

The Global Climate Finance Architecture

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Climate Finance Fundamentals **2**

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Climate finance remains central to achieving low-carbon, climate resilient development. The global climate finance architecture is complex and always evolving. Funds flow through multilateral channels – both within and outside of UNFCCC financing mechanisms – and increasingly through bilateral, as well as through regional and national climate change channels and funds. Monitoring the flows of climate finance is difficult, as there is no agreed definition of what constitutes climate finance or consistent accounting rules. The wide range of climate finance mechanisms continues to challenge coordination. But efforts to increase inclusiveness and simplify access continue.

Climate finance

Climate finance refers to the financial resources mobilised to help developing countries mitigate and adapt to the impacts of climate change, including public climate finance commitments by developed countries under the UNFCCC, although a definition of the term “climate finance” is yet to be agreed internationally. In the 2009 Copenhagen Accord, and confirmed in the Cancun decision and Durban Platform, developed countries pledged to deliver finance approaching USD 30 billion between 2010 and 2012. While contributor countries at the end of the fast-start finance period self-reported that these targets were exceeded (Nakhooda, Fransen et al. 2013), the Paris Agreement reiterates that developed countries should take the lead in mobilizing climate finance “from a wide variety of sources, instruments and channels” in a “progression beyond previous efforts,” with the accompanying COP decision agreeing to set a new collective goal with a floor of USD 100 billion by 2025. Many countries have highlighted the need for scaled-up international support in implementing their National Adaptation Plans (NAPs) as well as increasing the ambition of their Nationally Determined Contributions (Hedger and Nakhooda, 2015), and ensuring that finance and investment is available to realise these goals will be the major challenge going forward. Developing countries have made the case for finance to address climate change loss and damage already occurring in their countries as a result of climate change. At the moment, however, neither the Warsaw Mechanism on Loss and Damage, nor the new Paris Agreement draw the link to climate finance.

A study commissioned by the French and Peruvian Governments in their capacities as Presidents of COP 21 and 20, respectively concluded that USD 62 billion in public and private sources were directed to developed countries from developing countries in 2014 (OECD, 2015). It is notable that the majority of this wider reading of climate related funding comes from the private sector and the additionality of public finance identified is unclear (i.e. how much of this represents effort over and above existing efforts and development finance commitments). CFF 1 presents a longer discussion of the principle of additionality. The second

Biennial Assessment and Overview of Climate Finance Flows of the UNFCCC, released in November 2016, also suggests an increase in public finance for developing countries.

Figure 1 presents an overview of the global architecture, focusing particularly on public climate financing mechanisms. There are a number of channels through which climate finance flows, including multilateral climate funds that are dedicated to addressing climate change. Several developed countries have also established climate finance initiatives or are channelling climate finance through their bilateral development assistance institutions. Many developing countries in the meantime have set up regional and national funds and channels to receive climate finance. In late 2015, in the lead up to COP21 in Paris, climate funds also received \$6.4 million in pledges from the subnational governments of Quebec, Paris and Wallonia. The types of climate finance available vary from grants and concessional loans, to guarantees and private equity. The architecture has differing structures of governance, modalities and objectives. While the transparency of climate finance programmed through multilateral initiatives is increasing, detailed information on bilateral initiatives, regional and national funds are often less readily available.

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

Climate Funds Update tracks operating entities of the UNFCCC, large multilateral climate funds, bilateral funds that feature prominently in reporting to the UNFCCC, and funds that have had

a significant demonstration role. It does not track all climate funds or all channels of climate finance, due to limits to available information as well as resource limitations.

Multilateral channels for climate finance

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

Established in 1991, the **Global Environment Facility (GEF)** is an operating entity of the financial mechanism of the UNFCCC with a long track record in environmental funding. Resources are allocated according to the impact of dollars spent on environmental outcomes, but ensuring all developing countries have a share of the funding. Under the GEF fifth replenishment (2011 – 2014), 40 donor countries pledged USD 1,350 million to the climate change focal area. GEF 5 has approved a total of USD 909 million for 251 projects, of which USD 494 million has been disbursed. 30 donor countries pledged USD 3.72 billion over all focal areas to the sixth replenishment of the GEF (2014-2018). USD 1101 million will support the climate change focal area, but GEF 6 is increasingly focused on programming that targets multiple focal areas including climate change, in thematic areas such as sustainable cities and land use and forests.

The GEF also administers the **Least Developed Countries Fund (LDCF)** and the **Special Climate Change Fund (SCCF)** under the guidance of the UNFCCC Conference of Parties (COP). These funds support national adaptation plan development and their implementation, although largely through smaller scale projects (with a country ceiling for funding of USD 20 million). The LDCF has approved USD 981 million and the SCCF has approved USD 302 million since their inception in 2002 across over 100 countries.

Also formally linked to the UNFCCC, the **Adaptation Fund (AF)** is financed through a 2% levy on the sale of emission credits from the Clean Development Mechanism of the Kyoto Protocol. In the past years, it has had to rely increasingly on developed country grant contributions. Operational since 2009, the total capitalisation (which includes developed countries' commitments) is USD 569 million and has financed a total of 54 projects for USD 349 million. The AF pioneered direct access to finance for developing countries through National Implementing Entities that are able to meet agreed fiduciary standards, as opposed to working solely through UN agencies or Multilateral Development Banks (MDBs) as multilateral implementing agencies.

The **Green Climate Fund (GCF)** of the UNFCCC was agreed at the Durban COP and became fully operational with its first projects approved at the end of 2015. It is expected to become the primary channel through which international public climate finance will flow over time and is intended to fund the paradigm shift toward climate-resilient and low-carbon development in developing countries with a country-driven approach, and a commitment to a 50:50 balanced allocation of finance to adaptation and mitigation. The initial resource mobilisation process for the GCF raised USD 10.3 billion. Developing countries can access the GCF both through MDBs, international commercial banks and UN agencies, as well as directly through accredited National, Regional and Sub-National Implementing Entities. By November 2016, the implementing partner network of the GCF has grown to 33 Accredited Entities and, the GCF had approved a total of 54 projects for USD 1174 million. CFF 11 discusses the GCF in more detail.

At COP 16, the **Standing Committee on Finance** was established under the UNFCCC to assist the COP in meeting objectives of the Financial Mechanism of the Convention. The Standing Committee

on Finance¹ has been tasked with, among other things, preparing a biennial assessment of climate finance flows, the second of which considering flows from 2013-2014 has recently been published (UNFCCC, 2016).

A substantial volume of climate finance has been channelled through institutions that are not directly under the guidance of the UNFCCC COP.

The **Climate Investment Funds (CIFs)** established in 2008 are administered by the World Bank, but operate in partnership with regional development banks including: the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB). The CIFs finance programmatic interventions in selected developing countries, with the objective of improving understanding of how public finance is best deployed at scale to assist transformation of development trajectories. The CIFs have a total pledge of USD 8.14 billion. They include a **Clean Technology Fund** with USD 5.47 billion, and a **Strategic Climate Fund**, composed of the **Pilot Program for Climate Resilience (PPCR)** with 1.12 billion, the **Forest Investment Program (FIP)** with 0.74 billion, and the **Scaling-Up Renewable Energy Program for Low Income Countries (SREP)** with 0.74 billion. While the CIFs had a sunset clause that would come into effect when a global architecture was in place, commonly understood to be the operationalisation of the Green Climate Fund (GCF), it was decided in 2016 that its operations would be extended through 2019 at which point options to sunset would be revisited.

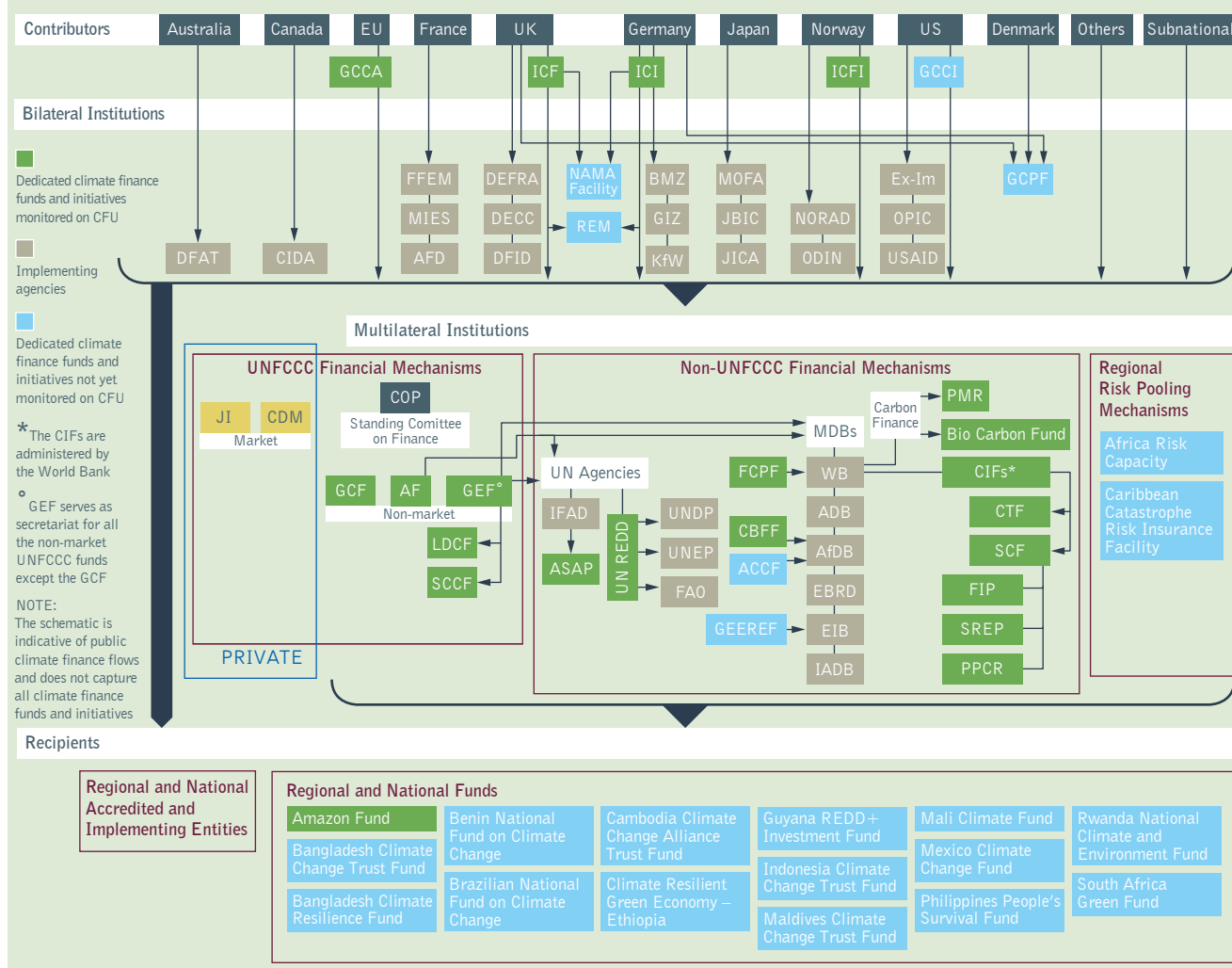
Multilateral Development Banks (MDBs) play a prominent role in delivering multilateral climate finance. Many have incorporated climate change considerations into their core lending and operations, and most MDBs now also administer climate finance initiatives with a regional or thematic scope. The World Bank's carbon finance unit has established the **Forest Carbon Partnership Facility (FCPF)** to explore how carbon market revenues could be harnessed to reduce emissions from deforestation and forest degradation, forest conservation, sustainable forest management and the enhancement of forest carbon stocks (REDD+). It also manages the **Partnership for Market Readiness**, aimed at helping developing countries establish market based mechanisms to respond to climate change and the **BioCarbon Fund**, which is a public-private partnership that mobilises finance for sequestration or conservation of carbon in the land use sector. The European Investment Bank administers the **EU Global Energy Efficiency and Renewable Energy Fund (GEEREF)**. The African Development Bank also finances enhanced climate finance readiness in African countries through the German and Italian funded **Africa Climate Change Fund (ACCF)**, whose first projects were approved in 2015.

Both MDBs and UN Agencies act as implementing entities for the GEF, SCCF, LDCF, and the AF. UN agencies commonly take on the role of administrator and/or intermediary of climate finance. The UN-REDD Programme, made operational in 2008, brings together UNDP, UNEP, and the FAO to support REDD+ activities, with the governance structure giving representatives of civil society and Indigenous People's organisations a formal voice. The International Fund for Agriculture and Development administers the **Adaptation for Smallholder Agriculture Programme (ASAP)** that supports smallholder farmers in scaling up climate change adaptation in rural development programmes.

Bilateral channels for climate finance

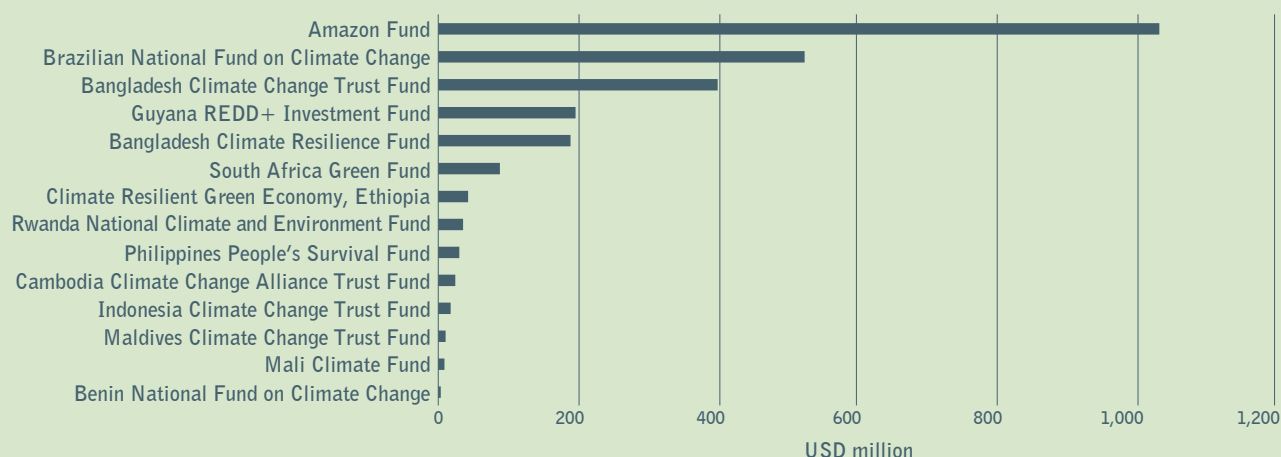
A significant share of public climate finance is spent bilaterally, administered largely through existing development agencies. There is limited transparency and consistency in reporting of some bilateral finance for climate change, however, with countries self-classifying and self-reporting climate-relevant financial flows without a common reporting format, or independent verification. The Climate and Policy Initiative estimated that USD 12-19 billion was directed through governments, ministries and bilateral agencies in 2014 in addition

Figure 1: Global climate finance architecture diagram



Implementing Agencies and Institutions		Multilateral Funds and Initiatives	
AfDB	African Development Bank	AF	Adaptation Fund (GEF acts as secretariat and WB as trustee)
AFD	French Development Agency	ACCF	Africa Climate Change Fund
ADB	Asian Development Bank	ASAP	Adaptation for Smallholder Agriculture Programme
BMZ	Federal Ministry of Economic Cooperation and Development	CBFF	Congo Basin Forest Fund (hosted by AfDB)
CIDA	Canadian International Development Agency	CDM	Clean Development Mechanism (implemented under the Kyoto Protocol)
DECC	Department of Energy and Climate Change	CIF	Climate Investment Funds (implemented through WB, ADB, AfDB, EBRD, and IADB)
DEFRA	Department for Environment, Food and Rural Affairs	CTF	Clean Technology Fund (implemented through WB, ADB, AfDB, EBRD, and IADB)
DFAT	Department of Foreign Affairs and Trade (Australia)	FCPF	Forest Carbon Partnership Facility
DFID	Department for International Development	FIP	Forest Investment Program (implemented through WB, ADB, AfDB, EBRD, and IADB)
EBRD	European Bank for Reconstruction and Development	GCCA	Global Climate Change Alliance
EIB	European Investment Bank	GCF	Green Climate Fund
Ex-Im	Export-Import Bank of the United States	GEF	Global Environment Facility
FAO	Food and Agriculture Organisation	GEEREF	Global Energy Efficiency and Renewable Energy Fund (hosted by EIB)
FFEM	French Global Environment Facility	JI	Joint Implementation (implemented under the Kyoto Protocol)
GIZ	German Technical Cooperation	LDCF	Least Developed Countries Fund (hosted by the GEF)
IADB	Inter American Development Bank	PMR	Partnership for Market Readiness
IFAD	International Fund for Agricultural Development	PPCR	Pilot Program on Climate Resilience (implemented through World Bank, ADB, AfDB, EBRD, and IADB)
JBIC	Japan Bank of International Cooperation	SCCF	Special Climate Change Fund (hosted by the GEF)
JICA	Japan International Cooperation Agency	SCF	Strategic Climate Fund (implemented through WB, ADB, AfDB, EBRD, and IADB)
KfW	German Development Bank	SREP	Scaling Up Renewable Energy Program (implemented through WB, ADB, AfDB, EBRD, and IADB)
MIES	Inter-ministerial Taskforce on Climate Change	UNREDD	United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation
MOFA	Ministry of Foreign Affairs		
NORAD	Norwegian Agency for Development Cooperation		
ODIN	Ministry of Foreign Affairs		
OPIC	Overseas Private Investment Corporation		
UNDP	United Nations Development Programme		
UNEP	United Nations Environment Programme		
USAID	US Agency for International Development		
WB	World Bank		
Bilateral Funds and Initiatives			
GCCI	Global Climate Change Initiative (US)		
GCPF	Global Climate Partnership Fund (Germany, UK and Denmark)		
ICF	International Climate Fund (UK)		
ICFI	International Climate Forest Initiative (Norway)		
ICI	International Climate Initiative (Germany)		
NAMA facility	Nationally Appropriate Mitigation Action facility (UK and Germany)		
REM	REDD Early Movers (Germany and UK)		

Figure 2: National Climate Fund Commitments



to that spent through climate funds and development finance institutions, including climate related ODA (CPI, 2015). A total of 26 billion in climate related ODA in 2014 was reported to the OECD DAC.

As of 2014, Germany's **International Climate Initiative** had approved USD 1.1 billion for a total of 377 mitigation, adaptation, REDD+ projects. The initiative is innovatively funded partly through sale of national tradable emission certificates, providing finance that is largely additional to existing development finance commitments.

The UK's **International Climate Fund** had a capitalisation of USD 5.95 billion in 2014, and has channelled a substantial share of ICF money through dedicated multilateral funds, including the CIFs and the GCF. Together with Germany, Denmark and the EC, the UK also contributes to the **NAMA Facility** that supports nationally appropriate mitigation actions (NAMAs) in developing countries and emerging economies that want to implement ambitious mitigation measures. Germany, the UK and Denmark also support the **Global Climate Partnership Fund (GCPF)**, managed by the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) and KfW, that focuses on renewable energy and energy efficiency through public-private partnership. Germany and the UK also support the USD 141 million **REDD+ Early Movers Programme (REM)**.

Norway's **International Forest Climate Initiative** has pledged USD 3.48 billion through bilateral partnerships, multilateral channels and Civil Society. Sizeable pledges have been made for REDD+ activities in Brazil, Indonesia, Tanzania, and Guyana.

Regional and national channels and climate change funds

Several developing countries have established regional and national channels and funds with a variety of forms and functions, resourced through international finance and/or domestic budget

allocations and the domestic private sector. The **Indonesian Climate Change Trust Fund** was one of the first of these institutions to be established. Brazil's **Amazon Fund**, administered by the Brazilian National Development Bank (BNDES), is the largest national climate fund, with a commitment of more than USD 1 billion from Norway. There are also national climate change funds in Bangladesh, Benin, Cambodia, Ethiopia, Guyana, the Maldives, Mali, Mexico, the Philippines, Rwanda, and South Africa (Figure 2). Many more countries have proposed national climate funds in their climate change strategies and action plans. In many cases UNDP acted as the initial administrator of national funds, increasing donor trust that good fiduciary standards will be met, but many countries are now passing these tasks on to national institutions. Data on capitalisation of national climate change funds, however, is not consistently available.

National climate change funds attracted early interest. Largely because they were established with independent governance structures that met high levels of transparency and inclusiveness, they could channel finance to projects suited to national circumstances and that were aligned with national priorities. Working through coordinated national systems could also improve transaction efficiency. In practice, however, the impact of national trust funds on strengthening national ownership and coordination remains to be seen, and the sums of finance that these funds have raised are often modest. At the same time many developing countries are beginning to incorporate climate risk into their national fiscal frameworks, and monitoring climate related expenditure.

The **Caribbean Catastrophic Risk Insurance Facility (CCRIF)** was established in 2007 through support of the World Bank and other development partners, but is now also funded by developing countries premiums. A 16 member-country risk pool, it offers parametric insurance. Similarly, the **African Risk Capacity (ARC)** centre offers a comparable model as a specialised agency of the African Union.

In addition to the series of 12 Climate Finance Fundamentals, these recent ODI and HBS publications may be of interest:

- **Adaptation finance and the infrastructure agenda.** Smita Nakhooda and Charlene Watson review international efforts to support adaptation and their linkages with efforts to mobilise new finance for infrastructure. Available at: <http://bit.ly/2dMu8P3>
- **The AIIB and investment in action on climate change.** Darius Nassiry and Smita Nakhooda explore how the AIIB can expand markets for solar, wind and grid technologies, and extend China's leadership in the region in a manner consistent with the commitments to take ambitious action on climate change made by its member countries and prospective member countries as signatories to the Paris Agreement. Available at: <http://bit.ly/2fk5EXe>
- **Financing sustainable development: The critical role of risk and resilience.** Charlene Watson and Jan Kellett make the case that better risk management and the building of resilience are imperative for sustainable development. Available at: <http://bit.ly/2efIUtX>
- **Mutually Reinforcing: Climate Justice, Equitable Climate Finance and the Right to Development.** Liane Schalatek explores the ramifications of the right to development as an inalienable human right for the global challenge of climate change more broadly and more specifically for the concept of climate justice and its application to climate finance provision. Available at: <http://bit.ly/2eWfuRw>
- **In Search of Policy Coherence: Aligning OECD Infrastructure Advice with Sustainable Development.** Motoko Aizawa and Waleria Schuele discuss the privileged relationship of the OECD with the G20 in acting as a powerful voice on policy related to infrastructure investment and development globally and call for the OECD to use its political clout to demonstrate full policy coherence for investment in sustainable development. Available at: <http://bit.ly/1YeHkeE>

Contact us for more information at info@climatefundsupdate.org

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End Notes

1. Note the committee is an oversight mechanism rather than a fund in itself.

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

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