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# Climate finance availability and access in Tanzania

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## Key Message

- Monitoring the flow of climate funds is difficult as there is no agreed definition of what constitutes climate finance or consistent accounting rules.
- Accessing climate finance is a long process with complex institutional requirements and setup for project approval and submission.
- To enhance access to finance, focus needs to be on training and capacity building to support the Nationally Designated Authorities (NDAs) to better coordinate and manage the climate funds.

## Introduction

Climate finance refers to the financial resources mobilized to fund actions that aim at mitigating the impacts of climate change, reducing vulnerability, and increasing the resilience of human and ecological systems to negative impacts of climate change. Climate finance remains central to achieving low-carbon, climate-resilient development. The global climate finance architecture involves flow of funds through multilateral channels – both within and outside United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement's financial mechanisms, through bilateral, regional, and national climate change channels. Monitoring the flow of such funds is difficult as there is no agreed definition of what constitutes climate finance or consistent accounting rules.

In the 2009 Copenhagen Accord (UNFCCC, 2010), and confirmed in the Cancun decision (UNFCCC, 2011) and Durban Platform (UNFCCC, 2012), developed countries pledged to deliver finance approaching USD 30 billion between 2010 and 2012. The Paris Agreement introduced an obligation for developed country Parties to provide financing for climate action, consistent with a pathway toward Greenhouse Gas (GHG) emissions and climate-resilient development (Article 2.1c). This is in accordance with the principle of "common but differentiated responsibility and respective capabilities" as set out in the Convention. The UNFCCC directed developed country Parties to provide financial resources to assist developing country Parties to implement the Convention.

To facilitate this, the Convention (under Article 11) established a financial mechanism whose operation is entrusted to the Global Environment Facility (GEF) and the Green Climate Fund (GCF) as their operating entities. The Financial Mechanism decides on climate change policies, programme priorities and eligibility criteria for funding (UNFCCC)[1]. Under these funds developed countries have an obligation to provide incremental cost financing for climate actions that are of global benefit and require developing countries to provide co-financing in the projects, (Muyungi, R, 2021[2]).

The Kyoto Protocol also recognized the need for a financial mechanism to fund activities by developing country Parties and established the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF) which are managed by the GEF and the Adaptation Fund (AF) that provides full cost grant without co-financing. The AF is financed through a two percent levy on Certified Emissions Reduction (CER) issued for Clean Development Mechanism (CDM) projects. Funds from the AF are accessed directly via National Implementing Entities and Multilateral Implementing Entities.

## Climate Finance Flows and Finance needs

There are three main clusters of climate finance: 1) international public climate finance (reported to the OECD) 2) international private climate finance, and 3) domestically sourced public and private climate finance (government expenditure, green bonds and funds)[3]. Climate finance flows to the EAC region are estimated at 5% of climate finance going to developing countries globally, major recipients between 2013-2018 being Kenya (41%), Tanzania (20%) and Uganda (19%) (NBF/EAC/Technical Annex/3, 2021).

1 https://unfccc.int/topics/climate-finance/the-big-picture/climate-finance-in-the-negotiations/climate-finance
2. Presented at the Policy Dialogue on Climate Finance Availability and Access in Tanzania, Dodoma (31 August 2021).
3 Technical workshop on Needs-based Climate Finance for East Africa, February 2020, Zanzibar Tanzania. Organised by EAC

Most climate finance has been mobilized through bilateral agencies (36%), multilateral development banks (57%) and climate funds (7%) received in the form of loans and grants. In the EAC region, 74% of the funds were received as loans, 24% as grants and less than 1% as equity and shares. Most of the funds targeted for climate action have been invested in agriculture, forestry, and other land use (AFOLU); and water and sanitation. Based on the NDC submissions, Tanzania has the largest share, (41%) of quantitative needs for mitigation in the EAC Burundi has the lowest (1%), while South Sudan has expressed the highest percentage of adaptation needs (47%) in the block. Some countries' NDCs have not elaborated all finance needs, indicating requirements for the technical capacity requirements for properly determining the financial needs that will address the ambitions identified in the NDCs.

The overall assessment depicts the need for scaled-up international support to address loss and damage, implementing the National Adaptation Plans and increasing the ambitions of their respective NDCs. To be able to achieve this, a proper financing mechanism must be put in place to enhance availability, transparency, and accountability. Accessing climate finance is a long process with complex institutional requirements and setup for project approval and submission. This is particularly so because different climate funds have different requirements that must be met. Among the many bottlenecks identified in the EAC technical assessment report (2021) relates most to inadequate technical and institutional capacity in different areas that can drive the country's climate finance agenda, including lack of relevant climate finance mechanisms and tools necessary for effective mobilization and provision.

Based on the Country's Finance Development Assessment Report (MoFP, 2021a), the target was to mobilize a total of USD 304 million from various financing sources overseen by the UNFCCC financial mechanism (i.e., GEF, GCF, LCDF and AF), Norfund, Finfund and JETRO[4]. The country planned to establish national accredited entities and implementing entities as well as establishing a framework to leverage climate finance through a National Climate Change Financing Mechanism (NCCFM). By 2020 it was estimated that TZS 24.7 trillion equivalent to USD 10.7 million were mobilized, which was only 3.6% of the targeted amount (excluding non-state actors)[5]. It is projected that during implementation of FYDP III a total of TZS 705.2 trillion equivalent to USD 304 million will be mobilized from these sources during the coming five years. During the ten years period (2013-2023) Development Partners have committed USD 230 million as climate finance and USD 540m to support natural resource management.

## The way forward for Tanzania

Tanzania's level of readiness for receiving climate finance is assessed in terms of its level of strategic planning (policies, regulatory framework and incentives that affect investments that are relevant to climate change), institutional capacity and access, and spending (sourcing, receiving and fund accountability). All these contribute towards the formulation of appropriate financial mechanism that will pave way for accessing funds for climate action. This financial mechanism has been integrated into Financing Strategy of the National Five-Year Development Plan 2021/22-2025/26 and that strategic measures of promoting Tanzania position towards climate finance will be put in place. Other measures will include identifying areas for financial support to implement the NDC, and establishing institutional collaboration mechanism between the government and private sectors. It will also provide strategic guidance for acquiring more finance to address mitigation and adaptation measures going forward.

## Establishing a National Climate Change Financing Mechanism and the Climate Change Fund

As a developing country, Tanzania has been receiving funds from the UNFCCC financial mechanism and other bilateral and multilateral institutions and private sectors. Building on the National Climate Change Response Strategy (NCCRS) and the Zanzibar Climate Change Strategy (ZCCS), Tanzania has tried to set general priority themes for climate action. The Action Plans identified in the NCCRS and ZCCS have indicated budgetary requirements for implementing climate actions, but the source of financing required to realize the Paris Agreement is dependent on external financing. To be able to accelerate financing, a centrally coordinated approach is required that will contribute to additional climate finance, address risks, and build confidence of international funders on the country systems' for channeling climate finance and improve the quality of budget proposals to support performance-based approaches. The FYDPIII has identified potential opportunities for establishing a Climate Change Fund (CCF) as one of key strategic interventions for enhancing resource availability, and has also realized the need to establish a National Climate Change Financing Mechanism (NCCFM) for coordinated and enhanced mobilization of these funds (MoFP, 2021b)[6]. The NCCFM is a promising means of integrating climate change into national planning and budgeting processes to mobilize, manage and target finance that supports the country's strategic climate goals. It will put in place policy options for reducing the adaptation gap based on the realistic budget; enhance transparency and proper accounting of funds and enable the country to make better use of financial instruments (such as carbon finance and private sector finance) that will increase access to climate finance, mobilization of private sector and enhance domestic investments (Hodes, 2019; Nicholson et al, 2021)[7],[8].

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4 Japan External Trade Organisation
5 MoFP. 2021a. Tanzania Finance Development Assessment Report 2021.
6 MoFP. 2021. National Five Year Development Plan 2021/22-2025/26.
7 Hodes, G. S. 2019. CC Financing Frameworks and Tools: Progress and Ways Forward. UNESCAP 2nd Regional Workshop on Innovative Climate Finance, Bangkok, March 7, 2019.
8 Nicholson, K, Beloe, T. and Hodes, G. 2017. Charting New Territory: A Stock Take of Climate Change Financing Frameworks in Asia-Pacific. UNDP

It will provide a roadmap to reform and consolidate various climate action-related initiatives that are being taken by the Government and non-state actors, including knowledge generation, capacity enhancement, policy formulation, and further support decision makers to strengthen the country's capacity to deliver climate finance more equitably, hence contribute more effectively to sustainable development goals. There will also be a mechanism to monitor and track the expenditure of proposed climate investments to ensure transparency and accountability.

The CCF is expected to manage all the incoming revenue streams that relate to climate change into one centralized fund that will allocate resources to projects leading to low carbon pathway and contribute to emission reduction targets. Based on the experience drawn from other countries, the common structure for a CCF includes funding sources, governing bodies (both technical and administrative), a trustee, and implementing agents, and the governance should be connected to the government, but autonomous in its investment decisions whilst being independent from political pressures (Meirovich et al, 2013)[9]. In the Tanzanian context, the CCF will be coordinated and managed by the MoFP.

The proposed key actions for establishing the CCF as outlined in the FYDP III Financing Strategy[10] include:

- The Ministry of Finance and Planning (MOFP), Vice President's Office (VPO) and President's Office Regional Administration and Local Government (PORALG) should finalize accreditation process to the Green Climate Fund.
- Strengthening the External Finance Department for mobilising Climate Change Fund from various sources.
- Unit responsible for Climate Change finance to continue sensitizing other MDAs and the private sector to apply for accreditation to various climate change funds to increase opportunities
- Building institutional capacity on the preparation of bankable projects and responsive to climate change Fund requirements, including preparation of an action plan.

9 Meirovich, H., Peters, S. and Rios, A. R. 2013. Financial instruments and mechanisms for climate change programs in Latin America and the Caribbean. Inter-American Development Bank.
10 MoFP. 2021b. National Five-Year Development Plan Financing Strategy 2021/22-2025/26.
11 Lessons drawn from Pakistan CCFF (2017), Nepal CCFF (2017) and Kenya's Financing Strategy for NDCs:

## Proposed areas of inclusion in the NCCFM

Formulation of the NCCFM will engage all relevant stakeholders for mobilization, management and targeting of climate finance. The NCCFM is expected to address the following key areas[11]:

1. Assessment of the Existing arrangements, including the regulatory framework (situation analysis);
2. Objectives and Scope of the proposed Financing Mechanism
3. Quantification of losses and fiscal impacts of climate change:
   a. Definition of climate change related activities.
   b. Establishing a system for quantification of losses and damages from CC impacts.
4. Review of trends of CC expenditure to set out the financing gap in a country.
   a. Assessment of climate action costings vs available resources.
   b. Defining financing scenarios of likely available funding and matching these scenarios with a range of existing and planned actions. These scenarios will include resources from domestic, international and from the private sector.
5. Defining policy options for reducing the financing gap:
   a. Estimating the total benefits from the proposed policy options in terms of the reduction in loss and damage.
   b. Enhancing resource mobilization strategies.
   c. Gender and other vulnerable groups considerations in the proposed climate interventions.
6. Identification of institutional entry points for CC planning, project selection and tracking in the national budgeting system.
7. Coordination.
8. Accountability over the use of climate-related budget and finance (tracking finance through monitoring and reporting).

## Coordination mechanism

It is hereby proposed that the coordination of CC activities should be done through the National CC Steering and Technical Committees (Mainland and Zanzibar). The CCF would then be managed by MoFP. A detailed mechanism should be put in place to include all the relevant stakeholders in the government, non- state actors and the private sector.

## Capacity needs

The NCCRS and NDC have identified capacity needs to address climate change challenges at different levels, while the FYDPIII has focused on the operationalization of the NCCFM and supporting systems. These include, preparation of required documents and systems, accreditation of qualified institutions and implementing entities, preparation of bankable projects, strengthening coordination and monitoring mechanisms, especially for funds mobilized by non-state actors.

To enhance finance access, focus needs to be on training and capacity building exercises to support the Nationally Designated Authorities (NDAs) to better coordinate and manage the climate funds. There are also funds to address readiness, allocated to assist developing countries to support preparation of quality concept notes, funding proposals and knowledge sharing. There are also other sources available for proposal pilot programmes, including the requests for proposal on: REDD+ results-based payments; mobilizing funds at scale; micro, small and medium-sized enterprises; enhanced direct access; and the simplified approval process.

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