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Climate Finance Fundamentals

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Brief 2

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The Evolving Global Climate Finance Architecture

The global climate finance architecture is complex: finance is channeled through multilateral funds – such as the Global Environment Facility and the Climate Investment Funds-- as well as increasingly through bilateral channels. In addition, a growing number of recipient countries have set up national climate change funds that receive funding from multiple developed countries in an effort to coordinate and align donor interests with national priorities. There is generally much more transparency about the status of implementation of multilateral climate finance initiatives than of bilateral climate finance initiatives. The proliferation of climate finance mechanisms increases the challenges of coordinating and accessing finance.

Climate Finance

The bulk of the damage from climate change is likely to fall on poor developing countries, despite the fact that they bear little responsibility for causing climate change. Developed countries, with less than 20% of the world's population, are responsible for 75% of global emissions (UNFCCC 2009). Climate finance refers to financial resources to help developing countries mitigate and adapt to the impacts of climate change. Finance must be "additional" to development assistance, and cover the "incremental costs" of responding to climate change relative to the costs of development under business as usual circumstances.

The 2009 Copenhagen Accord, confirmed in the Cancun decision, pledged funds of $10 billion a year from 2010 to 2012, increasing to $100 billion per year by 2020 to combat climate change in developing countries through mitigation and adaptation. Since the Cancun COP in 2010, the design of a global **Green Climate Fund (GCF)** has been under negotiation.

The GCF is due to be finalised at the upcoming COP 17 in Durban and intended to be the mechanism through which a large share of scaled-up global climate finance is channelled. It should distribute a balanced proportion of finance to adaptation and mitigation, including for activities to reduce emissions from deforestation and degradation, in an effort to address the multilateral underfunding of adaptation thus far.

By some estimates, the volume of climate finance globally may already be as high as $96.9 billion per year (CPI, 2011), although the majority ($54.6 billion) comes from private finance for activities that help address climate change. Likewise, the additionality of public funding counted toward that sum is not clear.

Several developed countries have set up climate finance initiatives. In addition, many developed countries are spending a large share of their climate finance commitments through their bilateral development assistance institutions as well. A number of dedicated multilateral funds to channel climate finance have been established. A growing number of developing countries have also set up national funds to receive climate finance from a variety of contributing countries.

Figure 1 presents an overview of the global architecture of public finance, and highlights the complexity of the current climate finance landscape. Climate Funds Update (http://www.climatefundsupdate.org), a joint initiative of the Heinrich Boell Foundation and ODI, monitors dedicated climate change funds from the stage when donors pledge funding, through to the actual disbursement of financing for projects, in an effort to increase the transparency of climate finance flows.

A proliferation of funding channels creates several challenges from a recipient country perspective in terms of accessing finance easily. It is increasingly difficult to monitor, verify and report (MRV) climate finance, as well as accountability for its effective use. However, the multitude of different MRV approaches creates important opportunities to learn about how best to structure climate finance to maximise impacts, and environmental and social, including gender, co-benefits. Many of these funds are due to come to a close over the next year. It remains to be seen how the global Green Climate Fund (GCF), which is expected to be several times larger than the biggest multilateral climate funds existing today, affects the global climate finance architecture.

Multilateral channels for climate finance

Most multilateral climate finance initiatives have broken from contributor country-dominated governance structures that are typical in development finance institutions, and given developing country governments greater voice and representation in decision-making. They have also taken steps to increase transparency and accountability in fund governance, including by creating a role for non-governmental stakeholders as observers to fund meetings.

The **Global Environmental Facility (GEF)** serves as an operating entity of the financial mechanism of the UNFCCC. It was established in 1991 and has the longest track record on environmental funding. 39 countries pledged and deposited just over $1 billion to the GEF during its fourth replenishment (2006 -2010), most of which has been approved and disbursed to projects. 21 donor countries deposited $889 million into as part of the GEF's fifth replenishment (GEF 5) in 2010. GEF 5 has approved a total of $79 million for 7 mitigation projects, and $1 million has been disbursed as of November 2011. GEF resources are allocated on the basis of a framework that considers the impact of dollars spent on environmental outcomes, but also ensures all developing countries a share of the funding.

The GEF also administers the **Least Developed Countries Fund (LDCF)** and the **Special Climate Change Fund (SCCF)** with the guidance of the UNFCCC Conference of Parties, supporting adaptation plans and projects. The LDCF has disbursed $108 million and the SCCF has disbursed $80 million since their inception in 2002, benefitting a large number of countries, albeit with very small sums of funding.

The **Climate Investment Funds (CIFs)** were established in 2008, and are administered by the World Bank in partnership with regional development banks including the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB). They consist of a **Clean Technology Fund** that receives the majority of these funds ($4.1 billion), a **Strategic Climate Fund** that includes the **Pilot Program for Climate Resilience (PPCR)**, the **Forest Investment Program (FIP)**, and the **Scaling-Up Renewable Energy Program for Low Income Countries (SREP)**. These funds provide hundreds of millions of dollars to programmatic interventions targeting only a select number of developing countries, with the objective of helping the international community understand how public finance can best be deployed at scale to assist developing countries in transforming their development trajectories. Developed countries, particularly the US, have been slow to pay funds promised into the CIFs, however.

The **Adaptation Fund (AF)** of the Kyoto Protocol is financed through a 2% levy on the sale of emission credits from the Clean Development Mechanism and became operational in 2009. It has a total capitalisation of $250 million. Developing countries represent the majority of seats on its governing committee. The AF also allows developing countries direct access to finance through National Implementing Entities that meet agreed fiduciary standards, rather than working through UN agencies or MDBs as implementing agencies.

The **UN-REDD** program was also made operational in 2008 with the support of Norway and Denmark to pool the capacities of the UN Development Program, UN Environment Program, and the Food and Agriculture Organisation to help forest rich countries reduce emissions from deforestation and degradation. Representatives of civil society and Indigenous People's organisations have a formal voice in the governance of UN-REDD.

The role of the MDBs

MDBs are increasingly incorporating climate change considerations into their core lending and operations. Most MDBs now also administer climate finance initiatives with a regional or thematic scope: for example, the **World Bank established the Forest Carbon Partnership Facility (FCPF)** to explore how carbon market revenues could be harnessed to reduce emissions from deforestation and degradation. **The African Development Bank administers the Congo Basin Forest Fund (CBFF)**. The European Investment Bank administers the **EU Global Energy Efficiency and Renewable Energy Fund (GEEREF)**. Nevertheless, concerns have been raised about the environmental and social impacts of the MDBs overarching operations, particularly their continued support for conventional fossil fuel technologies.

National Climate Change Funds

Several developing countries have also established national funds that receive and channel climate finance from various contributor countries. Recent studies suggest that there are at least 10 different National Trust Funds in Brazil, Indonesia, Bangladesh, China, Ecuador, Guyana, the Maldives and Thailand (OECD 2011). In many countries the UNDP acts as the administrator of these funds, which has helped to build donor trust that high fiduciary standards will be met.

While there is a lack of accurate data on the capitalization of these funds, an estimated $1.35 billion has been pledged to such mechanisms. Norway pledged $1 billion to the **Amazon Fund** to reduce emissions from deforestation and forest degradation. The Fund is administered by the Brazilian National Development Bank and governed by a committee of Brazilian government, civil society and private sector representatives. Climate Funds Update data suggests that as of November 2011, the Amazon Fund had disbursed $33 million for 16 projects across Brazil. Brazil has also established a National Fund on Climate Change that has received $126.56 million.

Guyana has also established a REDD investment fund; the Government of Norway has recently disbursed $70 million to this fund on the basis of demonstrated progress in activity implementation. The government of Ecuador established the **Yasuni Trust Fund** to seek compensation for foregoing the exploitation of oil resources in an area of high forest and biodiversity value, and has received $40 million to date.

There are two different national funds in Bangladesh: **a Climate Change Resilience Fund** with a capitalization of $110.2 million from multiple donors, and a **Bangladesh Climate Change Fund**, which has $100 million from the government of Bangladesh.

The UK, Australia and Sweden have pledged $19 million to the **Indonesia Climate Change Trust Fund (ICCTF)**, which invests in projects to reduce emissions from energy and from forestry and land use. However, the amount disbursed for projects, as of November 2011, is still unknown. Furthermore, the links between the ICCTF and other –much larger-- initiatives underway to channel climate finance to Indonesia remain unclear.

The national trust fund concept initially attracted significant interest as a mechanism to help recipient countries manage and align climate finance contributions from developed countries with their own national priorities. National trust funds that are governed with high levels of transparency and inclusiveness could be well placed to channel finance to projects and programs that are well suited to national circumstances, and enhance accountability for spending scarce resources well. Involving relevant stakeholders such as local communities, vulnerable population groups, women and Indigenous Peoples in programming decisions and implementation are crucial elements of good fund governance. Furthermore, if donor countries work through coordinated systems established by recipient countries, it can help increase the coherence of financing, and improve transaction efficiency. In practice, the impact of national trust funds on strengthening national ownership and coordination has been mixed. While some countries have been disciplined about ensuring that contributors work through established mechanisms, others have not.

Bilateral Finance for Climate Change

A large and growing share of climate finance is spent through bilateral development institutions. According to some estimates, $24.6 billion per year is directed through bilateral channels (Buchner et al 2011). There is, however, limited transparency and consistency in reporting of bilateral finance for climate change, with developing countries self-classifying and self-reporting climate-relevant financial flows absent a common reporting format, or independent verification.

Some countries have established dedicated bilateral climate finance initiatives. Japan's Hatayoma Initiative, now referred to as Japan's Fast Start Finance, commits a total of $15 billion through bilateral and multilateral channels through 2012, as well as through direct projects with the private sector. There is, however, a lack of clarity on the exact volume of finance directed through each of these channels. Japan's self reporting suggests that $7.2 billion of this $15 billion has been spent to date.

As of 2011, Germany has approved and disbursed $547 million to mitigation, adaptation, REDD+, and other projects with climate benefits through the **International Climate Initiative**. This initiative is partly funded through the sale of national tradable emission certificates.

The UK has established an **International Climate Fund**. While the majority of this finance has been channelled through dedicated multilateral funds to date --particularly the CIFs-- it is in the process of revising this strategy.

Norway directed $676 million of climate finance through bilateral channels in 2010 including its **International Forest Climate Initiative**. This includes contributions to national trust funds established by recipient countries as discussed above. REDD+ has been the primary focus of this funding, particularly in Brazil, Indonesia, Tanzania, and Guyana.

Australia has disbursed $48 million through its **International Forest Carbon Initiative (IFCI)** for REDD+ projects up to August 2010. The IFCI works to increase carbon monitoring and accounting capacity, and Papua New Guinea and Indonesia are its two main recipients.

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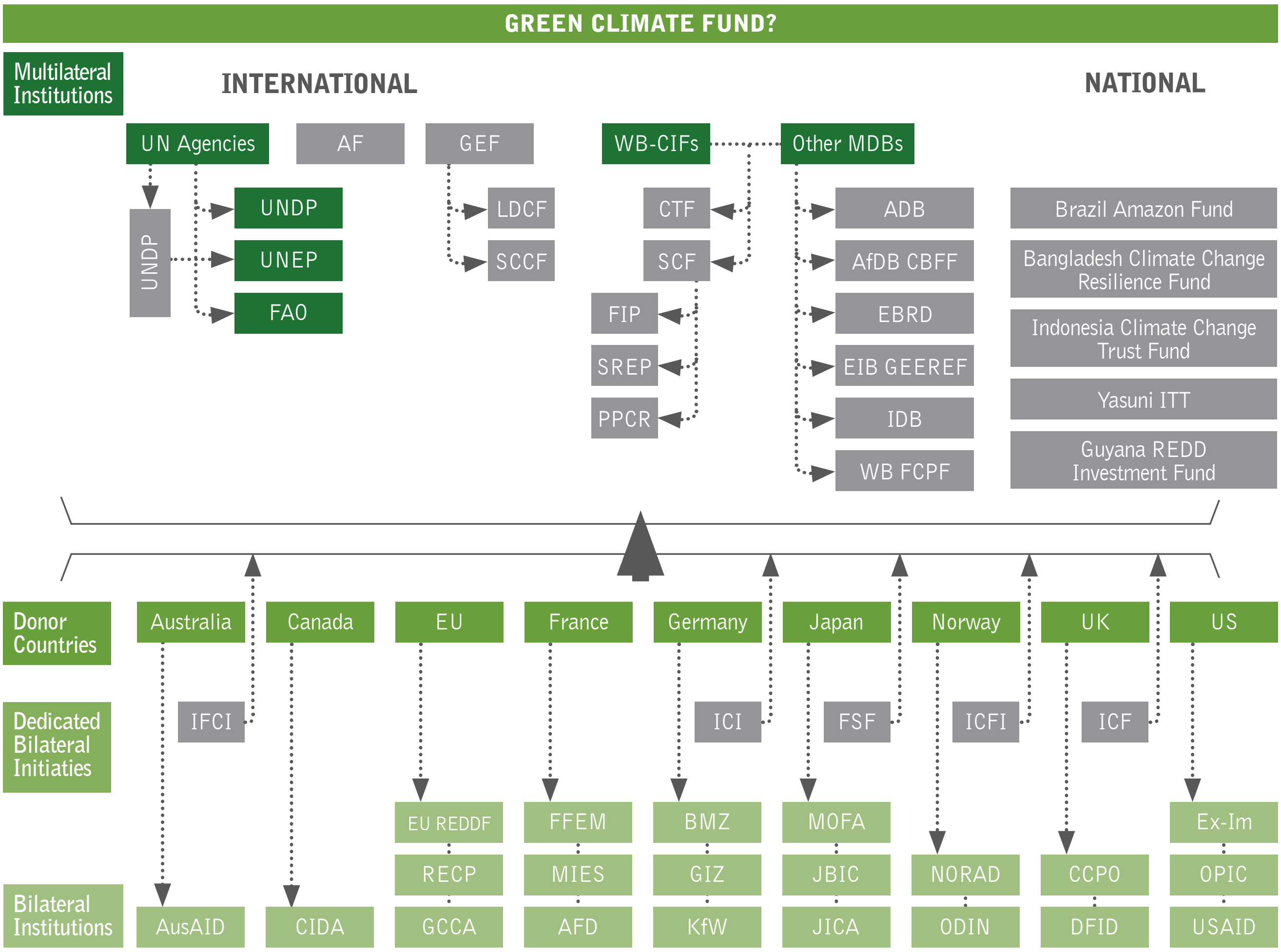

GOVERNMENT AGENCIES, DEVELOPMENT BANKS, AND PROGRAMS

ACRONYM	NAME
AFD	French Development Agency
AusAID	Australian Agency for International Development
BMZ	Federal Ministry for Economic Cooperation and Development
CCPO	Climate Change Projects Office
CIDA	Canadian International Development Agency
DFID	Department for International Development
EU REDDF	European Union REDD Facility
Ex-Im	Export-Import Bank of the United States
FFEM	French Global Environment Facility
GCCA	Global Climate Change Alliance
GIZ	German Technical Cooperation
JBIC	Japan Bank of International Cooperation
JICA	Japan International Cooperation Agency
KfW	German Development Bank (KFW)
MIES	Interministerial Taskforce on Climate Change
MOFA	Ministry of Foreign Affairs
NORAD	Norwegian Agency for Development Cooperation
ODIN	Ministry of Foreign Affairs
OPIC	Overseas Private Investment Corporation
RECP	Africa-EU Renewable Energy Cooperation Programme
USAID	U.S. Agency for International Development

DEDICATED BILATERAL INITIATIVES

ACRONYM	NAME
FSF	Fast Start Finance
ICF	International Climate Fund (UK)
ICFI	International Climate Forest Initiative (Norway)
ICI	International Climate Initiative (Germany)
IFCI	International Forest Carbon Initiative (Australia)

MULTILATERAL FUNDS

ACRONYM	NAME
AF	Adaptation Fund (GEF acts as secretariat and World Bank as trustee)
APCF	Asia Pacific Carbon Fund (hosted by ADB)
CBFF	Congo Basin Forest Fund (hosted by AfDB)
CTF	Clean Technology Fund (implemented through World Bank, ADB, AfDB, EBRD, and IDB)
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Program (implemented through World Bank, ADB, AfDB, EBRD, and IDB)
GEERF	Global Energy Efficiency and Renewable Energy Fund (hosted by the EIB)
LDCF	Least Developed Countries Fund (hosted by the GEF)
PPCR	Pilot Program on Climate Resilience (implemented through World Bank, ADB, AfDB, EBRD, and IDB)
SCCF	Special Climate Change Fund (hosted by the GEF)
SCF	Strategic Climate Fund (implemented through World Bank, ADB, AfDB, EBRD, and IDB)
SREP	Scaling-Up Renewable Energy Program (implemented through World Bank, ADB, AfDB, EBRD, and IDB)

UN AND REGIONAL AGENCIES, OTHER ACRONYMS

ACRONYM	NAME
AfDB	African Development Bank
AsDB	Asian Development Bank
CIF	Climate Investment Funds (implemented through World Bank, ADB, AfDB, EBRD, and IDB))
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
FAO	Food and Agriculture Organization
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNREDD	United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation
WB	World Bank

The Climate Finance Fundamentals are based on Climate Funds Update data and available in English, French and Spanish at **www.climatefundsupdate.org**