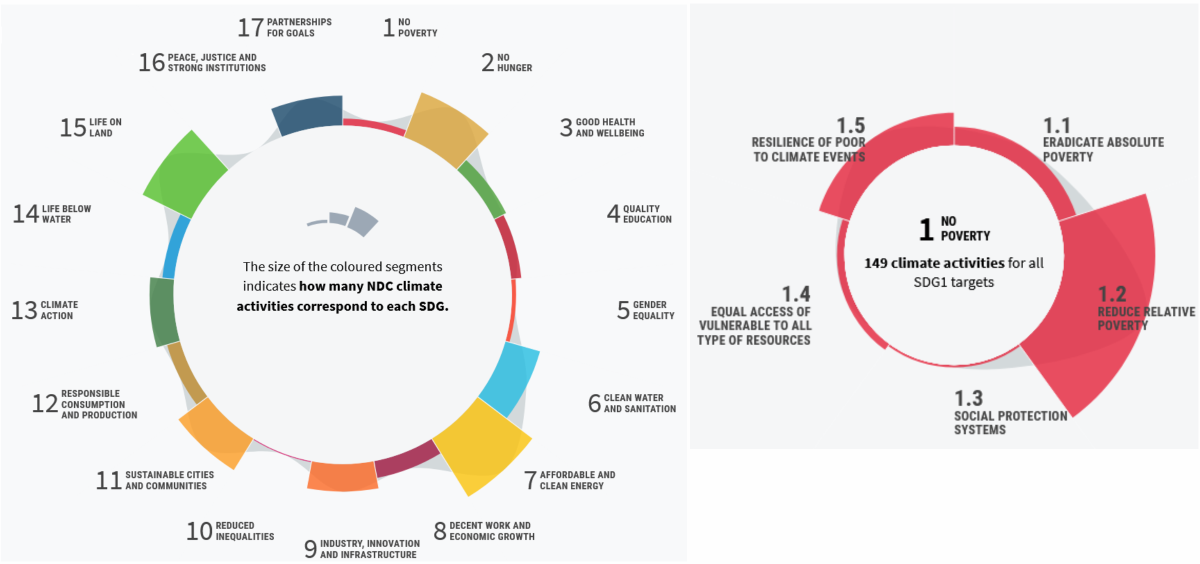
Table 1: Social protection instruments used in projects funded by the UNFCCC's Financial Mechanisms

Climate action area	Typology of financed climate actions with a social protection element
Agriculture, livestock and rural livelihoods	Social transfers (e.g., conditional cash transfers, food- and cash-for-work programmes) and subsidies/vouchers to implement climate actions aimed at promoting sustainable and climate-resilient practices in rural regions, diversification of income, and access to sustainable and clean energy
Disaster risk reduction	Seasonal employment guarantee scheme linked to flood risk management plans Shock-responsive social protection (project site)
Ecosystem management	Public works programmes for landscape restoration Conditional cash transfers for ecosystem protection
Green and resilient housing	Construction or retrofitting of "green" (energy efficient/renewable energy) and resilient social housing units Subsidies and interest-free loans for resilient housing (e.g., in flood-prone urban areas)
Human mobility: migration and planned relocation	Establishment of migrant community service centres Social assistance schemes to relocate communities living in high-risk areas
Infrastructure	Social transfers (mainly food- and cash-for-work programmes) for rehabilitation of green and grey infrastructure
Finance, technology and innovation	Social transfers (e.g., conditional cash transfers, food- and cash-for-work programmes) and subsidies/vouchers to implement climate actions aimed at supporting access to sustainable and clean energy, insurance, and finance

Note: The review of projects was undertaken between March and April 2020. The number of projects screened for keywords with applied search settings in funds' databases is 1,637 (GEF), 100 (AF) and 124 (GCF).

Source: Author

Figure 1: Climate action coverage of SDG 1.3 in the NDCs (global average)



Source: Author, based on NDC-SDG Connections tool (Brandi et al., 2017). Accessed on 30.01.2021.

Social transfers (e.g., conditional cash transfers, food- and cash-for-work programmes) and subsidies are widely used to implement project activities aimed at promoting the adoption of green technology, as well as sustainable and climate-resilient agricultural practices; improving basic rural infrastructure; and restoring and protecting ecosystems. These schemes are mostly of a short-term nature since they are designed as project activities and do not result in the institutionalisation of social protection mechanisms.

The results further show that the **allocation of funds to climate-proof social protection systems is insufficient.** There are only a few examples of financed climate change adaptation and mitigation actions that also envisage the establishment of long-term social protection programmes or institutional capacities such as the restoration of forested land through piloting and scaling-up public works programmes linked to social welfare support and national environmental and climate goals ("Namibia Integrated Landscape Approach for Enhancing Livelihoods and Environmental Governance to Eradicate Poverty", a project funded by the GEF Trust Fund); the development of mechanisms, including subsidies for low-income housing and incentive schemes for relocating communities in Comoros ("Strengthening Comoros Resilience Against Climate Change and Variability", a project funded by the LDCF); and investment in climate-resilient and low-carbon social housing in Mongolia through strengthening the sectoral policy environment and institutional capacities ("Ulaanbaatar Green Affordable Housing and Resilient Urban Renewal", a project funded by the GCF).

These funds can support countries in mainstreaming climate risk into social protection-related development spheres and aligning social security sectoral objectives with national climate and environmental strategies. In particular, the GCF could be a core financing modality for social protection. First, the Fund supports both mitigation and adaptation initiatives through a diverse set of financial instruments. Second, it has the potential to finance non-economic climate impacts and risk retention measures (UNFCCC, 2019); and it was recently mandated to cover projects addressing loss and damage. Third, the Fund's Readiness Programme provides dedicated support for strengthening institutional capacities and policy and planning processes (e.g., the formulation of National Adaptation Plans) with priority countries being Small Island Developing States, Least Developed Countries and Africa, where social protection coverage is lowest. The GCF is also uniquely positioned to finance countries to develop and implement social protection measures aligned with pro-poor and inclusive green growth strategies, for example, in the fields of access to green energy and labour market interventions, among others.

Additionally, the LDCF, the SCCF and the AF provide grants for adaptation projects that capture a wide array of priority sectors, such as health, disaster risk reduction, food security, and ecosystem-based adaptation (UNFCCC, 2019) – impact areas where investing in social protection could play a vital role in establishing long-term support mechanisms for the poor and socially marginalised populations.

Integrating social protection into NDCs: an essential step towards catalysing climate finance

The inclusion of social protection into Nationally Determined Contributions (NDCs) would give a strong indication to finance institutions of the primacy of the sector. NDCs reflect countries' goals to reduce greenhouse gas emissions and build resilience to climate impacts in line with their national circumstances and capacities. However, an analysis of how NDCs could contribute to advancing SDGs reveals that, to date, national climate ambitions remain altogether disconnected from social protection-related goals like no poverty (SDG 1) and reduced inequality (SDG 10) (Figure 1). Only about 2 per cent of the climate activities related to SDG 1 in the submitted NDCs add to reaching target 1.3 on improving social protection systems.

One of the factors that likely conditions these trends, is that related global and national policy frameworks still function in silos. Social protection policies and institutions span multiple sectors (like health, social security, disaster risk reduction, education, migration, labour, etc.) while policy coherency remains a challenge across levels of governance. Social protection has already gained acknowledgement in international frameworks for climate resilience including the Sendai Framework for Disaster Risk Reduction 2015-2030, the Strategic Framework 2018-2030 of the United Nations Convention to Combat Desertification (UNCCD), and the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts (WIM). However, established climate risk management policy and practice by and large view social protection as a climate risk management instrument (particularly social assistance programmes) rather than a sector and system that need to be climate proofed (Aleksandrova, 2019). Meanwhile, climate change mitigation agendas advance towards recognising the importance of social protection in greening national economies and labour markets, but in isolation from discourse around its role in adaptation and risk management. NDCs can help dismantle the silos by bringing these policy spheres together and creating a coherent vision for the sector in the national climate agendas.

Recommendations

Funding institutions should make explicit reference to opportunities to finance projects on social protection under their mitigation and adaptation portfolios. This could, first, reduce the gap in their current coverage of risks related to a limited support for managing intangible and broader social impacts of climate change. Second, it could incentivise demand from developing countries for strengthening their social protection capacity in the face of the climate crisis. And third, it could help achieve climate change adaptation and mitigation objectives by reaching the most vulnerable groups in society.

National governments and development cooperation entities must first use climate funds to invest in strengthening social protection systems, for example, by securing funding for climate services, developing sectoral risk strategies, strengthening institutional capacities, testing and scaling up innovative social protection programmes, and creating long-term finance strategies and fiscal spaces to ensure adequate and sustainable financial flows. Second, these stakeholders should work towards improved coordination of social protection initiatives and utilise the potential of NDCs and the relevant policy and collaborative initiatives (e.g., the European Green Deal and the NDC Partnership) to link social protection with climate action.

Recovery from COVID-19-related setbacks will be high on the agenda of the imminent UN Climate Change Conference (COP26) in Glasgow. The pandemic has revealed the crucial nature of social protection in responding to a high-impact crisis with major implications for social security and, thus, mirrors global warming and its potential impacts. Therefore, **proponents of social protection** should seize the opportunity to boost climate action in the social protection domain at COP26 and use the momentum to build back better after the COVID-19 crisis.

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Dr Mariya Aleksandrova
Senior Researcher
"Environmental Governance and Transformation to Sustainability"
German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

Caitlyn Eberle contributed to the research.

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