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Designing the International Green Climate Fund: Focusing on Results

Katherine Sierra
Senior Fellow
Global Economy and Development at Brookings

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The Brookings Institution
1775 Massachusetts Ave., NW
Washington, DC 20036

Overview

At the December 2010 international climate talks in Cancún, the negotiators agreed to create a Green Climate Fund. A Transitional Committee, commissioned to design the fund, will meet for the first time on April 28-29, 2011. This policy brief suggests that the committee agree on a vision as a critical first step. A compelling vision would signal that the fund aims to achieve significant and transformative climate results by supporting ambitious country development strategies and programs, and by using instruments that maximize the leverage of public and private capital. The brief outlines a set of guiding principles: balance and inclusion; ownership; transformation; leverage; operational efficiency; and results and learning. And it explores alternative business models — partnership, independence and integration – focusing on the first two which are under active consideration for the fund. Under any business model, given the strong voice they will have given the fund's balanced governance, developing countries have the opportunity to push for new ways of doing business, especially with respect to the use of country systems and outcome-based instruments, which can drive innovation in the development landscape. The brief then outlines three opportunities to drive results: devising resource allocation processes that aligning resources with potential benefits, levels of ambition and capacity; using the fund to leverage private capital; and driving effectiveness through results metrics.

In her previous position as vice president for sustainable development at the World Bank, Katherine Sierra led the design process for the creation of the $6 billion Climate Investment Funds. She also led the reform process for the Consultative Group for International Agricultural Research.

The Challenge

At the December 2010 international climate talks in Cancún, the negotiators agreed to create a Green Climate Fund. The Cancún decision called for this fund to be established as an operating entity of the financial mechanism of the UN Framework Convention on Climate Change (UNFCCC), accountable to and functioning under the guidance of the Conference of the Parties (COP) to the UNFCCC. It would have thematic windows, with a significant share of new multilateral funding for adaptation expected to flow through it. The fund would be governed by a board of 24 members, with equal representation from developing and developed countries. An independent secretariat would support the fund's operations, with the World Bank invited to be the trustee to manage the fund's financial assets, subject to review in three years.

A Transitional Committee made up of representatives from 25 developing and 15 developed countries was commissioned to design the Green Climate Fund (box 1). It was asked to submit its recommendations for approval at COP 17 in Durban, in December 2011.[1]

The Transitional Committee will be meeting for the first time in April 2011. Its task is challenging, given the critical need for funding to accelerate the transition to low-carbon and climate resilient development pathways and the centrality of climate finance in the broader climate negotiations. Although there is agreement that, by 2020, $100 billion per year in climate finance will be forthcoming, its sources are still highly uncertain, as is the portion of this that would flow through the fund. The design choices made by the Transitional Committee will influence the extent to which the fund can attract an important part of this longer term pledge.

As the Transitional Committee begins its work, it will be guided by the parameters established in Cancún. Yet the details matter, and there continue to be important differences between the points of departure of potential contributing and recipient countries. Nonetheless, common ground can be found if the Transitional Committee can agree on a vision, a set of guiding principles and a business model that focus on results.

Box 1. The Transitional Committee's Terms of Reference

Provide for approval by the Conference of the Parties recommendations and related operational documents that address:

- The legal and institutional arrangements for Fund establishment and operationalization.
- Rules of procedure of the Board.
- Methods to manage large scale of financial resources from a number of sources and deliver through a variety of financial instruments, funding windows and access modalities, including direct access, with the objective of achieving balanced allocation between adaptation and mitigation.
- The Fund financial instruments.
- Methods to enhance complementarity between the Fund's activities and those of other bilateral, regional and multilateral funding mechanisms and institutions.
- The role of the secretariat and the procedure for selecting and/or establishing the secretariat.
- Mechanisms to ensure: periodic independent evaluation; financial accountability; application of environmental and social safeguards, as well as internationally accepted fiduciary standards and sound financial management.
- Mechanisms to ensure appropriate expert and technical advice.
- Mechanisms to ensure stakeholder input and participation.

Setting the Stage

Agreeing on a Vision

The first task for the Transitional Committee will be to develop a shared vision for the Green Climate Fund. The goal should be to capture the essence of what the fund aims to achieve in one or two sentences. The creation of a shared vision is not simple. But a critical first step is to invest in the time needed to air conflicting points of view and then to converge on a vision that all can rally around.

To illustrate, consider how other analogous international funds present themselves. Not all have formal vision statements, but each provides the world with a short description that captures what it is (box 2). The Global Environment Facility (GEF) has a primary purpose of addressing global environmental issues, but it does this by also emphasizing the link to local and national challenges and sustainable livelihoods. It focuses on projects. The Climate Investment Funds were created on a vision of transformation and scaling-up impact. The Global Fund to Fight AIDS, Tuberculosis and Malaria signals its focus on achieving results vis-à-vis a narrow purpose: to prevent and treat a set of critical diseases. The International Development Association (IDA)—the concessional arm of the World Bank—has the overarching mission of reducing poverty, but its vision statement combines a focus on growth, inequality and improving the lives of people.

Box 2. A Fund's Identity Sets the Stage

Global Environment Facility: Unites 182 member governments—in *partnership* with international institutions, nongovernmental organizations, and the private sector—*to address global environmental issues. An independent financial organization*, the facility provides grants to developing countries and countries with economies in transition for projects . . . [that] benefit the global environment, *linking local, national, and global environmental challenges and promoting sustainable livelihoods.*

Climate Investment Funds: A pair of funds that help developing countries pilot *low-emissions and climate-resilient development.* . . . The Clean Technology Fund finances *scaled-up* demonstration, deployment and transfer of low-emission technologies to initiate *transformation* to low-emission development. . . . The Strategic Climate Fund pilots new approaches to initiate *transformation with potential for scaling up* climate resilience. . . . A *joint initiative of the multilateral development banks*.

Global Fund to Fight Aids, Tuberculosis and Malaria: A unique global *public–private partnership dedicated to attracting and disbursing additional resources to prevent and treat HIV/AIDS, tuberculosis and malaria*. This partnership between governments, civil society organizations, the private sector and affected communities represents a new approach to international health financing.

Consultative Group for International Agricultural Research: To reduce poverty and hunger, improve human health and nutrition, and enhance ecosystem resilience through *high-quality* international agricultural research, partnership and leadership.

International Development Association: To reduce poverty by providing interest-free credits and grants for programs that boost *economic growth, reduce inequalities and improve people's living conditions.*

Note: Emphasis added.
Sources: Fund Web sites.

The Green Climate Fund's designers will be looking to balance a focus on achieving results (for example, targeting its funding where it can have the most impact in terms of greenhouse gas emissions reductions or tackling vulnerabilities) with a focus on equity of access among countries. The fund can emphasize transformational change—moving beyond isolated projects to supporting country strategies that encompass policy and institutional actions. And it can be designed to maximize private sector engagement. The latter is especially important given the conclusions of the United Nations Secretary-General's High Level Advisory Group on Climate Change Financing, which recognized that both public and private capital would be needed to combat climate change, and that meeting the goal of $100 billion per year by 2020 will require a combination of both.[2]

A vision statement that sends a signal that the fund aims to achieve significant climate results by supporting ambitious country development strategies and programs, and that also makes clear that is open to business with the private sector, will be compelling.

Reinforcing the Vision with Guiding Principles

A set of principles will be a critical reference point as the Transitional Committee does its work. These can also provide guidance to the decisionmaking bodies that will be created once the fund is operational. Here, the Transitional Committee has important guidance from the Cancún decision and its terms of reference. But it can also learn from the guiding principles that have been developed by others engaged in similarly complex endeavors who had to mediate the views of many stakeholders (box 3).[3]

Box 3. Principles Guide the Design

Adaptation Fund: Proceeds to cover administrative expenses as well as to assist developing country parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation; balanced and equitable access to funds; funding on full adaptation costs basis; operate under authority, guidance and accountable to the COP; Kyoto Protocol decides on policies; accountability for use of funds; no duplication with other sources; operational efficiency.

Climate Investment Funds: Country ownership; equitable governance, consensus decisions and stakeholder engagement; aligned and coordinated with development strategies and using programmatic approaches; transformational; leverage; results monitoring.

Global Fund to Fight Aids, Tuberculosis and Malaria: Operate as a financial instrument, not as an implementing entity; make available and leverage additional financial resources; support programs that evolve from national plans and priorities; operate in a balanced manner in terms of different regions, diseases and interventions; pursue an integrated and balanced approach to prevention and treatment; evaluate proposals through independent review processes

The reform of the Consultative Group for International Agriculture Research: Harmonization; management for results; effective governance and efficient operations; strong collaboration and partnerships.

Paris Principles on Aid Effectiveness: Ownership; alignment; harmonization; results; mutual accountability

Sources: See appendix 1 for the full text of principles and sources.

Offered here is a framework for capturing the guidance from Cancún, which also suggests principles for key criteria that are not explicitly touched on by the terms of reference but that draw from other multilateral funds.

As an operating entity of the UNFCCC's financial mechanism, accountable to and functioning under the guidance of the COP, the Green Climate Fund could be guided by the following six principles:

- *Balance and inclusion:* Fund structures and practices rely on equitable governance and on stakeholder engagement and partnership. It balances mitigation and adaptation support.
- *Ownership:* Recipient countries set and implement their own strategies for low-emission and climate resilient development, and strengthen policies and institutions to achieve these. The fund uses strong, internationally benchmarked country systems for environmental, social and fiduciary design and accountability, allowing for methods for direct access.
- *Transformation:* Transformative results are achieved through country owned strategies that strive for a high level of ambition, consistent with the availability of funding and technology. Transformation is achieved through action at the policy, institutional and market levels. Resource allocation focuses on achieving results.
- *Leverage:* Scarce grant and concessional funds are used to unlock public and private capital, with expectations for significant leverage.
- *Operational efficiency:* The fund maximizes complementarity with other bilateral, regional and multilateral funding mechanisms and institutions. It practices subsidiarity: Whether channeling funds through a partner agency or through direct access methods, it relies on the accountability processes of the qualified recipient and relevant partner organization.
- *Results and learning:* Results are measured, with links to climate monitoring, reporting and verification systems. The fund embraces a culture of impact evaluation, continuous learning and transparency.

Developing a Business Model

Today's global fund landscape is made up of three basic business models: partnership, independence and integration (box 4). The adequacy of the first two models is being actively debated. The *partnership* model has considerable merits, given the inextricable link between climate action and broader development processes, the need to enhance complementarity with other flows and the relative efficiency of using existing institutions. Although developing countries have concerns with this model, there are opportunities to address them, some of which have already been tested in connection with the designing and operation of the Climate Investment Funds. At the same time, there are many features of the *independence model*, like direct access and a focused results orientation, upon which the Green Climate Fund can build. By using either model, developing countries will have the opportunity to push for new ways of doing business through the design of the Green Climate Fund that can drive reform in the development landscape. Though the full *integration* model is not being considered by climate change negotiators, the brief also describes how a full integration model might work.

The Partnership Model. Partnership business models rely on existing development-oriented institutions like the multilateral development banks (MDBs) and the specialized United Nations agencies like the United Nations Development Program (UNDP). The partnership model was chosen for the GEF and the Climate Investment Funds because the fund purposes—whether they be promoting an environmental global public good like mitigation or building resilience into development processes—were closely linked to the broader development mandates and capabilities of existing institutions.

Indeed, for both climate change mitigation and adaptation, solutions need to be aligned with the broader country development strategies that the MDBs and UN agencies were created to support. Using these existing broad-based platforms is especially important when the solutions are not narrow but need to touch many sectors, and where investments need to be integrated into policy and institutional frameworks. The link with existing institutions can also help ensure the complementarity of programming, and can help achieve scale, by leveraging these institutions' concessional funds and balance sheets and their ability to tap into bilateral public sector and private sector resources via cofinancing and public–private partnerships.

Box 4. Fund Business Models: Partnership, Independence or Integration?

Partnership Model

Global Environment Facility—pilot period: Partnership among the World Bank, United Nations Development Program, and United Nations Environment Program. Relies on operational capabilities and processes of partners. Small Secretariat (about 30 staff).

Global Environment Facility—now: Functionally independent organization but relies on World Bank for legal personality. Relies on operational capabilities of a larger set of partners. Limited direct access for capacity support. Secretariat (with about 100 staff, including the evaluation group) has role in assessing project quality and eligibility. Some duplication in processes with partners.

Climate Investment Funds: Rely on the operational capabilities and processes of the multilateral development banks. Small Program Office (with about 20 staff) has no role in resource allocation or project screening but focuses on supporting governing committee decisionmaking, partnerships, learning and results monitoring.

Independent Organization Model

Global Fund to Fight Aids, Tuberculosis and Malaria: Independent organization. Initially relied on WHO for administrative support, then transitioned into a fully independent entity. Open access to sponsors that meet fiduciary criteria, with a competitive selection of projects. Originally expected to operate in a partnership mode with a small secretariat of about 50 people, but now has about 500 staff.

Adaptation Fund: Legally independent organization. Provides direct access to funds to sponsoring entities that meet fiduciary conditions (environmental and social criteria have not yet been developed). Otherwise relies on existing institutions. Uses Global Environment Facility's Secretariat staff (about 7 full time equivalent staff) to support its decisionmaking.

Full Integration Model

IDA and similar concessional arms for regional development banks: Fully integrated into broader World Bank and regional development bank (e.g., Inter-American Development Bank) organizations, utilizing same staff, policies and processes. IDA Board has different composition than other arms of World Bank Group.

Fund contributors are in particular attracted to the use of existing institutions on efficiency and accountability grounds. Under a partnership model, a fund can leverage long-standing relationships with developing countries, a depth of management and staff capabilities, knowledge management and learning processes, strong operational and financial back-office support, and well-established accountability systems. At the MDBs, these accountability systems include environmental and social safeguards and fiduciary policies and processes, grievance and corruption investigation capabilities, and monitoring and evaluation.

And there are signs that contributor expectations for achieving value for money are rising. For example, the recent United Kingdom Multilateral Aid Review[4] assessed 43 of the global development agencies that the U.K. works with. It reviewed the impact each agency has on the ground, as well as organizational effectiveness (such as the rigor of cost control processes) and the value the organization adds to the U.K.'s strategic objectives. It is using this assessment to put more money behind organizations that are strong performers.

At the same time, in the UNFCCC negotiations, developing countries have repeatedly expressed reservations about the partnership model, and have called for direct access to funds, thereby bypassing existing institutions. And civil society groups argue against using existing institutions, citing governance concerns or ways of doing business that they believe hurt the poor through lack of consultation or top-down design; or on environmental grounds, because the MDBs also fund fossil fuel programs.

But these concerns can be surmounted. Frequently cited is distrust between donors and recipients of development aid, which is partly rooted in the unequal representation and voice at the boards of these institutions.[5] And though representation and voice issues are being addressed at the World Bank,[6] its Executive Board does not have the balanced representation that is called for by the UNFCCC. The Climate Investment Funds, which have equal representation between contributors and recipients on its governing bodies, is changing the dynamic within the framework of a partnership with the MDBs. Some note that, at least in theory, under the Climate Investment Funds this balance is diluted because projects still go to the boards of the MDBs for final approval. But this does not have to be the case. For example, the World Bank's trust fund rules would not necessarily require that funding proposals to the Green Climate Fund be approved by its Board—in principle only cofinancing by the World Bank would need Board approval. Indeed, reconstruction projects funded by trust funds are not submitted for Board approval.[7] Nonetheless, World Bank board consultation would be needed to move in this direction given the precedent of GEF stand-alone projects and Climate Investment Fund projects being submitted to the board for approval[8]. The regional development banks would also need to make policy determinations.

The call for direct access also speaks to developing country concerns with the pace of programming and disbursement. The core issue is the perceived burden of environmental and social safeguard policies that are layered on top of country procedures, and the burden on the client of inspection panel cases that are outside a country's own grievance systems. These safeguards were not created in a vacuum but were the result of years of civil society pressure on the multilateral system, eventually resulting in a body of precedents.[9] The challenge for direct access under any business model will be to redirect the energy that is currently placed on ensuring MDB compliance to focus on helping the countries themselves meet, and be held accountable for, internationally benchmarked standards that are also firmly rooted in the country's laws and practices.[10] The specialized UN agencies and the MDBs can provide accelerated capacity-building support if requested by countries. This could have the benefit of promoting the broader adoption of country systems by the partner institutions. The latter is an agreed-on objective under the Paris Principles on Aid Effectiveness, so action on climate finance could also spark worldwide improvements in development finance. In parallel, the Green Climate Fund could use a variety of operational products (like results-based budget support mechanisms, new concepts such as the "Program for Results" instrument under development at the World Bank[11] and outcome-based instruments such as payments for ecosystem services) that would have many of the direct access features that developing countries desire.

Developing countries and civil society stakeholders appropriately want programs and projects to be led by the country. Although this is also indeed the aspiration of the multilateral institutions (country ownership is embodied in the Paris Principles), too often the practice falls short. Here, under any business model, the burden falls on the recipient countries themselves to take charge. They should focus on putting in place credible, high-quality processes to direct that funds from the Green Climate Fund support well-grounded development strategies that build on national and local priorities, and that incorporate the voice of civil society and the private sector.[12]

With respect to MDBs' funding of fossil fuel programs, the debate is firmly in the hands of the developing countries. For example, in the World Bank's draft energy strategy (currently being considered by the World Bank Board's Committee on Development Effectiveness) management calls for stopping greenfield coal lending to middle-income countries, and it provides criteria for such projects in less developed countries that set a high bar. This position is controversial among developing countries, which do not want limits on their ability to access World Bank funds. It would be ironic if the MDBs, which are under pressure by developing countries to continue to support coal projects, would be at the same time deemed unsuitable to be involved in climate finance because of their past lending for such projects.

Finally, coming back to the root issue of trust, the Green Climate Fund can include provisions to give recipient countries a choice of accredited partners. Countries can vote with their feet, choosing to form partnerships with those that deliver high-quality services and that earn trust with supportive behaviors.

The independent organization model. An independent organizational business model allows a fund to create ways of doing business, including policies and procedures, that are tightly aligned with its mission. These funds are often referred to as "vertical" funds because they focus on one element of the development agenda, as opposed to the development banking model, which in contrast is considered a "horizontal" platform.[13] For the Global Fund to Fight AIDS, Tuberculosis and Malaria, contributors appreciate the singular focus on a limited set of expected

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results.[14] This helps in fund-raising, especially important in an era when a focus on results is paramount to building support for development assistance.

Recipient countries and civil society organizations appreciate the governance models for these funds which are separate from existing MDB or UN organizations. The Adaptation Fund is appreciated because of the weight that developing countries have in its governance, with 75 percent of the seats occupied by developing countries. These governance provisions are not unique to the independent organization model but can also be imported into the partnership model as described above.

In the cases of both the Global Fund and the Adaptation Fund, the vision is that these should be financial mechanisms and not implementing agencies. The ability of countries and entities to directly access funds, subject to meeting fund criteria (including fiduciary criteria) is highly valued by recipients. Projects supported by the funds do not need to go through a partner organization's board. They do not depend on intermediary organizations for program delivery, though they can have provisions for countries to choose to form partnerships with an MDB or specialized UN agency at their discretion. This is, in particular, a bridge for the Adaptation Fund as an interim measure while recipients demonstrate that they meet fiduciary standards.

The downside of this model for climate finance is that, as argued in the World Bank's 2010 World Development Report on Development and Climate Change[15], achieving results on climate mitigation and adaptation cannot be easily separated from a country's broader development agenda, institutions and systems. Thus the risk of overlap with existing institutions is high. For example, there are concerns as to whether the Global Fund will move into supporting broader health systems, prompting overlap with the MDBs and the World Health Organization (WHO). And complementarity and integration with other significant flows from the multilateral system have proven to be difficult, as noted in the Independent Evaluation Report of the Global Fund, which called for a stronger "partnership-centric approach."[16]

Direct access to funds is another hallmark of both the Global Fund and the Adaptation Fund. They have focused on assessing whether recipient entities meet fiduciary standards, and they have accredited those that meet the standards developed by the funds. They have not yet put in place the criteria that would need to be met to assess recipients' capabilities vis-à-vis environmental and social safeguards, which are especially critical for infrastructure or natural resource management projects. Given the relatively high environmental, social and governance risks that are inherent in the types of projects and programs that would be supported by the Green Climate Fund, under a direct access initiative it is likely that a full-scale capability to ensure compliance with standards would eventually be needed to satisfy accountability concerns.[17] So the expectation that the fully independent organization model will more easily facilitate direct access may in practice prove to be challenged by the same forces that led to the important but also complex policies and systems that are in place in the MDBs. Like with the partnership model, the strategy should be to aggressively promote the use of country systems, and to support capacity building to help recipients meet internationally benchmarked standards.

Finally, organizational dynamics tend to support growth. Whereas the original design of the Global Fund assumed that it would leverage the back office capabilities of the WHO, this was later abandoned, and a full-scale organization was created, challenging efficiency objectives.[18]

The full integration model. The full integration model supports a specialized purpose or client base through a separate funding source within the framework of a single institution. For example, at the World Bank, IDA and the International Bank for Reconstruction and Development (IBRD, the organization's nonconcessional lending arm) operate under this model. Here, the staff and management, and core processes are the same within, regardless of the funding source. Additional requirements, like reports to the IDA deputies in support of periodic replenishments, might be layered on top of the base organizational policies and processes. At the same time, each funding source has a distinct board, and voting shares can be different from other boards in the same institution. As an example, IBRD and IDA as well as Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation—to other arms of the World Bank—have separate boards. MIGA's Board has equal representation between developed and developing countries.

The full integration model is not on the table for the negotiators and was rejected in particular by developing countries at the UNFCCC negotiations. This brief acknowledges this and only outlines how the model might work to illustrate what might have been considered if issues of governance and voice had been sufficiently resolved so as to lead to stronger trust of the MDBs within the UNFCCC framework. For example, one could imagine that if the objective were to closely align adaptation and poverty alleviation support, the climate adaptation funding could be integrated into the MDBs alongside their concessional arms. These funds could have been governed by separate boards at each institution, with equal representation between developed and developing countries. The expectation would be that the programs would be aligned with the same country programs that also receive support from the MDBs' concessional arms. Could such a model, supported by the balanced governance and voice which would have been essential ingredients, have produced wider benefits for the effectiveness of development assistance writ large?

The Drive for Results: Three Opportunities

The vision, guiding principles and choice of business model developed by the Transitional Committee will drive many of the design features of the Green Climate Fund. As the design progresses, there will be many opportunities to reinforce the fund's results orientation. Three of these are the way that resources are allocated, the way the fund leverages important pools of private capital and the way that metrics drive effectiveness.

Resource Allocation: Aligning Resources with Potential Benefits, Levels of Ambition and Capacity

The issue of resource allocation—balancing a results orientation with equitable access opportunities—will be one of the most contentious issues confronting the Transitional Committee and the eventual governing entities created under the Green Climate Fund itself. All the major multilateral funds have grappled with this issue, and an analysis of those that can be considered as analogues to the Green Climate Fund follow three basic resource allocation models: performance based allocations, competition, and expert group recommendations (appendix 2). How can these be adapted for the Green Climate Fund?

Performance Based Allocation Systems—used by the GEF and the concessional arms of the MDBs—are based on formulas that combine country need (measured using population and GDP) or desired benefit potential (contribution to global environment impact), country policy performance and institutional capacity, and portfolio performance. This type of system might be best suited for adaptation funding. Here vulnerability could be introduced as a variable, though agreeing on a definition of vulnerability will be challenging.[19] *Competition*—used by the Global Fund to Fight AIDS, Tuberculosis and Malaria, the Adaptation Fund, and the Clean Technology Fund (CTF)—could provide incentives for ambitious emissions reductions in the area of clean technology by supporting programs that respond to a call for proposals and are evaluated against criteria such as innovation, transformation and leverage. This model could also be used to catalyze private capital. *External expert group* recommendations—used by two Climate Investment Funds the Forest Investment Fund and the Pilot Program for Climate Resilience—might be best where a relatively limited and well defined set of recipients is envisaged (for example, forest nations and enhanced reduced emissions from deforestation and forest degradation).

The choice will depend as well on the size of the funds in the various Green Climate Fund windows. A window with relatively low initial funding might choose to use the expert group model as an arms-length, technically grounded means to allocate scarce resources, moving later to more formula-driven or competitive approaches once the fund grows.

In any case, though the specific thematic windows will target different country groups where opportunities for achieving transformative results are most likely because of needs or potential benefits (for example, adaptation focusing on the least developed countries and small island states; and forestry focusing on forest nations), broader access considerations should come in an assessment of the overall allocation of resources. Here, an assessment to ensure that small and medium-sized middle-income countries are not excluded and therefore become "climate finance orphans" should be carried out, and criteria and formulas adjusted to ensure that these also have opportunities to benefit from the fund, provided they can demonstrate transformative impact.

Leveraging: Catalyzing Private Capital

How can public resources managed by the Green Climate Fund best leverage private capital? Could a "fund of funds" model take advantage of emerging private sector innovations while attracting private capital at scale? A number of existing models and tools (like risk mitigation and credit enhancement through guarantees) have been successfully used to crowd in the private sector for specific projects (like renewables) or programs (like energy efficiency programs that focus on developing the private financial sector's ability to appraise and price projects). For example, in its private sector operations, a dollar of concessional public sector funding from the CTF is leveraging \$8 of investment, of which \$4 comes from the private sector.[20] At the same time, the country-based project and program based approaches under the CTF have not proved successful at tapping into potential (and large) sources of private capital—like pension funds and private equity, nor has a large-scale model for partnerships with sovereign wealth funds been developed. Several initiatives are under way to develop working models. These include thinking by the P8 Group—a group which brings together the leaders of some of the world's largest pension funds; two fund structures deriving from the U.K. Department for International Development's Climate Public–Private Partnership (CP3) concept, under which public finance sponsors would leverage a small amount of equity with much larger investments from private investors, such as sovereign wealth funds and pension funds to invest in dedicated emerging markets private equity funds focused on low-carbon projects and companies, and support them through a technical assistance facility;[21] proposals like Deutsche-Bank's GET-FiT,[22] which suggests a model that builds the enabling environment that could support investment, while using public funds for feed-in tariffs for investments in renewable resources; and the development of large-scale signature projects as suggested by the World Economic Forum's Critical Mass project.[23]

The Green Climate Fund could help turn these innovative ideas into reality by investing in specialized funds that leverage private capital at scale. This could be accomplished if the fund set aside a portion of the monies destined for mitigation and conducted periodic calls for large-scale and high-leverage fund proposals from investor consortia. These could include investments by the private sector arms of the MDBs and by bilateral agencies like the US Overseas Private Investment Corporation, the German KfW investment bank, the Japan International Cooperation Agency and the Agence Française de Développement, adding additional risk mitigation and credit enhancement to the package.

Results and Learning: Using Metrics to Drive Effectiveness

What core metrics will help both recipients and contributors assess whether the Green Climate Fund is achieving results? Can this set of metrics also drive the effectiveness of parallel flows of climate finance? Developing countries expect climate finance to be delivered in ways that meet their national priorities, with predictability and low transaction costs. They want a monitoring, reporting and verification framework that holds developed countries accountable for the quantity, speed and predictability of these flows. Developed countries expect funds to have transformative impact; meet fiduciary, environmental and social standards; and be linked to performance, transparency and accountability. All stakeholders will want to see that scarce public funds support results on the ground. A set of metrics to capture these criteria should be developed and incorporated into the fund processes. They can build on the results frameworks developed under the GEF and the Climate Investment Funds, as well as learn from the way that the Global Fund supports compelling results chains from resources to outcomes that can be easily communicated.

However, the metrics developed under the Green Climate Fund can have a broader impact. They can also be incorporated as core metrics for all bilateral and multilateral climate funds, with key elements tracked by the Organization for Economic Cooperation and Development's (OECD) Development Assistance Committee systems. This will help drive all climate flows vis-à-vis a common set of expectations, allow for benchmarking performance and support continuous learning, while also providing incentives for improvements in institutional effectiveness. These metrics can be supported by tools, like the Quality of Climate Finance Index being created at Brookings (building on a recent Center for Global Development–Brookings Quality of Official Development Assistance index[24]), as well as by the extensive ongoing work on developing frameworks and metrics to assess the effectiveness of mitigation investments—for example, at the World Resources Institute, the Environmental Defense Fund, the Climate Policy Initiative, the Overseas Development Institute, and the OECD.

Conclusion

The design process for the Green Climate Fund will be complex. Although high-level parameters for the fund were decided in Cancún, there are many fault lines ahead. Trust between contributors and recipients needs to be nurtured, yet this will be difficult because the sources of finance are still uncertain, as is the fund's target size. Given the fiscal pressures in contributing countries, a design that provides assurances that investments will provide value for money will be critical. In recipient countries, a design that is sensitive to development priorities and that builds on country systems will be similarly critical. Yet instead of these points of departure driving a wedge between these two groups, they can be channeled toward meeting a shared objective: that climate funds can achieve results that will help the world move to low-emission and climate resilient futures. The Transitional Committee has the chance to build the needed trust by discerning a common vision and by delivering on this vision through a robust design that meets this challenge by focusing on results.

Appendix 1: Examples of Fund Design Principles

Adaptation Fund (http://unfccc.int/resource/docs/2006/cmp2/eng/10a01.pdf#page=28)

- A share of the proceeds from certified project activities is used to cover administrative expenses as well as to assist developing country parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation;
- Access to the fund in a balanced and equitable manner for eligible countries;
- Transparency and openness in the governance of the fund;
- Funding on full adaptation cost basis of projects and programs to address the adverse effects of climate change; the Adaptation Fund should operate under the authority and guidance of and be accountable to the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol, which shall decide on its overall policies;
- Accountability in management, operation and use of the funds;
- No duplication with other sources of funding for adaptation in the use of the Adaptation Fund;
- Efficiency and effectiveness in the management, operation and governance of the fund.

Climate Investment Funds (http://www.climateinvestmentfunds.org/cif/)

- Country led, owned and built on development and low-carbon growth plans;
- Equitable governance, equal representation between recipient and contributor countries, consensus decisions, stakeholder engagement;
- Joint MDB initiative ensures alignment with development strategies, coordination, programmatic approach, leveraging regional/global synergies;
- Provides support for transformational change at policy, institutional and market levels;
- Leverages significant private sector and MDB financing: every $1 CTF leverages $8.4 in other sources;
- Results monitoring through results chains and performance measurement strategies linking impact, outcome, outputs with country-level activities.

Global Fund to Fight AIDs, Tuberculosis and Malaria (http://www.theglobalfund.org/documents/publications/brochures/whoweare/TGFBrochure_TheGlobalFundPrinciples.pdf)

- Operate as a financial instrument, not as an implementing entity.
- Make available and leverage additional financial resources.

- Support programs that evolve from national plans and priorities.
- Operate in a balanced manner in terms of different regions, diseases and interventions.
- Pursue an integrated and balanced approach to prevention and treatment.
- Evaluate proposals through independent review processes.

Consultative Group for International Agriculture Research reform

(http://www.cgiar.org/changemanagement/index.html)

- A harmonized approach for supporting and conducting research through a dual structure, which consists of a Consortium of CGIAR Centers and a new CGIAR Fund Management for results in accordance with the Strategy and Results Framework (SRF) and portfolio of Mega Programs that derive from the SRF.
- Effective governance and efficient operations for better provision and use of resources.
- Strong collaboration and partnerships with and among funders, implementers, and users of SRF research as well as other external partners supporting the SRF.

Paris Agenda for Aid Effectiveness (http://www.oecd.org/document/18/0,3343,en_2649_3236398_35401554_1_1_1_1,00.html)

- Ownership—developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption.
- Alignment—donor countries align behind these objectives and use local systems.
- Harmonization—donor countries coordinate, simplify procedures and share information to avoid duplication.
- Results—developing countries and donors shift focus to development results and results get measured.
- Mutual accountability—donors and partners are accountable for development results.

Appendix 2: Multilateral Fund Resource Allocation Frameworks

Fund	Framework Type: Formula	Competitive	Expert Group	Comments
Environment and Climate Funds				
GEF	X			As part of GEF-5, the System for Transparent Allocation of Resources (STAR) replaced the earlier Resource Allocation Formula. STAR is made up of three components: (1) GEF Benefits Index, which gives the countries share of potential benefits in the areas of biodiversity, climate change and land degradation; (2) country performance, including quality of policies and institutions, and portfolio performance; (iii) GDP Index, which provides relatively larger allocations to countries with low GDP per capita. Set-aside for private sector funding.
Montreal Protocol	X			Annual Business Plan country allocations based on a calculation of funding availability and national ozone depleting substance targets. Capacity building support outside of this allocation. Implementing agencies work with countries to prepare project that meet guidelines.
Adaptation Fund		X		Issues calls for proposals. Invitation notes that while there is currently no cap on the funding per eligible country, parties are expected to take into account the availability of resources when submitting proposals.
Climate Investment Funds (CIF)–Clean Technology Fund		X		The Trust Fund Committee indicated that given available resources, it would expect no more than 15 to 20 country investment plans (IPs). Expectation was that these would be from countries that had significant mitigation potential, and that demonstrated country interest and readiness to make transformational investments would be taken into account. Regional diversity was also considered important. The MDBs worked with countries to prepare Investment Plans and periodically shared expected pipeline of Investment Programs and received TF Committee guidance. TF Committee makes decisions on resource envelope based on IPs, and on individual projects. Actual Project funding subject to appraisal of project and fund availability.
CIF–Pilot Program for Climate Resilience (PPCR)			X	TF Committee asked an Expert Panel to give a list of possible pilot countries that met certain criteria. Criteria included vulnerability (PPCR wanted to test solutions in different hazard types), regional diversity, and readiness. A target number of pilot countries was given to the Expert Panel based on expected availability of funds. TF Committee made final country selection decisions.

Appendix 2: Multilateral Fund Resource Allocation Frameworks (cont)

Fund	Framework Type: Formula	Framework Type: Competitive	Framework Type: Expert Group	Comments
CIF–Forest Investment Program			X	Similar to PPCR, but focusing on forest nations who expressed interest.
CIF–Scaling Up Renewable Energy Program			X	Similar to PPCR, focusing on less development countries with a potential for scaling up of renewable resources that expressed interest
Concessional Development Funds				
IDA	X			The Performance Based Allocation system (PBA) aims at allocating resources on the basis of eligible recipients' policy performance and institutional capacity in order to concentrate resources where they are likely to be most helpful in reducing poverty. The formula has three main components: (1) country policy performance and institutional capacity (including governance); (2) portfolio performance; and (3) need, based on population and GDP. The bulk of funding goes through the PBA system, but there are exceptions (like capped allocations to blend countries with large populations; special allocations for post conflict and reengaging countries; funding for arrears clearances, provisions for regional projects and exceptional natural disasters.) A Crisis Response window was created in the latest Replenishment. Other MDBs use similar PBA formulas for their concessional windows, with exceptions tailored to their client circumstances.
African Development Fund	X			PBA similar to IDA; 75% of commitment authority against PBA system, with set-asides for Regional Programs (17.5%) and Fragile States (7.5%)
Asian Development Fund	X			PBA similar to IDA; 4.5% general allocation to Western Pacific.
Fund for Special Operations, Inter-American Development Bank	X			PBA similar to IDA; special allocation for Haiti approved in March 2010.
Caribbean Development Bank	X			PBA similar to IDA.

Appendix 2: Multilateral Fund Resource Allocation Frameworks (cont)

Fund	Framework Type: Formula	Framework Type: Competitive	Framework Type: Expert Group	Comments
Sector Funds				
Global Fund to Fight AIDS, Tuberculosis and Malaria		X		Issues calls for proposal. Submissions are screened by the Secretariat, then sent to the Technical Review Panel (TRP). TRP reviews all eligible proposals for technical merit and makes one of four recommendations to the Global Fund Board: category 1, recommended for approval without changes (and no or only minor clarifications); category 2, recommended for approval provided that clarifications or adjustments are met within a limited timeframe; category 3, not recommended for approval in its present form but strongly encouraged to resubmit following major revision, taking into consideration the TRP's comments; and category 4, rejected. The board approved grants based on technical merits and availability of funds.
International Fund for Agricultural Development	X			PBA similar to IDA. Also introduces rural sector policy and institutional performance. Population is weighted by rural (not total) population. PBA checked against guidance that distribution of resources to Africa needs to be at least as much as before PBA was introduced, subject to this being warranted given performance of individual countries.

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ENDNOTES

1. The Transitional Committee will be operating on an ambitious time line. Meeting the December 2011 deadline will be complicated if issues of representation and process dominate the conversations. Indeed, its first meeting was postponed because two regional groupings had not agreed on which country would take up its seat on the Transitional Committee.

2. See UN High Level Advisory Group, 2010. For commentary on the Advisory Group's report, see also K. Dervis and K. Sierra (2010)

3. While climate negotiators from developing countries consider climate finance as separate from aid, the principles from the Paris Declaration on Aid Effectiveness can offer good practices for achieving *development* effectiveness that are relevant to the Green Climate Fund as well. See Organization for Economic Cooperation and Development (2009).

4. See UK Department for International Development (2011).

5. A number of papers outline the concerns and donor-recipient dynamics. See, for example, A. Ghosh and N. Wood (2009); Craeynest (2010); Ann Rooke et al (2009).

6. In 2010, voice and representation reforms at the World Bank resulted in the addition of a third African chair on the Board. Developing country share of votes increased by 4.6 points to 47.2 percent over a two-year period. For more information, see World Bank (2008).

7. Examples of major trust funds at the World Bank where projects do not go for Board approval include funds like the Iraq Trust Fund, see International Reconstruction Fund Facility for Iraq (web); and disaster reconstruction trust fund (e.g., for India, see IBRD link: Trust Fund for Tsunami Disaster Recovery in India). But in any case, the trust fund itself requires Board approval, and individual trust-funded projects need to conform to World Bank operational policies.

8. The Climate Investment Fund projects were by design expected to be co-financed, and so all projects were expected to be submitted to the MDB boards.

9. See Hunter (2008). Hunter argues that "the development of environmental standards at financial institutions is arguably among the most important international environmental law developments in the past two decades, yet these standards bear little resemblance to traditional visions of international law and may not even rightly be labeled international law at all. The standards are neither treaties nor custom, although they may reflect emerging principles of international law. . . . Moreover, their development and implementation owe less to nation-states, the traditional monopolizers of international lawmaking authority, than to the financial institutions and civil society networks formed to influence those institutions."

10. The challenge for social safeguards is outlined by Craeynest (2010).

11. The Program for Results (P4R) instrument is in the public consultation phase. See World Bank (April 2011).

12. A vision of an empowered recipient country that shoulders commensurate responsibility is well articulated by Athena Ballesteros et al (2010).

13. For a description of vertical and horizontal funds, see IDA web site. An assessment of vertical funds in the context of aid architecture was prepared for the IDA replenishment, See IDA Aid Channels web document.

14. See the Global Fund (2009).

15. See World Bank WDR (2010).

16. Ibid.

17. On March 16, 2011, as an example of the external pressure on organizations to demonstrate the highest standards, the Global fund named former U.S. Health and Human Services secretary Michael Leavitt and former President of Botswana Festus Mogae to lead an independent review of Global Fund Financial safeguards as a response to recently publicized corruption cases that were detected by the fund's own audit functions; see The Global Fund Press Release (2011). Similar independent reviews were conducted for the World Bank, leading to strengthening of internal and external oversight bodies and capabilities.

18. The changing role of the GEF Secretariat as it moved to functional independence is also described by Andler (2007).

19. Ideas for this type of allocation system are given by Barr et al (2010); and Wheeler (2011).

20. The 1:8 leverage ratio includes funding from the private sector arms of the MDBs or bilaterals, and from government in the case of public-private partnerships, as well as purely private sector investment. Source: communication from CIF Program Office.

21. See Brown and Jacobs (2011).

22. See Deutsche Bank Group (2010).

23. World Economic Forum (2011).

24. See Center for Global Development (web).