

Increasing climate finance for the provision of sustainable water and sanitation services in low-income countries

This policy brief outlines the urgent policy changes needed to ensure that climate finance is used catalytically, effectively and for the benefit of highly vulnerable populations living without access to water and sanitation. It is designed for water and climate practitioners operating at local, national and global levels.

Climate change: a threat and an opportunity for water and sanitation

Climate variability and weather extremes, such as droughts, floods and cyclones, already pose considerable risks to the delivery of sustainable water and sanitation services. And such extreme weather events have a wider and more acute impact in the absence of robust water and sanitation services. Climate change is increasing these risks, as well as introducing new water-related challenges as sea levels rise, glaciers melt, and vector and water-borne diseases spread. In short, **climate change is water change** and, in an increasingly volatile and water insecure world, climate-vulnerable communities require access to water and sanitation if they are to survive and thrive in the face of change. Without access to these basic and essential services, climate change may drive millions back into extreme poverty, undermining decades of hard-won development gains, not least in the water and sanitation sector.



Benazir, nine, collecting water from a pump far from her home. Thatta, Sindh Province, Pakistan. June 2016. Photo: Suman

While climate change poses significant threats, the increasing policy attention directed towards climate change adaptation, and, critically, the funds that have been promised to help poor countries adapt are also an opportunity to increase the quality, quantity and sustainability of investments in the water and sanitation sector. However, a number of policy shifts are required to ensure that growing climate finance plays its part in driving the change in sector performance that is needed to build more resilient communities and achieve universal access to water and sanitation by 2030.

Why is a new climate finance path needed?

Climate finance for adaptation continues to grow but is still far below what is needed, and persistent inequalities in the targeting of climate finance for adaptation continue. In 2015, just 7% of all global climate finance (US\$25 billion) was for climate adaptation,¹ yet the cost of all adaptation activities in the least developed countries (LDCs) as reflected in their communications to the United Nations Framework Convention on Climate Change (UNFCCC) has been estimated at US\$93 billion each year.² Research commissioned by WaterAid shows that the portion of adaptation finance that is directed to water and sanitation is largely supporting middle-income countries.³ And of the climate adaptation finance that does actually reach low-income countries, tracking whether this finance is reaching the poorest communities within those countries is rarely possible due to limitations associated with project reporting and transparency.

In addition to insufficient volumes and unequal distribution, there are worrying signs that the welcome focus from some specialised climate funds on enhancing country ownership are not translating into practice. WaterAid research looking specifically at climate investments⁴ in the water and sanitation sector shows that 89% of the total funding is being channelled through international organisations such as UN agencies.⁵ Looking more broadly at all project approvals made by the Green Climate Fund (the world's largest fund for adaptation), and despite the existence of a number of mechanisms to encourage direct access by national entities, 75% will be implemented by international organisations (as of August 2016).

The failure to use climate finance to improve development and donor practice points to the urgent need for change and is the impulse behind the WaterAid Climate Finance Initiative.⁶ The Initiative is a framework of actions focused on ensuring *public* flows of climate finance are directed towards poor and climate-vulnerable communities. It is these communities that are most likely to be overlooked by other types of finance (such as private flows).⁷ Initiative activities are also focused on ensuring climate finance is used catalytically (by improving existing and non-climate-specific investments)⁸ and sustainably (by building the country systems needed to ensure lasting change). For more information see the *Climate Finance Initiative 2016 briefing note*.⁹

How can global actors make climate finance more effective and equitable?

Climate adaptation finance must be allocated on the basis of poverty and climate-vulnerability.

Currently, less than a third of all climate finance reaches the LDCs.¹⁰ This applies to both specialised climate funds and bilateral assistance (ODA) tagged as climate-relevant, where only three low-income countries feature among the top 25 recipients (figure 1). Specifically looking at water and sanitation investment, climate funding from multilateral organisations has gone to a total of 44 countries, with just 37% to low-income economies and 20% to small islands.¹¹ The top three recipients of multilateral funding for water and sanitation are middle-income countries.¹² Donors must ensure that funding decisions are made on the basis of clear vulnerability assessments, rather than on the ‘first come, first served’ basis that is unfairly prioritising those countries with higher capacity to develop winning project proposals.

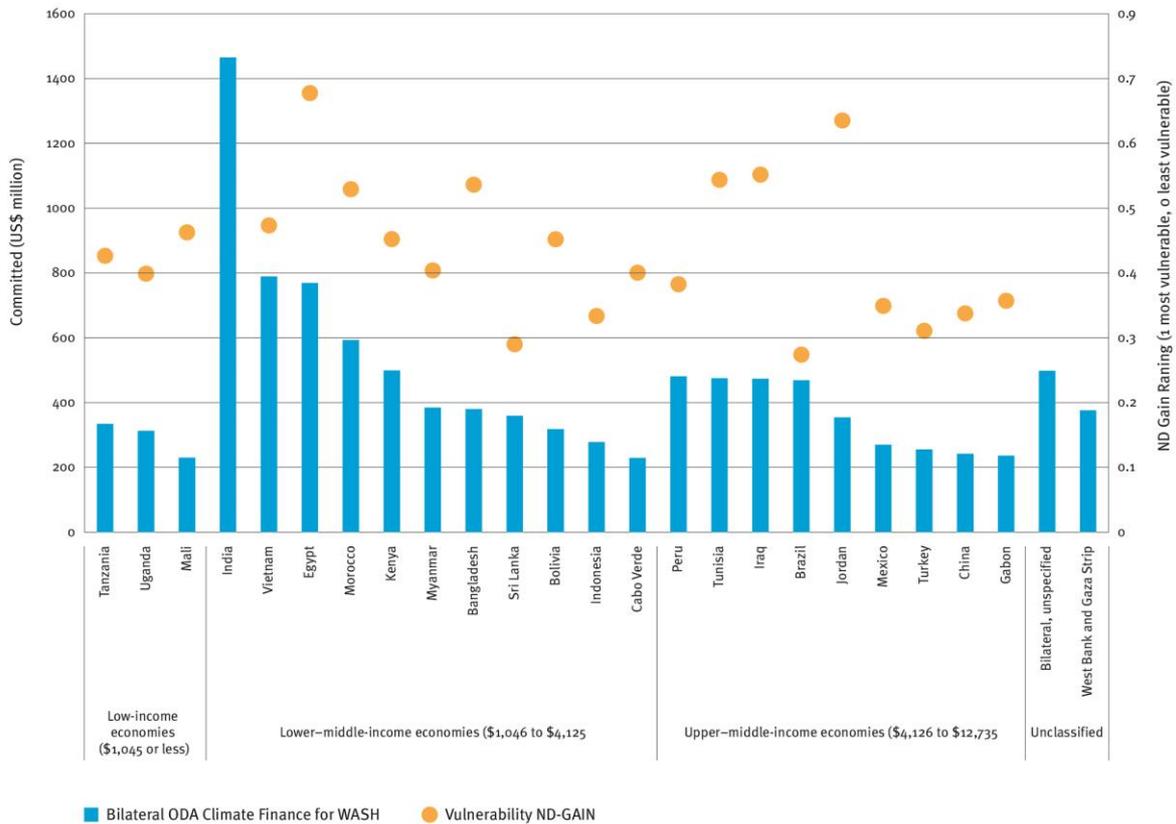


Figure 1 Top 25 recipients of bilateral ODA for water and sanitation activities tagged as climate-relevant. (WaterAid and ODI)

For improved allocation and effectiveness of climate finance, decision-making power must be devolved to national and sub-national levels, with sufficient investment in increasing climate finance readiness where required.

Climate impacts are felt locally and response mechanisms require a strong role for local, provincial and national government. All levels of government in low-income countries will require technical and financial support to develop integrated adaptation plans that are aligned with their national planning systems and development goals. Financial and technical support will also be needed to strengthen national systems (such as for financial management, procurement, policy development) to ensure that adaptation strategies are implemented and sustained. Increased prioritisation of investment in system strengthening by both government and development partners will help ensure countries are better placed to lead their own adaptation process.

Merge evolving sustainable development and climate financing frameworks for more efficient, effective and strategic use of financing.

The challenges of development, growth, poverty eradication and sustainability are intricately interwoven with those of climate change mitigation and adaptation. Treating development and climate as separate entities for action, as is currently the case in many countries and globally, comes at a very high cost.¹³ Climate finance should be designed to take advantage of and intensify the climate aspects of the Sustainable Development Goals (SDG) agenda. In the water and sanitation sub-sector, climate finance must focus on the climate actions that are likely to be under-emphasised in the SDG framework and on highly climate-vulnerable areas, such as coastlines and arid areas that will require more robust development action.¹⁴ In many of the LDCs, these areas coincide with very low levels of water and sanitation coverage, and strategic use of development and climate finance can help to sustainably address twin development and adaptation deficits. Development partners must also work together to harmonise financing and reduce the burden of uncoordinated support on governments in low-capacity countries.

Developed country decision-makers must agree on a quantified roadmap to demonstrate how the US\$100 billion a year promise will be delivered.

Total adaptation needs in developing countries will be met by a mix of public and private funds, but a significant portion of the US\$100 billion that was promised in Copenhagen in 2009 must be prioritised for adaptation in climate-vulnerable communities in low-income countries.¹⁵ Developed countries must outline how they intend to deliver on their promise in a clear roadmap that *quantifies* the annual level of financial assistance for adaptation by 2020 and beyond. This roadmap should also outline scenarios for the variety of instruments and channels that will help deliver this pledge, as well identify barriers and potential solutions to each scenario. The development of a new roadmap is an opportunity to demonstrate how climate finance will be new and additional to existing aid flows, and will also provide poor countries with the certainty they need to effectively use adaptation flows catalytically by blending with domestic resources and/or private sector investments.

All stakeholders must work together to hold the Green Climate Fund (GCF) to account.

After its initial capitalisation, the GCF is the largest dedicated multilateral climate fund with pledges amounting to US\$10.3 billion for the 2015-18 programming period. The GCF's public strategy states that it will promote a balance between mitigation and adaptation, pursue full country ownership, target LDCs, African states and small island developing states (SIDS) and facilitate multi-stakeholder engagement. However recent actions have not matched this rhetoric – of the 33 GCF-accredited entities, only three are from the LDCs and over 60% are multilateral development banks (such as the World Bank) and private banks (such as HSBC and Deutsche Bank). Pressure on the GCF must be maintained until the fund's actions better reflect its published strategies and objectives.

How can developing countries access and manage climate finance for the provision of sustainable water and sanitation services?

Although some global policy barriers will remain in the short to medium term, there are actions that entities in developing countries – from government agencies to NGOs – can take to access climate finance for decentralised and innovative solutions that benefit climate-vulnerable communities living without access to basic water or sanitation.

Capitalise on climate finance as an opportunity to increase country ownership, build capacity and strengthen the systems needed for sustained and effective adaptation.

The GCF and the Adaptation Fund are attempting to increase the level of country ownership of the programmes they fund via a 'direct access' process which provides funds directly to national and sub-national entities that have gone through a process of accreditation (removing the need for the use of an intermediary such as a UN agency). Unfortunately, utilisation of direct access has been low, especially among the poorest countries. In many cases, practitioners outside of the ministry responsible for climate change policy (such as those in the water ministry) are not aware of the opportunities provided by climate finance.¹⁶ Also, the accreditation process involves rigorous assessment of fiduciary, environmental, and social standards, and many entities are discouraged from investing time and money in this process. All stakeholders must work together to convince relevant institutions that the long-term benefits of accreditation (both in terms of access to future finance and lasting improvements in system performance)¹⁷ far outweigh the short-term costs, and support willing entities through the capacity-building process.

Invest in careful planning to ensure that climate finance supports coherent, nationwide efforts for climate-resilient water and sanitation development.

WaterAid analysis¹⁸ of best practice climate finance access for water and sanitation has found that success is reliant upon a strong national commitment, the identification of a clear lead ministry (such as the ministry of finance), and an explicit understanding that it can take several years before climate finance starts to flow, particularly in the case of securing direct access to funds. Water and sanitation services are delivered at the local level and therefore the connection between national and local agencies is a critical design consideration for successful implementation. A dedicated management team physically located where water and sanitation programmes are to be implemented is also a key determinant of success.

Innovate to target vulnerable communities for genuinely transformational change.

Effective climate change adaptation must produce results at the local levels where climate impacts play out and where the poor are most vulnerable. Effective targeting and use of funding at the local level has proved challenging in many countries, however, innovations exist and are increasing. In Kenya, for example, newly legislated County Climate Change Funds devolve power to the county level, allowing local communities to identify, prioritise and fund their own adaptation plans.¹⁹ Social accountability and adaptation effectiveness can be enhanced by engaging and supporting the civil society organisations that are working closest to those communities most threatened by climate change. As *scale* is fundamental to truly transformational change, climate-risk must be mainstreamed into existing water and sanitation development strategies, and funds must be channelled through entities with strong experience or capacities to fund a large number of smaller-scale projects. Project implementers must be required to report on agreed indicators – allowing for an analysis of who is actually benefitting, the extent to which climate-funded projects have successfully increased climate resilience, and for evaluation-based course correction.

Balance water and sanitation infrastructure projects with institutional strengthening and policy reform.

Government institutions that are able to respond quickly after extreme events, provide early warning for disasters, insure against risk, zone land appropriately, ensure water is managed sustainably, and collect, downscale and use climate data can often be more cost-effective and sustainable at building resilience to climate change than big-budget infrastructure projects. Yet when funding decisions are being made these ‘soft’ interventions are often secondary to large-scale infrastructure projects (usually preferred by multilateral financing institutions). Non-government stakeholders should work with governments and development partners to ensure climate adaptation strategies contain a significant institutional component, and that sustainability considerations and cost-effectiveness are used as the basis for all funding decisions.

Recognise that access to robust water and sanitation services builds resilience to climate change, and ensure coherence between water, sanitation and climate policies.

WaterAid research shows that the volumes of climate finance directed towards the water and sanitation sectors are often directly correlated with the strength of national policies and frameworks.²⁰ Developing countries will increase their access to funding by strengthening national water and sanitation policy and ensuring this is reflected in evolving national climate policies (such as adaptation plans). Not all climate change practitioners fully understand that access to water and sanitation is an essential underpinning of resilience, and not all water and sanitation practitioners can articulate how access to the services they provide increases climate resilience. Greater cohesion between the climate change and water/sanitation sectors is required to facilitate maximum utilisation of climate finance for increased resilience.



Rabiya, 34, at the stream where she collects water. Thatta, Sindh Province, Pakistan. June 2016. Photo: Laila

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Harmonise the ‘big’ and ‘small’ water sub-sectors to increase climate-financing opportunities.

Better integrating water resource management with water and sanitation service delivery can help create the holistic, robust and transformational projects and programmes that meet climate funding criteria. This means that standard water resource management programmes (such as IWRM) must explicitly address water for human health (for drinking, cooking, sanitation and hygiene). Water and sanitation programmes can be also augmented to explicitly monitor and address climate risks (such as groundwater monitoring to provide early warning for drought), significantly increasing the climate resilience built into these programmes and the opportunities for climate funding.²¹

Build in-country expertise and support research and communication so that national stakeholders understand the range of finance gaps, needs and potential sources of climate funding for water and sanitation programmes.

Research commissioned by WaterAid shows that expertise on climate change has been crucial when applying for international climate finance.²² Such expertise has not necessarily been found in relevant national institutions, and analysis of success shows that a diverse range of strategies can be used to secure the necessary skills. These include receiving support from specialised teams, hiring consultancy services, or working with a known and trusted development partners. All external support should be utilised in parallel with a deliberate strategy to leave a legacy of enhanced human resources, management capacity and technical expertise.

Governments in developing countries must demand that adaptation finance is channelled as grants, not loans.

Developing countries should rightfully expect that climate finance from wealthy countries (who are mainly responsible for historic emissions) is to enable them to adapt to the adverse impacts of climate change (for which they have contributed very little) and is provided in the form of grants.

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Endnotes

- ¹ Climate Policy Initiative. 2015. *Landscape of adaptation finance*.
- ² World Resources Institute. 2015. *A fair climate deal in Paris means adequate finance to deliver INDCs in LDCs*.
- ³ WaterAid and ODI. 2016. *The global climate finance landscape for water, sanitation and hygiene*.
- ⁴ Including Official Development Assistance and from specialised climate funds.
- ⁵ WaterAid and ODI. 2016. *Landscape of climate finance for water and sanitation*.
- ⁶ WaterAid. 2016. *Climate Finance Initiative briefing note*. Available at: www.wateraid.org/what-we-do/our-approach/research-and-publications/view-publication?id=c0870f95-d76d-4824-a1f0-2414d3dce1d5
- ⁷ Official Development Assistance, private flows, domestic resource mobilisation.
- ⁸ The promised US\$100 billion per year in climate finance pales in comparison to the estimated US\$30 trillion in capital expenditure estimated to be needed in developing countries over the next decade, so must be used catalytically rather than as a means of filling investment deficits.
- ⁹ Available at: www.wateraid.org/uk/what-we-do/policy-practice-and-advocacy/research-and-publications/view-publication?id=353a7209-d650-4ff2-bd30-0ac5a54fc839
- ¹⁰ IIED. 2015. *A fair deal in Paris means adequate finance to deliver INDCs in the LDCs*. Briefing note.
- ¹¹ Comoros, Guinea-Bissau, Samoa, Cape Verde, Kiribati, Maldives, Madagascar and Fiji.
- ¹² Bolivia (US\$46 million), Maldives (US\$33 million) and Fiji (US\$31 million).
- ¹³ Stern N. 2015. *Understanding climate finance for the Paris summit in December 2015 in the context of financing for sustainable development for the Addis Ababa conference in July 2015*. Policy paper.
- ¹⁴ For example, low carbon wastewater treatment.
- ¹⁵ Article 9 of the Paris Agreement specifically highlights the need to achieve a better balance between adaptation and mitigation.
- ¹⁶ WaterAid. 2015. *Climate finance and water security*. Briefing paper. Available at: www.wateraid.org/news/news/how-would-you-spend-100-billion-dollars-ensuring-water-security-in-a-changing-climate
- ¹⁷ World Resources Institute. 2015. *'Direct access' to climate finance. Lessons learned by national institutions*. Working paper.
- ¹⁸ ODI and WaterAid. 2016. *Climate finance success stories*. Research paper.
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- ²⁰ WaterAid. 2015. *Climate finance and water security*. Briefing paper. Available at: www.wateraid.org/news/news/how-would-you-spend-100-billion-dollars-ensuring-water-security-in-a-changing-climate
- ²¹ For example, see WaterAid's *Water security framework*. Available at: www.wateraid.org/~-/media/Publications/water-security-framework.pdf
- ²² ODI and WaterAid. 2016. *Climate finance success stories*. Research paper.