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Key lessons from international financing mechanisms for the Green Climate Fund

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CLIMATE CHANGE FINANCING: A FRAGMENTED FRAMEWORK

While the need for climate change financing is huge and urgent, the current institutional architecture for public climate financing is fragmented and poorly designed for tackling new challenges, handling the disbursal of funds at scale, and ensuring a demand and beneficiary-driven process; even if awareness of the issue and the financial involvement is growing.

OBJECTIVES FOR AN EFFICIENT FINANCIAL ARCHITECTURE

With the benefit of hindsight from a decade of vertical funds and on the basis of the analysis of existing international financial mechanisms, the key objectives for an effective and efficient financial architecture for climate change should include the following:

- to ensure that early action is adequately supported;
- to develop a collaborative approach to address the demand to ensure a proper ownership of the architecture designed and the mechanisms implemented by both developed and developing countries;
- to ensure coherence and consistency between the actions engaged, international funding and national development strategies and priorities;
- to properly address the large range of needs, in terms of investments but also of technical assistance, capacity building and support for policy design and implementation;
- to ensure effective leverage in a harmonized manner;
- to include sound financial management and MRV arrangements.

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In 2011, IDDRI launched a new initiative: a platform aiming to collect and spread ideas on finance for climate change mitigation and adaptation. Papers written for this platform differ in their approach: some of them are very closely linked to the agenda of the Green Fund Transitional Committee; some others take a broader perspective. They also sometimes differ in their analysis and opinion.

It is in fact IDDRI's goal to collect a wide range of views, coming from developing and developed countries, as well as from different institutions within these countries. But contributions all share the same objectives: to contribute with innovative ideas to the debate on financing the transition towards low carbon societies, and break the deadlock of intergovernmental negotiations.

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INTRODUCTION

This paper on the key lessons learned from existing international financing mechanisms intends to contribute to ongoing discussions on climate finance within the context of the UN Framework Convention on Climate Change (UNFCCC) negotiations, particularly regarding the role and design of the Green Climate Fund (GCF).

Finance is a key issue in climate change negotiations. Although there is general agreement on some topics (needs, themes, linkages between development and climate change, etc.), views are yet to converge on issues such as the financial institutional architecture necessary to address climate change.

Climate change financing needs are: urgent; huge (developed countries have jointly committed to mobilize USD 100 billion per year through the GCF by 2020 to address the mitigation and adaptation needs of developing countries); heterogeneous, since they differ from one country to another in size, scope, type of investment, etc.; and part of a much wider debate on development financing, in which public policies and leveraging private investments are key issues.

Yet, the current institutional architecture for public climate financing is fragmented. It is poorly designed for tackling new challenges, handling the disbursal of finance at scale and ensuring a demand and beneficiary-driven process, even if awareness of the issue and the financial involvement is growing.

The key objectives for an effective and efficient financial architecture for climate change would include the following:

- to become operational as quickly as possible to ensure that early action is adequately supported.
- to develop a collaborative approach to address the demand, taking into account the different capacities of countries, to ensure a proper ownership of the architecture designed and the mechanisms implemented by both developed (contributors) and developing (beneficiaries) countries, including direct access mechanisms.
- to ensure coherence and consistency between the actions engaged, international funding and national development strategies and priorities.
- to properly address the large range of needs, in terms of investment size or type, from local tailor-made projects to sectoral programmes, but also in terms of technical assistance, capacity building and support for policy design and implementation at all levels.
- to ensure effective leverage in a harmonized manner, i.e. that the mechanisms implemented allow for massive and coordinated resource mobilization, both public and private, to deliver a tangible impact in the field, in line with agreed targets/objectives.
- to include sound financial management, and MRV arrangements, which give donor countries the confidence to put funds into the system, including those from innovative public sources, and give recipient countries the confidence to take action.

With such objectives or similar in mind, the GCF was established by the Cancun Agreements of December 2010 at the COP16. The GCF will be “accountable to and function under the guidance of the Conference of the Parties to support projects, programmes, policies and other activities in developing country Parties using thematic funding windows”. Its design will be carried out in 2011 under the responsibility of a 40 member Transitional Committee, and on the basis of broad terms of reference included in the Cancun Agreements. The Transitional Committee has organized the design process along several work streams, addressing governance and institutional issues, operational modalities as well as monitoring and evaluation requirements.

This paper provides an analysis of the performance of various existing international funds, from the standpoint of the objectives pursued for the design of the GCF. Key lessons have been drawn from the following funds:

- Climate Investment Funds – CIF ;
- Global Environment Facility – GEF;
- European Blending Mechanisms – EBMs;
- Global Fund to Fight AIDS, Tuberculosis and Malaria – GFATM;

For each of the international funds examined, we provide a performance evaluation of

- the governance structures and the capacity to attract and manage resources;
- the underlying business model, including an analysis of the leverage effect and of the cost effectiveness of the funds;
- the implementation modalities, including considerations on the project cycle and on disbursement modalities and achievements to date; and
- the impact of such funds, with reflections on the monitoring and evaluation systems in place, the transformational effect achieved, and the ability to catalyze other financing sources.

1. KEY LESSONS FROM CLIMATE INVESTMENT FUNDS

1.1. Main features of CIF

The creation of CIF was decided in July 2008. They comprise two Trust Funds administered by the World Bank, each with a specific scope and objective and its own governance structure: the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF).

The focus of the CTF is to finance public and private investments in clean technologies in countries/regions with the potential for significant greenhouse gas (GHG) abatement with the objective of having a transformational impact. The SCF finances programmes aimed at piloting new approaches to initiate transformation towards climate resilience: the Forest Investment Program (FIP) dedicated to forest management, the Pilot Program for Climate Resilience (PPCR) dedicated to adaptation, and the Scaling up Renewable Energy in low income countries Program (SREP) dedicated to small, decentralised renewable energy initiatives.

Both funds are intended to help manage the increasing flows of international public funds for "climate", between now and a post-2012 global climate change agreement. CIF are designed with a sunset clause which enables the closure of funds once a new financial architecture has become effective under the UNFCCC regime after 2012.

1.2. Performance evaluation

1.2.1. Governance and resource management

High-level of buy-in by a limited number of stakeholders

At their onset, the CIF managed to obtain a high level of buy-in by a few stakeholders. The main contributors to the funds are the United States, the United Kingdom, Japan, Germany and France. A sum of USD 6.5 billion was initially pledged to the CIF (around USD 4.5 billion for the CTF and USD 2 billion for the SCF). This total can be compared to the sum of USD 1.03 billion pledged by 32 countries to the Climate change focal area of the GEF-4, which is the second largest climate-focused multilateral fund/window. CIF contributors acted under the assumption that this large sum of money would enable the fund to deliver demonstrable effects.

Governance structure

The CTF and the SCF are each governed by a trust fund committee (TFC) where contributors and recipient countries are equally represented (eight voting rights each). Observers who can attend the committees include the GEF, UNEP, UNDP, UNFCCC, four civil society members and two from the private sector. In the case of the SCF, observers also include two indigenous people to facilitate community engagement. In addition, the SCF's TFC has established an SCF Sub-Committee for each of the SCF programmes. The World Bank serves as the trustee of the CIF and houses the administrative unit which supports their work.

Decision is reached through consensus among the board members (each member has a de facto veto power). The TCF is in charge of approving investment plans and the allocation of financial resources. The national investment plans describe how the funds will be used in major sectors of the economy.

CIF-funded projects are only implemented by five multilateral development banks (MDBs): the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IDB) and the World Bank Group (International Bank for Reconstruction and Development, IBRD, and International Finance Cooperation, IFC). This very concentrated way of acting was chosen for several reasons, one of which was to allow rapid fund implementation (before 2012). However, it has had the consequence of restricting access for a small group of actors, representing less than half of international climate public finance[1], to this large amount of new resources and also to exclude key actors such as national financial institutions from participating in the scheme.

Performance and risks of the governance structure

MDBs identify and appraise the projects that they jointly finance with the CTF through their own internal process. Such a model allows for a reduction of project assessment costs by relying on professional institutions with huge experience in development project appraisal.

However, unlike the way in which the GEF or the European blending facilities operate for instance, the CTF is directly and solely liable for the financing it extends. Credit risk is therefore borne by the CTF as a trust fund while it does not have any financial and credit risk structures of its own to sustainably endorse those risks: no equity or capital structure, no financial capacities for hedging, no dedicated independent financial experts to assess the risk, no independent control structure, nor established standards in terms of risk taking and profitability... This is particularly questionable given that the CTF provides various financing tools including loans, guarantees and risk capital that require risk management. In fact, in any national financing sector regulatory framework, such a fund would have been built or transformed into a financial institution or a bank, with the adequate financial structure and its own professional organisation.

Moreover, projects are submitted to the TFCs before the complete finalization of the appraisal process, especially as far as the financial terms of the loans are concerned. MDBs usually submit them to their respective boards after TFC approval. Trust finance is also often used as subordinated to MDB finance (which in principle would seem to be a good role for such a resource, but implies an increased attention by TFC that rely on MDBs information and assessment of risk). As a consequence, TFCs make many decisions on the basis of incomplete information while relying heavily on the processes of MDBs, with no structured control capacities of their own. This offers an interesting flexibility to the MDBs.

1.2.2. Business model

The CIF receive different kinds of contributions: grants, highly concessional loans (France and Germany) and so-called "capital" contributions (UK and Spain) that can be assimilated to a grant facility. Most of its financing is delivered through loans, although various financial instruments are available: grants, guarantees, equity, etc. This means that during the lifetime of the CIF trust fund it will collect "financial reflows" from its lending activities, those reflows being "reimbursed" or redistributed to contributors at the end of the fund's life cycle. More specifically, the CTF business model is based on a 5% default rate (which is the historical default rate of the World Bank Group). Losses will be shared between contributors according to their initial level of commitment. As a direct lender, the CTF doesn't benefit from the same seniority regarding reimbursements from countries or counterparts compared to that attached to the statute of MDBs.

Leverage effect

CIF resources are used to back up their financing in its entirety, meaning that, for example, a grant of USD 100 would be transformed into a loan of USD 100 with a grant element of 45% or 75% depending on the terms of the loan (or any other financial instruments). There is therefore no direct leverage effect on CIF resources. However, CIF are used within an obligatory co-financing framework with MDBs, thus enabling in theory the possibility of a global leveraging effect on this mix of resources, depending on the instruments used by MDBs to co-finance. However, such a leverage effect is difficult to assess and no reliable information on this matter is publicly available. CTF-funding is automatically bundled with MDB financing, according to a ratio of 30:70 on average. This opens the possibility of bringing the joint total available for project financing from the CTF and MDBs up to USD 15 billion.

Cost-effectiveness

Whereas it was specified at their onset that the pricing and terms of the CIF would be tailored to address the specific risks and the market and structural aspects of each project, the CTF in fact has uniform financing terms for the public sector:

CTF loans	Maturity	Grace period	Principal Repayments year 11-20	Principal Repayments year 20-40	Grant Element
Harder concessional	20	10	10%	0	45%
Softer concessional	40	10	2%	4%	75%

As far as private sector financing is concerned, the amounts and terms of CTF funding offered to an individual client will be determined between

1. Cf. recent study by the Stockholm Environment Institute and UNEP, mapping climate public financial flows to developing countries: http://www.unep.org/pdf/dtie/BilateralFinanceInstitutionsCC.pdf

the MDB and the client on a case-by-case basis. However these terms are not public and there is little available information to justify the level of concessionality offered and its relevance to the type of projects considered (e.g. quantification of additional costs faced by early entrants…).

CTF-funding is automatically bundled with MDB financing, thus the final financial package offered to recipient countries is dependent on the range of tools they have at their disposal. In the case of sovereign loans, standard International Development Association (IDA) terms are applied with no differentiation between projects, their expected return or the ability of recipient countries to incur the cost of debt. Therefore, the offered level of concessionality might not always be appropriate with respect to the profitability or the specific objectives of the project considered.

Consequently, the cost-effectiveness regarding the use of CTF resources is very difficult to assess and could imply in some cases that the investments funded by the CTF/MDBs package could have been financed at a lesser cost to the international community, which would have allowed for more investments with the same amount of money. Also, in some cases, an excessive level of concessionality may create a distortion effect, giving rise to future financial barriers for private investments.

Quite often, the information provided for the decision-making process, which is based on a template that is overly qualitative, is insufficient to ascertain whether the proposed concessionality level is appropriate for the project at hand.

1.2.3. Implementation performance

Project cycle

All recipient countries eligible for official development assistance, and where at least one MDB is operative, are eligible for CIF financing. The national investment plans are presented to the TFCs and endorsed through the allocation of a resources envelope. These investment plans are further developed into projects of programmes, which the TFCs receive for approval once the MDBs have conducted a pre-appraisal. Once the financial envelope is approved by the TFCs, the MDB conducts its appraisal of the project and submits it to its own board for approval. The MDBs also acquire funds from the CIF Trustee to support implementation and evaluation when conducting the supervision of the projects.

Disbursements

Information on the cumulative disbursement level is difficult to obtain, as the Trustee does not disburse by project, but rather through lump sums given to the MDBs involved in implementing project financing. The MDBs then disburse the combined CIF/MDBs funds to projects. As of the end of February 2011, 13 countries and one regional investment plan (which describes how the funds will be used in the major sectors of the economy) have been endorsed by the CTF for a pipeline of 57 planned projects, amounting to USD 4.35 billion in CTF funding. Of the endorsed investment plans, the TFC has approved 15 projects as of November 2010, totalling USD 1.4 billion. Cumulative disbursements include USD 213 million for projects and USD 14 million for administration, for a total of USD 227 million spent within two years of activity, which seems rather good in comparison to other multilateral funds, but still questionable regarding the possibility of implementing large amounts of financing.

1.2.4. Impact

Results and evaluation

For the CTF, no performance objectives have been defined ex ante and the overall impact on emissions abatement is calculated according to methodologies that have not been externally validated. The CIF have failed so far to adopt carbon accounting, rendering them unable to judge their progress toward this objective. Without carbon accounting the CTF cannot select the most cost-effective projects and track progress on emissions reduction.

Regarding SCF funds, it seems too early to pass judgment on their results. However, it can be noticed that:

- The SCF's PPCR, which was set up to finance adaptation projects, has failed to build a coherent global initiative for adaptation and appears somewhat redundant compared to other dedicated financing initiatives such as the Adaptation Fund and the Least Developed Countries Fund, even though it insists that recipient countries devise their own specific strategic programmes to integrate all existing initiatives in the adaptation field. Due to such dispersed initiatives no momentum has been created to start implementing adaptation finance on a large scale; on the contrary, all these funds focus on separate pilot projects;
- The FIP's mandate also overlaps with other initiatives such as the Forest Carbon Partnership Facility but it does not allow for scaling-up and does not fit within the REDD+ general framework of payments for environmental services.

The SCF has been criticised by civil society groups for creating parallel structures for financing climate change adaptation and mitigation outside the ongoing multilateral framework for climate change negotiations and within a process dominated by G8 countries.

Transformational effect

The CIF were set up to demonstrate how innovative strategies can initiate transformational change at the policy, institutional and market levels either by supporting new, innovative, climate efficient, scalable investments or by alleviating barriers to investment by private and public finance.

As far as the CTF is concerned, the initial results show that it has facilitated a first step of scaling-up existing practices at the project level, but it has not really put new financing schemes to the test.

In fact, MDBs have been confronted with conflicting operational objectives: while they aim to identify programmes with potentially transformational effects; they are also responsible for the rapid implementation of all CTF resources, to demonstrate the ability of the CTF scheme to deliver. Ultimately, it seems that many investment plans are based on:

- scaling up existing initiatives already under assessment by MDBs;
- financing initiatives already identified by other financiers (with in some cases a question of additionality and even a crowding out effect);
- replicating existing investment types (for instance Renewable Energy [RE]/Energy Efficiency [EE] credit lines);
- and, to some extent, the identification of new and innovative investments.

The transformational effects of such programmes and especially the additionality of the CTF must be carefully assessed.

Moreover, observers have stressed the need to tackle the policy, institutional and regulatory barriers to low carbon development if the CTF is to fulfil its aim of sustained and transformative impacts. These factors are not currently adequately addressed by CTF analysis or monitoring. Most CIF financing is at the project level and does not relate to national climate plans or sector policies. For instance, there is no general budget support provided to help strengthen the public policies of recipient countries. On the contrary, due to its sunset clause, the CTF has consistently sought to finance operations that are implementation-ready, rather than helping recipient countries design national strategies to switch towards low-carbon economies. This, sometimes opportunistic, behaviour does not allow for a substantial catalytic effect but it is in continuity with previous work and encourages a focus on the scaling up of existing pilot projects.

This in turn raises the question of the recipient country's ownership. National investment plans designed to achieve a set of country-specific goals require support from national strategies, which are not yet in place in several countries. The CTF has sometimes supported investment plans despite the need to develop such national strategies.

Catalyzing effect on other financing sources

MDBs were chosen as implementing agencies for the CIF also because of their ability to leverage other sources of finance, be it from the private sector or other international financial institutions. However, the role of MDBs is still considered to be one of a last resort lender, which should intervene only where there is no alternative financial offer so as to avoid creating market distortions. In some cases, investment plans submitted to the TFC substantially lack a global analysis of the different financing options available from private and public sources for the proposed investments; and there seems to be very little coordination on the ground, with either the private sector or with other donors, to maximise the financing flows from different sources and to optimise the use of highly concessional CTF resources. In fact, due to the size and high grant element of the financing packages, CTF funding sometimes competes with other financing sources leading to their exclusion.

2. KEY LESSONS FROM THE GLOBAL ENVIRONMENT FACILITY

2.1. Main features of the GEF

The Global Environment Facility was established in October 1991 as a USD 1 billion pilot programme within the World Bank to assist in the protection of the global environment and to promote environmental sustainable development. In 1994, two years after the Rio Earth Summit, the GEF was restructured and moved out of the World Bank system to become a permanent, separate body. Since 1994, however, the World Bank has served as the Trustee of the GEF Trust Fund and provided administrative services.

As part of the restructuring, the GEF was entrusted to become the financial mechanism for both the UN Convention on Biological Diversity and the UNFCCC. The GEF was subsequently also selected to serve as a financial mechanism for two more international conventions: The Stockholm Convention on Persistent Organic Pollutants (2001) and the United Nations Convention to Combat Desertification (2003). The GEF provides funding to assist developing countries in meeting the objectives of international environmental conventions.

Climate Change is one of the six focal areas supported by the GEF Trust Fund. The objective of this part of the fund is to help developing countries and economies in transition to contribute to the overall objective of the UNFCCC. GEF funds support projects that reduce or avoid GHG emissions in the areas of renewable energy, energy efficiency, sustainable transport and interventions that increase the resilience of vulnerable countries, sectors and communities to the adverse impacts of climate change.

The GEF administers three trust funds, the GEF Trust Fund, the Least Developed Countries Trust Fund (LDCF) and the Special Climate Change Trust Fund (SCCF) and provides secretariat services, on an interim basis, for the Adaptation Fund.

Replenishment of the Trust Fund takes place every four years based on donor pledges. The five replenishment periods to date are 1994-1998, 1998-2002, 2002-2006, 2006-2010 and 2010-2014. The GEF Trust Fund has received a total of USD 15.225 billion during its five replenishments. In 2010, 34 donors have committed funds and the amount pledged for the climate change focal area is USD 1.4 billion (for a total amount of USD 4.34 billion).

2.2. Performance evaluation

2.2.1. Governance and resources management

Level of stakeholder buy-in

While the level of buy-in by stakeholders was quite high at the onset of the GEF, it appears that in terms of actual receipts, the budget has steadily declined in terms of purchasing power since GEF-1 (1994-1998).

Governance structure

The GEF governing structure is composed of: the Assembly, the Council, the Secretariat, a Scientific and Technical Advisory Panel (STAP), and the Independent Office of Monitoring and Evaluation.

The conventions, for which the GEF serves as a/the financial mechanism, provide broad strategic guidance to the two governing bodies of the GEF: the GEF Council and the GEF Assembly.

The Assembly is one of the two governing bodies of the GEF in which representatives of all member countries participate. Ministers and high-level government delegations of all GEF member countries take part in the meetings.

The GEF Council functions as an independent board of directors, whose primary responsibility is developing, adopting and evaluating the operational policies and programmes for GEF-financed activities, as well as reviewing and approving the work programme (projects submitted for approval). Council members represent 32 constituencies (16 from developing countries, 14 from developed countries, and two from countries with transitional economies). In practice, all decisions are made by consensus.

The GEF Secretariat reports directly to the GEF Council and Assembly, ensuring that their decisions are translated into effective actions. The Secretariat is headed by the Chief Executive Officer, who is appointed to serve for three years, and may be reappointed by the Council.

The STAP provides strategic scientific and technical advice to the GEF on its strategy and programmes. The Panel consists of six members who are internationally recognized experts in the GEF's key areas of work.

The GEF Evaluation Office has the central role of ensuring the independent evaluation function within the GEF.

"GEF Agencies" (i.e. the ten Agencies - multilateral institutions and UN agencies - authorised to implement GEF resources, see below) are responsible for identifying projects and for managing GEF financing on the ground. They usually bundle their own resources with those of the GEF.

GEF Operational Focal Points are designated by each country that receives GEF funding, and are responsible for operational aspects of GEF activities such as, endorsing project proposals to confirm that they are consistent with national plans and priorities and facilitating GEF coordination, integration and consultation at the country level.

Performance and Risks of the governance structure

One of the concerns relating to the creation of the GEF was to avoid the establishment of an entirely new institution, rather than building on the existing multilateral system while at the same time providing a bridge and a cooperation capacity between the UN system and the MDBs (Multilateral Development Banks)/IFIs (International Financial Institutions). Its unique governance structure tries to address this concern.

However, the Fourth Overall Performance Study of the GEF showed that there were tensions among different actors within the GEF network-partnership system that was having a negative impact on its performance and operations. There is a general tendency for Members to rely on the CEO to consider strategy and to make concrete proposals to the Council. As a result, the leadership role in putting forward policy initiatives is shifted from governance to management. The Council limits its role to review and approve decisions by management on the basis of relatively simplified discussion among its Members, which is aggravated by the fact that the CEO also acts as the co-chairman of the Council on certain issues. More than two-thirds of Members think that the Council engages in too much micromanagement.

2.2.2. Business model

The GEF is funded by national budget contributions, which are renewed every four years as the GEF only provides grants to implementing agencies. One of the main problems of its business model, apart from the fact that it has had difficulty mobilizing increasing flows, is clearly the arrears. In total, arrears which have been outstanding for some time, including deferred contributions and unfulfilled pledges, as of June 2009 amounted to some 18 % of the resources originally projected for GEF-4 (2006-2010) mainly due to the US Congress's refusal to vote on the corresponding appropriations.

Cost-effectiveness

The GEF has put considerable effort into defining and applying the incremental cost principle for all GEF-funded projects to ensure that its grant resources are not substituting for resources more appropriately mobilized in other ways. However, it seems that this catalytic role is not functioning, as the implementation agencies tend to set up projects to mobilize the GEF funds rather than resorting to it to finance their project externalities[2].

2.2.3. Implementation performance

Project cycle

To qualify for GEF funding, a country must be eligible to borrow from the World Bank or receive technical assistance from the UNDP. Under GEF-4 it was decided to review the allocation rules of the funds for three focal areas (climate change, biodiversity and land degradation) and limit allocations to countries that have utilized GEF funds in the past five years.

From its inception the GEF has relied on three multilateral organizations (UNDP, UNEP and the World Bank) to implement GEF projects. In 1999, the GEF Council approved the addition of regional development banks and specialized UN Agencies into the GEF partnership, namely: the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IAD), the International Fund for Agricultural Development (IFAD), the United Nations Food and Agricultural Organization (FAO), and the United Nations Industrial Development Organization (UNIDO).

Several types of project are financed by the GEF:

- Full Size Projects (FSPs) are projects receiving over USD 1 million from the GEF Trust Fund. They are subject to GEF Council approval. Umbrella Programs also belong to the FSP category (they receive GEF funding of over USD 1 million), however, they are comprised of several individual projects.
- Medium Size Projects (MSPs) are projects receiving funding of up to USD 1 million from the GEF Trust Fund. Approval of MSPs has been delegated by the GEF Council to the GEF CEO.
- Enabling Activities (EAs) provide funds for the preparation of a plan, strategy or programme to fulfil commitments under a global environmental convention, or for a national communication or report to a relevant convention.
- Small Grant Projects are projects of up to USD 50,000 given to non-governmental and community organizations for community-based projects through the GEF's Small Grants Programme.

FSPs account for 87 % of project funding but while their share of GEF funding has increased, the individual amount for each approved FSP has decreased (from an average of USD 6.8 million per FSP in the GEF-3 [2002-2006] to USD 5.4 million in GEF-4 [2006-2010]).

The GEF Agencies submit Project Identification Forms (PIFs), endorsed by the Country Operational Focal Point, to the GEF Secretariat on a rolling basis. Once the GEF Secretariat has completed its review, the CEO considers the PIF for inclusion in a work programme. The GEF Council then approves these work programmes. The next step is the GEF CEO's endorsement of projects before they can be approved by the GEF Agencies. At this point, the final GEF funding amount is confirmed by the CEO. For CEO endorsement, the Agencies transmit the same documentation that they had submitted for approval by their respective internal approval authorities. As soon as the CEO has determined that a project proposal meets the conditions for endorsement, the Secretariat circulates a final draft project document to Council Members for approval. Upon CEO endorsement, the Trustee then makes funding commitments to GEF Agencies for projects and fees.

2. This was especially the case for UNDP and UNEP which were experiencing difficulties at that time.

Originally, the three implementing agencies and the World Bank in particular exerted a great deal of power in the conduct of business, in the design of GEF policies and strategies, and in its operational activities. Over the years the agencies have seen their roles and responsibilities weakened throughout the GEF business cycle. A series of operational changes have gradually increased the functions of the GEF Secretariat, creating a new imbalance in the partnership between the agencies and the Secretariat[3].

All Agencies consider that being a partner of the GEF comes at a high cost, and no agencies receive a full recovery of costs for their services. With the current financial modalities for Agencies, and the inefficiencies in the project cycle, Agencies report that they put more into the GEF than they receive back.

GEF Agencies consider that the current centralized approach used by GEF regarding projects and programmes is counterproductive and not cost-effective. They also feel that the Council is too much project-oriented and excessively influenced by the CEO. All Agencies consider that the current GEF Project cycle continues to be a source of great concern. The dual process of approvals, checks and balances is too long, too expensive and involves high transaction costs. The Agencies cite the fact that they can provide support in a faster and more responsive manner for non-GEF financed activities.

Disbursements

Up to June 30, 2009, the GEF has supported 2,389 approved projects involving GEF funding of USD 8.59 billion. Biodiversity accounts for a major proportion of the projects in the GEF portfolio. However, in terms of GEF funding its share is almost identical to that of the climate change focal area. Both climate change and biodiversity account for about a third of GEF investments.

Between 2006 and July 2010, the GEF-4 approved the spending of USD 1.024 billion for climate change projects. As of February 2011, USD 818.63 million had been disbursed. The remaining amount will be distributed under the GEF-5. The GEF-5 has approved funding amounting to USD 8 million. Of this total, USD 0.91 million had been disbursed by February 2011.

3. The current CEO –on taking office in 2006– decided to abolish the Interagency Task Forces on Climate Change, Biodiversity, Land Degradation and International Waters, which had been instrumental until then in helping the GEF CEO and the GEF secretariat to understand and develop key strategies and policies.

2.2.4. Impact

Results and evaluation

Agencies are required to submit final evaluation reports to the GEF Evaluation Office, which in turn conducts assessments of the funded projects. The most important limitation of this review process is that it is almost solely based on a desk review of information provided by the terminal evaluation reports and third party assessments.

Impact evaluations have only recently emerged for the reduction of Ozone Layer Depletion and the biodiversity focal areas. No methodology of impact evaluation has been developed in the climate change focal area and yet it is claimed that: “more than 1 billion tons of GHG emissions, an amount equivalent to nearly 5 % of annual human emissions, have been avoided with GEF support”.

Transformational effect

Most observers agree that the GEF provides a valid mechanism for pilot work in support of the achievement of the goals of the Conventions, but when it comes to up-scaling through significant and structuring investment, the GEF has experienced more difficulties in providing added value, while representing an additional step in the funding and implementation chain.

Catalyzing effect on other financing sources

Since its pilot phase, the GEF partnership is reported to have mobilized an amount of promised co-financing totalling USD 37.6 billion — that is, USD 4.40 for each USD 1 of GEF grant— for its approved projects.

Mobilized co-financing for GEF projects is often portrayed as an additional resource made available for addressing global environmental problems. However, even though co-financing may bring additional resources to a *project*, this does not imply that additional resources are made available *systemically* for environmental purposes. Also, additionality can be questioned for example when a GEF partner, with an environmental mandate, funds activities that address global environmental concerns regardless of whether a particular GEF project will materialize. For many projects, the reported co-financing and leverage effect does not appear as apparent as indicated.

3. KEY LESSONS FROM THE EUROPEAN BLENDING MECHANISMS

3.1. Main objectives and features of the European Blending Mechanisms (EBMs)

The creation of various mechanisms at the European Union (EU) level to blend loan and grant resources is a salient element in the recent evolution of the European external assistance architecture. The European Blending Mechanisms (EBMs) are structured collaborative facilities that bring together the European Commission and the European International Finance Institutions, namely European development banks (European Investment Bank [EIB] and European Bank for Reconstruction and Development [EBRD]), European bilateral international financial institutions (Agence française de développement [AFD], Kreditanstalt für Wiederaufbau [KfW]…) and European private financing institutions operating with a public mandate on external assistance.

The aim of the EBMs is to stimulate synergies, coordination and co-financing among the participating institutions with a view to enhance quality, impact and especially scale of supported operations, and thereby maximise the EU's contribution to sustainable and inclusive growth in its partner countries.

The blending of EMB grant resources with grants and loans from eligible European International Finance Institutions enables tailor-made "financing packages" to be provided for programmes and projects in the public and private sectors of developing countries. Depending on the specific needs of each programme or project, such financing packages can comprise a variety of instruments such as (i) grant funded technical assistance for project preparation and supervision, or for capacity building - this technical assistance usually being associated to a specific investment generally financed through loans - (ii) long-term development loans with interest rate subsidies reflecting insufficient financial profitability and positive externalities of underlying investments, (iii) investment grants, particularly for environmental and social components of projects and (iv) different forms of risk capital or risk mitigation solutions designed to "crowd-in" additional (private) funds.

Starting with the EU-Africa Infrastructure Trust Fund (ITF)[4], which has been operational since June 2007, a series of blending and pooling mechanisms were successively created focusing on particular regions (regional EBMs) or sectors (sectoral EBMs)[5].

While the blending mechanisms had not initially been created with a specific climate change focus, many of the funded programmes and projects are directly or indirectly contributing to climate change mitigation and adaptation. Examples include renewable energy and energy efficiency projects as well as other low carbon infrastructure projects, for instance in transport.

Recognizing the added-value of these mechanisms, the European Commission announced during the recent Climate Change conference in Cancún (COP-16) that it would create, in line with its international commitments, new specific "Climate Change Windows" (CCW) in the existing EBMs, with the objective of encouraging more climate interventions within the existing financing envelopes, attracting additional financing for climate change, and reinforcing and widening the scope of its financial tracking system regarding climate change.

Given the rapid rise of EBMs since 2007, the mechanisms have already significantly impacted on the way European development cooperation is pooled and delivered. Even if the track record for EBMs since 2007 remains limited, a number of lessons can be drawn from the facilities' operations.

3. 2. Performance evaluation

3.2.1. Governance structures and resource management

Stakeholder buy-in

The EBMs have received a high level of interest and support in Europe that can be measured through the rapid rise of resources made available. As of the end of 2010, an approximate total amount of €1.5 billion in grants has so far been pledged or firmly committed to the various EBMs. The number of approved projects under the EBMs is also rising steadily. For instance, since it began operating in mid-2007, and as of the end of March 2011, the ITF has approved 40 Grant Operations totalling more than €212 million of commitments. This trend seems most likely to be amplified in the future. Indeed, while negotiations on

4. www.eu-africa-infrastructure-tf.net

5. Such facilities target either a particular region, such as: the EU Neighbourhood Investment Facility - NIF, Western Balkans Investment Framework - WBIF, Latin America Investment Facility – LAIF and the Investment Facility for Central Asia - IFCA); or a particular sector, such as: the Pooling Mechanisms under the Energy and Water facilities, which are open to all ACP countries.

the multi-annual financial framework (2014-2020) for European development cooperation are still underway, it appears likely that increased financial resources will be made available through the regional EBMs.

Furthermore, the number of participating financial institutions under the EBMs has also been gradually increasing, thereby demonstrating the attractiveness of the blending facilities. The Project Financers Group of the ITF comprises 12 financial institutions from across Europe[6]. Even though, to date, only five of these 12 institutions have been active in presenting projects to the ITF, more and more are showing interest.

Governance structures

While governance arrangements slightly differ between the various blending mechanisms, all mechanisms share a common structure composed of three levels:

(1) a strategic-level body in charge of directing policy and ensuring overall consistency with EU and partner country strategies;

(2) a decision-making body that allocates resources to individual projects;

(3) a group of eligible financiers responsible for appraising project proposals and providing all needed technical and financial input to the decision-making and strategic bodies.

The European Commission normally chairs or co-chairs along with partner countries the meetings of level 1 of the governance structure, chairs the meetings of level 2, and acts as a secretariat to most of the EBMs in coordination with a committee of eligible financial institutions structured to propose operational agenda, elaborate on best practices and coordinate among financial institutions. Finally, one of the participating financial institutions acts as the trustee of funds. The detailed governance arrangements have been fine-tuned over time and this process continues today. As an example, the set-up of the EU-Africa ITF is provided in the appendix.

Performance and Risks of the governance structure

EBM governance seems to have a proven capacity to trigger and organise fruitful dialogue between the policy-setting and operational levels. Indeed, the facilities provide a very useful tool to confront the rationale of the policy-setting bodies (i.e. the political entities in the EU and the partner countries in charge of defining strategy and programming development cooperation) and related top-down approaches with the more demand-driven, bottom-up rationale of project promoters and of the growing community of eligible development financiers.

Separation between a strategic level body and a decision-making body also seems a proven model (frequently used in the finance sector), to enable rapid commitments and reduce political interference with regards to decisions on financing. However, to go a step further, this separation of functions should be accompanied by the mobilization of specific and adequate expertise – i.e. the decision-making body should be constituted by financial professionals.

This governance also enables a certain flexibility and speed in managing the allocation of project resources. As for the CIF, the EBMs largely rely on the proven capabilities of the eligible financiers for screening and appraising projects and for implementing the financing packages, while at the same time favouring further harmonisation as well as mutual recognition of the financiers' appraisal standards and implementation methods. The main difference with CIF is that EBMs are, as is true of the GEF, only responsible for the allocation of grant resources to a project whose global financing is appraised and implemented by one or a group of eligible professional financial institutions. This allows, firstly, for very light decision-making processes (involving no financial or risk department) and fund management structures (no need for capital…), and secondly, a very focused function of assessing the need and the justification for the additional grant element requested by the implementing financial institution to achieve the financing plan.

One of the main problems of the governance structures of the EBMs is the absence of participation of professional financial institutions from developing countries themselves, which limits the impact of the mechanisms and does not optimize ownership by developing countries, as highlighted for instance by the Paris Declaration on Aid Effectiveness. Even if EBMs already rely on a wide range of financial institutions, which bring specific comparative advantages to the table, this limitation, as well as the weak links with other international initiatives such as the GEF or the CIF, seems to be the major governance issue to date. Some of the EBMs like the ITF are currently envisaging the eligibility of non-EU based financing institutions like

6. These 12 financial institutions are: COFIDES; Lux-Development; Agence française de développement (AFD); European Investment Bank (EIB); Oesterreichische Entwicklungsbank AG (OeEB); Società Italiana per le Imprese all'Estero (SIMEST); Kreditanstalt für Wiederaufbau (KfW); African Development Bank (AfDB); SOFID; Belgian Investment Company for Developing Countries (BIO); Finnish Fund for Industrial Cooperation Ltd. (FINNFUND); and Private Infrastructure Development Group (PIDG). Greece is represented by its Ministry of Economy and Finance.

the AfDB, but more needs to be achieved in this regard.

3.2.2. Business model

Leverage effect

Since the financing packages supported by the EBMs comprise very different instruments (see above) the "leverage effect" of individual packages can strongly differ. On an aggregate basis (i.e. taking as a guide the average ratios of grant to investment finance observed so far for typical projects), it can be estimated that total investment funding under EBM-financed projects may be in the order of €20 billion[7] with the current grant endowment of €1.5 billion.

Cost-effectiveness

Under the EBMs, the level of concessionality granted to an eligible project is determined on a case-by-case basis according to the characteristics and needs of the underlying investments. A set of applicable rules on blending have been laid out by a multi-donor working group under the supervision of the Council of the EU[8] and have been further refined in the procedures of the various EBMs. In particular, subjects for review include the ex ante quantification of the subsidy element requested from the EBMs, the subsidy element implicit in the financing terms offered by the co-financers, and the rationale for the global level of concessionality offered to the beneficiary.

3.2.3. Implementation performance

Project cycle

The process of identification, due diligence and appraisal of projects under the EBMs is carried out according to the established standards and procedures of each of the participating financial institutions. Under such procedures a project promoter approaches one or several of the participating financial institutions of his choice. After initial identification, one financial institution will act as the lead financier for the project, therefore carrying out all necessary due diligence and appraisal work and presenting the project to the financier group (level 3 of the governance structure) for peer review and initial endorsement. If endorsed, the project proposal will be presented to the decision-making body (level 2 of the governance structure).

In general, the appraisal process of the loan(s) and grant components goes on in parallel, thus allowing reasonable timeframes before a decision.

It is worth noting that most of the projects under the EBMs are co-financed by several participating financial institutions (and external co-financing partners). The European Commission strongly encourages loan co-financing through the EBMs. As a consequence, the participating financial institutions have taken certain measures to harmonise their respective appraisal standards and procedures. Some of these institutions (EIB, AFD and KfW) decided for instance to launch a "Mutual Reliance Initiative" under which the procedures of the three institutions are systematically reviewed and aligned if necessary by defining minimum requirements. This harmonisation of efforts, allowed and encouraged by the EBMs rules and procedures, contributes to a simplification of the appraisal and implementation process, reduces transaction costs to all parties, and favours both the coordination and the division of labour among financial institutions.

Disbursements

It is still too early to assess the disbursement performance of the EBMs given their recent entry into operation. Nevertheless, initial evaluations indicate that the disbursement performance of EBMs is very much aligned with that of participating financing institutions, since the EBMs rely on the appraisal and implementation procedures and timelines of participating financing institutions.

However, the disbursement schemes of the different EBMs are not at this stage harmonised. In some cases, disbursements are made directly to the promoter of the project by the trustee, on the basis of the lead funder's instructions. In other cases, funds are disbursed to the lead funder that is in charge of the global financial implementation of the project (combining its resources and those sourced from the EBM). This second option clearly seems more effective in terms of cost and time, but needs as a counterpart a strong reporting commitment by the lead funder and the fulfilment of minimum financial performance standards.

3.2.4. Impact

Results and evaluation

Given the recent start of most EBMs and their focus on infrastructure development (which imply rather long lead times up to implementation),

7. Rough calculation based on the average leverage ratio observed for typical projects under the NIF and the ITF. The grant amount of €1.5 billion does not include the subsidy elements that may already be included in the long-term loans provided by the European development finance institutions. Source: *EU Blending Facilities: Implications for Future Governance Options*, European Think Tanks Group, January 2011.
8. The results of the work are being made available on the website of the Practitioners' Network for European Development cooperation (www.dev-practitioners.eu).

there is only limited data available at present on the assessment of development outcomes and impacts. Moreover, apart from a few guiding principles (eligibility criteria for instance), neither impact objectives nor monitoring and evaluation tools have been defined ex ante for the EBMs. Monitoring and evaluation, as well as the impact assessment of the EBMs, currently rely on the procedures of each of the participating institutions.

A mid-term review of the ITF (Infrastructure Trust Fund) and the NIF (Neighbourhood Investment Facility) will soon be conducted by independent consultants and will provide a clearer picture. In particular, such an evaluation will examine to what extent such blending mechanisms have facilitated the financing of projects and programmes in the field that could not have been financed otherwise, or the setting up of innovative financing schemes.

Transformational effect

Once again, it is currently too early to assess the transformational effect of individual projects in the targeted sectors of beneficiary countries. However, the impact of the EBMs in terms of the increased scale and visibility of operations through the pooling of resources, and regarding the expected improvements in project quality due to reduced transaction costs and increased use of technical assistance, are elements that should enhance the transformational impact on targeted sectors in recipient countries. Also, initial evaluation work shows that without EBMs, many of the projects and programmes financed would not have reached financial closure.

However, most EBM financing is at the project level and does not relate to national climate plans or sector policies. For instance, general budget support has yet to be provided through a lead funder to help strengthen public policies in recipient countries.

One of the main transformational effects that can be anticipated through the EBMs is the way that European Development Cooperation is designed and delivered. Expectations are that blending will take on an even larger role in the future as financial resources earmarked for blending are likely to increase. The EBMs will also play an important role in European climate change finance, through the opening of dedicated climate change windows within the regional EBMs (also see above). Such changes on the donor side are in line with the objectives of the aid efficiency agenda.

Catalyzing effect on other financing sources

All funded operations under the EBMs are expected to “crowd in” additional funding from public and/or private sources. Comparing the grants made available to projects by the EBMs with the investment financing of the participating financial institutions and other co-financing entities, such as the MDBs and other (private) banks, it appears that the EBMs already show a high level of leverage (see above). However, it seems that the instruments provided by the implementing financial institutions within this scheme remain, for the moment, relatively classic (these are mainly soft loans). The EBMs have not yet been able to foster the development of innovative finance solutions within the participating financing institutions, particularly through the design and deployment of risk mitigation instruments (such as first loss facilities for infrastructure or SME development, for instance) or large budgetary support.

4. KEY LESSONS FROM THE GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS AND MALARIA

4. 1. Main features of the GFATM

Since its creation in 2002, the Global Fund has become the main funding body for programmes aimed at tackling AIDS, Tuberculosis (TB) and malaria, having approved USD 21.9 billion in funding for 864 programmes in 144 countries[9]. The Global Fund’s purpose is to attract, manage and disburse resources but it does not implement programmes directly. Its funds are allocated as follows: 62 % for AIDS, 16 % to TB and 22 % to malaria.

It was created on the premise that i) it is relatively easy to generalize prevention and treatment of these three diseases, provided enough funding is available; and ii) existing aid programmes were inadequate in terms of a rapid scale-up of funding and to answer urgent needs.

The Global Fund has been replenished three times since its creation (2005, 2007 and 2010). The bulk of effective contributions (USD 18.9 billion since 2002) derive from donor countries (95 %), in particular OECD DAC donors, while 5 % comes from the private sector (of which 68 % is from the Bill & Melinda Gates Foundation). The United States is the major donor country with an average of USD 450 million disbursed per year, or 27 % of the funds contributed since the fund’s inception, followed by France (13 %).

Over the past few years, the Global Fund has broadened its resource base through several

9. Figures as of the end of December 2010

innovative financing mechanisms such as the solidarity levy on airline tickets (UNITAID) or "debt to health" initiatives (Australia and Germany).

4. 2. Performance evaluation

4.2.1. Governance and resources management

Level of stakeholder buy-in
The Global Fund was created in stark contrast to traditional donors, both multilateral and bilateral. Since its onset it has managed to raise a substantial amount of funds and to implement them rapidly, due to a very clear and focused mandate and a straightforward grant-based financing window. Its fourth replenishment for 2011-2013 came to an end last year and pledges were up by 20 % compared to the previous one, reaching a total of USD 11.7 billion, which provides evidence of its ability to mobilize donors in a very effective manner.

Governance structure
When the Global Fund was established in 2002, it entered into a temporary Administrative Services Agreement (ASA) with the World Health Organization (WHO). This enabled the Global Fund to get operations started quickly and to fund programmes within a year. This agreement was terminated on December 31, 2008. From then on, the Global Fund has been an administratively autonomous international institution, enjoying privileges and immunities in Switzerland and the United States.

The Global Fund's Board includes representatives of donor and recipient governments (15 voting rights), non-governmental organizations (two voting rights), the private sector (including businesses and foundations, two voting rights) and affected communities (one voting right). Key international development partners also participate to the Board's meetings (without voting rights), including the WHO, the Joint United Nations Programme on HIV/AIDS (UNAIDS), public-private partnerships (Roll Back Malaria, Stop TB, UNITAID) and the World Bank. The latter also serves as the Global Fund's trustee. The Board meets at least twice annually and is responsible for the organization's governance, including establishing strategies and policies, making funding decisions and setting budgets. The Board also works to advocate and mobilize resources for the organisation.

The Global Fund Secretariat manages the grant portfolio, including screening proposals submitted, issuing instructions to disburse money to recipients and implementing performance-based grant allocation. More generally, the Secretariat is tasked with executing Board policies; resource mobilization; providing strategic, policy, financial, legal and administrative support; and overseeing monitoring and evaluation. Since 2007, Michel Kazatchkine has been the executive director. A staff of around 568 work at the Geneva headquarters (they numbered 506 in 2005).

The Technical Review Panel (TRP) is an independent international group with expertise in the three diseases targeted and in cross-cutting issues such as health systems. It meets regularly to review proposals based on technical criteria and to provide funding recommendations to the Board.

Since the Global Fund does not have staff at the country level, it contracts firms (in general auditing companies) to act as "Local Fund Agents" (LFAs) to monitor implementation. LFAs are responsible for providing recommendations to the Secretariat on the capacity of the entities chosen to manage Global Fund money, and on the soundness of regular requests for the disbursement and result reports by recipients.

Risks and weaknesses of the governance structure
The Global Fund has often been presented as an innovative public-private partnership between governments, civil society and the private sector. However this diversity is not entirely reflected in the Board's composition, which allows limited voting rights to the private sector and civil society. One can question the value of having only two representatives of each within the Board and ask whether this is truly representative. The governance model of the Global Fund should however be praised for its never-failing commitment to accountability and transparency (all data are easily accessible).

4.2.2. Business model

The Global Fund was set up as a flexible structure, requiring very few staff ("mean and lean"). However, the number of employees has grown steadily since 2002 and the relative number of directors is quite high. Administrative costs (including operating expenses of the Secretariat and Local Fund Agents' fees) amount to 5% of total annual expenses, a figure that remains reasonable when compared to other international funds. Investment revenues generated by the Global Fund have been high enough to cover its administrative costs.

In December 2010, the Board decided to launch a reform agenda for the Global Fund, which includes measures for greater financial controls and risk management, greater value for money and further improvements in the way the Global Fund manages its grants to ensure its technical, institutional and financial sustainability.

4.2.3. Implementation performance

Project cycle

All low-income and lower-middle income countries are eligible to apply for funding. Upper-middle income countries with a high disease burden (based on information provided by UNAIDS and WHO) are also eligible to submit a proposal for funding. Lower-middle income applicants should focus predominantly on poor **or** vulnerable populations in their proposals; upper-middle income applicants focus predominantly on poor **and** vulnerable populations. Lower-middle income and upper-middle income applicants must demonstrate that the Global Fund's total contribution to the national programme or interventions for the relevant disease over the proposed term does not exceed certain maximums. This means that an applicant must demonstrate that the cost of funding is shared between the Global Fund, the domestic resources of the country in which the programme's activities will be implemented, and contributions from other donors. For lower-middle income countries, Global Fund support cannot exceed 65% of the overall disease programme requirement; and for upper-middle income countries this limit is 35%.

The Global Fund only finances programmes that are submitted by recipient countries themselves, in line with their national and strategic priorities. All actors with a stake in health policy, including civil society and the private sector, should be part of the proposal elaboration in order to ensure ownership.

At country level, the Country Coordinating Mechanism (CCM) is a partnership composed of all key stakeholders in a country's response to the three diseases targeted. The CCM does not handle Global Fund financing itself, but is responsible for submitting proposals to the Global Fund, nominating the entities accountable for administering the funding (the Principal Recipients - PRs) and overseeing grant implementation. Ideally the CCM should be in existence already, but a country may, if necessary, create a new entity to serve as its CCM.

On average, the Global Fund Secretariat issues a call for proposals on an annual basis. The eleventh Round is taking place from August to December 2011.

The Secretariat forwards all eligible proposals to the TRP for consideration. The TRP reviews them for technical merit and makes recommendations to the Global Fund Board, which approves grants based on technical merit and fund availability.

After the Board approves a proposal, the Secretariat requests the LFA to evaluate the designated PR's ability to manage implementation of the grant funding. If the evaluation results are satisfactory, the Global Fund signs a legal grant agreement with the PR designated by the CCM. The PR receives Global Fund financing directly, and then uses it to implement prevention, care and treatment programmes or passes it on to other organizations (sub-recipients) that provide these services. Many PRs both implement and make sub-grants. There can be multiple PRs in one country. The PR also makes regular requests for additional disbursements from the Global Fund based on demonstrated progress towards the intended results. PRs are sometimes multilateral organizations (e.g. UNDP), bilateral organizations or NGOs (20 % of grants) but they are usually governmental agencies (Finance or Health ministries).

The Secretariat is also responsible for the disbursement (in general every 3, 6 or 12 months) of approved grants. The grants are approved for an initial phase of two years (phase 1) and can be extended for three more years (phase 2), depending on their performance.

Disbursements

Since the first Round, the Global Fund has committed around USD 17.9 billion in grants. 59 % were committed for phase 1 financing and 32 % for phase 2 financing. Disbursements related to these commitments are around 76 % for Rounds 1 to 9 (2002-2009).

The Global Fund has a performance-based disbursement policy. Each programme's performance is assessed relative to a series of targets defined by recipient countries in their proposal. A more thorough evaluation of the programme takes place when the grant is about to enter its phase 2. Out of 589 grants approved between 2002 and 2007, 82 % have obtained phase 2 financing, of which 73 % to date have signed a financial agreement.

4.2.4. Impact

Results and evaluation

The Global Fund's funding is intended to be performance based, which is to say that funds might be interrupted if performance targets are not met by recipient countries. However, the Global Fund's monitoring of grant implementation is totally outsourced to the LFA which does not always have sectoral expertise or even in-depth country knowledge. This LFA system is very costly (in 2010, fees represented 23 % of the Global Fund's operating expenses) but does not ensure a real evaluation of the funded programmes based on technical criteria – LFAs focus on financial ones. Moreover, the TRP is supposed to review the proposals from a technical viewpoint to make sure that they are approved according to their quality and objective criteria; however members of the TRP do not have in-depth knowledge of all the recipient countries, which makes it difficult for them to really assess the relevance of the proposals with respect to the context of the country.

At the country level, the CCM is a monitoring body which is supposed to ensure ownership by national actors. However, its composition is often very heterogeneous, with representation levels that are not always adequate and with members more from political backgrounds than technical ones. This undermines its ability to effectively monitor the implementation of the Global Fund's grants. Sometimes it has been claimed that the Global Fund competes with National AIDS Councils. This problem is compounded by the absence of Global Fund staff on the ground, with no representation of any kind.

Therefore neither the Global Fund Secretariat nor the CCM are really in a position to control the channels through which funds are delivered and how projects are actually implemented. Given the high level of fiduciary risk in many of the countries financed by the Global Fund, this lack of monitoring ability poses real threats to the Fund's effectiveness. Widespread embezzlement has already been reported, which raises harsh questions for the Global Fund's operating model.

Transformational effect

The Global Fund's project cycle is largely disconnected from national budgets and strategic planning cycles as it is based on Rounds of calls for proposals. Therefore if a country manages to obtain access to the Fund's financing, one can safely assume that this financing is not anticipated in the country's budget alongside financing from other donors. It is by nature very unpredictable, which prevents recipient countries from having truly programmatic approaches to the health sector. Many case studies have even shown that proposal preparation is sometimes completely outsourced to external consultants, with very little participation from the actors within the sector, or even carried out in parallel to national sectoral programming exercises.

Moreover, the prevention, care and treatment programme financing approach needs to be complemented by capacity building components, which is necessary in many countries to implement these massive flows of funds. Although the Global Fund encourages recipient countries to ask for technical assistance for funding in their submission, this window has been under utilized. It is not only a question of financing but it is also one of identifying both the needs of countries and the expertise necessary to tackle these needs.

Finally, the Global Fund has been justifiably criticised for focusing on the treatment and prevention of three diseases when simultaneous health system strengthening (HSS) is an indispensible part of delivering these objectives. Therefore its mandate has been enlarged to allow for HSS proposals from recipient countries. However, it is not clear that the Global Fund is in the best position to finance such complex policies, given its lack of presence in recipient countries and of technical expertise in health systems as a whole.

Catalyzing effect on other financing sources

The Global Fund is intended to address gaps in country efforts to fight these three diseases and to strengthen underlying health systems by financing programmes that complement those of other donors, and it seeks to use its own grants to stimulate further investment by both donors and recipients.

In theory, traditional donors or UN agency staff should work together with the Global Fund to ensure the effectiveness of its financing. In practice, the Global Fund does not seem to pay enough attention to what is already being done in recipient countries by other donors, while expecting them to provide technical assistance, maximize CCM participation and to help with the implementation of grants based on their technical expertise and country knowledge. As this partnership is not formalized, the division of labour remains unclear, thus hindering coordination on the ground. Without financial compensation and with low visibility, there is no real incentive for traditional donors to conduct work on behalf of the Global Fund.

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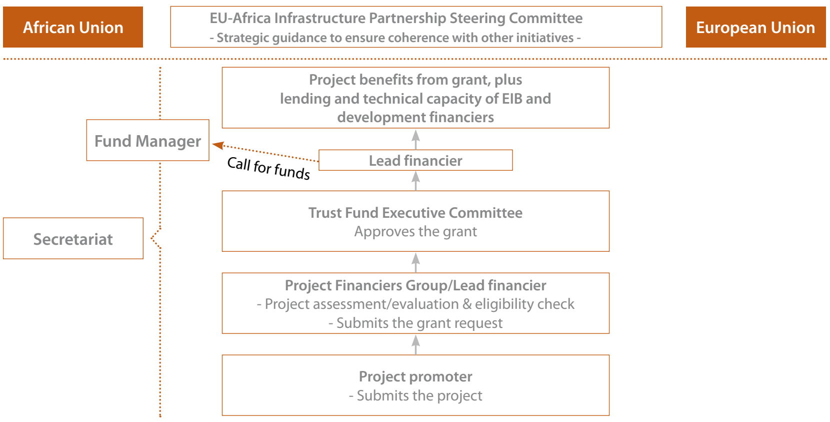
ANNEX

Modus Operandi of the Infrastructure Trust Fund – ITF

Schematic presentation of the project approval process



Governance structure

EU-Africa Infrastructure Partnership Steering Committee: ensures strategic guidance and consistency with other African and multi-stakeholder initiatives.

The **Trust Fund Executive Committee:**
- Governing body
- Approves all grant operations
- Voting members: donors to the Fund
- Overall responsibility/monitoring of performance

The **Secretariat**, housed at the EIB, assists the Executive Committee.

The **Manager** (the EIB) is in charge of the financial management of the Fund (disbursements and internal control, treasury, accounting, etc.).

Project Financiers Group[2]**:**
- Composition: each donor nominates a development finance institution (a Member State bank, agency or public body with international development project expertise)
- Checks the eligibility of the project and subsequently includes it in the project pipeline
- Elects the lead financier, which acts as coordinator/spokesman for a given project and is responsible for submitting the project
- Requests the grant operation
- Transfers the advantageous conditions to the project promoter(s)

[2] *As of November 2010: European Investment Bank – EIB, Development Bank of Austria – OeEB, Belgian Investment Company for Developing Countries SA/NV – BIO, Finnish Fund for Industrial Cooperation Ltd – FINNFUND, Agence française de développement – AFD, Kreditanstalt für Wiederaufbau – KfW, Hellenic Ministry of Economy and Finance, Società Italiana per le Imprese all'Estero – SIMEST SpA, Lux-Development S.A., Private Infrastructure Development Group – PIDG, Sociedade para o Financiamento do Desenvolvimento Instituição Financeira de Crédito – SOFID, Compañía Española de Financiación del Desarrollo – COFIDES, African Development Bank – AfDB*

Source: EU-Africa Infrastructure Trust Fund summary sheet

Key lessons from international financing mechanisms for the Green Climate Fund

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The Institute for Sustainable Development and International Relations (IDDRI) is a Paris and Brussels based non-profit policy research institute. Its objective is to develop and share key knowledge and tools for analysing and shedding light on the strategic issues of sustainable development from a global perspective.

Given the rising stakes of the issues posed by climate change and biodiversity loss, IDDRI provides stakeholders with input for their reflection on global governance, and also participates in work on reframing development pathways. A special effort has been made to develop a partnership network with emerging countries to better understand and share various perspectives on sustainable development issues and governance.

For more effective action, IDDRI operates with a network of partners from the private sector, academia, civil society and the public sector, not only in France and Europe but also internationally. As an independent policy research institute, IDDRI mobilises resources and expertise to disseminate the most relevant scientific ideas and research ahead of negotiations and decision-making processes. It applies a crosscutting approach to its work, which focuses on five threads: global governance, climate change, biodiversity, urban fabric, and agriculture.

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