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Accelerating Climate Action through National Climate Funds

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EXECUTIVE SUMMARY

In 2009, developed countries pledged to mobilize $100 billion of climate finance by 2020 to support climate action in developing countries. As of September 2021, estimates suggest a gap of $20 billion remains (OECD 2021). With the 26th United Nations Climate Change Conference in Glasgow scheduled to take place in early November 2021, leaders of international climate talks have placed special emphasis on increasing ambition and closing the climate finance delivery gap.

While the focus on increasing the supply of climate finance is necessary, another vital consideration should be on *how* the climate finance will be delivered. Since 2009, when the $100 billion climate finance commitment was made, the international landscape has changed significantly. A multilateral climate fund with universal membership – the Green Climate Fund (GCF) – is now fully operational, and countries have set up their own national vehicles to support implementation of climate policies and programs.

However, full understanding of this landscape through comprehensive, reported data is significantly lacking. While most of the scholarly and policy attention has focused on estimating aggregate climate finance flows, building a robust base of evidence on national-level funding vehicles is important to understand emerging architecture of climate finance (CPI 2021; OECD 2021).

This policy brief draws on research conducted by the author while he was a research fellow at the Climate Policy Lab at Tufts University's Fletcher School. He gratefully acknowledges the support provided by the Climate Policy Lab that helped to make this research possible.

This policy brief presents findings and implications from a first-of-its-kind interactive National Climate Funds (NCF) Tracker, created by the Boston University Global Development Policy Center to display national-level funding vehicles established to mobilize domestic and international climate finance. The NCF Tracker identifies 46 funds across 39 countries and shows how these funds vary by host country, legal design, scope, mobilized finance and the level of success in attracting resources from multilateral climate funds.

Key highlights:

- **National climate funds are becoming important building blocks of the international climate finance architecture**: Sixteen national climate funds have been accredited to function as 'direct access entities' of the GCF, meaning they can access finance directly from the GCF without having to go through intermediaries. Eleven of these 16 have already received GCF funding.
- **Funds established as conservation trusts have expanded into climate change and have started to engage directly with the GCF**. The longer track record of conservation trusts and their independent legal personalities inspire confidence from fund contributors.
- **Short-term grants from donors reduce the ability of national climate funds to engage in transformational programming**: Case studies of the national climate funds in Bangladesh and Ethiopia show how funding restrictions can deter NCFs from engaging in longer-term activities and reinforcing climate action in national planning.
- **A lack of consistent data hinders tracking of how domestic expenditures are being made through these funds:** While a significant number of funds were designed to receive earmarked revenue from taxes and fees, more data is needed to understand the performance of these funds.

Key policy implications:

- To close the gap in mobilized finance, developed countries need to center their support to national entities, whether working bilaterally or through multilateral climate funds using direct access modalities.
- Policymakers, donors and fund managers must also consider how to increase country ownership and strengthen national institutions. While the focus on filling the climate finance gap is necessary and well-deserved, how the finance will be channeled is also critical. National climate funds (NCFs) are a key part of that conversation.
- NCFs need consistent support from both donors and host country governments. Without sustained engagement, these funds will not be able to play a significant role in climate action.
- NCFs need to shift towards scaling up programming and working with a large range of actors, rather than simply engaging with sectoral ministries, to build capacity.
- Greater transparency and clarity on climate-related public expenditure is needed to help developing countries display their commitment to climate change and identify areas of need.

The policy brief first summarizes the history and workings of NCFs and then outlines the trends and features of NCFs from the NCF Tracker before closing with policy implications for host countries and fund contributors.

NATIONAL CLIMATE FUNDS

National Climate Funds (NCFs) are dedicated financing vehicles established by developing countries to finance their climate actions. The establishment of these funds in the late 2000s marks an important turning point in the history of climate governance, as the default approach had to been to seek climate finance from international agencies and multilateral climate funds. In creating NCFs, developing countries signaled greater commitment to tackle climate change, and donor countries had a large range of delivery channels to choose from.

NCFs are often the financing arms of climate policies. While some funds were established when climate policies were initially formulated, other funds have incorporated climate change into their mandates. For example, Ethiopia's Climate Resilient Green Economy Facility (CRGE Facility) is firmly anchored in the country's CRGE vision and strategy. Likewise, the Bangladesh Climate Change Trust Fund was created to help with the implementation of the Bangladesh Climate Change Strategy and Action Plan.

The ability of NCFs to attract climate finance is directly tied to the overarching set of policies that the funds support. Case studies show that Ethiopia and Bangladesh were able to garner donor interest precisely because of the ambitious nature of their climate policy commitments. When the Bangladesh Climate Change Resilience Fund was initially established, it received pledges totaling $160 million which was close to what the Adaptation Fund – a fund meant to support adaptation in all developing countries – had been able to mobilize (Bhandary 2021).

In addition to the integration of NCFs with national policies, the commitment of host countries to dedicate public expenditure for climate change also matters. For example, Bangladesh allocated funds to its domestically sourced Bangladesh Climate Change Trust Fund, while Ethiopia, at the time of the CRGE Facility's founding, committed to allocate 2 percent of public expenditure annually to climate change. As the NCF Tracker shows, tracking climate expenditure is difficult because very few countries use climate change-specific budget codes in their expenditure tracking systems. As a result, the available expenditure estimates often rely on climate-relevant estimates. Disaggregated data and climate-specific budget codes would help to instill accountability and foster greater understanding of how public finance is being used.

One of the most compelling reasons for creating an NCF is the ability to safeguard finance for climate change. By instituting robust legal and governance arrangements, national climate funds can help ensure consistency in the supply of funding for climate change.

NCFs themselves have come under threat from more powerful ministries. Independent legal standing allows the funds a measure of robustness. However, funds that receive regular allocations from the government do not tend to have such legal standing.

NCFs such as the Bangladesh Climate Change Trust Fund and Ethiopia's CRGE Facility were designed to encourage sectoral ministries to engage with climate change. These NCFs provided grant finance to various ministries, and such initial rounds of funding helped build capacity and awareness on climate programming (Bhandary 2021). The expectation was that sectoral ministries would eventually incorporate climate change into their own sectoral plans. In Bangladesh, the finance ministry incorporated climate change into its budget request template and required ministries to provide descriptive rationales regarding how development expenditure requests support climate change goals.

A number of NCFs have also used dedicated funding windows to directly engage with civil society. For example, the Amazon Fund and the Bangladesh Climate Change Resilience Fund (BBCRF) both earmarked 10 percent of their allocations for civil society actions. The BCCRF made use of Palli Karma Sahavak Foundation (PKSF), a micro-credit agency with extensive reach. Given PKSF's experience, BCCRF was able to accelerate disbursement. Similarly, in Brazil, the civil society window of the Amazon Fund helped increase the disbursement rate that had otherwise slowed due to the inexperience of the Brazilian Development Bank (BNDES) in handling grant-financed projects.

NATIONAL CLIMATE FUNDS TRACKER

In November 2021, the Boston University Global Development Policy Center launched the first interactive National Climate Funds (NCF) Tracker that identifies dedicated climate finance vehicles at the national level, capturing 46 NCFs in 39 countries. As NCFs have proliferated across Asia, Africa and Latin America, the interactive focuses on countries that are not members of the Organization for Economic Cooperation and Development (OECD).

For each country, the database displays the NCF established, the scope of the funds, the host entity, funding commitments, enabling legislation and capitalization. The interactive also tracks whether NCFs work with multilateral climate funds, such as the Green Climate Fund (GCF) as implementing or executing entities. In doing so, it provides the operating context for developing country actions on climate change. The interactive provides an empirical basis for understanding national climate funds and their design features, effectiveness and the role they play in the overall international climate finance architecture. As data on NCFs are not easily available, this interactive brings the NCFs together into a single interface.

The focus on national-level institutions arises from the operating premise that country ownership is a pre-requisite for climate finance effectiveness. Furthermore, understanding the role of NCFs is important to unlocking synergies and fostering coherence in the international climate finance architecture.

The NCF Tracker will be regularly updated and expanded to include more information on each of these funds, as well as enlarging the range of financing vehicles.

TRENDS AND FEATURES OF NATIONAL CLIMATE FUNDS

The NCF Tracker displays a number of features of NCFs, including their date of establishment, sources of funding, legal forms and relevant legislation, scopes or areas of operation and their collaboration with international agencies, such as the GCF.

Timing

Between 2008 and 2014, NCF creation accelerated sharply. This period coincides with the lead up to the 2009 United Nations Climate Change Conference in Copenhagen and the commitment made by developed countries to supply $30 billion in "fast start finance" by 2012. NCFs became attractive vehicles to rapidly channel climate finance because they often operated outside of regular budgetary channels.

Sources

NCFs have sought finance from a range of sources to implement projects. Nine of the 46 NCFs are resourced solely through domestic means. Thirty funds utilize both domestic and external resources. The seven remaining funds were established to attract solely international finance. NCFs that are reliant on domestic sources receive general parliamentary appropriations or earmarked revenue from taxes or fees.

Legal form

The precise form of these funds varies. While some are legally independent entities, others exist in the form of a budget line. Funds may also be set up to channel contributions from donor countries. For example, Brazil and Indonesia set up NCFs to receive grant payments from Norway in exchange for reducing their deforestation rates.

Scope

Most NCFs have a broad scope. Nine of the 46 funds were established to support climate change in a comprehensive way. These are the funds most firmly anchored in national climate change policies. Four funds were established to channel payments for reducing deforestation and forest degradation. The remaining funds either focus on renewable energy and energy efficiency, or are general-purpose biodiversity and environment funds that have expanded into climate change. NCFs, such as the Philippines' People's Survival Fund, have made an explicit attempt to directly reach the most vulnerable populations.

Collaboration with international agencies

In 39 countries, 16 funds have been accredited to the GCF. Eleven of those funds are implementing GCF projects as direct access entities. Not all of the NCFs are designed to seek or work with international agencies. Due to their longer track records of operation, conservation trust fund, such as the Peruvian Trust Fund for National Parks and Protected Areas and the National Trust for Nature Conservation of Nepal, have been successful in gaining accreditation with the GCF.

New developments in the second round of nationally determined contributions

As countries are expected to submit or enhance nationally determined contributions (NDCs) to the United Nations Framework Convention on Climate Change (UNFCCC) every five years, the latest round of NDC updates have shown significant changes in the NCF landscape.

First, Armenia has fulfilled its commitment to establish an NCF, as stated through its first NDC. Meanwhile, Pakistan and Zambia have not yet established theirs. Second, the BCCRF is no longer operational, while the Bangladesh Climate Change Trust Fund continues its operations. Finally, due to changing political priorities with a new government in place, Brazil withdrew from its original agreement with Norway and dismantled the governing bodies of the Amazon Fund, with no new arrangement set to take its place (Amazon Fund 2021).

POLICY IMPLICATIONS

The last decade has been a period of experimentation for policymakers. The NCF Tracker, together with further analysis of the NCFs in Bangladesh and Ethiopia, point to policy recommendations for host countries, as well as fund contributors (Bhandary 2020).

Host Countries

LEGAL PERSONALITY

NCFs that do not have independent legal personality are often restricted to grant-making exercises. In order to enable the NCFs to engage with public, as well as private, actors, governments should create the fund with necessary legal arrangements in place.

PROFESSIONAL FUND MANAGEMENT

The capabilities of the NCF's host are critical for success. When governments earmark public revenue but do not delegate the management of the finances to fund managers, NCFs have struggled. For example, Fundo Clima in Brazil was able to acquire substantial allocations because it was financed primarily through a levy on oil along with donations. As the fund remained in the Ministry of Environment and Forests and was not delegated out to fund managers with experience, Fundo Clima experienced setbacks.

TRACKING EXPENDITURES

Most governments do not track their public expenditures on climate change. Increasing the transparency of public spending would pave the way for more flexible forms of international support, such as budgetary support. Donor countries often preferred to establish off-budget funds because those funds provided more traceability in how the funds were used. Improving transparency of public expenditure, more generally, would allow regular budgetary processes to be used as well.

VALUE ADDITION

Because an NCF is just one option in a range of potential delivery channels, the value addition of using a fund needs to be clear. Fund contributors need clarity on why supporting an NCF is a good idea and a sound value proposition would help convince donors why they should route their funds through NCFs.

Fund Contributors

LONGER TIME HORIZONS

There is an inevitable tension between the arduous process of designing high quality, high impact climate programs and the rapid disbursal of committed funds. This 'disbursement imperative' has led some of these funds to finance programs that may not be fully integrated into sectoral and national plans. As a result, the projects supported by the NCFs did not necessarily help to reinforce sectoral objectives. Many NCFs were explicitly created with the purpose of anchoring climate legislation. These funds have been expected to play a catalyzing role in encouraging sectoral ministries to implement financing programs on climate change.

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COMMITMENT

The international climate finance landscape has been fluid. With the arrival of the GCF, NCFs have had to re-adjust their strategies. For example, Ethiopia's CRGE Facility had received commitments from donors who then switched commitments to the GCF. NCFs have suffered from a lack of sustained attention from fund contributors.

As climate finance gets renewed political attention, decision-makers need to build on past experiences. Not only does the total volume of finance matter, how finance gets channeled to developing countries is also important. NCFs have been a part of the climate finance landscape, and tracking their performance will help us understand how well our collective response to climate change is really working.

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