Climate Funds Update

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ODI

The Global Climate Finance Architecture

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Climate Finance Fundamentals 2

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The global climate finance architecture is complex and evolving. Funds flow through multilateral channels – both within and outside of UNFCCC financing mechanisms – and increasingly through bilateral channels, as well as in some recipient countries through national climate change funds. Monitoring the flows of climate finance is difficult, as there is no clear definition of what constitutes climate finance. The proliferation of climate finance mechanisms continues to challenge coordination of climate finance. But efforts to increase inclusiveness and simplify access are underway.

Climate finance

Climate finance refers to the financial resources mobilised to help developing countries mitigate and adapt to the impacts of climate change, although a definition of the term "climate finance" is yet to be agreed internationally. In the 2009 Copenhagen Accord, and confirmed in the Cancun decision and Durban Platform, developed countries pledged to deliver finance approaching USD 30 billion between 2010 and 2012. This period has now come to an end, and contributor country self-reporting suggests that these targets were exceeded (Nakhooda, Fransen et al 2013). While there is no clarity on mid-term finance targets, countries have reiterated their commitment to increasing climate finance to USD 100 billion per year from public and private sources by 2020.

By some estimates, the volume of investments that may offer climate change related benefits in both developed and developing countries may already be as high as USD 359 billion per year (Buchner et al., 2013.) It is notable that the majority of this wider reading of climate related funding comes from the private sector, and the additionality of public finance identified (i.e. how much of this represents additional effort, and is additional to existing development finance commitments) is unclear. CFF 1 presents a longer discussion of the principle of additionality. Figure 1 presents an overview of the global architecture of public climate finance.

There are a number of routes through which climate finance can flow, including multilateral climate funds that are dedicated to addressing climate change. Several developed countries have also established climate finance initiatives or are channelling climate finance through their bilateral development assistance institutions. Many developing countries have also set up national funds to receive climate finance. The types of climate finance available through these channels are varied; from grants and concessional loans, to guarantees and private equity. The architecture has variable structures of governance, modalities and objectives. While the transparency of climate finance channelled through multilateral initiatives is increasing, detailed information on bilateral initiatives is less easily available.

A multitude of funding channels increases the options and therefore possibilities for recipient countries to access climate finance, but can also make the process more complicated. It becomes increasingly difficult to monitor, report, and verify (MRV) climate finance, as well as to account for its effective and equitable use. The ODI HBF Climate Funds Update initiative seeks to track this intricate architecture. There is opportunity, however, to draw lessons from the diversity about how best to structure climate finance to maximise impacts, and environmental, gender equality and social co-benefits. ODI's work program on the effectiveness of international climate finance offers some insights to this end (http://www.odi.org/climate-effectiveness).

Multilateral channels for climate finance

Multilateral climate finance initiatives often break from contributor country-dominated governance structures, typical in development finance institutions. This gives developing country governments greater voice and representation in decision-making. Steps to increase inclusion and accountability in multilateral fund governance have also been taken, including by creating a role for non-governmental stakeholders as observers to fund meetings, with varying degrees of active participation opportunities.

Established in 1991, the **Global Environment Facility (GEF)** is an operating entity of the financial mechanism of the UNFCCC with a long track record in environmental funding. Resources are allocated according to the impact of dollars spent on environmental outcomes, but ensuring all developing countries have a share of the funding. In the GEF fourth replenishment (2006 -2010), 31 countries pledged just over USD 1 billion for the climate change focal area, most of which has been approved and disbursed to both climate change mitigation and adaptation projects. Under the fifth replenishment (2011 – 2014), 40 donor countries have deposited USD 777 million to the climate change focal area. GEF 5 has approved a total of USD 582 million for 127 projects, of which USD 31 million has been disbursed as of September 2013.

The GEF also administers the **Least Developed Countries Fund (LDCF)** and the **Special Climate Change Fund (SCCF)** under the guidance of the UNFCCC Conference of Parties (COP). These funds support small-scale adaptation plans and projects. The LDCF has disbursed USD 133 million and the SCCF has disbursed USD 111 million since their inception in 2002 across 82 countries.

Also formally linked to the UNFCCC, the **Adaptation Fund (AF)** is financed through a 2% levy on the sale of emission credits from the Clean Development Mechanism of the Kyoto Protocol. Operational since 2009, the total capitalisation (which includes developed countries' commitments) is USD 325 million. The AF pioneered direct access to finance for developing countries through National Implementing Entities that are able to meet agreed fiduciary standards, as opposed to working through UN agencies or Multilateral Development Banks (MDBs) as multilateral implementing agencies.

A substantial volume of climate finance has been channelled through institutions not linked to the UNFCCC COP.

The **Climate Investment Funds (CIFs)** established in 2008 are administered by the World Bank, but operate 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). The CIFs finance programmatic interventions in selected developing countries, with the objective of improving understanding of how public finance is best deployed at scale to assist transformation of development trajectories. The CIFs have a total pledge of USD 7.2 billion.[1] They include a **Clean Technology Fund** with USD 4.9 billion, and a **Strategic Climate Fund**, composed of the **Pilot Program for Climate Resilience (PPCR)** with 1.15 billion, the **Forest Investment Program (FIP)** with 0.6 billion, and the **Scaling-Up Renewable Energy Program for Low Income Countries (SREP)** with 0.5 billion.

MDBs play a prominent role in delivering multilateral climate finance. Many have incorporated climate change considerations into their core lending and operations, and most MDBs now also administer climate finance initiatives with a regional or thematic scope. The World Bank has established the **Forest Carbon Partnership Facility (FCPF)** to explore how carbon market revenues could be harnessed to reduce emissions from deforestation and forest degradation, forest conservation, sustainable forest management and the enhancement of forest carbon stocks (REDD+). It also manages the Partnership for Market Readiness, aimed at helping developing countries establish market based mechanisms to respond to climate change.[2] The African Development Bank administers the **Congo Basin Forest Fund (CBFF)** and the European Investment Bank the EU **Global Energy Efficiency and Renewable Energy Fund (GEEREF)**. Concerns remain, however, over the climate change impact of the MDBs' overarching operations, particularly their continued support for conventional fossil fuel technologies.

UN agencies commonly take on the role of administrator and/or intermediary of climate finance. The **UN-REDD Programme**, made operational in 2008, brings together UNDP, UNEP, and the FAO to support REDD+ activities, with the governance structure giving representatives of civil society and Indigenous People's organisations a formal voice. In addition the International Fund for Agriculture and Development now administers the **Adaptation for Smallholder Agriculture Programme**.[3]

Bilateral channels for climate finance

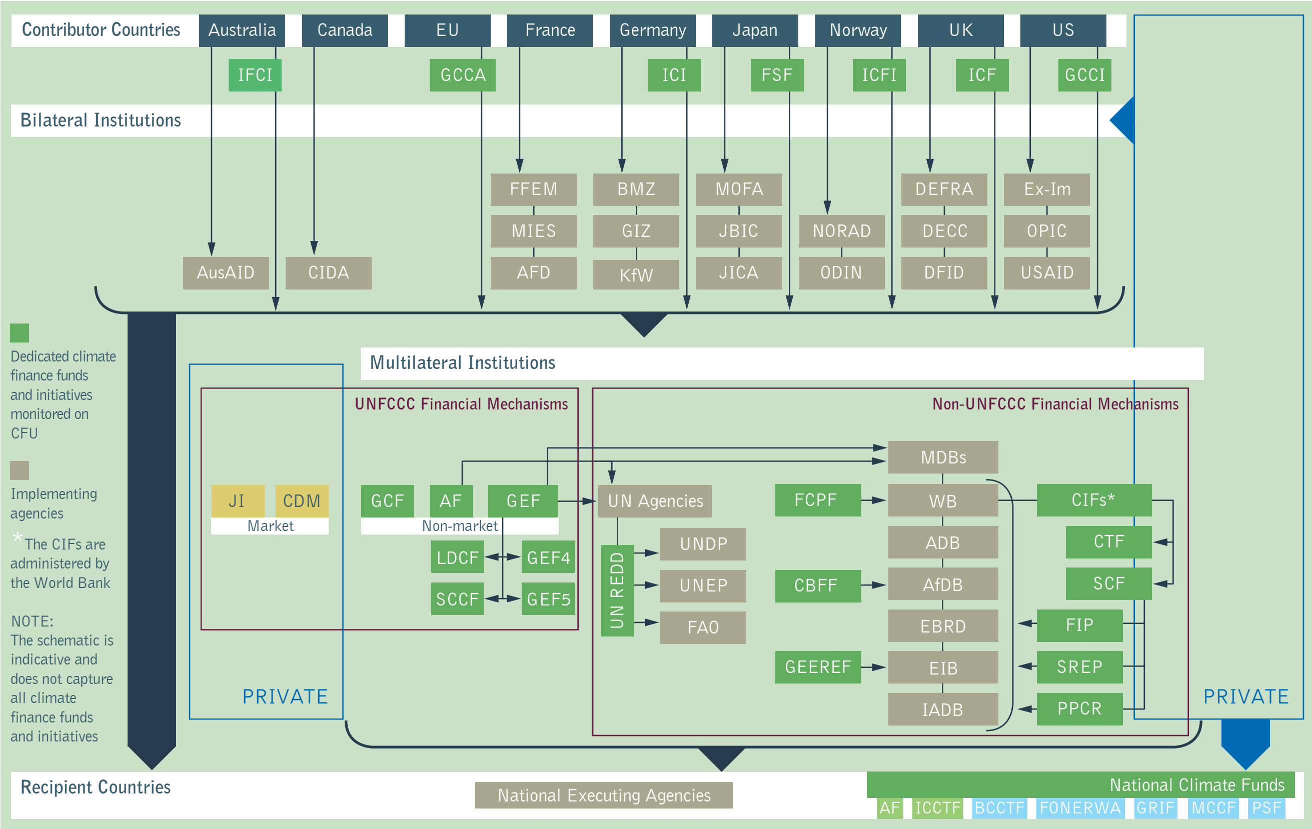
A large share of public climate finance is spent bilaterally, administered largely through existing development agencies. There is limited transparency and consistency in reporting of bilateral finance for climate change, however, with countries self-classifying and self-reporting climate-relevant financial flows absent of a common reporting format, or independent verification. An estimated USD 14 billion was directed through bilateral finance institutions this year (Buchner et al., 2013). ODI studies on Fast Start Finance contributions, including the Japanese FSF contribution, present an in-depth review of the bilateral approaches that countries are taking to delivering climate finance (http://www.climatefundsupdate.org/global-trends/fast-start-finance).

Germany's **International Climate Initiative** has approved USD 952 million for a total of 284 mitigation, adaptation, REDD+ projects. The initiative is innovatively funded partly through sale of national tradable emission certificates, providing finance that is largely additional to existing development finance commitments.

The UK's **International Climate Fund**, which has pledged USD 4,640 million, has channelled the majority of its current USD 1,318 million deposited funding through dedicated multilateral funds, particularly the CIFs, but is in the process of revising this strategy.

Norway's **International Forest Climate Initiative** has approved a total of USD 533 million through bilateral channels up to 2012. Sizeable pledges have been made for REDD+ activities in Brazil, Indonesia, Tanzania, and Guyana.

Australia has approved $126 million through its **International Forest Carbon Initiative (IFCI)**, with the main recipients being Papua New Guinea and Indonesia.



Implementing agencies	
AfDB	African Development Bank
AFD	French Development Agency
ADB	Asian Development Bank
AusAID	Australian Agency for International Development
BZM	Federal Ministry of Economic Cooperation and Development
CIDA	Canadian International Development Agency
DECC	Department of Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
DFID	Department for International Development
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
Ex-Im	Export-Import Bank of the United States
FAO	Food and Agriculture Organisation
FFEM	French Glogal Environment Facility
GIZ	German Technocal Cooperation
IADB	Inter American Development Bank
JBIC	Japan Bank of International Cooperation
JICA	Japan International Cooperation Agency
KfW	German Development Bank
MIES	Inter-ministerial 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
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
USAID	US Agency for International Development
WB	World Bank

Multilateral Funds and Initiatives	
AFF	Adaptation Fund (GEF acts as secretariat and WB as trustee)
CBFF	Congo Basin Forest Fund (hosted by AfDB)
CDM	Clean Development Mechanism (implemented under the Kyoto Protocol)
CIF	Climate Investment Funds (implemented through WB, ADB, AfDB, EBRD, and IADB)
CTF	Clean Technology Fund (implemented through WB, ADB, AfDB, EBRD, and IADB)
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Program (implemented through WB, ADB, AfDB, EBRD, and IADB)
GCCA	Global Climate Change Alliance
GCF	Green Climate Fund
GEF	Global Environment Facility
GEF 4	GEF Trust Fund Fourth Replenishment
GEF 5	GEF Trust Fund Fifth Replenishment
GEEREF	Global Energy Efficiency and Renewable Energy Fund (hosted by EIB)
JI	Joint Implementation (implemented under the Kyoto Protocol)
LDCF	Least Developed Countries Fund (hosted by the GEF)
PPCR	Pilot Program on Climate Resilience (implemented through WB, ADB, AfDB, EBRD, and IADB)
SCCF	Special Climate Change Fund (hosted by the GEF)
SCF	Strategic Climate Fund (implemented through WB, ADB, AfDB, EBRD, and IADB)
SREP	Scaling Up Renewable Energy Program (implemented through WB, ADB, AfDB, EBRD, and IADB)
UNREDD	United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation

Bilateral Funds and Initiatives	
FSF	Fast Start Finance (Japan)
GCCI	Global Climate Change Initiative (US)
ICF	International Climate Fund (UK)
ICFI	International Climate Forest Initiative (Norway)
ICI	International Climate Initiative (Germany)
IFCI	International Forest Carbon Initiative (Australia)

National Climate Funds	
AF	Amazon Fund*
BCCTF	Bangladesh Climate Change Trust Fund
FONERWA	Rwanda National Climate and Environment Fund
GRIF	Guyana REDD+ Investment Fund
ICCTF	Indonesia Climate Change Trust Fund*
MCCF	Mexico Climate Change Fund
PSF	Philippines People's Survival Fund

National climate change funds

Several developing countries have established national funds with a variety of forms and functions, resourced through international finance and/or domestic budget allocations and the domestic private sector. The Indonesian Climate Change Trust Fund was one of the first of these institutions to be established. Brazil's Amazon Fund, administered by the Brazilian National Development Bank (BNDES), is the largest national climate fund, with a commitment of more than USD 1 billion from Norway. There are also national climate change funds in Guyana, Bangladesh, the Philippines, Rwanda, Kenya, and Mexico. Many more countries have proposed national climate funds in their climate change strategies and action plans. In many cases UNDP has acted as the administrator of national funds, increasing donor trust that good fiduciary standards will be met. Data on capitalisation of national climate change funds is not consistently available.

National climate change funds attracted early interest. As they were established with independent governance structures that met high levels of transparency and inclusiveness, they could channel finance to projects suited to national circumstances and aligned with national priorities. Working through coordinated national systems could also improve transaction efficiency. In practice, however, the impact of national trust funds on strengthening national ownership and coordination remains to be seen.

Emerging channels for climate finance

The **Green Climate Fund (GCF)** of the UNFCCC was agreed at the Durban COP, and is expected to become the primary channel through which international public climate finance will flow over time. It aims to adopt a country-driven approach, to balance adaptation and mitigation finance, allow direct access and have a private sector facility. In 2013 governments sought to operationalize the fund, and agree on its business model, priorities, results framework, and ways of working with recipient countries. This has been a time consuming process, and to date no funding has been pledged to the GCF for projects spending. CFF 11 discusses the GCF in more detail.

References

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End Notes

1. The Climate Investment Fund (CIF) figures only include projects approved by both the Trust Fund Committees and implementing Multilateral Development Banks.
2. The Partnership for Market Readiness is not yet monitored on CFU.
3. The Adaptation for Smallholder Agriculture Program is not yet monitored on CFU.

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

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