



National Climate Finance Mechanism

what is it?

Neil Bird, Research Fellow
and Helen Tilley, Research Fellow

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Aims for a national finance mechanism

Finance raising

- Attract and blend different types of climate change finance (public, private, multilateral, bilateral and innovative sources of finance)
- Identify which international funding sources are appropriate

Capacity building

- Capacity building and knowledge sharing among stakeholders
- Provide a system that supports goal setting and the development of programmatic strategies on climate change

Policy coordination

- Facilitate regular discussions and stakeholder engagement on national climate issues
- Manage partnerships by clearly defining and coordinating the roles of stakeholders
- Support the management of relationships with other financing mechanisms (e.g. UNFCCC and other sources)

Project management

- A project approval and implementation structure
- Project cycle guidelines to clearly outline the technical and eligibility requirements
- Ensure that quality standards are met
- Policy assurance through social and environmental safeguards
- Financial controls that ensure high quality monitoring and reporting
- Performance monitoring of projects and programmes

(Source: Mugurusi 2012)



What are the options?

Mechanism	
Domestic	National budget - the recurrent and development budget
	Extra-budgetary funds
International	Climate Change Budget Support
	Multi-Donor Trust Funds
	Project Delivery
	Global Funds

These are not mutually exclusive options !



Domestic public climate finance

The national budget system

- Public funding for climate change actions can be passed through the national budget
- Ideally, a functional classification should be in place to identify climate finance within the national budget
- Other country examples: UNDP-supported studies in **Nepal, Bangladesh, Thailand, Cambodia and Samoa**

Questions

- How detailed and comprehensive is the budget classification?
- Will channelling funds through the national budget attract sufficient international financing?

Advantages

- Under government control so can directly reflect national climate change priorities
- Benefits from having the scrutiny of the national parliament
- Uses the domestic public financial management system so avoids parallel systems
- Can be used to encourage capacity building investment in national systems
- Can enhance coordination of climate change activities.



Domestic public climate finance

Extra-budgetary funds

- A new area of focus for support to climate change
- These are funds with separate banking and institutional arrangements beyond the national budget
- Raises the possibility of tapping into new sources of funding specifically for climate change actions

Advantages / disadvantages

- The separate banking and institutional arrangements are often diverse and complex
- Can enhance coordination of climate change activities

Questions

- Will the specific institutional arrangements incur excessive transaction costs?
- Does the management capacity exist?



The Indonesia Climate Change Trust Fund

- The Indonesia Climate Change Trust Fund (ICCTF) was created by the Government and began operation in 2010
 - It receives contributions from bilateral and multilateral donors and coordinates external and domestic financing
 - The ICCTF is administered by Indonesia's National Development Planning Agency, with UNDP currently serving as the interim Fund Manager
 - The ICCTF consists of the Innovation Fund and the Transformation Fund:
 - The Innovation Fund channels grants to central and local government institutions, NGOs and civil society
 - The Transformation Fund mobilises investment through Public Private Partnerships, foreign and domestic loans and capital markets. It aims to promote a low-carbon and climate resilient development path
 - ICCTF governance consists of:
 - A Steering Committee responsible for overall strategic policy recommendations that includes donors, Government, NGO and CSO representatives.
 - A Technical Committee that advises on technical matters.
 - A Secretariat that supports its daily operation
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The Thai Energy Conservation Promotion Fund

- Thailand's Energy Conservation Trust Fund (ENCON) was established under the Energy Conservation Promotion Act in 1992
- It provides support for energy efficiency activities financed mainly from GoT levies on petroleum products
- It has financed the Thailand Energy Efficiency Revolving Fund, ESCO venture capital, tax incentives and investment grants
- ENCON governance consists of:
 - Supervision by Energy Conservation Promotion Fund committee, chaired by Deputy Prime Minister
 - Monitoring by an M&E subcommittee that oversees the evaluation of the activities it has funded
- Activities are based on a rolling Five-Year Energy Conservation Programme



International public climate finance

Climate Change Budget Support

- International climate change finance channelled through the national budget and subject to normal government disbursement and reporting procedures
- The degree of earmarking determines the restrictions over the use of funds, distinguishing Sector Budget Support from General Budget Support.



- Examples include:
 - the Climate Change Programme Loan in Indonesia
 - Direct budget support for climate change in Vietnam
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Vietnam Climate Change Budget Support

- Vietnam's Support Program to Respond to Climate Change (SP-RCC) was established in 2009
 - Four donors (JICA, AFD, WB and CIDA) contribute over US\$300 million
 - Funding is provided as general budget support
 - Annual contributions are released on the achievement of policy actions agreed between the GoV and donors
 - SP-RCC aims to strengthen Vietnam's climate change response by coordinating work between the Government of Vietnam (GoV) donors
 - Achievements include:
 - The adoption of a National Strategy on Climate Change in January 2012 and the establishment of a National Committee on Climate Change chaired by the Prime Minister.
 - The assessment of climate change impacts and the development of climate change and sea level rise scenarios.
 - The development and implementation of action plans to respond to climate change (7/11 relevant ministries and 10/64 cities and provinces have adopted climate change action plans)
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International climate change finance

Multi-Donor Trust Funds

- These are similar to the domestic climate change trust funds, but the control over expenditure is retained by the contributing countries who participate in the governing body alongside the national government
 - Often international agencies (such as the World Bank or UN agencies) play a role in the secretariat
 - Examples include:
 - Rwanda’s Environment and Climate Change Fund (FONERWA)
 - Bangladesh’s Climate Change Resilience Fund (BCCRF)
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Rwanda trust fund

- Rwanda's trust fund, Environment and Climate Change Fund (FONERWA) is a cross sectoral mechanism for the channelling, programming, disbursement and monitoring of climate finance
 - Designed in 2012, it has yet to go into operation
 - It aims to receive contributions from development partners, international funds and the private sector
 - It aims to harmonise and rationalise international and domestic environment and climate finance across line ministries and districts, charitable and private entities, including businesses, civil society and research institutions
 - A gap of US \$100 million per year in environment and climate change funding has been identified, of which the fund expects to fill up to 30%
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International climate change finance

Project finance

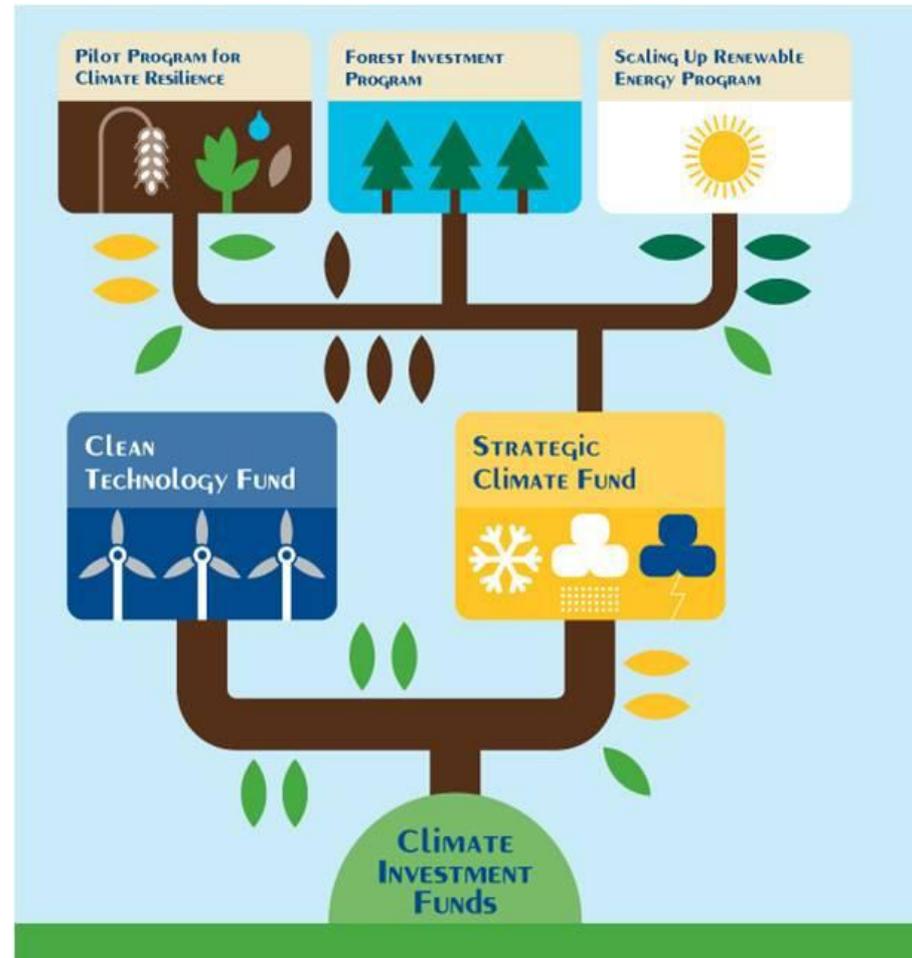
- Projects are preferred by those who work through NGOs and Civil Society Organisations
 - Some development partners provide financial support to governments through stand-alone projects
 - Cash transfers are made directly into the bank account of implementing organisations, therefore they have separate reporting and institutional arrangements
 - They can (and should) be reported in the development budget and presented to Parliament
 - Many international NGOs who are involved in climate change work receive project funding
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International climate change finance

Global Vertical Funds

- Global funds can operate through government systems or provide funding through parallel arrangements
- The Climate Investment Fund (CIF), administered by the World Bank, is the main climate change global fund
- Under UNFCCC, financing is delivered through the Global Environment Facility (GEF) and the Adaptation Fund
- The financial systems that are used depend on the implementing entities (usually the multilateral development banks)



Source: World Bank



Summary of advantages and disadvantages of different mechanisms

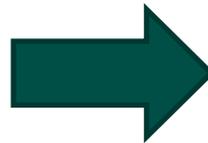
Mechanism	Advantages that could be achieved	Disadvantages that might be experienced
National budget	<ul style="list-style-type: none"> • Reflects national priorities • Parliament scrutiny • Uses the national public finance system • Supports development of national capacity 	<ul style="list-style-type: none"> • Difficult to track if no / weak functional classification
Extra-budgetary funds	<ul style="list-style-type: none"> • Can enhance coordination of climate change activities • Involves the private sector 	<ul style="list-style-type: none"> • Separate banking and institutional arrangements may be diverse and complex • Extra reporting requirements
Climate Change Budget Support	<ul style="list-style-type: none"> • Enhances coordination and prioritisation of climate change activities • Technical assistance for building national systems 	<ul style="list-style-type: none"> • Donors need to be confident in national systems
Global Funds	<ul style="list-style-type: none"> • Access to additional finance • May use national systems • Many require projects to be in line with national priorities 	<ul style="list-style-type: none"> • Extra reporting requirements • May have separate banking and institutional arrangements
Multi-Donor Trust Funds	<ul style="list-style-type: none"> • Access to additional finance 	<ul style="list-style-type: none"> • Extra reporting requirements • Separate banking and institutional arrangements • Donors control funds
Projects	<ul style="list-style-type: none"> • Access to additional finance • Specific financing needs are fulfilled 	<ul style="list-style-type: none"> • Extra reporting requirements • Separate banking and institutional arrangements • No flexibility over use • Least sustainable source



What are Tanzania's Priorities for a Financing Mechanism?

Roles and responsibilities of the climate finance mechanism:

- Climate finance
 - Attract and blend different types of finance
- Capacity building
- Policy coordination
 - Facilitate discussions and stakeholder engagement
 - Manage partnerships
- Project management
 - A project approval and implementation structure
 - Performance monitoring of projects and programmes



Some possible priorities for developing a climate finance mechanism:

1. Identify a GoT institution to house the mechanism
2. Identify its current capacities and weaknesses
3. Identify sources of short and long term support



1. Where could the coordination of climate finance be housed in GoT?
2. What institutional adjustments need to be made to build capacity?



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Overseas Development Institute
203 Blackfriars Road, London, SE1 8NJ
Tel: +44 207 9220 300

www.odi.org.uk

n.bird@odi.org.uk