

# Climate and Development Outlook

Stories of change from CDKN



November 2013

Climate and Development Knowledge Network

CDKN helps decision-makers to design and deliver climate-compatible development by combining research and advisory services and knowledge-sharing.

## Climate finance can catalyse action

Developing countries require climate finance to support their efforts toward climate compatible development: climate finance from both public and private sectors, domestic and international. Climate finance is not a solution in itself, but a catalyst to shift all resource flows towards low-emissions, climate-resilient options.

Motivated people in Ministries of Finance and Planning, supported by professional staff knowledgeable about climate change, are necessary to make public sector investments successful. When climate finance flows across borders, it must be designed to enable equitable access, national ownership, and effective management and monitoring. Meanwhile, transformational change is more likely when public finance leverages significant private finance.

CDKN has a diverse portfolio of more than 20 projects that aim to increase and enhance developing countries' access to finance for climate compatible development. CDKN plays a role in strengthening the voices of developing countries in climate finance negotiations, in linking national climate compatible development policy and planning to potential finance channels, and in encouraging new approaches to climate finance (e.g. via national climate finance strategies and subnational financing options). Our strategies are:

- to support the establishment of an international climate finance architecture that enables harmonised,

effective and scaled-up financing for climate compatible development;

- to improve national and subnational systems for channelling investments towards climate compatible options, including access to climate finance with strengthened national ownership and effective management and disbursement;
- to help increase the scale of climate finance by creating an enabling environment for non-state actors, including the private sector, to invest in climate compatible development activities.

This edition of *Climate and Development Outlook* provides examples of lessons learned in a wide range of activities by our partners across the developing world. You can read about national climate finance initiatives by the governments of Rwanda, Colombia and Peru, the potential for farmers to tap into climate finance while maintaining food security, and innovative ways to raise revenue and respond to climate risks through payment for ecosystem services and micro-insurance. Meanwhile, at the global level, we bring you news of efforts to strengthen the voice of most vulnerable countries in designing international financing mechanisms. I hope you'll enjoy this edition, and invite you to share your comments and experiences by writing to us at: [enquiries@cdkn.org](mailto:enquiries@cdkn.org)

– Ari Huhtala, Climate Finance Lead, CDKN

### Welcome to our special edition on climate finance

One of CDKN's major areas of work is climate finance. We aim to increase and enhance developing countries' access to finance for action on climate compatible development. We help countries to develop domestic finance options, and a robust, international climate finance architecture and related services.

These goals are linked closely to CDKN's other work areas: *policies and planning for climate compatible development; disaster risk management; and supporting poor and most climate-vulnerable countries in the climate negotiations.* Whether it's a case of building a country's readiness to receive and manage climate finance, or innovating a disaster risk insurance scheme to protect the poorest, financial resources are often at the heart of the matter.

#### INSIDE »

- Making climate finance work for agriculture and food security
- Payments for watershed services
- Rwanda climate fund



## Latin American countries seek practical options for climate finance

Several Latin American countries are at the forefront of planning low carbon development – but they are unsure how to finance some of the deep, structural changes that will be needed to make the transition to ‘green economies’. Now, a CDKN project is assisting governments to identify likely sources of funding, from domestic as well as international sources, public and private alike.

Chile, Peru and Colombia have all begun looking at scenarios for separating or ‘decoupling’ their greenhouse gas emissions from economic growth. The three governments are developing Mitigation Action Plan Scenarios, known as ‘MAPS’ ([www.mapsprogramme.org](http://www.mapsprogramme.org)).

MAPS uses a successful approach that was first trialled in South Africa. First, local scientists agree on the levels of greenhouse gases produced by each sector of the economy, to establish baselines. Then, a broader group of political decision-makers and affected peoples debate how to limit emissions, by sector, in the future. This allows discussion of how different technologies, policies and practices could affect climate and development –and makes space for debate about winners and losers.

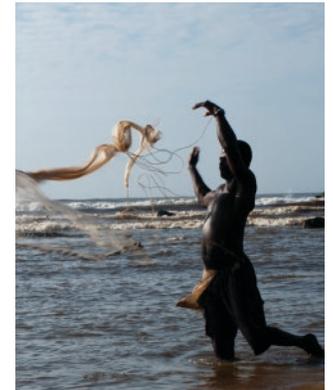
Naturally, the focus for action and the financing solution for each country has to be tailor-made, according to Amal-Lee Amin of E3G, the consultancy that has been hired to provide technical advice. For instance, “in Chile, financing of renewable energy and low-carbon transport are big

priorities,” she said; whereas, in Peru the MAPS process is at an earlier stage but it is possible that forest conservation and the farming sector will play a relatively more significant role. An exploration of climate finance options in Colombia reveals several opportunities to seek funding under the Nationally Appropriate Mitigation Actions (NAMAs) process, as facilitated and supported by the UNFCCC. The Government of Colombia is developing NAMAs for different sectors, including waste, renewable energy, transport and municipal waste.

The consultation process has suggested many more options, with different entry points. Claudia Martinez, CDKN’s Country Engagement Leader in Colombia and an advisor on green growth to the Colombian government, notes that the country’s environmental law makes provision for a range of financial instruments to support environmental conservation and pollution control. These could be harnessed more effectively to deliver climate benefits, Ms Martinez said. Meanwhile, beyond NAMAs, “Peru, Chile and Colombia have incredible opportunities to finance climate alternatives with instruments like compensations, cross sectorial subsidies, royalties and even local financial options,” she said.

“The approach piloted by this project is creating traction in Asia and Africa,” according to Ari Huhtala, CDKN’s Director of Policy and Programmes, who presented the initial findings to the Asia chapter of the Low Emissions Development Strategies (LEDS) Global Partnership at its meeting in Manila, Philippines in October 2013.

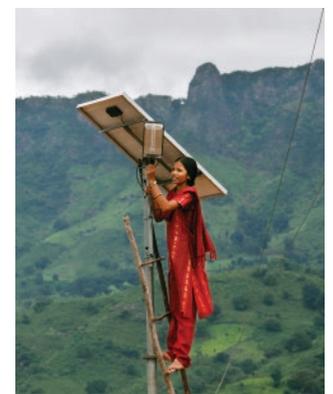
Read the first working paper at [www.e3g.org/library](http://www.e3g.org/library)



### Does microinsurance work?

Index-based microinsurance offers a safety net against extreme events to the poorest and most vulnerable, coupled with reduced implementation costs and speedy settlements. Such initiatives have understandably become popular, but there are many unknowns about their effectiveness; particularly, the experiences of people involved in schemes directly or impacted indirectly.

To understand the effectiveness of these initiatives, a CDKN-funded project led by Microsave is documenting evidence and experiences of delivering these schemes in South and South East Asia.



## CDKN helps Indonesia and Vietnam prepare climate finance roadmaps

CDKN and GIZ have supported the governments of Indonesia and Vietnam to assess their readiness to access and manage climate finance. Each country has analysed their ‘state of climate finance’ and mapped current systems, policies, and trends and needs. The project has produced reports that are now stimulating further discussions among government and other stakeholders on how to improve the climate finance architecture and performance.

## Agriculture needs streamlined approach to climate finance

Many programmes fund adaptation and mitigation activities separately, often leading to fragmented and less effective approaches, particularly in the agricultural sector. Supported by CDKN, Michel Köhler of Perspectives, together with Lisa Junghans of Germanwatch, have been assessing the problem and forming practical proposals to overcome it.

“Today’s institutional structures for climate change mitigation and adaptation are very fragmented, preventing an integrated and synergistic approach. The agricultural sector, key for millions of people in developing countries, is particularly prone to such a fragmentation on various levels,” said Dr Köhler.

In the worst cases, the fact that adaptation and mitigation funding are on different tracks could lead to projects that are a cross-purposes to each other. The answer could lie in establishing so-called national gatekeeper institutions to channel climate finance for agriculture and food security - without separating mitigation and adaptation funding, conclude Köhler and Junghans.

These gatekeeper institutions would not only ensure that the joint mitigation and adaptation potential of agriculture projects was spotted and pursued at country level. Such national institutions might also be best attuned to a country’s diverse farming types. For example, they might be better than international financial institutions at supporting smallholder farmers who depend heavily on their agricultural lands for food security.

The research team identified smallholder farmers as among the most climate-vulnerable populations. They tend to

live in remote areas, are politically and economically marginalised and have poor access to finance and other resources. They need access to appropriate, intermediary institutions to help them obtain finance.

Köhler and Junghans suggest a number of criteria that the national gatekeeper institutions must fulfil to overcome fragmentation and strengthen food security in a climate friendly way: they need to meet high fiduciary standards to receive and manage international funds; they should be ready to use different financial instruments and have experience in doing so; they should be able to consider smallholders’ interests and even be ready to deliver compensation mechanisms if certain climate-smart strategies lead to decreasing yields in the short term. They should be able to build on the strengths of existing institutions and they should have the capacity to identify projects and programmes and to involve multiple stakeholders. Honduras was one of the study countries – along with Kenya and Bangladesh. Read more about the results (see right).

## Local actors are ready to act

Local adaptation efforts and the needs of those most vulnerable must be placed at the centre of the international response to climate change. The Green Climate Fund, in particular, should prioritise access by local actors to available climate funds. That’s the key message from a new publication by the Netherlands-based NGO Both ENDS, co-sponsored by CDKN, called *Local Actors Are Ready to Act: 6 Views on How the Green Climate Fund Could Reach Them*.

The report makes the case for developing an international climate finance system that supports adaptation and mitigation

## How could streamlined climate finance boost food security in Honduras?

In Honduras, the Perspectives-Germanwatch team (see left) identified a range of barriers and solutions to achieving food security, climate adaptation and mitigation in the farming sector.

They suggest that regional adaptation plans could be developed, to pinpoint climate-related weaknesses in agricultural product chains – and where critical investments are required. Climate training programmes for Honduras’ agriculture and food security officials would strengthen the management of any new funding to the sector.

Meanwhile, whether they are farming at small- or large-scale, farmers need clear, accessible information. Further investment in basic climate- and weather-related communication would improve farmers’ ability to adapt. Elements of the financial system could also be strengthened to bolster climate resilience – giving small and large farmers better access to credit could enable them to make improvements that would both increase production and build resilience.



## What’s next for CDKN’s work on climate finance?

In the coming year, CDKN will continue to assist developing countries to progress their national climate finance strategies and develop innovative financing schemes. These include our existing partnerships with the governments of Kenya, Rwanda, Colombia, Peru, Uganda and others. We will promote regional and inter-regional exchange of experience, to build national awareness and strengthen capacity, and we will continue to emphasise the distributional aspects of budgets and investments. On the global stage, we will continue to support developing country members of the Green Climate Fund Board and the UNFCCC Standing Committee through the Climate Finance Advisory Service with a rapid response service, policy briefs and guides, newsletters and recommended reading, and bespoke research pieces on emerging issues.



opportunities at city and subnational level, through essays by six climate leaders. By taking such a devolved financing approach, the authors argue, the nascent Green Climate Fund will rise to its mission to *“provide simplified and improved access to funding, including direct access, basing its activities on a country-driven approach and (encouraging) the involvement of relevant stakeholders, including vulnerable groups and addressing gender aspects.”*

Critics often view local actors’ fiduciary standards as a stumbling block to allocating climate finance at the subnational level. The Both ENDS report explores ways in which these challenges can be overcome. Danielle Hirsch, Both ENDS director, writes in the introduction: “Past experiences show that local actors are capable of meeting common fiduciary standards,

especially if funding agencies allow for capacity support of receiving organisations, to build trust.”

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## Rwanda climate fund attracts hundreds of projects

The Government of Rwanda’s climate and environment fund, known by its French acronym FONERWA, has made a rousing start with the receipt of almost 700 applications in its first application round. The fund was established earlier this year with technical support from CDKN and capitalisation from Rwandan public funds and the UK’s Department for International Development (DFID).

The bulk of project proposals came from government ministries departments – both national and sub-national – with some further applications from civil society and private sector institutions. The most promising ones have received the ‘green light’ and are now asked to prepare full Project Documents. CDKN is helping district governments to strengthen their proposals, including assisting those who received an ‘amber light’ to advance to ‘green light’ status. It is hoped that by early 2014, some successful projects will have received funding and will be ready to start implementation.

FONERWA is the largest nationally-governed climate fund of its type in Africa, and provides a model for other governments to watch. You can read more about Rwanda’s leading-edge Green Growth and Climate Resilience Strategy and climate finance progress on [www.cdkn.org/regions/rwanda](http://www.cdkn.org/regions/rwanda)

### Addressing the barriers to climate investment

CDKN has just teamed up with climate finance experts from Germanwatch and the Frankfurt School – UNEP Collaborating Centre for Climate & Sustainable Energy Finance to publish a guide on *Addressing the barriers to climate investment*, as part of its Climate Finance Advisory Service. The 8-page guide summarises the barriers to financing mitigation and adaptation activities, as well as factors to consider when selecting and implementing financial instruments. The key financial instruments considered in this guide are discussed in relation to the Green Climate Fund, but the lessons are applicable to other channels for climate finance.

# Payments for watershed services: A driver of climate compatible development

In Bolivia, deforestation in upper river basins has caused a host of environmental problems – from soil erosion to declining water quality. That's not to mention the greenhouse gases emitted, when the timber is cut faster than it can grow back.

A project by Rare Conservation and Fundación Natura Bolivia, supported by CDKN, has helped landholders from upstream areas to receive payments for conserving forest lands. Although their work as environmental stewards is having positive impacts on the global climate, it's the downstream water users in the river basin who are compensating the landholders directly – because their eco-friendly practices have local benefits, too: they are leading to improved water quality downstream.

In the increasingly water-stressed Department of Santa Cruz, Bolivia, Reciprocal Water Arrangements (or 'ARA', as they are known in Spanish: Acuerdos Recíprocos por Agua) have taken off. These ARA are private contracts between the members of water cooperatives and landholders in priority catchment areas. Landholders sign contracts that bind them to strict rules of land management: they must conserve the forest, avoid polluting livestock practices and enhance the biodiversity and forest carbon of their land. In exchange, they receive in-kind compensation that boosts their incomes and livelihood prospects. In Los Negros municipality, for example, every \$20 invested by donors in a local water fund has been matched locally with \$30, which together purchases a beehive

to compensate for conservation of two hectares (ha) of water-sustaining forest for five years.

Although further scientific research is required on the precise interactions among forest conservation and water benefits at a large watershed level, the positive correlation between forest conservation and hydrological services is well known and the ARA scheme is a 'no regret' investment for the water cooperatives involved.

Since the first Bolivian ARA was developed in Los Negros, more than 30 municipal governments and water cooperatives across the Andes have joined the movement, and more than 40,000 downstream users are now compensating 2,000 upstream families for protecting 70,000 ha of forested 'Water Factories'. In the last two years, more than \$350,000 worth of local and donor funds have compensated landowners' conservation efforts with barbed wire, cement, fruit tree seedlings (such as apples and plums), bee boxes, bee-keeping equipment, plastic piping, water tanks, and roofing materials. The ARA schemes are thus unlocking vital resources for upland farmers who have been increasingly marginalised by their lack of capital.

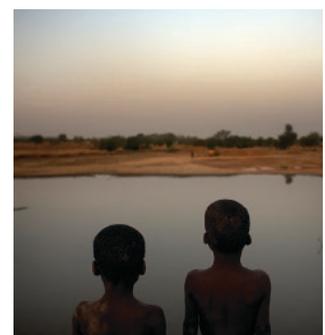
If owned by the local institutions, these schemes may steer development towards sustainability. "The ARA model does not focus on paying the opportunity cost for conservation, which can be very expensive, but on changing social norms" said Maria Teresa Vargas of Natura Bolivia. "New perceptions about the value of forests for society can convince upstream landowners to conserve in return for projects that may not match their full opportunity cost, but which provide them with a livelihood alternative".

## Climate Finance Advisory Service provides timely briefings

CDKN's Climate Finance Advisory Service (CFAS) was formed to provide technical briefing and guidance on climate finance issues, on demand, to developing country negotiators. The Service, which is delivered by a Germanwatch-led consortium, is particularly geared towards the start-up of the Green Climate Fund. It offers advice to developing country GCF Board Members, their staff and advisors.

In its first year of operation, the CFAS team has provided timely briefings to negotiators and policy advisors from poor and most climate-vulnerable countries. These publications highlight major issues and debates on the GCF's agenda such as the potential for the Fund to initiate a paradigm shift in climate compatible development, and can all be downloaded from [www.cdkn.org/cfas](http://www.cdkn.org/cfas)

CFAS also offers a rapid response service, by which developing country negotiators can contact the team for specific technical and legal advice. Although the uptake has been relatively low so far, this part of the service is still very much 'open for business'. Visit our website to get in touch.



## Climate finance negotiations at CoP19 in Warsaw

CDKN has just launched a guide to the climate finance agenda items under discussion at the 19th Conference of the Parties (CoP19) to the United Nations Framework Convention on Climate Change (UNFCCC) in Warsaw, Poland. Written by Alpha Oumar Kaloga and Linde Griebhaber of Germanwatch, with support from David Eckstein and Alix Mazounie, the guide provides negotiators with a synopsis of the key climate finance discussions from the past year. It assesses possible outcomes in Warsaw that can prepare the way – together with decisions at CoP20 in 2014 – for the new global agreement on climate change, which will be agreed at the CoP in Paris in 2015.

**The Climate and Development Knowledge Network (CDKN)** aims to help decision-makers in developing countries design and deliver climate compatible development. It does this by combining research, advisory services and knowledge-sharing in support of locally owned and managed policy processes. CDKN works in partnership with decision-makers in the public, private and non-governmental sectors nationally, regionally and globally. CDKN is managed by an alliance of organisations that brings together a wide range of expertise and experience: PricewaterhouseCoopers (PwC), the Overseas Development Institute (ODI), Fundación Futuro Latinoamericano, SouthSouthNorth, LEAD International and LEAD Pakistan.

**Sign up to CDKN's monthly newsletter and Roster of Experts on [www.cdkn.org](http://www.cdkn.org)**

#### In the next issue:

- *Can climate diplomacy outside the UNFCCC bolster the negotiations within it?*
- *Training for climate negotiators reaches Sudan*
- *Where climate talks meet the UN Sustainable Development Goals*

In Bolivia, payments for watershed services schemes are bringing villagers many benefits (page 5).



Written by Ari Huhtala and Mairi Dupar

Design: Green Ink ([www.greenink.co.uk](http://www.greenink.co.uk))

Photos: All photos [istockphoto.com](http://istockphoto.com) except for Page 2 (top): [istockphoto.com/dbphotographer](http://istockphoto.com/dbphotographer); (bottom): Abbie Traylor-Smith/Panos Pictures; Page 5: Andrew McConnell/Panos Pictures.

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