



## CLIMATE SMART FINANCE PROFILE

In operation across Africa and Asia for 14 years, OneWorld is a privately owned consultancy headquartered in South Africa, focused primarily on minimising the climate, energy and water barriers to socio-economic development. Facilitating and capacitating cooperative governance, while integrating the central strands of development and stakeholder partnerships, are central to our approach. OneWorld has cultivated strong relationships with the public and private sectors to build resilience and to accelerate the pace of change.

With our focus on the science-policy-finance interface, OneWorld has developed skills and experience in translating the overwhelming evidence base of climate change and impact into realistic policy and institutional arrangements across four areas of expertise: Water-Energy-Food Security, Climate-Smart Finance, Policy & Development Futures, and Inclusive Green Growth.

Building resilience in countries and regions that face multiple development challenges requires innovative financial solutions. This includes building

the capacity of countries to effectively absorb and use global climate finance flows, to blend external climate finance with domestic and other resources, and to build resilience-aligned partnerships with the private sector and development banks. OneWorld is continuously enhancing its knowledge base to establish what works – and what does not – in identifying climate finance solutions that most effectively dovetail with development finance and national priorities. Our knowledge and practice has been built on in-country and transboundary experiences, and analysis of case studies, since 2009.

Specifically, our work in climate finance spans the following areas of expertise:

- Making the global climate finance architecture accessible to policy makers;
- Aligning climate investments with national development priorities;
- Developing climate and development project pipelines and packaging these for investors;
- Strengthening capacity and cooperative institutional and governance arrangements;
- Assessing opportunities and systems for blending financial resources;
- Analysing feasible mechanisms for financing cross sectoral and transboundary initiatives
- Aligning climate finance expenditure and reporting with national public finance systems.



#### EXPERIENCE CONTINUOUSLY INFORMS OUR APPROACH

The adaptation finance needs of developing countries are particularly high compared to mitigation funding requirements, yet the capital required for adaptation investment has not been forthcoming at the desired rate – whether from national coffers or global climate finance resources. Moreover, the private sector has yet to recognise the optimal value in investing in adaptation. OneWorld’s hands-on experience in climate finance has centred on finding solutions to these challenges, ranging from articulating the continuously changing global climate finance architecture, to identifying opportunities for national public and private sector investments and partnerships in climate-smart development.

In 2010, OneWorld’s work with African policymakers under the African Ministerial Council for Water

(AMCOW) resulted in a policy outcome that, to this day, guides policymakers and investors on utilising climate finance to develop continental water resources. This work also led to the establishment of the Water Climate and Development Programme (WACDEP), which started under AMCOW in Africa and has since expanded to Asia. Implemented by the Global Water Partnership (GWP) since 2011, this programme aims to stimulate climate resilient water investments that are ‘no or low regret’ – meaning that they are development priority investments that must also meet climate resilience standards. OneWorld continues to guide WACDEP globally on optimal climate and water finance solutions.

Low absorptive capacity continues to plague many developing countries for a variety of reasons, ranging from inadequate capacity and knowledge to transparency and governance issues. This significant challenge came to the forefront during OneWorld’s implementation of the Regional Climate Change Programme (RCCP) in Southern Africa (DFID and SIDA funded). Africa’s poor track record in accessing the Global Environmental Fund (GEF) and Clean Development Mechanism (CDM) funds had become increasingly apparent during implementation of the programme (2007-2012) and, as a result, improving climate finance absorptive capacity in Southern Africa was emphasised as one of the four key outputs of the RCCP.

OneWorld’s UNDP-funded project, Enhancing Readiness for Climate Finance: Experiences from Eastern and Southern Africa (2014), has since highlighted vast improvements in African access to GEF, with many countries consistently accessing as much as 95% of their GEF allocations, a significant improvement from the early RCCP years (circa 2009). Nonetheless, absorptive capacity remains

#### BOX 1: Developing project pipeline capacity with the Government of Mozambique

OneWorld worked closely with the Government of Mozambique (2010-2011) to develop a relevant and evidence-based adaptation project pipeline aligned with both the country’s development priorities and with the Adaptation Fund’s criteria. The OneWorld team trained Government staff from seven sectors affected by climate change on the Adaptation Fund and its criteria and project requirements. The selection of priority-aligned projects was then facilitated, followed by a coaching and mentoring process to develop the project proposals. In parallel, the OneWorld team analysed the institutional and governance arrangements required to apply for and deliver climate finance. Significantly, the process resulted in the explicit consideration of climate change in sectoral and national development plans.

low with countries frequently asking for more than they can effectively spend or deliver, reducing credibility and diluting their attractiveness to investors. The capacity to develop robust project pipelines that effectively meet the criteria of emerging funds is a major barrier that OneWorld's experience has identified (see Box 1).

OneWorld's climate finance experience has highlighted another significant and recurring barrier for developing countries – a lack of transparency characterised by inadequate monitoring and evaluation (M&E) and climate finance tracking systems. This ongoing challenge is evident in most countries that OneWorld has worked with; even countries with a seemingly advanced state of climate finance readiness, such as Bangladesh (see Box 2).

These issues of transparency and evaluation are high on the global climate negotiations agenda. Developed and developing countries alike have agreed to the implementation of Measuring, Reporting and Verification (MRV) of climate finance

so as to ensure rigour in tracking expenditure and evaluating impact and progress. Since 2009, OneWorld has worked closely with the African Group of Negotiators (AGN) in developing the continental and member country position on these and other climate finance issues. Our capacity building-based approach has seen the AGN advance Africa's position and strengthen its voice in the international negotiations (see Box 3), thus influencing the outcomes of the Conference of the Parties (COP) sessions under the United Nations Framework Convention on Climate Change (UNFCCC).

One of the biggest questions facing the global climate change decision-making community is how to finance transboundary climate resilience and adaptation. OneWorld's focus on transboundary adaptation in many of Africa's shared river basins routinely highlights the need for adequate financing solutions in difficult geopolitical contexts. OneWorld has developed approaches for sensitising and building capacity of transboundary and regional institutions, working with River Basin

## **BOX 2: Evaluating climate finance opportunities for the DANIDA-funded Bangladesh Country Programme**

OneWorld evaluated the ability of Bangladeshi government institutions to effectively absorb and deliver climate finance as part of the overall development support to the Government of Bangladesh from the Danish Government in 2015. The support programme's analytical framework required an evaluation of:

- In-country institutional arrangements and governance structures and their effectiveness, including the two climate funds established in Bangladesh;
- The country's history of accessing and delivering bilateral and global climate funds, as well as nationally allocated finance;
- Public finance and accounting systems and facilities available to report on climate and development expenditure;
- Monitoring and Evaluation Systems across institutions and structures;
- The policy and regulatory framework and how this framework aligns with national development priorities given the country's particular vulnerability to climate change and extreme events.

While the argument for climate and development finance is sound in Bangladesh, the performance of sophisticated structures, such as the two climate funds, which attracted large sums of international and national finance, has led to a loss of credibility within government. Effective Monitoring and Evaluation was stymied in both the World Bank-administered Bangladesh Climate Change Resilience Fund (BCCRF) and the Bangladesh Climate Change Trust (BCCT), a statutory body formed under Climate Change Trust Act (2010) to administer the Climate Change Trust Fund (CTF). Consequently, the World Bank withdrew from the former fund in July this year.

The case of Bangladesh made it starkly evident that high demonstrable need and sophisticated institutional and regulatory arrangements are not enough to establish and maintain absorptive capacity. The ability to transparently monitor and evaluate expenditure and effective delivery on projects is a critical condition for success, as is transparent accounting systems.

### **BOX 3: Strengthening Africa's common position on climate finance**

Since 2009, OneWorld has supported the AGN on key UNFCCC negotiating issues, particularly climate finance. OneWorld provides strategic, technical and logistical support to the Group through workshop facilitation, back stopping of AGN lead coordinators on climate finance, adaptation and the emerging climate agreement and strategic advice to the AGN Chair. This includes developing and disseminating ongoing technical analysis, papers and policy briefs, mainly on key climate finance issues such as:

- Form and structure of the Green Climate Fund;
- Long term sources of climate finance;
- Allocations of climate finance between adaptation and mitigation;
- Negotiated instruments and processes such as MRV, National Adaptation Plans and National Mitigation Plans (NAPs and NAMAs) and Intended Nationally Determined Contributions (INDCs);
- Advancing the core elements of an acceptable climate finance 'deal'; predictable, adequate, accessible and additional climate finance;
- Marrying global policy arguments with domestic needs and delivery.

Organisations (RBOs) and continental entities and networks to build their capacity on financing climate change response strategies (see Box 4).

OneWorld's endeavours to identify transboundary-financing solutions are predicated by an in-depth understanding of national barriers to,

and conditions for, success in financing climate change responses. In the developing world, the significant impact of climate change provides more than sufficient motivation for structured, large-scale financial responses – and a rationale for investments in building climate resilience. In-depth country analysis demonstrates that accessing

### **BOX 4: Developing transboundary and regional solutions to climate finance**

OneWorld has been developing transboundary climate finance solutions through a capacity building-approach since 2009. We have advised AMCOW on its climate finance policy and continue to advise the Global Water Partnership (GWP) and regional partner institutions on the implementation of the African and Asian Water, Climate and Development Programme (WACDEP), now entering its 5<sup>th</sup> year of delivery. OneWorld regularly conducts capacity building workshops and facilitates regional dialogue on climate finance for the Southern African Development Community (SADC) Water, Food, and Natural Resources divisions; AMCOW; River Basin Organisations (RBOs), such as the Limpopo Watercourse Commission, the Zambezi Watercourse Commission, the Nile Basin Initiative (NBI); and global networks, such as GWP Global, South East Asia and Africa partnerships.

In early 2013, the Nile Basin Initiative (NBI), supported by GIZ, undertook a process of reviewing and updating their environmental strategies and policies with a view to climate-proofing all relevant policies. The Climate Change Strategy was developed concurrently with this review process. OneWorld was contracted to provide specific knowledge and expertise with regard to on-going international climate change dialogues, to support the development of an NBI Climate Change Strategy, and to facilitate related planning sessions and workshops to build capacity and coordination amongst decision-makers. The NBI Climate Change Strategy was approved by riparian country ministers mid-2013. Through the Nile Basin Trust, this strategic and policy framework continues to assist the NBI in leveraging finance for water, climate, and development projects.

Since late 2012, OneWorld, through funding from USAID, has been supporting LIMCOM and other Limpopo River Basin stakeholders in developing climate resilience-building strategies and financing solutions. OneWorld recently completed an Investment Strategy for resilience-building in the Limpopo, an instrument for mobilising resources in order to secure the river basin against climate change, and is subsequently embarking on a process of mobilising and leveraging financial resources for the Limpopo. This process necessitates the development of appropriate governance structures and institutional arrangements to enable access to climate finance. Our delivery is based on a capacity-development approach and underpinned by participatory reviews and stakeholder analysis.



national and international financial resources for climate change is a combined function of a country's financial, economic, political and social systems (see Box 5). Developing countries are typically characterised by stretched fiscal resources, debilitating socio-economic challenges, and inadequate capacity, making it difficult to plan for, access, mobilise and track the use of resources against a pipeline of scalable, programmatic and justifiable resilience-building projects.



#### SUMMARISING KEY INSIGHTS TO IMPROVE CLIMATE FINANCE SOLUTIONS

OneWorld's work continues to demonstrate that although priorities and challenges are often similar between countries, there are neither ready-made prescriptions for accessing climate finance, nor a one-size-fits-all model to ensure developing countries are climate finance ready. Climate finance should be designed in accordance with

### BOX 5: National Climate Finance Readiness – lessons from Africa and Asia

The UNDP-funded “Enhancing Readiness for Climate Finance” project (2013-2014) sought to gain insight from the successes and challenges to accessing and delivering climate finance evident from a sample of 11 African and Asian countries. The research methodology included an in-depth desktop analysis of climate change and public finance management policies, strategies, and frameworks pertaining within each country. This desktop review was complemented by a participatory and stakeholder-inclusive analysis and in-country fieldwork that included face-to-face interviews and roundtable discussions with key experts and stakeholders from lead sectors, civil society, and NGOs.

One of the most important outcomes of this study was the development of a set of indicators that supports a more nuanced framework for assessing and gauging a country's climate finance readiness. These indicators were developed along the four pillars of climate finance readiness (planning, accessing, delivery and MRV) established by the UNDP Climate Finance Readiness Framework and were informed by in-country and benchmark research.

The study culminated in a set of key recommendations and a policy brief for addressing the critical challenges facing developing countries' access to global climate finance. The project recommendations are premised on four key conditions for success:

- Cross-cutting, politically-mandated coordination;
  - Climate and development priorities aligned with investor requirements (including the private sector) and national government development strategies and policies;
  - Incentivised engagement of all key resources and stakeholders; and,
  - Transparent climate finance expenditure within a fiscal system that stimulates domestic investment.
- Moreover, the study includes an in-depth assessment on the role of the private sector in climate finance – another critical question facing the global climate change decision-making community.

specific country and regional contexts so as to prepare national institutions to best respond, plan, and use resources available. Our extensive climate finance experience has highlighted the following key lessons to help countries and development partners to achieve this aim.

- **Climate finance should be firmly on the development agenda.** Climate funding flows and climate finance readiness should become a prominent feature of development discussions as countries grapple with ways to finance their responses to climate change. National resources should be blended with international climate finance and national support is often preferable as it can offer better predictability, national ownership of the climate and development agenda, and enhanced delivery against national priorities.
- **Being climate finance ready is a moving target.** The global climate finance architecture is constantly evolving, and so too are the requirements for access and investment. The focus on direct access modalities has heightened and, along with this, designated in-country institutions are required to demonstrate a level of compliance often not associated with environmental funding in developing countries. Countries will therefore do well to evaluate their readiness status regularly.
- **The private sector has crucial resources – financial, technical and human – that are critical to tackling climate change challenges.** Regardless of how mature a country's climate change policy environment is, the public sector needs to build private sector engagement into their climate change strategy. Public incentives alone will not generate the magnitude of finances required to close the financing gap and a more comprehensive review of the barriers to private climate finance should be conducted. Policy incentives are needed to leverage these private sector partnerships and resources. Additionally, governments accessing climate funds can generate co-financing opportunities for the private sector that drive benefits and multiply the original concessionary amount.

- **Cooperative governance is a critical success factor and capacitating this is a priority.** Inter-ministerial and cross-sectoral institutional arrangements require political endorsement to function effectively and are essential to delivering effective national responses to climate change within national budgetary and international climate finance constraints.
- **Coherent, aligned investment planning is essential** for adequate and predictable resource mobilisation. A coherent approach is necessary in delivering timely and relevant climate finance for the implementation of successful and scalable national climate change programmes.
- **Public finance systems need to be adapted** to integrate climate finance, whether from national or international resources – being climate finance ready goes well beyond sound institutional arrangements and mechanisms to include factors of transparency, accountability and the commitment of national resources.

OneWorld continues to apply these and other emerging lessons in tailoring approaches to Asian and African contexts. This includes preparations for COP 21 in Paris, 2015, as the world moves toward a new Climate Agreement. The combined decarbonisation pathways of the fifteen countries that account for 70% of the world's emissions will not limit global warming to 2 degrees<sup>1</sup>. The proposed cuts are not deep enough. Low ambition is frustrating for developing countries facing the enormous social, economic and environmental challenges associated with high carbon emissions – challenges that come at a significant financial cost. How much exactly will this cost and who will pay? This continues to be the essence of the climate finance discourse, that developing countries continue to influence and this is best achieved through both voice and action. Capacitated action is particularly important and OneWorld is working toward supporting the marrying of domestic action with developing country demands of global policy.

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<sup>1</sup> SDSN, 2014