CENTER FOR GLOBAL DEVELOPMENT

Concessional Climate Finance

Is the MDB Architecture Working?

NANCY LEE · CLEMENCE LANDERS · SAMUEL MATTHEWS

Abstract

Our paper evaluates the climate financial intermediary funds (FIFs) which are one of the largest sources of multilateral grant and concessional finance for climate, especially for middle-income countries. Donors have contributed more than $50 billion to these funds. The World Bank acts as a trustee for twelve climate FIFs. In this paper, we focus on the three largest: the Global Environment Facility (GEF), Climate Investment Funds (CIF), and Green Climate Fund (GCF).

Our findings reveal significant challenges at the systemic level and differing performance across FIFs. FIF funding is not allocated according to shared criteria measuring results and impact, nor are there consistent results and impact reporting standards. This makes it hard for donors to assess where best to put their scarce grant resources.

Based on our analysis, we recommend consolidating funds in order to increase efficiency and impact; deploying more concessional funds at the climate finance portfolio (vs. transaction) level to achieve greater scale and leverage; avoiding the creation of new climate funds that would further fragment this system; and allocating FIF finance according to a shared set of criteria that maximizes mitigation and adaptation impact and impact per dollar of FIF funding.

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Concessional Climate Finance: Is the MDB Architecture Working?

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Contents

List of Figures

List of Tables

I. Introduction

The report released at the beginning of COP27 by the High-Level Experts Group on Climate Finance estimates that additional annual external finance of $1 trillion will be needed by 2030 for public and private investments in emerging markets and developing countries to achieve net zero carbon emissions, adaptation, resilience, and natural capital.[1] Much of this will have to come from multilateral institutions, particularly multilateral development banks (MDBs). As frequently noted at COP27, a much greater effort is needed from all sources, including the MDBs, which collectively provided $50.7 billion to low-income and middle-income countries in 2021.[2]

But increasingly, attention is focused on the terms as well as the volume of climate finance. At the 2022 Annual Meeting of the IMF and World Bank, many MDB shareholders called for an evolution of the MDB system to focus more on "global challenges" like climate change mitigation and adaptation. They want the evolution of the World Bank and other MDBs to include better tools and incentives for increased climate investment. Secretary Yellen, among others, called for concessional terms (including grants, below-market interest rates, and longer tenors) for MDB lending that yields positive global externalities beyond the benefits accruing to the borrowing country, including concessional terms for middle income countries (MICs).[3]

The climate financial intermediary funds (FIFs) are vital instruments in this endeavor. They represent one of the largest sources of grant and other concessional finance for climate, including for MICs, with combined cumulative funding from donors of more than $50 billion. Each year, they provide $3.9 billion in concessional and grant finance, at the cost of approximately $300 million in administrative expenses.

But their architecture is complex and fragmented. Borrowing countries struggle with processes for accessing the funds that are nontransparent, difficult to navigate, and come with high transaction costs. And financing volumes remain very low compared to their needs. Donors find it hard to assess whether FIFs are deploying their resources efficiently and with maximum impact. At a time when grant and other concessional climate finance is scarce, the critical question is whether donor resources are going to projects and countries where they are most needed, most impactful, and most catalytic. This question also has renewed salience as the international community has agreed to set up another fund for climate-related losses and damages to vulnerable countries.

This paper assesses the structure, size, and performance of the climate FIFs. It begins with an *overview* of the FIF system, covering FIF architecture, missions, size, sectoral allocation of funding, instruments, implementing agencies, public vs. private recipients, and governance.

The second part addresses FIF *performance*. The aim is to assess performance along the following dimensions: need-based allocation, co-financing performance, growth and diversification of donor funding, impact, and administrative efficiency. This section attempts to answer the following questions:

Are FIF resources going where they are needed most?

- Do FIFs have transparent resource allocation methodologies?
- Do mitigation funds go to the sectors with the largest emissions?
- Are mitigation funds going to the largest country emitters?
- Are adaptation funds going to the most vulnerable countries?
- Are low-income countries receiving a larger share of FIF grant finance than middle-income countries?

Are FIFs catalytic?

- How much co-finance from public and private sources is deployed with FIF funding?

Are FIFs effective fundraising vehicles?

- Are FIF donor contributions growing and becoming more diversified?

Are FIFs delivering results?

- Do FIFs report impact at the institutional and project levels?

Are FIFs efficient?

- Are donor commitments disbursed on a timely basis?
- What is the relation between FIF administrative expenditures and program commitments?
- Are FIFs financially efficient?

As will be clear, there is often not enough comparable data and other information on FIF performance to fully assess many of these criteria.

The last two parts of the paper summarize *key findings* and offer *recommendations* to strengthen FIF performance and transparency.

II. Overview of the climate Financial Intermediary Funds (FIFs)

FIF architecture

BOX 1. FIF mission statements

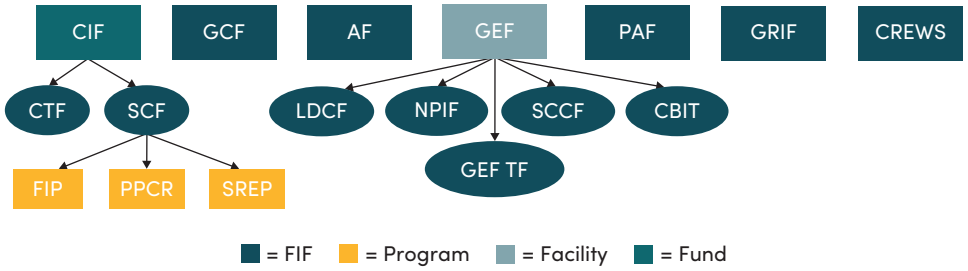
GEF: The Global Environment Facility (GEF) is the world's largest funder of biodiversity protection, nature restoration, pollution reduction, and climate change response in developing countries. It finances international environmental conventions and country-driven initiatives that generate global benefits.

CIF: The Climate Investment Funds (CIF) is an enabler of pioneering climate-smart planning and climate action in low and middle-income economies, many of which are the least prepared yet the most prone to the challenges of climate change. CIF responds to the worldwide climate crisis with large-scale, low-cost, and long-term financial solutions to support countries achieve their climate objectives.

GCF: The Green Climate Fund (GCF)—a critical element of the historic Paris Agreement—is the world's largest climate fund, mandated to support developing countries raise and realize their Nationally Determined Contributions (NDC) ambitions towards low-emissions, climate-resilient pathways.

The World Bank acts as a trustee for twelve climate FIFs, which together have raised over $50 billion from donors. FIFs are hybrids between trust funds and standalone organizations. They do not manage their own programs and instead fund other organizations to implement their projects, meaning that the World Bank is not the sole beneficiary of FIF funding. They have independent governing bodies—responsible for setting their strategic direction, providing oversight, and selecting projects. The World Bank acts as a trustee for their assets until they are disbursed to implementing entities. This entails receiving financial contributions; holding and investing them; and transferring them on the instructions of the FIF's governing body. Depending on the FIF, the World Bank may also provide a legal personality, host its secretariat, and/or act as an implementing entity.

FIGURE 1. The climate FIFs



Glossary*

CIF: Climate Investment Funds; CTF: Clean Technology Fund; SCF: Strategic Climate Fund; FIP: Forest Investment Partnership; PPCR: Pilot Program for Climate Resilience; SREP: Scaling Up Renewable Energy Program in Low Income Countries; GCF: Green Climate Fund; AF: Adaptation Fund; GEF: Global Environment Facility; GEF TF: Global Environment Facility Trust Fund; LDCF: Least Developed Countries Fund; NPIF: Nagoya Protocol Implementation Fund; SCCF: Special Climate Change Fund; CBIT: Capacity-Building Initiative for Transparency; PAF: Pilot Auction Facility for Methane and Climate Change Mitigation; GRIF: Guyana REDD+ Investment Fund; CREWS: Climate Risk and Early Warning Systems

Note: Though programs, the FIP, PPCR, and SREP are presented here to better illustrate the structure of the CIF.

The three major climate FIFs including the Global Environment Facility Trust Fund (GEF TF), the Climate Investment Funds (CIF) and the Green Climate Fund (GCF) account for more than 80 percent of FIF financing with $53 billion in donor commitments and $41.9 billion in total projects. They provide financing in a mix of grants, loans, guarantees, and equity to countries across the income spectrum and rely on regular donor cash infusions to continue operating.

The GEF

The GEF Trust Fund is the largest FIF that funds climate projects with $25.4 billion in cumulative contributions.[4] The largest non-climate FIF is the Global Fund at $60.3 billion. The GEF umbrella contains five FIFs: the GEF Trust Fund, CBIF, LDCF, NPIF, and SCCF. (Unless otherwise noted, the discussion below refers to all the FIFs within the GEF). The scope of the GEF is the broadest of the FIFs discussed here as climate change is only one of six focal areas alongside biodiversity, climate change, international waters, land degradation, and chemicals and waste. Projects that the GEF has tagged as being connected to its climate change focal area account for 45.4 percent of commitments over the life of the fund. This means that if we are strictly speaking about FIFs in terms of their commitments for climate change projects, the GCF is technically larger. The GEF has eighteen implementing entities which include MDBs, UN agencies, NGOs, and national and regional agencies. The majority of the GEF's commitments for climate change projects have been implemented by

* Outside of this list, there are several FIFs that are not explicitly climate-focused such as the AgResults Initiative and Global Infrastructure Facility (GIF) which fund projects that have adaptation and mitigation co-benefits.

UN agencies (60.6 percent). These are almost entirely in the form of grants, though the GEF has set aside a small portion of recent funding windows for piloting the use of non-grant instruments.

The CIF

The CIF consists of two FIFs: the Clean Technology Fund (CTF) and Strategic Climate Fund (SCF). These funds have raised $11.4 billion,[5] in a mix of donor grants, loans, and capital contributions. The CTF is the largest CIF fund and focuses on large-scale mitigation opportunities. The SCF was originally organized around three programs: the Forest Investment Program (FIP), Pilot Program for Climate Resilience (PPCR), and Scaling up Renewable Energy Program in Low Income Countries (SREP). The CTF's new Accelerating Coal Transition Investment Program (ACT) aims make critical contributions to the energy transition of countries like South Africa. The CIF was originally intended to sunset after the launch of the GCF but instead donors opted to ramp them up in 2019.

The range of programming under the SCF umbrella was recently expanded with the creation of the Global Climate Action Program Sub-Committee to coordinate four new programs: the Renewable Energy Integration Program (REI); the Nature, People, and Climate Investment Program (NPC); the Industry Decarbonization Program; and the Climate Smart Cities Program.

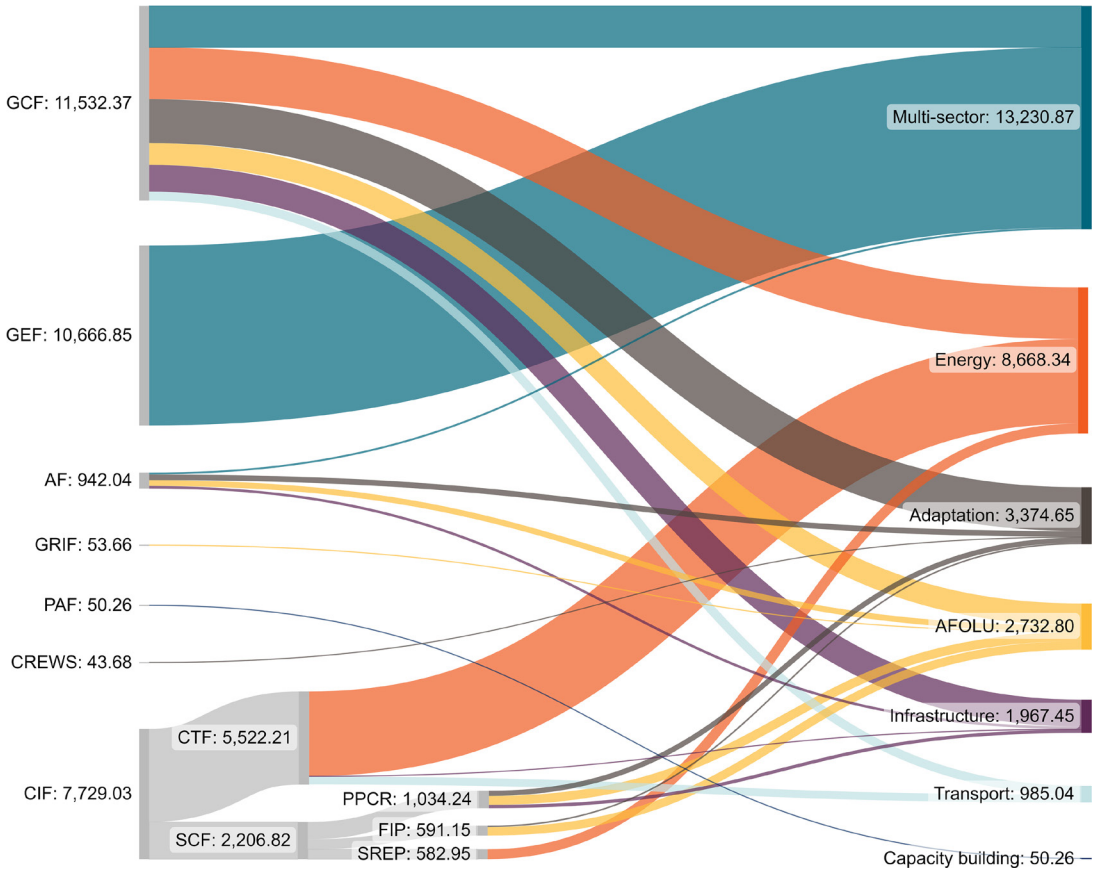
The CIF exclusively implements projects through MDBs, primarily the World Bank Group (52.7 percent of commitments). The CIF also uses non-grant instruments, with 70.3 percent of commitments in the form of loans.

The GCF

The GCF was founded to support the United Nations Framework Convention on Climate Change and has received $16.2 billion in funding[6] (with $20.3 billion pledged).[7] The World Bank provides interim trustee services to the GCF until such time as a permanent trustee is selected. The GCF funds a variety of projects across sectors and is committed to a 50/50 split in funding for climate mitigation and adaptation. Grants are less than forty percent of GCF commitments with the remainder consisting of loans, guarantees, equity, and results-based payments. The GCF relies less on loans than the CIF with debt instruments representing 71.5 percent of non-grant commitments compared to 94.5 percent. The GCF has partnered on projects with 53 implementing entities compared to six for the CIF and eighteen for the GEF. This includes significant representation from bilateral development organizations (17.7 percent of commitments) and the private sector (8.9 percent). With 114 entities approved for accreditation, the GCF has an even wider scope for future project financing.

Sectoral allocation

FIGURE 2. Total cumulative climate FIF commitments by sector (million USD)



Note: Sectoral spending was calculated using cumulative commitments, reported sectoral distributions, and project-level tagging; GEF commitments were limited to those for projects with at least some climate component; GEF was treated as a whole because of inability to disaggregate between climate change sectors at any level of attribution; conversely, the programs within the SCF were broken out to illustrate their specialization.

Source: FIF annual reports; CIF, GCF, and GEF project databases.

Author's calculations based on annual reports and project databases.

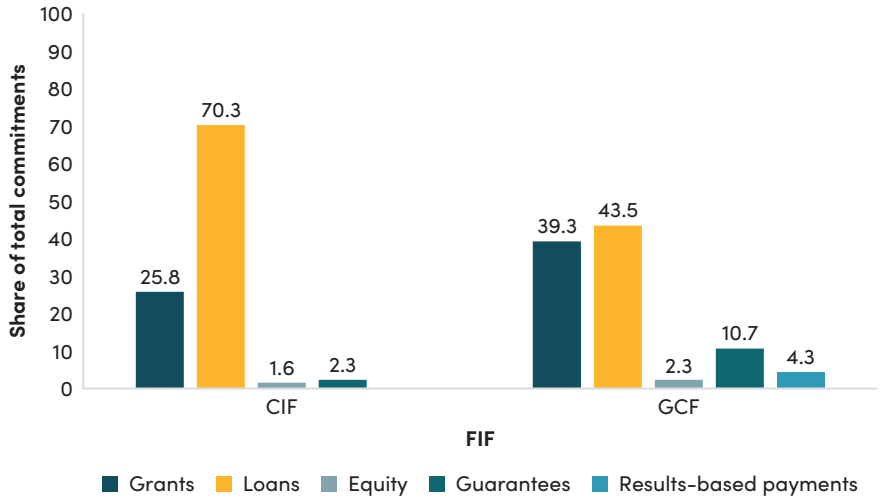
Most FIF funding has gone to clean energy and mitigation programs. While each climate FIF has a different strategic focus, most of the project commitments go to the energy sector (52.7 percent were capable of being separated by sector) with most of this trend being driven by the CTF and GCF. Pure adaptation projects are the next largest sector with contributions from many different FIFs. Because of the GEF's wider institutional mandate, it was not possible to disaggregate climate change projects by sector. Broadly speaking, its projects are spread out across several themes.

FIF instruments

Grants account for nearly eighty percent of aggregate commitments made by the climate FIFs. The only FIFs that use non-grant instruments to a significant degree are the CIF and the GCF but grants still make up a third of their commitments (see Figure 3). Most of these loans go to renewable

energy investments. Lending has helped make the CTF more financially sustainable than its peers because it receives reflows. Overall, the use of non-grant instruments outside of loans—like guarantees or equity—has been limited.

FIGURE 3. Climate FIF commitments by instrument (percent)

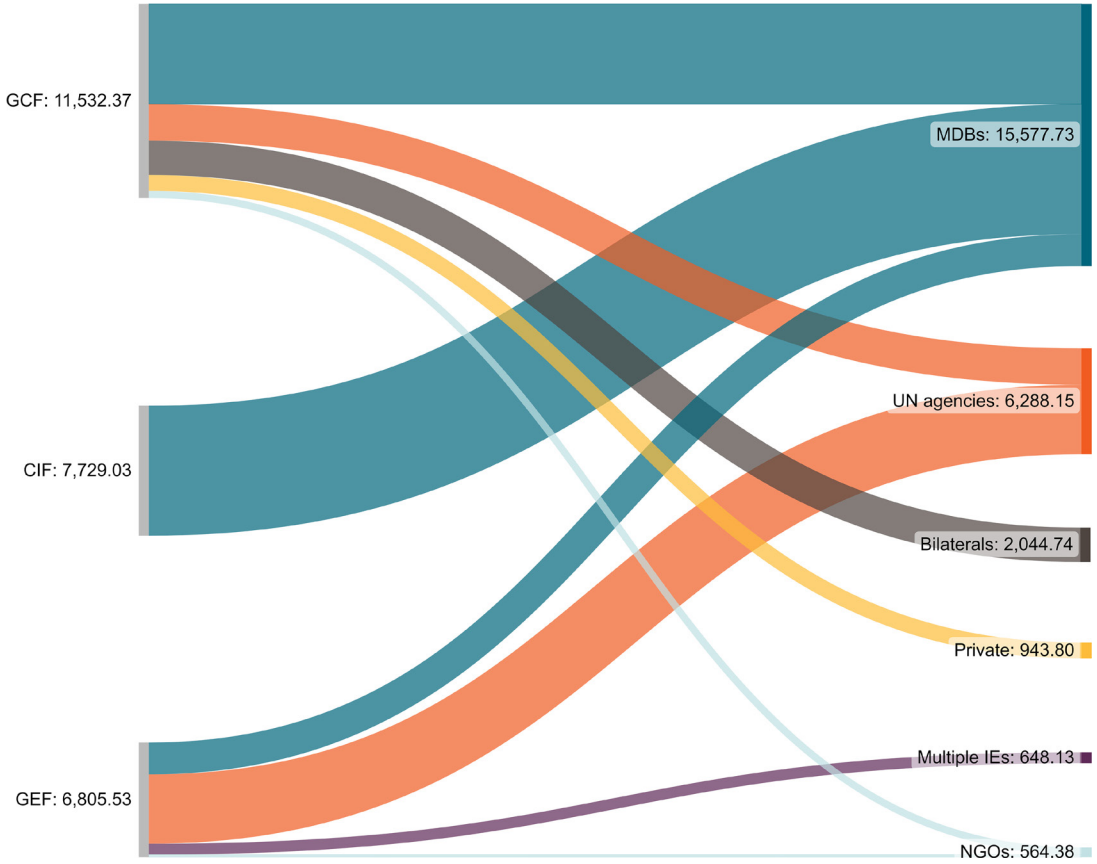


Note: Instrument mixes were calculated from project level data for each climate FIF.
Source: CIF and GCF project databases; estimates are cumulative.
Author's calculations based on annual reports and project databases.

FIF implementing agencies

The World Bank is the single largest implementing agency across the climate FIFs (nearly thirty percent of commitments by the three largest). MDBs—including the African Development Bank (AfDB), the Asian Development Bank (ADB) and the Inter-American Development Bank (IDB)—receive more than half of climate FIF commitments, followed by UN agencies, bilateral development organizations, private sector entities, and NGOs. FIF projects implemented by MDBs tend to be in the energy sector while those implemented by UN agencies are more likely to be related to agriculture, forestry, and other land uses (AFOLU) or adaptation. For projects by the CIF, GCF, and GEF, MDBs are most likely to implement loan projects (60.0 percent) followed by bilateral development organizations (39.7 percent) and the private sector (14.4 percent). UN agencies almost entirely work with grants (89.8 percent). It is important to note that there is considerable heterogeneity across FIFs. While the CIFs only work with large MDBs, the GEF primarily fund projects through UN agencies—which is consistent with its UNFCCC mandate.

FIGURE 4. Total cumulative climate FIF commitments by implementing entity (million USD)



Note: Only the CIF, GCF, and GEF are considered here; commitments for the GEF are considerably smaller than those displayed in Figure 2 because older GEF projects are not tagged with the implementing entity; the CIF was not separated into its components to avoid redundancy; estimates are cumulative.

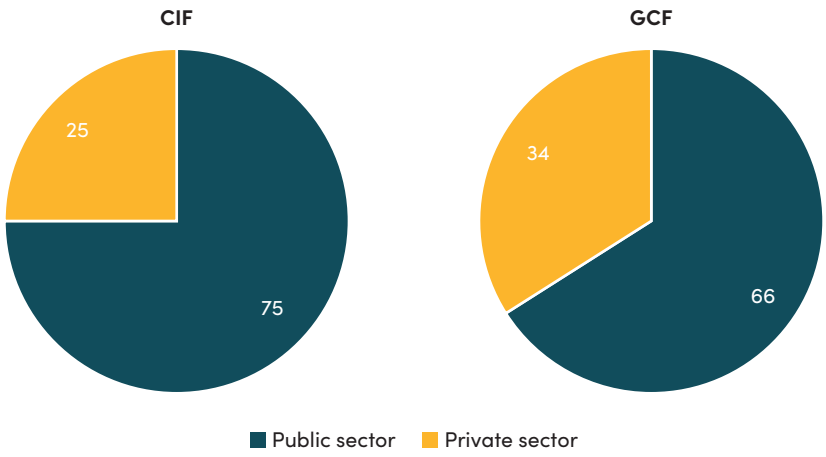
Source: CIF, GCF, and GEF project databases.

Author's calculations based on annual reports and project databases.

Public vs. private recipients of FIF funding

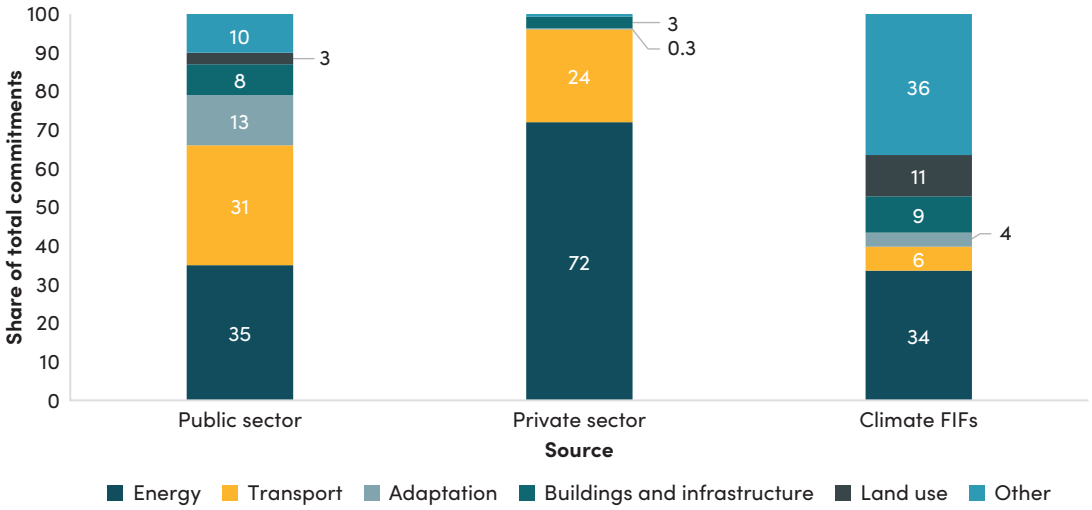
More than three quarters of climate FIF funding goes to the public sector. The CIF and GCF are the only funds with significant private sector portfolios. In both cases, private sector projects account for about a quarter of their overall commitments. About a quarter of the CIF's MDB-implemented funds is directed to private recipients. In particular, the CTF often works on utility-scale energy infrastructure where there is significant private investor appetite.

FIGURE 5. Share of total commitments for the CIF and GCF by recipient sector (percent)



Note: The GEF did not report commitment by recipient sector and is excluded here; estimates are cumulative.
Source: CIF and GCF project databases.
Author's calculations based on annual reports and project databases.

FIGURE 6. Climate finance by sector and source, 2021 (percent)



Note: The "Other" sector includes projects that were not tagged to a specific sector; in the case of the Climate FIFs, this largely represents spending by the GEF.
Source: CPI, 2021; climate FIF annual reports and project databases.
Author's calculations based on reports and project databases.

Climate FIFs fund a different mix of projects than other major sources of climate finance. The public sector and private sector (including international and domestic actors) provide most of their climate finance for energy and transportation projects. By contrast, the climate FIFs have more diversified commitments, with 60 percent going to other sectors.

FIF governance

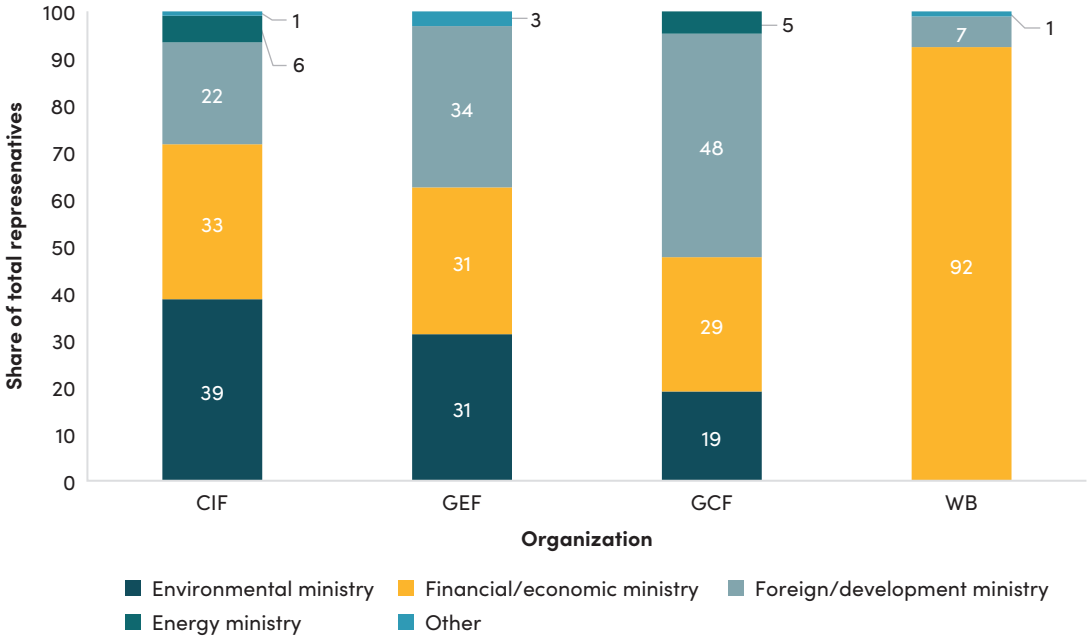
The FIFs have separate governance structures than the World Bank, including their own non-resident boards and representatives.

The CIF's two investment funds, the CTF and SCF, are managed by Trust Fund Committees. Each consists of equal representation by contributor and recipient countries. The CTF Trust Fund Committee is responsible for endorsing the investment plans submitted by recipient countries and approving the fund's project pipeline. The SCF Trust Fund Committee oversees the activities of the programs within the SCF, each of which has its own Sub-Committee responsible for approving investment plans and the project pipeline. Committees usually meet twice a year. The daily operations of the investment funds are managed by the CIF Administrative Unit inside of the World Bank. The MDB Committee allows the CIF's implementing entities to provide their perspective on programming and operations.

The GEF is overseen by a Council with thirty-two members including representatives from developed, developing, and transitioning economies. It meets twice a year to evaluate the GEF's polices and approve submitted programs. At a more strategic level, the GEF Assembly includes all member countries and normally meets every four years. The Secretariat implements the activities approved by the Council, such as coordinating with implementing entities, and is hosted by the World Bank.

The GCF's main decision-making body is the GCF Board which operates through unanimous consent. Its work is guided by the Conference of the Parties (COP) to the UN Framework Convention on Climate Change (UNFCCC). There are a roughly equal number of board members from developed and developing country parties to the UNFCCC. The Board appoints an Executive Director to head the organization's secretariat which, unique among the three-largest climate FIFs, is external to the World Bank.

FIGURE 7. Proportion of representation in governing body by ministry (percent)



Notes: The "Other" category includes ministries that do not fit the above taxonomy.
Source: World Bank and FIF websites.
Author's calculations based on listed members of governing bodies.

The composition of government representatives across FIFs varies significantly and raises questions about their ability to set coherent objectives across the systems. Whereas the World Bank Board is comprised mainly of representatives from Finance Ministries (91.8 percent), FIF representatives fall across a broader category, including 38.3 percent environmental ministries, 28.7 percent foreign or development ministries, 27.1 percent finance ministries, and 4.8 percent energy ministries.

III. FIF performance

Are FIF resources going where they are needed most?

Resource allocation

How are climate FIF resources allocated?

Since the climate FIFs provide mainly grant and concessional money—a scarce resource in development and climate finance—the question of how funds are allocated is crucial to understanding performance. The MDB concessional windows that provide grants and concessional loans—including IDA—have performance-based allocation (PBA) formulas that determine countries'

annual resource envelopes. These allocation mechanisms are useful because they allow the institutions to channel resources in a transparent way where they are the most needed while also factoring in country performance. They also protect resource allocation decisions from political influence and board jockeying. But they are also sometimes criticized for being inflexible and penalizing smaller countries with weaker governance.

Only the GEF has a formula-based approach for allocating country resource envelopes.

The GEF's System for Transparent Allocation of Resources (STAR)[8] seeks to balance performance with need. Each GEF country is given a country score based on three quantitative indexes. The Country Performance Index (CPI) measures the country's capacity to successfully implement the program based on past portfolio performance and a quantitative assessment of the country's environmental policy framework. The Global Benefits Index (GBI) measures the potential of each country to generate global environmental benefits in each focal area (biodiversity, climate change, and land degradation). The Gross Domestic Product Index (GDPI) incorporates a country's economic capacity. These indices, modified by weights, are used to generate a Country Score in each focal area:

$$Country\ Score = CPI^{1.0} * GBI^{0.8} * GDP^{-0.16}$$

A recipient's Country Share is calculated by dividing its respective Country Score by the total scores for all recipients. That country's share of funds is then determined by multiplying Country Share by STAR resources for that focal area. Initial allocations are subsequently adjusted to fall between aggregate floors and ceilings based on country income groups e.g., LDCs and SIDs have an aggregate funding floor of $8 million for GEF-8.

The CIF's programmatic approach relies on investment plans for a targeted group of countries. For each CIF program, an expert review panel ranks applications by potential recipient countries according to estimated impact. These recommendations are in part based on certain quantitative indicators—such as coal accounting for more than ten percent of electricity generation in the case of the ACT. Based on this ranking, the relevant Committee or Sub-Committee decides which countries to allow into the program, along with a resource envelope for their investment plan. Resource envelopes for each program are based on available funding and generally divide resources equally between countries, though allowances are made for the scale of the pilot country. Once a country's application has been approved, it collaborates with one or more MDBs to produce a national investment plan that details a list of projects for potential funding. Investment plans produced for SCF programs are eligible for grant support during the preparation process. They will enter the project pipeline for that fund or program. Project-level funding decisions are made according to their degree of readiness and overall resource envelope available. There is a ceiling that limits countries from accessing more than 15 percent of the CIF's total resources.

This process differs significantly from that of the GEF because there is no underlying allocation formula to guide the distribution of resources between countries. Instead, the model is demand-driven by the country-level programming for each program. While the GEF spreads out resources across all recipient countries for each focal area using the STAR system, the CIF targets a smaller group of countries for each program according to where it believes it can be most catalytic. As it does not rely on replenishment cycles, the CIF attempts to adjust its programmatic strategies to match project demand from the implementing MDBs.

The GCF relies upon multiple channels to generate project proposals. Most GCF projects first take shape in country programs which include up to five potential projects for the current replenishment cycle. Endorsement of a program by the GCF's Climate Investment Committee does not mean that the listed projects are immediately implemented. The GCF works to create better strategic alignment in its programming by also supporting the development of Entity Work Plans by implementing entities and hosting Structured Dialogues as a forum for coordination between national governments and implementing entities. Potential projects can also come as a response to targeted requests for proposals issued by the GCF. As projects are under development, countries or implementing entities can submit concept notes to the GCF for feedback to streamline the approval process. The final step in the project pipeline is the submission of a funding proposal developed by the appropriate implementing entity. After a review by the Secretariat, the proposal is submitted to the Board for final approval.

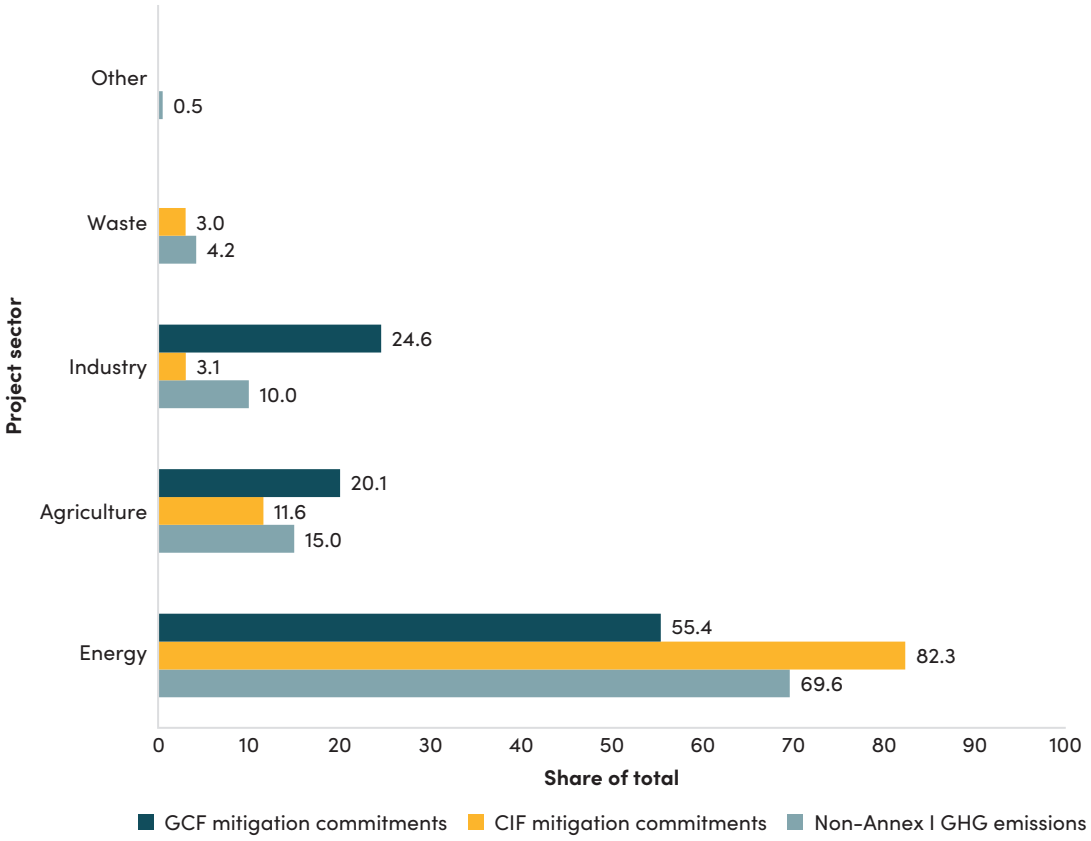
While the GCF makes a considerable effort to achieve coordination between national designated authorities and implementing entities, there is no evidence of an underlying strategy for allocating resources between countries according to greatest climate needs or impact. One of the risks of this approach is that it is difficult for accredited recipient governments to navigate and penalize lower capacity governments who have less resources to devote to developing proposals and shepherding them through the process.

Do mitigation funds go to the sectors with the largest emissions?

Each of the three-largest climate FIFs allocate resources differently. Since the CIF and GCF do not use a quantitative allocation formula like the GEF's STAR, a crucial question is whether their investments align with climate mitigation and adaptation needs. We also include the GEF in this analysis where possible. (Published information does not disaggregate GEF projects by sector.)

A correlation is evident between where FIFs are spending their mitigation resources and the sectors that are responsible for the bulk of emissions in developing countries. Figure 8 breaks down mitigation commitments and relative emissions contributions by sector. There is considerable sectoral overlap between the mitigation funding of two of the largest climate FIFs and relative emissions from developing countries (non-Annex I parties to the UNFCCC).

FIGURE 8. Comparison of the sectoral distribution of mitigation commitments by the CIF and GCF to sectoral GHG emissions by non-Annex I countries, 2009–2019 (percent)



Note: Cumulative figures over the period 2009–2019 were used for determining GHG emissions and mitigation finance rankings as the most recent emissions data is for 2019; GHG emissions over the period were taken from the Kyoto greenhouse gases (AR4) measure in the PRIMAP-hist dataset; FIF commitments exclude adaptation and multisector projects.

Source: PRIMAP-hist national historical emissions time series; CIF and GCF project databases.

Author's calculations based on dataset and project databases.

Are CIF and GCF mitigation funds going to the largest country emitters?

If climate FIF spending is well allocated, there should be a connection between the share of financing that a country receives and that country's climate impact and vulnerability. More mitigation financing should go to countries with greater emissions impact and more adaptation financing should go to countries with greater vulnerability to the effects of climate change. Emissions impact can be assessed in terms of annual greenhouse gas emissions (tons of carbon dioxide equivalent). As comparisons are relative, annual emissions were taken as shares of the total annual emissions by low- and middle-income countries—this avoids confounding by the high-emitting high-income countries like the United States and Japan.

The table below ranks countries by emissions and by their shares of FIF mitigation finance.

TABLE 1. Share of mitigation financing for top ten developing GHG emitters and top ten recipients of mitigation finance from the CIF and GCF, 2009–2019

Top Ten Developing Emitters	Share of Mitigation Finance (Percent)	Top Ten Recipients
China	0.61	India
India	7.96	Indonesia
Brazil	2.89	Mexico
Indonesia	4.08	South Africa
Iran, Islamic Rep.	–	Brazil
Mexico	3.73	Bangladesh
South Africa	3.51	Turkey
Vietnam	1.53	Mongolia
Pakistan	0.36	Ukraine
Thailand	0.77	Egypt

Note: Cumulative figures over the period 2009–2019 were used for determining GHG emissions and mitigation finance rankings as the most recent emissions data is for 2019; only projects where commitments could be attributed to individual countries were considered.

Source: World Bank; CIF and GCF project databases.

Author's calculations based on dataset and project databases.

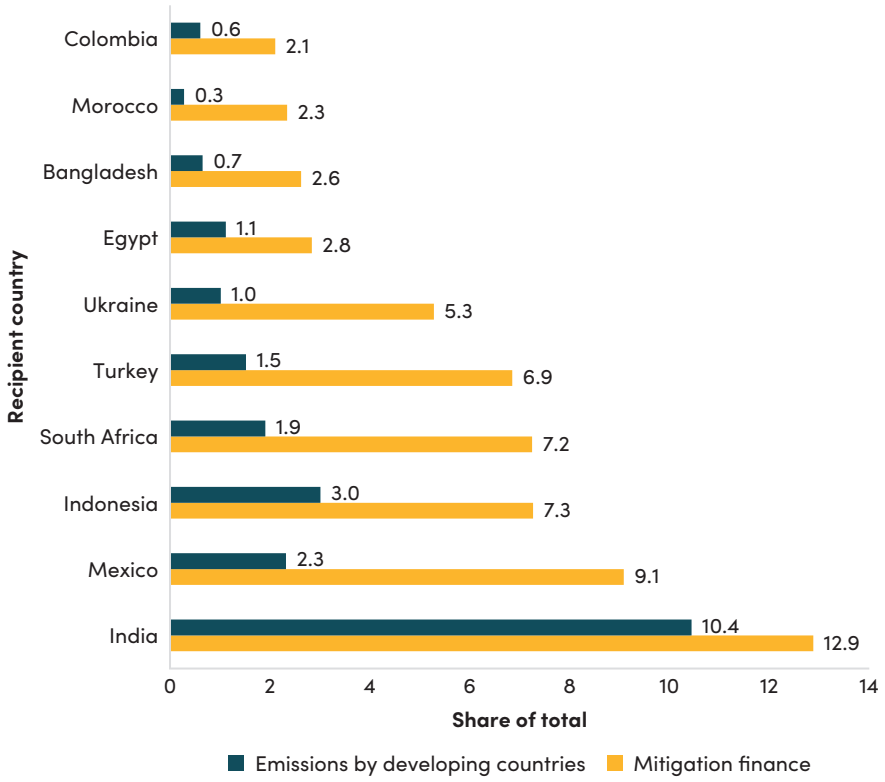
The overlap between the list of the top ten emitters and the list of top ten mitigation finance recipients is not perfect but substantial, indicating that FIF mitigation finance is allocated to most of the right countries. Five countries—India, Indonesia, Mexico, South Africa, and Brazil—are on both lists. It should not be surprising that Iran has not received any mitigation finance from the CIF and GCF given geopolitical tensions.

China is a notable outlier with the greatest emissions impact (40.7 percent of emissions by developing countries over the period 2009–2021) and receiving a negligible amount of mitigation finance. The CIF does not provide any financing to China. At the same time, concessional finance is likely not a major constraint for mitigation financing in China so this could be because a lack of demand for FIF funding. But as will be noted below, China is a large recipient of climate finance from the GEF.

Though it was not captured in this table, country risk is an important consideration here. Especially with the CIF's emphasis on catalytic investment, the limited supply of concessional climate finance from the FIFs will not necessarily go to the largest developing emitters if impact can be maximized in smaller but riskier countries.

The allocation of finance by volume is less clearly tied to emissions impact. The CIF performs relatively better here as its shares of mitigation finance tend to increase alongside shares of emissions by developing countries. Both shares for India are quite close. Shares of mitigation from the GCF are closely aligned to emissions for Indonesia and India. But this is far from the case for the rest of its top ten recipients. Bangladesh, Costa Rica, and Mongolia are particularly notable for receiving high shares of mitigation finance relative to very low emissions shares.

FIGURE 9. Share of CIF mitigation commitments and emissions by developing countries for top ten CIF mitigation recipients, 2009–2019 (percent)

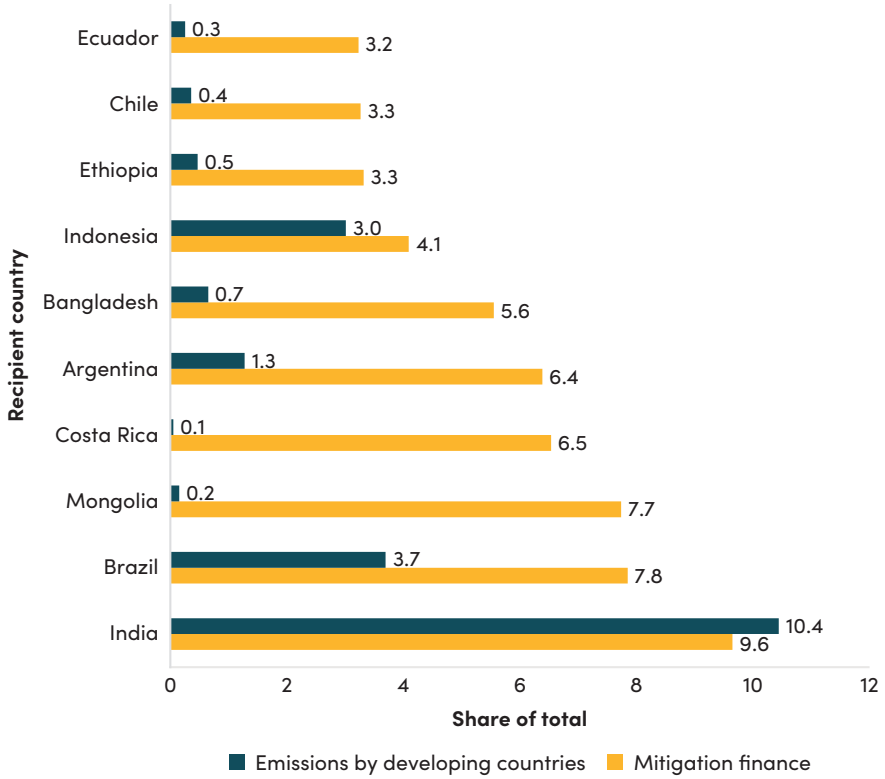


Note: Cumulative figures over the period 2009–2019 were used for determining GHG emissions and mitigation finance shares as the most recent emissions data is for 2019; only projects where commitments could be attributed to individual countries were considered.

Source: World Bank; CIF project database.

Author's calculations based on the dataset and project database.

FIGURE 10. Share of GCF mitigation commitments and emissions by developing countries for top ten GCF mitigation recipients, 2009–2019 (percent)



Note: Chile is classified as a high-income country, so its cumulative emissions over the period were included in the total for developing countries; cumulative figures over the period 2015–2019 were used for determining GHG emissions and mitigation finance shares as the most recent emissions data is for 2019; only projects where commitments could be attributed to individual countries were considered.

Source: World Bank; GCF project database.

Author's calculations based on the dataset and project database.

Are CIF and GCF adaptation funds going to the most vulnerable countries?

The University of Notre Dame Global Adaptation Index (ND-GAIN)[9] assesses a country's vulnerability to climate change and level of readiness to address adaptation needs. Each country's index value is a composite of indicators assessing the exposure, sensitivity, and adaptive capacity of six different sectors to the effects of climate change. For example, a country's exposure to health-related risks from climate change is based in part on the projected change in deaths from climate change induced diseases. Higher index values indicate greater vulnerability to climate change.

The figure below ranks countries by their ND-GAIN index and by the amount of adaptation finance received from the CIF and GCF.

TABLE 2. Share of adaptation financing for top ten most vulnerable countries and top ten recipients of adaptation finance from the CIF and GCF, 2009–2021

Top Ten Most Vulnerable	Share of Adaptation Finance (Percent)	Top Ten Recipients
Niger	1.50	Tanzania
Somalia	–	Colombia
Guinea-Bissau	–	Bangladesh
Chad	–	Sri Lanka
Sudan	1.31	Tajikistan
Liberia	1.40	Samoa
Mali	1.16	Pakistan
Central African Republic	–	Zambia
Eritrea	–	Grenada
DRC	–	Argentina

Note: Cumulative figures over the period 2009–2021 were used for determining adaptation finance rankings and shares; vulnerability was assessed according to the ND-GAIN index; only projects where commitments could be attributed to individual countries were considered.

Source: ND-GAIN index; CIF and GCF project databases.

Author's calculations based on index dataset and project databases.

There is no overlap between the top ten most climate vulnerable countries and the top recipients of CIF and GCF adaptation finance. Six of the ten most vulnerable IDA countries have not received any adaptation from the CIF or GCF. The other four countries received a cumulative $118.01 million in adaptation finance, 5.3 percent of the total where it is possible to disaggregate by country. As Table 3 demonstrates, *total* grants from IDA have been much larger than CIF and GCF concessional financing for adaptation to these most vulnerable countries. Total IDA finance for adaptation reached $7.8 billion in FY22,[10] but we do not have disaggregated adaptation finance data from IDA for these vulnerable countries. This analysis of the FIF's adaptation finance allocation therefore does not incorporate adaptation flows from IDA. It is also worth noting that only one program within the CIF, the PPCR, focuses on adaptation.

TABLE 3. CIF and GCF adaptation finance compared to IDA country allocations for top ten most vulnerable countries, 2009–2021

Top Ten Most Vulnerable	CIF and GCF Finance (USD m)	CIF and GCF Share (Percent)	IDA Finance (USD m)	IDA Share (Percent)
Niger	29.35	1.50	3,663.41	1.73
Somalia	–	–	935.42	0.44
Guinea-Bissau	–	–	271.14	0.13
Chad	–	–	977.22	0.46
Sudan	25.65	1.31	1,420.34	0.67
Liberia	27.26	1.40	837.11	0.40
Mali	22.75	1.16	2,903.63	1.37
Central African Republic	–	–	618.58	0.29
Eritrea	–	–	227.08	0.11
DRC	–	–	6,740.80	3.19

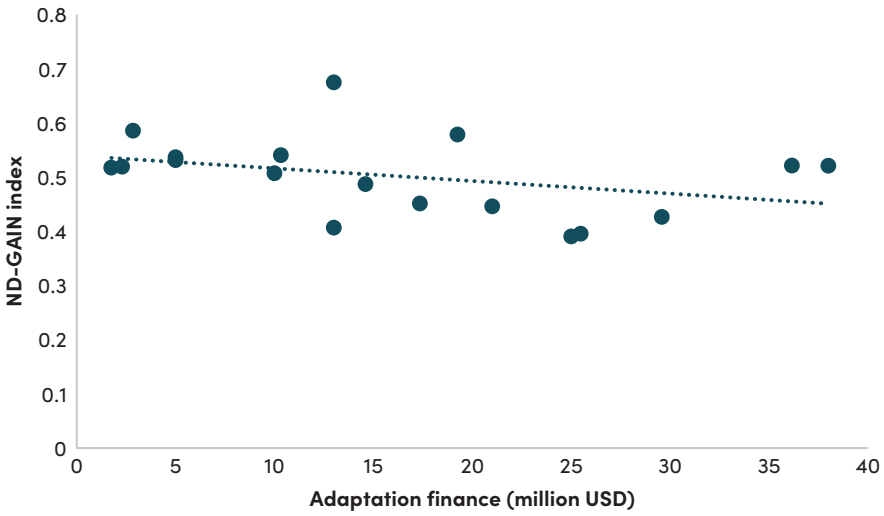
Note: Cumulative figures over the period 2009–2021 were used for determining adaptation finance shares for the CIF and GCF; cumulative figures over the period FY09–121 were used for determining finance shares from IDA; vulnerability was assessed according to the ND-GAIN index; only projects where commitments could be attributed to individual countries were considered.

Source: ND-GAIN index; CIF and GCF project databases; IDA country allocation tables.

Author's calculations based on index dataset and project databases.

The figures below plot country vulnerability against that country's adaptation finance received from the CIF and the GCF.

FIGURE 11. CIF adaptation finance by country plotted against ND-GAIN index values

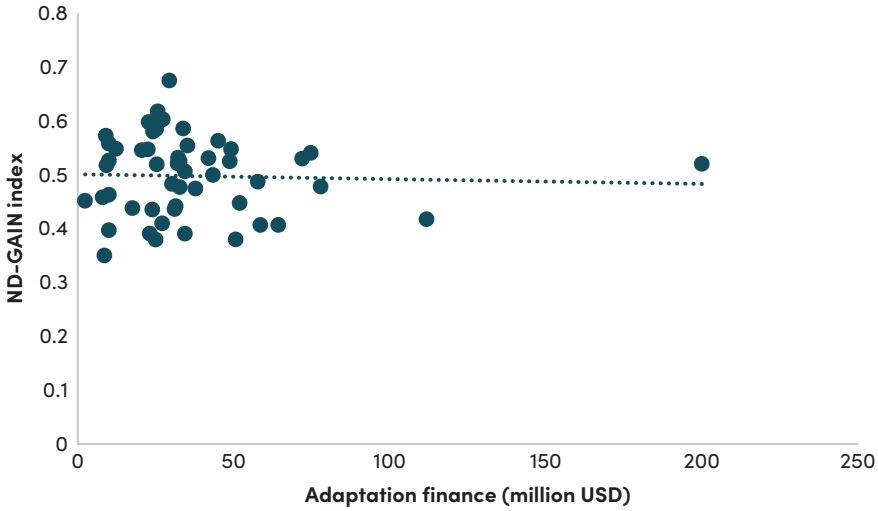


Note: Cumulative figures over the period 2009–2021 were used for determining adaptation finance shares; only projects where commitments could be attributed to individual countries were considered.

Source: ND-GAIN index; CIF project database.

Author's calculations based on index dataset and project database.

FIGURE 12. GCF adaptation finance by country plotted against ND-GAIN index values



Note: Cumulative figures over the period 2015–2021 were used for determining adaptation finance shares; only projects where commitments could be attributed to individual countries were considered.

Source: ND-GAIN index; GCF project database.

Author's calculations based on index dataset and project database.

CIF recipient countries that received adaptation finance had an average ND-GAIN vulnerability index of 0.47 compared to 0.50 for non-recipients. GCF recipient countries that received adaptation finance had an average ND-GAIN vulnerability index of 0.48 compared to 0.46 for non-recipients. For both funds, there is no clear relationship between the ND-GAIN index and the amount of adaptation finance a country receives.

Are GEF funds targeting the highest emitting and most vulnerable countries?

Because the GEF mandate is much broader than the rest of the climate FIFs, it is not possible to disaggregate mitigation and adaptation spending at the project level. Therefore, the following table considers the relationship between the top recipients of GEF financing against measures of mitigation and adaptation need.

TABLE 4. Top ten recipients of GEF climate finance compared to developing emitters and most vulnerable countries

Top Ten Recipients of GEF Climate Finance	Top Ten LIC and MIC Emitters	Top Ten Most Vulnerable Countries
China	China	Niger
Brazil	India	Somalia
India	Russian Federation	Guinea-Bissau
Mexico	Brazil	Chad
Indonesia	Indonesia	Sudan
Russian Federation**	Iran	Liberia
Colombia	Mexico	Mali
Philippines	South Africa	Central African Republic
South Africa	Turkiye	Eritrea
Peru	Vietnam	DRC

Note: Vulnerability was assessed according to the ND-GAIN index; only projects where commitments could be attributed to individual countries were considered; climate finance rankings based on cumulative figures.

Source: ND-GAIN index; GEF project database.

Author's calculations based on index dataset and project database.

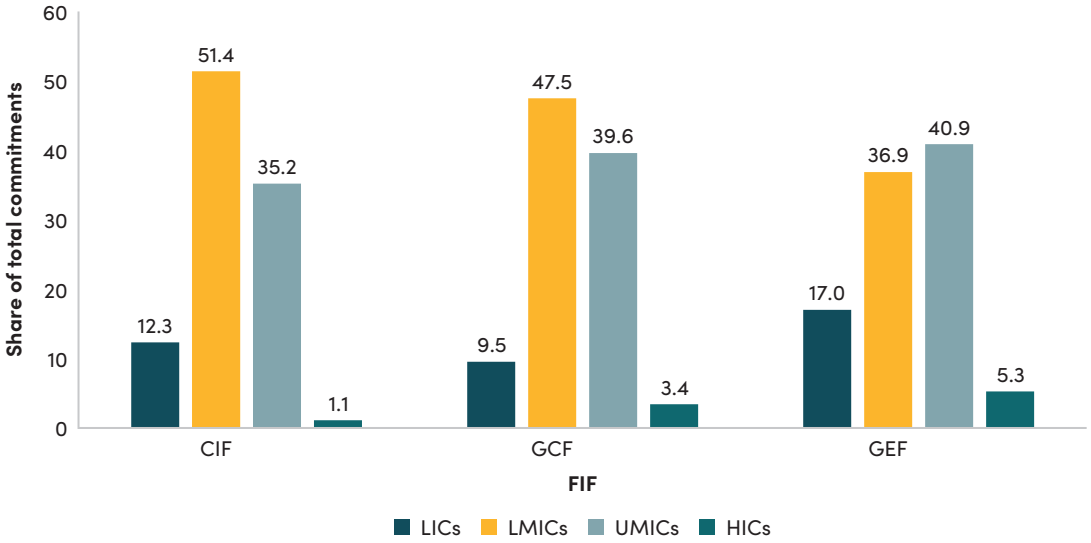
The GEF shows a much stronger alignment between overall climate commitments and emissions volume than vulnerability to the effects of climate change. This is particularly true in the case of China. Nearly 90 percent of China's climate FIF finance comes from the GEF. Many of these GEF projects in China support carbon transition efforts such as "Pathways for Decarbonizing Transport towards Carbon Neutrality in China", a $10.1 million GEF grant implemented by the World Bank alongside $117.1 million in co-financing. It is possible that this strong degree of mitigation alignment is a product of the STAR methodology as it considers a country's emissions impact when determining its resource allocation.

Are low-income countries receiving a larger share of FIF grant finance than middle-income countries?

As might be expected by their larger economic size and emissions impact, MICs receive greater overall shares of FIF climate finance than LICs. The CIF has a stronger presence in lower-middle-income countries while the GEF is more involved in upper-middle-income countries. It is important to note that lower-income countries already have access to a large pool of concessional and grant finance through IDA, which provided $13.5 billion in climate finance over FY22.[11]

** The GEF has not approved any grants to the Russian Federation since 2013.

FIGURE 13. Shares of climate finance by income group (percent)



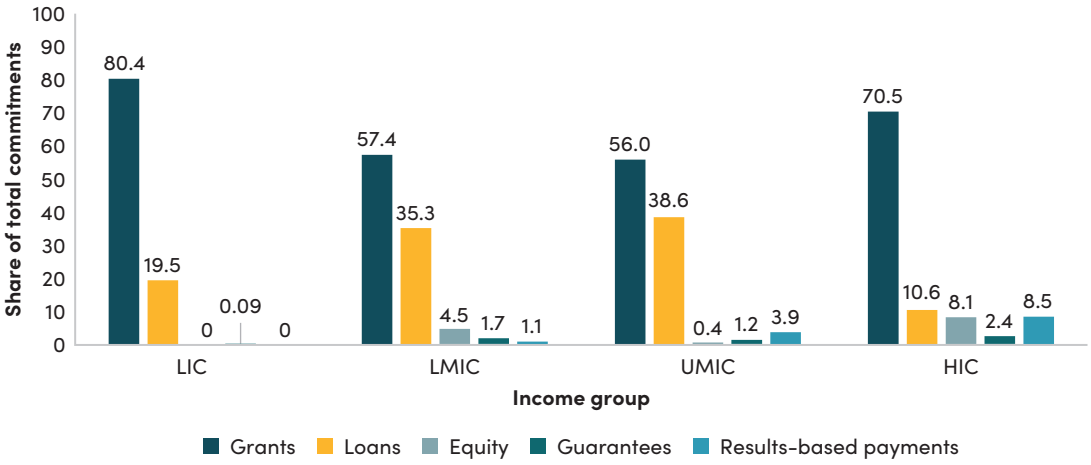
Note: Only projects where commitments could be attributed to individual income groups were included in the total; estimates are cumulative.

Source: CIF, GCF, and GEF project databases.

Author's calculations based on project databases.

But LICs receive a higher proportion of grants than LMICs and UMICs. The high share of grants to high-income goes to adaptation projects in small island states.

FIGURE 14. Distribution of climate FIF finance by instrument and income level (percent)



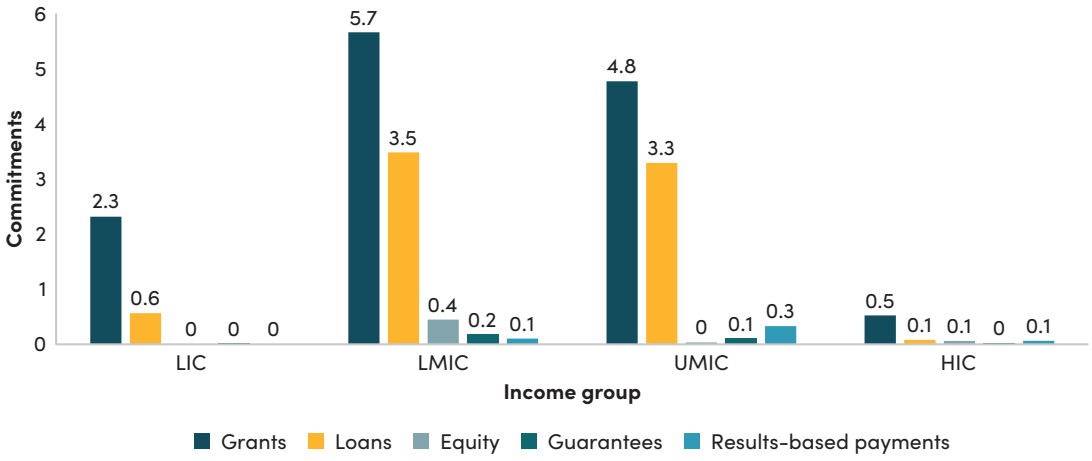
Note: Only includes data from the CIF, GCF, and GEF; estimates are cumulative.

Source: CIF, GCF, and GEF project databases.

Author's calculations based on project databases.

In volume terms, LMICs receive the largest amount of grants, followed by UMICs, and then LICs. In the context of recent calls for more concessional finance for MICs to incentivize more climate-related investment, this finding indicates that MICs already receive the majority of grants available from climate FIFs. This also underscores that one of the core advantages of the climate FIFs is their financial terms.

FIGURE 15. Climate FIF commitment volumes by instrument and country income group (billion USD)



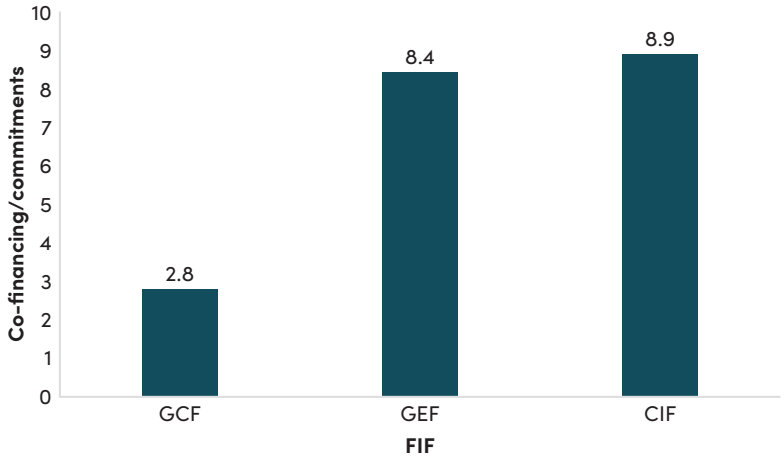
Note: Only includes data from the CIF, GCF, and GEF; estimates are cumulative.
Source: CIF, GCF, and GEF project databases.
Author's calculations based on project databases.

Are FIFs catalytic?

How much finance from public and private sources is deployed with FIF funding? Co-finance is defined here to cover non-FIF finance in the same transaction. To ensure a comparable methodology, co-financing figures were calculated using project-level data from the three largest climate FIFs.

It is impossible to attribute co-financing to FIF funding alone. FIFs nearly always disburse funds to implementing entities as a part of a larger financing package. FIF finance is usually a small share of transaction volumes as shown below. For example, the CTF might provide a grant component to concessionalize an IBRD loan for an energy infrastructure project.

FIGURE 16. Co-financing to FIF commitment ratios by climate FIFs (USD)



Note: Co-financing is defined as all external financing for a project that the FIF partially funds; project-level data was used instead of aggregate figures reported in annual reports to ensure a consistent methodology; figure based on cumulative data.

Source: CIF, GCF, and GEF project databases.

Author's calculations based on project databases.

The lower relative co-finance levels for the GCF could be influenced by the implementing entities it works with or the sectors it funds (see below). The GCF is more likely to implement projects with NGOs or the private sector.

TABLE 5. Financing and co-financing activities of the three-largest climate FIFs

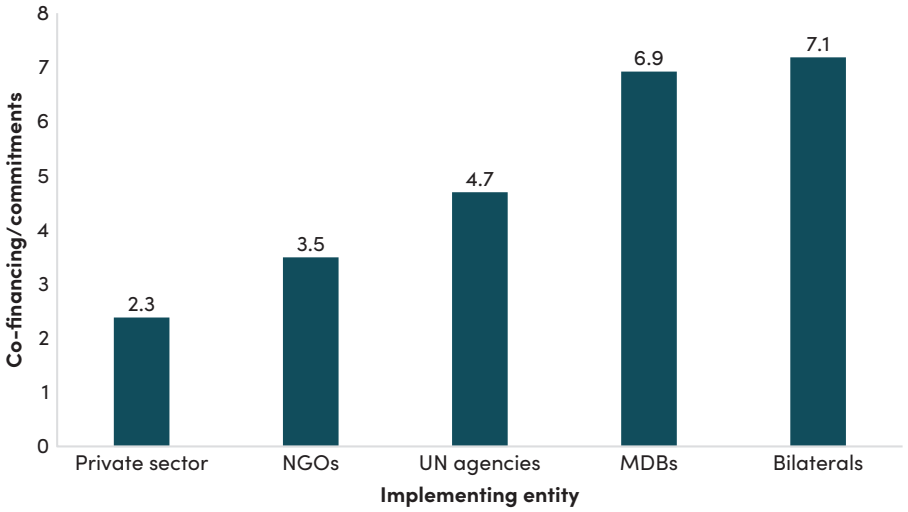
FIF	Total Commitments (Billion USD)	Total Co-Financing (Billion USD)	Co-Financing Ratio (USD)
GCF	11.5	32.3	2.8
GEF	10.7	90.0	8.4
CIF	7.7	68.7	8.8

Note: Co-financing is defined as all external financing for a project that the FIF partially funds; project-level data was used instead of aggregate figures reported in annual reports to ensure a consistent methodology; figure based on cumulative data.

Source: CIF, GCF, and GEF project databases.

Author's calculations based on project databases.

FIGURE 17. Co-financing to FIF commitment ratios by implementing entities (USD)



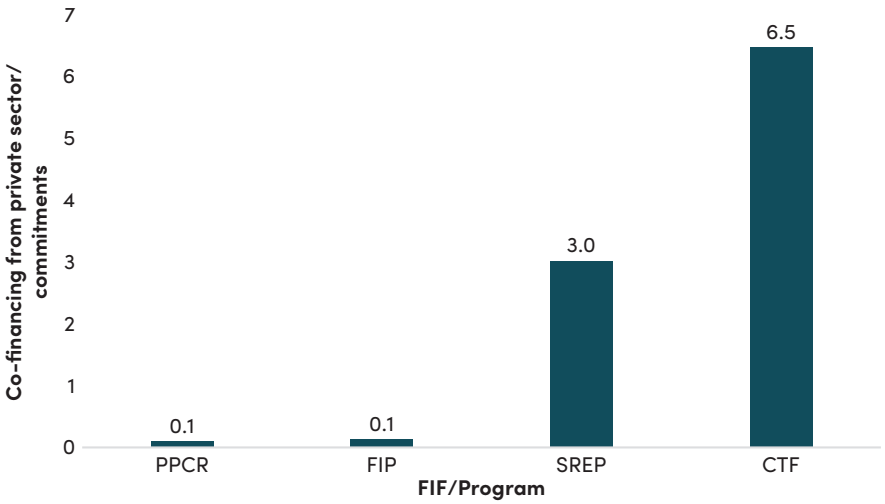
Note: Co-financing is defined as all external financing for a project that the FIF partially funds; project-level data was used instead of aggregate figures reported in annual reports to ensure a consistent methodology; figure based on cumulative data.

Source: CIF, GCF, and GEF project databases.

Author's calculations based on project databases.

The CIF appears to be uniquely successful at co-financing with the private sector. The two energy components (CTF and SREP) were most successful in attracting private finance while adaptation was evidently less investible.

FIGURE 18. Private sector co-financing to commitment ratios for CIF entities (USD)

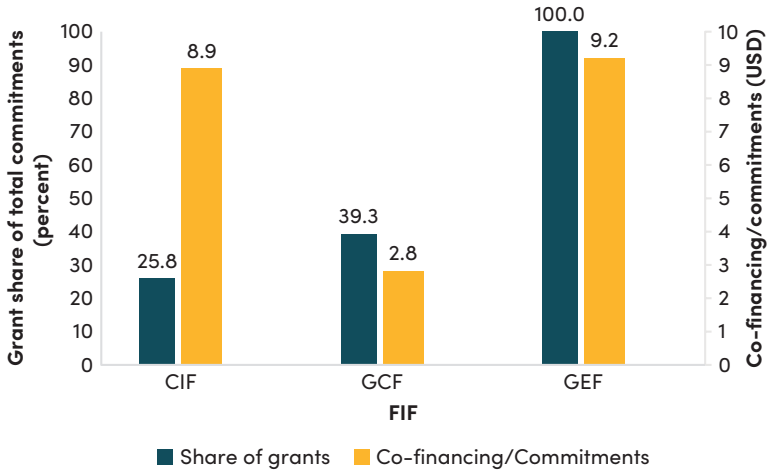


Note: Private sector co-financing is defined as all external private sector co-financing for a project that the FIF or program funds; aggregate figures from the annual report were used because the private sector component of co-financing is not reported at the project level; figure based on cumulative data; the programs of the SCF were disaggregated because of their sectoral specializations and significantly different co-financing ratios.

Source: CIF, *Annual Report 2021.*

A climate FIF's instrument mix does not have a predictable impact on its co-financing ratio. The CIF and GEF report similar levels of co-financing per dollar of commitments but have quite different grant shares. The GCF provides the highest share of equity and guarantee investments, which would have been expected to catalyze the highest co-financing ratios. But the data below show a different outcome. The CIFs appear to use their loans effectively in driving high co-financing levels.

FIGURE 19. FIF grant share compared to co-finance ratios



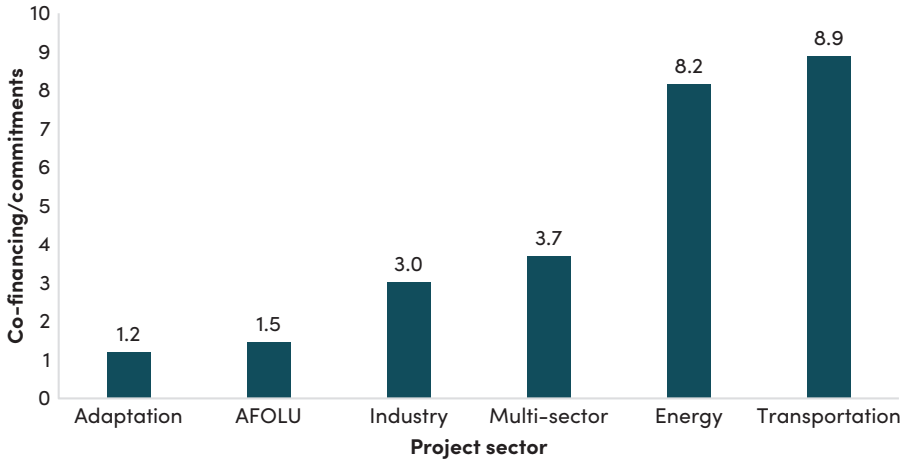
Note: Co-financing is defined as all external financing for a project that the FIF partially funds; project-level data was used instead of aggregate figures reported in annual reports to ensure a consistent methodology; figure based on cumulative data.

Source: CIF, GCF, and GEF project databases.

Author's calculations based on project databases.

Figure 20 shows that co-financing ratios are significantly higher for transportation and energy projects. Adaptation projects tend to attract the lowest levels of transaction-level co-financing. These findings are consistent with general perceptions about which sectors have the most investible projects. They are also consistent with analysis[12] showing a relatively small private sector share of non-energy and non-transport (and non-telecom) infrastructure investment in developing countries.

FIGURE 20. Ratio of co-financing to FIF commitments for different project sectors (USD)



Note: Co-financing is defined as all external financing for a project that the FIF partially funds; project-level data was used instead of aggregate figures reported in annual reports to ensure a consistent methodology; AFOLU stands for agriculture, forestry, or other land use; industry does not include energy or transportation projects; figure based on cumulative data from the CIF, GCF, and GEF.

Source: CIF, GCF, and GEF project databases.

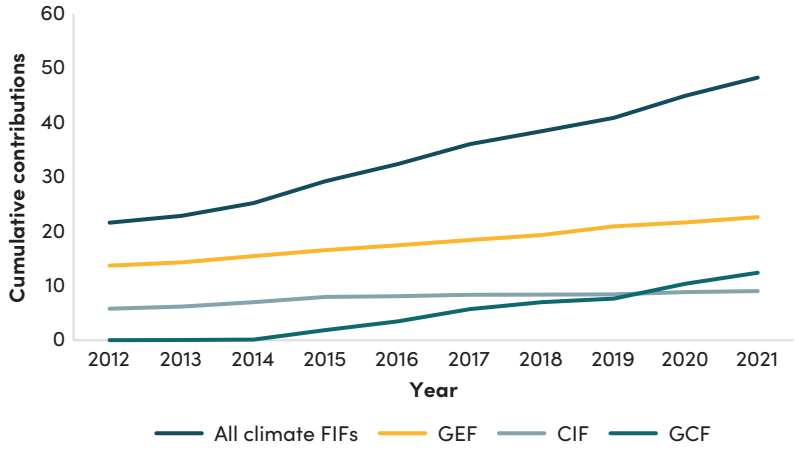
Author's calculations based on project databases.

Are FIF donor contributions growing and becoming more diversified?

FIFs operate on a cash-in, cash-out basis, and because their financial returns are generally limited, they need to be regularly replenished. Cumulative contributions to climate FIFs have risen steadily over the last decade, more than doubling from about $20 billion in 2012 to more than $50 billion in 2021. The GEF has had eight replenishments (once every four years) and has received a total of $25.4 billion. The GCF is currently preparing for its second replenishment cycle which will begin in 2024. In total, it has received $16.2 billion. The CIF does not have regular replenishment cycles and has collectively received $11.4 billion since inception. The CIF receives funding from sovereigns in a variety of forms including capital, grants, and loans.

The GCF has seen the greatest increase in resources over time. After being established in 2010, GCF funding remained relatively low until its Initial Resource Mobilization which began in 2014. By the time of its first replenishment cycle (2020–2023), the GCF's donor contributions had outstripped the CIF. Figure 23 suggests that the CIF has been less effective in continuing to attract donor resources compared to the other major climate FIFs, largely because they were expected to be temporary instruments and sunset in 2019. Since the sunset clause was avoided, the CIF has mobilized $3.5 billion in grants and concessional capital.

FIGURE 21. CIF, GCF, GEF, and total climate FIF resources over time, 2012–2021 (billion USD)



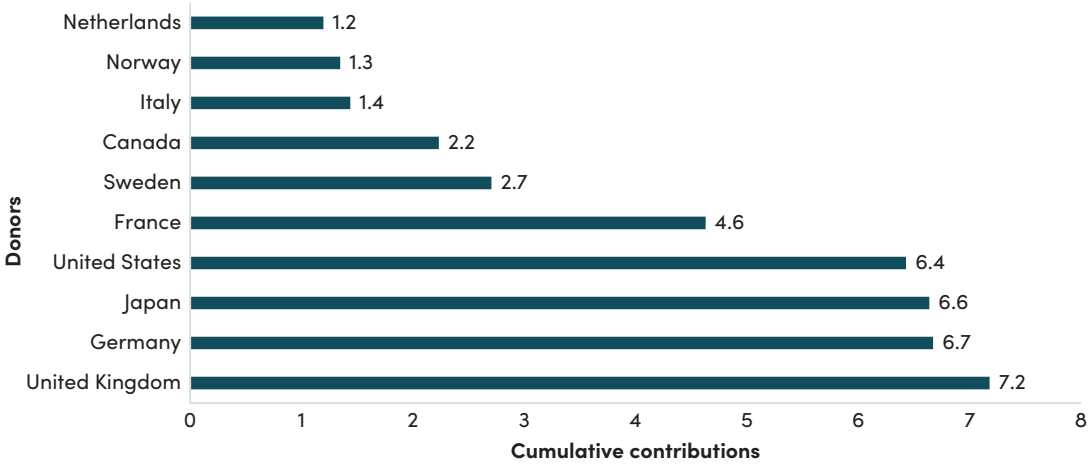
Note: Figure based on cumulative data defined as "Total Resources Received" in trustee reports produced by the World Bank; GEF estimates exclude the CBIT and NPIF which do not have available trustee reports (though they have cumulatively received $77.6 million in resources, so the effect is negligible).

Source: World Bank.

Author's calculations based on trustee reports.

The U.K., Germany, Japan, and the U.S. account for 57.2 percent of FIF resources over the past decade.

FIGURE 22. Top ten donors to climate FIFs by contributions, 2011–2021 (billion USD)



Source: World Bank.

Author's calculations based on World Bank data.

Funding patterns at the climate FIFs are largely similar to those of IDA, the largest single recipient of donor grants funds at the MDBs. The top five donors across the FIFs and IDA are the same G7 countries, including the United States, United Kingdom, France, Germany, and Japan.

FIFs have not been successful in mobilizing emerging donors. Even China, which has become an important contributor to IDA ($3.67 billion in cumulative contributions) has contributed relatively little to FIF funding ($97.29 million in cumulative contributions to the GEF), despite its strong national interest in climate mitigation and adaptation.

TABLE 6. Top ten IDA and major climate FIF donors, 2011–2021

Rank	IDA	CIF	GEF	GCF
1	United States	United Kingdom	Japan	Japan
2	Japan	United States	United States	United States
3	United Kingdom	Germany	Germany	United Kingdom
4	Germany	Japan	United Kingdom	Germany
5	France	Canada	France	France
6	Canada	Norway	Canada	Sweden
7	Italy	France	Sweden	Italy
8	Sweden	Australia	Italy	Canada
9	Netherlands	Sweden	Netherlands	Norway
10	Australia	Spain	Switzerland	Australia

Source: World Bank.
Author's calculations based on World Bank data.

The FIFs do not take contributions from non-traditional donors like private foundations and philanthropies but some of the organizations are exploring ways to expand their donor base.

Are FIFs delivering results?

Climate FIFs do not have a common results and impact reporting methodology or format. It is therefore not possible to compare results and impact across climate FIFs, a significant problem for transparency, accountability, and financial decision-making for both recipient countries and donors.

FIFs rely on implementing entities for monitoring. However, they could aggregate results in their regular reporting at the corporate level using a core set of climate-related metrics common across climate FIFs. This would enable donors and recipient countries to assess value for money.

With respect to impact evaluation, the GEF has an active Independent Evaluation Office that conducts comprehensive evaluations for each funding cycle. These are based on robust additionality and results measurement frameworks. There is an Independent Evaluation Unit within the GCF secretariat—one of the few not managed by the World Bank—although it rarely conducts assessments at the project level. The CIF's Evaluation and Learning Initiative focuses on the fund's strategic questions and commissions out external evaluations.

There is no uniformity with respect to the ex-ante and ex-post impact that various FIFs track. The CIF and GEF report ex ante targets for some indicators. Within the CIF, the CTF and SREP report ex-post project-level results for some projects, though the coverage is incomplete. Of the 98 CTF and SREP

projects with emissions reductions targets, only 42.9 percent report an ex-post result. This is not driven by projects being too recent to produce measurable results as non-reporting projects go back to 2010. Within each focal area, the GEF sets funding-cycle targets for indicators like CO_2e emissions avoided. The GCF does not.

FIGURE 23. Ex ante targets reported at the institutional level for the three-largest climate FIFs

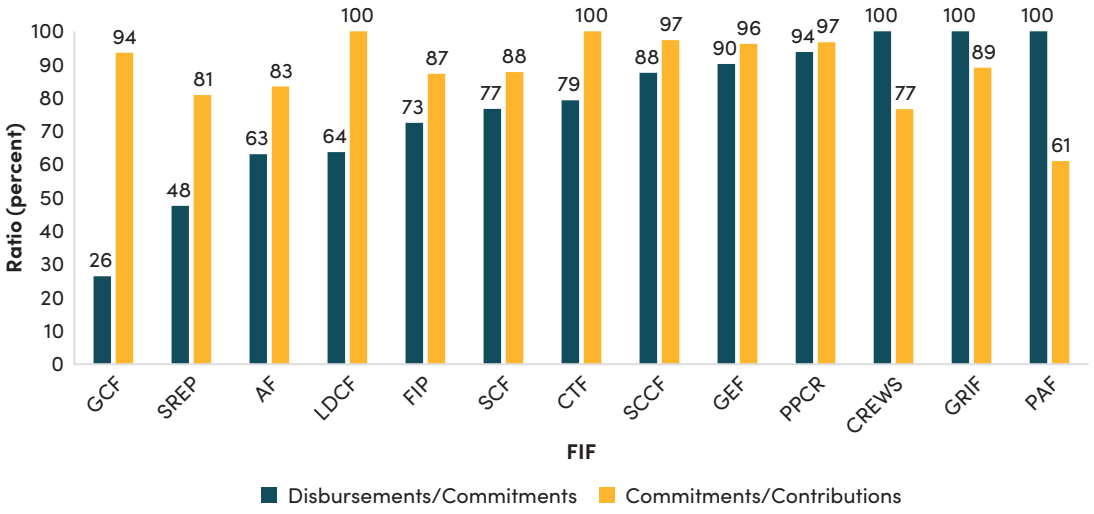
FIF	GHG reductions	Beneficiaries	Area affected	Policies/laws passed
CIF	■	■	■	■
GCF				
GEF	■	■	■	

Note: Shaded boxes indicate that the FIF reports an aggregate ex-ante figure at least annually.
Source: FIF annual reports.

Are FIFs efficient?

Are donor commitments disbursed on a timely basis?

FIGURE 24. Commitment and disbursement ratios for climate FIFs and programs, 2012–2021



Note: Figure based on cumulative data in trustee reports produced by the World Bank; excludes CBIT and NPIF which do not have available trustee reports.
Source: World Bank.
Author's calculations based on trustee reports.

The speed of disbursements and commitments varies greatly across FIFs. The GCF in particular has a low disbursement rate relative to commitments, although it has committed most of its donor funding. One potential explanation is that more than half of the GCF's total commitments were made since 2020. With many projects lasting over several years, it is not surprising that a significant portion of those commitments has not yet been translated into disbursements. Additionally, the GCF works with the most diverse group of implementing entities including NGOs and private firms. It is possible that these organizations lack the administrative capacity or best-practices to quickly accept disbursements—though this would not explain the relatively low rates for the SREP and CTF which exclusively work with large MDBs.

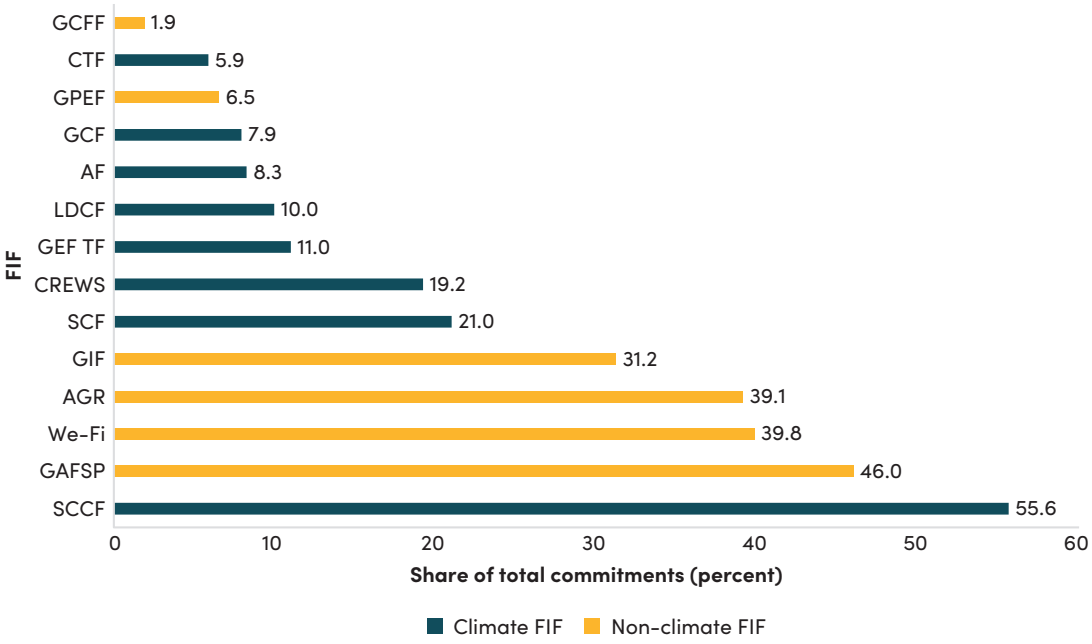
Estimates for commitments as a proportion of total resources are much more consistent, with the PAF having the lowest value of 61.0 percent. This is consistent with the fund's auction platform business model as auctions are held periodically. Auctions also explain the fund's complete disbursement of committed funds. Broadly, FIFs within the GEF have committed most of their available resources which might reflect the efficiencies of their STAR allocation model.

What is the relation between FIF administrative expenditures and program commitments?

The climate FIFs have collectively allocated $2.1 billion to administrative budgets out of $47.6 billion in committed funds. Administrative budgets include staff costs and fees paid to implementing entities.

Figure 26 displays the ratio of administrative budgets to commitments for the World Bank's FIFs based on three-year averages from 2019 to 2021. Non-climate FIFs generally have higher relative administrative burdens with an average of 27.4 percent of commitments compared to 17.4 percent of commitments for climate FIFs. But both averages are quite high.

FIGURE 25. Administrative budgets as a share of project approvals for climate and non-climate FIFs, 2019–2021 (three-year averages)



Note: Annual figures calculated from cumulative data in trustee reports produced by the World Bank; excludes CBIT and NPIF which do not have available trustee reports; excludes GRIF, HRF, MENA, PAF, and PEF as recent commitment cancellations make calculating annual figures incoherent.

Source: World Bank.

Author's calculations based on trustee reports.

Among the climate FIFs, there is significant variation in the ratio. The GEF's SCCF is a significant outlier with administrative costs on average representing more than half of its commitments from 2019 to 2021. Administrative costs for the SCF and CREWS both approach a fifth of commitments—particularly significant given the size of the CIF.

To assess the possibility that these ratios may be distorted because recent three-year averages for commitments may be unusually low (perhaps due to the pandemic), Figure 26 below shows a comparison of cumulative administrative expenses to cumulative commitments. This also allows for the inclusion of additional FIFs.

FIGURE 26. Cumulative administrative budgets as a share of cumulative commitments for climate and non-climate FIFs

Note: Figure based on cumulative data in trustee reports produced by the World Bank; excludes CBIT and NPIF which do not have available trustee reports.

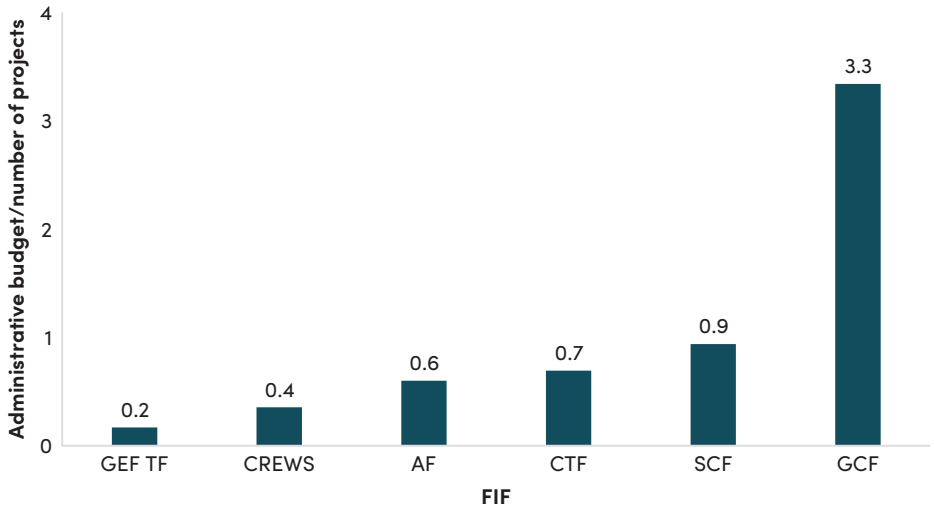
Source: World Bank.

Author's calculations based on trustee reports.

Use of cumulative data results in more modest estimates for all funds (the maximum goes from 55.6 percent of commitments to 31.3 percent). This suggests that administrative budgets have represented a particularly large component of total commitments for the last three years. One potential explanation is that the pandemic resulted in lower project demand which, along with more stable administrative costs, inflated these estimates. The FIFs with the three highest shares from Figure 26 are now more in line with ratios for other FIFs, though the shares for the AGR and GIF remain high. The CTF and GCFF continue to have low shares. The gap between climate and non-climate funds narrows to the point of insignificance here (an average share of 11.7 percent compared to 11.6 percent respectively).

Another way to look at administrative efficiency is to compare expenses per project to remove potential bias against FIFs whose project size tends to be small.

FIGURE 27. Cumulative administrative budget per project (million USD)



Note: Only includes funds where it was possible to calculate administrative budget per project.
Source: World Bank and FIF annual reports.
Author's calculations based on trustee and annual reports.

The picture looks quite different from this perspective. The GCF has a smaller number of projects (209) relative to commitments. There is an especially large contrast with the GEF TF which has funded 5,200 projects.

Both ways of measuring administrative efficiency have merit. But the bottom line is that it is hard to assess administrative efficiency because there is no consistent way to assess value (climate-related impact) for money (cost-benefit ratios) across FIFs.

Are FIFs financially efficient?

The provision of grants is at the core of the value of climate FIFs to the broader MDB climate finance architecture. However, this can come at the expense of financial efficiency and innovation. The GEF and GCF have operated on a standard cash-in, cash-out basis meaning that every dollar raised has financed around a dollar on projects. In contrast, IDA—whose financial model more closely resembles that of a revolving fund—has raised over $300 billion from donors and financed nearly $500 billion in projects. This 1:1.7 ratio was largely made possible because IDA has provided a significant amount of its funding as loans which it has been able to redeploy. Because the GCF also provides some loans it will eventually start receiving small amounts of reflows that it can redeploy.

The CIFs have been innovative with their financial models. Most recently the CTF announced a capital market mechanism[13] that will allow it to borrow money against expected financial reflows which they estimate could mobilize an additional $500 million a year. As a result, the CIF has received $11.4 billion from donors and provided $7.9 billion in funds.

The climate FIFs rarely use their funding to stretch MDB balance sheets. The International Finance Facility for Education (IFFEd)—a FIF designed to encourage countries to borrow from MDBs for education projects—shows how FIFs can potentially be employed to leverage additional MDB resources. IFFEd aims to mobilize MDB financing on a 1:7 basis by using a combination of sovereign guarantees and donor grants to expand MDB lending envelopes for education and concessionalize their terms.[14]

IV. Summary of key findings

The 12 climate FIFs have cumulatively raised over $50 billion in donor contributions. The three major climate FIFs that are the focus of this analysis—the GEF, GCF, and the CIF—account for $42 billion of that total. The World Bank is the largest single implementing entity for FIF programs and has received over $7.2 billion in funding.

Annual commitments of climate FIF concessional finance total about $4 billion. This volume is clearly small in relation to overall World Bank Group climate-related finance to LICs and MICs of $28 billion in 2021 and combined MDB climate-related finance of $50 billion. Most FIF financing is in the form of grants (80 percent), and nearly three quarters goes to public sector recipients. FIFs provide most of their grant and concessional climate finance to MICs, which receive 84 percent of climate FIF commitments. But LICs receive a larger share of their climate commitments in the form of grants (rather than loans, equity, or guarantees).

The analysis reveals significant challenges at the systemic level and differing performance across FIFs.

Allocation limitations

- Mitigation finance has generally gone to the countries and sectors with the highest emissions, but country mitigation finance volumes are generally not correlated with country emissions.
- The most climate vulnerable countries are not the top recipients of adaptation finance, though this does not include climate-related finance from IDA.
- While grants are essential for some purposes, they do not necessarily lead to high co-financing ratios.

Limited and inconsistent reporting on impact and mobilization

- While some FIFs report some ex-ante impact targets, there is no uniform reporting standard across FIFs based on a common set of core impact indicators, making it impossible to assess value for money across FIFs.

- A major problem is that implementing partners report results to FIFs using very different systems and metrics.
- Only the CIF reports specifically on private finance mobilized.

Limited donor diversification and scale

- The country composition of the FIF donor base is mostly the same as IDA's. Emerging donors have not stepped up as major contributors.
- Overall, FIF commitments of $4 billion per year remain far below levels needed, especially given calls for more concessional lending terms to incentivize more MIC mitigation investment.

Highly variable administrative efficiency

- Climate FIFs vary widely in administrative costs relative to commitments and relative to project numbers. Some ratios of cumulative administrative expenses relative to commitments range up to 20 percent, while others are in the low single digits.

Donor funding decisions and FIF performance

- The evidence does not suggest that donors look closely at FIF performance when deciding where to put their funds. Contributions to the GCF have grown most rapidly in recent years, though it has been the weakest performer based on the criteria laid out in this analysis.

V. Recommendations

The following recommends changes and new approaches that address problems identified in the key findings.

FIF consolidation and leverage

- Given fragmentation of scarce donor concessional climate finance, donors should consider consolidating FIFs that have complementary mandates. They could be merged as a single concessional climate finance fund or linked under a single umbrella in such a way as to better service recipient countries and implementing agencies, strengthen finance allocation, consolidate administrative expenses, rationalize and simplify fundraising, and combine and scale complementary projects.
- Under the configuration of a combined climate finance fund, they could establish operational and administrative independence from the World Bank and function as an independent entity, partnering across MDBs and other implementers to target the best projects, and operating as standard setters across the system.

- As one possible means of consolidation, FIFs should consider pooling their funds to issue guarantees of some share of climate related MDB portfolios. That would free up MDB capital and allow use of leverage to generate multiples of that additional capital in more climate lending capacity. Such guarantees at the portfolio level are a more efficient way to expand the impact of donor resources than a cash-in/cash-out approach or a transaction-by-transaction approach. And donor contributions can also be used at the portfolio level to make MDB lending more concessional by blending MDB hard loan resources with grants.
- Finally, going forward, donors should seek better alternatives to setting up new, small climate FIFs. The loosely knit and fragmented climate FIF architecture has resulted in a system that operates as less than the sum of its parts. Greater efficiency, scale, and impact can be captured by putting additional climate dollars into one concessional climate finance fund that works effectively with existing institutions—including organizations with strong leveraging power like the MDBs. Given the urgency and magnitude of the climate financing gap, both more concessional resources and better allocation of those resources should be top priorities for donors.

Finance allocation

- All FIFs should have transparent allocation methodologies incorporating objective ex ante and ex post impact criteria as well as country and project performance. As a general principle, the more ambitious a country's climate goals for both mitigation and adaptation and the greater the impact of projects it proposes, the more finance it should receive. Allocation methodologies should aim to both maximize ex ante mitigation and adaptation impact and impact per dollar committed. This would require agreement across the FIFs and entire MDB sector on a common methodology for projecting emissions impact and for assessing the need for concessional finance.
- Mitigation finance should be directed to the projects that afford the most significant global benefits and where there is a demonstrated need for concessional or grant financing. A ceiling should be set on country per capita income for eligibility to access mitigation resources to ensure that such resources are not disproportionately captured by large very high upper middle-income countries fully capable of mitigation investment at sufficient scale without concessional funds.
- Climate concessional finance should be consistently allocated based on the following criteria: (1) a robust ex ante projected impact score for mitigation and adaptation gains; (2) the scale of the mitigation and adaptation gains from the project or program in relation to country goals and challenges; (3) country per capita income and capital market access; (4) for mitigation, the project's contribution to global emissions reduction goals; and (5) for adaptation, the country's global vulnerability ranking. Each criterion could be weighted equally or different weights can be given to each of these criteria.

- Highly vulnerable countries with constrained project development and implementation capacity should receive grant resources to help them address these constraints (as in SCF's investment preparation plan grants), in addition to their adaptation project finance.

Reporting on impact and mobilization of private finance

- FIFs should develop and adopt a common set of core ex-ante and ex-post indicators and collectively work with implementing agencies to ensure that they all report on those indicators consistently at the project level.
- FIFs should aggregate data for core indicators across projects and report aggregate ex ante and ex post mitigation and adaptation impact on a common basis annually so that performance can be assessed and compared across FIFs.
- Mobilization of private finance should be reported at the project and aggregate levels.

New donors and scale

- Donor contribution growth should be commensurate with measures to strengthen FIF performance, efficiency, and impact.
- Emerging donors, including China and the Gulf states, should significantly expand their climate FIF contributions.
- FIFs should expand opportunities for private donors, foundations, and philanthropic investors to contribute to FIFs and participate in governance as appropriate.

Financial sustainability

- FIFs should develop policies for choosing financial instruments based on both effectiveness and efficiency. Increasing deployment of non-grant concessional finance tools (loans, guarantees, equity) will not only stretch donor resources, it can also be the most effective way to share risk and crowd in private and public investors at scale.
- Where appropriate, this should include structures like the CIF Capital Market Mechanism that allows debt issuance against FIF loan assets.

Performance-based donor funding decisions

- Donors should prioritize FIF performance in deciding where to put additional resources. Performance should be assessed against the strength of finance allocation systems, co-finance volume, impact measurement and reporting, and administrative and financial efficiency.

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