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THE FUTURE OF THE FUNDS

Exploring the Architecture of Multilateral Climate Finance

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FOREWORD

A few short months ago the Paris Agreement entered into force, laying the ground for a safer and more prosperous future. Now the real work begins—governments across the world must accelerate the transition toward low-emissions and resilient societies. This transition will require financing. While much of this finance will need to come from the private sector, public finance has a crucial role to play in helping to set economies on the right path. Public funds can fill critical gaps and incentivize private investors to shift their capital toward sustainable initiatives. It can, for example, pay for increases in community resilience that won't result in a financial return, or help reduce the risk to others of investing in innovative clean technologies.

In recognition of the importance of public finance, the global community has established several “climate funds.” These funds are designed to disburse funding to developing countries to help meet the cost of climate change mitigation and adaptation. Capitalized primarily by developed countries, the funds also serve as recognition of the greater historic responsibility these countries have for current atmospheric greenhouse gases. While several international climate funds now exist, their combined resources of \$23 billion are a mere fraction of the global need of trillions of dollars a year. The funds must therefore distribute their precious resources carefully to ensure maximum positive impact.

This report seeks to investigate whether the current arrangement of multilateral climate funds effectively achieves such a distribution. It focuses on the seven major multilateral funds operational today: the Adaptation Fund, Clean Technology Fund, Global Environment Facility, Green Climate Fund,

Least Developed Countries Fund, Special Climate Change Fund, and Strategic Climate Fund. The findings are based on interviews with a spectrum of people representing these funds, contributor and recipient countries and other key stakeholders. The authors also conducted careful analysis of the funds' policies and portfolios.

The report shows there is room to improve how the climate funds currently operate. The landscape of funds could benefit from, among other things, a greater focus on supporting systemic shifts, an increased willingness to take on risk, and improvements in efficiency and coordination. In the longer term, some funds might be consolidated or sunset once they have met their mandates.

It is crucial that international climate finance be used effectively. I hope this report will help ensure this is the case.



Andrew Steer
President
World Resources Institute



EXECUTIVE SUMMARY

Multilateral climate funds play a key role in using public finance to help drive the economic and societal transformation necessary to address climate change. There is growing pressure for policymakers to make the architecture of funds more effective and coherent.

This report examines seven key multilateral climate funds and recommends operational and architectural reforms to improve their ability to deliver low-emissions and climate-resilient development.

Highlights

- The next decade is critical if the world is to prevent the most catastrophic impacts of climate change; the amount of investment required lies in the trillions of dollars.
- The proliferation of climate funds has led to inefficiency in the channeling and delivery of finance.
- This report proposes solutions to enhance the impact of multilateral climate funds, based on an extensive review of the literature and interviews with more than 50 stakeholders.
- A set of five strategies is key to success: scaling up impact, promoting greater country ownership, improving efficiency, supporting equitable allocation, and increasing accountability of operations.
- To improve their effectiveness, these funds should undertake a series of operational and architectural reforms.
- In the near term, funds should define their mandates and specializations to ensure an improved division of labor; in the longer term, some funds may need to merge or close.

Context

The next decade will be critical if the world is to prevent the most catastrophic impacts of climate change. The 2015 Paris Agreement on climate change established an ambitious goal to limit the increase in global average temperature to well below 2 degrees Celsius (2°C) above preindustrial levels, while aiming to limit it to 1.5°C. The agreement also has a goal of increasing the ability to adapt to climate change and fostering resilience. The amount of investment needed to achieve these goals lies in the trillions of dollars. By far the largest sums of capital lie in the private sector, and aligning these investment funds with climate and sustainable development goals is key. Although it is smaller in amount, public finance also plays a critical role; it is the source over which policymakers can exert direct control, and it is essential for providing public goods and services that the private sector is unwilling or unable to support. When deployed effectively, public finance can catalyze private investment by stimulating markets, fostering innovation, and reducing risk.

A rich and varied architecture of public institutions is involved with raising, channeling, and deploying finance for climate-related activities. These funds and institutions follow bilateral and multilateral channels and use a variety of instruments. Among them, multilateral climate funds play a key role in using international public finance to stimulate the shifts in investments by other public and private finance institutions that are necessary to drive a broader economic and societal transformation. Only transformation at a global scale will be sufficient to reduce emissions and improve climate resilience in order to meet international climate and sustainable development goals.

Multilateral climate funds face a number of challenges to realizing their full potential. Over the last two decades, there has been a proliferation of bilateral and multilateral funds providing climate finance, each one responding to needs that emerged at different times. Among the multilateral climate funds, the result has been some overlapping of roles and duplication of effort. Policymakers are now raising questions about how to improve coherence and complementarity and respond to evolving developing country needs in order to enhance effectiveness. Additionally, the future direction and role of some multilateral funds is unclear due to resource constraints, evolving mandates, or unresolved questions pertaining to their continued existence. These issues have led to debate in contributor countries regarding where to allocate public resources, and in recipient countries regarding which funds they prioritize their engagements with.

This report focuses on seven multilateral climate funds. Five are explicitly part of the institutional framework of the UN Framework Convention on Climate Change (UNFCCC): the Green Climate Fund (GCF), the Global Environment Facility (GEF), the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF), and the Adaptation Fund (AF). The two Climate Investment Funds (CIFs)—the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF)—lie outside this UNFCCC framework. The SCF encompasses three further programs: the Pilot Program for Climate Resilience (PPCR), the Forest Investment Program (FIP) and the Scaling-Up Renewable Energy in Low Income Countries Program (SREP).

To underpin our analysis, we identify five key strategies that multilateral climate funds should pursue if they are to be effective in supporting transformative change. These strategies embody both guiding principles for change and goals for action.

- *Achieve impact at scale.* Trillions of dollars in investment are needed to address climate change, and multilateral climate funds should play a key role in scaling up climate finance by deploying their resources catalytically to mobilize larger flows of funding that achieve systemic change.
- *Promote country ownership.* Funds should ensure that finance is being channeled to support nationally determined priorities (inclusive of broad stakeholder engagement) and strengthen national capacities to plan, coordinate, implement, and monitor climate actions.
- *Improve efficiency.* Funds should pursue greater efficiency in minimizing transaction costs, speeding up project delivery, and providing access to money.
- *Support equitable allocation.* Funding should be fairly allocated to reach developing countries with the greatest need, for the range of climate actions that will be necessary.
- *Increase accountability.* Funds should improve processes to ensure that activities fulfill their mandates and comply with operational policies (including fiduciary standards, safeguards, and grievance processes).

Our analysis shows that the existing climate finance architecture needs to be improved to deliver on all aspects of these strategies. Challenges include structural, resource, and operational issues. However, the current architecture is not set in stone. The direction of climate funds will be raised in several policy arenas over the next few years, including discussions on fund replenishments and complementarity/coherence among funds. Policymakers have an opportunity to make changes to the funds to ensure that their impact is positive and responsive to the evolving needs of developing countries. We propose that the multilateral climate funds undertake a set of reforms to improve their effectiveness in catalyzing the transformation to a low-emissions, climate-resilient world.

BOX ES-1 | ABOUT THIS REPORT

The purpose of this report is to examine the extent to which the current multilateral climate funds undertake key strategies needed for transformation and how the architecture of these funds might be strengthened and clarified in order to most effectively achieve those strategies. We reviewed the funds' annual reports, financial documents, performance reports, independent evaluations, UNFCCC reviews, and research reports by government, academics, and civil society organizations. In addition, we interviewed more than 50 stakeholders from donor and recipient governments, fund secretariat staff, and representatives from the private sector and civil society. We sought feedback on drafts of this report at meetings of the Conference of Parties to the UNFCCC and the Green Climate Fund board in 2016. This report was made possible by the generous support of the Swedish Ministry of Foreign Affairs. WRI aims to offer insights into how policymakers in contributor and recipient countries can evaluate the existing architecture of the multilateral climate funds and explore possible scenarios for the architecture in coming years. In short, it is intended to help answer the question, who should do what?

Operational Recommendations

Improve Coordination Among Funds and Between Funds and Countries

Even without changes to their formal operations, funds could improve their coordination to ensure that they meet countries' diverse needs, minimize duplications and inefficiencies in their portfolios, and simplify access to funding. This would require funds to think strategically and collaboratively about who is best placed to serve different thematic and geographic areas, who should support which activities, and how needs will evolve over time. Funds could improve coordination by having their secretariats and boards engage with each other more closely. At the country level, programming and planning need to be holistic and not limited to a fund-specific portfolio. One possible solution is for countries to identify one ministry or body that serves as the national focal point or authority for all the climate funds. There is also a need for more

coordinated readiness support and capacity building than is being provided by the funds and their readiness partners. There may be value in establishing a broader readiness hub or program that addresses overall planning and pipeline needs.

Harmonize Standards, Accreditation Requirements, and Proposal Approval Procedures

The funds currently use a multiplicity of rules and procedures to access finance. This results in considerable inefficiencies for implementing entities, particularly national entities with less capacity. Recipient countries must design systems that respond to different demands and different standards. The complex system also makes it harder for stakeholders to track impact and hold funds accountable.

Funds could agree on a consistent set of fiduciary standards, environmental and social safeguards, and gender policies that apply across all funds. Standardizing accreditation and funding proposal procedures would also be a significant improvement. In addition to increased efficiency, funds would also see greater complementarity in readiness efforts if rules were harmonized—all readiness and capacity-building programs would support entities' ability to access any of the funds. Transparency might also improve with such changes.

Emphasize Programmatic Approaches That Encourage Systemic Shifts

Transformation will not occur if the bulk of financing goes to one-off projects that do not catalyze

more systemic change at national, regional, and, ideally, global levels. Funds should support systemic shifts by strategically investing in policy initiatives or actions that have the potential to change behavior in markets and economies beyond the confines of a specific activity. Programmatic approaches, which typically involve bundling or aggregating activities that contribute holistically to a particular outcome, are a useful approach for supporting necessary policy and market shifts. Such programmatic approaches can increase efficiencies and promote country ownership by enabling entities to program larger sums under one proposal, then devolve decisionmaking to national or regional levels. The GCF and CIFs have a niche in supporting programmatic approaches, and the GEF could play a complementary role through cross-sectoral programming and smaller catalytic interventions.

Architectural Recommendations

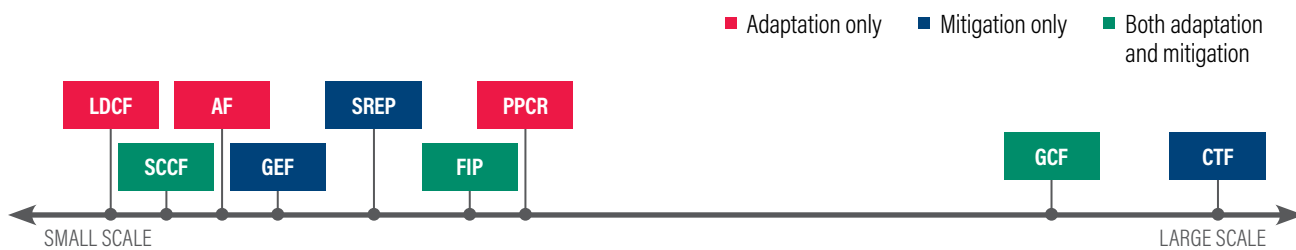
Short Term: Clarify Specialization of Funds

Some duplication is beneficial because it provides choice, but it is not efficient for all funds to attempt to fulfill the broad spectrum of needs. A clearer division of labor would help both contributors and recipients to prioritize their engagement. Funds could build on their existing comparative advantages and specialize in different areas, with a view to reducing inefficient duplications and addressing gaps in current provision.

The GEF could support impact at scale by focusing on its traditional strengths in working across the five



Figure ES-1 | Current Spectrum of Scale and Thematic Focus



Note: LDCF, Least Developed Countries Fund; SCCF, Special Climate Change Fund; AF, Adaptation Fund; GEF, Global Environment Facility; SREP, Scaling-Up Renewable Energy Program; FIP, Forest Investment Program; PPCR, Pilot Program for Climate Resilience; GCF, Green Climate Fund; CTF, Clean Technology Fund.

Source: WRI.

conventions it serves (Climate Change, Biological Diversity, Persistent Organic Pollutants, Desertification, and Mercury), and focusing “pure play” climate change support on catalytic mitigation interventions. In doing so, the GEF can complement the GCF and CTF in supporting programmatic approaches and systemic shifts for mitigation. GEF support for capacity building, a core mandate, also strengthens country ownership; its Capacity Building Initiative for Transparency will need to be incorporated as a strong feature in the next GEF replenishment. The GEF Council would need to ensure the fund exercises discipline in retaining a sharp focus on these core strengths, rather than trying to expand its work outside its area of comparative advantage.

The LDCF could support equitable allocation by positioning itself to be complementary to the AF in the small-scale adaptation space, focusing particularly on projects larger than \$10 million or on least developed countries (LDCs) that do not gain direct access to the AF. The LDCF currently plays an important role in providing more options for LDCs to access adaptation funding. To date, the LDCF has supported development and implementation of national adaptation programmes of action (NAPAs), which are short-term plans, in nearly all LDCs. It is now supporting the development and implementation of national adaptation plans (NAPs), which are long-term plans to build resilience and critical for capacity building. The emphasis on national planning also supports country ownership.

The SCCF could support equitable thematic allocation by focusing solely on its technology window and cede its work on adaptation to the AF and GCF.

The SCCF’s technology transfer window has to date received less attention and financing; however, it is the only fund with an explicit thematic window for technology transfer. While the SCCF’s adaptation window is currently larger, there are now four other funds that support adaptation, with several billion dollars in combined resources. This suggests the SCCF’s thematic niche, if adequately resourced, could be in technology.

The AF could continue to support equitable allocation and country ownership by focusing on small-scale adaptation activities and increasing countries’ direct access to funding. While programmatic approaches can be important for adaptation, there is still a need for smaller, concrete actions across a wide range of countries. Furthermore, the AF plays an important role in building the capacities and track record of national institutions to undertake adaptation work, and can be a stepping-stone for many national institutions to access the GCF.

The CIFs could continue to focus on their comparative advantage: working through multilateral development banks (MDBs) with a relatively small number of countries to develop programs that use concessional resources to catalyze larger levels of private investment for impact at scale. The CTF should continue supporting programmatic, large-scale clean energy projects, and the SCF’s programs could focus on supporting the sectors in countries that may not receive priority from other funds. Focusing on a smaller number of countries allows the CIFs to allocate more resources for higher impact. The CIFs could also place more emphasis on using their knowledge of low-emissions and climate-resilient

projects to help MDBs move away from financing high-emission and maladaptive investments.

The GCF could focus on impact at scale by providing larger-scale, programmatic interventions and developing the institutional and policy frameworks necessary for longer-term mobilization of investments. To continue enhancing country ownership, the GCF should strengthen its readiness program and fund smaller interventions for national entities that need to build their capacities to handle larger amounts of funding. The fund could explore programmatic approaches for adaptation but leave adaptation projects of less than \$10 million to the AF and coordinate with the LDCF to enhance efficiency in NAP funding and related implementation. The fund could also develop targeted criteria for allocations in its mitigation window, potentially carving out funding to focus on countries with large mitigation potential but significant barriers to financing that cannot be addressed through other funding sources.

Long Term: Close or Consolidate Some Funds

In the longer term, clarifying the division of labor may not be sufficient to address inefficiencies and the overlaps between funds. Resources are limited and developing countries report many difficulties in navigating the complex and crowded funding landscape. Closing or consolidating funds may therefore be warranted. In doing so, it is important to ensure that key roles played by funds are not lost in the transition.

Stakeholders largely agreed that the two operating entities of the UNFCCC financial mechanism (the GEF and GCF), which also serve the Paris Agreement, should continue. There was less agreement with regard to the future of the CIFs, the LDCF, the SCCF, and the AF. The LDCF, SCCF, and AF are also linked to the Paris Agreement; however, the Conference of Parties and Conference of the Parties Serving as the Meeting of the Parties to the Paris Agreement could revisit their mandates and relationships as discussions evolve over time.

Several stakeholders felt that the CIFs should begin the process of sunseting, assuming the GCF scales up and is able to fill key roles played by these funds. If the GCF successfully scales up delivery of resources, over time it could potentially absorb some of the CIFs portfolio of work. Being the only

other fund that can work at the same scale, through the same instruments, in the same breadth of thematic areas, and with a strong programmatic focus, the GCF could fill the roles currently played by the CIFs while working through a wider range of entities, including national institutions. It will be especially critical that the GCF take up the programmatic approach that the CIFs have played an important role in developing. Sunseting would directly address the concern that the CIFs operate outside the guidance of the international community's UNFCCC process. If the CIFs do not sunset, they should explore ways to continue with less funding coming from country contributors, so as not to draw resources away from other funds.

The SCCF and, to a lesser extent, the LDCF, have struggled to attract funding to support their intended operations and may need to close or be consolidated. If there are no additional pledges, one option would be for both of these funds to be absorbed by the GEF so that relevant activities can continue through core GEF support. Another option is to close the SCCF (since the GCF, CIFs, and GEF can support similar activities) but maintain the current operations of the LDCF, assuming adequate resourcing. While the GCF does emphasize adaptation support for small island developing states (SIDS), LDCs, and African countries, it is not targeted as closely as the LDCF is for LDCs. If no formal decision is taken to sunset the SCCF, it is likely to become functionally dormant, due to lack of contributions.

In principle, it would be possible for the GCF to absorb functions performed by the AF, but a dedicated fund for adaptation could still provide added value. The GCF has a strong focus on adaptation, can support small-scale projects, has accredited many of the AF implementing entities, and includes adaptation in readiness support. However, many stakeholders noted that with its experience in small-scale adaptation and direct access, the AF could still play a distinct role in the architecture. If so, there should be a division of labor between the funds for adaptation, where the AF builds on its niche, while the GCF focuses on larger, more transformative, or financially innovative approaches. If the AF continues, one option would be to develop formal institutional linkages between the GCF and the AF. The GCF could channel funds to the AF as

programmatic envelopes to seed small-scale activities that could be taken back to the GCF for further funding and scaling up at a later stage. This would address resourcing constraints for the AF and would likely require lifting its current country cap so that countries with greater need could receive more than \$10 million. Another possible solution to the AF’s resource challenge would be to decide that a share of proceeds from the mitigation and sustainable development mechanism, established under the Paris Agreement, should be channeled through the AF.

Overall, closing and consolidation could bring gains in efficiency but also reduce choice. Consolidation would have implications for the remaining funds (particularly the GCF and GEF). The GCF is now operational and holds much promise, but it still faces challenges in disbursing allocated funds and attracting a strong project pipeline. The GCF’s readiness program is running, but it needs more capacity to meet developing country needs. GCF staffing also needs to be strengthened. Thus, at the moment, while the GCF has the potential to absorb the roles of most other funds, it is not yet fully in a position to do so. This may change in time. If the

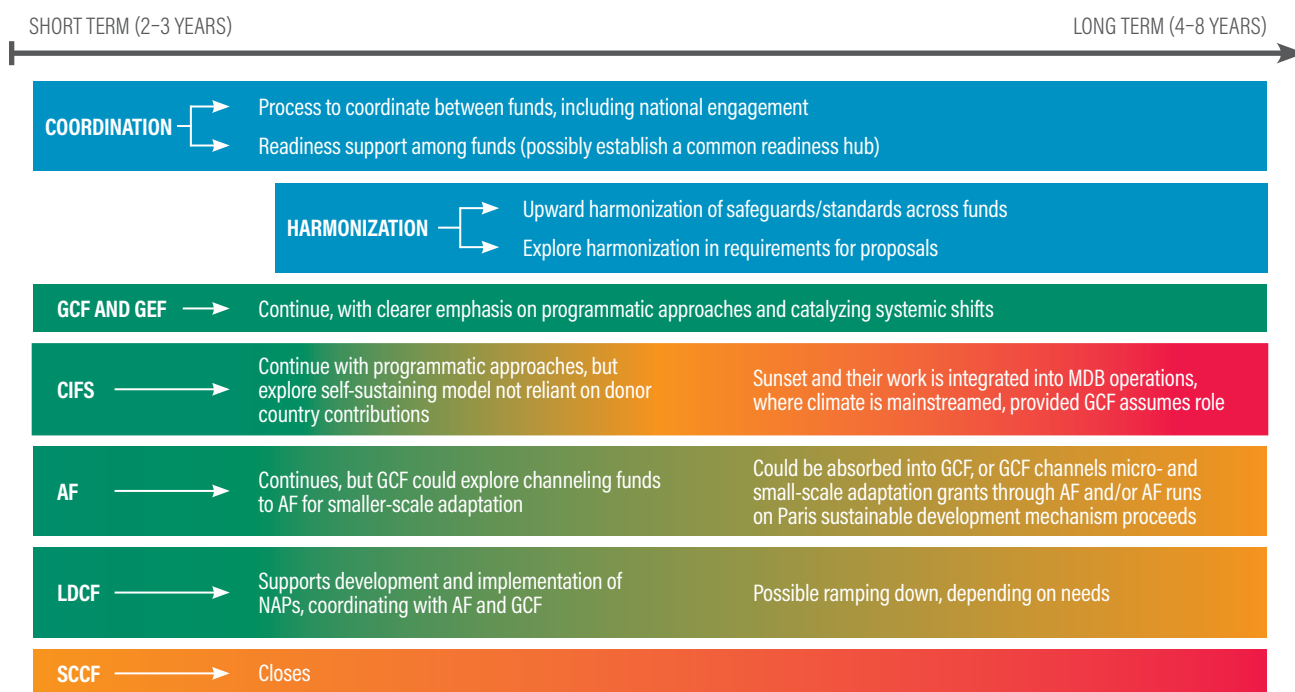
LDCF and SCCF are absorbed into the GEF, this will require expanding the GEF’s current mandate to include adaptation focused on LDCs. Further, if the CIFs sunset, considerable pressure would be put on the GCF and the GEF’s climate change funding to deliver impacts at scale.

Conclusions

We suggest a set of reforms, with changes in the shorter term (2–3 years) focused on improving the coordination and specialization of current funds while, in the longer term (4–8 years), funds are closed or consolidated. The recommendations we propose are not necessarily mutually exclusive, nor are they the only options worth considering.

Policymakers and other decisionmakers must think strategically and carefully about how the architecture of climate finance should evolve. Governments will need to consider different options, in collaboration with other stakeholders, including civil society, private sector actors, and implementing entities. Decisions over the next decade must drive the systemic shifts necessary to respond to the urgency of the climate challenge.

Figure ES-2 | Continuum of Reforms



Note: In the short term all funds should consider reforms to specialize in order to reduce inefficient duplications.

Source: WRI.



PART I

INTRODUCTION

In this section, we review the global context of climate finance, outline the methodology for this report, and provide a snapshot of the seven multilateral climate funds under analysis. We then set out the five strategies for transformative change that provide the analytical framework for assessing funds in the following section.

Context

The 2015 Paris Agreement on climate change established an ambitious goal to limit the increase in global average temperature to well below 2 degrees Celsius (2°C), and aiming to limit it to 1.5°C, above preindustrial levels (UNFCCC 2015a, Article 2.1a). To achieve this, countries must aim to reach a global peaking of greenhouse gas emissions as soon as possible, and achieve a net-zero emissions world by the second half of the century (UNFCCC 2015a, Article 4.1). The agreement also includes a goal to increase our ability to adapt to the adverse impacts of a warming planet (UNFCCC 2015a, Article 2.1b). The next decade will be critical if the world is to make significant progress on these goals and successfully avoid the most catastrophic impacts of climate change.

The Paris Agreement also established the objective of making finance flows “consistent with a pathway towards low greenhouse gas emissions and climate-resilient development” (UNFCCC 2015a, Article 2.1c). This objective sends a strong signal to all financial institutions and investors—public and private—to align their investments with the Paris Agreement’s goals. It will require a rapid shift in investments away from fossil fuels and other high-emission activities and toward clean energy, green infrastructure, and climate resilience.

The Cost of Addressing Climate Change

The amount of investment needed to address climate change is projected to be in the trillions of dollars. The New Climate Economy estimates that, under a business-as-usual scenario, infrastructure for cities, land use, and energy systems will require investment of \$89 trillion (about \$6 trillion annually) between 2015 and 2030. To prevent the worst impacts of climate change, net additional investment of around \$4 trillion (about \$270 billion per year) will be needed. This cost represents only a 5 percent increase over the business-as-usual scenario and is likely to be offset in the longer term by fuel cost savings (Global Commission on the Economy and Climate 2014). In many ways, the greater challenge is not to find the additional investment but to ensure that the other \$89 trillion of business-as-usual investment is reoriented toward low-emissions, climate-resilient infrastructure.

Adaptation costs for developing countries could be \$70–\$100 billion per year between 2010 and 2050, according to the Intergovernmental Panel on Climate Change’s Fifth Assessment Report, although this report had a low degree of confidence due to limitations in data and methodologies (IPCC 2014). UN Environment Programme’s (UNEP) more recent Adaptation Finance Gap report suggests that annual adaptation needs may be in the range



of \$140–300 billion by 2030, rising to \$280–500 billion by 2050 (UNEP 2016a). Adaptation cost estimates are, of course, dependent on mitigation efforts and resulting temperature pathways, but, even with the inherent uncertainties, these studies reiterate the need to mobilize trillions of dollars in investment to enable countries to transform their national development trajectories.

The Role of Public Finance and the Multilateral Climate Funds

Public finance can play a critical role in helping to ensure that the global costs of climate change mitigation and adaptation are met. Although the private sector controls by far the largest sums of capital, policymakers can exert direct control over public finance. When deployed effectively, public finance can help shift private investment by stimulating markets, fostering innovation, and reducing risk. Public finance is also essential for providing public goods and meeting other needs that the private sector is unwilling or unable to support.

A rich and varied architecture of public institutions is involved in raising, channeling, and deploying finance for climate-related activities. During the past two decades, the number of international funds providing climate finance has grown, each new fund responding to needs that emerged at

different times. This pattern of growth reflects a general trend consistent with development finance. Over time, the proliferation of funds has led policymakers to question whether such a diverse landscape of funds is able to effectively channel climate finance to support the necessary transformation to low-emissions, climate-resilient societies. Funds do not always operate with optimal efficiency due to unclear divisions of labor, while an abundance of rules can make navigating climate finance challenging for many countries and implementing entities. The complexity of the current landscape is illustrated in Figure 1.

This report focuses on multilateral climate funds, a relatively small but significant subset of public finance institutions with an explicit mandate to focus on climate change.¹ These funds have a key role in stimulating the necessary shifts in investments by other public and private finance institutions. The current architecture of multilateral climate funds is not set in stone, however, and the future direction of several funds is unclear due to resource constraints, evolving mandates, or unresolved questions pertaining to when they will close (e.g., when sunset provisions might be triggered). Policymakers therefore have an opportunity to make changes to the funds to ensure that their impact is positive and responsive to the evolving needs of developing countries.



Figure 1 | Global Architecture of Climate Finance

LEGEND

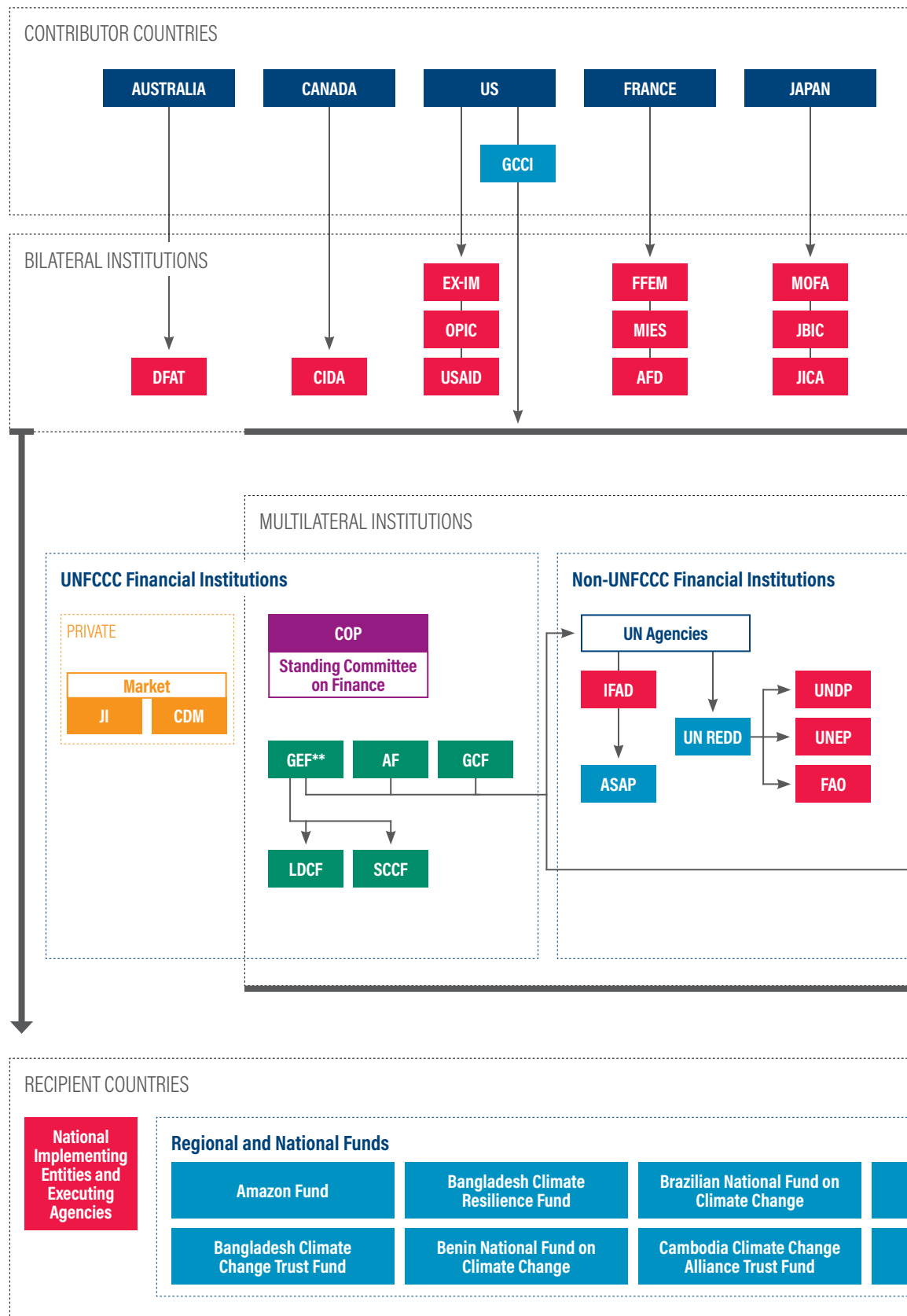
- Funds analyzed in this report
- Implementing agencies
- Funds not analyzed in the report

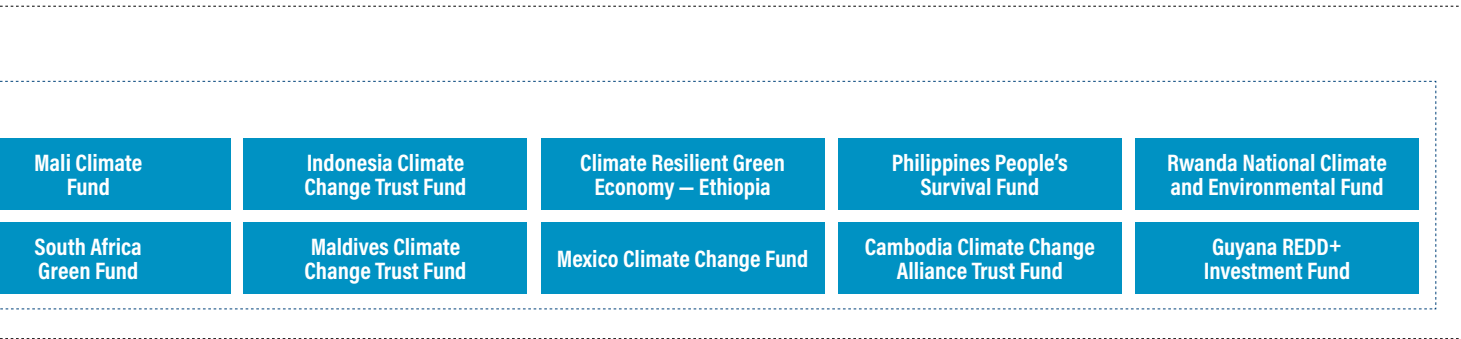
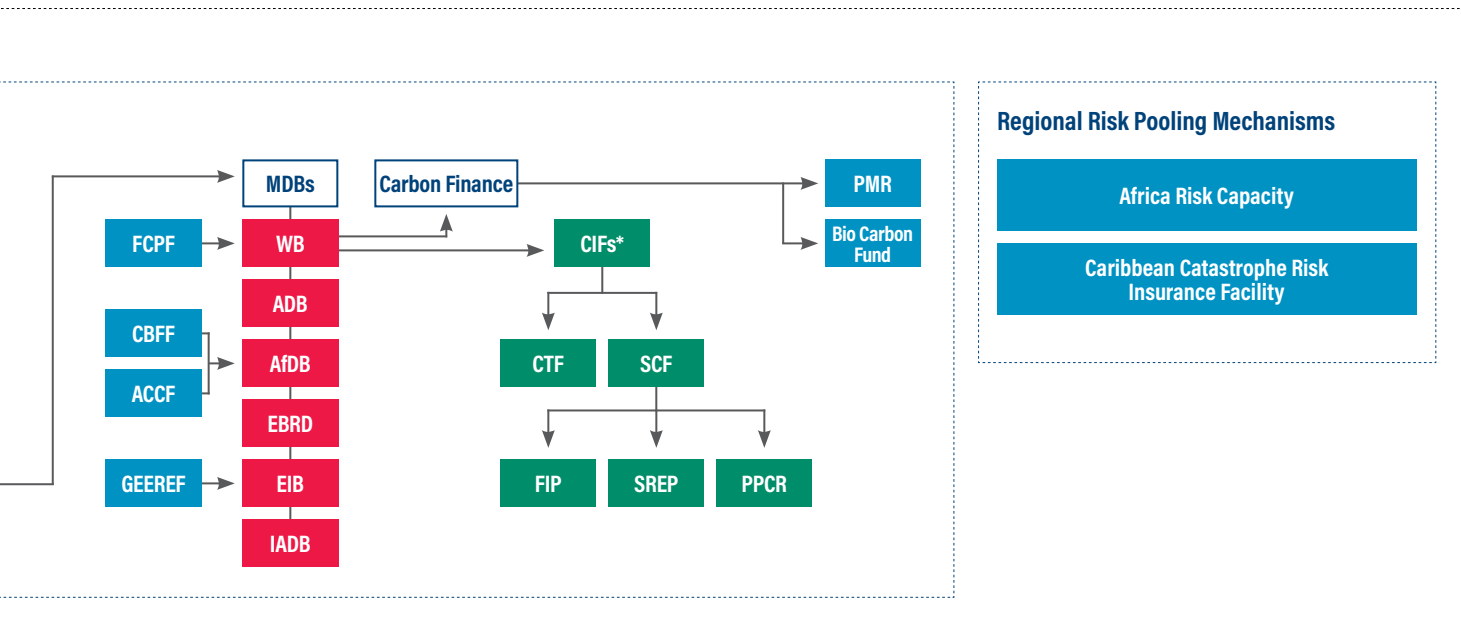
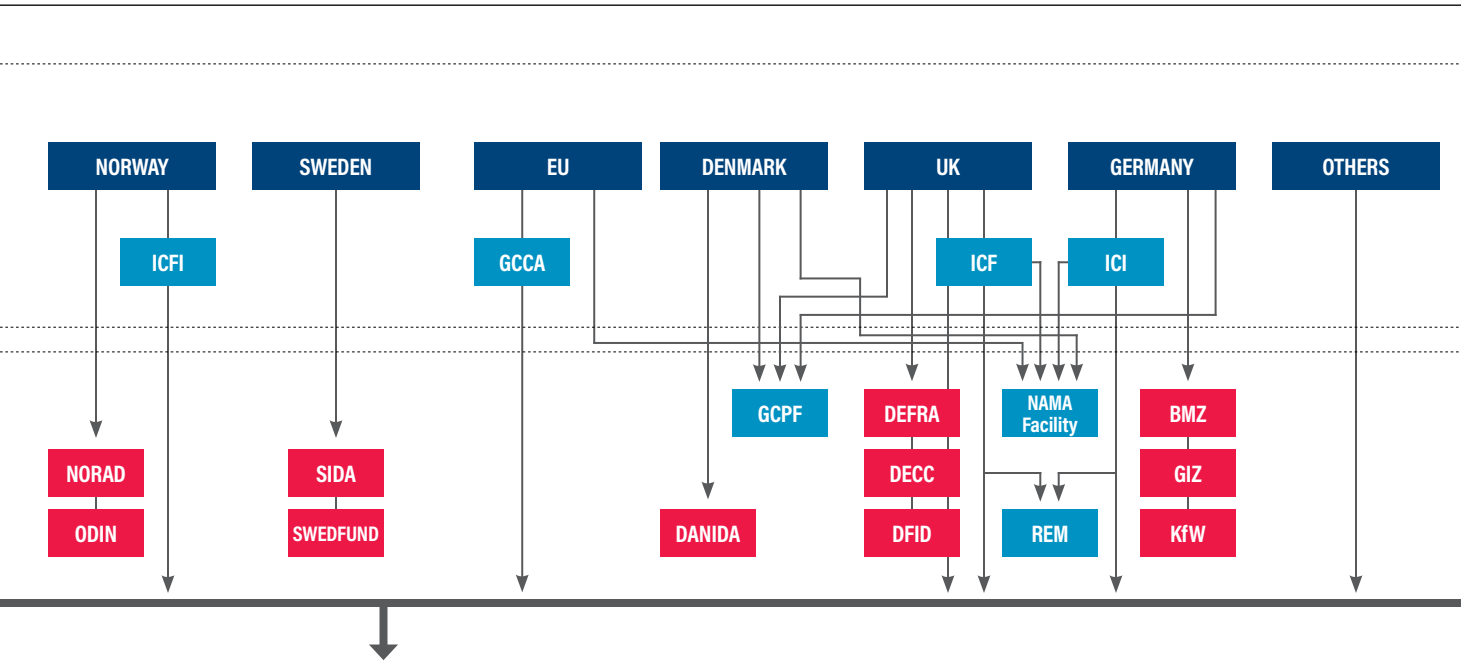
* The CIFs are administered by the World Bank

** GEF serves as secretariat for all the nonmarket UNFCCC funds except the GCF

Note: The schematic is indicative and does not capture all countries, climate funds and initiatives.

Source: Adapted by authors from ODI and HBF 2016.





Scope and Objectives of the Report

This report seeks to evaluate the degree to which the main multilateral climate funds support strategies that drive transformation to a low-emissions, climate resilient future and how the current architecture could be restructured and strengthened. We suggest a set of five strategies for transformational change and analyze the degree to which the funds currently embrace these strategies. We then explore options for restructuring and strengthening the multilateral climate finance architecture. Our objective is to offer insights into the challenges and opportunities facing the multilateral climate funds and suggest potential answers to the question, who should do what? We hope that policymakers will find our recommendations useful as they consider the path ahead.

We focus on the funds that are associated with the UN Framework Convention on Climate Change (UNFCCC), as well as the Climate Investment Funds (CIFs).

Multilateral Climate Funds

GEF	Global Environment Facility (GEF)
LDCF	Least Developed Countries Fund (LDCF)
SCCF	Special Climate Change Fund (SCCF)
AF	Adaptation Fund (AF)
CTF	CIFs: Clean Technology Fund (CTF)
SCF	CIFs: Strategic Climate Fund (SCF)
GCF	Green Climate Fund (GCF)

For the sake of brevity, this report limits its analysis to the funds listed above. It is worth noting that other international funds, including general funding from multilateral development banks, dedicated forest funds, and bilateral initiatives, also provide climate finance. For example, the World Bank's International Development Association (IDA), which provides development finance to the world's poorer countries, includes climate change as a theme (see Box 1). Future research could explore the role of other sources of climate finance and how they could work in coordination with the multilateral climate funds analyzed here.

On the basis of desk research and stakeholder interviews, we propose that these climate funds collectively need to pursue five key strategies in order to support transformation while responding to developing country needs.

- *Achieve impact at scale.* Because trillions of dollars in investment are needed to address climate change, multilateral climate funds should focus on deploying their resources catalytically to mobilize larger flows of funding to achieve systemic change.
- *Promote country ownership.* Funds should ensure that finance is being channeled to support nationally determined priorities (inclusive of broad stakeholder engagement) and strengthen national capacities to plan, coordinate, implement, and monitor climate actions.
- *Improve efficiency.* Funds should pursue greater efficiency in minimizing transaction costs, speeding up project delivery, and providing access to money.
- *Support equitable allocation.* Funding should be fairly allocated to reach developing countries with the greatest need, for the range of climate actions that will be necessary.
- *Increase accountability.* Funds should improve processes to ensure that activities fulfill their mandates and comply with operational policies (including fiduciary standards, safeguards, and grievance processes).

Methodology

Our research comprised an extensive literature review of funds' annual reports, financial documents, performance reports, independent evaluations, UNFCCC reviews, and government, academic, and civil society research. We supplemented this secondary research with 44 in-person or telephone interviews with over 50 key stakeholders, conducted between April and July 2016 (see Appendix 2). We sought feedback on an early draft of this report at a dinner attended by 25 government representatives during COP 22 in Marrakech in November 2016. Additional feedback was obtained in conversations on the sidelines of the fifteenth meeting of the Green Climate Fund Board in Apia, Samoa, in December 2016.

BOX 1 | THE ROLE OF DEVELOPMENT FINANCE INSTITUTIONS LIKE THE INTERNATIONAL DEVELOPMENT ASSOCIATION IN CLIMATE FINANCING

The multilateral climate funds covered in this report are not the only sources of public finance for climate change mitigation and adaptation in developing countries. Many other sources of funding exist, including multilateral development banks that channel development assistance without a specific focus on climate change. As the effects of climate change on economies become ever clearer, development finance increasingly flows to initiatives that support low-emissions, climate-resilient development.

The World Bank Group (WBG) is one development finance institution where climate change plays an increasingly important role. Whereas much of the WBG's dedicated climate funding is channeled through the Climate Investment Funds, which are covered in this report, the importance of climate change is starting to reflect in its broader portfolio. In April 2016, the WBG unveiled a Climate Change Action Plan in which it committed to invest 28 percent of its portfolio in climate-related initiatives like urban resilience and clean energy generation.

The International Development Association (IDA) is the part of the World Bank that provides financing to the world's poorest countries. Currently 77 countries receive IDA funding. Distribution of funding to these countries is based on how each country is implementing policies to support economic development, as well as the size and relative wealth of the country. IDA provides primarily concessional loans, although some countries at risk of taking on too much debt can receive grants. IDA committed \$16.2 billion (12 percent in grants) in FY2016.

For the past two IDA replenishment periods covering fiscal years 2012–17, climate change has been a special theme (along with gender and fragile and conflict states). To help integrate climate change into the IDA portfolio, all IDA projects are now screened for climate-related risks. These screenings provide project developers with information on predicted climate-related changes, like sea level rise or increased drought, that can have an effect on a project's success. IDA also funds projects with direct or indirect

benefits on climate change mitigation or adaptation. In FY2016, 10 of IDA's 161 new projects were tagged as having climate benefits totaling \$848 million (around 5 percent of its \$16.2 billion in commitments that year). In the coming IDA replenishment period covering 2017–20, the bank has committed to using greenhouse gas accounting, to supporting countries' Nationally Determined Contributions, and to adding five gigawatts of renewable energy.

The increasing role that climate change plays in development finance institutions like IDA helps to ensure that climate-related finance reaches a broader spectrum of developing countries. However, most development finance continues to go to other important development activities like healthcare, education, or basic infrastructure. Thus the multilateral climate funds described in this report are critical in ensuring that developing countries receive finance specifically dedicated to addressing climate change impacts.

Sources: World Bank 2016a, 2016b.

Interviewees included the following stakeholders:

- Representatives from developing country institutions responsible for receiving, channeling, or programming climate finance
- Representatives from developed countries that provide resources for the funds
- Members of fund governing bodies
- UNFCCC negotiators
- Fund secretariat staff
- Representatives of international entities that have been accredited as implementing entities to one or more of the climate funds
- Members of the private sector
- Representatives of civil society organizations that engage with the funds

Interviews were confidential and semi-structured, based on the questions in Table 1. They included general questions for all interviewees and specialized questions for certain stakeholders.

Table 1 | Interview Questions

CATEGORY	QUESTIONS
All	<ul style="list-style-type: none"> ■ What are the comparative advantages of the funds you engage with relative to other multilateral climate funds? For example, in terms of theme, technologies supported, geographic/income focus, instruments offered, and investment approach. In light of this, how should they evolve in the next few years? ■ For each of the multilateral climate funds that you engage with, how responsive are they to developing countries' needs? How well do they promote developing country ownership (e.g., alignment with national priorities; decisionmaking and accountability vested in national institutions; enhancement of national capacities)? ■ In what ways are developing countries planning, coordinating and deploying climate-related finance? Which types of national or subnational actors are playing a key role in planning and implementation? ■ What additional research would be helpful for you looking at the global climate finance architecture and multilateral climate funds? How would you prioritize these research questions?
Recipient countries	<ul style="list-style-type: none"> ■ How do you choose which funds to approach for finance? What are the most important considerations? ■ How easy is it to access funding from multilateral climate funds? Has your country made use of direct access modalities? What was your experience? If not, is this something you are considering?
Contributor Countries	<ul style="list-style-type: none"> ■ What factors are most relevant in prioritizing climate finance allocations? Are you considering changing your approach to allocating climate finance?
Fund secretariats	<ul style="list-style-type: none"> ■ How do you see your fund's role in the broad climate finance architecture? ■ In what ways do you cooperate or work with other multilateral climate funds? For example, cofinancing, readiness, knowledge sharing, technical assistance, other.
Civil society and private sector	<ul style="list-style-type: none"> ■ Which funds do you engage with and why? ■ How responsive are the different multilateral climate funds to civil society/private sector input?



Snapshot of the Seven Multilateral Climate Funds

The seven climate-specific multilateral funds included in this research are introduced in this section. We cover their existing mandates and provide comparative information about their operations. More detailed information on the seven funds, describing the reasons for their foundation, their key functions and activities, and their organizational and governance arrangements is given in Appendix 1. For readers unfamiliar with any of the funds, we recommend reading relevant portions of this appendix before proceeding to the following sections of this report.

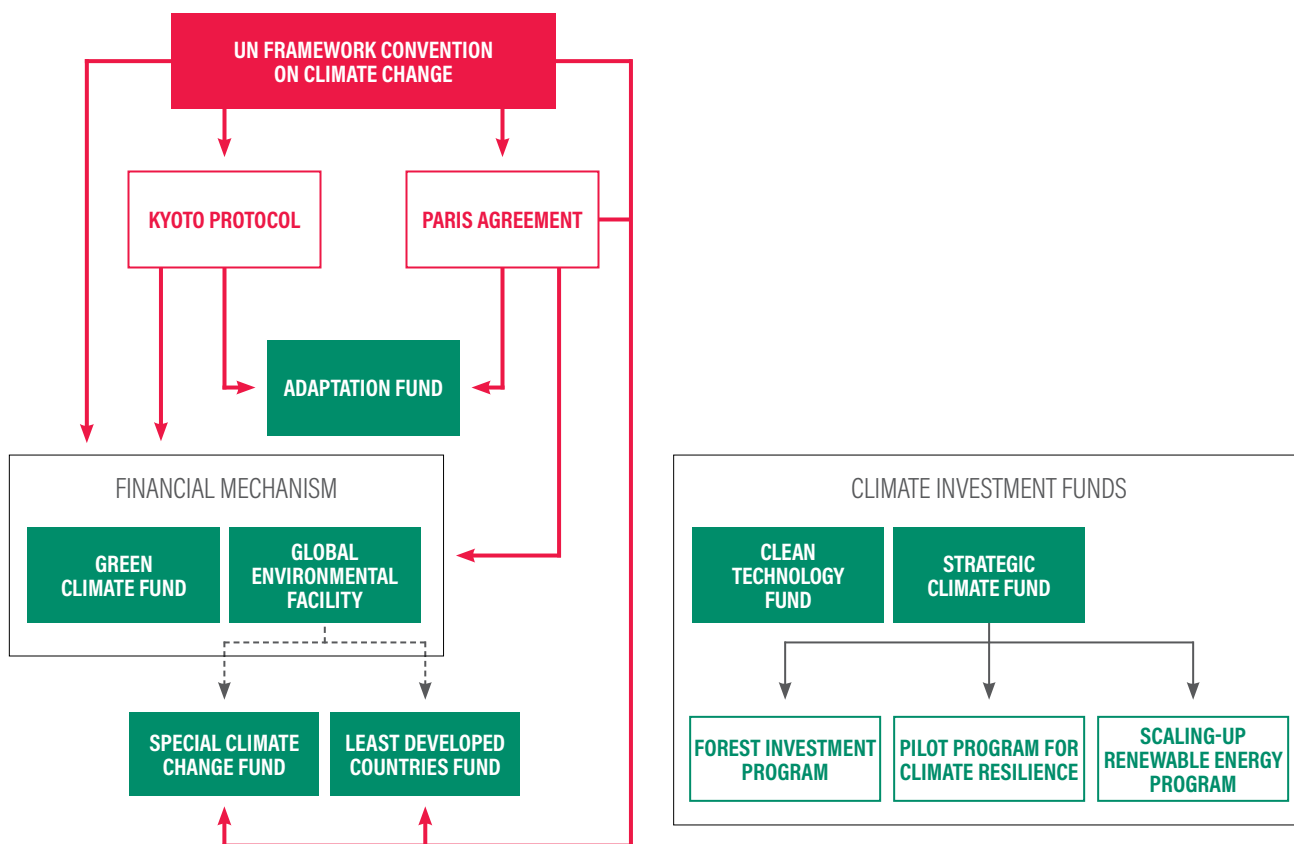
Current Legal Mandates

When the United Nations Framework Convention on Climate Change (UNFCCC) was adopted in 1992 it designated the Global Environment Facility (GEF), which had been established the year before, as the first operating entity of its financial

mechanism (UNFCCC 1992, Article 11). In 2001, at the Seventh Conference of the Parties to the UNFCCC (COP7), the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF) were created specifically to serve the Convention (UNFCCC 2001, Decision 7/CP.7). These two funds are operated by the GEF. The Adaptation Fund (AF) was established in the same year under the Kyoto Protocol (UNFCCC 2001, Decision 10/CP.7), but did not become operational until 2009.

In 2008, developed countries and the multilateral development banks (MDBs) established the Climate Investment Funds (CIFs) as an interim means of ramping up public financial flows for climate action (World Bank 2008). The CIFs comprise two trust funds, the Clean Technology Fund and the Strategic Climate Fund, the latter of which has three programs: the Pilot Program for Climate Resilience (PPCR), the Forest Investment Program (FIP) and the Scaling-Up Renewable Energy in

Figure 2 | Relationship of Funds to International Climate Agreements



Note: The dotted arrows indicate that the LDCF and SCCF are administered by the GEF.

Source: WRI.

Low Income Countries Program (SREP). Several developing-country and civil society stakeholders raised concerns about the CIFs operating outside UNFCCC governance, and thus potentially not reflecting multilaterally agreed priorities on climate change (Bretton Woods Project 2008; Müller and Winkler 2008). The CIFs sought to address this at their foundation by writing a “sunset clause” into their governance frameworks so as “not to prejudice the on-going UNFCCC deliberations regarding the future of the climate change regime, including its financial architecture.” To this end, they include an undertaking to “take necessary steps to conclude [their] operations once a new financial architecture is effective” (CIFs 2011a and 2014a).

Most recently, in 2010, the Green Climate Fund (GCF) was established as the second operating entity of the UNFCCC’s financial mechanism, alongside the GEF (GCF 2011). Current fund relationships to international climate agreements are mapped in Figure 2.

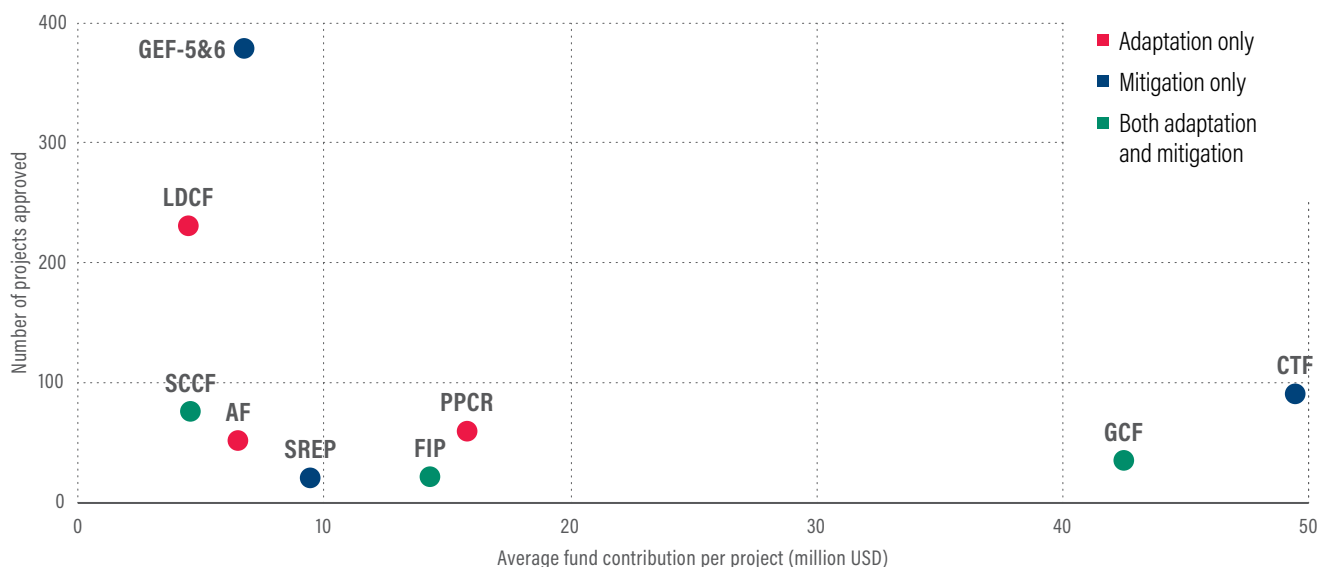
The 2015 Paris Agreement took steps to clarify and expand the mandates of the multilateral climate funds. The UNFCCC’s existing financial mechanism (comprising the GEF and GCF) will serve as the financial mechanism of the new agree-

ment (UNFCCC 2015a, Article 9.8). The LDCF and SCCF will also serve the agreement (UNFCCC 2015b, Decision 1/CP.21 paragraph 58). Countries also decided that the AF, created under the Kyoto Protocol, should serve the Paris Agreement, subject to addressing questions about its governance and institutional arrangements, safeguards, and operating modalities (UNFCCC 2016, Decision 1/CMA.1). Further, the GEF has a discrete mandate to support capacity building for transparency under the Paris Agreement (UNFCCC 2015b, Decision 1/CP.21 paragraph 86). However, questions remain over which funds should perform which roles, and how they should “enhance the coordination and delivery of resources” as urged by the COP (UNFCCC 2015b, Decision 1/CP.21 paragraph 64).

Overview of Size and Operations

The status of the funds by a variety of metrics, using the latest available data, is summarized in Table 2. The data were selected and calculated to provide the greatest level of consistency, but, due to differences in the operational and accounting processes among funds, they are not perfectly comparable. Figure 3 shows the funds by average project size (horizontal axis), number of projects approved (vertical axis), and thematic coverage (color).

Figure 3 | **Multilateral Climate Funds: Funding, Projects, and Thematic Focus**



Note: AF, Adaptation Fund; CTF, Clean Technology Fund; FIP, Forest Investment Program; GCF, Green Climate Fund; GEF, Global Environment Facility; LDCF, Least Developed Countries Fund; PPCR, Pilot Program for Climate Resilience; SCCF, Special Climate Change Fund; SCF, Strategic Climate Fund; SREP, Scaling-Up Renewable Energy Program.

Sources: Compiled by authors, based on data from GEF 2016c, 2016f; AF 2016a; CIFs 2015a; GCF 2016b.

Table 2 | **Multilateral Climate Funds by the Numbers**

FUND	GLOBAL ENVIRONMENT FACILITY -5 AND 6 ^a	LEAST DEVELOPED COUNTRIES FUND	SPECIAL CLIMATE CHANGE FUND	ADAPTATION FUND	CLEAN TECHNOLOGY FUND	FOREST INVESTMENT PROGRAM	PILOT PROGRAM FOR CLIMATE RESILIENCE	SCALING-UP RENEWABLE ENERGY PROGRAM	GREEN CLIMATE FUND
Founded	1991	2001	2001	2001	2008	2008	2008	2008	2010
Cumulative pledged funding (time period) ^b	\$3.03bn (2010–18)	\$1.19bn (2001–16)	\$351m (2001–16)	\$541m (2009–16)	\$5.57bn (2008–16)	\$768m (2008–16)	\$1.19bn (2008–16)	\$777m (2008–16)	\$10.3bn (2014–c.2018) ^c
Contributor countries (with number of developing countries in parentheses)	39 (13)	25	15	14	9	8	9	11 (1)	43 (9)
Funding approved	\$2.54bn	\$1.04bn	\$347m	\$337m	\$4.5bn	\$315m	\$950m	\$197m	\$1.48bn
Projects approved	379	231	76	52	91	22	60	21	35
Countries with projects approved	137	51	79	48	25	8	18	11	52
Data reported	Jun-16	Sep-16	Sep-16	Jun-16	Dec-15	Dec-15	Dec-15	Dec-15	Dec-16

Notes:

^a Data covers only Global Environment Fund (GEF)-5 and GEF-6 climate change activities. GEF-5 ran from July 2010 to June 2014 and GEF-6 runs from July 2014 to June 2018. For pledged funding, rather than including the total amount of donor pledges to the GEF Trust Fund for the GEF-5 and GEF-6 periods, we count only the amounts allocated to climate change activities.

^b Based on pledges, not disbursed money.

^c GCF replenishment cycle has not yet been agreed.

Sources: Compiled by authors, based on data from GEF 2014a, 2016c, 2016f; World Bank 2016c, 2016d, 2016e; AF 2016a; CIFs 2015a; GCF 2016a, 2016b.

Key Strategies for Transformative Change

Meeting the goals of the Paris Agreement requires transformation on a global scale. In this report, we define transformation as deep and sustained change in political, social, and economic systems, which results in a zero-emissions, climate-resilient world (Westphal and Thwaites 2016). A core question for both contributor and recipient countries is how to structure the multilateral climate funds to help ensure such transformation.

This section outlines the five strategies that we believe multilateral climate funds should pursue if they are to effectively support transformative change.² These strategies embody both guiding principles for change and goals for action. The strategies emerged from our desk research and from our numerous interviews with stakeholders who are directly involved in climate finance policy at international and national levels. The strategies provide the analytical framework for our diagnosis of challenges faced by the multilateral climate funds and our recommendations for change in global climate finance architecture.

Strategy 1 | Achieve Impact at Scale

Trillions of dollars in investment are needed to address climate change. Multilateral funds should support actions that achieve scale in terms of reduced or avoided emissions and increased resilience. They should also help scale up climate finance by deploying their resources catalytically to mobilize larger flows of finance. Specifically, funds should

- Mobilize significant financing from the private sector through a diverse range of financial instruments with appropriate levels of concessionality
- Invest in the policy environments and systemic changes needed at the national level to increase the likelihood that impacts will be sustained
- Move toward supporting programmatic approaches in preference to individual project financing, except when circumstances require it
- Provide incentives for implementing partners to shift their broader investment portfolios toward climate-resilient, low-emissions investments

Strategy 2 | Promote Country Ownership

Multilateral funds should ensure that finance is being channeled to support nationally determined priorities (developed through broad stakeholder engagement) and strengthen national capacities to plan, coordinate, implement, and monitor climate actions. Specifically, funds should

- Promote national-level planning and inter-agency coordination to ensure country-driven priority-setting for climate action
- Require and facilitate broad stakeholder engagement in planning, implementing, and monitoring climate action
- Allow national institutions and subnational actors to directly access finance and gain experience in managing climate finance
- Dedicate support to necessary readiness and capacity-building efforts in developing countries

Strategy 3 | Improve Efficiency

Multilateral funds should be efficient in terms of transaction costs, speed of delivering funding, and ease of access. The goal is to ensure a balanced range of implementing entities that can channel finance. Specifically, funds should

- Minimize transaction costs where feasible, recognizing that higher transaction costs may be necessary when building national capacities
- Implement procedures that are comparable and do not increase transaction costs for implementing entities
- Disburse funding in a timely manner

Strategy 4 | Support Equitable Allocation

Multilateral funding should be allocated fairly to developing countries with the greatest need, for the range of climate actions that will be necessary. The goal is to balance support between adaptation, mitigation, and other thematic needs (technology, capacity building, reporting). Specifically, funds should

- Provide support to developing countries and regions with the greatest need
- Provide adequate support to the most vulnerable countries (least developed countries [LDCs], small island developing states [SIDS], and African countries), while also funding middle-income countries
- Set reasonable caps/floors on allocations for countries, implementing entities, or thematic areas

Strategy 5 | Increase Accountability

Multilateral funds should improve processes to ensure that activities fulfill mandates and comply with operational policies (such as information disclosure, fiduciary standards, safeguards, gender, indigenous peoples, and grievance processes). Specifically, funds should

- Fulfill their mandates
- Be transparent and have effective means for stakeholder participation
- Implement robust standards and safeguards
- Use robust systems to monitor impact





PART II

THE ARCHITECTURE OF MULTILATERAL CLIMATE FINANCE: A COMPARATIVE ANALYSIS OF FUND PERFORMANCE

In this section, we analyze each strategy and examine the extent to which each of the seven multilateral climate funds addresses the strategy and its goals. We identify key challenges and opportunities facing the funds and provide a comparative assessment of how the funds are responding. In the next section, we use this analysis as the basis for key recommendations on the future organization and operational modes of the funds.

Achieve Impact at Scale

Multilateral climate funds must help scale up climate finance to achieve transformational impact. One of the three overall aims of the Paris Agreement is “making finance flows consistent with a pathway toward low greenhouse gas emissions and climate-resilient development” (UNFCCC 2015a, Article 2.1c).³ To support this transformation, multilateral climate funds must be used strategically to support systemic change that shifts the trillions of dollars in investments necessary to address climate change. There is also a need to consider ways to optimize climate finance within broader sustainable development funding to deliver mutually reinforcing and beneficial outcomes. A strong potential exists for such synergies, as underlined by a WRI survey that screened all submitted intended nationally determined contributions (the actions countries intend to take under the Paris Agreement) and identified climate commitments relevant for 154 of the 169 Sustainable Development Goal targets (Northrop et al. 2016). Pursuing greater alignment would increase the impact of investments and accelerate progress on both climate and development goals.

We first examine funds’ capitalization and the scale of their direct financing, then look at their ability to use resources catalytically to directly mobilize other finance flows, and finally their ability to shape systems and shift investment patterns more broadly.

Capitalization

Multilateral climate funds are capitalized to very different levels, as shown in Figure 4. The level and type of capitalization has a clear bearing on the scale of financing funds can disburse and the level of risk funds can take on in the activities they support.

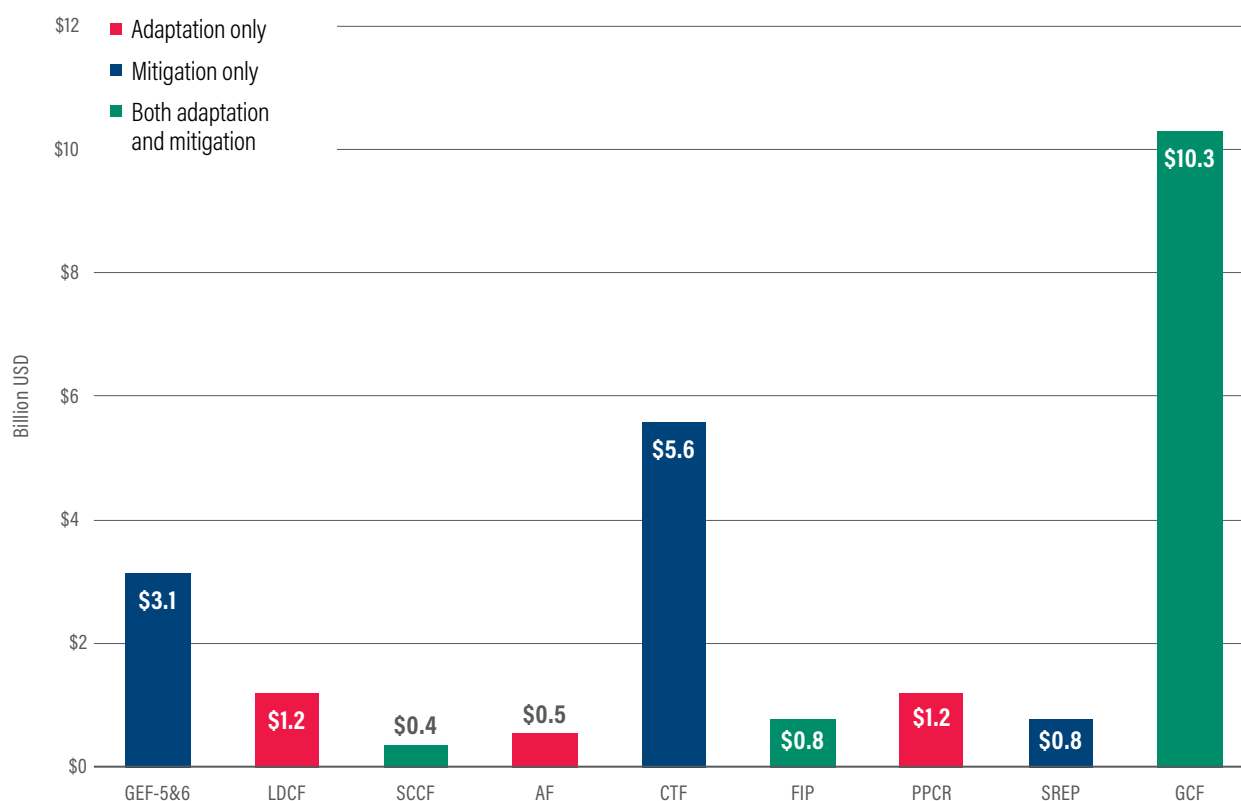
Global Environment Facility. The GEF’s fixed, four-year replenishment cycle gives significant predictability and allows countries to make long-term plans for how to use resources. It was replenished at \$4.43 billion for the current GEF-6 period of 2014–18, of which \$1.26 billion has been allocated for the climate change focal area, with an additional \$260 million of other climate-related funding. Combined with \$1.61 billion of climate-related funding under GEF-5, the total climate funding available across the GEF-5 and GEF-6 funding periods is \$3.03 billion (GEF 2014a).

Least Developed Countries Fund and Special Climate Change Fund. The LDCF and SCCF have been funded on an ad hoc basis by developed country contributors, leading to unpredictable resource levels. Because contributors have not allocated funding to the mitigation and economic diversification windows of the SCCF (SCCF-C and -D) the fund has not supported any projects in these areas (GEF-IEO 2011). The other two windows of the SCCF have also faced funding challenges. In the past two years, the fund has received less than \$3.5 million in new pledges, and due to insufficient funds, no projects were brought to the its council for approval during 2016 (GEF 2015a, 2015b, 2016a, 2016c).

Adaptation Fund. The AF was designed to operate primarily on revenues from a 2 percent levy on sales of Clean Development Mechanism (CDM) credits under the Kyoto Protocol, which had been expected to raise significant resources. However, the collapse of the CDM market has meant that resources have fallen well short of ambition, and the fund currently relies on contributions from governments to operate, with nearly \$300 million out of the \$500 million it has received in cumulative receipts coming from government contributions (World Bank 2016c). The low capitalization of the LDCF, SCCF, and AF has limited their ability to fund their project pipelines and make long-term plans.

Climate Investment Funds. The CIFs were capitalized at \$6.1 billion from 10 countries on their launch in 2008, becoming the largest climate-specific group of funds at that time (World Bank 2008). Additional contributors and pledges from 14 countries have taken the total size of the funds to \$8.3 billion. The CIFs have allocated most of their funding. The Clean Technology Fund (CTF) and the Scaling-Up Renewable Energy Program (SREP), overprogram by 30 percent of pledged resources on the understanding that some projects will not reach fruition (CIFs 2015a). However, currency fluctuations have also made it difficult to ensure that resources are not over-allocated (World Bank 2009–15b). Significant uncertainty surrounds whether a replenishment will take place given the CIFs’ sunset clause, and if so, at what scale and from which contributors.

Figure 4 | Fund Capitalization



Notes: GEF, Global Environment Facility; LDCF, Least Developed Countries Fund; SCCF, Special Climate Change Fund; AF, Adaptation Fund; CTF, Clean Technology Fund; FIP, Forest Investment Program; PPCR, Pilot Program for Climate Resilience; SREP, Scaling-Up Renewable Energy Program; GCF, Green Climate Fund.

Cumulative pledged funding since fund inception (except for the GEF, where only GEF-5 and -6 are covered).

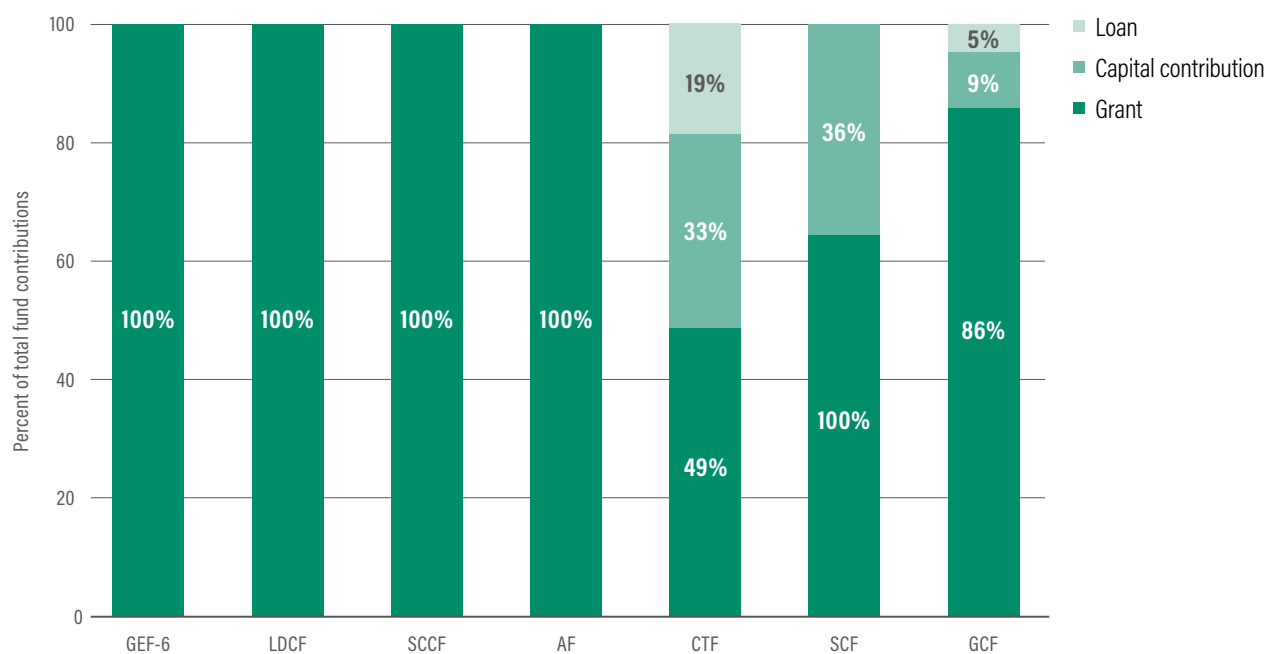
Sources: Compiled by authors, based on data from GEF 2014a; World Bank 2016c, 2016d, 2016e; CIFs 2015a; GCF 2016a.

Green Climate Fund. The GCF’s initial resource mobilization in 2014 garnered over \$10 billion in commitments, overtaking the CIFs as the largest multilateral climate fund based on pledges (GCF 2016a).⁴ The next replenishment is triggered when 60 percent of initial contributions are approved and thereafter is expected to come at regular intervals, but this has not yet been formalized by the board (GCF 2014c, Annex XIX). The level of future GCF replenishments will depend on its track record.

In general, the limited availability of resources from countries gives rise to a lack of predictability and puts pressure on funds to secure resources and lock in their continued existence.

Levels of Risk. The contribution instruments countries use when delivering on pledges affects the level of risk funds can tolerate in their portfolios, which in turn affects their ability to mobilize funding at scale. The contribution instruments used to capitalize each fund are shown in Figure 5. The GEF, LDCF, SCCF, and AF are capitalized solely through grants, giving them the greatest flexibility in the risk profile of their portfolio, since none of the funding is expected to be returned to contributors. The CIFs and GCF are capitalized primarily through grants too, but some countries provide contributions as loans or capital contributions. Because loans must be repaid, they circumscribe the ability of funds to support more innovative and risky activities with their resources. Capital contributions sit between grants and loans

Figure 5 | Contribution Instruments Used to Capitalize Funds



Notes: GEF, Global Environment Facility; LDCF, Least Developed Countries Fund; SCCF, Special Climate Change Fund; AF, Adaptation Fund; CTF, Clean Technology Fund; SCF, Strategic Climate Fund; GCF, Green Climate Fund.

Sources: Compiled by authors, based on data from CIFs 2015a; GCF 2016a.

in terms of their influence on a fund’s risk appetite. They are a form of equity in the fund, which, depending on the terms, can imply that the contributor expects a financial return but does not necessarily require repayment. This can affect the terms and types of financial instruments a fund is able to use in its activities. For example, capital contributions to the CIFs cannot be used to finance grant activities (GCF 2013b).

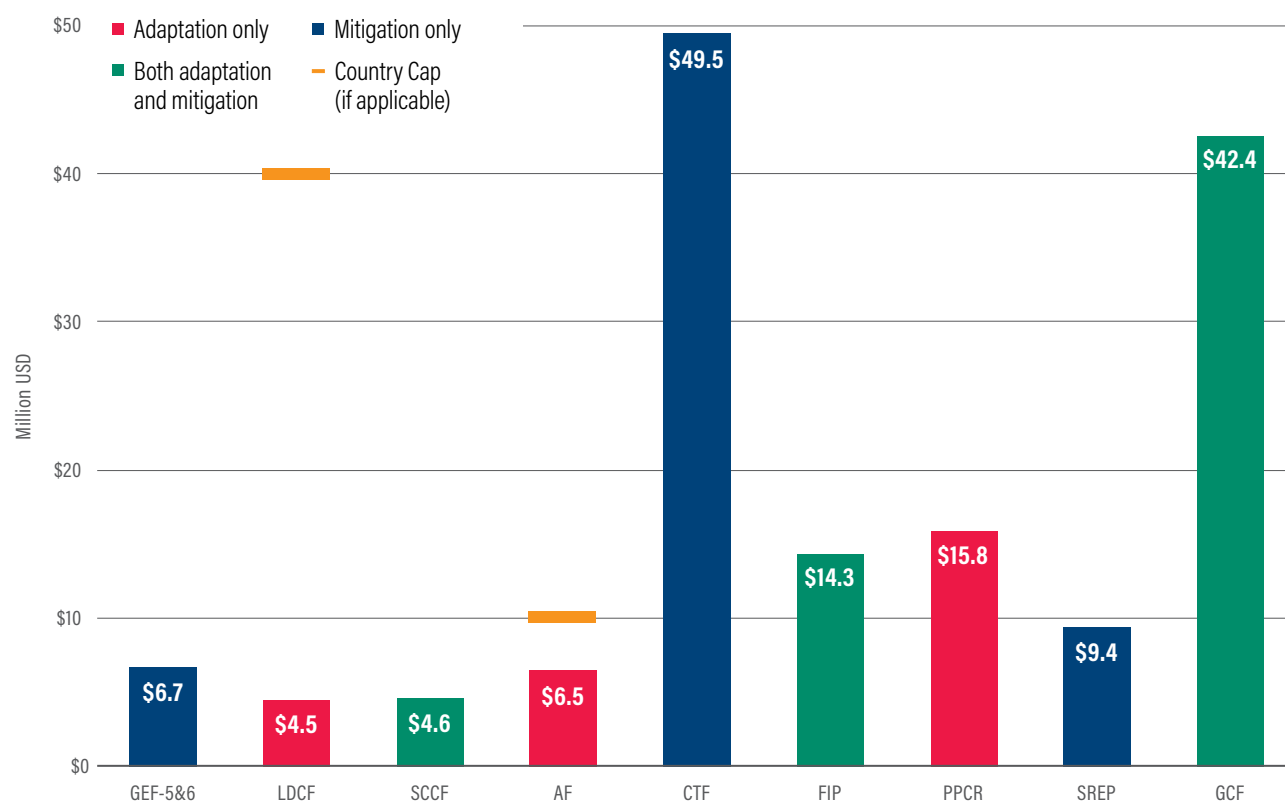
Direct Funding

Multilateral climate funds have taken different approaches to the amount of funding they provide to projects. Figure 6 shows the average contributions per project for the different multilateral funds along with caps on funding per country, if applicable. GEF, LDCF, SCCF, and AF contributions are all below \$7 million on average, and LDCF and AF have country caps. While the GEF does not have a cap, its system for transparent allocation of resources (STAR) gives each eligible

country an indicative funding allocation for each four-year replenishment period, which means each country has a tailored cap (for more on the STAR system, see Support Equitable Allocation, below; GEF 2010a). The CIFs were created to fund larger projects. The CTF has provided funding in excess of \$100 million for several projects, with an average contribution of \$49 million. SCF funding for projects averages \$14 million (the FIP’s average is \$14 million, the PPCR’s is \$16 million, and the SREP’s is \$9 million), which is significantly larger than most other funds that focus on adaptation, forestry, and distributed clean energy. Based on its first 35 projects, the GCF shows signs that it will fund large projects: its average contribution per project is \$42 million, with 26 projects having a GCF contribution of \$20 million or more, and two exceeding \$100 million (GCF 2016b).

Even the amounts delivered by the CIFs and the GCF, however, are small in the context of total climate finance flows of over \$700 billion a year, the

Figure 6 | Average Fund Approval per Project



Notes: GEF, Global Environment Facility; LDCF, Least Developed Countries Fund; SCCF, Special Climate Change Fund; AF, Adaptation Fund; CTF, Clean Technology Fund; FIP, Forest Investment Program; PPCR, Pilot Program for Climate Resilience; SREP, Scaling-Up Renewable Energy Program; GCF, Green Climate Fund.

Sources: Compiled by authors, based on data from GEF 2016c, 2016f; AF 2011, 2016a; CTFs 2015a; GCF 2016b.

majority of which comes from the private sector. An average of \$2.2 billion per year flowed from all multilateral climate funds in 2013–14 (SCF 2016a). Funds are making an effort to scale up their delivery but are facing capacity constraints in delivering at higher levels; for example, the GCF fell short of its ambitious goal to program \$2.5 billion in 2016 (GCF 2015b, Decision B.11/11), approving \$1.3 billion throughout the year. This was still more than any other multilateral climate fund.

Mobilizing Finance

Multilateral funds can meet only a fraction of the need for climate finance and thus must be used in catalytic ways to mobilize other sources of finance to reach the scale required. This includes finance from other public sources such as national treasuries, multilateral and national development banks,

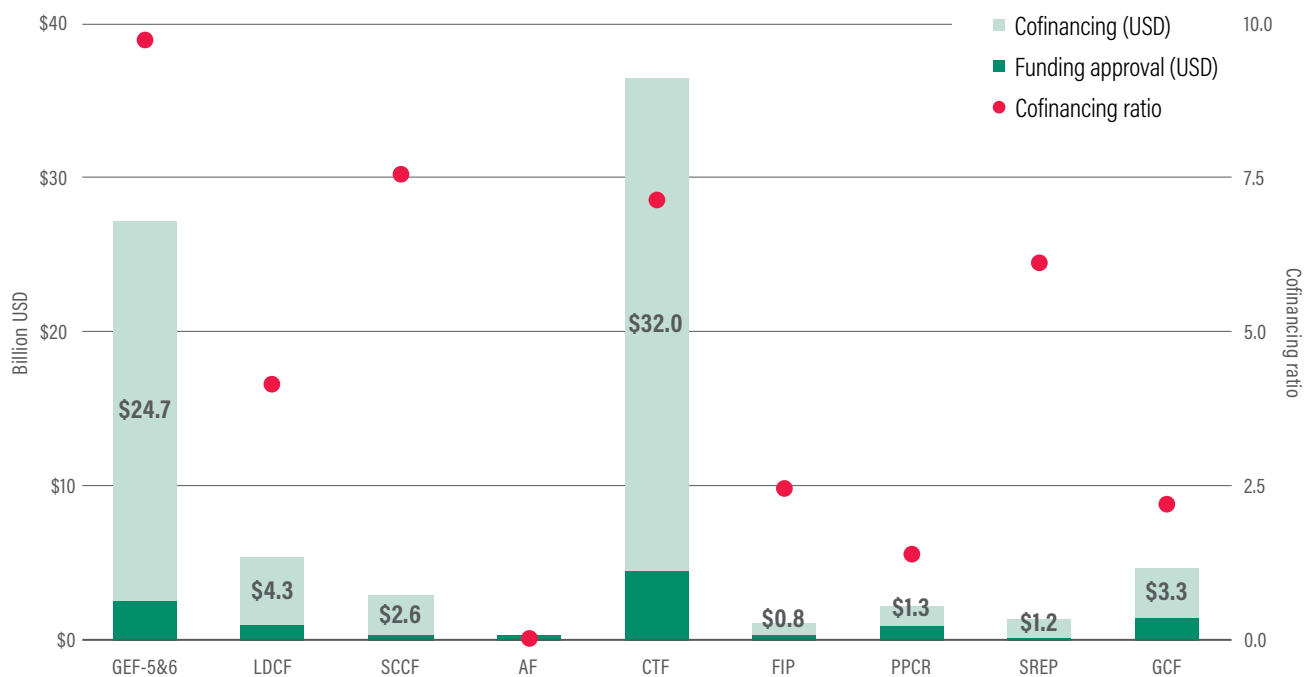
and sovereign wealth funds, as well as private finance—which is by far the largest pool of capital available.

Cofinancing

Figure 7 compares cofinancing rates (dollar of cofinancing for each dollar of finance provided by the fund) across the funds. The GEF has the highest cofinancing ratio of all the funds we examined, at 1:9.7. However, aggregate data are skewed by a few, large projects attracting very high cofinancing rates (GEF-IEO 2014).

Sources of cofunding tapped by the climate funds are shown in Figure 8. Previous analysis of the GEF and CTF portfolios over 2005–11 showed that cofinancing came primarily from domestic public resources. This is expected, given that the funds

Figure 7 | **Cofinancing Rates**



Notes: GEF, Global Environment Facility; LDCF, Least Developed Countries Fund; SCCF, Special Climate Change Fund; AF, Adaptation Fund; CTF, Clean Technology Fund; FIP, Forest Investment Program; PPCR, Pilot Program for Climate Resilience; SREP, Scaling-Up Renewable Energy Program; GCF, Green Climate Fund.

Cofinancing ratio is calculated as total expected cofinancing divided by total approved funding, cumulative amounts since fund inception, except for GEF where only GEF-5 and GEF-6 periods are included. GCF data is based on expected cofinancing. The AF does not report collated cofinancing data.

Sources: Compiled by authors, based on data from GEF 2016c, 2016f; AF 2016a; CIFs 2015a; GCF 2016b.

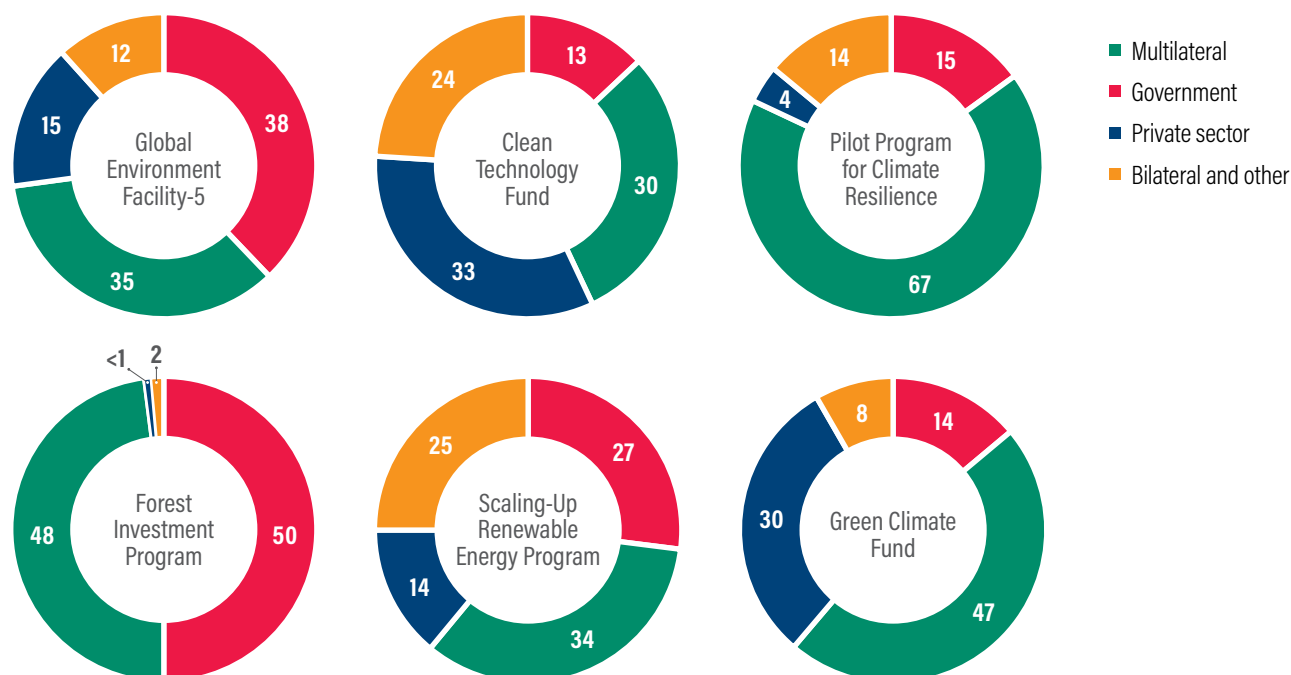
supported mainly public-sector-led projects in this time frame (Venugopal et al. 2012). The GEF has seen a decline in the proportion of cofinancing from the private sector, from a high of 36 percent in GEF-1 to 15 percent in GEF-5 (GEF-IEO 2013c).⁵ The CTF and GCF have both achieved relatively high shares of private sector cofinancing, around a third of their total, but public sources (recipient country governments, bilateral donors, and multilateral institutions) constitute a majority of cofinancing for every fund examined.

Obtaining consistent and comparable data on private cofinancing for projects remains challenging. The GEF’s Independent Evaluation Unit noted the difficulty of demonstrating proof of commitment, which, in many cases, does not materialize from the documented private source but rather is substituted, often at higher levels, from other private sources once the project is approved. The evalua-

tion unit suggested relaxing the requirements to demonstrate private cofinancing at the early stage of projects, and to allow flexibility for countries or regions that have trouble attracting high rates of cofinancing while encouraging more where it is possible (GEF-IEO 2014).

Beyond cofinancing, WRI research has identified three factors required to create attractive markets for private investment: liquidity, scale, and transparency. Liquidity is an investor’s ability to buy and sell an asset within a market, scale is the size of the market, and transparency is the availability of information regarding the market. Climate funds have a variety of tools at their disposal to support these factors and improve the risk-reward profile for private investors, set out in Figure 9. They are grant support for policies and project assistance, lending, equity investment, and de-risking instruments such as loan guarantees, insurance, and foreign exchange facilities. Different financial instruments are needed

Figure 8 | Percentage of Fund Cofinancing by Source



Note: The AF does not report collated cofinancing data, and the LDCF and SCCF do not report cofinancing by type. Data for the GEF cover the GEF-5 period only, and are for total funding, not just climate-specific.

Sources: Compiled by authors, based on data from GEF-IEO 2013c; CIFs 2015a; GCF 2016b.

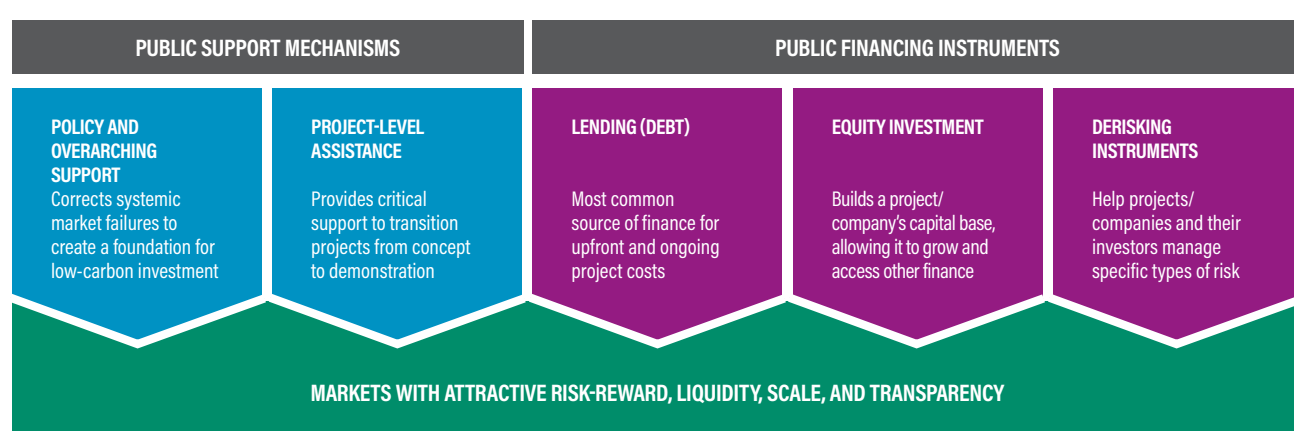
depending on the context. For example, grant funding for policy and institutional development may be more useful in countries that are only starting to embark on a low-carbon transition, whereas emerging economies with well-established markets may need more debt and equity financing to scale up low-carbon technology deployment (Venugopal and Srivastava 2012). Therefore, the instruments available to different climate funds will have a bearing on their ability to successfully address investment barriers. Table 3 shows the financial instruments available to different funds.

The AF, LDCF, and SCCF do not have private sector engagement as a primary emphasis, and are able to offer only grant-based funding. Nonetheless, they have sought to catalyze private investment in some instances. The AF has worked to engage the private sector in some projects, for example in Mauritius it has worked to include the hotel and tourism industry (AF 2012c). The GEF’s work on capacity building and small-scale pilots has sought to engage the

private sector, some of which has then been scaled up by other funds. For example, work on concentrated solar power was pioneered by the GEF in partnership with the World Bank starting in the late 1990s, before being scaled up by the CTF a decade later (World Bank 2010). Though the GEF operates primarily through grant-based support, since 2008 it has offered debt, equity, and risk mitigation instruments in some of its private sector engagements, approving \$56 million in GEF-4 and \$80 million in GEF-5. The GEF-6 nongrant pilot program expanded available resources to \$115 million and made them available to public sector recipients for the first time, in addition to private sector actors. However, the focus is now on areas other than climate change, since this has dominated the past use of the GEF’s nongrant instruments (GEF 2014b).

Conversely, the CIFs and the GCF have made mobilization of private finance an explicit aim in their governing instruments. The CIFs—in particular the CTF—have been somewhat effective in

Figure 9 | Public Tools Available to Create Attractive Low-Carbon Investment Conditions



Source: Venugopal and Srivastava 2012.

Table 3 | Financial Instruments Available to Different Funds

FUND	GRANTS	LOANS	RISK MITIGATION INSTRUMENTS	EQUITY
Global Environment Facility	✓	✓*	✓*	✓*
Least Developed Countries Fund	✓			
Special Climate Change Fund	✓			
Adaptation Fund	✓			
Clean Technology Fund	✓	✓	✓	✓
Forest Investment Program	✓	✓	✓	✓
Pilot Program for Climate Resilience	✓	✓	✓	✓
Scaling-Up Renewable Energy Program	✓	✓	✓	✓
Green Climate Fund	✓	✓	✓	✓

* GEF primarily operates through grants but is able to offer loans, equity, and risk mitigation instruments through its nongrant pilot program.

Notes: The table shows the instruments funds are able to offer, not whether the funds have made use of them.

Sources: Compiled by authors, based on data from GEF 2014b; CIFs 2010a, 2010b, 2010c, 2015b, 2015c; GCF 2014c, Board Decision B.08/12.

galvanizing private investment by using concessional loans and risk mitigation instruments to foster new markets and reduce risk for private investors. Used in combination with grant support for structural reforms, this approach has helped drive technology costs down in the emerging economies in which they operate (Vivid Economics 2013; Trabacchi et al. 2016). Examples include the CTF's work on concentrated solar power in Morocco and South Africa (Rosenberg et al. 2014; CIFs 2015d) and geothermal in Indonesia, Kenya, and Turkey (Micale and Oliver 2015; CIFs 2015e). The CTF is also able to use equity investments for private sector operations (CIFs 2016c), but it has only done so in one project so far.

The PPCR has sought ways to engage the private sector in adaptation and has taken the innovative approach of using highly concessional loans to fund certain adaptation projects in some countries. This approach may allow action on a wider scale by making it easier to raise finance from contributions and offering the potential to use reflows to fund additional projects. The use of loans for adaptation has been controversial; some developing countries and civil society organizations feel adaptation finance should be compensation for the impact of historic emissions, and are also wary of increasing developing country debt burdens. As such, the use of PPCR loans is on an opt-in basis and highly indebted poor countries are only able to access grant finance (Trujillo et al. 2014). The FIP, PPCR, and SREP are also able to use risk guarantees and equity investments (CIFs 2010a, 2010b, 2010c), but they have not done so to date. Some stakeholders feel the CIFs' approach to the private sector is too narrow, focusing on large investors. While larger entities may be better placed to supply large sums of capital and reap economies of scale, representatives of smaller developing countries point out that, because their economies are less attractive to private investors, there is a need to examine ways to engage smaller private sector entities.

Learning from the experience of other climate finance providers, the GCF was created with the flexibility to use a wide variety of financing instruments, including grants, concessional loans, equity, guarantees, and other modalities its board may approve (GCF 2014c, Decision B.08/12). As of December 2015, 47 percent of the funding approved was grants, 42 percent was loans, 10 percent was equity and 1



percent was guarantees (GCF 2016b). The GCF has placed a strong emphasis on private sector engagement, creating a Private Sector Facility to directly engage private sector actors, and it includes a focus on engaging the domestic private sector in developing countries and micro-, small, and medium enterprises (MSMEs).⁶ For example, one of the GCF's first projects is Acumen's Kawa Safi Venture Fund to support MSMEs providing decentralized solar energy in East Africa (GCF 2015a).

Systemic Shifts

To achieve the Paris Agreement's climate goals, a systemic transformation to low-emissions and climate-resilient economies is needed. Multilateral climate funds need to think strategically about how their direct project support and mobilization efforts support systemic change. Both the CIFs and GCF were designed with this in mind; their governing documents include an aim to support "transformation" and "paradigm shift," respectively (CIFs 2014a; GCF 2011).

Direct Support for Systemic Change

Fostering systemic change requires thinking beyond individual projects that directly reduce emissions and increase resilience to interventions that support broader policy and institutional reforms within countries to create environments that encourage

the necessary shifts in investment patterns (Polycarp et al. 2013; Kato et al. 2014; Westphal and Thwaites 2016). Such reforms might include tariffs to encourage renewable energy, targets and regulations to reduce emissions, and fiscal policies that internalize the costs of high emission activities and incentivize low-emissions, resilient alternatives (de Mooij et al. 2012; Hansen et al. 2016; UNEP 2016b; Westphal and Thwaites 2016).

Investment in policies and institutions can require deep engagement over the long term to change attitudes and processes, as well as sustained commitment and partnerships (Polycarp et al. 2013; Westphal and Thwaites 2016). It may take longer to demonstrate results, and results may not be clearly attributable to the intervention, which can make it difficult to prioritize such approaches, particularly if funds emphasize directly attributable emissions reductions and cofinancing as core results indicators, as is the case for the CTF.⁷ The CIFs' programmatic approach, based on partnering with fewer countries but investing heavily in developing detailed long-term investment plans before approving individual projects, has helped build domestic institutions and craft policy to transform investment landscapes in partner countries (Vivid Economics 2013).

The FIP and PPCR do include indicators on the extent to which systems and policies integrate

sustainable forest management and resilience considerations, respectively, in their results frameworks (CIFs 2011b, 2012a), but the lack of comparable indicators for the mitigation-focused funds—CTF and SREP—is a gap (CIFs 2012b, 2013; Polycarp et al. 2010).

The GEF's results frameworks have, over time, increased emphasis on policies, enabling activities, and systemic change as outcomes. They include indicators that assess how policy frameworks and financial and market mechanisms support low-greenhouse gas (GHG) development, alongside the more traditional indicators measuring concrete deployment of low-GHG technologies (GEF 2010b, 2014c). The GEF has had some success in building institutional capacities and targeting the underlying drivers of environmental problems. For example, it provided \$1 million for Uruguay's wind energy program, in the form of support for the government to create a national renewable energy policy and training for the national energy utility in regulating variable renewable energy. These institutional and policy reforms boosted a virtually nonexistent wind industry in 2008 and helped catalyze a multibillion-dollar wind energy market in less than six years (Westphal and Thwaites 2016). However, with over 140 countries receiving STAR allocations, most countries receive only a few million dollars from the GEF for climate projects. While it is still possible to use modest amounts of funding to support systemic



change—as the Uruguay case demonstrates—limited funding thinly spread does constrain the depth and duration of engagement that is possible.

The AF also focuses on smaller-scale projects. By pioneering direct access—allowing national entities to access money without going through international intermediaries—the AF has also helped strengthen the capacity and credibility of some of the national institutions that have sought accreditation to the fund. This may, with time, deliver benefits beyond the scope of the funded projects, in terms of improved governance, policy administration, and capacity to attract future investments (Masullo et al. 2015).

The GCF has the potential to take a more systemic approach to achieve impact at scale. It is capable of supporting a broad range of activities with large amounts of finance, supports country programming, and also allows national institutions direct access to its funds. Its performance management frameworks have sought to build on the experience of the GEF and CIFs, and they are designed to be refined over time. However, an emphasis on systemic change and policy reform has not come through clearly in projects approved so far. As the former executive secretary put it, the fund’s “rules are very broad. . . the net that exists is very wide, so anything goes. . . . We can’t continue like that; we need to invest the money wisely to meet the mandate of the fund. . . we

need to find ways to signal clearly what is a project that would change the game” (Rowling 2016). Results indicators adopted to date have focused on direct greenhouse gas emission reductions, finance leveraged, and number of beneficiaries. More systemic indicators such as institutional and regulatory systems that improve incentives for low-emissions planning and development have been proposed and noted but not adopted, and the board has deferred consideration of further development of indicators for the last three meetings (GCF 2014c, Annex VIII). Another key question regarding the fund’s ability to have impact at scale is whether the GCF will adopt a programmatic approach that funds projects as part of a broader, long-term country investment plan, including policy interventions (if needed), to transform the landscape for climate investment (GCF 2016j). However, depending on the design, programmatic approaches could also risk country ownership by creating path dependency through projects or implementation arrangements that may not reflect, for example, increased local capacity.

Catalyzing Shifts in Partner Institutions

Multilateral climate funds can use their influence to catalyze a change in the investment behavior of the institutions with which they engage. MDBs in particular can support countries’ development, both in terms of volume of capital provided and in shaping norms and setting best practices. They will have a particularly important role in infrastructure



finance decisions taken over the next two to three years; investment choices will either set the world on a sustainable development pathway, or they could lock in a high-emissions, inefficient trajectory incompatible with the global carbon budget (Global Commission on the Economy and Climate 2016).

Five MDBs (World Bank Group [WBG], African Development Bank [AfDB], Asian Development Bank [ADB], European Bank for Reconstruction and Development [EBRD], and Inter-American Development Bank [IDB]) are GEF agencies, and more than one-third of GEF projects have been implemented by the World Bank (GEF-IEO 2014). GEF funding in many cases provided the impetus for the MDBs' initial forays into climate action: as mentioned above, the World Bank's work on concentrating solar power was first supported by the GEF, and the GEF's Special Program on Adaptation was the first to fund concrete adaptation projects. GEF projects have also demonstrated the viability of energy efficiency finance to national banks, which has been instrumental in establishing a dedicated renewable energy and energy efficiency program at the International Finance Corporation (IFC) to support these financial institutions (GEF-IEO 2013b). This pioneering work has been important.

The CIFs, which work exclusively through the same five MDBs (ADB, AfDB, EBRD, IDB, and WBG), have helped expand these banks' work on climate (Vivid Economics 2013; ICF International 2014; author interviews). The CIFs' concessional resources have been used to help offset the incremental costs associated with pursuing lower-emission options or integrating resilience into projects (Trabacchi et al. 2016) and provide space for MDBs to propose more climate-friendly approaches to governments when establishing country investment plans. Climate is now more strongly embedded in the agendas of the MDBs than it was in 2008, and in 2015 MDBs collectively pledged to invest around \$40 billion a year from their own resources in climate programming by 2020 (World Bank 2015).⁸ However, climate finance amounts to less than 20 percent of their operations (ADB 2016) and some stakeholders interviewed felt that, if the CIFs were to continue operating, they should focus on integrating climate more deeply into MDB portfolios. The Paris Agreement and the Sustainable Development Goals send strong signals that climate needs to be mainstreamed throughout

development spending. As public institutions, these banks have a duty to reflect these priorities of the international community. While climate funds cannot single-handedly move institutions whose capitalization is several orders of magnitude larger, their role in pioneering new approaches and in knowledge leadership can help support the necessary shift in culture and practices. Governments with seats on the governing bodies of both multilateral climate funds and MDBs have a particular responsibility to promote integrated thinking between the institutions.

Beyond MDBs, the GCF has the potential to begin conversations about shifting the portfolios of all the entities with which it engages to better align with climate goals. There are early signs that the GCF Board is willing to take a proactive approach to this. Following controversy surrounding the accreditation of several large private banks as implementing entities, the board established a requirement that when entities come up for reaccreditation every five years, they will be assessed not only on their success in GCF project delivery but also on "the extent to which the [accredited entity's] overall portfolio of activities beyond those funded by the GCF has evolved . . . to advance the GCF's goal to promote the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development" (GCF 2015b, Annex I). If this provision is applied rigorously, the fund could exert influence over its implementing entities to demonstrate concrete progress in shifting their investments more broadly (King 2016). With the increasingly active role of national development banks in the climate finance architecture (see Promote Country Ownership, below), and the rise of new multilateral development banks based in emerging economies (for example, the Asian Infrastructure Investment Bank and the New Development Bank), multilateral climate funds must review how they can work with these sources.

Promote Country Ownership

Research shows that climate and development programs are more effective when there is strong country ownership (de Renzio et al. 2008; Chaum et al. 2011). Governments have recognized this in the OECD's Paris Declaration on Aid Effectiveness and reiterated its importance in subsequent high-level forums on aid effectiveness, as well as in the UN's Addis Ababa Action Agenda from the Third International Confer-

ence on Financing for Development (OECD 2005 and 2008; UN 2015). Country ownership typically involves alignment with recipient-country strategies, vesting of decisionmaking authority in recipient countries, and the use of national systems to ensure accountability (Ballesteros et al. 2010; Brown et al. 2013). Further, a core assumption of the concept is that there is broad stakeholder engagement (government ministries and agencies, civil society, indigenous peoples and local communities, local government, private sector, and academic or technical experts) in the development and implementation of national strategies (Brown et al. 2013).

The last decade has seen a shift toward greater developing country ownership in setting priorities for and management of climate finance. This shift is reflected in multilateral climate funds in a variety of ways, including new processes for national institutions to access international finance directly (without the use of international intermediaries), requirements for government endorsement of proposed activities, and increased developing-country representation on boards (see Appendix 1). Most climate fund boards have equal representation of developing countries and developed countries, which is a departure from MDBs, where voting shares are based on the amount of capital a country has invested in the bank.

As part of their efforts to address climate change, developing countries have taken steps to establish their own institutional arrangements for the deployment and delivery of climate finance. Many countries are improving interagency coordination and planning between key ministries, and creating specialized funds or strengthening agencies to channel climate finance.

Below, we focus on three key ways in which climate funds support country ownership: facilitating national coordination, planning, and stakeholder engagement; providing national direct access; and providing readiness and capacity support.

Coordination, Planning, and Stakeholder Engagement

An increasing number of developing countries have initiated collaborative planning processes involving relevant ministries and government agencies, as

BOX 2 | DESIGNATED AUTHORITIES FOR CLIMATE FUNDS

All the funds have a designated authority or focal point that is responsible for managing a country's engagement with that fund.

Global Environment Facility (including the Least Developed Countries Fund and Special Climate Change Fund): Political and operational focal points are responsible for internal coordination and consultation, alignment with country priorities, and endorsement of projects.

Adaptation Fund: A designated authority (DA) is responsible for endorsing NIEs and funding proposals.

Climate Investment Funds: Dedicated country focal points coordinate fund programs. However, because the funds operate through multilateral development banks, the role equivalent to NDAs, DAs, and focal points in other funds is played by treasuries or finance ministries.

Green Climate Fund: A national designated authority (NDA) or focal point is responsible for coordinating and overseeing all funding coming into the country from the fund, including endorsing national implementing entities (NIEs) and funding proposals.

well as private sector, civil society, and local government actors. Such processes can involve development of national strategies or plans, selection of national implementing entities (NIEs) for direct access, and prioritization of funding pipelines.

An effective global architecture for climate finance will promote coordinated internal planning processes and ensure broad stakeholder engagement. Currently, most funds support coordination, planning, and stakeholder engagement in some form. The responsibility for ensuring that such processes happen at the country level rests with the funds' relevant designated authorities (see Box 2).

How the funds engage with countries is described below.

Green Climate Fund. The GCF supports strengthening NDAs and developing country programs as ways to help countries plan and set priorities for GCF resources (GCF 2016I, Decision B.13/32). Country

BOX 3 | NATIONAL APPROACHES TO CLIMATE COORDINATION

In Ethiopia, the Ministry of Finance and Economic Cooperation and the Ministry of Environment, Forests, and Climate Change jointly lead the Climate Resilient Green Economy strategy, which outlines climate and development priorities for the country.

The Philippines set up an independent, autonomous body under the Office of the President, called the Climate Change Commission, which is in charge of coordinating, monitoring, and evaluating government programs at the national, local, and sectoral levels to work toward low-emission and climate-resilient development.

In Palau, the Climate Department is housed within the Ministry of Finance, which enables better prioritization of resources to address climate change.

programs are intended to be dynamic and evolve as priorities change over time. The GCF's decisions on country ownership also urge countries to take into account initial best practice on country coordination and multistakeholder engagement (GCF 2014c, Decision B.08/10). The secretariat is working with countries to explore how coordinated and inclusive engagement can be realized, and further work on the initial best practice guidelines may be needed. It is not yet clear whether these efforts have been effective, but the need for continued support in planning and coordination remains a critical issue within the GCF (GCF 2016l, Decision B.13/33).

Climate Investment Funds. The CIFs provide a multiyear envelope of programmatic funding for each partner country on the basis of an investment plan that countries must prepare prior to receiving funds. The development of investment plans has helped to improve planning and alignment with national strategies. However, it has been less successful at improving interagency coordination. Further, while the CIFs also call for stakeholder engagement, broader public ownership is sometimes lacking, which has led to challenges in implementation (ICF International 2014). In response to issues raised during the CIFs' independent evaluation, there has been some progress in local stake-

holder engagement and implementation of the CIF Gender Action Plan.

Global Environment Facility. The GEF is more complex because it has focal areas other than climate change, and its political and operational focal points manage all the focal areas. The GEF's country support program has been making efforts to improve coordination across ministries through its National Dialogue Initiative, and to support planning through a National Portfolio Formulation Exercise. The GEF also takes a multistakeholder approach to country consultations (GEF 2016l). In the context of planning, the LDCF plays an important role in supporting adaptation planning in LDCs. It supports both the development of national adaptation programmes of action (NAPAs, which are short-term plans) and national adaptation plans (NAPs, which are longer-term plans) in LDCs. The SCCF can support NAPs in non-LDC countries.

Adaptation Fund. The AF does not specifically support planning or coordination as it is focused on supporting NIEs and funding small concrete projects. However, the process of selecting NIEs and direct access projects (supported through readiness) has, in some cases, spurred coordination at the national level (Masullo et al. 2015).

Early experiences in national coordination. At the national level, coordination and planning efforts are more effective when both central and relevant line ministries are involved. It is helpful if climate funds specify the need for stakeholder engagement and interagency coordination, but meaningful engagement across ministries will only happen if relevant focal points have the willingness and capacity to ensure it. Traditionally, environment ministries have been the recipient country national focal points for multilateral climate funds (GEF 2016k); they are typically lower-ranking ministries with less political power. While they may have strong expertise on climate policy, they often struggle to get broader government buy-in, thus limiting the ability to achieve scale at the national level.

In recent years, countries have started to consider coordination more carefully, attempting to take more collaborative approaches to national planning. For some, this has meant bringing finance and planning ministries into climate planning or involving the

president's or prime minister's offices to raise the profile of climate change, integrate climate within a national development strategy, and coordinate more effectively across government (see Box 3).⁹

However, stakeholders have noted that direct access is a new approach for many finance ministries, which has slowed down accessing readiness opportunities in some cases. For some countries, a stronger and more independent environment ministry has led to a greater ability to coordinate effectively.

Engaging local actors beyond government ministries remains an issue for all the funds, and funds need to explore how best to facilitate broader stakeholder engagement nationally.

National Direct Access to Funds

Accrediting national institutions to receive finance directly, without using international intermediaries, is another valuable way for the funds to support country ownership. Multilateral funds generally do not have the capacity to oversee implementation of the initiatives they fund. All the funds in this report work through entities that have the capacity to make sure that the funds are used properly. Except for the CIFs, which were set up to operate through MBDs, the funds require entities to become accredited to receive and disburse funding. Traditionally, this accreditation was provided to international entities like the World Bank or UN agencies. Over the last seven years, climate funds have started

to accredit national institutions from developing countries to access funding directly. This process is known as “direct access.”

National Implementing Entities

The AF pioneered direct access and is the only fund at the time of writing that has projects completed or under implementation using this modality, including two “enhanced” direct access experiences in South Africa and Costa Rica. The GCF has followed suit with a “fit for purpose” accreditation process (Masullo et al. 2015). The GEF also has three agencies operating nationally but, unlike the AF and GCF that accredit on a rolling basis, the GEF has gone through only two phases of agency expansion, (1999–2006 and 2011–15; GEF 2015f). It is not currently accrediting new implementing agencies, but a reassessment is due at the end of GEF-6 (GEF 2016e). The CIFs do not have direct access modalities and rely solely on other multilateral institutions to channel finance.¹⁰ Typically direct access entities refer to NIEs, however the GCF also allows regional direct access entities, such as the Secretariat of the Pacific Regional Environment Programme and the Caribbean Community Climate Change Centre (GCF 2016c). We focus only on NIEs, which can play several roles at the national level (see Box 4).

The AF and GCF have now accredited 25 and 14 national direct access entities, respectively. The GEF works with 3 national agencies. At present,



BOX 4 | NATIONAL IMPLEMENTING ENTITY FUNCTIONS

National entities can play varying roles when channeling climate finance, as described below.

Internal standard-setting and accountability: The process of gaining accreditation with an international funding institution requires national implementing entities (NIEs) to demonstrate that their internal systems and procedures are consistent with relevant international requirements. In many cases, this has required entities to strengthen internal systems and capacities for managing funds, gender-responsiveness, environmental and social risks, and monitoring.^a These kinds of developments help set standards at the national level for how finance will be channeled and managed.

Project selection: Becoming an NIE has also compelled countries and institutions to consider how to best approach the development and approval of project or program proposals. Countries have used a variety of approaches for selecting projects, including public consultations,

multistakeholder bodies, and open calls for proposals.^a Experiences gained and lessons learned from these approaches will help countries develop more effective systems for working with stakeholders (e.g., executing entities, affected communities) involved in proposal development and implementation.

Implementation: Managing implementation of projects and programs is another essential role where national institutions are taking more leadership as a result of accreditation. NIEs accredited to the Adaptation Fund and Green Climate Fund are responsible for managing funds and ensuring that projects are implemented well. They are responsible for overseeing the work of entities contracted to execute funded projects, which has often meant helping “executing entities” understand and abide by fund requirements.

Intermediation and blending finance: The ability to blend grant instruments with nongrant instruments (e.g., loans or equity) is another, increasingly important

function in the national climate finance landscape. Outside of the direct access context, governments are already working with entities such as national banks or funds to channel climate finance. For example, with Clean Technology Fund and Inter-American Development Bank resources, *Nacionale Financiera* in Mexico will provide a range of financial instruments to private developers of geothermal energy, including direct loans, contingent loans, subordinated loans, first loss guarantees, and insured loans.^b In Bangladesh, both the Central Bank and IDCOL (a nonbanking financial institution) have blended financial instruments to provide more concessional interest rates to low-income households as a way to catalyze investment in energy access projects.^c

Sources:

^a Masullo et al. 2015

^b IDB n.d.

^c Rai et al. 2015; Westphal and Thwaites 2016

the majority (15) of the NIEs accredited with the AF, GCF, and GEF are ministries and government agencies. In addition, there are 3 national banks (2 development banks and 1 commercial); 6 government-affiliated entities (such as trusts, funds, implementing units, and financing companies); 3 nongovernment trusts/funds; and 6 nongovernmental, civil society, or private sector organizations not covered by other categories.

The availability of direct access modalities is often a key consideration for developing countries when deciding which multilateral climate funds to approach for funding. The accreditation process is challenging and time consuming, particularly for smaller institutions that have not gone through such processes previously. However, entities that have achieved accreditation to the climate funds to date are generally positive about their decision to get

accredited. For many national institutions, having AF accreditation has been a critical stepping-stone to receiving GCF accreditation because it allowed them to use the GCF’s fast-track procedures. It is telling that, of the first nine GCF NIEs to gain accreditation, eight were already accredited with the AF and were able to use the fast-track procedure.

Funding Disbursed through Direct Access Remains Small

Different types of implementing entities used by the funds are shown in Figure 10. Despite growing interest in allowing direct access to funds via national implementing entities, the great majority of funding is still disbursed through international organizations (Figure 11). The GEF, for example, has a fairly diverse range of 18 implementing agencies, but as of December 2015 the majority of total GEF funding in the climate change focal area had

gone through either the World Bank (38 percent) or UNDP (35 percent; GEF 2016d).

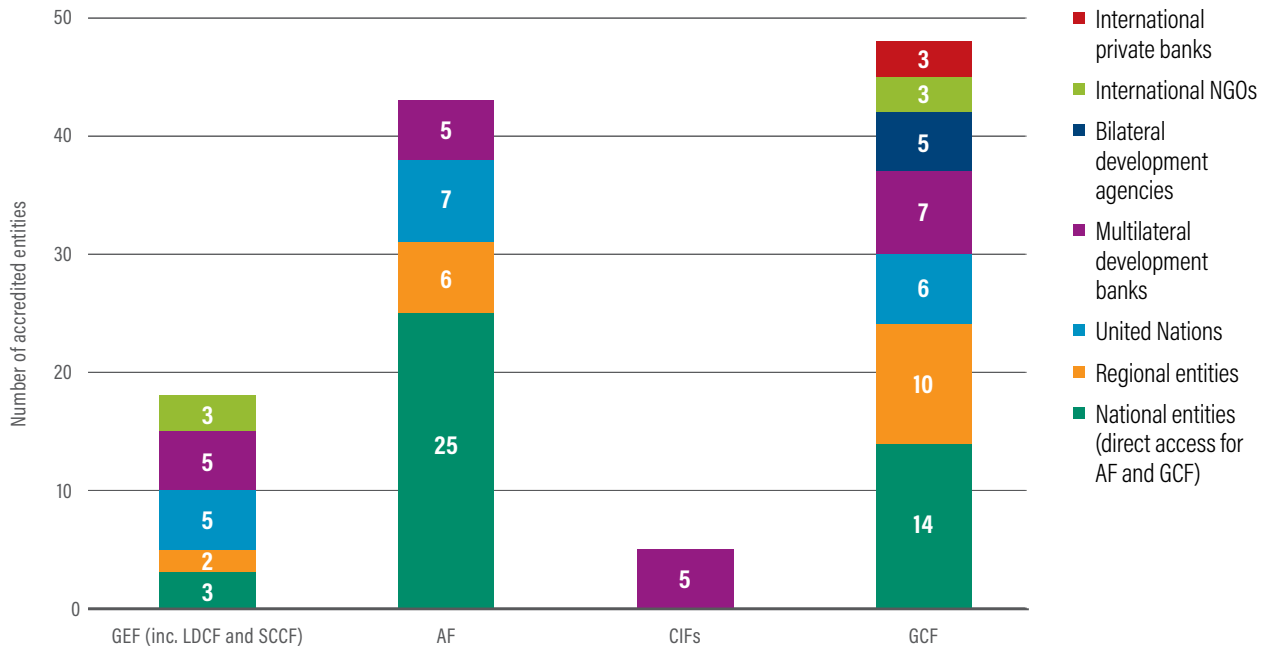
A similar trend applies for the two GEF-managed funds. Fifty-two percent of LDCF funding has gone through the UNDP. At the SCCF, 28 percent of funding goes through the World Bank and 24 percent through the UNDP (GEF 2016c). The AF makes the greatest use of direct access: 34 percent of AF resources have been channeled through its NIEs and 5 percent through regional entities, while 58 percent has gone through UN entities (AF 2016h). While the GCF has the most diverse array of accredited entities (including national institutions, international NGOs, private banks, MDBs, and UN agencies), 51 percent of funding to date has gone through MDBs, 25 percent through UN agencies, and just 6 percent through national direct access entities and 7 percent through regional direct access entities (GCF 2016b). The CIFs by design only use five MDBs as implementing partners.

The GCF has an important role to play in providing funding at scale to national entities. The AF's country cap of \$10 million limits how much funding it can provide to individual entities. The GEF Council's decision not to accredit further agencies until at least the end of GEF-6 means that only the three existing accredited national agencies will be able to directly access GEF funding in coming years.

That said, there are several barriers in the way of the GCF ramping up funding to national entities. Foremost among them is the fact that NIEs find it difficult to bring strong project proposals to the fund. The GCF is attempting to address this challenge through its readiness program. The GCF also has an enhanced direct access pilot in which funding is provided to a national entity to implement a program with subprojects to be determined by the entity. The AF's experience with funding small grants may be useful to build on as well, either as a stepping-stone for bigger GCF programs or promoting programmatic approaches at a smaller scale.



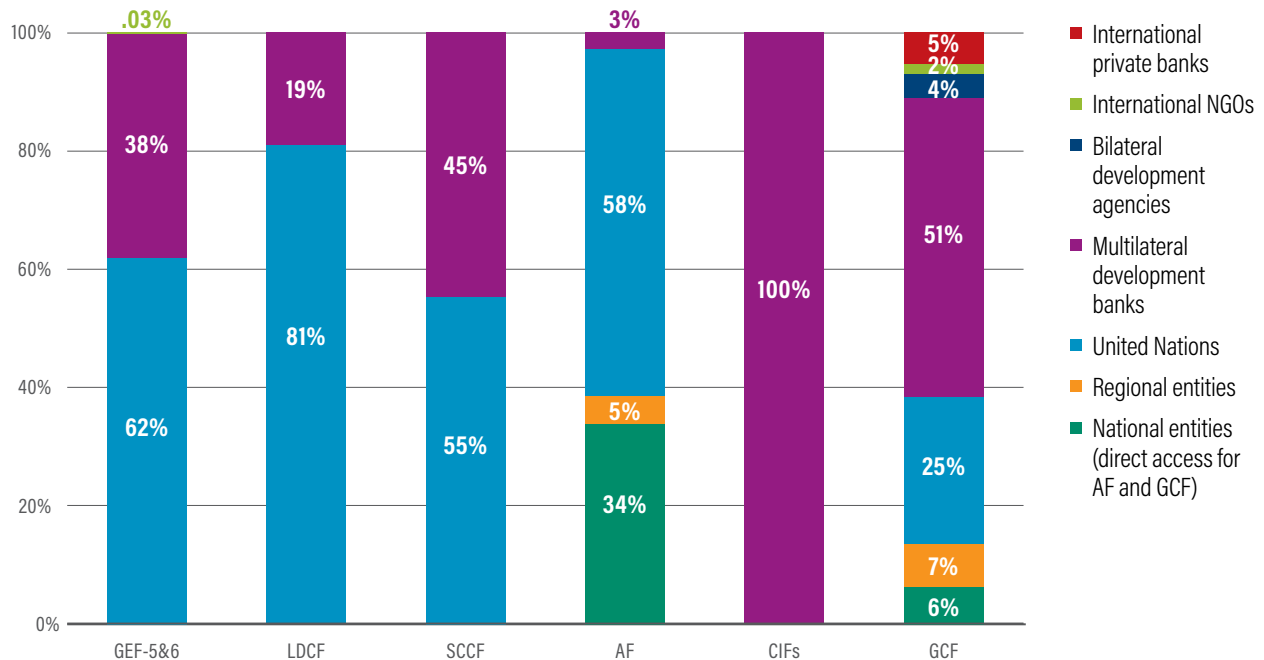
Figure 10 | Types of Implementing Entity



Note: GEF, Global Environment Facility; LDCF, Least Developed Countries Fund; SCCF, Special Climate Change Fund; AF, Adaptation Fund; CIFs, Climate Investment Funds; GCF, Green Climate Fund. For the GCF, all but one of the regional entities are accredited as regional direct access entities.

Sources: Compiled by authors, based on data from GEF 2016j; AF 2016d; GCF 2016c.

Figure 11 | Funding Allocation by Implementing Entity Type



Notes: GEF, Global Environment Facility; LDCF, Least Developed Countries Fund; SCCF, Special Climate Change Fund; AF, Adaptation Fund; CIFs, Climate Investment Funds; GCF, Green Climate Fund. In the case of the GCF, certain regional entities are also classed as direct access. Total approvals since fund inception, with the exception of the GEF where data are for GEF-5 and GEF-6 periods only.

Sources: Compiled by authors, based on data from GEF 2016c, 2016d, 2016j; AF 2016d, 2016h; GCF 2016b, 2016c.

Readiness and Capacity Building

Developing ambitious plans, strong project proposals, and becoming accredited by the climate funds is a rigorous and complex process. To help countries through these processes, all the funds provide readiness support and capacity building in different ways.

The GEF supports capacity-building efforts as part of its core mandate, including strengthening institutional capacities, and also provides project preparation grants to help move concepts to bankable proposals. The LDCF supports the development and implementation of NAPAs (short-term adaptation plans) and NAPs (long-term plans to build resilience). To date, all LDCs have received support to develop and implement NAPAs (GEF 2016c). The LDCF has also supported NAP processes in three LDCs as well as a global support program for NAPs. There are 12 approved funding requests for NAP support that are awaiting additional resources. The SCCF supports a global program for non-LDC NAP development.¹¹

The GCF has a comprehensive readiness program that supports strengthening the NDA, accreditation of NIEs, country programming and pipeline development, and information sharing (\$1 million per year, of which up to \$300,000 can be provided for strengthening NDAs), as well as NAPs (up to \$3 million per country; GCF 2016l, Decision B.13/32). It also allows institutions to upgrade accreditation, which can incentivize national entities to strengthen their capacities over time. Further, the GCF has a project preparation facility to facilitate development of proposals (capped at \$1.5 million per request).

The AF has a readiness program that provides project formulation support (\$30,000, with an additional \$15,000 for technical assessments, if necessary), accreditation (\$25,000 or \$10,000 if entities received prior technical assistance grants and only need support for new gender requirements) and South-South cooperation grants (up to \$50,000; AF 2016i). The CIFs also provide funding to develop investment plans and technical assistance support to partner countries; half of the FIP portfolio and around 15 percent of the PPCR's funding is spent on capacity building (CIFs 2015a).

One potential downside of fund-specific readiness or capacity building is that the support is ultimately tailored to developing a pipeline for those funds' resources, rather than preparing countries to access climate finance more generally.

Improve Efficiency

The Paris Agreement calls for institutions serving the agreement to “aim to ensure efficient access to financial resources through simplified approval procedures and enhanced readiness support” (UNFCCC 2015a, Article 9.9). Efficiency in the context of multilateral climate funds can involve a number of dimensions. Below, we examine the efficiency of funds in areas that are key to their effectiveness: their transaction costs, the speed of delivery of funding, and ease of access to funding.

Transaction Costs

Transaction costs of funds are one indicator of efficiency. They include the costs of administration and fees. Some developing country representatives interviewed said lower costs influence their choice of a partner fund, on the assumption that more money will be available for project activities. Developed country contributors may also see lower transaction costs as evidence of value for taxpayers' money. However, when evaluating fee structures, it is important to realize that lower fees may not always entail more efficient operation, particularly if they mean that entities do not have sufficient resources to implement and supervise projects effectively (GEF-IEO 2014).

Administrative Budget

Administrative budgets cover the costs of fund secretariats and governing bodies (Figure 12). Ensuring that secretariats have the right skills and expertise is important for efficient fund operations.

Global Environment Facility. The GEF Secretariat has 40 full-time staff who also serve the LDCF and SCCF. Administrative costs account for 3.1 percent of GEF income since the beginning of GEF-5, and around \$150,000 per project approved. By using GEF systems, the LDCF and SCCF are able to keep their administrative costs low. The administrative savings made possible by using the same secretariat are one argument in favor of consolidating funds.

Adaptation Fund. The AF Secretariat of 10 full-time staff is housed in and uses the GEF Secretariat for some administrative matters. It has the highest administrative budget as a proportion of fund size, at 5.6 percent of its cumulative capitalization. However, this is partly due to its funding smaller projects; on a per-project-approved basis, administrative costs are mid-range relative to other funds, at under \$600,000.

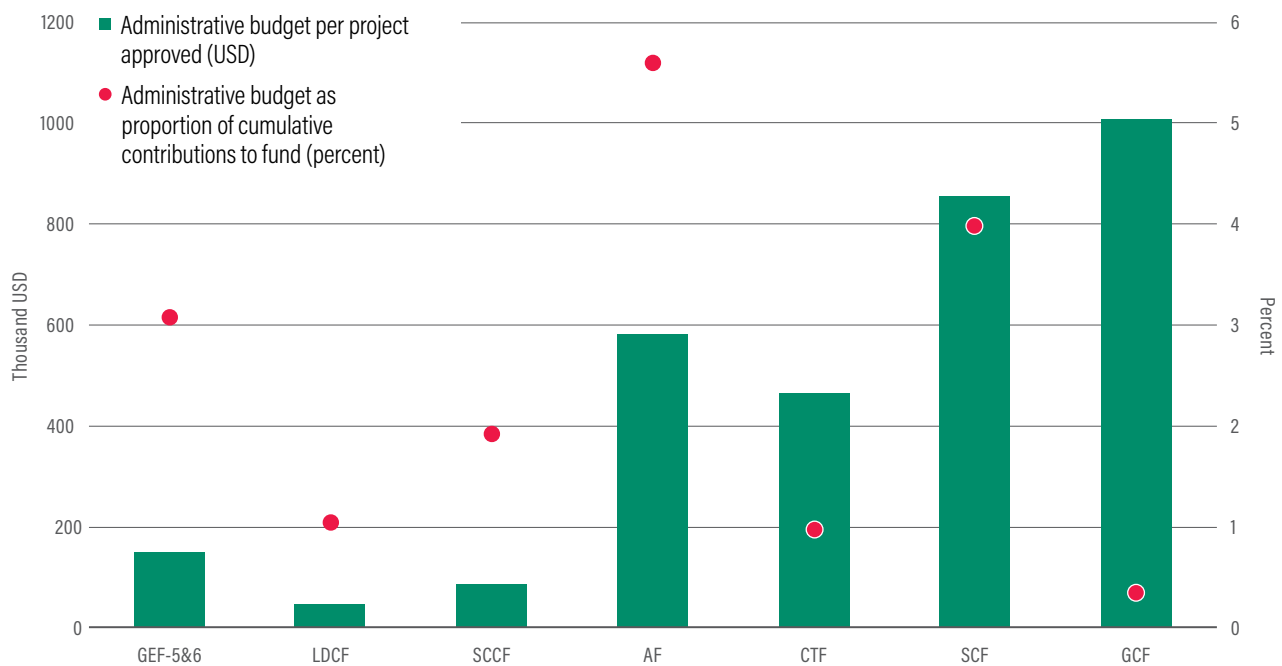
Climate Investment Funds. The CIFs devolve much of the project administration and review functions to the MDBs, allowing them to operate with a small administrative unit of 24 full-time staff. The CTF benefits from economies of scale to keep administrative costs to 1 percent of capitalization. However, because it supports larger and fewer projects, its per-project administrative costs are mid-range, at around \$460,000. The SCF, which funds more management-intensive adaptation, forestry, and small-scale renewable projects, has a higher administrative budget as a proportion of its capitalization

and the second-highest administrative costs per project approved.

Independent evaluations of the GEF, AF, and CIFs have found that secretariats and administrative units have been able to perform their functions effectively. But they also note that growing workloads—in terms of procedures, project portfolios, number of implementing entities, and the need to coordinate with other climate finance actors—may require additional staff capacity (Rouchdy 2011; ICF International 2014; GEF-IEO 2014).

Green Climate Fund. The GCF had 76 staff as of December 2016 (GCF 2016n). So far, it has maintained low administrative costs, but these could rise as the secretariat expands to manage more projects. On a per-project-approved basis, it has the highest administrative costs of any fund, over \$1 million per project, though this is likely to fall as the fund expands its project portfolio. Given the fund’s large capitalization and broad mandate, the secretariat

Figure 12 | **Administrative Costs of Climate Funds**



Note: GEF, Global Environment Facility; LDCF, Least Developed Countries Fund; SCCF, Special Climate Change Fund; AF, Adaptation Fund; CIFs, Climate Investment Funds; GCF, Green Climate Fund. Data from fund inception to most recent financial report, with the exception of the GEF, where it is for FY 2010 onward, to coincide with GEF-5 period onward.

Sources: Compiled by authors, based on data from World Bank 2009–2015a, 2009–2015b, 2009–2015c, 2016c, 2016d, 2016e; GEF 2016c, 2016f; AF 2016a; CIFs 2015a; GCF 2016b, 2016d.

is already facing capacity constraints and the board set a target to fill 100 positions by the end of 2016, which is likely to be met in 2017 (GCF 2016n). The fund has noted recruitment and retention challenges including the high cost of living, cultural and language barriers, and limited spousal employment opportunities in Songdo, South Korea, where the GCF has its headquarters (GEF 2016k). One option for attracting more staff may be to open regional offices, though this would have cost implications (Amerasinghe and Larsen 2016).

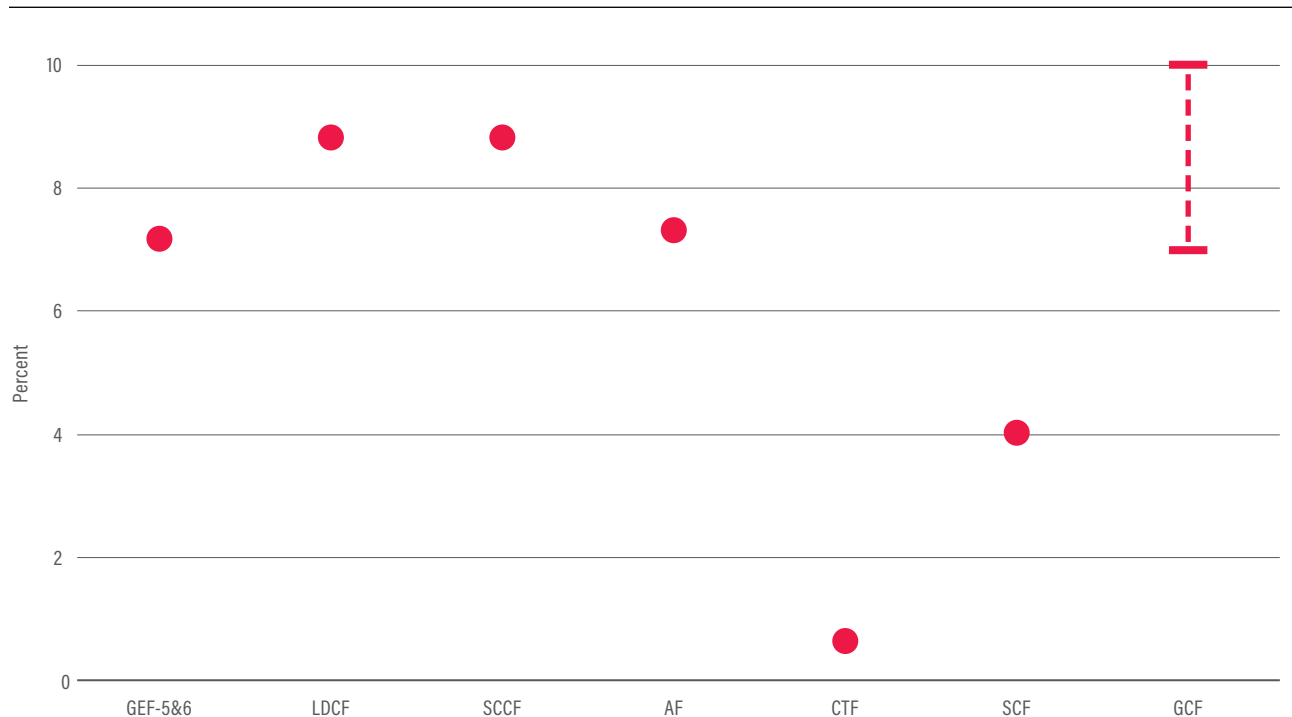
Fees Paid to Implementing Entities

Implementing entities charge fees for carrying out projects (see Figure 13). Like-for-like comparisons are difficult because of the different ways funds calculate and allocate costs. For example, the GEF fee covers both project management and the overhead costs of the agency, whereas the CIFs' fee paid to MDBs covers only project management costs. Costs for the CIFs' own financial management and country programming, for example, are counted under the administrative budget. The CIFs have been able

to charge lower average implementing entity fees by using existing MDB systems; in effect, they only need to pay the marginal costs of managing CIF projects, since the fixed costs of the bureaucracy are already established. The CTF has also been able to take advantage of economies of scale, as its projects are often very large (ICF International 2014). The GCF has some potential to achieve similar efficiency through scale.

Another important consideration is who benefits from fees. When direct access modalities are used, as allowed for in the AF and GCF, implementing entity fees can be used to enhance domestic capacities. Even when using international implementing entities, the allocation of funding between in-country offices and the entity's headquarters may be important to consider; in some cases developing countries felt too little funding was going to support country office capacities.

Figure 13 | **Implementing Entity Fees as Percentage of Project Costs**



Note: Data from fund inception to most recent financial report, with the exception of the GEF, where it is for FY 2010 onward, to coincide with GEF-5 period onward. For GCF, where data are lacking, the fee floor and cap are shown.

Sources: Compiled by authors, based on data from World Bank 2009–2015a, 2009–2015b, 2009–2015c, 2016c, 2016d, 2016e; GCF 2015b, Decision B.11/10.

Speed of Delivery of Funding

Another element of efficiency is the speed with which funding can be delivered. Funds follow different application procedures and support different types and sizes of projects, which makes comparisons difficult. To assess speed of delivery, it is necessary to examine any prerequisite conditions, such as the need for an implementing entity to be accredited or pass eligibility requirements (Figure 14), as well as the time from project submission to fund approval (Figure 15).

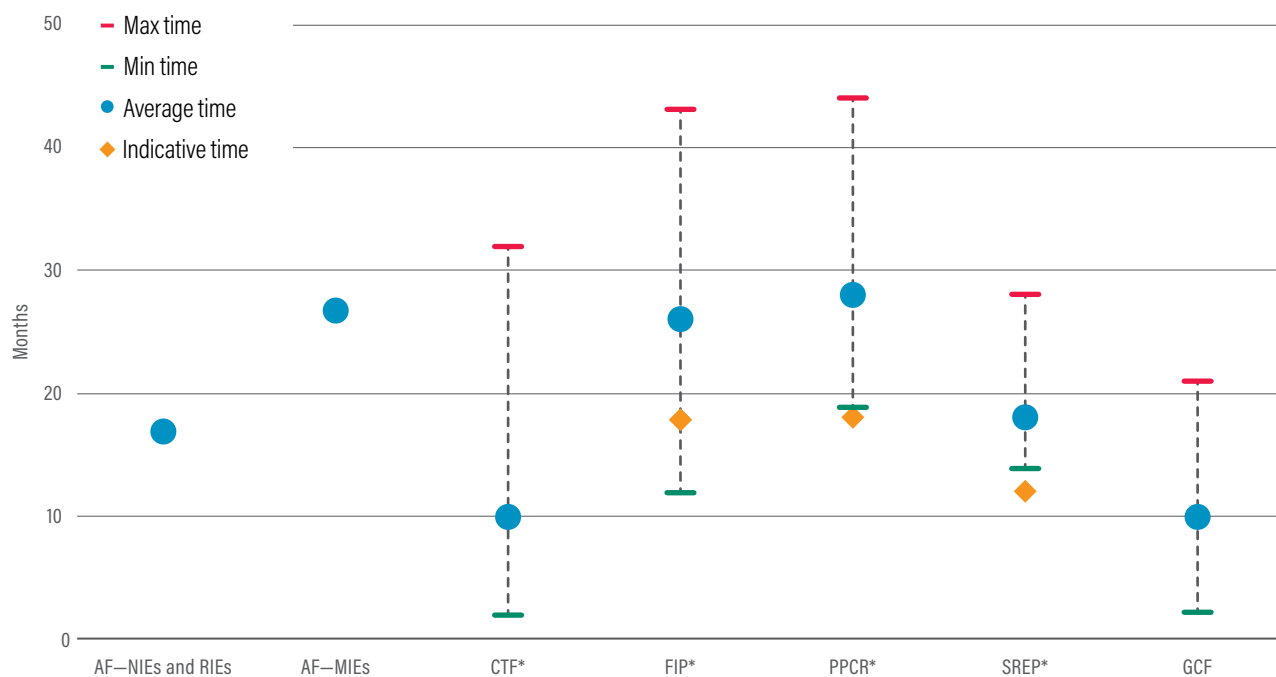
Programmatic approaches may take longer to get started. For example, the CIFs operate by selecting a small number of partner countries, which then prepare investment plans, after which projects or programs are brought to the relevant committee (or subcommittee for SCF projects) for approval. It can take several years for countries to have their invest-

ment plans endorsed after being selected as a CIF partner: an average of 10 months for the CTF, 18 months for the SREP, 26 months for the FIP, and 28 months for the PPCR. It then takes 18 months on average for individual projects to be approved (ICF International 2014).

By comparison, the time between submitting a GEF Project Information Form and approval by the council averages 18 months for medium-sized projects and 22 months for full-sized projects (GEF 2016g). The project approval times are some of the longest on average, but accreditation time is not really a factor since the GEF's implementing agencies are relatively fixed, having been expanded only twice in its 25-year history (GEF 2015f).

The AF has taken an average of 17 and 27 months to accredit national/regional, and multilateral

Figure 14 | Time Needed for Implementing Entity Accreditation or Investment Plan Endorsement

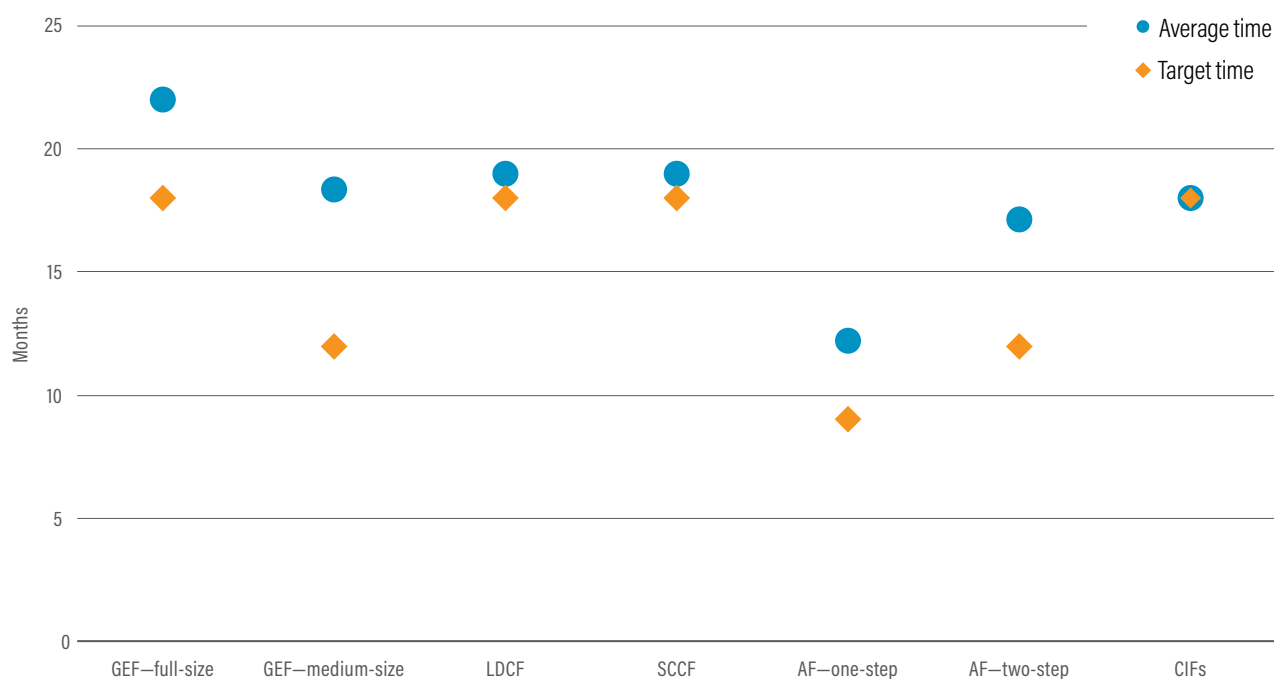


* The CIFs use five MDBs as their only implementing entities, so this figure shows instead the time taken between CIF partner country selection and investment plan approval, a necessary prerequisite before projects are approved.

Notes: AF, Adaptation Fund; CTF, Clean Technology Fund; FIP, Forest Investment Program; PPCR, Pilot Program for Climate Resilience; SREP, Scaling-Up Renewable Energy Program. GCF, Green Climate Fund; NIE, National implementing entity; RIE, regional implementing entity; MIE, multilateral implementing entity. The GEF has expanded its agencies only twice in its 25-year history, so their accreditation time is not included. The LDCF and SCCF use the same agencies so are likewise not included.

Sources: Compiled by authors, based on data from AF 2016a; ICF International 2014; GCF 2016o.

Figure 15 | Time Needed for Project Approval



Note: GEF, Global Environment Facility; LDCF, Least Developed Countries Fund; SCCF, Special Climate Change Fund; AF, Adaptation Fund; CIFs, Climate Investment Funds. Data for GCF project approval time were not available at time of publication.

Sources: Compiled by authors, based on data from GEF 2016b, 2016g; AF 2016a; ICF International 2014.

implementing entities, respectively, in the last four years, and accreditation times are increasing (AF 2016a).¹² Once an entity is accredited, however, the AF appears to be the most nimble fund, taking an average of just 8 and 12 months to approve one-step and two-step projects, respectively.¹³ Developing country stakeholders with whom we spoke noted the AF’s speed as an advantage.

For the first 41 implementing entities accredited by the GCF, the average time between opening an accreditation application and approval by the board was 9.9 months (the shortest was 2.3 months, and the longest 20.9 months; GCF 2016o). This includes 31 applications which were fast tracked (see section on Ease of Access to Funding, below). As the pool of implementing entity applications has grown, the waiting time is increasing. As of December 2016, the GCF had approved only 35 projects and data on approval times was not available.

Some developing country stakeholders noted that it was often quicker to get funding through bilateral

channels (climate funds or development agencies operated by a single country), rather than multilateral ones. Further, long approval times are a significant barrier for private sector engagement with public funds.

Ease of Access to Funding

The funds have different procedures for accessing funding—both in terms of which entities are eligible to access funding and the steps involved in applying for funding. Some funds have more than one set of procedures for different types of projects or implementing entities. This can reduce efficiency because countries must spend time learning and following different processes. In the words of one developing country stakeholder, it is “difficult for those not fluent in climate finance.” Further, some funds operate only in English, which presents language barriers for non-English-speaking countries.¹⁴

Developing effective projects takes time and resources. For example, identifying baselines, incre-

mental costs, and cofinancing requires significant technical capacity. The climate funds have made financing available to help cover these costs, but the process of accessing these funds can also take time. For example, the GCF has been slow to disburse readiness funding because of delays in finalizing readiness grant agreements. In one example raised in interviews, a direct access entity opted not to use readiness funding for an activity because accessing it would require more time.

Some funds have made efforts to simplify accreditation and proposal procedures. For example, the GCF allows fast-track accreditation of entities already accredited to the AF, the GEF, or the European Commission's Directorate-General for Development and Cooperation (Masullo et al. 2015). Similarly, in late 2016, the AF Board agreed to fast-track reaccreditation of implementing entities who are accredited with GCF if the reaccreditation application to the AF comes within four years of their GCF accreditation (AF 2016j, Decision B.28/38). In addition, the GCF Board is exploring simplified procedures for smaller-scale activities and possible clarification of the proposal approval process, including the role of concept notes (GCF 2016g, 2016l, Decision B.13/30).

Many developing countries and civil society organizations (CSOs) have also raised the idea of using one standardized application process for all funds.¹⁵

This could help streamline the project approval process, but it might be technically difficult given funds' different mandates and governance processes. Fund secretariats do communicate and coordinate on technical matters, but more formal coordination is currently limited by their differing mandates, governing bodies, and secretariat capacity.

Number of Implementing Entities

Another question regarding fund efficiency is the number of implementing entities through which funds should operate (see Figure 10). Opinion is divided as to whether the use of more entities improves efficiency. A larger number of accredited entities can increase flexibility, may allow for a broader reach of fund resources, and could promote competition among entities. This, in turn, could foster innovation, increase efficiency, and encourage institutions to improve their capacities. However, working through more entities can increase administrative time and costs, in terms of both accrediting new entities and managing existing partnerships. There is a debate within the GCF Board about whether there should be a cap on the number of entities the fund accredits (GCF 2016i).

In seeking to strike the right balance, some funds could focus on fostering the capacities and harnessing the skillsets of a diverse range of entities, while others focus on delivering funding at scale through fewer entities.



Support Equitable Allocation

Equity is a founding principle of the UNFCCC and, at its core, embodies the concept of fairness (UNFCCC 1992, Article 3). Fair allocation of finance emphasizes distribution to those who have contributed least to climate change and need support to mitigate and adapt to climate change. With limited public finance available, money needs to be allocated to those countries and thematic areas where needs are greatest and are not being met through other means. In the context of mitigation, this will include countries with significant mitigation potential but limited ability to tap other types of international or domestic resources. In the context of adaptation, it means having a focus on those most vulnerable to climate change impacts.

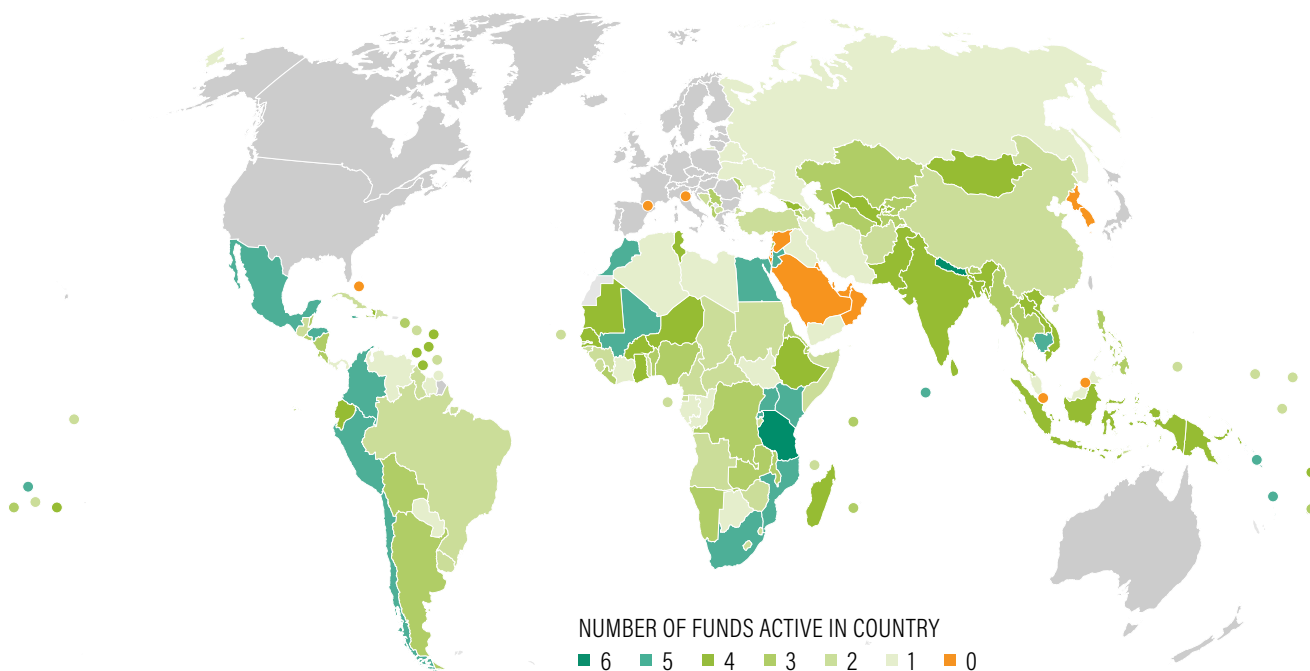
Country Coverage

It is important for climate finance to reach countries where the need is greatest. To date, middle-income developing countries have received the greatest share of international public climate

finance.¹⁶ Fifteen developing countries (non-Annex I UNFCCC Parties) have not received support from any multilateral climate fund,¹⁷ though some of these are now themselves contributors of climate finance. Figure 16 shows a heat map of the number of funds active in each country.

Middle-income countries. The CTF has focused on providing concessional finance for middle-income countries like Chile, Colombia, Indonesia, Mexico, Morocco, and the Philippines, which are ineligible for concessional IDA funding through the World Bank. Funding for these countries may be able to achieve significant emissions reductions and help drive down the costs of innovative technologies not currently viable in poorer countries, such as concentrated solar power and geothermal, creating global public goods. Middle-income countries are growing emitters and face barriers to private investment in terms of higher perceived risks compared to developed country markets; their cost of capital therefore tends to be higher and climate funds can help reduce these risks.

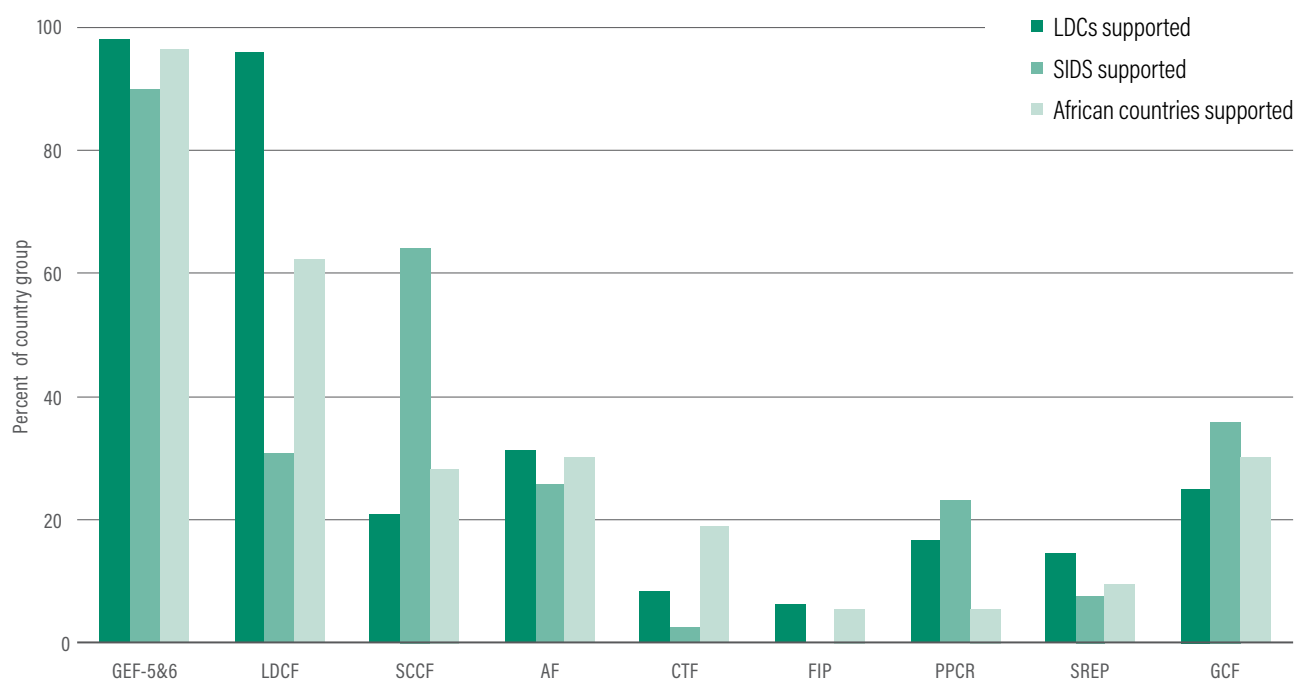
Figure 16 | **Current Multilateral Climate Fund Operations around the World**



Notes: Shows count of multilateral climate funds with current or completed projects in country, as of December 2016. For the GEF, only GEF-5 and -6 projects in the climate change focal area are counted; enabling activities, (e.g., support for UNFCCC reporting such as national communications, biennial update reports, intended nationally determined contribution preparation grants) are excluded. For the LDCF, enabling activities (e.g., NAPA and NAP preparation grants) are excluded. Maps are for illustrative purposes and do not imply the expression of any opinion on the part of WRI, concerning the legal status of any country or territory or concerning the delimitation of frontiers or boundaries. Smaller nations and states not necessarily to scale.

Sources: Compiled by authors, based on data from GEF 2016i; AF 2016h; CIFs 2015a; GCF 2016b.

Figure 17 | Fund Support for Least Developed Countries, Small Island Developing States, and African Countries



Notes: GEF, Global Environment Facility; LDCF, Least Developed Countries Fund; SCCF, Special Climate Change Fund; AF, Adaptation Fund; CTF, Clean Technology Fund; FIP, Forest Investment Program; PPCR, Pilot Program for Climate Resilience; SREP, Scaling-Up Renewable Energy Program; GCF, Green Climate Fund.

For the GEF, only AF—NIEs and RIEs projects in the climate change focal area are counted; enabling activities (e.g., support for UNFCCC reporting such as National Communications, Biennial Update Reports, Intended Nationally Determined Contribution preparation grants) are excluded. For the LDCF, enabling activities (e.g., NAPA and NAP preparation grants) are excluded.

Sources: Compiled by authors, based on data from GEF 2016j; AF 2016h; CIFs 2015a; GCF 2016b; UN 2014, 2016, 2017.

Low-income and particularly vulnerable countries. Lower-income and particularly vulnerable countries, whose needs may be greater for adaptation support, face capacity constraints in meeting requirements to access funding (Brown et al. 2013). As a result, some multilateral climate funds have placed specific emphasis on access for lower-income, more vulnerable countries. Representatives from these countries noted that this has had an influence on which funds they prioritize. The LDCF, for instance, provides adaptation funding specifically for LDCs and has provided funding to all LDCs (GEF 2016c). The fact that LDCs do not have to compete for funding with more developed countries was raised as a distinct comparative advantage by stakeholders we interviewed. Over half of the 11 countries supported by the SREP are LDCs, which fits with the fund’s mandate to support energy access in low-income countries.

Some small island developing states (SIDS) have high per capita GDP but limited access to capital markets and, because of their size and particular vulnerability to climate change, high adaptation needs. To address this, the GCF aims to allocate 50 percent of its adaptation funding to developing countries that are particularly vulnerable to the adverse effects of climate change, including LDCs, SIDS, and African states (GCF 2014a, Decision B.06/06). Though it has only approved 35 projects so far, because several are regional in scope, the GCF will have activities in 52 countries; around a quarter are LDCs, a quarter are SIDS and nearly a third are African countries. Figure 17 illustrates the percentage of LDCs, SIDS, and African countries supported by each fund. Almost all LDCs, SIDS, and African countries have received funding from at least one fund since the GEF supports projects in almost every developing country. However,

39 percent of LDCs, 46 percent of SIDS, and 47 percent of African countries have received funding from two or fewer funds, highlighting the continuing challenge of ensuring equitable access for poor and vulnerable countries.¹⁸

Other countries. The SCCF has largely supported countries not eligible for LDCF funding; only 11 countries have received finance from both funds. It is also notable for supporting central Asian countries. Only 6 out of 48 countries that received AF funding have also received support from the PPCR, which has operations in 18 countries, suggesting the potential for complementarity between these two adaptation-focused funds in the countries they support.

Funding caps. Some funds have caps to ensure that the limited amount of funding is spread among countries and not concentrated in a few. The AF has a \$10 million cap per country (AF 2011, Decision B.13/23), as well as a 50 percent cap on pledged resources that can be channeled through multilateral implementing entities (MIEs) to encourage direct access (AF 2010, Decision B.12/9). However, MIE funding is close to the 50 percent cap, which could restrict projects in some least developed and vulnerable countries from receiving funding (AF 2016b). Some of these countries may lack the capacity to get national implementing entities (NIEs) accredited, and an MIE could be their preferred or only option for accessing AF resources.

The LDCF currently has a ceiling of \$40 million for the total amount each country can access (GEF 2016c). The ceiling increases in proportion to the growth in resources pledged to the fund (GEF 2011a).

The GEF's STAR allocation system provides indicative allocations for each country based on indicators of country performance, potential to achieve global environmental benefits and social-economic development (GEF 2010a). Stakeholders were generally positive about this approach because it provides reliable, predictable funding and ensures that all eligible countries can access funding at their own pace. There is also a degree of flexibility built into the allocations, which means that countries can reallocate funding from other thematic areas if their needs and priorities change. Thus, in theory, rather than having three small and incomplete projects for

each of the GEF's STAR focal areas, a country could choose to focus on one successful larger one.

The CTF governance framework includes a soft cap: "the CTF Trust Fund Committee will seek to achieve an allocation of resources so that no one country receives more than approximately fifteen (15) percent of the CTF resources" (CIFs 2014a). The CIFs have focused on a smaller number of partner countries and provide an upfront allocation of funding as the country begins developing its investment plan. This provides significant predictability and allows countries to take a programmatic approach, knowing that significant resources will be available for delivery over a multiyear period.

Stakeholders noted that caps or allocations can enable countries to make longer-term, more transformational plans if there is sufficient finance available for the time necessary. Providing clarity on funding envelopes available to each country could therefore allow for more informed decisionmaking. At the same time, minimum allocations do not necessarily ensure that funding flows to where the need is greatest at the scale that is required. This raises questions as to whether some funds could be more targeted in how they allocate resources. The architecture will need to balance the need for wider coverage for some thematic areas, like adaptation, and more targeted coverage for others, like mitigation.

Thematic Coverage

The Paris Agreement explicitly recognizes the need for finance to support the thematic areas of mitigation and adaptation, forest-related climate actions, technology, and capacity building (UNFCCC 2015a, Articles 9, 4.5, 7.6, 5.2, 10.6, and 11.3). It is important that funds support these thematic areas in a way that responds to country needs while avoiding unnecessary duplication.

Mitigation and adaptation. Notably, the Paris Agreement highlights the need for funding to achieve a "balance between adaptation and mitigation" (UNFCCC 2015a, Article 9.4). The term "balance" is not defined in the agreement. One interpretation is that it refers to the quantity of funding, and that there should be equal amounts for both mitigation and adaptation. Another view is that it refers to balanced attention to different themes: because the

cost of activities and the magnitude of their impacts are not necessarily correlated, the share of dollars across activities should not necessarily be equal. In either case, multilateral climate funds have a big role in achieving this balance, particularly since bilateral flows of climate finance are skewed toward mitigation.¹⁹ Further, because mitigation activities tend to offer a more compelling case for private investment, public climate funds may need to focus more on adaptation, which currently receives just 17 percent of public climate finance flows.²⁰

The GEF's Special Program on Adaptation (now closed) and the AF, LDCF, and SCCF were established largely because of increased attention to adaptation and a recognition of the need for greater adaptation funding.

Currently, the CTF, GEF, and SREP support mitigation; the LDCF, PPCR, and AF support adaptation, and the GCF, FIP, and SCCF can support both. In the case of multifocal funds, their governing bodies have taken care to give attention to adaptation—the PPCR was created under the SCF to support adaptation, and the GCF aims for equal resource allocation between mitigation and adaptation (GCF 2011). There are several overlaps between the funds, particularly when scale is taken into consideration as well (see Figure 3), leaving room for possible specialization.

The GCF has the potential to program across nearly all thematic areas. As such, it is likely to overlap

with existing funds. For mitigation, the GCF can support larger-scale, programmatic interventions, similar to the CTF, and smaller-scale interventions like the GEF and SREP. Furthermore, the GCF has allocated funding to several renewable energy access proposals, suggesting some overlap with SREP. Funds will need to consider how best to target mitigation efforts that achieve systemic change, balancing larger programs and catalytic smaller-scale interventions, such as policy frameworks that support decentralized energy access or community-based natural resource management.

With respect to adaptation, the AF and LDCF both support small-scale, concrete adaptation projects, and the GCF's current portfolio of adaptation projects is trending in a similar direction. The PPCR has focused on programmatic partnerships with fewer developing countries. This raises questions about the GCF's role in supporting adaptation. From interviews, it is clear that there is a need for both small-scale adaptation projects (across a wide range of countries) and longer-term systemic reforms that help build resilience. One option would be for the GCF to take over the work of the AF and LDCF in funding smaller interventions. Alternatively, the GCF could focus on scaling up smaller interventions and supporting programmatic approaches.

Forests. For forest-related funding, within the seven funds explored, the FIP focuses on forest sector interventions and the GCF includes forests



and land-use as one of its impact areas. Several approved GCF projects involve forests and land-use). The GEF is also well placed to address forests and land-use as part of its cross-sectoral programming, given its mandate to serve the Convention on Biological Diversity and the Convention to Combat Desertification. Indeed, the GEF's multifocal approach, targeting the drivers of environmental problems and harnessing multiple benefits across different thematic areas (such as land degradation and biodiversity) was noted as a particular strength by stakeholders.²¹ There are also several dedicated forest funds not covered in this report.

Capacity building. Under the UNFCCC, one of the GEF's main mandates is to support capacity building and reporting, including support for preparation of national communications. This role was reaffirmed and emphasized in the Paris COP decisions.²² The LDCF has supported NAPAs in all the LDCs and is starting to support development of NAPs; the GCF can also support NAPs. Importantly, technical support provided through the CIFs and readiness funding through the GCF and AF (see Promote Country Ownership, above) may also address certain types of capacity building highlighted in the agreement.

Technology. The GEF, SCCF, CTF, and SREP include technology as a focus, and the GCF has a mandate to support technology development and transfer. The SCCF is the only fund with a dedicated technology transfer window (SCCF-B). Only \$61 million has been approved for 12 projects since its inception in 2001 (GEF 2016c), but given this niche it may be an area the fund could focus more on. Countries might consider whether some functions could be picked up by other UNFCCC bodies, such as the Climate Technology Centre & Network, to help coordinate efforts on technology support.

Increase Accountability

Climate funds operate according to standards and systems designed to ensure that they adhere to rules set for them by their respective boards and UNFCCC decisions (if applicable). Systems that ensure accountability are important for overall governance, but they can also be crucial for continued fund replenishment by providing confidence to contributors and other stakeholders that funds have processes to manage resources effectively. Below,

we briefly explore the systems currently in place to track whether funds are fulfilling their mandates and abiding by their operational policies.

Fulfilling Mandates

As described earlier (see Current Legal Mandates, in Part I), all funds except for the CIFs have some formal link to the UNFCCC. As operating entities of the financial mechanism of the convention, the GEF and GCF must report annually to the COP and receive guidance on their policies, program priorities, and eligibility criteria (UNFCCC 1992, Article 11). The LDCF and SCCF also operate under the guidance of the COP (UNFCCC 2001, Decision 7/CP.7). The AF operates under the guidance of the CMP (UNFCCC 2001, Decision 10/CP.7). The CIFs are not accountable to the UNFCCC and as such do not report to the COP or receive its guidance.

The GEF's Fifth Overall Performance Study found that "the overall level of GEF responsiveness to convention guidance is high at both the strategic and portfolio levels," with GEF focal area strategies and activities closely aligned with convention guidance (GEF-IEO 2014). However, it noted that ambiguous language, lack of prioritization, and the cumulative nature and repetition of guidance make it difficult for the fund to operationalize recommendations. COP guidance has focused on the GEF's support for national reporting obligations under the UNFCCC, capacity building, and knowledge creation, and does not focus much on guiding other GEF programming areas.

Conversely, COP guidance to the LDCF and SCCF has been more concrete. The COP has given clear direction to the LDCF to support the development of NAPs, NAPAs, and projects identified therein. The SCCF has received guidance to support the four windows of activities (adaptation to climate change; technology transfer; mitigation in selected sectors including energy, transport, industry, agriculture, forestry, and waste management; and economic diversification of fossil fuel-dependent countries), and on which sectors to prioritize for climate adaptation (GEF-IEO 2013a).

The independent evaluation of the AF found that in both design and operational processes, it is "largely coherent with UNFCCC guidance and national adaptation priorities" (TANGO International and ODI 2015). However, the evaluation also found that

the fund has struggled to live up to its mandate to give priority to particularly vulnerable countries and communities. The lack of a systematic prioritization approach has meant that, in practice, those countries most able to bring strong project proposals forward for consideration have received funding. Vulnerable countries that may lack the required financial and human capacity have struggled to present competitive proposals (TANGO International and ODI 2015).

Because it only recently became operational and has not yet undergone an independent evaluation, the GCF has a limited track record on which to assess its operationalization of COP guidance. The fund reports annually to the COP on its progress in implementing COP guidance (GCF 2016m). Reflecting the high level of interest in the GCF, in the six years since its creation at COP16 it has received 270 items of COP guidance, compared with the GEF, which has received 379 items of guidance over the past 21 years (SCF 2016b, 2016c).

The accumulation of COP guidance over the years poses challenges for the funds in terms of prioritizing and implementing guidance, and reporting on progress in fulfilling their mandates. As operating entities of the financial mechanism of the Paris Agreement, the GEF and GCF will also receive additional guidance from the Meeting of the Parties to the Paris Agreement (UNFCCC 2015b, Decision 1/CP.21, paragraph 61). UNFCCC Parties and fund governing bodies will need to explore the best way to maintain fund accountability to COP, ensuring that guidance is relevant, effectively implemented, and reported on in a timely manner.

The lack of accountability of the CIFs to the UNFCCC was addressed through their commitment to sunset once the international climate finance architecture is effective, though there has been some debate and different interpretations of what this means (CIFs 2011a, 2014a). If the CIFs do not sunset, they may need to explore how they can align with the climate change priorities identified by the international community in the UNFCCC.

In recognition of the challenges presented by the growing workload associated with implementing COP guidance, COP17 tasked the Standing Committee on Finance to provide “draft guidance for the

operating entities of the financial mechanism of the Convention, with a view to improving the consistency and practicality of such guidance” (UNFCCC 2011, Decision 2/CP.17, paragraph 121). The committee has compiled and analyzed past guidance—categorizing guidance as repetitive, obsolete, responded to, or ongoing—and will continue to update this compilation and analysis annually (SCF 2016b, 2016c). To bring greater focus and clarity to guidance, the committee is preparing draft recommendations on core guidance for COP23. It is also considering whether to adjust the frequency with which the COP issues guidance to the operating entities, particularly the GEF, which receives guidance from the COPs of the other conventions it serves less frequently (SCF 2016d).

Transparency and Participation

Another crucial aspect of accountability is transparency to and participation of stakeholders in fund decisions. By providing information and scrutiny, stakeholders can help improve fund operations. While stakeholders can include a wide range of actors, in this section we focus on civil society and private sector institutions. CSOs and the private sector, particularly local or community organizations, often bring a different, more critical perspective than national governments. They may be closer to field operations and able to provide information about implementation that could be missed in other reporting. For a discussion of national stakeholder engagement, see Promote Country Ownership, above.

All the funds have policies on disclosing information to the public and provisions for some form of engagement with CSO and private sector stakeholders (Table 4).

Overall, there is a presumption that information should be disclosed unless there are circumstances that would warrant confidentiality (e.g., personal information, safety and security, or commercially sensitive information). The fact that all the funds have this type of limited exception approach is encouraging. However, stakeholders have noted that the application of exceptions can be broad on issues like commercial sensitivity or damage to business interests. Further, when channeling funding through implementing entities (particularly financial intermediaries) or investing in programs, disclosing project-related information upfront can be com-

Table 4 | **Transparency Policies and Stakeholder Participation Provisions**

FUND	BASIC POLICIES ON INFORMATION DISCLOSURE	FUND OBSERVERS
Global Environment Facility (and Least Developed Countries Fund / Special Climate Change Fund)	<ul style="list-style-type: none"> ■ GEF practices on disclosure of information ■ Four-week document disclosure requirement prior to council meetings 	Independent GEF civil society organization (CSO) Network: 5 representatives are invited to participate in proceedings and 5 can observe.
Adaptation Fund	<ul style="list-style-type: none"> ■ Open information policy ■ Four-week document disclosure requirement prior to board meetings. Public can comment on project proposals during project review cycle. ■ Live webcasting 	Any registered observer can participate and intervene at the discretion of the chairs. There is an informal CSO network.
Climate Investment Funds	<ul style="list-style-type: none"> ■ Follows the information disclosure policies of the multilateral development bank implementing partners ■ Clean Technology Fund: two-week document disclosure requirement for provisional items; 10 days for final items ■ Strategic Climate Fund: 10-day document disclosure requirement 	For each of the 4 committees: 4 CSO observers; 2 private sector observers; and 2 Indigenous Peoples' representatives. Pilot Program for Climate Resilience also has an additional community seat for one CSO.
Green Climate Fund	<ul style="list-style-type: none"> ■ Comprehensive information disclosure policy ■ Three-week document disclosure requirement prior to board meetings ■ Live webcasting 	4 active observers: 2 civil society and 2 private sector (developed and developing countries).

Sources: GEF 2011c; GEF-CSO Network 2016; AF 2013; CIFs 2014b, 2014c, 2009c; GCF 2011, 2016f.

plicated because site-specific activities may not be known at the time of proposal approval (for instance, with private equity investments). Essentially, the burden of transparency moves to the implementing partner or intermediary at the time when specific investments are being considered. This is a particular challenge for the GCF, and the fund will have to be diligent in setting clear parameters for these types of investments and deciding precisely what information will need to be provided (and available via the fund) to ensure transparency, both prior to proposal approval and during implementation.

The availability of documentation well in advance of governing body meetings is crucial to allow stakeholders to access and analyze the information. Three to four weeks appears to be the norm for funds, with the CIFs operating on a much tighter time frame. In practice, funds have sometimes

struggled to meet their minimum disclosure time largely due to workload challenges; this has to be addressed in any future arrangement so that working quickly does not impede transparency and effective participation of stakeholders.

With respect to NGO participation, the funds have different approaches, but they all allow observers to participate in meetings and intervene in deliberations. The CIFs have the highest number of formal NGO observers at committee meetings, and notably have specific positions for Indigenous Peoples. The GEF invites five representatives of an independently organized GEF CSO network to participate directly in meetings. In both systems, there are concerns that while formal structures are useful they can sometimes become top-down and stifle meaningful interaction with stakeholders (Sharma 2010).

The AF has an informal CSO network, which is appropriate for its smaller scale, but there may be value in exploring a more formal institutional arrangement for observers. The GCF has civil society and private sector representation; however, CSOs have consistently raised concerns over two individuals having to represent the diversity of geographies and constituencies (across developed and developing countries) within civil society.

Fiduciary Standards and Safeguards

Fiduciary standards are requirements that ensure proper handling of finances and sound organizational management. Safeguards are measures

intended to ensure that funds are managed effectively and that activities do not cause harm to people or the environment. Robust safeguard systems are essential to ensure that climate action is implemented effectively. Much has been written about the importance of fiduciary standards, safeguards and redress mechanisms in ensuring that public financial institutions can be held accountable (Ballesteros et al. 2010).

All the funds have standards relating to fiduciary management, environmental and social safeguards, and gender considerations. Table 5 identifies the policies used by each fund. There are several

Table 5 | **Fiduciary and Safeguards Policies and Monitoring Systems**

FUND	FIDUCIARY AND SAFEGUARD POLICIES	MONITORING SYSTEMS
Global Environment Facility (and Least Developed Countries Fund/ Special Climate Change Fund)	<ul style="list-style-type: none"> ■ GEF Environmental and Social Policy ■ GEF Fiduciary Standards ■ Gender Mainstreaming Policy ■ Indigenous Peoples Policy (separate from the Environmental and Social Policy) 	<ul style="list-style-type: none"> ■ Annual reporting by agencies. ■ Agency-led midterm review for full-size projects. ■ Agency-led terminal evaluations of projects/programs, which must have independent review. ■ Independent Evaluation Office plays a central role in evaluations from more than one GEF agency.
Adaptation Fund	<ul style="list-style-type: none"> ■ AF Environmental and Social Policy ■ AF Fiduciary Standards ■ Gender Policy and Action Plan 	<ul style="list-style-type: none"> ■ Annual performance reporting. Regular projects subject to midterm and terminal evaluations. Terminal evaluations must be conducted by an independent investigator of entity's choosing. Small-scale project evaluation will be as deemed necessary.
Climate Investment Funds	<ul style="list-style-type: none"> ■ Applies fiduciary standards and safeguards policies of each multilateral development bank (MDB) partner ■ Gender Action Plan 	<ul style="list-style-type: none"> ■ Applies each MDB's system for monitoring fiduciary standards and safeguards. Typically involves reporting at each stage of the project cycle.
Green Climate Fund	<ul style="list-style-type: none"> ■ GCF Fiduciary Standards and Interim Safeguards (applies the International Finance Corporation's Performance Standards) ■ Gender Policy and Action Plan ■ Mandate to develop an Indigenous Peoples policy 	<ul style="list-style-type: none"> ■ Accreditation: Annual self-reporting on systems compliance with standards and safeguards. Secretariat conducts midterm review and any ad hoc compliance reviews. ■ Activities: Quarterly financials, semiannual progress reports, and midterm and final evaluations. Participatory monitoring encouraged. ■ Spot checks: GCF can conduct spot checks using a risk-based system.

Notes: Gender and Indigenous Peoples policies are typically holistic (not limited to safeguards). They are included here because of their relationship to safeguards implementation and because funds can require compliance with such policies for accreditation purposes.

Sources: GEF-IEO 2008, 2010; AF 2016c, 2016f; GCF 2015b, Decision B.11/10.

similarities in the policies and systems used. All funds require environmental and social impact assessments and local consultations. However, some differences exist in the precise content of the policies. For example, funds differ in the extent to which activities may affect natural habitats, the extent to which activities are gender-responsive, or whether Indigenous Peoples must give free, prior, and informed consent to activities that affect their land or resources.

The fact that the funds have different standards and safeguards can cause challenges and inefficiencies for institutions that access money from more than one fund, as they must understand and meet different requirements.

Monitoring implementation is emerging as another critical challenge for funds as they move toward programmatic approaches and operate through accredited entities. As with transparency concerns, programmatic funding can make it harder for the fund and stakeholders to assess actual project impacts, in part because specific activities may not be known when a proposal is brought forward. Funds also need robust reporting frameworks with clear guidelines, particularly on project-level impacts, so that they receive necessary information from implementing entities as to whether safeguards are being upheld. They should not rely solely on self-reporting from entities, and funds will have to ensure that they either have capacity to conduct necessary reviews or can outsource monitoring to independent evaluators. It is also important to make reported information publicly available.

Grievance Mechanisms

Providing avenues for peoples and communities to raise concerns about negative impacts of investments (expected and incurred) is essential for accountability. Compliance mechanisms where communities can raise concerns and seek redress when safeguards are violated are an important aspect of any accountability system (Ballesteros et al. 2010; Brown et al. 2013). Traditionally, development finance institutions have established fund-level independent accountability mechanisms that can address complaints.²³ International institutions have also recognized the importance of establishing grievance processes at the project level, and at the entity level if operating through other institutions.²⁴

Table 6 | Fund Grievance Mechanisms

FUND	GRIEVANCE PROCESS
Global Environment Facility (and Least Developed Countries Fund/Special Climate Change Fund)	Conflict resolution commissioner within secretariat, works with complainants, partner entity, and recipient country to resolve concerns.
Adaptation Fund	Secretariat can receive complaints. The manager of the secretariat is currently designated to receive complaints. An ad hoc mechanism is under consideration.
Climate Investment Funds	No separate body to handle complaints; however, all the multilateral development bank implementing partners have independent compliance and project complaint mechanisms.
Green Climate Fund	Independent redress mechanism consists of two units. One deals with concerns over rejected proposals and the other with community grievances relating to funded projects. Handling rejected proposals is a new mandate for a redress mechanism.

Sources: GEF 2015c; AF n.d.; CIFs 2016c; GCF 2014a, Decision B.06/08.

The seven funds in this report all require accredited institutions to have grievance processes or mechanisms, with a less formalized approach at the fund level (except for the GCF). Table 6 summarizes the grievance mechanisms used by each fund.

The GCF is the only institution that has established a formal fund-level mechanism, though it recognizes that the grievance mechanisms of accredited entities should be the primary venue for raising concerns (GCF 2016h, Annex XXVI). It is unclear precisely how the mechanism will operate as it is still under development.



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PART III

THE FUTURE OF THE FUNDS: RECOMMENDATIONS

This section sets out options and recommendations for how the architecture could evolve, based on the analysis presented in the previous part of this report.

The future architecture of multilateral climate funds is currently under debate for two reasons. Policymakers recognize the need to make the funds more effective and, in the case of several of the funds, mandates and resourcing issues need to be resolved. In particular, there are questions about the future of the CIFs, AF, SCCF, and LDCF. Implementation of the Paris Agreement provides an opportunity to take stock of the existing challenges, identify ways to address them for the system as a whole, and rationalize funds to the extent feasible.

We have identified challenges and opportunities for the funds, relating to how effectively they are achieving impact at scale, promoting country ownership of funding, improving efficiency of operations, supporting equitable allocation of funds, and increasing their accountability. In coming years, climate funds can address these issues in a number of ways, including through operational improvements and architectural changes, such as specialization of funds and possible consolidation or closing of others.

It seems unlikely that policymakers will make fundamental changes to the constellation of funds in the near term, although changes to the funds' operations is possible. Over time, as policy discussions evolve and there is more experience with implementation, options for closing or consolidating funds may become more feasible. Therefore, we present key recommendations and conclude by proposing a set of reforms that policymakers could implement over time.

Operational Recommendations

The following recommendations address operational challenges that cut across the funds. These could be implemented independently from architectural recommendations relating to specialization, closing, or consolidation.

Improve Coordination among Funds and between Funds and Countries

Improving coordination among funds can enhance their efficiency. Even without changes to their formal mandates, funds could improve their coordination to ensure that they are meeting countries' diverse needs, minimizing duplications and inefficiencies in their portfolios, and simplify-

ing access to funding. This would require funds, in close coordination with countries, to think strategically and collaboratively about who is best placed to serve different thematic areas, activities, instruments, and geographic areas, and about how needs will evolve over time. For example, if a least developed country (LDC) seeks resources from the LDCF, AF, and GCF for adaptation planning and related implementation, a coordinated approach to identify which activities should be supported by which funds would be beneficial. A possible scenario could be that the LDCF supports development of the NAP, the LDCF and AF support one or two critical concrete activities identified in the plan, and the GCF supports a longer-term program. This type of approach would require both better coordination between funds and countries as well as coordination among the funds.

Funds could improve coordination by enabling secretariats and boards to engage with their counterparts at other funds more closely. The GCF's recent decision to host an annual dialogue with fellow climate finance delivery channels, for example, presents an opportunity for a more regular conversation about how to coordinate (GCF 2016l, Decision B.13/12). Many countries have seats on more than one fund's governing body. In several cases, the same person occupies these seats, which might make coordination less challenging than it may at first appear. The UNFCCC's Standing Committee on Finance has a mandate to recommend core guidance to the operating entities of the financial mechanism of the convention (the GEF and GCF) by November 2017. This provides an opportunity for enhancing coordination and sharpening funds' focus (SCF 2016d).

As part of fund efforts to support country ownership, they could encourage holistic planning processes at the national level that are not limited to a fund-specific portfolio. One possible solution is for a country to identify one ministry or body that serves as the national focal point or authority for all the climate funds. Stakeholder engagement is another area that is critical to meaningful planning processes. Development of stakeholder guidelines and readiness funding to engage a broad range of stakeholders will be essential to fostering greater country ownership.

Finally, there is a need for more coordinated and holistic readiness support than is being provided by the funds and their readiness partners. There may be value in having a broader readiness hub or program that addresses overall planning and pipeline needs. (The GCF's readiness coordination group could be a starting point.) This could help avoid duplication and ensure more efficient use of the relatively limited resources for capacity building. Over time, a more holistic approach could help move countries toward greater capacity to access self-sustaining sources of finance, including from both the private sector and domestic resources. Improved information platforms could also improve knowledge and match needs to funding sources.

Harmonize Standards, Accreditation Requirements, and Procedures for Proposal Approval

As the sections on efficiency and accountability highlighted, a significant challenge in the current global system is the multiplicity of rules and procedures involved in accessing finance across different funds. Different rules require adherence to different fiduciary standards, environmental and social safeguards, and gender policies. The various funds require different types of information to accredit entities, and they have different requirements for proposal approvals. All this results in considerable inefficiencies for recipient countries and implementing entities, making access particularly challenging

for national entities with less capacity. For instance, it is harder for implementing entities to design systems that respond to multiple sets of rules and for in-country stakeholders to plan for and monitor activities with different rules attached to them.

One option is to harmonize standards and procedures across the climate funds. Funds could agree on a consistent set of fiduciary standards, environmental and social safeguards, and gender policies that apply across all funds, taking into account the fit-for-purpose approach pioneered by the GCF. Any harmonization would need to reflect international best practices and build on the strongest policies that funds currently have in place. Policies relating to Indigenous Peoples, for example, should build on progress made in the AF, FIP, and GEF in terms of Indigenous Peoples' rights, engagements, and access. Harmonization would make it easier for entities to design environmental and social management systems, monitoring systems, and grievance processes, and to report to funds on compliance with standards.

In the context of accreditation, there is room for the AF and GCF to explore consistency regarding information required, particularly for lower-risk activities. The AF and GCF are moving toward reciprocity in accreditation requirements—the GCF fast-tracks entities already accredited to the AF, and the AF Board recently agreed to fast-track reaccreditation of entities that are accredited to the GCF.



Similarly, there may be scope for streamlined proposal approval procedures in terms of the information and studies required to access funding. For example, smaller, lower-risk activities could have simpler requirements than bigger, medium- to high-risk activities to enable faster flows to vulnerable countries. Any simplification would need to ensure that entities still carry out necessary fiduciary, safeguards, and gender assessments. In addition to increased efficiencies for recipient countries and implementing entities, funds would also see greater complementarity in readiness efforts if rules were harmonized. Rather than each fund working with countries and entities on different requirements, all readiness and capacity-building programs would support entities' ability to access any of the funds. There could also be benefits for transparency if funds align rules, provided that alignment is in the direction of greater transparency.

Despite such gains, harmonizing rules would be technically and politically challenging, especially when occurring across multiple funds. Standardizing accreditation between the AF and GCF might be a more realistic option in the shorter term. It may also be possible to develop a common set of principles for safeguards and standards that all the funds agree to follow, and this may reduce some of the current inefficiencies. In the longer term, if there is some consolidation of funds, a broader harmonization may be more feasible.

Support Programmatic Approaches and Systemic Shifts

Achieving impact at scale is perhaps the most urgent priority facing the funds. Public funding for climate action is limited and must be used effectively to support transformative low-emissions and climate-resilient development. It has become increasingly clear that this type of transformation will not occur if the bulk of financing goes to one-off projects that do not catalyze more systemic change at the national, regional, and global levels. Multilateral climate funds have had some success at driving systemic shifts in countries, but much greater emphasis is needed across all funds on supporting systemic change and taking programmatic approaches to funding.

Funds should support systemic shifts by strategically investing in policy initiatives that have the

potential to change behavior in markets and economies beyond the confines of a specific activity. This could be done on a project or programmatic basis. Programmatic approaches typically involve bundling or aggregating activities that contribute to a particular outcome and can be a useful approach for supporting necessary policy shifts. Such approaches can increase efficiencies and promote country ownership by enabling entities to program larger sums under one proposal then devolve decisionmaking to the national or regional levels.

The CIFs have a niche in programming on the basis of country investment plans, which can be informative for both the GCF and the GEF; both funds have significant potential to support programmatic approaches or targeted actions that can achieve systemic shifts in countries. The GCF, in particular, needs to articulate its vision for programmatic approaches, and ideally expand its pilot for enhanced direct access. The GEF may face constraints in supporting bigger programs due to its allocation system, but it could build on its cross-sectoral programming and rely on other entities to cofinance promising initiatives. For all funds, readiness support, technical advice, and capacity-building activities should be geared toward providing assistance to countries to develop more holistic programs. Funds could also set targets for their incoming pipelines to track how well proposals are shifting toward programmatic approaches.

Taking a programmatic approach does not always equate to large-scale funding, however, particularly if the potential for impact of a smaller program in a given country or region is high. Thus, even smaller funds like the AF and LDCF can support programmatic approaches or, at a minimum, fund concrete activities that are clearly part of a broader plan and/or have potential impact beyond the project itself. Indeed, the AF has already started experimenting with programmatic funding activities, for example, with its funding of the South African National Biodiversity Institute's small grants program.

Finally, there is a small but important role for the GCF in driving portfolio shifts in the broader financial system through its accreditation process. The GCF currently has a mandate to consider whether implementing entities' portfolios are aligning with climate goals when assessing them for accredita-

tion and reaccreditation. This could help drive both national and international entities to build climate change indicators into their portfolio assessments, which has the potential to be trend-setting. The GCF should capitalize on this, particularly given the Paris Agreement’s goal of aligning financial flows to support low-emissions and climate-resilient development, and work with experts to develop criteria to make these assessments.

Architectural Recommendations

The following recommendations address how funds could adjust their mandates to achieve greater specialization and, over time, explore options for closing or consolidating funds.

Increase Specialization of Funds

In the short term, a clearer division of labor between the funds could help address both gaps and overlaps in how the funds support different thematic areas, project sizes, and risk appetites. While some duplication is beneficial because it provides choice, it is not efficient for all funds to try to meet the broad spectrum of needs. For example, there is significant overlap among funds providing small amounts of funding per project, and among funds focused on adaptation (see Figure 3 and Figure 18).

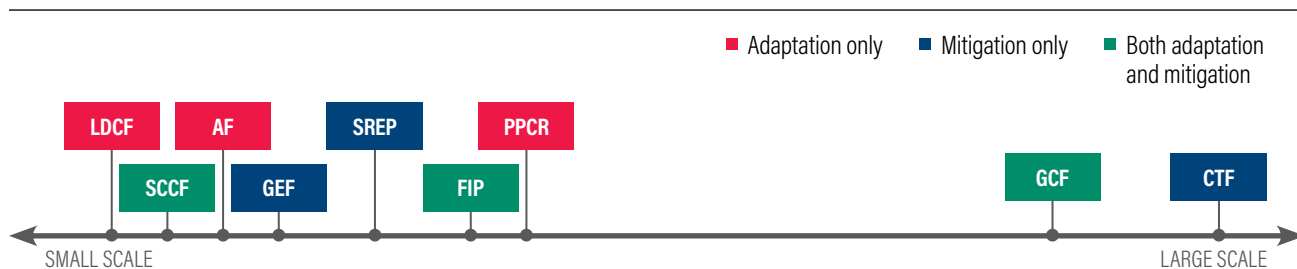
Clarifying the funds’ mandates offers real potential for greater efficiency in the climate finance architecture. A clearer understanding of the division of labor can help both contributors and recipients in prioritizing their engagements. Countries would have a better idea of which funds to engage with for

different activities, which could reduce duplication. Here we set out options for how different funds could build on their comparative advantages and specialize in different areas, with a view to reducing inefficient duplications and addressing gaps in current provision:

Global Environment Facility. The GEF can support impact at scale through its funding across multiple sectors. It should focus on its traditional strengths in working across the five conventions it serves (Climate Change, Biological Diversity, Persistent Organic Pollutants, Desertification, and Mercury), and focus its “pure play” climate change projects on targeted activities that have large catalytic impacts. One option is for the GEF to bring the focal points from the different conventions together to explore cross-cutting opportunities. The GEF also has a critically important role to play in advancing country ownership through its focus on capacity building. Its historic emphasis on capacity building was further strengthened by the mandate it received from COP21 to implement the Capacity Building Initiative for Transparency, which will need to be incorporated as a strong feature in the next replenishment.

The GEF Council would need to ensure that the fund exercises discipline in retaining a sharp focus on these core strengths, rather than trying to expand its work outside its area of comparative advantage. The GEF might also need to diversify delivery agencies beyond the UNDP and World Bank, which have received the majority of funding. Continuing to maintain broad country coverage

Figure 18 | **Current Spectrum of Scale and Thematic Focus**



Note: LDCF, Least Developed Countries Fund; SCCF, Special Climate Change Fund; AF, Adaptation Fund; GEF, Global Environment Facility; SREP, Scaling-Up Renewable Energy Program; FIP, Forest Investment Program; PPCR, Pilot Program for Climate Resilience; GCF, Green Climate Fund; CTF, Clean Technology Fund.

Source: WRI.

within these core strengths will also be important for the GEF's role in supporting equitable allocation in the overall architecture.

Least Developed Countries Fund. The LDCF currently supports equitable allocation by ensuring that funding for adaptation finance reaches LDCs, where needs tend to be significant. It has already supported NAPAs in all LDCs and is starting to support the development and implementation of NAPs, which can boost country ownership by helping countries create effective national plans to address climate impacts. To avoid duplication with GCF NAP support, there should be a division of labor between the GCF and the LDCF in supporting development of NAPs. For example, the GCF could focus on supporting NAPs in non-LDCs, and potentially in LDCs if the LDCF has resource constraints or a country has hit the LDCF's \$40 million cap. The LDCF could also complement the AF in the small-scale adaptation space, focusing on projects larger than \$10 million or on countries that do not gain direct access to the AF.

Special Climate Change Fund. The SCCF, if resourced, could focus solely on its technology window and cede its work on adaptation to the AF and GCF. This could help ensure allocation of finance to technology transfer. Unlike adaptation, which is now served by four other funds with several billion dollars in combined resources, the SCCF is the only fund with an explicit technology transfer window.

That said, other funds, notably the GEF, CTF, GCF, and SREP, do have the ability to work on technology. Placing an emphasis on technology would require a refocusing at the SCCF as its technology transfer window has to date received less attention and financing than its adaptation window. COP guidance and an LDCF/SCCF Council decision could formalize such a focus. Contributors would also need to pledge funding to the technology window, which has not received significant support. The COP and the LDCF/SCCF Council could also consider whether to adjust the programming guidelines to allow the SCCF more flexibility in the types of technology projects it supports. Currently it is constrained by the need to demonstrate that it is funding only the "incremental costs. . . directly associated with securing global benefits arising from the wide scale adoption of clean technologies" (GEF 2004).

Adaptation Fund. The AF places particular emphasis on ensuring country ownership by focusing on building the capacities of direct access entities and strengthening national institutions to undertake adaptation work, and can be a steppingstone for many national institutions to access larger funds. For instance, working with the AF has helped build track records for national institutions and enabled them to use the GCF's fast-track procedure for accreditation. The AF could continue to focus on small-scale adaptation activities to fill a clearly



identified need in thematic allocation. To reach a larger scope though, where feasible, the AF should support programmatic approaches, such as small grant programs, to build more experience bundling smaller, community-driven adaptation actions. If the AF is to continue with its work long-term it will likely need to raise its \$10 million country cap to allow for continued and sustained investment where appropriate.

Climate Investment Funds. The CIFs can focus on their comparative advantage: working through multilateral development banks (MDBs) with a relatively small number of countries to develop programs that use concessional resources to catalyze larger levels of private investment for impact at scale. To this end, the CIFs could make fuller use of the financial instruments at their disposal. For example, FIP and SREP have not yet made use of equity instruments. The CTF's ability to take on more risky approaches has been circumscribed somewhat by the fact that around one-quarter of its capitalization was through loan contributions, which must be repaid to donors. The CTF could focus particularly on supporting programmatic, large-scale, clean energy projects.

The CIFs could also place more emphasis on using their knowledge in low-emissions and climate-resilient projects to help MDBs move away from financing high-emissions and maladaptive investments,

thus helping to scale the impact of the climate funds. Several stakeholders raised this as an area where the CIFs held promise. It would require changing their results framework to include an assessment of how well the funds have promoted a broader shift in MDB policies and portfolios, and would ideally take place alongside a concerted push for climate mainstreaming by MDB governing bodies. In continuing the CIFs, several stakeholders noted concern about the share of public climate finance flowing through MDBs relative to other institutions. For instance, over half of the GCF's current project portfolio would be MDB-implemented. To address this concern, MDBs should focus their engagement with other funds on supporting countries that do not have the capacity to use direct access modalities as well as programmatic activities where MDBs have a comparative advantage.

To assist equitable allocation, SCF programs could focus on supporting the sectors in countries that may not receive priority from other funds. For example, in larger economies such as Mexico, where climate finance has focused on energy and transport, the FIP is supporting forest-related actions, a critical area that might otherwise not have received sufficient resources.





Green Climate Fund. The GCF could support impact at scale by providing larger-scale, programmatic interventions in a large number of countries. It could help countries develop the institutional and policy frameworks necessary for long-term mobilization of additional investments. With the majority of its capitalization in grants or capital contributions and an ability to use equity and risk mitigation instruments alongside grants and concessional loans, the GCF also has latitude to take innovative approaches to ensuring that its finance has widespread impact. By using its resources to reduce the financial risk of investing in climate-compatible initiatives, the GCF could focus on mobilizing large amounts of private capital.

To support country ownership and equitable allocation, the GCF should still fund smaller projects, particularly activities from direct access entities that need to build their capacities to handle larger amounts of funding, or catalytic interventions with potential for scale. But, to enhance efficiency, it could leave adaptation projects of less than \$10 million to the AF and avoid duplication with any relevant LDCF or GEF projects. The GCF's readiness program also needs to be ramped up and staffed to fill gaps in national capacity.

The GCF's commitment to provide 50 percent of its resources to mitigation and 50 percent to adaptation, and its aim to allocate 50 percent of its adaptation finance to SIDS, LDCs, and African countries helps

to support equitable allocation. The fund could develop more targeted criteria for its mitigation window as well, potentially focusing on countries with large mitigation potential but significant barriers to financing that cannot be addressed through other funding sources.

Close or Consolidate Funds

In the longer term, clarifying the division of labor may not be sufficient to address the overlaps and inefficiencies between funds. For example, duplication between the GCF and CIFs in funding large programmatic approaches will remain, as will duplication between the AF's and LDCF's support for smaller adaptation projects. Given funding shortages and the difficulties reported by many developing countries in navigating and accessing a crowded fund landscape, closing or consolidating funds may be warranted. In doing so, it will be essential to ensure that transitions are smooth and key roles played by a given fund are not lost.

Stakeholders largely agree that the GEF and GCF, the two operating entities of the UNFCCC financial mechanism (also serving the Paris Agreement), should continue; they expressed a variety of views regarding the future of the CIFs, the LDCF, the SCCF, and the AF. While the LDCF, SCCF, and AF are linked to the Paris Agreement, these relationships can be revisited through COP and CMA decisions over time. It is less likely that the current operating entities will lose their status.

Climate Investment Funds

The CIFs were established with a clause stating that they "will take necessary steps to conclude [their] operations once a new financial architecture is effective" (CIFs 2011a, 2014a). Several stakeholders interviewed felt that if the GCF is successful in scaling up its delivery of resources the CIFs should begin sunseting. The CIFs' Trust Fund Committees (TFCs) have twice postponed a decision on whether to invoke the sunset clause, and the next consideration is due in 2019 (CIFs 2016b). By then, the GCF will have three more years of a track record, which may allow for a more concrete comparison and evaluation of the role of the CIFs as well as the trade-offs in having two large institutions playing similar roles.

In theory, the GCF could absorb some of the ongoing CIF portfolio of work, which would directly

address the concern that the CIFs operate outside the guidance of the international community through the UNFCCC. The GCF has already accredited all the CIF implementing partners (MDBs), has started looking at programmatic approaches, supports country programming, and can provide the same spectrum of financial instruments and readiness support. If the CIFs do sunset, the GCF would need to ensure that it carries forward the CIFs' programmatic approach to financing.

If sunset is warranted, the CIF TFCs could decide to cease or reduce operations when the GCF reaches a certain disbursement level. Alternatively, they could specify a certain date by which all CIF operations would end. The CIF TFCs would need to decide how to deal with proposals in the pipeline, how to ensure robust implementation of ongoing programs or projects, and who will monitor existing activities (WRI 2014). The capacity of other funds' secretariats, particularly the GCF's, would likely need to be expanded to deal with the increased demand from countries no longer supported by the CIFs.

If the CIFs do not sunset, they should explore ways to continue with much reduced funding from contributors, who are directing more of their resources to the GCF. The CTF is actively considering new funding models that would not rely as heavily on contributions from governments, including issuing green bonds using its loan portfolio as collateral, and using reflows from its loan portfolio to capitalize a risk mitigation facility (CIFs 2016a). This would be more challenging for the SCF, whose portfolio offers much lower rates of return, and as such the SCF might shrink more than the CTF. In both cases, finding a sustainable funding model that does not compete with other multilateral funds for donor public finance would need to be a priority.

Options for the Climate Investment Funds

OPTION 1

SUNSET AND EITHER:

- Continue managing existing portfolio to completion; or
- Transfer portfolio management to Green Climate Fund.

OPTION 2

- Continue operations but with alternative funding model not reliant on country contributions.

Least Developed Countries Fund and Special Climate Change Fund

The SCCF, and to a lesser extent the LDCF, have struggled to attract funding to support their intended operations. SCCF windows C and D have become dormant due to lack of contributions, and the fund has not considered new approvals to windows A and B during 2016 due to inadequate funds.

If countries agree that the respective niches of the two funds, as identified in the discussion on specialization above, are important to maintain, one option would be for one or both of these funds to be absorbed by the GEF. The LDCF and SCCF work programs would then be able to access the main GEF Trust Fund pool of resources (donor countries would reallocate funding previously earmarked for the LDCF and SCCF to be part of their GEF replenishments). The GEF already operates both funds, and the GEF Council serves as the LDCF/SCCF Council, so day-to-day operations might not be significantly different. In addition, since GEF-5, the GEF has begun funding multiple trust fund projects in conjunction with the LDCF or the SCCF (GEF-IEO 2014). The GEF could reopen an adaptation window, building on past experience with the Strategic Priority on Adaptation (which ran from 2004 to 2010), but focus it on LDCs.

The COP/CMA would need to give guidance to initiate ramping down both funds, and the LDCF/SCCF Council, in conjunction with the GEF Council, would need to decide to dissolve the LDCF and SCCF and have their portfolios transferred into the GEF. It would also be important to ensure that the GEF's mandate to fund projects that provide global environmental benefits does not impede its ability to fund locally rooted adaptation.

Alternatively, countries could close the SCCF and cede its work to the GCF, CIFs, and GEF. This could either be done actively, with a decision of the COP and the LDCF/SCCF Council, or passively, since the fund is already not approving new projects due to lack of funding, and absent new contributions, it would, de facto, become dormant. The LDCF also faces resource constraints, but it has a clearer niche in supporting equitable allocation; other funds are not as targeted in supporting adaptation in LDCs. If additional contributions come in, the LDCF could continue and, in coordination with the GCF, support the development and implementation of NAPs in LDCs. It is possible that eventually the GCF could take over the LDCF's role or that, a decade from now, there is less need for a separate dedicated fund.

Options for the Least Developed Countries Fund and Special Climate Change Fund

OPTION 1

Both are absorbed into the Global Environment Facility (GEF), which reopens an adaptation window to manage the majority of these activities. The Least Developed Country Fund's (LDCF's) focus on Least Developed Countries, and the Special Climate Change Fund's (SCCF's) focus on technology are maintained within the GEF.

OPTION 2

Close the SCCF (or allow it to become dormant) and continue the LDCF as it is.

Adaptation Fund

Like the LDCF and SCCF, the AF also faces resource challenges, although to a lesser extent at present. There is considerable overlap between the GCF and the AF, which calls into question the need to maintain both funds in the longer term. The GCF has a strong focus on adaptation, is able to support small-scale projects, and has accredited many of the AF implementing entities. Thus, it may be possible for the GCF to absorb functions performed by the AF. Nevertheless, it is worth considering whether that is a role for which the GCF should be solely responsible, given the potential for the GCF to undertake larger or more programmatic activities.

If the AF were to ramp down operations, it will, like the CIFs, face the questions of when to do so and how to handle ongoing projects and incoming proposals. Options include the AF closing when it finishes disbursing current funds or completes disbursements for NIE-led proposals (including NIEs that are in the accreditation pipeline); closing at a specified agreed date; and exploring an arrangement where the GCF absorbs the AF's portfolio (including its accredited entities). These are not necessarily mutually exclusive options. If the choice is made to transfer remaining funds to the GCF, they could be moved on the understanding that they are used in the spirit of AF programming (e.g., microscale adaptation, with an allocation cap on MIEs to ensure that NIEs can access funding).

Initiating closure of the AF would require a decision by the CMP/CMA, guidance to the AF Board to close operations, and the necessary decisions by the AF Board. A scenario where the GCF absorbs the AF's portfolio or funds may also require involvement of the COP since the GCF reports to the COP. Thus, a joint COP/CMP/CMA decision may be needed to give the two boards the mandates to move forward with a consolidation arrangement.

An alternative option would be for the AF to continue and develop formal institutional linkages with the GCF. The GCF could channel funds to the AF as programmatic envelopes to seed small-scale activi-



ties that could be taken back to the GCF to be scaled up with further funding (Müller 2015). This would address resourcing constraints for the AF and help foster a division of labor between funds, where the AF supports smaller-scale activities while the GCF focuses on larger, more transformative, and financially innovative approaches. The AF Board may wish to consider lifting the current country cap specifically for such an arrangement, depending on which countries the two funds decide to focus on.

Practical arrangements could take different forms, from a modified accreditation approach to agreeing on a memorandum of understanding (AF 2015a, 2015b; SCF 2015). The AF could enter into a dialogue with the GCF Board to explore what is feasible. The two boards could then take necessary decisions to enable the appropriate arrangement. They could do this on the basis that the Paris Agreement emphasizes improving the efficiency of access to funds (UNFCCC 2015a, Article 9.9).

This type of arrangement may be politically challenging, particularly for GCF contributors who are not members of the Kyoto Protocol and who therefore do not have any decisionmaking role in the AF at present. However, the CMA decision in Marrakech that the CMA and CMP will take decisions to address the AF's governance and institutional arrangements, safeguards, and operating modalities (so that it can serve the Paris Agreement) could enable these issues to be resolved (UNFCCC 2016, Decision 1/CMA.1).

Another possible solution to the AF's resource challenge would be to decide that the share of proceeds from the mitigation and sustainable development mechanism, established under the Paris Agreement, could be channeled through the AF, as the CDM levy under the Kyoto Protocol was designed to support the AF (UNFCCC 2015a, Article 6.6). Many questions surround how the mechanism will operate—particularly in the absence of an overall cap on emissions and common tradeable units. There would likely remain a need for voluntary contributions from countries to sustain the AF in the interim before the mitigation and sustainable development mechanism is up and running.

Options for the Adaptation Fund

OPTION 1

Adaptation Fund (AF) is closed and its portfolio is absorbed into the Green Climate Fund (GCF).

OPTION 2

GCF delegates management of some of its smaller-scale adaptation portfolio to the AF. This could be tested in the shorter term.

OPTION 3

A share of the proceeds from the Paris Agreement's mitigation and sustainable development mechanism could be channeled to the AF.

Implications

One of the big potential benefits of closing down funds and moving toward consolidation would be efficiency—a simplification of the different processes required to access, implement, and report on funding—something many developing country stakeholders said was a key barrier. Reducing the number of secretariats could reduce interface time and make accessing finance easier. There is also the potential to benefit from economies of scale by consolidating operations into larger funds—there is some evidence for this in the current architecture, where the GEF and CIFs have lower administrative costs as a percentage of their spending, partly due to their larger portfolios.

However, moving to fewer funds may not be entirely beneficial. While the current architecture includes overlaps and the risk of counterproductive competition, many stakeholders—both from recipient and contributor countries—welcomed the choice that a variety of funds offers, noting the potential to foster a race to the top between funds in terms of quality and efficiency. They cautioned against consolidating funds if it limits country options too much.

It may also be difficult in practice for remaining funds to take on the work of those that close. For instance, the GCF, which could potentially absorb much of the work of other funds, currently faces challenges in disbursing allocated funds and

attracting a strong pipeline. The readiness program is running, but it needs more capacity to meet developing country needs. Staffing, overall, needs to be strengthened. At the moment, the GCF is not in a position to take on the roles of other funds, but this may change in time.

There may also be added pressure on the GEF. If resource constraints for the LDCF and SCCF continue, and the GEF absorbs their functions, it will have to expand its current mandate to include adaptation and a focus on LDCs. If the CIFs close and the GCF refocuses more on larger-scale mitigation projects, the GEF would need to play a stronger role in supporting smaller, catalytic interventions for mitigation.

Furthermore, existing funds have experience in different areas and strong relationships with different countries. If the decision is made to sunset some of them, it will be important to ensure that institutional knowledge is not lost. Retaining staff and transferring them to remaining funds could go some way to addressing this risk, though there are practical issues. For example, the GCF is based in South Korea while other funds are headquartered in Washington, DC.

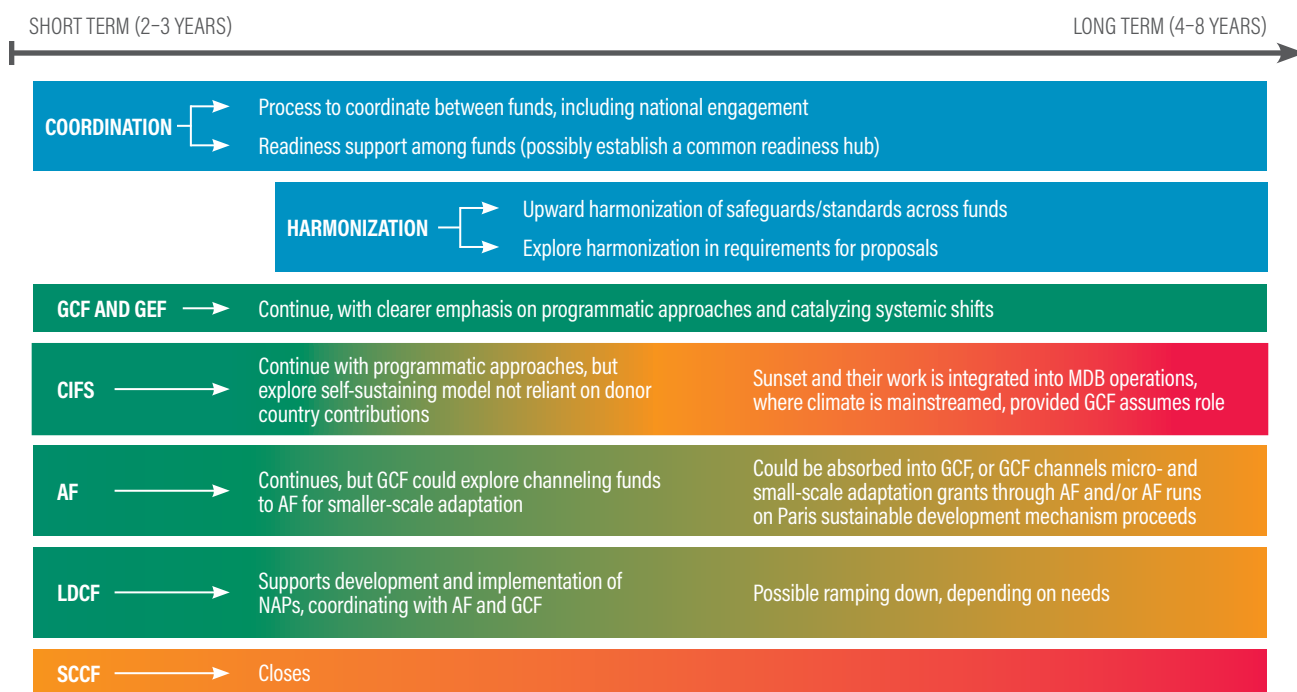
Finally, political attention focused on fund boards would also increase. It is not clear whether this would lead to more effective operations under increased scrutiny from other Parties, the media, and civil society, or whether effectiveness would suffer due to political disputes becoming even more intense given the raised stakes involved in decisions.

Conclusion: Reforms over Time

There is widespread agreement in the literature and among stakeholders that the landscape of multi-lateral climate funds would benefit from greater coherence. Several funds are attempting to serve similar needs without clear coordination regarding who does what. The architecture has developed over the last 25 years, with new funds being added in response to changing needs and political realities. One stakeholder likened this process to the thermodynamic concept of entropy: institutions are formed and expand their work, creating duplications and inefficiencies, and it requires tremendous effort to organize them back into an orderly and coherent state. That said, the climate finance architecture is not a jigsaw puzzle where each fund must have a single clearly defined role with no overlaps. There are benefits to having a choice of funds that can respond to diverse needs, test different philosophies about how to drive climate action, foster friendly



Figure 19 | Continuum of Reforms



Note: In the short term all funds should consider reforms to specialize in order to reduce inefficient duplications.

Source: WRI.

competition to drive innovation, and learn and collaborate with each other. The key will be ensuring that the interactions and overlaps between funds add, rather than subtract value, by increasing the accessibility, quality, and mobilization of finance.

In Figure 19, we compile our recommendations into a continuum of reforms that policymakers could implement in the coming years. These recommendations are not necessarily mutually exclusive, nor are they the only options worth considering; they represent our best effort to identify an architecture that would support pursuit of the fund strategies that we have identified.

The decisions in the 4–8 year time frame should be informed by further studies that look into the operations of the various funds after the GCF has been disbursing funds for several years. This could be coordinated with the first global stocktake under the Paris Agreement in 2023, where progress toward climate finance goals will already be a matter for consideration. Such studies should assess what is working well and what is not at that point,

making recommendations for the best way forward for consolidation based on practical experiences.

This report has explored the strategies that the multilateral climate finance architecture needs to embrace to deliver transformation, analyzed current challenges in meeting these strategies, and provided options and recommendations to address said challenges. Governments and fund secretariats are already grappling with many of the challenges identified. In collaboration with other stakeholders, including civil society, private sector actors, and implementing entities, they will need to consider different options for how the architecture should develop. Decisionmakers will have to be strategic and intentional about how these funds evolve so that they can drive the systemic shifts needed to respond to the urgency of the climate challenge.

APPENDIX 1. SUMMARY INFORMATION ON MULTILATERAL CLIMATE FUNDS

Table A1 | **Summary of Climate Fund Information**

FUND	GLOBAL ENVIRONMENT FACILITY-5 AND 6*	LEAST DEVELOPED COUNTRIES FUND	SPECIAL CLIMATE CHANGE FUND
Founded	1991	2001	2001
Activities^a			
Thematic focus	<ul style="list-style-type: none"> ■ Mitigation ■ Capacity building 	<ul style="list-style-type: none"> ■ Adaptation 	<ul style="list-style-type: none"> ■ Adaptation ■ Technology transfer
Financial instruments available	<ul style="list-style-type: none"> ■ Grants <p>Non-grant program only:</p> <ul style="list-style-type: none"> ■ Concessional loans ■ Equity ■ Risk mitigation 	<ul style="list-style-type: none"> ■ Grants 	<ul style="list-style-type: none"> ■ Grants
Eligibility for funding	Developing country Parties to conventions the GEF serves, or who are eligible to receive World Bank (IBRD or IDA) financing or UNDP technical assistance	Least Developed Countries (LDCs)	Non-Annex I Parties to the UNFCCC, prioritizing most vulnerable countries in Africa, Asia, and small island developing states (SIDs)
Governance^b			
UNFCCC mandate	Operating entity of the financial mechanism of the Convention and the financial mechanism of the Paris Agreement	Serves the Convention and the Paris Agreement	Serves the Convention and the Paris Agreement
Governing body	<p>32-member council:</p> <ul style="list-style-type: none"> ■ 16 developing countries ■ 14 developed countries <p>2 economies in transition</p>	<p>32-member council:</p> <ul style="list-style-type: none"> ■ 16 developing countries ■ 14 developed countries <p>2 economies in transition</p>	<p>32-member council:</p> <ul style="list-style-type: none"> ■ 16 developing countries ■ 14 developed countries <p>2 economies in transition</p>
Official observers	5 representatives are invited to participate in proceedings and 5 can observe	5 representatives are invited to participate in proceedings and 5 can observe	5 representatives are invited to participate in proceedings and 5 can observe
Trustee	World Bank	World Bank	World Bank

ADAPTATION FUND	CLIMATE INVESTMENT FUNDS		GREEN CLIMATE FUND
	CLEAN TECHNOLOGY FUND	STRATEGIC CLIMATE FUND	
2001	2008	2008	2010
<ul style="list-style-type: none"> Adaptation 	<ul style="list-style-type: none"> Mitigation 	<ul style="list-style-type: none"> Adaptation Mitigation 	<ul style="list-style-type: none"> Adaptation Mitigation
<ul style="list-style-type: none"> Grants 	<ul style="list-style-type: none"> Grants Concessional loans Risk mitigation Equity 	<ul style="list-style-type: none"> Grants Concessional loans Risk mitigation Equity 	<ul style="list-style-type: none"> Grants Concessional loans Risk mitigation Equity
Developing country Parties to the Kyoto Protocol which are particularly vulnerable to climate change	Official Development Assistance-eligible developing countries with active multilateral development bank (MDB) country programs	Official Development Assistance-eligible developing countries with active multilateral development bank (MDB) country programs	All developing country Parties to the UNFCCC
Serves the Kyoto Protocol "Should" serve the Paris Agreement, subject to decisions by the Conference of Parties (COP), CMP, and CMA**	None	None	Operating entity of the financial mechanism of the Convention and the financial mechanism of the Paris Agreement
16-member board: <ul style="list-style-type: none"> 2 from each of the 5 UN regional groups 1 SIDS 1 LDC 2 Annex I Parties 2 non-Annex I Parties (developing countries have approx. 69% of seats on the board) 	16-member trust fund committee <ul style="list-style-type: none"> 8 developed countries 8 developing countries 	16-member trust fund committee: <ul style="list-style-type: none"> 8 developed countries 8 developing countries 12-member subcommittees for Pilot Program for Climate Resilience (PPCR), Scaling-Up Renewable Energy Program (SREP), and Forest Investment Program (FIP) each: <ul style="list-style-type: none"> 6 developed countries 6 developing countries 	24-member board: <ul style="list-style-type: none"> 12 developing countries 12 developed countries (seats for each UN regional group, SIDS and LDCs)
Any registered observer can participate and intervene at discretion of chairs	On each trust fund committee: <ul style="list-style-type: none"> 4 civil society organizations (CSOs) 2 Indigenous Peoples 2 private sector 	On each trust fund committee: <ul style="list-style-type: none"> 4 civil society organizations (CSOs) 2 Indigenous Peoples 2 private sector In addition, for PPCR committee: <ul style="list-style-type: none"> 1 community-based organization 	Active observers: <ul style="list-style-type: none"> 2 CSOs 2 private sector (one each from developed and developing countries)
World Bank (interim)	World Bank	World Bank	World Bank (interim)

FUND	GLOBAL ENVIRONMENT FACILITY-5 AND 6*	LEAST DEVELOPED COUNTRIES FUND	SPECIAL CLIMATE CHANGE FUND
Capitalization^c			
Cumulative pledged funding (billion USD)	\$3.03 [climate allocation]	\$1.19	\$0.35
Contributor countries (developing in brackets)	39 (13)	25	15
Projects^d			
Funding approved (billion USD)	\$2.54	\$1.04	\$0.34
Projects approved	379	231	76
Countries with projects approved	137	51	79
Cofinancing (billion USD)	\$24.7	\$4.3	\$2.6
Cofinancing ratio (USD funding approved: USD cofinancing)	1 : 9.7	1 : 4.1	1 : 7.5
Average cofinancing per project (million USD)	\$65	\$19	\$34
Administration^e			
Secretariat	Independent, housed in World Bank, Washington, DC	Administered by the GEF, Washington, DC	Administered by the GEF, Washington, DC
Administrative budget (percent of all contributions)	3.1	1.0	1.9
Implementing entity fees (percent)	Projects (percent of grant): <ul style="list-style-type: none"> ■ <\$10m: 9.5 ■ >\$10m: 9.0 Programs: <ul style="list-style-type: none"> ■ Approved by an executive board: 8 ■ Approved by other agencies: 9 ■ Small Grants Program: 4 Average: 7.18	Average: 8.81	Average: 8.82

ADAPTATION FUND	CLIMATE INVESTMENT FUNDS		GREEN CLIMATE FUND
	CLEAN TECHNOLOGY FUND	STRATEGIC CLIMATE FUND	
\$0.54 [includes Clean Development Mechanism revenue]	\$5.57	\$2.74	\$10.3
14	9	13 (1)	43 (9)
\$0.34	\$4.5	\$1.46	\$1.48
52	76	103	35
48	24	36	52
-	\$32	\$3.3	\$3.25
-	1 : 9.1	1 : 2.2	
-	\$421	\$31	\$93
Independent, housed in the GEF, Washington, DC	Administrative unit housed in World Bank, Washington, DC	Administrative unit housed in World Bank, Washington, DC	Independent, based in Songdo, South Korea
5.6	1.0	4.0	0.3
Cap: 8.5 Average: 7.3	Project grants cap: 5 Public sector loans and guarantees: ■ 0.18 semiannually, or ■ 0.45 up front Private sector projects determined on a case by case basis: Lowest: 0.68 Highest: 5.67 Overall average: 0.66	Negotiated case-by-case: ■ lowest: 0.5 ■ highest: 30.6 Average: 4.02	Fee cap for grants to public sector projects/ programs (percent of grant): ■ Micro (≤\$10m): 10 ■ Small (>\$10m and ≤\$50 m): 9 ■ Medium (>\$50m and ≤\$250m): 8 ■ Large (>\$250m): 7 Fees for private sector and nongrant and concessional-loan public sector projects decided case-by-case

FUND	GLOBAL ENVIRONMENT FACILITY-5 AND 6*	LEAST DEVELOPED COUNTRIES FUND	SPECIAL CLIMATE CHANGE FUND
Administration (cont.)^e			
Time for accreditation of implementing entities/Investment Plan Endorsement (indicative time in brackets)	Not applicable	Not applicable	Not applicable
Average time for project approval (targets in brackets)	Time between Project Identification Form (PIF) approval by council and CEO endorsement, average of FY2014–16: Full-size projects: 22 months (18 months) Medium-size projects: 18 months (12 months)	Time between PIF approval by council and CEO endorsement, GEF-5 period: 19 months (18 months)	Time between PIF approval by council and CEO endorsement, GEF-5 period: 19 months (18 months)
Implementing entities	Total implementing partners: 18 Multilateral agencies: 10 Project agencies: 8	Total implementing partners: 18 Multilateral agencies: 10 Project agencies: 8	Total implementing partners: 18 Multilateral agencies: 10 Project agencies: 8

Notes:

All figures cover the period since inception, with the exception of the GEF, which covers only GEF-5 and GEF-6 to date (2010–present). Financial data as of December 2015 (CIFs), June 2016 (GEF and AF), September 2016 (LDCF and SCCF), December 2016 (GCF).

* GEF data on pledges and funding approved covers only GEF-5 and GEF-6 climate change activities. Rather than including the total amount of donor pledges to the GEF Trust Fund for the GEF-5 and GEF 6 period, we count only the amounts allocated to the climate change activities under the row "Cumulative pledged funding."

** CMP = Conference of the Parties Serving as the Meeting of the Parties to the Kyoto Protocol CMA = Conference of the Parties Serving as the Meeting of the Parties to the Paris Agreement (UNFCCC)

Sources:

^a GEF 2014b, 2015d, 2015e; UNFCCC 2001, Decisions 5/CP.7, 7/CP.7, 10/CP.7, AF 2016f; CIFs 2010a, 2010b, 2010c, 2011a, 2014a, 2015b, 2015c; GCF 2011, 2014c, Board Decision B.08/12

^b GEF 2015e; GEF-CSO Network 2016; UNFCCC 2001, Decisions 5/CP.7, 7/CP.7, 10/CP.7, 2007, Decision 1/CMP.3, 2016, Decision 1/CMA.1; CIFs 2009c, 2011a, 2014a, 2014b, 2014c; GCF 2011

^c GEF 2014a, 2016c; World Bank 2016c; CIFs 2015a; GCF 2016a

^d GEF 2016b, 2016c, 2016f; AF 2016a; CIFs 2015a; GCF 2016b

^e GEF 2012b, 2016g, 2016j; World Bank 2009–2015a, 2009–2015b, 2009–2015c, 2016c, 2016d, 2016e; AF 2012b, 2016a, 2016d; CIFs 2010a, 2010b, 2010c, 2015b, 2015a, 2015c; ICF International 2014, Annex C.4; GCF 2015b, Annex II, 2016c, 2016d, 2016o

ADAPTATION FUND	CLIMATE INVESTMENT FUNDS		GREEN CLIMATE FUND
	CLEAN TECHNOLOGY FUND	STRATEGIC CLIMATE FUND	
National implementing entities (NIE) and regional implementing entities (RIE): 16.8 months multilateral implementing entities (MIE): 26.8 months	Time between country selection and investment plan endorsement. CTF: 10 months	Time between country selection and investment plan endorsement. PPCR: 28 months (18 months) FIP: 26 months (18 months) SREP: 18 months (12 months)	Average: 9.9 months Fastest: 2.3 months Slowest: 20.9 months
Time between first submission of proposal to board approval, average of FY2012–15. One-step projects: 8.1 months (9 months) Two-step projects: 12.6 months (12 months)	Time between plan endorsement and committee project approval: 18 months (target revised from 24 to 18 months in May 2013)	Time between plan endorsement and subcommittee project approval: 18 months (target revised from 24 to 18 months in May 2013)	No data reported at present.
Total accredited entities (as of October 2016): 43 NIEs: 25 RIEs : 6 MIEs : 12	Multilateral development banks: 5 (African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, World Bank Group)		Accredited entities (as of December 2016): 48 National direct access: 14 Regional direct access: 9 International access: 25

Global Environment Facility

The Global Environment Facility (GEF), the oldest climate fund, was established in October 1991 as a \$1 billion pilot program in the World Bank. It was tasked with providing new and additional grant funding to cover the “incremental costs”²⁵ associated with transforming projects with national or local benefits into ones with global environmental benefits. Following the Rio Earth Summit in 1992, the GEF was restructured to become a permanent independent organization and serve as an operating entity of the financial mechanism for both the UN Convention on Biological Diversity and the UN Framework Convention on Climate Change (UNFCCC) established at Rio. It would later become an operating entity of the financial mechanism for the Stockholm Convention on Persistent Organic Pollutants (in 2001), the UN Convention to Combat Desertification (in 2003), and the Minamata Convention on Mercury (in 2013; GEF 2016h).

Organization

The GEF is governed by a 32-member council, made up of 16 developing countries, 14 developed countries, and 2 economies in transition. It meets twice a year to make decisions on operational policies and programs and review and approve projects. Decisions are taken by consensus where possible, but if not, through double-majority voting requiring 60 percent of council members and 60 percent of contributor council members. Alongside the council, the GEF Assembly comprises all GEF member countries and meets every three to four years. It is responsible for reviewing and evaluating the GEF’s general policies, the operation of the GEF, and its membership. The GEF has a 40-person independent secretariat, housed at the World Bank headquarters in Washington, DC, and is led by a CEO/chairperson, appointed for a four-year term by the council, which is renewable once. The trustee of the GEF is the World Bank. A scientific and technical advisory panel, made up of six experts and hosted by the United Nations Environment Programme (UNEP), provides advice to the GEF on policies, strategies, programs, and projects, and an 18-person independent evaluation office was established in 2003 to evaluate GEF projects, programs, and institutional operations (GEF 2015e).

Funding

The GEF Trust Fund is replenished every four years in an intergovernmental negotiating process. GEF-5 was the most recently completed replenishment cycle, finishing in FY2014, and GEF-6 runs from FY2015 to FY2018. The GEF provides finance in conformity with the eligibility criteria decided by the Conference of the Parties (COP) of each convention (GEF 2015e). In addition to providing finance in accordance with COP mandates, the council is also able to make funding available outside these frameworks to countries who are eligible to receive World Bank (IBRD or IDA) financing or United Nations Development Programme (UNDP) technical assistance. The GEF works through 18 agencies to develop and implement projects. In 2010, the GEF began using the system for transparent allocation of resources (STAR), which provides indicative allocations of funding for each country across the focal areas of biodiversity, climate change, and land degradation based on transparent indicators of country performance, potential to achieve global environmental benefits, and social-economic development (GEF 2010a).

Activities

The GEF climate change mitigation focal area supports projects in technology transfer, renewable energy, energy efficiency, low-emission urban systems, reducing emissions from deforestation and forest degradation (REDD+), land use, land-use change and forestry (LULUCF) and agriculture, enabling activities, and meeting UNFCCC obligations (including preparation of national communications, biennial update reports, technology needs assessments, and nationally determined contributions; GEF 2014a). The GEF’s Special Program on Adaptation was the first fund to finance specific adaptation projects as they are currently understood. It operated from 2004 to 2010 with a \$50 million allocation.

From GEF-5 onward the council decided to channel all adaptation programming to the Least Developed Countries Fund (LDCF) and Special Climate Change Fund (SCCF), although some funding in other focal areas support adaptation (GEF 2016h). The GEF Small Grants Programme (SGP) was launched in 1992 and provides grants up to \$50,000 for communities and civil society organizations to implement community-based initiatives and actions that contribute to global environmental benefits. It has worked with 20,000 grantee organizations to deliver over \$460 million in the last two decades (GEF 2014d). SGP funding has remained stable at \$140 million in both GEF-5 and -6. GEF-6 has seen the launch of two new pilots: a \$110 million program to offer nongrant instruments to both public and private entities (GEF 2014b) and three integrated-approach pilots which aim to address cross-cutting issues: deforestation in commodity supply chains, sustainable cities, and sustainability and resilience for food security in Sub-Saharan Africa (GEF 2014a).

As of June 2015, the GEF had provided \$5.2 billion to 839 climate change mitigation projects since 1992, accounting for around a quarter of the cumulative GEF portfolio by project, and a third by amount (GEF-IEO 2014). In the current GEF-6 cycle, \$941 million is allocated to countries for the climate change mitigation focal area, and an additional \$319 million was allocated to the set-aside to cover sustainable forest management, convention obligations, and integrated approach programs, bringing the total for the climate change focal area to \$1.26 billion, a slight reduction from the GEF-5 allocation of \$1.36 billion. When including other climate-related funding, the total climate funding available across both GEF-5 and GEF-6 is \$3.03 billion (GEF 2014a).

Least Developed Countries Fund

The Least Developed Countries Fund (LDCF) and the Special Climate Change Fund were established at COP7 in Marrakech in 2001, alongside the creation of the GEF’s Strategic Program for Adaptation. The LDCF was to focus specifically on the adaptation needs of Least Developed Countries (LDCs; UNFCCC 2001, Decision 7/CP.7). Both funds are operated by the GEF.

Organization

The GEF Council serves as the LDCF/SCCF Council, the main governing body for both funds, which functions as an independent board of directors and is responsible for developing, adopting, and evaluating LDCF/SCCF policies and programs (GEF 2011a). The LDCF follows GEF policies and procedures except when the LDCF/SCCF Council decides otherwise, and the GEF secretariat and agencies administer and implement LDCF projects (see GEF above).

Funding

The LDCF had received \$1.19 billion in cumulative contributions from 25 developed countries as of September 2016 (GEF 2016c). LDCs that are parties to the UNFCCC are eligible to receive financial support for adaptation under the LDCF (GEF 2015d). The LDCF provides grants to cover the agreed full cost of preparing national adaptation programmes of action (NAPAs) (UNFCCC 2001, Decision 27/CP.7) and full-cost funding to meet the “additional cost”²⁶ of implementing adaptation activities prioritized in NAPAs (UNFCCC 2005, Decision 3/CP.11). The LDCF also supports the development and implementation of national adaptation plans (NAPs).

Activities

The LDCF was established to address the special needs of LDCs under the UNFCCC, with the priority of supporting the preparation and implementation of NAPAs. As of September 2016, the LDCF had provided \$12.2 million for preparation of NAPAs in all 51 LDCs,²⁷ with 50 completed and submitted. A total of \$1.02 billion had been provided for 178 projects in 49 LDCs to support implementation of NAPAs. An additional \$16.4 million has been approved to support NAPAs in three LDCs, and \$9 million to support a global program for the preparation of NAPAs in LDCs.²⁸ Project programming is guided by priorities identified in NAPAs; 26 percent of LDCF resources have gone to enhancing the resilience of agriculture and food systems, with other priorities being natural resources management, coastal management, and water resources management, each receiving between 16 and 18 percent (GEF 2016c).

Special Climate Change Fund

The Special Climate Change Fund (SCCF) was established in 2001 alongside the LDCF. It was designed to finance climate change–related activities that complement those funded under the climate change focal areas of the GEF (UNFCCC 2001, Decision 7/CP.7).

Organization

Like the LDCF, the SCCF is operated by the GEF. The GEF Council serves as the LDCF/SCCF Council, the main governing body for both funds, which functions as an independent board of directors and is responsible for developing, adopting, and evaluating LDCF/SCCF policies and programs (GEF 2011b). The SCCF follows GEF policies and procedures except when the LDCF/SCCF Council decides otherwise, and the GEF secretariat and agencies administer and implement SCCF projects (see GEF above).

Funding

The SCCF had received \$351 million in cumulative contributions from 15 developed countries, as of May 2016 (World Bank 2016e). All non-Annex I Parties to the UNFCCC (developing countries) are eligible to receive funding (GEF 2015d). The SCCF provides grant funding to cover the additional costs of achieving sustainable development imposed by the impacts of climate change, with the most vulnerable countries being prioritized. Unlike the GEF, SCCF adaptation projects do not need to generate global environmental benefits. The fund also finances the incremental cost of activities associated with securing the global benefits arising from the wide-scale adoption of clean technologies (GEF 2004).

Activities

The SCCF is designed to finance activities, programs, and measures related to climate change that complement those funded through the climate change focal area of the GEF under the following four financing windows: adaptation to climate change (SCCF-A); technology transfer (SCCF-B); mitigation in selected sectors including energy, transport, industry, agriculture, forestry, and waste management (SCCF-C); and economic diversification of fossil-fuel-dependent countries (SCCF-D; GEF 2015d). SCCF-C and SCCF-D have received no contributions and have not been funded (GEF-IEO 2011). COP guidance and GEF programming strategies have focused on the first two windows (UNFCCC 2003, Decision 5/CP.9; GEF 2015d).

As of September 2016, the SCCF had committed \$347 million in grants for 76 projects in 79 countries. Over 80 percent of funding has gone to adaptation projects under SCCF-A, with the remainder to SCCF-B. The largest share of funding by sector (25 percent) has gone to agriculture, followed by water resources management (23 percent). Coastal zone management, disaster risk management, and measures to enhance resilience of other infrastructure, including energy and transportation, have received 9–12 percent of funding, and crosscutting projects under SCCF-B have received 8 percent (GEF 2016c).

Adaptation Fund

The Adaptation Fund (AF) was established under the Kyoto Protocol of the UNFCCC in 2001 to use funds from the Protocol's Clean Development Mechanism (CDM) to support climate adaptation in developing countries that are particularly vulnerable to the adverse effects of climate change (UNFCCC 2007, Decision 1/CMP.3). Following several years of negotiations around its structure and policies, it became operational in 2009 and approved its first projects in 2010.

Organization

The fund is governed by a 16-member board, made up of representatives of Parties to the Kyoto Protocol: two from each of the five UN regional groups, one SIDS representative, one LDC representative, two Annex I (developed country) representatives, and two non-Annex I (developing country) representatives. Functionally, this means a majority of board members are from developing countries (at present 11 out of 16). The board meets three times a year, and decisions are made by consensus if possible, or by a two-thirds majority vote of members present if no consensus can be reached. The GEF services the 12-person secretariat based in Washington, DC, and the World Bank is the trustee, both on an interim basis (UNFCCC 2007, Decision 1/CMP.3).

Funding

The fund pioneered an innovative financing mechanism—a 2 percent levy from certified emission reductions (CERs) issued under the Kyoto Protocol's Clean Development Mechanism (CDM)—which had been envisaged as its main source of funding. However, the collapse of CDM carbon trading prices has meant that funding has not reached the anticipated scale; cumulative proceeds from the CDM were only \$196.5 million in June 2016, and the fund has been reliant on voluntary government contributions, with a cumulative value of \$344.7 million as of June 2016 (World Bank 2016c). Private entities can also contribute to the fund directly through the website.

To be eligible for the AF, developing countries must be Parties to the Kyoto Protocol and be vulnerable to the adverse effects of climate change, including low-lying and other small island countries, countries with fragile mountainous ecosystems, arid and semi arid areas, and areas susceptible to floods, droughts, and desertification. The AF provides grants to meet the full cost of adaptation projects (AF 2016f). There is a temporary \$10 million funding cap for each country (AF 2011, Decision B.13/23) and a temporary cap of 50 percent of total funding available at the start of each session which can go through multilateral implementing entities, in order to encourage direct access (AF 2010, Decision B.12/9).

Funding is delivered via accredited implementing entities. Currently 25 national implementing entities (NIEs) are accredited to the AF, meaning they can make use of the "direct access" modality which allows institutions in developing countries to apply for funding without going through an international intermediary. The fund also works through 12 multilateral implementing entities (MIEs) and 6 regional implementing entities (RIEs; AF 2016d).

Activities

The AF finances concrete adaptation projects and programs that are based on the needs, views, and priorities of recipient countries. The Conference of Parties serving and the Meeting of the Parties (CMP) guidance set out the following activities which can be supported: areas of water resources management, land management, agriculture, health, infrastructure development, fragile ecosystems, including mountainous ecosystems, and integrated coastal zone management; improving the monitoring of diseases and vectors affected by climate change, and related forecasting and early-warning systems, and in this context improving disease control and prevention; supporting capacity building, including institutional capacity, for preventive measures, planning, preparedness and management of disasters relating to climate change, including contingency planning, in particular, for droughts and floods in areas prone to extreme weather events; and strengthening existing and, where needed, establishing national and regional centers and information networks for rapid response to extreme weather events, using information technology as much as possible (AF 2016f, Annex I). Currently, the fund supports adaptation projects in seven sectors: agriculture, coastal zone management, disaster risk reduction, food security, rural development, water management, and multisector (AF 2016g).

As of June 2016, the fund had approved \$337 million in grants for 52 projects in 48 countries. The largest share of funding has gone to projects focused on agriculture (\$62 million), followed by food security (\$58.4 million) and water management (\$51 million). In addition, projects totaling \$56.8 million targeted multiple sectors (AF 2016a).

Climate Investment Funds

The Climate Investment Funds (CIFs) were founded in 2008 to deliver concessional funding through the multilateral development banks (MDBs) to support climate objectives. The CIFs comprise two trust funds, the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF). The SCF has three targeted programs: the Forest Investment Program, the Pilot Program for Climate Resilience, and the Scaling-Up Renewable Energy Program.

Organization

The CTF and SCF are each governed by 16-member trust fund committees, and the SCF has 12-member subcommittees for each of its three programs. Joint meetings of the CTF and SCF trust fund committees make decisions for both funds. Developed and developing countries have equal representation within all committees. The committees meet twice a year and make decisions by consensus (CIFs 2011a, 2014a). The committees invite observers from civil society organizations (CSOs), the private sector, and indigenous people's groups to attend meetings, along with representatives from UNDP, UNEP, UNFCCC, GEF, and the Green Climate Fund (GCF; see below) (Vivid Economics 2013). Some secretariat functions are performed by a 23-person administrative unit, housed at the World Bank headquarters in Washington, DC, but other secretariat functions are delegated to MDBs. The International Bank for Reconstruction and Development (IBRD) of the World Bank Group serves as the trustee for the CIFs.

Funding

At the pledging meeting for the CIFs in September 2008, 10 developed countries pledged \$6.1 billion to the two trust funds (World Bank 2008). A further pledge has brought the total capitalization to \$8.3 billion from 14 countries, including one developing country (CIFs 2015a). To receive CIF funding, countries must be official development assistance (ODA)-eligible and have an active country program with one of the five MDBs (CIFs 2011a, 2014a). Funds are channeled exclusively through five MDBs, which work with national governments to prepare national investment plans including individual projects, and associated financing packages to achieve the national development agendas of the participating countries. MDBs rely on their own policies and procedures in developing and supervising activities financed by the CIFs (ICF International 2014). The share of CIF funding managed by each MDB is based on country requests and the comparative advantage of each MDB, and their experience in a region or country (CIFs 2011a, 2014a).

Clean Technology Fund

Activities

The Clean Technology Fund (CTF) focuses on transformation in middle-income and developing countries by providing resources to scale up the demonstration, deployment, and transfer of low-carbon technologies with a significant potential for long-term greenhouse gas emissions savings. The fund has received pledges of \$5.6 billion. As of December 2015, it had programs in 24 countries plus the North Africa region, and had approved \$4.5 billion for 91 projects (CIFs 2015a).

CTF countries develop investment plans aligned with national development goals, which serve as a coordinating framework from which individual projects are then approved by the CTF Committee. The CTF supports low-carbon technologies in transport (bus rapid transit, public transportation, efficiency vehicles, and modal shifts), renewable energy (wind, solar photovoltaic and concentrating solar power, and geothermal), and energy efficiency (industry, building, district heating, municipal, and household; CIFs 2015f).

To address barriers that hinder private sector participation in climate action, dedicated private sector programs (DPSPs) were created to finance large-scale private sector projects with greater speed and efficiency in response to market demand, while maintaining country priorities. As of November 2015, \$508.5 million was allocated to programs for geother-

mal power, minigrids, mezzanine finance, energy efficiency, solar PV, and early-stage renewable energy (CIFs 2015f).

Strategic Climate Fund

The strategic Climate Fund (SCF) works through three subprograms: the Forest Investment Program, the Pilot Program for Climate Resilience, and the Scaling-Up Renewable Energy Program,

Forest Investment Program

The Forest Investment Program (FIP) was approved in July 2009 to support developing countries' efforts to reduce emissions from deforestation and forest degradation by providing scaled-up bridge financing for readiness reforms and public and private investments (CIFs 2009a). The FIP received \$768 million in contributor pledges. It has programs in eight countries and, as of December 2015, had approved \$315 million for projects (CIFs 2015a).

FIP provides direct investments in forestry to support countries' development and REDD+ objectives. It provides grants and low-interest loans to address the drivers of deforestation and forest degradation, both inside and outside of the forest sector. Half of FIP funds focus on capacity building and developing enabling environments, while the other half pilot site-specific solutions to deforestation and degradation. FIP projects include activities in capacity building, sustainable forest management, landscape approaches, smart agriculture, green value chains, forest monitoring, and indigenous peoples. As with the other SCF funds, the FIP has a private sector set-aside, with four concept projects totaling \$20.3 million endorsed as of November 2015 (CIFs 2015g).

The FIP also has an \$80 million dedicated grant mechanism (DGM) for indigenous peoples and local communities. It is designed and led by representatives of indigenous peoples groups and local communities in FIP countries to enhance their communities' capacity to engage in and contribute to the national REDD+ dialogue and actions. The DGM is the largest global REDD+ initiative created solely for and by indigenous peoples and local communities (CIFs 2015g).

Pilot Program for Climate Resilience

The Pilot Program for Climate Resilience (PPCR) was created in November 2008 to pilot and demonstrate ways in which climate risk and resilience may be integrated into core development planning and implementation (CIFs 2011c). The PPCR has received \$1.2 billion in contributor pledges. It has programs in 18 countries along with the Caribbean and Pacific regions, and as of December 2015 it had approved \$950 million for 60 projects (CIFs 2015a).

Activities supported by the PPCR include: agriculture and landscape management, climate information systems and disaster risk management, coastal zone management, enabling environments, infrastructure, urban development, and water resources management. The PPCR uses a two-phase, programmatic approach. First, it assists national governments in integrating climate resilience into development planning across sectors and stakeholder groups. Second, it provides additional funding to put the plan into action and pilot innovative public and private sector solutions to pressing climate-related risks. The PPCR gives priority to highly vulnerable and LDCs, including small island developing states (SIDS). To stimulate more private sector participation, concessional financing has been set aside to be awarded on a competitive

basis for innovative private sector projects advancing the goals of the PPCR. As of November 2015, 11 private sector project concepts amounting to \$70.4 million had been endorsed for further development and approval (2015h).

Scaling-Up Renewable Energy Program

The Scaling-Up Renewable Energy in Low-Income Countries Program (SREP) was approved in May 2009 to demonstrate the economic, social, and environmental viability of low-carbon development pathways in the energy sector by creating new economic opportunities and increasing energy access through the use of renewable energy (CIFs 2009b). The SREP has received pledges of \$777 million. It has programs in 11 countries and the Pacific region, and as of December 2015 it had approved \$197 million for 21 projects (CIFs 2015a).

Like the other CIF funds, the SREP employs a programmatic approach that builds on national policies and existing energy initiatives. The SREP financing supports scaled-up deployment of renewable energy solutions to increase energy access and economic opportunities. Technologies supported by the SREP include wind, waste-to-energy, solar, mixed renewable energy, hydropower, geothermal, and cook stoves. Like the PPCR, the SREP has a private sector set-aside awarded on a competitive basis; as of November 2015, seven concept projects totaling \$92.4 million had been endorsed for further preparation and approval (CIFs 2015i).

Green Climate Fund

The Green Climate Fund (GCF) was formally established in 2010 under the UN Framework Convention on Climate Change. It became the second operating entity of the financial mechanism of the UNFCCC, alongside the GEF. The GCF was designed to play a key role in channeling financial resources to developing countries and catalyzing public and private climate finance at the international and national levels and aims to promote a paradigm shift toward low-emissions and climate-resilient development pathways (GCF 2011).

Organization

The GCF is governed by a 24-member board, made up of equal numbers of developed- and developing-country representatives. For developing-country representatives, three come from each of the Asia-Pacific, African, and Latin America and Caribbean UN regional groups, one member each from an LDC and SIDS, and one additional member from a developing-country Party outside the aforementioned regional groups and constituencies. The board usually meets three times a year, and decisions are made by consensus. Two civil society representatives and two private sector representatives are invited to participate in board meetings as active observers (GCF 2013a). A 76-person independent secretariat is based in Songdo, South Korea, headed by an executive director, appointed for a four-year term, renewable once (GCF 2016e, 2016n). The interim trustee of the GCF is the World Bank, subject to review after three years of the fund being operational (GCF 2011).

Funding

The GCF receives funding from country contributions through replenishment cycles. Its initial resource mobilization saw the fund capitalized at \$10.3 billion from 43 countries, including 9 developing countries (GCF 2016a). The fund also receives contributions from regional governments and is exploring ways to receive funding from private sources. The next replenishment is scheduled for 2018, or when 60 percent of the current resources are programmed (GCF 2014c, Annex XIX). All developing country Parties to the UNFCCC are eligible to receive resources from the GCF. While there are no caps on project size or country allocations, the fund aims for a 50:50 balance in allocating funding between mitigation and adaptation, and to aim for a floor of 50 percent of adaptation funding for particularly vulnerable countries including LDCs, SIDS, and African states (GCF 2014a, Decision B.06/06).

The GCF funds activities through international, regional, and national implementing entities. There are 14 national and 9 regional entities accredited using the GCF's direct access modality. The fund uses a "fit for purpose" accreditation system, whereby implementing entities can be accredited to implement projects at different levels of risk, with the stringency of accreditation criteria varying accordingly. This is designed to allow smaller entities to get accreditation more easily for lower-risk projects, and potentially build their capacities over time to take on larger or more risky projects (GCF 2014b, Decision B.07/02, 2014c; GCF Decision, B.08/02).

Activities

The fund provides financing in the form of grants, concessional loans, equity, guarantees, and through other modalities the board may approve (GCF 2014c, Decision B.08/12) for the agreed (full and incremental) costs for activities to enable and support enhanced action on adaptation, mitigation (including REDD-plus), technology development and transfer (including carbon capture and storage), capacity building and the preparation of national reports by developing countries. The fund can take both project-based and programmatic approaches (GCF 2011). The GCF began approving proposals in October 2015. As of December 2016, 35 proposals totaling \$1.48 billion in GCF investment had been approved by the board (GCF 2016b).

The GCF also has a private sector facility that enables it to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional, and international levels through accredited entities. It aims to promote participation of private sector actors in developing countries (in particular local actors), including small- and medium-sized enterprises and local financial intermediaries. The facility also supports activities to enable private sector involvement in SIDS and LDCs (GCF 2011).

APPENDIX 2. LIST OF STAKEHOLDERS INTERVIEWED

Interviews were conducted from March to July 2016, with supplemental feedback sought on early drafts at a dinner during COP22 in Marrakech in November 2016 and in conversations on the sidelines of the fifteenth meeting of the GCF Board in Apia, Samoa, in December 2016.

Governments

Antigua & Barbuda
Australia
Barbados
Belize
Colombia
Cook Islands
Democratic Republic of Congo
Denmark
Ethiopia
European Union
France
Germany
Kenya
Morocco
Namibia
Netherlands
Panama
South Africa
Switzerland
Tonga
United Kingdom
United States

Climate Funds

Adaptation Fund Secretariat
Climate Investment Fund Administrative Unit
Global Environment Facility Secretariat
Green Climate Fund Secretariat

Others

African Development Bank (AfDB)
Asian Development Bank (ADB)
Bank of America
Center for Clean Air Policy (CCAP)
Center for Global Development (CGD)
Clean Energy Nepal
Climate Policy Initiative (CPI)
Development Bank of South Africa (DBSA)
E3G
Heinrich-Böll-Stiftung, North America
Interamerican Association for Environmental Defense (AIDA)
Inter-American Development Bank (IDB)
Nacional Financiera, S.N.C. (Nafinsa)
Oil Change International
Overseas Development Institute (ODI)
United Nations Development Programme (UNDP)
United Nations Office of the Secretary General (UNOSG)

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ENDNOTES

1. Multilateral climate funds delivered an average of \$2.2 billion per year to developing countries in 2013–2014 compared to total climate finance flows averaging \$714 billion per year in the same period (SCF 2016a).
2. There is a growing body of literature examining the qualities that can make climate finance effective; our features derive from these sources (Ballesteros et al. 2010; Chaum et al. 2011; Nakhooda 2013; Nakhooda et al. 2014).
3. Though “low greenhouse gas emissions and climate-resilient development” is not defined in the agreement, the other overall aims in the same article—to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C, and to increase the ability to adapt to the adverse impacts of climate change and foster climate resilience—provide the basis for benchmarks and metrics to be developed. In addition, the mitigation goal of balancing anthropogenic greenhouse gas emissions and removals by sinks in the second half of the century adds further specificity on which emissions pathways are compatible with the agreement (UNFCCC 2015a, Article 4.1). Benchmarks and metrics derived from these aims and goals could be used to screen portfolios for climate risks and compatibility.
4. Due to the results of the 2016 US elections, it is unclear how much of the remaining US pledge will be delivered (\$2 billion). Appropriations are a congressional matter and will have implications for GCF replenishment.
5. Data are for total GEF funding, not just climate-specific.
6. The GCF has a \$200 million pilot program for MSMEs that it will begin implementing in 2016 (GCF 2016p).
7. The five core indicators in the CTF Results Framework are “B1. Tonnes of GHG emissions reduced or avoided; B2. Volume of direct finance leveraged through CTF funding – disaggregated by public and private finance; B3. Installed capacity (MW) as a result of CTF interventions; B4. Number of additional passengers (disaggregated by men and women if feasible) using low carbon public transport as a result of CIF interventions; B5. Annual energy savings as a result of CTF interventions (GWh)” (CIFs 2013).
8. This figure includes the European Investment Bank, which is not a CIF partner.
9. The Philippines set up an independent, autonomous body under the Office of the President, the Climate Change Commission, which is in charge of coordinating, monitoring, and evaluating government programs at a national, local, and sectoral level to work toward low-emissions and climate-resilient development.
10. However, CTF and IDB funding in Mexico has been channeled through Nacional Financiera, S.N.C. (a national development banking institution), which has helped build national institutional capacities.
11. The LDCF is supporting NAPs processes in Senegal, Rwanda, and Chad, totaling \$16.4 million. The LDCF has provided \$9 million for the LDC NAP Global Support Program, and the SCCF has funded \$4.5 million for the non-LDC NAP Global Support Program (correspondence with GEF Secretariat).
12. For more on the time taken for accreditation, see Masullo et al. 2015.
13. Two-step projects are where the concept is approved before a fully developed project document is submitted to the board.
14. The GCF only operates in English (GCF 2013a). The CIFs operate in English but have simultaneous interpreting into French and Spanish and provide for translations of meeting summaries in French and Spanish (CIFs 2014b, 2014c). The GEF operates in English, French, and Spanish, and documentation is also available in all three languages (GEF 2007a). The working language for the AF is English (and meeting documents are only in English while the report of the meeting is translated in all official UN languages. Simultaneous translation in all official UN languages is provided if requested by board members or alternates (AF 2012a).
15. Author interviews.
16. Based on World Bank classifications using gross national income per capita. The top five recipients in the last decade were Morocco, Mexico, Brazil, South Africa, and India (Nakhooda et al. 2014).
17. Andorra, Bahamas, Brunei Darussalam, Democratic People's Republic of Korea, Israel, Kuwait, Oman, Palestine, Qatar, Republic of Korea, San Marino, Saudi Arabia, Singapore, Syria, and United Arab Emirates.
18. Author analysis based on GEF 2016i; AF 2016h; CIFs 2015a; GCF 2016b; UN 2014, 2016, 2017.
19. In 2013–2014 53% of bilateral climate finance went to mitigation compared to 27% to adaptation (a further 20% was cross-cutting) (SCF 2016a).
20. Adaptation received around \$25 billion in public finance globally in 2014, 17% of total public climate finance flows. Of this, \$22.5 billion went to developing countries. There is no consistent data available on private adaptation finance flows, so an overall total is not possible (UNEP 2016a).

21. Examples include the GEF's work on ecosystems-based adaptation, and agriculture projects that address biodiversity and land use change as well as reducing emissions and enhancing resilience.
22. Decision 1/CP.21, paragraphs 84–86 established the Capacity Building Initiative for Transparency to support developing countries in meeting the reporting requirements under the new agreement, and they requested that the GEF support the establishment and operation of the initiative (UNFCCC 2015b).
23. For example, the World Bank Inspection Panel, the IFC Compliance Advisor Ombudsman, and the Asian Development Bank Accountability Mechanism.
24. For example, experiences in REDD+ efforts show the importance of project-level grievance processes to address issues as close to the ground as possible.
25. For the definition of this term, see GEF 2007b.
26. For the definition of this term, see GEF 2012a.
27. Cape Verde, Maldives, and Samoa have since graduated from LDC status.
28. Correspondence with GEF Secretariat.

ABBREVIATIONS

ADB	Asian Development Bank
AF	Adaptation Fund
AfDB	African Development Bank
CDM	Clean Development Mechanism (KP)
CIFs	Climate Investment Funds
CMA	Conference of the Parties Serving as the Meeting of the Parties to the Paris Agreement (UNFCCC)
CMP	Conference of the Parties Serving as the Meeting of the Parties to the Kyoto Protocol (UNFCCC)
COP	Conference of the Parties (to the UNFCCC)
CSO	civil society organization
CTF	Clean Technology Fund (CIFs)
DA	designated authority (AF)
DGM	dedicated grant mechanism
DPSP	dedicated private sector program
EBRD	European Bank for Reconstruction and Development
FIP	Forest Investment Program (SCF)
GCF	Green Climate Fund
GEF	Global Environment Facility
GHG	greenhouse gas
IDA	International Development Association (WBG)
IDB	Inter-American Development Bank
IFC	International Finance Corporation (WBG)
IPCC	Intergovernmental Panel on Climate Change
KP	Kyoto Protocol (to the UNFCCC)
LDCF	Least Developed Countries Fund
LDCs	least developed countries
MDB	multilateral development bank
MIE	multilateral implementing entity
MSME	micro-, small, or medium enterprise
NAPAs	national adaptation programmes of action
NAPs	national adaptation plans
NDA	national designated authority (GCF)
NGO	non governmental organization
NIE	national implementing entity
OECD	Organization for Economic Co-operation and Development
PPCR	Pilot Program for Climate Resilience (SCF)
RIE	regional implementing entity
SCCF	Special Climate Change Fund
SCF	Strategic Climate Fund (CIFs)
SIDS	small island developing states
SREP	Scaling-Up Renewable Energy in Low Income Countries Program (SCF)
STAR	system for transparent allocation of resources (GEF)
TFC	Trust Fund Committee (CIFs)
UNDP	UN Development Programme
UNEP	UN Environment Programme
UNFCCC	UN Framework Convention on Climate Change
WBG	World Bank Group

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The views and recommendations contained in this report are the sole responsibility of WRI. Any omissions, inaccuracies, or errors are our own.

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ABOUT WRI

World Resources Institute is a global research organization that turns big ideas into action at the nexus of environment, economic opportunity and human well-being.

Our Challenge

Natural resources are at the foundation of economic opportunity and human well-being. But today, we are depleting Earth's resources at rates that are not sustainable, endangering economies and people's lives. People depend on clean water, fertile land, healthy forests, and a stable climate. Livable cities and clean energy are essential for a sustainable planet. We must address these urgent, global challenges this decade.

Our Vision

We envision an equitable and prosperous planet driven by the wise management of natural resources. We aspire to create a world where the actions of government, business, and communities combine to eliminate poverty and sustain the natural environment for all people.

Our Approach

COUNT IT

We start with data. We conduct independent research and draw on the latest technology to develop new insights and recommendations. Our rigorous analysis identifies risks, unveils opportunities, and informs smart strategies. We focus our efforts on influential and emerging economies where the future of sustainability will be determined.

CHANGE IT

We use our research to influence government policies, business strategies, and civil society action. We test projects with communities, companies, and government agencies to build a strong evidence base. Then, we work with partners to deliver change on the ground that alleviates poverty and strengthens society. We hold ourselves accountable to ensure our outcomes will be bold and enduring.

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We don't think small. Once tested, we work with partners to adopt and expand our efforts regionally and globally. We engage with decision-makers to carry out our ideas and elevate our impact. We measure success through government and business actions that improve people's lives and sustain a healthy environment.



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