POLICY BRIEFING 139

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Climate Finance: Lessons from Rwanda

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RECOMMENDATIONS

- An enabling policy environment with strong co-operative governance systems will assist in attracting increased climate finance. First, developing countries should produce their own climate change development strategy to guide and align stakeholders. Setting up and actively using multi-stakeholder engagement platforms, such as Rwanda's joint sector reviews, would further partnerships and facilitate cross-institutional learning.
- To enhance project development capacity for climate-related projects, African countries should consider setting up a dedicated climate fund similar to FONERWA, with the expertise to manage funding, assist in selecting and preparing projects and monitor their implementation. This would also help to obtain additional climate finance and leverage other sources and types of finance by creating the primary means through which resources are channelled and administered.
- Project M&E is vital to ensuring the long-term sustainability and sufficiency of climate finance. Project implementers should therefore ensure that M&E plans are included in all projects, enhance local capacity to undertake evaluations and disseminate findings.

EXECUTIVE SUMMARY

Developed countries have made little progress in providing climate finance for the transition towards low-emission and climate-adaptive development pathways in developing countries. It is expected that a new legal agreement on climate finance will be reached at the UN Climate Change Conference in Paris (COP 21) later this year. It is vital that developing countries are able to motivate for greater climate finance accessibility. To this end, developing countries must demonstrate their ability to manage funds, develop projects that respond to social needs and indicate clear impact and results. Rwanda, which has successfully accessed some level of climate finance, provides lessons on how this may be done. This briefing outlines some of the reasons for Rwanda's success. It focuses on its platforms for cross-institutional learning and engagement and the need for inclusivity at a local level. The briefing also details how project development capacity has been strengthened through the establishment of a dedicated climate fund.

INTRODUCTION

The UN Framework Convention on Climate Change was adopted in 1992 and entered into force in 1994. It mandated developed countries to provide funding for 'the agreed full incremental costs' of climate change in developing countries.[2] This implies meeting the costs of transforming economic growth strategies from those dependent on fossil fuels towards those based on low-emission, climate-adaptive development pathways. Follow-on agreements have further laid out the financial relationship between developing and developed countries. Developed countries have, however, made slow progress in fulfilling commitments to transfer $30 billion in climate finance to developing countries between 2010 and 2012.[3]

A new universal legal agreement on climate change is expected to result from COP 21 in France at the end of 2015. Developing countries must be more proactive in motivating for increased climate finance. This can be achieved by creating a domestic environment conducive to managing funding and showing delivery on this funding. The latter point is particularly important for less developed countries that lack the resources to develop institutional capacity and struggle to access international finance streams. Rwanda provides a good example of how climate finance funding can be mobilised, administered and disbursed. While country contexts differ, important lessons for other developing countries looking to access the promised funding can be taken from the Rwandan example.

AN ENABLING ENVIRONMENT

Rwanda's developmental policy priorities are contained in its Vision 2020 and Economic Development and Poverty Reduction Strategy 2013–2018. These outline its aspirations and development principles and provide the focus for mainstreaming climate resilience into economic planning. They therefore form the basis for the country's official climate-responsive development plan, the Green Growth and Climate Resilient Strategy (GGCRS).

Rwanda's GGCRS is the government's first attempt at planning a climate-resilient and low-carbon development pathway. The GGCRS describes a continuous policy, programme and project development process that allows for lessons to be incorporated into other country-level plans. The aim is to mainstream climate resilience and low-carbon development at all levels of government. It revolves around climate-compatible development (CCD), a concept that emphasises climate strategies that embrace developmental goals and development strategies that integrate the threats and opportunities of climate change. Rwanda has thus made dealing with climate change a political priority. Creating an enabling environment that provides this level of support is an important first step in accessing climate finance. Thereafter, the focus shifts to whether the institutional capacity to implement these policies exists.

One of the key constraints faced by many developing countries seeking to access climate finance relates to the ability of their institutions to properly execute projects and deliver programmes using the resources accessed. Generally referred to in vague terms as 'insufficient absorptive capacity', many developing countries see this line of reasoning as an excuse for developed countries not to deliver on funding promises. Rwanda provides a useful example of robust capacity that, in turn, allows the country to leverage finance.

Built upon strong accountability mechanisms at all levels of government, the following have been effective in translating into Rwanda's receiving climate finance:

- good co-operative governance frameworks, with collaboration across ministries and significant stakeholder engagement;
- highly inclusive needs assessments in the development of programmes and projects; and
- the ability of institutions to administer and manage funding and drive project development.

There is a high degree of engagement across different institutions and agencies in Rwanda. Climate change is a complex, cross-cutting issue combining adaptation, mitigation and environmental concerns with development efforts. This presents a co-ordination challenge in the need for various ministries, departments, agencies and non-governmental stakeholders to jointly develop programmes and projects. The Rwandan government has made good progress in ensuring that its institutions work closely together, for example through projects jointly driven by the Ministry of Natural Resources (MINIRENA) and the Ministry of Commerce and Trade. Potentially conflicting ministerial responsibilities have resulted in the government taking a new approach, namely the establishment of joint sector reviews. These meetings bring together different stakeholders operating within the same sector or sub-sector. Participants include the public sector, private sector companies, non-governmental organisations, development finance institutions and donor organisations, as applicable. While these types of structures are seldom used in a number of African countries, in Rwanda they provide an effective space for communication between various stakeholders and ensure consistency in policy development and implementation. The reviews are co-chaired by the relevant ministry and an elected development partner; the natural resources sector, for example, is co-chaired by MINIRENA and the UN Development Programme.

Another important success factor in Rwanda is how well projects meet real needs. An inclusive needs assessment ensures that policies and the projects that underpin them respond directly to local needs. Country-level development plans incorporate district-level plans in their derivation. District development plans (DDPs) are, in turn, established through community consultations. DDPs outline the most pressing issues that a district faces and identify priorities. Grassroots consultations by officials allow both for this prioritisation and for community leadership structures to classify members according to an institutionalised system known as *ubudehe*.

Ubudehe refers to the traditional Rwandan practice of working together to solve problems. Community members are ranked on a scale of one to six according to their vulnerability, primarily based on income but also incorporating a broader understanding of needs. The system's strength stems from the fact that this classification is done by the community itself. Driven by community leadership structures, communities self-assess through a rigorous participatory process that allows for feedback. Once concerns are dealt with, the rankings are recorded for official use. The *ubudehe* system is therefore a multi-faceted poverty indicator developed at a local level.

The *ubudehe* system provides both a top-down and bottom-up approach to local development. On the former, national and district plans use the system as a basis for planning, and projects being rolled out at a local level often target individuals with lower *ubudehe* rankings first. On the latter, inclusivity in the needs assessment process implies, at a district and community level, ownership of and support for projects, further empowering district officials to develop their own projects that target identified needs.

A DEDICATED CLIMATE FUND

The ability to manage funding and properly develop projects is perhaps the most important reason Rwanda has been able to access significant amounts of climate finance. While accreditation of different government authorities has resulted in climate finance being obtained for specific projects,[4] institutionalising this through the establishment of a dedicated climate fund has been key to Rwanda's success.

To drive Rwanda's climate change agenda as outlined in the GGCRS, the country established a Fund for Environment and Climate Change (known by its French acronym, FONERWA). Capitalised originally by the UK's Department for International Development's (DFID) International Climate Fund and the Rwandese government, and with further funding from the German government's financial co-operation arm, FONERWA is Africa's largest demand-based[5] climate fund and is directly responsible for financing climate-resilient, low-carbon development in Rwanda.[6] With technical assistance from the DFID-funded Climate and Development Knowledge Network, FONERWA has been designed to meet both local developmental needs and the fiduciary requirements of international sources of climate finance. With a management and technical board composed of governmental and non-governmental institutions and funders, its structure allows the pooling of diverse sources of climate finance. It will be the primary means through which climate and environment finance in Rwanda is channelled, disbursed and monitored. It will also streamline existing (if currently fragmented) domestic resource flows aimed at CCD.

While many developing countries have not yet developed a climate-focused institution able to manage funds, FONERWA's success goes beyond its primary achievement of existence alone. Three aspects in particular provide lessons to take forward: a platform for strengthening co-operative governance; a strong focus on project preparation; and the ability to target diverse projects of different sizes.

Firstly, FONERWA works closely with other institutions to identify and fund projects. A number of its projects are run by two institutions within MINIRENA: the Rwanda Natural Resources Authority (focused on managing natural resources) and the Rwanda Environmental Management Authority (responsible for environmental protection and management). While these organisations sometimes work together on projects, neither is specifically mandated with responding to the needs of a changing climate. FONERWA thus provides a platform for enhancing the cross-cutting collaboration necessary to develop CCD-type projects. Further, FONERWA permits both the public and private sectors to apply for its funding.[7] This allows it to select and fund a range of projects from both planned and market-based sources.

Secondly, FONERWA ensures projects of the right quality are selected. Information on how projects are developed and selected is made publicly available on its website and in project development workshops. Projects are then received through calls for proposals and selected through a rigorous and iterative screening process. There is transparency in the selection of projects, which is undertaken by a special technical committee composed of governmental and non-governmental stakeholders. However, instead of rejecting project proposals entirely, FONERWA provides detailed assistance in developing proposals it identifies as having potential. Given that a key failure in many developing countries is often the lack of fundable projects rather than the lack of funding itself, this approach increases the number of potential projects and ensures that those that may be viable do not fall through the cracks. Strong impact evaluation also provides motivation for more funding. All FONERWA projects require monitoring and evaluation (M&E) plans to be included in their design. While the extent to which evaluation results translate into project design could be strengthened, these systems and processes provide a basis for leveraging on projects' successes in the future.

This feeds into the final aspect, namely the ability to fund both large and small projects. Significant barriers to investment often exist for smaller projects due to the relatively high transaction costs involved in preparing projects. FONERWA's approach allows for these projects to be prepared in greater detail. This is particularly important for those climate-related projects that target remote and poorer communities and are unlikely to obtain resources for development given that they are generally less financially viable and replicable.

CONCLUSION

While a number of challenges remain, including the need for better M&E to properly understand project outcomes, Rwanda's long-term commitment to mainstreaming climate change and strong institutional structures that bring different stakeholders together has allowed it to access climate finance. This financing has been used to build a dedicated climate fund and staff it with the expertise needed to access international sources of funding. FONERWA has provided both the skills necessary to enhance the development of climate-related projects and a sound, well-supported platform through which other governmental and non-governmental institutions can share lessons and collectively drive Rwanda's climate change strategy. The clarity of FONERWA's requirements and its assistance in preparing projects has enhanced the country's ability to implement projects that better respond to community needs. The next step is for the fund to leverage other types of financing, including from the private sector, to expand the range of projects and pool of finance in the country.

ENDNOTE

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2 Climate Change Secretariat, *United Nations Framework Convention on Climate Handbook*, 2006, p. 114, http://unfccc.int/resource/docs/publications/handbook.pdf, accessed 29 May 2015.

3 Schalatek L & N Bird, 'The principles and criteria of public climate finance', Climate Funds Update, 2014, p. 1.

4 Specific projects include one financed by the Adaptation Fund and another by the Least Developed Countries Fund.

5 Demand-based refers to a fund to which projects apply for funding. This differs from other types of funds that already have the design of a programme or project in mind. The former is more responsive to local needs, allowing districts, for example, to apply for funding based on their own self-identified needs.

6 Climate & Development Knowledge Network, 'New climate fund FONERWA a game changer in Rwanda', 1 July 2013, http://cdkn.org/2013/07/new-climate-fund-a-game-changer-in-rwanda/, accessed 28 May 2015.

7 Around 10% of FONERWA's funding for disbursement is planned for the private sector. This is done primarily through a partnership with the Development Bank of Rwanda which, after adding its own contribution, manages this money and disburses it through the provision of concessional loans.

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