

The WaterAid Climate Finance Initiative: Securing climate finance for sustainable and pro-poor water and sanitation services

Background

Climate variability and weather extremes, such as droughts, floods and cyclones, already pose considerable risks to the delivery of sustainable water and sanitation services. Climate change is likely to increase these risks, and introduce new water-related challenges as sea levels rise and glaciers melt. In short, climate change is water change.

Climate change has the potential to undermine hard-won gains in the water and sanitation sector. And it is those who have contributed least to the problem – poor and marginalised communities across the developing world – who will bear the brunt of its effects.

However, climate change also presents a number of opportunities. Focusing on climatic risk, both present and future, forces an explicit consideration of water and sanitation **service sustainability** and the changes required to ensure services keep functioning no matter how the climate changes. Climate change can, therefore, be used to draw attention to, and take action on, the unacceptable rates of failure of water and sanitation interventions in many developing countries.



Climate change is also an opportunity to direct more finance to the water and sanitation sector, and to ensure that this financing is used to extend sustainable services in the world's poorest and most climate-vulnerable communities. Guaranteeing this will require donors to shift their investments to supporting systems that deliver sustainable and resilient water and sanitation services.

The overarching objective of the WaterAid Climate Finance Initiative is to work with national and sub-national governments, global funders and sector colleagues to ensure that the development opportunities presented by climate change are realised.

This briefing note sets out the rationale, objectives and strategy for the WaterAid Climate Finance Initiative.

Why focus on climate finance for sustainable and pro-poor water and sanitation?

Volumes of climate finance are significant and growing

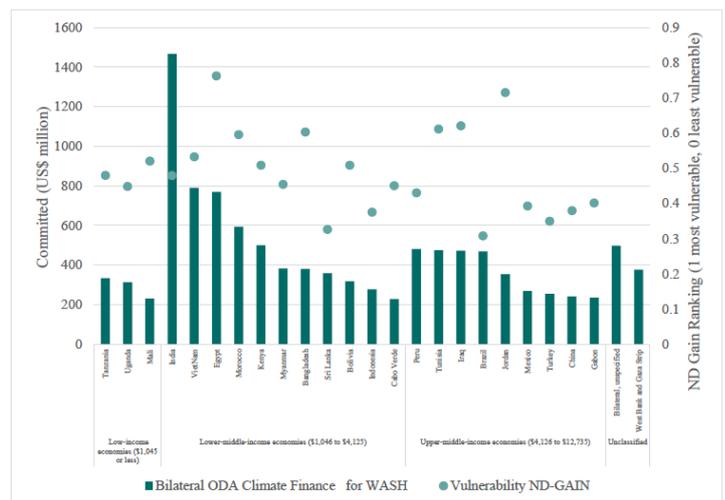
Climate finance does not have a universally agreed definition (which has serious implications for tracking and monitoring flows); however, climate finance broadly refers to the financial resources mobilised to help developing countries mitigate and adapt to the impacts of climate change. As part of the UN climate negotiations, donor governments have committed to mobilising at least US\$100 billion per year from public and private sources to help developing countries mitigate and adapt to climate change by 2020, and a new, bigger goal amount is to be agreed by 2025. A report by the OECD¹ in 2015 found that the global community is making ‘significant progress’ towards this goal.

Although flows of climate finance remain small as a proportion of overall official development assistance (ODA), volumes are increasing year on year. Also, the size of climate finance projects is often significant when compared with overall water sector budgets in the least developed countries. For this reason, combined with very high levels of vulnerability to climate impacts, many developing countries have shown great leadership, commitment and ambition in terms of climate change policy development and securing the financing to meet their adaptation needs.

Climate finance for adaptation is not being allocated to where it is most needed

Although climate adaptation finance is gradually increasing as a proportion of overall climate finance, it still makes up only 16% of total climate flows,¹ and less than a third reaches the least developed countries.² Also, adaptation finance is not reaching local levels fast enough, especially in developing countries where implementation capacity can be low. WaterAid research³ in a selection of countries found that highly water insecure communities living in water and sanitation poverty have often not benefitted from climate spending.

This poor reach is partly because the disbursement of climate funding is largely determined by competition between spending on either mitigation or adaptation, and between countries and between sectors. To be successful in this competitive environment, developing countries need additional support to prepare winning project proposals and establish the policies, management systems and safeguards needed to convince the global donor community that climate funding will be spent effectively.



Top 25 recipients of climate-related ODA for water and sanitation activities 2010–2014 (WaterAid and ODI, 2016).

¹ OECD and Climate Policy Initiative. 2015. *Climate Finance in 2013-14 and the USD 100 billion goal*.

² IIED. 2015. *A fair deal in Paris means adequate finance to deliver INDCs in the LDCs*. Briefing note.

³ WaterAid. 2015. *Climate finance and water security briefing note*.

There is a welcome focus on strengthening country systems

The new Green Climate Fund,⁴ and the more established Adaptation Fund, are unique in their emphasis on providing money directly to national and sub-national institutions so they can lead, own and sustain their adaptation programmes. This 'direct access' modality means that national and sub-national entities can access funds without using an intermediary such as a multilateral development bank. Direct access to the funds reduces transaction costs and has the potential to increase national ownership, accountability and sustainability.

Before using direct access, institutions must go through an accreditation process that will often require improvements to systems for managing environmental, social and fiduciary risks. Some donors and funds provide additional support known as 'climate finance readiness' to help institutions make the necessary improvements. The Climate Finance Initiative will capitalise on both readiness funds and the direct access modality to support the system building required to improve the sustainability of water and sanitation investments.

Objectives of the WaterAid Climate Finance Initiative

Achieving the Sustainable Development Goal target of universal access to WASH services by 2030 will require a shift from business-as-usual and a step change in sector performance. With this in mind, WaterAid's Climate Finance Initiative seeks to ensure that climate funding plays a role in driving this shift by supporting robust water and sanitation services for all vulnerable communities, and helping to build the government systems required to provide services that last.

New research commissioned by the Initiative will form the foundation for a medium-term to long-term period of working with governments in a selection of countries to **demonstrate** how common obstacles to the effective use of climate finance can be overcome. The demonstration phase will show how climate finance can be used to catalyse long-term structural change and drive sustainable public services that move beyond project-based interventions. Throughout all phases of the project, evidence-based technical advice will be shared with climate funders and the national entities that distribute climate finance to help ensure finance is actually benefitting the vulnerable communities most in need of adaptation support.

A call for partners

WaterAid's strong convening power will be used to build a coalition of partners in each of the case study countries. Partners will be needed to provide technical expertise, research capabilities, capacity building, and financing. For more information, or to take part, please contact Louise.Whiting@wateraid.org.

⁴ The Green Climate Fund is the largest dedicated multilateral climate fund, based in Korea and with pledges amounting to US\$10.3 billion for the 2015-2018 programming period.

Detailed strategy

Global snapshot of climate finance as it relates to water and sanitation	<p>In-depth examination of the global climate finance landscape as it relates to water and sanitation, including specific focus on global governance, historical fund allocation (from specialised climate funds and ODA tagged as climate relevant), impact on poverty eradication, major policy gaps, future decision making and the Green Climate Fund. [Complete Apr 2016]</p>
Insights from success stories	<p>Four climate finance success stories were analysed in terms of enabling factors for success, required institutional arrangements, successful linking of water, sanitation and climate change, and pro-poor targeting. [Complete May 2016]</p>
Detailed sector blockages analysis	<p>Detailed analysis of the water and sanitation sector blockages to accessing climate finance and using it to strengthen country systems in three case study countries. Initial countries are Timor-Leste, Mozambique and Madagascar, which were selected on the basis of least-developed country status, high climate vulnerability, low levels of water and sanitation coverage, and high appetite among WaterAid offices to engage on climate finance issues. [Complete in Aug 2016]</p>
Demonstrating best-practice climate finance access and use	<p>WaterAid will work with a coalition of partners in the case study countries to support national and/or sub-national governments to unravel identified blockages. The research findings will determine the exact nature of this work, but it could include:</p> <ul style="list-style-type: none"> • Exploring options to access climate finance readiness funding to strengthen the systems needed for climate-resilient service provision. • Supporting governments to identify an appropriate national implementing entity and supporting the entity through the accreditation process (including facilitating dialogue with other accredited entities, information sharing, technical support, etc.). • Working with other sectors (particularly water resources management) to develop inter-sectoral and climate-fundable proposals that are aligned with government objectives. • Facilitating collaboration between ‘water and sanitation’ and ‘climate change adaptation’ decision makers to incorporate climate risk into water sector strategies and seek support from climate funds as appropriate. [Aug 2016 onwards]
Dissemination and advocacy	<p>Lessons will be extracted throughout the project on the institutional, policy, and practice changes needed to secure climate finance for sustainable water and sanitation. WaterAid will use its global reach to share lessons widely – including with the specialised climate funds, national climate funds, other donors and relevant sector specialists. A multi-stakeholder dialogue will be established to share learning and encourage discussion, debate, and policy reform. [Ongoing]</p>