

Policy pointers

The government should continue to draw on international public sources and allocate additional national public resources to fund climate change adaptation and mitigation priority activities.

The government should establish a climate change trust fund to absorb more climate finance from international and bilateral sources and shift from a project to a programmatic approach. The fund should be managed by an existing institution, capable of coordinating cross-cutting issues.

Given the financial constraints to scaling up activities, the Ministry of Finance should deploy economic and financial instruments to incentivise private sector investments in a climate-resilient green economy.

The government should develop and implement the necessary financial systems, including a specific climate change budget code and a monitoring framework, to unlock climate change funds and track expenditure.

Zanzibar planning and financing systems for climate change initiatives

Zanzibar is in the process of setting up a climate change financing mechanism; it has no existing finance allocations, economic and financial instruments or finance planning system targeted at climate change. The country absorbs around US\$500,000 in climate financing per year, while demand exceeds US\$2 million each year. The current lack of institutional arrangements and planning systems means the approach to climate change financing is project by project and fragmented. To set Zanzibar on a green economy development pathway we recommend the government allocates specific resources to climate change priority activities, diversifies its sources of finance and creates the necessary institutional arrangements and financial planning systems. This would enable the country to absorb and disburse more climate finance.

Zanzibar has developed a climate change strategy to achieve sustainable development by 2020. Financing this pathway will require some US\$2 million each year, split roughly equally between adaptation and mitigation.¹ This is a relatively low estimate, and demand could be higher still, as Zanzibar is yet to develop climate change strategy investment plans such as National Action Plans and Nationally Appropriate Mitigation Actions. Demand for climate change finance currently exceeds supply, with the country mobilising some US\$500,000 a year to address low-carbon climate-resilient development. This amount excludes initiatives funded through the national budget under the medium-term expenditure framework that will enable investments in climate change but do not specifically target adaptation or mitigation activities.

Although the country is in the process of setting up a climate change financing mechanism,

diverse intermediaries are already drawing down and disbursing climate change finance and implementing initiatives. However, without any finance allocations, economic and financial instruments or finance planning systems specifically targeted at climate change, Zanzibar's approach is project based and fragmented. This briefing examines the existing climate change financial landscape and recommends how policymakers and practitioners can ease the country's transition to green, low-emission and climate-resilient development.

Sources of finance and investment areas

Zanzibar mobilises climate finance from public sources — both multilateral, such as the Least Developed Country Fund and bilateral, including the EU, Norway, Finland and Japan — through the United Republic of Tanzania. Finance is

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mostly in the form of grants to projects that are already prepared for addressing climate change impacts.

Climate finance is mainly used for activities that address adaptation in the water and agriculture sectors, low-carbon development such as tree planting (the United Nations' reducing emissions from deforestation and forest degradation programme, REDD+) and renewable energy installations. The

main users of climate finance is the public sector: national and local authorities, sector ministries and departments and local communities.

Zanzibar needs to tap all sources of climate finance — international and domestic, public and private — and invest these funds effectively. To ensure its transition to a low-carbon climate-resilient growth pathway, the government needs to ensure that its intermediaries can capture all sources of finance and disburse these to all investment areas and investors.

Intermediaries

The government and its development partners are keen to ensure the success of the national effort to address climate change issues. As such, the effective disbursement of climate finance to targeted climate activities is crucial.

Although Zanzibar currently uses a limited number of intermediaries to mobilise and disburse climate finance, sector ministries and

departments can mobilise climate finance individually from different sources. This is not effective and leads to duplication, fragmentation and a project-by-project approach.

Multilateral agencies and banks — such as the United Nations Development Programme (UNDP) and the World Bank — play a dominant role in mobilising and disbursing funds for climate resilient green economy initiatives. Government agencies such as the Ministry of Finance, sector ministries, international NGOs and community-based organisations are all involved in preparing projects and implementing climate-resilient initiatives (see Box 1).

Economic and financial instruments

Grants are Zanzibar's main instrument for supporting investments in climate change initiatives. Over the past four years, the government has received US\$7.1 million in grants for climate-resilient and low-carbon investments in coastal areas. These funds are for projects covering 14 years and amount to just over US\$500,000 per year.

Grants are effective financial instruments for supporting adaptation and mitigation interventions. Climate resilience is for the public good and as such requires public investment. The up-front costs are high and returns tend to be reaped over the longer term. They are risky investments because there is no guarantee they will pay off. So grants are a good source of funding: there is no interest attached and they do not have to be repaid.

Table 1. Zanzibar's climate change financial landscape

Sources of finance	Intermediaries	Economic and financial instruments	Financial planning systems and institutional arrangements	Uses and users of finance
National public finance: government budget	Ministry of Finance	Grants	Planning Commission	Adaptation (climate resilience)
International multilateral finance	Sector ministries		Ministry of Finance	Low carbon (renewable energy; REDD+)
	Multilateral banks		Medium-term expenditure framework (which includes a few activities that target specific climate change issues)	National and local authorities
Bilateral finance	Multilateral agencies			Sector ministries
	National agencies			Departments
	International nongovernmental organisations (NGOs)			Community-based organisations
				Local communities

But grants are only one instrument for disbursing climate change finance and Zanzibar needs to scale up its climate financing. To achieve sustainable development by 2020, it needs to invest a further US\$2 million a year in both climate-resilient and low-carbon development. Financial constraints prevent the government from giving any more grants, so it needs to deploy other economic and financial instruments to leverage additional sources of climate finance. The government also needs to control its expenditure and introduce policy incentives and risk management instruments to encourage private sector investment in climate projects. Insurance and guarantees would help mitigate the risk associated with low-carbon and climate-resilient investments.

Financial planning systems and institutional arrangements

Zanzibar has no specifically allocated national revenue to support climate change adaptation and low-carbon initiatives. The Planning Commission, in collaboration with the Ministry of Finance, uses a medium-term expenditure budgetary framework to allocate general funds to sector ministries or departments. They then use these to implement their sector activities. Some of these are climate change related and so address local adaptation and mitigation issues and build communities' resilience to climate change. For example, the ministry responsible for forestry uses some of its budget to plant trees or encourage the use of low-carbon cooking technologies, while the ministry responsible for water tackles the issue of salted/saline well water in coastal communities.

But this is not enough. Zanzibar must put the necessary institutional arrangements in place to effectively coordinate and manage the process as outlined in its climate change strategy. It needs an institutionalised system that will ensure effective financing for climate-resilient and low-carbon development activities.

The government should establish a climate change trust fund to be the main intermediary for climate funds. The trust fund should be managed by an institution with existing management and absorptive capacity, such as the Ministry of Finance, which is capable of coordinating cross-cutting issues and has the capacity to mobilise and manage climate finance flows. This would enable the government to set climate change adaptation and mitigation priorities for the country. All sector ministries should also consider contributing a certain percentage from their budget allocation to the trust fund.

Box 1. Existing projects funded by grants

UNDP disbursed US\$350,000 to support an adaptation pilot project in Nungwi to enable communities to get safe and clean drinking water from about 8km away. Underground water in and around Nungwi village is saline as a result of climate change.

NGO, the Tanzania Coastal Management Programme received US\$600,000 from USAID to raise awareness of climate change impacts in two villages in Unguja.

CARE-Tanzania has drawn down US\$5.5 million from the Norwegian government, which it is disbursing to community-based organisations and local communities, enabling them to implement REDD+ activities over a four-year period (2010–2014). This includes planting trees, establishing community forest groups, training communities and forest staff, supporting low-carbon energy cooking techniques and distributing liquefied petroleum gas.

Community-based organisations are using EU funds drawn down by the Ministry of Finance to implement community projects. For example, Community Forest Pemba received US\$650,000 to plant trees, install solar panels and rain water harvesting facilities and build school classrooms.

Recommendations

To effectively manage the flow of climate change finance and ensure that Zanzibar follows a green economy pathway, we recommend the government take the following steps.

1. Allocate additional public resources to funding climate change adaptation and mitigation priority activities. The primary source of climate finance in Zanzibar is international public finance, and it is likely to remain so in the near future. The government should therefore continue drawing down on public sources and ensure that existing public investment works better.
2. Establish a climate change trust fund as a modality or intermediary that will help Zanzibar move from projectised to programmatic financing. This centralised government intermediary will be able to draw down on and pool multiple sources of finance, encourage the allocation of national resources and become the main recipient of climate finance from development partners. This will contribute significantly to scaling up these climate finance flows. The new intermediary should be managed by an existing institution with an absorptive and management capacity, such as the Ministry of Finance.
3. Deploy economic and financial instruments to incentivise private sector investments into a climate-resilient green economy, allowing it to scale up activities in the face of existing financial constraints. Currently, the

government depends on grants to support climate-resilient and low-carbon development initiatives. It should look to other opportunities such as tax exemptions, tax holidays and subsidies, which would enable it to unlock private sector investments.

4. Develop the necessary financial planning systems to manage climate change finance. It is important to establish a climate change budget code, instead of simply allocating general funds to sector ministries or departments as the government currently does. This, along with budgeting systems for effective financing and a monitoring

framework, would enable the tracking of climate change expenditure and unlock climate change funds.

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This briefing is an outcome of an action-learning writeshop organised by the Government Network on Mainstreaming Climate Change in Addis Ababa from 14–21 March 2014. Public policy planners from Bangladesh, Kenya, Nepal, the Gambia and Zanzibar used a 'financial landscape framework',^{1,2} adapted to include the role of financial planning systems to assess their respective governments' plans for financing their transition to a climate-resilient green economy. Its policy recommendations were developed after a learning and experience exchange with around 35 people from finance ministries, national planning commissions and research and civil society organisations following the writeshop.



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Notes

¹ DFID, 2013. Options for a climate finance mechanism and institutional framework in United Republic of Tanzania (potential options for Zanzibar). Prepared by Global Climate Adaptation Partnership for Evidence on Demand. / ² Buchner, B et al. 2013. The global landscape of climate finance. Climate Policy Initiative. <http://climatepolicyinitiative.org/wp-content/uploads/2013/10/The-Global-Landscape-of-Climate-Finance-2013.pdf>