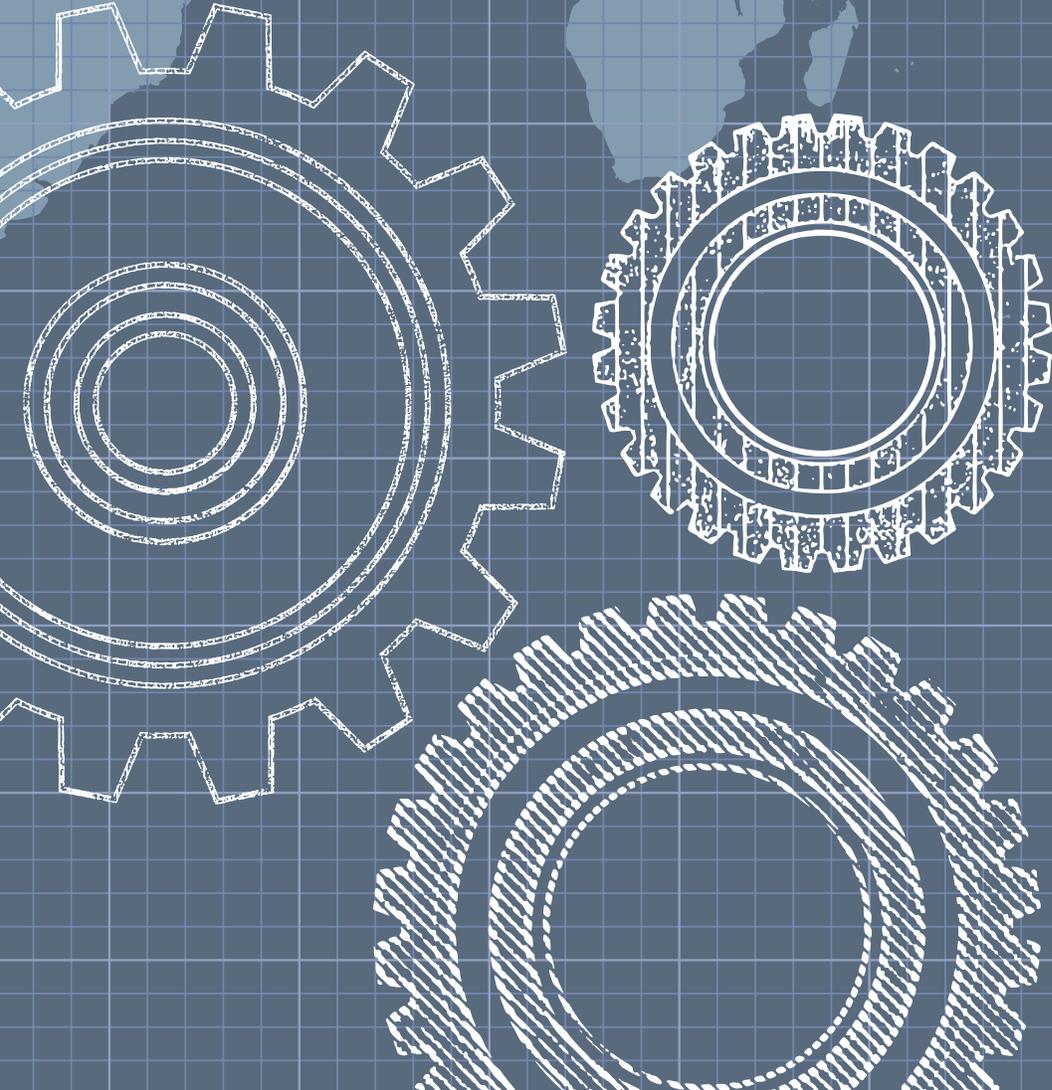




# Readiness for Climate Finance

A framework for understanding what it means to be ready to use climate finance





**UNDP is the UN's global development network, advocating for change and connecting countries to knowledge, experience and resources to help people build a better life. We are on the ground in 177 countries and territories, working with them on their own solutions to global and national development challenges. As they develop local capacity, they draw on the people of UNDP and our wide range of partners.**

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*The views expressed in this publication are those of the authors and do not necessarily represent those of the United Nations, including UNDP, or its member states.*

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# Preface and Overview

This discussion paper is part of a series of publications that draws upon the experience generated by the United Nations Development Programme's (UNDP) climate change adaptation and mitigation activities in some 140 countries over the past two decades.

The paper presents a framework for understanding what it means to be “ready” to use climate finance in a transformative way at the national level. In the context of the financial challenges posed by climate change, including the scale of financing required and the barriers to the effective use of climate finance (international and domestic; public and private), the paper presents a four-part framework through which to understand the different components of readiness and the specific capacities needed to underpin it. In this paper *climate finance readiness is defined as the capacities of countries to plan for, access, deliver, and monitor and report on climate finance, both international and domestic, in ways that are catalytic and fully integrated with national development priorities and achievement of the MDGs.*

By laying out this framework, the paper attempts to organise the many targeted support programmes, guidebooks, publications, and toolkits on climate finance—offered by a range of international, regional, and national partners. This paper itself is not intended as a guidebook per se, but rather as an introduction to both the national challenges arising from increasing flows of climate finance and some examples of the routes available for overcoming these challenges. The intended audience for the paper is policy-makers at both the international level and national level in developing countries. For an international audience the paper illustrates the critical importance, but also the breadth and complexity, of what is need to be “ready” at the national and local level. For a national audience, the paper aims to provide a framework to organise the plethora of tools, mechanisms, and modalities available from different development partners—ultimately improving the capacity of policy-makers to put in place nationally-appropriate systems to manage climate finance.

To support national policy-makers move forward, this paper also highlights a number of tools and examples available to overcome barriers identified in the paper and build ready systems at the national level. For example, UNDP has developed a suite of technical guidebooks that are referred to throughout the text and for which this paper serves as a chapeau, including:

- Preparing Green, Low-emission, Climate-Resilient Development Strategies: Executive Summary
- Catalyzing Climate Finance
- Catalyzing Finance: Financial Model and Technical Annexes
- Sector-Wide Approaches to Climate Finance (forthcoming)
- National Climate Funds
- MRV Systems for Climate Finance and Actions (forthcoming)

# Introduction: Policy Context

The scale of the climate change challenge before the international community is vast. Holding global temperatures at 2 degrees C above pre-industrial levels will require a transformation in production and consumption processes across all countries. This transformation must involve a country-driven shift toward policies and technologies that catalyse new investments and mainstream climate change into existing systems. In addition, significant support must be provided to build the resilience of these systems, particularly for the poorest and most vulnerable in developing countries who have contributed least to the buildup of greenhouse gases in the atmosphere.

The scale of the financial challenge to achieve this transformation is in the order of hundreds of billions of US dollars. The financing available and the capacities to absorb resources vary across different countries; whereas developed countries have internal capacities to generate and use climate finance, many developing countries lack the financial resources necessary or the institutional, policy, and skills systems to use climate finance effectively. The impacts of these barriers are heightened for vulnerable groups, such as the poor and women, threatening the achievement of poverty reduction goals and the MDGs.

The international community has responded to this scarcity by increasing North-South public finance transfers for climate change activities over recent years. For example, governments have designed and reformed institutions such as the Global Environment Facility, the Adaptation Fund, the Climate Investment Funds, and most recently the Green Climate Fund, as well as new evolving financial mechanisms such as performance-based payments for reducing emissions from deforestation, degradation, and forest conservation (REDD+) and clean energy. In addition, developing countries have increased their own public spending on climate change activities, including through national budgets. However, while extremely important, increasing supply of public finance alone will not promote transformations in production and consumption processes. The scale of the financing required—which is likely to be many times the size of present levels of Official Development Assistance (ODA)—and the cross-sectoral nature of the climate challenge mean that volumes of international public finance will be far from sufficient.

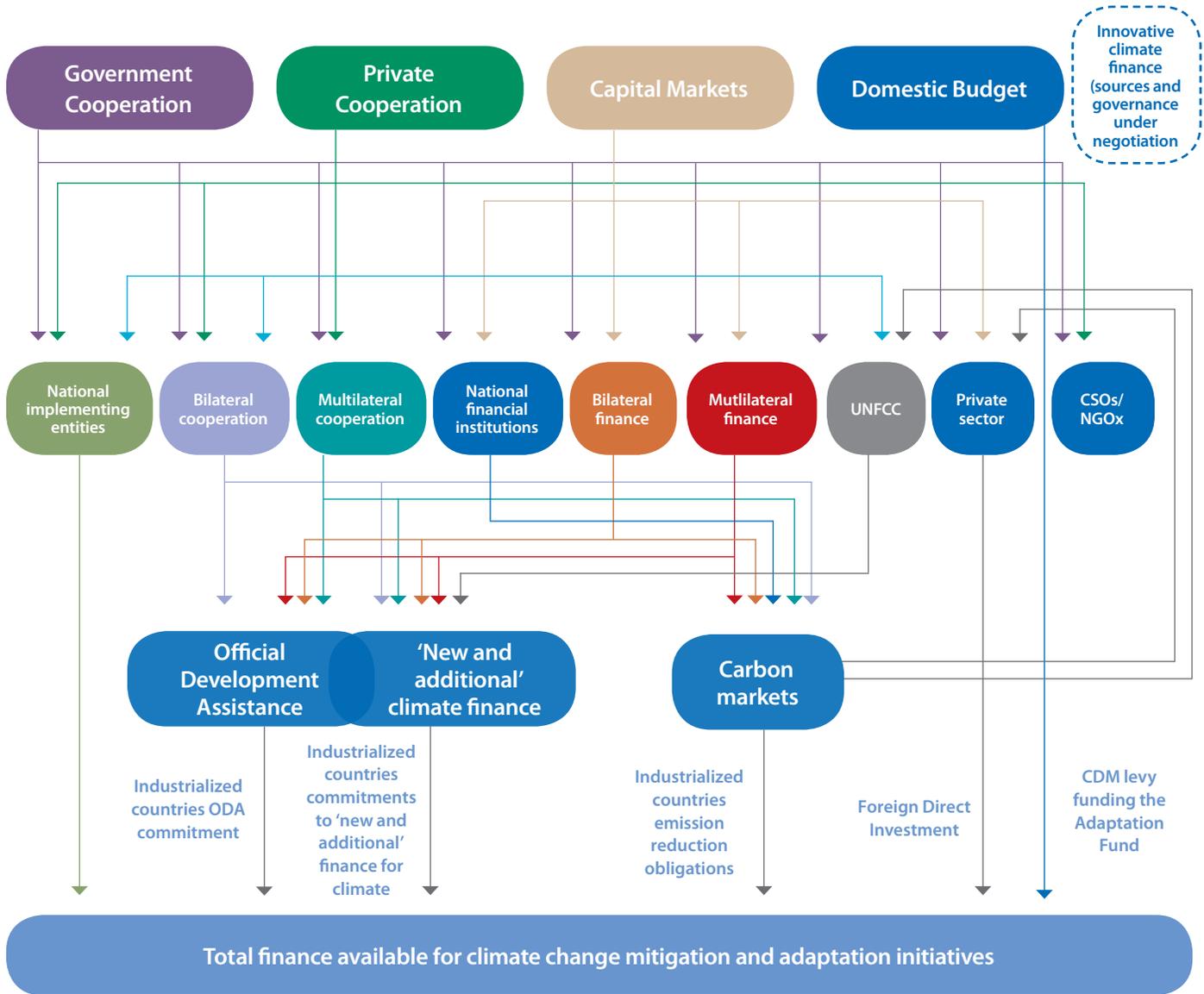
Therefore actions to promote low-emission and climate-resilient development must be largely public policy-based and private-sector financed where international public finance is used catalytically alongside much larger capital flows (AGF, 2010). For climate finance to be effective the international community must do more than simply increase resource flows toward isolated local interventions. The international community must address three key issues required to promote transformations at the national level:

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 ”

- First, international public finance cannot simply be used as an end in itself to finance isolated interventions. The International Energy Agency (IEA) estimates that approximately 40% of the global investment needed to transform energy systems alone will likely come from households, 40% from businesses, and just 20% from government (IEA, 2009). In this context, the limited international finance must be used to support countries crowd in private sector and local finance and so drive transformational change at the scale required. Limited public finance must thus be used to develop an enabling environment at national and local levels that redirects existing public investments and provides the incentives for private finance to invest in low-emission and climate-resilient activities.
- Second, with more than 50 international public funds, 60 carbon markets and 6,000 private equity funds already providing “green” finance, mobilising external finance in ways that are aligned with national systems and priorities is extremely complex (**Figure 1**). Furthermore, multiple types of finance (such as carbon finance<sup>1</sup>, finance for REDD+, etc.) and a variety of tools for delivering and packaging financing (such as sectoral approaches, performance-based payments, etc.) are rapidly emerging and evolving presenting additional challenges. International public finance must be used to support systems that are able to navigate and take advantage of this landscape by accessing and using this multitude of finance.
- Third, decades of research on development assistance indicates that the effectiveness of development actions, such as those needed to promote transformational change to address climate change, are severely undermined by isolation from mainstream national development planning and poverty reduction strategies (OECD, 2005). Without integration, actions are not fully mainstreamed into existing activities and risk being offset or undermined by other development activities. Thus public finance must be used to promote integration and ensure that developing countries are able to adequately embed climate finance within and alongside national development planning.

<sup>1</sup> Finance generated through offset projects that issue carbon credits for sale on international compliance and voluntary markets

**Figure 1: Existing climate change finance flows (Source: UNDP, 2011a)**



Attention to these issues has grown increasingly significant within international policy discussions on climate finance. In particular, there has been increased focus on building and strengthening national systems so they are “ready” to use climate finance effectively in ways that promote transformations in production and consumption patterns at the national level. This focus is embodied in recent international and national policy discussions on the concept of “readiness”. In particular, the term is specifically referred to within the governing instrument of the Green Climate Fund (GCF), which states that *“The Fund [GCF] will provide resources for readiness and preparatory activities and technical assistance”*.

However, at present no clear framework exists through which to understand what is required to be “ready” to use climate finance in an effective or transformational way or how to get there. While development assistance practitioners have significant experience and analytical material in assisting countries to access development finance more generally, there is a need to specifically understand the national systems required to use international and domestic climate finance in ways that will transform production and consumption processes. In particular, a framework for readiness is critical for the GCF to effectively support activities that will drive low-emission, climate-resilient development.

This paper responds to this gap by laying out a framework for conceptualising the elements of what it means to be ready for climate finance and taking stock of the key capacities required to build and strengthen these elements. The framework draws on examples and is the result of mapping and grouping national capacities and systems, rather than developing a top-down prescriptive model for all countries. It aims to provide both international and national policy-makers with an overview of the types of national systems needed to plan for, access, deliver, and monitor and report on effective climate finance, and the forms of support needed to build and strengthen these systems.

The paper begins by outlining the framework for understanding climate finance readiness in the context of the climate change challenge and then moves on to considering the different elements of this framework drawing on examples of current activities on the ground.

## What does it mean to be ready for climate finance?

“Readiness” for climate finance is a relatively new term that has been used for a number of specific areas of climate finance, such as REDD+ readiness and market readiness; however, a comprehensive definition that maps out the different elements of readiness with regard to climate finance as a whole is needed.

This paper defines readiness for climate finance as *the capacities of countries to plan for, access, deliver, and monitor and report on climate finance, both international and domestic, in ways that are catalytic and fully integrated with national development priorities and achievement of the MDGs*.

There are four main components within this definition (**Figure 2**). They are:

- National capacities in place to **plan** for finance;
- Capacities to **access** different forms and types of finance at the national level;
- Capacities to **deliver** finance and implement/execute activities;
- Capacities to **monitor, report, and verify** on financial expenditures and associated results/transformational impacts.

**Figure 2: Components of Climate Finance Readiness**

Financial Planning	Accessing Finance	Delivering Finance	Monitor, Report & Verify
<ul style="list-style-type: none"> <li>● Assess needs and priorities, and identify barriers to investment</li> <li>● Identify policy-mix and sources of financing</li> </ul>	<ul style="list-style-type: none"> <li>● Directly access finance</li> <li>● Blend and combine finance</li> <li>● Formulate project, programme, sector-wide approaches to access finance</li> </ul>	<ul style="list-style-type: none"> <li>● Implement and execute project, programme, sector-wide approaches</li> <li>● Build local supply of expertise and skills</li> <li>● Coordinate implementation</li> </ul>	<ul style="list-style-type: none"> <li>● Monitor, report, and verify flows</li> <li>● Performance-based payments</li> </ul>

This framework elaborates that outlined in UNDP's 2010 discussion paper *Development in a Changing Climate: A framework for Climate Finance*

It is important to note that, while these core elements are almost always present in some form at the national, sub-regional, or local levels, this does not translate into a one-size-fits-all model. Different configurations of these four components can exist within institutions, between institutions, or across national or sectoral systems. Different functions can be carried out through a variety of national systems and models, each of which is particular to its country context. Furthermore, external capacity development support is not required to build all components in all countries; many capacities within this framework already exist at the national level. In addition, in those countries where assistance is needed countries should be able to strengthen existing institutions, policies, and skills—this framework does not imply that efforts should start from scratch.

Instead, the framework is intended as lens through which existing efforts and gaps can be organised and arranged; through this process, areas of further work can be identified in a holistic and integrated manner, ultimately producing a more coherent approach at the national level. This approach recognises that the needs of countries will evolve over time, and so the readiness approach itself must be flexible.

The following sections explore each of these components of readiness in further depth; they highlight particular capacities that are emerging as important on the ground and present examples of tools that can support build and strengthen them. These sections are intended to inform international policy-makers of what support is needed from the international community to make countries “ready”; it is also intended to provide a framework for national policy-makers to organise the many activities taking place in this area and illustrate some examples of what support is available.

## 1

# Financial planning capacities

## Introduction

As for development finance more widely, financial planning—that is, planning for the supply, management, and use of financial resources to fulfil a given aim—is a fundamental step in ensuring the effective, efficient, and equitable use of climate finance. Planning allows decision-makers to articulate their climate-related priorities and the financial resources required to meet them. Planning also includes assessments of climate finance flows, allowing policy-makers to match their priorities with potentially available resources, and so plan how to integrate resources and sequence them over time. Building and strengthening national, sectoral, and local financial planning capacities ensures the integration of climate finance within national development and budgetary processes and so aligns climate and economic and social growth pathways.

### 1.1 Assess Needs, Define Priorities, and Identify Barriers to Investment

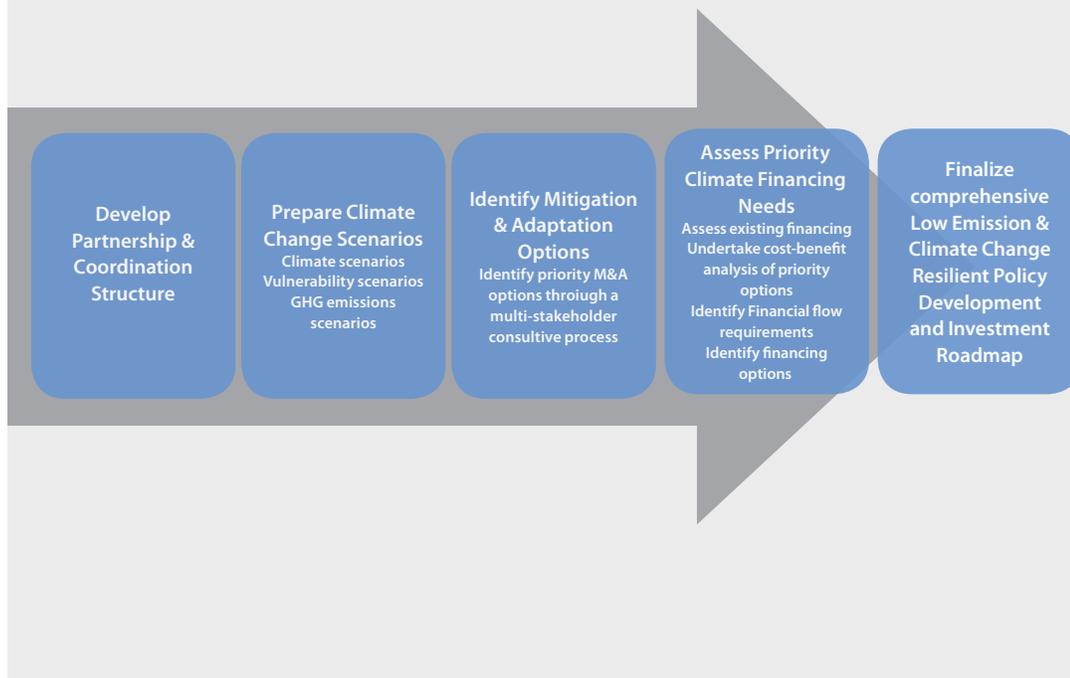
Planning for climate actions at the national level must be based on overarching development priorities at the national level. This requires identification of national climate change actions based on robust climate change scenarios and emissions baselines, development plans, projections of impacts of actions, and a review of innovative solutions and practices available. On this basis, effective and appropriate actions and priorities can be articulated, including both new actions and actions that mainstream climate change within existing development spending. An umbrella for this work is the preparation of green, low-emission and climate-resilient development strategies (**Green LECRDS, Box 1**). Such strategies provide a vehicle for bringing needs assessments and priority setting processes together. From macro-level strategies, specific nationally appropriate mitigation actions (NAMAs), national adaptation plans (NAPs), and technology action plans (TAPs) can be articulated along with the associated financial needs.

“Strategies provide a vehicle for bringing needs assessments and priority setting processes together.”

The capacities required at the national level to assess needs and define priorities are complex to build and the process for strengthening these capacities is iterative. This is particularly important given that climate finance flows (as illustrated in Figure 1) are neither purely public nor purely private. This varied landscape requires specific national mechanisms for coordinating relevant government ministries and agencies around climate priorities, particularly ministries of finance, as well as key economic and social actors, including international and domestic private sector stakeholders. Under the umbrella of Green LECRDS, UNDP has produced a dedicated guidebook to support multi-stakeholder decision-making (UNDP, 2012).

**Box 1: Green low-emission, climate-resilient development strategies**

UNDP has developed an approach supported by a capacity development package to help countries develop green, low-emission and climate-resilient development strategies (Green LECRDS). This approach, supported by a group of region-based technical advisors and experts, is complemented by a set of step-by-step guidebooks and toolkits in multiple languages that support countries to take decisions on climate change, including decisions on finance that are aligned with existing national development plans and frameworks. At the request of governments, UNDP is currently supporting governments with various elements of the planning process. This support takes different forms depending on national circumstances and goals; however, the overall menu of service to build readiness in this area is illustrated in **Figure 3**.

**Figure 3: Development of green low-emission, climate-resilient development strategies**

## 1.2 Identify Policy-Mix and Sources of Financing

Against the backdrop of comprehensive climate strategies decision-makers must be able to identify the resource flows required for priority activities and plan the associated sequencing of such flows.

To engage in this process requires an understanding of the financial baseline—that is, what existing resources are already being used for climate change activities. A periodic financial scan can be used to determine this baseline at the national level; there are a number of different tools to support this process, including:

- An investment and financial flows assessment (I&FF) that creates a baseline of existing expenditures at the sectoral scale and maps this on to priority climate-related activities to identify gaps;
- A climate public expenditure and institutional review (CPEIR) that assesses current on-budget climate finance expenditures across sectors. Typical activities to support CPEIRs include:
  - Defining climate change expenditures as well as a tracking system
  - Identifying how to mainstream climate change into the budgetary process
  - Budgetary allocation and actual expenditure and budget prioritization

Having identified existing financial flows, diverse capacities are needed to identify finance from different sources to fill remaining funding gaps. A central capacity in this process is matching supply to demand. Identifying sources for climate finance can be highly complex given the range of finance available (**Figure 1**), each of which is appropriate for different activities in particular circumstances. For some countries the majority of climate finance flows through private channels, while in others, particularly least developed countries (LDCs), new research in a number of LDCs in Asia suggests that significant volumes of national budget expenditures are used for climate activities (ODI and CDDE, 2011).

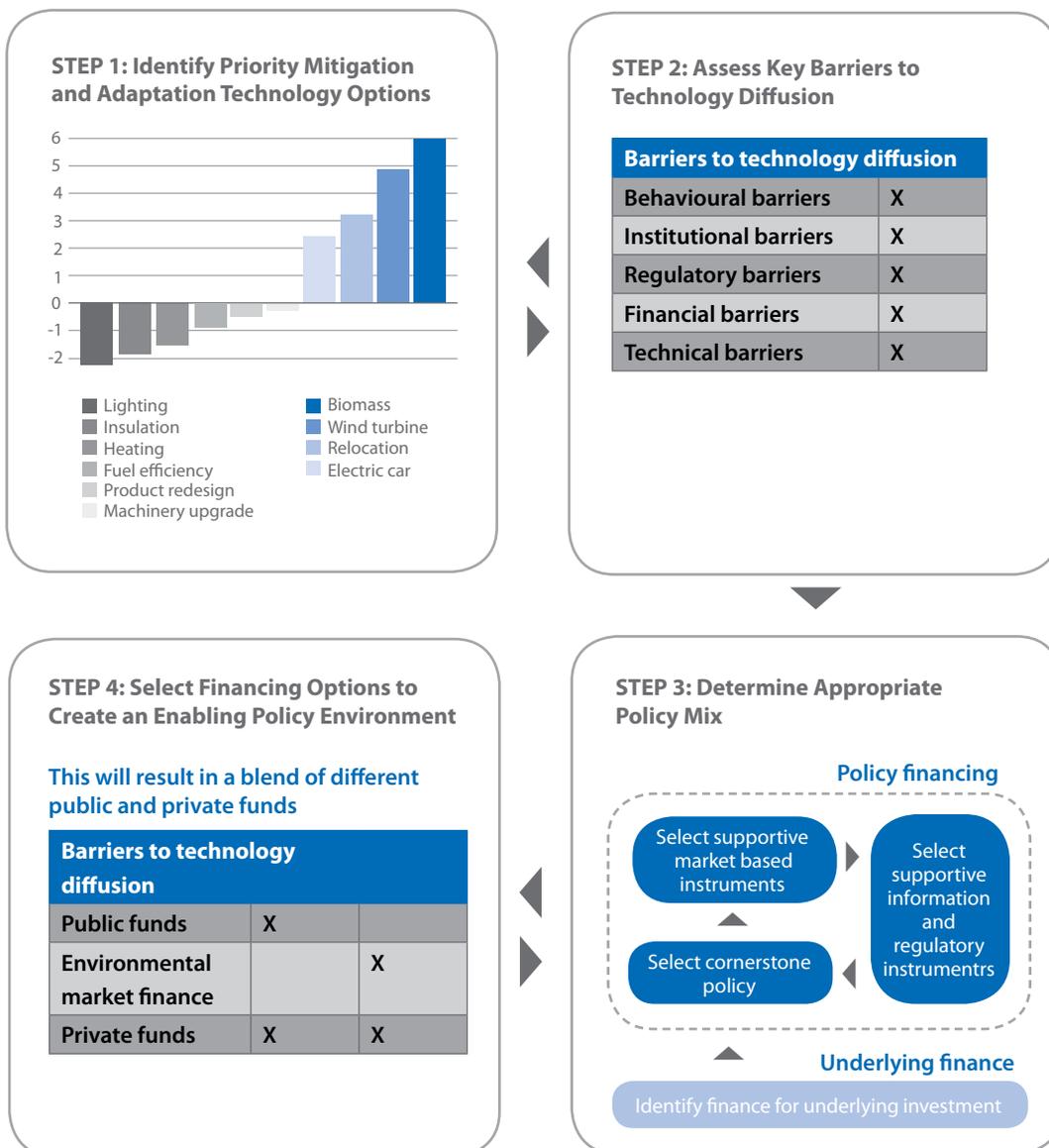
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Planning processes are  
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Decision-makers must be able to articulate financial needs in the context of both specific activities as well as programmes of activities, depending on the source of finance. A key capacity here is the ability to cost priority actions and then match those costs to different sources. For example, the development of sectoral NAMAs requires a programme of activities (PoA) to be planned and financed in concert, requiring both multiple sources of finance and specific national policy actions to be undertaken in a coordinated way. This planning process is illustrated in **Figure 4**.

For external multilateral and bilateral financing, planning processes are needed that can map domestic demand onto different sources of financing and their funding cycles. This requires knowledge of these international flows, and a variety of tools have been developed to support policy-makers in this regard. For example, the World Bank and UNDP have together developed an online tool, [www.climatefinanceoptions.org](http://www.climatefinanceoptions.org) to support decision-makers navigate the different international sources of public finance. In addition, specific systems are needed among donor governments and organisations to promote coherence at the national level—such as donor-recipient government coordination groups—to ensure that donor finance is itself “ready”. Recipient countries green, low-emission and climate-resilient development strategies can act as a rallying point for these systems.

For domestic public financing that is on budget (i.e. flowing through national budgets and public financial management systems), policy-makers should be able to prioritise and allocate within national budgetary processes in order to raise additional resources for climate activities or mainstream climate into other budget lines. This involves directing finance toward climate change activities, but also removing existing activities that have detrimental climate impacts. A number of countries have already begun this process as part of their CPEIRs to allow them to better integrate domestic public financing for climate change into the national budgetary process; this work has been supported by a network of organisations including UNDP, OECD, ADB, AfDB, and ODI<sup>2</sup>.

**Figure 4: Identifying sources of climate finance based on priorities (Source: UNDP, 2011a)**



<sup>2</sup> Organisation for Economic Cooperation and Development; Asian Development Bank; African Development Bank; Overseas Development Institute.

## 2

# Capacities to access finance

## Introduction

In the context of a myriad of sources of finance, it is increasingly important for countries to be able to directly access resources from different sources, and then blend and combine those resources at the national level in order to access a wider range of financial instruments. This includes formulating projects, programmes, and sector-wide approaches that attract and catalyse further public and private financing. Accessing finance requires a range of different institutional tools, mechanisms, and modalities; specific capacities are needed at the national level to put in place and operate such modalities. This section of this discussion paper is particularly targeted toward national and local practitioners, who—through various surveys noted below—articulated that clarity is needed on precisely what national capacities are needed to access climate finance.

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Strong demand for assistance to build these capacities underscores the limited capacity and the importance of readiness activities in this areas.  
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### 2.1 Directly Access Finance

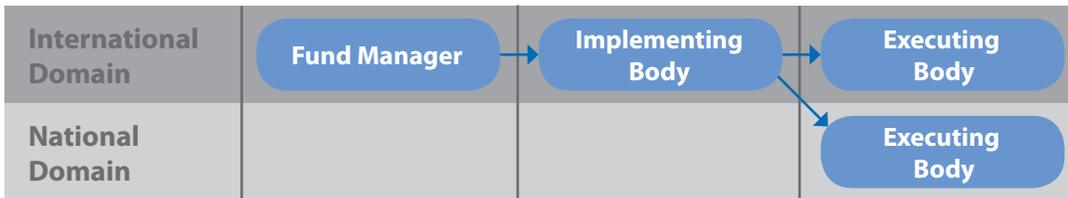
The variety of options for accessing climate finance has increased over recent years, particularly for public finance from multilateral sources within which the concepts of “direct access” and now “enhanced access” have emerged<sup>3</sup> (Figure 5). These modalities require specific and complex financial and programming systems at the national level and are therefore a key issue when considering readiness. Use of direct access modalities—such as those under the Adaptation Fund and as anticipated for the future Green Climate Fund—requires national or sub-regional entities to undergo an accreditation assessment that requires strong fiduciary capacities, compliance with environmental and social safeguards, as well as capacities associated with the roles and functions of an implementing entity (see Annex 1). Strong demand for assistance to build these capacities underscores the limited capacity and the importance of readiness activities in this areas. For example, 30 countries expressed interest in support for establishing a national implementing entity to access the Adaptation Fund in a survey of all developing country governments undertaken by UNDP, UNEP, and the World Bank in September 2010<sup>4</sup>.

<sup>3</sup> Direct access refers to the option for developing countries to access multilateral public climate finance through either an accredited national or sub-regional entity. These entities take on implementing agency functions (financial oversight and responsibility) and contract executing entities to programme resources. Enhanced access refers to the same modality plus a delegation of decision-making power from global funds to national entities, such as national climate funds.

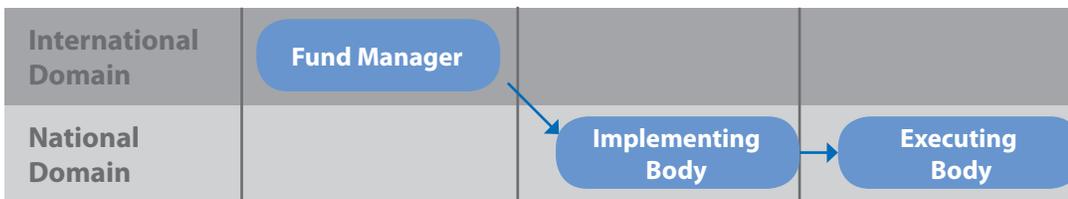
<sup>4</sup> 20 in Africa, 7 in Eastern Europe and CIS, 4 in Asia, 1 in Latin America and the Caribbean, and 1 in the Middle East region

**Figure 5: Access routes to multilateral finance (Source: ODI and UNDP, 2011)**

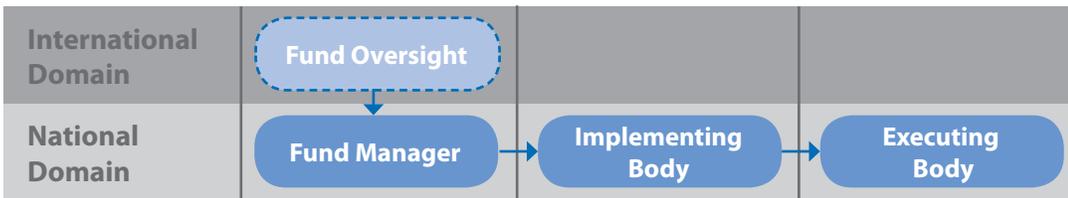
**Multilateral Access**



**Direct Access**



**Enhanced Access**



Fund manager functions (some functions carried out by fund secretariat)	Implementing body functions	Executing body functions
<ul style="list-style-type: none"> <li>● Develops strategies, policies and guidelines of Fund</li> <li>● Reviews proposals submitted to Fund</li> <li>● Decides who receives funding</li> <li>● Instructs trustee to transfer funds to eligible implementing bodies</li> <li>● Monitors implementation progress</li> <li>● Accountable to donors on fund expenditures</li> </ul>	<ul style="list-style-type: none"> <li>● Identification of projects</li> <li>● Preparation of Project concepts</li> <li>● Appraisal of Project documents</li> <li>● Preparation of Project documents</li> <li>● Approvals and start-ups of projects</li> <li>● Supervision of projects</li> <li>● Evaluation of projects</li> <li>● Accountable to Fund on use of funds</li> </ul>	<ul style="list-style-type: none"> <li>● Management and administration of day-to-day project activities</li> <li>● Undertakes procurement and contracting of goods and services</li> <li>● Accountable to implementing body for use of funds</li> </ul>

“  
Transferring the ability  
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in what form.”

Use of enhanced access modalities requires specific national financial capacities, the understanding of which is only beginning to evolve. While not yet fully operational, enhanced access is provided for within the GCF and looks set to become a future access modality. As illustrated in **Figure 3**, enhanced access shifts some components of fund management to accredited national entities rather than the vertical fund itself, such as holding resources in trust and facilitating their transparent allocation. A number of countries are exploring the establishment and accreditation of national climate funds (NCFs) within this modality, as they can also be used to collect and allocate national and international resources, as well as access bilateral public finance alongside multilateral finance.

While this modality has the potential to greatly increase country ownership over fund allocation and coherence in accessing both multilateral and bilateral resources in ways that are aligned with low-emission and climate-resilient development strategies, access through this track will likely require more substantial financial management capacities, including legal arrangements for holding funds in trust, and governance systems to oversee allocation and report on the use of resources. Building and strengthening these capacities, including fiduciary systems, transparent multi-stakeholder allocation systems, and appropriate legal and reporting arrangements, will be critical to the effective use of resources under this modality. For example, as the fund manager an NCF would require accountable and legitimate arrangements for allocation of funds in line with the stipulations of the global fund from which resources may have been accessed. This requires governance systems that have legal decision-making power and who are held accountable for their decisions through public disclosure arrangements. To support the development of these capacities, UNEP and UNDP are collaborating to produce a guidebook on the legal frameworks necessary for effective climate action at the national level.

## 2.2 | Blend and Combine Resources

In addition to direct access, recipient countries express the need to blend and combine climate finance resources—a process that allows access to a wider range of types of financing at the national level (Mwape, 2011). This can take two forms: either the bundling of different types of finance within a single project or programme (combine), or the use of one resource to restructure the terms of another, non-grant resource (blend). Both provide recipient countries the power to transform resources at national level and empower decision-makers to access to a wider range of financial instruments than might otherwise be available from international financial suppliers to meet their needs. Transferring the ability to combine and blend climate finance to the national level increases recipient country ownership over how finance is used and in what form. However, both blending and combining require specific financial mechanisms and capacities at the national level as detailed below.

For example, resources can be combined through a national financial mechanism, such as a national development bank, an NCF, or a simple trust fund, where resources are allocated together side by side. For example, The China CDM Fund is a national fund that offers grants and loans to support China's National Climate Change Programme and promote international cooperation. It uses grants – funded by revenues from CDM projects, earnings from CDM business operations, and other sources – to support climate-related capacity building and promotion of public awareness. Combining finance poses few financial complications as no additional financial risk taking is required (as no extra debt is

issued) and results can be easily attributed to each financing sources. Yet capacities are required to allocate resources in a transparent and accountable way.

Blending resources requires different, more complex financial capacities. Resources must be held on an entity's balance sheet together and, depending on the nature of the blending, may be reformulated into different financial instruments (e.g. lowering interest rates or extending the repayment period for a loan) with financial terms renegotiated. This requires banking functions and so restricts the type of institutions at the national level that can be involved. Building and strengthening these systems—such as NCFs—is complex and, depending on the configuration and purpose, can require legal status, fund management capacities, and a formal connection to Ministries of Finance in the case where sovereign guarantees are needed for non-grant resources in the fund. Each of these is an important part of building and strengthening country systems to manage climate finance and requires specific and detailed attention.

Examples of blending systems at the national level are common within development finance, particularly through national development banks within developing countries. Such development finance institutions are increasingly playing a role in climate finance also, such as the Development Bank of Southern Africa's management of the South Africa Green Fund.

Experiences to date with providing this kind of climate finance readiness support are only beginning to emerge. However, demand for assistance is significant. Following the publication of a technical guidebook for policy-makers on establishing NCFs, UNDP has received requests from 20 countries for varying forms of assistance. Readiness activities to address these requests require that proposed systems are appropriate for a specific country context and that adequate and appropriate financial capacities are in place to perform the functions that may have been previously undertaken by international institutions.

## 2.3 Formulate Projects, Programmes, and Sector-Wide Approaches to Access Finance

Accessing finance also requires recipient countries to be able to formulate “bankable” project and programme proposals—that is, projects that are sufficiently robust, have appropriate risk management mechanisms, and have a favourable internal rate of return and so are financeable—from local to sector-wide scales.

Programme formulation can take various forms. For example, a policy tool such as a feed-in-tariff regime (**Box 2**) provides an enabling environment in which it becomes profitable for international debt and equity providers and/or local companies to invest in the installation and management of renewable energy technologies. Programme formulation at this scale is a complex task and requires line ministries, such as Ministry of Energy, to have the financial and engineering expertise to develop not only a policy and regulatory framework to run the programme but also strong financial systems to combine the right types of finance in the most catalytic way. Legal assistance and support to put in place and strengthen regulatory tools, such as price premiums, is required before private finance can begin to flow. However, once in place such systems catalyse significant volumes of private investments and so upfront public support can be reduced.

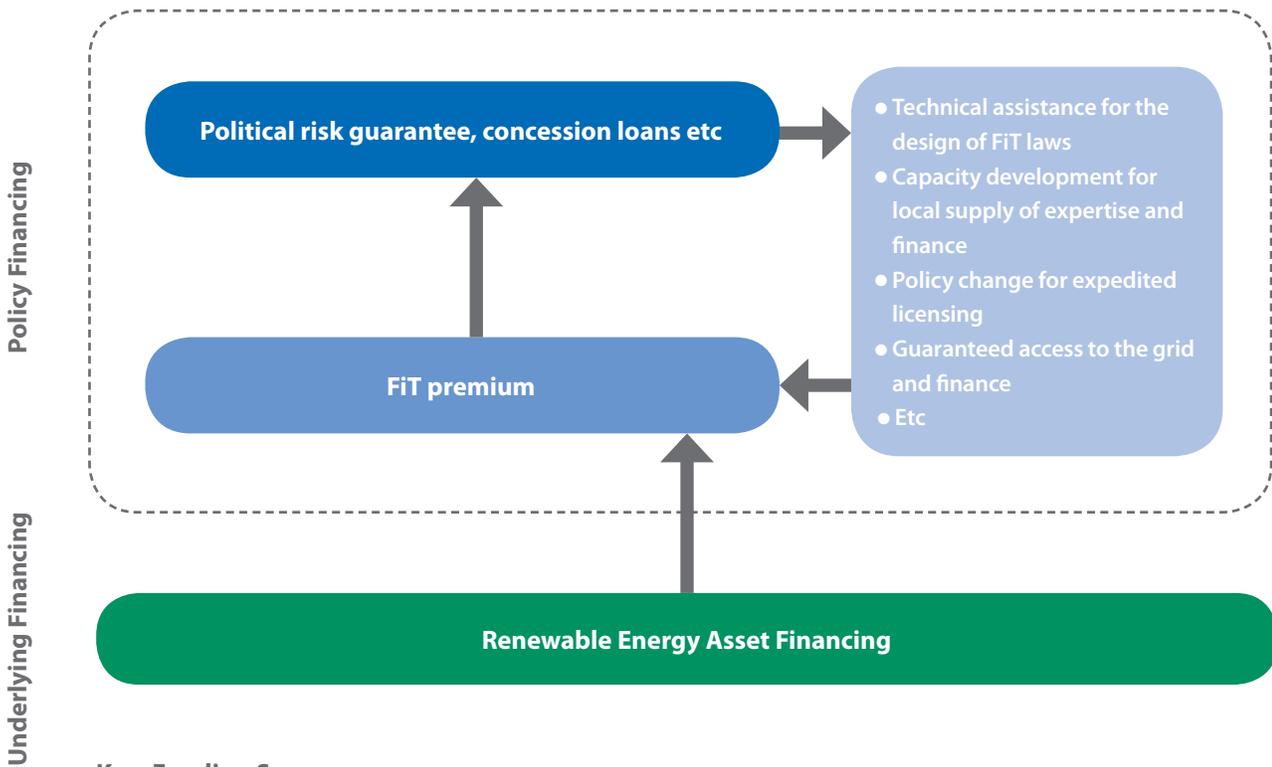
Project formulation capacities and systems are also essential for ensuring universal access to carbon finance. Because of the relatively high political and operational risk for carbon finance investors in many developing countries public assistance is often requested to develop projects and undertake pre-feasibility analyses that reduce operational risks for carbon financiers. For example, UNDP is supporting national institutions to formulate and develop bankable projects for carbon sector financing through its MDG Carbon Facility. The Facility offers a comprehensive package of project development services for developing greenhouse gas emission reduction projects and bringing them to market.

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**Box 2: Formulating sector-wide approaches that catalyse access to private finance**

The development of a feed-in-tariff (FiT) is an example of a complex sector-wider programme formulation process. Within a FiT regime producers of electricity are paid a guaranteed fee for each kWh fed into the grid depending on the type of generation used. Robust financial capacities are required by decision-makers in order to effectively deploy public climate finance to access private finance. For example, deployment of different sources of finance requires an evaluation of finance available and the best formulation of those resources. For a feed-in-tariff, grant finance can be used to provide technical assistance for the development of policies, legislation, and regulations, concessional loans can be used to provide risk guarantees to early developers, and carbon finance or domestic wire charges can be used to finance feed-in-tariff premium payments (Figure 6). All of these components help to generate large private investments.

**Figure 6: Formulating a policy and financing approach to promote wind power in developing countries (Source: UNDP, 2011a)**



**Key: Funding Sources**

- Capital markets (Domestic & International)
- Country-specific (e.g. increase in electricity tariff, wire charges, blending of international/domestic public resources, etc.)
- Concessional and development finance (multilateral development banks, national development banks, etc.)
- Public funding sources (e.g. GEF)

## 3

## Capacities to deliver finance

Delivering finance—that is, the implementation and execution of activities at the regional, national, or local level—is the third component of climate finance readiness and is a key component of ensuring that climate finance contributes to effective and transformative actions at the national level. Delivering resources requires national systems that provide financial oversight and management, as well as execution services such as procurement, contracting, or hiring. These systems must have a local supply of expertise from which to procure skills to undertake project activities. Furthermore, coordination among entities is essential to ensure that project-level activities are in line with national development planning and strategies at the macro level.

### 3.1 Implementation and Execution

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Simply adding greater  
quantity of climate  
change-tagged finance  
does not by default  
mean greater quality  
of spending on  
climate change.”

Implementation and execution services are core capacities required for climate finance to be delivered effectively (see definitions in **Figure 5**). Implementing entities are responsible for identifying, overseeing and appraising programmes/projects for the provider of finance. Moreover, implementing entities would normally be expected to hold the resources released by the funding source (in the case of public resources). This role necessitates robust fiduciary capacities, including self-investigative powers, many of which are required to gain access to resources in the first place, especially in the case of direct access (discussed above). In addition, implementing entities may be involved in blending and combining finance, covered in the previous section on access. In particular, combining finance often takes place within individual projects and programmes, and so requires those entities involved in project management to possess much of the financial knowledge as outlined in section 2.2.

While undertaking a different role, the executing entities receive funding to undertake programmes of work and may utilise sub-contracting arrangements to complete these activities. They require transparent procurement procedures and must be able to report regularly to implementing entities on progress. Critically, executing entities must have project management capacities.

A major emphasis is increasingly placed on preparing entities to take on these implementation and/or execution roles and demand for support is increasing. There is a particular focus on direct access entities in this regard, and ensuring those institutions applying for accreditation to global funds have strong oversight systems in place, as discussed above.

A particular set of capacities relate to carbon finance in this regard. While carbon finance, as a market mechanism, does not flow through public institutions and so direct project management capacities are not required within public institutions to manage carbon finance, there is often a need to support the wider implementation framework at the national level. For example, under the Clean Development Mechanism (CDM) project proposals must be endorsed by the respective Designated National Authority (DNA) within the developing countries. To undertake their function, DNAs require capacities

to evaluate the effectiveness of the proposed project and its consistency with national development priorities and environmental and social safeguards. This has proven particularly important for forestry activities where DNAs have a key role in ensuring balance between private investment and complex local landholding situations (Boyd et al, 2009).

In addition, a specific set of capacities relates to domestic public finance that flows through the national budget. Simply adding greater *quantity* of climate change-tagged finance within national budgets does not by default mean greater *quality* of spending on climate change. This is also the case for international finance that flows “on-budget” as direct budget support. Capacity is needed within the public financial management system to deliver resources to implementing partners, whether line ministries and government agencies or external contractors, and to ensure that resources are spent on effective and sustainable mitigation and adaptation measures.

## 3.2 | Local Supply of Expertise and Skills

Both implementation and execution systems rely on a pool of local skills that can be contracted to undertake various elements of climate projects and programmes—from background analyses to installation and maintenance of technologies and project management skills. Capacity development is often needed to develop this endogenous talent pool and grow a green economy at the local scale. Examples of such activities include:

- Vocational training of professionals such as architects, engineers, contractors, builders, clean energy installers as well as sales personnel
- Individual guidance related to project design choices such as technology selection or choice of suppliers and contractors
- Leadership programmes

One way to strengthen capacity in this area is to utilise local centres of expertise, focussed on particular sectors or technologies. For example, the 2004 Energy Efficiency World Wide Review showed that of the 60 countries reviewed, 14 countries in Europe have introduced local centres, four in Asia (Australia, China, the Philippines and Viet Nam), three in Africa (Kenya, Mali and Morocco) and one in the Middle East (Islamic Republic of Iran).

### 3.3 Project Coordination Systems

With multiple sources of finance, often in multiple forms, entering the national sphere both within and outside the national budget at both the macro but also micro level, coordination systems at the project-level are essential. Such mechanisms should be linked with national low-emission and climate-resilient development strategies to ensure coherence between planning and implementation.

Furthermore, coordination systems at the project level are important to ensure that implementing and executing entities are programming resources in ways that are pro-poor, gender sensitive, and respect local rights. Such coordination systems could be a multi-stakeholder steering committee, rather than a national level body; what is essential is that systems are in place to ensure marginalised groups are included within the delivery of climate finance. Support is essential for the development of these systems and often requires dedicated technical assistance resources to be built into project budgets. Notable examples of this are projects in the area of REDD+, which involve a large number of stakeholders at the project scale (Box 3).

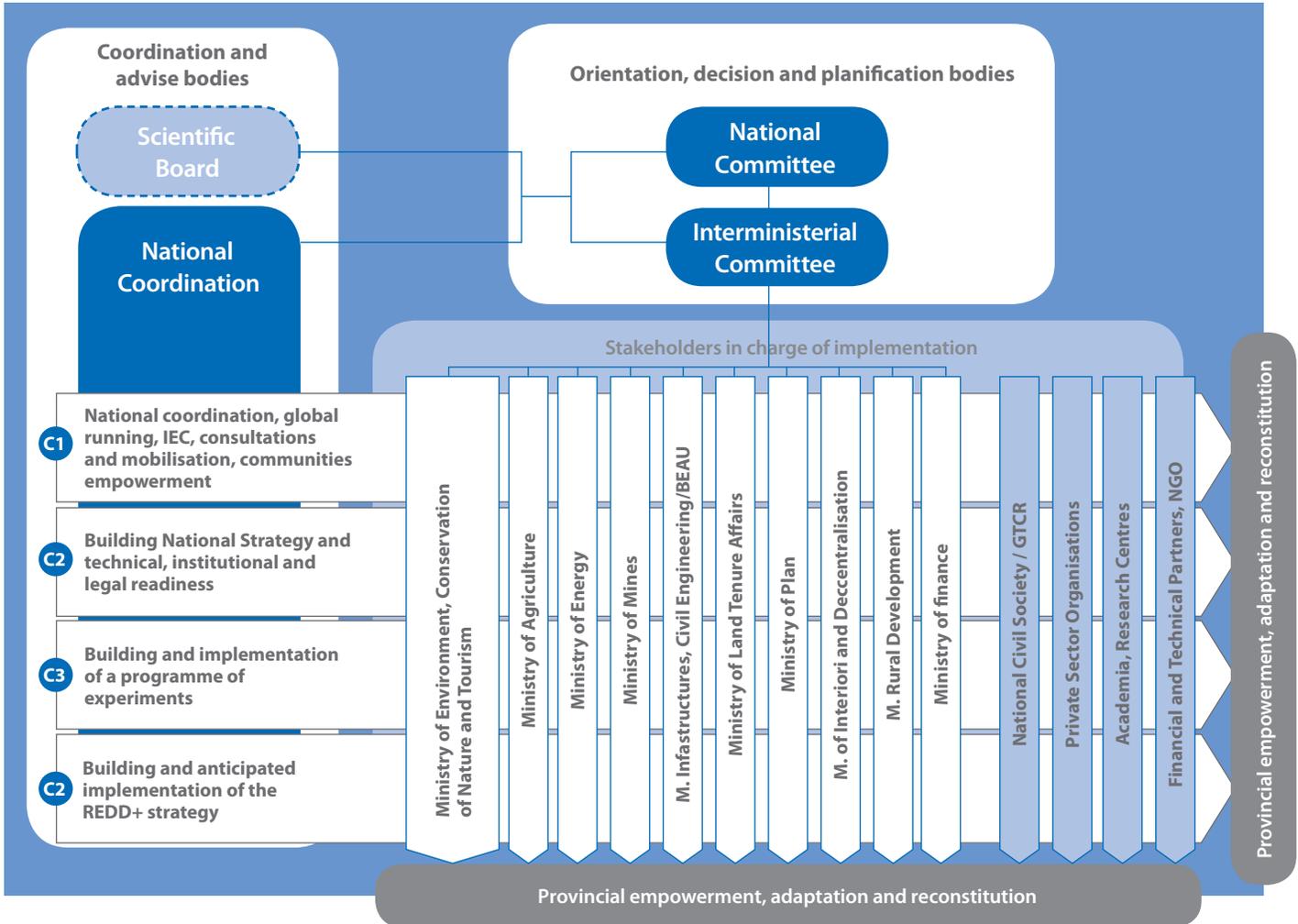
#### **Box 3: Multi-stakeholder coordination systems at the project level for REDD+ in the Democratic Republic of Congo**

The National Readiness Plan for REDD+ in the Democratic Republic of Congo (DRC), supported by both the UN-REDD Programme and the World Bank hosted Forest Carbon Partnership Facility, presents a clear example of how multi-stakeholder engagement has been successfully mainstreamed into project coordination structures (Figure 7). A National Decree to support REDD+ in DRC has been approved by the Council of Ministers and officially establishes coordination bodies that oversee REDD+ in the country. This includes provisions for a National Committee: a decision making body that oversees, amongst other things, monitoring and evaluation of project implementation and the management and redistribution of subsidies and resources deriving from the REDD+ process.

The Decree also mandates that one third of the members of the National Committee should be representatives of civil society and indigenous peoples organisations. The National Committee accordingly comprises four members of civil society, six members of Government (including the Ministry for Decentralisation), a member of the Federation of Wood Industries (i.e., private sector) and a member from the National Institute for Agronomic Studies and Research (i.e., research sector), supporting the full and effective participation of non-governmental actors. Project coordination structures are supported by dedicated funding to ensure the functioning of national REDD+ institutions, and a funded consultation and participation plan to ensure the broader inclusion of local communities beyond the preserve of national level structures.

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Project coordination  
structures are supported  
by dedicated funding.  
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**Figure 7: Coordination structures governing the REDD+ preparation process in the DRC**  
(Source: DRC, 2010)



# 4 Monitoring, Reporting, and Verification Capacities

The final component of climate finance readiness is the capacity to monitor, report, and verify (MRV) financial flows, expenditures, and results. Within the context of the UNFCCC negotiations, MRV of financial flows and of results on the ground are treated as distinct issues. On one hand there are discussions about the MRV of financial flows; on the other there are discussion about the MRV of mitigation actions themselves, such as GHG reductions and development benefits. However, at the national level there are significant overlaps in the capacities required to MRV finance expenditures and results, especially when related to payment-for-results. Such systems require an explicit attribution of GHG reductions (“results”) in order to access financial flows (“payments”) and so necessitate integrated national reporting mechanisms. Thus a flexible approach is needed to building MRV systems while maintaining a consistent level of transparency and accuracy.

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As data on financial flows is collected planning decisions on needs, sources, and channels can be altered.

## 4.1 MRV Systems

MRV systems are needed to understand what financial resources are flowing where, for what purpose and how effectively they abate GHG emissions and/or build resilience. Increasingly financial contributors require reporting of this nature; in addition, data is needed to ensure that at national, regional, and global levels actions are collectively adding up to what is required by climate science. Furthermore, monitoring national financial flows is an important part of the financial planning component of climate finance readiness; as data on financial flows is collected planning decisions on needs, sources, and channels can be altered creating a dynamic planning process that is resilient to a changing climate.

Capacities to undertake this work include the ability to monitor financial expenditures on climate change activities that are both flowing within and outside the national budget, including carbon finance flows. In addition, verification systems are needed to calculate results and determine the impact of finance on the climate, poverty reduction, and national development priorities. National Communications to the UNFCCC have been used as a platform through which to communicate both financial flows and results of financed interventions. The preparation of these communications requires strong financial tracking systems. Such systems must not be limited to international public finance but also cover domestic expenditure and private investments. This requires a mix of tools and coordination systems. For example, Climate Public Expenditure and Institutional Reviews (CPEIRs) referred to earlier sections provide a methodology and system for identifying climate change expenditures within domestic budgets.

Additionally, a critical component of MRV of finance is ensuring that resources have been used in line with requirements from both contributors and with national social and economic development strategies—requirements that are not always congruent. Specifically this means national systems are in place to verify that finance was implemented and executed in line with social and environmental safeguards, as well as other social policies within national plans such as gender considerations. While this goes beyond the strict monitoring of financial flows, it is critical that systems to monitor financial expenditures are also able to identify the development impacts of those resources, so as to feedback lessons to the planning processes. Within the [UNDP Low Emission Capacity Building Programme](#) 30 countries have requested support to build or strengthen MRV systems.

## 4.2 | Performance-Based Payments

In addition to the pure MRV of finance, there is an increasing need to be able to MRV finance and results at the national level in an integrated manner. An increasing volume of public climate finance for mitigation—known as performance-based payments—are disbursed to recipient countries post facto, based on results. This is particularly the case for bilateral climate finance, where donor and recipient countries sign advance purchase agreements for mitigation activities where a fixed \$/tCO<sub>2</sub>e price is agreed at the outset of the project and delivered once results are proven. Similarly, an increasing volume of contingent grant mechanisms are available, where repayment of finance is linked to results achieved.

Capacity to conduct GHG emission inventories will constitute the backbone of any MRV system for these kinds of climate finance options. These systems must be fully integrated with financial tracking to ensure that recipient countries are able to accurately cost actions being undertaken disaggregated by funding source. Building national MRV systems is complex and requires both a breadth of actors involved in delivering finance and activities as well as a depth of technical skills among government agencies. A key element of readiness assistance in this area is the development of methodologies that can be applied at national and local levels.

# Conclusion

**Table 1: The Components of Climate Finance Readiness and associated capacities required**

	Financial Planning	Accessing Finance	Delivering Finance	Monitor, Report & Verify
Levels of national capacities	<ul style="list-style-type: none"> <li>Assess needs and priorities</li> <li>Identify sources of financing</li> </ul>	<ul style="list-style-type: none"> <li>Programming finance</li> <li>Direct access to Finance</li> <li>Blend and combine finance</li> <li>Catalyze private finance</li> </ul>	<ul style="list-style-type: none"> <li>Project, programme, sector-wide implementation and execution</li> <li>Local supply of expertise and skills</li> <li>Coordination systems</li> </ul>	<ul style="list-style-type: none"> <li>Monitor, report, and verify flows</li> <li>Performance-based payments</li> </ul>
Policy Level	Formulation of green, low-emission and climate-resilient development strategies and implementation plan, including costing	Sectoral policy incentives and regulations to catalyse private investments		
Institutional Level	Effective national multi-stakeholder coordination mechanisms	Implementing entities with fiduciary systems and safeguards; national banking institutions	Implementing & executing entities with fiduciary systems and safeguards; project-level multi-stakeholder mechanisms; climate-aware public financial management systems	Centralised unit to compile and quality control reporting; communications unit
Individual/skills level	Baseline assessments; I&FF assessments; expenditure reviews; costs-benefit analyses	Financial management (combining/ blending) skills; project/ programme formulation skills; expertise in private sector pricing incentives	Specialist technology skills (e.g. wind energy technologies installation); project management skills	Expenditure review methodologies; GHG inventory skills; independent verification skills

This paper has provided an overview of the broad components of what it means to be ready for climate finance, with different capacities, tools, and mechanisms that may be needed to get there. As noted previously, this represents a framework through which to view both existing national demand and current activities from a wide breadth of countries, rather than a prescriptive set of steps that must be completed from scratch by all. Many of these capacities may already be in place in some countries, while others may require a greater level of assistance to build or strengthen national systems in order to effectively use climate finance. Moreover, the demand for support and nature of requests may well evolve over time, necessitating a flexible and country-driven approach.

Each of the four components of climate finance readiness presented requires a combination of capacities—including policy tools, institutional capacities and technical skills—in order to function effectively. **Table 1** presents a typology of these capacities, drawing on the discussion and examples from the previous sections of this paper. The table illustrates the breadth and depth of what is required to be climate finance ready in terms of the four-component framework. Moreover, it assists in understanding the varied capacity development and technical assistance services required to make a country ready to take advantage of climate finance, and it is thus a basis from which future readiness provisions can be designed.

A strong focus on building and strengthening these policy tools, institutional capacities, and technical skills at the national and local levels can improve the ability of developing countries to plan for, access, deliver, and monitor and report on climate finance. This leads to more effective and catalytic use of climate finance at the national level. With these capacities developing countries are better placed to overcome the key challenges outlined in the introduction of this paper—that is, to absorb finance, integrate it with overall development priorities and process and use it catalytically to generate transformations at the scale required to address climate change.





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