TOPIC GUIDE:

A Guide to National Governance of Climate Finance



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Abbreviations

ADB Asian Development Bank

AF Adaptation Fund

AfD African Development Bank

BCCRF Bangladesh Climate Change Resilience Fund

BCCSAP Bangladesh Climate Change Strategy for Action Plan

BCCTF Bangladesh Climate Change Trust Fund

CDM Clean development mechanism
CER Certified Emission Reduction
CIF Climate investment funds

CRGE Climate resilient green economy
CSO Civil society organisations
CTF Clean technology fund

DECC Department of Energy and Climate Change

EBRD European Bank of Reconstruction and Development

EIA Environmental impact assessment

FIP Forest investment plan GCF Green Climate Fund

GEF Global Environment Facility

GmBH Gesellschaft mit Beschränkter Haftung IADB Inter-American Development Bank IFC International Finance Corporation

IRMF Integrated resource mobilisation framework

KFW Kreditanstalt Für Wiederaufbau (German Development Bank)

M&E Monitoring and evaluation
MDB Multilateral development bank
MIE Multilateral implementing agency
MoEF Ministry of Environment and Forest

MoFED Ministry of Finance and Economic Development

NAMA Nationally appropriate mitigation action

NCF National Climate Fund
NIE National implementing entity

LCCRD Low carbon climate resilient development

LDC Least developed countries
LDCF Least Developed Country Fund

MFI Micro finance institutions

NAPA National adaptation programme of action

NDB National Development Bank
NGO Non-governmental organisation
ODA Official development assistance
PPCR Pilot programme for climate resilience

RIE Regional implementing entity

SCF Strategic climate fund

SCCF Special climate change Fund

SREP Scaling up renewable energy programme UNDP United Nations Development Programme

UNFCCC United Nations Framework Convention for Climate Change



Glossary

Additionality of climate finance – climate finance that is not included in and is therefore over and above existing Official Development Assistance (ODA) contributions.

Adequate and appropriate finance – finance for climate related projects or programmes that is raised in great enough quantity and offered on terms that make it suitable for its purpose.

Bankable projects – 'projects that are sufficiently robust have appropriate risk management mechanisms, and have a favourable internal rate of return and so are financeable' (<u>UNDP</u> 2012)

Basket fund – a joint financial mechanism/fund to which a number of parties can contribute.

Bilateral – refers to interactions between the governments of two individual countries. In this context, it normally refers to interactions between a donor country and a recipient country.

Carbon finance – finance generated through the sale of certified emission reduction credits.

Certified emission reduction (CER) – a CER credit represents a unit of carbon awarded by the Executive Board of the Clean Development Mechanism. CERs are produced through hypothetical emissions reductions in projects funded in developing countries by developed countries. CERs, each equivalent to one tonne of CO₂, can be bought and sold at a price set by the market.

Clean development mechanism (CDM) – a global, environmental investment and credit scheme established under the Kyoto Protocol. The CDM provides the legal platform for the creation of CERs.

Climate resilient green economy (CRGE) – an economy that is both resilient to the negative impacts of climate change as well as operating on low-carbon emissions principles.

Climate finance – despite the proliferation of the term, climate finance remains undefined by the climate negotiations process. This Topic Guide bases its guidance on country-led definitions of climate finance, whereby climate finance is defined as domestic and international, public and private finance that is designed to address climate change including adaptation and mitigation.

Concessional loans – loans issued with minimal or non-existent interest rates, or with extended repayment deadlines.

Direct access – access to international climate finance that can be gained via a national body usually a government ministry, department or a non-governmental organisation. At present, these are called national implementing institutions agencies (see below), although the Green Climate Fund is likely to create new categories of entities that have direct access capacity.

Donor – any entity that offers finance in a concessional form.



Enabling environment – a situation that is conducive to achieving or facilitating desired processes or outcomes. Enabling environments can be created through social, political, legal or economic changes.

Executing agency – an institution or organisation responsible for carrying out particular projects.

Fast-start finance – refers to the US\$30 billion in climate finance that developed countries have promised to raise by 2015.

Fiduciary standards – refer to the high levels of accounting, financial management and care required to ensure the safe transfer of finance from one party to another.

Fixed deposit – a deposit placed into an account which that is not to be spent on projects, but is instead reserved for an event at a later date, such as an emergency. Fixed deposits are used by the Bangladesh Climate Change Trust Fund.

Governance – refers to the planning, reporting and accountability systems and processes used by an institution, government or other entity.

Grant – a transfer of funds with no expectation of a return payment. Grants are used in conjunction with other finance modalities.

Implementing entities – institutions, organisations or government departments responsible for overseeing the completion of projects or programmes chosen for financing.

Indirect access – access to international climate finance that is intermediated by a multilateral institution or organisation.

Institutional capacity – the ability of an institution to manage certain processes.

Intermediary – any organisation or institution through which finance passes on its way to disbursement.

Mitigation – the process of reducing the future threat of climate change by reducing the amount of carbon emitted into the atmosphere.

Modality – a particular method of transmitting finance. Modalities can be tailored to suit the context.

Multilateral institution – a supranational organisation built on inputs from a number of countries.

Multilateral development bank (MDB) – a bank supported by contributions, both technical and financial, from several countries. MDBs might also have their own private finance arms. They usually have large amounts of capital and high fiduciary standards.

Multilateral implementing agency (MIE) – an agency supported by contributions or technical expertise from several countries, with the ability to carry out programmes. UN organisations are examples of MIEs.

National Climate Fund (NCF) – a fund set up by a country in order to effectively channel finance towards climate related programmes or projects.



National implementing entity (NIE) – national implementing entities of the Adaptation Fund can be government ministries, inter-ministerial commissions, government cooperation agencies and NGOs.

Programmatic – refers to funding that is channelled through official budgets as part of a broader strategy or programme.

Projectised –refers to funding or planning that is run project by project, and is outside of the budgeting process. The term was originally used for direction of aid to developing countries towards a specific project, rather than considering wider issues.

Readiness – the capacities of countries to plan for, access, deliver, and monitor and report on climate finance, both international and domestic, in ways that are catalytic and fully integrated with national development priorities and achievement of the MDGs.

Regional implementing entity (RIE) – regional implementing agencies of the Adaptation Fund can be regional development banks, intergovernmental agencies and regional NGOs.

Revolving credit facility – a facility that issues credit, with the expectation of replenishment through revenues.

Risk management – building an understanding of uncertainty and risk into decision-making. This has become increasingly evident through the improved use of environmental risk management.

Risk sharing – refers to measures taken by national financial institutions (or governments) to incentivise motivate private sector engagement in fledgling sectors. Sharing the risk reduces potential losses to investors, making innovation and investment more palatable.

Technical assistance – assistance offered in the form of personnel with technical skills, often used to aid in the development of particular projects or to support capacity building.

Trustee – in the context of climate finance, trustees are institutions or entities responsible for the financial management of funds, including receiving or disbursing them at the written request of external management or governance committees.



Executive summary

This Topic Guide reviews emerging approaches to climate finance and aims to provide DFID's Climate and Environment Advisors with an up-to-date understanding of the current national modalities designed to mobilise, manage and channel climate finance for investment in adaptation and mitigation initiatives.

Investments in adaptation and mitigation by households, governments and private entities are increasing in response to the challenges and opportunities provided by a changing climate. Investments in such activities often come with huge costs and very specific financing needs. Climate finance is expected to play an important role in financing such investments. The term broadly refers to international and national, public and private sources of finance for investment in adaptation and mitigation initiatives.

Governments and private entities at the international, national and local scales have piloted several approaches to mobilise and channel climate finance. These provide lessons for policymakers¹ given the mandate of financing investment in adaptation and mitigation.

The guide focuses on trends in national country systems for policy, planning and budgeting of climate finance and how they can be strengthened to better access, govern and deliver climate funds. It guides how decision makers can identify appropriate financial intermediaries, financial instruments and financial planning systems to deliver climate finance for investment in adaptation and mitigation.

The Climate Finance Landscape Framework developed by the Climate Policy Initiative has been used as a basis for the analysis. This framework examines the role of financial intermediaries, financial instruments and financial planning systems in mobilising and channelling climate finance from its source to its end use.

Decision trees are used to demonstrate how policy actors can choose context specific financial intermediaries, instruments and planning systems to mobilise and channel climate finance from its source to its end use.

The guide is substantiated with case studies outlining emerging practice on approaches to climate finance adopted at international, national and local scale.

Emerging lessons

Use appropriate mix of financial intermediaries:

A range of financial intermediaries operate, and are evolving, to manage, access, disburse and monitor climate finance. These include national development finance institutions, government ministries and agencies, and national climate fund, among others.

Each entity provides opportunities and presents drawbacks when it comes to mobilising and channelling climate finance for investments in adaptation and mitigation. Effective intermediaries are able to access finance directly. They leverage long-term finance at scale

The term 'policymakers' is used for ministries or decision makers in developing countries. The word 'practitioners', interchangeably used with the term 'advisors' imply DFID advisors, including those within the country offices.



by blending public and private sources of finance and deploy a range of financial instruments. They channel funds to investors who will invest in adaptation and mitigation initiatives. These intermediaries have strong financial management capacities and are able to represent the interests of wider stakeholders in investment decisions.

Policy makers may select intermediaries keeping in mind current and future resource mobilisation and allocation needs. A decision tree based on the readiness of financial intermediaries is useful when identifying the most appropriate one. For instance:

- Climate finance channelled through **core national ministries** may allow countries to have full ownership of how resources are spent. Climate expenditures are already coordinated by core ministries of finance through the budget and channelled through line ministries such as ministries of agriculture, energy or local government. Using finance ministries to deliver finance has several benefits. These include stronger country ownership of how resources are spent, their ability to use the budget process to mainstream climate finance across a range of institutions and to deploy fiscal policy to create incentives for private investments. However, if fiduciary standards of national systems are weak the results may be variable and it could be difficult to guarantee that available resources are appropriately allocated, spent and tracked. Countries will need support to strengthen their national systems, including improved public financial management. In the short run, countries may use multilateral or international entities to deliver finance on an interim basis.
- National development banks (NDBs) are important conduits for climate finance as well as other development related expenditures. NDBs have long experience of strategic financial management for development objectives. In some countries, NDBs are already channelling climate related expenditures, such as energy, transport and agriculture – but this can be expanded further.
- National climate funds (NCFs) can access finance directly because of their ability to pool, collect and allocate finance from domestic, international, public and private sources. They are also able to mobilise funds by blending grant and non-grant allocations. While NCFs can be created and subsequently accredited as implementing entities, this is likely to involve a lengthy process. It is important to first ensure that an NCF is the best option for channelling climate finance, and a plan must be put in place to phase out transitional interim trustee arrangements once national capacities are built.
- Multilateral entities are able to attract finance because of their capacity to combine
 and blend finance to cover risk and lower incremental costs. They also ensure strong
 financial management and standards for risks and safeguards. However, their
 conflicting roles as trustees and implementers, as well as their high administrative
 charges can make them less attractive at the national level.
- **Sub-national agencies** or local government entities and sub-national budgeting processes also provide an important channel for climate finance. Climate change has very local impacts and local governments provide a way to respond to this diversity.

In practice, the focus should be on designing an effective financing channel rather than simply opting for a single intermediary. An appropriate approach could be to use a combination of intermediaries depending on their complementing roles. In some cases, this may require sequencing the use of different intermediaries until capacities are built. If national entities are considered weak, multilateral entities or international NGOs could act as interim intermediaries as part of a phased approach. Existing national structures should be strengthened over time to allow direct access. This strengthening would include increasing the transparency and fiduciary controls of the national systems.



Take a flexible approach to financial instruments:

A financial instrument is any contract that gives one entity a financial asset and another a financial liability. Financial instruments, which incentivise investment in adaptation and mitigation, include risk management instruments like guarantees and insurance, grants (including direct budget transfers), concessional loans and capital instruments of equity and debt finance. Different instruments will suit different investment needs. For instance, risk management instruments enable investors to invest in high risk investment portfolios. Grants are effective in supporting investments in climate adaptation. Capital instruments are effective once adaptation and mitigation investments are commercially viable. Policymakers can adopt a flexible and/or sequential approach when deploying financial instruments designed to motivate investment in adaptation and mitigation initiatives. An approach similar to the Climate Public Private Partnership (CP3) piloted by DFID can be harnessed to employ a combination of financing instruments depending on their diverse catalytic advantages.

Strengthen country systems for policy, planning, budgeting and reporting on climate finance:

Financial planning systems play an important role in governing the flow of climate finance. In the National Climate Finance Landscape, policymakers are using policy frameworks, institutional arrangements and planning and budgeting systems to govern the flow of climate finance. Governments need effective planning systems to assess financial needs, access the appropriate type and scale of finance, deliver finance and monitor and verify outcomes. These include:

- Policies and strategies to assess needs and define priorities. Countries need suitable plans and policy mixes that prioritise needs-based climate actions. National capacities would be required to assess needs and develop plans based on robust scenario assessments, and national priorities. To ensure plans are effectively implemented, countries also need to make sure that plans are not simply aspirational 'wish lists', but are time bound and costed, and that actions are prioritised and sequenced. Examples would include:
 - Climate change action plans, such as Ethiopia's draft Sector Reduction Action Plan, which provide guidance on how to develop bankable investment plans,
 - Climate fiscal frameworks, which guide revenue generation and expenditure related to climate change – an approach being considered by the Governments of Bangladesh and Cambodia
 - Climate change operational manuals, such as FONERWA Operational Manual, which govern the flow of climate finance in Rwanda.

In the absence of appropriate well costed, time bound plans to guide investments, countries may need to seek readiness support for better policy and planning.

- Planning and budgeting systems to identify and match resource flows. Countries need ".....planning systems to map domestic demand onto different sources of financing and their funding cycles" pg. 8,(UNDP 2012). Country governments, therefore, require capacities to track resource flows and gaps and then identify ways to mobilise finance to meet demand. A number of different methods can be used to track flows at the national level. Policymakers are using planning and budgeting systems to ensure better governance of climate finance. Examples include
 - Climate Public Expenditure and Institutional Reviews (CPEIR) to track onbudget climate change expenditure across different sectors



- Climate change fiscal frameworks, including the development of climate change budget and expenditure codes to integrate climate change into budgetary systems and allow budget allocation and prioritisation for climate change – such as the Indonesian Ministerial Decree on budget tagging for climate change.
- Institutional arrangements to govern the flow of climate finance. Policymakers would need to identify the most appropriate institutional arrangements to coordinate and manage the flow of climate finance. Countries with established national financial institutional arrangements are able to identify programmes and projects, oversee them and appraise them (UNDP 2012). These include governing and executing entities with core functions to deliver finance. Countries may look to the emerging trend of using existing coordination ministries (for example, Ministry of Finance or Planning) or multi-stakeholder technical committees and steering committees (rather than one single national body) to ensure that wider stakeholder interests are represented in investment decisions and the delivery of finance (as observed in the case of climate funds). Countries with project-based institutional arrangements may choose to seek support to identify and build capacity of core institutions that can lead in identifying, coordinating and delivering projects. On an interim basis, multilateral entities may be involved to undertake these tasks. To ensure climate finance reaches the poor and vulnerable, monitoring, reporting and verifying climate expenditures is also crucial. This requires further institutional arrangements for oversight, accountability, transparency and assessments.

Identifying appropriate financial intermediaries, instruments and planning systems will enable policymakers to govern the flow of climate finance. Good governance of finance is important for reassuring contributors of funds that resources will be appropriately allocated, spending tracked and results generated. This will further support countries to draw down additional finance for further investments.

This guide provides an initial assessment of the mechanics of climate finance arrangements and is substantiated through case studies that illustrate innovative design choices. However, at practitioners will need to select mechanisms that are most appropriate to their respective contexts, in particular in relation to governance.



SECTION 1

The National Climate Finance Landscape

Climate finance denotes the flow of finance channelled by a range of actors and institutions towards adaptation and mitigation actions (<u>Buchner, Falconer et al. 2011</u>). It is expected to play a key role in the transition to low carbon climate resilient development (LCCRD). Countries are using a range of modalities to access and disburse climate finance depending on their existing levels of climate finance readiness. National systems range from project-based *ad hoc* arrangements dedicated to accessing and implementing finance, to more long-term institutions and programmatic work, which are now being integrated into national development plans (<u>Pervin, Sultana et al. 2013</u>).

This section highlights key observations in the National Climate Finance Landscape around the main intermediaries, instruments and modalities that govern the flow of climate finance within countries. It provides further guidance on how development advisors can learn from and support these evolving national arrangements. The remaining sections will analyse climate finance using this Climate Finance Landscape Framework (see Figure 1 below) (<u>Buchner</u>, <u>Falconer et al. 2012</u>).

The Topic Guide is intended to help practitioners unpack the various mechanisms that exist to access climate finance from different sources and to develop support for national systems of climate finance governance. This includes tracking and assessing how the design of financial intermediaries, instruments and planning systems can enhance the flow of climate finance from its source to its end use.

Figure 1 Climate Finance Landscape Framework, adapted from Buchner et al., 2012 (further elaborated in Annex 1)



1.1 Sources of national climate finance

Sources

Intermediaries

Financial instruments

Financial Planning Systems

International public sources are the primary source of climate finance in developing countries (refer to Section 2 for further details). Although international private finance is substantial, it primarily caters to the domestic private sector of developed countries. However, there are a number of examples of the resource mobilisation strategies of developing country governments that seek to tap into public sources at the domestic level, as well as to carbon finance and future sources of private climate finance:

- The Bangladesh Climate Change Trust Fund (BCCTF) receives a block budgetary grant of US\$100 million/year from government revenue. This money is provided by the government, and does not come from outside Bangladesh.
- The Rwanda climate change and environment fund (FONWERA) is funded from
 domestic sources of public revenue, including environmental fines and fees,
 environmental impact assessment (EIA) fees, proceeds from forestry and water funds
 and other environmental revenue and seed financing from domestic stakeholders (line
 ministries). (The fund also aims to mobilise finance from bilateral and multilateral
 sources of finance and from private sources of finance.)
- Kenya and Gambia are examples where the government is using climate finance generated from carbon market sources, among other sources. In Gambia, the Tourism Industry Carbon Offset Service and a private tourism company use the voluntary carbon market to invest in tree planting initiatives and biomass stove projects (<u>Camara April 2014</u>).

Developing countries are also implementing resource mobilisation strategies to capitalise on *private* and *alternative* sources of climate finance in the future:

- Indonesia and Rwanda's resource mobilisation strategies identify a phased approach to unlock equity and debt finance for future investments in low-carbon resilient development.
- In Bangladesh the BCCTF uses dividends and interest from investments (interest is derived from the 33% of the capital invested in fixed deposits).

A range of systems are being put in place as a part of the resource mobilisation strategy. These include establishing dedicated plans and policies, setting up financial intermediaries – such as national climate funds – etc., which are further discussed in the following section.

1.2 Financial intermediaries

Sources

Intermediaries

Financial instruments

Financial planning systems

Financial intermediaries in the national systems include (a) national agencies, such as central and sector ministries, (b) national financial institutions, such as development banks, and (c) climate change funds established to mobilise and disburse climate finance.

Multilateral and bilateral intermediaries play a significant role in mobilising and disbursing national climate finance in collaboration with national entities. For instance, in Nepal, Gambia and Zanzibar, a significant proportion of climate finance is mobilised and disbursed via the



World Bank, United Nations and bilateral agencies that are successful at attracting finance (Kaur, Rwirahira et al. 2014). In this section we highlight national intermediaries that are increasingly playing a key role in mobilising and channelling climate finance, often in collaboration with multilaterals.

1.2.1 National agencies

National intermediaries play wide ranging roles in accessing, disbursing and delivering climate finance. These include finance and planning ministries, which coordinate and manage climate expenditures through the budget and planning systems; environment ministries, which have the technical responsibility to develop, negotiate and host climate change action planning; and sector line ministries, which execute and deliver climate funding.

The financing modality to manage and deliver climate finance often shapes the roles agencies play. Funds can be channelled through (a) direct budget support into the national treasury, (b) extra-budgetary support, for example through national climate funds or multilateral climate funds (c) sector budget support through line ministries and (d) project support. Core finance and planning ministries would play a primary role if the money comes through direct budget support. Extra-budgetary support is outside the national and sector budgets and is often channelled through entities such as bilateral and multilateral climate entities. Sector budget support can be channelled through sector line ministries. Line ministries and departments also play important roles in executing and delivering funds. Further details on budget and financing modalities are discussed in Section 1.3. This section illustrates the evolving roles of national intermediaries in accessing and disbursing climate finance.

Environment and finance ministries have historically been the primary agencies used by countries for climate change adaptation and mitigation planning. In partnership with multilateral entities, they were the first to channel climate finance in a number of countries (as in the case of National adaptation programme of actions [NAPA]). In Bangladesh and Rwanda, the ministries of environment have the legal mandate to manage their national climate change funds. The role of national entities in climate change funding is now evolving. This role is increasingly played by planning and finance ministries. For instance, in Ethiopia the Ministry of Finance and Economic Development has applied for accreditation under the Adaptation Fund. The Ministry of Planning and the Ministry of Economic Affairs and Finance are the key focal points for implementing Cambodia's Pilot Program for Climate Resilience (PPCR).

The high convening authority and financial management capacities of finance and planning ministries makes them preferred entities for coordinating cross-sector climate change matters. Furthermore, the climate change expenditures are already coordinated by core ministries of finance through the budget and channelled through line ministries, such as ministries of agriculture, energy or local government. Using finance ministries to deliver finance has several benefits including stronger country ownership of how resources are spent; their ability to use the budget process to mainstream climate finance across a range of institutions and their ability to deploy fiscal policy to create incentives for private investments. However, if the fiduciary standards of national systems are weak the results may be variable and it could be difficult to guarantee that available resources are appropriately allocated and spent. Countries will need support to strengthen their national systems, including improved public financial management. In the short run, countries may use multilateral or international entities to deliver finance on an interim basis, but these multilateral entities face conflicts of interest in both acting as intermediaries and claiming to promote country readiness. (Further details on how climate finance is channelled through the national budgets by finance ministries are discussed in Section 1.3 on financial planning systems).



Developing countries also have planning ministries or commissions that are responsible for planning economic development priorities, including large capital expenditures such as infrastructure through public investment programmes. A ministry of finance may stress a shortterm focus on managing macro-economic indicators, without the benefit of a longer-term view on economic and political trends and strategic public investment that a planning ministry can provide. This longer-term perspective of a planning ministry can also mean that planning ministries may be more likely to take account of the longer-term threats created by environment and climate challenges. This is illustrated by China, which retains a strong Planning Ministry (National Development Reform Commission), and is now leading on the Chinese Government's overall national response to climate change. However, there are other countries where planning is given much less importance and so here mainstreaming environment and climate into planning processes may be less of a priority. The key factors are to what extent plans are translated into public expenditures through the budget process and how are these plans linked to annual, sector and sub-national economic decision-making through sector strategies and sub-national planning. To address the latter issue, some national planning processes involve elaborate bottom-up planning which brings together sector and sub-national priorities.

As climate finance flows continued to increase in recent years, there has been a growing struggle between who owns climate-resilient planning at the national level. Should it be the Ministry of Environment or should climate change be integrated through the finance and planning ministries, with mandate granted to the Ministry of Environment, which are a conventional leads in UNFCCC processes. Ministries of environment often tend to prefer stand-alone project planning, while planning and finance ministries seek to mainstream climate into development planning and expenditures. The underlying political economy and power play between core and environment ministries have given shape to parallel systems and tensions over where the climate funds should rest in some countries. In Bangladesh, the tension over the ownership of the two trust funds is one such example where the bilateral resilience fund sits outside the national planning and budgeting channel (Alam K, Shamsuddoha et al. 2011). To address the issue, the comparative advantage of the specific ministries may need to be evaluated to arrive at the best possible responsibility mix. This may mean identifying opportunities to mainstream climate change into core development ministries, while also ensuring that central ministries are supporters of sector ministries rather than simply acting as strong central authorities. An effective division of responsibilities will enable the effective delivery of roles.

1.2.2 National financial institutions

These include existing NDBs, private banks and micro-finance institutions (MFIs). National financial institutions are viewed favourably as an intermediary for national climate finance as they are able to access and pool international and national sources of public and private climate finance. They can also effectively disburse funds for climate change investments to a range of public and private sector investors.

NDBs are important conduits for climate finance as with other development related expenditures. NDBs have long experience of strategic financial management for development. They are government-backed financial institutions that have a specific public policy mandate to provide long-term financing to risky sectors that remain un-catered for by commercial banks (Smallridge and Olloqui 2011). In some countries, NDBs are already channelling climate related expenditures – such as energy, transport and agriculture – but this can be expanded further. For instance, the National Bank for Agriculture and Rural Development (NABARD) is the accredited NIE under the Adaptation Fund in India. The Development Bank of Rwanda is responsible for channelling climate finance to private sector investors in Rwanda – it manages a credit line from FONERWA to do this. And the Bangladesh Central Bank is acting as the catalyst to financial institutions to provide green lending to the private banking sector.



Box 1 Emerging examples of national development banks involved in climate finance

The national climate fund of Rwanda (FONERWA) recently allocated RWF4 billion (nearly US\$6 million) to the Development Bank of Rwanda to expand the bank's lending capacity to leverage private sector investment in climate-resilient green economy.

The Bangladesh Central Bank has also launched its green fund which earmarks US\$24.5 million from the national budget for green credit lending for commercial banks.

Nacional Financiera (NAFIN) bank in Mexico is channelling its own resources with funds from the Inter-American Development Bank (IADB) to local financial institutions and project developers for renewable energy projects. NAFIN uses direct loans and contingent credit lines to cover cash flow shortages for the private sector.

The National Bank of Agriculture and Rural Development is the accredited NIE for receiving Adaptation fund in India.

However, the focus areas, capacities, instruments and structures of NDBs differ, particularly in new areas of climate finance (<u>Smallridge, Buchner et al. 2013</u>). For example, the Development Bank of Ethiopia uses a range of instruments including long-term loans and guarantees to encourage investments, whereas the Bangladesh Bank offers low interest loans with a short, five-year payback period. Some emerging benefits and challenges to the role of NDBs are summarised below in Table 1.

Strengths	Weaknesses	
Effective in:		
 Providing long-term financing 	NDBs have had success in low-carbon initiatives, but	
 Mobilising finance 	adaptation proposals do not offer bankable projects for	
 Engaging with the private sector 	NDBs	
 Blending and combining finance, because of 		
their advanced financial management	Despite their excellent financial management capacity,	
capacities	NDBs could lack technical knowledge of environmental	
 Calculated risk-taking 	and climate change issues	
 Providing incubation space for private 		
investors/small and medium enterprises	NDBs can be very bureaucratic. Long processing times for loans can discourage the private sector	
The public sector mandate of NDBs makes it easier for		
them to function with local public agencies and the financial sector	NDBs take calculated risks and, therefore, may design instruments that are less conducive to novel, risky	
	climate-related project interventions, even though it is	
While some NDBs need institutional strengthening,	within their mandates (Smallridge and Olloqui 2011)	
others are advanced in climate finance intermediation		

Table 1 Strengths and weaknesses: NDBs as intermediaries

1.2.3 National climate funds (NCF)

Climate finance also flows through extra budgetary systems such as NCFs. Special emphasis has been given within this paper to understand their benefits and constraints and identify alternatives if their application is complex and challenging.



What are NCFs?

NCFs (also referred to as climate change funds or trust funds) are centralised mechanisms that help countries to collect, blend and coordinate funds from different sources. These are often extra-budgetary funds, which are created to overcome limitations in the public finance systems of the country. NCFs are also referred to by donors as **basket funds** when donor funding is channelled to specific expenditures of particular ministries.

NCFs can be government managed or managed by international trustees for an interim period. Government-owned NCFs can ensure government ownership of climate change responses. Where governments are not yet prepared to access finance directly, a trustee may facilitate capacity building and coordination of financing efforts.

Type of NCFs

The governing structures of NCFs are determined by the type and design of national funds that are established. NCFs can be of different types (see Box 2).

Box 2 Types of national climate funds (NCFs)

The Interagency Planning Group's handbook of Environment Funds (2000) and the United Nations Development Programme's (UNDP's) discussion paper on national climate funds define a typology of climate funds by certain distinct characteristics (Norris 2000; Irawan S, Heikens A et al. 2012):

Sinking funds. These are designed to disburse the full principle capital and investment income within a fixed period of time. The Bangladesh Climate Change Resilience Fund (BCCRF) is one example of a national climate sinking fund. Multi donor trust funds that pool resources from development partners and other channels and then disburse them through a common gateway is an example of a sinking fund. Funding sources of sinking funds are predictable for a medium-term time frame, but are only available until the set objectives of the funded activities are achieved. At this point the management of sinking funds is expected to pass to national entities to allow them to mobilise their own regular sources of funding. The short-term nature of sinking funds makes them less sustainable in the long term, unless they are topped up regularly by development partners and governments.

Endowment funds. An endowment fund retains its principle capital throughout the programme, using the investment income to support grants. Although not entirely revenue generating, they receive interest and dividends from investments and capital, making them self-sufficient. While they could be sustainable, endowment funds require initial capital and are more vulnerable to investment risks (<u>UNDP 2012</u>). Bangladesh's Trust Fund for Environmental Conservation and Bhutan's Trust Fund for Environmental Conservation are two examples of endowment funds. **Revolving funds.** Revolving funds can be refilled or replenished from revenue-generating sources on a regular basis. The initial principle capital or the investment income may be fully spent, but can be replenished from additional investments or revenues from taxes, user fees, continuing donor money, etc. (Norris 2000).

Combination funds. Many countries have implemented a combination of revolving, sinking or endowment funds that allows them to harness or gain from the relative gains of all of these funds. For example, a revolving fund is a rather flexible fund, which, in combination with an endowment fund, works well when the endowment from the trust fund is paid off (UNDP 2012). The Indonesian Climate Change Trust Fund (ICCTF) and Rwanda's environment and climate change fund (FONERWA) are some examples of funds that combine endowment and revolving models of funding.





Further reading on type of NCFs

Norris, R. (2000) The IPG Handbook on Environmental Funds. A resource book for design and operation of environmental funds, New York: PACT Publications. Available at: www.geocities.com/shores_system/ef/ef_handbook.html.

Irawan, S. Heikens, A. and Heikens, K.P. (2012) National Climate Funds, Learning from the experience of Asia-Pacific countries, UNDP discussion paper. Available at: http://www.snap-undp.org/elibrary/Publications/EE-2012-NCF-DiscussionPaper-Asia-Pacific.pdf.

UNDP. (2012) Summary of e-Discussion on National Climate Funds. The Asia-Pacific Community of Practice on Climate Finance. Facilitated by the Climate, Environment and Energy Team UNDP Asia Pacific Regional Centre (APRC). Available at: http://www.solutionexchange-un.net/repository/pc/ccd/cr6-res1-en.pdf.

Examples of established NCFs

A range of NCFs have been established across the globe. Indonesia, Ethiopia, Rwanda and Bangladesh are some examples of countries that have established NCFs as their primary financial intermediaries.

Indonesia. The Indonesian Climate Change Fund (ICCTF) is the first nationally managed trust fund established to help manage, blend, evaluate and monitor climate change activities through a centralised mechanism. Originally set up as a multi-donor trust fund managed by an interim multilateral trustee, the fund's trusteeship has recently been transferred to a commercial bank in Indonesia. The fund is implemented in three phases. The first and second phases together constitute the 'innovation phase' – seen as the expenditure phase – in which investments are made in activities that do not yet generate revenues. The third phase is a 'transformation phase' that expects the fund to catalyse the market for low-carbon resilience (FrankfurtSchool and UNEP 2012).

Ethiopia. The Government of Ethiopia has established a national climate change fund, known as the Climate-Resilient Green Economy (CRGE) Facility, as the primary intermediary for mobilising and disbursing climate finance for CRGE investments. The facility has been designed to attract and pool multiple sources of international and national finance, thereby mobilising resources efficiently. So far it has successfully accessed bilateral sources of climate finance and has applied for accreditation to the Adaptation Fund in order to access multilateral sources directly. The facility enables Ethiopia to manage climate funds within a single coherent system that lets investors engage and determine how best to invest to support the country's CRGE objectives (Kaur, Rwirahira et al. 2014).

Rwanda: The Government of Rwanda's national climate change and environment fund, FONERWA, has been designed to evolve as different sources of finance and new investment areas become viable. In the short to medium term, the Ministry of Environment and Natural Resources manages the fund to mobilise and disburse public sources of finance, while the Development Bank of Rwanda manages a credit facility to motivate private sector investment. If investments into low carbon climate resilient development become commercially viable,



FONERWA has the scope to evolve and be managed as a venture capital fund in the long term.

Bangladesh. The Government of Bangladesh has established multiple funds to draw down various sources of climate finance. The BCCTF (nationally funded) has mobilised US\$347 million from national revenue sources to date. The BCCRF (donor funded) has mobilised US\$188.2 million from bilateral and multilateral sources of climate finance and the PPCR under the CIFs has mobilised US\$110 million from multilateral sources of climate finance (Kaur, Rwirahira et al. 2014; Rai, Hug et al. 2014).



Further information on examples of NCFs in different countries

Indonesia: Frankfurt School - UNEP Collaborating Centre for Climate and Sustainable Energy Finance (2012) Case Study: The Indonesia Climate Change Trust Fund (ICCTF). Available at: http://fs-unep-centre.org/sites/default/files/publications/icctf2012-08-16finalversion_1.pdf.

Bangladesh: Rai, N., Huq, S. and Huq, M, (2014) 'Climate resilient planning in Bangladesh: a review of progress and early experiences of moving from planning to implementation', Development in Practice 24, 4, pp. 527-543.

Rwanda and Ethiopia. Kaur, N. et al. (2014) Financing a Transition to Climate-resilient Green Economies. Available at: http://pubs.iied.org/17228IIED.html.

Why are NCFs set up?

NCFs are established for various reasons:

- The fiduciary controls of NCFs make them more eligible for contributions over the weak public finance systems of some countries. Typically NCFs have separate governance arrangements that allow contributors to allocate resources to specific entities through the extra-budgetary system. NCFs are built on the principles of country ownership and governments have control on how projects are prioritised, but often the NCFs are independently managed by an interim international trustee (DFID).
- NCFs may not be subject to the 'annual rule' of national budgets. Typically, if funds remain unspent by a ministry at the end of the year, under the 'annual rule' they are absorbed back into the central budget and not carried forward to the next year. In contrast, NCFs offer the flexibility to use funds corresponding to the level of readiness of the government entities (Miller 2012).
- NCFs can be potential candidates for accredited NIEs given their fiduciary strengths. Governments see an opportunity to nurture an NCF as an implementing entity that can be used to access finance directly from the Green Climate Fund (GCF) or the AF.
- An NCF can mobilise funds from a broad range of sources. For example, an NCF can accept funds from contributors wary of providing budget support to the public finance systems of the country. However, some donors are hesitant to contribute to national funds as they lose direct control of their investments and find attributing outcomes to the investments made this way more challenging in comparison to project-based funding.



- **NCFs can support a wide range of actors** such as civil society, the private sector, etc., which is a not very common practice among all governments.
- Funds channelled through an NCF are also more track able (<u>DFID</u>).

Institutional arrangements of NCFs. A broad overview of national institutional arrangements for climate finance is discussed in Section 1.3, Financial Planning Systems. This section discusses the institutional arrangements of NCFs, which typically are comprised of *governing bodies*, a trustee and implementing entities. The governing structures of these funds commonly seek to ensure high financial management capacities and better multi-stakeholder representation.

The governing body comprises a board, secretariat, technical committees and steering committees. The board and secretariat make decisions on fund management, provide strategic direction and coordinate the approval of funding proposals. The steering committees exist to provide guidance and oversight and the technical committees assist the government in reviewing investment proposals.

The governing bodies of some NCFs are multi-stakeholder and include civil society representatives, which is different from traditional approaches where investment decisions could be in the hands of just one or two focal ministries. Civil society and the private sector have increasingly assumed decision-making roles within funds such as Indonesia's Trust Fund, and Bangladesh's Resilience and Trust Fund. Nationally managed climate funds, such as the BCCTF, reflect country ownership, but weak fiduciary standards leave them vulnerable to biased decision-making (TIB 2014).

The trustee collects and transfers funds and maintains fiduciary controls. Fiduciary standards could differ by project or implementers. Some funds may have strictly defined fiduciary principles applicable across all projects. Climate funds accredited under the AF, such as the National Environment Fund of Benin, are subject to fiduciary standards defined by the AF.

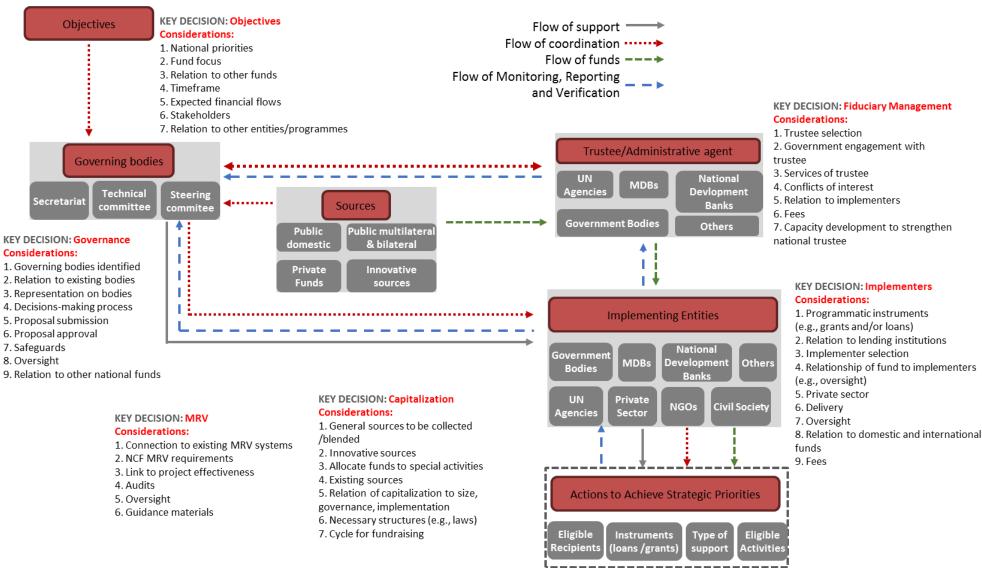
In the early stages of fund development, a multilateral development bank or UN agency may act as an interim trustee for multi-donor trust funds. This is to ensure fund management and compliance with fiduciary standards until capacities are built. For example, the UNDP was the interim fund manager of ICCTF, and the trusteeship has now been transferred to a commercial bank of Indonesia. The World Bank is the trustee for the Bangladesh Resilience Fund (BCCRF). This interim trustee is expected to strengthen country systems, before it formally exits and transfers its responsibilities to national systems.

Although effective, the prolonged interim role of trustees could affect government confidence. In addition, their high administrative fees makes them less attractive to national treasuries, as observed in the case of the BCCRF (<u>Irin 2010</u>). A clear conflict of interest is present also if a trustee has significantly committed resources to other projects.

Figure 2 shows the type of institutional bodies within NCFs and the relationships between them.



Figure 2 Relationships between institutional bodies within national climate funds



Source: UNDP (UNDP 2011)



What are the strengths of NCF?

Well-designed NCFs can serve as intermediaries for channelling climate finance:

- The intermediate arrangement of NCFs can play an important role in providing an incubation space for establishing systems that ultimately can be transferred to national bodies.
- NCFs act as a common pool of funding sources, allowing better harmonisation of sources.
- Multi-stakeholder representation (integrated in some NCFs) helps them obtain input on potential projects and programmes from wider set of stakeholders.
- NCFs encourage competition between project proponents, and encourage countries to develop better and bankable project proposals.
- NCFs with capacity can be effective in blending or combining financial instruments and, therefore, well positioned to unlock and mobilise finance from different sources.
- They offer a wider scope for experimentation and innovation that is difficult through time bound budget support.
- The dedicated use of finance can help in reporting or tracking the expenditure on climate changes responses.
- Nationally managed NCFs (e.g. BCCTF) that dedicate national revenue towards climate change, demonstrate a country's commitment and ownership towards climate change issues.

What are the challenges of applying NCFs?

- So far, sources of funding have been dominated heavily by the public sector. There is intention to unlock private sector finance, but this has not been fully realised in any of the NCFs.
- Bilateral sources tend to make relatively short-term commitments. Continuity in funding for bilaterally funded NCFs depends on circumstances in the originating country, making long-term planning difficult.
- NCFs that operate outside the country's internal and external financial control systems may risk sufficient integration and inadequate accountability of the funds towards national systems.
- NCFs could add to institutional bureaucracy. Establishing them could require legislative backing and advanced financial management capacities.
- The prolonged interim role of multilateral trustees could negatively impact government confidence.
- A clear conflict of interest is at play if a trustee also has significantly committed resources to other projects.
- NCFs require advanced fund management capacities or, where government guarantees are required for blending, formal connections with finance ministries are pertinent.
- Where NCFs are nationally managed (e.g. the BCCTF) and the fund has not gone through a process of establishing fiduciary management systems – they may lack the controls needed to prevent corruption or mismanagement of the funds. Although the fund displays higher country ownership, nationally implemented funds could have weak fiduciary standards (again, in the case of the BCCTF), leaving them vulnerable to biased decision-making.





Further information on role of NCFs

Flynn, C. (2011) Blending Climate Finance through National Climate Funds: A Guidebook for the Design and Establishment of National Funds to Achieve Climate Change Priorities. New York: United Nations Development Programme. Available at:

http://www.undp.org/content/dam/undp/library/Environment%20and%20Energy/Climate%20Change/Capacity%20Development/Blending_Climate_Finance_Through_National_Climate_Funds.pdf

Irawan, S., Heikens, A. and Heikens, K.P. (2012) National Climate Funds, Learning from the Experience of Asia-Pacific Countries, UNDP discussion paper. Available at: http://www.snap-undp.org/elibrary/Publications/EE-2012-NCF-DiscussionPaper-Asia-Pacific.pdf.

GIZ. (2012) it's Not Just the Money: Institutional Strengthening of National Climate Funds. GIZ discussion paper Available at http://www.giz.de/expertise/downloads/giz2012-enclimate-funds-institutional-strengthening.pdf.

1.3 Financial planning systems

Sources

Intermediaries

Financial instruments

Financial planning systems

Financial planning systems play an important role in governing the flow of climate finance. In the National Climate Finance Landscape, policymakers are using policy frameworks, institutional arrangements and planning and budgeting systems to govern the flow of climate finance.

1.3.1 Policy frameworks

Policy frameworks motivate and guide investment in adaptation and mitigation. Legislation and policies can provide an important signal of the government's commitment towards planned climate change actions, particularly when countries are evolving from project-based policy frameworks to programmatic policy frameworks and action plans. The implementation of programmatic policy frameworks is likely to mean that investments will be more efficient, as they will avoid problems of duplication and fragmentation. For instance, Bangladesh, Ethiopia and Rwanda have developed programmatic climate change strategies and action plans, which are integrated into their national strategic development plans. Climate change action plans, such as Ethiopia's Draft Sector Reduction Action Plan, provide guidance on how to develop bankable investment plans. Climate fiscal policies, which guide revenue generation and expenditure related to climate change, are an approach being considered by the Government of Bangladesh. Climate change operational manuals, such as the FONERWA operational manual, govern the flow of climate finance.

The NCFs of Bangladesh, Indonesia and Rwanda are mandated by legislation to mobilise, manage and disburse climate finance. A legal backing reflects political will and stronger authority to administer climate finance.



When moving from planning to implementation, the design of policies will determine how successful they are. Plans and strategies often vary in quality across developing countries. Plans are not always well costed or can be too broad or lack time bound priorities. If plans are able to address these limitations they can play a valuable role in delivering high priority country needs.

1.3.2 Institutional arrangements

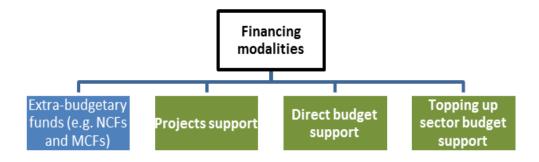
Institutional arrangements govern the flow of climate finance and ensure good financial management and equitable allocation decisions. Countries have set up dedicated institutional arrangements for responding to climate change, as part of their resource mobilisation strategy. These typically comprise management and coordination committees and dedicated cells and divisions across government to coordinate climate change related activities. Bangladesh, for example, has established climate change cells and a technical unit within its Ministry of Environment while Nepal and Cambodia have both established climate change divisions. Institutional arrangements vary by country. Some countries have invested very little in building institutional capacity to deliver climate change finance. *Ad hoc* project-based funding to fund climate change offices may not the most sustainable way going forward.

NCFs have typically invested strongly in institutional arrangements. Section 1.3 provides an overview of broad trends in institutional arrangements of NCFs across developing countries.

1.3.3 Planning and budgetary systems

Planning and budgeting are key aspects of national development planning. Development agencies offer a range of financial modalities to deliver finance. These range from projects to pooled funds, programme and sector support and ultimately to broader budget support. The conventional approaches are projects based funding and funding through the governments' own budgetary systems. Extra-budgetary support is channelled through national and multilateral climate funds (Further discussed in Sections 1.3 on NCF and Section 2 on international climate finance). Many countries use a combination of modalities depending on their diverse advantages. In this section we discuss the latter three modalities and how climate finance embeds within the broader budgetary system of the country (as illustrated in figure 3).

Figure 3 Financing modalities



Direct budget support

Direct budget support implies the direct transfer of funds by contributors to the country's treasury (OECD-DAC 2010). Once the funds enter the national budget they cannot be distinguished or earmarked separately from the country's own resources. Budget support can be given both as general budget support or sector budget support. Integrating climate change into the national planning and budget system ensures national ownership of climate change investment plans and links plans to annual and medium-term budget allocations. Integration into planning and budgeting systems enables effective tracking of climate specific expenditure. The budget is the key political and economic decision of a government. It includes both the expenditure and revenue raising decisions of the government. Climate change will need to be integrated into the key steps of the planning and budget cycle if this approach is to be used for better governance of climate finance (Refer Box 3).

Box 3 How climate change can be integrated into the different steps of the budget process

Some countries have begun integrating climate change into the key steps of budgeting that include (i) budget planning and formulation; ii) project screening and approvals; iii) budget execution and implementation; and (iv) budget monitoring and accountability:

- i. Budget planning and formulation. This is the start of the planning and budget cycle. The Ministry of Finance sends out a budget call to line ministries with a budget ceiling. The budget call may include certain criteria or priorities for public expenditure. A number of countries have included climate change as one of these priorities. For instance, the government of Nepal has developed a climate change budget code to prioritise investment in activities that reduce the negative impacts of climate change.
- ii. **Project screening for budget approvals.** Most budgets are separated into the routine operation and maintenance and the one-off investment or 'capital' projects. For capital investments to receive public funding (including donor funding), projects may have to undergo some form of screening to assess the costs and benefits of such projects. Bangladesh's Planning Commission has a separate format called a Project Proforma that it uses to appraise all capital projects. This Project Proforma now mainstreams issues of poverty, gender, climate, environment and disaster management.
- iii. In order to submit their expenditure plans to the Ministry of Finance, line agencies need to be able to provide prioritised and costed programmes. For climate programmes, these prioritised and costed programmes are often lacking.
- iv. **Budget execution and implementation.** The budget execution process is led by the Ministry of Finance with the line agencies. Once the line ministries receive the allocated budget, they are expected to spend and implement the budget in routine operations as well as capital projects. One of the key challenges across governments is low financial expenditure and physical delivery rate often a consequence of limited capacity in procurement. Problems also arise when budgets delivered to line ministries are delayed. This is a specific problem for climate and environment related expenditures, as some of these may be very time sensitive, for example, afforestation and ex-post disaster expenditures.



v. **Budget monitoring and accountability.** Budget reporting and monitoring and oversight by the supreme audit institutions as well as legislatures and civil society provide the final steps in the budget process. This is a critical step that can hold the government accountable for delivering on commitments and priorities. It involves assessing spending against stated policy priorities, assessing fund allocation and expenditure and the corresponding benefits for target groups and beneficiaries.

A number of countries have shown an interest in tracking their expenditures on climate expenditures. Climate Public Expenditure and Institutional Reviews (CPEIRs) are examples of tools to assess and track expenditures. These tools can be undertaken on a regular basis or institutionalised within the budget process to provide regular data to track the amount spent. An Indonesian Ministerial Decree on budget tagging for climate change makes budget tagging mandatory for seven key line ministries under the National Action Plan for Reducing Greenhouse Gas Emissions (RAN-GRK). The key ministries are those of Agriculture, Energy, Transport, Industry, Public Works, Forestry and the Environment (UNDP 2014). Some countries are moving from just tracking the amount spent to include the quality of expenditure in terms of impacts and results. Generating information to effectively track climate expenditure and maintaining financial records to build a climate financing framework can be instrumental in accessing global climate funds.

(Source: UNDP (2014) Approach to climate planning and budgeting)

General budget support monitors the results in terms of high level policy changes instead of measuring the results of how funds are spent. This is because of the difficulty in attributing results to specific funding flows (Miller 2012). Some NCFs are also on budgets. Rwanda uses budgetary and planning systems to leverage greater synergy between investments. Funds disbursed by FONERWA are incorporated into the annual budget allocation of government ministries and public sector agencies to encourage integrated investment and avoid duplication and fragmentation. The fund uses the reporting systems of the Rwanda Development Bank to account for FONERWA funds disbursed to the private sector (Kaur, Rwirahira et al. 2014). Indonesia's ICCTF is on-budget (fully integrated into the planning cycle of the country), however, Bangladesh's BCCRF is off-budget (not fully integrated into the planning processes of the country), risking duplication and conflict. In reality, budget support as an instrument is often used in a limited number of eligible countries. Many countries would not be eligible for direct budget support because of the limited absorptive capacity of their national budget systems.

Benefits of direct budget support:

- As part of the national treasury, general budget support allows country governments to have full ownership of how resources are allocated in alignment with overall national decisions. It can be part of a process to strengthen the national systems of government and good governance.
- In comparison to traditional project-based support, budget support has a greater potential to bring policy shifts and reforms, as disbursement is often connected with policy actions, with importance given to policy dialogues (Miller 2012).



Challenges with budget support and how they can be overcome:

- The potential for budget support is often limited. National budget systems of many countries lack adequate capacity to absorb funds directly into the national systems.
- Monitoring and attributing results to specific fund flows can be a challenge when funds are channelled through budget support. Accountability can be measured in terms of high level policy changes.
- Governments can find it challenging to translate broad plans into specific climate spending actions. It will, therefore, be best to have strict understanding and agreements on priorities of expenditure between governments and development partners.
- Governments could reduce their own funding allocation to climate change upon receiving international funds. Governments and development partners would need to seek agreement to ensure international contributions are considered additional to internal resources. Government's spending patterns could be tracked to assess how much of the government spending is flowing towards climate change. However, tracking climate expenditure has been a challenge so far, as climate change is not a sector that can be 'tagged' in the system easily (DFID). A number of countries have begun tracking expenditures under the UNDP programme CPEIR and Climate change fiscal frameworks (CCFF).

Topping up sector budget support

Sector budget support can be topped up by international funds to address additional costs that climate change will inflict on sectors in achieving their development targets. Topping up can allow mainstreaming of climate change into development sectors thereby addressing the impacts of climate change on development. Sector budget support can also be faster to channel through existing systems in comparison to setting up new institutions such as NCFs. At present, not many examples of climate finance top ups are known (DFID).

While considering sector top up schemes it will be important to assess to what extent the identified sector is affected by climate change and how addressing this will benefit the sector. It is important also to determine how the additional climate finance will be tracked and its effects measured.

Project-based funding

Project-based funds are allocated directly to projects through non-budgetary streams, often similar to the extra-budgetary funds. Where country systems are still weak and countries are unable to fulfil preconditions for other forms of funding (such as fiduciary controls and policy reforms), etc., project-based support can be effectively applied using stricter controls (DFID; Miller 2012). It allows for the demonstration and attribution of results, which are easier to monitor and evaluate than programmatic approaches.

However, project-based funding should aim to ensure sustainability after the funds have been spent. This would mean linking the project outcomes to programmatic plans or policy reform.





Further information on funding modalities

Miller, M. (2012) Making Sense of Climate Finance: Linking Public Finance and National Climate Change Policy in the Asia-Pacific Region. UNDP discussion paper. Available at: http://www.snap-undp.org/elibrary/Publications/DG-2013-MakingSense-of-ClimateFinance.pdf.

DFID. What Modality? Options for how to support partner governments' climate action.

OECD-DAC. (2010) Evaluating Budget Support. Methodological Approach. Available at: http://www.oecd.org/dac/evaluation/dcdndep/Methodological%20approach%20BS%20evaluations%20Sept%202012%20_with%20cover%20Thi.pdf.

As with general development finance, each modality has its strengths and weaknesses, but there are particular reasons why climate finance may be most effectively delivered through a programmatic approach involving sector and budget support where possible. These reasons include the need for transformational economic change to respond to climate change, the need to deliver finance to scale and the need to integrate climate finance across sector investment plans and the wider budget process.

Climate change fiscal frameworks (CCFF)

Bangladesh, Cambodia, Nepal and Indonesia have all developed climate fiscal frameworks. These provide for better governance of climate finance in four ways:

- Tracking climate-sensitive expenditure within the national budget lets policymakers assess the costs of addressing climate change and can also be used to assess the effectiveness of targeted investments.
- A climate change budget code helps to integrate climate relevant interventions into a broader portfolio of investment, thereby unlocking other sources of capital.
- Integrating climate change into the budgetary system helps shift to longer-term financial planning.
- Budget codes reflect a country's strategic priorities, helping to ensure that government bodies plan to address these priorities through annual and mid-term planning and budgeting.

An example of budget codes is that developed by Nepal. Climate related expenditures are marked by headings, for example, 'climate action', 'adaptation', 'mitigation', in key development ministries affected by climate change. Budget codes have been introduced in Bangladesh and Indonesia as well.





Further information on budget codes and climate change fiscal frameworks can be found below

Climate fiscal framework:

http://www.aideffectiveness.org/images/stories/Climate_Fiscal_Frameworks.pdf

Climate change budget code, Nepal, http://www.np.undp.org/content/dam/nepal/docs/Our%20Perspective/UNDP_NP_Climate-change-budget-code.pdf

OECD. (2012) Tracking Climate Finance. What and How? Available at: http://www.oecd.org/env/cc/50293494.pdf.

1.4 Financial instruments in the National Climate Finance Landscape

Sources

Intermediaries

Financial instrument

Financial planning systems

A financial instrument is any contract that gives one entity a financial asset and another financial liability. Financial instruments that motivate climate responsive investments include risk management instruments, such as guarantees and insurance, grants, concessional loans, and capital instruments of equity and debt financing. Different instruments suit different investment needs. For instance, risk management instruments enable investors to invest in high risk investment portfolios. Grants are effective in supporting investments in climate resilience, and capital instruments are effective once CRGE investments are commercially viable.

In developing countries, grants and concessional loans are the primary financing instruments, but national governments increasingly aim to deploy a greater range of instruments, particularly through NCFs and development banks (both multilateral and national). For example, the Government of Ethiopia is planning to deploy a range of financial instruments through the CRGE Facility to support investments in CRGE initiatives. These include grants, concessional loans and results-based payments. Similarly, the Governments of Rwanda and Indonesia plan to deploy financial instruments in a phased approach to support the countries' evolving financial needs. Instruments planned for the short term include technical assistance grants to support investments by public sector investors and to stimulate private sector investors. Financial instruments planned for the medium- to long-term phase include guarantees and low interest/concessional loans, and equity investments subject to market penetration (FrankfurtSchool and UNEP 2012; Kaur, Rwirahira et al. 2014).

NCFs and development banks play an important role in blending and combining resources using different financing instruments. This is done either by combining different types of financial instruments (loans and grants) into a single project, or through blending financing instruments where one instrument (such as a risk guarantee) could be used to restructure



the terms of the other (non-grant) financing instruments (<u>UNDP 2011</u>). To effectively blend and combine resources, NCFs require well established fund management capacities and formal connections to finance ministries in the case where sovereign guarantees are needed for blending. National development banks are more commonly involved in blending finance given their specific banking functions that qualify them for the task (<u>UNDP 2012</u>).

The section above gives an overview of how different countries are nurturing their national systems to access and deliver climate finance. As new funds unfold, countries with lower capacities may be able to harness 'readiness support' that allows national systems to absorb new funds (for example, the GCF). Mindful that a 'one-size-fits-all' approach is not appropriate in the climate financing context, various other innovative mechanisms for national climate finance would be needed. In Section 3 we explain context-specific climate finance examples, using decision trees to show how countries with different institutional needs can design their national climate finance arrangements.



SECTION 2

The International Climate Finance Landscape

This section provides an overview of the International Climate Finance Landscape. It includes:

- An overview of the available sources of climate finance
- The financial intermediaries used to mobilise and channel finance from its source to end use
- The economic and financial instruments used to incentivise investment in LCCRD
- Financial planning systems used to govern the flow of climate finance.

Over a couple of decades several actions to scale up climate finance has triggered changes in the international climate finance architecture. The Conference of Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC)² emphasises climate finance as an obligation of developed countries to provide 'new, additional, adequate and predictable' financial flows targeting adaptation and mitigation investments. Under the 2010 COP in Cancun, developed countries agreed to mobilise fast track funding, now known as fast-start finance (FSF), to the sum of US\$30 billion by 2012. Additionally they committed to mobilise long-term, regular flows of climate finance amounting to US\$100 billion per year by 2020.

However, because of the challenges in tracking climate finance³, the definition of 'new and additional' finance that is supplementary to Official Development Assistance (ODA), is currently unclear. The UNFCCC does not have a definition of climate finance. Data collectors and aggregators use different operational definitions, but with some common elements⁴. Four prevalent interpretations classify climate finance as (Brown, Bird et al. 2010):

- Additional to ODA. Climate finance is funding over and above the expected commitments from developed countries to contribute 0.7%⁵ of its gross national index (GNI) towards ODA. Norway and Netherlands back this definition.
- An increase in expenditure on climate actions since 2009, where ODA spending in 2009 is considered the baseline. For example, in Germany.
- Finance for climate change responses is separate from ODA.
- Rise in ODA levels accounts for a percentage specific to climate finance.

⁵ A pledge under a 1970 UN General Assembly resolution.



² Climate finance is a central negotiating pillar under the UNFCCC. It was included as one of the five pillars of the Bali Action Plan. The COP to the UNFCCC subsequently adopted accords to mobilise, manage and disburse climate funds (see for instance the Marrakesh and Copenhagen Accords that establish climate change funds and formalise commitments to mobilise 'fast track' and 'long-term' climate finance). In 2010, the COP also established the Green Climate Fund as the financial mechanism of the UNFCCC. The fund has the responsibility to mobilise, manage and disburse multilateral sources of climate finance for investments in CRGE. (Also parties to the Kyoto Protocol adopted a decision to establish the Adaptation Fund).

See further reading.

Summary and recommendations of the Standing Committee on Finance (SCF) of the 2014 biennial assessment and overview of climate finance flows

The UK supports this latter definition, classifying less than 10% of its aid spending as climate finance (as announced by Prime Minister Gordon Brown in 2009). As a result, the UK government contributed around GBP1.5 billion towards FSF as new and additional finance from 2010–2012. This assumes that if the UK's aid budget continues to grow (as shown in the diagram below) there will be no need to divert its development assistance to climate finance.

Figure 4 shows an upward trend in the UK's climate allocation and ODA. However, there is uncertainty around whether priorities will be altered if targets are unmet (<u>Brown, Bird et al. 2010</u>).

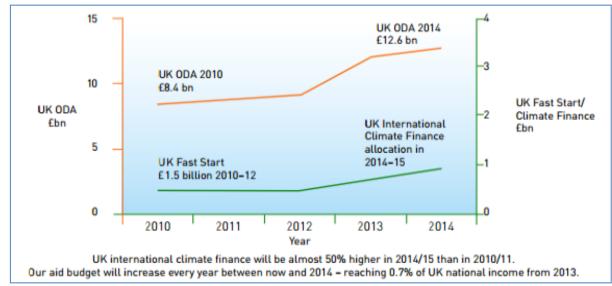


Figure 4 UK climate finance commitments 2010-2014

Source: DECC and DFID, 2010

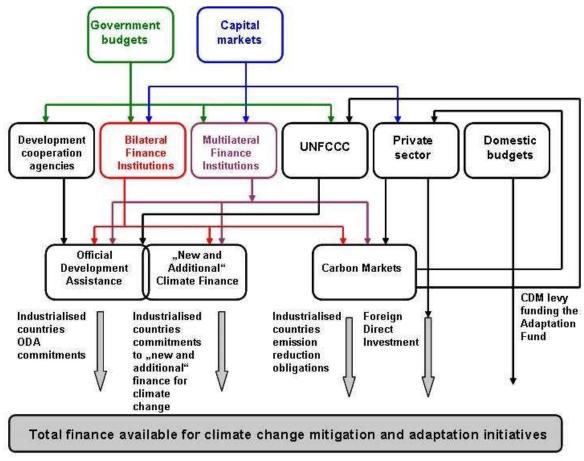
Irrespective of definitional complexities, actions to scale up climate finance have triggered an innovation in international climate finance architecture. Finance is provided from public and private sources and can then be channelled via a UNFCCC mechanism, mechanisms of the Kyoto Protocol and bilateral and multilateral channels that sit outside of the UNFCCC.

There are a wide range of financial intermediaries channelling finance from different sources and developed countries have pooled significant resources to channel funds through various entities referred to as multilateral climate funds. Over the years complex climate finance architecture has evolved that includes a wide range of players (see Figure 5).

In this section, we further outline the key factors that will influence and drive climate finance. We offer an overview of how the main elements of the climate finance flows are influenced along a life cycle from where the money originates, through to the governance and characteristics of the funds.

5/2

Figure 5 Financial flows for climate change



Source: Atteridge et al., 2009 (Atteridge, Siebert Kelhler Clarisse et al. 2009)

2.1 Sources

Sources Intermediaries Financial instruments Financial planning systems

The various funds detailed above originate from public, private, philanthropic and carbon market sources. ODA offered by developed countries forms the bulk of *public finance*, and a large proportion of this is through bilateral channels (85%), with the rest being channelled through the multilaterals (15%) (CFU 2013)⁶.

Please refer to the OECD-DAC tracker and Climate Funds Update (CFU) for further information on contributions from developed countries. (Refer to the 'Further reading' box)



Box 4 Measuring climate finance

A large proportion of public climate finance flows are not new, but are in fact part of existing official development assistance (ODA). An ODA project or funding programme is deemed to be climate finance if it has mitigation or adaptation as its 'principal' objective. Public finance figures are higher if projects in which mitigation or adaptation is a 'significant' objective are included.

However, ambiguity in defining adaptation finance as separate from development finance makes measurement a challenge. Notably, in the UK, reducing poverty is the core purpose under the International Development Act and climate finance also has a goal of poverty reduction, among its multiple objectives.

Bilateral sources of money are largely contingent on the continuing political commitment of the donor countries, which may itself depend on prevailing economic circumstances. This can affect the predictability of climate finance. Without long-term commitments it is more difficult to plan ambitious, climate-resilient growth strategies which require financial support. The FSF was one of the early efforts to provide 'new and additional' money through multilateral climate funds, such as the Least Developed Countries Fund (LDCF), the Pilot Program for Climate Resilience (PPCR, as part of the Climate Investment Funds), the Special Climate Change Fund (SCCF) and the Adaptation Fund (AF). Table 2 below shows the largest contributions by country for key multilateral funds in 2013.

The Adaptation Fund (total deposited 213) in million US\$.	The Program for Climate Resilience (PPCR) (973) in million US\$.	The Special Climate Change Fund (SCCF) (299) in million US\$.
Sweden (59)	UK (529)	Germany (121)
Spain (57)	USA (290)	USA (50)
Germany (54)	Japan (109)	Belgium (41)
UK (15)	Canada (84)	Norway (32)
Switzerland (14)	Germany (66)	UK (18)

Source: Climate funds update database, ODI, 2013 (9)

Table 2 Contribution to fund by country

Box 5 New sources of finance

Carbon credit sales and donations to the Adaptation Fund

The UNFCCC Adaptation Fund is in part funded by a 2% levy on the sale of certified emission reduction (CER) credits, a more innovative source of finance. However, in recent years, this revenue source has diminished because of the collapse of the global carbon market. The board of the Adaptation Fund is thus currently focusing on creating other funding streams to allow it to continue to finance long-term climate resilience projects. Some of these streams include philanthropic donations from foundations, such as Rockefeller Foundation or the Bill and Melinda Gates Foundation.



Private investments yield the majority of climate finance globally (62% of total flows), but these are mostly allocated to domestic investments within developed countries. However, it is often public financing in its various forms that stimulates the involvement of private actors and the intelligent use of combined public and private sources can have transformative potential (Buchner, Falconer et al. 2012). Finance derived from institutional investors and commercial financial institutions could increase once the viability of investments has been proved. For instance, the IFC is using risk mitigation instruments to motivate commercial banks to invest in renewable energy under the Scaling up Renewable Energy Programme. Refer to the 'Further reading' box for evidence on public finance mechanisms scaling up private sector in climate actions.

Carbon markets provide income from emission reduction actions. Germany initially used carbon finance to fund its International Climate Initiative, but this is now replenished by an annual budgetary commitment. The EU's Global Climate Change Alliance (GCCA) and the AF have also been capitalised through carbon finance. At present, most revenue in the carbon market comes from developed country governments and private entities purchasing project-based offsets in developing countries through the Clean Development Mechanism (CDM). Such markets are effective if carbon prices can be maintained at a high enough level. Refer to the 'Further reading' box for more evidence on the role of carbon markets.



Further relevant readings on sources of climate finance

Buchner, B. et al. (2012) The Landscape of Climate Finance 2012. San Francisco: Climate Policy Initiative (CPI).

Sources of public finance

OECD DAC Tracker. Available at: http://www.oecd.org/dac/stats/rioconventions.htm

Climate funds update. Available at: http://www.climatefundsupdate.org/data

Carbon markets

Davis, M. (2014) Reducing Climate Risks: Climate Finance and Carbon Markets Research Synthesis Brief. Stockholm Environment Institute. Available at: http://www.sei-international.org/mediamanager/documents/Publications/Climate/SEI-RSB-2014-Climate-finance-carbon-markets.pdf.

Public finance catalysing private sector

UNEP. (2009) Catalysing Low-carbon Growth in Developing Economies. Public Finance Mechanisms to Scale Up Private Sector Investment in Climate Solutions Available at: http://www.unep.org/PDF/PressReleases/Public_financing_mechanisms_report.pdf.

Atteridge, A. (2011). Will Private Finance Support Climate Change Adaptation in Developing Countries? Historical Investment Patterns as a Window on Future Private Climate Finance. Stockholm Environment Institute working paper. No. 2011-05. Stockholm Environment Institute: Stockholm. Available at: http://www.sei-international.org/publications?pid=1986



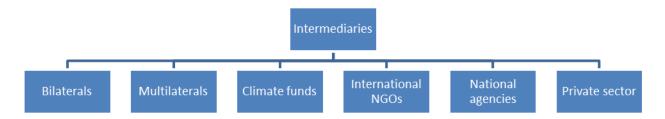
2.2 Financial intermediaries

Sources Intermediaries Financial instruments Financial planning systems

'Intermediaries' refers to the institutions that enable the flow of climate finance from its source to its end use/users. They play a key role in mobilising and disbursing climate finance. Different intermediaries are best placed to draw down specific sources of climate finance to channel funds.

The section below highlights key international intermediaries, which emphasise multilateral climate funds that have evolved as entities pooling different resources and channelling them through a range of entities. The options for accessing finance have also increased, with multilateral sources steering ways for 'direct access' and 'enhanced direct access' to funds. A range of intermediaries may be deployed based on their comparative advantage. These include:

Figure 6 Range of intermediaries



2.2.1 Bilateral agencies

A significant share of climate finance is channelled through existing international development departments and agencies of contributing countries because of their long-standing role in delivering aid to developing countries. For example:

- A range of bilateral agencies deliver climate finance depending on their comparative advantage. For instance, the German International Climate Finance Initiative is an initiative by the Federal Ministry of Environment with technical cooperation provided by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and financial cooperation provided by the German government-owned development bank, KfW, which implements ODA and climate finance.
- A more centralised channel is adopted in Japan. Climate finance is delivered using ODA loans, grant aid and technical assistance through one single agency, Japan International Cooperation Agency.
- Department for International Development (DFID) and Department for Energy and Climate Change (DECC) are the two main entities delivering bilateral climate finance from the UK.





Further relevant readings on bilateral funding institutions

Atteridge, A. et al. (2009) Bilateral Financial Institutions and Climate Change: A Mapping of Climate Portfolios. Available at: http://www.sei-international.org/mediamanager/documents/Publications/Climate-mitigation-adaptation/bilateral-finance-institutions-climate-change.pdf.

2.2.2 Multilateral financial entities

Multilateral development banks (MDBs) are financial entities that receive funds from multiple contributors. They include the World Bank, and other regional development banks – such as Asian Development Bank (ADB), African Development Bank (AfDB) and Inter-American Development Bank (IADB) – that are capable of direct lending and blending finance.

In addition, some of the MDBs play a role in administering global climate funds (e.g. Climate Investment Fund (CIF) Administrative Unit), as trustees to NCFs (e.g. Bangladesh Climate Change Resilience Fund), and as implementing entities of various funds (e.g. funds under the Global Environment Facility [GEF]). MDBs can demonstrate high fiduciary standards and accountability (Nakhooda and Watson 2013).

2.2.3 National intermediaries

Core and sector ministries in national government constitute national intermediaries. Most likely they will have a track record in channelling ODA from donors to recipients and national financial institutions, such as development and commercial banks and MFIs. These are discussed in detail in Section 1 on national climate finance.

2.2.4 Multilateral climate funds

Developed countries have pooled significant resources to channel funds through various multilateral entities referred to as multilateral climate funds.

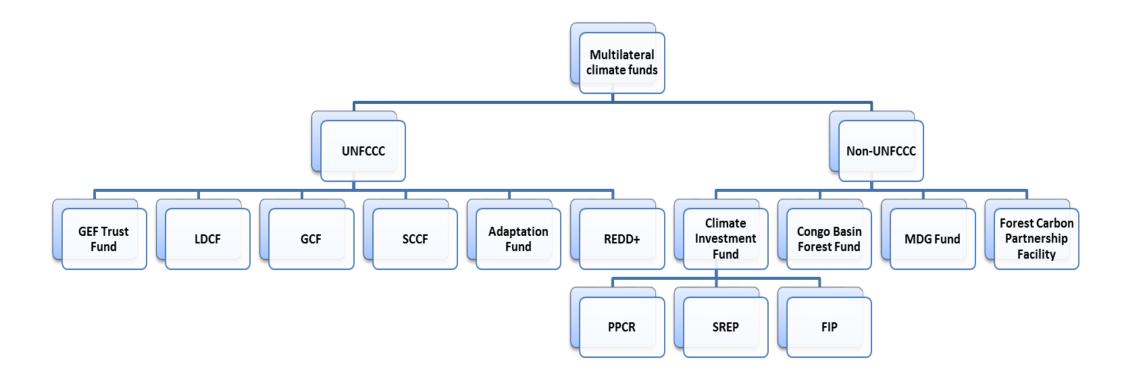
Multilateral funds to mobilise manage (as trustees) and disburse climate finance. In the current financial landscape, multilateral climate funds are channelled through two key mechanisms. The first of these is the UNFCCC. Money directed through the UNFCCC includes the Green Climate Fund (GCF) (the financial mechanism of the UNFCCC), the Adaptation Fund (a financial mechanism of the Kyoto Protocol), the Global Environment Facility (GEF) (which was the interim financial mechanism of the UNFCCC), and the UN Reducing Emissions from Deforestation and Forest Degradation (REDD) initiative.

The second mechanism is multilateral climate funds that operate outside the UNFCCC. These include the Climate Investment Funds (CIFs), the Global Climate Change Alliance (GCCA), the Global Energy Efficiency and Renewable Energy Fund, the Forest Carbon Facility (Refer figure 7).





Figure 7 Multilateral climate funds



Multilateral climate funds channel finance to the national level via additional intermediaries. These intermediaries play three main roles to facilitate access to finance at the national level:

- Fund management or oversight: designing strategies for the fund, ensuring accountability towards donors and allocating funding
- **Implementation:** prioritisation, selection and supervision of projects and programmes
- Execution: management and implementation of activities on-the-ground.

Multilateral sources have been steering ways for 'direct access' and 'enhanced direct access' to funds through various entities. This is where developing countries can directly access international public financing in order to implement national and local actions to address climate change. Direct access implies that the fund management and project management function played by multilateral, international and bilateral entities is not used to access international public finance. Instead this function is taken on by a national entity (ODI and UNEP 2011). This approach is further explained below.

Indirect access. Under an indirect access modality, the fund is managed and implemented by an international or multilateral entity. The oversight of the fund and investment approval is the responsibility of a governing board or secretariat and execution is the responsibility of national, or in some cases, multilateral entities. The PPCR is an example of indirect access where the CIF's administrative unit (CIF AU), hosted by the World Bank, manages the fund (see Figure 8).

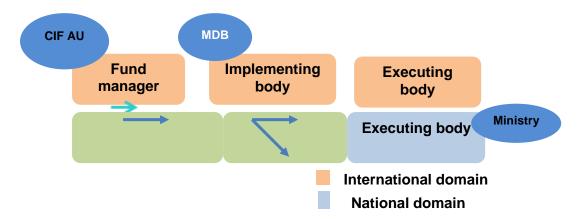


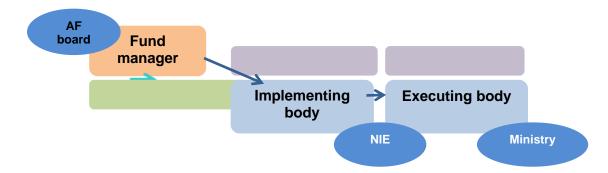
Figure 8 Indirect access in the PPCR (CIF)

Source: Adapted from UNDP,2012(<u>UNDP 2012</u>; <u>VividEconomics 2012</u>)

Direct access. Under direct access modality, intermediaries at the national level are directly able to access, disburse and implement funds. Intermediaries can either be state or non-state entities and they are responsible for identifying, implementing, monitoring and evaluating projects/programmes. The Adaptation Fund is one such example (see Figure 9) where a national implementing entity (NIE)/regional implementing entity (RIE), which has met the Adaptation Fund's board's fiduciary and management standards, has access to 50% of the fund's resources. The concept of direct access through accredited implementing entities has evolved over time and the lessons learned are now being fed into the creation of the GCF.



Figure 9 Direct access: example of the Adaptation Fund (AF)



Source: Adapted from UNDP, 2012 (UNDP 2012; VividEconomics 2012)

Enhanced direct access: To date, NIEs within the GEF and Adaptation Fund model have roles in overseeing, managing and implementing funds, but international fund managers continue to retain the final authority. An evolution from direct access is the 'enhanced direct access' approach, a term introduced during the GCF setup process. This is where decisions around the management of the funds take place at the national level. No climate fund currently uses this model. However, the GCF, which is currently in the final stages of design, has proposed a pilot for enhanced direct access at its eighth board meeting in Barbados (see Box 6). At present, it is unclear whether the GCF will recognise the AF-accredited NIEs. However, there are discussions on whether qualifications should be recognised and accepted going forward.

Box 6 Proposed intermediaries within the GCF

National designated agency (NDA) – the focal agency.

Implementing entities (IEs) act as programme managers of the fund (grants) within the country. They are legally accredited entities.

Intermediaries have broader scope than IEs and are expected to administer grants and loans and also to blend these funds with their own.

Executing entities have implementation responsibilities.

What are the strengths of a direct access modality?

- It provides direct access to climate finance by developing countries enhances country ownership of funding decisions.
- It reduces the administrative costs associated with the disbursement of funds through an international intermediary, which tends to incur high administrative charges.
- It retains institutional knowledge at the country level.
- It increases the capacities of national intermediaries to manage, disburse and mobilise funds



Why is direct access still a challenge?

- Developing countries in the early stages of readiness may have difficulty in preparing their institutions to meet the conditions required for direct access. These countries may therefore, need to rely on international entities to access finance in the early stages.
- To access finance directly, intermediaries need to become accredited, as in the case
 of the Adaptation Fund. Fiduciary standards could represent an insurmountable
 obstacle to accreditation. Considering this, the GCF has proposed a tiered and a 'fit
 for purpose' accreditation process to integrate a degree of flexibility and allow
 smaller, less experienced institutions to become accredited without relaxing the
 fiduciary standards.
- In some cases, developing countries may continue to have difficulty in understanding
 the direct access procedures or demonstrating requirements, even if they have
 adequate institutional readiness. Different entities may qualify depending on their
 capabilities or comparative advantages.
- The transition of multilaterals from interim project managers to greater management of climate change actions in the hands of national entities can be slow; building the capacities of potential national entities may delay the move to direct access.

Emerging lessons from access modalities

- Well balanced institutional arrangements are needed for direct access to work effectively. Different entities with their comparative advantage need to be considered when developing access modalities.
- Country-tailored direct access arrangements will allow flexibility in delivery of finance.
 A single arrangement should not be the ultimate goal.
- Multilaterals should have a time-bound plan to gradually transition project management responsibilities to national entities.
- Synergistic combination of multilateral and direct access can give countries an option of choosing the most optimum modality.



Further information:

CDKN. (2013) Enhancing Direct Access to the Green Climate Fund Available at: http://cdkn.org/wp-content/uploads/2013/06/CDKN_GCFPolicyBrief_Pr2_21-06-13_WEB.pdf.

ODI and UNDP. (2011) Direct Access to Climate Finance: Experiences and Lessons Learned. Discussion paper. Available at: http://www.odi.org/sites/odi.org.uk/files/odiassets/publications-opinion-files/7479.pdf.



2.3 Financial instruments

Sources

Intermediaries

Financial instrument

Financial planning systems

Financial instruments incentivise investments by unlocking specific sources of climate finance and channelling them into investment in LCCRD initiatives. Grants have been traditional instruments for financing for most UNFCCC operated funds. Increasingly there is a shift towards deploying a wide range of instruments, including concessional loans, loans, guarantees and private equity instruments for both adaptation and mitigation (e.g. under the PPCR). The International Climate Finance programme of DFID, DECC and the Department for Environment, Food and Rural Affairs is also piloting a wide range of instruments through programmes such as Climate Public Private Partnership (CP3) Platform.

Different types of instruments are commonly used.

Grants are commonly used for non-revenue generating activities, such as technical assistance and capacity building, and are largely channelled through bilateral and international financial institutions.

Concessional loans are largely channelled through public finance institutions, such as MDBs, NDBs, etc., with reduced interest rates, longer maturities and repayment periods.

Non-concessional loans are usually channelled through private commercial banks.

Guarantees are de-risking instruments that allow the investor to raise capital for risky projects. A guarantor, in exchange for a fee agrees to provide a guarantee in case the project fails.

Equity investments mean that the investor becomes a part owner of the project depending on the size of the equity share taken in the investment. As a result the equity investment assumes a higher risk as well as higher profit from the investment.

The design and choice of instruments depends on the level of risk and the barriers that need to be removed for potential investment. Different investment barriers faced by adaptation and mitigation will therefore require different types of funding instruments (as discussed in table 3).



	Positives	Negatives
	 Grants pose no debt threat to the government. 	Grants can be misused for programmes with other than climate priorities.
	 Feasibility studies, and preparatory stages are ideal for grant funding. 	Achieving sustainable results in the long term is problematic.
Grants	 Grants are good for funding those public goods where investors may not see any incentive to invest. 	
	 Can be used for technologies or novel projects that are in their early stage of development. 	
	 Should be used in weak capital markets where access to capital is limited or long-term loans are difficult to acquire. 	 Uncertainty in flows from development partners may affect budget planning.
Loans	 Governments are experienced in managing loans. 	 Overcrowding may affect the strategic orientation within countries.
		 Can impact on lending market, distorting existing mechanisms for lending money.
Guarantees	 Motivate investment in high risk 	May cause fiscal deficit.
Guarantees	sectors of climate change.	 Contingent liabilities my increase.
Equity	Can be used when projects are well developed and local capacities are high, but risk carrying capacity is low.	Needs to be managed by a legal entity that will be responsible for the long-term management of the equity purchased.

Table 3 Financial instruments



Further reading material on funding instruments in climate finance

Meirovich, H., Peters, S. and Rios, A. (2013) Financial Instruments and Mechanisms for Climate Change Programs in Latin America and the Caribbean: A Guide for Ministries of Finance, IDB. Policy Brief No. IDB-PB-212. Available at: http://publications.iadb.org/bitstream/handle/11319/1529/IDB-PO-

101 en.pdf;jsessionid=D2F12B42D1C5EE6162315B009019A737?sequence=1.

Berliner, J. et al. (2013) Addressing the Barriers to Climate Investment. CDKN guide Available at: http://fs-unep-

centre.org/sites/default/files/publications/cdknguidefinancialinstrumentsfinalweb-res3.pdf.

Climate Public Private Partnership (CP3) Platform. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48451/5720-business-case-for-icf-support-for-the-climate-publ.pdf



2.4 Financial planning systems

Sources

Intermediaries

Financial instruments

Financial planning systems

Understanding the governance mechanics of multilateral and bilateral climate funds is important as they often determine how funds are absorbed by governments of developing countries. These mechanics include policy, institutional and financial arrangements that govern the flow of financial resources from their source to their end use/users.

Multilateral climate funds are commonly governed by four key institutions:

- A governing board, comprised of representatives from developed and developing
 countries, performs the oversight and decision-making role. The board is responsible
 for approving projects, programmes and eligible implementing agencies (in the case
 of the AF) that receive finance from the funds, based on a consensus based rule.
- A secretariat is responsible for the day-to-day activities and technical aspects of the funds.
- **Technical committees**, comprised of board members or external experts, provide technical reviews and recommendations to the board.
- A trustee has the legal responsibility for managing and transferring funds to developing countries.

The governance structure of the three multilateral climate funds is summarised in table 4.

	Adaptation Fund	PPCR	GCF
Governing	AF board	SCF committee/PPCR sub- committee	GCF board
	Higher representation from developing and least developed countries (69%) than the other multilateral funds	Equal representation of donor and developing countries and with MDB representation	Equal representation
board	Approves implementing entities (IE) and projects and programmes	Oversight role	
	Consensus based decision-making	Responsible for approval of proposals – consensus based.	
	Oversight and supervision.		
	Secretariat	No secretariat as such. CIF	
Secretariat	Coordinates project approval and NIE approval process.	administrative unit coordinates activities.	GCF secretariat
	Project and programme review committee (PPRC)	Expert group	Technical sub- committees of secretariat
Technical committees	Reviews projects and proposals.	MDB sub-committee/MDB board – responsible for approval of proposals.	Committees of board members
	AF panel		
	Reviews accreditation process.		
	World Bank – interim trustee.	International Bank for	
Trustee	- Manages the trust fund	Reconstruction and	World Bank
	- Sells the certified CERs.	Development (IBRD)	

Table 4 Governance structure of three multilateral climate funds





Observers from civil society, the private sector and indigenous groups are involved in discussions, but have no voting powers.

Other characteristics of multilateral governance arrangements

- Country representation in decision-making differs across the various funds.
 The AF Board is strongly represented by developing countries, particularly LDCs and SIDS, while MDBs have strong representation and decision-making roles in the subcommittee of PPCR.
- Funding and project approvals are steered according to the stipulated guidelines of respective multilateral climate funds. (See Annex 2 to understand the investment approval process for multilateral funds).
- Funds are often disbursed in phases. The initial phases allow countries to enhance institutional capacities and develop project proposals, prior to delivery of finance. For instance, the first phase of the PPCR fund is for proposal development and capacity development to improve the readiness of the countries. The second phase funds the implementation of investments. The AF, however, only offers project formulation funding to elaborate approved projects. Approvals are based on a first come first served basis, encouraging countries with high readiness levels to submit credible proposals.
- Role of implementing entities is crucial in proposal development process. For
 example, the coordination of proposal development under AF is the responsibility of
 an accredited entity (national or multilateral). The proposal development under PPCR
 is supported by Multilateral Development Banks, thus allowing MDBs to prioritise and
 blend with existing pipeline projects.
- Role of civil society is not by default. Civil society and the private sector are formally engaged in PPCR and GCF meetings, but their role in the AF is more informal.
- **Trustee arrangements.** The World Bank serves as interim trustee for most of the funds.



Strengths	Areas for improvement
Equal representation in funding decisions allows country-driven climate finance delivery.	Delays in decision-making. Consensus based decision-making rules and the absence of an authoritative secretariat can delay the decision-making process, as observed in the case of CIFs. CIF decisions are approved by reaching consensus between the MDBs and the fund sub-committees, which can often be a lengthy process. A recent evaluation of the CIFs observes: ' defining categories of decision for which consensus is not required and delegation of responsibilities to working groups and subcommittees' pg. viii (IEG 2014).
Expanded role of observers from civil society, private sector and indigenous groups allows multi-stakeholder representation (for example, in CIFs).	Proposal development support , although important for countries lacking in capacity, could bias the prioritisation process if the implementing entities have an interest in fast tracking their pipeline projects.
Phased funding and proposal development support offered by some multilateral funds, allows countries with lower capacities to use early stage grants to enhance capacities of focal points [e.g. National Delegated Authorities (NDAs) or IEs] as well as develop credible proposals.	Civil society and private sector representation can be further enhanced by giving them more voting rights.
Investment decisions based on country readiness allows countries to prioritise actions depending on the country's readiness levels.	

Table 5 Analysis of existing multilateral governance arrangements



Further reading on multilateral climate funds

Nakhooda, S. and Watson, C. (2013) The Global Climate Finance Architecture. Climate Finance Fundamentals 2. Available at: http://www.odi.org/sites/odi.org.uk/files/odiassets/publications-opinion-files/8685.pdf.

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library/Assessment%20of%20Global%20Adaptation%20Funds%20for%20ADAPT%20Asia-Pacific_0.pdf.



SECTION 3

Lessons for an appropriate Climate Finance Landscape at the national level

Having outlined the various climate finance options available at the national and international level, this section shows how an appropriate selection of financial intermediaries, instruments and financial planning systems can enable the governance of climate finance.

An effective mechanism to receive and manage climate finance should, in principle, ensure available resources are appropriately mobilised, allocated and tracked, and guarantee that results are generated. Financial governance should be able to assure funders that contributions are well spent, and also help countries to attract additional finance.

Evidence from earlier sections, however, suggests that no one approach seems to work universally; a country's level of readiness may define an appropriate mechanism to receive and manage climate finance. The focus, therefore, should be on designing an effective arrangement rather than defining a single most appropriate mechanism. In fact a combination of mechanisms that complement each other may be used in any individual country. This may mean mixing and matching intermediaries, institutional systems, instruments and modalities that may best fit the country.

3.1 Use an appropriate mix of intermediaries

As explained in Sections 1 and 2, intermediaries comprise a range of actors, including multilateral banks and agencies, national agencies, national financial institutions and NGOs. Countries should identify appropriate intermediaries depending on their capacities to access finance as well as their capacities to deliver finance (as defined in the climate finance readiness framework of UNDP (<u>UNDP 2012</u>)). Suitable intermediaries should therefore have capacities to:

- Access finance directly. This would require entities to have high financial and programming capacities, adequate fiduciary controls, transparent multi-stakeholder allocation systems and legal and reporting arrangements.
- Blend and combine finance. This would require intermediaries to have financial mechanisms and capacities to bundle different types of finance that will allow them to leverage finance from a wider range of sources.
- Develop projects and programmes that are bankable. This would entail
 developing projects that are robust as well as financially viable.
- **Deliver finance.** This would require capacities to implement, execute, coordinate and monitor projects and programmes.



Financial planning	Accessing finance	Delivering finance	Delivering finance
 Assess needs Identify policy mix and sources of finance 	 Directly access finance Blend and combine finance Formulate project, programme and sector-wide approaches to access finance 	 Implement and execute project, programme and sector-wide approaches Build local supply of expertise and skills Coordination 	 Monitor, report and verify flows Administer performance-based payments

Source: Climate finance readiness framework, UNDP (<u>UNDP 2012</u>)

Table 6 Climate finance readiness framework

An evaluation of different intermediaries below (and in previous sections) shows complementary benefits which each of them can bring:

National agencies comprise (a) finance ministries that receive climate finance into the national treasury through direct budget support or through earmarked project/programme support, (b) environment ministries that are conventional choices as focal intermediaries for delivering and coordinating climate finance, and (c) sector line ministries that implement projects or programmes.

Climate finance channelled through the national treasury allows countries to have full ownership of how resources are spent. However, if national systems are still weak, it could be difficult to guarantee that available resources are appropriately accessed, allocated, spent and tracked, and results are generated. For example, countries may lack national systems for tracking climate finance, adequate fiduciary controls or policy reform. Environment ministries may lack financial management capacities for mobilising finance at scale. Also, they may be less suitable for coordinating cross-sector climate change issues because of their limited mandates or authority to coordinate across sectors. In many countries they may need fiduciary support and transparent multi-stakeholder allocation systems to limit political influence in decision-making and prioritisation of projects and programmes.

Questions to consider prior to opting for core national ministries as intermediaries or national focal points for climate finance:

Does the finance ministry or environment ministry

- Have adequate financial management capacity and fiduciary standards for directly accessing climate finance? Or is better positioned to channel funds through project or budget support?
- Have capacity to blend instruments and mobilise finance at scale?
- Have adequate authority to coordinate climate change responses across different ministries and sectors?
- Have the ability to formulate project, programme and sector-wide approaches to access finance?
- Have the capacity to monitor and verify climate finance flows? If not, do they need readiness support to build capacities in these areas? Or can different core ministries complement each other in accessing and delivering climate finance?



National development banks can be strong candidates for accessing finance directly given their ability to pool, collect and allocate finance from both bilateral and multilateral resources. Also, they are able to mobilise funds by blending grant and non-grant sources. They can be nurtured to become viable candidates for accreditation as implementing entities. Development banks tend to prioritise demonstrable and viable projects, but could be less

Questions to consider before opting for a national development bank as an intermediary:

- Does the NDB have strong fiduciary controls and financial and management capacities to manage climate finance?
- Does the NDB have experience or technical knowledge of environmental and climate change issues to formulate project, programme and sector-wide approaches to climate finance?
- Does the NDB have financial instruments to catalyse both bankable and un-bankable projects?
- Can NDB act as a complementary intermediary to an NCF or a national focal ministry to manage finance?
- If an NDB is being considered for accreditation, does it need readiness support?

National climate funds (NCFs)

conducive to novel risky adaptation investments.

The pros and cons of NCFs have been discussed in detail in the previous sections. However, the advantages of specific intermediaries should be assessed depending on country circumstances. In principle, DFID practitioners may ask following questions before they suggest NCFs as the most appropriate option:

Questions to consider prior to establishing or developing an NCF

- Is a NCF the most appropriate choice? Is there any other alternative? Can a national development bank or an existing national agency, which has strong financial capacities, be a better value for money option? Establishing an NCF is a lengthy and time consuming process. Prior to deciding on an NCF as the best mode for delivery it is important to evaluate other options and the usefulness of choosing the NCF option. A value for money or optional appraisal logic will be crucial before opting to support the establishment of the NCF.
- Are there other better options? For example earmarked budget support or non-budget ODA?
- If a NCF is considered the best option
 - Will the fund management of an NCF rest with a national agency or an interim trustee? If it is a national agency, does a national agency have the capacity to manage the NCF?
 - If the fund is managed by an international trustee, is there a plan to phase out the transitional interim trustee?
 - Is there an ultimate vision to build national capacities and transfer responsibilities to national systems? Or does it need support to achieve this?
 - Does the NCF have a well laid out strategy?
 - What is the type of NCF being set up? Is it a sinking fund, endowment fund or a revolving fund?
- If a country has an existing NCF
 - Is it accredited for direct access of funds? If not, does it need capacity support to build fiduciary systems, multi-stakeholder allocation systems or an appropriate legal and reporting arrangement?



 Does the NCF have a well laid out strategy for mobilising finance as well as making appropriate allocations?

Multilateral entities are able to attract finance because of their capacity to combine and blend finance. They also ensure better financial management and standards for risks and safeguards. However, their conflicting roles as trustees and implementers and their high administrative charges makes them less favoured at the national level.

Questions to consider prior to selecting a multilateral or international bilateral intermediary

- Why is a multilateral or an international entity the best option?
 - Are the country systems weak in fiduciary controls and implementation?
 - Are multilaterals able to access finance at scale given their ability to blend and combine finance to leverage and catalyse finance?
 - Are international entities capable of supporting pipeline project development and monitoring and verification?
- If international entities are most suitable
 - Is there a plan to phase out their transitional role once local capacities are enhanced?
 - Can international entities complement national entities in accessing and delivering climate finance effectively?

Lessons to inform the positioning of an appropriate mechanism to receive and manage climate finance

A country's choice of intermediary may vary depending on the readiness of the intermediaries at the country level. In practice, the focus should be on designing an effective mechanism rather than opting for a single intermediary. An appropriate approach could be to use a <u>combination of intermediaries</u> depending on their complementing roles. In some cases, this <u>may require sequencing</u> the use of intermediaries until capacities are built. If national entities are deemed to be weak, multilateral entities or international NGOs could play the role of interim intermediary as part of a phased approach. In any case, existing national structures should be strengthened over time. Intermediaries can be identified, complemented and sequenced using a decision analysis as below.

- If countries have no strong intermediaries, relevant ministries (environmental protection and disaster preparedness) may seek readiness or technical assistance grants from multilateral fund, such as the PPCR or the GCF, to nurture institutions that can mobilise, manage and disburse funds. This may require the strengthening of existing focal ministries, establishing a NCF or preparing NDBs with financial management capacities. Multilateral entities may play interim roles until then.
- If countries have dedicated national agencies (finance, environment and planning) with adequate fiduciary standards, financial management capacities and the ability to allocate equitable investments, they may seek accreditation as an implementing entity to access funds directly such as the Adaptation Fund and the GCF.
- Those with weak fiduciary standards and financial capacities may access readiness support to identify an implementing entity (either a national development bank or a focal ministry) and enhance their readiness levels. The readiness support would enable direct access, management and blending of different funding instruments in order to leverage funds at scale. Multilateral entities may play an interim role until readiness is built.

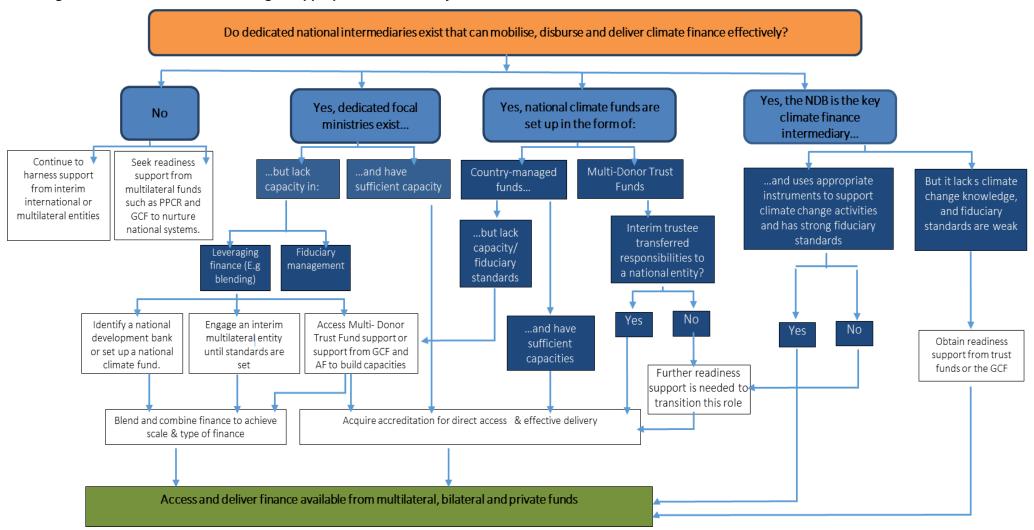


- If countries have established NCFs or NDBs as financial intermediaries, but:
 - i. The interim management rests with multilateral entities, then the countries may seek support to build national financial management capacities until management is shifted from multilateral entities.
 - ii. The ownership of funds rests entirely at the country level, but lacks fiduciary standards and multi-stakeholder representation, then the countries may seek ways to enhance the management capacities of nationally owned funds.
 - iii. The NDBs lacks capacity and a climate change focus, then the countries may seek support to build readiness in international climate finance mobilisation and intermediation.

Figure 10 illustrates a decision tree analysis for identifying and developing intermediaries.



Figure 10 Decision tree for selecting an appropriate intermediary



3.2 Strengthen country systems for policy, planning, budgeting and reporting on climate finance

Governments need effective planning systems to assess financial needs, access appropriate types and scales of finance, deliver finance and monitor and verify outcomes. The UNDP's climate finance readiness framework identifies this as key building block that national systems should have in place to plan financing needs and deliver climate finance (see Table 6).

Choices that they must make relate to:

- policies and strategies
- planning and budgeting systems
- institutional arrangements

3.2.1 Policies and strategies to assess needs and define priorities

Countries need suitable plans and a policy mix that prioritises climate actions based on specific country needs. This requires national capacities to assess needs and develop plans based on robust scenario assessments and national priorities. To ensure plans are effectively implemented, countries would also need to make sure that plans are not simply wish lists, but are:

- Time bound
- Clearly costed out
- Actions are prioritised as well as sequenced.

Therefore, decision makers would decide to access support for policy reform depending on their present context:

- Countries with no dedicated policy arrangements may seek readiness support to either establish project planning frameworks such as NAPA/Nationally appropriate mitigation action (NAMA) or National adaptation plan or establish dedicated national policy frameworks and strategies.
- Countries with short-term project-based frameworks may seek technical
 assistance from global funds such as the PPCR and GCF to develop dedicated
 climate change strategies that focus both on building resilience and mitigation.
- Countries with established policy arrangements, or climate change plans
 - May ensure the plans are well costed, have time bound priorities and are well sequenced.
 - Seek support to build institutional capacities or legislative support to set up stronger institutions such as national climate funds and accredited agencies.

3.2.2 Planning and budgeting systems are able to identify and match resource flows

Countries need "...planning processes to map domestic demand onto different sources of financing and their funding cycles" pg 8 (<u>UNDP 2012</u>). Therefore, country governments would require capacities to track resource flows and gaps and then identify ways to mobilise finance to meet demand. A number of different methods can be used to track flows at the national level:

 A climate public expenditure and institutional review (CPEIR) can be one approach to track on- budget climate change expenditure across sectors.



 Climate fiscal frameworks (CCFF) are a step further to integrate climate change into budgetary system that allow budgetary allocation and budget prioritisation for climate change. A climate change budget code could help to integrate climate relevant interventions into a broader portfolio of investments.

3.2.3 Institutional arrangements are pertinent for the effective delivery of climate finance

Countries rely on institutional arrangements to coordinate investment planning and deliver finance. Countries with established national financial mechanisms are effectively able to identify programmes and projects, oversee them and appraise them (<u>UNDP 2012</u>). These include governing and executing entities with core functions to deliver finance. Countries may wish to learn from the increasing trend towards establishing multi-stakeholder technical committees and steering committees (rather than a national body) to ensure that marginalised groups and government authorities are widely represented in investment decisions and the delivery of finance (as observed in the case of some climate funds).

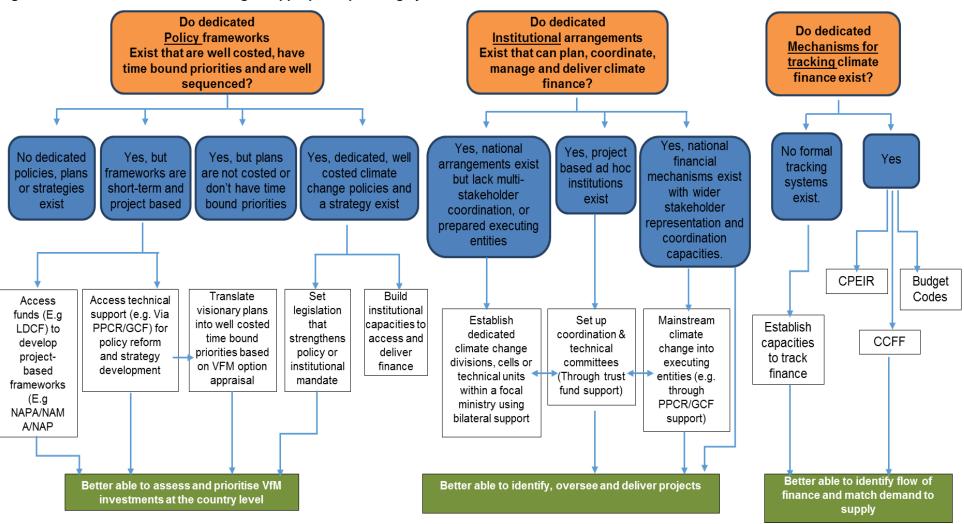
- Countries with mere project-based institutional arrangements may choose to seek support to identify and build the capacity of core institutions that can lead in identifying, coordinating and delivering projects. On an interim basis, multilateral entities may be involved to undertake these tasks. Climate change may also need to be mainstreamed within sector and sub-national executing ministries.
- Countries with adequate national systems, but lacking multi-stakeholder coordination or capacities, may seek support to establish coordination committees or technical committees to ensure wider representation. This could be through creating multirepresentative NCFs or through forming technical cells and departments responsible for coordination across the government.

Developing institutions, planning systems and policies or strategies for addressing climate change, however, would need sequencing and prioritisation depending on country contexts. Options may be appraised based on value for money judgements, which implies appraising decisions based on maximum returns in the short term as well as in the long term (Watkiss, Hunt et al. 2014). The following flow diagram illustrates a decision tree for identifying appropriate planning systems.

Figure 11 illustrates a decision tree analysis for identifying and developing planning systems for climate finance.



Figure 11 Decision tree for establishing an appropriate planning system for climate finance





SECTION 4

Conclusion

In the International Climate Finance Landscape, national stakeholders are increasingly gaining strength alongside multilateral and bilateral ones. This can be seen in multilateral funds with representation and strong voting rights for negotiators from the finance, environment and planning ministries of developing countries.

While the majority of climate finance exists at the international level, an increasing proportion is generated and managed by the implementing country. At the national scale, planning and finance ministries, finance institutions, NDBs and NCFs are becoming increasingly important in the decisions related to the management and allocation of climate finance, while a range of line ministries, local ministries, international and national NGOs and community-based organisations are becoming involved in planning and implementation. In Bangladesh and Rwanda, NDBs have earmarked funding to access and deliver LCCRD investments. NCFs have been developed by Indonesia, Bangladesh, Rwanda and Ethiopia to pool multiple sources. In Nepal and Cambodia climate fiscal frameworks are important tools used to track climate change expenditures.

The evolving trends in the selection and development of intermediaries, and the design of economic and financial instruments and financial planning systems, show how many developing countries are taking important steps to ensure they are ready to receive, manage and disburse climate finance from both public and private sources. However, observed trends in the national landscape show that no 'one-size-fits-all' approach would work universally. A country's capacities to access and deliver finance and the characteristics of the available sources of finance define the choices in design, funding, intermediaries and planning systems.

If practitioners and policy makers are able to understand the specific financing needs of investments and manage the Climate Finance Landscape, climate finance will flow more effectively from its source to its end use. In light of this, this paper assessed the global and National Climate Finance Landscapes and suggested ways to build more effective national landscapes, and arrived at the following conclusions.

- The available sources of climate finance determine the scale and type of LCCRD investments that can be made. Public, private and philanthropic funding and revenue generated from carbon markets are the main sources of climate finance in the international and national climate finance landscape. Policymakers could consider enhancing the synergies and leverage among different sources of climate finance to mobilise the required type and scale of finance their countries need. They could also consider putting in place resource mobilisation strategies that can tap into existing flows of climate finance and motivate future flows of climate finance to LCCRD investments in developing countries.
- A range of financial intermediaries are emerging and evolving to access, disburse and manage climate finance. Policymakers may select intermediaries keeping in mind current and future resource mobilisation and allocation needs. Appropriate intermediaries should be able to mobilise long-term finance at scale, deliver high fiduciary management standards and represent the interests of wider stakeholders in investment decisions. Intermediaries should identify and cost priorities that support



- adaptation, mitigation and combined uses and equitable solutions for different sections of society and enable country ownership in resource decisions.
- The choice of intermediaries may vary depending on their readiness and capacity to carry out different tasks. The decision tree based on the readiness of an intermediary (included in Section 3) could be helpful in choosing intermediaries. A phased approach could be an option, where multilateral entities or private and civil society organisations play the role of interim intermediaries. In any case, existing national structures should be strengthened overtime.
- A range of financial instruments are available to motivate investment in LCCRD, with further tools and mechanisms being developed. Policymakers should adopt a flexible and/or sequential approach to deploying financial instruments to stimulate an investment environment for LCCRD.
- Financial planning systems govern the flow of climate finance from its source to its end use. Policy frameworks, institutional arrangements and planning and budgeting systems are key components. Policy frameworks outline policy direction related to the governance of climate finance. Programmatic approaches need to be adopted in the international and national landscape to guide the articulation and implementation of LCCRD initiatives. Policy frameworks at the international and national landscape are also placing greater emphasis on effective financial management of climate finance encouraging effective fiduciary management practices leading to improved governance of climate finance.
- Institutional arrangements aimed at governing the flow of climate finance are evolving. The types of institutions involved are moving from ad hoc to more institutionalised arrangements. Policy makers are using budgeting and planning systems to integrate LCCRD into broader development planning systems. This will support better governance of climate finance (better synergy and coordination avoiding duplicated and fragmented financing). Policymakers should seek readiness support to harness and strengthen existing institutional arrangements for the better delivery of finance. New institutions may need to be set up in some cases. Encouraging institutions with strong capacities will offer a sound environment for climate finance delivery and better assurance to contributors of climate finance. Multistakeholder representation and coordination in allocation decisions should be the guiding principles while strengthening institutions. Policymakers should seek readiness support to strengthen the different strands of institutions depending on existing national arrangements. In any case, existing national structures needs to be harnessed and strengthened overtime.



Annotated bibliography

Climate Policy Initiative, Buchner, B. et al. (2011) The Landscape of Climate Finance. A CPI report, Climate Policy Initiative

This report provides an authoritative and comprehensive summary of the Global Climate Finance Landscape. It presents a framework for analysing climate finance flows, which has formed the basis of the framework used in this paper. It highlights, in detail, key trends in climate finance, touching on all of the potential sources, intermediaries and their decision-making structures, financial instruments and end uses and users. Finally, it suggests recommendations to address gaps and key challenges to effective climate finance.

IIED, Fikreyesus et al. (2014) Financing a Transition to Climate-resilient Green Economies

Drawing on evidence from case studies in Bangladesh, Nepal and East Africa, this IIED brief presents a range of methods through which developing countries are mobilising and drawing down climate finance. The brief offers explanations of key terms, and provides a further demonstration of financial landscape framework in use, offering key trends in national approaches to mobilising climate finance.

Fikreyesus, D. et al. (2014) Public Policy Responses for a Climate Resilient Green Economy in Ethiopia, IIED Research report. London: IIED.

An IIED paper offering an assessment of public climate finance policy in Ethiopia. The report details the development of responses within various policy, institutional and financial frameworks. It is aimed at policymakers to support reflection on the way in which policy responses are implemented. Policy frameworks contributing to the climate finance infrastructure are reviewed, and lessons drawn out. This paper has contributed to the understanding of Ethiopia's climate finance situation.

Flynn, C. (2011) Blending Climate Finance through National Climate Funds: A Guidebook for the Design and Establishment of National Funds to Achieve Climate Change Priorities. New York, NY: United Nations Development Programme.

A practical guidebook developed by climate change analysts at UNDP. It is aimed at decision makers, policymakers and climate finance experts who support governments to make design choices in establishing national climate funds (NCFs). It presents goals, functions and planning and governance options for such funds, clearly presenting key decisions that must be made in designing fund structures, illustrated with examples. The guidebook has contributed directly to this papers understanding of climate funds and their management at national level.

FONERWA. (2011) Sustainable Financing Mechanism for Environment and Climate Change Initiatives in Rwanda. Brochure.

A Government of Rwanda produced document presenting an overview of how the NCF will be capitalised, managed and disburse funding. As an overview document, it provides a basic introduction rather than a detailed description and does not provide any learning or best practice guidance. It is aimed at the general public and other policymakers in order to explain the FONERWA fund.

FONERWA. (2012) Operational Manual

Detailed operational guidance document for FONERWA, including template forms, evaluation procedures and detailed explanations of the logical framework, monitoring and



evaluation, procurement and financial management procedures, governance and other details. Aimed at those tasked with ensuring FONERWA functionality.

FONERWA. (2012) Final report: Government of Rwanda Environment and Climate Change Fund (FONERWA) Design Project

http://www.rema.gov.rw/rema_doc/FONERWA/fonerwa_finalreport_web.pdf

Document explaining and exploring conclusions about the design of FONERWA. The report serves as an evaluation of the fund's design, providing detailed overviews of design and the broader implications involved. Along with the operational manual, the report serves as a useful tool to understand the decision-making process used in designing Rwanda's GCF. In particular, it evaluates the pros and cons of various methods of hosting the fund.

FONERWA Website: http://www.fonerwa.org/

Official website of FONERWA, the Rwandan climate change fund. The website is updated regularly, and offers links to download fund descriptions, potential projects, latest news and the operational manuals.

Frankfurt School of Finance and Management: Frankfurt School - UNEP Collaborating Centre for Climate and Sustainable Energy Finance (2012) Case Study: The Indonesia Climate Change Trust Fund.

http://www.fs-unep-centre.org/

A case study emerging from the National Climate Finance Institutions Support Programme of the UNEP Collaborating Centre for Climate and Sustainable Energy Finance, which helps national climate finance institutions develop good practices for receiving and distributing climate finance. It provides a detailed overview of the fund and its design and structure, governance and project examples so far. It is less clear on the future of the fund, particularly the 'Green Transformation Fund'. However, it has contributed to an understanding of Indonesia's climate finance case.

Overseas Development Institute, Halimanjaya, A., S. Nakhooda, and S. Barnard (2014). The Effectiveness of Climate Finance: A Review of the Indonesia Climate Change Trust Fund.

A review of the Indonesia Climate Change Trust Fund (ICCTF), published by the Overseas Development Institute. It reviews the fund's context, its spending so far, its future plans and its outcomes. The review uses a framework for considering the effectiveness of the international finance that flows through the fund, and highlights the challenges faced and lessons learned. While the direction of the spending is less useful for this context, the review contributed to this paper's case study evidence, as well as providing an understanding of the structures of the fund itself.

UNDP: Irawan, S., Heikens, A, and Heikens, P.K. (2012) National Climate Funds. Learning from the Experience of Asia-Pacific Countries. UNDP Discussion paper.

Based on e-discussions, regional discussions and case studies from over 250 practitioners – including fund managers, governments, experts and CSOs – this discussion paper focuses on learning from the experience of NCFs in Asia-Pacific countries. It is aimed at policymakers or planners, and presents detailed design and management features of NCFs, governance options, as well as feasibility criteria to establish whether NCFs are the best option. It also provides recommendations for establishing NCFs in the future. The paper has further contributed directly to this paper's understanding of NCF practice.



IIED and ECBI: Khan, S.M., Huq, S. and Shamsuddoha, M. (2012) The Bangladesh National Climate Funds. A Brief History and Description of the Bangladesh Climate Change Trust Fund and the Bangladesh Climate Change Resilience Fund. LDC paper series.

This paper, funded by DFID and written by experts from IIED and the European Capacity Building Initiative, provides a concise overview of the institutional framework, policy context, history and development of the Bangladesh Climate Change Trust Fund (BCCTF) and the Bangladesh Climate Change Resilience Fund (BCCRF). It is written for policymakers both within and outside Bangladesh, as well as analysts worldwide. It briefly offers potential challenges that the funds may face.

Inter-Agency Planning Group on Environmental Funds: Norris, R. (2000) The IPG Handbook on Environmental Funds. A Resource Book for Design and Operation of Environmental Funds. New York, NY: http://shores-system.mysite.com/ef/ef_handbook.html,

The Inter-Agency Planning Group on Environmental Funds (IPG) brings together representatives of groups who promote the use of environmental funds. This handbook, developed by a variety of contributors from a wide range of backgrounds, including NGOs, MDBs, multilateral agencies, and is aimed at those developing environmental funds, hoping to support local consultative processes and reduce reliance on international experts. While originally written for those seeking to support conservation, it remains a useful guide to the best practices and lessons learned from previous attempts to establish national funds.

IIED. Pervin, M. and Moin, S.M.I. (2014) Climate Finance Governance in Bangladesh: Synergies in the Financial Landscape.

A brief discussing the potential for better coordination between the many intermediaries involved in the climate finance landscape of Bangladesh. The paper provides a concise snapshot of the landscape and makes recommendations to support the scaling up of finance, better coordination, enhancing effectiveness and overcoming resource constraints. Its authors are currently placed within Government of Bangladesh departments, including the Planning Commission and the Ministry of Disaster Management and Relief, giving them a unique insight into current challenges and ways to overcome them.

REMA website

http://www.rema.gov.rw/index.php?option=com_content&view=article&id=341&Itemid=195&I ang=en;

Official and authoritative website of the Rwanda Environment Management Authority – with their FONERWA page. The source was used to gain further overview information on Rwanda's environmental approach, FONERWA documents etc.

IDB: Smallridge et al. (2012) The Role of National Banks in Intermediating International Climate Finance to Scale-Up Private Sector Investments. Inter-American Development Bank, Discussion Paper IDB-DP-249

Discussion paper written by international climate finance experts on the role of NDBs in scaling up private sector financing. Aimed at policymakers designing and implementing international climate finance mechanisms and NDBs looking to promote mitigation investment programmes. Written by a respected expert, the paper bears direct relevance to the role of climate finance in leveraging involvement of the private sector.



UNDP: The Asia-Pacific Community of Practice on Climate Finance. Facilitated by the Climate, Environment and Energy Team UNDP Asia-Pacific Regional Centre (APRC). (2012) Summary of E-Discussion on National Climate Funds.

A summary of the views and exchanges between 30 contributors across 10 countries on the decision-making, design and management feature of NCFs. All contributions are included in full, and offer guidance from those working 'on-the-ground' to establish NCFs. A valuable contribution to the understanding of best practices and successful design features in the Asia-Pacific context. This paper contributed to the UNDP Asia-Pacific NCF discussion paper referenced above.

UNDP. (2012), Readiness for Climate Finance: A Framework for Understanding What It Means to Be Ready to Use Climate Finance. Discussion paper.

This discussion paper offers an introduction to national level challenges that may arise from increasing inflows of climate finance and presents examples of methods available to meet them. It is aimed at international and national policymakers, presenting a framework to support understanding of what 'readiness' to receive climate funds consists of and tools that may be used to improve the capacity of policymakers to establish systems that effectively manage climate finance. It raises key points to be aware of when considering how climate finance can be effectively moved from the international to the national level for disbursement.



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Annex 1 Climate finance landscape

Sources of climate finance	Intermediaries	Financial instruments	Planning systems	Uses and users of climate finance
 International and national public finance International and national private finance Carbon finance Philanthropic climate finance 	 Multilateral banks and agencies Bilateral agencies National agencies National financial institutions Multilateral, bilateral and NCFs 	 Finance enhancing instruments Risk management instruments Carbon offset flows Grants Concessional loans 	 Policy and regulatory frameworks Institutional arrangement s Budget and planning systems 	 Types of action: adaptation, mitigation, resilience, green economy Type of access: private sector, public sector, civil society organisations

An explanation of the pillars in the financial landscape:

Source of climate finance. Refers to the *origin* of climate finance (international or national) and to the *type* of climate finance (long- and/or short-term public, private and/or carbon capital).

Intermediary. Refers to the institutions that enable the flow of climate finance from its source to end use/users. Intermediaries play a role in mobilising and disbursing climate finance. Different intermediaries are best placed to draw down specific sources of climate finance and to channel funds towards specific investment areas and investors. Policymakers thus deploy a range of intermediaries in the National Climate Finance Landscape based on their comparative advantage.

Economic and financial instruments. Economic and financial 'instruments' provide incentives for climate relevant investments. Economic instruments (which include policy and regulatory frameworks) affect producers' and consumers' behaviour by causing changes in prices. A financial instrument is any contract that gives one entity a financial asset and another a financial liability. Financial instruments that motivate CRGE investments include risk management instruments, like guarantees and insurance, grants, concessional loans, and capital instruments of equity and debt finance. Different instruments will suit different investment needs.

Financial planning systems. Financial planning systems play a key role in the management and governance of climate finance. Policy, institutional arrangements and financial planning tools, such as budget and planning systems, are key examples of financial planning systems being used by policy makers to manage and govern the flow of climate finance from its source to its end use. Governments use them to support better synergy and long-term sustainable financing within the climate finance landscape.



Annex 2 Investment approval process for multilateral funds (with AF and PPCR as examples)

Investment approval stages	Description and actors involved	Adaptation Fund	PPCR
Government endorsement of the country for participation	Eligible developing countries select a national delegated authority (NDA) or a focal point that can endorse or approve participation of the country and nominate an implementing entity (IE). NDAs or focal points are usually ministries, such as ministries of finance, planning or environment.	NDA	National focal points In the absence of focal institutions, PPCR supports capacity development of potential focal institutions
Coordination of prioritisation process	IEs and focal points coordinate the process to develop investment	Accredited implementing entities (national or multilateral)	MDBs and government focal points
Develop project proposals	proposals within the country.	Ministries supported by NIEs or MIEs	Line ministries supported by MDBs
Review of proposals	The sub-committees, working groups and/or secretariat review the proposals and provide recommendations to the board for approvals.	Secretariat Programme and project review committee	PPCR sub-committee MDB sub-committee
Project and programme approval	Projects and programmes are approved by the board.	AF board	PPCR and MDB sub- committee
Transfer funds		World Bank trustee	European Bank for Reconstruction and Development trustee
Phased funding decisions		Project formulation funding to NIEs to elaborate approved concepts	Phase 1: 1. Develop investment plan 2. Build the readiness level of countries (country specific) Phase 2: 1. Preparation grant 2. Implementation of programme





Annex 3 Case studies

NCFs

Indonesia Climate Change Trust Fund (ICCTF)

Objectives	The ICCTF is designed to channel international funding towards the full range of climate related activities, including land based mitigation, energy and resilience building. Its stated goals are to support the achievement of a low-carbon economy and to enable the Government of Indonesia (GoI) to increase effectiveness and impact of projects addressing climate change issues. International funding is anticipated to support a further 15% emissions reduction on top of the 26% reduction from GoI domestic efforts (FrankfurtSchool and UNEP 2012). All activities from international assistance will include capacity enhancement activities to strengthen national ownership of ICCTF operations over time.
Type of fund	Endowment + sinking fund. The fund begins as a sinking fund, awarding grants from a funding pot provided by bilateral donors. In the third phase, a revolving credit facility will take over.
Sources of the fund	The fund was set up as a financial portal to receive and channel international funds to local climate change projects. So far public sector bilateral donations are the main sources of funds: AusAID, DFID, SIDA and UNDP. DFID +AusAID – US\$8.5 million, Sida, US\$165,000. The government is expected to direct funds from the national budget into the ICCTF, but details have not yet been finalised. The ICCTF is expected to become Indonesia's national implementing entity (NIE) for the direct access window of the AF, as well as the GCF when the functionality becomes available.
Intermediaries	Receiving funds. Initially, UNDP served as a financial administrator, ensuring compliance with good fiduciary standards. This role has now transferred to Bank Mandiri, Indonesia's largest bank. Distributing funds. Allocations are made by the trustee to implementing agencies on the request of the decision-making committees of the fund. As the trustee is controlled by the institutions of the fund, the ICCTF therefore manages the movement of funds throughout the entire process. Implementing agencies. Government ministries and departments, NGOs, university, and in future, private sector entities.
Financial instruments	Innovation fund investments (Phase 1 and 2) are limited to grants only. The innovation fund serves to overcome barriers and facilitate NAMA. This phase is seen as the expenditure phase; investing in activities that do not yet generate financial revenues. These activities can be underwritten and administered by government institutions, and implemented either nationally or locally. Transformation fund (Phase 3) – later to become the Green Investment Fund – will assist in market penetration, supporting a low-carbon, climate resilient economic development path. The instrumental setup will be a revenue generating revolving investment facility, supporting PPPs, CSR, government budget and world capital market sources that could mobilise private sector finance. In particular, investments requiring high up front financing, accruing returns on investment in the medium term will be preferred. This fund may also derive benefits from carbon trading and the carbon finance market. It is likely that Bank Mandiri will play a larger role here, with its knowledge of private finance. Corresponding regulations and policies for this fund have not yet been drafted.

http://climatefinanceoptions.org/cfo/node/232 [Accessed 16 July 2014]





Trustee: UNDP/Bank Mandiri. Financial administrator, ensuring compliance to fiduciary standards. Has no decision-making power over allocations. After a proposal process, the trustee is authorised by the steering committee to disburse funds to individual projects. Steering committee. Independent body responsible for policy and operational guidelines, overall management and monitoring and evaluation (M&E). It is divided into two forums, the Policy Forum, responsible for overall direction of funding policy and the Management Forum, overseeing M&E and adherence to operational guidelines⁸.

It consists of members from relevant ministries (Energy, Forestry, Agriculture, Marine Affairs and Fisheries, and the Head of the Secretariat for the National Council on Climate Change, one from a non-implementing ministry (BAPENNAS or Foreign Affairs), and development partners. Two CSO members sit as observers.

Technical committee. Advises the steering committee. Takes on the bulk of the task of evaluating eligibility, feasibility, sustainability and impact on the environment, society and economy of potential projects.

The Technical committee is staffed mainly by BAPPENAS staff, and chaired by the Director of Environment of BAPPENAS.

The Secretariat supports the Project Management Unit (PMU). The Secretariat is staffed by BAPPENAS, and consists of staff with technical, administrative and financial expertise. A permanent expert advises on a day-to-day basis, and on-call experts assist with applications by sector ministries. The PMU manages programmatic and technical oversight, in collaboration with development partners. The PMU also takes on development of M&E, progress and financial reports.

Project Management Units. Each implementing partner is required to have its own PMU, capable of adequate fund management, financial reporting and M&E.

- 1. Future structure. The Steering and Technical committees will be merged into a Board of Trustees. Decision making will be consensus based, but may resort to formal voting if consensus proves unreachable. The majority of voting rights will be held by BAPPENAS, as the chair of the committee, the secretary and the ICCTF member. Representatives from relevant ministries, CSOs and the Chamber of Commerce will compose the board membership.
- 2. Budgeting. Proposals for the ICCTF are submitted by ministries to the 'yellow book', a list of climate change related programmes that require external funding which is administered by BAPPENAS. The yellow book forms a basis for activities that would be suitable for ICCTF funding. It is intended to strengthen and reinforce the Medium-term Development Plan. The book acts as a reference to the international community for projects requiring funding that are generated through internal planning processes.
- 3. Indonesian climate change sector road map. A roadmap guiding policy instruments, roadmaps and projects. The ICCTF has emerged as a primary financial mechanism of the roadmap.

Uses

- Land- based mitigation focusing on reducing greenhouse gases from deforestation or forest degradation. Projects support efficient land use and sustainable forest management.
- Energy focusing on energy security and emissions reductions/investments in renewables
- Adaptation and resilience

Users are separated in phases

- Phase 1 government ministries
- Phase 2 NGOs, CS, universities. Partnerships between executing agencies are
- Phase 3 Private finance entities, often in partnership through the transformation

www.climateundsupdate.org/listing/icctf



Uses and users

Planning and

governance system

Private sector engagement	During the innovation phase, there is no private sector involvement. Private sector engagement will be supported through the Transformation fund. This fund is dependent on the success of the innovation fund in creating a viable market for climate change related ventures. The Transformation fund will rely on a revolving credit facility, having a return in the medium term. There fund may support inter alia financing for credit NAMAs or voluntary carbon projects. Public-private partnerships will also be able to gain access. The main instruments will be
	loans and the use of capital markets, as well as other bilateral and multilateral sources.
Gender inclusion	Given the ICCTF's support from the UNDP, UNDP gender mainstreaming principles are incorporated. The UNDP supports gender mainstreaming in all sectors. In reality, the gender aspects are incorporated into project proposals, and evaluated by the technical and steering committees. Projects should include women in their implementation and pilot projects have seen women employed as managers and supervisors. Across all projects women are encouraged to be provided with equal access to information, their concerns about projects are to be equally represented and they should be equal recipients of project benefits.

Bangladesh Climate Change Trust Fund (BCCTF)

	The objective of the fund is to support the Bangladesh Climate Change Strategic Plan of
Objectives	Action (BCCSAP). The plan outlines 144 activities across six themes which contribute towards both resilience building and low-carbon growth goals.
Objectives	The Trust fund has been established to demonstrate Bangladesh's commitment to managing the impacts of climate change and to afford the country more control over climate and development spending.
Type of fund	An Endowment fund. The fund is capitalised from the non-development budget - US\$110m per year.
Sources of the fund	Finance for the BCCTF is generated from a block budgetary allocation from national revenues. Funds are channelled via the non-development budget – the responsibility of the Ministry of Finance. They are in the form of an endowment for US\$100 million each year (Rai et al., 2014) Between January 2010 and February 2014, the BCCTF drew approximately US\$347 million from national revenues (Pervin and Moin 2014).
Intermediaries	The fund is managed under the auspices of the Ministry of Environment and Finance, although BCCTF fund itself has its own process for drawing down and decision-making over allocations of funds, and is therefore an intermediary. Implementing intermediaries include government agencies, departments, NGOs and research institutes or universities.
Financial instruments	Fixed Deposits. 34% of the funds disbursed are in an account reserved for use in emergency situations, such as natural disasters. The interest from this fund is to be reinvested into project implementation. Grants. 66% is spent on grants to projects related to six thematic areas. Funding does not have to be spent within the financial year, but projects last no longer than three years. There is a maximum of US\$3.57 million for government projects and US\$714,000 for NGO projects.
Planning and governance system	Three bodies have been created to support the financial management, transparency, accountability and disbursements of the fund. The Trusts' Board includes 17 members drawn from government departments and ministries, with two from civil society. It is chaired by the Minister of Environment and Forests (MoEF), and advised by the technical committee. Decision making is consensus based and aims to be transparent. The board approves projects and forms policy. The Technical committee is chaired by the Secretary of MoEF, reviewing project proposals and providing support to the decision-making board. There are 12 members from different ministries, as well as two expert sub-technical committees focusing on ecosystem and other technical issues to provide more detailed advice. A climate change unit, established by the MoEF, serves a secretariat. It ensures efficient



	implementation of activities funded by BCCTF, including taking on project screening and monitoring. The Parliamentary Standing Committee responsible for oversight of MoEF activities also checks the board decisions. The Climate Change Unit of the MoEF serves as the secretariat for the fund, headed by the MoEF secretary. It is charged with ensuring efficient implementation of funded activities. The Palli Karma Soyahok Foundation, the apex body of Bangladeshi microcredit organisations, oversees the NGO window of the fund to support community level climate change adaptation and local capacity building. Planning is guided by the BCCSAP, but there is little other structure to direct which proposals are prioritised over others.
Uses and users	Uses may be for any of the BCCSAP six themes, relating to adaptation, mitigation, green economy or low-carbon and climate-resilient growth. Users include public sector bodies, government departments, NGOs and universities.
Private sector engagement	At present, there is no private sector engagement aspect of this fund.
Gender inclusion	Gender equality features as a cross cutting criteria in the BCCSAP. Proposals to the BCCTF are therefore evaluated for gender equality criteria. M&E processes of the BCCSAP also include gender criteria Public procurement procedures in Bangladesh expect issues of gender to be considered as part of the proposals.

Bangladesh Climate Change Resilience Fund (BCCRF)

Objectives	The objectives of the fund are to harmonise donor support for climate related projects in	
	Bangladesh and to support the implementation of the BCCSAP.	
Type of fund	Sinking fund	
Sources of the fund	The BCCRF channels funds allocated to Bangladesh from multilateral and bilateral public sources. External funds have come in the form of grants only. Like the BCCTF, it supports activities under the BCCSAP. US\$188 million has gone into the fund so far. Funds, which come in form of grants, are allocated based on a competitive proposal process.	
Intermediaries	Funds are administered by a Trustee, currently the World Bank. They are responsible for fiduciary standards and disbursing funds on the request of the Governing Council. The institutions of the fund decide on allocations (i.e. the fund itself).	
Financial Instruments	Funding windows. a) On-budget window – for public sector projects b) Off-budget window – civil society and private sector projects. 10% of the total supports grassroots mechanisms, administered by PKSF.	
Planning and governance system	 Governing council. Chaired by the Minister for Environment and Development, there are 16 members drawn from ministries, development partners, CSOs and planning departments. Guidance and advice on BCCSAP alignment and strategic goals. High level issues such as transferring management responsibility to the Government of Bangladesh Approve proposals and manage fund use Review achievement of results Mobilise funds from other donors Management committee – develops the work programme and considers grant requests from line ministries and other institutions. It has nine members, two from donors (only one with a vote), one from civil society, as well as representatives from the Economic Relations Division of MoF, the Planning Commission, the Ministry of Environment and Finance and the World Bank. Secretariat. Supports day-to-day operations. Oversees grant preparation, agreements and implementation. Trustee. The World Bank serves as an interim trustee, performing due diligence and administering the fund, while capacity building continues in country. In the future, the 	



	Secretariat will take over this capacity.
	Proposals are chosen in a similar way to the BCCTF, through a competitive proposal and
	evaluation process.
	Grants have a three year timeline with a possible one year extension, and may be between
	US\$15 and 25 million.
Uses and users	Uses. Support the BCCSAP themes.
	Users. Government ministries and departments. NGOs, universities and the private sector
Private sector	The off-budget window of the fund supports private sector projects that seek funding. This
engagement	fund represents 10% of the total available.
Gender inclusion	As with the BCCTF – proposals are in part evaluated for their contribution to gender equality.

Rwanda Environment and Climate Change Fund (FONERWA)

	FONERWA is cross-sector financing mechanism that has been established by the Government of Rwanda (GoR) to achieve development objectives related to environmental sustainability, climate resilient and green economic growth. The fund's overarching objective is to contribute to sustainable wealth creation and poverty reduction in Rwanda, through sustainable management of natural resources, climate resilient and green economic growth.
Objectives	FONERWA has been designed as a vehicle through which environment and climate change finance will be channelled, programmed, disbursed and monitored. As an outcome, the FONERWA fund aims to deliver sustainable and equitable finance that will further strengthen national programmes and private sector initiative in the areas of current and future environment, climate change and development related challenges and opportunities. The fund aims to deliver results against three pillars: 1. Strengthened and sustained conservation and management of natural resources; 2. Facilitation and utilisation of R&D and technology transfer 3. Mainstreaming of environment and climate change issues into policies, programmes, budgets and activities of public and non-public agencies. The fund became operational in October 2012. The first round of proposal submissions were
	accepted in March 2013.
Type of fund	National basket fund
	FONERWA (as an intermediary) is expected to make a 20–30% contribution towards the identified financing gap of approximately US\$100 million per year across the environment and climate change thematic financing windows in Rwanda. The fund aims to mobilise funds from international and national public and private sources of finance. The fund has a phased approach to resource mobilisation. It will initially target development partners, existing and emerging international funds and then the private sector as the fund matures.
	Public sources of finance
Sources of the fund	 Domestic capitalisation sources: environmental fines and fees; EIA fees; proceeds from forestry and water funds; other environmental revenue and seed financing from domestic stakeholders (line ministries).
	 External capitalisation sources: the fund aims to mobilise finance from multilateral and bilateral sources of finance, including finance channelled through international environmental and climate funds.
	Private sources of finance
	 In the short term (0-1 year) the fund will mobilise finance from the private sector via grants and project co-financing.
	 In the long term (> 5 years) the fund aims to tap into capital (equity and debt) sources of private finance.



Intermediaries	The FONERWA Fund takes a phased and targeted approach to the choice of intermediaries. The fund has been designed to evolve as different sources of finance and new investment areas become viable. In the short to medium term, the Ministry of Environment and Natural Resources manages the fund to mobilise and disburse public sources of finance, while the Development Bank of Rwanda manages a credit facility to motivate private sector investment. If investments into LCCRD become commercially viable, FONERWA has the scope to evolve and be managed as a venture capital fund in the long term.
Financial instruments	 The FONERWA operations manual advices a phased approach to the deployment of financial instruments to meet the evolving financing needs of investment in climate resilient and green economic growth. Financial instruments for the short term (0–1 year): two primary instruments are proposed for public and private beneficiaries – (1) in-kind support through technical assistance and grants; (2) performance-based grants. In the first two years resource allocation to the private sector will be in the form of grants. Financial instruments for the medium term (2–5 years): guaranteed; low interest/concessional loans. Financial instruments for the long term (> 5 years): equity investment subject to the fund's performance and private sector demand.
Planning and governance system	Policy framework: Operational manual Legislation. The fund has its legal basis in the FONERWA Law N°26 of 25/06/2012 (Official Gazette), which was passed by Rwanda's Parliament in March 2012. Institutional arrangements: FONERWA governance architecture (institutional arrangements) comprises: 1. Managing Committee a. Responsible for monitoring and directing the Fund's activities. Highest organ in GoR responsible for FONERWA management and oversight. b. Comprised of members from the GoR at the central level (Permanent Secretaries) and district level (MINALOG); DP; civil society and private sector) C. The Board has had three meetings to date 2. Technical committee a. Responsible for ensuring ownership of FONERWA supported activities and enhancing their sustainability b. Linking FONERWA to existing budgets and plans – MINECOFIN team ensures that there is no duplication between FONERWA funded activities and activities planned in existing annual plans. The team will also ensure that FONERWA supported activities are aligned with national priorities outlined in the Economic and Poverty Reduction Strategy C. Comprises the Directors General from key environment and CC sectors + DP d. The Technical committee has had two meetings to date 3. Secretariat/Fund management team a. Responsible for facilitating the coordination of the fund Financial planning systems FONERWA ensures that funds disbursed to public entities for the implementation of GGCR activities are incorporated into their annual budget envelopes. 1. Line ministries. Once a public entity receives funds from FONERWA it will incorporate the activity into its annual plan (strategic investment plan) and budget OR it will be included in the same at the time of the budget revision session. Districts. FONERWA will use existing channels to disburse funds to the districts. Districts will make the sectors aware of FONERWA funded activities so that they can be included within planning systems; a. Fund allocation to public entities will be on-budget 3. Pri



	Uses
	The FONERWA Fund disburses resources against four thematic windows:
	1. Conservation and management of natural resources (ecosystem rehabilitation;
	sustainable land management; integrated water resources management;
	sustainable forestry management; sustainable mines and quarries; promotion and
	protection of biodiversity);
	2. R&D and technology transfer and implementation (RE & energy efficient technology;
	pollution management; water storage, conservation and irrigation technologies;
	applied and adaptive research (agroforestry, waste, urban planning; disaster risk
	reduction; data collection; monitoring and management information system)
	3. Environment and CC mainstreaming (strategic environment and climate
Uses and users	assessments; sector specific adaptation and mitigation; support to implementation
	of cross-sector integrated planning);
	4. EIA and M&E (monitoring implementation of environment management plans for
	capital projects; environmental auditing).
	Users
	FONERWA identifies that the following can access funds:
	1. Private sector: 20% of total FONERWA sources will be earmarked for private sector
	use
	2. Public sector: government agencies and districts (10% of funds will be earmarked for
	districts)
	3. CSOs including academic institutions
	Strong emphasis on the role that the private sector will play in financing a transition to
	climate resilient and green economic growth.
Private sector	The FONERWA fund has designated intermediaries, financial instruments and financial
engagement	planning systems to unlock future sources of private finance for investment on CRGE.
	The GoR is also building the capacity of the private sector through knowledge transfer and
	skill development to invest in CRGE.
Gender inclusion	Not applicable

Ethiopia climate resilient green economy facility (CRGE facility)

Objectives	Ethiopia has adopted a climate-resilient green economy strategy to keep its development objectives on track. A transition to a climate-resilient green economy is estimated to cost in excess of US\$150 billion over the next 20 years. The Government of Ethiopia (GoE) has established the CRGE facility as the primary mechanism responsible for mobilising, managing and disbursing climate finance in support of this transition. The CRGE facility provides a single coherent system where stakeholders can engage and determine how best to invest in actions that support the country's CRGE objectives. Thus it aims to enable a programmatic approach that will minimise the transaction costs, fragmentation and duplication associated with 'projectised' funding (Fikereysus et al., 2014).
Type of fund	 Not sure The facility has two accounts: The Facility or National Account is a dedicated account established by Ministry of Finance and Economic Development (MoFED) for the CRGE facility. This account is used to channel financial contributions to approved executing entities. International account: a dedicated account managed by the multi-partner trust fund on behalf of the CRGE facility, into which some finance partners submit their contributions, when this is preferred to direct contributions to the Facility Account. Funds from this account are channelled to executing entities via the Facility Account.



Sources of the fund	 The CRGE resource mobilisation strategy targets diverse sources of finance and outlines resource management approaches to mobilise the appropriate scale of finance. Sources. The facility will target international and national public, private and innovative sources of finance. Potential innovative sources of finance that have been identified include payments for ecosystem services, green diaspora bonds, levies and carbon taxes. Private sources can be leveraged from project developers, investors and market facilitators. Public sources can be leveraged from multilateral (MDBs, UN agencies, international climate funds), bilateral (aid agencies, bilateral development banks, export credit agencies, bilateral climate funds/initiatives) and domestic sources (national agencies, NDBs, NCFs). Resource management. The Facility aims to 'unlock capital at scale'. To do so, it will 'pool' different sources of finance and/or 'blend' climate finance with other existing forms of investment to leverage investments for CRGE
Intermediaries	The CRGE facility outlines a role for 'specialist financial intermediaries'. These are specialist financial organisations that have been contracted by the CRGE facility to undertake defined disbursement and management activities for specific financial instruments that respond to the needs of the Sector Reduction Mechanism. The MoFED is not permitted to disburse funds directly to private sector entities. In such cases it will engage specialist financial intermediaries. Pooled funds (drawn down from public sources of finance) will be channelled via the facility. Leveraged funds (drawn from private sources) are expected to flow directly to strategically aligned and approved actions (via private sector intermediaries I expect). Implementing and executing entities play a role in developing and implementing CRGE actions respectively (see below for details).
Financial instruments	The CRGE facility can deploy a range of financial instruments depending on the source of finance that is being accessed and the needs of the end use/user. For instance, it is envisaged that grants will be used to channel public sources of finance, whereas, capital instruments, like loans, micro-finance, equity and risk management instruments, will be used to leverage and channel private sources of finance.
Planning and governance system	Policy framework: Operational manual Institutional arrangements: The core institutional arrangements to manage Ethiopia's transition to a CRGE development pathway include the CRGE facility, implementing entities and executing entities CRGE facility: The Ministry of Finance and Economic Development (MoFED) is responsible and accountable for hosting and making operational the CRGE facility. In line with this role, its responsibilities include: making the facility operational (promoting, financing, implementing and M&E); programmatic and financial accountability on behalf of GoE; signing and administering agreements; establishing and managing a separate ledger account under its financial regulations and rules for the receipt and administration of funds disbursed to it directly; etc. The institutional architecture to manage and govern the CRGE facility comprises: 1. Ministerial Steering Committee. This provides high level strategic oversight and confirms financing decisions. The Ministerial Steering Committee is chaired by the Prime Minister's Office, which will set the criteria and scope for approving action plans, and determine the overarching priorities for the CRGE Facility. 2. Management Committee. This is a standing committee, chaired by the State Minister of External Economic Cooperation, comprised of senior representatives of government line ministries plus representatives of financial partners. It is responsible for providing general oversight for the CRGE initiative as well as determining the optimum allocation of available funds to approved actions. 3. CRGE Facility Secretariat. This is a unit based in the Ministry of Finance and Economic Development (MoFED). It supports the Facility's Management Committee and Task Force on facility related matters. The Secretariat is supervised by the State



- Minister of External Economic Cooperation.
- 4. **Finance Team.** This team is responsible for the financial management of the CRGE facility (this includes M&E and financial reporting, development of the integrated resource mobilisation framework (IRMF), financial appraisal/screening, fund release and auditing, coordination and providing technical support to IEs). MoFED will house and directly supervise the activities of the Finance Team within the CRGE facility Secretariat. It will include dedicated specialists, recruited or assigned to the team, and additional expert members drawn from relevant bodies as appropriate
- 5. **Technical committee**: The CRGE Technical committee will assess and approve investment plans submitted to both the programmed and responsive windows. It will appraise investment plans against both climate criteria (such as resilience and green growth) and development criteria (for example, alignment with the Growth and Transformation Plan, contribution to poverty reduction, and so forth), as well as the degree to which they include safeguards against undesirable social and environmental impact. Where international climate finance is to be mobilised outside of the facility (e.g. the GCF), the CRGE Technical committee will help ensure that implementation arrangements are compatible with internationally emerging Monitoring, Reporting and Verification requirements. The technical team is housed in the Ministry of Environment.
- 6. **Advisory board** provides advice to the management committee. It consists of selected development partners, civil society, and representatives of multilateral organisations, private sector and academia.
- 7. **Approved accounting agent.** A qualified body pre-approved by the CRGE facility to act as a financial conduit for funds to be disbursed via NIEs to non-state actors. These approved bodies will perform accounting functions in accordance with the rules and regulations of the CRGE facility.
- 8. **Administrative agent.** This role is performed by the UNDP multi-partner trust fund office. It administers the international account of the facility. It will ensure that international fiduciary standards are met. The GoE has signed a Memorandum of Agreement with the UNDP MPTF. It is an interim administrative agent that will build the capacity of MoFED.

Implementing entities (IEs) refer to sector ministries and the nine regional states and the two city administrations. IEs are responsible for developing sector reduction plans and for attracting, coordinating and formulating responsive proposals. IEs coordinate their sectoral reduction mechanism activities through CRGE units.

Executing entities (EEs) are responsible for implementing concrete reduction interventions. They include private sector enterprises, parastatals, micro green enterprises, community associations, NGOs, research organisations, professional societies, academic institutions, consultancy firms, financial institutions and insurance companies.

Financial planning systems

Integrated resource mobilisation framework (IRMF). The IRMF consolidates the different elements of the CRGE fund's mobilisation, allocation and management. In particular it projects the overall flows of funds required to meet the objectives set by the CRGE strategy and the SRM, as encapsulated in the CRGE strategy framework. It summarises the current availability of secured funds, according to their conditions, and earmarks their use (this information is available from the statement of availability of funds). Additionally, it identifies specific funding gaps to be filled in order to meet the projected requirements of approved programmes and projects.

CRGE funding windows: The fund has two funding windows.

- 1. Programmed window. The Programmed window will be used to channel funds, subject to strategic agreements (that is, conditions align with the CRGE strategy framework), to approved actions.
- Responsive window. The Responsive window will be used to channel funds subject
 to targeted agreements (that is, funds are subject to geographical or technical
 earmarks not accommodated by the CRGE strategy framework) to approved actions.



Uses and users	Uses: CRGE actions (strategic and responsive) Users: IEs and EEs (see above)
Private sector engagement	Envisaged role in terms of making direct investment in CRGE actions. The facility will be managed in a way that aims to unlock private sector investment in CRGE – for instance, the potential to work with specialist financial intermediaries and deploy financial instruments that are better suited to leveraging private capital.
Gender inclusion	Not applicable

Sub-national funds

Kenya – Isiolo climate Adaptation Fund

Objectives	The Isiolo climate Adaptation Fund (ICAF) is a DFID International Climate Change Fund (ICCF) project implemented by a consortium of international NGOs and Kenyan public sector bodies. It aims to support a process through which climate adaptation will be mainstreamed into local government development planning, based on priorities determined by local communities. The ICAF hopes to demonstrate through a working pilot that local communities, in partnership with county governments, have the ability to direct the prioritisation of climate adaptation investments as well as manage funds.
Type of fund	Sinking
Sources of the fund	Bilateral funding. Finance for the project currently comes from DFIDs ICCF. In future, there are different possibilities for sourcing funding, including Local government access to GCF money, possibility via a NIE National revenues Funds channelled via a nationally led climate change institution Local government revenues
Intermediaries	NGOs – money has been managed by IIED on behalf of community level committees to ensure compliance with fiduciary standards and proper control. IIED acts as a trustee, disbursing money to implementers after decisions over spending have been made. County and ward adaptation planning committees act as implementing Community Based Organisations (CBO) to hire services as required.
Financial instruments	Grants Grants to ward adaptation planning committees (WAPCs) on approval of project proposals. 70% → WAPCs, equally divided among wards 20% → county level investments or urgent needs identified by County adaptation planning committees (CAPC). 10% running costs. Total fund contains around GBP500,000 per year Payments are made after a competitive tendering and public procurement process. Payments to service providers are phased based on verification of procurement documents and contracts.
Planning and governance system	Ward adaptation planning committees. Volunteer, publically vetted committees representing each ward (the smallest) administrative level of government. WAPCs are selected to represent the range of views in their ward on issues of adaptation, resilience and development. WAPCs receive clear guidance and training on financial management. WAPCs submit proposals for funding to the CAPC. County adaptation planning committees (CAPCs). These are higher level committees drawn from the WAPCs. They are tasked with taking a broader geographical view. The CAPC vets proposals from the WAPC, but does not have the capacity to refuse — only to suggest improvements. They also have a fund to meet county level investments and manage emergencies. Climate Adaptation Fund. The fund itself is managed by a consortium including the Ministry of Northern Kenya, the National Drought Management Authority, the Kenyan Meteorological Department, IIED and others. They provide strategic management and facilitate training and planning processes through workshops. External and internal audits are used to ensure sound financial management.



Uses and users	Uses. The fund is restricted to 'public good investments'. In the context of an economy centred on pastoralism, public good investments are seen as the most effective way of benefitting many different livelihood types at once, by supporting pastoralism and the many types of livelihoods that are centred on it. Users: Wards and county adaptation planning committees are responsible for prioritising and channelling funds.
Private sector engagement	The ICAF is a public sector project. Funds are managed by publically vetted committees in partnership with county government. A defining condition of proposals by WAPCs is that they can only be used to develop 'public goods'.
Gender inclusion	Both ward and county adaptation planning committees must include representatives from traditionally marginalised groups. WAPCs must have two youth, and three women representatives. CAPCs must have two youth and two women representatives. Women (and youth) are also a key part of the investment prioritisation and assessment process, with their views being sought in addition to broader communities meetings through focus groups and household interviews.

Multilateral climate funds

Adaptation Fund

Objectives	The Adaptation Fund was established to finance concrete adaptation projects and programmes in developing countries that are parties to the Kyoto Protocol and are particularly vulnerable to the adverse effects of climate change ¹ . Its innovative direct access modality that allows national governments or their nominated national and subnational institutions to receive international climate funds directly and to disburse them to relevant projects has been recognised as the best practice for enhancing national ownership and accountability of developing countries ² .
Type of fund	Sinking fund + revolving fund.
Sources of the fund	Financing for the AF comes mainly from the sale of certified emission reductions: the share of proceeds amounts to 2% of the value of CERs issued each year for CDM projects. However, in recent years, because of market forces (devaluing of CERs and collapse of the global carbon market), the fund's primary intended revenue source has diminished. The AF board is trying to diversify its financing sources to donations (mainly bilateral sovereign contributors, but is extending to non-sovereign entities, and smaller entities or individuals). In 2013, the fund's revenue source structure was US\$188.2 million from the CER income, US\$134.5 million from donations, and a US\$100 million fundraising target (achieved).
Intermediaries	For direct access, intermediaries include NIEs and RIEs, which could be governmental ministries, development banks, NGOs or research institutes. For non-direct access, MIEs are the main intermediaries. Current MIEs of the AF are all international organisations, such as World Bank, World Food Programme, World Meteorological Organisation and UN agencies. The fund currently has 16 accredited NIEs, 11 MIEs and 4 RIEs, while only 5 NIEs have had their projects approved and entered into the implementation process. The majority of funds (US\$181 million) and projects (29) are accessed and implemented by MIEs (Adaptation Fund web, 2014).
Financial instruments	A Grant is the only financial instrument that is used by the AF currently.
Planning and governance system	The AF is supervised and managed by the Adaptation Fund Board (AFB). The board is composed of 16 members and 16 alternates, representing Parties to the Kyoto Protocol. A majority of members – about 69% – represent developing countries. The Accreditation Panel is responsible for evaluating the qualifications of IE candidates, in order to ensure that organisations receiving AF money meet the fiduciary standards. The Panel consists of three independent experts and two board members. The World Bank serves as the interim trustee of the AF by invitation of the Parties to the Kyoto Protocol.



Uses and users	The end users of the fund are the EEs of the adaptation projects. EEs are accountable to implementing entities for their use of the funds. EEs are usually ministries, national planning agencies, NGOs, research institutes or local communities. All the financial resources are used to facilitate the adaptation projects and programmes in the climate vulnerable countries. Current projects range from food security to DRR, agriculture, multi-sector adaptive capacity building, water management, coastal management and rural development. As of January 2014, 63 projects have been submitted to the fund, from which 16 projects' concepts have been endorsed, and 37 projects have been fully approved.
Private sector engagement	At the United Nations Framework Convention for Climate Change negotiations (COP 18) in Doha, Qatar, private donations to AF were made possible through the UN Foundation Partnership. Private donation is becoming a major complementary source of the fund's revenues. In terms of project implementation, the private sector is closely engaged as an important stakeholder. The private sector often performs as an EE. When the fund reviews the proposed projects, it is specifically required that the targeted private sector stakeholders should be consulted and proof of their engagement in the processes must be provided.
Gender inclusion	Gender equity is a constant concern of the fund. It is highlighted in the fund's environmental and social safeguards that: 'The project/programme provides economic, social and environmental benefits, with particular reference to the most vulnerable communities and vulnerable groups within communities, including gender considerations.' 'The consultative process, including the list of stakeholders consulted, undertaken during project preparation, with particular reference to vulnerable groups, including gender considerations.'

Pilot programme for climate resilience (PPCR) – climate investment funds (CIF)



Sources of the fund	Some of the major contributing countries for PPCR are USA, UK, Canada, Germany, Australia, Denmark, Norway, Spain and Japan. So far countries have pledged approximately US\$1.15 billion towards PPCR Around US\$0.98 billion has been deposited Around US\$0.69 billion has been approved Only US\$20 million has been disbursed (CFU 2012)
Intermediaries	MDBs National focal entities – Ministry of Finance, Ministry of Planning, Ministry of Environment and Forest
Financial instruments	Concessional loan Grants Risk guarantees through the private sector window Foreign exchange risk mitigation.
Planning and governance system	At the fund level: The SCF is governed by donor and recipient representatives, with the World Bank Group as the main administering body. The decision-making bodies include: The SCF Trust Fund Committee, which is an overseeing body that decides the operations of the SCF. It includes eight representatives from donor countries, eight from recipient countries, one representative from the World Bank and one representative from other MDBs, the MDB Committee (see below), Partnership Forum (see below), Administrative Unit (see below) and a Trustee (see below). An SCF sub-committee for each of the programmes. For example, for PPCR it is the PPCR sub-committee, which is a facilitative body enabling information exchange, coordination, collaboration and experience-sharing between the MDB partners. The MDB committee, which is a facilitative body enabling information exchange, coordination, collaboration and experience-sharing between the MDB partners. The partnership forum engages representatives of donor and recipient countries, civil society members, private sector, UN agencies and so on. A Trustee (the World Bank), which holds in trust, as the legal owner and administrator. The International Bank for Reconstruction and Development (IBRD) acts as the trustee in the CIFs. Within the CIFs, the same banks perform dual roles as Trustee (IBRD) or CIF Administrators (World Bank) as well as implementing bodies. The decision-making arrangement for PPCR within the SCF comprises a PPCR sub-committee, observers and the expert group, outlined below: PPCR sub-committee is established by the SCF Trust Fund Committee to oversee the operations of PPCR. It comprises six representatives from donor countries, six representatives from recipient countries, the developing country chair or vice-chair of the Adaptation Fund Board, and one representative of a recipient country that is under sub-committee consideration for funding. The first three are the key decision-making members who serve for an annual term and can be reappointed. Obse



	investment projects. These include Asian Development Bank, International Finance Corporation, World Bank, African Development and Inter-American Development Bank. Depending on their readiness, participating countries have either decided to build on existing institutions, revive or strengthen existing institutions or establish new institutions for addressing climate change issues.
Uses and users	Uses: PPCR is the funding arm of CIF that only funds adaptation projects. The funds are channelled through (a) technical assistance grants and (b) investments which can be both a combination of loans and grants. Technical assistance grants mostly support the mainstreaming of climate resilience within development planning, provide support to build knowledge and awareness among the national institutions or develop coordination capacities of existing ministries. Investment projects: Key sectors supported by the proposed investment plans are agriculture, food security and land management. Other key priority areas include climate-proofing of infrastructure projects, such as roads, water, basic urban services and embankment projects. Some investment projects aim to build climate resilience through private sector participation. These are usually IFC-led projects. Users National implementing line ministries Private sector Civil society in some projects.
Private sector engagement	CIFs have a dedicated earmarked allocation to the private sector through IFC that aims to deploy PPCR funding to help foster private sector development and leverage additional private investment for adaptation. The PPCR intends to (a) enhance the knowledge, capacity and financial incentives for the private sector and enable them to undertake appropriate
	climate change interventions, (b) develop necessary regulations to encourage private sector adaptation actions and (c) use concessional financing to attract private sector investment (CIF 2009). National governments have proposed specific climate-resilient actions that they expect to deliver by engaging with the private sector. For example: IFC is working with private stakeholders to promote climate-resilient agriculture and food security, to leverage private sector investment in forestry and micro-irrigation, etc.
Gender inclusion	

NDBs

Bangladesh Bank (Green banking)

Objectives	The green banking policy aims to push the private sector into taking up environmental policies as part of its decision-making processes. It also hopes to direct private finance towards renewable energy and other environmental projects.
Type of fund	 Policy and strategy framework Funding for green initiatives – revolving fund, accessible to financial institutions, aimed at renewable energy generation and environmentally beneficial projects
Sources of the fund	 Bangladesh Bank. Credit fund contains BDT2 billion (US\$24.5 million). CSR funds of private banks Investment funds of private banks
Intermediaries	National Bank (Bangladesh Bank). Local and commercial financial institutions
Financial instruments	 Climate risk funds created in each bank – designed to support lending to high risk areas without high premiums Green finance



Planning and governance system	 Establishment of green banking units. Established to design, evaluate and administer green banking policy. Headed by senior executives External evaluations of green banking practice
Uses and users	 Aimed at environmentally beneficial projects Internal policy of banks to support low-carbon offices and banking practice (i.e. by introducing internet banking, recycling, etc.) Renewable energy financing Users consist of financial institutions and project developers
Private sector engagement	As the policy goes through the MFI and involves all private sector lending institutions, the green banking policy goes to the core of private sector engagement. The policy supports the inclusion of environmental risk management and environmental considerations to be made in the majority of investment decisions, effectively pushing the private sector to embrace environmental concerns as a fundamental decision-making factor.
Gender inclusion	None

Rwanda Development Bank

Kwanda Develop	
Objectives	The Development Bank of Rwanda's (BRD's) role in financing climate change is part of the broader FONERWA fund for channelling international and national funds towards climate projects. The BRD aims to catalyse the private sector into investing.
Type of fund	Sinking fund. Transferring into a revolving fund at a later date.
Sources of the fund	Public revenue/taxes.
Intermediaries	 Rwandan Development Bank Local financial institutions Project developers
Financial instruments	Instruments used, and therefore the role of BRD, will change with time. The bank's main role comes in implementing, in partnership with the fund, the 20% of resources allocated to the private sector. This comes in the form of a credit line managed by BRD. In the short term, the private sector window is made operational in the form of an 'Innovation grant' for which proposals can be made for three types of projects. Research and development. Financial assistance (in the form of grants) for industrial research into new products, processes and services, or improving existing ones, or experimental research for similar purposes. Proof of concept grants. Supports pre-investment in ventures aiming to establish the commercial viability of products or services. Grants can go to support prototype development, feasibility studies, business planning, technical studies, etc. Demonstration grants. These target promising technologies, services or processes needing design and evaluation. Grants are for no more than US\$300,000, with applicants having to match at least 25% of the funding. In the medium term, instruments will include low interest and/or concessional loans to businesses and government bodies. Loans may also be provided for project development costs, with repayment conditional on proposal execution. There will also be a guarantee component aimed at commercial banks or direct to businesses. Guarantees will cover 50 to 80% of the value of the outstanding loans. This instrument will only come into use when FONERWA is deemed ready. Promoters will be able to access a line of credit with a below market interest rate of 11.45%. Credit can be for between GBP50,000 and 5 million In the long term, future investments are likely to be in the form of equity investments, but instruments after this period are likely to be subject to the fund's performance, capacity and private sector demands. The bank is likely to require upgraded financial analysis and legal capacity. It is likely that the fund will evolve into a vent



Planning and governance system	At present, BRD is undergoing capacity building in order to support its future work in implementing the private sector window. The future of the nature of the private sector window will be decided by the FONERWA management committee. In the medium term, the bank is expected to develop a more significant role, taking active participation in managing the private sector window of funds. There would be a hybrid institutional arrangement in which FONERWA will have separate funding streams (government and CSO) managed by the secretariat, ii) private sector – managed by BRD. Both will report to the same governance structure. FONERWA has developed an operational manual, but so far references to the BRD are based around plans for capacity building projects. FONERWA is integrated into the annual budget allocations of the public sector agencies. The fund uses the reporting systems of the BRD to account for funds disbursed to the private sector.
Uses and users	The potential uses of the fund are broad, with developers being invited to submit any climate related projects. Users will primarily include project developers and investors.
Private sector engagement	The fund actively attempts to engage the private sector, first by supporting innovation, product development, and capacity building, and later investing in projects in the hope of a return.
Gender inclusion	Not applicable

Mexico - NAFIN

Objectives	Mexico's renewable energy finance facility (REFF) aims to channel international and domestic public resources to support the development of renewable energy projects, principally wind, solar and small-scale hydroelectric projects.
Type of fund	Revolving
Sources of the fund	 US\$70 million – Clean Transformation Fund – World Bank US\$70 million – Inter-American Development Bank (IDB) – co-financed from an existing credit line US\$70 million – NAFIN's current resources US\$70 million – further capitalised by leveraging private capital
Intermediaries	 World Bank CTF IDB NAFIN Private/local financial institutions Project developers The National Bank has been chosen as an intermediary because of its optimum position for channelling international resources, in combination with its own, to local financial institutions and project developers. NAFIN has a long relationship with IDB, making it a natural partner for this particular project. Over the years, NAFIN has proved to be a solvent bank with strong risk management systems and fiduciary standards, with experience of drawing down international funds and disbursing them. It also has a sustainable project directorate, a unit specifically developed to support climate related projects. Local financial institutions and project developers are further intermediaries, as implementing or executing partners.
Financial instruments	 Direct loans – fixed interest, long maturing loans (10–15 years) are offered directly to project developers, for construction of new renewable energy projects. Contingent credit lines – credit lines are offered to cover cash flow shortages during the project. It is foreseen that these may be caused by lower than expected energy generation, demand or prices. Projects are only eligible to receive a loan of US\$10 million. This sum cannot total more than half the project's total investment needs. It is thought that this will support the leveraging of the maximum amount of project finance.



Planning and governance system	NAFIN takes charge of the project selection process. It is also responsible for stimulating demand and structuring financial packages in a way that will make them attractive to local developers. Reporting is carried out by NAFIN and presented to IDB every six months, measuring progress against pre-set indicators. A joint mid-term evaluation takes place after 50% of the funds are disbursed or after 24 months.
Uses and users	Uses: renewable energy projects. Users: Project developers in the private sector for renewable energy projects Local financial institutions
Private sector	This fund engages specifically with the private sector in order to promote and support
engagement	development.
Gender inclusion	

