



*Empowered Lives,
Resilient Nations.*

ENHANCING READINESS FOR CLIMATE FINANCE

EXPERIENCES FROM EASTERN AND SOUTHERN AFRICA





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Executive Summary

Climate Finance Readiness in Eastern and Southern Africa

The UNDP-OneWorld climate finance readiness (CFR) project in Eastern (Ethiopia, Kenya and Tanzania) and Southern Africa (Lesotho, Mozambique and Zambia) drew on the CFR status and aspirations of these countries. This informed a set of key policy recommendations, that when enforced, will accelerate the readiness status of each country, and thus of the African continent.

The outcomes of this study strongly indicate that CFR progress (against all the indicators of readiness) will flow if **four conditions** are in place: if coordination is cross-cutting and politically mandated, if climate and development priorities are aligned with investor requirements, if the engagement of all key resources and stakeholders is incentivized and understood, and if climate finance expenditure is transparent within a fiscal system that stimulates domestic investment.

KEY POLICY RECOMMENDATIONS

- **Politically endorse** inter-ministerial and cross-sectoral institutional arrangements
- **Align** climate investment planning with national development **priorities**
- Implement incentives for **leveraging** banking and private sector resources
- **Integrate** climate change into public finance systems

CFR is firmly on the development agenda

Climate finance readiness has become an increasingly prominent feature of development discussions throughout the developing world, as

countries grapple with ways to finance their responses to climate change. This UNDP-OneWorld CFR project complements a body of work conducted by a range of institutions which continue to produce important work on climate finance. Institutions such as the World Bank, donor agencies and UNDP regional and country offices typically provide capacity-building support, for example in establishing modalities for direct access and integrating climate finance into public fiscal systems. The support provided by regional and global institutions is further supported by research and consulting organizations with climate finance capacity.

Climate finance readiness is crucial for Africa

The high impact of climate change in Africa provides more than sufficient motivation for structured, large-scale financial responses – and a rationale for climate finance. A country's CFR status is a combined function of its financial, economic, political and social systems. Being climate finance ready means that a country is able to plan for, access and mobilize financial resources from both public and private sources and to track and verify the correct use of these resources.

Developing countries are characterized by stretched fiscal resources and debilitating socio-economic challenges. This forces an almost exclusive dependence on external funding for climate mitigation and adaptation. Developed countries acknowledge this situation primarily through funding pledges via multilateral funds. However, pledges do not always materialize and the challenges to developing countries accessing funds that do flow are not insubstantial. Climate finance is thus unpredictable and frequently elusive.

Africa, a continent that is particularly vulnerable to climate change, needs to be constantly on the alert. Eight of the world's 20 most vulnerable countries are in Africa, with many already experiencing the reality of climate change (Wheeler, 2011). In Mozambique, recent severe climate events have cost the government an estimated US\$4 billion per event; in Kenya during 1998-2000, a protracted drought cost the country 16 per cent of its GDP; in Zambia, flooding in 2006-2007 left hundreds dead and 1.25 million homeless.

This supports the contention that damage from climate change, relative to GDP and population, is likely to be higher in Africa than in any other region. Studies suggest that the cost of climate damage in Africa, as a percentage of GDP, could be 10 per cent higher than in India (which is the next most exposed region), and more than twice as high as in the US, Russia, Eurasia or Latin America (AfDB, 2011).

The most crucial step for countries receiving climate finance is to make climate change an explicit component of their national development objectives and financing structures. The UNDP CFR framework thus defines readiness for climate finance as:

"The capacities of countries to plan for, access, deliver, and monitor and report on climate finance, both international and domestic, in ways that are catalytic and fully integrated with national development priorities and achievement of the MDGs" (Vandeweerd, Glemarec and Billett, 2012).

All eyes are currently on the Green Climate Fund (GCF), which is emerging as a central fund in the global climate finance architecture. African countries have an opportunity now to get ready to access the GCF when it opens for business in 2015. Focusing on the four conditions outlined will ensure that countries meet the GCF requirements for different governance and delivery systems. Furthermore, establishing these conditions will greatly assist countries in demonstrating a paradigm shift, or transformational change, towards practices that are compatible with the challenges of climate change (low emissions and climate resilient development pathways). Transformational change was a key principle of the GCF, included in the GCF agreement at COP 17 in Durban (2011) and countries that can demonstrate a clear plan and progress towards transformation, will be termed as ready to access the GCF. Aligned closely with the CFR Indicators considered in this study, this transformative approach is embedded in the key principles of ownership and country-led approaches, enhanced accountability, engaged stakeholders and systems for measuring transformation.

Indicators for readiness emerged from the participatory analysis

If the countries in this study are representative of a continental situation, then CFR as a topic is high on Africa's agenda. The level of observed political will and engagement is instructive, facilitating ease of sharing of domestic and global climate finance successes and barriers between project countries. Interviews complemented the desktop review, allowing the OneWorld team to examine the institutional framework for implementation, the level of national planning and coordination, and the presence of social, environmental and fiduciary systems and standards. Designated members of lead and sector ministries on climate change,

mandated national authorities, development partners, financial institutions, NGOs and civil society, and national experts all helped to clarify the criteria for country readiness to access multiple sources of funds. Critically, a shared learning platform among all six countries facilitated a deeper discussion on understanding exactly what constitutes readiness, proving to be a useful tool in itself.

Being climate finance ready is a moving target though and countries will do well to evaluate their readiness status regularly. A set of CFR Indicators (Table 1), which emerged from the discussions and expert analysis, defines the ideal state of readiness, creating a benchmark for charting Africa's progress.

Table 1. CFR Indicators

FINANCIAL PLANNING
1. Cohesive Policy Framework 2. Resource Mobilization Plan 3. Politically-endorsed Institutional Arrangements 4. Mechanisms for Local Delivery
ACCESSING FINANCE
5. Accredited National Modalities for Direct Access 6. Established Mechanism for Blending Resources 7. Optimized Access to Global Funds
DELIVERING FINANCE
8. Leveraging Development Bank Partnerships 9. Incentivized Private Sector Participation
MONITOR, REPORT & VERIFY (MRV)
10. Harmonized M&E framework 11. Cohesive tracking framework, including CPEIRs

CFR challenges are common but differentiated

Although many of the challenges facing African countries are common to them all, the ways in which they manifest themselves in the six countries vary significantly. The impediments to the adoption of CFR measures, which affect all countries in the region, can be summarized as follows:

- Climate finance has, for a long time, been loaded in favour of mitigation, whereas African countries are more needful of adaptation finance.
- The overlap of development and climate change needs in most of Africa tends to widen the adaptation finance gap.
- Bilateral funding, to which African countries tend to have easier access, is too often driven by donor agendas, leaving recipient countries vulnerable to the vagaries of donor funding cycles and agendas.

Global challenges derive, in the main, from the complex institutional architecture of the global funds. Capacity constraints on the other hand typify internal access issues, negatively affecting a country's absorptive capacity. A country's inability to absorb climate funds can further affect predictability, as pledges consequently do not convert to financial flows.

The combination of these factors results in unpredictable climate finance flows, often leading to small, project-based responses, rather than the scalable programmatic responses that are really needed. This significantly slows progress in building overall resilience to climate change and contributes to the variable status of CFR in the six countries studied. It also explains why some countries have

stronger policy frameworks than others, and why some are stuck in critical processes such as the establishment of direct access modalities.

Given the rapid evolution of the climate finance landscape over the last decade, it is not surprising that most of the countries studied have struggled to domesticate new requirements while at the same time striving to access funds and implement projects. As mentioned, the tendency towards project-based responses driven by bilateral agreements, rather than programmatic national resource mobilization plans, is a progress inhibitor. Whereas most of the countries have made some progress towards developing policy frameworks and institutional arrangements, none has made significant progress with implementing the UNFCCC negotiated system of Monitoring, Reporting and Verification (MRV).

Successes in accessing finance, optimizing access to global funds, and partnering with and incentivizing the private sector or partnering with implementing NGOs are among the aspects of CFR that manifest themselves differently between countries. These differences are the result of different systems, politics, cultural factors and development priorities.

The 2009 Copenhagen Accord required a commitment of substantial "new and additional" resources by the developed world, without defining precisely what this term should mean. This concept of "additionality" compounds the uncertainties faced by developing countries. Clarity on this issue is necessary. However the recommendations in this policy brief are premised on the key analytical finding that climate and development activities should be integrated as far as possible.

There are domestic challenges that are within a country's reach. Issues of institutional coordination across sectors and the ability to mobilize domestic sources of finance, including private sector resources, dominate. Governments in Africa have an

opportunity to accelerate readiness through political mandates and institutional reform, taking more control of their own agendas.

The Plan for Action guides transformation

Taking action to accelerate readiness requires enhanced capacity **across all key stakeholder groups**. This will ensure that Africa is alert, ready and able to access climate change funds, especially when the GCF opens for business in 2015.

Enabling actors for CFR

Climate finance flows are neither purely public nor purely private. There are capacity requirements at each level of government, across many sectors, as well as within support and partner institutions, including the private sector. **The main stakeholders for CFR can be broadly categorized as government, the private sector and civil society**. These stakeholders are incentivized by very different forces and therefore have significantly different skills and capabilities. Clarifying roles and responsibilities and the related capacities required at the policy, institutional and individual levels, across government, the private sector and civil society, is essential to effecting the Plan for Action.

Government is the custodian of climate-smart development and is responsible for stimulating private sector action and for leveraging critical strategic partnerships. Its fundamental function is in strategic planning and ensuring alignment of climate change with national priorities, accessing and leveraging climate finance and creating an enabling environment for delivery and implementation. It has ultimate responsibility for ensuring that monitoring, reporting and verification are coherent and coordinated.

The private sector includes multinational corporations, commercial banks, small and

medium enterprises, micro-finance institutions and households. Many of these actors have something to contribute to building climate resilience, through financial and human resources, skills and technologies. National development banks, although not purely private sector institutions, also play a crucial role in supporting access to and delivery of climate finance, for which their financial and technical capacities are required.

Civil society, or the array of non-governmental and not-for-profit organizations (NGOs/NPOs) that include community groups, non-governmental organizations (NGOs), labour unions, indigenous groups, charitable organizations, faith-based organizations, professional associations, and foundations, often has skills and capacity that can be used to plug government gaps. In this way, civil society can link high-level policy to grassroots-level implementation of climate finance. Organizations that play an accountability role are critical overseers and monitors of government spending on climate finance. Civil society therefore promotes transparency and accountability on the part of the government in making effective use of accessed funds. Moreover, NGOs, as implementing agents, often provide the skills and capacity lacking in government. Through both roles of accountability and implementation, civil society is well positioned to influence and enact climate policy, integral to planning for and delivering climate finance.

Enhanced institutional capacity is needed to enable most actions and to establish the critical conditions for readiness.

Establishing the conditions for accelerating readiness

In establishing the four identified critical enabling conditions, African Governments will be able to accelerate readiness, further supported by country ownership of their climate agendas. Ownership is demonstrated through clear prioritization of climate-smart development action, and reinforced by regular

evaluation. Achieving these conditions will enable progress towards successful fulfilment of all 11 CFR Indicators. Taking targeted actions toward achieving the CFR Indicators will enhance absorptive capacity even in the face of a changing global climate finance landscape and shifts in developmental demands on governments.

Critical conditions for CFR

For the many African countries that face multiple demands for change, working towards each of the CFR Indicators under all four UNDP Framework pillars may be overwhelming. The reality of limited resources and capacities heightens the need to identify the most important steps that African countries can take now to build an enabling environment for fast-tracking climate finance readiness. The critical conditions for accelerated readiness are:

- Politically-endorsed inter-ministerial and cross-sectoral institutional arrangements;
- Coherent, aligned investment planning;
- Established policy incentives for leveraging partnerships and resources; and,
- Climate integrated public finance systems.

Although this study covered only six countries from two of Africa's five sub-regions, the outcomes can inform Africa-wide action for readiness. **All African countries can benefit** from sharpening their focus on these four most important conditions.

Politically-endorsed inter-ministerial and cross-sectoral institutional arrangements

Although a significant challenge, all case study countries have made progress – some substantially so. The study demonstrated that once coordination was mandated at the highest political level and suitable inter-ministerial arrangements were created, previously slow progress towards overall CFR accelerated rapidly. In the main though, these arrangements fall short of embracing other sectors and partners such as

development banks, the private sector, civil society and research institutions. Consequently, the private sector and banks are unaware of their own climate risks, needs and roles. CSOs are not fulfilling their key functions of accountability and back-stopping capacity within government. Moreover, research institutions are often underutilized.

Coherent, aligned investment planning

The climate finance architecture is frequently said to be complex and difficult to navigate. Typical complaints include stringent criteria, lack of capacity to develop funder-acceptable projects and underinvestment – for example by the development finance institutions (DFIs) in priority projects – particularly those that programmatically meet Africa's essential adaptation needs. Nonetheless, the countries analysed are accessing multi- and bilateral funds. A review of their record in accessing the funds allocated in the various rounds of the Global Environmental Fund (GEF) shows incremental improvement in most countries. Yet, many of Africa's adaptation priorities remain under-resourced and it would be simplistic to attribute this to issues of stringency and complexity only. Rather, national governments and investors do not talk to each other and when they do, timing and information are usually out of kilter.

National climate change and investment strategies and plans that are well aligned with development objectives are a critical success factor. However, investors need to comprehend and identify with them. It is the role of government to drive this process. It cannot expect the private sector to produce expertise, finance and technology if it does not know to what end. The same applies to CSOs and research institutions. Similarly, DFIs need insight into national needs and governments need to understand the reasons for their investment criteria. Bringing the two closer together will, for

example, increase DFI investments into Africa's biggest climate-smart development projects. Water, already scarce but necessary to development and significantly threatened by climate change, is an important example of underinvestment.

Incentivized and leveraged partnerships

Government may well play the leading role in financing climate-smart development, but it cannot chart and navigate this route alone. Partnerships must be leveraged across all the other stakeholder groups of the private sector and civil society. Experience demonstrates that leverage needs to be enabled and stimulated. Private sector engagement will be optimal only if incentivized. A partnership approach (between the public and private sector) to designing and implementing policy incentives is urgently required. These incentives need to be oriented toward Africa's adaptation agenda, drawing on prior and existing mitigation successes.

Ideally, civil society should be perceived and established as a critical partner to government. This necessitates effort by both stakeholder groups. Governments in Africa frequently perceive CSOs in a negative light, seeing them as either ineffectual or threatening. CSOs would do well to position themselves as partners rather than opponents to government. Conversely, the nature of civil society participation is dependent on government leadership in bringing itself and citizen groupings together in the climate finance discourse. Government needs to establish enabling policy for building inclusive climate-smart development responses and harnessing valuable CSO capacity and skills. Critically, the voice of CSOs needs to be enabled and heard.

Climate integrated public finance systems

Africa wants the developed world to account for and reduce greenhouse gas emissions and recognize Africa's adaptation gap. It also needs predictable

and adequate sources of finance for climate change. The developed world wants developing countries to quantify the adaptation gap (while taking some responsibility for reducing emissions), account for their climate finance expenditure in a transparent manner, and allocate domestic resources to climate finance. If predictable and substantial global sources of finance are to continue to flow into Africa, then African countries must get their national house in order. Simply put, this means that recipient countries will access greater and continued resources if they can effectively monitor, report on and verify (MRV) their climate finance expenditure. This includes reporting on domestic and international resources.

The only way this can work is if climate finance is integrated into national public finance systems. Mainstreaming climate change strategies into national development agendas is the first step. This enables allocation of domestic resources. It also provides the basis for transparent accounting for climate change, gives ongoing insight into

where the returns on climate investments are made and builds the evidence for arguing the case for "additionality". Although several of the countries studied seem to shy away from the transparent allocation of domestic resources, most spend on adaptation and resilience building. However public finance systems are not codified to track climate spend. Consequently, in-country investments are under-recognized, compromising Africa's voice in the global negotiations when it comes to a balanced deal on adaptation and for finance to support this.

In summary, the study outcomes indicate that progress against all 11 CFR Indicators will flow if all four conditions are in place: if coordination is cross-cutting and politically mandated, if climate and development priorities are aligned with investor requirements, if the engagement of all key resources and stakeholders is incentivized and understood, and if climate finance expenditure is transparent within a fiscal system that stimulates domestic investment.

Table of Contents

Executive Summary

<i>Climate Finance Readiness in Eastern and Southern Africa</i>	3
Key Policy Recommendations	3
CFR is firmly on the development agenda	3
Climate finance readiness is crucial for Africa	3
Indicators for readiness emerged from the participatory analysis	4
CFR challenges are common but differentiated	5
The Plan for Action guides transformation	6
Critical conditions for CFR	7

1. Setting the Scene **17**

1.1 Introduction	17
1.2 The Global Climate Finance Landscape	18
1.2.1 External Challenges	19
1.2.2 Domestic Challenges	20
1.3 What is Climate Finance Readiness (CFR)?	20
1.3.1 Background: The UNDP Framework for Climate Finance	21
1.4 Capacity-building activities in the region	23

2. Methodological approach **27**

2.1 Cluster methodology	27
2.2 Participatory analysis	28
2.2.1 In-country fieldwork	28
2.2.2 Roundtable discussions	28
2.2.3 Shared learning platform	29
2.3 Development of CFR indicators	29

3. Climate finance readiness in Eastern and Southern Africa	33
3.1 Introduction	33
3.2 Achieving Climate Finance Readiness: Indicators of Success	33
3.2.1 Financial Planning	33
INDICATOR 1. Cohesive Policy Framework	33
INDICATOR 2. Resource mobilisation plan	38
INDICATOR 3. Politically-endorsed institutional arrangements	38
INDICATOR 4. Mechanisms for local delivery	42
3.2.2 Accessing Finance	45
INDICATOR 5. Accredited national modalities for direct access	45
INDICATOR 6. Established mechanism for blending resources	46
INDICATOR 7. Optimised access to global funds	48
3.2.3 Delivering Finance	48
INDICATOR 8. Leveraging Development Bank Partnerships	49
INDICATOR 9. Incentivised private sector participation	49
3.2.4 Monitoring, Reporting and Verification (MRV)	53
INDICATOR 10. Harmonised M&E framework	53
INDICATOR 11. Cohesive tracking framework, including CPEIRS	55
4. A Plan for Action	57
4.1 Targeted Actions for CFR	57
4.2 Enabling the Plan for Action	61
4.2.1 Enabling Actors	61
4.2.2 Capacity Requirements for Climate Finance Readiness	62
5. Conclusion	64

List of Tables

Table 1.	CFR Indicators	31
Table 2.	Actions for achieving CFR Indicators	58
Table 3.	Capacity requirements for CFR	62

List of Boxes

Box 1.	Financing mitigation versus adaptation	18
Box 2.	MRV and M&E	22
Box 3.	Lessons from Eastern and Southern Africa: Kenya's cohesive policy framework	36
Box 4.	Lessons from Eastern and Southern Africa: Mozambique's Fast-Tracked Climate Change Strategy	37
Box 5.	Global Benchmark: Indonesia's politically-endorsed institutional arrangements and funding mechanism	40
Box 6.	Lessons from Eastern and Southern Africa: Tanzania's National Climate Change Steering Committee	41
Box 7.	Global Benchmark: Colombia's approach to localized delivery	43
Box 8.	Lessons from Eastern and Southern Africa: Kenya's Transition to Localized Delivery	44
Box 9.	Lessons from Eastern and Southern Africa: Ethiopia's Climate Resilient Green Economy Facility	47
Box 10.	Global Benchmark: Mongolia's approach to incentivizing the private sector	51
Box 11.	Lessons from Eastern and Southern Africa: A Standstill in Lesotho's Wind Sector	52
Box 12.	Lessons from Eastern and Southern Africa: Civil Society Organization (CSO) Involvement in Zambia	54

List of Supplementary Reports

Supplementary Report 1: The Climate Finance Landscape

Supplementary Report 2: Climate Finance Readiness and the Private Sector

Supplementary Report 3: Readiness for Climate Finance-Experiences from Eastern and Southern Africa: Ethiopia Case Study

Supplementary Report 4: Readiness for Climate Finance-Experiences from Eastern and Southern Africa: Kenya Case Study

Supplementary Report 5: Readiness for Climate Finance-Experiences from Eastern and Southern Africa: Lesotho Case Study

Supplementary Report 6: Readiness for Climate Finance-Experiences from Eastern and Southern Africa: Mozambique Case Study

Supplementary Report 7: Readiness for Climate Finance-Experiences from Eastern and Southern Africa: Tanzania Case Study

List of Abbreviations and Acronyms

ACCF	Africa Climate Change Fund
ACFH	African Climate Finance Hub
AF	Adaptation Fund
AFB	Adaptation Fund Board
AfDB	African Development Bank
BAPPENAS	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency of Indonesia)
BRICS	Brazil, Russia, India, China and South Africa
BMZ	Bundesministerium für Wirtschaftliche Zusammenarbeit (German Federal Ministry for Economic Cooperation)
CDKN	Climate and Development Knowledge Network
CDM	Clean Development Mechanism
CFR	Climate Finance Readiness
CIF	Climate Investment Fund
CONDES	Council for Sustainable Development
COP	Conference of the Parties
CPEIR	Climate Public Expenditure and Institutional Review
CRGE	Climate Resilient Green Economy
CSO	Civil society organization
CSR	Corporate social responsibility
CTF	Clean Technology Fund
DFI	Development finance institutions
DfID	UK Department for International Development
DNA	Designated National Authority
DoE	Division of the Environment
DPO	Development Policy Operation
EAC	East African Community
FSF	Fast Start Finance
FUNAB	Mozambican Environment Fund
GCF	Green Climate Fund
GCPF	German Global Climate Partnership Fund
GDP	Gross Domestic Product
GEF	Global Environment Fund
GES	Green Economy Strategy
GHG	Greenhouse gas
GIIMC	Climate Change Inter-Institutional Group
GIZ	German Federal Enterprise for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit)
ICCS	Interim Climate Change Secretariat
ICCTF	Indonesian Climate Change Trust Fund
IIED	International Institute for Environment and Development
INGC	National Institute for Disaster Management
IPCC	Intergovernmental Panel for Climate Change

IPP	Independent power producer
KCCAP	Kenya Climate Change Action Plan
KP	Kyoto Protocol
LDCF	Least Developed Countries Fund
LEC	Lesotho Electricity Company
LECRDS	Low-emission and climate-resilient development strategies
M&E	Monitoring and evaluation
MDB	Multilateral Development Bank
MEF	Ministry of Environment and Forestry
MICOA	Ministry of Coordination of Environmental Affairs
MoF	Ministry of Finance
MOFED	Ministry of Finance and Economic Development
MPD	Ministry of Planning and Development
MRV	Monitoring, reporting and verification
NAPA	National Adaptation Plan of Action
NCCAP	National Climate Change Action Plan
NCCF	National Climate Change Fund
NCCRS	National Climate Change Response Strategy
NCCS	National Climate Change Strategy
NCCSC	National Climate Change Steering Committee
NCCTC	National Climate Change Technical Committee
ND-GAIN	Notre Dame Global Adaptation Index
NEMA	National Environment Authority
NEMC	National Environmental Management Council
NGO	Non-governmental organization
NIE	National Implementing Entity
NPBM	National performance and benefit measurement
NPO	Not-for-profit organization
NSC	National Steering Committee
ODA	Overseas Development Assistance
ODI	Overseas Development Institute
PPAs	Power purchase agreements
PPCR	Pilot Programme for Climate Resilience
PPPs	Public-private partnerships
R&D	Research and Development
REC	Regional Economic Community
REDD+	Reduction of Emissions from Deforestation and Forest Degradation
RICE	Regional Integrated Model of Climate and the Economy
RUAs	River Users Associations
SCF	Strategic Climate Fund
SCCF	Special Climate Change Fund
SME	Small and medium-sized enterprises
SREP	Scaling-up of Renewable Energy Programme
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
VPO	Vice President's Office
WRMA	Water Resource Management Authority



1. Setting the Scene

1.1 Introduction

Africa is arguably the continent most vulnerable to the impacts of climate change. Eight of the world's 20 most vulnerable countries are in Africa, with many already experiencing the reality of climate change (Wheeler, 2011). In Mozambique, recent severe climate events have cost the government an estimated US\$4 billion per event; in Kenya during 1998-2000, a protracted drought cost the country 16 per cent of its GDP; in Zambia, flooding in 2006-2007 left hundreds dead and 1.25 million homeless.

These examples support the contention that damage from climate change, relative to GDP and population, is likely to be more severe in Africa than on any other continent. Sub-Saharan Africa, with its rural subsistence economies reliant on rain-fed agriculture, high levels of poverty, rapid population growth and low adaptive capacity, is particularly vulnerable.

The Regional Integrated Model of Climate and the Economy (RICE) suggests that the cost of climate damage in Africa, as a percentage of GDP, could be 10 per cent higher than in India (which is the next most exposed region), and more than twice as high as in the United States of America, Russia, Eurasia or Latin America (African Development Bank, 2011).

In countries beleaguered by lack of capacity and inadequate resources, survival-based poverty alleviation measures tend to take priority over climate change concerns. Thus, with their debilitating

socio-economic challenges and stretched fiscal resources, many of the world's poorest countries have no alternative but to depend exclusively on external funding for climate mitigation and adaptation projects. The serious impact of climate change in Africa provides more than sufficient motivation for structured, large-scale financial responses – and a rationale for climate finance. The timely transfer of appropriate climate finance to countries in the region is necessary to enable them to adapt to expected climatic impacts, and embark on their own low-carbon and climate resilient development trajectories.

This study assesses the ability of vulnerable countries to receive and spend effectively climate finance (absorptive capacity), drawing on experiences from six countries in eastern and southern Africa. It applies and extends a framework developed by the United Nations Development Programme (UNDP) with a view to enhancing global understanding of the capacity constraints and developmental challenges facing the world's most vulnerable region. A primary aim is to afford African policy makers and their development partners a ground-level view of the status of climate finance readiness (CFR) in the region, and in so doing, augment the UNDP Framework on CFR. The study posits a set of tangible and specific **"CFR Indicators"** that can be applied across the continent to help gain an enhanced African view of what climate finance readiness means and how to self-monitor progress in achieving an ideal state of readiness.

1.2 The Global Climate Finance Landscape

Climate finance refers to the channelling of funds earmarked specifically for climate change mitigation and adaptation (see Box 1) responses by national, regional and international institutions. The term also refers to the provision of support mechanisms

and financial aid to encourage movement towards low-carbon, climate-resilient growth trajectories. The flow of climate finance is normally, but not always, from developed to developing nations (the so-called North-South flow).

Box 1. Financing mitigation versus adaptation

The multilateral climate change negotiations primarily aim at agreeing and enforcing a global agreement on comprehensively reducing greenhouse gas (GHG) emissions. The most recent legally binding agreement, the Kyoto Protocol (KP), attempted to limit emissions of developed countries to 5 per cent below 1990 levels. Actions taken to achieve emission reductions, or to mitigate against the effects of climate change, have since been the focus of climate finance flows, including negotiated instruments such as the Clean Development Mechanism (CDM) which has allowed developed countries to offset their emissions through investments in mitigation projects in developing countries. However, since the KP entered into force in 2005, developing countries in particular have realized that action is necessary to increase resilience to the impacts of climate change resulting from GHG emissions. These responses require adaptations (technology, infrastructure, behaviour) to the onset of climate change and these adaptation responses also require climate finance. This realization has stemmed from two recent developments. Firstly, the Intergovernmental Panel for Climate Change's (IPCC) scientific reports on the threats of climate change, which regularly review the global science that informs the multilateral negotiations, provides more recent and reliable evidence of higher levels of global emissions than previously calculated. Secondly, the developed world has shown disappointing reductions in emissions and the world is off target in terms of the KP targets. Simply put, the countries that have had relatively little to do with contributing to increased global emissions are those that are most vulnerable to the related impacts and, at the same time, typically have neither the funds nor the human and technical resources to invest in resilience-building adaptations. The argument for a 'balanced deal' between adaptation and mitigation has consequently become more heated as developing countries demand to see similar flows of climate finance for adaptation as have been allocated to date for mitigation.

The availability of climate finance is inherently a work in progress, although there have been significant advances in recent years. A number of funding avenues with well-established mechanisms are now available to developing countries. The most notable are the Adaptation Fund (AF), the World Bank's Climate Investment Funds (CIFs), which incorporate the Clean Technology Fund (CTF) and the Strategic Climate Change Fund (SCCF), and the well-established Global Environment Fund (GEF),

which now offers a "direct access" funding route (CIF, 2014), as does the Adaptation Fund. Additionally, the fact that the world's poorest countries depend on and have a claim to climate funding has been acknowledged by the developed world, mainly in the form of funding pledges via multilateral and global funds such as the Least Developed Countries Fund (LDCF) and Special Climate Change Fund (SCCF).

However, for many vulnerable developing countries,

accessing these funds presents major challenges, both external and domestic. External challenges derive mainly from the complex institutional architecture of global climate finance, while domestic challenges relate to capacity constraints that hamper a country's absorptive capacity.

1.2.1 External Challenges

The challenges associated with commitments by developed countries to finance climate change action in developing countries are exemplified by the gradual evolution of the Green Climate Fund (GCF). Established in 2010 during COP 16 (Cancun) as a fund within the United Nations Framework Convention for Climate Change (UNFCCC), its governing instrument was adopted a year later at COP 17 in Durban; however, the GCF has been plagued by governance tussles. For example, it was reported in July 2014 that India, China and the European Commission had decided not to contribute to the Fund's capitalization at this stage, all citing governance issues. Meanwhile, the nature and extent of contributions from major donor countries like the United States of America, Canada and Japan are still unclear (EurActiv.com, 2014). In effect, despite the GCF's intended role as the primary mechanism through which global climate finance should be channelled to developing countries, it remains but one of several global climate finance mechanisms.

In 2009, at COP15 in Copenhagen, the Copenhagen Accord created a "collective commitment" by which the developed world would provide "fast-start" finance to assist developing countries to mitigate and adapt to climate change, with a longer-term commitment to mobilize US\$100 billion of "new and additional" resources per annum by 2020. Estimates of the amount that would be needed continued to grow. In its 2010 *World Development Report*, the World Bank noted that while total climate finance for developing countries stood at US\$10 billion a year in 2010, projected annual requirements would rise to US\$30-100 billion for adaptation and US\$140-175 billion for mitigation (with an extra US\$265-5,675

billion for "associated financing requirements") by 2030. Fast-forwarding to the World Bank's Climate Finance Overview updated on June 24 2014, the minimum annual requirement for adaptation finance for developing countries now stands at US\$75 billion (World Bank, 2014).

While these numbers are likely to continue to grow, and despite the noted improvements to the climate finance architecture, developed country commitments to their original targets have not yet been fully met. Clearly, there is a serious mismatch between climate finance needs and available funds. Added to this is the fact that climate finance is heavily loaded in favour of mitigation. Analysis of current climate finance flows highlights significant disparities in disbursements, with substantial shortfalls in adaptation finance. The challenge here is especially noteworthy: low-emitting developing countries are faced with a dire need to finance adaptations to conditions they were not historically responsible for creating.

The challenges facing African countries are compounded by the uncertainties attached to the notion of "additionality". The 2009 Copenhagen Accord required a commitment of substantial "new and additional" resources by the developed world, without defining precisely what this term should mean. The International Institute for Environment and Development (IIED) spelt out the implications of this vagueness in a 2010 briefing: poorer nations feared that richer ones would cheat on their UNFCCC commitments by "relabeling or diverting basic development aid, or by simply delivering on past climate finance pledges". The problem is that "contributor countries are operating with no clear baseline against which their promise of "new and additional" funding can be counted – and they do not accept the baselines put forth by developing countries" (IIED, 2010).

In a 2012 briefing on this issue, European Parliament policy analysts pointed to the "overlap" between

development finance and climate finance. They noted that “it is difficult to draw a clear-cut dividing line to define exactly where climate finance starts and development objectives end. Indeed, there is a danger of relative shifts in the allocation of money, both geographical and sectoral, which could drive the focus away from traditional development objectives and development partners” (Nakhooda and others, 2011). While it is necessary to ensure clarity in this regard, the briefing document nevertheless recommends that, at the operational level, climate and development activities should be integrated as far as possible.

Such questions of definition are important in the sub-Saharan context where governments are faced with overwhelming development needs and where vulnerability to climate change impacts is already enmeshed with national development priorities. One of the major factors that will shape future access to adaptation finance will be the ability of African countries to account for and differentiate between development finance and climate finance, since access to global funds for adaptation requires them to account for expenditures allocated specifically to climate change projects and programmes.

However this does not simply mean increasing resource flows. It is also necessary for recipient countries to enhance their own absorptive capacity, scale up domestic public investment, and use available resources and initiatives to leverage private finance.

1.2.2 Domestic Challenges

While many of the challenges facing the governments of developing countries are external, and thus outside their control (other than through their voice in the slow, multilateral negotiation platform at the UNFCCC), there are internal challenges that developing countries can address in order to prepare themselves to receive global funds. These include improving their own national

absorptive capacity, and developing the necessary legal and institutional capacities to meet international rules and standards of best practice.

In most developing countries today, sources of climate finance are predominantly through bilateral agreements between donors and governments, with additional finance drawn from multilateral funds. Currently, the rate at which funds flow remains too slow and unpredictable to sustain all necessary climate responses, and the ability of developing countries to programmatically address critical issues of climate change is thus compromised. A regrettable, but perhaps inevitable, outcome in developing countries that are highly dependent on donor funding is that projects and programmes tend to become aligned with donor government agendas, rather than being driven by their own national priorities in responding to climate change.

1.3 What is Climate Finance Readiness (CFR)?

Climate finance absorptive capacity, or CFR, is defined in the UNDP Framework as:

“the capacities of countries to plan for, access, deliver, and monitor and report on climate finance, both international and domestic, in ways that are catalytic and fully integrated with national development priorities and achievement of the MDGs” (Vandeweerd, Glemarec and Billett, 2012).

While the challenges of CFR are based to a large extent on common issues, the country assessments highlight the need for differentiated approaches that fit national circumstances. African countries need policies and technologies that will succeed in catalysing new investments and mainstream climate change into existing development policies and plans and public finance systems.

An important aspect of CFR is the ability to access multilateral climate funds as well as climate change resources through bilateral agreements and Overseas Development Assistance (ODA). Different channels of finance have different requirements – the ability to meet them is a crucial aspect of being climate finance ready. However, it needs to be stressed that climate finance is not just about accessing international funds. Domestic resource mobilization through national budgets and the private sector is an important component of a strong climate finance strategy. This implies that the ability to blend and combine finance in planning for programmatic climate responses is key.

It goes without saying that the mainstreaming and profiling of climate change at the highest levels of government must be accompanied by the existence of transparent systems and processes for measuring the effectiveness of climate finance expenditure.

An instrument currently used at the global level to measure a country's CFR status is the Notre Dame Global Adaptation Index (ND-GAIN), housed since 2013 at the University of Notre Dame (ND-GAIN, 2013). The Index measures a country's vulnerability to climate-related hazards against its readiness to adapt to the challenges posed by climate change and other global forces. While vulnerability is measured as a combination of exposure, sensitivity and adaptive capacity, readiness is defined by ND-GAIN as "[t]he ability of a country's private and public sectors to absorb financial resources and mobilize them efficiently to reduce climate change vulnerability". The Index's readiness measure takes into account economic, governance and social factors.

Private sector sensitivity to an assortment of risks suggests that putting the required politically-endorsed public sector institutional arrangements in place to improve a country's absorptive capacity is only part of the discussion—broader institutional coordination across sectors and ministries is essential. Thus, while geographical location may

affect a country's vulnerability to climate change, its CFR status will depend on a different range of indicators, including its governance system, its property rights regime and the status it accords to political freedom and human rights (ND-GAIN, 2013).

1.3.1 The UNDP Readiness for Climate Finance Framework

In 2010, UNDP released a discussion paper entitled *Human Development in a Changing Climate: A framework for climate finance* (UNDP, 2010). A primary tenet of this document is that "[n]ational ownership is the key prerequisite for effective action to combat climate change". The document set out the UNDP's proposal for "a country-driven, multi-stakeholder climate finance framework" that would help to "develop the capacity of developing countries to attract and drive investments towards low-emissions, climate-resilient activities in areas where they are most needed".

In 2012, UNDP, acknowledging the need for a comprehensive definition "that maps out the different elements of readiness with regard to climate finance as a whole," further expanded on the 2010 discussion document and released the *Readiness for Climate Finance: A Framework for Understanding What It Means to Be Ready to Use Climate Finance* (Vandeweerd, Glemarec and Billett, 2012).

The UNDP Framework defines four "core elements" within this definition: financial planning; accessing finance; delivering finance; and monitoring, reporting and verification (MRV). The characteristics of and differences between MRV and M&E are outlined in Box 2.

Under each core element, the UNDP Framework lists a series of actions, as follows.

Financial Planning

- Assess needs and priorities, and identify barriers to investment
- Identify policy-mix and sources of financing.

Accessing Finance

- Directly access finance
- Blend and combine finance
- Formulate project, programme and sector-wide approaches to access finance.

Delivering Finance

- Implement and execute project, programme, sector-wide approaches
- Build local supply of expertise and skills
- Coordinate implementation.

Monitor, Report & Verify (MRV)

- Monitor, report and verify flows
- Implement performance-based payments.

Recognizing that individual country needs will evolve over time and therefore some flexibility is required, the framework should rather be seen as a "lens through which existing efforts and gaps can be organized and arranged" (Vandeweerd, Glemarec and Billett, 2012).

Box 2. MRV and M&E

The capacity to monitor, report and verify (MRV) climate financial flows, expenditures and results is a negotiated requirement of the multilateral negotiations at the UNFCCC. The Bali Action Plan (2007) called for the implementation of action on mitigation in ways that are measurable, **reportable** and **verifiable**. The Cancun Agreements (2010) extended the concept to include adaptation, relating it to all support provided to developing countries in meeting their obligations.

Measurement refers to the quantitative estimates of GHG emissions and their removal as well as of the financial, technological and capacity-building support received by developing countries to meet their reporting obligations, implement mitigation actions and adapt to climate change. **Reporting** refers to the communications of Parties regarding progress towards achieving stated objectives, meeting their obligations, and implementing activities. Verification refers to procedures put in place by Parties to ensure that the information reported on complies with the methodologies agreed under the UNFCCC.

The MRV of climate finance refers to the **tracking of financial flows, the monitoring of country compliance with pledges of financial support and the assessment of "additionality"** of climate expenditure to development support. In both instances, MRV involves having well-established mechanisms for monitoring and measuring the impact and results of implemented climate policy, making these processes vital for ensuring that climate finance is transparent and accountable.

There is an important difference between MRV and Monitoring and Evaluation (M&E). M&E, a general concept is utilized in the context of Overseas Development Assistance (ODA), refers specifically to the process of managing for results, accountability and learning from experience, and thus is an important instrument for improving adaptation and mitigation actions. A typical requirement for many climate funds, (GEF, CIFs), M&E particularly relates to projects, programmes and policies, and forms the basis for MRV processes.

The effectiveness of M&E and MRV will have an important impact on the success with which developing countries attract funding for their mitigation and adaptation actions. Ensuring that such mechanisms are in place is particularly important for a country which has made significant strides in achieving its climate change strategies and is already at the implementation stage. Importantly, robust M&E systems that include MRV indicate absorptive capacity and therefore may trigger access to additional funding.

1.4 Capacity-building activities in the region

Climate finance has become an increasingly prominent feature of development discussions throughout the developing world, as countries grapple with ways to finance their responses to climate change. This UNDP-OneWorld CFR project in eastern and southern Africa complements a body of work conducted by a range of institutions which continue to produce important work on climate finance. Institutions such as the World Bank, donor agencies and UNDP regional and country offices typically provide capacity-building support, for example in establishing National Implementing Entities (NIEs), developing Climate Public Expenditure and Institutional Reviews (CPEIRs) or developing bankable projects. The support typically provided by regional and global institutions is further supported by research and consulting organizations with climate finance capacity. A brief summary is provided below.

United Nations Development Programme (UNDP)

UNDP has developed an approach supported by a capacity development package to help countries to develop green, low-emission and climate-resilient development strategies (Green LECRDS). Supported by a group of region-based technical advisers and experts, this approach is complemented by step-by-step guidebooks and toolkits in multiple languages. UNDP supports countries in making decisions regarding climate change, including decisions on finance, which are aligned with existing national development plans and frameworks. At the request of governments, UNDP is currently supporting various elements of the planning process. This support takes different forms depending on national circumstances and goals; however, the overall menu of services is to build CFR. Under the umbrella of Green LECRDS, UNDP has produced a dedicated

guidebook to support multi-stakeholder decision-making (UNDP, 2012).

A major new development in climate finance studies has been the sponsorship by UNDP of Climate Public Expenditure and Institutional Reviews (CPEIRs) (Indicator 11). Thus far, most of the work undertaken for CPEIRs has been done in the Asia-Pacific region. CPEIRs have thrown light particularly on inter-ministerial institutional issues. Ministries of environment are not core or upstream ministries, like those of planning and finance, and may have limited influence on the underlying reforms needed to implement a systematic response to climate change. UNDP is now following up CPEIRs with the development of the Climate Fiscal Frameworks.

German Federal Enterprise for International Cooperation (GIZ)

GIZ is a development organization that has been at the centre of climate finance readiness research. In particular it has examined what is required of developing countries aiming to access the GCF and other funds. GIZ's Climate Finance Readiness Programme aims to support developing and emerging countries in building a foundation for a results-oriented, transformational and efficient use of international climate finance, and in particular the GCF. This programme was commissioned and funded by the German Federal Ministry for Economic Cooperation and Development, and is implemented bilaterally in conjunction with the KfW Development Bank, UNDP, UNEP, the World Bank, and think tanks from around the world. GIZ is also working in Namibia, Zambia and Tanzania with the Overseas Development Institute (ODI) and other partners to understand these countries' climate finance readiness needs, using a common analytical framework (GIZ, 2013). GIZ has also had substantial experience working in partnership with developing country governments to understand and strengthen capacities, including to access and manage climate finance.

The Overseas Development Institute (ODI)

The Overseas Development Institute (ODI) has made a positive contribution to tracking international support to developing countries as well as the governance principles that underpin climate finance flows. ODI has worked with governments of developing countries, including the Governments of Tanzania, Uganda, Ethiopia, Namibia and Zambia, with the objective of understanding the design components of an international architecture that will support countries in addressing climate change through strengthened national governance. ODI has also worked with these governments to understand how climate finance should be delivered at the national and sub-national level so as to meet the needs of the poor. The role of the private sector has also been a focus of research conducted by ODI.

Country studies have recently been undertaken in Namibia, Tanzania and Zambia by ODI in collaboration with GIZ, the German Federal Ministry for Economic Cooperation (BMZ), and the African Climate Finance Hub (ACFH) (ODI, 2012). These studies point out that while the costs of readiness activities should not be underestimated, well-targeted interventions may yield significant benefits, and that much can be achieved by relatively low-cost interventions that seek to work in partnership with existing institutions, and that climate readiness activities can support a paradigm shift in development activities.

African Development Bank (AfDB)

Recognizing the need for countries to track and report on climate-related expenditures effectively, the African Development Bank (AfDB) has developed a climate finance tracking tool, and is contributing to the development of a joint multilateral development bank methodology for tracking climate finance (AfDB, n.d.). The AfDB has also published various

knowledge products. The AfDB's 2011-2015 Climate Change Action Plan provides guidance for improved access to climate finance. More importantly, the AfDB has established the Africa Climate Change Fund (ACCF), which falls under its Environment and Climate Change Division. The fund was established with an initial EUR4.725 million from the Government of Germany, and is administered by GIZ on behalf of BMZ.

Regional Economic Communities (RECs)

Participation in regional climate change policy initiatives by the Regional Economic Communities (RECs) of the African Union has to date been very uneven. The East African Community (EAC), representing Burundi, Kenya, Rwanda, Tanzania and Uganda, adopted a climate change policy at a Heads of State summit in 2011, with the aim of coordinating climate change adaptation and mitigation strategies, programmes and actions. The EAC has a Climate Change Fund which focuses on the question of direct access to climate change funding under the UNFCCC with a view to pursuing direct access opportunities opened under the Adaptation Fund (AF). The EAC Climate Change Fund also aims to support regional climate change adaptation mitigation and capacity-building activities as identified in the EAC's Climate Change Policy, Strategy and Master Plan.

Consulting Organizations

Climate finance is not new, although the establishment of the GCF marks a major shift in approach to a programmatic focus for climate finance. A number of consultancies began offering climate finance services with the ratification of the Kyoto Protocol which saw the establishment of enabled finance mechanisms such as the Clean Development Mechanism

(CDM). Services in some instances have since been extended to include adaptation finance and support in accessing global funds (such as the AF and the GEF) and bilateral funds. The modus operandi of the donors, or development partners, is to deploy consulting organizations and NGOs in implementing projects and programmes, often with a core focus on building capacity in recipient beneficiaries, typically governments.

OneWorld Sustainable Investments (OneWorld) is one of the few African-owned and based consultancies that provides support in climate-smart development and in increasing climate finance absorptive capacity, drawing on experience in designing and implementing regional donor programmes for climate change and supporting capacity-building in developing funding proposals, investment strategies and in other areas.



2. Methodological approach

The main purpose of this study is to assess the Climate Finance Readiness (CFR) status of six southern and eastern African countries—Ethiopia, Kenya, Lesotho, Mozambique Tanzania and Zambia – and to make recommendations for accelerating CFR. The project was launched in November 2013 at a side-event held during the 19th Conference of the Parties (COP) in Warsaw, Poland. The methodological approach of this study comprises three key components: a cluster methodology; participatory analysis; and the development of CFR Indicators.

2.1 Cluster methodology

To assist in the process of analysing CFR in the six countries, a "cluster approach" was used to group the countries according to their "maturity of CFR implementation". The notion of maturity is applied with reference to the progress that each country has made in providing the necessary policy and institutional environment for improved access to climate finance, i.e. its CFR status. Maturity of CFR implementation, for the purposes of the study, was evaluated according to three groups or "clusters" of attributes. These clusters, determined during the preliminary research and desktop review phase, are characterized as follows.

Cluster One: Advanced CFR

A country can be said to be in an advanced state of CFR once the necessary climate finance readiness measures and institutions have been politically-endorsed at the national level. This includes:

- significant progress in establishing a cohesive policy framework, linked to climate-resilient development;
- politically-endorsed institutional arrangements at the national level.

Cluster Two: Transitional CFR

Countries in the transitional phase are those making positive moves towards the establishment of climate finance measures and institutions, including:

- a process of establishing a policy framework and climate change strategies;
- a National Adaptation Plan of Action and/or a National Communication to the UNFCCC;
- informal or transitional institutional arrangements.

Cluster Three: Undeveloped CFR

Countries where there are few, if any, endorsed, formal processes and institutions in place to progress CFR, or where national climate change plans or communications to the UNFCCC are still at a very early stage, may be said to be in an undeveloped state of CFR.

In order to establish which cluster the six countries belong to, each country was reviewed, through desktop analysis and subsequent fieldwork, according to its progress in developing the following key elements of CFR:

1. A cohesive climate change policy.
2. Appropriate legal-institutional arrangements.

3. Climate finance investment strategies and related financial mechanisms for delivering climate finance.
4. A framework for tracking climate finance.
5. Capacities at all levels of government and in external institutions to support CFR.
6. The ability to leverage or establish partnerships with implementing agents, development finance institutions and the private sector.

The subsequent use of CFR Indicators, which provide a more nuanced approach to the CFR analysis, replaced the use of the cluster methodology.

The analysis was further informed by a **global benchmark analysis**, derived from a study of other developing countries (mostly Asian) that have demonstrated an ability to achieve CFR against the pillars of the UNDP CFR framework, and to some extent, the CFR Indicators. These global success stories provided useful insights in formulating the plan for action outlined in chapter 3 of this Report.

2.2 Participatory analysis

Securing country ownership of the analysis and outcomes has been a central objective of this study. This necessitated the design and implementation of a vigorous participatory analysis approach, in order to ensure that the recommendations are feasible and aligned with country needs and specific national circumstances.

The participatory process involved the initial compilation of the country case studies by in-country experts with comprehensive experience of national climate change issues. In conducting our analysis, we sought to include input from a wide range of government and non-state actors, so as to gain a broader understanding of the political and economic considerations that might influence the assessment of the country's CFR status.

A key measure to ensure country ownership of the country case studies was to afford in-country stakeholders ample opportunity to provide individual feedback on the emerging analysis. Each country case study was underpinned by in-country fieldwork, roundtable discussions and a shared learning platform.

2.2.1 In-country fieldwork

The in-country fieldwork provided a foundation of locally specific insight and information to underpin the country case studies. The interviews complemented the desktop review by providing enhanced insight relating specifically to each country's efforts to improve its CFR. They also allowed the research team to examine the institutional framework for implementation, the level of national planning and coordination, and the presence of social, environmental and fiduciary safeguards. Gaining a good understanding of the country's public finance systems was an important prerequisite to assessing its ability to access climate finance and to use or deliver it effectively.

The interviews, which preceded and informed the in-country roundtables, were conducted with relevant experts and stakeholders in each country. Typical stakeholders were:

- designated members of key sector ministries and lead ministries on climate change;
- national authorities and councils mandated to manage and address national climate change;
- development partners, development finance institutions and civil society; and
- national experts.

2.2.2 Roundtable discussions

Pivotal to the participatory analysis process, six in-country roundtables were held and provided a platform for experts and stakeholders in each country to assess the current status of CFR and to discuss key challenges and opportunities, contextualized within specific national circumstances.

The roundtables also provided a unique opportunity for stakeholders to reach agreement on national priorities and needs with regard to establishing an enabling environment for improved access to global and domestic sources of climate finance.

The outcomes of these roundtables played a large role in the formulation of the **recommendations** for each country and, more broadly, for the eastern and southern African regions and beyond. Stakeholder engagement informed and enhanced the policy dimension of the project and ensured an Africa-relevant set of recommendations.

After the regional Shared Learning Platform (see below), and based on stakeholder demand, a second set of roundtable discussions was organized in each country. This follow-up process allowed the research team to re-validate the in-country analyses, and to re-inform the **recommendation framework** emerging from earlier research and analysis. This process further enabled stakeholders to **prioritize future actions**.

2.2.3 Shared learning platform

Shared learning took the form of a regional workshop held in Nairobi in April 2014. It proved to be a crucial component of the participatory analysis. The discussion among the six countries, with their various levels of CFR and their unique challenges, provided valuable insights that ultimately enhanced the recommendations framework and the development of the CFR Indicators.

Significant disparities in CFR were highlighted during the process, which in turn spurred interest among the participating countries in furthering their own CFR progress. The workshop provided the opportunity to corroborate the findings of the study and to identify existing and future opportunities for shared learning. Primarily, it highlighted the importance and value of continued cross-country learning, and participants clearly articulated a demand for the process to be sustained. The

intensity of engagement and level of concentration displayed by participants was testament to the value of this opportunity for shared learning and participatory analysis.

2.3 Development of CFR Indicators

In developing a set of CFR Indicators appropriate to the sub-Saharan region for the purposes of this report, the authorial team began with the 2012 UNDP Framework on Climate Finance Readiness (see 1.3.1 above), focussing on indicators specific to climate finance, rather than the more general indicators utilized by ND-GAIN. But while the aim of this study is to frame a set of recommendations that are climate finance specific, it is nevertheless understood that any assessment of public finance systems is likely to radiate outwards into broader questions of governance, inevitably calling up economic, political and social considerations as well. The insights and recommendations that follow should thus be viewed as part of the larger picture.

The research team was faced with the challenge of integrating the structure provided by the 2012 UNDP Framework with the outputs of the participatory analysis process. But it soon became clear that to simply try and match the cluster methodology to the UNDP Framework was insufficient, because of the danger of glossing over or overriding important issues arising out of specific national circumstances. More detail – another layer of elements or criteria – was needed in order to take regional specificities into account. As the participatory analysis phase progressed, the research team began to identify, under the four core elements provided by the UNDP Framework, a new set of “regionally specific indicators” of climate finance readiness. These evolved into the sub-Saharan CFR Indicators used in this study.

However, as the research team was to discover, these emergent, regionally specific indicators were not without their problems. They were discussed during the second series of in-country roundtables, and elicited a high level of interest and constructive criticism. Several participants raised the obvious questions that attend any attempt to develop a set of indicators: Are they measurable? Can they be quantified? Or are they merely subjective?

For example, one of the indicators developed by the research team referred to "optimized access to climate funds". But what does "optimized" mean? How would one measure whether access is optimal? Would it refer to a percentage of global funds accessed by a given country, or would it imply a comparative analysis between countries?

Such questions are important in terms of consistency of definition, but they do not invalidate the notion or the purpose of "indicators". As the UNDP Framework states, a one-size-fits-all model will not be found – what is more important is to build a lens through which existing efforts and gaps can be surveyed and reviewed. The CFR Indicators developed for the purposes of this study are neither final nor ironclad; they will be reviewed, tested, tightened and refined in a continuous, reiterative and participatory process through necessity.

As the UNDP Framework document makes clear, countries need to be able to directly access financial resources from a range of sources, both public and private. These resources may be combined or "blended" at the national level "to access a wider range of financial instruments" (Vandeweerd, Glemarec and Billett, 2012). Individual countries need to be able to mobilize a sophisticated array of project and programme formulation and design

capabilities across ministries and sectors in order to attract, catalyse and leverage higher levels of public and private funding. To do so they need to operationalize a matrix of institutional tools, mechanisms and modalities. The capacity to do so, as the individual country case studies show, varies greatly. When the unpredictability of global climate finance flows is combined with substantial variations in individual country capacities, it becomes clear that indeterminacy, variation and unpredictability are inescapably part of the barriers to readiness.

In such a context, it is not possible to speak of direct cause-and-effect pathways, measurable technical indicators or objective determinants of climate finance absorptive capacity. The process is highly competitive and uncertain, with poorly resourced African countries required to compete for funding with 54 other countries on their own continent and another 100 developing countries elsewhere in the world. The decisions that are ultimately made about the distribution of climate finance across the developing world are likely to depend as much on the analysis of qualitative data, including political and social considerations, predictions and scenarios, as they do on the analysis of hard data.

In view of these considerations, instead of trying to identify strictly definable technical indicators or governing determinants of climate finance absorptive capacity, the project team decided rather to employ a less technical, more nuanced and regionally specific understanding of what is meant by "indicators of climate finance readiness". In order to distinguish our set of indicators from other approaches, we have employed the term "regionally specific CFR Indicators" to refer to our own set of indicators.

These regionally specific CFR Indicators aim to prove useful in:

- assessing levels of CFR;
- understanding how an integrative framework of action hangs together to advance and enhance CFR;
- deciphering and navigating the process of making CFR integral to public finance and development systems.

It is hoped that these regionally specific CFR Indicators will usefully feed into well-established CFR Frameworks such as those developed by UNDP and GIZ, and ultimately achieve sufficient credibility to be able to stand alone as a baseline for the measurement, evaluation and refinement of the CFR status of countries, not only in this specific region, but more broadly across the African continent. Ideally, they should enable countries to self-assess their CFR status according to their own opportunities and constraints, given their specific systems, politics, culture and priorities, and gain a clearer picture of what feasibly can and should be done to progress to a higher level of CFR.

The four elements of the UNDP Framework are adopted as "the pillars of climate finance". Under each of the pillars is a set of instruments, processes or mechanisms that need to be in place if CFR is to be achieved. In Table 1, the CFR Indicators which emerged out of the participatory analysis process are grouped under the four pillars. The UNDP Framework was intensively interrogated during the participatory analysis process, and the regional CFR Indicators that have emerged are a response to the felt need for a more tangible, regionally- specific mechanism to assess their CFR progress than that provided by the UNDP CFR Framework.

It should be reiterated that the CFR Indicators are not intended to be quantifiable, technical indicators

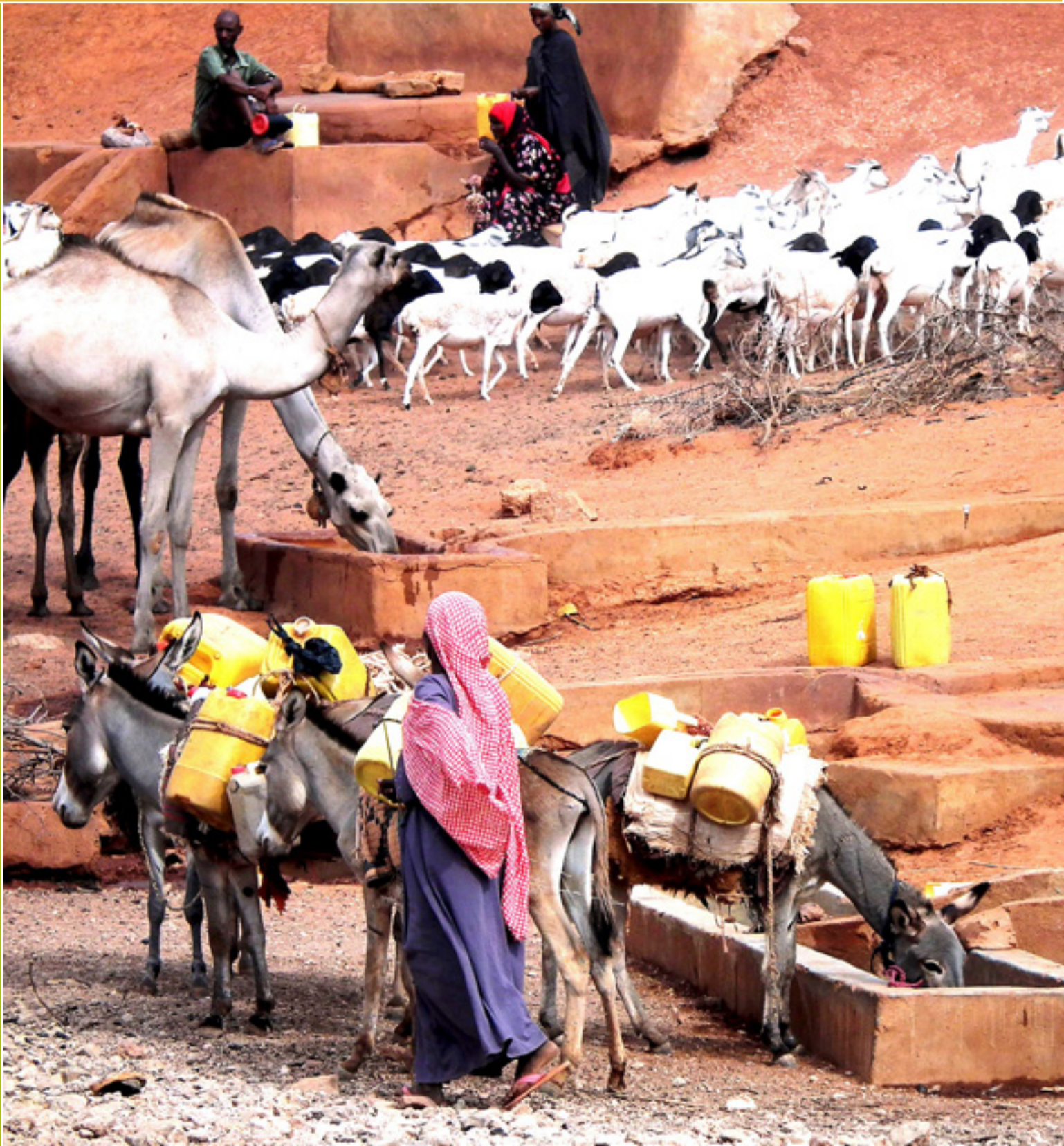
or determinants of readiness, but should rather be seen as a lens or a means of progressive analysis. It is hoped that these CFR Indicators will be helpful in guiding countries towards a reliable self-assessment of their CFR status, highlighting areas for potential improvement.

Lastly, it needs to be said that while it is hoped that the CFR Indicators will provide countries with a means of measuring improvement towards increased CFR maturity, this is not a strictly linear process. While phases, processes and activities may run concurrently, it should always be borne in mind that the planning phase is critically important for all future activities. Indeed, before a country can truly embark on planning for climate finance, significant capacity-building activities in this respect are a prerequisite.

Table 1. CFR Indicators

FINANCIAL PLANNING:
1. Cohesive Policy Framework
2. Resource Mobilization Plan
3. Politically-endorsed Institutional Arrangements
4. Mechanisms for Local Delivery
ACCESSING FINANCE
5. Accredited National Modalities for Direct Access
6. Established Mechanism for Blending Resources
7. Optimized Access to Global Funds
DELIVERING FINANCE
8. Leveraging Development Bank Partnerships
9. Incentivized Private Sector Participation
MONITOR, REPORT & VERIFY (MRV)
10. Harmonized M&E framework
11. Cohesive tracking framework, including CPEIRs

In the next chapter, these regionally specific CFR Indicators are explicated in more detail, with particular reference to regional conditions.



3. Indicators of Climate Finance Readiness

3.1 Introduction

This Report considers global and continental developments which Africa can learn from, documents Africa's own performance (assessed against the six country case studies) and identifies a series of policy measures which will allow African economies to take advantage of the opportunities offered by climate and development finance.

It does this by evaluating the status and progress of the six country case studies against 11 CFR Indicators, yielding an analysis that can also be used as a proxy for continental readiness. Readiness is assessed in terms of the four pillars of CFR: Financial Planning, Accessing Finance, Delivering Finance, and MRV. Under each of these pillars, **CFR Indicators define the ideal state for a given dimension of readiness.** The CFR Indicators are predicated on the fact that being climate finance ready is a moving target. The global climate finance architecture continues to evolve rapidly, regularly altering the readiness landscape for developing countries.

The benchmarking study augments this analysis and an interesting and a useful addition to this study was the identification, based on participatory analysis, of Africa-relevant successes in achieving CFR, such as Senegal and Rwanda. The country benchmarks provided useful insight into what other countries have managed to achieve against certain CFR Indicators, particularly under the accessing and delivering finance pillars. Many of the Asian countries benchmarked, for example, have established funds,

or an established mechanism for blending resources. Others have incentivized private sector participation and a number have demonstrated significant progress in accredited national modalities for direct access. Senegal provides a useful benchmark and model for established direct access modalities (the country saw accreditation of its NIE in March 2010 and has successfully accessed the Adaptation Fund). Rwanda has politically-endorsed cross-sectoral institutional arrangements and a cohesive policy framework. These are among the most important indicators for attaining CFR in Africa. Summarized in boxes distributed through this chapter, these stories are intended to provide context and insight into the information which subsequently informed the key actions and policy recommendations.

Although many of the challenges facing African countries are common, the ways in which they manifest themselves in the six countries vary significantly. The impediments to the adoption of CFR measures which affect all countries in the region can be summarized as follows.

- Climate finance has, for a long time, been loaded in favour of mitigation, whereas African countries are in greater need of adaptation finance.
- The overlap of development and climate change needs in most of Africa tends to widen the adaptation finance gap.
- Bilateral funding, to which African countries tend to have easier access, is too often driven by donor agendas, leaving recipient countries vulnerable to the vagaries of donor funding cycles and agendas.

The combined effect of these factors results in unpredictable climate finance flows, often leading to small, project-based responses, rather than the broad programmatic responses that are really needed. This significantly slows progress in building overall resilience to climate change and contributes to the variable status of CFR in the six countries studied, explaining why some countries have stronger policy frameworks than others, and why some are stuck in critical processes such as the establishment of National Implementing Entities (NIEs).

Similarities: Given the rapid evolution of the climate finance landscape over the last decade, it is not surprising that most of the countries studied have struggled with domesticating new requirements while at the same time striving to access funds and implement projects. As mentioned, the tendency towards project-based responses driven by bilateral agreements, rather than programmatic national resource mobilization plans, is a progress inhibitor. Whereas most of the countries have made some progress towards developing policy frameworks and institutional arrangements, none has made significant progress with MRV.

Differences: Successes in accessing finance, optimizing access to global funds, partnering with and incentivizing the private sector or partnering with implementing NGOs, have been variable. These differences are the result of different systems, politics, cultural factors and development priorities.

This chapter broadly synthesizes these similarities and differences against the regional CFR Framework, with reference to the CFR Indicators, along with the other outcomes of the analysis. Both the commonalities and the differences between the six countries that participated in this study are recognized in the plan for action in chapter 4.

3.2 Achieving Climate Finance Readiness: Indicators of Success

3.2.1 Financial Planning

Planning for climate finance refers to a country's capacity to assess needs and priorities adequately, and to identify barriers to investment. This includes having the capacity to determine the right policy mix, and the capacity to match sources of funding to planned climate change projects and programmes.

Planning is also assessed in terms of a country's progress in aligning climate change strategic priorities and policy frameworks with national development objectives, as captured in what are typically five-year cycle national development plans – a critical means of ensuring national budget allocations for climate finance.

The CFR Indicators under Financial Planning are:

INDICATOR 1: Cohesive policy framework

INDICATOR 2: Resource mobilization plan

INDICATOR 3: Politically-endorsed institutional arrangements

INDICATOR 4: Mechanisms for local delivery.

INDICATOR 1. Cohesive Policy Framework

A cohesive policy framework is the foundation for building climate finance readiness. A cohesive framework for responding to and financing climate change is integrated into the development policies and objectives of a country.

Rationale

A cohesive policy framework that is mainstreamed with national development priorities is a critical foundation for climate finance readiness. Few

fundes (multi- or bilateral) will fund climate actions in the absence of a coherent framework. Cohesive frameworks prioritize actions, providing a vehicle for tackling the difficult issues of trade-offs, sharpening focus on the choices involved in pursuing one course of action over another.

What it will achieve

A cohesive policy framework defines policy through to action and enables the monitoring of progress. It establishes priority climate actions and identifies the public and private sector mechanisms required to enable these. Equally, it identifies the critical actors responsible for executing climate-smart development in the most vulnerable, at-risk sectors and establishes the institutional relationships and communication measures necessary to ensure that the policy framework objectives are met in a coordinated manner. Lastly it sets out the performance indicators against which progress can be monitored.

Critical actions required to realize this indicator

include the development of a climate change strategy and the development of an investment plan.

Climate change strategy

Aligned with national development priorities, a climate change strategy and action plan prioritizes resilience-building responses across the most vulnerable sectors while recognizing resource constraints.

A pivotal component of a cohesive national policy framework, a national climate change strategy and plan identifies the country's greatest climate change risks and vulnerabilities, and quantifies their impact by estimating related financial, social and ecological costs to the economy, to livelihoods and to systems affected. Crucially, it establishes national

ownership over the climate change agenda. Donors and development partners are more likely to advance their own agendas in the absence of a clearly defined set of national climate priorities that are integrated within mandated national development frameworks.

Investment plan

The Investment Plan sets out priority climate actions in a programmatic manner, with the capacity requirements, investment costs and benefits, and timelines needed for implementation.

The Investment Plan is a precursor to developing a national resource mobilization plan (see Indicator 2). It must build on the information and political endorsement of the national climate change strategy, taking the climate change strategy further along the process of evaluating costs and benefits, providing the basis for selecting the best path of action.

All of the countries would benefit from a regular progress review of their climate policy frameworks, positioning this process as integral to development planning. In addition to aligning climate change policy with national development plans, more is needed in terms of monitoring and alignment with the national budget process, to truly integrate climate policies with national systems.

Following are two lessons from the case study countries that illustrate two different approaches to policy development. The **Kenya** lesson (Box 3) provides useful insights into the value of a cohesive policy framework that considers the inter-connected challenges of national development objectives. In the case of **Mozambique** (Box 4) fast-tracking the policy development process certainly realized benefits, but resulted in poor institutional and coordination arrangements between government ministries.

Box 3. Lessons from Eastern and Southern Africa: Kenya's cohesive policy framework

Kenya's cross-cutting National Climate Change Action Plan (NCCAP) has been recognized for its national legislative instruments related to climate change, which considers mitigation actions for low-carbon development across energy, transport, industry, agriculture, forestry and waste management, as well as the identification of REDD+ opportunities (Muiti, 2013). The coherent policy framework encourages coordination and cooperative governance for climate-related issues for Kenya with a strong focus in the plan on technology transfer, research and development, increasing capacity and information dissemination, and a national performance and benefit measurement (NPBM) system. A year-long participatory process involving the public and private sectors, academia and civil society, guided by a multi-disciplinary taskforce, was undertaken in order to produce a timeline of actions for the Action Plan. The Action Plan tackles sustainable economic development alongside the challenges of climate change. In order to achieve climate mainstreaming at both a national and county level, the NCCAP system requires the internalizing of low-carbon and resilience building trajectories within institutions, processes and systems, and among stakeholders. As such, the NCCAP is comprehensive, practical and cross-cutting, and expected to inform climate-related policy decisions across sectors (Government of Kenya, 2013).

Key Insights:

- (1) A coherent policy framework should be informed by a strong, unified approach to policy development, and consider the inter-connected challenges of national development objectives within the context of climate change.
- (2) Comparatively speaking, Kenya has demonstrated significant CFR, due primarily to its coordinated and cooperative processes enabled by extensive consultation with numerous stakeholders, across relevant sectors.

Box 4. Lessons from Eastern and Southern Africa: Mozambique's Fast-Tracked Climate Change Strategy

Mozambique has demonstrated great political will when it comes to tackling climate change and has a thorough set of policies for climate change and disaster management. Yet, the development of Mozambique's climate change strategy was fast-tracked through the World Bank's Development Policy Operation (DPO), resulting in some emerging issues within the institutional arrangements.

The Mozambican government was incentivized by the DPO to develop a strategy by a certain date and rewarded with a lump sum of development finance if the deadline was met. The timelines for the strategy development were inadequate, allocating insufficient time for stakeholder consultation and sectoral strategy design, which ultimately resulted in an incomplete national strategy: cross-sectoral strategies for accessing climate change finance are inadequate and in addition, the private sector and civil society contribute little to the discussion, largely due to a lack of stakeholder inclusivity.

Political backing for climate change action is strong; however, the leading institutions charged with climate change planning struggle to coordinate with each other and, consequently, work in silos. The Ministry of Coordination of Environmental Affairs (MICOA) holds the climate change mandate, while the National Institute for Disaster Management (INGC) is interested in mitigating climate change within the context of disaster relief, and the Ministry of Planning and Development (MPD) is interested in positioning climate change as a development issue.

The availability of climate funding has sparked competition between ministries for climate change projects. MICOA has traditionally taken the leading role; however tension recently emerged when MPD claimed that climate change was more a developmental problem than an environmental one, pushing to take the lead on the Pilot Programme for Climate Resilience (PPCR) (Held, Roger and Nag, 2013). Moreover, due to INGC's success in dealing with the floods in Mozambique, many international agencies prefer to work with the INGC rather than with MICOA. The rushed nature of the institutional arrangements surrounding climate change has resulted in many willing organizations operating without clearly defined roles and responsibilities, fostering an environment of competition at the expense of potentially effective coordinated efforts.

Key Insights:

- (1) Coordinating mechanisms between government ministries require careful deliberation, collaboration and design. The rushed nature of the institutional design in Mozambique has ministries competing instead of coordinating in pursuit of funding.
- (2) Without a clear leader on climate financing, donors and development partners will pick and choose who they want to work with, thereby undermining alignment with overall national priorities.

INDICATOR 2.**Resource mobilization plan**

An effective resource mobilization plan guides domestic and international climate investments in alignment with national climate and development priorities, addressing the climate finance gap. It further demonstrates national government commitment to climate change action and comprehensive understanding of the funding landscape.

Rationale

Clarity with regard to what resources could be mobilized, from where and to what end, will help countries access both private sector finance and global funds, influence bilateral arrangements and achieve greater impact in building resilience. Critically, a resource mobilization plan can play a significant role in reducing the climate finance gap and in increasing the predictability of climate finance flows.

What it will achieve

A Resource Mobilization Plan identifies the various methods of funding a climate policy or action plan, determines which sources of funding are aligned with national priorities, and blends various sources into one package suited to the purpose and length of the proposed project or programme.

The critical action required to realize this indicator is the development of a resource mobilization plan which is the primary tool for balancing development partner agendas with national priorities. Combining the results of the National Climate Change Strategy and the Investment Plan, a coherent, well-informed resource mobilization plan could assist in the blending of multiple sources of finance and provide a method to funnel finances to locally appropriate projects as well as to identify critical funding gaps and ways of addressing these.

INDICATOR 3.**Politically-endorsed institutional arrangements**

Effective institutional arrangements are inter-ministerial and recognize that climate change impacts national development at all stages and in many phases of the development cycle. High-level political endorsement is a critical success factor in enabling cross-sectoral coordination of climate-smart development.

Rationale

Informal institutional arrangements can transition a country towards political endorsement, or even augment formal arrangements. A designated national authority or unit, whether formally or informally arranged, can enhance the support and coordination of all environment and climate change related activities being undertaken by lead agencies. Civil society and donor partners can thus also be involved, and charged with managing all issues related to climate justice and linked to national government departments through an appointed Steering Committee.

What it will achieve

Mandated cross-sectoral coordinating bodies enable collaboration between ministries to tackle national climate change priorities and identify opportunities.

Critical actions required to realize this indicator

include establishing formal and informal inter-governmental arrangements and piloting cross-sectoral projects.

Establish formal and informal inter-ministerial arrangements

Functional, objective-driven, informal inter-ministerial arrangements can either augment or act as an interim substitute for politically-endorsed institutional arrangements, playing a critical coordination role.

Further, informal arrangements or working groups play a valuable awareness building role across a range of stakeholders necessary to effecting national climate-smart development objectives. In some cases informal climate change working groups augment or provide a potentially useful alternative to legally mandated government departments for the management of climate change finance and the implementation of climate change projects.

Pilot cross-sectoral projects

Piloting cross-sectoral projects creates a practical, necessary platform for testing the effectiveness of formal and informal cross-sectoral institutional arrangements.

The Adaptation Fund (AF), which is underutilized in most countries that have received allocations, encourages projects from more than one sector. Developing viable, cross-sectoral projects for the AF and other funds puts institutional arrangements to the test, providing important adaptive management lessons and contributing to the review of existing institutional arrangements.

In addition to accelerating the current process to establish accredited national modalities for direct access, implementing this recommendation will assist countries in strengthening, or making progress towards attaining, politically-endorsed institutional arrangements.

Following are two examples that demonstrate the significance of enabling cross-sectoral climate responses through politically-endorsed mandates.

Indonesia, one of the Asian benchmark cases (Box 5), is an interesting example of how political mandates can also accelerate progress towards achieving progress against other CFR Indicators, such as establishing mechanisms for blending resources (Indicator 6). In Tanzania (Box 6), on the other hand, an inter-ministerial coordinating mechanism does not guarantee effective cross-sectoral and programmatic access and delivery. Strong leadership, structured relationships, and the active participation of finance and planning ministries, as evidenced in **Ethiopia's** experience (provided in Box 9), must be in place for meaningful coordination to occur.

Box 5. Global Benchmark: Indonesia's politically-endorsed institutional arrangements and funding mechanism

The Indonesian Climate Change Trust Fund (ICCTF) is an interesting funding and coordinating mechanism. ICCTF is to play a major role in blending and combining international and national resources to implement the country's national climate action plan. The ICCTF is considered an innovative national funding entity, which links international finance sources with national climate-related investment strategies by acting as a catalyst to attract investment and to implement a range of alternative financing mechanisms for climate change mitigation and adaptation programmes. The groundwork for the ICCTF was laid in the "Yellow Book" (2008), which is a multi-sectoral guide for mainstreaming and integrating climate change into the National Development Plan. The ICCTF was country-driven and explicitly aligned with Indonesia's national development priorities. The ICCTF Transitional Committee and Steering Committee are made up of members of the National Development Planning Agency (BAPPENAS), which serves as the coordinating agency for national development planning and harmonizes activities with the Ministry of Finance. Currently, the ICCTF receives contributions from bilateral and multilateral donors and tries to integrate all relevant stakeholders (i.e. donors, ministries and civil society) in its steering structure. This institutional arrangement ensures effective coordination with the key players in the funding of climate change activities. The role of national funds/financial institutions can reduce fragmentation of climate finance within the government through the mainstreaming of efforts. This can lead to an increased ability to absorb additional funding.

Key Insights:

- (1) It is important to consider the national context (including the political and economic environment, regulatory frameworks, national goals as set out in development plans, and capacities among line ministries and public entities) when deciding on the institutional design of the climate finance coordination arrangements.
- (2) It is crucial that cross-sectoral ministry coordination is in place, ensuring that roles, responsibilities and specific institutional arrangements are established to directly access climate finance and link finances to national priorities.

Box 6. Lessons from Eastern and Southern Africa: Tanzania's National Climate Change Steering Committee

The Vice President's Office (VPO) is the lead government agency for coordinating climate change related activities in Tanzania under its Division of the Environment (DoE). In 2008, the National Climate Change Steering Committee (NCCSC) was established, responsible for overseeing and guiding the implementation of climate change activities in coordination with the National Climate Change Technical Committee (NCCTC). In principle, the NCCSC is an inter-ministerial body comprising 13 permanent secretaries from different ministries; however, in reality, the NCCSC meets infrequently, and is often attended by non-members of the NCCTC.

While Tanzania's institutional framework aims to coordinate all government stakeholders needed for cross-sectoral climate change planning and implementation, it has two significant shortcomings that inhibit its progress. Firstly, the NCCSC's Secretariat is the DoE, which reports to and is governed by the VPO. This horizontal governing structure—what is essentially an inter-ministerial body governed by another ministry—suggests that the committee lacks a secretariat with sufficient legal stature to coordinate secretariats from other sectors.

Secondly, the Ministry of Finance and the Planning Commission are notably absent in the climate change institutional architecture. The lack of participation by these two essential ministries results in insufficient alignment between donor funding objectives and national priorities. As a result, climate change is pigeonholed as an environmental issue, rather than viewed as a problem inherently bound up with the broad developmental concerns of the country. Furthermore, the lack of involvement by the Ministry of Finance has undoubtedly contributed to recurrent issues with the low level of budget allocated to the DoE, resulting in a heavy reliance in development partner funding (ODI and African Climate Finance Hub, 2014).

Key Insights:

- (1) The existence of an inter-ministerial coordinating mechanism does not guarantee effective cross-sectoral and programmatic access and delivery. Strong leadership, structured relationships, and the active participation of finance and planning ministries (as, for example, in Ethiopia's experience described in Box 7) must be in place for meaningful coordination to occur.
- (2) Even when a country (like Tanzania) is relatively successful at accessing climate finance, the lack of an effective coordinating mechanism creates a misalignment between donor funding and national overarching climate change and development goals, often resulting in a donor-driven climate change agenda.

INDICATOR 4.**Mechanisms for local delivery**

Localized delivery refers to mechanisms that facilitate the transparent movement of funds from central government to the district and municipal levels of government. It ensures the accountable disbursement of funds to vulnerable areas for the benefit of communities, stimulating greater levels of local ownership over climate-smart development actions.

Rationale

Climate change impacts are frequently felt at local levels, placing already poor communities at high risk. Yet, African governments tend to be highly centralized and few of the countries studied indicate readiness for devolved local planning for climate finance.

What it will achieve

Transferring climate finance and responsibility for implementation to the areas most vulnerable to climate change facilitates local level ownership, increases the depth and breadth of climate response, reduces the burden on national capacities and helps ensure that national climate-smart development priorities are met on a continent where countries are

characterized by large rural areas, and livelihoods and economies dependent on agriculture.

The critical action required to realize this indicator is to plan for local delivery. This can be achieved by **capacitating and entrusting local government to plan and implement climate change projects** based on existing, overarching national-level modalities for devolving local level development implementation.

The **Colombia** benchmark case (Box 7) demonstrates how a bottom-up approach that makes use of grassroots level knowledge is a recipe for success in the implementation of climate-related adaptation plans. It further highlights how the cross-sectoral involvement of all actors and stakeholders encourages a sense of ownership and allows integration of climate compatible development at a localized level and provides the emphasis for replicability at a national scale.

Although progress has been made in planning for climate finance at the local level in all six countries studied, advanced progress in **Kenya** demonstrates success as well as capacity shortfalls, providing useful insights for countries ready to embark on this route (Box 8).

Box 7. Global Benchmark: Colombia's approach to localized delivery

By nurturing participatory processes and coordinating climate change with developmental issues, the city of Cartagena, Colombia, has successfully created a municipal planning policy that embraces a decentralized approach to the expected climate challenges, particularly related to rising sea levels, extreme weather, flooding and disease. The result of extensive research, workshops, and the involvement of 64 civil society stakeholder groups from Cartagena, Guidelines for Adaptation to Climate Change in Cartagena de Indias is a public action plan that involves local level actors and support from both national and municipal government officials. The specific local climatic context at the centre of the plan, alongside the ongoing communication between stakeholders and officials, keeps the process on track and administrative involvement high. As such, the plan is expected to be effectively mainstreamed at a local level, shared between regions, and used as a blueprint for the rollout of national adaptation plans (CDKN, 2013).

Key Insights:

- (1) A bottom-up approach that makes use of grassroots level knowledge is a recipe for success in the implementation of climate-related plans.
- (2) The cross-sectoral involvement of all actors and stakeholders encourages a sense of ownership and allows integration of climate-compatible development at a localized level and provides the emphasis for replicability on a national scale.

Box 8. Lessons from Eastern and Southern Africa: Kenya's Transition to Localized Delivery

After Kenya's new Constitution was ratified in 2010, the country embarked on a decentralization process, devolving certain responsibilities from the central government to the county level (Government of Kenya, 2010). This recent shift has presented Kenya with the opportunity to incorporate localized climate change planning and implementation mechanisms within the very framework of their new governance structures.

The governance transformation in Kenya is extensive and still very new, resulting in confusion surrounding the delineation of responsibilities, revenue sharing, and management relationships, between national and county governments. Such devolution of powers also highlights the critical shortage of technical staff at both the national and county levels, requiring significant external support. These elements have undeniably affected the ability of county-level practitioners to develop localized climate change policy, access climate finance, and design implementation schemes for adaptation and resilience programmes.

However, in spite of these obstacles, Kenya offers some success stories that illustrate how a devolved structure could operate. The achievements of the County Adaptation Fund, funded by the UK Department for International Development (DfID), offer the most compelling example of future mechanisms for successful localized programme delivery. The Fund recently publicized a successful pilot project in Isiolo County, designed to allow local people to identify potential resilience-building projects in their communities and then finance these projects through the Fund. The pilot has been so successful that it is being rolled out in four additional counties (IIED, 2014). The success of the project hinges on the "bottom-up" design that empowers local communities, allows for on-the-ground identification of vulnerabilities, and ensures that resources are funnelled towards the most pressing needs.

Key Insights:

- (1) For devolved delivery to be successful, the roles and responsibilities of local versus national government must be clearly defined upfront and be fully integrated into the overarching institutional framework.
- (2) While clearly defined institutional arrangements are key for localized access to financing and delivery of projects, capacity shortages at lower levels of government will remain a critical issue that requires ongoing capacity-building programmes and policy frameworks that incorporate a "learning by doing" approach.
- (3) Local delivery works best when external donors facilitate local community ownership of and participation in the identification, prioritization, and implementation decision-making processes that direct the utilization of donor funding.

3.2.2 Accessing Finance

Accessing climate finance is the ability to access allocated funds and to leverage other potential sources of finance. This ability is enhanced by direct access modalities being in place, through establishing a National Implementing Entity (NIE). It further requires a national vehicle for harnessing expertise to blend multiple funding resources to meet national climate-smart development objectives, through for example the establishment of a national climate change fund. Harnessing private sector investment through policy incentives, as well as the identification of other, additional sources of finance through a national climate change fund database, also supports the identification of opportunities for a collaborative approach between key stakeholders. If effective, this facilitates programmatic and cross-sectoral responses to climate impacts and also facilitates resilience building. In this way, access to climate finance is enhanced and there is improved alignment between national priorities and the criteria of climate funds.

The CFR Indicators under Accessing Finance are:

INDICATOR 5: Accredited national modalities for direct access

INDICATOR 6: Established mechanism for blending resources

INDICATOR 7: Optimized access to global funds

INDICATOR 5.

Accredited national modalities for direct access

Internationally accredited national modalities allow governments to access and spend climate finance directly, without going through a multilateral intermediary. Known to increase climate finance absorptive capacity, these mechanisms are the focus of the evolving global climate finance landscape.

Rationale

Global climate finance is increasingly focused on direct access, which is now a major preoccupation of the evolving Green Climate Fund (GCF). The AF, which prioritizes adaptation projects in vulnerable countries, has been a direct climate finance access modality test case with more and more recipient countries attempting to establish an NIE accredited by the Adaptation Fund Board (AFB).

What it will achieve

Resulting in increased ownership of projects, from preparation through to reporting, accredited NIEs are the key to national authority over implementing climate change responses that realize the national policy framework and resource plan. NIEs represent a critical achievement that will enhance climate finance access, ensure greater ownership and entrench political will and institutional credibility, both domestically and internationally. As well as being essential to the delivery of national modalities for direct access, attaining accreditation also showcases national capacity, status and political endorsement, at both national and global levels.

The critical action required to realize this indicator is to identify and accredit an NIE. While the ability to directly access climate finance is clearly a critical CFR indicator, few countries at this stage have shown a level of progress in gaining direct access to finance commensurate with the amount of time invested in achieving accreditation.

INDICATOR 6.**Established mechanism for blending resources**

A mechanism for blending climate finance allows countries to utilize the multiplicity of climate funds available. It eases navigation through the global funding complexities and maximizes the opportunities to effect national policy frameworks and execute investment strategies.

Rationale

The sources of climate finance are extensive, ranging from the flow of global climate funds to national budget allocations. Blending resources is another mechanism for ensuring programmatic responses to climate change, optimizing the impact of these responses and deriving multiple benefits, which include building resilience and enabling long-term climate change responses. Funders typically like to see that co-funding is raised elsewhere, reducing their own risk and at the same time gaining confidence from being part of a larger funding structure.

What it will achieve

Blending resources requires a country-driven mechanism or tool (such as a National Climate Change Fund – NCCF), developed specifically to manage the process of accessing and blending multiple funds. According to the UNDP's *Blending*

Climate Finance Through National Climate Funds Guidebook: "NCFs provide a country-driven system that can support climate change goal-setting and strategic programming, oversee climate change project approval, measure project implementation and performance, offer policy assurance and financial control of climate change funds, and assist with partnership management" (UNDP 2011). A blending mechanism will strengthen the rationale for and the role of established direct access modalities and can leverage key partnerships (private sector, development banks).

The critical action required to realize this indicator

is to establish a mechanism (or fund) for blending resources. This process will vary from one country to another, but will typically involve a national climate change fund, the utilization of partner development banks, and support from relevant national ministries such as finance and/or development planning. In **Ethiopia**, the Climate Resilient Green Economy (CRGE) Facility, as the primary coordinating body for all funds directed towards climate change investment, resembles a national climate fund and can be seen as one, although it is not officially referred to as such (Box 9). It is evident that while some countries have existing mechanisms, most have capacity constraints and will need to draw on additional expertise (to be found, for example, in development banks).

Box 9. Lessons from Eastern and Southern Africa: Ethiopia's Climate Resilient Green Economy Facility

The Climate Resilient Green Economy (CRGE) was launched in 2011 and reflects the Government of Ethiopia's vision of building a carbon neutral and climate resilient middle-income economy by 2025. Ethiopia is one of the few countries to have formally merged its aims of developing a green economy and greater resilience to climate change under a single policy framework in support of its national development objectives. Based on the vision set by the late Prime Minister, Meles Zenawi, the CRGE's innovative institutional framework has provided Ethiopia with a highly effective means of coordination.

The CRGE Facility is established within the Ministry of Finance and Economic Development (MOFED). Its objective is to mobilize finance from government, the private sector, development partners, carbon trading schemes and the financial mechanisms of multilateral agreements in order to provide financial support for the implementation of climate change projects. All climate finance is disbursed through the CRGE Facility regardless of the source. In addition to funding from development and bilateral partners, the Facility is allocated 2 per cent of the annual federal budget, ensuring funding consistency and national ownership of the CRGE's activities.

The CRGE Facility is a collaborative effort between MOFED and the Ministry of Environment and Forestry (MEF). While MOFED is responsible for mobilizing, managing and disbursing finance, and outlining fiduciary requirements, MEF leads the technical work to ensure projects and proposals achieve the CRGE objectives as defined in the CRGE Strategy and Vision. The CRGE Ministerial Steering Committee, which is chaired by the Prime Minister's Office, is responsible for setting overall policy direction and giving guidance to ensure coherence with national development programmes. Sectoral ministries have established CRGE units in order to lead the planning and implementation of CRGE initiatives that are coordinated and focused.

Key Insights:

- (1) Close collaboration between environmental, finance, and national planning ministries provides a strong foundation of the necessary technical and administrative capacities. Furthermore, this partnership ensures that climate change is not only viewed in the context of environmental concerns, but is mainstreamed into development planning.
- (2) The leadership of financial and development ministries in planning, accessing, and delivering climate finance and the subsequent climate change actions often ensures the financial and political backing necessary for positive outcomes.
- (3) Earmarking national budget allocations for climate change policies, in addition to accessing multilateral and bilateral financing, ensures funding consistency and national ownership throughout the duration of projects and programmes.

INDICATOR 7.**Optimized access to global funds**

Continuous improvements in accessing multilateral and bilateral funds demonstrates national capacity to develop programmatic climate responses and ability to meet global institutional fiduciary standards, in themselves measures of climate finance absorptive capacity.

Rationale

Increased access demonstrates national commitment to responding to climate impacts. As discussed in Chapter 1 (and in more detail in the supplementary report titled '*The Climate Finance Landscape*⁴), various sources of multilateral and bilateral climate funds are available. Some of the multilateral funds work on an allocations basis (e.g. the GEF and the AF), and it is up to each country to access their allocations and use these to leverage additional funds.

What it will achieve

Optimizing access to global funds builds national capacity in developing successful projects and minimizes the challenges associated with the proliferation of climate funds. Successfully accessing climate funds helps increase allocations in future rounds of funding in addition to enhancing programmatic climate resilience building. Allocations under the GEF 5 were based on a methodology that takes the country's need into account, the potential impact that those funds may have on the country and globally, and the country's project performance in its previous allocation. This partly explains why some countries have received large allocations in GEF 5 (see supplementary report titled '*The Climate Finance Landscape*⁴), while other countries have

shown modest or declining allocations after GEF 4. This has been raised as a source of frustration by countries that experience challenges in accessing GEF.

The critical action required to realize this indicator is to increase access to global funds. This entails, among other factors, developing a pipeline of bankable projects that match project proposals to funding criteria and national priorities.

3.2.3 Delivering Finance

Access to, and delivery of, climate finance are two separate, albeit related, processes. Delivery refers to a country's capacity to coordinate and implement programmes effectively while building the local supply of skills and expertise. In addition, it includes delivering climate finance through the national budget, and particularly through local government – both of which signal a level of climate finance maturity. Delivering finance is a critical stage in the CFR trajectory as it denotes capacity to spend project funds.

The capacity for cross-sectoral delivery of finance, particularly through local government and the ability to coordinate the implementation of sector-wide projects, is an important consideration. Lastly, improved delivery also requires the participation of private sector actors, which include households and national and regional development banks.

The CFR Indicators under Delivering Finance are:

INDICATOR 8: Leveraging development bank partnerships

INDICATOR 9: Incentivized private sector participation.

INDICATOR 8:**Leveraging development bank partnerships**

National, regional and international development banks integrate national climate change priorities, in line with the national policy framework, and add expertise and capacity to government in leveraging and managing climate finance.

Rationale

Development banks, an established public sector partner, are well positioned to deploy their considerable development finance expertise to enhance government capacity in managing and leveraging multiple climate finance resources. As such, they are a critical partner to government in developing innovative climate finance instruments and providing capacity and credibility in managing large funds. Their skills are useful in appraising the climate-related risks of development infrastructure investments and they often have the resources to assist in closing climate finance gaps arising from donor funding cycles.

What it will achieve

Established partnerships with development banks will facilitate the funding of activities associated with improving CFR, such as the skills and capacity-building necessary for project proposals. The recent launch of an AfDB climate fund (Infrastructure News, 2014) demonstrates how development banks can actively address climate change, including climate finance readiness programmes. Further, partnerships with other actors (government agencies, the private sector, research institutions, NGOs) will contribute to leveraging development bank partnerships.

The critical action required to realize this indicator is to leverage partnerships with development banks. Analysis of the six country case studies suggests that the involvement of development banks in mobilizing and disbursing climate finance is limited, except in Zambia where there is some involvement of the AfDB and the Development Bank of Zambia.

INDICATOR 9:**Incentivized private sector participation**

As an important, sometimes underutilized development partner, an incentivized private sector is an important source of human, financial and technological climate resources for climate finance.

Rationale

The private sector is another established and important public sector partner (utilized more in some countries than others). Interested in consistent financial returns, it has a vested interest (if sometimes under-recognized) in securing valuable resources and infrastructure under threat from climate change but critical to turning profits. It also has resources the public sector often needs to reach its objectives of strengthening climate resilience. Both the public and private sectors need to mitigate climate risks, albeit with different drivers, making them natural partners. The private sector provides the added advantage of providing oversight and ensuring governance of climate finance expenditures. Public-private partnerships (PPPs), and partnerships in general, represent an opportunity for more effective management and channeling of public climate finance.

What it will achieve

Optimal use of resources available in a country to combat climate change will be enabled through effective private sector partnerships. Incentivizing private sector participation – including large and small companies (multinational and privately owned), households, and commercial institutions such as banks and the insurers – will widen the net of much-needed resources and will align public and private sector interests.

Breaking down the private sector into different groups of actors in order to analyse their respective incentives for investment can provide a foundation for policy responses. This represents a critical step towards identifying the institutions that are likely

to provide support in accessing climate finance.

There are a variety of potential policy instruments to incentivize investment, from feed-in tariffs and power purchase agreements (PPAs) for renewable energy developers, to regulations for incentivizing water and electricity efficiencies. Determining the right mix of government instruments is largely dependent on the specific country situation. A supplementary report titled – Climate Finance Readiness and the Private Sector – provides further definition to the private sector and how it can be optimally leveraged for enhancing CFR.

The critical action required to realize this indicator is to establish incentives for private sector investment in climate change. The relatively limited private sector participation in the majority of case study countries is largely a result of inadequate incentives. The private sector is also, generally, not fully engaged at the outset of

climate policy and strategy development. Across the six countries, incentive structures and PPPs are limited, and there is insufficient initiative on the part of governments to harness the private sector in order to strengthen access and delivery of climate finance and climate-related projects. Nevertheless, the extent to which the private sector is able to participate will be divergent across the six countries, owing to the varied maturity of the respective private sectors. **Mongolia's** approach to incentivizing private sector involvement (Box 10) gives insight into how existing experience of establishing private sector finance mechanisms can be used to create additional private sector incentives (for example for adaptation) and how these are also helpful in the establishment of a domestic revolving fund. On the other hand the lesson from **Lesotho** (Box 11) demonstrates the need for clear policy and regulatory mechanisms to guide private sector engagement.

Box 10. Global Benchmark: Mongolia's approach to incentivizing the private sector

A promising example of incentivizing private sector action has been implemented in Mongolia. The national bank, XacBank, is providing financing for energy efficiency and renewable energy to reduce carbon emissions, improving the urban environment and creating jobs. In one project that invests in energy efficient housing, the XacBank is supported through a loan from the German Global Climate Partnership Fund (GCPF). Key conditions defined by the GCPF are relatively strict monitoring and reporting requirements – energy audits are required for mortgage loans and some SME loans. The GCPF's requirements help to tackle the common challenge that the financial sector is highly dependent on policy support to maintain a green development path, i.e. a favourable legal environment needs to be ensured to support sustainable energy services and encourage local and international investment. More generally, a price signal needs to be established for carbon in order to improve the role of the private sector in the national mitigation framework. Currently there is no easy market or grid access for low-carbon technologies, which hinders independent power producers (IPPs) in making significant investment in renewable energy deployment. Support mechanisms and policies are already being implemented by the government but need more support to achieve the intended impact (with respect to the implementation of a feed-in-tariff as mentioned).

Key Insights:

- (1) Existing experience with the use of private sector finance mechanisms can be used to create private sector incentives, and are also helpful in the establishment of a domestic revolving fund.
- (2) A national tracking and MRV framework that measures financial flows decreases the investment risk for private sector actors and encourages the take up and buy-in of climate-related national priorities.

Box 11. Lessons from Eastern and Southern Africa: A Standstill in Lesotho's Wind Sector

Lesotho has historically sourced the majority of its energy generation from hydropower. However, as in the case with Kenya, hydro generation is now falling far short of electricity demand. To fill the supply gap, Lesotho began importing electricity from South Africa and Mozambique, which, in 2010/2011, contributed almost 50 per cent to maximum local electricity demand (Tshelo, 2012).

In 2000, Lesotho began exploring the country's wind power generation potential, installing wind measurement stations at four sites that indicated sufficient wind resources to generate power to cover the existing shortfall. This wind generation potential attracted PowerNET Developments to the project, a joint venture between a South African developer, NETGroup (later Aurecon) and Lesotho's Powerdev Group. PowerNET identified the Let'seng site as having the best potential for a wind farm and subsequently signed a Memorandum of Understanding with the Lesotho Government. The developers began to move ahead with the project, conducting feasibility studies and solidifying the Terms of Agreement with the Lesotho Electricity Company (LEC). However, progress has effectively reached an impasse due to issues of land rights and generation licensing, which are currently stalling the completion of a Power Purchase Agreement.

The Lesotho Government's lack of a renewable energy policy and inexperience with programme development has halted the progress of what has the potential to be a very valuable project, which could contribute much-needed generating capacity to the country's growing energy demand, lessen the country's dependence on imported fossil fuel from South Africa, and benefit from the capacity-building externalities that will stem from a South-South joint venture between Lesotho and South Africa (Pieters and Pelsler, 2014). Furthermore, the process thus far has been led by the project developer, setting a dangerous precedent and weakening the ability of Lesotho's government to harness private sector investment to achieve national climate change and development objectives in the future.

Key Insights:

- (1) A renewable energy policy should be informed by and aligned with an overarching climate change policy, which, in turn, should be informed by and aligned with the national development plan and integrated resource (energy) plans.
- (2) A coherent renewable energy policy, accompanied by a clear incentive and regulatory framework, should be developed prior to the entrance of IPPs in order to guide investment towards achieving national energy security, and developmental and climate change objectives.
- (3) The absence of transparent incentive and regulatory schemes and clear processes for project development and licensing might result in (a) the private sector capitalizing on the structural vacuum for its own gain at the expense of national objectives; and/or (b) the private sector exiting the market due to the risky and unpredictable investment climate.

3.2.4 Monitoring, Reporting and Verification (MRV)

The capacity to monitor, report and verify (MRV), financial flows, expenditures and results, or impacts, is a negotiated requirement of the multilateral negotiations at the UNFCCC, where the related issues are treated distinctly. The MRV of financial flows refers to the **monitoring and measurement** of climate expenditure and its effectiveness, whereas the MRV of results on the ground typically refers to the **measurement** of mitigation actions, being emission reductions (and related developmental benefits). Either way, the objectives are to clearly track, report on, measure and verify the effectiveness of climate expenditure and financial flows. As such, MRV involves having well-established mechanisms for monitoring and measuring the impact and results of implemented climate policy, making these processes vital for ensuring that climate finance is transparent and accountable. MRV indicates absorptive capacity and therefore may trigger access to additional funding.

There is an important difference between MRV and Monitoring and Evaluation (M&E) (Box 1). M&E refers specifically to the process of managing for results, accountability and learning from experience, and thus is an instrument for improving adaptation and mitigation actions. In particular, M&E relates to projects, programmes and policies and forms the basis for MRV processes which specifically report on activities (such as emissions reductions) and expenditure. MRV of support (for example, from climate funds, or bilateral climate finance) involves having well-established mechanisms for measuring the impact and results of climate policy and ensuring that climate finance is transparent and accountable. The effectiveness of MRV will have an important impact on the success with which developing countries attract funding for their mitigation and adaptation actions. Ensuring that such mechanisms are in place is particularly important for a country which has made significant strides in achieving its climate change strategies and is already at the implementation stage.

The CFR Indicators under Monitoring, Reporting and Verification are:

INDICATOR 10: Harmonized M&E framework

INDICATOR 11: Cohesive tracking framework, including CPEIRs.

INDICATOR 10.

Harmonized M&E framework

A cohesive framework for tracking climate finance (linked to the national climate change M&E framework) allows for monitoring, reporting and verification (MRV) of financial flows, expenditures and results across different spheres of government, the private sector and civil society, differentiating climate from development expenditures.

Rationale

A harmonized M&E framework that links to national development plans and which cascades through the climate finance delivery chain is essential to effective MRV, an increasingly crucial element of the multilateral climate negotiations. It is evident that the flow of global funds will be negatively impacted if robust MRV systems are not a priority in climate finance recipient countries. MRV was consistently raised as a major concern in terms of accessing larger amounts of climate finance across the six countries studied. Most countries have a multitude of systems, making the harmonization of one, consolidated MRV system critical, especially in accessing additional funds and realizing programmatic climate response goals.

What it will achieve

A harmonized, functional M&E system is integral to establishing a cohesive tracking framework (Indicator 11) and will greatly assist in optimizing access to global funds (Indicator 7), in realizing national direct access modalities (Indicator 5) and in progressing the resource mobilization plan (Indicator 2). Harmonized M&E frameworks will enable the tracking of climate expenditures in public financial

management systems – one of the most important elements of climate finance readiness.

Critical success factor

Politically-endorsed, inter-ministerial and cross-sectoral institutional arrangements and coordination to facilitate an overarching national framework that delineates reporting lines, roles and responsibilities and provides an early warning system of challenges and opportunities.

Although in some countries (e.g. Mozambique and Kenya) there has been a substantial push to establish national MRV systems, led either by an established NIE or climate change focal points, most of the countries studied employ a multitude of

different MRV systems at various local, programme and institutional levels. Moreover, tracking climate finance is a key challenge in all six countries, largely due to the ambiguities associated with defining and delineating climate finance. Lead ministries and national governments are seldom able to account adequately for climate finance expenditures on projects implemented by donors, or for funds disbursed directly to NGOs from the donor community. **Zambia** (Box 12) is a case that demonstrates how integration between government and civil society can enhance climate finance implementation at a grassroots level and create an enabling environment for MRV, providing a short-term solution for capacity gaps within national and local government.

Box 12. Lessons from Eastern and Southern Africa: Civil Society Organization (CSO) Involvement in Zambia

Zambia has an extraordinarily high rate of civic participation with 80 per cent of the adult population involved in some form of socially oriented CSO, typically through religious structures (CIVICUS, 2013). In recent years, this active participation has spilled over into the arena of climate change. Civil society, although limited in capacity, has been increasing its participation in climate change action and financing.

The Zambia Climate Change Network provides an illustrative example of successful civil society participation on the ground. In response to the lack of government MRV capacity, the Network initiated a programme to track the budget and expenditure for climate change projects in Zambia, utilizing a tool developed in collaboration with Zambia's Interim Climate Change Secretariat. The Zambia Institute of Environmental Management has followed suit, using the Climate Public Expenditure and Institutional Review (CPEIR) to track the results of mitigation and adaptation projects countrywide.

In acknowledgement of the largely untapped potential of CSOs to contribute to MRV, Zambia is actively encouraging expansion of civil society's role with the implementation of the Stakeholder Assessment and Engagement Plan for REDD+, developed in 2012 (The REDD Desk, 2014). The integration of civil society into the climate change institutional architecture is a preliminary step towards improving transparency in the allocation and use of climate change resources, and demonstrates a key collaborative lesson from which other countries can learn.

Key Insights:

- (1) Collaboration between government and civil society to create an enabling environment for MRV can enhance climate finance implementation at the grassroots level and provide a short-term solution for capacity gaps within national and local government.
- (2) Encouraging the growth of civil society not only in the delivery of climate finance, but in the monitoring and evaluation of its uses, allows for government to capitalize on the resources and skills outside of government.

INDICATOR 11.**Cohesive tracking framework, including CPEIRs**

Climate Public Expenditure and Institutional Reviews (CPEIRs) track national climate finance expenditure and ensure that national MRV systems function, verifying whether funds have been implemented in line with developmental and national climate change priorities.

Rationale

CPEIR, which is part of MRV, is a critical indicator of policy coherence (planning) and a prerequisite for the enhanced accessing, delivering and tracking of climate finance. Tracking frameworks are thus a critical element in a country's climate policy and public finance system. Tracking frameworks not only assess the demand and supply for climate funds but also the sources of available funds, both domestic and external, as well as tracking the institutional structures responsible for these.

What it will achieve

Identification of the supply of and demand for climate finance will allow effective responses to climate change. So will the establishment of an

institutional and policy framework for managing this finance effectively. This comprehensive, cross-government approach – taking the form of a Climate Fiscal Framework – will link climate change priorities with expenditure and taxation decisions through the national budget process. This will ensure that any external finances are used most effectively alongside domestic resources, and provide a framework to incentivize private investments (indicator 9). Additionally, CPEIRs track national climate finance expenditure and ensure that national MRV systems function, verifying whether finance has been implemented in line with developmental and national climate change priorities. Regular, transparent CPEIRs will assist in optimizing access to global funds and will enhance the African position in the global climate negotiations.

It is clear that that the CFR landscape in the region has seen dramatic progress in the past five years, and that the case study countries are making some progress towards establishing CPEIRs as a process within national fiscal systems. It is evident that there is recognition of the high level of importance of taking this step, not the least aspect of which is the increased ability to access future climate funding.



4. A Plan for Action

This discussion provides much food for thought for African policymakers and their development partners. However, while providing a guideline for medium- and long-term action in realizing climate finance readiness, there is a danger that the degree of detail contained in this Report will deflect attention from short-term steps which can be taken to set the process of change in motion. As the Chinese philosopher Laozi observed, even the longest journey begins with the first step. Therefore, ***the Plan for Action section lays out a series of actions which African governments and their partners can take***, including in the short term, to open a viable and rapid pathway to readiness. These “Targeted Actions” expand in some detail on each of the critical conditions for CFR and in the process also consider the implications for enhanced progress against specific CFR Indicators and inter- and intra-sectoral prioritization.

4.1 Targeted Actions for CFR

Taking targeted actions towards achieving the CFR Indicators will enhance absorptive capacity even in the face of change. The targeted actions outlined in Table 2, although specific, are a guideline which provides insight from the six evaluated countries as to some of the critical action steps needed. Capacity is a cross-cutting issue for this plan for action – both in establishing the conditions and in successfully taking action. Enhanced institutional capacity is needed to enable most actions and especially in establishing the critical conditions. It is for this reason that this chapter focuses on capacity requirements for climate finance readiness.

Table 2. Actions for achieving CFR Indicators

Indicator	Targeted Actions
FINANCIAL PLANNING	
1. Cohesive Policy Framework	<p>Develop a climate change strategy</p> <ul style="list-style-type: none"> • Conduct an integrated climate risk and vulnerability assessment across sectors and economic spheres, identifying the most vulnerable sectors/groups. • Identify priority actions across stakeholder groups and sectors. • Differentiate urgent from sequential actions. • Identify public/private sector mechanisms to enable prioritized actions based on existing capacity. • Identify, through a stakeholder mapping exercise, the critical actors responsible for executing climate-smart development priorities. <p>Develop an investment plan</p> <ul style="list-style-type: none"> • Conduct a high-level cost-benefit analysis of prioritized actions to inform the investment strategy, national budget allocations and MRV. • Analyse sector expenditure mapped to financial flows to identify gaps. • Cost prioritized projects, programmes and interventions. • Rank prioritized investments according to their strategic alignment to development goals and the climate change policy/strategy.
2. Resource Mobilization Plan	<p>Develop a resource mobilization plan</p> <ul style="list-style-type: none"> • Identify private sector sources for resourcing climate finance. • Set aside a portion of the national budget for executing the plan. • Identify and address gaps in financing climate responses, including the adaptation finance gap. • Identify national government incentives to non-government actors to fund and implement adaptation actions.
3. Politically-endorsed Institutional Arrangements	<p>Establish formal and informal inter-governmental arrangements</p> <ul style="list-style-type: none"> • Engage various planning and economic development ministries. • Set up an inter-ministerial working group with clear objectives, goals and performance indicators to make it a self-coordinating entity. • Establish informal climate change working groups to augment the capacity of legally mandated government departments. <p>Pilot cross-sectoral projects</p> <ul style="list-style-type: none"> • Identify manageable cross-sector pilot projects that can be scaled-up or replicated. • Outline performance indicators and implementation impacts. • Define key institutions, accountability measures, and roles and responsibilities of relevant actors. • Utilize identified NIEs to manage or oversee the process.
4. Mechanisms for Local Delivery	<p>Plan for Local Delivery</p> <ul style="list-style-type: none"> • Support ownership of climate change projects by local communities. • Monitor, verify and report on climate expenditures and actions to ensure the return on investment of implemented projects. • Build national/local implementation, reporting, and management capacity.

Indicator	Targeted Actions
ACCESSING FINANCE	
5. Accredited National Modalities for Direct Access	<p>Identify and accredit an NIE</p> <ul style="list-style-type: none"> • Identify an existing governmental entity to formally locate an NIE. • Review and build the capacity needed to ensure accreditation against international accreditation criteria. • Build capacity of NIE to operate with stringent fiduciary and best practice standards.
6. Established Mechanism for Blending Resources	<p>Establish a mechanism (or fund) for blending resources</p> <ul style="list-style-type: none"> • Create a national mechanism (e.g. NCCF) to access and blend multiple funds in alignment with national objectives and capacities. • Blend different resources to address climate and development needs while meeting the varying funding criteria.
7. Optimized Access to Global Funds	<p>Increase access to global funds</p> <ul style="list-style-type: none"> • Target funds (multilateral and bilateral) that are in line with national priorities. • Apply adaptive management learning to enhance subsequent fund application processes, particularly in accessing the GEF. • Aim for programmatic, cross-sectoral delivery through a pipeline of bankable initiatives. • Establish a customized climate fund website and database (e.g. under the NIE) using international knowledge platforms. • Track domestic successes and failures in accessing multilateral and donor funds, ensuring that continuous improvement targets are met.
DELIVERING FINANCE	
8. Leveraging Development Bank Partnerships	<p>Leverage partnerships with development banks</p> <ul style="list-style-type: none"> • Provide data and an evidence base in support of project proposals. • Test potential climate policies and pilot projects intended to be incorporated into national planning. • Collaborate with research institutions to facilitate grants for climate-related research with a view to building related competencies. • Utilize civil society to support climate finance access, address capacity gaps and create strategic partnerships for implementation.
9. Incentivized Private Sector Participation	<p>Establish incentives for private sector investment</p> <ul style="list-style-type: none"> • Ensure incentives match the priorities in the climate change strategy. • Identify gaps for further investments and provide the private sector with potential investment strategies to minimize their climate related risks and to maximize opportunities. • Create regulations to enable private sector participation and financing. • Involve the private sector in providing oversight and ensuring governance of climate finance spending.

Indicator	Targeted Actions
MONITORING, REPORTING AND VERIFICATION (MRV)	
10. Harmonized Monitoring & Evaluation Framework	<p>Harmonize Monitoring and Evaluation Frameworks</p> <ul style="list-style-type: none"> • Systematically plan and budget at national and district/municipal levels. • Develop data collection and collation processes at different levels. • Create a systematic reporting process to ensure expenditure and resource utilization aligns with funder requirements, national development goals and climate policy frameworks. • Require regular evaluation processes, including quarterly programme and project reviews at all levels. • Ensure transparency levels through appropriate risk management tools. • Establish performance-based systems allowing for progressive funding based on meeting quality measurement standards. • Ensure inclusive stakeholder involvement in M & E. • Integrate climate change performance indicators into the public budgeting and expenditure system.
11. Cohesive Tracking Framework Including CPEIRs	<p>Implement Climate Public Expenditure and Institutional Reviews</p> <ul style="list-style-type: none"> • Assess existing climate change policy frameworks, assuring integration of climate change into national financial management systems. • Review institutional arrangements for integrating climate change policy priorities into budgeting and expenditure management. • Ensure all interventions, funding and M&E activities are incorporated, regularly tracked and updated according to a structured plan. • Review budgeting processes at all levels, covering international public finance, domestic expenditure and private investments. • Incorporate best practice measurement and investment coding tools. • Draw on available international support mechanisms, such as UNDP's Low Emission Capacity-Building Programme (extended to developing countries specifically for the purpose of conducting CPEIRs).

4.2 Enabling the Plan for Action

Strengthened institutional capacity and skills are needed to make possible the actions required to achieve climate finance readiness and to enact related policies and mechanisms. Capacity is required across sectors and stakeholder groups and skills are needed at the institutional and individual levels. These are outlined in this section, aligned with the UNDP Framework pillars and the CFR Indicators.

4.2.1 Enabling Actors

Climate finance flows are neither purely public nor purely private. This means that there are capacity requirements at each level of government, across many sectors, as well as within support and partner institutions, including the private sector. The main stakeholders for CFR can therefore be broadly categorized as the government, the private sector, civil society and citizens. These stakeholders are incentivized by very different forces and therefore have significantly different skills and capabilities. It is helpful therefore to clarify what capacities are required at the policy, institutional and individual levels, across government, the private sector, and civil society.

Government is the custodian of climate-smart development and responsible for key functions across all four pillars of climate finance. Its fundamental function is in strategic planning and ensuring alignment of climate change with national priorities, accessing and leveraging climate finance and creating an enabling environment for delivery and implementation. It has ultimate responsibility for ensuring that monitoring, reporting and verification are coherent and coordinated.

The private sector (including citizens) consists of a range of actors including multinational corporations, commercial banks, small and medium enterprises, micro-finance institutions and households, each of which require varying capacities in terms of the four pillars of climate finance. National development banks, although not purely private sector, also play

a crucial role in supporting access and delivery of climate finance, for which financial and technical capacities are required.

Civil society, or the array of non-governmental and not-for-profit organizations (NGOs/NPOs) that include community groups, non-governmental organizations (NGOs), labour unions, indigenous groups, charitable organizations, faith-based organizations, professional associations, and foundations, often has skills and capacity that can be used to plug government gaps. In this way, civil society can link high-level policy to grassroots level implementation of climate finance. Organizations that play an accountability role are critical overseers and monitors of government spending of climate finance. Civil society therefore promotes transparency and accountability on the part of the government in making effective use of accessed funds. Moreover, NGOs, as implementing agents, often provide the skills and capacity lacking in government. Through both roles of accountability and implementation, civil society is well positioned to influence and enact climate policy, integral to planning for and delivering climate finance.

This chapter broadly assesses the key capacity requirements for accelerating CFR. It outlines the capacities required within the main stakeholder groups along the four pillars of climate finance with a view to advancing progress against the CFR Indicators. In so doing, it summarizes some of the work of development partners to enhance climate finance related capacity in the region.

4.2.2 Capacity Requirements for Climate Finance Readiness

Capacity-building is a critical success factor in establishing the fundamentals for CFR as a foundation for realizing the targeted actions identified to drive progress against each indicator. Capacity and skills are required at all levels of government and in all sectors and stakeholder groups. The priority capacity requirements are captured in Table 3.

Table 3. Capacity requirements for CFR

Targeted Capacity-Building	
FINANCIAL PLANNING	
Government is the main actor in planning for climate finance. This is not to say that the other stakeholder groups do not play a role – they are in fact critical. However, governments need to take the lead in ensuring climate action that is inclusive of the private sector and should be supported as well as held accountable for its actions by civil society.	
1. Cohesive Policy Framework	<ul style="list-style-type: none"> • Institutionalize sector-wide approaches to formulating projects and programmes. • Build the capacity for addressing issues of additionality in planning institutions
2. Resource Mobilization Plan	<ul style="list-style-type: none"> • Develop skills in appropriate ministries and departments for climate investment, planning, and budgeting, and for costing strategic interventions. • Develop knowledge and skills for leveraging partnerships and harnessing multiple stakeholders.
3. Politically-endorsed Institutional Arrangements	<ul style="list-style-type: none"> • Mirror skills and capacities across the different levels of government, particularly to enable mechanisms for local delivery. • Build capacity to integrate existing and new climate-related data and information to make a case for climate finance investment at all sub-levels of government
4. Mechanisms for Local Delivery	<ul style="list-style-type: none"> • Devolve training on financial oversight and project management to lower tiers of government (e.g. local municipalities) and provide regulatory frameworks and guiding toolkits. • Strengthen capacity to establish functional multi-stakeholder forums and coordination mechanisms at the national, international and multilateral levels.
ACCESSING FINANCE	
Government is the main actor in accessing climate finance, but it can benefit greatly from drawing on private sector expertise to build its risk management capacity.	
5. Accredited National Modalities for Direct Access	<ul style="list-style-type: none"> • Utilize direct access modalities by creating NIEs to build skills to develop, implement and monitor climate projects. • Develop the institutional capacity and skills required to meet stringent fiduciary standards. • Draw on private sector expertise to build government capacity to fulfill risk management and other requirements.
6. Established Mechanism for Blending Resources	<ul style="list-style-type: none"> • Enhance capacity to accelerate progress toward optimizing access to global funds by establishing clear stakeholder and institutional understanding of the priorities, criteria and ways of functioning of the various funds and aligning these with national climate-smart development priorities. • Develop skills for appraising and designing cross-sectoral projects.
7. Optimized Access to Global Funds	<ul style="list-style-type: none"> • Enhance knowledge across stakeholder groups of climate change and renewable energy, and green-technology investment opportunities. • Build skills for blending climate finance for programmatic climate response strategies.

DELIVERING FINANCE	
Climate finance delivery requires strong coordinating capacity at the national level (government) and project level (all tiers of government, the private sector and civil society). Programme oversight, country level coordination and coherence with national climate change and development pathways, and the designation of implementing entities (IEs) are also important.	
<p>8. Leveraging Development Bank Partnerships</p> <p>9. Incentivized Private Sector Participation</p>	<ul style="list-style-type: none"> • Support government institutions in understanding how the form and function of development banks can be utilized in climate finance as a source of funds but primarily as a resource for deepening government understanding of financial mechanisms, fiduciary standards and risk management. • Utilize the experiences of development banks in managing large-scale projects to build related capacity in government. • Build capacity to develop policy incentives to catalyse private investment, including policies that reduce the key political and commercial risks of investment to the private sector. • Develop capacity for designing and enabling government revenue-support policies that address the commercial risk of a climate finance project, with a view to mobilizing investment in adaptation. • Build public and private sector knowledge of the risks that private investors face in climate-related activities and build skills in both sectors to mitigate these risks. • Build skills in government for leveraging and multiplying finance from private sources. • Build the capacity in non-government sector partners (development banks, the private sector, research institutions and civil society) to align their expertise, resources, mandates and agendas with public sector climate change needs.
MONITORING, REPORTING AND VERIFICATION (MRV)	
Government is the lead institution in building national capacity to monitor both on-and off-national budget expenditures on climate change activities as a fundamental aspect of MRV and to ensure coherent and efficient monitoring and evaluation of programmes and projects implemented across sectors and stakeholder groups.	
<p>10. Harmonized Monitoring & Evaluation Framework</p> <p>11. Cohesive Tracking Framework Including CPEIRs</p>	<ul style="list-style-type: none"> • Build capacity support to undertake project evaluations, establish baselines and conduct GHG emission inventories. • Build the capacity to harmonize M&E systems through enabling an understanding of what a harmonized system looks like, how it could work and what it should deliver. • Build skills for operational fund management and sound monitoring and evaluation systems. • Develop capacity for comprehensive MRV that enables an overview of climate finance flows (including public and private funds, and all types of funds, such as grants, loans, equity, guarantees and insurance). • Enhance skills associated with data generation, codification, collection, and quality that will inform the national MRV system, including CPEIRs. • Enable existing public finance capacity to understand climate change and climate finance. • Build institutional capacity in a central unit to compile and provide quality control for reporting on projects alongside, and based on, peer assessments • Build capacity to ensure the oversight role of civil society to promote transparency and assist in holding government to account on the effective use of accessed funds.

Ultimately, policy is needed to ensure that the key policy recommendations for CFR that have emerged from this study as well as from the development of the CFR Indicators (and the related assessment of progress) are enacted. Policy is needed to enable the implementation of this Plan for Action. The policy

recommendations build on the main drivers of CFR and are expanded on in the conclusion. In particular, a primary output of this study, the Policy Brief, encapsulates a road map for policymakers and their support partners as Africa enhances its readiness status.

5. Conclusion

As the global climate finance architecture continues to evolve, the ideal state depicted by each CFR Indicator is likely to change in response to changing expectations, norms, and interpretations of what it means to be “climate finance ready”. Failures and successes will continue to re-inform processes and systems. Lessons will be learned. CFR is not a steady state, but an ever-changing, dynamic process. Given this reality, countries have no choice but to adopt a learning-by-doing approach (adaptive management) in order to enhance their ability to respond to the varied demands of a system in flux. Agility is key. However, to be agile, African Governments must take ownership of their climate agendas. Ownership is demonstrated through clear prioritization of climate-smart development action, and is reinforced by regular evaluation.

For the many African countries that face multiple demands for change, working towards each of the CFR Indicators under all four UNDP Framework pillars may be overwhelming. Given the reality of limited resources and capacities, **it is therefore necessary to identify the most important steps that African countries can take now to build an enabling environment for fast-tracking climate finance readiness.** The critical conditions for accelerated readiness are:

- politically-endorsed inter-ministerial and cross-sectoral institutional arrangements;
- coherent, aligned investment planning;
- established policy incentives for leveraging partnerships and resources; and,
- climate-integrated public finance systems.

The establishment of these conditions will be enabled by greater country ownership of climate agendas, allowing prioritization of climate actions, and will be further reinforced by continuous evaluation. These four identified conditions are critical to accelerating progress towards all 11 CFR Indicators as described in detail in Chapter 3 of this Report.

Capacitated action – across all key stakeholder groups – is also critical to accelerating readiness, thus ensuring that Africa is alert, ready and able, especially when the GCF opens for business in 2015.

Although this study covered six countries from two of Africa’s five sub-regions, the outcomes can inform Africa-wide action for readiness. **All African countries can benefit** from sharpening their focus on the four most important items for action:

Politically-endorsed inter-ministerial and cross-sectoral institutional arrangements

Although it is a significant challenge, all assessed countries have made progress in developing coordinated arrangements that cut across ministerial and sectoral divisions— some substantially so. The study has demonstrated that once coordination was mandated at the highest political level, previously slow progress toward overall CFR accelerated rapidly. In the main though, these arrangements are inter-ministerial and fall short of embracing other sectors and partners such as development banks, the private sector, civil society and research

institutions. Consequently, the private sector and banks are unaware of their own climate risks, needs and roles; CSOs are not fulfilling their key functions of accountability and back-stopping capacity within government; and research institutions are often underutilized.

Coherent, aligned investment planning

The climate finance architecture is frequently said to be complex and difficult to navigate. Typical complaints include stringent criteria, lack of capacity to develop funder-acceptable projects and under-investment, for example by the development finance institutions (DFIs) in priority projects, particularly those that programmatically meet Africa's essential adaptation needs. Nonetheless, the countries assessed are accessing multi- and bilateral funds and a review of their record in accessing the various rounds of GEF-allocated funds shows incremental improvement in most countries. Yet, many of Africa's adaptation priorities remain under-resourced and it would be simplistic to attribute this to issues of stringency and complexity only. Rather, national governments and investors do not talk to each other and when they do, timing and information are usually out of kilter.

National climate change and investment strategies and plans that are well aligned with development objectives are a critical success factor. However, investors need to comprehend and identify with them. It is the role of government to drive this process. It cannot expect the private sector to produce expertise, finance and technology if it does not know to what end. The same applies to civil society and research institutions. Similarly, DFIs need insight into national needs and governments need to understand the justification for their investment criteria. Bringing the two closer together will, for example, increase DFI investments in Africa's biggest climate-smart development projects. Water, where existing scarcity is further threatened by climate change, is an important example of under-investment.

Incentivized partnerships

Government may well be the lead "agency" financing climate-smart development, but it cannot chart and navigate this route alone. Partnerships must be leveraged across all stakeholder groups in the private sector and civil society. Experience demonstrates that leverage needs to be enabled and stimulated. Private sector engagement will be optimal only if incentivized. A partnership approach (between the public and private sectors), aimed at designing and implementing policy incentives, is urgently required. These incentives need to be oriented toward Africa's adaptation agenda, drawing on previous and existing mitigation successes.

Ideally, civil society is perceived and established as a critical partner to government. This necessitates effort by both stakeholder groups. Governments in Africa frequently perceive CSOs in a negative light, seeing them as either ineffectual or threatening. CSOs would do well to position themselves as partners rather than opponents of government. Conversely, the nature of civil society participation is dependent on government leadership in bringing itself and citizen groupings together in the climate finance discourse. Governments need to establish enabling policy for building inclusive climate-smart development responses and harnessing valuable CSO capacity and skills. Critically, the voices of CSOs need to be enabled and heard.

Climate-integrated public finance systems

Africa wants the developed world to account for and reduce greenhouse gas emissions, recognize Africa's adaptation gap and provide predictable and adequate sources of finance for climate change. The developed world wants developing countries to quantify the adaptation gap (while taking some responsibility for reducing emissions), account for their climate finance expenditure in a transparent manner, and allocate domestic resources to climate finance. If predictable and substantial global sources of finance are to continue to flow into Africa, then African countries must get their national houses in

order. Simply put, this means that recipient countries will access greater and continued resources if they can effectively monitor, report on and verify (MRV) their climate finance expenditure. This includes reporting on domestic and international resources.

The only way this can work is if climate finance is integrated into national public finance systems. Mainstreaming climate change strategies into national development agendas, the obvious first step, enables allocation of domestic resources. This will provide the basis for transparent accounting for climate change, give ongoing insight into where the returns on climate investments are made and build the evidence for arguing for additionality. It is interesting to note, that although many of the countries studied seem to shy away from the

transparent allocation of domestic resources, most do spend on adaptation and resilience- building. However public finance systems are not codified to track climate spend. Consequently, in-country investments are under-recognized, compromising Africa's voice in global negotiations when it comes to a balanced deal on adaptation and for finance to support this.

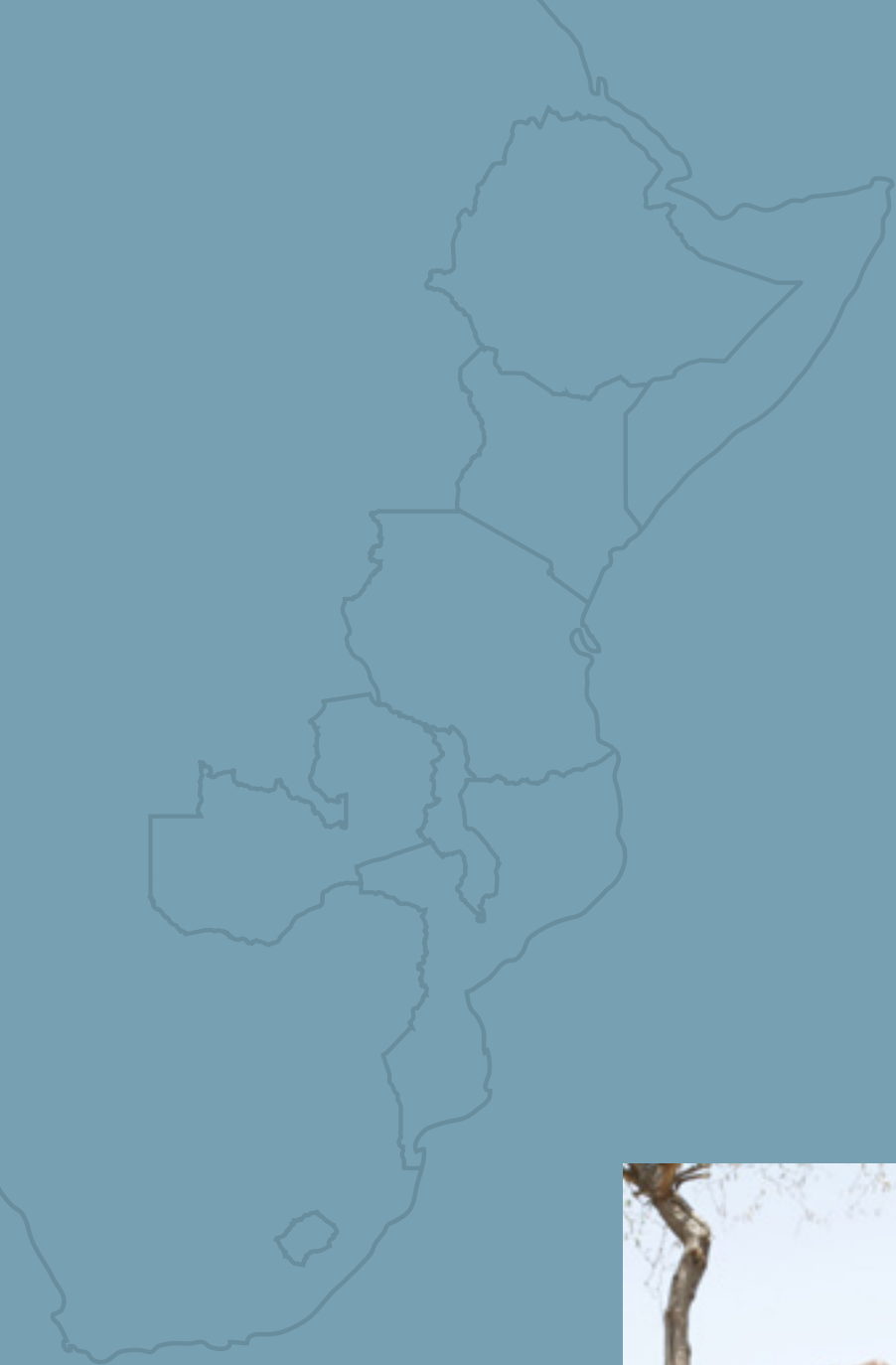
The study outcomes indicate that progress against all 11 CFR Indicators will flow if coordination is cross-cutting and politically mandated, if climate and development priorities are aligned with investor requirements, if the engagement of all key resources and stakeholders is incentivized and understood, and if climate finance expenditure is transparent within a fiscal system that stimulates domestic investment.

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