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BOISSON DE CHAZOURNES, Laurence

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Is There Room for Coherence in Climate Financial Assistance?

Laurence Boisson de Chazournes

Faculty of Law, University of Geneva, 1211 Geneva, Switzerland; E-Mail: laurence.boissondechazournes@unige.ch; Tel.: +41-22-37-98544

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Abstract: This article takes a closer look at the complex web of financial assistance mechanisms in the climate change sector. These mechanisms are important tools for assisting developing countries to address the challenges associated with climate change. Mapping the various types of institutions and funds in this sector, the author underlines the important role played by the private sector but also highlights the increasing presence of financial mechanisms under the aegis of international organizations, such as the World Bank. Moreover, a particular focus is placed on the Green Climate Fund and the way in which the establishment of this mechanism may affect the functioning of existing financial mechanisms. In calling for better communication, coordination, and coherence among these actors and mechanisms, the author suggests that these ends may be achieved by placing an emphasis on plurality, complementarity, and mutual support through, inter alia, more effective policy oversight and enhanced inter-institutional relations.

Keywords: climate financial assistance; mitigation; adaptation; Green Climate Fund; Global Environment Facility; fragmentation; Climate Investment Funds; coherence; financial mechanisms; multilateral development banks

1. A Necessary Partnering: Climate Change and Financial Assistance

The United Nations Framework Convention on Climate Change (UNFCCC) [1], the Kyoto Protocol [2], and other related instruments have given rise to a complex mosaic of financial mechanisms and funding sources [3,4]. They are part of the climate finance architecture, which is at the heart of the ongoing climate negotiations. Financial aid was indeed a highly contentious issue during the 2014 Conference of the Parties (COP) held in Lima as Parties could not agree on a clear agenda to guide
negotiations on financial aid in the period pre-2020. Yet, some steps have been taken toward the enhancement of financial flows, asking developed countries to ensure transparency and predictability on financial aid both in the context of mitigation and adaptation ([5], p. 9) ¹.

The G7 Summit held at Schloss Elmau in the Bavarian Alps in June 2015 outlined the key role of financial aid for the advancement of the negotiation of an agreement to be adopted in Paris in 2015.

Climate finance is already flowing at higher levels. We will continue our efforts to provide and mobilize increased finance, from public and private sources, and to demonstrate that we and others are well on our way to meet the USD 100 bn goal and that we stand ready to engage proactively in the negotiations of the finance provisions of the Paris outcome. We recognize the potential of multilateral development banks (MDBs) in delivering climate finance and helping countries transition to low carbon economies. We call on MDBs to use their balance sheets and their capacity to mobilize other partners in support of country-led programs to meet this goal to the fullest extent possible. We thank the presidency for the publication of the Background Report on Long-Term Climate Finance and call for a further exchange in all relevant fora in view of COP21 [United Nations Climate Change Conference in Paris—30 November–11 December 2015] [6].

Two types of financial aid are of particular importance: those that support adaptation projects and those that support mitigation projects in developing countries ([7], p. 3) ². While mitigation projects deal with the reduction of greenhouse gas emissions, for example in the areas of renewable energy or sustainable transport, adaptation activities focus on projects that increase resilience to the adverse impacts of climate change [8]. Adaptation projects are particularly necessary for those countries that are most vulnerable to the impacts of climate change. Developed countries, for their part, have so far devoted the largest share of resources allocated to climate change activities in respect of mitigation projects [9] ³.

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¹ The Decision 5/CP.20 on Long-Term Climate Finance recognizes in its paragraph 9 that “[D]eveloped country Parties commit, in the context of meaningful mitigation actions and transparency on implementation, to a goal of mobilizing jointly $100 billion per year by 2020 to address the needs of developing countries”. Moreover, paragraph 10 requests that: “[D]eveloped country Parties, in preparing their next round of updated biennial submissions on strategies and approaches for scaling up climate finance for the period 2016–2020, to enhance the available quantitative and qualitative elements of a pathway, placing greater emphasis on transparency and predictability of financial flows” [5].

² The Bali Action Plan endorsed both functions of financial aid.

³ The GEF has pointed to the critical situation of the Special Climate Change Fund (SCCF) in dealing with adaptation projects. The Least Developed Countries Fund and the Special Climate Change Fund (LDCF/SCCF) Council Meeting pointed out that the situation of the SCCF remains critical. With about only $60 million for adaptation worldwide, and a demand of over $100 million per year from vulnerable countries, the fund cannot meet the existing demand for projects that address adaptation” (GEF Highlights of the Council’s Discussions, LDCF/SCCF Meeting (26 November 2007)). Even though the SCCF has experienced steady growth recently ($240 million, had been pledged to the SCCF by June 2012), the demand for resources greatly exceeds current funds. In 2014, 76 countries had accessed a total of $296.47 million for 67 projects under the SCCF. The available funds meet less than 30% of the demand submitted by countries. For detailed information, see [8].
The need to balance the allocation of funds in these two areas is a crucial element of the ongoing negotiations, especially with respect to actions taken by the Green Climate Fund ([10], p. 11) 4.

The provision of financial assistance to developing countries involves different types of actors and means. One of the main public sources for developing countries is Official Development Assistance (ODA) provided through bilateral and multilateral channels, such as multilateral and regional development banks (MDBs) [11]. Financial aid may also be provided through specific financing mechanisms and private sector investments.

Since the 1990s, the answer to requests for financial assistance for climate change purposes has mainly been through the creation of new financial funds. As a result, climate finance is currently characterized by a great number of funds. Most of these funds were created to address specific objectives, each having its own governance structure. The climate change funding regime thus consists of a large number of separate mechanisms—each one mandated to achieve specific purposes—and is characterized by complexity in its overall functioning [12]. While this is a welcome sign of commitment, interest, and the willingness of many actors to get involved in climate change-related activities ([13], p. 168) the multiplication of financing mechanisms also runs the risk of fragmentation of the climate change finance regime. An important challenge is to ensure coherence among these various mechanisms.

More specifically, fragmentation can threaten the effectiveness of climate finance, increasing transaction costs, reducing the amount the recipient country actually receives, and making it more difficult to align investments with country development objectives [14]. In addition to the augmented transaction costs, inefficiencies in allocation and limitations on scaling up become more likely with proliferation [14]. Further still, fragmentation renders more acute the need for monitoring, reporting, and verification [15] 5.

The significant role played by the private sector in climate change financing is also a matter of interest. Private funding and private investment are crucial. Innovative mechanisms have been established to this end. Being a key actor, the involvement of the private sector raises challenges in terms of governance of the funding mechanisms. Moreover, tools and principles, such as participation and inclusiveness, play a role in the shaping of the climate change financing mechanisms. There is a need, however, for greater transparency and accountability ([17], p. 412).

Financial mechanisms dealing with climate change are conceived as vehicles for facilitating and increasing the access of developing countries to financial resources in order to address the challenges posed by climate change. States and other actors have, so far, privileged diversifying the mechanisms rather than adopting a unified approach. However, the multiplication of these mechanisms runs the risk of inducing dysfunctional competition, which would be detrimental to dealing effectively with these challenges. Ultimately, the question is raised as to whether there is room for coherence. A subsequent question is related to the types of regulatory and institutional devices that can help address this objective.

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4 The COP requests the Green Climate Fund: “(a) To balance the allocation of resources between adaptation and mitigation, and ensure an appropriate allocation of resources for other activities; (b) To pursue a country-driven approach; (c) In allocating resources for adaptation, the Green Climate Fund will take into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change” ([10], para. 9).

5 Interestingly, Michael Westphal highlights that the Climate Policy Initiative’s Global Landscape of Climate Finance 2013 Report, 2013 includes, for example, data from 8 multilateral development banks, 16 bilateral finance institutions, 17 national and sub-regional development banks, and 20 multilateral and national climate funds. See ([16], p. 8).
2. The “Over Time” Multiplication of Financial Mechanisms

One of the first mechanisms established for the provision of financial assistance was the Global Environment Facility (GEF) [18]. Created in 1991 and restructured in 1994, the GEF is geared towards covering the incremental costs, meaning the costs exceeding the measures adopted pursuant to national environmental protection policies and conducted in the absence of global environmental concerns. Such costs may involve the introduction of new technologies, the development of alternative methods of production, as well as capacity-building programs. Through the provision of financial assistance, developed countries contribute to covering such costs in order to provide developing countries with adequate means for implementing their obligations under the UNFCCC and the Kyoto Protocol.

Conferences of the parties, including the UNFCCC COP, have strong ties with the GEF. There is still work to be done in the area of climate change. One particular issue concerns access by least developed countries to GEF funding. The Parties, emphasizing that adaptation and mitigation are key concerns of the Parties to the Convention, noted that the largest share of the climate change resources of the GEF is assigned to mitigation projects. Thus, in 2008 the COP requested the GEF “to continue to improve access for all developing countries, in particular least developed countries, small island developing States and countries in Africa, to GEF resources” ([19], pp. 6–7). In Cancun, a decision aimed at improving access to financial resources from the Least Developed Countries Fund was adopted ([20], pp. 9–10) and the GEF Secretariat subsequently developed a guide as a tool to meet this objective [21]. In 2013 and 2014, during the Warsaw and Lima COPs, similar requests to enhance the access to funding for small island developing States and the least developed countries were made ([22], pp. 17–18; [23]). In particular, in Lima, the Parties also stressed that in the sixth replenishment period of the GEF, covering the period between 2015 and 2018, the country allocation for least developed countries, small island developing States, and African States, had decreased [23]. In the context of the Least Developed Countries Fund, a 2014 GEF Report indicated that requests for financial aid exceeded the funds available [24]. In Lima, the Parties also adopted a decision giving further guidance to the GEF and invited this institution to improve communications with its implementing agencies to support activities in least developed countries ([25], pp. 35–36).

During the 2001 Marrakesh conference, a new fund named the Adaptation Fund was established ([26], pp. 52–53). Its purpose is to finance adaptation projects of developing countries that are particularly vulnerable to the adverse effects of climate change. The 2007 Bali Conference finalized and agreed upon its modalities of management ([27], pp. 3–8). The Adaptation Fund began operating in 2010. A specific feature of this fund is that it is primarily funded through a 2% levy from the proceeds charged on the sale of certified emissions reductions under the Clean Development Mechanism (CDM) [28]. In addition, the Adaptation Fund and the UN Foundation have established a partnership that allows the Fund to accept donations from the private sector and individuals [29].

In particular, the fact that the eligibility criteria of the GEF are geared towards covering incremental costs related to projects having global environmental benefits was raised by developing countries as a matter of concern. They did not want these criteria to be applied to the Adaptation Fund as it would reduce their ability to access its funds [29]. Some of the eligibility questions were resolved in Nairobi in 2006. The Conference of the Parties decided that funding shall be on a full adaptation cost basis
Laws 2015, 4

(i.e., that the projects focusing on adaptation would be funded in their entirety) and that decision-making should be based on a majority of developing countries ([30], pp. 28–29).

The Adaptation Fund Board supervises and manages the Adaptation Fund, under the authority and guidance of the COP/MOP of the Kyoto Protocol, and is accountable to it. Eligible Parties and Implementing and Executing Agencies have direct access to the funding provided by the Adaptation Fund ([31], pp. 1–4).

The Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF) were also adopted as part of the 2001 Marrakesh Accords ([32], paras. 1–2 and 6) 6. The LDCF is designed to support projects addressing the urgent and immediate adaptation needs of the least developed countries (LDCs) as identified by their National Adaptation Plans of Action (NAPAs) ([33], pp. 32–39). The SCCF is designed to finance activities in areas such as renewable energy, forestry, and waste management. For both of these funds adaptation to climate change is the priority.

The LDCF and the SCCF are managed separately from the GEF Trust Fund and have their own rules and procedures 7. The Conference of the Parties of the UNFCCC asked the GEF to manage both funds in a specific manner 8. The notion of “incremental costs” and its relation to the generation of global environmental benefits, which apply to the GEF, do not apply to these funds. Likewise, the System for Transparent Allocation of Resources does not apply to these funds. Within the LDCF Fund, funding is provided to least developed countries to meet the “additional costs” of activities to adapt to the adverse effects of climate change as identified in their National Adaptation Programmes of Action 9. The funds provided by the Special Climate Change Fund are “complementary to those funded by the resources allocated to the climate change focal area of the Global Environment Facility and by bilateral and multilateral funding […]” ([35], p. 4; [37]).

The establishment of the Clean Development Mechanism (CDM) was foreseen by the Kyoto Protocol. The CDM modalities and procedures were adopted as part of the Marrakesh Accords [28,38], setting up an innovative but complex system. This mechanism is designed to allow countries with emission reduction obligations under the Kyoto Protocol to achieve emission reduction credits from projects in developing countries [39]. The CDM’s aim is to encourage wider participation and foster the implementation of the regime. It really became operational from 2012 and, recently, an emphasis has been placed on the “streamlining of project procedures and methodologies, the promotion of voluntary

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6 The detailed rules for the implementation of the Kyoto Protocol were adopted at COP 7 in Marrakesh in 2001, and are called the “Marrakesh Accords”.

7 The COP has requested “the Global Environment Facility to ensure the separation of the administration and activities of the Trust Fund of the Global Environment Facility and the Least Developed Countries Fund”. See ([34], pp. 7–8; [35], pp. 3–4).

8 It is stated that: “The Special Climate Change Fund should serve as a catalyst to leverage additional resources from bilateral and other multilateral sources; Activities to be funded should be country-driven, cost-effective and integrated into national sustainable development and poverty-reduction strategies; Adaptation activities to address the adverse impacts of climate change shall have top priority for funding” ([36], pp. 11–12).

9 The additional costs are defined as “the costs imposed on vulnerable countries to meet their immediate adaptation needs” ([34], pp. 11).
CER [Certified Emission Reductions] cancellations, and new procedures for voluntary deregistration of projects” ([40], p. 5).

3. From “Plural Multiplication” to “Internal Multiplication”: The Case of the World Bank

International organizations are establishing a variety of financial mechanisms under their aegis. The World Bank has been very active in this area. Over the years, carbon finance activities of the World Bank have grown from the Prototype Carbon Fund (PCF) to include 15 other carbon funds and facilities. Many of the latter have been created at the request of specific donor countries. The PCF is of particular importance since it was the first carbon fund established and paved the way for the establishment of other carbon funds and facilities. It also has a more general approach. The resolution establishing the PCF opens this mechanism both to public and private sector participants whose participation must be approved by the trustee, i.e., the World Bank. It provides that “each Public Sector Participant will be required to contribute $10 million to the Fund and each Private Sector Participant will be required to contribute $5 million to the Fund” ([42], Article I, paras. 16–17). These payments can be made at any time during the lifetime of the Fund. Both public and private investors in the Fund participate in decision-making based on the size of their contribution to the Fund. The World Bank ensures that the financed projects comply with the Project Selection Criteria as well as with its own operational policies and procedures. Projects have to comply with guidelines, modalities, and procedures adopted by the Parties to the Climate Change Convention and the Kyoto Protocol. Noteworthy is the fact that the constitutive instrument of the PCF states that the World Bank is responsible for ensuring complementarity between GEF-financed projects and the projects financed by the PCF.

Projects financed under this mechanism help to reduce the concentration of greenhouse gases in the global atmosphere and leverage additional financial resources by involving the private sector. PCF leverages this provision by supporting the creation of “carbon assets”—these are verified and certified emission reductions—which are produced by PCF-funded projects. The Fund aims to put into practice the market mechanisms introduced by the Kyoto Protocol. Through the creation of this Fund, the World Bank provides an example of how to channel private and public resources in order to create new financial resources addressing global concerns such as climate change.

The World Bank has also established two other carbon funds. The Forest Carbon Partnership Facility (FCPF), which was established in 2007, aims to promote capacity-building and carbon finance in the

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10 The existing WB carbon funds can be divided into so-called “country funds” that are mainly funded by governments (e.g., ICF (Italian), NCDMF (Dutch), NECF (Dutch), DCF (Danish), SCF (Spanish), CFE (European)) and “specialty funds” (e.g., BioCF (afforestation and reforestation), CDCF (projects with associated community benefits), UCF T1 (HFC 23), UCF T2, FCPF (deforestation), CPF (emission reductions), ISFL (emission reductions from land sector, deforestation, and forest degradation), PMR, Ci-Dev, and the above-mentioned PCF). See [41].

11 The Resolution distinguishes between “Eligible Private Sector Participant” meaning “any person, other than an Eligible Public Sector Participant, organized in a country Party to the UNFCCC and whose participation in the Fund has been approved by the Trustee” and “Eligible Public Sector Participant” meaning “any government, agency, ministry or other official entity of a country Party to the UNFCCC and whose participation in the Fund has been approved by the Trustee” [42,43].

12 The FCPF was approved by the World Bank Board of Executive Directors on 25 September 2007. See [44].
context of REDD (Reducing Emissions from Deforestation and Forest Degradation) [45]. It assists developing countries in reducing emissions from deforestation and degradation by recognizing the value in protecting existing forests. In this context, it is worth noting that the creation of this facility was demanded by the G8 held in 2007 in Heiligendamm, Germany 13. All borrowing member countries of the International Bank for Reconstruction and Development (IBRD) or International Development Association (IDA) that are located in a subtropical area or tropical area are eligible to be REDD participants 14.

The FCPF includes two funds, namely the Readiness Fund and the Carbon Fund, for which the World Bank acts as trustee 15. The minimum size of the Readiness Fund is $20 million, with contributions of at least $5 million per participant expected from governments, and other public and private entities. The minimum operational size of the Carbon Fund is set at $40 million and its target size is $200 million [47,48] 16. The principle of common but differentiated responsibilities is reflected in the FCPF’s governance structure, which rests on cooperation between developing and developed countries.

The Carbon Partnership Facility (CPF), also established in 2007, has been designed to develop emission reductions and support their purchase over long periods beyond 2012 [50]. It intends to scale up carbon finance by exploring the enhanced use of programmatic CDM and, potentially, other new finance mechanisms that may emerge. The CPF consists of two instruments, structured as World Bank-managed trust funds: the Carbon Asset Development Fund (CADF) and the Carbon Fund [51]. The CADF is responsible for the preparation and implementation of emission-reduction programs and the Carbon Fund purchases carbon credits from the pool of emission reduction programs.

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13 The Heiligendamm communiqué provides; “[r]educing, and in the long term halting deforestation provides a significant and cost-effective contribution toward mitigating greenhouse gas emissions and toward conserving biological diversity, promoting sustainable forest management and enhancing security of livelihoods. To this end, we will encourage the establishment of a pilot project dedicated to building capacity, creating and testing performance-based instruments to reduce emissions from deforestation in developing countries, in support of and without prejudice to ongoing UN climate change discussions. We therefore encourage the World Bank, in close cooperation with the G8, developing countries, the private sector, NGOs and other partners, to develop and implement such a forest carbon partnership as soon as possible” [46].

14 For the purpose of the FCPF Charter, “Subtropical Area” means “the zones of the Earth immediately north and south of the Tropical Area, which are considered to be roughly between 35° and 23.5° north and south latitudes, respectively” and “Tropical Area” means “the area bounded by the Tropic of Cancer on the north and Tropic of Capricorn on the south, which lie at 23.5° north and 23.5° south latitudes, respectively” ([44], Article 1, Section 1.1, para. 72).

15 With the Readiness Fund, the World Bank hopes to help developing tropical and sub-tropical countries prepare themselves for participation in a system of positive incentives for REDD. These include, inter alia, “determining a national reference scenario based on historical emissions from deforestation and degradation, preparing a national REDD strategy and establishing a monitoring system for emissions from deforestation and forest degradation”. The Carbon Fund supports a few countries that have successfully participated in the Readiness Fund to join a second mechanism through which the Facility tests and evaluates incentive payments for REDD programs in approximately five developing countries. The Carbon Fund remunerates the selected countries in accordance with negotiated contracts for verifiably reducing emissions. The Carbon Fund’s payments are intended to provide an incentive to the recipient countries within each of these countries to achieve long-term sustainability in financing forest conservation and management. Such advances will reduce the negative impacts on the global climate from the loss and degradation of forests ([47], p. 2).

16 The targeted size was reached in 2012, when the total amount of contributions and pledges reached $218 million, see: ([49], p. 53).
4. New Instruments for Increasing Financial Resources through Multilateral Channels: Plurality at Stake

In accordance with the 2007 Bali Action Plan, multilateral financial institutions have been called upon to incorporate adaptation and mitigation projects and activities into all development assistance programs [52]. For its part, the Board of Directors of the World Bank Group approved, in July 2008, the creation of the Climate Investment Funds, comprising the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF).

Country access to these funds is based on Official Development Assistance (ODA) eligibility, according to OECD/DAC guidelines. Another criterion for eligibility is that one of the multilateral development banks (MDBs)—i.e., the International Bank for Reconstruction and Development, the International Finance Corporation, the African Development Bank, the Asian Development Bank, the Inter-American Development Bank or the European Bank for Reconstruction and Development—must have a lending program in the country concerned [53,54]. Under the Clean Technology Fund, the projects financed must have a significant potential for long-term greenhouse gas savings. The Strategic Climate Fund is broader and more flexible in its scope. It serves as an overarching fund for various programs to test approaches to climate change closely linked to adaptation. The first of such programs aims to increase climate resilience in developing countries ([53], para. 19).

The CTF and the SCF are governed by a Trust Fund Committee and serviced by a MDB Committee, an Administrative Unit, and a Trustee. The Trust Fund Committee oversees the operations and activities of the trust fund ([53], para. 26; [54], paras. 25–36). To ensure good linkages and to promote the efficient use of resources and complementarity with other sources of financing, the Trust Fund Committee can invite representatives of the GEF and of UNFCCC, UNEP, or UNDP as observers to its meetings ([53], paras. 27–30; [54], paras. 25–27).

A MDB Committee is established to strengthen MDBs’ cooperation in climate change and to harmonize their climate change programs and actions ([53], paras. 40–41; [54], para. 43). MDBs have an opportunity to propose programs and projects for financing from the funds, and, at the same time, they can rely on their own policies and procedures in developing and managing activities that the funds will finance. The share of funding allocated to an MDB is based on country requests, the quality of proposals, the comparative advantage of the MDB, and its experience in a country.

The establishment of both funds was linked to the future of the negotiations carried out by the Conference of Parties of the UNFCCC. These negotiations, including discussions by Parties on new financial mechanisms dealing with climate change, led to the development of the SCF and the CTF as interim mechanisms, which could be adapted to the decisions adopted by the COPs in the future. Thus, it was recognized that “the establishment of the trust fund is not to prejudice the on-going UNFCCC deliberations regarding the future of the climate change regime, including its financial architecture” and that the CTF and the SCF “will take necessary steps to conclude [their] operations once a new financial architecture is effective” ([53], paras. 56–57; [54], paras. 57–58). For the time being, these funds continue to be in operation. In fact, their portfolio is quite significant, their activities having expanded in the last years. As an example, in 2015, the portfolio of African countries was broadened with financial aid of $8.1 billion from both funds. The financial aid has the objective to support projects for climate resilience and sustainable forests [55].
5. The Green Climate Fund and the Post-Kyoto Regime: A Financial Giant and the Others

In the context of the post-2012 negotiations, the Copenhagen Accord made quite a bold move with “collective commitments” ([56], p. 4) to provide fast-start funding of $30 billion annually for 2010–2012, and a 2020 target of $100 billion annually ([57], Article 8) \(^{17}\). These resources should be “new and additional resources” ([57], Article 8; [59]) \(^{18}\). It also provided for the establishment of a new fund, the Copenhagen Green Climate Fund \(^{19}\). The funds as foreseen are, it is to be stressed, out of proportion with the amounts managed by existing funds. Some of the envisaged instruments are taxes on international aviation and shipping, financial transaction, and carbon taxes. These various types of instruments should potentially play a different role but play it in a complementary manner and promote the challenging goal of mobilizing $100 billion per year for climate actions by 2020. A significant amount of the funds are intended to flow through the Green Climate Fund ([60], p. 36).

The Green Climate Fund was established as an operating entity of the financial mechanism of the UNFCCC ([61], para. 102). Its Governing Instrument was approved in 2011 by the COP 17 held in Durban [62]. During the pilot phase of the Green Climate Fund (2012–2013), the World Bank acted as an interim trustee, while the interim Secretariat of the Fund was jointly provided by the UNFCCC Secretariat and the GEF Secretariat. It has now gained autonomy. The Fund is governed by a board of 24 members which has responsibility for funding decisions [63].

Moreover, in 2013, a Private Sector Advisory Group was established to make recommendations to the Board. The Group includes representatives from the private sector and civil society groups. As of April 2015, the Green Climate Fund Board has approved funding from the GCF Trust Fund, totaling $65.1 million ([64], para. 5).

The funding will come from a “wide variety of sources, public and private, bilateral and multilateral, including alternative sources” ([61], para. 99). However, there is still no agreement on the precise origins of the funds \(^{20}\). The Green Climate Fund will without any doubt play an important role in the leveraging and channeling of these funds, and, indeed, “it is envisaged that the Green Climate Fund will become the primary vehicle for climate finance from the developed to the developing world” ([15], p. 8). It is unclear whether it will alleviate fragmentation in the area of climate finance. Moreover, there is still a crucial need to meet the targets that were set in Copenhagen \(^{21}\), so that the Green Climate Fund can fulfill its functions.

\(^{17}\) Even though the financing commitments made in Copenhagen were large—some might say too ambitious—the total amount of financing needs related to climate change are even higher. See ([58], p. 257).

\(^{18}\) An important question is which should be the baseline for new and additional funding.

\(^{19}\) Article 10 of the Copenhagen Accord: “We decide that the Copenhagen Green Climate Fund shall be established as an operating entity of the financial mechanism of the Convention to support projects, programme, policies and other activities in developing countries related to mitigation including REDD-plus, adaptation, capacity-building, technology development and transfer” [57].

\(^{20}\) For an overview of the potential sources of climate finance, see [65].

\(^{21}\) The 2014 Report of the Heinrich Böll Stiftung Foundation indicates that the commitments by developed countries since Copenhagen to transfer $30 billion to developing countries over three years (2010–2012) for immediate action to be scaled up to $100 billion annually from public, private, and innovative sources by 2020 have seen slow progress.
The Fund functions under the guidance of the Conference of the Parties. The 2014 Lima negotiations have stressed the need for coordination between the Green Climate Fund and the Conference of Parties. The latter provides guidance on funding priorities and the eligibility criteria to receive financial aid ([67], pp. 13–16) 22. Interestingly, UNFCCC State Parties highlighted the role of an independent grievance mechanism to address the funding decisions of the Green Climate Fund 23. This will add another oversight layer.

6. What Type of Coherence in a Context of the Multiplication of Financial Mechanisms?

6.1. On Possible Adjustments

One way or another, the establishment of the Green Climate Fund will require adjustments in the functioning of the existing financial mechanisms. The Transitional Committee, which designed the Fund, was conscious of this situation. It notably said:

The Board will develop methods to enhance complementarity between the activities of the Fund and the activities of other relevant bilateral, regional and global funding mechanisms and institutions, to better mobilize the full range of financial and technical capacities. The Fund will promote coherence in programming at the national level through appropriate mechanisms. The Fund will also initiate discussions on coherence in climate finance delivery with other relevant multilateral entities ([62], para. 34).

In this context, it is interesting to note that the Climate Investment Funds (CIFs) were created as interim mechanisms until a new financial architecture becomes effective. This deadline could be understood as the effective operation of the Green Climate Fund. The question is then to see if they will survive the establishment of the new fund or if they will be consolidated or merged into it 24. In its 2014 annual report, the Climate Investment Funds point out their contribution to global climate finance and their willingness to share their experience with the Green Climate Fund [72]. In the same direction, the Warsaw and Lima COP negotiations have underlined the importance of the full operationalization of the Green Climate Fund and the need to consider the lessons learned from other existing funds, including the Climate Investment Funds ([10], pp. 11–12; [69]).

The Climate Investment Funds have initiated a reflection where possible options are discussed (winding down of operations, partial or complete integration in the Green Climate Fund, or continuation with appropriate modifications) [73]. This would seem to signal an acknowledgment that streamlining
of the climate finance architecture is necessary. The Green Climate Fund is in its nascent years and its precise role in the former objective is yet to be fully defined. Transition towards one of these options might take some time, especially as the recipient countries insist on “continuity of climate finance flows and action on the ground” ([74], p. 2). Moreover, the CIFs are just starting to deliver and represent some of the strongest collaborations among multilateral development banks (MDBs).

6.2. On Policy Oversight

With respect to other existing financial mechanisms, mutual support and coherence appear to be crucial for succeeding in the fight against climate change, a “common concern” of both developed and developing countries. There is a need to prevent policy conflicts that may be caused by competitive stances to attract funding. The financial resources to address global warming are not unlimited. Uncoordinated climate change action merits concern on an international but also on a regional and local level. The question is how to ensure the fulfillment of this coherence objective. Coordination should not be conceived as equating to a centralized approach to climate finance as it is clear that the political will is to resort to a variety of funding mechanisms. There is thus a need to forge an alliance between plurality and coordination so as to ensure coherence.

In this context, one clearly sees the need for overall policy oversight that would guarantee coherence and mutual support in the pursuit of the objective of the “stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system” ([1], Article 2). Each fund has its own governing structure. Their functioning and accountability should be reassessed so as to ensure coherence through synergies and avoidance of detrimental competition and duplication of efforts. This would imply that they are accountable to their members, to their beneficiaries, as well as to the overall membership of the climate change system. The UNFCCC and the Kyoto Protocol COPs or any forthcoming post-Kyoto COP could play a stronger role towards this end. Their policy and oversight need to be compatible with a multi-actor and a multi-layered approach as developed so far in the area of climate financial assistance. They would also have to take into account the increasing use of and reliance on innovative sources of funding, in which the private sector is called upon to play a key role. This challenge is intrinsically linked to the legitimacy and effectiveness of the climate change regime. Inclusiveness, participation, and accountability are key parameters in this endeavor. So too are the cohesion and political legitimacy of the overall climate change system.

6.3. On Inter-Institutional Relations

Inter-institutional relations in the field of climate finance could also play a role to ensure coherence. The question here is how financial mechanisms relate to each other, especially in light of the establishment of the Green Climate Fund. Interestingly, the instrument establishing the Green Climate Fund explicitly states that the Board of the Fund should develop relationships with existing and future

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25 It should be taken into account that funding also flows outside this framework [75].

26 For an assessment of the role of these principles, see [76].
climate finance mechanisms [62], while underlining that the Fund should become the main climate change funding mechanism. It states:

The Board will steer the Fund’s operations so that they evolve with the Fund’s scale and maturity and will exercise flexibility to allow the Fund to evolve over time and become the main global fund for climate change finance ([62], Article 32).

At the same time, it foresees the need for coherence, stating:

The Fund shall operate in the context of appropriate arrangements between itself and other existing funds under the Convention and between itself and other funds, and channels climate change financing outside the Fund.

The Board will develop methods to enhance complementarity between the activities of the Fund and the activities of other relevant bilateral, regional, and global funding mechanisms and institutions to better mobilize the full range of financial and technical capacities. The Fund will promote coherence in programming at the national level through appropriate mechanisms. The Fund will also initiate discussions on coherence in climate finance delivery with other relevant multilateral entities ([62], Articles 33, 34).

Besides this regulatory device developed to manage relationships between these various financing mechanisms, another is that some of the financial mechanisms have been deliberately established on a temporary basis. Sunset clauses, such as the ones for climate investment funds, could be used as means of coherence ([74], p. 9) with the possible objective of merging certain mechanisms with others, or integrating some in others [74].

Another way of looking at the relationship between these financing mechanisms is in the granting of observer status (see the example of the observership status of the GEF with the World Bank Prototype Carbon Fund). An observership status strengthens communication and awareness.

7. Conclusions

There is no doubt that the climate change regime is an interesting laboratory, where states and other actors, aware of the growing proliferation of financial mechanisms, face the need to find new pathways for better communication, coordination, and coherence. While fragmentation presents real risks in terms of transaction costs, effectiveness, and accountability, there are signs that the search for synergy is the present direction of travel. The Green Climate Fund is a major milestone in this respect. Some uncertainty remains over its role in consolidating and streamlining the climate finance architecture. Moreover, given its state of development, the present system offers many opportunities and this prompts the question as to whether major structural change is really necessary. There could be a third way, a way that promotes better coherence in the system we already have, with some of the smaller funds being integrated into the bigger funds. Overall, plurality, complementarity, and mutual support appear to be the best driving features for coherence in the area of climate financial assistance.

Conflicts of Interest

The author declares no conflict of interest.
References and Notes


42. Resolution n 99-1 Authorizing Establishment of the Prototype Carbon Fund (20 July 1999).


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