

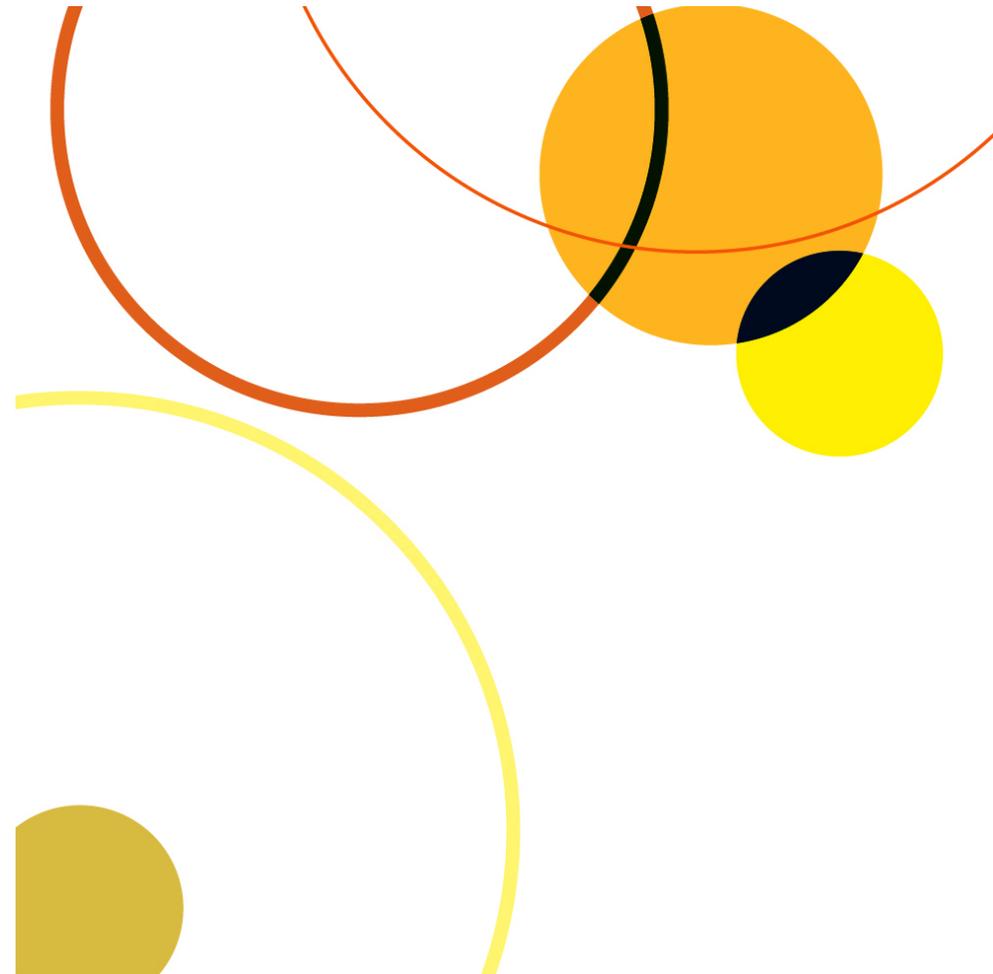


REPUBLIC OF KENYA

Annex F - National Funding Entities: existing practice and lessons for Kenya

**Report prepared for the Government
of Kenya**

December 2011





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Common features of most national climate funds

This slide deck investigates the key features and emerging lessons from the development of National Climate Funds (NCFs) – institutions set up in developing countries to receive international climate finance and allocate resources to climate projects according to their own decision-making processes. We focus on NCFs capitalised with international resources.

- 1. Domestic government representatives have a majority of seats on key decision-making fora in the fund**
- 2. Most NCFs have a two tier structure.** This consists of a management committee undertaking the day-to-day management of the fund and a steering committee providing strategic direction.
- 3. Development partners normally have up to three roles**
 - non-majority members of management and steering committees (sometimes observer status)
 - trustees to the fund (i.e. WB, UNDP)
 - to provide technical advisory expertise in helping to design and/or assess projects (but not with ultimate decision-making power)
- 4. Different funds are located in different Ministries.** For instance, in Bangladesh and Cambodia the Ministry of Environment is primarily responsible, in Indonesia the fund comes under the purview of the Ministry of National Planning, while in Ecuador the 'Government Co-ordinating Entity' is in the Ministry of Heritage.
- 5. The bulk of funding provided by NCFs is provided as grants for direct budget support to line ministries.** Some funds provide small amounts of funding for CSOs/NGOs; in other cases, a wider range of implementing entities is envisaged in the future.

3 key lessons from the development of climate funds to date

This is a selection of the most important lessons drawn from the countries analysed

- 1. The role of external agencies should be made clear from the outset; overall government control on decision making will help political acceptability.** Much of the delay in setting up the BCCRF resulted from a lack of clarity over the respective roles of the WB and GoB and a concern that the GoB would not have control over how funds were allocated. There is a need to specify precisely the role of external agencies.
- 2. A separate climate change fund needs to be designed carefully if it is to result in climate change being mainstreamed, rather than silo-ed.** Some observers have been concerned that the creation of a separate climate change fund has resulted in some Ministries not trying to integrate climate change into their day-to-day activities as it is considered that climate change is being dealt with 'elsewhere'.
- 3. To convince donors, there is a need for the government to be able to articulate a strong vision of what the Fund is designed to achieve which is closely linked to a climate change action plan (or equivalent) with identified priorities.** In Indonesia, there has been some uncertainty about what the Fund is designed to achieve, especially as it was established significantly before the Climate Change Action Plan was completed. In Bangladesh there have been concerns that the lack of specificity in the country's Action Plan will make it difficult to know how to allocate resources between competing priorities.

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Bangladesh Climate Change Resilience Fund

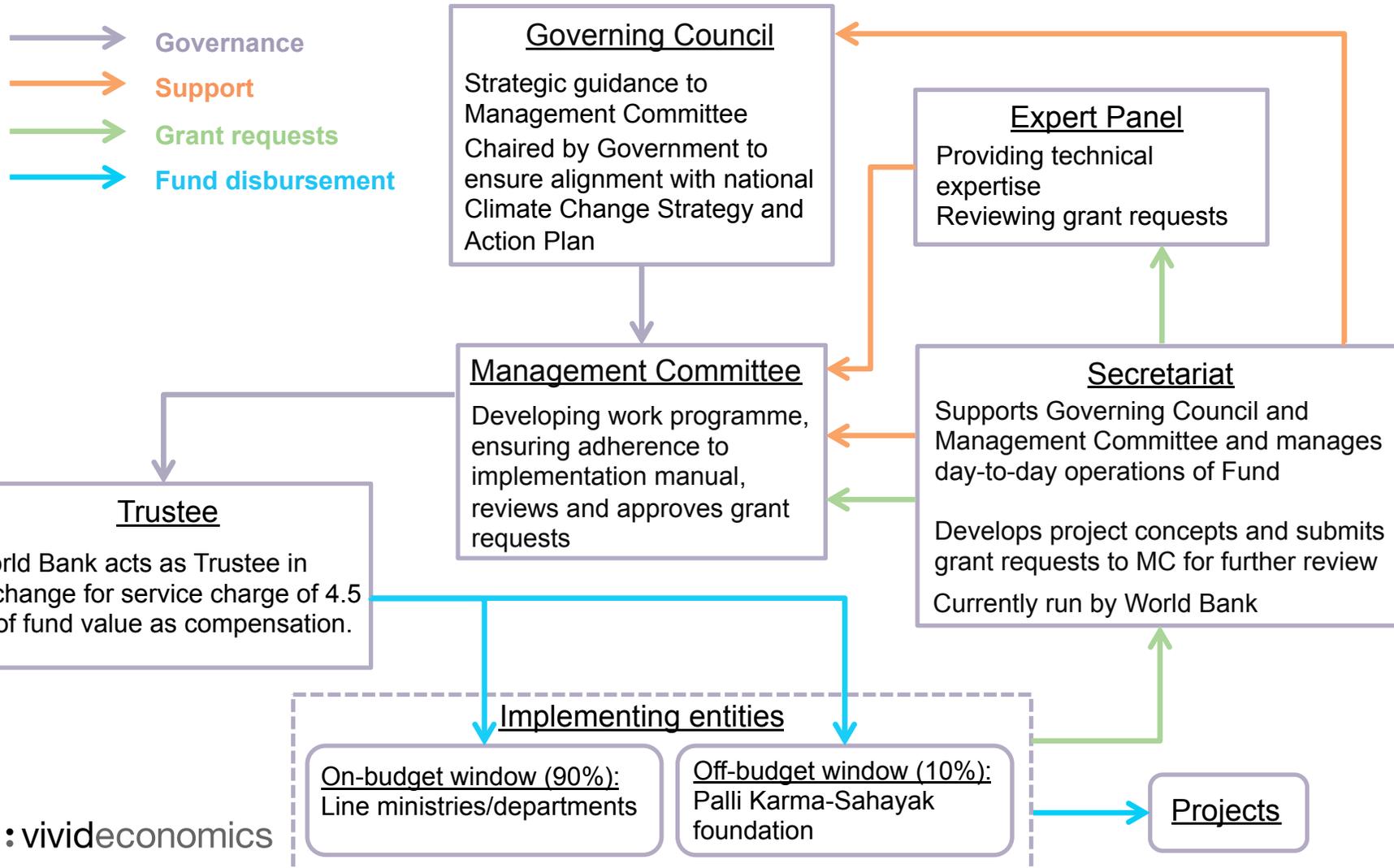
Design aspect	Comments
Objectives	Provide support to vulnerable communities in adapting to greater climate uncertainty and changing agricultural conditions. Linked to Climate Change Strategy and Action Plan for 2009-2018.
Capitalisation	\$110m: UK (\$94.6m), Denmark (\$1.8m), EU (\$11.7m), Sweden (\$13.6 m), Switzerland (\$3.8m). Australia about to join.
Governance	<p>Governing Council (GC) provides guidance on high level issues such as setting strategic goals, alignment with Strategic Plan and determining grant criteria. It is chaired by the MoEF and has 16 members, including representatives from the Prime Minister's office, the Planning Commission, 5 ministries, as well as 2 representatives from development partners and 2 CSO representatives (nominated by the government). WB has observer status without voting right.</p> <p>Management Committee (MC) oversees the Fund's operation, establishes the work programme and budget allocation, reviews/approve grant requests. It is supported in this work by the Secretariat, currently staffed by World Bank employees, which independently assesses the viability of each project. It is chaired by the MoEF and has 9 members, including representatives from ministries, 2 representatives from development partners (only one has a vote), 1 CSO representative. WB has observer status without voting right</p>

Bangladesh Climate Change Resilience Fund (2)

Fiduciary management	World Bank acts as Interim Trustee for a 4.5% service charge. As well as financial management, this role comprises provision of services including establishing activity codes and process contracts, drafting agreements with donors and others. The GC aims to transfer this role to the BCCRF Secretariat in 5 years.
Implementation	90% of funding is on-budget where line ministries implement projects, with technical support from WB. 10% of funding is directed at NGOs /CSOs where the implementing entity is Palli Karma-Sahayak foundation. All funding is provided as grants. Implementing partners are coordinated by the Secretariat and WB, which also team up for implementation support and monitoring missions twice a year.
MRV	MC meets at least 3 times a year during implementation period. It reviews semi-annual monitoring and evaluation reports prepared by Secretariat for submission to Development Partners. The WB also issues an annual report on progress. A monitoring matrix tracking inputs, outputs, and outcomes is developed with performance indicators. Separate grant agreements that include World Bank safeguard measures govern use and disbursement of funds. Procurement is governed by World Bank policies and procedures.

The BCCRF has a two tier structure coupled with an expert panel and secretariat providing support

And the World Bank acting as (temporary) trustee



The BCCRF has a developed project cycle including M&E procedures

the project cycle for the fund consists of three stages:

1. **preparation:** typically 2-3 years but the intention is to bring it down to 1 year
 2. **implementation:** approved grants governed by legal Grant Agreement between WB (as Trustee) and recipient to ensure funds only used for agreed purposes
 3. **monitoring and evaluation:** consists of three tiers
 - **project level:** WB team, with members of Secretariat will undertake implementation support missions every 6 months to review technical and fiduciary aspects of the project and consult beneficiaries and stakeholders. Will be based on Results Framework and Monitoring table established during preparation phase
 - **annual:** WB to prepare annual report on project progress (physical and financial) and an annual report
 - **mid-term evaluation:** two years after grant programme to assess progress
- to Nov 2011, one project approved for US 25m for multipurpose cyclone shelters
- two others approved development to full project proposals

The BCCRF took a long time to set up due to concerns over the role of the World Bank

This has led to the creation of two funds: one funded by donors and one by the government

BCCRF was first in 2008 proposed to be a Multi-Donor Trust Fund (MDTF) but quickly led to disagreement

- GoB and key NGOs objected to the perceived role that the WB in project decision making as well as the lengthy and complex procurement processes which would be required, the level of fees, and the perceived poor environmental record of the WB.
- donors concerns about financial management and fiduciary risk

compromise involved WB acting as Trustee and staffing Secretariat for an initial three year time frame while capacity is built up in GoB, and with GoB having sufficient safeguards about overall control.

delay led to the establishment of the entirely separate, exclusively government-funded, Bangladeshi Climate Change Trust Fund (BCCTF)

Ministry of Environment is deeply involved in both funds and is a focus of capacity building efforts

Key learning points from Bangladesh

- 1. The role of external agencies should be made clear from the outset; overall government control on decision making helps political acceptability.** Much of the delay in setting up the BCCRF resulted from a lack of clarity over the respective roles of the WB and GoB and a concern that the GoB would not have control over how funds were allocated. There is a need to specify precisely the role of external agencies.
- 2. Decision-making needs to be as transparent as possible and with whistle-blowing facilities easily available.** There have been controversies over some of the decisions made in relation to Bangladesh's climate finance architecture such as:
 - controversy over the choice of the implementing entity for CSO window (PKK);
 - concerns in relation to project decision making in BCCTF.

As well as making public the reasons for all key decisions, there may also be a formal role for independent oversight by CSOs or others.

- 3. Institutional overlap makes implementation more challenging.** Although the BCCRF and BCCTF have now established separate niches (BCCRF focussing on larger projects; BCCTF on smaller projects), there are concerns that the overlap creates complexity and duplication.

Key learning points from Bangladesh (2)

- 4. The decision on where to locate any trust fund can determine its effectiveness.** Some have expressed concern that the location of the BCCRF and BCCTF within the Ministry of Environment has limited its effectiveness as it does not have the convening power of other Ministries. As a consequence, there is a concern that adaptation is not being adequately integrated into government actions.
- 5. If external agencies are being used, it is important to ensure that programmes for capacity building within government are developed.** A recent UK Independent Commission on Aid Effectiveness report expressed concerns that capacity building efforts within the Ministry of Environment were not being prioritised making it likely that the BCCRF would rely on external support for longer.
- 6. The development of a civil society window has helped to build the Fund's acceptance, but it is important to find an appropriate Implementing Entity.** In the case of the BCCRF, the desire for this to be a national institution, coupled with distrust over the role of the WB, meant that the WB was not the appropriate institution to support the development of this window.
- 7. A fund will work most effectively where there is a fully agreed Action Plan which identifies priorities.** Concerns have been expressed (Khan et al, 2011) that the absence of a list of priority actions in the Bangladesh Action Plan will make it difficult for the Fund to allocate resources. A list of agreed priorities could also reduce the risk of tension between donors and the government

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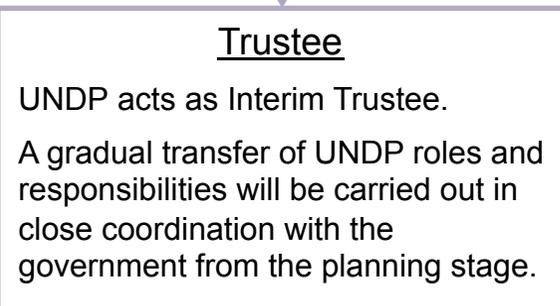
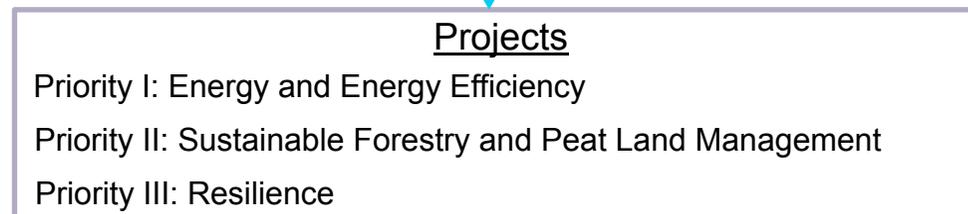
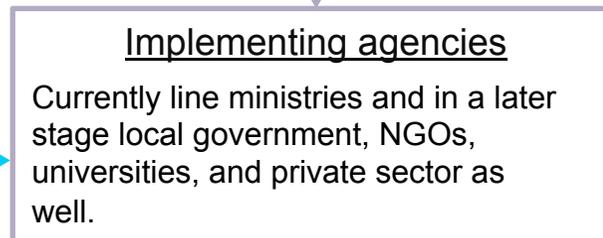
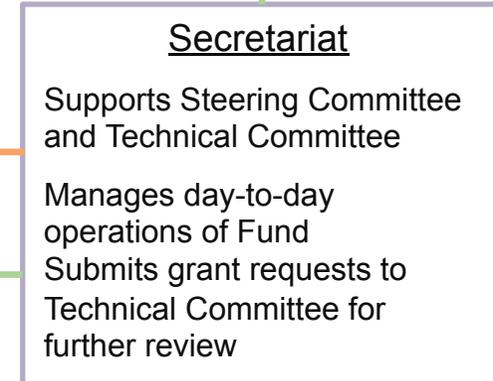
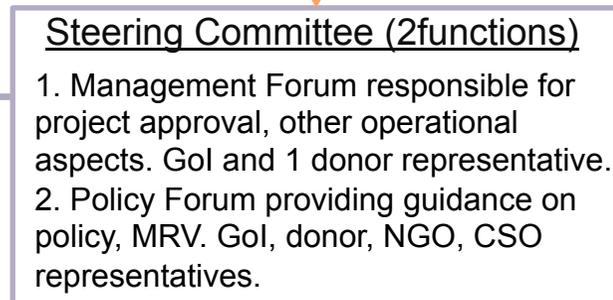
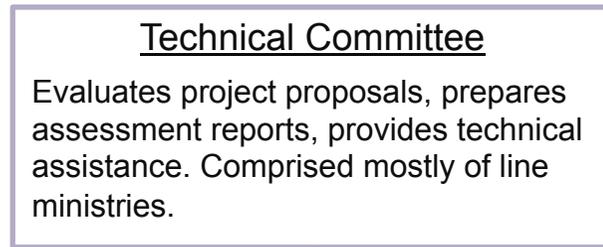
The Indonesia Climate Change Trust Fund (1)

Design aspect	Comments
Objectives	<ol style="list-style-type: none"> 1. Achieve Gol's goals of a low-carbon economy and greater resilience to climate change 2. Enable Gol to increase the effectiveness and impact of its leadership and management in addressing climate change issues. (To this end, all external assistance interventions will include capacity development activities to ensure the sustainability of future ICCTF operations without relying on international assistance.)
Capitalisation	\$18.5m (pledged). UK (\$16.5m); Australia (\$1.m); Sweden (\$0.17m)
Governance	<p>Steering Committee (SC) both functions as a Management Forum, undertaking final project approval and other operational aspects; and a Policy Forum, providing guidance on policy, operations, management and MRV. A Technical Committee (TC) evaluates project proposals and is comprised of line ministries. A Secretariat supports SC and TC and manages daily operations with Technical experts supporting this Secretariat.</p> <p>The SC consists of representatives of line ministries and the National Council on Climate Change. Development partners, NGOs and CSOs may take part in the Policy Forum. One development partner representative may take part in the Management Forum.</p>

The Indonesia Climate Change Trust Fund (2)

Fiduciary management	UNDP is Interim Fund Manager and is developing capacity so it can transfer this responsibility to a national entity.
Implementation	Currently, line ministries can apply for funding. At a later date, it is anticipated that local governments, NGOs, universities, private firms may apply as well. Three priority funding windows: Energy and Energy Efficiency, Sustainable Forestry and Peat Land Management, and Resilience.
MRV	The Secretariat organises annual missions to monitor and evaluate projects. The SC, Trustee and grant recipients will undergo annual audits by independent accountants.

The ICCTF also has a two tier structure



The Indonesia Green Investment Fund

originally envisioned that the ICCTF would consist of:

- an Innovation Fund, channelling donor grants, and
- Transformation Fund, to make investments in projects

Transformation Fund recently replaced by Indonesia Green Investment Fund, a Sovereign Wealth Fund promoting low-carbon investment

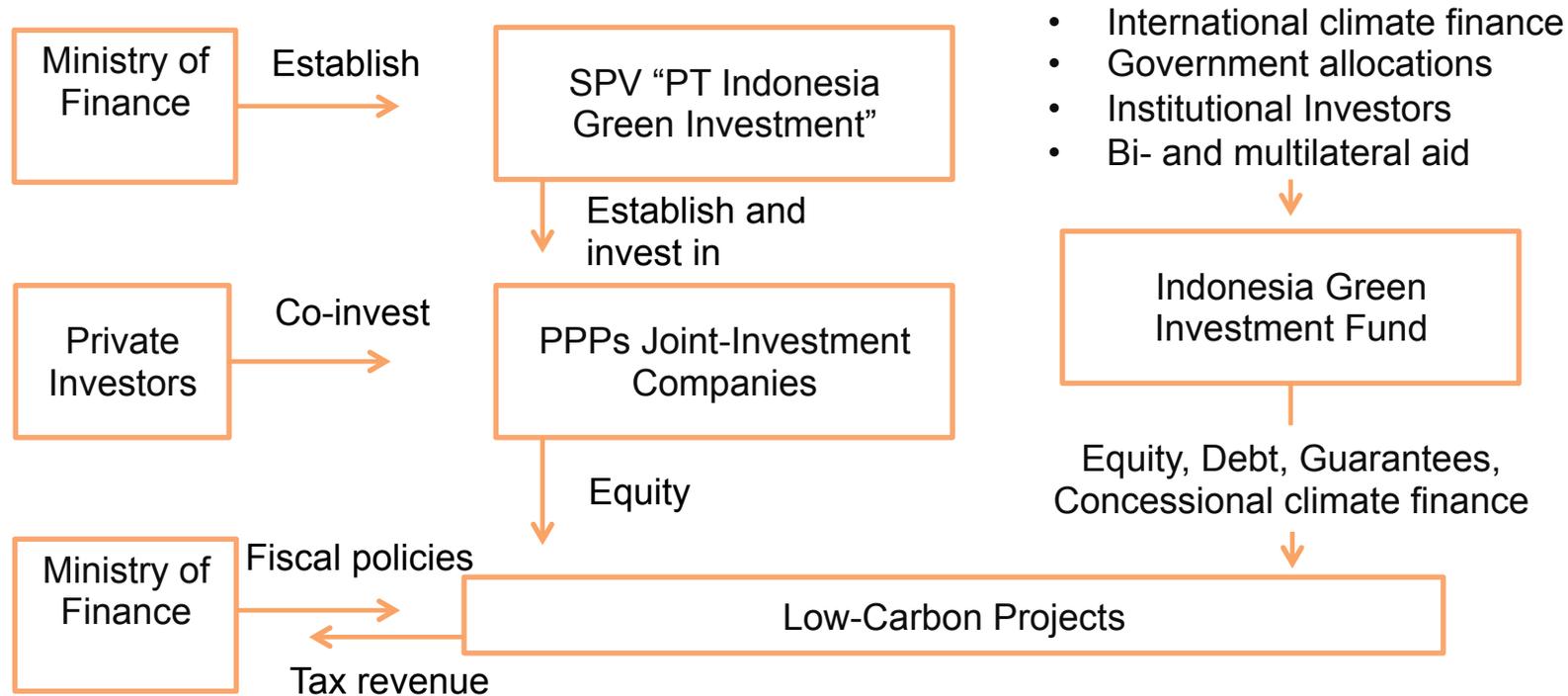
currently capitalised with \$400m provided by the GoI but donors are expected to provide (concessional) loans and grants to IGIF as well (including DFID, AFD) in future

aims to leverage private investment mainly in low-carbon infrastructure by offering a blend of \$20-80m grants, equity and (concessional) loans as co-investments

IGIF is an association of accounts rather than a fund

- each contributor manages its own account by their own governance rules, but at the same custodian bank
- execution is unified while the governance is not, avoiding issues of different contributors needing to agree on common rules and procedures
- provides high individual control over spending regimes

The Indonesia Green Investment Fund will seek to leverage private sector low-carbon investment



Source: Gol Ministry of Finance (2010) in Brown & Peskett (2011)

Key learning points from Indonesia

- 1. A separate climate change fund needs to be designed carefully if it is to result in climate change being mainstreamed, rather than silo-ed.** Some observers have been concerned that the creation of a separate climate change fund has resulted in some Ministries not trying to integrate climate change into their day-to-day activities as it is considered that climate change is being dealt with 'elsewhere'.
- 2. There is a difficulty in getting donors to commit to basket funds (funds where resources are pooled with those from other donors); government will probably need to make concerted effort to push donors to support such a modality.** Of the 15 donors supporting climate change actions in Indonesia, only three have committed resources to the ICCTF.
- 3. To convince donors, there is a need for the government to be able to articulate a strong vision of what the Fund is designed to achieve which is closely linked to a climate change action plan (or equivalent).** In Indonesia, there has been some uncertainty about what the Fund is designed to achieve, especially as it was established significantly before the Climate Change Action Plan was completed .

Further key points from the Indonesia experience

5. **A lack of vision can also make it difficult to evaluate projects brought forward through a competitive process.** Concerns have been expressed that the projects being supported by the ICCTF are not focussed on long-term strategic mitigation priorities. Once again, this illustrates the importance of integrating any financing mechanism within a broader strategic framework.
6. **There will be a risk that effectiveness will be undermined if other donors operate outside the mechanism.** The role of the ICCTF is unclear in light of the recent funding commitment by Norway to support REDD+ investments which has been made outside of the ICCTF.
7. **Unless the fund is large enough, it may be imbalanced towards capacity-building grants.** A recent report (Brown and Peskett, 2011) has highlighted concerns that the ICCTF appears to mainly provide capacity building grants that do not directly lead to mitigation. This may reflect the relatively low capitalisation of the fund which means that only relatively small projects can be provided and possibly also a challenge in providing financing instruments other than grants.

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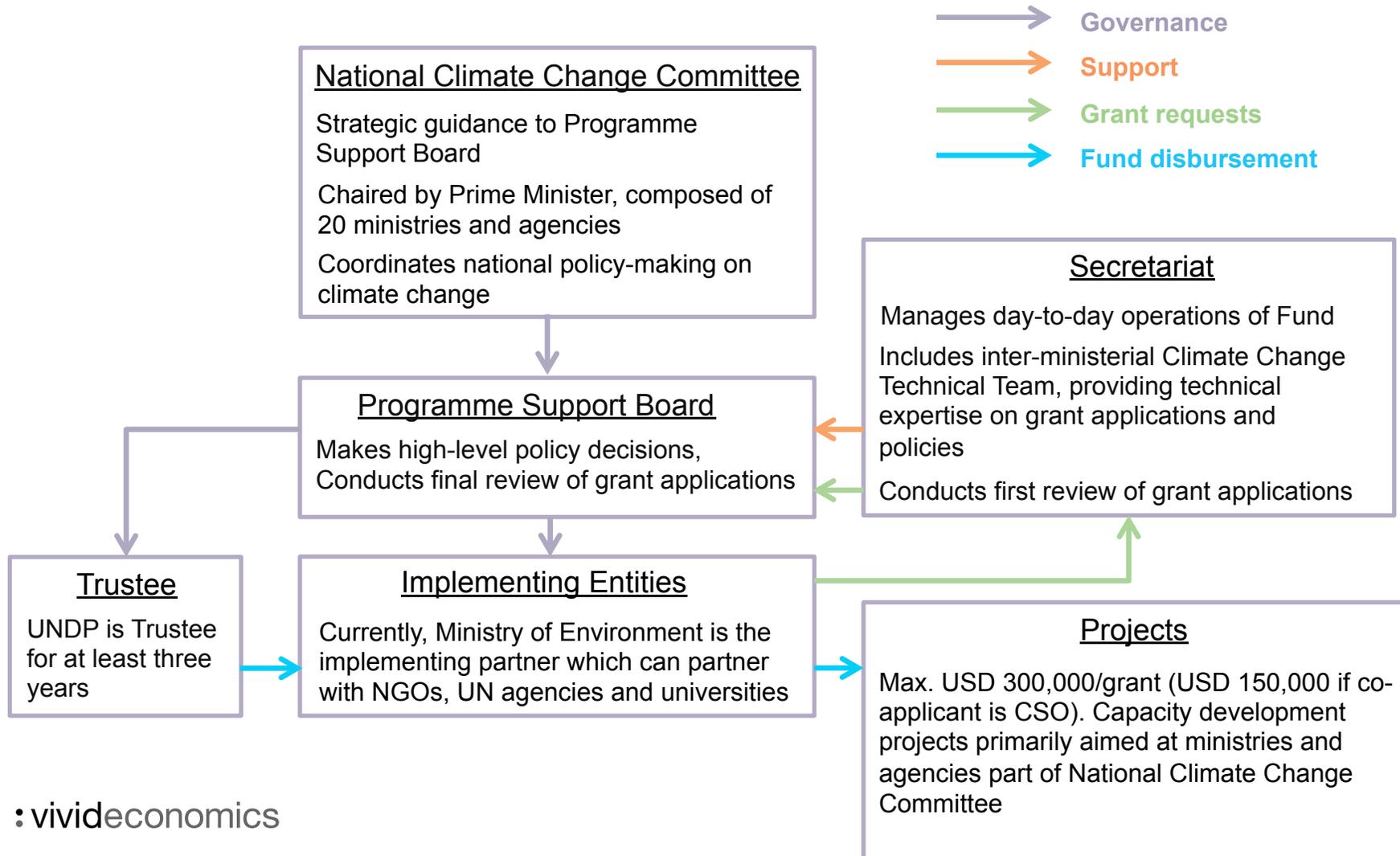
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The Cambodia Climate Change Alliance Trust Fund

Design aspect	Comments
Objectives	Supporting capacity building and priority interventions to enhance adaptation and long-term resilience. Funding arm of Cambodia Climate Change Alliance (CCCA).
Capitalisation	~\$9m. UNDP: \$3m UNDP; \$3.2m EU; \$2.1 Sweden; \$0.6m Denmark.
Governance	<p>The Programme Support Board (PSB) makes high-level policy decisions for the fund and make the final decisions on grant applications. The PSB has eight members: four from Government agencies and four CCCA donors, as well as other observers including other Development Partners. Initially co-chaired by an NCCC (see below) and a donor representative.</p> <p>The PSB is guided by the National Climate Change Committee which is chaired by the PM and provides strategic guidance to the fund</p> <p>The PSB is supported by a Secretariat which hosts an inter-ministerial Climate Change Technical Team that provides technical advice on grant applications.</p>
Fiduciary management	UNDP will administer the Fund for at least 3 years.
Implementation	Implementation is undertaken either solely by government agencies or in partnership with NGOs, UN agencies and universities. Maximum \$300,000 per grant except if implemented in partnership with a CSO in which case \$150,000.
MRV	Grantees submit implementation reports every 3 months to the Secretariat which provides quarterly progress reports and annual report. Secretariat's annual report is reviewed in the Joint Programme Annual Review.

In the CCATF, the National Climate Change Committee provides strategic guidance to the Programme Support Board



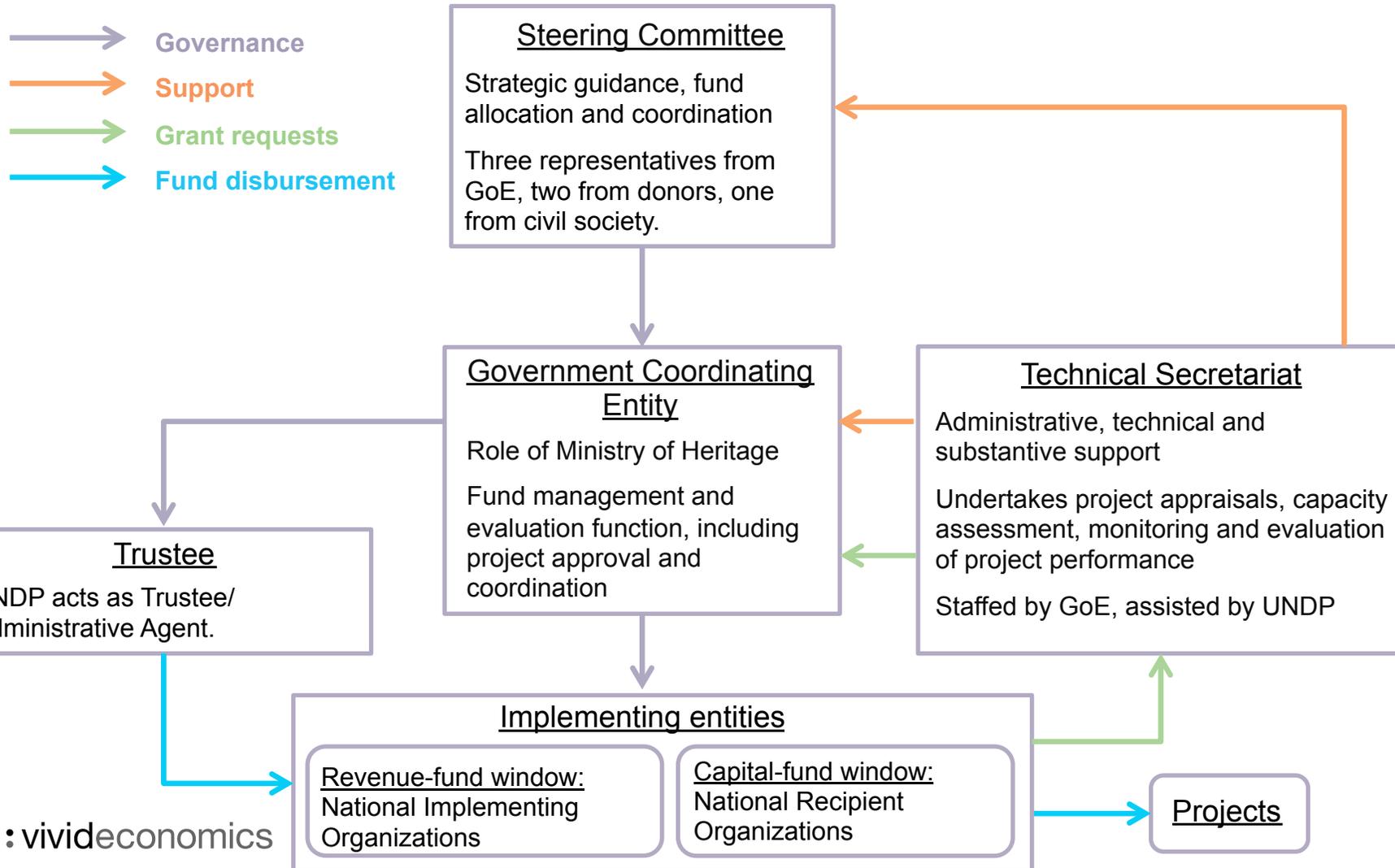
The Ecuador Yasuni ITT Trust Fund

Design aspect	Comments
Objectives	Finance strategic sustainable development programmes within the guidelines of the Ecuadorian National Development Plan. Established in 2010 to support Ecuador's decision to permanently forego the extraction of the Yasuni ITT oil fields.
Capitalisation	Ecuador is requesting contributors to compensate 50% (at 2008 oil prices) of the income it is forgoing, amounting to \$3.6 billion. \$53m has been committed to date, including \$50.8m from Italy.
Governance	<p>A Steering Committee (SC) made up of 3 GoE representatives, 2 from donors and 1 from civil society, provides strategic direction and oversight of the fund.</p> <p>Government Coordinating Entity within the Ministry of Heritage is responsible for project approval and co-ordination and overall monitoring and evaluation.</p> <p>Technical Secretariat (TS) provides administrative, technical and substantive support. It is staffed by the Government and supported by UNDP. It undertakes project appraisals, capacity assessment and monitoring and evaluation of project performance.</p>

The Ecuador Yasuni ITT Trust Fund (2)

Fiduciary management	The UNDP Multi-Partner Trust Fund Office is Administrative Agent. It also performs a range of reporting functions.
Implementation	<p>Two funding windows:</p> <ol style="list-style-type: none"> 1. Capital Fund Window —to finance renewable energy projects, providing a return. 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>Implementation partners include NGOs/CSOs, private enterprises and intergovernmental orgs.</p>
MRV	Recipients provide annual narrative reports & financial statements, mid-year updates, project completion reports and certified final financial reports to the trustee. The trustee consolidates and provides to each contributor and the SC. The trustee provides annual certified financial statements.

The Ecuador Yasuni ITT Trust Fund has a broadly similar structure to the others analysed



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