

Blending Climate Finance Through National Climate Funds

A Guidebook for the Design and Establishment of National Funds
to Achieve Climate Change Priorities





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Contents

FOREWORD	iii
OVERVIEW	1
Purpose of Guidebook	3
Target Audience	3
Structure of Report	3
CHAPTER 1: OVERVIEW OF NATIONAL CLIMATE FUNDS	5
1.1 Climate Finance Landscape	6
1.2 Key Goals of a National Climate Fund	8
1.3 Common Functions of a National Climate Fund	10
CHAPTER 2: DESIGNING A NATIONAL CLIMATE FUND	11
2.1 Common Components and Structural Overview of a National Climate Fund	12
2.2 Key Decision: Defining the Objectives	17
2.3 Key Decision: Identifying Capitalization	19
2.4 Key Decision: Instilling Effective Governance	22
2.5 Key Decision: Ensuring Sound Fiduciary Management	25
2.6 Key Decision: Supporting Efficient Implementation Arrangements	28
2.7 Key Decision: Facilitating Effective Monitoring, Reporting and Verification	31
2.8 Consolidating Inputs into Term Sheets	33
CHAPTER 3: UNDP TRUST FUND ADVISORY AND MANAGEMENT SERVICES	35
3.1 UNDP Administered Trust Funds	36
3.2 UN Multi-Donor Trust Funds	37
3.3 UNDP Trust Fund Implementation Services	39
3.4 UNDP National Climate Fund Advisory Services	40
CHAPTER 4: CONCLUSION	43
CHAPTER 5: SAMPLE TERM SHEETS OF 5 NATIONAL CLIMATE FUNDS	47
Indonesia Climate Change Trust Fund	48
Bangladesh Climate Change Resilience Fund	49
China CDM Fund	50
Ecuador Yasuni ITT Trust Fund	51
Brazil National Fund on Climate Change	52
CHAPTER 6: ANNEX	53
Glossary of Terms	54
Useful Websites and Resources	56

Designing and Establishing National Climate Funds

A Guidebook for Decision-Makers

This guidebook is part of a series of manuals, guidebooks and toolkits that draws upon the experience and information generated by the United Nations Development Programme's (UNDP) support for climate change adaptation and mitigation projects in some 140 countries over the past decade. These resources are intended to enable project managers, UNDP Country Offices and developing country government decision-makers to acquaint themselves with a variety of methodologies most appropriate to their development contexts in support of their transition to green, low-emission and climate-resilient development.

In a flexible and non-prescriptive manner, the reports offer detailed guidance for the identification of key stakeholders and establishment of participatory planning and coordination frameworks; generation of climate change profiles and vulnerability scenarios; identification and prioritization of mitigation and adaptation options; assessment of financing requirements; and development of green low-emission and climate-resilient roadmaps for project development, policy instruments and financial flows. They can be accessed at www.undp.org/energyandenvironment/climatestrategies.

This publication focuses on the design and establishment of National Climate Funds to support countries to collect, coordinate, blend and account for climate finance.

Author: Cassie Flynn, UNDP Climate Change Policy Specialist

Reviewers: Yannick Glemarec, Rebecca Carman, Pia Treichel, Isabel Kreisler, Jennifer Baumwoll, Susanne Olbrisch, Cristina Colon, Simon Billett, Henriette Keijzers, Olga Aleshina, Dawn del Rio, Alex Heikens, Andrew Mears, Stephen Gold, Matt Spannagle, Khim Lay, Abu Mostafa Kamal Uddin, Tomoyuki Uno and Goerild Heggelund.

Editor: Laura Jensen

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Foreword

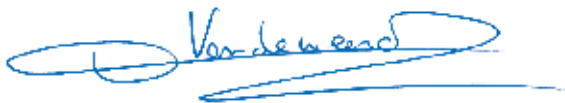
Climate change is one of the most pressing threats to development today. Addressing climate change requires that countries transform their economies and grow in a different way — climate and development planning must be integrated so that policies and actions across multiple sectors and scales lower greenhouse gas emissions, reduce vulnerability to climate shocks and deliver poverty reduction gains.

The good news is that countries have new and expanded opportunities to finance climate change actions — billions from the public and private sectors will be channeled toward climate activities. In order for countries to take advantage of these opportunities, however, the right institutional and financial mechanisms must be in place so that resources are directed efficiently toward national climate and development priorities.

An important tool for countries to manage climate finance is a National Climate Fund. NCFs are nationally-driven and nationally-owned funds that help countries to collect climate finance from a variety of sources, coordinate them, blend them together and account for them. In this way, countries are in the driving seat and can make informed choices for how direct resources toward activities that deliver results on the ground.

This guidebook is part of a series of practical guidance documents and toolkits to support national and sub-national governments to achieve low-emission, climate-resilient development. It provides information based on UNDP's decades of experience in delivering climate change programming in order to help countries design and establish an NCF that is tailored to their priorities and builds on existing governance, policy and fiscal frameworks and systems.

It is my hope that this guidebook will contribute to the ongoing efforts of countries to manage climate change finance and that it will support countries to be more equipped to achieve transformational change whereby positive development and poverty reduction are achieved and sustained over time.



Veerle Vandeweerd

Director

Environment & Energy Group

United Nations Development Programme





Overview

- Purpose of Guidebook
- Target Audience
- Structure of Report

Overview

By pledging \$30 billion in climate change finance by 2012 and up to \$100 billion annually by 2020, governments have ushered in a new era of funding for climate change. Only ten years ago, climate finance was managed by a small number of large funds associated with the United Nations Framework Convention on Climate Change (UNFCCC) process. Today, there has been an explosion of public, private, bilateral and multilateral sources that offer countries new opportunities to address their climate and development needs.

While this new landscape of climate change funds provides increased resources, it also brings increased complexity. Requirements, processes and reporting can differ among the funds and countries are faced with the challenge of identifying which funds are appropriate for them, how to collect resources, how to blend them together, how to coordinate the actions funded by them and how to develop the methods to monitor and evaluate the results. Given the diversity of funds, it is critical that countries can build on existing institutions and programmes to manage resources at the national level to support country-driven objectives.

One tool that can help countries respond to these challenges is a National Climate Fund (NCF). An NCF is a mechanism that supports countries to manage their engagement with climate finance by facilitating the collection, blending, coordination of, and accounting for climate finance. NCFs provide a country-driven system that can support climate change goal setting and strategic programming, oversee climate change project approval, measure project implementation and performance, offer policy assurance and financial control of climate change funds and assist with partnership management. NCFs help countries to blend various resources together at the national level, providing a mechanism for shifting power away from traditional top-down fund management to country-level management. A country's climate change objectives are managed and supported from the inside out, not the other way around.

Designing an NCF requires carefully considering its objectives and then crafting a structure that supports the achievement of these objectives. Many NCFs deliver a common set of services, however the exact components and structures to deliver the services vary greatly according to national circumstances and priorities. In other words, the way in which the fund's components are designed shapes how the NCF delivers its support. For example, an NCF capitalized by international and national public finance will collect and blend resources differently than an NCF that relies only on private finance. Tailored fiscal tools and mechanisms will be required to access and channel public and private sources effectively. Further, depending on its capitalization modalities, an NCF may aim to strengthen capacities of national stakeholders, including for direct access to climate finance.

A key lesson learned from UNDP's experience in administering over 750 funds around the world, and in providing trustee and administrative agent services for over \$5 billion in multi-donor trust funds, is that a National Climate Fund must be carefully designed to align with national objectives and capacities on climate change. To accomplish this, the design and administration of an NCF can demand extensive time, effort and resources. While this guidebook does not focus on if a country should establish an NCF, it does help countries deepen their understanding of the design choices that are critical to successful NCFs. In the pages that follow, countries can identify the scope and scale of an NCF that matches their needs and priorities and decide if an NCF is right for them.

It is UNDP's hope that this guidebook will help countries to make the most out of the expanding climate change finance landscape. Well-designed NCFs can better equip countries to blend domestic and international, public and private, and concessional loan and grant climate finance at the national level. In this way, NCFs can help countries achieve results and more efficiently and effectively support the transition toward low-emission and climate-resilient development.

Purpose of Guidebook

The purpose of this guidebook is to assist countries in designing a National Climate Fund. It leverages UNDP's experience with funds at the global, regional, national and sub-national levels and shares lessons learned about designing and administering NCFs. It also aims to provide a simple, robust and transparent method for meaningful stakeholder engagement throughout the design process.

Target Audience

The principle audience for this publication is the decision-maker at the national and sub-national levels, as well as domestic and international experts involved in assisting governments in establishing institutions and frameworks to support the management and delivery of climate finance.

Structure of Guidebook

The guidebook is divided into three parts. Chapter 1 provides an overview of NCFs, including the basic goals and functions. Chapter 2 provides a process for designing an NCF, including identifying the objectives, capitalization, governance, fiduciary management, implementation arrangements and monitoring, reporting and verification (MRV) structures and systems. Each of these components is accompanied by a series of targeted questions that facilitates decision-making for that component. Chapter 2 also describes UNDP's approach for consolidating stakeholder input by creating a term sheet. Chapter 3 describes UNDP's management and advisory services, and the implementation assistance offered by UNDP. Chapter 4 provides a conclusion and Chapter 5 presents five sample term sheets. The Annex includes a glossary and list of useful resources and websites.





Chapter 1

Overview of National Climate Funds

- 1.1 Climate Finance Landscape
- 1.2 Key Goals of a National Climate Fund
- 1.3 Common Functions of a National Climate Fund

1

Overview of National Climate Funds

1.1 Climate Finance Landscape

Climate change is regarded as a key environment and development challenge for the 21st century. Affecting every continent, climate change impacts threaten to undo progress made toward poverty reduction and the achievement of the Millennium Development Goals. Governments agree that business-as-usual development will not suffice — countries need a new way forward that helps their economies grow in a manner that acknowledges the pressing reality of climate change. Countries must transition toward a new paradigm that supports low-emission, climate-resilient development, shifts production and consumption processes to emit fewer greenhouse gases and promotes sustainable development.

Ushering in a new development paradigm requires a dramatic increase in climate change finance. Recognizing this, governments gathered at the UNFCCC Climate Change Conference in Cancun and pledged \$30 billion in “fast start” funding — climate funds pledged between 2010 and 2012 — and up to \$100 billion annually by 2020. These pledges have been matched by an explosion of public and private funds outside of the UNFCCC process, offering countries new resources to undertake climate change mitigation and adaptation actions. UNDP estimates that, taken together, there are already more than 50 international public funds, 45 carbon markets and 6,000 private equity funds providing climate change finance.¹ Each of these public, private, bilateral and multilateral sources offers new opportunities for countries to address their climate and development needs.

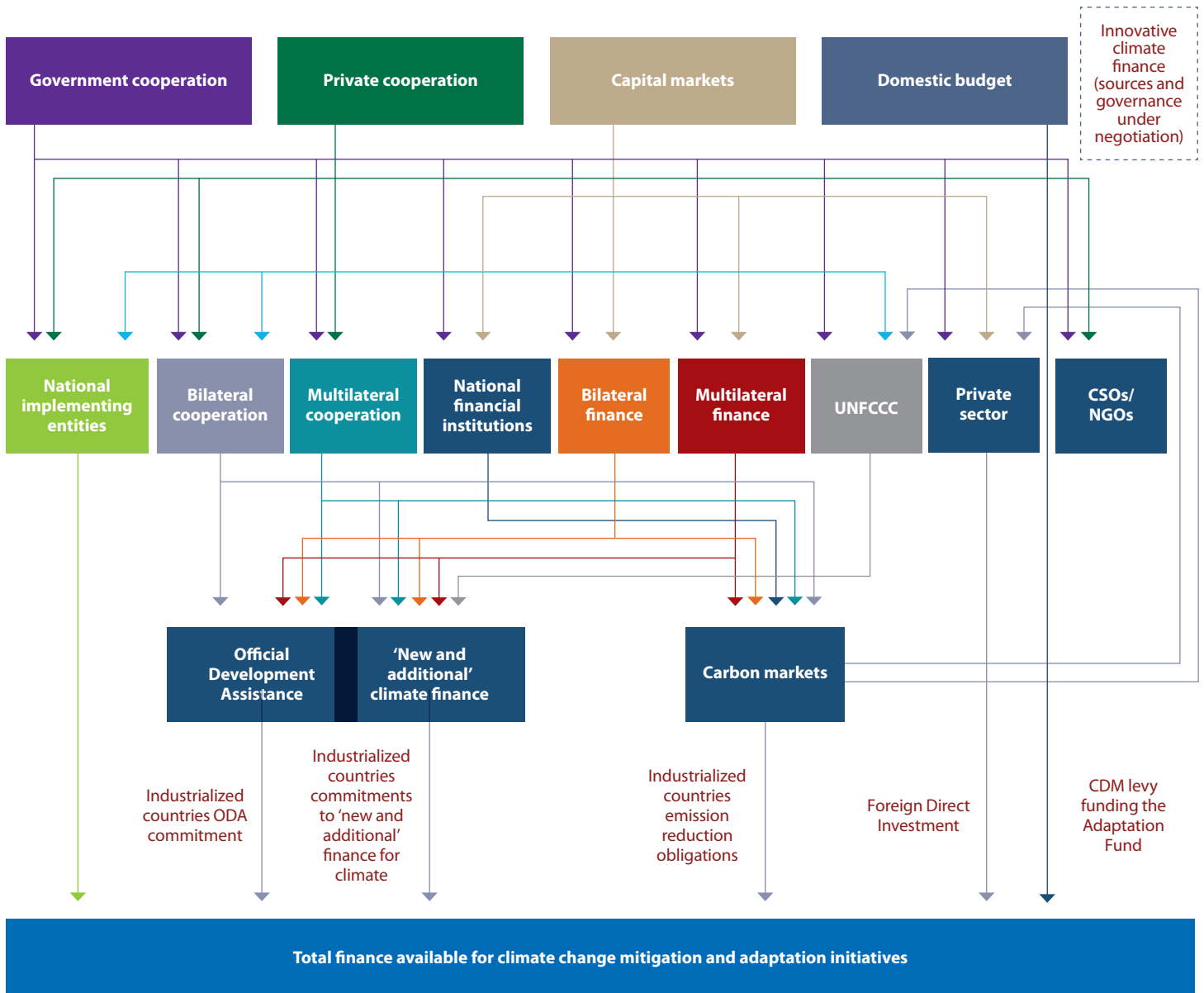
The increase in climate change funding opportunities makes it important for countries to consider how to attract and leverage different types of climate change investment, including that from private sources. The International Energy Agency (IEA) estimates that about 40% of the global additional investment needed in climate change finance in 2020 will come from private households, 40% from businesses and the remaining 20% from government.² With private sector funds outnumbering government funds by an enormous margin, a key challenge for countries will be to use scarce public funds to attract private investment. Public funds — such as those under the UNFCCC — must be leveraged in strategic ways to attract new resources from the private sector.

The dramatic increase in opportunities to access climate finance is matched by equally increasing complexity. The requirements, processes and reporting associated with the many funds can be confusing and overwhelming. Countries are faced with the challenge of how to identify which funds are appropriate for them, how to coordinate the actions funded by them, and how to develop the methods to monitor and evaluate the results.² Further, countries must also figure out ways to blend funds together so that multiple sources can support climate change initiatives. This will be necessary to finance a complete transformation toward low-emission and climate-resilient development.

¹ UNDP, Human Development in a Changing Climate: A Framework for Climate Finance, 2011.

² Glemarec, Yannick (2011). *Catalyzing Climate Finance: A Guidebook on Policy and Financing Options to Support Green, Low-Emission and Climate-Resilient Development*. United Nations Development Programme, New York, NY, USA.

Figure 1: Climate Change Finance: Sources, Agents and Channels



Source: Adapted by author from Atteridge and others (2009).

1.2 Key Goals of a National Climate Fund

Types of NCF Goals

- Collect sources of funds and direct them toward climate change activities that promote national priorities
- Blend finance from public, private, multilateral and bilateral sources to maximize a country's ability to advance national climate priorities
- Coordinate country-wide climate change activities to ensure that climate change priorities are effectively implemented
- Strengthen capacities for national ownership and management of climate finance, including for "direct access" to funds

One tool that countries can use to meet this challenge is a **National Climate Fund (NCF)**. NCFs are a mechanism that supports countries to direct finance toward climate change projects and programmes. The key goals of an NCF are the collection, blending, and coordination, as well as strengthening national ownership, of climate finance (Figure 2). Each of these goals can be tailored to support country-driven climate change priorities based on national circumstances and realities. NCFs can also serve as a gateway for enhanced capacity building and knowledge sharing among stakeholders.

The NCF's four goals provide the foundation for its programmatic and operational components. First, by **collecting and distributing funds to climate change activities that promote national priorities**, an NCF provides a unified engagement point where the government, donors, development partners, civil society and other stakeholders can engage on and make decisions about climate change issues.

Moreover, while traditional mechanisms under the UNFCCC are limited to collecting donor funds or resources under the Clean Development Mechanism (CDM), an NCF can attract a more diverse variety of sources of climate financing. Public, private, multilateral and bilateral funds, as well as innovative sources, can be collected by an NCF for coordinated and streamlined results.

Second, an NCF **facilitates the blending of public, private, multilateral and bilateral sources of climate finance**. It is rare that one or two funds would be able to cover the costs necessary to transition and entire economy toward low-emission, climate-resilient development. Rather, countries must blend together multiple sources — public, private, multilateral, bilateral — in a coordinated and streamlined way that is strategic and can further catalyze more resources to support action on climate change.

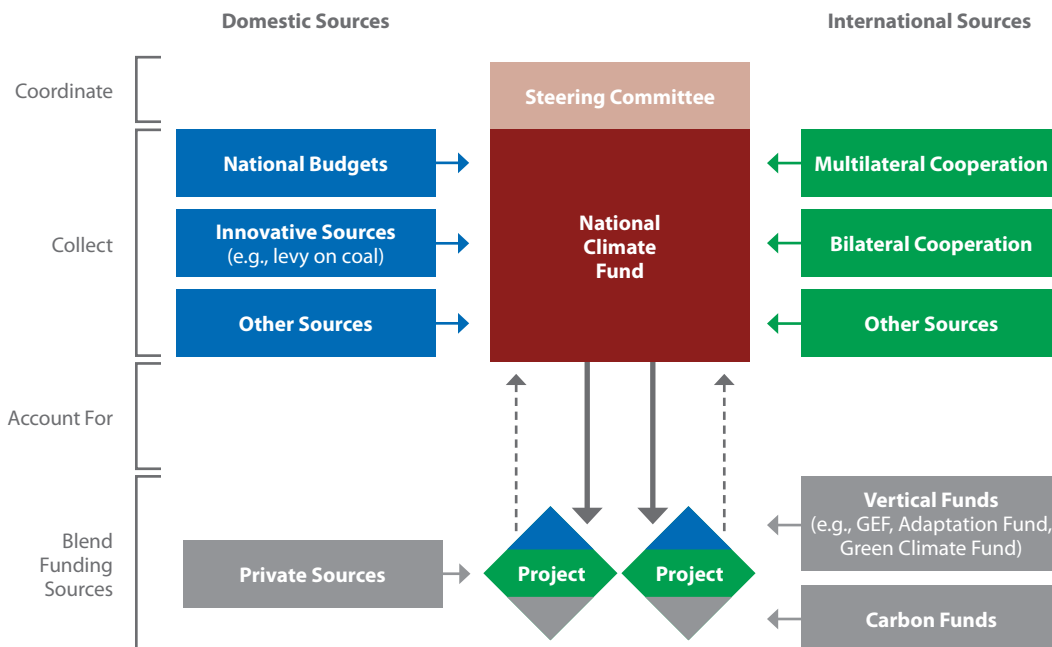
NCFs can be designed to complement and blend sources from the emerging global public climate change financial system. The Global Environment Facility, Adaptation Fund and the emerging Green Climate Fund will each collect resources and direct them toward climate projects at the regional, national and sub-national level. National Climate Funds are not meant to duplicate these financial flows, collect funds from them or increase the burden on countries and implementing entities. Rather, NCFs provide a mechanism that can blend these resources with others resources at the project level. NCFs can provide the means for leveraging public funds to attract private funds and provide national-level coordination among and alongside the global climate finance system.

Third, NCFs can **coordinate country-wide climate change activities**. The NCF mechanism responds to the need to provide flexible, coordinated and predictable funding to support the achievement of national priorities on climate change and development. In their structure and operations, NCFs are consistent with several principles of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, including national ownership and alignment with national priorities; harmonization and coordination; effective and inclusive partnerships; and achieving development results and accounting for them.

Fourth, by **strengthening national institutions and financial management, an NCF can also support National Implementing Entities (NIEs) and other entities using the “direct access” modality to deliver climate change projects.** NCFs support the strengthening of existing national institutions that drive development, climate change and aid effectiveness to reduce fragmentation and deliver results. This can also bolster national fiscal and financial systems to better prepare national institutions to absorb and manage all types of finance. National institutions can be better equipped to develop project proposals, manage funding, implement projects and monitor and report the results. This expertise can promote greater country ownership and strengthen fiduciary management so that national entities can more readily access funds through the Adaptation Fund, the Green Climate Fund and other sources as they become available.

Although each of these four goals plays an important part in the operations of an NCF, each should be tailored to match country needs. An NCF can be designed to emphasize some goals more than others. For example, some NCFs may focus on blending various types of finance together to support projects while others may emphasize coordination. By aligning with existing national institutions and goals, NCFs can provide a streamlined and effective system to translate financial opportunities into real results on the ground.

Figure 2: National Climate Funds as Part of the International Climate Finance Landscape



Source: Flynn (2011).

1.3 Common Functions of a National Climate Fund

Common Functions of an NCF

- Support goal setting and the development of programmatic strategies
- Fundraise
- Manage partnerships
- Provide project approval and support implementation
- Supply policy assurance
- Provide financial control
- Manage performance measurement, including monitoring and reporting on activities and resource disbursement
- Support knowledge exchange and management

Once a country decides to establish an NCF, stakeholders must identify the specific and necessary functions of the NCF. Functions should build upon existing mechanisms and systems that support action on climate change. They can include goal setting, strategic programming, capitalization, partnership management, project approval, policy assurance, financial control and performance measurement. Each should be considered carefully. The functions of an NCF influence its components and services. An NCF with ill-designed functions runs the risk of not only failing to reach its goals, but of undermining progress toward low-emission, climate-resilient development.

In UNDP's experience, there are a number of core functions that are common to any funding mechanism, including NCFs. First, an NCF should enhance or provide a system that supports **goal setting and the development of programmatic strategies** on climate change. By setting in place a process that aligns and supports existing general goals and strategic programmes, the NCF can provide a coordinated supporting structure to a country's national climate and development priorities. Further, by facilitating regular discussions and stakeholder engagement on national climate issues, an NCF can serve as a central body for discussion and decision-making about how the NCF will support national action.

An NCF should provide for **fundraising** toward climate priorities. Indeed, the capitalization of the NCF — its ability to collect and raise funds — is one of the core functions that make an NCF a useful tool for implementing low-emission, climate-resilient development. As demonstrated in Chapter 2, capitalization can take a variety of forms and can utilize public, private, multilateral, bilateral and innovative sources of finance.

An NCF can provide a mechanism for **managing partnerships** by clearly defining and coordinating the roles of various climate change stakeholders. The NCF can complement and support the management of relationships with other financing mechanisms, such as those under the UNFCCC or with other multilateral, bilateral, public and private sources. It can also ensure the clear management of the responsibilities of stakeholders at all levels and across climate change initiatives.

NCFs can provide a coordinated **project approval and implementation structure** for climate change programming. Uniform project cycle guidelines that clearly outline the technical and eligibility requirements support streamlined operations. Well-conceived guidelines can facilitate the transparent approval process of NCF climate change initiatives.

Moreover, an NCF can supply systems to ensure that quality standards are met throughout its operations. NCFs offer **policy assurance** through social and environmental safeguards, **financial controls** that ensure fiscal monitoring and reporting and **performance measurement** that outlines specific performance criteria and then evaluates projects and programmes to ensure that the NCF delivers effectively and efficiently.

The NCF can become an important source of **knowledge and information management** that consolidates and disseminates lessons from climate change projects and programmes. The exchange of such information can build capacity, help projects implement good practices and spur innovative solutions to implement country-driven priorities on climate change.



Chapter 2

Designing a National Climate Fund

- 2.1 Common Components and a Structural Overview of a National Climate Fund
- 2.2 **Key Decision:** Defining the Objectives
- 2.3 **Key Decision:** Identifying Capitalization
- 2.4 **Key Decision:** Instilling Effective Governance
- 2.5 **Key Decision:** Ensuring Sound Fiduciary Management
- 2.6 **Key Decision:** Supporting Efficient Implementation Arrangements
- 2.7 **Key Decision:** Facilitating Effective Monitoring, Reporting and Verification
- 2.8 Consolidating Inputs into Term Sheets

2

Designing a National Climate Fund

2.1 Common Components and Structural Overview of a National Climate Fund

Given the diversity of design options, there are a number of key decisions that must be made in order to ensure that an appropriate and effective NCF structure is established that maximizes the delivery of climate finance to support national priorities. Important decisions on each component of the fund must be considered in order for an NCF to achieve the core goals and functions described in Chapter 1. Based on UNDP's experience in the administration of over 750 trust funds and more than 40 multi-donor trust funds, six common components have been identified that provide the basic skeleton for any NCF: objectives, capitalization, governance, fiduciary management, implementation arrangements and monitoring, reporting, and verification (MRV).

Chapter 2 of this guidebook focuses on a step-by-step decision-making process for the design of each component. A description of each component is accompanied by a series of targeted questions that facilitate decision-making for that element. The end of Chapter 2 brings all of these decisions together into a **term sheet** that facilitates stakeholder engagement and consolidates stakeholder inputs on each component.

NCFs are not "one-size-fits-all," but many funds arrange the components into a common structure to support the delivery of NCF services. The structure includes funding sources, governing bodies, a trustee and implementers. Funding sources provide funds to the NCF while the governing bodies make decisions about the operations of the fund. The trustee manages the transfers of funds to and from the NCF's bank account. Implementers receive funds and ensure activities are undertaken. Each of these agents supports the delivery of actions to achieve the strategic priorities of the NCF.

UNDP has developed a structural overview (Figure 3) that demonstrates how these components can be arranged and the various design questions that must be answered. Resources, coordination, support and MRV flow between sources, governing bodies, the trustee, implementers and recipients. Throughout each component, stakeholders should consider how the NCF will deliver its services and what structural components and design decisions are necessary to support the achievement of the NCF's priorities.

Lessons Learned from Existing NCFs

- Clearly define the functions of the fund (Financial mechanism? Coordination? Clearing house?)
- Ensure that the objectives are well-defined and practical
- Have realistic expectations of capitalization
- Design a streamlined project cycle
- Undertake stakeholder engagement to identify needs and requirements
- Ensure unambiguous appraisal and performance criteria
- Establish a clear system of fiduciary standards
- Incorporate design elements that are stable but flexible to adjust over time
- Allow the NCF to evolve by supporting stability and flexibility
- Establish capacity development as a key element of the fund

A set of governing bodies is usually at the centre of an NCF. Often, a steering committee or other group makes decisions on the disbursement of funds and oversees the high-level activities of the fund, including policy and operational guidelines, strategic direction and reporting. This group is often made up of multiple ministries, such as environment, planning and finance, and representatives from civil society, the United Nations, development banks, private sector or other partners. The chair person of the steering committee can be a government representative or other participant. The steering committee is usually supported by two other governing bodies, a technical group that provides substantive reviews of project proposals and a secretariat that manages day-to-day operations of the NCF.

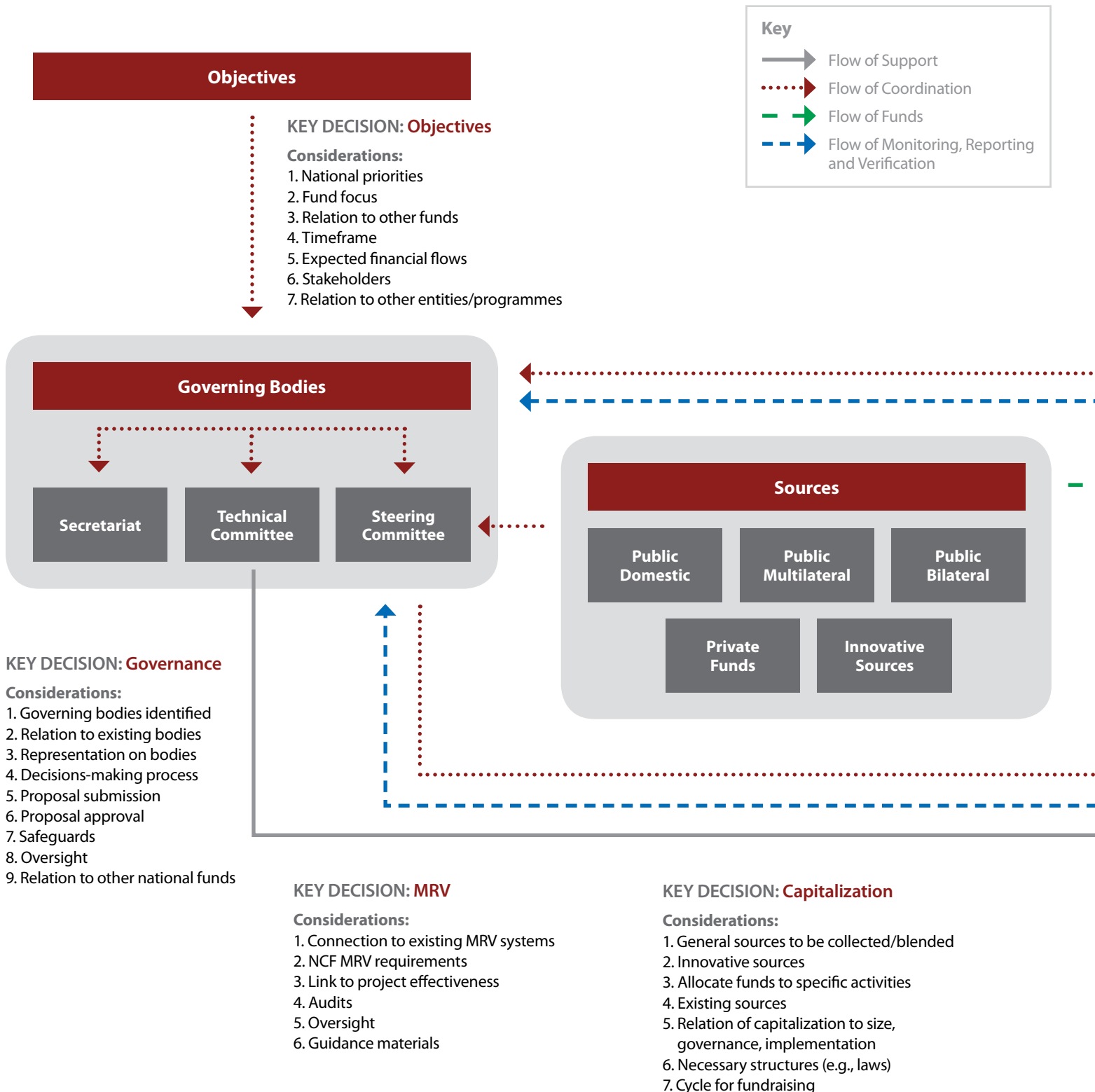
In a majority of funds, resources flow from the sources to the trustee, which holds them on behalf of the NCF. When the governing bodies make decisions about how the funds should be allocated, the steering committee will direct the trustee to distribute the funds to the implementing entities. The implementers conduct the projects and the recipients receive the benefits. The implementers then report on their activities to the governing bodies. In the case of loans, the loans will be repaid back to the trustee.

The NCF structure can be tailored to align with its designated functions and national priorities. Depending on the objectives of an NCF, specialized systems can be put in place to manage financial flows. For example, if a fund capitalizes national banks to provide low-cost loans for projects such as renewable energy, it may assign the government as the source of funds and the national bank as the trustee. MRV would be conducted by the banks according to their lending criteria. In the case of an NCF using innovative financing mechanisms, such as taxes on bunker fuels, to support activities, the infrastructure must be set up in order to accommodate the collection and distribution of these funds. This kind of flexibility helps each entity associated with the NCF to fulfill the role that best supports the objectives of the fund.

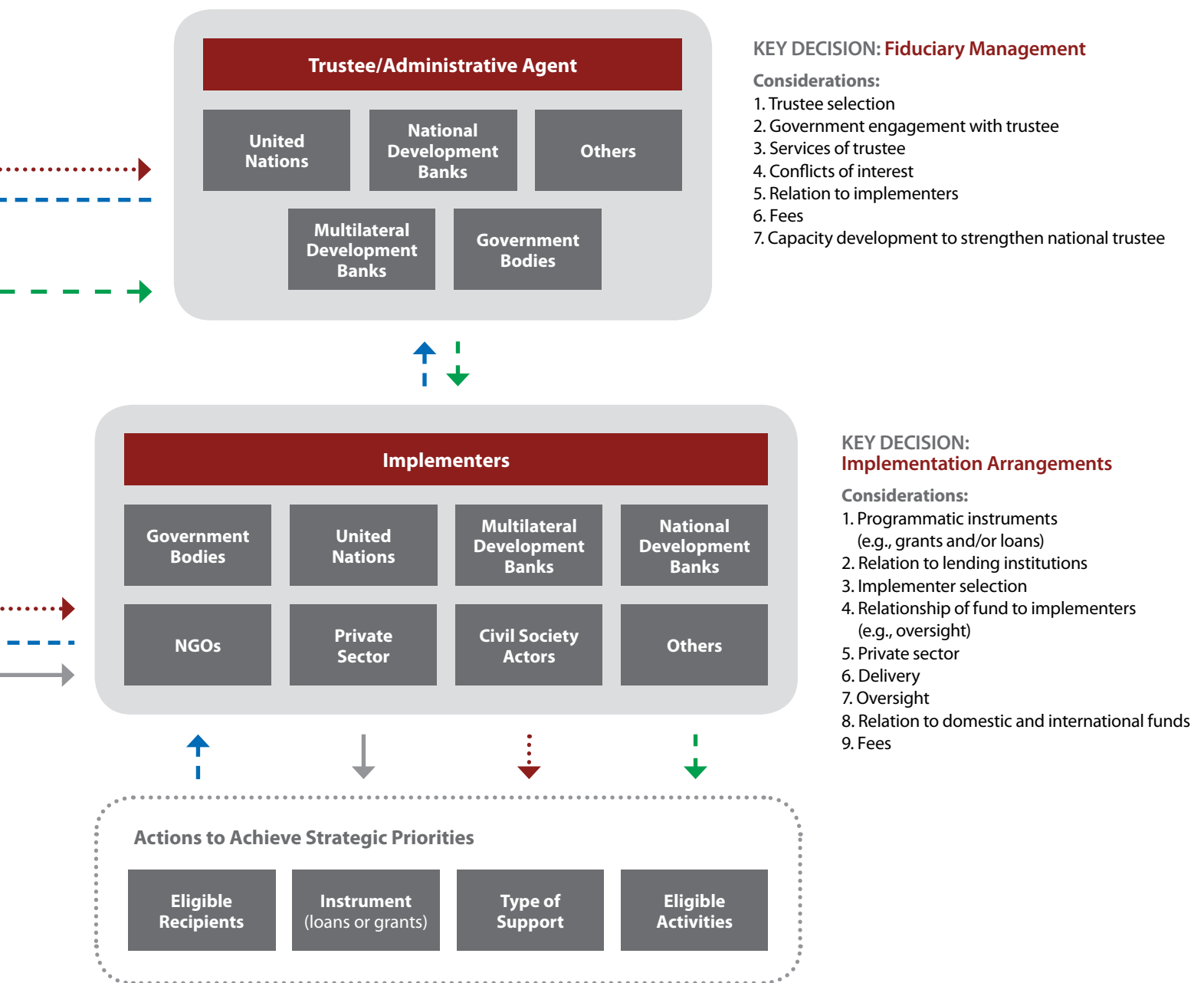
The relationship between the NCF's various bodies must be carefully defined through the design process so that each decision is implemented efficiently and promotes national climate and development objectives. The flows of funds, support and coordination of an NCF should align with its objectives so that the fund can operate smoothly.

Relationships with the private sector and civil society should also be considered and clarified. In some NCFs, the private sector and/or civil society play important roles in the fund's structure, including serving as a donor, an implementer or a representative on a governing body. In cases where the private sector or a civil society group has met the necessary fiduciary standards, they can also serve as the trustee.

Figure 3: Structural Overview and Design Considerations of a National Climate Fund



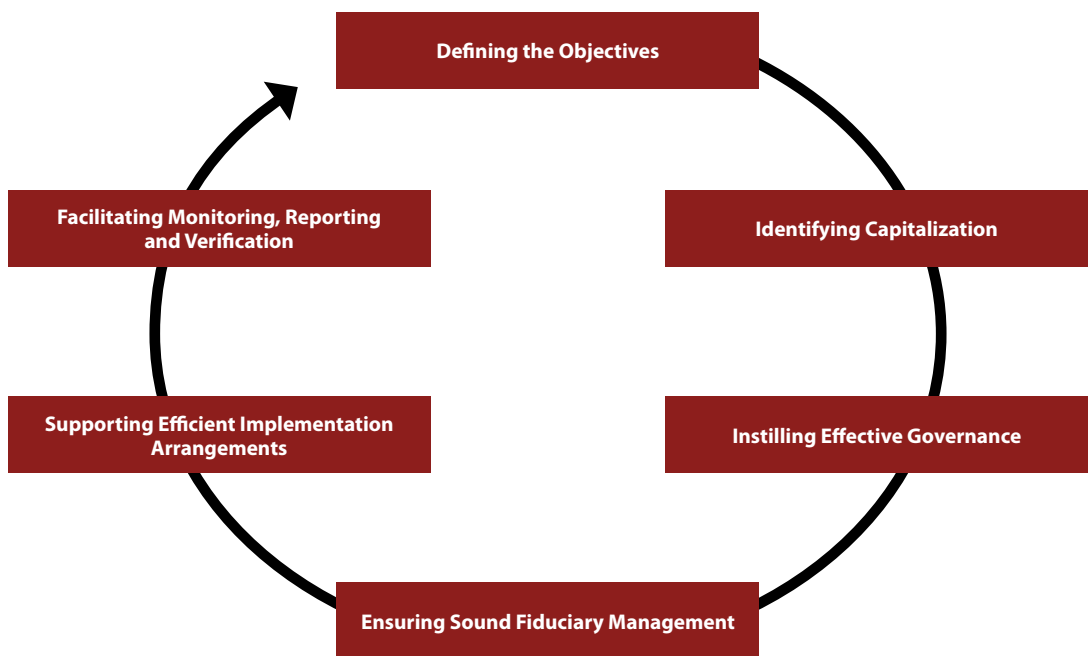
Source: Flynn and Glemarec (2011).



Importantly, NCFs must be firmly rooted in national realities. National priorities and circumstances provide an important context for NCF delivery and can lead to opportunities and challenges as an NCF becomes operational. To provide stability, NCFs should take this into account by aligning with national climate change strategies, institutions, frameworks and stakeholders; however, NCFs must also have the flexibility to adjust over time.

Maintaining both stability and flexibility is imperative to stakeholder engagement. Throughout the design phase of an NCF, stakeholder consultations are critical to ensure that the NCF is robust and effective. Including various government, multilateral, bilateral, private and civil society actors in the development and establishment of the NCF helps to more clearly identify needs and requirements and to accommodate best practices.

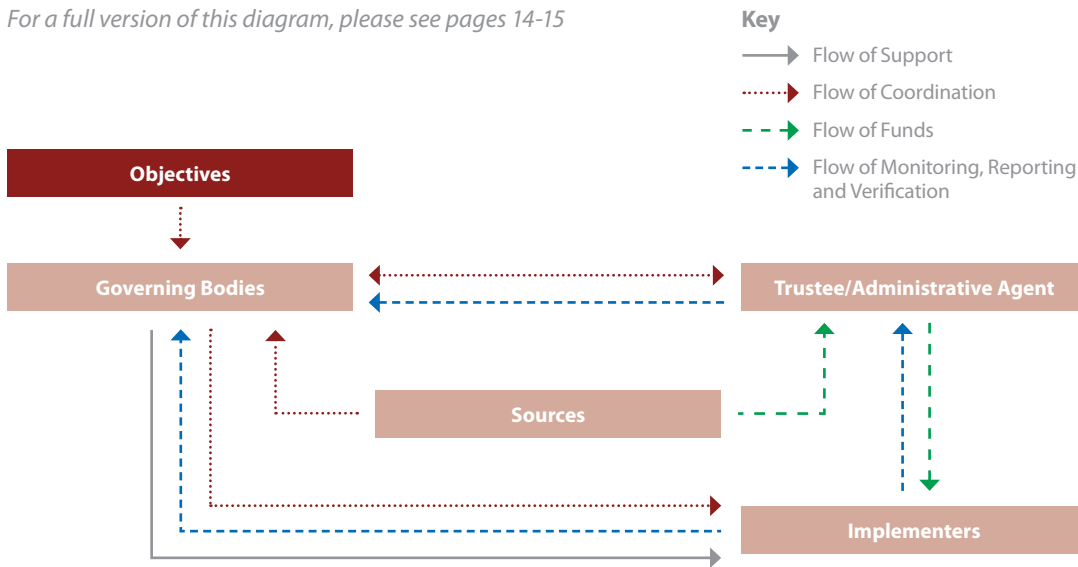
Figure 4: Designing and Establishing a National Climate Fund



Source: Flynn (2011).

2.2 Key Decision 1: Defining the Objectives

For a full version of this diagram, please see pages 14-15



Programmatic and Management Objectives

As a first step in setting up an NCF, a country must identify its strategic goals on climate change and how the NCF will help it to achieve these goals. The NCF may serve the country by driving resources to national climate activities, such as mitigation, adaptation, reducing emissions from deforestation and forest degradation (REDD), capacity building, technology building or other priorities. An NCF's objectives may also include attracting private sector investment, or formalizing a system to collect resources from "polluter pays" policies that collect revenue from industry.

An NCF's objectives provide the foundation for its operations and outcomes. When setting objectives, a country should take into account its national climate and development strategies, as well as other analyses and plans, such as the National Communications, National Adaptation Programmes of Action (NAPAs), National Adaptation Plans (NAPs) and Nationally-Appropriate Mitigation Actions (NAMAs), to identify the priorities of a National Climate Fund. These analyses can bring together current thinking on climate change, as well as focus the NCF on priority issues and sectors where activities can be undertaken in a cost-effective way.

It is critical that objectives take into account the technical and political considerations that may support or hamper the NCF's progress over time. Thematic priorities, such as increasing renewable energy, must be supported by analyses of the feasibility of increasing investment in that sector. Likewise, to achieve other priorities of the NCF, such as capacity building for direct access to climate funds under the UNFCCC, these aims must be acknowledged, and appropriate and supportive systems be put in place.

Carefully defined objectives must be supported by appropriate functions of the NCF. If an NCF focuses on providing a type of "clearing house" for climate change initiatives, it may not be necessary to develop a complicated financial mechanism. Likewise, if an NCF is to provide low-cost loans to a specific sector, it would not be necessary for the functions of the fund to include extensive coordination systems. A country

KEY DECISION 1

DEFINING THE OBJECTIVES

KEY DECISION 2

IDENTIFYING CAPITALIZATION

KEY DECISION 3

INSTILLING EFFECTIVE GOVERNANCE

KEY DECISION 4

ENSURING SOUND FIDUCIARY MANAGEMENT

KEY DECISION 5

SUPPORTING EFFICIENT IMPLEMENTATION ARRANGEMENTS

KEY DECISION 6

FACILITATING MONITORING, REPORTING AND VERIFICATION

Bangladesh Climate Change Resilience Fund

Endorsed by the government in 2009, the fund provides direct support for the implementation of Bangladesh's Climate Change Strategy and Action Plan for 2009 — 2018. It focuses on helping vulnerable communities adapt to greater climate uncertainty and changing agricultural conditions. It is managed by a Board comprised of Ministers of environment, finance, agriculture and disaster management, donors and civil society.

can select the objectives that match its priorities but must ensure that the objectives are fully supported by the NCF's functions.

ALIGNING OBJECTIVES WITH OTHER PRIORITIES AND FUNDING WINDOWS

These programmatic considerations should be linked closely with fund management considerations and, importantly, how the NCF will relate to other international and domestic climate funds. Some countries may have multiple NCFs that target specific issues — for example, one to provide funding for REDD activities and another for adaptation. Others NCFs may be linked to more comprehensive, national strategies. In Ethiopia, the Carbon-Neutral, Climate-Resilient Economy mission statement sets out how Ethiopia is responding to climate change and how it can transition toward low-carbon growth. The government is considering setting up a national fund to support these activities. The NCF could be a funding arm and all activities under the NCF would link to Ethiopia's mission statement. In this model, the national strategy becomes the roadmap for the NCF.

The scope of the NCF must fully support its programmatic mission. If a country has already acquired funds from a specific source, or funds have been earmarked for a specific activity, then it will be important to ensure that the structure of the NCF can channel this funding appropriately. Similarly, if a country's goals are to optimize its relationships with stakeholders (e.g., the private sector) or funding programmes (e.g., the Clean Development Mechanism) it may be necessary to codify this in the objectives.

FUND TIMELINE

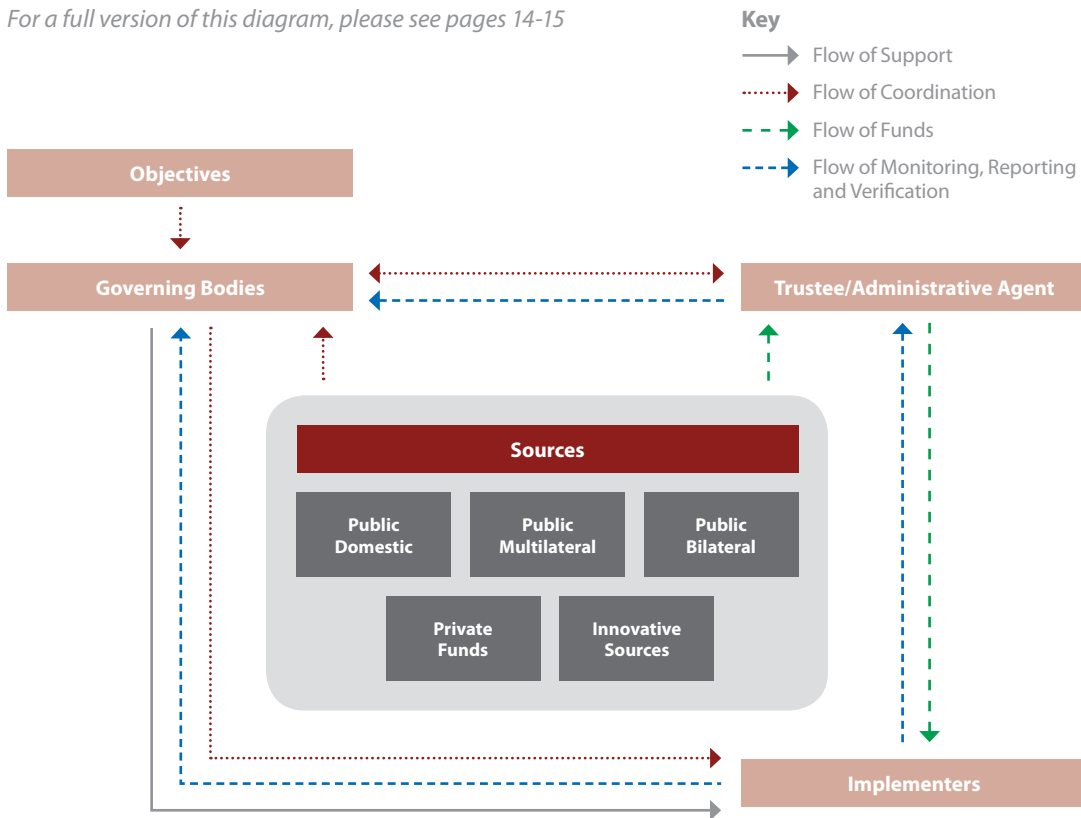
Designing an NCF's objectives must also consider timelines. If a national strategy or other funding mechanism is time-bound, this may affect the timeframe of the NCF. This will be especially important as countries consider their options under the UNFCCC process. For example, if an NCF is designed to attract fast start funding, it is important to align the NCF with the 2012 deadline. Likewise, the longer-term pledges of up to \$100 billion per year by 2020 include a variety of sources, including private finance, and an NCF may wish to accommodate these circumstances accordingly. Other NCFs may wish to align themselves with the specific timeframe of a national strategy.

CRITICAL DESIGN CONSIDERATIONS FOR DEFINING THE OBJECTIVES:

1. What are the national priorities on climate change? Are there short, medium or long-term strategies that the NCF should support (including national strategies, NAMAs, etc.)?
2. Will the fund focus on thematic priorities (e.g., renewable energy) or support broader objectives?
3. How will the objectives of the fund relate to the objectives of other international and domestic funds?
4. What timeframe is most appropriate? Should the NCF be time-bound?
5. What are the expected financial flows to the fund? Have funds already been pledged? Have these funds been earmarked toward a specific activity that should be acknowledged?
6. Are there stakeholders that must be acknowledged in the objectives? (e.g., those associated with a specific industry)
7. Should the objectives acknowledge a relationship with an entity or programme? (e.g., Clean Development Mechanism)

2.3 Key Decision 2: Identifying Capitalization

For a full version of this diagram, please see pages 14-15



Building on the fund's objectives, a country should consider the types of resources that would best capitalize the fund. Indeed, deciding where the funds will come from is one of the most important choices that will shape the NCF. Many sources of finance — including international, national, public and private — can be delivered through an NCF, but they must build on existing frameworks and be supported by appropriate structures to access and channel funding efficiently.

LINKING OBJECTIVES AND CAPITALIZATION

Fund capitalization must be realistic, grounded in the objectives and functions of the NCF. Funds with ambitious objectives must have clear expectations of how the fund will be capitalized and the objectives supported. Designers of NCFs should exercise caution in this regard: expectations of co-financing and leveraging must be based on national circumstances. Likewise, funds with smaller, targeted objectives should not aim to access billions when it is not appropriate for the scope of the NCF.

Generally, if a fund has a broad set of objectives, it usually blends together a broader array of sources than more targeted NCFs. An NCF with wide objectives — for example, supporting all of the activities under a low-emission, climate-resilient development strategy — may aim to collect funds from international and national sources so that a wide variety of activities can be covered. A fund with a more targeted mission will often only focus on a single source, such as those from one bilateral partner.

KEY DECISION 1

DEFINING THE OBJECTIVES

KEY DECISION 2

IDENTIFYING CAPITALIZATION

KEY DECISION 3

INSTILLING EFFECTIVE GOVERNANCE

KEY DECISION 4

ENSURING SOUND FIDUCIARY MANAGEMENT

KEY DECISION 5

SUPPORTING EFFICIENT IMPLEMENTATION ARRANGEMENTS

KEY DECISION 6

FACILITATING MONITORING, REPORTING AND VERIFICATION

INNOVATIVE FINANCING MECHANISMS

A country may also want to consider the use of innovative financing mechanisms to provide capital for an NCF. In this case, an NCF is designed to collect resources from non-traditional sources of finance such as levies on oil or coal production, fees from polluting companies or proceeds from carbon markets. Revenues from these sources are collected by an NCF and then directed toward the programmes and projects that fulfill the goals of the NCF. For example, the Brazil National Fund on Climate Change collects funds from revenue from the oil production industry and channels them toward climate change mitigation and adaptation activities.

Innovative mechanisms require that complementary structures be put in place within the NCF to ensure the efficient collection and delivery of funds. NCFs should have the ability to manage and account for funds coming from these non-traditional sources.

CONSIDERING CONTEXT

With both traditional and innovative sources, it is critical to consider national circumstances in order to optimize capitalization. Laws or policies may be required to access and collect certain types of funding. A tax on an industry, for example, may need to be mandated by a national law that clarifies the rates of taxation.

Brazilian National Fund on Climate Change

The fund was created to allocate a portion of the government's revenue from oil production to mitigate the impact of oil production and combat climate change. The fund was established by a law adopted in December 2009 and provides grants and loans to adaptation and mitigation initiatives. The resources from the fund can also be used to leverage international public finance and private finance in pursuit of the fund's mandate. The fund is overseen by the Ministry of Environment and operated by the National Social and Economic Development Bank.

China CDM Fund

Established by the Ministry of Finance and the National Development and Reform Commission in 2007, the China CDM Fund is an innovative finance mechanism that collects resources from revenues generated from CDM projects in China, earnings from CDM business operations, grants and other types of cooperation and support from multilateral development institutions. The fund provides grants and investments for initiatives that address climate change and promote social and economic sustainable development. It also provides preferential loans to energy-saving and renewable energy projects. The fund expects to have \$1.5 billion for renewable energy by 2012.

Understanding and acknowledging national circumstances is especially important when considering the involvement of the private sector. By aligning with existing private sector regulations and incentive structures, for example, the NCF can stimulate and attract private investment by driving public finance toward commercially attractive projects. This helps the NCF to contribute toward sound investment and policy decisions that direct private finance toward activities that address national climate and development priorities.

A country should also consider any available resources that could already feed directly into the NCF or any existing partnerships with donors. A country may wish for the NCF to absorb these resources or partnerships, or to align with them so that activities will be undertaken in a coordinated manner. If the NCF does absorb them, it is important to note whether they are "earmarked" toward specific activities — such as capacity building — that will affect the operations of the fund.

The capitalization of the fund has implications for the size, governance and implementation of the fund. For example, if the private sector provides resources to the fund, then it may be necessary to include private sector representatives in the governance system. Furthermore, a number of legal contracts or systems will need to be established in order to collect resources from specific sources. For innovative funds, enacting laws, policies or partnership agreements may also be necessary for the efficient capitalization of an NCF.

Countries should also consider how additional resources will be raised throughout the life of the fund. Some NCFs use a regular fundraising cycle while others adopt the cycles associated with specific sources.

CRITICAL DESIGN CONSIDERATIONS FOR IDENTIFYING CAPITALIZATION:

1. Based on the objectives of the fund, what kinds of sources will be blended together to capitalize the NCF?
2. Will the fund utilize innovative sources, such as levies?
3. Will donor funds be allocated to specific activities? (e.g., capacity building, institutional strengthening, investment)
4. Are there any existing sources that could readily feed into an NCF?
5. Will the size and sources of capitalization impact the size, governance or implementing arrangements of the fund?
6. Are there specific structures necessary to support the fund's capitalization? (e.g., laws or policies, partnership agreements)
7. Will there be a regular process or cycle for raising funds? How will additional sources be attracted?

KEY DECISION 1

DEFINING THE OBJECTIVES

KEY DECISION 2

IDENTIFYING CAPITALIZATION

KEY DECISION 3

INSTILLING EFFECTIVE GOVERNANCE

KEY DECISION 4

ENSURING SOUND FIDUCIARY MANAGEMENT

KEY DECISION 5

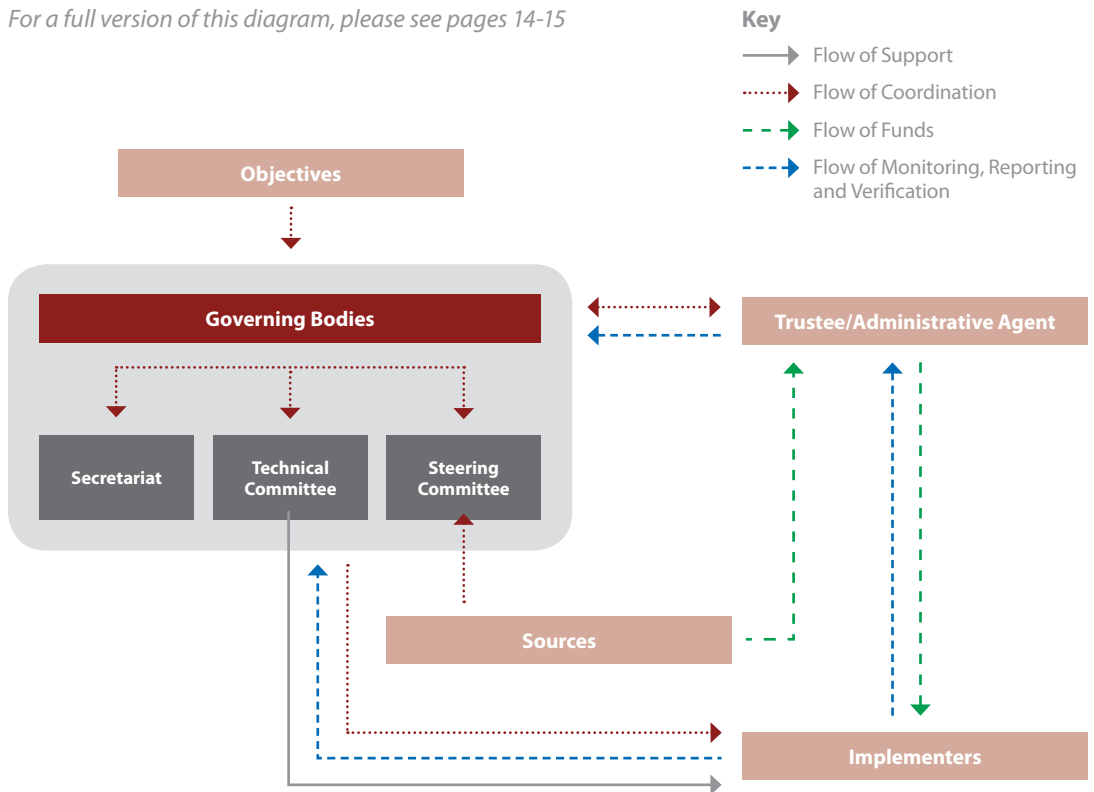
SUPPORTING EFFICIENT IMPLEMENTATION ARRANGEMENTS

KEY DECISION 6

FACILITATING MONITORING, REPORTING AND VERIFICATION

2.4 Key Decision 3: Instilling Effective Governance

For a full version of this diagram, please see pages 14-15



Building on the objectives and capitalization of the NCF, countries must identify the appropriate governance system that will optimize the fund’s performance. Establishing governing bodies, decision-making processes and oversight can facilitate efficient management of the fund in order to drive resources toward implementation.

First, a country must consider the scope of the NCF’s governance. If the NCF has a horizontal structure, the governance system should be inclusive of stakeholders and provide coordination among partners. If the NCF is a vertical institution, the governance arrangements may require more stringent reporting and management structures.

Indonesia Climate Change Trust Fund

The ICCTF is managed by a Steering Committee that is responsible for identifying general strategic policy recommendations and defining priority areas to be financed, including approving funding to project proposals. A Technical Committee provides technical assistance to the Steering Committee and evaluates project proposals. The Secretariat manages the day-to-day operations of the ICCTF.

Grant proposals are received by the Secretariat to ensure all documentation is complete. The Technical Committee reviews each proposal and develops an assessment report that is submitted with the project proposal to the Steering Committee. The Steering Committee then approves or rejects the proposal.

GOVERNING BODIES

As discussed previously, many NCFs have a set of governing bodies that make decisions on fund management and strategic direction. The bodies within the governance system must have clear roles that effectively support the NCF without adding increased burden or bottlenecks in the programming cycle. The scope of the bodies should align with the scope of the objectives. An NCF that supports a comprehensive low-emission, climate-resilient development strategy will require a governance system that is equally comprehensive. On the other hand, if an NCF supports a more targeted objective with limited stakeholders, then the scope of the governance system could also be limited.

Though not required, many NCFs have a high-level steering committee, chaired by the government, which provides guidance and oversight to the fund. The steering committee is usually supported by a technical group that provides a substantive review of proposals to the NCF, and by a secretariat that conducts day-to-day operations. A technical group is made up of substantive experts who evaluate project proposals and provide recommendations to the steering committee. The secretariat schedules meetings, corresponds with stakeholders, prepares documentation for meetings

and corresponds with project hosts. Both play an important role in supporting the steering committee to make decisions about project proposals.

Some governments may have existing bodies, frameworks or systems in place that can serve as portions of the governance structure. A previously established inter-ministerial climate change committee, for example, can take on the role of the steering committee. Or, an existing body within a government ministry may also provide technical expertise or secretariat services. Moreover, when multiple environment or climate change funds exist in a country, the governance structure of one fund can support the operations of others.

Guidelines pertaining to representation on an NCF's governing bodies should be established during the design phase. Many governments choose to have representatives from the sources and implementers, as well as the trustee, on the steering committee. This can help to ensure that all parts of the fund are coordinated and streamlined. Representation guidelines should also carefully outline the role of non-government stakeholders. Depending on the objectives of the fund, non-government representatives can have decision-making abilities alongside the government, or they may participate as observers.

KEY DECISION 1

DEFINING THE OBJECTIVES

KEY DECISION 2

IDENTIFYING CAPITALIZATION

KEY DECISION 3

INSTALLING EFFECTIVE GOVERNANCE

KEY DECISION 4

ENSURING SOUND FIDUCIARY MANAGEMENT

KEY DECISION 5

SUPPORTING EFFICIENT IMPLEMENTATION ARRANGEMENTS

KEY DECISION 6

FACILITATING MONITORING, REPORTING AND VERIFICATION

SUBMISSION AND APPROVAL OF FUNDING PROPOSALS

The process for submitting and approving proposals should be closely linked to the roles of the governing bodies. Identifying who can submit proposals and who approves them will establish the lifecycle of a project proposal. For example, the China CDM Fund is governed by an inter-ministerial board made up of the Ministry of Finance, National Development Reform Commission (NDRC), Ministry of Foreign Affairs, Ministry of Science and Technology, Ministry of Environmental Protection, Ministry of Agriculture and China Meteorological Administration. The collection, management and use of the funds are the responsibility of a Management Centre affiliated with the Ministry of Finance. Projects are submitted to the Management Centre which then sends them to the NDRC for review and recommendations. The recommendations are then sent to the entire board for approval.

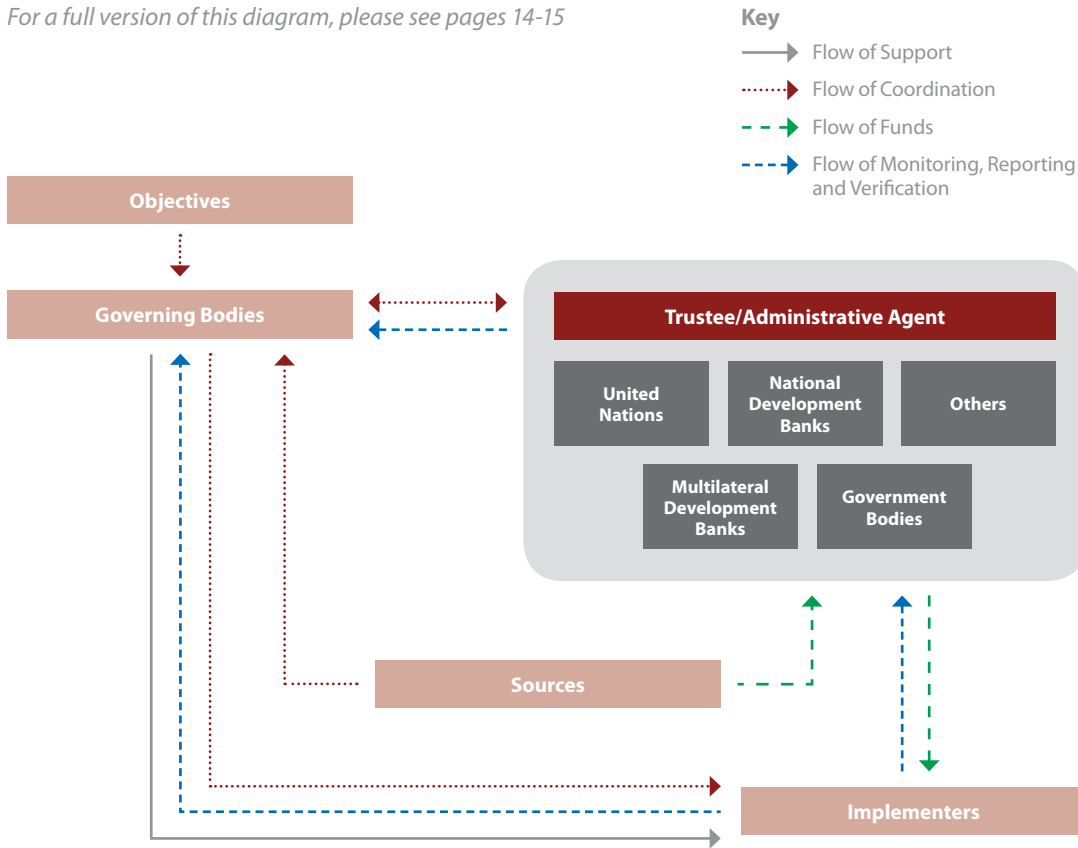
As demonstrated by this example, the relationships between governing bodies should be clarified to ensure that decision-making is efficient. In many cases, proposals are received by the secretariat, reviewed by a technical group and the technical group's recommendations are forwarded to the steering committee for approval. Each body has a defined role to support the decision-making process. Ultimate oversight and of the fund must also be clarified. For example, in many NCFs, the Steering Committee is responsible for the delivery of the fund. In other NCFs, a government body or other agent may have this role.

CRITICAL DESIGN CONSIDERATIONS FOR INSTILLING EFFECTIVE GOVERNANCE:

1. What governing bodies are necessary to ensure efficient operations of the fund?
Who reports to whom?
2. How will any existing inter-ministerial or other high-level national body relate to the fund?
3. Who will be represented in the governing bodies? (e.g., government, private sector, civil society, United Nations, development banks, donors, other development partners)
4. What decision-making process will be put in place for the governing bodies?
5. Who can submit project proposals? To whom do they submit them?
6. What is the project proposal approval process?
7. What safeguards will be put in place to increase effectiveness and efficiency?
8. What body has ultimate oversight over the activities of the NCF? What individual person will lead this body?
9. In the case where there is more than one national environment/climate fund in a country, how do the governing bodies of these funds relate to one another?

2.5 Key Decision 4: Ensuring Sound Fiduciary Management

For a full version of this diagram, please see pages 14-15



Sound fiduciary management provides the foundation for the efficient movement and tracking of funds flowing to and from the NCF. As the number of sources in the climate finance landscape continues to expand, an NCF must have a system of fiduciary management that accommodates the multiple standards, project cycles and scale of risks of climate change projects.

DEFINING FIDUCIARY ARRANGEMENTS

Fiduciary arrangements facilitate relationships between different actors in the NCF structure. An NCF could be potentially coordinating the disbursement of funds to multiple implementers that have different fiduciary standards from the NCF and from each other. It is critical that decision-makers consider how fiduciary standards will apply to these various actors. Some NCFs choose to have tailored fiduciary standards for different types of implementers or projects. For example, an NCF may wish to have a different set of fiduciary standards for a multilateral implementer than for an implementer from the private sector. They may also wish to have certain fiduciary standards for a large project that differ from those for a smaller project with lower risk.

KEY DECISION 1

DEFINING THE OBJECTIVES

KEY DECISION 2

IDENTIFYING CAPITALIZATION

KEY DECISION 3

INSTILLING EFFECTIVE GOVERNANCE

KEY DECISION 4

ENSURING SOUND FIDUCIARY MANAGEMENT

KEY DECISION 5

SUPPORTING EFFICIENT IMPLEMENTATION ARRANGEMENTS

KEY DECISION 6

FACILITATING MONITORING, REPORTING AND VERIFICATION

Some funds have a “one size fits all” approach where an NCF sets out fiduciary principles that every implementer must apply to their operations. The standards can be as stringent or flexible as necessary. However, NCF designers should take into account that the various types of stakeholders — government entities, private sector, multilateral entities and others — may have varying degrees of flexibility to adopt these standards.

Ecuador Yasuni ITT Trust Fund

The fund uses the UNDP Multi-Partner Trust Fund (MPTF) Office as the Administrative Agent. The UN MPTF Office receives and administers contributions and disburses funds to implementing entities as directed by the fund's steering committee. It also performs a range of reporting functions, including consolidating reports based on those submitted by implementing entities and conducting regular financial reporting through an online platform (<http://mdtf.undp.org>).

MANAGER OF FIDUCIARY ARRANGEMENTS

Usually a trustee or administrative agent manages an NCF's transactions and ensures that funds are collected and distributed in a coordinated and effective manner. To do this, the trustee provides a number of fund management services, including receiving contributions from various sources, disbursing funds to each participating entity on behalf of the steering committee (or other decision-making body), investing funds that are not yet disbursed and providing financial reporting. The trustee does not make decisions on what projects should be funded by the NCF. Rather, it holds the funds in an account and receives instructions from the steering committee for the timing and direction of distribution. Often, the trustee coordinates the legal contracts and agreements that underpin the transactions of funds. It ensures that the NCF meets all legal and fiduciary standards for collecting and distributing funds.

A national or international body can serve as the trustee. For some NCFs, the trustee is a national development entity. For instance, the trustee for the Amazon Fund of Brazil is the Brazil National Development Bank (BNDES). BNDES coordinates donations and distributes funds. Other funds, such as Guyana's REDD+ Investment Fund, use the World Bank as their trustee. Still others, such as the Ecuador Yasuni ITT Trust Fund, use the United Nations (UN) system. Importantly, if the body selected as the trustee plays additional roles within the NCF, such as for supporting implementation, the NCF should be designed to ensure that there are no conflicts of interest.

Even if the trustee is an external development partner, NCF designers must clarify the relationship between the trustee and government or domestic financial institutions. A national body may wish to engage with the fiduciary management of the NCF in order to support delivery of funds. This can include oversight functions, capacity building or MRV of funds.

The trustee may provide a number of other administrative services beyond collecting and distributing funds and legal documentation. This may include gathering and disseminating of data on projects to which funds are distributed. Further, some trustees play a critical role in reporting by consolidating progress reports submitted by implementing entities. These updates are distributed along with financial reports to the steering committee or other body.

Almost all trustees require a fee for their services. Fees can range from 1 to 5% of funds managed. Countries should take this into consideration as the agreement with the trustee is established.

CAPACITY DEVELOPMENT

Capacity development can be another critical function of fiduciary management. Many countries begin with an international body as the trustee but plan to transition this role to a domestic entity in the future. For this to occur, it is critical that the trustee work closely with national institutions to strengthen domestic fund management so that countries meet international fiduciary standards. This close partnership will support a smooth transition from one trustee to another, and will maintain a coordinated, predictable funding stream.

CRITICAL DESIGN CONSIDERATIONS FOR ENSURING SOUND FIDUCIARY MANAGEMENT:

1. How will the trustee be identified? Can a government entity serve as the trustee? Is an external development partner required?
2. Other than acting as a trustee, how will the government or domestic financial institution engage with the financial management of the fund?
3. What services will the trustee provide? (e.g., fund management, legal, reporting)
4. How can conflicts of interest between the trustee and implementers be avoided?
5. What is the relationship between the trustee and the governing/implementing bodies?
6. What fees will the trustee require?
7. If the trustee will transition to another agent in the future, what capacity development activities should be undertaken?

KEY DECISION 1

DEFINING THE OBJECTIVES

KEY DECISION 2

IDENTIFYING CAPITALIZATION

KEY DECISION 3

INSTILLING EFFECTIVE GOVERNANCE

KEY DECISION 4

ENSURING SOUND FIDUCIARY MANAGEMENT

KEY DECISION 5

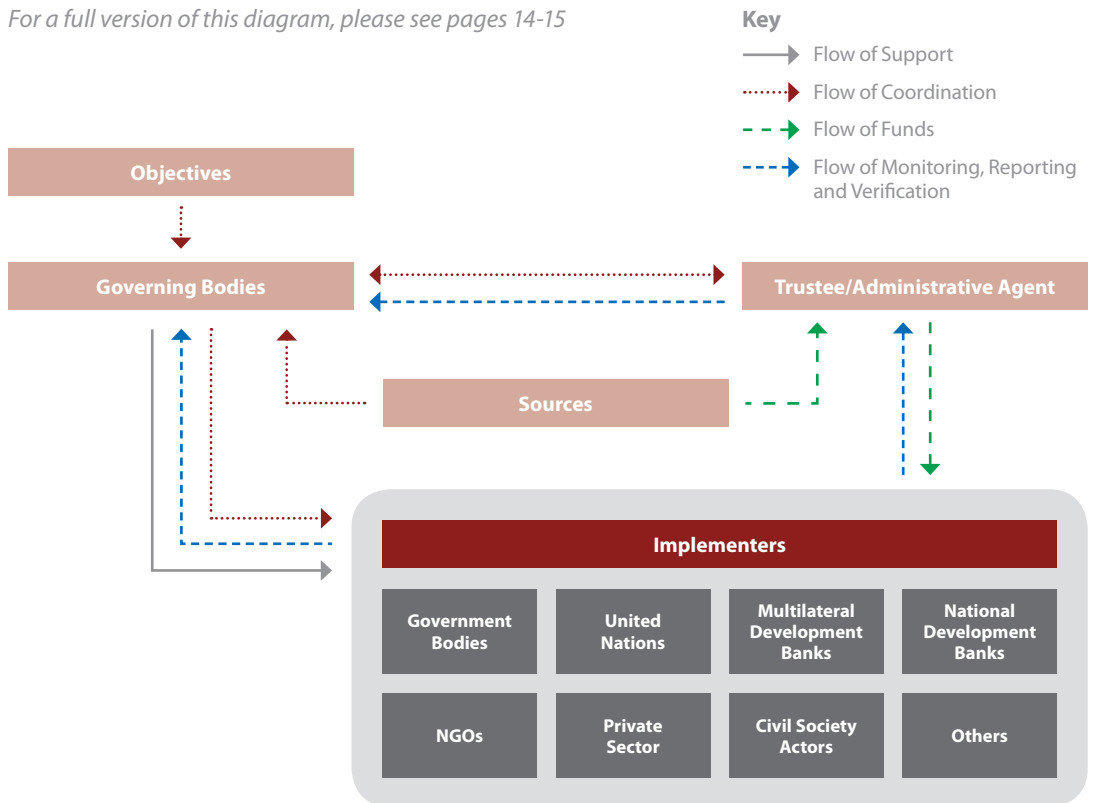
SUPPORTING EFFICIENT IMPLEMENTATION ARRANGEMENTS

KEY DECISION 6

FACILITATING MONITORING, REPORTING AND VERIFICATION

2.6 Key Decision 5: Supporting Efficient Implementation Arrangements

For a full version of this diagram, please see pages 14-15



Implementation arrangements — the processes and agents set in place to implement climate change programming — must support the objectives of the NCF and align closely with the other key design decisions.

SCOPE OF IMPLEMENTATION

Identifying what kinds of programmatic instruments — such as grants or loans — will be used to implement the projects establishes the scope of implementation. While many NCFs collect funds and then distribute them as grants, others have diversified their activities to include low-cost loans. For example, the Thailand Energy Efficiency Revolving Fund distributed a pool of government funds to private banks which then provided low-cost loans for energy efficiency. Once the loans were repaid, the money became available for new loans. This continual repayment of the initial loan cycle has supported additional loans.

UN-REDD Programme in the Democratic Republic of the Congo (DRC)

In DRC, the UN-REDD programme provides grants to support the country to better engage with the international system for reducing emissions from deforestation and forest degradation (REDD+). Activities include stakeholder engagement and consultation, national strategic thinking and planning, data collection and analysis, donor dialogues, programme formulation, participation in international fora and the mobilization of climate and other environmental funds. UN-REDD is supported by three UN agencies: UNDP, the United Nations Environment Programme (UNEP) and the Food and Agriculture Organization (FAO). Other international stakeholders are close partners, including the World Bank's Forest Carbon Partnership Fund (FCPF) and key international NGOs, such as Rainforest Foundation and the World Wildlife Fund.

There are many options for identifying the programmatic instruments, such as grants and loans, for delivery of NCF funds. Governments should take stock of their legal and financial tools in order to identify what types of services the NCF can provide. The role of national banks should be considered, as the ability for the NCF to capitalize lending institutions will have implications for the financial management of the fund. In order to provide loans, the bank would need to meet international fiduciary standards, and risk and profit sharing arrangements with the NCF would need to be established.

IMPLEMENTERS

Selecting implementers for an NCF should occur in a systematic and transparent way. For many NCFs, project implementers are approved or accredited by the steering committee and can then apply for funding for specific projects. If project applications are approved, the steering committee directs the trustee to release the funds to the implementing entity.

Using the NCF objectives as a guide, a number of organizations or bodies can serve as implementing entities. NCFs can specify that implementation should be carried out by a government ministry or other agent, similar to the manner in which the Adaptation Fund allows accredited entities to directly access funds for implementation. Other options include United Nations agencies, development banks, civil society or the private sector to deliver activities.

Depending on the objectives of the fund, implementation can also occur by using combinations of these actors through, for example, public-private partnerships. Arrangements like this support the objectives of the fund by establishing flexible systems to ensure that implementation is coordinated and efficient.

As with the trustee, implementers require a fee for their services. Fees can range from 5 to 13% of the projects' costs.

ALIGNING IMPLEMENTATION ARRANGEMENTS

With all implementers, it is critical that the programmatic cycle is as streamlined as possible to avoid potential "double" project cycles where the NCF would have one project cycle and the implementers another. Projects must be able to move through the system as efficiently as possible in order to avoid unnecessary delays or bottlenecks.

KEY DECISION 1

DEFINING THE OBJECTIVES

KEY DECISION 2

IDENTIFYING CAPITALIZATION

KEY DECISION 3

INSTILLING EFFECTIVE GOVERNANCE

KEY DECISION 4

ENSURING SOUND FIDUCIARY MANAGEMENT

KEY DECISION 5

SUPPORTING EFFICIENT IMPLEMENTATION ARRANGEMENTS

KEY DECISION 6

FACILITATING MONITORING, REPORTING AND VERIFICATION

Further, given that many NCFs will operate alongside international climate funds such as the Global Environment Facility, Adaptation Fund and Green Climate Fund, or other funds at the national or sub-national level, it is important that an NCF's implementing arrangements align with the implementing arrangements of other funds. This will reduce transaction costs and should contribute to knowledge sharing, since some implementers under the NCF may also be implementers under other funds.

It is worth noting that, in some funds, the recipient of the fund and the implementer are separate entities. Some NCFs distribute funds to government bodies that sub-contract the implementation work. These systems should be aligned to ensure effective and efficient delivery.

CRITICAL DESIGN CONSIDERATIONS FOR SUPPORTING EFFICIENT IMPLEMENTATION ARRANGEMENTS:

1. What kinds of programmatic instruments will be used? (e.g., grants, loans)
2. Can the fund capitalize lending institutions to support implementation? What does this mean for financial management and fiduciary standards? What does this mean for risk and profit sharing?
3. How will the implementing entities be identified? What criteria are necessary?
4. What is the relationship between the fund and the implementers?
5. How will the fund engage with the private sector to encourage innovative investment opportunities?
6. How can efficient delivery of funds be supported?
7. Who has oversight and legal responsibility over implementation?
8. How will the implementing arrangements relate to those of other domestic and international funds?
9. What fees will implementing entities require?

2.7 Key Decision 6: Facilitating Effective Monitoring, Reporting and Verification

Monitoring, Reporting and Verification (MRV) is a critical component of an NCF. MRV enables the NCF to ensure that results are being delivered, and to collect lessons learned from implementation that will further refine and improve NCF operations.

The NCF should have unambiguous appraisal and performance criteria. Each stakeholder responsible for providing information on the activities of the NCF must have clear guidelines and standards. Public information systems can often support the dissemination of information.

PROGRAMMATIC AND FINANCIAL REPORTING

Two types of reporting are necessary. First, the activities implemented must be reviewed and data submitted on the results of those activities. Generally, this is conducted in a bottom-up manner by the implementers, which report activities to one of the governing bodies. However, in some NCFs the governing bodies may collect data in a top-down manner by visiting project sites, carrying out evaluations or commissioning audits.

In the case of project reporting, MRV should be systematized across the NCF. Guidelines and templates should be established so each implementer reports on a similar set of metrics. This data should be collected by one governing body that can compile the information for further analysis and identification of best practices. Also, institutional arrangements, including the roles of who will be conducting the MRV and who will be compiling the information, should be clarified.

Second, the status of the finances of the NCF must be reported by the trustee. The trustee often provides this information to the secretariat or steering committee on a regular basis. An NCF may choose to monitor the status of its finances through a series of regular reports or using web-based financial tracking tools. This real-time tracking supports transparency and access to information.

ALIGNING MRV SYSTEMS

Similar to the implementing arrangements, MRV systems should align with other domestic and global climate change funds, as well as any MRV requirements of NAMAs, NAPs and other relevant mechanisms. This helps the NCF MRV system to be cost-effective, robust and to minimize the reporting burden on NCF implementers.

NCF MRV systems should also be aligned within the fund to ensure that there are clear roles for oversight and audit functions. The body with legal responsibility over implementation and achieving results should be identified and should ensure that the MRV systems optimize the use of existing national systems.

KEY DECISION 1

DEFINING THE OBJECTIVES

KEY DECISION 2

IDENTIFYING CAPITALIZATION

KEY DECISION 3

INSTILLING EFFECTIVE GOVERNANCE

KEY DECISION 4

ENSURING SOUND FIDUCIARY MANAGEMENT

KEY DECISION 5

SUPPORTING EFFICIENT IMPLEMENTATION ARRANGEMENTS

KEY DECISION 6

FACILITATING MONITORING, REPORTING AND VERIFICATION

Cambodia Climate Change Alliance Trust Fund

Grantees submit implementation reports every three months to the Trust Fund Secretariat, who compiles the information into a single report. Based on this information, the head of the Trust Fund Secretariat provides quarterly progress reports. An annual report summarizes the progress of implementation for the full year. A Joint Programme Annual Review occurs each year to review the report.

Moreover, some NCFs may wish to use MRV as a way to incentivize results. By aligning MRV with project effectiveness, NCFs can use the information collected as a basis for future funding for the project. For example, in the case of performance-based funds, projects receive initial funding but future support is based on the results achieved. This model can promote accountability and provide incentives for recipients to use funds efficiently.

CAPACITY DEVELOPMENT

Many MRV systems are new to governments and project implementers that have not been a part of previous MRV systems. Importantly, any MRV mechanisms established should provide tools, methodologies, training and knowledge sharing to help countries

strengthen their technical and institutional capacity for developing effective MRV systems.

CRITICAL DESIGN CONSIDERATIONS FOR FACILITATING, MONITORING, REPORTING AND VERIFICATION:

1. Can the NCF MRV system be built upon any existing systems (e.g., MRV for NAMAs)?
2. What type of programmatic or financial information should be reported? How often should information be reported and to whom should the reports be sent?
3. How should MRV results be linked to project effectiveness? (e.g., pay-for-performance options)
4. Will audits be undertaken? By whom?
5. Who will oversee the entire MRV process?
6. What types of guidance materials are available or need to be created? What MRV capacity building activities should be undertaken?

2.8 Consolidating Inputs into Term Sheets

To support efficient, transparent and robust NCF design, UNDP recommends consolidating the design decisions of an NCF into a term sheet organized to capture of the different components featured in this guidebook. A term sheet is a document that outlines critical pieces of information about the design and operations of the fund, including the objectives, capitalization, governance, fiduciary management, implementation arrangements and MRV. Capturing the objectives and the functional attributes in this way can help to clearly define the scope and administration of the fund so that it effectively supports country objectives. An annotated example term sheet is in Figure 5.

While many NCF term sheets follow a similar structure, the decision points in a term sheet can be tailored to accommodate NCF components that support national needs and priorities. By consolidating design decisions on the components of the fund, the term sheet helps to outline the project cycle and reporting arrangements. It also provides a means to codify agreements regarding fees charged by the trustee and implementing entities, if applicable.

Importantly, term sheets can be used to facilitate engagement with stakeholders during the design process. By outlining each element of the NCF, the document can serve as a structure for discussion and help internal and external stakeholders contribute specific and targeted inputs.

The information captured in the term sheet can also provide a basis for agreement among fund participants. The term sheet can help formalize relationships between NCF sources, governing bodies, implementers and recipients. It can also outline the flow of funds, as well as the decision-making systems that shape the relationships between the fund's participants (e.g., who reports to whom and how funds are allocated). By codifying this information, the term sheet identifies and clarifies roles, responsibilities and expectations for each part of the NCF.

Through experience, UNDP has learned that term sheets provide a simple, step-by-step tool that can be used as a basis for discussion and agreement throughout the life of the NCF.

KEY DECISION 1

DEFINING THE OBJECTIVES

KEY DECISION 2

IDENTIFYING CAPITALIZATION

KEY DECISION 3

INSTILLING EFFECTIVE GOVERNANCE

KEY DECISION 4

ENSURING SOUND FIDUCIARY MANAGEMENT

KEY DECISION 5

SUPPORTING EFFICIENT IMPLEMENTATION ARRANGEMENTS

KEY DECISION 6

FACILITATING MONITORING, REPORTING AND VERIFICATION

Figure 5: Example Term Sheet

Cambodia Climate Change Alliance Trust Fund Term Sheet	
Category	Key Decision
<p>Objectives</p> <p><i>Defining the goals and management of a fund lays the foundation for the activities, scope and operations of the NCF. The objectives should clearly define how the NCF relates to national goals on climate change and other international and domestic funds and initiatives.</i></p>	<p>The Cambodia Climate Change Alliance Trust Fund (CCCA TF) was launched in 2010 as the funding arm of the Cambodia Climate Change Alliance, a national programme to support capacity development and institutional strengthening to prepare for, and mitigate, climate change risks. The Alliance aims to directly help vulnerable communities by enhancing their resilience to climate change and other natural hazards.</p> <p>The CCCA TF objectives are to support capacity building and priority interventions to enhance adaptation and long-term resilience to climate change among vulnerable communities and eco-systems. Priority is given to supporting the implementation of the Cambodia Climate Change Strategic Plan (CCCSP) and those initiatives identified in the National Adaptation Programme of Action as well as the National Strategic Development Plan.</p>
<p>Capitalization</p> <p><i>Should the fund focus on a handful of benefits, only a few types of domestic sources would need to be blended with international sources. If the objectives are broader, the fund should blend a wider variety of sources, including innovative mechanisms.</i></p>	<p>The CCCA TF is capitalized by bilateral donors, including the European Union, Sweden and Denmark, as well as by UNDP.</p>
<p>Governance</p> <p><i>The governance system ensures that the project cycle flows smoothly and efficiently, enabling the fund to be fast, flexible and country-driven. Any governance system must facilitate effective decision-making to drive resources to appropriate actions that support the objectives of the fund. A term sheet clearly outlines roles of each governing body and the processes for project approval and fund distribution.</i></p>	<p>The National Climate Change Committee, led by the Prime Minister as the honorary chair, is composed of 20 ministries and agencies. It coordinates national policy-making on climate change and provides strategic guidance to the Programme Support Board (PSB). The PSB makes high-level policy decisions for the fund and conducts the final review of grant applications. The PSB is supported by the CCCA TF Secretariat. The head of the Secretariat manages the day-to-day operations of the fund and an inter-ministerial Climate Change Technical Team (CCTT) that provides technical expertise on policy and reviews grant applications.</p> <p>Grant proposals are first reviewed by the Trust Fund Secretariat and then independent experts. The CCTT, based on findings of these experts makes recommendations to the PSB. The PSB conducts the final review and authorizes the grants.</p>
<p>Fiduciary Management</p> <p><i>Sound fiduciary arrangements provide the foundation for the efficient movement and tracking of funds flowing to and from the NCF. The trustee or administrative agent manages these transactions and ensures that funds are collected and distributed in a coordinated and effective manner.</i></p>	<p>As a UNDP local Trust Fund, UNDP holds the funds and distributes them to implementing partners for the execution of activities. It is envisioned that this role will eventually transition to the government.</p>
<p>Implementation Arrangements</p> <p><i>It is critical that implementation arrangements support the objectives of the NCF and align closely with the fund's governance and fiduciary arrangements. The selection of implementing entities and the process for delivering funds must be clarified so that beneficiaries can receive funds.</i></p>	<p>Implementation is undertaken either solely by government agencies or in partnership with NGOs, UN agencies and universities.</p> <p>The CCCA TF will provide up to \$300,000 per grant. However, if a civil society organization is the applicant in partnership with a government entity, the maximum grant amount is \$150,000.</p> <p>The CCCA TF provides complete or partial funding to activities in the following ways:</p> <ul style="list-style-type: none"> ● Co-financing of new or existing projects ● Full financing of new projects ● Financing of new components within existing projects <p>Technical support can be provided by development partners as needed.</p>
<p>Monitoring, Reporting and Verification</p> <p><i>Monitoring, Reporting and Verification ensures that results are being delivered. Through this process, lessons are collected from implementation that could further refine and improve NCF operations.</i></p>	<p>Grantees submit implementation reports every three months to the Trust Fund Secretariat, who compiles the information into a single report. Based on this information, the head of the Trust Fund Secretariat provides quarterly progress reports.</p> <p>An annual report summarizes the progress of implementation for the full year. A Joint Programme Annual Review occurs each year to review the report.</p>



Chapter 3

UNDP Trust Fund Advisory and Management Services

- 3.1 UNDP Administered Trust Funds
- 3.2 UN Multi-Donor Trust Funds
- 3.3 UNDP Trust Fund Implementation Services
- 3.4 UNDP NCF Advisory Services

3

UNDP and National Climate Funds

UNDP has broad experience as a trust fund administrator and as an implementation service provider. UNDP administers a large pool of single-country and thematic UNDP Trust Funds, supports an increasing number of UN Multi-Donor Trust Funds and provides implementation services to several key global environment trust funds. Leveraging this experience, UNDP also provides advisory services to countries for the establishment of national environment, climate and biodiversity funds. Chapter 3 of this guidebook presents an overview of on-going UNDP activities as a trust fund administrator, administrative agent for UN Multi-Donor Trust Funds (MDTFs), implementing entity and technical advisor for National Climate Funds.

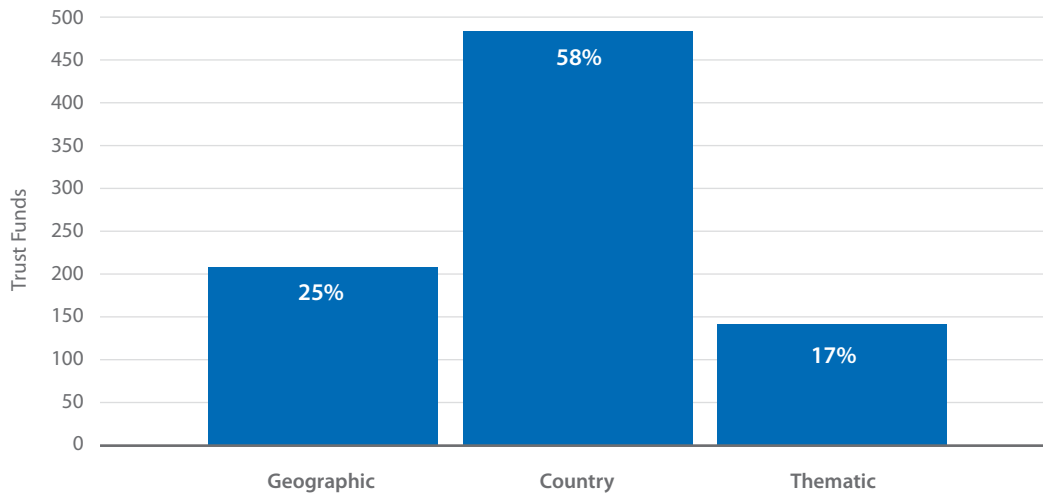
3.1 UNDP Administered Funds

As the UN development network, present in 176 countries and territories, UNDP administers over 750 Trust Funds. These trust funds include:

- **Single-country Trust Funds** that operate at the national level (e.g., Women and Children's Rights in Ukraine)
- **Geographic Trust Funds** that encompass a region of countries (e.g., Fostering Knowledge Transfer in Disaster Preparedness/Risk Reduction within the Caribbean), a continent (e.g., Integrated Water Management in Africa) or a region at the sub-national level (e.g., Micro-Projects in Northwest Provinces of Cambodia)
- **Thematic Trust Funds** that address an issue globally (e.g., Climate Change, Poverty and Environment, HIV/AIDS)

Of the trust funds administered worldwide by UNDP, 58% are single country funds, 25% are geographic trust funds, and 17% are thematic trust funds (Figure 6). UNDP has worked closely with governments, national and sub-national government bodies, inter-ministerial groups and other stakeholders to support the funds to ensure that the funds provide a flexible, coordinated system for delivering results. UNDP's partner network is extensive, working alongside UN agencies, development banks, the private sector and civil society organizations, and draws from a wide breadth of donors by partnering with countries, foundations and the private sector.

UNDP supports trust funds as a valuable tool to facilitate south-south cooperation. Lessons learned from one trust fund can be applied to the others; UNDP works to ensure that experiences are exchanged between and among countries. Knowledge sharing and policy dialogues assist in the development and delivery of programming, and are key components of UNDP's work in administering trust funds.

Figure 6: UNDP Administered Trust Funds

Source: Flynn (2011).

3.2 UN Multi-Donor Trust Funds

UNDP's portfolio includes over \$5 billion in more than 45 country-level and global MDTFs and over 25 Joint Programmes (JPs), administered through a specialized unit UNDP Multi-Partner Trust Fund (MPTF) Office. MDTFs and JPs are important tools to support specific country and/or global level strategic priorities that may be defined in national plans, UN Development Assistance Frameworks (UNDAFs), and "Delivering as One" Frameworks. These funds support country-driven and UN-supported work in more than 80 countries with contributions from over 60 donors and development partners. They support a wide range of objectives, ranging from transition and reconstruction actions to development and environmental issues.

MDTFs and JPs are UN-based funds that respond to the needs on the ground, as defined by the relevant government partners and the UN Country Team. Once a fund is established, it enables the UN system to quickly deploy the technical, operational and administrative capacities of the UN and the expeditious approval and implementation of projects and programmes. MDTFs are established according to the guidance provided in the United Nations Development Group (UNDG) Guidance Note on Establishing, Managing and Closing Multi-Donor Trust Funds and generally relies on UN entities to implement projects and programmes.

The MDTFs are governed through MDTF Steering Committees, which at the country level are normally co-chaired by the Resident Coordinator and national government, and include participating UN organizations and often donors and other stakeholders. One example, the UNDG Iraq Trust Fund, has received over \$1.4 billion in contributions from 26 donors, including both developed and developing countries. It has supported 212 projects since 2004 and delivered results through 16 implementers in eight thematic sectors. Another type of fund, the MDG Achievement Fund, includes \$700 million that is delivered in more than 50 countries.

Though differing in size and structure, each of the funds supports national ownership and capacity building. Further, UNDP supports the UN and other partners by providing fund management services that enhance the coherence, effectiveness and efficiency of the UN system. By providing a transparent and accountable framework for MDTFs, UNDP promotes coordination across UN agencies toward the efficient delivery of results.

Importantly, UNDP also has the systems in place to help countries manage trust funds as they evolve and grow. For example, the global UN-REDD Programme Fund helps developing countries to build capacity to reduce emissions from deforestation and forest degradation. The programme started in 2008 with \$12 million from a single donor. Only four years later, it had expanded to a \$97 million fund funded by four donors. UNDP was able to help the fund navigate this dramatic growth by managing contributions and leveraging initial funds to attract increased investment.

For MRV of funds, UNDP provides support through a web-based reporting portal that offers full public disclosure and visibility to all partners. Information relating to donor contributions, transfers and expenditures, approved projects and activities, external reviews and evaluations, official notices and publications are all housed in one accessible location in a full range of information formats. This information documents where, to whom and how much funding has been contributed globally to MDTFs, and tracks the related activities implemented and results achieved. In keeping with UNDP's commitment to transparency, this information is displayed on the MPTF Office GATEWAY in real time directly from UNDP's accounting system (see Figure 7).

Figure 7: Multi-Partner Trust Fund Office Gateway

3.3 UNDP Trust Fund Implementation Services

UNDP is an implementing agency of some of the largest global environmental trust funds in the world, including the Global Environment Facility Trust Fund, Multilateral Fund, Special Climate Change Fund, Least Developed Countries Fund and Adaptation Fund. The organization currently supports the implementation of an \$8 billion portfolio of 1,000 climate change and ecosystems-management projects. As an implementing agency, UNDP provides technical and financial assistance for projects across all thematic areas — including mitigation, adaptation, technology, finance and REDD — and helps countries to put in place the systems that bolster low-emission, climate-resilient development.

UNDP also provides support for the implementation of projects under a variety of bilateral funds. For example, under the \$92 million Africa Adaptation Programme, UNDP supports 20 countries to develop integrated and comprehensive climate change adaptation actions and resilience plans. The programme ensures that national development processes weigh climate change risks and opportunities in order to secure development gains. UNDP helps countries establish an enabling environment and develop the capacity required to design, finance, implement and monitor long-term and cost-effective adaptation policies and plans.

3.4 UNDP National Climate Fund Advisory Services

Leveraging UNDP's experience as a trust fund manager and implementation service provider for global, regional, national and thematic trust funds, UNDP provides advisory services to governments to establish and operate national environment and climate change funds. UNDP's advisory services include support for:

- NCF Design
- Capitalization
- Trustee or Administrative Agent
- Capacity Development
- Implementation

NCF Design — UNDP supports countries to develop and codify operational guidance to ensure streamlined fund delivery. Using the multi-stakeholder approach of Chapter 2, UNDP helps countries to develop detailed term sheets that consolidate the decisions emerging from the design process. In this way, the funds can provide flexible, coordinated and predictable funding toward the achievement of national sustainable development priorities.

Designing funds according to a country's priorities and circumstances is central to UNDP's approach. The objectives of a fund, for example, should align with national goals on climate change, any short-, medium- and long-term climate and development plans, capacities to manage and deliver climate finance and other political and economic considerations. In cases where countries do not have an existing strategy on climate change, or the existing strategy is outdated, UNDP has the tools and guidelines to help countries develop comprehensive strategic and programmatic roadmaps to achieve sustainable low-emission, climate-resilient development.

Ensuring that all relevant stakeholders participate in the design process is an important element of any national fund. UNDP's term sheet approach consolidates stakeholder inputs so that a national fund addresses country-driven priorities as efficiently and effectively as possible. While the questions posed in a term sheet are universal — objectives, capitalization, governance, fiduciary arrangements, implementing arrangements and MRV — UNDP works to ensure that the answers reflect unique country priorities and circumstances.

UNDP has established teams of technical advisers at the national, regional and global level, as well as administrative and trustee units, to support countries throughout project design and delivery. For more detail on UNDP's support team, please see www.undp.org/climatechange.

Capitalization — Mobilizing resources is a critical part of any national fund. UNDP assists countries with establishing regulatory frameworks for identifying and collecting resources. This includes public, private, multilateral and bilateral sources of finance.

From UNDP's experience, it is imperative that climate finance be used catalytically, leveraging accessible funding sources to spur additional investments in climate change projects. The finance required to support action on climate change is immense and an NCF should be able to collect and blend multiple sources together for maximum benefit. For example, an NCF can use public funds to create enabling investment environments and remove barriers for domestic and foreign investment. In this way, public funds cannot only be leveraged to attract private investment in projects, but the NCF lays the foundation for private investment in the longer term.

UNDP has a number of facilities, tools and platforms to help countries put capitalization systems in place to attract and manage new sources of finance. One programme, the MDG Carbon Facility, works together with commercial banks to provide the private sector in developing countries with a direct link to carbon markets. Another programme, Capacity Development for Decision-Makers to Address Climate Change, helps countries to conduct investment and financial flow analyses so they can get an accurate picture of what types of finance are needed to accomplish their climate change goals.

Since 2006, UNDP has provided support services as a trustee/administrative agent for 45 multi-donor trust funds and joint programmes in 80 countries, with contributions received from 60 contributors/development partners. UNDP provides a flexible and coordinated funding mechanism to direct funding toward agreed-upon priorities. All funds are managed using internationally-accepted fiduciary standards, in line with the Paris Declaration and the Aid Effectiveness agenda, to facilitate predictable funding and the achievement of national priorities.

UNDP also assists countries as they consider using innovative sources of finance. Establishing a levy on specific industries, for example, can require a number of regulatory and financial frameworks. UNDP helps countries to explore these options.

Trustee or Administrative Agent — As a trustee/administrative agent, UNDP provides transparent and accountable fund management services to enhance coherence, effectiveness and efficiency. UNDP provides the full range of financial services, including receiving contributions from sources, administering funds received, disbursing funds to each implementing organization in accordance with the objectives and guidance of the fund, consolidating statements and reports and providing final reporting.

UNDP provides a “one stop shop” for all of the financial and legal activities of the NCF. Legal documents, such as partnership agreements, memorandums of understanding and other agreements that codify partnerships and relationships with stakeholders, can be held by UNDP. Furthermore, contributors, governing bodies, implementers and recipients can find information on the collection, management and disbursement of funds from one unified source. This supports transparency, efficiency and accountability.

UNDP, when acting as the administrative agent/trustee, only disburses funds when directed by the governing bodies. The administrative agent/trustee does not make any funding or implementation decisions at any time.

Capacity Development — As a capacity building organization, UNDP works to ensure that any national fund strengthens the capacity of governing bodies, implementers, recipients and other stakeholders, enhancing their ability to manage the operations of the fund and to support delivery of projects. This promotes a country's ownership and ensures that the operations of the fund fully align with national priorities.

This is especially important as countries engage with national implementation and “direct access” of climate finance. UNDP's services for NCFs strengthen national institutions' ability to collect, blend, coordinate and account for climate finance, helping them align with international fiduciary standards. Through NCFs, countries can build the national systems that better position them to manage climate change programming and meet the standards necessary for national implementation under the Adaptation Fund and other sources.

Implementation — As discussed above, UNDP also provides implementation services at the national, regional and global levels, and can support the implementation of NCF programmes in different capacities. Importantly, UNDP has systems in place to manage its role as an administrative agent/trustee alongside its role as an implementer of climate change projects. To avoid any real or perceived conflict of interest between its fund-management and programmatic roles, UNDP firewalls its administrative and implementing functions. This helps to keep the government in the driving seat and establish clear roles to support the efficient delivery of funds to achieve results on the ground.



Chapter 4

Conclusion

4

Conclusion

Countries have immense opportunities to utilize climate finance — more sources of funding exist than ever before to help countries achieve their climate change objectives. However, in order for this increased funding to achieve real results, countries must be equipped to effectively access and channel funds toward their climate and development priorities. It is critical that the increased number of funding sources are matched with an increase in a country's ability to collect, blend, coordinate and account for climate finance.

As this guidebook demonstrates, National Climate Funds are a useful tool that can support countries to optimize their access to and management of climate finance. NCFs are nationally-owned and nationally-managed so that a country can collect the sources that are right for them, blend them together, implement activities in a manner that accomplishes their priorities and set up a nationally-relevant system to account for the results of their work. NCFs put countries in the driving seat for transforming their economies and achieving low-emission, climate-resilient development.

Based on UNDP's experience in the administration of over 750 trust funds at the national, global and regional levels, and 40 Multi-Donor Trust Funds around the world, there is a set of key decisions that a country must consider when designing and establishing an NCF:

- Defining the objectives
- Identifying capitalization
- Instilling effective governance
- Ensuring sound fiduciary management
- Supporting efficient implementation arrangements
- Facilitating effective monitoring, reporting and verification

Once key decisions have been made, a country will have crafted the components of its NCF; these components will provide a structure that helps to drive resources toward a country's climate and development priorities. A carefully considered and well-designed NCF will ensure that systems are in place to facilitate the flow of funds and monitoring, reporting and verification. Further, support and coordination should underscore all of an NCF's components, ensuring that efficient decision-making supports the implementation of projects and programmes that achieve the NCF's goals.

Importantly, NCFs are not one-size-fits-all. Each NCF must be tailored to country priorities and realities. They should be firmly rooted in, and aligned with, existing national strategies, frameworks, systems and other initiatives on climate change. NCFs must also define the fund's relationship to other global funds and programmes so that the NCF can make the best use of available resources and avoid duplicating other efforts.

In UNDP's experience, the use of a term sheet helps to define the design and operations of the NCF by capturing the key considerations of each of its components. As a document that outlines critical pieces of information about the operations and scope of the fund, a term sheet supports an efficient, transparent and robust NCF design. While the questions posed by a term sheet are universal, the answers will be unique to each country.

Stakeholder engagement is a critical part of the design and establishment of NCFs. Government, civil society, academia, the United Nations, development banks, the private sector and others can contribute specific and targeted inputs so that the NCF operates as efficiently as possible. Term sheets are also useful for this purpose — they can provide a structure for stakeholder engagement, ensuring that all voices are heard, and that roles, responsibilities and expectations are defined clearly.

Capacity development is also a key element of any NCF. The NCF should support on-going capacity development of governing bodies, implementers, the trustee and other stakeholders so that they can drive results and continue to build robust systems that address the country's climate change priorities over time. Capacity development is especially important as more global funds include opportunities for countries to access funds directly. Countries can use NCFs to strengthen national institutions and align with international fiduciary standards so that they can meet the criteria associated with those funds.

Throughout this guidebook, a number of existing NCFs have been featured. It is important to learn from their experiences and build on lessons from their NCF design and establishment process. A key lesson applicable to all countries designing an NCF is to be very clear about what the NCF should accomplish. Countries must realistically assess their needs: in some cases the NCF should be very broad and attract many different types of funding sources; in others, a more targeted NCF is necessary to focus on a key priority for the country. The targeted NCF can be capitalized by a limited number of funding sources in order to decrease administrative and operating costs.

NCFs help countries to manage climate finance and to achieve their sustainable development goals. By creating an NCF, a country sets in place a system that efficiently collects, blends, coordinates and accounts for climate finance, helping it to take advantage of the increased number of climate funding sources available. In this way, NCFs help countries to manage climate finance catalytically and build a system that supports low-emission and climate-resilient development now and in the future.





Chapter 5

Sample Term Sheets of 5 National Climate Funds

- Indonesia Climate Change Trust Fund
- Bangladesh Climate Change Resilience Fund
- China CDM Fund
- Ecuador Yasuni ITT Trust Fund
- Brazil National Fund on Climate Change

Indonesia Climate Change Trust Fund	
Category	Key Decision
Objectives	<p>The Indonesia Climate Change Trust Fund (ICCTF) is part of the government of Indonesia’s commitment to implement the Jakarta Commitments to enhance national ownership and improve aid coordination in response to climate change.</p> <p>The objectives of the ICCTF are to:</p> <ol style="list-style-type: none"> 1. Achieve Indonesia’s goals of a low-carbon economy and greater resilience to climate change 2. Enable the government to increase the effectiveness and impact of its leadership and management in addressing climate change issues <p>Further, in order to strengthen country ownership, all external assistance interventions will include capacity development activities to ensure the sustainability of future ICCTF operations without relying on international assistance.</p>
Capitalization	<p>The ICCTF is made up of two funds. The “Innovation Fund,” which is already operational, directs bilateral and multilateral grant funding from development partners and other contributors to activities that provide indirect economic and social benefits and will not provide any direct financial return to the participants. The “Transformation Fund,” which will be managed in close coordination with the Ministry of Finance, plans to utilize funding sources such as domestic funds, loans and various types of investments which generate direct financial revenue and support the mobilization of investment in low-carbon and climate resilient economic development.</p> <p>While initial funding will be provided by government budgets and grants, it is anticipated that most funding will come from the private sector in the future. ICCTF resources can be combined with resources from government, multilateral organizations, the private sector and civil society. The ICCTF is also applying for National Implementing Entity accreditation for direct access under the Adaptation Fund.</p>
Governance	<p>The Steering Committee provides policy and operational guidelines, management and monitoring and evaluation. The Steering Committee is responsible for identifying general strategic policy recommendations for the fund and defining priority areas to be financed by the ICCTF, including approving funding to specific project proposals. In addition to national government representatives, development partners, selected NGOs and civil society members are part of the ICCTF Steering Committee. In the future the Steering Committee may also include local government representatives. At this point, the Steering Committee does not include line ministries to avoid a conflict of interest (ministries approve their own projects).</p> <p>The Technical Committee evaluates project proposals for eligibility, feasibility, sustainability and impact on the environment, the society and the economy. In addition, it has the mandate to prepare assessment reports, which will include recommendations for approval or rejection of project proposals. The Technical Committee is comprised mostly of line ministries, and also provides technical assistance to the Steering Committee.</p> <p>The Secretariat manages the daily operations of the ICCTF and supports the Steering Committee and Technical Committee. It consists of members with technical, administrative and financial expertise.</p> <p>Grant proposals are received by the Secretariat to ensure all documentation is complete. The Technical Committee reviews each proposal and develops an assessment report that is submitted with the project proposal to the Steering Committee; the Steering Committee then approves or rejects the proposal. However, in the future, the Steering Committee may take on a more strategic role by providing direction on core investment areas for the Technical Committee. In this case, the Technical Committee would select and/or develop projects in line with the Steering Committee’s priorities.</p>
Fiduciary Management	<p>UNDP acts as the ICCTF’s Interim Fund Manager and supports developing capacity so that a national entity can take over this responsibility. A national trustee will be identified through an open competitive process. The national entity must be registered in Indonesia; be a credible, competent and well-recognized national institution; have proven financial management capability; and have adequate human resources capacity. The gradual transfer of UNDP roles and responsibilities will be carried out in close coordination with the government from the planning stage.</p>
Implementation Arrangements	<p>ICCTF has 3 priority funding windows: Energy and Energy Efficiency, Sustainable Forestry and Peat Land Management, and Resilience</p> <p>Initially, sectoral ministries may apply for funding. Later, local governments, NGOs and universities may apply, as well as private firms through a public-private partnership. Eventually, the private sector will be able to access the Transformation Fund directly.</p>
Monitoring, Reporting and Verification	<p>Once a year, the Secretariat organizes missions to monitor and evaluate projects. Reports are developed on the status of projects and presented to the governing bodies. The ICCTF will undergo an annual audit that will be presented to the Steering Committee.</p>
Website	<p>http://www.icctf.or.id</p>

Bangladesh Climate Change Resilience Fund

Category	Key Decision
Objectives	The Bangladesh Climate Change Resilience Fund (BCCRF) was established in 2010 and is linked to Bangladesh's Climate Change Strategy and Action Plan (BCCSAP) for 2009-2018. It aims to provide support to vulnerable communities in adapting to greater climate uncertainty and changing agricultural conditions.
Capitalization	The BCCRF is set up to receive public national, bilateral and multilateral contributions. Current donors include Denmark, Sweden, the European Union and the United Kingdom.
Governance	<p>The fund has a governance structure that consists of a Governing Council and Management Committee, both of which are chaired by the government and include representatives from ministries, development partners, civil society and the trustee. The two bodies ensure overall policy and decision-making coherence. Specifically, the Governing Council provides guidance on high-level issues, such as setting the strategic goals and management, aligning the BCCRF with the BCCSAP, establishing grant criteria, reviewing results and providing advocacy support. The Management Committee reviews and endorses the BCCRF manual, establishes the work programme and budget allocation, reviews grant requests and reviews and endorses reports by the fund.</p> <p>A BCCRF Secretariat was established in the Ministry of Environment and Forests to support the Governing Council and Management Committee and manage the day-to-day operations.</p> <p>An Expert Panel provides specific short-term advice and support to the Secretariat and the Management Committee (and, if desired, the Governing Council) on any technical aspects including the review of proposals. The Expert Panel may also provide sectoral expertise on technical issues, share relevant international best practices and advise the governing bodies as required.</p> <p>Project proposals are submitted by ministries to the Management Committee. The Management Committee reviews the proposals to ensure that they align with the BCCSAP and do not duplicate the work of other ministries. In parallel, the Fiduciary Manager, the World Bank, prepares a concept note for internal review. The World Bank team independently assesses the technical, economic, financial, institutional, environmental and social viability of the project. Documents are submitted to the Governing Council and a grant appraisal mission is undertaken. The World Bank prepares a negotiations package — including a Project Appraisal Document, draft grant agreement and an invitation letter to negotiate — for the review and clearance by the World Bank's Country Director for Bangladesh. The Governing Council approves the negotiations package that leads to a grant agreement.</p>
Fiduciary Management	The World Bank serves as the interim trustee. The Governing Council is planning for the transfer of fiduciary management responsibility to the government.
Implementation Arrangements	Government line ministries will provide implementation, with technical support provided by the World Bank. Around 10% of funding will be directed at NGOs and civil society to support the development of grassroots mechanisms for communities to increase their resilience. Implementation by NGOs and civil society will be managed by the Palli Karma-Sahayak Foundation, a microfinance institution established by the government in 1990.
Monitoring, Reporting and Verification	Baseline, mid-term and annual evaluation of outcomes are based on agreed results indicators.

China CDM Fund	
Category	Key Decision
Objectives	The China CDM Fund was established by the Ministry of Finance and the National Development and Reform Commission (NDRC) as an innovative finance mechanism to support the National Climate Change Programme and promote international cooperation. It collects, manages and utilizes the national share of proceeds from CDM projects and channels resources toward initiatives that address climate change and promote social and economic sustainable development.
Capitalization	Resources come from revenues generated by CDM projects in China, earnings from CDM business operations, grants and other types of support from multilateral development banks and international institutions.
Governance	<p>The fund is governed by a board and managed by the CDM Fund Management Centre. The board is comprised of NDRC, Ministry of Finance, Ministry of Foreign Affairs, Ministry of Science and Technology, Ministry of Environmental Protection, Ministry of Agriculture and the China Meteorological Administration. The board reviews management regulations, strategic planning, applications for grants and investments and the annual budget and accounting.</p> <p>The CDM Fund Management Centre, affiliated with the Ministry of Finance, is responsible for the collection, management and use of funds. Specifically, the Management Centre develops rules and regulations for the fund's operation, raises and manages funds, carries out investments and wealth management activities, formulates and implements the annual budget and accounting, supervises and manages projects and reports major business activities to the board.</p> <p>For grants, applications are submitted to NDRC through the "Project Applicant Organizer," (i.e. relevant departments of the State Council or Provincial Development and Reform Commission). NDRC is responsible for arranging reviews of the applications. The reviewed applications are then sent to the board for approval. Upon approval by the board, the applications are sent to NDRC and Ministry of Finance for joint ratification.</p> <p>For investment projects, the CDM Fund Management Centre is responsible for the initial selection and review. Major investment projects (70 million RMB or above) are approved by the board and then sent to NDRC and Ministry of Finance for ratification. For non-major investment projects, the CDM Fund Management Centre is responsible for approval and ratification. Ratified projects are reported to NDRC and Ministry of Finance within 15 working days.</p>
Fiduciary Management	he contracts are signed by NDRC, Project Applicant Organizer, project applicant and China CDM Fund Management Centre. Investments are managed by the CDM Fund Management Centre.
Implementation Arrangements	<p>The CDM Fund offers grants and investments. It uses grants to support climate-related capacity building and promotion of public awareness. Its investments mainly support industrial activities contributing to addressing climate change and can provide equity investment, entrusted loans, financing guarantees, and other government-approved approaches.</p> <p>For grants, applicants must be institutions with research and training capabilities that are working on climate change in China. The Project Applicant Organizer of the project is responsible for implementation.</p> <p>The implementer for investment projects is CDM Fund Management Centre.</p>
Monitoring, Reporting and Verification	For grant projects, NDRC, CDM Fund Management Centre and the project applicant will be responsible for monitoring and verifying the project as well as project acceptance. For investment projects, the CDM Fund Management Centre is responsible for monitoring, verifying and accepting the project.
Website	http://www.cdmfund.org

Ecuador Yasuni ITT Trust Fund	
Category	Key Decision
Objectives	Yasuni Ishpingo Tambococha Tiputini (ITT) Trust Fund was established to support Ecuador's decision to permanently forego the extraction of the Yasuni ITT oil fields (about 846 million barrels). The initiative will assist Ecuador to collect and channel funds toward climate change and sustainable development challenges and enable it to gradually change the energy matrix of the country through investments in environmentally friendly and socially inclusive renewable energy projects. Specifically, the fund will finance strategic sustainable development programmes within the guidelines of the Ecuadorian National Development Plan. Programmes address forestry, watershed and river management, energy, social development, research, science, technology and innovation.
Capitalization	<p>Ecuador is requesting public, private, individual, bilateral and multilateral contributors to compensate 50% (at 2008 oil prices) of the income it is forgoing, amounting to \$3.6 billion over the 13 year period.</p> <p>In exchange for contributions, the government issues Yasuni Guarantee Certificates (CGYs) for the face value of each contribution. These CGYs guarantee that the ITT field oil reserves will not be extracted, and instead will be maintained as part of a national park. The CGYs will include the metric tons of carbon avoided according to the price of the European Union Allowances in the Leipzig Carbon Market. In addition, if in the future the world carbon market accepts the CGYs as equivalents of emission permits, the government will issue CGYs for sale to private and/or public entities. Funds from the sale of the CGYs will contribute to the ITT Trust Fund.</p>
Governance	<p>A Steering Committee, made up of three representatives from the government, two from donors and one from civil society, provides strategic direction and oversight of the fund, reviews and makes fund allocation decisions and ensures coordination with other relevant initiatives.</p> <p>A Technical Secretariat provides administrative, technical and substantive support. It undertakes project appraisals, capacity assessment, monitoring and evaluation of project performance and other analyses, as required.</p> <p>The Ministry of Heritage serves as the Government Coordinating Entity (GCE), acting through the Yasuni ITT Coordination Office and in cooperation with the National Secretary of Planning and Development. The GCE is responsible for the effective development, implementation and monitoring and evaluation of the ITT Trust Fund. The GCE assumes full programmatic and financial accountability and coordinates the design of the overall portfolio, including the project selection process. It also ensures the timely issuance of CGYs and their sale to private and public entities.</p> <p>Coordinated by the GCE, grant proposals are developed by national recipients and implementing organizations. They are submitted to the Steering Committee for approval after review by the Technical Secretariat. Based on the approval from the Steering Committee, the Administrative Agent will transfer the approved funding to the relevant recipient and implementing organizations.</p>
Fiduciary Management	The fund uses the UNDP Multi-Partner Trust Fund Office as the Administrative Agent for the fund. The office receives and administers contributions, and disburses funds to implementing entities as directed by the Steering Committee. It also performs a range of reporting functions: it consolidates reports based on those submitted by implementing entities and provides regular financial reporting through an online platform (http://mdtf.undp.org).
Implementation Arrangements	<p>The Yasuni ITT Fund is made up of two windows:</p> <ol style="list-style-type: none"> 1. Capital Fund Window — financed by contributions to the Yasuni Fund Account (used to finance renewable energy projects). 2. Revenue Fund Window — replenished with mandatory annual revenue payments received from national entities for the use of the Capital Fund Window. This is used to develop projects within the framework of the sustainable development plan. <p>National entities receive funds and implement projects in accordance with the national regulatory framework (i.e. laws, regulations, rules, directives and procedures, and accountability frameworks). Implementation partners include NGOs/civil society organizations, private enterprises, and intergovernmental organizations.</p>
Monitoring, Reporting and Verification	Recipients and implementing organizations provide annual narrative reports, annual financial statements, mid-year updates, and project completion reports and certified final financial reports to the Administrative Agent. The Administrative Agent consolidates the reports and provides them to each contributor and the Steering Committee. The trustee also provides annual certified financial statements.
Website	http://yasuni-itt.gob.ec and http://mdtf.undp.org/yasuni

Brazil National Fund on Climate Change

Category	Key Decision
Objectives	Established in 2010, the Brazil National Fund on Climate Change (FNMC) was created to finance mitigation and adaptation projects and to support studies on climate change and its effects. The fund addresses energy, agriculture, desertification, education and training, REDD+ projects, technology development, public policy formulation, sustainable production chains, payment for environmental services and other activities. The fund plays an important role in promoting low-carbon development in Brazil.
Capitalization	Part of the resources will come from a special tax on the profits made in the oil production chain, made possible by the Law of Petroleum. Other contributions are collected from public, private, national and international donors. The initial 2011 FNMC budget is estimated for \$100 million.
Governance	<p>A Steering Committee manages, monitors, and evaluates the allocation of financial resources for mitigation and adaptation actions, national projects, and studies. The Steering Committee consists of representatives from the Brazilian government, National Bank of Economic and Social Development (BNDES), states, municipalities, non-governmental sectors, the scientific community and rural and urban workers and entrepreneurs. The Steering Committee is chaired by the Executive Secretary of the Ministry of Environment.</p> <p>The Ministry of Environment provides coordination of the administrative activities of the fund and drafts annual budget proposals and plans of implementation.</p>
Fiduciary Management	The trustee is the Brazil National Bank for Social and Economic Development.
Implementation Arrangements	<p>The FNMC provides grants and loans to recipients. Grants are managed by the Ministry of Environment and loans are managed by BNDES.</p> <p>Projects can be derived from the national climate change programming portfolio, BNDES, public calls for proposals or other methods.</p> <p>Implementation can take place through a variety of channels, including national ministries and BNDES. Implementation is conducted in accordance with national guidelines, including <i>Proposal Guidelines and Priorities for use of Resources and the Annual Implementation Plan of Resources</i>. All initiatives are subject to approval by the Steering Committee.</p>
Monitoring, Reporting and Verification	Recipients prepare annual implementation reports.
Website	http://www.mma.gov.br/sitio/index.php?ido=conteudo.monta&idEstrutura=251#



Chapter 6

Annex

- Glossary of Terms
- Useful Resources and Websites

Glossary of Terms

Adaptation – Initiatives and measures to reduce the vulnerability of natural and human systems to actual or expected climate change effects.

Adaptation Fund – The Adaptation Fund was established by the Parties to the Kyoto Protocol of the UNFCCC to finance concrete adaptation projects and programmes in developing countries that are Parties to the Kyoto Protocol. The Fund is financed with 2% of the Certified Emission Reduction issued for projects of the Clean Development Mechanism and other sources of funding.

Additionality – Reduction in emissions by sources or enhancement of removals by sinks that is additional to any that would occur in the absence of a Joint Implementation (JI) or a Clean Development Mechanism (CDM) project activity as defined in the Kyoto Protocol Articles on JI and CDM.

Capitalization – Refers to the types of resources that the fund would collect. International, national, public and private funds can all be relevant for an NCF.

Clean Development Mechanism (CDM) – Defined in Article 12 of the Kyoto Protocol, the CDM is intended to meet two objectives: (1) to assist parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the convention; and (2) to assist parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments.

Climate change – Any change in climate over time, whether due to natural variability or because of human activity.

Climate variability – Variations in the mean state and other statistics (such as standard deviations, the occurrence of extremes, etc.) of the climate of all temporal and spatial scales beyond that of individual weather events. Variability may result from natural internal processes within the climate system (internal variability) or from variations in natural or anthropogenic external processes (external variability).

Conference of the Parties (COP) – The supreme body of the UNFCCC, comprised of countries with the right to vote that have ratified or acceded to the convention.

Direct access – A funding modality in which domestic entities can access funds to implement climate change programmes and projects. Financial transfers are made directly from the funding source to the domestic entity for implementation.

Ecosystem – A system of living organisms interacting with each other and their physical environment.

Emissions trading – A market-based approach to achieving emissions reduction objectives. It allows those reducing GHG emissions below their emission cap to use or trade the excess reductions to offset emissions at another source inside or outside the country.

Equity – An investment in exchange for ownership of a company entitled to the earnings of a company after all other investors (e.g., debt-holders) have been paid.

Fiduciary management – Fiduciary management allows for the efficient movement and tracking of funds flowing to and from an NCF. This can include establishing fiduciary standards that apply to all monetary transactions.

Fossil fuels – Carbon-based fuels from fossil hydrocarbon deposits, including coal, peat, oil and natural gas.

Global Environment Facility (GEF) – Established in 1991, the GEF is a financial mechanism under the UNFCCC that provides grants to countries for projects related to biodiversity, climate change, international waters, land degradation, the ozone layer and persistent organic pollutants.

Green Climate Fund (GCF) – Established at COP 16 in Cancun, Mexico, the GCF joined the GEF as a financial mechanism under the UNFCCC. The GCF will support climate change projects, programmes and policies and other activities in developing countries using thematic funding windows. The exact design arrangements and structure of the GCF will be negotiated through a Transitional Committee with the goal of approving the modalities at COP 17 in 2011.

Greenhouse gases – Greenhouse gases are those gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of infrared radiation emitted by the Earth's surface, the atmosphere and clouds. This property causes the greenhouse effect. Water vapor (H₂O), carbon dioxide (CO₂), nitrous oxide (N₂O), methane (CH₄) and ozone (O₃) are the primary greenhouse gases in the Earth's atmosphere. Moreover, there are a number of entirely human-made greenhouse gases in the atmosphere, such as the halocarbons and other chlorine- and bromine-containing substances. These are dealt with under the Montreal Protocol. Besides carbon dioxide, nitrous oxide and methane, the Kyoto Protocol deals with the greenhouse gases sulfur hexafluoride, hydro fluorocarbons and per fluorocarbons.

Governance of an NCF – Governance includes bodies, decision-making processes and oversight functions that facilitate efficient management of an NCF.

Implementation – Implementation includes the processes and agents set in place to carry out NCF programmes and projects. This can include programmatic instruments (e.g., grants or loans), processes for selecting implementing entities and oversight and legal responsibilities.

Innovative sources of climate finance – Innovative sources refers to a range of non-traditional mechanisms to raise new and additional funds for development and climate activities, such as taxes on transport or financial transaction. The term is also sometime used to define innovative public financial schemes such as public-private equity funds or government-sponsored loan guarantee funds to scale up development action.

Kyoto Protocol – The Kyoto Protocol to the UNFCCC was adopted at the Third Session of the Conference of the Parties (COP) in 1997 in Kyoto. It contains legally binding commitments, in addition to those included in the UNFCCC. Annex B countries agreed to reduce their anthropogenic greenhouse gas emissions (carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride) by at least 5% below 1990 levels in the commitment period 2008 to 2012. The Kyoto Protocol came into force on 16 February 2005.

Market barriers – In the context of climate change mitigation, market barriers are conditions that prevent or impede the diffusion of cost-effective technologies or practices that would mitigate greenhouse gas emissions.

Mitigation – Technological change and substitution that reduces resource inputs and emissions per unit of output.

Monitoring, Reporting and Verification (MRV) – MRV refers to the ability to quantify the results of an activity or funding commitment and provide this information to others. The information can then be independently checked for accuracy and reliability.

Montreal Protocol – The Montreal Protocol on Substances that Deplete the Ozone Layer was adopted in Montreal in 1987, and subsequently adjusted and amended in London (1990), Copenhagen (1992), Vienna (1995), Montreal (1997) and Beijing (1999). It controls the consumption and production of chlorine- and bromine-containing chemicals that destroy stratospheric ozone, such as chlorofluorocarbons, methyl chloroform, carbon tetrachloride and many others.

Multi-Donor Trust Funds (MDTFs) – MDTFs are a type of NCF that is generally established to support specific country and/or global level strategic priorities that may be defined in national plans, UN Development Assistance Frameworks (UNDAFs), “Delivering as One” Frameworks, etc. Generally, an MDTF relies on UN agencies for implementation services.

Nationally-Appropriate Mitigation Action (NAMA) – Established under the UNFCCC process, a NAMA refers to a set of policies and actions countries undertake as part of a commitment to reduce greenhouse gas emissions.

National Adaptation Programme of Action (NAPA) – Under the UNFCCC process, NAPAs provide a process for Least Developed Countries to identify priority activities based on urgent and immediate needs to adapt to climate change. LDCs submit NAPAs to the UNFCCC and can receive funding to implement the priority activities identified.

National Adaptation Plan (NAP) – While NAPA focus on urgent and immediate needs, a NAP targets medium and long-term adaptation needs. NAPs can be undertaken by all countries.

National Climate Fund (NCF) – An NCF is a mechanism that supports countries to direct finance toward climate change projects and programmes by facilitating the collection, blending, coordination of, and accounting for climate finance. NCFs provide a country-driven system that can support climate change goal setting and strategic programming, oversee climate change project approval and implementation, measure performance, offer policy assurance and financial control of climate change funds, and assist with partnership management.

National Implementing Entity (NIE) – Under the Adaptation Fund, NIEs are the national legal entities that have been identified by the Adaptation Fund Board as meeting the fiduciary standards adopted by the Board and accredited as NIE. NIEs can access funds directly for implanting climate change projects.

Objectives of an NCF – Objectives are the strategic goals of an NCF. This can include mitigation, adaptation, REDD, capacity building, technology or other programmatic priorities, as well as management priorities such as attracting private sector investment.

Private equity – Investors focus on later stage and more mature technology or projects, and generally expects to exit their investment and make their returns in a three to five-year timeframe.

Public-Private Partnership (PPP) – A government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies. PPP involves a contract between a public sector authority and a private party, in which the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project.

Resilience – Refers to three conditions that enable a social or ecological system to absorb change and not fundamentally fall apart. The conditions are: ability to self-organize, ability to buffer disturbance and capacity for learning and adapting.

Secretariat – A secretariat manages day-to-day operations of the NCF, including scheduling meetings, collecting documents and liaising with the Steering Committee, Technical Committee, Implementers and other agents.

Stakeholders – Those who have interests in a particular decision, either as individuals or as representatives of a group. This includes people who can influence a decision as well as those affected by it. Decision-makers are also stakeholders.

Standards – Set of rules or codes mandating or defining product performance (e.g., grades, dimensions, characteristics, test methods and rules for use).

Steering Committee – A Steering Committee of an NCF makes decisions on the disbursement of funds and oversees the high-level activities, including policy and operational guidelines, strategic direction and reporting. This group is often made up of multiple government ministries, such as environment, planning and finance, and representatives from civil society, the United Nations, development banks, private sector or other partners.

Subsidy – Direct payment or a tax reduction issued by the government to a private party for implementing a practice the government wishes to encourage.

Sources of climate finance – A number of sources can contribute to an NCF, including public domestic finance, public multilateral finance, public bilateral finance, private sources and innovative sources.

Technical Committee – The Technical Committee supports the Steering Committee by providing substantive reviews of project proposals and making recommendations for which proposals should receive funding.

Term sheet – A term sheet is a non-binding financial agreement that describes each of the elements of an NCF. It provides a concise framework for the objectives, capitalization, governance, fiduciary management, implementation arrangements and MRV of an NCF so that the basic conditions under which the NCF will operate are clearly defined. While many NCF term sheets follow a similar structure, they can be tailored to accommodate NCF design elements that support national needs and priorities.

Trustee/Administrative Agent – the trustee of an NCF provides a number of important fund management services, including receiving and holding contributions from various sources, disbursing funds to each participating entity on behalf of the steering committee (or other decision-making body) and providing financial reporting. Often, the trustee coordinates the legal contracts and agreements that underpin the transactions of funds. It ensures that the NCF meets all legal and fiduciary standards for collecting and distributing funds.

United Nations Framework Convention on Climate Change (UNFCCC; Convention) – The Convention was adopted on 9 May 1992 in New York and signed at the 1992 Earth Summit in Rio de Janeiro by more than 150 countries and the European Economic Community. Its ultimate objective is the ‘stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.’ It contains commitments for all parties. Under the Convention, parties included in Annex I aimed to return greenhouse gas emission not controlled by the Montreal Protocol to 1990 levels by the year 2000.

Vulnerability – The degree to which an individual, group or system is susceptible to harm due to hazards or stress, and its (in)ability to cope, recover or fundamentally adapt (become a new system or become extinct).

Useful Websites and Resources

WEBSITES

United Nations Development Programme Climate Change Website: www.undp.org/climatechange

United Nations Development Programme Multi-Partner Trust Fund Office Gateway, including a repository of all Multi-Donor Trust Funds and Joint Programmes administered by UNDP as a Trustee: <http://mdtf.undp.org>

United Nations Development Programme Low-Emission, Climate-Resilient Development Strategies: www.undp.org/environment/climatestrategies.shtml

United Nations Framework Convention on Climate Change: www.unfccc.int

Climate Finance Options: www.climatefinanceoptions.org

Fast Start Finance: www.faststartfinance.org

Adaptation Fund: www.adaptation-fund.org

Global Environment Facility: www.thegef.org

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**United Nations Development Programme
Bureau for Development Policy
Environment and Energy Group
304 East 45th Street, 9th Floor
New York, NY 10017 USA**

www.undp.org