LUND UNIVERSITY

The politics of climate finance coordination

Lundsgaarde, Erik; Adams, Kevin; Dupuy, Kendra; Dzebo, Adis; Funder, Mikkel; Moe Fejerskov, Adam; Shawoo, Zoha ; Skovgaard, Jakob

2021

Document Version:
Publisher's PDF, also known as Version of record

Link to publication

Citation for published version (APA):
Lundsgaarde, E., Adams, K., Dupuy, K., Dzebo, A., Funder, M., Moe Fejerskov, A., Shawoo, Z., & Skovgaard, J. (2021). *The politics of climate finance coordination*. (SEI Policy Briefs). Stockholm Environment Institute. https://cdn.sei.org/wp-content/uploads/2021/10/211015a-burton-shawoo-climate-finance-pb-2109f-final.pdf

Total number of authors:
8

General rights
Unless other specific re-use rights are stated the following general rights apply:
Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.
- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal

Read more about Creative commons licenses: https://creativecommons.org/licenses/

Take down policy
If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

LUND UNIVERSITY

PO Box 117
221 00 Lund
+46 46-222 00 00

SEI Stockholm Environment Institute

The politics of climate finance coordination

SEI policy brief
September 2021

Erik Lundsgaarde[a],
Kevin M. Adams[b]
Kendra Dupuy[c]
Adis Dzebo[d]
Mikkel Funder[e]
Adam Moe Fejerskov[e]
Zoha Shawoo[d]
Jakob Skovgaard[f]

[a] Independent consultant
[b] London School of Economics and Political Science
[c] Peace Research Institute Oslo
[d] Stockholm Environment Institute
[e] Danish Institute for International Studies
[f] Lund University

IMAGE (ABOVE): Houses built on weak clay soil slide down to the sea, Odessa, Ukraine
© AQUATARKUS / GETTY

Key messages

- **Climate finance coordination challenges reflect political differences, including divergent interests among ministries involved in the governance of multilateral climate funds.**
- **Differences in the histories and governance of the Climate Investment Funds (CIF) and Green Climate Fund (GCF) – two key multilateral climate funds – shape debate on their respective advantages and future roles.**
- **The multilateral funds have encouraged cross-governmental coordination at country level. However, there are competing views on which governmental actors at national level are best-suited to take responsibility for coordinating climate finance planning and implementation.**
- **The cross-sectoral orientation of climate finance coordination contrasts with existing development coordination approaches, which emphasize coordination within separate policy sectors.**

As COP26 approaches, governments are facing calls to increase the ambition of their climate commitments under the Paris Agreement. The mobilization of climate finance will be key to meeting these goals, prompting the need for renewed attention on how to enhance the coordination of existing funds and thus increase their effectiveness, efficiency and equity.

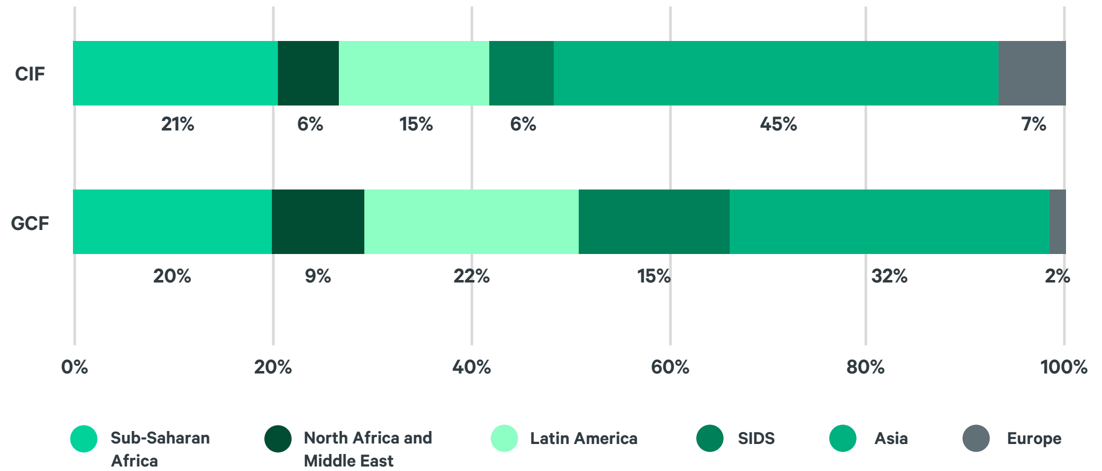
The climate finance landscape is fragmented due to the variety of actors involved at different levels. Coordination difficulties emerge in multiple arenas and reflect the diversity of funding sources, implementation channels, and sectors relevant for climate action (Lundsgaarde, Dupuy and Persson, 2018). The Organisation for Economic Co-operation and Development has identified over 90 climate-specific funds. Most of them are multilateral.[1] While bilateral climate finance remains significant, growth in multilateral funding has been the main driver of recent funding increases and remains a focus of international negotiations.

Practitioners often highlight organizational resource constraints – such as staffing levels, the continuity of personnel, or the availability of adequate information management systems – as factors limiting coordination. In this brief, we argue that improving climate finance coordination requires considering coordination challenges in a political context where both fund secretariats and external stakeholders play an important role in shaping

1 See https://qdd.oecd.org/subject.aspx?subject=climatefundinventory

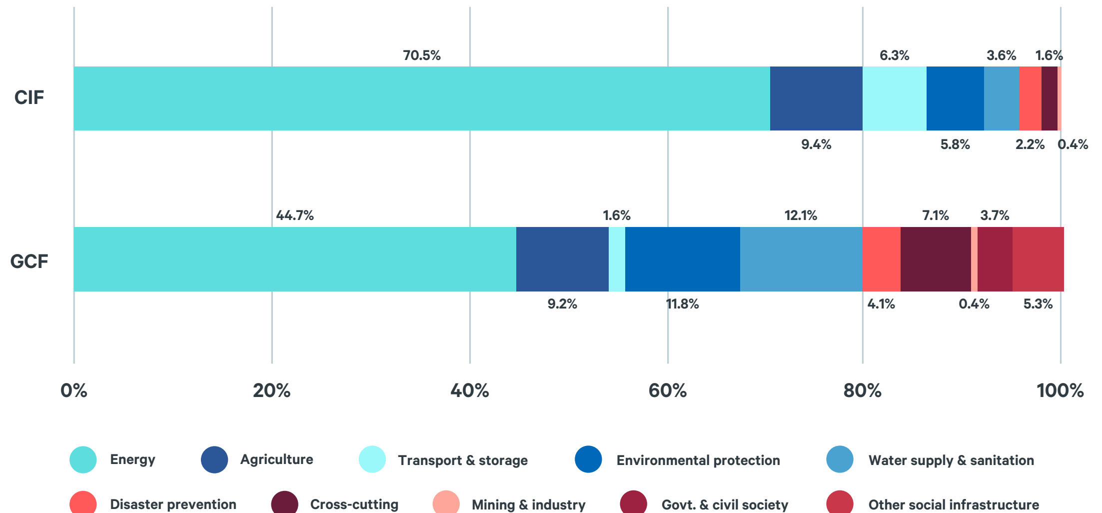
collaboration prospects. To illustrate this point, we highlight the political nature of global-level coordination challenges between the multilateral Climate Investment Funds (CIF) and Green Climate Fund (GCF), as well as national-level challenges in Kenya and Zambia. Key challenges influencing coordination relate to the governance of climate funds, domestic bureaucratic politics in recipient countries, and the existence of multiple coordination frameworks at the country level.

Figure 1. Geographical profiles of the Climate Investment Funds and Green Climate Fund (2008-2018)



Source: https://aid-atlas.org (Accessed March 2021). The figure reflects cumulative commitments to these geographies of USD 5.179 billion for the CIF and USD 3.134 billion for the GCF. To avoid overlap across regions, figures for Belize, Cabo Verde, Comoros, Guinea-Bissau, Guyana, Maldives, Mauritius, Sao Tome and Principe, Seychelles, Suriname, and Timor-Leste are only included in the small island developing states (SIDS) category; Djibouti is only assigned to Sub-Saharan Africa.

Figure 2. Sectoral distribution of CIF and GCF commitments (2008-2018)



Source: https://aid-atlas.org. (Accessed March 2021). This figure is based on reported CIF commitments of USD 5.493 billion and GCF commitments of USD 4.514 billion. Sectoral funding to government and civil society may be underrepresented, as support for policy frameworks and capacity development can be a component of other sector funding.

Clarifying fund roles as a basis for coordination

At the global level, two multilateral climate funds are key providers of climate finance to developing countries: the CIF, established in 2008, and the GCF, established in 2010 and fully operationalized in 2015. A primary distinction between them is that the GCF falls under the umbrella of the United Nations Framework Convention on Climate Change (UNFCCC), while the World Bank administers the CIF, working closely with multilateral development banks. The differences in the funds' histories and governance shape their strategic outlook and coordination with other climate finance actors.

In light of their overlapping mandates and areas of engagement (see Figures 1 and 2), the CIF and GCF have faced calls to improve coordination to ensure that they make complementary, and mutually reinforcing, investments. However, they have had difficulty accomplishing this, despite coordination being inherent in their mandates, the representation of similar constituencies in their governance, and the existence of high-level dialogue between the CIF administrative unit and GCF Secretariat (Wörlen, Altervogt and Keppler, 2020).

Part of the challenge is that the funds have had trouble clarifying their respective comparative advantages. The identification of organizational strengths and weaknesses can provide a foundation for the funds to outline areas of specialization, reduce redundancy, and limit resource mobilization competition. In recognizing the potential for synergies, climate finance stakeholders acknowledge that improving coordination does not require that funds pursue different priorities. It can also involve addressing similar priorities with complementary approaches that take advantage of clearly defined institutional niches in how organizations deliver funding. As an example, the GCF considers itself well-positioned to scale up investments, giving it the potential to carry forward pilot initiatives supported by other climate funds.

Table 1. CIF contributors and top 15 GCF contributors

Climate Investment Funds (in millions US dollars)		Green Climate Fund (in millions US dollars)	
United Kingdom	3027	**United Kingdom**	3063
USA	2000	**Japan**	3000
Japan	1243	**USA**	3000
Germany	778	**Germany**	2692
Canada	283	**France**	2359
Norway	282	**Sweden**	1434
France	249	**Norway**	689
Sweden	177	**Italy**	672
Australia	167	**Spain**	330
Spain	135	**Canada**	315
Netherlands	86	**Republic of Korea**	300
Denmark	59	**Netherlands**	269
Switzerland	46	**Switzerland**	250
Republic of Korea	6	**Finland**	220
		Australia	187
Total	**8538**	**Total Confirmed Govt. Pledges**	**19415**
Top 14 Share of Total	**100%**	**Top 15 Share of Total**	**96.7%**

The table highlights that a small, overlapping group of contributors provides the bulk of the funding for both the CIF and the GCF. The table reports cumulative contributions since the inception of the Climate Investment Funds, as well as the cumulative confirmed pledges made in the initial resource mobilization (2014) and first replenishment (2019) rounds for the GCF. The CIF figures do not include an additional $2.1 billion commitment announced by G7 countries in June 2021. Contributions are rounded to the nearest million in US dollars. Sources: https://www.climateinvestmentfunds.org/finances; https://www.greenclimate.fund/about/resource-mobilisation/irm; https://www.greenclimate.fund/about/resource-mobilisation/gcf-1 (Accessed 17 August 2021).

The CIF originally was envisaged as a temporary fund that would be replaced by the larger GCF and had a sunset clause in anticipation of the GCF's operationalization. However, the CIF has not yet implemented the sunset clause, and it remains active today. This has made defining the funds' respective roles challenging. Resource competition among the funds was evident in 2019: the GCF undertook its first resource replenishment process, while the CIF made calls for its own recapitalization. Many civil society actors opposed the CIF recapitalization – and called for the resources to be channelled through the GCF instead – but a number of contributor and recipient countries continue to see value in the CIF. These political divergences indicate that the long-term future of the CIF remains subject to debate.

The CIF and GCF appear to share many traits. Both frame their work as transformational investment and deploy a mix of funding modalities, such as grants, loans, and blended finance. Given their similarities, debate persists about whether and how their profiles should be further differentiated and how they should coordinate their activities. To resolve these questions, the countries involved in the governance of the funds can improve the coherence of the political guidance that they provide to the funds. A similar group of contributors are the main funding sources for the two funds (see Table 1). However, within individual contributor governments, relations with the CIF and the GCF are not always overseen by the same units, reflecting broader divisions in responsibilities for engagement with multilateral development banks and United Nations entities that create coordination challenges on their own. This insular approach – where each fund gets instructions from separate parts of the government – contributes to a lack of intra-governmental reflection on how the funds should interact. Leading finance contributors should be especially conscious of the importance of providing consistent guidance across the funds.

Within the climate finance architecture, the UNFCCC's Standing Committee on Finance has a mandate to foster coherence and coordination in climate finance delivery. To better facilitate operational coordination among various funds, the Committee could elevate the place of strategic questions about the organizational advantages and desired roles for each fund in its work program. Committee outreach to the CIF and other funds outside of the UNFCCC umbrella should be strengthened to advance this agenda with a broader set of relevant climate finance actors.

Climate finance coordination and national bureaucratic politics

At the country level, the diversity of stakeholder interests and division of government responsibilities also shape the political context that can enable or hinder coordination among climate funds. Low-carbon and climate-resilient development is multi-dimensional, cutting across sectors, including energy, agriculture, transport and environmental protection. This creates the potential for contention between bureaucratic actors with different mandates. Climate action also cuts across levels of government, requiring coordination between national and subnational governments.

The creation of dedicated climate financing vehicles – such as the GCF and CIF – has prompted the establishment of national coordination mechanisms to facilitate access to funds and their distribution across sectors. For example, National Designated Authorities (NDAs) under the GCF play a key role in climate finance coordination by communicating national priorities to the fund and performing oversight of disbursed GCF funding. Sixty percent of GCF NDAs are environment ministries, while the remainder are largely either ministries of finance or offices with a cross-governmental mandate.[2] These alternatives for coordinating finance delivery point

2 See https://www.greenclimate.fund/about/partners/nda

to competing views within national governments and among international actors on which bureaucracies are best suited to a leadership role. Environment ministries are sometimes favoured due to their expertise and ability to advocate for mainstreaming climate concerns, while finance ministries or other apex bodies have the advantages of political clout, managing large volumes of financing, and assessing the balance of priorities across government.

Two examples illustrate the variety of bureaucracies involved in country-level coordination. In Kenya, the National Treasury, with primary responsibilities in the areas of economic policy and public financial management, occupies an important position in the overall coordination of climate finance. It serves as the NDA for the GCF and a focal point for the CIF and exercises a cross-sectoral coordination mandate through its Climate Finance and Green Economy Unit. Sectoral ministries also contribute to coordination. The Ministry of Environment and Forestry plays a preeminent role in coordinating climate-change-related activities, while other sectoral ministries are expected to mainstream climate actions via dedicated climate change units (Dzebo, Shawoo and Kwamboka, 2020). In Zambia, in contrast, the Ministry of National Development Planning acts as the NDA for the GCF and is responsible for governmental coordination of climate programmes and funds. This reflects the ministry's broader coordination mandate in setting national development priorities. Climate finance coordination structures in Zambia have thus evolved to favour a cross-sectoral planning function separate from the Ministry of Finance and sectoral ministries (Dupuy et al., 2019).

Confronting the multiplicity of coordination forums

The implementation of climate finance alongside development aid – in part through existing development cooperation channels – also shapes the political context for climate finance coordination.

Development aid providers disburse significant climate-related funding independently of specialized climate funds, creating competing structures that divert attention from the dedicated aid provided by the GCF and CIF. Development funding involves established coordination structures – where national governments steer development priorities – as well as a variety of alternative coordination forums, including everything from informal donor groups to government forums for stakeholders. Sectoral working groups – including those dealing with environmental cooperation – remain relevant as forums to facilitate dialogue between donors and government ministries. These structures reflect the compartmentalized nature of aid implementation. While sectoral coordination forums can be useful in promoting knowledge exchange among technical experts, they pose a challenge for the promotion of integrated climate action across government agencies.

International climate finance influences patterns of cooperation among domestic actors. Multilateral funds have not only prompted the creation of new coordination frameworks, they have also contributed to debates about how climate finance should be coordinated and which governmental actors should have coordination responsibilities. In Zambia, for example, the CIF's Pilot Program for Climate Resilience advocated for ministries of finance and planning to perform a central climate finance coordination role, while the United Nations Development Programme has emphasized the coordination role of technical departments, including what is now the Ministry of Lands and Natural Resources. The CIF and GCF are affiliated with the World Bank and the United Nations, respectively; each have institutional preferences that can reinforce divisions at the implementation level. Multilateral development banks like the World Bank typically use ministries of finance as central intermediaries, while UN organizations see environmental and other sectoral ministries as important partners.

Solar panels in a backyard, Laos © FOTOTRAV / GETTY

Recommendations

Coordination is a means of promoting more effective, efficient and equitable climate finance. To deal with coordination challenges, climate finance stakeholders must recognize the political context shaping coordination prospects and address underlying questions about the assignment of roles and responsibilities among actors as follows:

- Fund contributors and recipients should collaborate to develop clear guidance on how climate funds should relate to one another at a global level. Contributor governments should review the consistency of their modes of engagement with different funds and improve coordination within their own administrations.
- At the global level, the UNFCCC Standing Committee on Finance should initiate a consultation process that aims to identify the respective organizational strengths, the potential for differentiation and the opportunities for coordination among climate funds. This process should be framed broadly to account for the role of funds that fall outside of UNFCCC mandates.
- At the country level, national governments and development partners should review the compatibility of sector-focused development coordination forums with climate finance coordination objectives.

This brief stems from the research project “Share or Spare” funded by the Swedish Research Council (VR 2017-05591). The project was carried out by a consortium led by Lund University, including the Danish Institute for International Studies, Peace Research Institute Oslo and Stockholm Environment Institute.

References

Dupuy, K. et al. (2019) *Coordinating climate finance: lessons from Zambia*. PRIO. Available at: https://www.prio.org/Publications/Publication/?x=12122.

Dzebo, A., Shawoo, Z. and Kwamboka, E. (2020) *Coordinating climate finance in Kenya: Technical measures or political change?* Stockholm Environment Institute. Available at: https://www.jstor.org/stable/resrep25052 (Accessed: 18 May 2021).

Lundsgaarde, E., Dupuy, K. and Persson, Å. (2018) *Coordination challenges in climate finance*. Danish Institute for International Studies. doi:10.13140/RG.2.2.29261.90089

Wörlen, C., Altervogt, J. and Keppler, L. (2020) *Synergies between Climate Finance Mechanisms: Synthesis Report*. Washington, D.C.; Songdo: CIF and GCF. Available at: https://www.greenclimate.fund/document/synergies-between-climate-finance-mechanisms.

Published by
Stockholm Environment Institute
Linnégatan 87D, Box 24218
104 51 Stockholm, Sweden
Tel: +46 8 30 80 44
DOI: 10.51414/sei2021.022

Author contact
zoha.shawoo@sei.org

Media contact
lynsi.burton@sei.org

Visit us: sei.org
Twitter: @SEIresearch
@SEIclimate

Stockholm Environment Institute is an international non-profit research and policy organization that tackles environment and development challenges. We connect science and decision-making to develop solutions for a sustainable future for all.

Our approach is highly collaborative: stakeholder involvement is at the heart of our efforts to build capacity, strengthen institutions, and equip partners for the long term.

Our work spans climate, water, air, and land-use issues, and integrates evidence and perspectives on governance, the economy, gender and human health.

Across our eight centres in Europe, Asia, Africa and the Americas, we engage with policy processes, development action and business practice throughout the world.