Climate Funds Update

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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 ongoing.

Climate finance

Climate finance refers to the financial resources mobilised to help developing countries mitigate and adapt to the impacts of climate change, including public climate finance commitments by developed countries under the UNFCCC, 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. With this period ended, contributor countries self-reported that these targets were exceeded (Nakhooda, Fransen et al. 2013). While there is no clarity on mid-term finance targets and post-2012 public contributions have risen only slightly, 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 335 billion per year (Buchner et al., 2014) 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 is unclear (i.e. how much of this represents effort over and above existing efforts and development finance commitments). CFF 1 presents a longer discussion of the principle of additionality. Figure 1 presents an overview of the global architecture, focusing particularly on public climate financing mechanisms.

There are a number of channels through which climate finance flows, 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 in the meantime have 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. 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. The ODI HBF Climate Funds Update initiative seeks to track this intricate architecture while ODI's work program on the effectiveness of international climate finance offers some insights to this end (http://www.odi.org/projects/2537-climate-finance-climate-change-fast-start-finance).

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 pledged USD 1.35 billion to the climate change focal area. GEF 5 has approved a total of USD 799 million for 232 projects. The sixth replenishment (2015-2018) will allow GEF to make an estimated USD 3 billion available for climate change, with 30 donor countries pledging USD4.43 billion over all focal areas.

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 national adaptation plan development and their implementation, although largely through smaller scale projects (with a country ceiling for funding of USD 20 million). The LDCF has approved USD 733 million and the SCCF has approved USD 254 million since their inception in 2002 across 90 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 642 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.

At COP 16, the **Standing Committee on Finance** was established under the UNFCCC to assist the COP in meeting objectives of the Financial Mechanism of the Convention. Although not a fund in itself, the Standing Committee on Finance has been tasked with, among other things, preparing a biennial assessment of climate finance flows.

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[1] have a total pledge of USD 7.52 billion. They include a **Clean Technology Fund** with USD 5.2 billion, and a **Strategic Climate Fund**, composed of the **Pilot Program for Climate Resilience (PPCR)** with USD 1.16 billion, the **Forest Investment Program (FIP)** with USD 0.6 billion, and the **Scaling-Up Renewable Energy Program for Low Income Countries (SREP)** with USD 0.5 billion.

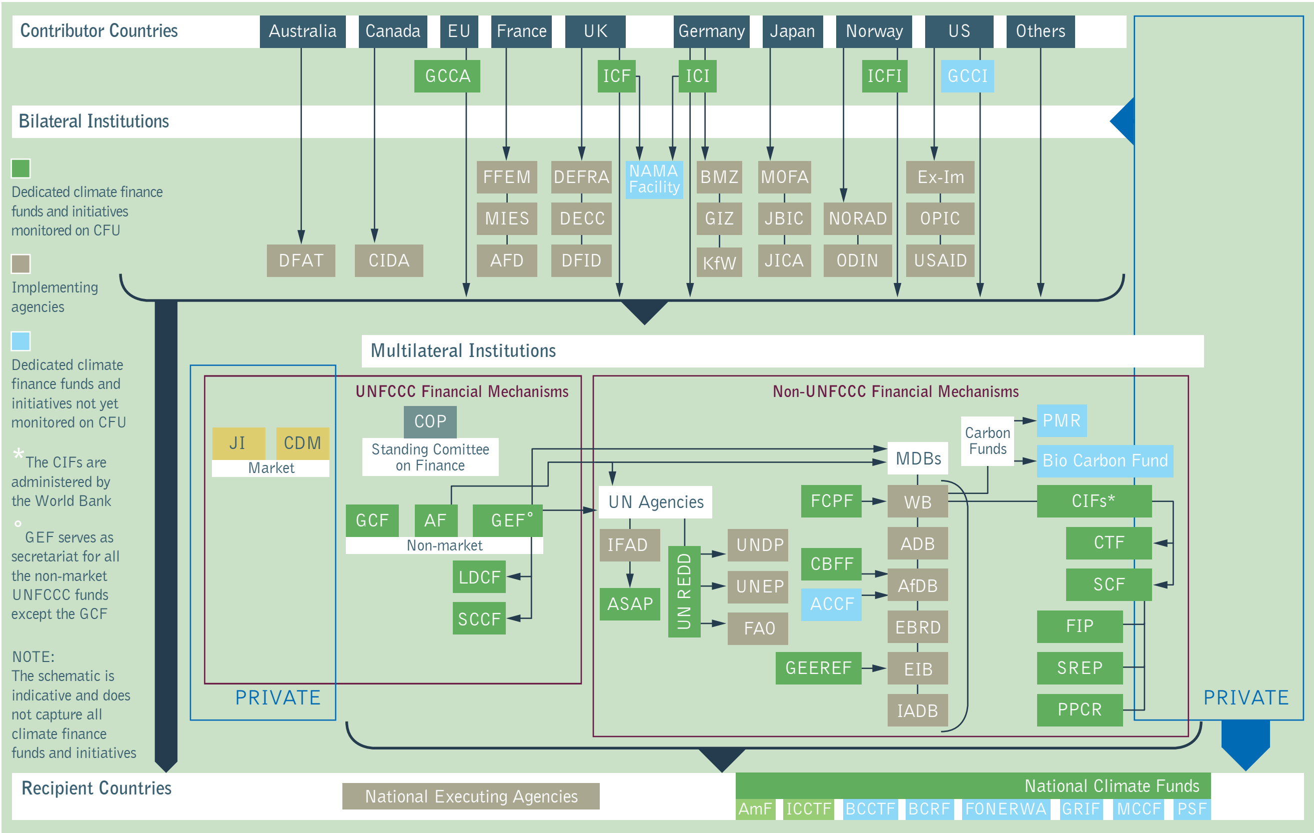
Multilateral Development Banks (MDBs) play a prominent role in delivering multilateral climate finance. Many have incorporated climate change considerations into their core lending and operations, and most MDBs now also administer climate finance initiatives with a regional or thematic scope. The World Bank's carbon finance unit 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 and the **Bio Carbon Fund**, which is a public-private partnership that mobilises finance for sequestration or conservation of carbon in the land use sector. 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)**. It also aims to enhance climate finance readiness in African countries through the **Africa Climate Change Fund (ACCF)**.

Both MDBs and UN Agencies act as implementing entities for the GEF, SCCF, LDCF, and the AF. 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**.

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 12 billion was directed through bilateral finance institutions this year (Buchner et al., 2014). 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 (www.climatefundsupdate.org/about-climate-fund/fast-start-finance).

Germany's **International Climate Initiative** has approved USD 1.1 billion for a total of 377 mitigation, adaptation, REDD+ projects. The initiative is innovatively funded partly through sale of national tradable emission



Implementing Agencies and Institutions

AfDB	African Development Bank
AFD	French Development Agency
ADB	Asian Development Bank
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
DFAT	Department of Foreign Affairs and Trade (Australia)
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 Global Environment Facility
GIZ	German Technical Cooperation
IADB	Inter American Development Bank
IFAD	International Fund for Agricultural Development
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

National Climate Funds

AmF	Amazon Fund
BCCTF	Bangladesh Climate Change Trust Fund
BCRF	Bangladesh Climate Resilience 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

Multilateral Funds and Initiatives

AF	Adaptation Fund (GEF acts as secretariat and WB as trustee)
ACCF	Africa Climate Change Fund
ASAP	Adaptation for Smallholder Agriculture Programme
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
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)
PMR	Partnership for Market Readiness
PPCR	Pilot Program on Climate Resilience (implemented through World Bank, 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

GCCI	Global Climate Change Initiative (US)
ICF	International Climate Fund (UK)
ICFI	International Climate Forest Initiative (Norway)
ICI	International Climate Initiative (Germany)
NAMA facility	Nationally Appropriate Mitigation Action facility (UK and Germany)

certificates, providing finance that is largely additional to existing development finance commitments.

The UK's **International Climate Fund**, which has pledged USD 5.95 billion, has channelled the majority of its currently deposited USD 1.32 billion through dedicated multilateral funds, particularly the CIFs, but is in the process of revising this strategy. Together with Germany, the UK also contributes to the **NAMA Facility** that supports nationally appropriate mitigation actions (NAMAs) in developing countries and emerging economies that want to implement ambitious mitigation measures.

Norway's **International Forest Climate Initiative** has approved a total of USD 305 million through bilateral channels up to 2012. Sizeable pledges have been made for REDD+ activities in Brazil, Indonesia, Tanzania, and Guyana.

Australia has approved USD 126 million through its **International Forest Carbon Initiative (IFCI)**, with the main recipients being Papua New Guinea and Indonesia. Although the initiative was terminated in 2012.

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. Largely because 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 is to fund the paradigm shift toward climate-resilient and low-carbon development in developing countries and has adopted a country-driven approach, and a commitment to balance adaptation and mitigation in its allocation of finance. The initial resource mobilisation process for the GCF, which is in its final stages, is seeking to raise at least USD 10 billion. The GCF could begin to fund programmes and projects in late 2015. Countries can access the GCF both through MDBs and UN agencies, as well as directly through accredited National, Regional and Sub-National Implementing Entities. To date, USD 2.30 billion has been pledged to the GCF. 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 the MDBs.

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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