

act:onaid

CLIMATE FINANCE & JUST TRANSITION

CASE STUDY: THE NETHERLANDS

DISCUSSION PAPER, FEBRUARY 2021





Taposhi Rani crossing flood water to reach to her home. Kurigram, Bangladesh © Fabeha Monir/ActionAid

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inhoudsopgave

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Glossary

Adaptation activities intend to reduce the vulnerability of human or natural systems to the current and expected impacts of climate change.

Reporting of climate finance to the UNFCCC is done both in the National Communications (reported every four years) and the **biennial reports**. The most comprehensive reporting on climate finance is in the biennial reports, using the Common Tabular Format (CTF) developed by the UNFCCC.

Concession loans are loans that are offered with terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by grace periods, or a combination of both. **Non-concessional loans** are market-equivalent loans with a much higher debt burden and should not be counted as ODA.

Gross National Income (GNI) is the total amount of money earned by a nation's people and businesses. It is used to measure and track a nation's wealth from year to year. The number includes the nation's gross domestic product plus the income it receives from overseas sources.

A **guarantee** is a financial instrument similar to an insurance policy. For a fee, it provides financial compensation for the financier if the borrower is not able to pay back. It is a risk sharing tool where a guarantor (usually a donor agency) compensates a pre-defined part of the loan amount, making financing of the development projects less risky for the financiers

Least developed countries (LDCs) are **low-income countries (LICs)** confronting severe structural impediments to sustainable development. They are highly vulnerable to economic and environmental shocks and have

low levels of human assets. There are currently 46 countries on the list of LDCs which is reviewed every three years by the Committee for Development (CDP).

Mitigation investment projects contribute to the objective of stabilisation of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration.

The **ODA grant equivalent** is a measure of donor effort. Grants, loans and other flows entering the calculation of the ODA grant equivalent measure are referred to as **ODA flows**.

The objective of the **OECD-DAC CRS Aid Activity database** is to provide a set of readily available basic data that enables analysis of where aid goes, what purposes it serves and what policies it aims to implement, on a comparable basis for all DAC members. Data is collected on individual projects and programmes. Focus is on financial data, but some descriptive information is also made available.

The OECD DAC gathers statistics on aid and other resource flows to developing countries from bilateral and multilateral donor agencies using the **"Rio markers"**. These include specific markers to track aid in support of climate change mitigation and adaptation.



The severe droughts are hitting women from pastoralist communities extremely hard. Sabad Ali (32) and her daughter Nimo (3 yrs), Somaliland © Karin Schermbrucker/ActionAid



1. Introduction

As emphasised by the IPCC Special Report¹, the world is facing the final call to keep the temperature rise under 1.5°C. It is too late to avoid a climate emergency, but if we don't meet the preferred target of 1.5°C above pre-industrial levels, there will be “rapid, far-reaching and unprecedented changes in all aspects of society”.

During 2020 alone, ActionAid has reported on floods in Bangladesh, India and Vietnam, droughts and crop failure in Zimbabwe and Zambia, and heavy and irregular rainfall that killed crops in Malawi and Mozambique. It will be hugely expensive to meet the costs of adaptation and mitigation and to cover loss and damage, but the window of opportunity is still open. Especially as the costs of inaction on climate change will be far, far higher—and increase with every moment that we delay.

The language of ‘transformational change’ is increasingly used in climate policy, and particularly in climate finance. However, the term has several meanings and carries entirely opposed implications for different economies and societies. Poorly (top-down) defined transformational change creates many risks for those most vulnerable to climate change, especially women. Therefore, a key question is how to ensure that the transition is a just one. The transition must contribute to the sustainability of the environment and the planet, but it must also contribute to social justice and the protection of human rights. In this paper, we discuss how climate finance can deliver climate solutions and justice in a way that works for people, communities and the environment. The focus is on the position of the Netherlands and Dutch climate finance obligations in theory and practice, from the perspective of just transition.

“ In this report, we discuss how Dutch climate finance can deliver climate solutions and justice in a way that works for people, communities and the environment. ”

¹ Global Warming of 1.5 °C — (ipcc.ch)



1.1. Background:

The effects of climate change are felt by all countries alike. However, some countries are disproportionately devastated. It is predicted that by 2030 the world's poorest people will also be living in the most disaster-prone countries². One impact is will be seen in reduced crop yields, which leads to higher prices and food insecurity.

Poorer countries in warmer and drier climates are already recording decreasing crop yield and shorter rainy seasons. For example, in Zimbabwe and Zambia, the rainfall patterns have changed in recent years which has had significant negative effects on agricultural production. In 2017, ActionAid reported that crop yields decreased by 30% from the previous season in Zimbabwe, seriously exacerbating food insecurity, poverty and hunger. Last year, ActionAid reported on how Zambia has been facing one of its worst droughts in decades and that 2.3 million people urgently need help. "Climate change is real: I feel it with my family and community every day. We are no longer able to survive on farming alone," says 58-year-old Patricia Musweu, a smallholder farmer and Katongo Farmers' Cooperative secretary³.

These trends are extremely concerning and must be immediately addressed. Especially as it is estimated that, compared to current needs, the demand for food will increase by 50% by 2030 and by 80-100% by

2050⁴. The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) have also released several risk assessments identifying climate change as a driver of conflict, and ActionAid has reported on how political failure to limit global warming drove around 18 million climate migrants from their homes during 2020 in South Asia alone. These figures are expected to treble by 2050⁵.

The disproportional effect of climate change on low-income countries (LICs) and especially the least developed countries (LDCs) is highly alarming, as these countries are most constrained when it comes to implementing mitigation and adaptation action. It is also highly unjust, as high and upper-middle income countries still account for around 86% of global CO₂ emissions. The bottom half (low and lower-middle income) only account for 14% and the very poorest countries (home to 9% of the global population) are responsible for just 0.5% of global emissions⁶. There is an urgent and rapidly increasing need for high-income countries to contribute

2 Shepherd, A. et al. (2013). The geography of poverty, disasters and climate extremes in 2030. The Overseas Development Institute, London

3 For more details, see: <https://actionaid.org/stories/2019/families-are-surviving-one-meal-day-drought-hit-zambia>

4 JRC Science and Policy Reports - Global Food Security 2030 - Assessing trends with a view to guiding future EU policies (europa.eu)

5 Harjeet Singh, Jessica Faleiro, Teresa Anderson and Sanjay Vashist, (2020). COSTS OF CLIMATE INACTION: Displacement & Distress Migration. ActionAid. Available at: https://actionaid.org/sites/default/files/publications/ActionAid%20CANSAs%20-%20South%20Asia%20Climate%20Migration%20report%20-%20Dec%202020_3.pdf.

6 Hanna Richie, (2018). Global inequalities in CO₂ emissions. Our World in Data. Available at: <https://ourworldindata.org/co2-by-income-region>.

towards enabling a just climate transition by providing adequate, sustained, climate finance to the countries that are most vulnerable to, and most affected by, climate change.

In 2009, the Copenhagen Accord was the first international initiative to define the financial implications of a global effort to reduce CO2 emissions. Despite no legally binding document, delegates from all the countries attending the COP15 meeting agreed to take note of the accord. Most notably, Annex 1 countries⁷ made three financial commitments: **1)** to provide USD 30 billion for mitigation and adaptation financing for the period 2010–2012; **2)** to mobilise USD 100 billion per year by 2020; and **3)** to make such funding new and additional, and sourced from public, private, bilateral and/or multilateral institutions. Since then, the Paris Agreement and the Green Climate Fund (GCF) have strengthened the collective climate finance goal to mobilise at least USD 100 billion per year for mitigation and adaptation in low and middle-income countries. OECD countries have also ramped up climate finance commitments and the provision of mitigation and adaptation support.

Before moving on it is important to understand that the 100-billion-dollar benchmark that was agreed does not represent the cost of adaptation and mitigation for developing countries. The UNEP has estimated that developing countries currently require USD 70 billion annually for adaption alone. This figure is expected to rise to between USD 140 and 300 billion by 2030 and to between USD 280 and 500 billion by 2050.⁸ The 100 billion represents a political compromise based on the sensitivity of the discussion of a fair share rather than a scientific basis. As high-income countries, such as the Netherlands, are responsible for an overwhelming majority of historical greenhouse gas emissions and still produce per-capita emissions significantly higher than the world average one can reasonably expect them to contribute heavily to the financial needs of those that have done little to contribute to climate change. Establishing a *fair share* per country remains a highly politicised topic and also partly explains why the world is not on track to meet the 100-billion-dollar benchmark.⁹

Although finance is being channelled to the most vulnerable communities to some extent, it is undeniable that it is not enough nor at the pace needed. Policies and interventions are generally decided at top international level without adequate local ownership. Most of climate finance is being invested in large-scale projects that take

considerable time to design, finance and deliver¹⁰, which is slowing climate action further and making it increasingly inaccessible for vulnerable communities. Further, while overall commitments to climate finance by the EU institutions and member states increased in 2018 (latest validated OECD-DAC CRS data), it did so at a much slower rate than in previous years and non-concessional loans are often reported as climate finance¹¹. On top of that, donor reports continue to overstate climate finance by a huge margin and only a very small share goes to the LDCs: the annual SDG funding gap for LDCs is about USD 400 billion and only 6% of the total blended finance went to LDCs over the period 2012 to 2018 – nearly all blended and mobilised private finance is directed to (upper) middle-income countries¹².

Against this background, it is vital to **shift the debate around climate finance from how to maximize carbon reduction and the mobilization of private co-finance, to how to ensure that investments, policies and projects contribute to both sustainability of the environment and to social justice and the protection of human rights**. In this Climate Finance Report, Chapter 2 introduces climate finance as well as Dutch climate finance, Chapter 3 defines the just transition concept in the context of climate finance and Chapter 4 analyses the Dutch policies and financing mechanisms through the just transition framework. Lastly, Chapter 5 provides concrete policy recommendations, by highlighting examples that should be replicated and scaled up as well as important policy pitfalls.

“ It is vital to shift the debate around climate finance from how to maximize carbon reduction to how to ensure that investments and projects contribute to environmental sustainability, social justice and protection of human rights. ”

7 For a full list of the Annex 1 countries, see: List of Annex I Countries – OECD

8 UNEP, (2021). Adaptation Gap Report 2020. Available at: <https://www.unep.org/resources/adaptation-gap-report-2020>

9 Oxfam, (2020). Climate Finance Shadow Report 2020. Available at: <https://oxfamlibrary.openrepository.com/bitstream/handle/10546/621066/bp-climate-finance-shadow-report-2020-201020-en.pdf>

10 IIED, (2017). Going Local: Fast Tracking Climate Finance to the Most Vulnerable. Available at: 1744IIED – Going local: fast tracking climate finance to the most vulnerable – pubs.iied.org.

11 ActAlliance, (2018). An analysis of the Climate Finance Reporting of the European Union. Available at: <https://actalliance.eu/wp-content/uploads/2018/04/Analysis-of-the-climate-finance-reporting-of-the-EU.pdf>.

12 OECD, (2020). Blended Finance in the Least Developed Countries 2020. Available at: <http://www.oecd.org/dac/blended-finance-in-the-least-developed-countries-57620d04-en.htm>.

2. Climate Finance in a Nutshell



Women Farmers in Buzi, Mozambique © Daniel Jukes/ActionAid



The Paris Agreement reaffirmed financing climate change adaptation and mitigation as a key means for developing countries to battle climate change. Several international, regional, and national mechanisms have been established to enable financial assistance to flow between countries. Yet, despite a systemic and comprehensive approach to enabling climate change finance, *climate finance* remains a broad and dynamic concept. The United Nations Framework Convention on Climate Change (UNFCCC) Standing Committee on Finance defines climate finance as: “...finance that aims at reducing emissions and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts¹³”. This definition represents climate finance in its broadest form. However, it is difficult to provide a narrower definition, as climate finance needs to incorporate at least the following elements¹⁴.

- The type of finance (development aid, private equity, loans, etc.)
- The source of the finance (public or private sources)
- Where the finance flows from and to (North–South, South–South, etc.)
- If the finance is “new and additional”
- What is ultimately financed (mitigation, adaptation, compensation for loss and damage, or a combination).

An additional level of complexity is that climate finance does not need to exclusively target adaptation and/or mitigation¹⁵. For example, the Rio markers, developed by the OECD’s Development Assistance Committee (DAC) to help classify climate finance, make a distinction between ‘principal’ and ‘significant’ climate change objectives. Activities marked as having a ‘principal’ objective are explicitly designed to target climate and would not have been funded but for that objective. An activity can be marked as ‘significant’ when the climate objective is stated but it is not the fundamental driver or motivation for undertaking it. Here the activity has other prime objectives but has been formulated or adjusted to help meet the relevant climate concerns. Some argue that only finance with the primary climate objectives should be counted towards the USD 100 billion goal, while others argue that finance with significant climate objectives should also count.

Another central debate in climate finance revolves around how to interpret the provision that climate finance should be “new and additional”. Especially in relation to achieving the USD 100 billion goal, as the interpretation fundamentally affects the quantification of climate finance. The definition of the terms has been widely debated and there is a large body of literature that explores how to assess whether finance is new and additional. However, in practice, all countries have vastly different understandings of the provision¹⁶.

13 UNFCCC Standing Committee on Finance, (2014). Biennial Assessment and Overview of Climate Finance Flows Report. Available at: <https://unfccc.int/process/bodies/constituted-bodies/standing-committee-on-finance-scf>.

14 Grantham Research Institute on Climate Change, (2018). What is Climate Finance? Available at: What is climate finance? – Grantham Research Institute on climate change and the environment (lse.ac.uk)

15 For a detailed discussion, see: Brodnar, P; Brown, J; and Nakhooda, S, (2015). What Counts: Tools to Help Define and Understand Progress Towards the \$100 Billion Climate Finance Commitment. Available at: 150923_Onion_Paper.indd (climatepolicyinitiative.org)

16 Brodnar, P; Brown, J; and Nakhooda, S, (2015). What Counts: Tools to Help Define and Understand Progress Towards the \$100 Billion Climate Finance Commitment. Available at: 150923_Onion_Paper.indd (climatepolicyinitiative.org), p12



Devastation caused by cyclone Amphan, India © ActionAid

Notably, the discourse and the main debates on climate finance are primarily consumed with how to count climate finance, how to mobilise private co-finance and how to reduce CO2 emissions. In this paper, we do not try to answer what should count towards the USD 100 billion. Rather, we make the argument that climate finance must contribute to sustainability of the environment, to social justice and to the protection of human rights. To this end, just transition is a vital concept that can generate key lessons for designing and implementing inclusive mitigation and adaptation investment projects and deliver climate solutions and justice in a way that works for people, communities and the environment. This paper takes a step towards bringing the just transition concept into the climate finance discourse.

“ It is vital to bring the just transition concept into the climate finance discourse. ”



2.1 Introduction to Dutch Climate Finance

The Netherlands is generally considered to be a progressive donor, and the latest OECD Development Cooperation Peer Review finds that steps have been taken to improve policy coherence for development, particularly in areas of trade, taxation, health, food security, global value chains, investment protection, climate change and remittance costs¹⁷. Also, with the establishment of a single cabinet-level ministerial post covering both trade and international development, the Netherlands strives to create new opportunities to link its aid, trade and investment objectives¹⁸.

The Netherlands is the seventh-largest donor country in the world, spending USD 5.3 billion in official development assistance (ODA) in 2019. This corresponds to 0.59% of its gross national income (GNI) which is one of the lowest percentages since 1973¹⁹ and well below the agreed UN target for ODA states that developed countries should devote 0.7% of GNI to ODA²⁰. However, the ODA/GNI ratio increased to 0.61% in 2020 because of special COVID-19

measures and the measures put in to compensate for the declining GNI²¹.

The Netherlands has committed to several international agreements on tackling climate change such as the 1992 UN Framework Convention on Climate Change, the Kyoto Protocol and the Paris Agreement. These agreements form the framework for Dutch policy on climate change, and

17 OECD, (2017). Development Co-operation Peer Reviews of the Netherlands. Available at: <https://www.oecd.org/dac/oecd-development-co-operation-peer-reviews-the-netherlands-2017-9789264278363-en.htm>.

18 Although the new agenda has also been criticised as primarily benefiting the Dutch private sector, rather than contributing to local development, and for being too complicated to be interesting for small and medium enterprises. For more details, see: ActionAid, Both Ends & SOMO (2013). Het Dutch Good Growth Fund: Winst in ontwikkelings samenwerking, maar voor wie? Geraadpleegd op http://actionaid.org/sites/files/actionaid/131021_dutch_good_growth_fund_nl.def_.pdf.

19 Donor Tracker. (2021). Available at: <https://donortracker.org/Dutch-development-cooperation-budget-published-2020>.

20 ActAlliance, (2018). An analysis of the Climate Finance Reporting of the European Union. Available at: <https://actalliance.eu/wp-content/uploads/2018/04/Analysis-of-the-climate-finance-reporting-of-the-EU.pdf>, p40.

21 Donor Tracker, (2021). Available at: https://donortracker.org/country/netherlands?gclid=CjwKCAiA_9r_BRBZEiwAHZ_v12pQwN2ozBzLvzGp7WMRmlxqfG-t6ONvCew4ot8o4-1Bg57d2ssvBoCwkgQAVD_BwE

Dutch support for climate action in developing countries is an integral part of the country's development cooperation. The Netherlands has estimated its fair share to the 100-billion-dollar global commitment for climate finance at EUR 1.2 billion²². What that figure is based on exactly remains unclear.²³

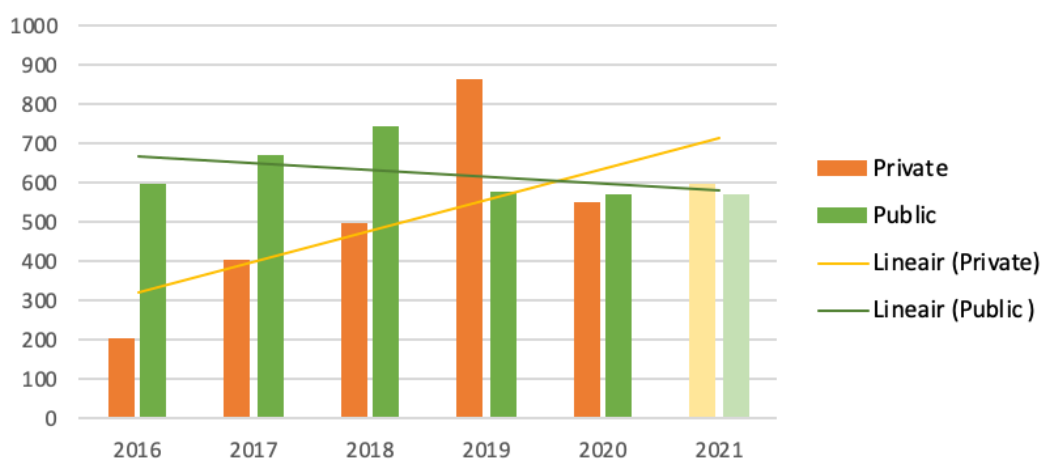
As reported in Netherlands 2019 Biennial Report to the UNFCCC, the Netherlands supports mitigation efforts mainly by providing access to renewable energy and halting deforestation. A strong focus is on supporting adaptation by focusing on climate-smart agriculture, integrated water resource management and the provision of climate-resilient water, sanitation and hygiene services (WASH). The Netherlands has identified that gender is an important intersecting issue, specifying that climate action is most effective when it builds on the capacities and addresses the different needs as well as the vulnerabilities of both genders.

According to the latest OECD/DAC-CRS development finance data, the Netherlands ranks as the eighth-largest climate donor in absolute terms (total bilateral ODA with principle or significant focus on climate change mitigation and/or adaptation). In 2018, the Netherlands spent around

EUR 749 million²⁴ (USD 884 million) on climate-related projects, which was a significant increase from EUR 362 million²⁵ (USD 401 million) in 2015. However, in 2019, the Netherlands have reported that they only spent EUR 580 million in public climate finance, and although the actual figures are still not finalised, the Dutch Ministry of Foreign Affairs (MFA) predicts that they have spent around EUR 570 million in public climate finance during 2020²⁶. They project that they will spend EUR 570 million during 2021, but this figure may be significantly lower due to major unexpected spending on COVID-19 to address the crisis domestically (and to some extent abroad).

In addition to public climate finance, the Netherlands also reports on mobilised private climate finance. The Netherlands mainly mobilises private finance through programmes managed from within the Netherlands, through multi-donor funds (e.g. the Green Climate Fund), through the Dutch Development Bank (FMO) and through the multilateral development banks (MDBs). In 2018, the Netherlands reported that they had mobilised a total of EUR 498.58 million in private climate finance²⁷ and EUR 864 million in 2019. The Dutch MFA predicts that EUR 550 million were mobilised during 2020 and that they will mobilise around EUR 600 million during 2021²⁸.

Figure 1: Dutch Climate Finance
figures are reported in millions euro



Note: Figure 1 depicts Dutch public and private climate finance. The data is extracted from the OECD DAC's Creditors' Reporting System (CRS) database and from the Dutch Ministry of Foreign Affairs' annual reporting on mobilised private climate finance. Figures for 2019 and for 2020 are the preliminary figures provided by the Dutch Ministry of Foreign Affairs, as 2018 is (at the time of writing) the latest validated CRS data for the Netherlands. Figures for 2021 are the projected allocations that may be reduced due to unexpected spending to address the COVID-19 pandemic. Euro amounts show the Netherlands gross disbursements and exchange rates are based on the average annual exchange rates.

22 Tweede Kamer der Staten-Generaal, (2016). Goedkeuring van de op 12 december 2015 te Parijs tot stand gekomen Overeenkomst van Parijs (Trb. 2016, 94 en Trb. 2016, 162), Kamerstuk 34 589 (R2077). Available at: https://www.eerstekamer.nl/behandeling/20161206/nota_naar_aanleiding_van_het_2/document3/f= vk9toq588uwx.pdf

23 Others have estimated the fair share of the Netherlands to be as high as EUR 1.62 billion. Source: Care Netherlands (2021). Geeft Nederland genoeg? De proportionele bijdrage van Nederland aan het klimaatakkoord. Available at: <https://www.carenederland.org/wp-content/uploads/2021/01/Geeft-Nederland-genoug-De-proportionele-bijdrage-van-Nederland-aan-het-klimaatakkoord.pdf>

24 Average exchange rate USD to EUR in 2018: 0.8475 EUR. See: <https://www.exchangerates.org.uk/USD-EUR-spot-exchange-rates-history-2018.html>.

25 Average exchange rate USD to EUR in 2015: 0.9015 EUR. See: <https://www.exchangerates.org.uk/USD-EUR-spot-exchange-rates-history-2015.html>.

26 Preliminary data provided by the Ministry of Foreign Affairs.

27 Ministry of Foreign Affairs of the Netherlands, (2018). Mobilised Private (Climate) Finance Report 2018. Available at: <https://www.government.nl/documents/annual-reports/2019/05/28/mobilised-private-climate-finance-report-2018>.

28 Preliminary data provided by the Ministry of Foreign Affairs.

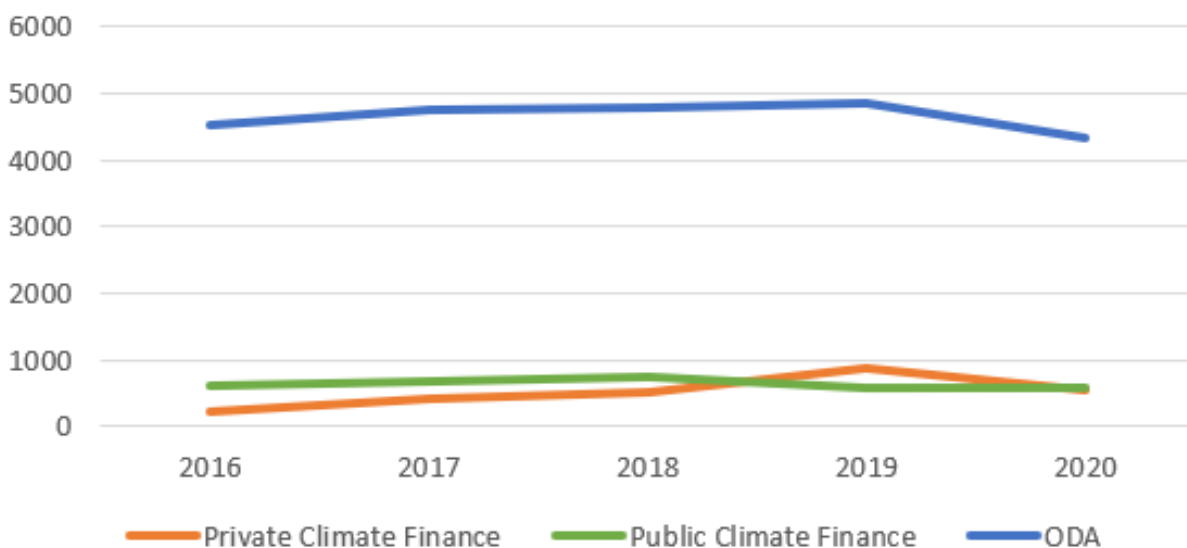
Dutch mobilised private finance is relatively high from a European perspective and forms a significant part of the Netherlands' total climate finance. However, it is important to bear in mind that there is still no standardised methodology (at least not in practice) for how to count mobilised private climate finance. Challenges range from practical issues like securing data on private sector investments, to definitional issues such as understanding which actors constitute the private sector and what projects are climate change friendly, to analytical issues like proving causality between public and private financial flows. Many countries provide project information but without costs, for example Japan reports very large sums but without details and France do not report any estimates. The Netherlands includes finance mobilised through its contributions to MDBs, while Switzerland explicitly states such finance should not be counted²⁹.

Another point to be aware of, is that while the Netherlands reports that a large share of the private finance is mobilised via the MDBs, most of the MDBs themselves do not publish information and statistics on how they estimate mobilised private climate finance. The Netherlands also reports private finance mobilised through its contributions to different multi-donor projects. However, it is difficult to verify how the mobilised capital is attributed between donors³⁰.

An important aspect to bear in mind is that Dutch climate finance is counted as part of the country's total ODA, so it is not possible to untangle the 'new and additional' Dutch climate finance from the traditional ODA flow. Figure 2 illustrates the trends for Dutch ODA, public climate finance and private climate finance.

“The Netherlands has estimated its fair share to the 100-billion-dollar global commitment for climate finance at EU 1.2 billion. What that figure is based on exactly remains unclear.”

Figure 2: Trends: Dutch ODA, Public Climate Finance and Private Climate Finance
figures are reported in millions euro



Note: Figure 2 depicts the trends of Dutch public and private climate finance as well as the total ODA. The data is extracted from the OECD DAC's Creditors' Reporting System (CRS) database and from the Dutch Ministry of Foreign Affairs' annual reporting on mobilised private climate finance. Figures for 2019 and for 2020 are the preliminary figures provided by the Dutch Ministry of Foreign Affairs, as 2018 is (at the time of writing) the latest validated CRS data for the Netherlands. Euro amounts show the Netherlands gross disbursements and exchange rates are based on the average annual exchange rates. Climate finance is also counted under the Netherlands' ODA.

29 For a detailed discussion, see Oxfam's (2020) analysis: Climate Finance Shadow Report 2020: Assessing progress towards the \$100 billion commitment (openrepository.com), p25

30 Ibid

3. Defining Just Transition



Filicita Topno checking mustard plants for infestation in Sundargarh, Odisha, India © ActionAid



© Jamil Akter/ActionAid

The term ‘Just Transition’ was originally coined by the trade union movement and has been developed by the International Trade Union Confederation (ITUC) over the last decade, much of it in relation to the challenges facing coal mining communities in the global north as governments look to shift to less polluting sources of energy³¹. “Unions have found that in addition to solving the climate crisis, a just transition [...] must enable social dialogue that lets [individuals] shape the outcomes to bring positive opportunities through [for example] decent jobs, improved labor rights, strengthened social protections and increased organized labor, all of which should benefit their wider communities”³². Additionally, in 2015 the International Labour Organization (ILO) issued guidance stating that “a just transition for all towards an environmentally sustainable economy [...] needs to be well managed and contribute to the goals of decent work for all, social inclusion and the eradication of poverty.” Just transition is a vital concept that can generate key lessons for designing and implementing inclusive mitigation and adaptation investment projects. Yet, the term just transition is still unfamiliar to many, definitions vary widely, and the methods for achieving just transitions remain unclear.

To contribute towards developing the just transition concept, ActionAid has published several policy papers on how the just transition concept should be understood and applied within the context of international and sustainable

development, social justice and human rights³³. In short, the just transition concept does not only describe WHAT the new system will look like, but also HOW that transformation should be carried out. Most importantly, a just transition must:

- Address – and not exacerbate – inequalities
- Ensure inclusiveness and participation
- Develop comprehensive policy frameworks
- Transform systems to work for people, nature and the climate.

For a formal definition of each of the four principles, see appendix A.1.

31 Teresa Anderson and Sophie Kwizera, (2020). Principles for Just Transitions in Energy, Extractives and Agriculture. ActionAid. Available at: <https://actionaid.org/sites/default/files/publications/Principles%20for%20Just%20Transitions%20in%20Extractives%20%26%20Agriculture.pdf>.
32 Ibid

33 See Teresa Anderson and Sophie Kwizera, (2020). Principles for Just Transitions in Energy, Extractives and Agriculture. ActionAid. Available at: <https://actionaid.org/sites/default/files/publications/Principles%20for%20Just%20Transitions%20in%20Extractives%20%26%20Agriculture.pdf>. Also see: Teresa Anderson, (2019). Principles for a Just Transition in Agriculture. ActionAid. Available at: https://actionaid.org/sites/default/files/publications/Principles%20for%20a%20just%20transition%20in%20agriculture_0.pdf.

4. Climate Finance and the Principles for Just Transition



Mana Devi © Srikanth Kolari/ActionAid



Kerala's flood-hit communities show resilience & the ability to bounce back © ActionAid

Previous work has revolved around defining and understanding a just transition within the realm of labour rights or within specific sectors such as agriculture, energy and extractives.

However, the concept is essential to any transformational change process, not least in relation to designing and implementing effective climate change adaptation and mitigation investment projects.

In the following chapter, we elaborate on each of the four principles in the specific context of climate finance. We use concrete examples from the Netherlands to highlight areas that should be replicated and scaled up. We also highlight pitfalls that policy makers must avoid to ensure that climate finance contributes to the desired just transition and that climate finance reaches the most marginalised communities, particularly women, who are most in need of effective mitigation and adaptation investments.

“It is important to ensure that climate finance reaches the most marginalised communities, particularly women, who are most in need of effective mitigation and adaptation investments.”



4.1 Address – and not Exacerbate – Inequalities

As a starting point, just transitions need to understand and address the ways in which current systems are causing workers and vulnerable communities, especially women, to be exploited, squeezed or displaced³⁴. For example, farmers and workers may (understandably) be worried that they will be penalised by new climate policies and obligations.

Many low-income countries have already expressed concerns that global pressure to achieve low-carbon objectives carry “the risk of downsides for other objectives such as economic growth, energy access, improved local environmental issues, and more equal distribution”³⁵. Especially as many (climate) policy initiatives and investments are perceived to target competitiveness rather than climate justice, and that taxes on imports of carbon intensive products aim to generate revenue rather than ensuring a conducive environment for just transitional change. As a result, such policies are often even perceived as post-colonial³⁶.

Transitions must address pre-existing inequalities such as gender-based inequalities, historical responsibility for

causing the climate crisis and vulnerability to its impacts, and access to food and decent work. For example, smallholders and those practicing agroecology who do not get the support that they deserve; women who face particular barriers and burdens; and the system still leaves two billion people with food insecurity³⁷.

Currently, most climate finance contributions are found to be highly gender-blind. Oxfam (2020) reports that only 1.5% of climate-related ODA (globally) identifies gender equality as a primary objective and only 34% identified gender equality as an important but not principal objective. The remaining 64% of projects either determined that gender equality was not a significant objective

34 Ibid.

35 Harald Winkler & Navroz K. Dubash (2015): Who determines transformational change in development and climate finance? Climate Policy, DOI: 10.1080/14693062.2015.1033674.

36 ActionAid, (2020). EU's Carbon Border Adjustment Mechanism and its Potential Impacts on Developing Countries. Available at: <https://actionaid.org/sites/default/files/publications/ActionAid%20discussion%20paper%20on%20the%20EU%20carbon%20border%20adjustment%20-%20March%202020.pdf>.

37 Teresa Anderson, (2019). Principles for a Just Transition in Agriculture. ActionAid. Available at: https://actionaid.org/sites/default/files/publications/Principles%20for%20a%20just%20transition%20in%20agriculture_0.pdf.



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(33%) or were not screened (32% not marked)³⁸. Equally important, just transitions must avoid false solutions and technologies that harm communities, or that concentrate control, wealth, land and power in fewer hands.

For instance, financing large-scale bioenergy plantations is likely to drive land grabs and displace marginalised communities. Many of the climate-smart agricultural solutions are used to greenwash agricultural practices that will harm future food production, such as industrial agriculture practices or soil carbon offsetting. Many of these 'solutions' are also likely to translate into obligations for developing countries' food systems to take on an unfair mitigation burden³⁹. There are also many projects marked with a climate marker that are found to have large negative effects on the climate and people. For example, the Japan International Cooperation Agency (JICA) has signed loan agreements with the Government of the People's Republic of Bangladesh to provide a Japanese ODA loan for the Matarbari Ultra Super Critical Coal-Fired Power Project. As explained in the project document, the project will "construct a coal-fired power plant with a rated output of 1,200 megawatts in the Matarbari area in south-eastern Bangladesh, thereby meeting the rapidly rising demand for power in Bangladesh while mitigating greenhouse gas emissions by providing a more energy efficient solution.

These measures will contribute to economic development and to the alleviation of climate change⁴⁰. However, ActionAid has reported that the project has led to more than 20,000 landowners, farmers, traders and labourers losing their income due to the project acquiring 2,820 acres of land. At least 45 families were physically evicted and housing, access to clean water, health facilities, education and food have all been compromised. People have been forced to migrate away to find new ways to sustain themselves and their families. This fracture of the domestic fabric has led to an increase in unpaid care work for women, further reducing their already limited socio-economic abilities. And many pregnant women have been suffering from a lack of nutrition and maternity-related medical issues⁴¹. A second 'climate-efficient' power plant is planned to be built in Rampal, Bangladesh, only 14 km north from Sundarbans, the world's largest mangrove forest and UNESCO World Heritage site. During February 2021, ActionAid released a report highlighting some of the expected detrimental environmental effects of the coal-fired power plant on the Sundarbans, as well as on the livelihoods of the people living there⁴².

When we zoom in on the Netherlands, strengthening gender equality is a key principle for Dutch development cooperation. In climate finance, the gender perspective addresses the differential impact of climate change

38 Oxfam, (2020). Climate Finance Shadow Report 2020. Available at: <https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621066/bp-climate-finance-shadow-report-2020-201020-en.pdf>. p23.

39 For more details, see: ActionAid, (2014). Clever Name, Losing Game? Available at: https://actionaid.org/sites/default/files/csag_clevernamelosinggame_0.pdf.

40 JICA, (2018). Signing of Japanese ODA Loan Agreements with Bangladesh: Contributing to the socioeconomic development of Bangladesh. Available at: https://www.jica.go.jp/english/news/press/2018/180614_01.html

41 ActionAid, (2020). FGG Highlights and Lessons Learnt. Available at: https://actionaid.nl/wp-content/uploads/2020/09/ActionAid_Magazine_Bangladesh.pdf, p9.

42 ActionAid (2021). Threats and Conservation Challenges in Sundarban: A case study from Hingalaganj Block of North 24 Parganas, West Bengal, India.



Salma Begum, Bangladesh © Fabeha Monir/ActionAid

on women and men. For example, as reported in the Netherlands' Biennial Report to the UNFCCC, climate action is most effective when it builds on the capacities and addresses the needs as well as the vulnerabilities of both genders, and this analysis should underpin all climate contributions. In the GCF board, the Netherlands' priority is also on establishing essential policies on gender⁴³. Furthermore, poverty reduction is being recognised in the discourse on Dutch mitigation and adaptation support and addresses the disproportionate impact of climate change on poor and marginalised communities⁴⁴. To further link Dutch climate finance to broader development and poverty reduction objectives, the Netherlands have allocated EUR 40 million to the Dutch Fund for Climate and Development (DFCD) – a new national (blended) fund for both development and climate. The DFCD will provide EUR 160 million for climate-related projects in low-income countries between 2019 and 2022. Of this, at least 25% is expected to be invested in LDCs and at least 50% in adaptation projects⁴⁵. The Netherlands stands out as a global leader in allocating resources towards adaptation: 50% in adaptation finance is high in comparison to most international climate funds. However, it will be essential for the Netherlands to live up to this commitment, as actual disbursement often and significantly lags behind climate finance commitments⁴⁶.

The focus on adaptation is a welcome development as global finance for adaptation is very low in relation to estimated needs. Adaptation finance significantly lags behind mitigation finance and adaptation remains largely dependent on grant funding from public sources. However, one factor that drives up Dutch support to climate adaptation is the policy focus on 'climate-smart agriculture'. The concept was originally developed by the FAO and the World Bank, claiming that 'triple wins' in agriculture could be achieved in mitigation (reducing greenhouse gas emissions), adaptation (supporting crops to grow in changing climate conditions), and increasing crop yields⁴⁷. There are innovations that can be hugely beneficial for both climate change mitigation and adaptation. For example, certain feed additives have been found to reduce methane emissions by between 10 to 30%, and animal productivity can be increased (e.g. higher milk yield). Similarly, different LED-based cultivation systems can reduce the carbon footprint while also increasing productivity⁴⁸.

43 Netherlands 2019 Biennial Reporting to the UNFCCC. Available at: <https://unfccc.int/sites/default/files/resource/NLD%204th%20Biennial%20Report%20Final%20version%2018dec19.pdf>, p102

44 Information received from the Dutch Ministry of Foreign Affairs.

45 Blended Finance knowledge Exchange, (2021). The Dutch Fund for Climate and Development.

46 Nakhooda, S. (2013). The effectiveness of international climate finance. ODI. Available at: <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8344.pdf>.

47 World Bank brochure 'Climate-smart agriculture: A call to action'. Available at: http://www.worldbank.org/content/dam/Worldbank/document/CSA_Brochure_web_WB.pdf.

48 Wageningen University, (2021). Climate Smart Agriculture Booster. Available at: <https://www.wur.nl/en/Research-Results/Research-Institutes/Environmental-Research/show-wenr/Climate-Smart-Agriculture-CSA-Booster.htm>.



Kahaso Charo in Kilifi county, Kenya © Erika Piñeros/ActionAid

However, civil society and farmer organisations express concerns that the term is increasingly used to greenwash industrial agricultural practices that will harm future food production and equality⁴⁹. There is already a long list of examples showing how poorly designed ‘climate-smart’ agricultural investments have increased inequalities rather than addressed them. For example, in recent years a substantial flow of mitigation and adaptation finance has been directed to synthetic fertiliser investments. The idea is that different synthetic nitrogen fertiliser will help farmers to adapt to global warming. However, these ‘solutions’ are also highly energy intensive, burning large amounts of fossil fuels and leading to high CO₂ emissions. Furthermore, when applied to soil, they release nitrous oxide (N₂O), a highly potent greenhouse gas that has 298 times the atmospheric warming effect of CO₂⁵⁰.

Governments and NGOs also worry that pressure to adopt climate-smart agriculture will translate into obligations for developing countries’ food systems to take on an unfair mitigation burden. They point out that their agricultural systems have contributed the least to the problem, but that mitigation obligations could limit their ability to effectively adapt to the climate challenges ahead⁵¹. Lastly, nearly all the climate-smart agriculture solutions are not accessible for poor and vulnerable smallholder farmers – these investments mainly benefit wealthier groups with more power – leaving women, the poor, marginalised and vulnerable even further behind.

Conclusively, increasing climate finance by investing in climate-smart agriculture should be approached with caution, as it may serve to greenwash agricultural practices that are known to be harmful to the climate and farmers and may exacerbate inequalities: “Endorsing these processes could prove to be a losing game, where the benefits are unclear and out of reach, but the negative consequences inevitable”⁵².

“Increasing climate finance by investing in climate-smart agriculture should be approached with caution, as it may serve to greenwash agricultural practices known to be harmful to the climate and farmers and exacerbate inequalities.”

49 Open letter from civil society on the Global Alliance for Climate-Smart Agriculture, (2014). Available at: <http://www.climatesmartagconcerns.info>.

50 Mulvaney, R.L., Khan, S.A., and Ellsworth, T.R. (2009) ‘Synthetic nitrogen fertilisers deplete soil nitrogen: a global dilemma for sustainable cereal production’, *Journal of Environmental Quality*, 38, Nov-Dec 2009, p.2295-2314; Khan, S.A., Mulvaney, R.L., Ellsworth, T.R., and Boast, C.W (2007) ‘The myth of nitrogen fertilisation for soil carbon sequestration’, *Journal of Environmental Quality*, 36, Nov-Dec 2007, p.1821-1832

51 ActionAid, (2014). *Clever Name, Losing Game?* Available at: https://actionaid.org/sites/default/files/csag_clevernamelosinggame_0.pdf. 52 Ibid, p8



4.2 Ensure Inclusiveness and Participation

Fundamentally, climate finance must be inclusive and aligned to the priorities and circumstances of the localised contexts. There is an expectation that applications for climate funds are in accordance with national priorities such as national adaptation plans and other strategic documents⁵³.

However, a just transition is not about ensuring national ownership. Rather, the starting point is that climate finance mechanisms “must address power inequalities and give marginalized communities – particularly women – a seat at the table⁵⁴”. Therefore, an essential first step is to map the different stakeholders who are likely to be affected by changes and their relative power. Communities and individual community members are not homogenous, and depending on their location, gender, economic status, ethnicity, methods of production, etc., they will wield different degrees of influence and have different perspectives. Fundamentally, participation does not only mean holding a quick consultation on a ready-made plan or policy. It means taking account of these different perspectives, knowledge and concerns right from the start, addressing power imbalances and access to power, and building comprehensive plans centred on the needs and

rights of people⁵⁵. This is only possible through inclusive and participatory bottom-up processes.

Undeniably, there is a significant lack of real participation in climate finance, and mitigation and adaptation investments are very rarely directed to the community level. The International Institute of Environment and Development (IIED) estimates that less than 10% of all climate finance investments are directed to locally led climate change projects⁵⁶, and investment targets, priorities and mechanisms continue to be developed at the top national and international levels completely without local ownership. Although there is no way to systematically track how much Dutch climate finance is directed to locally led projects, it is reasonable to assume the share is similar to the global average. This is highly problematic, as local climate change projects

53 Milano, A, (2019). The Role of Climate Finance in Climate Justice. Available at: <https://www.ecoldtdgroup.com/the-role-of-climate-finance-in-climate-justice>.

54 Teresa Anderson and Sophie Kwizera, (2020). Principles for Just Transitions in Energy, Extractives and Agriculture. ActionAid. Available at: <https://actionaid.org/sites/default/files/publications/Principles%20for%20Just%20Transitions%20in%20Extractives%20%26%20Agriculture.pdf>, page 17.

55 Ibid

56 Soanes, M; Rai, N; Steele, P; Shakya, C; and Macgregor, J., (2017). Delivering real change Getting international climate finance to the local level. IIED. Available at: 10178IIED.pdf.



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that facilitate local engagement and local delivery will be increasingly vital for efficient, effective and sustainable mitigation and adaptation responses. Yet, most donors express that there are too many barriers to applying locally led (bottom-up) approaches⁵⁷. Objections typically say:

- Local investments are risky
- Local investments incur high transaction costs and participatory processes are difficult and costly to coordinate
- There is insufficient capacity at the local level to develop and manage projects, and the risk of corruption is high.

These arguments are insufficient, especially as growing evidence shows how smaller and decentralised projects can have huge impact⁵⁸. They are more appropriate for funding local activities that deliver action rapidly and give communities a much greater say in how climate finance is spent. Moreover, such projects have greater and direct accountability, and the sustainability of the investments are identified and delivered by local actors and community members.

For example, in Zambia, ActionAid supports and builds knowledge and skills of various CSOs and CBOs working in sustainable natural resource management and climate justice. Specifically, ActionAid sub-grants funding to partner organisations at national, district and community level, as well as to those networks, coalitions, alliances

and movements at the most grass-roots level. Through the financing structure, funding is directed to high impact activities intended to respond to immediate and long-term needs identified by communities, for instance relating to climate change mitigation and adaptation. ActionAid especially prioritises women in climate adaptation activities. For example, grass-roots CBOs are supported to create women's groups where they can discuss climate change and issues affecting their lives, analyse trends, identify solutions and take action together. Women then lead and participate in the development of community adaptation and mitigation plans and projects, ensuring that their perspectives are reflected in activities. Through the innovative funding mechanism where ActionAid acts as an intermediary and financier⁵⁹ for these local community projects, movements and women groups that otherwise never would be able to access financing are able to design and implement their own community-led climate projects. The financial support is complemented by other long- and short-term capacity building to ensure adequate financial and project management⁶⁰.

There are also several innovative climate finance mechanisms based on using existing local government infrastructure. In Tanzania, Kenya, Mali and Senegal, for instance, the Alliance of Government and Non-Government Organizations has developed a climate finance mechanism based on helping communities identify and oversee resilience-building investments.

57 IIED, (2017). Going Local: Fast Tracking Climate Finance to the Most Vulnerable. Available at: 17441IIED - Going local: fast tracking climate finance to the most vulnerable - pubs.iied.org.

58 See for instance: 17441IIED.pdf and 10178IIED.pdf.

59 ActionAid has the option to even acts as fiduciary for the most grass-roots movements.

60 for more details, see: ActionAid, (2021). Grants Zambia. Available at: <https://zambia.actionaid.org/actionaid-zambia-grants>.



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The mechanism connects communities with formal national planning systems and builds local ownership in how climate funds are managed. They have been instrumental in (rapidly) channelling finance to vulnerable low-income communities at the local level, ensuring sustainability and managing risks⁶¹. Similarly, in Bangladesh, the Local Disaster Risk Reduction Fund (LDRRF)⁶² effectively provides small grants directly to local and county governments. These funds are then used to finance community-designed and implemented projects in climate change adaptation and disaster risk management⁶³. In an evaluation of the LDRRF, IIED finds that the local ownership with support from line ministries and the national government has led to significant improvements in local resilience⁶⁴.

Although the Netherlands has taken steps towards increasing the share of Dutch climate finance directed to LDCs, there is currently no systematic method to track how much Dutch climate finance is being channelled to locally led projects, and a very large proportion of Dutch climate finance is not specified by income group which makes it increasingly difficult to assess to what

extent the most vulnerable benefit from these funds. This is an important gap, as more climate finance to LDCs does not mean more climate finance to vulnerable and marginalised communities and women. Especially as most climate funds (not least the Green Climate Fund) primarily judge projects on the tons of carbon reduced and the mobilisation of private co-finance, all of which incentivise large energy investments⁶⁵. Furthermore, an increasing share of the Dutch climate finance is generated through mobilised private capital. Private finance will fill a key role in closing the SDG funding gap. However, private capital requires commercially viable investment opportunities. In LDCs, and especially in vulnerable rural communities, high interest rates, short tenors, uncommercial collateral/security requirements and risk-averse financial market regulators are some of the barriers that private investors face⁶⁶. Still, there are many successful approaches to reducing the risks associated with private (local) climate investments. Some of these include providing guarantees to local investments⁶⁷, complementing transactions with technical assistance to help and train investors about how to assess the credit risk of local climate investments, and developing local currency guarantors to support

61 for more information, see: IIED, (2017). Devolved Climate Finance. Available at: 17440IIED.pdf.

62 funded jointly by the Government of Bangladesh and a range of multilateral and bilateral donors.

63 for more details, see: Soanes, M; Rai, N; Steele, P; Shakya, C; and Macgregor, J., (2017). Delivering real change Getting international climate finance to the local level. IIED. Available at: 10178IIED.pdf.

64 Ibid, p12

65 Ibid, p41

66 OECD, (2020). Blended Finance in the Least Developed Countries 2020. Available at: <http://www.oecd.org/dac/blended-finance-in-the-least-developed-countries-57620d04-en.htm>.

67 A guarantee is a financial instrument that is similar to an insurance policy. For a fee, it provides financial compensation for the financier if the borrower is not able to pay back. It is a risk sharing tool where a guarantor (usually a donor agency) compensates a pre-defined part of the loan amount, making financing of the development projects less risky for the financiers. For more details, see: <https://www.sida.se/en/for-partners/private-sector/sidas-guarantee-instrument> and https://www.oecd-ilibrary.org/sites/57620d04-en/1/3/5/index.html?itemId=/content/publication/57620d04-en&_csp_=d7d2658c58d2adcaf3a5f084421f4758&itemGO=oecd&itemContentType=book#section-d1e9981 chapter 5:9.



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the development of local capital markets⁶⁸. The DFCD, which will combine grants and technical assistance with concessional finance, may be one promising mechanism to increase the profitability of local climate investment. However, the concern remains that most DFCD funding will go to areas with greater prospects of mobilising private co-finance, which emphasises the urgency for more analysis and targeted efforts to increase volumes directed to inclusive community-led climate projects.

To conclude, there is a significant risk that Dutch climate finance will not reach vulnerable, marginalised, groups to a sufficient level. We therefore challenge the Dutch government to provide a breakdown of figures to see how much climate finance really is reaching community-led projects.

“ There is a significant risk that Dutch climate finance will not reach vulnerable, marginalised, groups to a sufficient level. ”

68 For example, in Nigeria the blended finance facility GrantCo has (together with the Nigerian Sovereign Investment Authority) set up and operationalise the so called InfraCredit. It is a local currency guarantor dedicated to mobilising long-term local currency financing into local infrastructure development in Nigeria. For more details, see https://www.oecd-ilibrary.org/sites/57620d04-en/1/3/5/index.html?itemId=/content/publication/57620d04-en&_csp_=d7d2658c58d2adcaf3a5f084421f4758&itemIGO=oecd&itemContentType=book#section-d1e9981, chapter 5.9.3.



4.3 Develop Comprehensive Policy Frameworks, and Transform Systems to Work for People, Nature and Climate

We only have a chance to address the climate crisis if we transform the systems that are at the root cause of the crisis. We will need to fundamentally change the way we get our food, so that it no longer harms nature, women farmers, workers' health and rights, and the climate⁶⁹. We must also strike the right balance between precautionary (mitigation) and responsive (adaptation) investments to deal with both the causes and the short- and long-term consequences of this global phenomenon. The integration of climate policies into other sectoral policies across all levels of governance needs to be significantly increased. This is a crucial supplement to traditional single purpose climate policies.

Financing a just transition will take significant resources to cover the different elements of participation, planning, investment, creation of new sectors, training, reskilling and social protection. Even though the cost of such a transformation will be high, the costs of inaction on climate change will be far, far higher. Increasing the volume of climate finance is, however, not only about finding additional resources. For instance, massive resources are still being invested into subsidies for harmful products such as synthetic nitrogen fertilisers, chemical inputs and fossil fuels. Over the period 2016 – 2020, the

Netherlands has provided an average of EUR 4.9 billion in fossil fuel subsidies each year, and the sum of the various forms of financial support to the fossil fuel industry amounted to an average of EUR 8.3 billion per year⁷⁰. Over the same period, the Netherlands has provided an average of EUR 593 million per year in public climate finance, and the annual average ODA (on a grant-equivalent basis) has been around EUR 4.7 billion⁷¹. Thus, the Netherlands spends more on financial support to the fossil fuel industry than it spends on total ODA, and the total public climate finance is equivalent to merely 7.1% of

69 Teresa Anderson, (2019). Principles for a Just Transition in Agriculture. ActionAid. Available at: https://actionaid.org/sites/default/files/publications/Principles%20for%20a%20just%20transition%20in%20agriculture_0.pdf, p28.

70 Laurie van der Burg & Nine de Pater, (2020). Past Time for Action: Subsidies and Public Finance for Fossil Fuels in the Netherlands. Milieudefensie. Available at: http://priceofoil.org/content/uploads/2020/07/Past_Time_For_Action_vf.pdf.

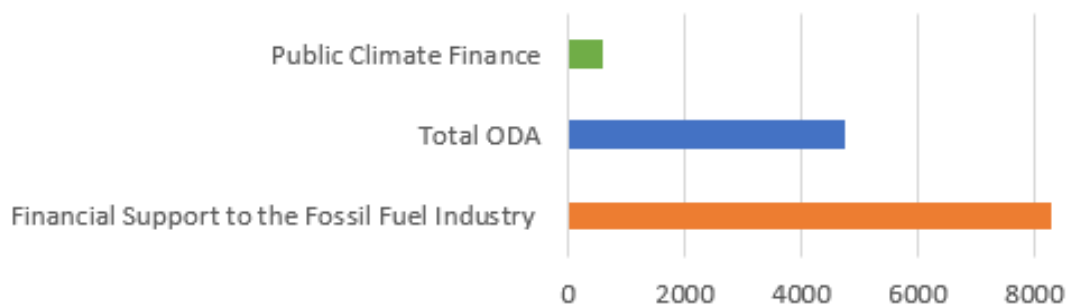
71 Data extracted from the DAC CRS database. Statistics available at: <https://stats.oecd.org/Index.aspx?DataSetCode=crsl>.



Coal in port of Amsterdam © ActionAid

the financial support to the fossil fuel industry. The largest Dutch fossil fuel subsidies are energy tax exemptions for fuels used in aviation and waterway transportation and public finance to support fossil fuel production and related infrastructure at the international level (via the export credit agency Atradius DSB and the FMO development bank)⁷².

Figure 3: Dutch ODA, Public Climate Finance and Financial Support to the Fossil Fuel Industry
 figures are reported in millions Euro and show the average annual...



Note: Figure 3 depicts the Dutch average annual ODA, public climate finance and financial support to the fossil fuel industry over the period 2016 – 2020. The data is extracted from the OECD DAC’s Creditors’ Reporting System (CRS) database and from Milieudefensie’s (2020) report on Subsidies and Public Finance for Fossil Fuels in the Netherlands. Figures for 2019 and for 2020 are the preliminary figures provided by the Dutch Ministry of Foreign Affairs, as 2018 is (at the time of writing) the latest validated CRS data for the Netherlands. Euro amounts show the Netherlands gross disbursements and exchange rates are based on the average annual exchange rates. Public climate finance is also counted under total ODA.

72 Laurie van der Burg & Nine de Pater, (2020). Past Time for Action: Subsidies and Public Finance for Fossil Fuels in the Netherlands. Milieudefensie. Available at: http://priceofoil.org/content/uploads/2020/07/Past_Time_For_Action_vf.pdf.



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These figures show that huge volumes of climate finance could be made available, by ending fossil fuel subsidies and redirecting funds to various climate projects. Dutch fossil fuel export credits also act as a major barrier to the effectiveness of climate finance-supported programmes to reduce emissions in the energy sector, meaning that ending these subsidies will increase the impact of the existing climate finance investments.

There are already commitments from the Netherlands to phase out and divest from fossil fuels. For example, at the EU level, the Netherlands has agreed to end environmentally harmful subsidies by 2020⁷³ and the Netherlands have signed a communiqué calling on all countries to eliminate inefficient fossil fuel subsidies⁷⁴. FMO is also currently in the process of developing a position statement on phasing out fossil fuels from all direct investment.

Specifically, FMO will stop direct investments in upstream fossil fuel activities, fossil fuel powered energy and only conditionally allow for new direct investments in gas-based power generation and distributed energy under restrictive transition condition⁷⁵. This shows that there is political will to transition away from the fossil fuel sector, but the implementation of these commitment is still largely lacking.

73 European Parliament and the Council of the European Union, (2013). Decision No 1386/2013/EU of the European Parliament and of the Council on a General Union Environment Action Programme to 2020 'Living well, within the limits of our planet'. Available at: eur-lex.europa.eu/legalcontent/EN/TXT/PDF/?uri=CELEX:32013D1386&from=EN.

74 Friends of Fossil Fuel Subsidy Reform, (2015). Fossil Fuel Subsidy Reform Communiqué. Available at: <http://ffsr.org/communique/>; http://ffsr.org/wp-content/uploads/2015/06/ffsr_information_for_policymakers-1.pdf.

75 FMO, (2020). Position Statement on Fossil Fuels. Available at: https://www.fmo.nl/1/en/library/download/urn:uuid:a33fb062-2f52-44e0-9e1e-c0992fe6cd45/201006+final+draft+fossil+fuel+position+statement_for+consultation.pdf.

5. Conclusion and Recommendations





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To conclude, there is need for more policy coherence, ensuring that energy policy targets contribute to the desired just transition rather than working against it. This will require involvement from climate finance and policy experts, as well as specialists from other relating sectors.

Financial resources for sound mitigation and adaptation investments are vital if we are to stand a chance of addressing climate change. It will be hugely expensive, but the benefits that flow from these investments dramatically outweigh any upfront costs. Furthermore, transitioning to a green and feminist economy would unlock many new economic opportunities and jobs, as well as provide protection for the climate and human rights. In this paper, we have provided a discussion of how climate finance can deliver climate solutions and justice in a way that works for people and communities. The Netherland's climate finance was used to illustrate how the just transition concept should be understood and applied. The core argument is that we must shift the debate around climate finance, from how to maximise carbon reduction and mobilise private co-finance, to how to ensure that investments, policies and projects contribute to the environmental sustainability, social justice and the protection of human rights.

When developing mitigation and adaptation investment projects, governments should take into account *ActionAid's four principles for just transitions*. They must:

- Address – and not exacerbate – inequalities
- Ensure inclusiveness and participation
- Develop comprehensive policy frameworks
- Transform systems to work for people, nature and the climate.

By looking at the Netherlands' climate finance in relation to the four principles, we have highlighted positive developments that should be replicated and scaled-up, as well as potential policy pitfalls to avoid. Specifically:

1. The Netherlands must call for the global target (currently USD 100 billion) for **climate finance to reflect a fair share of the real costs of climate adaptation and mitigation faced by the developing nations**. A fair share would consider both the historical contribution to climate change (calculated based on cumulative emissions) as well as the financial capabilities a county has at its disposal (GDP per capita). This would also create a clear and reliable basis for re-evaluation in the future.
2. The Netherlands should provide **transparency on how they calculate their fair share to climate finance**. The figure of 1.2 billion is known, but little is known about how this amount was reached. This makes it impossible to establish whether this is a realistic fair share or not.
3. The Netherlands, and the international community, must **deliver on the commitment to direct at least 50% of climate finance for adaptation**. The Netherlands stands out as a global leader in this respect, and the government should play an active role to influence

other countries to develop more ambitious and sound investment targets. However, it is important to **approach adaptation financing to climate-smart agriculture practices with caution to ensure local grassroots inclusion in policy development, and commission impact evaluations and assessments based on the four principles for a just transition**. This is because many of these ‘solutions’ are found to drive land grabs and displace marginalised communities; they are used to greenwash agricultural practices that will harm future food production and they are likely to translate into obligations for developing countries’ food systems to take on an unfair mitigation burden. Lastly, most of these solutions are not accessible for the poor, vulnerable and marginalised, meaning that these groups (especially women) may be left even further behind.

4. The Netherlands must **increase the share of climate finance directed to LDCs**. Currently, it is expected that at least 25% of DFCD funding will be invested in LDCs. Although this is slightly higher than the world’s total climate finance to LDCs (about 20.5%⁷⁶), more is needed: LDCs are hardest hit by climate change and face massive financial shortages for adapting to this reality⁷⁷. Importantly, as most financial resources mobilised from private sector investors are expected to go to upper middle-income countries, **it is particularly important that Dutch public funds are allocated to LDCs**. Especially as a significant share of Dutch climate finance comes from mobilised private capital.
5. The Netherlands must **ensure that funds reach marginalised and vulnerable communities, especially women, and provide more transparency on investment projects**. Currently, less than 10% of all climate finance investments are directed to locally led climate change projects⁷⁸ and investment targets, priorities and mechanisms continue to be developed at the top national and international levels completely without local ownership. Although the Netherlands has made several commitments to direct more climate finance to LDCs, there is currently no systematic method to track how much Dutch climate finance is being channelled to locally led projects. This is a significant gap, as most climate finance investment projects (especially through the international climate funds) primarily judge projects on the tons of carbon reduced and the mobilisation of private co-finance, all of which incentivise large energy investments with minimal community ownership and influence. This is especially true for investments in LDCs, that are perceived to have higher risk. We therefore **challenge the Dutch government to provide a breakdown of figures to show how much climate finance really is reaching community-led projects**.
6. To design climate investment projects in line with the principles for a just transition, the Netherlands must **identify innovative, bottom-up, financing mechanisms that can be scaled up and replicated**. There is already a long list of best practices (see section 4.2) and growing evidence to show how smaller and decentralised projects often have huge impact. For example, ActionAid’s sub-granting schemes and different financing mechanisms based on connecting community projects with existing local government infrastructure.
7. Furthermore, the Netherlands must **identify and replicate methods to reduce the financial risks associated with channelling finance to community/grass-roots actors**. The community-based mechanisms identified in section 4.2 are some effective approaches. It will also be essential to **scale-up mechanisms that reduce the risks associated with private (local) climate investments**, such as guarantee instruments, complementing transactions with technical assistance and developing local currency guarantors to support the development of local capital markets. We identify the DFCD as a promising mechanism to increase the profitability of local climate investment.
8. Finally, increasing the volume of climate finance is not only about finding additional resources. The Netherlands currently spends more on financial support to the fossil fuel industry than it spends in total ODA. It is especially concerning that Dutch public climate finance is equivalent to a mere 7.1% of the financial support to the fossil fuel industry. Therefore, **huge public resources can be unlocked if the Netherlands lives up to its commitment to end environmentally harmful subsidies and divests from fossil fuels**. Dutch fossil fuel export credits also act as a major barrier to the effectiveness of climate finance-supported programmes to reduce emissions in the energy sector, meaning that **ending these subsidies will significantly increase the impact of the existing climate finance investments**.

76 Oxfam, (2020). Climate Finance Shadow Report 2020. Available at: <https://oxfamlibrary.openrepository.com/bitstream/handle/10546/621066/bp-climate-finance-shadow-report-2020-201020-en.pdf>, p4.

77 OECD, (2020). Blended Finance in the Least Developed Countries 2020. Available at: <http://www.oecd.org/dac/blended-finance-in-the-least-developed-countries-57620d04-en.htm>.

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APPENDIX A.1.

Address inequalities

Just transitions need to understand and address the ways in which current systems are causing workers and vulnerable communities to be exploited, squeezed or displaced. For example, farmers and workers may (understandably) be worried that they will be penalised by new climate policies and obligations. Transitions must address pre-existing inequalities such as gender-based inequalities, historical responsibility for causing the climate crisis and vulnerability to its impacts, and access to food and decent work. It must avoid false solutions and technologies that harm communities, or that concentrate control, wealth, land and power in fewer hands. As new areas of employment grow, these must be governed by strong labour and environmental standards to protect worker health, women's rights, community wellbeing and the environment.

Ensure inclusiveness and participation

Just transitions must address power inequalities and give marginalised communities – particularly women – a seat at the table. Importantly, communities are not homogenous, and depending on their location, gender, economic status, ethnicity or caste, methods of production, will wield different degrees of influence and have different perspectives: all these different perspectives, knowledge and concerns must be taken into account right from the start. Further, just transition processes must recognise that different stakeholders have different skillsets, ways of communicating their views, and levels of literacy. For instance, women and marginalised community members often face several barriers to speaking up. By enabling the communities involved to have meaningful opportunities to engage and shape their own future in a way that benefits them, workers, farmers and communities can transform from resisting change, to becoming powerful advocates for action.

Develop comprehensive plans and policy frameworks

Governments must act as midwives for just transition processes, to facilitate effective transformations on the scale required. Once solutions, strategies and plans have been developed in collaboration with stakeholders, comprehensive policy frameworks can provide positive opportunities for better systems that work for workers, farmers, women, communities and the climate. Regional and national level impact assessments and planning processes that are coordinated and aligned with gender-responsive and inclusive policies, social protection, etc., will be key.

Transform energy and food systems to work for people, nature and the climate

Fundamental reshaping of our energy, extractive, food and agriculture systems is needed on a large scale and at rapid speed. Leaving it entirely to 'green consumerism' will not be enough to drive change quickly enough or compensate for continued pollution and destruction. Thus, systemic policy changes, bold initiatives, effective regulations and support mechanisms are needed to bring about transformation to genuinely sustainable approaches at the speed and scale required. These changes must consider the needs of the climate, ensure social justice, and ensure that the planet's biodiversity and natural ecosystems are protected and enhanced.