

Multilateral climate funds

Where is inclusive, sustainable economic transformation being promoted?

Neil Bird (ODI)

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Key messages

Climate actions supported by the multilateral climate funds (MCFs) align with environmental, economic and social goals. However, securing these goals requires action at many levels, from the household level to the national economy. Any action that does not provide for linkages across these scales is unlikely to bring about sustainable change.

MCFs are developing conceptual frameworks that are relevant to understanding the environmental, economic, and social nexus. Such frameworks, which build on early characterisations of the relationship between economic, social and environmental goals, are necessary if progress is to be made in designing effective interventions that address all nexus concerns in a balanced way.

Diverse partnerships and strong analytical and implementation capacity are required to address nexus concerns, as these are embedded within highly complex and dynamic systems. It can take time to build the necessary partnerships and skill sets.

MCFs are demonstrating there is scope to build complementarity between project and programmatic approaches to advance environmental, economic, and social goals if the programmatic framing and individual projects interventions are aligned.

MCFs are building experience on the optimal use of different financial instruments in responding to nexus concerns. In particular, the deployment of equity finance and concessional lending to promote economic transformation reflects the fact that, in many countries, economic activity is led by the private sector.

Implementation delays of MCF investments are presently limiting the scope for ex-post analysis of their impact in the climate, economic and social nexus. Delays caused by inefficient internal processes have led to much frustration over MCF delivery.

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Neil Bird's research portfolio focuses on climate change policy, the international aid architecture and its relation to climate finance. He has led several multi-country studies that have evaluated climate change related public expenditure as well as exploring recent developments and trends in global climate finance and assisted institutional strengthening of many national and regional organisations and government institutions.

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Acronyms

CIF	Climate Investment Funds
CTF	Clean Technology Fund
GCF	Green Climate Fund
GEF	Global Environment Facility
IEU	Independent Evaluation Unit
JTI	Just Transition Initiative
LDC	Least Developed Country
MDB	Multilateral Development Bank
MCF	Multilateral Climate Fund
PPCR	Pilot Program for Climate Resilience
RMG	Ready Made Garments
SEDICI	Social and Economic Development Impacts of Climate Finance
SIDS	Small Island Developing States
SREP	Scaling Up Renewable Energy in Low Income Countries
UNFCCC	United National Framework Convention on Climate Change

1 Introduction

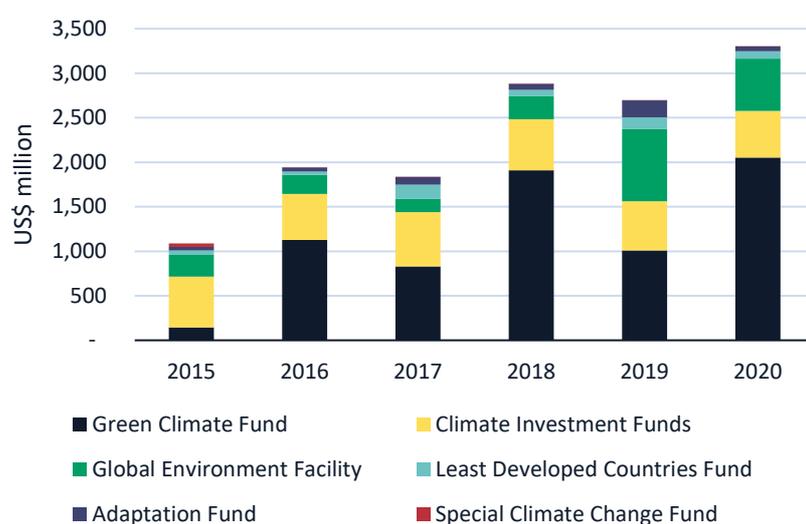
This short scoping study aims to identify emerging lessons from the experiences of two multilateral climate funds (MCFs) – the Climate Investment Funds (CIF) and the Green Climate Fund (GCF) – in furthering climate, economic and social goals. There is an urgent need for more understanding of the nexus of these impacts, so that they can be planned for, and optimal interventions designed. This paper reviews the fund-level literature and explores the operation of these two climate funds in Kenya and Bangladesh, two countries where early project implementation experience is emerging.

Two main themes are explored in this paper. First, recognising that their main objective of climate funds is to advance climate action, it investigates the tools they have employed to understand and report on economic transformation and social inclusion. Second, by examining their project and programme portfolios in the two countries, it documents their outcomes across the climate, economic, and social domains.

2 The multilateral climate funds

Much time and energy has been spent in establishing a new international climate finance architecture over the past 15 years, pursued through both multilateral and bilateral initiatives. MCFs have received considerable attention, particularly since the GCF became operational in 2015. In terms of global funding, three MCFs stand out: the GCF, the CIF, and the Global Environment Facility (GEF). Both the GCF and GEF are operating entities of the Financial Mechanism of the United Nations Framework Convention on Climate Change (UNFCCC), whereas the CIF exists entirely outside the governance of the UNFCCC, working in partnership with six multilateral development banks (MDBs). Less funding passes through other global climate funds, such as the Adaptation Fund, the Least Developed Countries Fund, and the Special Climate Change Fund. These three funds contributed collectively 8% of total committed climate fund finance between 2015 and 2020 (see Figure 1).

Figure 1 Multilateral climate funds committed, 2015–2020



Source: Climate Funds Update website, accessed April 2022

To set this funding in a broader context, the MCFs collectively operate at a much smaller scale compared to the level of climate finance passing through MDB and bilateral channels (see Table 1). These other channels might be expected to be more nexus-focused,

given their institutional emphasis on economic growth and poverty reduction. However, an added value of the MCFs is their focus on climate outcomes and hence a re-emphasis on environmental goals. The relationship between the MCFs and the MDBs and bilateral agencies is a complex one, with the MDBs being major implementing partners for the MCFs, and with bilateral country representation on the MCFs governance structures.

Table 1 International public climate finance flows, 2017–2018

Annual average (\$ billion)	
MCFs	2.7
MDB climate finance	39.2
Bilateral climate finance	29.9

Source: UNFCCC, 2021, Figure 3, page 10.

The two largest MCFs have been selected for this study: the CIF and the GCF. The two funds share the ambition of securing transformational change, yet they have markedly different business models.

The CIF has been a significant source of funding for global climate action since it was established in 2008 by a small number of donor countries. In term of scale, the CIF Annual Report for 2021 shows approved funding of \$7.5 billion to date, which is expected to secure an additional \$62.1 billion (CIF, 2022). Sources of this co-financing include funding from private capital, MDBs, bilateral agencies, and national governments. While approved funding of \$7.5 billion is reported, cumulative disbursements as of 31 December 2021 were \$4.2 billion, with many CIF investments at various stages of implementation. The CIF has adopted a programmatic funding model for each of its constituent programmes, beginning in each partner country with a government-led national investment plan.

The GCF was established at the 2011 COP17 meeting in Durban, South Africa as a fund operating under the governance of the UNFCCC, reporting to, and receiving guidance from, the Conference of the Parties of the UNFCCC. In 2014, GCF began its initial resource mobilisation and gathered pledges of \$10.3 billion. The Fund became operational with its first project approvals in 2015 and is now the largest MCF. The GCF Annual Results Report for 2021 documents approved funding of \$10.0 billion to date, with cumulative disbursements of \$2.3 billion as of 31 December 2021 (GCF, 2022a). In contrast to the CIF, project delivery is achieved through a very large number of implementation partners on approval by a global board.

3 Understanding the climate, economic, and social development nexus

Both the CIF and GCF are global climate funds, yet their resources support countries that are also in receipt of Official Development Assistance. This means that their programme and project delivery is set within a context where prior international assistance has been framed by the concept of development cooperation. Such cooperation has emphasised both economic growth and social development, while acknowledging the environmental impacts that can result. Many of the same institutional actors are heavily involved in the delivery of climate finance from the CIF and GCF, and are conditioned by their past experiences in promoting development cooperation. This context provides some guidance to understand how the climate, economic, and social nexus is interpreted by many of these international actors.

3.1 CIF

As a global climate fund, the CIF focuses on delivering climate impacts (CIF, 2022). However, the CIF acknowledges that significant co-benefits can be delivered through climate action. With the CIF's implementing partners consisting of six MDBs,¹ it can be argued that there is an in-built institutional assurance of also delivering economic and social objectives through its investments, reflecting the mission commitments of its partners. In the frame of these multiple objectives, and within its role as a high-level funder, CIF's results measurement structures have been designed to track the direct climate related outcomes of its programmes, with each MDB's internal results measurement processes aimed to provide assurance of tracking non-climate impacts.

3.1.1 Portfolio reporting on economic impacts

¹ The African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, and the International Bank for Reconstruction and Development and the International Finance Corporation of the World Bank Group.

In an effort to learn from these non-climate outcomes and their intersection with the climate change ecosystem, CIF launched a dedicated workstream to quantify these impacts in 2019, titled the **Social and Economic Development Impacts of Climate Finance (SEDICI)** learning workstream. A first phase of the SEDICI workstream has examined the expected economic impacts of two out of the four original CIF programmes: the **Clean Technology Fund (CTF)** and the **Scaling Up Renewable Energy in Low Income Countries Program (SREP)** (CIF, 2020a; CIF, 2021a). Both CTF and SREP focus on the provision of low-carbon technologies that support clean energy uptake in the context of national climate mitigation strategies. Modelling has estimated two economic impacts: employment generated and economic value added (GDP). These are taken from a categorisation of development impacts that the CIF has developed, consisting of four primary impact areas (social, economic, environmental, and markets), 11 subsidiary categories, and two cross-cutting themes (see Figure 2).

Figure 2 CIF development impacts categorisation

SOCIAL IMPACTS are experienced by people or communities	ECONOMIC IMPACTS contribute to economic growth	ENVIRONMENTAL IMPACTS conserve or protect natural resources	MARKETS IMPACTS contribute to systemic improvements
← Gender dimensions of development impacts →			
← Vulnerable populations and local stakeholders' dimensions of development impacts →			
1. Health and safety	4. Employment opportunities	6. Water	9. Energy sector security and resilience
2. Livelihoods, wealth, and quality of life	5. Economic value added (GDP)	7. Ecosystems and biodiversity	10. Competitiveness and industrial development
3. Access to essential services		8. Soils and crop productivity	11. Inclusiveness and energy justice

Source: CIF (2021c)

The three modelling tools selected were the Employment Factors Approach, the International Jobs and Economic Development Impacts Model, and the Joint Impact Model.² Collectively, they provide estimates of the jobs created from CIF investments and the economic value added by programme activity, measured in US dollars. These high-level modelling results allow the CIF and its partners to communicate the expected economic impacts of its climate investments.

Economic value added

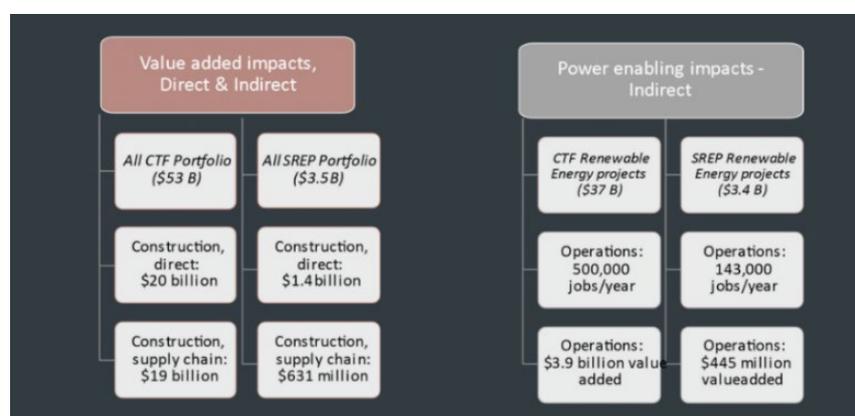
The economic value added by the CTF portfolio during the project construction phase, beyond project financing, is estimated at \$20 billion in terms of direct effects and \$19 billion from further supply chain effects (see Figure 3). When new sources of clean energy come online, further economic impacts from additional energy generation amount to \$3.9 billion in value added for each year of operations. (The much smaller SREP programme is expected to deliver impacts commensurate with its size.)

² Details of each of these modelling tools are described in CIF (2020a).

Employment generated

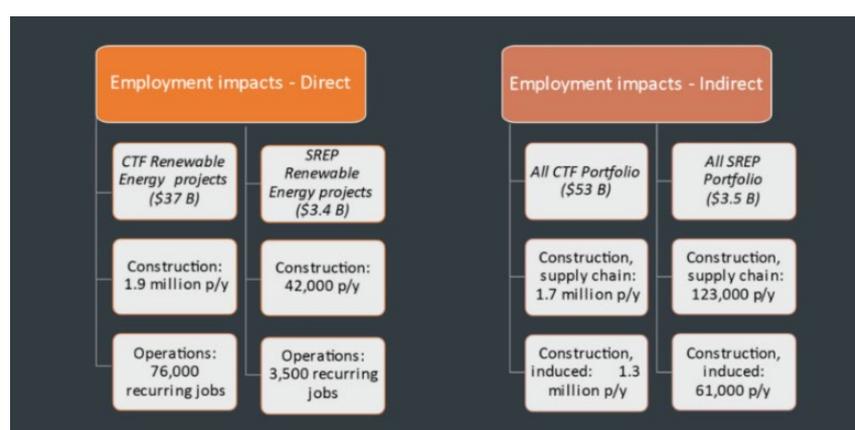
Construction-related employment brought about by the CTF portfolio is estimated to support 1.9 million person-years³ of direct (temporary) employment, and an additional 3 million person-years of indirect employment through supply chains and induced economic effects (see Figure 4). Once operational, CTF projects will contribute an additional 76,000 permanent jobs that remain over the lifetime of the projects. These represent significant outcomes in terms of job creation and securing employment. However, gender disaggregated data are lacking and how such projections apply in economies where many poor people gain their livelihoods in the informal sector is not yet explored.

Figure 3 Value added and enabled impacts of CTF and SREP programmes



Source: Pasricha and Selvakumar (2021)

Figure 4 Employment impacts of CTF and SREP programmes



Source: Pasricha and Selvakumar (2021)

³ One *person-year* (or *job-year*) of employment is a unit that stands for one person employed full-time for one year, or two people for half a year, etc. (CIF, 2020a)

The analysis conducted under the CIF's SEDICI workstream is valuable as an initial measurement of the economic impacts of the CIF at the portfolio level. These expected impacts are considerable and are aligned with supporting a transformation to clean energy supply in many economies where fossil fuels continue to be a significant source of power generation. A second phase of work, to include a mixed-methods development impact evaluation, is planned to report in mid-2022.⁴ The evaluation is expected to include an approach for assessing social impacts such as livelihoods and health outcomes. Once the methodology is developed, it should allow for regular portfolio-level development impact evaluations of all CIF programmes (CIF, 2021b).

3.1.2 Portfolio reporting on social impacts

An increasingly recognised concept in the climate change community is that of the 'just transition.' First applied to coal-rich countries (and linked to the related policy goal of 'leaving no-one behind') it has universal application, as demonstrated by its inclusion in the text of the 2015 Paris Agreement (UN, 2015):

Taking into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities.

This concept responds to the challenge of securing social inclusion (procedural justice) and equity (distributional justice) through climate fund investments. Recognising the lack of knowledge on how to manage just transitions in climate vulnerable countries, CIF has begun to explore the concept in such contexts by asking several questions:

- Who decides what kinds of transitions are needed?
- How are diverse groups included in the decision-making processes?
- Who benefits and who loses in change processes?
- How can benefits be distributed and losses mitigated in both safe and just ways?
- What is the depth of the transformational intent?

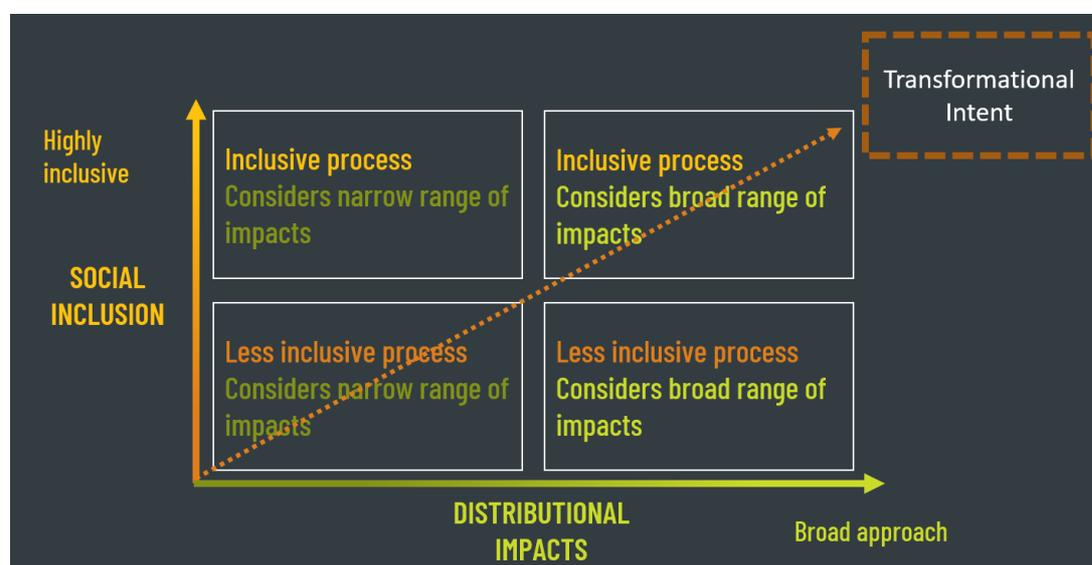
The Just Transition Initiative

The CIF's Just Transition Initiative (JTI) aims to advance knowledge of, and action on, just transitions. The just transition framework (see Figure 5) highlights the importance of considering both social inclusion, which includes the recognition of marginalised groups by including them in decision-making processes, and the distributional impacts of climate action, including the fair allocation of benefits and

⁴ N Sharma, personal communication, 24 February 2022.

harms (Just Transitions Initiative, 2021). The framework also captures the intent of the transition as it relates to the scale of change being promoted, from incremental reform to systems level (i.e., transformational) change.

Figure 5 The JTI conceptual framework for just transitions



Source: Just Transitions Initiative (2021)

Two country case studies have been completed in South Africa and India using this framework in the context of transitioning away from coal (CIF, 2020b; CIF, 2021c). The framework has also been used to understand just transitions in other sectors such as forest management (Ghana) and the allocation of water resources (Bolivia) in the context of climate change responses. These case studies provide evidence that social inclusion can be enhanced by empowering marginalised stakeholders through local platforms, and a wide distributional effect of project investments can be achieved through re-skilling and anticipatory skills development of impacted communities (Duarte, 2021).

The challenge of consensus building

Earlier CIF programme experience of supporting inclusion in decision-making processes has involved strengthening national coordination mechanisms around climate action. However, as a case study of the CIF's **Pilot Programme for Climate Resilience** in Zambia attests, such processes are often contested spaces, where the differing perspectives of government agencies, other national stakeholders, and donor organisations all have to be accommodated (see Box 1).

Box 1 The evolving governance and political contestation of climate finance

Based on a country case study of Zambia's interaction with the **Pilot Programme for Climate Resilience (PPCR)** of the CIF, Funder and Dupuy highlighted three findings relevant to securing greater inclusion in climate investment decision making and implementation:

- Emerging international norms on climate finance coordination may be reshaped and localised as they are turned into practical arrangements in domestic settings. In the case of Zambia, the planned national climate finance coordination mechanism went through several iterations as national and international actors sought to secure their preferences. This dynamic process affected who was included at different times in coordination efforts, at both the national and local level.
- Competing preferences and actions of donors and domestic actors as they enact climate finance coordination may differ significantly not only between donors and government actors, but also internally among them. In the case of PPCR coordination in Zambia, differences on how coordination should be achieved were apparent between the World Bank and UNDP, and between the ministries of finance and land and natural resources.
- The interactions between and among multilateral development donors and domestic actors based on existing norms and relationships from development cooperation can be challenged as climate finance norms are turned into practical arrangements. While inclusivity has been prioritised in development cooperation relationships, it cannot be assumed that such an approach will automatically be adopted by climate finance-driven processes.

Source: Funder and Dupuy (2022)

3.1.3 CIF internal learning

The SEDICI and the just transition workstreams are part of a large body of evaluative work that the CIF has conducted since the **Evaluation and Learning Initiative** was launched in 2015. This initiative aims to promote internal evidence-based learning, with over 50 studies completed that address five priority learning themes that span environmental, social, and economic concerns.⁵ Collectively, these studies aim to inform CIF decision-making at fund, programme, country, and investment levels. A key feature of the initiative has been its independent advisory group that provides strategic guidance and direction to the initiative through the diversity of perspectives that the group's membership offers. This initiative has played a leadership

⁵ See: www.climateinvestmentfunds.org/evaluation-and-learning

role in the CIF in advancing understanding of nexus issues. It remains a unique institutional structure of the CIF.

3.2 GCF

The Governing Instrument of the GCF lays out the objectives of the Fund (GCF, 2011):

The Fund will strive to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two, while promoting environmental, social, economic and development co-benefits and taking a gender-sensitive approach.

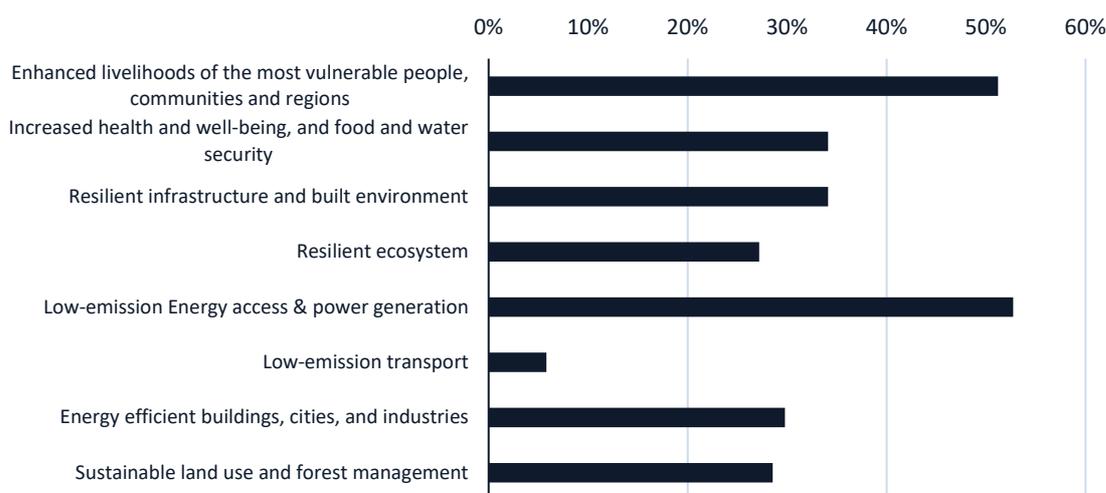
Social, economic, and environment co-benefits have therefore been recognised as key elements of the GCF mandate since its inception. The challenge that the GCF has faced, being an entirely new institution, has been to establish its own internal policies and systems that support achieving these objectives.

At the project level, each GCF project proposal goes through an intensive review process prior to Board approval, including an in-depth assessment made by an independent technical advisory panel. This panel's assessment includes an analysis of the environmental, social, and economic co-benefits expected to be delivered by the intervention, in addition to justifying the climate rationale of the investment. In this way, at the design stage, each project must demonstrate its intended environmental, social, and economic co-benefits.

3.2.1 Portfolio reporting on social and economic impacts

At the portfolio level, GCF funding is reported upon by eight results areas. As to be expected of a climate fund, these mostly reflect climate mitigation or climate resilience impacts. However, two areas that contribute directly to social impacts can be distinguished at this level of reporting, namely enhanced livelihoods of the most vulnerable, and increased health and well-being. Based on approved project funding, these two results areas receive significant attention by the GCF in globally vulnerable countries, namely Least Developed Countries (LDCs), small island developing states (SIDS) and African states (see Figure 6). Just over half of GCF funding in these countries has the explicit aim of enhancing the livelihoods of the most vulnerable people, communities and regions.

Figure 6 GCF funding amount by results areas for LDCs, SIDS and African States



Source: Author's own analysis of GCF projects, as of April 2022

The GCF results areas reflect a characterisation of climate benefits that also recognises social goals in the first two results areas (namely, better livelihoods for vulnerable people and better health and welfare). However, an explicit indicator of economic benefits is missing, as there is no result area that can be readily linked to national economic measures such as GDP growth. This absence may be a result of the GCF having adopted a project-by-project investment strategy (where economic benefit is assured during project identification through the use of such tools as cost-benefit analysis).

Recent analysis of the likelihood for systems change brought about by GCF projects provides insights into the development impacts that can be expected of the GCF project portfolio (Puri et al., 2022). Multivariate cluster analysis of 125 project investments was made to identify patterns within the data set. Variables included the number of relevant stakeholder groups that were consulted (social inclusion) and expected employment (economic value added). Both these variables scored highly in projects that also demonstrated most potential for systems change. Given that systems change is a strategic goal of the GCF, it can be expected that social inclusion and economic value added will be delivered across at least part of the GCF project portfolio.

3.2.2 GCF internal learning

The GCF's Independent Evaluation Unit (IEU) is an institutional learning mechanism within the GCF. Since 2018, it has conducted a series of evaluations as the GCF has started to build operational experience. The IEU's 2020 independent evaluation of the environmental and social management system of the GCF criticised the environment and social safeguards and the GCF's environmental

and social management system (Annandale et al., 2020). The following weaknesses were identified:

- The GCF does not require or provide guidelines on how funded projects should report on social and environmental outcomes and performance.
- The GCF key processes do not meet the needs of the GCF's mandate to signal and realise the importance of environmental and social performance and co-benefits.
- GCF's accredited entities identify environmental and social co-benefits in almost all projects, although the process for identifying co-benefits is not systematic and there is no guidance for identifying or reporting them.
- The GCF Results Framework does not require reporting on environmental and social compliance/safeguards nor on co-benefit indicators at the impact or outcome level.

The evaluation called for the reform of the GCF's environmental and social safeguards and environmental and social management system. GCF systems were identified as limiting their attention to environment and social risk assessment (the principle of 'do no harm'); the evaluation called for the GCF to extend this to identifying and evaluating co-benefits (the principle of 'doing good') for all GCF investments, in line with the GCF Governing Instrument. To date, there has not been a similar evaluation of the economic benefits derived from GCF project activity.

As the GCF continues to build its internal policies, systems and protocols, the relative weight given to its social and economic co-benefits will continue to be determined by the GCF Board. Available evidence suggests that the economic impacts of the fund's investment strategy is the least well understood of its planned co-benefits, with this aspect under-investigated at the GCF portfolio level.

4 The experience of the GCF and CIF in Kenya and Bangladesh

Kenya and Bangladesh have played an active role in implementing climate action supported by both funds. These countries therefore offer an opportunity to learn how the climate, economic, and social objectives are being advanced on the ground as a result of project interventions supported by the CIF and GCF.

4.1 Kenya

The experiences of the GCF and CIF in Kenya suggest two different strategies based on the adoption of project or programmatic support. The former, as followed by the GCF, provides opportunities to further climate, economic, and social goals at the micro, household, or individual business level. The latter, as followed by CIF, allows for a clear line of sight to the macroeconomic impacts across the climate, economic, and social nexus. These potentially complementary approaches are described in the following sections.

4.1.1 GCF project activity in Kenya

As of June 2022, there are 14 GCF projects operating in Kenya, with \$210 million of committed GCF financing.⁶ However, 12 of these 14 projects operate over multiple countries, so the GCF investment in Kenya is a fraction of this amount. In addition, experience of project implementation is recent, with no project having more than three years of on-the-ground activity. There is often an extended period between the GFC Board approving a project and its implementation and the delivery of effective outputs. Legal issues can take several years to reach agreement between the GCF, the fund's intermediaries, and the national government. This is a weakness that has undermined confidence that the GCF can respond with urgency to support climate action, and is something that the GCF is now addressing (GCF, 2022b).

Early project implementation experience suggests that the provision of equity finance is an effective way of securing economic and social benefits through GCF projects. The GCF's first project in Kenya, operational since 2020, has supported a new regional investment

⁶ www.greenclimate.fund/countries/kenya

fund, the **KawiSafi Ventures Fund**, to help drive off-grid solar power. Equity capital from the GCF is used to leverage larger amounts of private investment. A technical assistance facility has also been established with GCF grant funding. The KawiSafi Ventures Fund invests in clean energy companies that provide household solar technologies to help leapfrog fossil fuel grids to clean energy. 87% of customers surveyed in Kenya indicated that their quality of life has improved significantly as a result of access to the KawiSafi-supported solar home system (GCF, 2021a). A second, similar project (the Universal Green Energy Access Programme) has recently been agreed with **Deutsche Bank**. A similar funding model also applies to a third project, the **Acumen Resilient Agriculture Fund**, implemented by the same project partner (the Acumen Fund) as the KawiSafi Ventures Fund (see Table 2).

Table 2 GCF Equity investments in Kenya

Project name	GCF project number	Intended climate impact	Project funding (US\$ millions)			
			GCF equity	GCF grant	Co-finance	Total project cost
KawiSafi Ventures Fund in East Africa	GCF FP005	Cross-cutting	20.0	5.0	85.0	110.0
Universal Green Energy Access Programme	GCF FP027	Mitigation	78.4	1.6	221.6	301.6
Acumen Resilient Agriculture Fund	GCF FP078	Adaptation	23.0	3.0	30.0	56.0

Source: www.greenclimate.fund/projects

In all three projects, the GCF co-financing strategy means that co-investors have a strong voice in project implementation, which is reported to lead to a reduction in attention given to social outcomes (although evidence of this is limited).⁷ In addition, the choice of equity funds as implementation partners of the GCF has raised civil society concerns over transparency, accountability, and inclusive decision-making linked to such project proposals.⁸

A different approach has been taken with a grant-funded GCF project (**Promotion of climate-friendly cooking**) to promote clean cooking stoves, working through government (the Ministry of Energy) and in-country development partners (including GIZ, and the NGOs Energy for Impact and Practical Action). For a country that traditionally has been dependent on biomass for cooking, the project design

⁷ For example, see civil society comments on GCF project proposals: www.gcfwatch.org/project-tracker

⁸ For example, see report of May 2022 GCF Board meeting B32: [CSO Updates on the 32nd Green Climate Fund Board Meeting – Day 2 – GCFWatch](#)

addresses the linkages between climate change mitigation – by reducing carbon emissions from cooking – and broader sustainable development impacts, including improved health outcomes, working on a theme that has received earlier support through development cooperation projects.⁹

4.1.2 CIF programmatic activity in Kenya

In 2011, Kenya became one of the pilot countries for the CIF's **Scaling-Up Renewable Energy Program in Low Income Countries** (SREP). This programme aims to demonstrate the economic, social, and environmental viability of low-carbon development pathways to increasing energy access using renewable energy and creating new economic opportunities. SREP engagement with Kenya began with a jointly prepared national investment plan (CIF and Republic of Kenya, 2011). This investment plan identified three priority interventions: geothermal energy supply, hybrid mini-grids, and solar water heaters. The first theme was subsequently supported by a \$25 million project that proved to be a catalytic investment in the initial stages of the growth of Kenya's geothermal sector.

Implementation of the SREP investment plan has supported the national energy strategy by promoting renewable energy in a context where the country continues to rely on imported fossil fuels to meet its baseline energy requirements, and spends close to half of its yearly foreign exchange on petroleum and oil imports.¹⁰ The timing of the SREP investment in Kenya was fortuitous, as it happened at a time when there was already national policy intent to grow the renewable energy supply in the country, as evidenced by the passing of the 2012 Energy Act.

Significant changes in the national energy supply have taken place: in 2008, geothermal energy capacity in Kenya stood at 35 MW; by 2022, this had increased to 828 MW. Kenya also now has one of the largest solar power plants in Africa with an installed capacity of 50 MW, as well as the largest wind power generation project on the continent (the Lake Turkana Wind Power Project) at 310 MW. In total, Kenya currently has approximately 2,000 MW in renewables, providing over 70% of the country's installed power.¹¹ All this clean energy provision provides a foundation for the economic transformation trajectory that the country has set. As this has happened with the support of development partners (both as implementing partners of the climate funds and beyond) it is plausible that it will also be conducted in a more inclusive manner than may have happened through a solely private sector led model.

⁹ See: www.greenclimate.fund/project/fp103

¹⁰ Source: <https://centurionlg.com/2022/02/01/renewable-energy-growth-in-kenya>

¹¹ Source: www.usaid.gov/powerafrica/kenya

4.2 Bangladesh

Bangladesh was among the fastest growing economies in the world prior to the Covid-19 pandemic. At the same time, the impacts of climate change were increasingly being felt, heightening the risk of the country securing a sustainable development trajectory. In this context, the contribution made by the MCFs in supporting national climate action has attracted much attention.¹² As in Kenya, there is emerging evidence that the GCF and CIF are starting to play significant and complementary roles.

4.2.1 GCF project activity in Bangladesh

Six projects make up the GCF country portfolio, with total committed GCF funding of \$508 million. As of June 2022, the GCF website reports disbursed funding of approximately \$36 million.¹³ As in Kenya, there can be a significant time lag between GCF Board approval for a project and project implementation. This is caused by the time taken for legal agreements to be made between the GCF, the project intermediaries, and the national government.

GCF projects in Bangladesh are implemented by a wide range of partners, including both multilateral and national agencies. Government ministries then play the dominant role in project delivery. Project selection is aided by a national expert group advising the government, helping to ensure the strategic coherence of the project portfolio. Adaptation-related interventions are supported by grant finance, whereas mitigation actions are funded primarily by concessional lending. The use of the latter financial instrument tends to reflect the private sector-led nature of climate mitigation projects where there is an expectation of immediate economic benefits.

One GCF project (**Enhancing adaptive capacities of coastal communities, especially women, to cope with climate change induced salinity**) implemented in the south-west coastal region of the country highlights how social inclusion can be prioritised.¹⁴ This \$33 million project, executed through the Ministry of Women and Children Affairs, addresses livelihood and health outcomes for women and children by working to deliver drinking water solutions in areas where there are increasing levels of salinity brought about by climate change. Social inclusion is being secured through a delivery strategy that targets the most vulnerable households as the primary beneficiaries of project interventions (GCF, 2021b). In addition, the project is investing in communities, especially women through the formation of Women Livelihoods Groups, as 'change-agents' to ensure ownership and sustained engagement. Beyond immediate project results, early project development processes are seen to

¹² See: <https://archive.dhakatribune.com/climate-change/2021/01/02/climate-finance-in-bangladesh-a-critical-review>

¹³ Source: www.greenclimate.fund/countries/bangladesh (total GCF financing is less than the sum of project financing, which is reported here).

¹⁴ See: www.greenclimate.fund/project/fp069

have had a broader impact on government approaches to safeguarding water security and livelihoods (see Box 2).

Box 2 The impact of GCF programming on sectoral programming design by government

In 2019, three government funded projects approved by the Executive Committee of the National Economic Council included major shifts from earlier national practices to achieve water security. These changes were influenced by the results of the GCF programming for the Ministry of Women and Children Affairs' project, namely:

- 1 a shift from groundwater-based solutions to surface water-based solutions, and
- 2 inclusion of climate-resilient and sustainable technological solutions, including rainwater harvesting and solar based desalination.

These three government investments represent a combined value of approximately \$15 million.

Source: GCF (2021b)

A second project approved by the GCF Board in November 2020 (**Promoting private sector investment through large scale adoption of energy saving technologies and equipment for textile and ready-made garment (RMG) sectors of Bangladesh**) will provide a lending facility to promote the uptake of energy efficiency equipment for textile and RMG manufacturers.¹⁵ RMG is the most vibrant sector in Bangladesh, providing 84% of the country's export earnings, yet it is the largest industrial contributor to CO₂ emissions (Berg et al., 2021). In addition to addressing carbon emissions reductions, by supporting the textile and RMG sector the application of the GCF's social and environmental safeguards can assist national efforts to reduce the risk of ill treatment of garment workers, thus promoting social goals.

4.2.2 CIF programmatic activity in Bangladesh

As with the SREP programme in Kenya, country engagement with the CIF's Pilot Programme for Climate Resilience (PPCR) began with the preparation of a national investment plan (CIF and Government of Bangladesh, 2010). The aim of the plan was to provide finance for a programmatic, long-term approach to strengthening climate resilience in the country. Three strategic investment areas were identified: promoting climate resilient agriculture and food security, strengthening coastal infrastructure, and improving climate-resilient water supply and sanitation.

¹⁵ See: www.greenclimate.fund/project/fp150

The **Coastal Embankment Improvement Project**, Phase 1 (CEIP-1) was designed to address the second investment area, with a CIF grant of \$25 million tied into a much larger \$375 million credit from International Development Association resources (World Bank Group). This project aims to help reduce poverty and stimulate economic development by facilitating the growth of farm and non-farm activities in six coastal districts (World Bank, 2013). By linking CIF resources to a World Bank project, CIF was able to harness the considerable capacity and expertise that World Bank involvement would bring to further environmental and social objectives, including through the implementation of social action plans (e.g., AMS, AO and PDI, 2020). Long-term monitoring, research and analysis was also part of the overall investment package directed at addressing sustainability issues in a complex dynamic context (e.g., DHI, 2022).

5 Emerging lessons

Six emerging lessons on how MCFs can work towards inclusive, sustainable economic transformation can be identified from this rapid review of portfolio tools and project performance of the CIF and GCF.

First, the funded actions of the MCFs clearly align with environmental, economic and social goals. One much-simplified characterisation of climate impacts is that adaptation actions often respond to social inclusion concerns, while climate mitigation actions mainly address the objective of economic transformation. The calls for MCFs to achieve a balance between adaptation and mitigation therefore takes on a broader significance to achieving social as well as economic goals. There is also a balance to be struck between adopting a macroeconomic or microeconomic perspective, reflecting the longstanding debate between top-down and bottom-up approaches to development. A key learning emerging from the early MCF experience is that any approach that does not link across these scales is unlikely to affect change at the systems level.

Second, MCFs are developing conceptual frameworks that are relevant to the environmental, economic and social nexus. This analytical work can support ex-ante and ex-post assessment and inform results frameworks, much in the same way as the Sustainable Livelihoods Approach did for development cooperation in the 1990s (Chambers and Conway, 1992). The on-going development of the CIF's SEDICI workstream would appear to offer potential with its overarching development impacts categorisation and the use of economic modelling tools to understand systems change.

Third, nexus concerns, as is well known, are embedded within complex and dynamic systems, necessitating a response that includes both diverse partnerships and strong analytical and implementation capacity. This issue plays out in the choice of MCF project partners. The CIF has adopted a strategy of relying on the longstanding experience of the MDBs working in climate vulnerable countries to implement country-led national investment plans. This strategy has allowed in some circumstances the rapid disbursement of financial and technical support from the CIF. The GCF has taken a different approach to its selection of implementing partners, and through the development of its **Direct Access** modality gives greater emphasis to strengthening the capacity of national implementing agencies. This strategy has led to slower delivery in project implementation as new project partners have to go through a lengthy accreditation process. These two strategies can be viewed as being

complementary rather than competing if they are managed to secure both depth of expertise and breadth of perspective.

Fourth, MCFs are providing lessons into the potential complementarity between project and programmatic approaches that can advance environmental, economic, and social goals. The debate over project versus programmatic interventions is longstanding among MCFs (e.g., GEF, 2009), reflecting the even older debate within development cooperation circles (e.g., Foster, 2000). Yet project delivery continues, being the core business model for the GCF and other MCFs. From the evidence collated from Bangladesh and Kenya there may be synergy to be found in these two approaches if the programmatic framing and individual project interventions are aligned. Programmatic approaches appear to offer most potential to secure country ownership over the action, being clearly embedded within national policies, strategies, and action plans.

Fifth, the MCFs are building experience on the optimal use of different financial instruments in responding to nexus concerns. The deployment of equity finance and concessional lending to promote economic transformation reflects the fact that in many countries economic activity is led by the private sector. Grant finance, often using NGO project delivery, can be directed to promote social inclusion where there is little expectation of immediate economic benefit. In this practice of using a variety of financial instruments, there is much that the MCFs can learn from the longer experience of the MDBs in furthering economic and social goals. The added value of the MCFs is their attention to climate impacts that emphasise the environmental dimension.

And sixth, implementation delays of MCF investments are presently limiting the scope for ex-post analysis of their impact in the climate, economic and social nexus. Delays caused by inefficient internal processes have led to much frustration and hinder effective nexus outcomes. The disruption brought about by the global Covid-19 pandemic has added to this sense of inaction. Such delays compound the task of measuring outcomes. As one example, the PPCR investment in Bangladesh, designed as a seven-year project, with an expected next phase now planned, has yet to achieve its intended impacts. Shorter-term projects are challenged to provide the empirical evidence of what works across the nexus. This heightens the need to identify 'signals of change,' as developed by the CIF (Savage, 2020). Such signals can be used to show that change in the hoped-for direction is taking place through on-going activity.

1. Conclusions

Activities supported by MCFs focus on securing a positive climate impact, yet economic and social goals are also an integral part of

these funds' mandates. In this way, the MCFs are addressing the same challenges that both multilateral and bilateral development partners have been working on for many years, with now a renewed emphasis on environmental concerns. There is evidence that the MCFs are building on these earlier experiences to improve understanding of their actions on the nexus of economic, social, and environmental impacts, and are doing so in a way that emphasises increasing participation and country-led programmatic responses.

Implementation experience supported by these funds is emerging through early project activity. Different project partners and financial instruments have been deployed to secure economic transformation and social inclusion, and the evidence base is building on how to promote sustainable development. Further analysis is needed, particularly on the MCFs' contribution to economic transformation.

The response to climate change will continue to take place under conditions of considerable uncertainty. This places a premium on the MCFs strengthening their adaptive learning approaches, including through the work of the GCF's IEU and the CIF's Evaluation and Learning Initiative. Over the next few years, the continual gathering of experiences beyond individual project life cycles will be needed to understand how to achieve change at the systems level.

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