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Climate Change Development Policy Operations and the Green Climate Fund

Emmanuel Guérin (Iddri)

CLIMATE BUDGET SUPPORT: AN INNOVATIVE AND PROMISING INSTRUMENT

Climate budget aid is an instrument providing financial, technical and political support for implementing low-carbon development strategies and climate policies. In return for a donor-funded sovereign loan, recipient countries commit to rolling out economic and institutional reforms and policies and measures that will mitigate their emission reductions as well as their vulnerability to climate change impacts. Climate budget aid is particularly well-tailored to the crosscutting nature of low-carbon development strategies and the cross-sectoral aspect of climate policies.

QUESTIONS RELATED TO ASSESSING ITS IMPACT AND RESULTS

The purpose of climate budget aid is to strengthen, clarify and supplement the recipient countries' low-carbon development strategies in the medium run—often as far as 2020. The instrument prioritises the institutional aspect of their implementation, which means that, by definition, it is not possible to measure the additional emission reductions attributable to the impact of budget aid—which is disbursed over three years—once this has come to an end. On the other hand, it is possible to precisely identify the results and—in some cases—quantify them using indicators included in the matrix used to monitor the action programme.

A CRUCIAL INSTRUMENT FOR THE GREEN CLIMATE FUND PORTFOLIO

The difficulties of quantifying the impact of budget aid should not call its use into question. These are part and parcel of all large-scale support programmes that target a transformational goal. Budget aid usefully supplements project funding and support for investment, as it integrates them into an overarching strategy and helps improve their cost-effectiveness. It therefore well deserves a place in the Green Climate Fund portfolio.

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The content of this paper, its opinions and the potential errors that it may contain, despite careful reading, remain the sole responsibility of the author.

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LIST OF ACRONYMS

ADB	Asian Development Bank
AFD	French Development Agency
AfDB	African Development Bank
CC DPO	Climate Change Development Policy Operations
CDB	China Development Bank
CDM	Clean Development Mechanism
GCF	Green Climate Fund
GEF	Global Environment Facility
IDB	Inter-American Development Bank
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
KP	Kyoto Protocol
LEDS	Low Emissions Development Strategy
NAMAs	Nationally Appropriate Mitigation Actions
NAPAs	National Adaptation Programmes of Actions
WB	World Bank

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INTRODUCTION

The need for the financing of developing and emerging countries to meet the challenges posed by climate change–reducing their emissions of greenhouse gases and adaptation to the effects of these changes–is immense.

While estimates vary significantly depending on the source, according to the report of the United Nations Framework Convention on Climate Change (UNFCCC),[1] to achieve the objective of limiting the average temperature increase to 2°C, the additional amount of investment and financial flows needed in 2030 amount to about $200 billion, about half of which must be in developing countries. Investment needs and financial flows for adaptation are more difficult to quantify precisely, but the UNFCCC estimates the additional requirement to be in the range of tens of billions of dollars, about $30 to $70 billion in developing countries.

To obtain such sums, funding must be derived from multiple sources, national and international, public and private. International public funds may be supplied either directly by the Green Climate Fund, or through multilateral financial institutions (World Bank...) or regional development banks (African Development Bank, Asian Development Bank, Inter-American Development Bank...), bilateral banks (French Development Agency, KfW, JICA...) or national banks (China Development Bank ...).

In any case, the Green Climate Fund will play a critical role in the financial architecture of the global climate: either directly, with financing coming from the Fund itself; or indirectly, where the funds only pass through it, but with the Fund defining, or at least influencing, the nature of such financial flows.

Given the constraints on public finances in developed countries, the use of financial instruments that are relevant, effective, cost-efficient and sustainable will be essential to enable a change in scale of private finance in developing countries. A wide range of financial instruments will be required in response to the specificities of countries, sectors and technologies.

The history of climate funds–which is recent in comparison to that of development aid–is characterized by constant innovation. All international financial institutions are involved in the testing of innovative approaches, so that the financial and technical support they provide to recipient countries can be truly transformational.[2] Several emerging countries are also considering the establishment of "national green funds" (South Africa, Mexico...).

Among the new instruments tested, Climate Change Development Policy Operations (CC DPOs) provide support, in the form of sovereign lending, to the budgets of recipient countries that commit, in return, to the implementation of certain components of a climate strategy.

This paper explores the relevance and feasibility of CC DPOs as a tool for the Green Climate Fund–and also for other financial institutions that use the Green Climate Fund's resources.

It begins with a definition of CC DPOs and a list of key CC DPOs to date, according to their relevant financial institution and recipient country.

Subsequently, this paper provides a brief historical analysis of the evolution of development aid

1. UNFCCC, October 2007, *Investment and financial flows to address climate change*

2. That is to say, to put them onto a different development path that is resilient to the effects of climate change, produces less greenhouse gas emissions, is efficient in terms of natural resource usage and is environmentally friendly.

in general, and of climate finance in particular, which explains the increased use of CC DPOs by financial institutions.

We then examine CC DPOs within the general context of climate finance instruments and aim to identify instruments with which they can be compared, and with which they can be complimented.

The paper goes on to analyse the strengths and weaknesses of CC DPOs.

Among the strengths, we can emphasize that CC DPOs:

- follow a recipient country-driven approach;
- strengthen the institutional framework of the recipient country;
- ensure the consistency of the public policy framework.
- While we also highlight some problematic areas that require deeper examination, including:
- evaluating the impact of CC DPOs;
- measuring the results of CC DPOs;
- defining the amount and level of concessionality of CC DPOs.

The paper concludes with an analysis of the opportunities and threats related to the inclusion of CC DPOs among the instruments used or authorized by the Green Climate Fund.

Given the uncertainties concerning the modalities of the Green Climate Fund–including how it interacts with other financial institutions–this section begins by clarifying the roles that the Green Climate Fund could–and should–play within the global climate finance architecture.

The analysis continues with a number of questions that must be satisfactorily addressed (either through improved practices or through the justification of concepts) for CC DPOs to be used or endorsed by the Green Climate Fund.

1. CC DPOs: DEFINITIONS AND ORIGINS

1.1. Definitions

Many international financial institutions, whether they are multilateral, regional or bilateral, use Development Policy Operations (DPOs). These tools are, however, given different names:

- The World Bank (WB) refers to: Development Policy Loans (DPLs) or Development Policy Operations (DPOs)
- The Inter-American Development Bank (IDB) refers to: Policy Based Loans (PBLs) or Programmatic Policy Based Loans
- The African Development Bank (AfDB) refers to: Program-Based Operations (PBOs)
- The Asian Development Bank (ADB) refers to: Policy Based Loans
- The Japan International Cooperation Agency (JICA) refers to: Climate Change Program Loans (CCPL)
- The French Development Agency (AFD) refers to: *Appui budgétaire climat* (Climate budgetary support)

Differences from one financial institution to another are not mere semantics. Variations in the terminology to describe DPOs show the diversity in the practices of financial institutions. This diversity of practice–between financial institutions, but also within a single institution from one country to another–can be explained by traditions and modes of operation that are specific to each financial institution, and by the diversity of situations in the countries where they operate. It also reflects the fact that DPOs are relatively new instruments that are constantly evolving, and that their usage has not yet been fully stabilized.

All these DPOs, however, share a number of common features, which define them as a class of instruments in their own right. DPOs are budgetary aids, in the form of grants or–most often–sovereign loans, which usually span periods of approximately 2-3 years and are divided into annual financial tranches. They are directly added to the budget of recipient countries, in conjunction with the implementation of action programmes. Finally, they rely on a set of performance and/or result indicators, under the form of a matrix of public policies.

DPOs were initially developed to support least developed countries in their efforts to reduce poverty. In these situations, the supported action programme is often called a "Poverty Reduction Strategy Paper", while the DPO is referred to as "Poverty Reduction Strategy Credit".[3] With regard to the fight against climate change, DPOs have, so far and in the vast majority of cases, been focused on middle-income countries.[4] In this case, the supported action programme is often called a "Low Emissions Development Strategy (LEDS)"[5] but it is also known as a "Low Carbon and Inclusive Growth Strategy"[6] or a "Green Growth Strategy"[7] depending on the country. A reform matrix may include, amongst other things, "Nationally Appropriate Mitigation Actions (NAMAs)".

In practice, the CC DPOs share the following characteristics:

- They are not channelled towards technical ministries (but rather directly increase the budget

3. In the case of the World Bank.
4. They do not, however, intend to support only middle-income countries, and could in future be usefully offered to less developed countries.
5. For example: in China.
6. For example: in India.
7. For example: in South Korea.

of the recipient country), although they are related to the realization of a specific action programme (they support LEDS implementation).

- These action programmes are implemented by technical ministries (environment, energy...) and coordinated by a transversal ministry (finance or planning, for example)
- They usually function on a multiannual basis (2-3 years on average), with instalments determined as early as the first round of talks at the donor's board level; but are subdivided into annual payments, where the award is given to the recipient country in a year *n*, on the condition of the achievement of certain objectives from the matrix of public policies in the year *n*-1.
- They are generally accompanied by technical assistance, which may relate to national strategy and to the coherence of an institutional framework and/or to certain sectoral policies; they may also, in rare cases, be accompanied by specific investment programmes regarding certain major flagship projects that are critical to the success of the overall strategy.

The following two tables list the main CC DPOs to date:

Table 1. CC DPOs financed by AFD

Recipient countries	Loan amount (in millions of euros)	Number of instalments	Value of technical assistance (in millions of euros)
Indonesia	800	3	1.64
Mauritius	125	1	2.2
Mexico	485	2	0.65
Vietnam	40	2	0.6

Table 2. CC DPOs financed by other financial institutions

Financial institution	Recipient countries	Loan amount (in millions of euros)	Number of instalments
IDB	Colombia	250	1
	Guatemala	250	1
	Mexico	600	2
	Panama	300	3
	Peru	25	1
	Trinidad	80	1
World Bank	Brazil	1,300	2
	Indonesia	200	1
	Mexico	2,300	3
	Turkey	600	1
JICA	Indonesia	900	3
	Vietnam	220	2

1.2. Origins

CC DPOs are the result of developments, initially parallel and later joint, in the modalities of development aid and climate finance. These modalities are worth highlighting to understand the objectives of CC DPOs, and thus to be able to assess their performance.

Here we distinguish four successive phases in the evolution of development aid procedures. The following table schematically summarizes these four rationales, and their limitations.

The development of budget support in the early 2000s, although it did not eliminate the need for more specific financial or technical assistance that was provided by other instruments, sought to correct errors and to overcome the limitations of previous forms of aid. It met the need for an improvement in the effectiveness of development assistance, by:

- changing the scale, from a project to a transformational approach
- ensuring ownership by the beneficiary, through a recipient-country driven approach
- contributing to institutional capacity building in recipient countries, using their own management systems
- recognizing the negative impact of aid volatility, by taking a long-term perspective
- better targeting recipient countries, focusing on results

The history of climate finance, although more recent, nevertheless followed a similar trajectory. It was firstly targeted at projects, either as part of the Global Environment Facility (GEF) or in the context of the Clean Development Mechanism (CDM) of the Kyoto Protocol (KP), before gradual changes to its scale and mechanisms were carried out with the aim of making climate finance more transformational: for example, the World Bank's Clean Technology Fund supports mass technological dissemination, through large-scale investment programmes; and several other international financial institutions use many innovative financing instruments (in addition to CC DPOs), such as a mix of funding mechanisms, risk-sharing instruments, green credit lines…

It should be noted that in addition to the underlying trends that explain the rise of budget support in the development aid field in general, there are specific factors that justify the development of CC DPOs in the context of international negotiations on climate change.

Under the KP, only developed countries[8] were subject to quantified emission reduction targets.

8. With the notable exception of the United States.

Table 3. Successive phases of development aid procedures

Approach	Rationale	Limitations
Project	Underdevelopment comes from a lack of investment in physical infrastructure The separate management of projects under the responsibility of donors enables better risk management, including fiduciary ones	Detrimental to the ownership of aid by recipient country Does not therefore enable the strengthening of its institutional capacity Or make it liable Entails high transaction costs Makes aid provision less predictable Has limited results at the project level
Structural adjustment	Support for the balance of payments to help recipient countries to face external financing constraints Designed primarily for the short term to help countries correct distortions related to the non-sustainability of their external debt, their trade imbalance and exchange rate overvaluation And subsequently to help them establish long-term institutional reforms	Based on preconceived and often inadequate ideas of which reforms should be implemented (the «Washington consensus») Political conditionalities affect the ownership of aid by recipient countries And they do not make it liable
Poverty reduction	Recognition of the importance of an approach initiated and driven by recipient countries for the ownership of aid by the recipient country Coordination between the different donors and other actors Measurement of results (in particular with the Millennium Development Goals)	While few flaws in theory, in practice the principles (embodied in the Paris Declaration on aid effectiveness) have not always been properly applied Methodological difficulties in measuring results and impacts
Sectorial	Developed to enable donors to support in a coordinated way the implementation of sectoral reforms Funds are allocated and managed in an entity separated from the state budget	Approach is less flexible than general budget support It does not enable the strengthening of the institutional capacity of recipient countries outside of the targeted sector

The KP's flexibility mechanisms (especially the CDM) had therefore two objectives: to contribute to sustainable development in developing countries; and to facilitate the achievement, at a lower cost, of the emission reduction targets of developed countries. In this context, the project approach, which lends itself more easily to the verification of additionality of emission reductions, made complete sense.

As part of the new global governance of climate change,[9] all major countries, developed and developing, are subject to targets for the reduction or limitation of emissions. Emerging countries in particular are committed to the implementation of Nationally Appropriate Mitigation Actions (NAMAs), in the framework of Low Emissions Development Strategies (LEDS), some of which are self-funded and others require external financial and technical inputs to be fully implemented. In this new context, the project approach no longer enables all needs to be met. Other means must therefore be found to support developing countries in a more transversal and sectorial way in the implementation of these NAMAs and LEDS.

CC DPOs are an attempt to address this new situation, as are other financial instruments.

1.3. Comparison and complementarity with other instruments

CC DPOs are therefore a result of parallel, and latterly joint, developments in development aid and climate finance modalities, which have incrementally led to a more transformational type of support to recipient countries.

However, the aim of CC DPOs is not to satisfy all the needs of climate finance or to provide a substitute for all other financial instruments. A wide range of instruments–of which CC DPOs are only a part–is indeed necessary to meet the specificities of the financing needs of different countries, sectors and technologies.

Table 4 summarizes the main characteristics and the respective fields of application of the programmes for investment support and programmes to support public policies through the use of CC DPOs:

9. Its foundations were laid down during the COP 15 in Copenhagen in 2009, and its rules have since been progressively detailed and complemented.

Table 4. Programmes to support investment and policy support

Investment Lending	Development Policy Operation
Finances activities that create physical and social infrastructure	Supports policy and institutional actions that are usually part of a broader government policy or program (e.g., public sector reform, financial sector, social policy)
Finances specific expenditures defined *ex-ante* (positive list)	Quick-disbursing funds supporting overall development financing needs (normally negative list)
Disburses as costs are incurred	Disburses as actions are taken
Implementation: 5-10 years	Implementation: 1-3 years
Tends to be appropriate when focus on:	
Narrow (sub) sectoral scope	Economy-wide or sector-wide reform
Physical investment	Budget support
Sustained capacity-building with hands-on staff participation	Country committed to reform, e.g. good track record, and capacity to design, implement and monitor programs
Project fiduciary arrangements can offset country weaknesses	Overall fiduciary framework strong enough to ensure funds used for intended purposes

Source: The Clean Technology Fund and development policy operations ctf-scf/tfc.9/11 October 26, 2012 - Joint meeting of the CTF and SCF trust fund committees Istanbul, Turkey November 2, 2012.

Programmes to support investment and CC DPOs are therefore complementary and should be closely coordinated. The profitability of specific investment projects may depend on the institutional reforms and changes in the regulatory framework that are supported by the CC DPOs. For example, an investment project for the production of electricity from renewable energy can only be profitable if the subsidies to the production of electricity from coal–if they exist–are removed, and/or if a carbon price is applied to all sources of electricity generation and/or if a guaranteed and temporary feed-in tariff is set up for electricity produced from renewable energy sources. Conversely, specific support for an investment project, that a country cannot finance itself in the absence of sufficient resources, can be a way to assist and support the implementation of a country's climate strategy, in the intervening period prior to the use of its own resources.

Table 5 summarizes the complementarity between different funding instruments:

Table 5. Complementarity between financial instruments

Countries' Nationally Appropriate Mitigation Actions (NAMAs) and Low Emission Development Strategies (LEDS)		
Development policy lending	Program for result lending	Investment lending
General budget support	Expenditure program support	Project support
Disburses against policy/ Institutional actions	Disburses against measurable program results	Disburses against specific investments
Policy and project-based guarantees		

The following two sections of the paper present an analysis of the strengths and weaknesses of CC DPOs, in this context of research of complementarity between CC DPOs and other instruments, followed by an evaluation of opportunities and threats related to their inclusion into the Green Climate Fund.

2. CC DPOs: STRENGTHS AND WEAKNESSES

2.1. Main advantages

2.1.1. A recipient country-driven approach

In theory, CC DPOs are based on a recipient country-driven approach, which contributes to their ownership and therefore their effectiveness. Indeed:

Recipient countries themselves develop CC DPO-supported LEDs. It may be that the aims and content of these strategies are discussed again with the donor. The precise content of the matrix of public policy, which includes all actions that the recipient country agrees to undertake in return for the disbursement of budgetary aid, is in all cases subject to discussion before agreement with the donor. But overall, the strategy is driven by the recipient country and supported by the donor.

CC DPOs are budgetary aids, which take the form of sovereign loans which directly supplement the budget of the recipient country. CC DPOs therefore use the budget management system of the recipient country, not that of the donor.

Finally, some CC DPOs include a programme for the strengthening or development of national tools for the statistical and analytical measurement (modelling) of results derived from actions carried out as part of the matrix of public policy.

In practice, ex-post evaluations, whether independent or internal, actually confirm that, in a vast majority of cases, CC DPOs follow an approach initiated and driven by recipient countries.

However, this observation does not allow us to draw the conclusion that CC DPOs are–by nature and in all circumstances–instruments that enable recipient countries to effectively pilot the projects. Nor may we conclude that CC DPOs are, from this point of view, superior to all other instruments. Indeed, existing CC DPOs almost exclusively target middle-income countries, which by definition have a greater bargaining power than the least developed countries, not least because they may create competition between donors.

It is not the primary intention, however, for CC DPOs to only target middle-income countries, and the least developed countries could certainly benefit from them. Although for this latter category of country, there is an increased risk that donors will advance their own agenda.[10]

2.1.2. Strengthening the institutional framework

The establishment of a climate strategy exceeds, by far, the narrow framework of a simple environmental policy. It must therefore involve different institutional actors beyond environmental ministries. It involves comprehensive action, targeting different sectors (energy, transport, construction, industry, agriculture, forestry, urban...), through concerted efforts of the relevant ministries involved.

The active participation of financial ministries is essential for a successful climate strategy. Indeed, the various technical ministries must be properly funded in order to carry out their work (whether it is the monitoring of protected areas by forestry ministries, or the monitoring of standards for electrical appliances by ministries of industry...). Different public policies must be adequately funded (introduction of a guaranteed feed-in tariff for electricity produced from renewable energy, low-interest loans to carry out thermal insulation in buildings...) to be able to achieve their goals. In addition, the success of climate strategies is usually based on tax reforms that financial ministries are responsible for (phasing out of fossil fuel subsidies, introduction of a carbon tax or tradable emission permits, exemptions for carbon-free products...).

Unlike most other climate financing instruments, CC DPOs enable the direct involvement of financial ministries in the implementation of support programmes. Indeed, the amounts paid under CC DPOs take the form of sovereign loans, which are directly added to the recipient state's budget and managed by its finance ministry. Although the amounts paid out are given in return for the implementation of a thematic and/or sectoral action programme (in this particular case, the fight against climate change, divided into major activity sectors), the disbursements are not targeted towards specific actions carried out by specific ministries, but relate to the general budget discussion.

However, experience shows that the success of CC DPOs depends on the close association of various technical ministries for the definition and implementation of DPOs, and that this association begins at the early stages of the support programme.

2.2. Key issues

International financial institutions have not used CC DPOs particularly often, and it is not yet clear whether they will become part of the Green Climate Fund portfolio (see next section) for the reason that their evaluation is the subject of debate. Can we be sure that CC DPOs have a real impact? Can we accurately identify and quantitatively measure their results? These questions are legitimate and deserve a serious response, which is the objective of this part of the paper.

2.2.1. Definition of the results chain

Prior to addressing this issue, the terms of the debate must be clearly defined. Indeed, much of the criticism against CC DPOs comes from the confusion between their objectives, the results that can be expected, and the actions they support.

The results chain is the sequence of cause-and-effect relationships leading from an action to the achievement of its goals. The results chain begins with the provision of resources (inputs) and continues with the activities (outputs). It leads to the direct effects (results), and then more generally to the impacts. Different financial institutions and aid agencies use slightly different definitions. These definitions are of an inevitably arbitrary nature. For clarity, we use here the logical framework of the Organisation for Economic Cooperation and Development (OECD):

- Resources: financial, human and material means used to carry out an action.
- Activities: actions undertaken to produce specific results. Activities mobilize means such as funds or technical assistance.
- Results: what actions must accomplish in the short or medium term.

10. The donor does not necessarily do this for the wrong reasons, or even intentionally. Typically it is simply a result of a lack of capacity and skills in the recipient country.

- Impact: effects induced by long-term action, positive or negative, directly or indirectly, intentionally or unintentionally.

2.2.2. What are the general objectives pursued by the CC DPOs?

The impact sought by CC DPOs is a change of the developmental trajectory in recipient countries, towards development that is both more resilient to the effects of climate change and rising fossil fuel prices, while producing less greenhouse gas emissions.

The aim of this trajectory change is generally specified in programme documents, the contents of which are broken down according to different sectors. These documents take different names and forms depending on the country, such as: Low Emission Development Strategy (LEDS),[11] Inclusive Low Carbon Strategy,[12] Green Growth Strategy[13]…

These programme documents are medium or long-term documents: they often set goals at the 2020 horizon, and sometimes for even longer terms. Given the inertia of energy systems and the infrastructure that underpin them,[14] 2020 would appear to be the right time horizon for planning climate strategy. In the shorter term, given the rigidities of systems, possible improvements are only incremental and changes are therefore only marginal. For this reason alone, we cannot rationally expect CC DPOs, which last for a maximum of two to three years, to directly achieve these goals.

In addition, the bulk of the means necessary to implement these strategies is derived from the recipient country, and the donors–often numerous–only serve to complement these funds. The documents provide detail of the overall objective and the CC DPOs contribute to its achievement.

Under these conditions, how do CC DPOs contribute to the change of development trajectory?

The provision of financial support–and more broadly of external technical and political support–enables the climate objectives of recipient countries to be less vulnerable to the vagaries of economic and political conditions.

Indeed, a successful climate strategy requires sustained efforts, significant and ongoing economic resources, and strong and consistent political will. Many events can obstruct the success of this strategy: economic difficulties, changes in the political majority...

11. China.
12. India.
13. South Korea.
14. The same applies for systems of land use, agriculture and forestry.

The budgetary support provided by CC DPOs means that temporary economic constraints do not necessarily result in the weakening or outright abandonment of a climate strategy. However, beyond this purely financial aspect, it is the provision of support to a recipient country from a technical and political partner, one that is committed to the fight against climate change, which enables climate strategies to be more resilient.

Indeed, while climate policies have indisputable economic benefits in the long term, they also induce short-term costs, both economic and political. The fight against climate change is based on solid economic foundations, but requires political courage. Actors, whether for or against climate policy, are many and varied and their influence varies at the whim of political alliances and economic events.

CC DPOs allow actors who create or support climate policies in their own countries to obtain a level of external support, which they can use to defend their ideas and interests within the internal political and institutional game. It is an asset that CC DPOs are managed directly by finance ministries, and that they rely on inter-ministerial coordination at the highest level of state (President or Prime Minister), because it overcomes the usual opposition between environmentalists from the environment ministries and economic powers.[15]

It is also important to note that if a country withdraws from a CC DPO–by not accepting the next tranche of financing–it does not automatically mean that this country has abandoned climate objectives or that the CC DPO should automatically be considered as a failure. The interpretation depends on the circumstances of the abandonment.

For example, the external financing conditions in a recipient country may change, making it no longer worthwhile for a country to continue to use its external debt to finance its climate policy. Furthermore, political conditions are also subject to change, which could make it difficult for a government to justify to its opposition (or its own members) the need for an external donor review of its policy (even if it is accompanied by financial support).

15. Seeking external support to implement a climate strategy in order to make it more resilient to the vagaries of the political situation is not unique to developing countries, nor a specificity of CC DPOs. For example, it is one of the main factors behind the decision of the current Australian government (which faces a struggle in the coming elections) to link the country to the European carbon market (fearing that the next government may unilaterally bring to an end the Australian system of tax and carbon permits).

2.2.3. What direct results can be achieved by CC DPOs?

Due to the transformational nature of the objectives of CC DPOs, their direct results cannot be measured in terms of reductions of additional emissions.

As part of a project or programme approach[16] (such as CDM), the use of a baseline scenario may be relevant and useful, even if it raises many problems, whether methodological (how should such a scenario be built?) or political (how can we ensure that the choice of scenario does not serve as a disincentive to the implementation of more ambitious policies in the recipient country, beyond the project or programme financed by external aid?).

However, the use of such a scenario would make no sense, and may even be counterproductive, within the framework of a transformational approach (such as CC DPOs). The objective of CC DPOs is not to deviate at the margin of a baseline scenario, but rather to contribute to a change in development trajectory, and therefore to a change in the baseline scenario, by acting structurally and deeply on the drivers of development.

The idea that recipient countries could differentiate between their autonomous actions–that they would self finance–and other more ambitious actions requiring greater effort–that CC DPOs and other international funds would support–might be intellectually seductive, but it is ineffective and dangerous in practice.

Since the demarcation between autonomous and supported actions is by definition artificial and arbitrary, recipient countries would have a strong incentive to choose a conservative baseline scenario, and it would not be possible to argue that a particular scenario was not adequate, or to impose another on a purely technical basis.

Moreover, the explicit distinction between autonomous actions and supported actions could lead to a decrease in the political will of recipient countries to achieve the latter, because they could be considered as "low priority" actions.

An inability to quantitatively measure the effects directly induced by CC DPOs in comparison to a baseline scenario should therefore be considered as inherent to transformational financing instruments, rather than a reason not to use CC DPOs. Besides which, this is not unique to CC DPOs, but is a characteristic of all transformational climate financing instruments, such as large-scale investment programmes, public policy guarantees…

Beyond the impossibility of the verification of the additionality of emission reductions directly induced by CC DPOs, their results cannot be solely, or even primarily, measured in terms of emission reductions. There are several reasons for this.

To begin with, not all countries eligible to receive a CC DPO have emission reduction targets for 2020. This lack of a quantitative target should not be an insurmountable obstacle that prevents these countries from benefitting from a CC DPO. But the CC DPO should then support, as a priority, the drafting of a 2020 strategy with a quantitative target to reduce emissions.[17]

Then, in the case where a recipient country already has a quantitative target to reduce emissions by 2020, the effective implementation of their strategy may require the preliminary establishment of an appropriate institutional framework. The existence of this institutional framework, which by definition cannot be measured quantitatively, should not be regarded as a prerequisite. But again, the CC DPO should support, as a priority, the implementation of this framework.

Finally, for countries with an adequate institutional framework, the early stages of implementation of policies and measures are generally poorly suited to quantification in terms of tons of carbon avoided. Such quantification at this stage is impossible, and this is not the essential aspect. The important element is that the implemented policy should induce a change in the dynamics of investment.

At this point, several quantitative indicators can therefore be used to measure the results of CC DPOs, including: the number of megawatts derived from renewable energy, the number of square metres of construction that meets certain standards of energy efficiency, the number of hectares of forest protected… All of these elements provide good proxies for change in the dynamics of investment that are derived from these policies.

2.2.4. What activities should be included in the matrix of public policies?

Indicators of the matrix of public policies, which includes all actions that recipient countries agree to undertake in exchange for the granting of the CC DPO, should reflect the diversity of the effects expected from the implementation of these actions. Matrices of public policies therefore contain both quantitative indicators, whether expressed in terms of emission reduction or other variables (see above), in the case of sectoral policies or action

16. A set of projects, and not a single project.

17. The use of an independent body or an external consultancy may give the impression of saving time. It would actually lead to a big loss of time. To be useful, this strategy should be drafted by the country itself, in a transparent process that includes all stakeholders, using outside technical help if necessary.

programmes; and qualitative ones, for measures that focus on the strengthening of the institutional framework or the statistical and analytical system.

The existence of quantitative indicators in the matrices of public policies is not therefore a matter of debate. Rather it is a direct consequence of the nature of the objectives pursued by the CC DPOs, as well as their expected effects, much of which are not quantifiable, but in fact represent the value of the instrument. However, what *can* be regarded as a matter of debate, and where there are differences in practice and in donor requirements, is the nature of these qualitative indicators. While AFD and JICA, for example, seem to be satisfied with qualitative "process" indicators (draft of a strategic plan, preparation of a decree, or a new law, definition of a policy...), the World Bank appears to go further and requires some "outcome" qualitative indicators (adoption of a decree, the passing of laws, implementation of policies...).

Although, at first glance, results indicators appear to be "strong", while process indicators appear to be "weak", there is nothing, in theory and in practice, to say that the former are superior to the latter. Indeed, the implementation of action takes time (the passage of a law, for example, takes longer than the adoption of a decree), which does not enable the definition of annual performance targets for these actions. Moreover, the attainment of a result cannot always be attributed to a policy: energy intensity can be reduced as a result of structural factors (decline in the share of the industry in the GDP) rather than technological ones (improvement of energy efficiency in industry); deforestation can slow down due to a fall in agricultural prices, rather than due to the effectiveness of policies to protect the forest... "Process" indicators therefore sometimes enable the better understanding of the reality of a country's efforts and to better measure the effectiveness of the policies that it is committed to implement.

The use of qualitative process indicators is however not without risk. And the risk is not only for the donor, but it also lies with the recipient country.

Indeed, the presence of too many qualitative indicators in the matrix of public policies may highlight a form of micro-management of the institutional process by the donor, who seeks reassurance about the reality of the efforts of the recipient country. However, the donor does not have to codify in detail the institutional process leading to the achievement of fixed objectives. This should be left to the discretion of the recipient country.

Generally speaking, the effectiveness of budgetary support comes, among other things, from the fact that it is a form of assistance based on results. It may be tempting for recipient countries to only want to commit to means objectives, which are generally more controllable and therefore more easily attainable than results objectives. But taken too far, this multiplication of process indicators, rather than a focus on outcomes, becomes counterproductive because it is unmanageable. It is therefore important to resist this temptation by adopting a balanced approach based on a limited number of indicators of processes and outcomes.

2.2.5. How to determine the amount and concessionality level of the sovereign loan?

In theory, since CC DPOs take the form of a sovereign loan linked to the completion of an action programme, their amount should be calculated on the basis of the incremental budgetary cost associated with the implementation of this programme.

However, in practice, when asked the question: "how do you determine the CC DPO loan amount that you will fund?", the donors interviewed for the purposes of this study gave a variety of answers, but their responses had little–or nothing–to do with the concept of incremental budgetary cost.

The most frequently cited responses included:

- The CC DPO loan amount is calculated from the estimated fiscal constraints of the recipient country;
- The CC DPO loan amount is limited by the donor's risk exposure in the recipient country;
- The CC DPO loan amount is calculated from estimations of the incentives necessary for the implementation of reforms planned within the action programme;
- The CC DPO loan amount is limited by the total budgets of the ministries concerned with the implementation of the action programme.

The determination of the CC DPO loan amount is therefore primarily a result of a negotiation between the donor and the recipient country. During this negotiation, it is in the interests of both the donor and the recipient country for the loan amounts to be great (from the recipient country's point of view this reduces its fiscal constraints, while the donor benefits from the disbursement or the increase of its commitment); while remaining within risk limits (national and political) that are acceptable for the donor.

The fact that CC DPO loan amounts are more the result of a negotiation than of a calculation is, at first sight, puzzling. But a closer look reveals that it is not surprising, given the many difficulties related to the calculation of this amount on the basis of elements that are only objective and quantifiable.

We have already explained[18] why the concept of incremental cost is both irrelevant and non-operational within a large-scale transformational approach, such as CC DPOs. But beyond the limits of scale that are specific to the notion of incremental cost, the concept of budgetary cost is also problematic.

There would be, a priori, two ways to calculate the budgetary cost of a climate strategy that has been broken down into specific action programmes. "From the bottom", one could calculate the budgetary cost of the different actions and sum them up, to obtain the total budgetary cost. "From the top", one could calculate the macroeconomic cost of the overall strategy and deduct the budgetary cost for the state. However, each of these approaches is fraught with difficulties.

A number of measures included in the action programme do not lend themselves to a calculation of the budgetary costs related to their implementation. This is the case for all measures that aim to strengthen the institutional framework, and for the majority of measures that seek to change the regulatory framework, although such measures comprise the heart of CC DPOs. Even if the matrices of public policies only included measures whose budgetary cost could be calculated, the sum of these costs would not equal the total budgetary cost. A macroeconomic closure is necessary to take into account the interactions between individual measures.

A macroeconomic approach, however, faces other difficulties. The calculation of macroeconomic costs and benefits related to the achievement of a goal to reduce emissions and the implementation of climate policies is highly dependent on the model used for their calculation. It is not only the magnitude of the different macroeconomic variables considered that varies greatly from one model to another, but even their sign may also vary. While most computable general equilibrium macroeconomic models (Walrasian) envisage GDP losses in the short term, with such losses being more than offset by long term gains, some sectoral models (Keynesian) predict short-term gains associated with the implementation of climate policies.[19]

In addition, it is not easy to deduct a budgetary cost from a macroeconomic cost, since the effect of climate policy on GDP is not always a good proxy for their effect on the budget. Indeed, while some measures are a burden for the state budget (feed-in tariff for electricity produced from renewable energy, low-interest loans for the insulation of buildings...), others, on the contrary, contribute to it (the decrease or elimination of fossil fuel subsidies). However, macroeconomic models do not allow for sufficiently accurate representation of the contrasted effects of these measures.

The calculation of the budgetary costs induced by the implementation of a climate strategy is therefore an uncertain science. While the estimation of these costs by a quantitative method is by no means useless, it is important to acknowledge the approximate nature of such an estimation, and therefore its limitations. Experience shows that, if they are appropriately defined and efficiently implemented, climate strategies can quickly have positive macroeconomic effects.

But the economic cost approach should not hide the fact that any political reform has a price, which is better understood through political economy, rather than measured by a cost-benefit analysis. The implementation of a climate policy, in the short term, produces winners and losers that sometimes need to be compensated. Besides which, state apparatus is a highly inert machine, which requires time and energy to be set in motion, something that is also financed by CC DPOs: components that are essential to any successful reform and any transformational change, but that are difficult to quantify.

Fixing the level of concessionality of CC DPO loans raises, in turn, other questions.

There again, in practice, the concessionality levels of CC DPOs vary greatly from one donor and recipient country to another. The external financing conditions in recipient countries are obviously the main factor explaining the level of concessionality of CC DPO loans. And among the recipient countries, the cost of debt over 10 or 20 years[20] varies by as much as 100%.

But the constraints of donors, both financial and political, also play an important role in the differences observed among several donors acting within a single recipient country. Indeed, the payment of a subsidised loan[21] can lead, for the donor, to costs that depend on its own external financing conditions.[22] In addition, financial institutions are constrained by their boards or their supervisory bodies. These set the maximum level

18. See the section "What direct results can be achieved by CC DPOs?"

19. As the model is not initially in equilibrium, the implementation of public policies (climate policies, that also generate many co-benefits) enables the correction of market failures, and therefore allows a country to follow a higher potential growth path.

20. The average maturity of CC DPO loans.

21. That is to say, under market conditions.

22. Although most international financial institutions are rated AAA.

of concessionality that it is possible to provide to middle-income countries, particularly the major emerging countries which are often considered as economic competitors who should not be granted loans that are too cheap.

The cost of external debt of most middle-income countries has significantly declined over the past decade. The yield of Indonesia's and Mexico's ten years bonds went from 10% to about 5% between 2004 and 2012. These countries can therefore borrow much more easily in international markets than they could ten years ago.

Incidentally, the years 2008-2009, when the first CC DPOs were implemented, correspond to the Copenhagen summit, which acted as the trigger for the implementation of climate strategies in many countries; but they also correspond to a spike in the cost of external debt, following the outbreak of the financial crisis. Consequently, the conditions under which these countries borrowed in 2008-2009 to implement their climate strategies would no longer be attractive today.

This does not necessarily mean that the potential of CC DPOs in middle-income countries has now been exhausted. Indeed, the improvement of external financing conditions varies greatly from one country to another (the yield of ten years bonds in Vietnam, for example, remains 10% and is tending to increase). In addition, the terms offered by financial institutions have also changed and remain, in some cases, attractive. Finally, the level of concessionality of the loan is not the only determining factor for a country to decide whether to use a CC DPO.

In future, it is certain that financial institutions will have to review the terms of their offerings if they want to remain attractive to middle-income countries, especially to major emerging countries.

It is important to note here that the arbitrary, and therefore necessarily random, nature of the process of determining the loan amount of CC DPOs and their levels of concessionality does not pose problems in the framework of a bilateral relationship between a donor and a recipient country. The agreement between the donor (subject to the approval of its supervisory body and/or its board of directors) and the recipient country (sovereign) is sufficient to justify the terms of the contract. There is no need for additional theoretical justification.

It would be different, however, in the framework of the Green Climate Fund if it were to use this financial tool. Indeed, the Green Climate Fund, which will have to justify the allocation of its funds beyond the bilateral relationship described above, will face a question of a different nature regarding the determination of its loan amounts and their level of concessionality, which will deplete its scarce resources at different rates depending on the particular conditions.

It will then be necessary to agree on a set of general principles–rather than narrow rules, given the comments made on the inevitable approximations of a calculation of a budgetary cost, together with the specific circumstances of each country–to frame the process of determining the amounts and levels of concessionality. Also, it is therefore important to note that these principles will inevitably be the subject of negotiation.

It is this type of question, of another nature, in the framework of the Green Climate Fund, that will be addressed in the last part of this paper.

3. CC DPOs: OPPORTUNITIES AND THREATS FOR CC DPOs WITHIN THE GCF

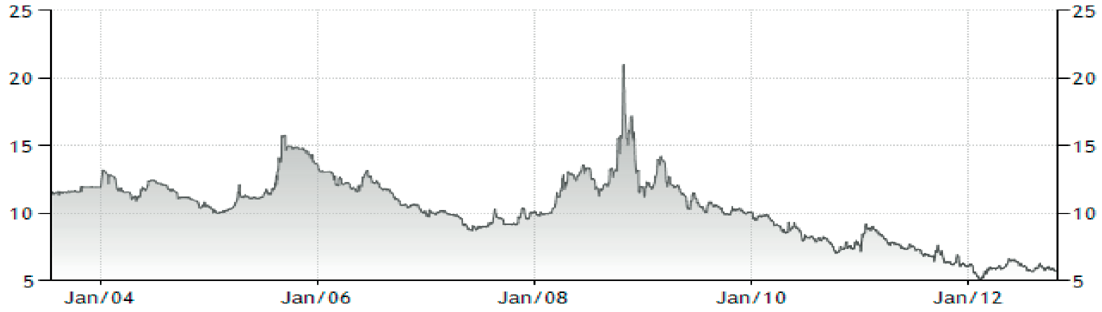
International negotiations on climate change, under the United Nations Framework Convention on Climate Change (UNFCCC), have in recent years made significant progress on the issue of funding. The Green Climate Fund was first mentioned at the 15th Conference of the Parties (COP) in Copenhagen in 2009, before being formally established at the 16th COP in Cancun in 2010, and launched at the 17th COP in Durban in 2011.

While the decision adopted in Durban contains many elements that are still to be developed, it provides an indication of what the Green Climate Fund will become once it has been provided with financial resources.[23] It already defines its objectives and principles, its governance and institutional arrangements, its administrative costs, financial resources, operational modalities, financial instruments, evaluation procedures, fiduciary standards, rules of social and environmental safeguards, accountability mechanisms, technical expertise and the mechanisms by which different stakeholders can participate.

Appendix "Relevant provisions from the GCF, strengths and weaknesses for climate budget aid, and targets" lists all of the relevant provisions of the Durban decision in terms of the opportunity for the Fund to use–or allow other financial institutions to use–CC DPOs.

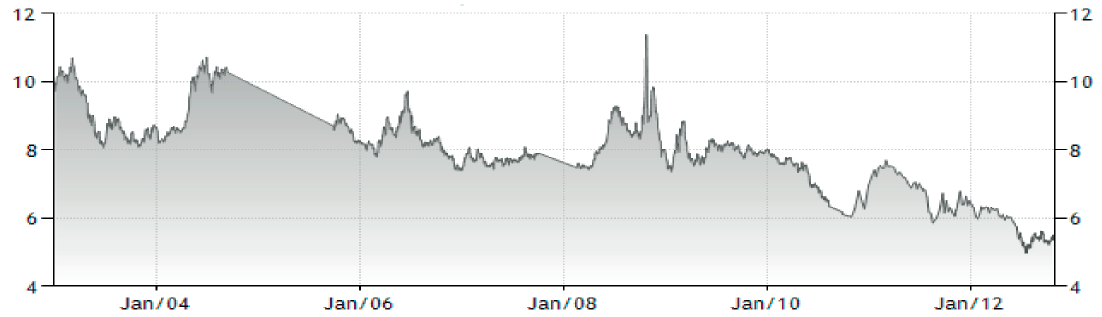
23. While negotiation has progressed well on the governance of the Green Climate Fund, the Fund remains for now an empty shell, although it must eventually (by 2020), mobilize $100 billion in resources, both public and private.

Figure 1. Indonesian 10-year bond yield



Source : www.tradingeconomics.com, Indonesia Department of Treasury.

Figure 2. Mexican 10-year bond yield



Source : www.tradingeconomics.com, Indonesia Department of Treasury.

Figure 3. Vietnamese 10-year bond yield

Source : www.tradingeconomics.com, Indonesia Department of Treasury.

3.1. Opportunities: simplified access to funding, recipient country-driven approach, strengthening of the institutional framework and public policy coherence

> *"The Fund will provide* ***simplified and improved access to funding, including direct access, basing its activities on a country-driven approach"***
>
> *"The Fund will promote* ***coherence in programming at the national level*** *through appropriate mechanisms".*
>
> *"The Fund will support developing countries in pursuing project-based and* ***programmatic approaches*** *in accordance with* ***climate change strategies and plans****, such as low-emission development strategies or plans, nationally appropriate mitigation actions (NAMAs), national adaptation plans of action (NAPAs), national adaptation plans (NAPs) and other related activities".*

These operating principles of the Green Climate Fund are fully consistent with the characteristics and advantages of CC DPOs.[24]

3.2. Threats: payment of incremental or total costs

Other principles, however, are more difficult to reconcile with CC DPOs. Especially:

> *"The Fund will finance* ***agreed full and agreed incremental costs*** *for activities"*
>
> *"Financing will be tailored to cover the* ***identifiable additional costs of the investment necessary to make the project viable"***

The emphasis put here on the importance of the concepts of incremental cost and total cost, which seems to exclude, de facto, the CC DPOs from the financial instruments used by the Green Climate Fund, has two explanations:

First, developing countries insist that the help they receive from developed countries covers the actual costs of their activities, whether incremental (in the case of an investment, for example) or total (for an inventory of greenhouse gas emissions for example). This concern, on the part of countries wishing to implement climate policies that do not have sufficient resources, is legitimate and should be heard, even if the concepts of incremental costs and total costs are not always the best way to address it.

Second, these concepts are inherited from the past, when the size of the funded activities was smaller, often limited to the project scale. We have already explored the reasons why these concepts are not relevant or operative within transformational approaches, such as CC DPOs. They are equally unsuited to support programmes of large-scale investment, or even less so–from this point of view–to guarantees, even if their value and relevance is well understood by developing countries, since they use them within the framework of bilateral relations with international financial institutions.

The difficulty in interpreting the concepts of incremental and total costs in a way that allows the use of CC DPOs should not be removed or underestimated in the negotiation framework, no more than it should from the bilateral relationships with recipient countries. It should nevertheless be possible to overcome these difficulties. Indeed, developing countries should find it, in this case, in their interest: CC DPO loan amounts generally exceed the actual costs of implementing an action programme, because donors design them to be an incentive that should be sufficient to carry out reforms, and because it is accepted as such by the recipient countries.

3.3. Ambiguity: interaction with other financial institutions

> *"The Board will develop methods to enhance complementarity between the activities of the Fund and the activities of other relevant* ***bilateral, regional and global funding mechanisms and institutions****, to better mobilize the full range of financial and technical capacities".*
>
> *"Access to Fund resources will be through* ***national, regional and international implementing entities*** *accredited by the Board".*

Finally, some ambiguity remains regarding the interaction between the Green Climate Fund and other financial institutions (multilateral, regional, bilateral and national).

Access to the Green Climate Fund's resources may be possible through national, regional and multilateral entities accredited by the board. But Green Climate Fund procedures do not explicitly mention–without excluding it–the potential role of development banks.

It is essential to recognize the role played by development banks in financing climate and their registration at the heart of global climate financial architecture in the Green Climate Fund. Well beyond the issue of CC DPOs, it is important to recognize the sums of money that development

24. See Part 2 for more details.

banks convey and the financial innovation they demonstrate.

Regarding CC DPOs, while these tools enable an easier access to funding for recipient countries, they are cumbersome and difficult to manage, both financially and technically, for the donors.

In theory, sovereign loans used to finance global budgetary support, rather than several programmes to support investment or technical assistance for an equivalent amount, should allow the donor to make economies of scale and reduce its management costs. However, in practice, these economies of scale appear to be weak. The political and technical dialogue on the matrix of public policies in particular, to monitor its progress and modify it if necessary, requires the ongoing involvement of the donor. This task cannot be completely outsourced using external technical assistance without putting its operations at risk.

CC DPO management therefore requires a large team that is specialized in sectoral policies, which the Green Climate Fund will not necessarily have at the outset, or even once it has been fully established. It is therefore preferable that the Green Climate Fund allocates resources to financial institutions, both international and national, that have these skills in sufficient quantity to conduct these operations, rather than getting directly involved in CC DPO management.

That said, the Green Climate Fund should still play a role in the supervision and coordination of the various CC DPOs. Indeed, one of the initial objectives of budgetary support was to promote aid harmonization and to align the donor with the priorities of recipient countries. In fact, progress on harmonization and alignment, while they exist, are still largely inadequate. And the Green Climate Fund would be ideally placed to ensure proper donor coordination, especially if it allocates resources to financial institutions responsible for implementing these CC DPOs. It is explicitly within the competence of the Green Climate Fund to promote consistency in activities funded at the national scale.[25]

25. V. operational modalities A. complementarity and coherence.

CONCLUSION

Now that the broad guidelines of the Green Climate Fund's governance have been defined, the discussion on the Fund's financing instruments can begin in earnest.

CC DPOs–instruments that provide, in the form of sovereign loans, budgetary support to recipient countries that commit to the implementation of various elements of a climate strategy–providing that there are minor improvements and modifications, should become one of the Fund's financing instruments.

CC DPOs represent an important and interesting innovation, which has resulted from progress, first parallel and then joint, in development aid and climate finance.

CC DPOs are not intended as a substitute for all other financial instruments: they must be considered as a useful supplement to other forms of support (support programmes for investment, payment for results, technical assistance, guarantees...).

Budgetary support, in general, presents many advantages, some of which are of particular importance when applied to the fight against climate change. The fact that it adheres to a recipient country-driven approach, that it reinforces their institutional framework and contributes to the coherence of public policies, are among its major assets.

The impact of CC DPOs is sometimes questioned because of difficulties in its quantification. It is nevertheless real. Whether CC DPOs produce additional emission reductions cannot be proved, no more than most other transformational financing instruments. However, they do increase the likelihood that climate objectives defined by recipient countries are reached. Finally, they make it possible for recipient countries to examine their opportunities for increasing their ambitions in future.

The measurement of CC DPO results raises several questions. Given the duration of CC DPOs (an average of 2 to 3 years) and the nature of the support they provide (strengthening the institutional framework and supporting the implementation of sectoral policies), the measurement of these results cannot only be achieved using quantitative indicators expressed in terms of emission reductions achieved. Climate strategy (whether over a five year period or by 2020) developed with CC DPOs should include a quantification of emissions reduction targets. But measuring the results of CC DPOs should also be based on other indicators, qualitative (drafting of a strategic plan, adoption of a decree, the voting of a law, implementation of a policy...) and quantitative (number of megawatts of renewable energy added, number of square metres built according to certain energy efficiency standards, number of hectares of protected forest…).

Determining the amount of CC DPO loans, as well as their concessionality level, is essentially the result of a negotiation between the donor and the recipient country. This negotiation is based on elements of justification (incentive for reform in the recipient country, country risk for the donor…), without any explicit and immediate link with the incremental budgetary cost of the implementation of the climate strategy. This situation, while it is acceptable in the context of a bilateral relationship between a donor and a recipient country, will have to change if CC DPOs are part of the Green Climate Fund's financial instruments. Nevertheless, since precise quantification of the incremental budgetary cost is impossible and inappropriate, this discussion will have to be framed by general principles rather than specific criteria.

For the CC DPOs to find their place within the Green Climate Fund, other issues–which do not arise in the context of bilateral relations between donors and recipient countries–will have to be satisfactorily addressed. The relationship between the Green Climate Fund and other financial institutions will have to allow for development banks–whether national or international–to tap into the resources of the Fund to implement CC DPOs. Furthermore, the principle of the financing of incremental costs, inherited from a time when climate finance was made on a project basis, will have to be made compatible with the provision of transformational funding at a large scale, from which developing countries will benefit.

The board of the Clean Technology Fund (CTF) of the World Bank is currently[26] considering the implementation of a CC DPO in India, in the Himachal Pradesh State. The CTF criteria are not those of the Green Climate Fund. It will however be interesting to see how the World Bank would justify the existence of a CC DPO pilot project in a fund originally intended for the support programmes of large-scale investment. It will also be worth noting, in particular, how the World Bank will conduct the evaluation of the cost efficiency of the Indian CC DPO, a criterion on which the CTF insists.

Whatever the outcome of this pilot project, which raises many questions, some interesting lessons will, undoubtedly, be drawn from the point of view of the opportunity, for the Green Climate Fund, to use CC DPOs.

26. Joint Meeting of the CTF and SCF Trust Fund Committees Istanbul, Turkey, 2nd November 2012.

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APPENDIX

Relevant provisions from the GCF, strengths and weaknesses for climate budget aid, and targets

Heading	Sub-heading	Paragraph	Ranking Positive 7 Mixed 3 Negative 3	Comments	Targets
V. Operational modalities		31. The Fund will provide **simplified and improved access to funding, including direct access, basing its activities on a country-driven approach** and will encourage the involvement of relevant stakeholders, including vulnerable groups and addressing gender aspects.	Positive	› Climate budget aid, which takes the form a single budget envelope, attributed to the Finance Ministry, with o earmarking to particular investment projects or technical Ministries, provides simplified and improved access to funding. › It is based on a policy matrix extracted from the national low carbon development strategy, and follows a country driven approach.	Positive aspects for developing countries negotiators and domestic policy makers
	A. Complementarity and coherence	34. The Board will develop methods to enhance complementarity between the activities of the Fund and the activities of other relevant **bilateral, regional and global funding mechanisms and institutions**, to better mobilize the full range of financial and technical capacities. The Fund will promote **coherence in programming at the national level** through appropriate mechanisms. The Fund will also initiate discussions on coherence in climate finance delivery with other relevant multilateral entities.	Positive	› Policy matrices include different types of policy actions, including: Mainstreaming climate change issues into national development strategies; Implementing financing and coordination mechanisms of sectoral policies; Building Measurement Reporting and Verification (MRV) systems; Building / strengthening institutions › Climate budget aid specifically aims at promoting coherence in programming at the national level	Positive aspects for developed and developing country negotiators, developing country policy makers, and developed countries Treasuries and development banks
	B. Eligibility	35. All developing country Parties to the Convention are eligible to receive resources from the Fund. The Fund will finance **agreed full and agreed incremental costs** for activities to **enable and support** enhanced action on adaptation, mitigation (including REDD-plus), technology development and transfer (including carbon capture and storage), capacity-building and the **preparation of national reports** by developing countries.	Negative	› The amount of climate budget support is not related to any precise agreed full or incremental cost	Problem with developing country negotiators, and some international financial institutions
		36. The Fund will support developing countries in pursuing project-based and **programmatic approaches** in accordance with **climate change strategies and plans**, such as low-emission development strategies or plans, nationally appropriate mitigation actions (NAMAs), national adaptation plans of action (NAPAs), national adaptation plans (NAPs) and other related activities.	Mixed	› The language used here tends to imply that climate change strategies and plans are separated activities, and are a prerequisite for project-based and programmatic support › Climate budget aid combines strategic, planning, sectoral policy level, programmatic and project based activities › There is however, room for interpretation	Discussion with developing and developed countries negotiators
	C. Funding windows and fund structure	40. The Fund will provide resources for **readiness and preparatory activities and technical assistance**, such as the preparation or strengthening of **low-emission development strategies or plans**, NAMAs, NAPs, NAPAs and for **in-country institutional strengthening**, including the strengthening of capacities for country coordination and to meet fiduciary principles and standards and environmental and social safeguards, in order to enable countries to directly access the Fund.	Mixed	Idem	

		42. The operation of the facility will be consistent with **a country-driven approach.**		Climate budget support is based on a policy matrix extracted from the national low carbon development strategy, and follows a country driven approach.	Positive aspect for developing countries negotiators and domestic policy makers
	D. Access modalities and accreditation	45. Access to Fund resources will be through **national, regional and international implementing entities** accredited by the Board. Recipient countries will determine the mode of access and both modalities can be used simultaneously.		National development banks could be accredited by the board	
		46. Recipient countries may designate a **national authority**. This national designated authority will recommend to the Board funding proposals in the context of national climate strategies and plans, including through consultation processes. The national designated authorities will be consulted on other funding proposals for consideration prior to submission to the Fund, to ensure consistency with national climate strategies and plans.		❯ Climate budget aid supports the creation of such national authorities as part of its building / strengthening institutions activities, to pilot the implementation of the national strategy and monitor the policy matrix. ❯ These authorities would be ideally positioned to play also the role mentioned by the GCF	Positive aspect for developing countries negotiators and domestic policy makers, and international financial institutions
		47. Recipient countries will nominate competent subnational, national and regional implementing entities for accreditation to receive funding. The Board will consider additional modalities that further enhance **direct access**, including through funding entities with a view to enhancing **country ownership** of projects and programmes.		Climate budget support is based on a policy matrix extracted from the national low carbon development strategy, and follows a country driven approach.	Positive aspect for developing countries negotiators and domestic policy makers
		48. Recipient countries will also be able to access the Fund through accredited international entities, **including United Nations agencies, multilateral development banks, international financial institutions and regional institutions**.		National development banks could be accredited by the board	
	E. Allocation	51. A **results-based approach** will be an important criterion for allocating resources.		❯ Climate budget aid results can be measured ❯ The policy matrix includes precise indicators that are closely monitored to decide on the next tranche of financing ❯ But qualitative (/quantitative) and means (/results) objectives dominate	Discussion with developed countries negotiators and treasuries, and some international financial institutions
VI. Financial instruments		54. The Fund will provide financing in the form of **grants and concessional lending**, and through other modalities, instruments or facilities as may be approved by the Board. Financing will be tailored to cover the **identifiable additional costs of the investment necessary to make the project viable**. The Fund will seek to catalyse additional public and private finance through its activities at the national and international levels.		❯ The amount of climate budget support is not related to any precise agreed full or incremental cost ❯ The emphasis is put on project-based finance	Problem with developing country negotiators, and some international financial institutions
		55. The Fund may employ **results-based financing approaches**, including, in particular for incentivizing mitigation actions, **payment for verified results**, where appropriate.		❯ Climate budget aid results can be measured ❯ The policy matrix includes precise indicators that are closely monitored to decide on the next tranche of financing ❯ But qualitative (/quantitative) and means (/results) objectives dominate ❯ And payments are, by definition, made ex ante, at least for the first tranche ❯ It could, however, be argued that the following tranches follow a payment for verified results approach	Problem with developed countries negotiators and treasuries, and some international financial institutions

Source: Financing Instrument of the Green Climate Fund

Climate Change Development Policy Operations and the Green Climate Fund

Emmanuel Guérin (Iddri)

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