

It's not just the money: institutional strengthening of national climate funds

Lessons learned from GIZ's work on the ground

A new generation of national funding entities

Over the past few years, there has been a rapid increase in new national institutions providing funding for climate change mitigation and adaptation activities. To date, more than 30 countries are in the process of establishing or putting into operation national funding entities dedicated to climate finance – or national climate funds.

Such institutions play an increasingly important role in channeling climate finance and acting as a link between international climate finance flows and domestic policies and priorities. They can fulfill a number of other roles in which they leverage private sector involvement in climate activities or increase domestic coordination of financial flows for climate and environment.

These new funds are owned by recipient countries who determine how priorities are set and how funds are disbursed and accounted for. The focus on national ownership and direct access is also supported by the main international climate funds such as the Adaptation Fund (AF), the reformed Global Environment Facility (GEF) and the forthcoming Green Climate Fund (GCF), as they make their financial resources available through 'direct access', allowing recipient countries to access these resources directly from the fund. This is in contrast to indirect access, where funding is channeled through a third party implementing agency.

Lessons learned on the ground

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) analyzed its experiences in carrying out capacity development measures and technical assistance (TA) for climate- and environment-related funds with the objective of using lessons learned from its operations to inform the work of other practitioners. These examples are part of GIZ's broad range of experience in building capacity of national climate-finance institutions.

The lessons learned presented here are based on insights gained through GIZ's support of five national climate funds through long-term, tailor-made capacity development programs. The funds supported were the Indonesia Climate Change Trust Fund (ICCTF), the Amazon Fund in Brazil, the Environmental Fund for Lebanon (EFL), the Umbrella Programme on Natural Resources Management (UPNRM) at the National Bank for Agriculture and Rural Development (NABARD) in India, and the newly created People's Survival Fund (PSF) in the Philippines.

Diversity in the funds' design

National funding entities share a number of common tasks, such as capturing and managing funding from international and national sources to support domestic, and sometimes international climate action, and ensuring that these actions are fully mainstreamed in their development strategies and plans. However, many of the funds considered were very heterogeneous in their design. >

ADDITIONAL EXPERIENCE FROM FUNDS WORKING INTERNATIONALLY

A few experiences from institutions funding activities internationally were also considered, in particular the German BACK-UP Initiative, a global TA program administered by GIZ supporting access to the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM); and the German International Climate Initiative (ICI), where GIZ was asked to set up a program office to support the German Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) in managing the ICI. Managing an international portfolio requires an additional set of competences and tasks. These include for example, developing an internationally and thematically balanced portfolio, ensuring strong country ownership of the funded projects and deciding allocation between recipient countries.



FIGURE 1. Diversity in the funds' design



Role of capacity development and TA in strengthening funds

In the funds analyzed, technical assistance and capacity development support have been provided at several levels in the fund's operations, supporting the funds' "readiness" to receive, channel and allocate financing for climate change mitigation and adaptation. This includes their ability to identify strategic funding opportunities in economically sound investment plans, to allocate resources following clear frameworks, to select and approve projects, to monitor and evaluate funded activities, and to develop and implement environmental and social safeguards of investment. There has been an increasing demand from partner countries for technical assistance and capacity building to strengthen these institutional capacities, as it enhances the effectiveness of the funds' operations.

Since the 1990s, GIZ has supported the set-up of funds in various thematic sectors such as peace, governance, health, and more recently, environment and climate. The support provided ranged from technical assistance to building the funds' management operations to providing policy advice in identifying appropriate institutions. In the case of the Environmental Fund for Lebanon, GIZ was asked by its partners to set up an independent secretariat in charge of the fund's daily operations, while the strategic priority-setting and ownership of the fund lay with the steering committee of the fund. Annex 1 (p. 7) presents an overview of the current fields of activities supported by GIZ's projects related to national climate financing institutions.

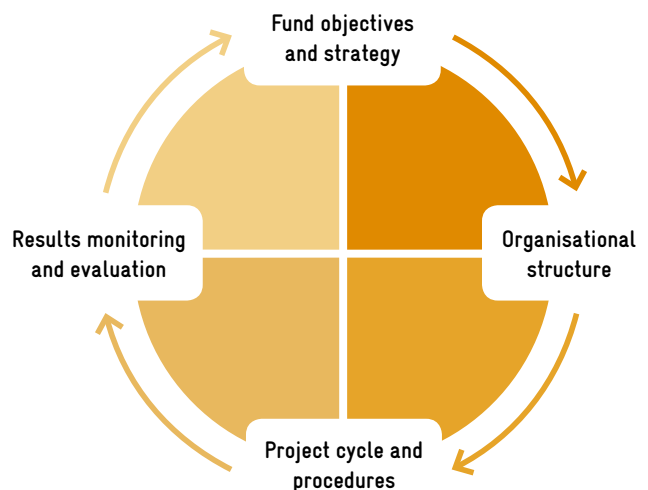
Lessons learned

Drawing from the projects' practice, four groups of critical issues and steps to be considered while setting up a fund or while strengthening its operations have been identified. Unless otherwise specified, these recommendations are based on GIZ's own project experience. We have attempted to formulate clear recommendations where we found clear lessons learned; in other cases, we have spelled out diverse design options and highlighted their trade-offs. Figure 2 provides a visual representation of the four groups of issues, and aims at showing how the elements build upon each other during the operationalization of the fund.

1. Objectives and strategies

In many cases, it proved essential to develop a framework and a strategy outlining a fund's goals, structure and business model at the very beginning of its operations. As the policy framework needs to be communicated and updated, feedback should be provided by relevant stakeholders through a consultation forum. In many cases, a fund establishes a network of registered stakeholders to ensure continued participation. The way that the inputs are fed back to the fund's steering committee must be clearly defined. It has also proven highly desirable for the senior management of the fund to have a long-term vision of how they wish to use a fund as a stepping stone toward a larger climate finance strategy or as an element of a strategy to address climate change in the long term. In practice, however, the implementation of the vision is not always warranted if the institution does not have the sufficient political mandate to do so. >

FIGURE 2. Critical issues in setting up funds





EXAMPLE: SETTING UP FUNDING WINDOWS

During the ICCTF set-up phase, the fund developed a long-term vision that demanded a progressive scale-up of the fund's operations. Since funding was limited at the beginning, the fund needed to focus on overcoming barriers to the early deployment of technology and adaptation practices and only in the latter stages serve as an investment fund. During the setup of the ICCTF's funding windows, a number of needs were identified. At the start, the fund needed robust technical and economic analysis to guide its investment decisions, followed by the development of an integrated cost-curve for each of its investment windows. For adaptation, finding a systematic way of identifying priorities at the national level was more challenging because there is no overall national strategy or plan in place yet as there is for mitigation. The ICCTF, with support from the GIZ project chose a set of fundamental functions that have to be performed by the fund such as managing climate information, involving stakeholders in adaptation planning, creating incentives for private sector to adapt, and integrating climate change into disaster risk reduction.

To enhance coordination and coherence, our experience recommends that the steering committee should aim for the maximum integration of a fund's objectives with national development goals and priorities and take into account national climate and development strategies. This ensures that the fund becomes part of a national financing mechanism for the climate change strategy.

It is also important that a fund develops environmental and social safeguards, which are policies or guidelines in place to ensure that a fund's investments 'do no harm', particularly when investments have unintended consequences. Drawing from current experiences in international funds, reliance on various implementing agencies can lead to significant discrepancies in the standards that are applied to individual projects.

There are diverse ways to set up funding windows, either by sector (e.g. adaptation, mitigation, forestry), by financing instrument (e.g. grant, loan, carbon market, equity) or by type of project (e.g. research, demonstration, capacity building, public education). For each type of window, it has proven to be an advantage when a fund's investment decisions were guided by rigorous economic and technical analyses of mitigation options and adaptation priorities. This helps to quantify impacts and increases the fund's credibility, including to its funders.

In the examples analysed, the initial allocation of resources between the funding windows and the priority areas has often been a political decision, but a framework that provides criteria for allocating resources within the fund has helped in developing a coherent portfolio. Allocations can be based on a combination of needs and performance considerations. For example, needs have been measured in some cases using income indicators, electrification rate, vulnerability indicators; and performance by the greenhouse gas (GHG) mitigation potential, the financial leveraging factor and/or the cost-effectiveness of actions. The allocation of resources has often been adjusted over time after taking into account the challenges and successes of the first funding phase, the availability of resources and national development goals, or sector strategies. In practice, this can be modified through a political decision of the steering committee.

2. Organizational structure

The organizational structure is comparable amongst the funds and is generally composed of an inter-ministerial steering committee with a single or joint chair, a secretariat, a technical or advisory committee(s), an M&E unit, a trustee and an independent financial auditing unit. >

INSIGHTS FROM FUNDS WORKING INTERNATIONALLY

International Climate Initiative: In the case of the International Climate Initiative (ICI) of the German Ministry for the Environment (BMU), the Programme Office administered by GIZ also performs specific tasks linked to the international nature of the fund. In contrast to national funds focusing on domestic action in the context of national strategies, the ICI is funding climate protection projects in developing, newly industrializing countries and countries in transition and therefore needs to consider a diverse spectrum of different national needs and policies of the recipient countries. Funding cooperation projects overseas requires staffing with not only thematic expertise, but also regional expertise to ensure that planning and implementation of the project is in line with the national priorities of the recipient country. Besides particular requirements with regards to the organizational structure, managing a portfolio of international projects also involves additional tasks during the project cycle and challenges linked for example to disclosure of restricted data when monitoring of the project.

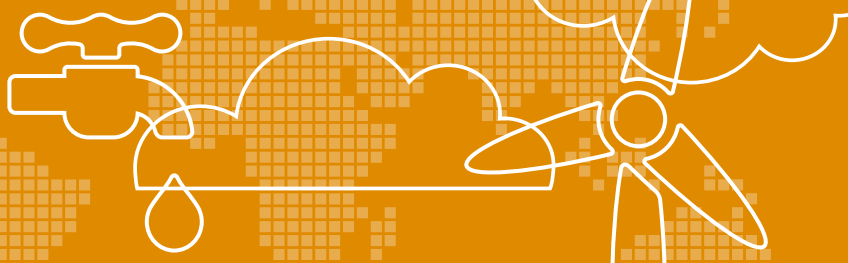


TABLE 1. Civil society engagement through the project cycle

Fund	CSO involved in decision making	CSO involved in technical review	CSO involved in execution of projects
Amazon Fund	No – only participation in developing strategic priorities and funding criteria	No	Yes
EFL (Environmental Fund for Lebanon)	Yes	No	Yes
ICCTF (Indonesia Climate Change Trust Fund)	Yes	No	Yes
PSF (People's Survival Fund)	Yes (according to text of the bill)	n/a	Yes

The functions of a fund depend on the institutional context in which the fund is embedded. In some cases, the fund is expected to have a coordinating role for climate finance, for example coordinating financial policy and acting as a forum for donor coordina-

tion, whereas in other cases, it carries out the solicitation, evaluation, selection and monitoring of projects. Civil society participation has consistently been identified as a crucial design feature, but their precise role in funds has been variable, as described in table 2.

OUTSOURCED OR IN-HOUSE?

Many projects pointed out a trade-off between outsourcing the expertise to technical consultants and docking the expertise within permanent expert or developing the expertise within the secretariat. Outsourcing parts of the review process to specialized consultants has the advantage of providing the best available technical expertise to review the projects but consultants might not be familiar with the objective of the fund and selection criteria and therefore need close monitoring.

For example, in Lebanon, the EFL developed over time a roster of consultants who are familiar with the fund and its objectives. The consultants help identify strategic investments, contribute to project appraisal, implementation, monitoring and evaluation missions. The EFL's secretariat, however, still worked closely with the consultants, and hired needed technical specialists within the secretariat who can review respond to specific technical needs of the projects and issue the ToRs. Consultants are therefore hired only in special cases for projects that require extra technical expertise. The EFL plans its need for technical consultants every 6 months. In special cases, and if needed, the EFL sets up additional technical experts' panels whose profiles and ToRs were approved by the steering committee, such as for the evaluation and selection of proposals.

Experience has shown that operational capacities for fund management need to take into account the full programming requirements that will have to be covered by the fund manager, such as planning, programming, contract management, monitoring, quality control and reporting. In most of the cases, having a technically, politically and managerially competent head of the secretariat and a competent senior-level steering committee chairperson has proven to be crucial. In addition, the secretariat needs to be staffed with technical experts in charge of project screening and monitoring, and administrative personnel in charge of issuing contracts, financial controlling of projects, and procurements. An important point is whether the fund can provide sufficient and predictable financing for the fund's own staff. The absence of a sustained funding for staff and personnel development has been identified as a major limiting factor for the long-term sustainability of the fund.

Staffing requirements appeared to depend on the amount of expertise needed in-house, the number of projects financed and the fund's modes of delivery, and the amount of bureaucracy involved in the management of the fund. The projects evaluated did not provide a precise recommendation regarding the optimal staffing structure of the secretariat and the technical review panel. In one case, a secretariat that felt adequately staffed was composed of four senior staff members (one manager, two technical and one administrative) while outsourcing many technical tasks to consultants. It was responsible for screening around 90 projects during the project submission phase and managing 18 small grant projects over two years, constituting a ratio of one technical person for nine projects. >

3. Project cycle and procedures

The quality of the project selection and approval has been identified as a crucial element in the development of a fund's portfolio and the quality of projects funded. Many interviewees recommended that the project selection criteria and calls for proposals should be developed based on the general objectives of the fund and the fund strategy, and that they be made public to improve coherence and transparency.

Many of the funds have established checklists or guidelines, partly with support from GIZ, that are made available to the participants. Some of the funds also provide a downloadable application package, which enumerates the application conditions and the documents to be submitted.

Developing standardized processes for project appraisal and review, procurement and financial management helps control quality and ensures harmonization of a fund's operations. Commonly used tools are standard operation procedures (SOP), handbooks and project forms, etc. A newly created fund will have international and national peers who already have years of experience and existing operational procedures. It is therefore crucial that the fund be run in a professional manner by competent personnel. In the case of funds managed by pre-existing financial institutions, the scope for influence

EXPERIENCE: PROJECT SELECTION CRITERIA

EFL issued two calls for proposals and phases: learning from its first call for proposals, the fund added more precision to the selection criteria and refined application guidelines and forms to enhance the quality of applications and receive more targeted responses.

Bangladesh BCCRF: in the absence of precise guidelines and clearly communicated selection criteria, the first call for proposals received ca. 5000 applications of variable quality which slowed down the screening process and allocation of funds considerably.

GIZ supported BNDES in developing guidelines and selection criteria for the Amazon Fund's first thematic call for proposals', providing an improved and more transparent basis for project preparation by proponents, selection and subsequent monitoring.



The Indonesian Climate Change Trust Fund was established to fund climate change activities and programs

might be limited as the hosting institution is likely to have its own procedures and project forms. Ideally, procedures would be tailored to the tasks of the fund, but in practice one has to work with the existing instruments.

4. Results monitoring and evaluation

Setting up strong monitoring systems, including the use of climate-specific tools, is an essential step in setting up a fund. It can lead to better tracking of the climate impacts of the projects, helps assessing the transformational impacts of projects and investments, focusing on the results achieved with the money, and provide transparency and accountability for the fund's operations.

In many of the funds, capacities for financial monitoring were strong, especially when the fund is managed by a national bank, as in the case of the Amazon Fund at BNDES and the UPNRM Fund at NABARD. Clear accounting policies conform to national or international standards, such as the International Financial Reporting Standards, and publicly available independent audit reports have been identified as a strategically important element to ensure that the fund meets international fiduciary standards and has access to international funds.

The capacity to monitor project results and to evaluate performance periodically has been identified as one of the most critical issues in setting up the fund and ensuring successful project activities. Expertise for setting up an M&E framework that constitutes a basis for the assessment of impacts, outcomes and outputs of the funded activities >



was also felt to be the most important requirement for newly created funds, as well as for funds created within an existing financial institution. More specifically, developing capacities for results-based management (RBM) has been identified as a key capacity need as well as a key factor facilitating the measurement of the fund's impacts, both at the fund level and at the project level. The ability to measure the projects' achievement has played an important role in establishing the fund as a reliable funding institution. To ensure the adequate use of these tools, however, a significant amount of training is needed. In order for the project applicants and fund managers to be able to apply and use the standardized procedures described above, trainings, exercise and information workshops are necessary. The methods used to monitor results varied between the funds including frequency, type of monitoring missions tools used, and in the degree of compliance, e.g. whether the project can be interrupted if progress is deemed unsatisfactory.

For funds whose main mandate is the execution of climate change mitigation or adaptation projects, a standardized approach for evaluating and illustrating the climate results achieved through the funded projects and programs is also needed. In the case of the Amazon Fund, the existence of a strong monitoring system for REDD+ actions has been an attracting factor for the fund's contributors. For mitigation sectors, methodologies to assess direct and indirect GHG reductions or the carbon footprint of the project are often new to project managers. Monitoring adaptation projects is still difficult because of the lack of common, standardized metrics such as those used in mitigation projects, but the methodological work in this field is evolving. Contributions to recent methodologies to monitor adaptive measures and capacity were developed amongst others by GIZ/WRI. Capacities to use such tools for mitigation projects as well as for adaptation projects can be developed through expert meetings and trainings.

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ANNEX 1. Technical areas supported by GIZ

Activities supported	Description
Organizational and institutional development	Set up project management unit (PMU)/secretariat; set up a results-based management (RBM) system for planning projects; help strengthen capacities to manage the fund
Human resources development	Develop human resources capacity building plans and activities; set up institutional training and on-the-job training; improve local training capacity (including technical and thematic capacity development)
Needs assessments	Identify capacity gaps and needs for technical support (national climate finance roadmaps, assessment of readiness of national implementing entities)
Development of policies/ strategies/ guidelines	Assist in the development of policies, strategies and guidelines; improve legal and administrative frameworks of national relevance in line with international standards while using participatory inputs; support in facilitating large stakeholder consultations; Develop a resources allocation framework
Creation of funding windows	Identify and structure the funding windows; carry out economic and technical analysis of mitigation/adaptation/forest potentials and priorities; identify and structure funding windows; develop investment plans for the funding windows
Development of the project pipeline	Develop project selection forms; establish project appraisal criteria; provide technical support for proposal development; support development of proposals to international and national funds ; Support the development of mechanisms and facilities for project development; support the development of mechanisms such as calls for proposals and strategically targeted programs; provide capacity development for fund applicants
Quality management	Introduce and/or develop quality management systems for the selection and planning of climate projects; create standard operating procedures (SOPs), handbooks and project forms
Knowledge management	Support building project databases; support facilitation of knowledge management; support establishment of processes to analyze, document and disseminate experiences and lessons learned that have a bearing on better utilization of finance; manage processes
Monitoring and evaluation (M&E)	Develop/improve a M&E system for funded actions, a monitoring system to track the implementation of the projects and an evaluation system
Financial management	Support financial reporting and treasury services related to the trust fund activity on behalf of the secretariat; perform accounting; allocate resources; manage the fund's assets and receipts; manage procurements; perform internal audits; provide support in setting up an IT-system for financial management



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Friedrich-Ebert-Allee 40
53113 Bonn, Germany

Dag-Hammarskjöld-Weg 1-5
65760 Eschborn, Germany

www.giz.de/climate
climate@giz.de

Authors: Xing Fu-Bertaux and Alexander Fröde
Design: mgestaltung

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