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Allocating International Loss and Damage Finance through National Climate Funds: Prospects for African LDCs

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Summary

The new loss and damage funding framework under the United Nations Framework Convention on Climate Change (UNFCCC) emphasises the importance of channelling support through national systems and mechanisms. This approach could prove particularly challenging for African least developed countries (LDCs), which have been prioritised for support. These countries remain confronted with major challenges to access and utilise international climate finance, especially through direct access.

National climate funds (NCFs) can have a potential role in delivering international loss and damage finance to African LDCs that is in line with their national priorities. NCFs can be defined as entities mandated to finance the implementation of national climate strategies and to manage and/or coordinate domestic and international sources of climate finance. NCFs can enhance the institutional capacities of countries by supporting the development of loss and damage strategies, facilitating access to international funding, aligning resource allocation with local priorities, and ensuring the effective tracking of loss and damage finance.

This Policy Brief explores the role of NCFs in the evolving global loss and damage finance architecture with a focus on African LDCs. We examine the design features of five NCFs against criteria for assessing their relevance to support measures that address loss and damage. The studied NCFs are:

the Benin National Fund for Environment and Climate, Ethiopia's Climate-Resilient Green Economy Facility, Burkina Faso's Intervention Fund for the Environment, the Mali Climate Fund and the Rwanda Green Climate Fund.

Key policy messages

- Despite that only a limited number of African LDCs have established NCFs, these demonstrate their potential to channel loss and damage funding, especially for environmental rehabilitation and climate-resilient recovery efforts. Particular strengths relate to their role in priority sectors for climate change adaptation and in relation to biodiversity loss, drought, land degradation and desertification.
- Existing NCFs in African LDCs have inadequate mandates and capacities to manage the complex funding needed for loss and damage. An emerging issue is their presently limited role in linking climate and disaster risk finance.
- The NCFs of African LDCs can be instrumental to promote coherence and complementarity with other funding sources at the national level. Countries must establish comprehensive legislative, policy and regulatory frameworks to define the institutional roles of NCFs in loss and damage response, supported by international funding to strengthen their institutional capacities.

Introduction

The world is facing a deepening climate crisis, whereas *unavoided* and *unavoidable* adverse impacts of climate change are already undermining sustainable development gains in many regions. In global climate policy, such observed or projected impacts stemming from slow-onset and extreme weather events in developing countries are referred to as “loss and damage”. This issue has gained increasing prominence within the climate policy space. Discussions on loss and damage finance under the UNFCCC can be traced back to the early 1990s, when Vanuatu proposed the creation of an international insurance mechanism to address the impacts of sea level rise. However, institutional arrangements for loss and damage under the UNFCCC were not established until 2013 with the creation of the Warsaw International Mechanism for Loss and Damage. The Paris Agreement, adopted in 2015, includes a stand-alone article on averting, minimising and addressing loss and damage (Article 8), though it does not include provisions for finance. The issue of finance was formally addressed only in 2022 at the 27th Conference of the Parties (COP27) to the UNFCCC in Sharm el-Sheikh, with decisions having been made to establish new funding arrangements and a Fund for Responding to Loss and Damage (FRLD).

The new loss and damage funding framework postulates the importance of channelling support through national systems “where appropriate and available” as a means of promoting country ownership (UNFCCC, 2023a). Although research interest in the topic of loss and damage finance has grown significantly in recent years, comparatively less attention has been given to national mechanisms for accessing and utilising international funding.

This policy brief draws attention to the potentials and limitations of channelling international loss and damage finance through existing national mechanisms, specifically national climate funds. It focuses on these funds in LDCs in Africa. Along with small island developing states, LDCs have

been prioritised under the framework of the FRLD with an envisioned “minimum percentage allocation floor” (UNFCCC, 2023a). The majority of LDCs are located in Africa – a region recognised as particularly vulnerable in the context of climate change adaptation support and finance under the UNFCCC and its Financial Mechanism.

The analysis builds upon data for five NCFs collected from various sources through desk research. The existing climate funds were identified through a review of the national climate strategies and plans of 33 African LDCs (as of April 2023). These are: Benin's National Fund for Environment and Climate (Fonds National pour l'Environnement et le Climat – FNEC); Ethiopia's Climate-Resilient Green Economy (CRGE) Facility; the Intervention Fund for the Environment (Fonds d'Intervention pour l'Environnement – FIE) in Burkina Faso; the Mali Climate Fund; and the Rwanda Green Climate Fund (FONERWA).

How can NCFs facilitate international loss and damage funding?

NCFs blend international, domestic, public and private sources of climate finance to implement national climate strategies. Although these have long focused on mitigation and adaptation measures, loss and damage is an emergent consideration. Therefore, NCFs can have a role in delivering international loss and damage finance to developing countries that is in line with their national priorities. Some countries have led the way in establishing loss and damage-related funds, such as Bangladesh's Climate Bridge Fund and Fiji's Climate Relocation of Communities Trust Fund. However, less attention has been given to the role of national climate and environmental funds with broader mandates.

NCFs can strengthen the institutional capacities of countries to access, mobilise, manage, coordinate and track climate finance (Bhandary, 2022). They can function as direct access entities, aligning more closely with local priorities and providing a platform for inclusive decision-making (Bhandary,

2022). This is important because direct access and inclusive approaches to the allocation of loss and damage finance – from global to local levels – have been pivotal in the negotiations surrounding the Governing Instrument of the FRLD. In addition, NCFs can assist in the preparation and resource mobilisation of climate investment strategies (Gomez-Echeverri, 2022; Munyazikwiye & Michaelowa, 2022). Therefore, they can be leveraged to support the development of loss and damage needs assessments, response plans, and funding strategies and proposals. Moreover, the monitoring and evaluation systems of NCFs – if adapted with considerations for loss and damage – can play an important role in ensuring the transparent use of loss and damage funds.

Climate funds in African LDCs

African states are facing increases in the frequency and intensity of extreme precipitation incidents and droughts, desertification, heat stress, sea level rise, coastal flooding and degradation, marine heatwaves, and ocean acidification (Trisos et al., 2022). The observed as well as projected loss and damage associated with these physical impacts of climate change are far-reaching: deepening food and water insecurity; increased risk of conflicts in drought-prone regions; displacement and migration; loss of livelihoods and jobs; delayed and poorer education progress; loss of local biodiversity; and impacts on physical and mental health, to name some (Trisos et al., 2022). However, despite being a priority group for climate funding under the UNFCCC, African LDCs have been confronted with major challenges when accessing and utilising international climate finance. These relate to, among other reasons, exposure to currency volatility, bureaucratic complexities and high transaction costs; weak regulatory and policy frameworks; lack of technical capacity, transparency and accountability mechanisms; and limitations to in-country coordination for climate financing. Countries with weak governance and fragile state structures have particularly struggled to secure climate funding, including also from the UNFCCC's climate funds.

To date, only a limited number of African LDCs have established NCFs (discussed below). However, in their national climate communications, several countries have stated that they are exploring the option – or are in the process – of establishing NCFs (e.g. Chad, Malawi, Sierra Leone, Zambia). Moreover, some countries have sector-specific funding structures such as water funds (Chad, Guinea-Bissau) and environmental funds (Angola, Chad, Guinea, Guinea-Bissau, Togo) that could be relevant for addressing sectoral-adverse impacts of climate change.

The identified NCFs of Benin, Burkina Faso, Ethiopia, Mali and Rwanda were established between 2003 and 2013 (Table 1). Similar to patterns across other non-OECD countries, some of the funds have broad environmental mandates and/or were established initially as environmental funds and later designated to support climate action (Bhandary, 2022). For example, Benin's FNEC was first created as a national fund to combat desertification. Burkina Faso's FIE addresses broad environmental concerns such as plastic pollution and industrial disasters along with climate change adaptation. The climate funds of Mali and Ethiopia, which have been set as Multi-Partner Trust Funds, have an explicit focus on climate change. Two of the funds (Benin's FNEC and Rwanda's FONERWA) have legal independence – a feature that may enhance the ability of national funds to persist (Bhandary, 2022). Sources of finance include multilateral and bilateral support, as well as domestic sources such as budgetary allocations and environmental taxes. According to the figures collected for this paper, Ethiopia and Rwanda have the largest climate funds among the five countries considered in the analysis. However, it should be noted that there is limited data available publicly for the volume of mobilised and utilised climate finance for some of the funds.

Benin, Ethiopia and Rwanda have received multilateral funding from the Green Climate Fund (GCF), the Adaptation Fund (AF) and/or the Global Environment Facility (GEF) and GEF-managed funds such as the Least Developed Countries

Fund (LDCF) through their NCFs. Three of the five NCFs – including those of Benin, Burkina Faso and Ethiopia – hold accreditation with the GCF, indicating established direct access capacities that can facilitate access to the FRLD. Compared to

the other four funds, the Mali Climate Fund has played a very limited role in accessing, mobilising, and channelling bilateral and multilateral climate finance despite being established with such a broad mandate.

Table 1: National climate funds: general information

National climate fund (year est.)	Managing entity	Size (USD)**
Benin's National Fund for Environment and Climate (FNEC) (2003)*	Ministry of Living Environment and Sustainable Development	n/a (approx. USD 9 million from GCF projects, USD 0.94 million from International Climate Initiative (IKI) Small Grants, etc.)
Ethiopia's Climate-Resilient Green Economy (CRGE) Facility (2011)	Ministry of Finance and Economic Development; Environmental Protection Authority; UNDP Multi-Partner Trust Fund Office (MPTF)	USD 193 million mobilised
Intervention Fund for the Environment (FIE), Burkina Faso (2013)	Ministry of Environment and Ministry of Finance	n/a (call for projects estimated at more than USD 6 million)
Mali Climate Fund (2012)	MPTF co-managed by the Government of Mali (Ministry of Environment and Sanitation) and the United Nations Development Programme (UNDP)	USD 28 million committed (last commitment in 2019)
Rwanda's Green Climate Fund (FONERWA) (2005)*	Ministry of Environment	USD 247 million mobilised

* The Fund has legal autonomy / ** UNFCCC (2024); Fonds d'Intervention pour l'Environnement (FIE) (s.a.); UNDP Multi-Partner Trust Fund Office (s.a.); FONERWA (s.a.)

Source: Authors

Key functions and design features of NCFs in African LDCs

In this section, we examine the key functions and design features of the five NCFs in relation to the core provisions outlined in the Governing Instrument of the FRLD (Table 2). The FRLD is dedicated to assisting climate-vulnerable developing countries in addressing both economic and non-economic loss and damage caused by climate change. It is further mandated to promote coherence and complementarity with other funding mechanisms. Therefore, the core provisions of its Governing Instrument can provide a basis for assessing the suitability of the selected NCFs to channel international loss and damage funding (summarised in Table 2).

Role in promoting coherence and complementarity in access and utilisation of climate finance

Most of the studied funds support, or are envisioned to support, multiple national environmental policies and manage diverse sources of environmental funding. For example, Benin's FNEC and Ethiopia's CRGE Facility have been explicitly linked to national commitments under the Convention on Biological Diversity (CBD) in policy documents. Burkina Faso's FIE has integrated a Forest Fund, while FONERWA foresees the establishment of a Biodiversity Conservation Fund. Therefore, NCFs, by design, have the potential to enhance coordination between climate and environmental finance at the national level. In terms of disaster risk finance, however, the studied funds currently have limited roles and mandates (described in the next section).

Table 2: Criteria for determining the relevance of NCFs

Criteria	Key functions and design features in line with relevant provisions in the Governing Instrument of the FRLD
Enhancing coherence and complementarity	<ul style="list-style-type: none"> • Promotes coherence and complementarity with other funding sources at the national level • Promotes environmental, social, economic and development co-benefits
Scope of support with relevance to loss and damage	<ul style="list-style-type: none"> • Strengthening institutional capacities: climate information and data; support for developing project proposals and response plans • Responding to extreme weather events and slow-onset events and related economic and non-economic loss and damage: response to climate-related emergencies; rehabilitation; climate-resilient recovery and reconstruction; human mobility (displacement, migration, relocation)
Access and eligibility enabling local-level impact	<ul style="list-style-type: none"> • Rapid disbursement modalities • Allocation of funds at sub-national level • Access to small grants by communities and vulnerable groups • Programme-based support for long-term rehabilitation and recovery, and ongoing slow-onset impacts
Inclusive governance and safeguards	<ul style="list-style-type: none"> • Applies inclusive (involvement of relevant stakeholders such as women, vulnerable communities and Indigenous Peoples) and gender-responsive approaches and environmental and social safeguard policies

Source: Authors, based on UNFCCC (2023a, 2023b)

Scope of current support with relevance to loss and damage

To date, the scope (and scale) of funding provided by most funds has been limited, with priority sectors being defined in Nationally Determined Contributions (NDCs) and National Adaptation Plans (NAPs). Many of these are relevant to addressing loss and damage. The focus on building resilience in agriculture for food security and improved livelihoods in response to extreme climate/weather events (droughts, floods, landslides) and slow-onset events (land and ecosystem degradation) dominates the interventions supported by the studied funds. Most projects relate to the conservation, rehabilitation and management of natural resources (land, water, forests); adapting agricultural practices; and livelihood diversification. Some funds support capacity-building activities such as climate services, environmental education and training. A few funds also focus on health initiatives, particularly access to drinking water and sanitation. Through a GCF-funded project, Rwanda's FONERWA invests in

climate-resilient infrastructure and social housing for households living in high-risk zones. Benin's FNEC and Burkina Faso's FIE have thematic windows for financing emergency actions in response to natural or industrial disasters. The Mali Climate Fund supports projects that adopt a conflict-sensitive approach to natural resource use, for example in pastoral areas. In sum, these highlight the relevance of the funds in addressing ongoing climate-induced environmental degradation in rural and agriculture-dependent regions, rehabilitating sites after climate disasters and supporting livelihoods affected by the impacts of climate change.

Access and eligibility

The studied funds offer grants to local stakeholders. Project-based grant funding – the core instrument of the funds for supporting adaptation – is primarily accessed through calls for proposals. These calls vary in frequency and thematic focus based on strategic priorities and available budgets. Some of the funds have different

thematic windows. In the case of FONERWA, civil society organisations (CSOs) and local actors can apply for support through the Rwanda Sub-national Adaptation Fund Enhanced Direct Access Project (funded by the AF). Another access modality of FONERWA is Intego – Rwanda’s NDC Facility, which funds public institutions to implement projects related to landscape restoration and rehabilitation, forestry and climate-resilient infrastructure. Some of the funds can operate through sub-national branches (Burkina Faso’s FIE and FONERWA). These can facilitate access to funding for local organisations and sub-national coordination. A particular limitation of all funds is the lack of programme-based funding due to capacity constraints. This restricts their potential for programme-based support for long-term rehabilitation, recovery and addressing ongoing slow-onset impacts. For example, the FONERWA Strategic Plan (2019-2024) aims to transition from a demand-driven to a strategic programmatic approach for the public sector to enable larger projects. However, achieving this goal requires long-term, predictable sources of funding.

Eligibility requirements for funding vary across the five funds. In some cases, eligibility is determined for each call for project proposals (e.g. Benin’s FNEC). Generally, FONERWA, Benin’s FNEC and Burkina Faso’s FIE can be accessed by state actors (sectoral ministries, local governments) and non-state actors (e.g. small businesses, non-government organisations, research and training organisations). Ethiopia’s CRGE Facility is accessible to national and local government organisations. The Mali Climate Fund differs from the other funds. It has two funding windows – one for national entities and one for international organisations. To date, the fund has only operated through the window of international organisations, which provides funding for projects technically supported by participating UN organisations.

Inclusive governance and safeguards

The five NCFs have diverse governance arrangements and varying levels of inclusiveness in decision-making. Governance structures are, for

example, Board of Directors, advisory boards, councils and committees (such as executive, steering and technical committees). Through these structures, representatives from CSOs and other non-government organisations (e.g. private sector, academia) can review project proposals and provide recommendations (Burkina Faso’s FIE, Ethiopia’s CRGE Facility) or have a voice in decision-making (Benin’s FNEC, the Mali Climate Fund).

In addition, all of the studied funds have in place policies, standards or measures related to gender as well as environmental and social safeguards. For instance, FONERWA has an environmental and social compliance screening tool, while the Mali Climate Fund has integrated gender equality and environmental and social safeguards into the project selection criteria. Other funds are accredited by the GCF and some with the AF, hence adhering to the gender and safeguard standards of these multilateral funds.

Policy implications

Most of the studied NCFs demonstrate the potential to channel international loss and damage funding, particularly for environmental rehabilitation and climate-resilient recovery efforts. This is particularly pertinent for integrated responses in crucial sectors of climate change adaptation, such as agriculture and food security, water resources management and human settlements. These funds can play a significant role in addressing loss and damage that is related to biodiversity loss, drought, land degradation and desertification. Improved synergies – especially in agriculture and forestry, and in the context of land degradation – could help close adaptation and loss and damage funding gaps. Opportunities include drought early warning and preparedness systems, the implementation of national biodiversity, land degradation neutrality and drought plans, and financial instruments such as insurance.

Existing NCFs in African LDCs have limited mandates and capacities to manage the complex funding needed to address loss and

damage. An emerging issue from the analysis presented in this Policy Brief is their currently limited role in linking climate and disaster risk finance. This mirrors the overall lack of financial coherence between climate change adaptation and disaster risk reduction in the study region (United Nations Office for Disaster Risk Reduction, 2020). Essentially, countries would need to develop legislation, policy and regulatory frameworks that clearly outline institutional arrangements and specific roles and responsibilities of NCFs across sectors and ministries involved in loss and damage response. These frameworks should link funds with broader national and international climate, disaster and humanitarian funding platforms. However, broadened mandates and objectives can overburden these institutions as they struggle to secure adequate funding and mobilise resources to remain operational (Bhandary, 2022; Gomez-Echeverri, 2022). Dedicated funding, including also from the FRLD, would be important to build and sustain the institutional capacities of NCFs as prospective national mechanisms for channelling loss and damage finance. For instance, the Governing Instrument of the FRLD includes a provision indicating that it “may” support the establishment of national loss and damage finance systems, among other activities.

The NCFs of African LDCs can be instrumental for promoting coherence and complementarity with other loss and damage funding sources at the national level. The evolving loss and damage funding regime under the UNFCCC is intended to provide a platform for strengthening coherence across relevant “international financial, climate,

humanitarian, disaster risk reduction and development” finance modalities (UNFCCC, 2023a). Furthermore, climate-induced biodiversity loss, drought, land degradation and desertification exemplify areas in need of coordination between the policy and finance frameworks of the UNFCCC and the other two Rio Conventions – the CBD and the United Nations Convention to Combat Desertification (UNCCD) (Aleksandrova et al., 2024). One of the pillars of the frameworks for complementarity and coherence of the FRLD, GEF and GCF is the promotion of coherence in programming at the national level. The GCF has been explicitly requested to continue supporting activities related to averting, minimising and addressing loss and damage in line with its funding frameworks and structures, and to “ensure coordination and complementarity in the context of the funding arrangements” with the FRLD (UNFCCC, 2023c). The GEF has been requested to consider activities relevant to loss and damage consistent with its established mandates (UNFCCC, 2023d). The studied NCFs (except for the Mali Climate Fund) receive support from these multilateral funds. Hence, they can help overcome fragmentation and establish linkages between adaptation and emerging loss and damage funding modalities.

Important questions for further exploration are the effectiveness of the five NCFs in terms of climate finance coordination (horizontal and vertical), equity and justice in the allocation of finance to the local levels, and potential synergies with national disaster risk finance frameworks.

Table 3: Key characteristics and design features of the climate funds of Benin, Burkina Faso, Ethiopia, Mali and Rwanda

Climate fund	Enhancing coherence and enabling complementarity	Scope of support relevant to loss and damage	Access and eligibility for local-level impact	Inclusive governance
Benin's National Fund for Environment and Climate (FNEC)	<ul style="list-style-type: none"> Management of funding for various climate and environmental priorities Explicit link to the CBD and UNCCD in policy documents in relation to multilateral funding Accreditation with the GCF and approved direct access project (adaptation); accreditation with the AF; received funding from the GEF/GEF-managed funds 	Agriculture, water, land management, forestry, biodiversity, climate-resilient infrastructure and urban development, health and sanitation; strengthening capacities of national partners	<ul style="list-style-type: none"> Access: mostly though calls for project proposals (frequency varies; biannual calls since 2020); direct funding following disaster event (in exceptional cases) Eligibility: depending on the call, e.g. national CSOs, producer groups or associations working in various sectors (e.g. agriculture, forestry and water); local authorities; universities 	<ul style="list-style-type: none"> One representative of CSOs on the Board of Directors
Burkina Faso's Intervention Fund for the Environment (FIE)	<ul style="list-style-type: none"> Supports and manages funding across various environmental spheres (land degradation, conservation of biodiversity, natural resource management, e.g. through the integrated Forest Fund) as well as the implementation of the National Adaptation Policy Recent GCF accreditation (no direct access funding to date) 	Funded projects include, e.g., support to women's groups, land restoration through agroforestry, ecosystem-based approaches to vulnerability reduction, natural resource management, environmental education, trainings/capacity-building of target groups, diversification of production as adaptation strategy	<ul style="list-style-type: none"> Access: mostly calls for project proposals (grant support). Other relevant mechanisms e.g.: (1) examination of claims for compensation to local communities in the case of damage caused by wild animals; (2) Thematic fund for response to natural and industrial disasters Eligibility: local authorities, private operators and profit-making or economic groups, non-profit organisations (associations, non-government organisations), public or private research institutions and training centres 	<ul style="list-style-type: none"> Local authorities and non-state actors can participate at meetings as observers; the Selection Committee – mandated to review proposals and provide recommendations – is composed of representatives from the public and private sectors

Ethiopia's Climate-Resilient Green Economy (CRGE) Facility	<ul style="list-style-type: none"> • Core coordinating and delivery entity of the Climate-Resilient Green Economy (CRGE) Facility; linkages with the CBD; mandated to establishing and managing climate finance tracking system • GCF and AF accreditation (through the Ministry of Finance and Economic Cooperation); approved GCF direct access project (adaptation) 	Funded climate risk-related activities focus mostly on agriculture and food security and target vulnerable communities	<ul style="list-style-type: none"> • Access: call for proposal based on updated strategic priorities • Eligibility: various sectoral ministries (e.g. the Ministry of Agriculture, Ministry of Water and Energy, Ministry of Health), sub-national governments (regional states and city administrations) 	<ul style="list-style-type: none"> • Advisory board, comprised of representatives from the private sector, multilateral partners, CSOs and academia, reviews proposals but does not approve them
Mali Climate Fund	The overall objective of the fund is to enable the integrated and coordinated implementation of the National Strategy on Climate Change; to date, the multilateral and most of the bilateral climate finance has not been channelled through the fund	Strengthening capacities, e.g. trainings; building resilience of ecosystems and communities with a focus on agriculture, fisheries, water (e.g. access to drinking water) and forestry; income diversification	<ul style="list-style-type: none"> • Access: call for proposals (depending on availability of funds from bilateral contributions; to date from the governments of Norway and Sweden) • Eligibility: national entities and international organisations. To date, the fund has only operated through the window of international organisations 	<ul style="list-style-type: none"> • The Steering Committee, which makes funding allocation decisions, includes representatives from ministries, partner organisations, donors and CSOs
Rwanda's Green Climate Fund (FONERWA)	The fund coordinates and manages climate finance from various sources (it has received funding from the GCF, GEF (LDCF) and AF); supports various climate policies/strategies; creates policy linkages with the CBD and steps towards the establishment of a Biodiversity Conservation Fund under FONERWA	Environment and climate change mainstreaming; climate services; support to agriculture-dependent livelihoods (ecosystem rehabilitation for poverty reduction, livelihood diversification); community-based approaches (e.g. flood resilience); resilient settlements (infrastructure, social housing)	<ul style="list-style-type: none"> • Access: calls for project proposals for grant support under thematic windows: (1) Rwanda Subnational Adaptation Fund Enhanced Direct Access Project (supported by the AF); and (2) Intego – Rwanda's NDC Facility • Eligibility: government agencies, district authorities, and non-state actors (e.g. academic institutions, civil society organisations and businesses) 	<ul style="list-style-type: none"> • The main decision-making body is the Board of Directors, appointed by the President – selection based on competences and expertise

Source: Authors

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