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# A Practical Guide to Understanding and Establishing Climate Finance Units

Executive Summary

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Developing countries face multiple challenges to accessing climate finance, which hinders their ability to effectively deliver on their climate and development goals. Established in 2021 at COP26 to respond to concerns that the mechanisms for accessing climate finance are often slow, complex, resource intensive, and highly projectized, the Taskforce on Access to Climate Finance (Taskforce) is a collaboration between developing countries and climate finance providers. The Taskforce supports country-led trials in seven developing countries to identify and implement solutions to improve their access to climate finance and advance broader evidence-based policy and institutional reforms.

The Policy Brief: A Practical Guide to Understanding and Establishing Climate Finance Units, developed by the Center for Access to Climate Finance draws from experiences in the NDC Partnership's Member Countries to provide actionable insights into how to establish and effectively implement Climate Finance Units (CFUs) within governments and set up institutional frameworks that accelerate the access and management of climate finance while ensuring alignment with national goals.

The development of this Policy Brief involved a detailed literature review; mapping and consulting more than a dozen key stakeholders from targeted countries and organizations, including private sector representatives; and conducting thematic and comparative analyses of the case studies of Bangladesh, Belize, Fiji, Kenya, Mozambique, Rwanda and Uganda.

## Key findings:

- Countries need finance to implement their Nationally Determined Contributions (NDCs), National Adaptation Plans (NAPs), and Long-Term Low Emission Development Strategies (LT-LEDS), but without dedicated and skilled units to plan, access, coordinate, and manage climate finance, they risk experiencing inefficient financial flows, duplicative efforts, and a lack of alignment with national climate and development priorities.
- CFUs enable countries to mainstream climate into core national development and financing instruments, identify and prioritize climate investments, develop investment-ready projects, and leverage opportunities. CFUs use attractive and innovative financing vehicles and create enabling environments for private sector participation.
- CFUs are most often housed within ministries of finance (MoFs) due to the unique status of these ministries in relation to the resourcing of development initiatives, the articulation of national priorities, and cross-sectoral coordination. However, depending on their scope, mandate, and authority within the governance context of the country, CFUs can also be placed in other ministries, the presidential or prime minister's office, or even be established as a standalone unit.

- The most common functions performed by CFUs include mobilizing and coordinating climate finance in alignment with national goals, mainstreaming climate considerations across national development and economic architecture, preparing and appraising projects, embedding gender equality and social inclusion in climate finance processes and supporting capacity-building and institutional strengthening.
- The composition and staffing of CFUs are critical to their ability to perform their mandates effectively. A strong and diverse team, including individuals with different backgrounds, experiences, and perspectives, is crucial for a successful CFU.

## Main challenges:

Despite their potential, CFUs face several challenges that can hinder their effectiveness:

- CFUs may not be staffed appropriately, or the existing teams may lack the specific technical expertise to navigate climate or finance matters, to develop projects, to track, and to report cross-sectoral financing. Staffing gaps are often addressed by bringing in external advisors. But this reliance on external expertise may not be sustainable in the long term, underscoring the need for capacity building.
- CFUs and other government agencies may have multifaceted and conflicting mandates. A range of government ministries and agencies as well as non-state actors might be responsible for various climate interventions, which can result in duplication of resources and efforts and can impede the efficient access and deployment of climate finance.
- Most CFUs focus on attracting international climate finance from the public sector, thus limiting their ability to engage in more comprehensive interventions and to create an enabling environment that would attract private sector participation and investments.
- CFUs must navigate the complexity of international and national climate finance mechanisms, which are often slow, fragmented, and highly bureaucratic and can delay access to climate finance.

## Key recommendations:

- The scope and mandate of a CFU should be carefully defined to ensure that it does not duplicate the work of other governmental institutions and that it is enabled to steer effective communication and collaboration with ministerial and external partners.
- Capacity building and related support for CFUs are essential to enable them to fulfil their mandate to, for example, implement effective coordination and engagement with the public and private sector stakeholders to mobilize investments and finance—including via blended finance—for countries' NDC priorities.
- Embedding liaisons with technical expertise from key sectors within the CFU can ensure that the CFU's work is aligned with sectoral priorities and that the resources and responsibilities are allocated efficiently and correspondingly. The early integration of sectoral and ministerial representatives into the CFU as staff or as secondees enhances its legitimacy within key stakeholder groups and can lead to better staff and institutional-capacity retention.

- Financial sustainability is a key concern for CFUs, as many rely on short-term external funding during their initial phases. Developing a transition plan can ensure that the CFU can continue to operate without dependence on external experts and external financing in the medium and long term.
- Integrating CFUs into national governance structures and securing consistent political and financial backing helps long-term sustainability. Political buy-in can enable the CFU to secure resources for its own operations and for the coordination of climate finance across ministries. CFUs that have a mandate derived from or report directly to top-level decision-makers, at the presidential or prime ministerial level, are more likely to receive the attention, support, and resourcing necessary to effectively realize their objectives and functions.
- Besides governmental support, CFUs should explore cost recovery models to diversify their funding sources and ensure their financial stability. This can include opportunities from the private sector and innovative financing instruments.
- CFUs must also strengthen their institutional capacities to withstand political changes or fluctuations in external support. This can be achieved by establishing transparent governance frameworks, which can clarify crucial operational processes (such as key priorities for the entity and staffing plans and functions) thereby ensuring their institutionalization and easy adoption by new staff, while building confidence with external partners.

**Key factors to be considered for the establishment of a CFU are summarized in the step-by-step guide annexed to the Policy Brief.**

### Key rationale for CFUs

- **Centralize efforts** to access, coordinate and manage climate finance
- **Enhance** national financial and budgetary **processes**
- **Enhance coordination** across ministries, sectors and stakeholders
- **Bring specialized capacity** to oversee engagement with a variety of funding sources
- **Better navigate** the intricacies of the climate finance landscape

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*This project was funded with UK International Development from the UK government.*

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