



Part of WRI's Climate Finance Series

SUM OF PARTS

MAKING THE GREEN CLIMATE FUND'S ALLOCATIONS ADD UP TO ITS AMBITION

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EXECUTIVE SUMMARY

In 2010, parties to the United Nations Framework Convention on Climate Change established the Green Climate Fund (GCF) with the hope that it would become the primary global fund for climate change finance in developing countries. Through targeted financial support, the GCF aims to help countries develop and implement low-emission, climate-resilient development strategies that address the causes and consequences of climate change.

The magnitude of the GCF's contribution to climate change goals will depend in large part on how its resources are allocated. The GCF's Governing Instrument and associated decisions by the United Nations Framework Convention on Climate Change (UNFCCC) Conference of Parties lay out basic principles and guidance on how the GCF should allocate its resources. However, the GCF Board now must develop more detailed rules to operationalize these principles and guidance through a formal allocation system. In doing so, the GCF Board can draw upon the experience of other environment and development funds, which offer useful insights on fund allocation systems.

The World Resources Institute (WRI) has examined the allocation systems of 15 funds with a range of thematic focuses in order to understand how their allocation process might inform the GCF allocation system.¹ Through reviewing the operational documents of these 15 funds and interviewing fund staff, WRI has identified two essential elements of all allocation decisions: a defined *decision-making process*, and *criteria and indicators* that support decision-making.

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Allocation decisions may be made at four levels: across thematic areas, across countries, across sectors and industries, and across activity types. Regardless of the level at which funds are allocated, the decisionmaking process involves two key initial questions: *who decides how to allocate the funds*, and *how is the decision made*? WRI's review shows that although the governing bodies of funds typically make allocation decisions, practice may vary. Governing bodies may delegate decisions to subsidiary bodies (such as committees or subcommittees) or rely on the recipient countries to make some of the allocation decisions. Often, these decisions are guided by decision-support tools and other mechanisms, such as expert opinion.

Regardless of who makes the allocation decision, decisions are invariably based on a set of *criteria* (the principles or standards for evaluating choices) and *indicators* (the measures used to compare potential performance of various options in relation to these standards). These criteria and indicators may be applied in funding formulas, by expert panels, or directly in deliberations by the governing bodies of funds.

The analysis of the 15 funds considered here yielded five broad categories of allocation and investment criteria:

(1) potential for impact; (2) replicability, scalability, and transformational potential; (3) relative need and equitable distribution; (4) policies, regulations, and institutions; and (5) economic efficiency (see Table A). While these categories are not exhaustive, they are nevertheless indicative of the considerations that drive allocation decisions.

As funds apply these criteria in their allocation decisions, they may be called on to balance competing objectives, which often requires tradeoffs. The review of the 15 funds, combined with interviews with fund staff, reveals five common sources of tension:

- **Complexity versus simplicity.** As funds attempt to address their principles as well as the expectations of partners, the allocation system may become increasingly complicated and ambiguous. Equally, a simpler, formulaic approach to fund allocation may not meet the complex needs of all countries.
- **Flexibility versus predictability.** To respond to evolving needs and changing conditions, funds require a degree of flexibility. At the same time, however, predictable allocations provide recipient countries the stability needed for planning purposes.

Table A | **Categories of Criteria for Allocating Funds**

CATEGORY OF CRITERIA	DEFINITION	EXAMPLE OF CRITERION	EXAMPLE OF INDICATOR
Potential for impact	Potential to contribute to the achievement of a fund's objectives	Expected reductions in greenhouse gas emissions	Metric tons carbon dioxide equivalent avoided (Indonesia Climate Change Trust Fund)
Replicability, scalability, and transformational potential	Degree to which fund can achieve impact beyond a one-off project investment	Transformational potential	Metric tons of carbon dioxide avoided if project is replicated across region or sector (Clean Technology Fund)
Relative need and equitable distribution	Degree to which a recipient (e.g. a country or a project developer) needs the finance more than others or is relatively less capable than others to fulfill this need. In responding to the relative need and capability, the fund's resources are distributed fairly and optimally	Relative vulnerability of a population to climate change impacts, such as populations living in low-lying flood-prone areas	Country ranking in Human Development Index (Pilot Program for Climate Resilience) or the use of minimum allocation thresholds such as the Special Drawing Rights (SDR) ² 3 million minimum per eligible country (International Development Association)
Policies, regulations, and institutions	Recipient's capacity to implement a project or program, considering institutions in place, enabling policies, and past performance in implementation	Supportive country policy and institutional framework	Scoring of country policies and institutions; additional weight given to environment-related policies and institutions (Global Environment Facility)
Economic efficiency	Impact per dollar delivered by fund	Avoided deforestation or forest degradation	Hectares affected per dollar spent (Amazon Fund)

Source: WRI compilation based on funds reviewed.

- **Equity versus impact.** Funds that prioritize cost-effectiveness of a desired global benefit (such as CO₂ abatement) risk excluding several countries or regions that are most in need of support and least able to access finance. At the same time, efforts to ensure equitable distribution may undermine a fund's potential for impact by prioritizing allocations for activities that are not as cost-effective as alternatives, or by spreading funding too thinly.
- **Short-term versus long-term benefits.** As funds decide which allocation criteria should be weighted most heavily, there may be tradeoffs between long- and short-term needs. In climate adaptation especially, responding to the urgent needs of the most vulnerable may entail a tradeoff with longer-term efforts to build adaptive capacity.
- **Bottom-up versus top-down.** There may be tensions between the fund's global strategic priorities and the recipient country's national strategic priorities.

Implications for Green Climate Fund Allocation

In light of these tensions, the experience of the 15 funds reviewed here suggests four implications to help guide the design of an allocation process for the GCF:

1. **Identify allocation priorities bottom-up; calibrate for global outcomes top-down.** Allocating resources across sectors and activities at the national level contributes to country ownership. At the same time, ensuring progress toward internationally-agreed outcomes requires the GCF to employ a strong test for the delivery of global climate benefits of its investments, particularly for mitigation. By applying strong tests for climate benefits top-down to meet GCF objectives, bottom-up processes can remain flexible enough to encourage country ownership.
2. **Prioritize allocations for activities that deliver long-term impacts.** As the GCF aspires to achieve a paradigm shift toward low-carbon and climate-resilient development, its allocation approaches will need to prioritize support for activities that deliver long-term impacts. As a result, mitigation activities that contribute to the long-term objective of transitioning to a low-emission economy would take precedence over activities that deliver immediate, low-cost greenhouse gas emissions reductions. Criteria geared to support efforts that enhance enabling environments and promote changes to incentive structures can help alter the trajectory of sectors. These efforts may take a longer time to bear fruit than short term one-off investments, and there will be times when exceptions are needed, such as addressing imminent humanitarian needs arising from climate change impacts. Incorporating different time horizons for actions and results into the allocation approaches will support the kind of transformational impacts to which the GCF aspires.
3. **Address equity in the allocation outcome; focus on impacts in the allocation approach.** Governing bodies must ensure that their funds' balance of allocations is perceived as fair. Many funds start with an allocation process, such as a formula based on several metrics, and then make ex-post assessments or apply ex-post caps and floors to ensure their allocations are fair. This appears to be a more effective way to ensure equity in the distribution of resources, particularly for low-capacity countries. An ex-post adjustment ensures that groups of countries that meet certain criteria, such as the Least Developed Countries, have adequate access to resources even if they end up with lower rule-based allocations because of their capacity constraints. The rules-based system can be kept fairly simple to ensure that initial allocations are determined to maximize impact, and the allocation outcomes can then be calibrated to ensure a fair distribution.
4. **Provide flexibility to be responsive, but not at the expense of predictability.** Allocation of climate finance must be responsive to the needs of recipients and changing circumstances. Variations in socio-economic conditions and institutional capacity across (and within) developing countries necessitates a flexible system. Strict rules-based allocation systems can limit the ability of funds to respond to emerging opportunities that might represent a more effective use of resources. At the same time, systems that are too flexible have been found to have their own limitations: they can result in overambitious proposals and may not provide certain activities the long-term certainty of funding flows needed. Finding a balance between predictable flows and a flexible system will be necessary, and the degree of flexibility could be differentiated with more flexibility for mitigation and more predictability for adaptation.

1. INTRODUCTION

The Green Climate Fund (GCF) was established at the 16th Conference of Parties (COP) of the United Nations Framework Convention on Climate Change (UNFCCC) in Cancun in 2010 (see Box 1). Its Governing Instrument mandates that it “make a significant and ambitious contribution” toward internationally agreed goals to combat climate change. It seeks to achieve a paradigm shift toward low-emission and climate-resilient development pathways by supporting developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change. As an operating entity of the financial mechanism of the UNFCCC with the aspiration of becoming the “main global fund for climate change finance,” allocating resources in a manner that is ambitious, effective, and accountable is critical to the GCF’s success.

The GCF’s Governing Instrument provides basic principles and guidance on how the GCF should allocate its resources (see Box 2), and the COP has also provided guidance on allocation, requesting that the GCF balance resource allocation between adaptation and mitigation activities. The GCF Board will need to develop more detailed rules to make these principles operational. The GCF Board is expected to adopt its rules in the first half of 2014 and start its operations by the end of the year.

Box 1 | Green Climate Fund Timeline

- **2009:** Copenhagen Accord provides the political mandate by heads of state for the creation of a new multilateral fund.
- **2010:** Cancun Agreements establish the Green Climate Fund (GCF) and set up a 40-member Transitional Committee to finalize governance arrangements of the GCF.
- **2011:** UNFCCC Conference of Parties in Durban adopts the Governing Instrument of the GCF paving the way for its 24-member board to begin overseeing operations.
- **2012:** The GCF Board is established and Songdo, Korea is selected for the location of its secretariat.
- **2013:** The GCF Board begins to finalize the modalities for the GCF’s operation referred to as the “business model framework.”
- **2014:** The GCF Board is scheduled to agree on its initial operational modalities with a view to securing initial resources by September.

This working paper aims to provide the GCF Board timely analysis on the allocation approaches and experiences of other environment and development funds with a view to informing its decisions on fund allocation rules. Effective rules will enable an allocation system that maximizes the GCF’s impact in achieving low-emission and climate-resilient development in the countries that receive its funds.

Scope and Approach

This paper focuses mainly on questions of allocation, including both ex-ante allocations and investment decision-making. Investment decisionmaking is included because, in practice, investment decisions also result in the allocation or distribution of a fund’s resources even if not decided ex-ante. While other analyses often focus only on ex-ante allocations to broad themes like mitigation and adaptation, and to countries, this paper takes a broader view of allocation to also consider allocations across sectors and industries, and across activity types. It also touches on other issues relevant to the GCF Board including the result areas of the GCF, its access modalities, and its financial instruments, but it does not discuss them in detail as these topics are covered in other papers in WRI’s Climate Finance series.³

Box 2 | Governing Instrument for the Green Climate Fund: Guidance on Allocation

The “Governing Instrument for the Green Climate Fund,” presented at the 17th Session of the UNFCCC Conference of the Parties in Durban, South Africa in 2011, includes the following directions to the GCF Board:

- The board will balance the allocation of resources between adaptation and mitigation activities under the fund and ensure appropriate allocation of resources for other activities.
- A results-based approach will be an important criterion for allocating resources.
- In allocating resources for adaptation, the board will take into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, including Least Developed Countries, Small Island Developing States, and African States, using minimum allocation floors for these countries as appropriate. The board will aim for appropriate geographical balance.

Source: UNFCCC Conference of the Parties 2011.

Table 1 | **Climate, Environment, and Development Funds Reviewed**

FUND NAME	FUND DESCRIPTION	THEMATIC FOCUS	GEOGRAPHIC SCOPE	GOVERNANCE (MEMBERS WITH VOTING RIGHTS)
Adaptation Fund (AF)	The AF is a financial instrument under the UNFCCC established to finance adaptation projects and programs.	Climate change adaptation	All developing countries	Developed and developing country governments favoring developing countries
Amazon Fund	The Amazon Fund is a private fund created by the Government of Brazil and managed by the Brazilian Development Bank.	Climate change mitigation: forests/REDD+	Amazon Basin	Brazilian Government (federal and state) and civil society
Clean Technology Fund (CTF)	The CTF is a multidonor trust fund within the Climate Investment Funds (CIFs), organized by the World Bank and other multilateral investment banks.	Climate change mitigation: low-emission energy	Middle-income countries	Developed and developing country governments equally
Forest Carbon Partnership Facility's (FCPF) Readiness Fund and Carbon Fund	The FCPF is a World Bank program that consists of a Readiness Fund and a Carbon Fund.	Climate change mitigation: forests/REDD+	Developing countries located in subtropical or tropical areas	Developed and developing country governments equally
Forest Investment Program (FIP)	The FIP is a program of the Strategic Climate Fund within the CIFs.	Climate change mitigation: forests/REDD+	All developing countries	Developed and developing country governments equally
Global Environment Facility (GEF)	The GEF was established in 1991 to assist in the protection of the global environment. This working paper considers only allocations made under the GEF's System for Transparent Allocation of Resources (STAR).	Climate change mitigation, biodiversity, land degradation, international waters, and chemicals	All developing countries and transition economies	Developed and developing country governments with transition country governments
Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund)^a	The Global Fund was established in 2002 through efforts of the United Nations and the Group of Eight.	Health: AIDS, tuberculosis and malaria	All developing countries	Developed and developing country governments, and observers, favoring developed countries
World Bank's International Development Association (IDA)	The IDA is a member of the World Bank Group established in 1960.	Development	All low-income developing countries	Developed and developing country governments favoring high-contributing countries based on World Bank's governance
International Climate Initiative (IKI), Germany	The IKI is a fund managed by the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).	Climate change mitigation: low-emission energy, forests/REDD+. Climate change adaptation	All developing countries, transition economies and newly industrialized countries	German Government
International Climate Fund (ICF), United Kingdom	The ICF is the primary channel of UK climate change finance.	Climate change mitigation: low-emission energy, forests/REDD+. Climate change adaptation	All developing countries	UK Government
Indonesia Climate Change Trust Fund (ICCTF)	Created by the Government of Indonesia, ICCTF is a national funding entity that links international finance with national investment strategies.	Climate change mitigation: low-emission energy, forests/REDD+. Climate change adaptation	Indonesia	Indonesia Government and donors

Table 1 | **Climate, Environment, and Development Funds Reviewed (continued)**

FUND NAME	FUND DESCRIPTION	THEMATIC FOCUS	GEOGRAPHIC SCOPE	GOVERNANCE (MEMBERS WITH VOTING RIGHTS)
Millennium Challenge Account (MCA)	The MCA is administered by the Millennium Challenge Corporation, a bilateral United States foreign aid agency.	Development	All developing countries	U.S. Government
Pilot Program for Climate Resilience (PPCR)	The PPCR is a program of the Strategic Climate Fund in the CIFs.	Climate change adaptation	All developing countries	Developed and developing country governments equally
Scaling-Up Renewable Energy Program in Low Income Countries (SREP)	SREP is a program of the Strategic Climate Fund in the CIFs	Climate change mitigation: low-emission energy in low-income countries	All small, low-income developing countries	Developed and developing country governments equally
United Nations Programme on Reducing Emissions from Deforestation and Forest Degradation (UN-REDD)	UN-REDD is a multi-donor trust fund established between three UN Agencies.	Climate change mitigation: forests/REDD+	All developing countries	Developed and developing country governments, civil society, indigenous peoples, and UN agencies

a At the time of writing, the Global Fund was developing a new allocation system to be implemented in 2014. Unless otherwise specified, references to the Global Fund in this working paper refer to the pre-2014 allocation approach of the Global Fund.

Source: WRI compilation from fund websites; some fund descriptions adapted from Climate Funds Update (www.climatefundsupdate.org).

This paper surveys 15 funds, 10 of which focus on climate change mitigation and adaptation, 2 on development broadly, 2 on a set of environmental areas including climate change, and 1 on health (see Table 1). Since most of the climate change funds are still relatively new and have been launched only in the past two to five years, the inclusion of the development-focused funds is intended to bring in the experiences of funds with a longer track record of allocating resources to developing countries.

Funds were selected to be diverse, but the selection is neither comprehensive nor exhaustive. It includes all multilateral climate funds with the exception of two small funds: the Strategic Climate Change Fund and the Least Developed Countries Fund. It includes two major national climate funds of Germany and the United Kingdom that account for a large share of global climate finance, as well as the national fund of a developing country, the Indonesia Climate Change Trust Fund. The rationale for limiting the analysis to these national funds was to gather insights from them without making the analysis too cumbersome. Similarly, we selected one globally focused multilateral development fund (the World Bank’s International Development Association [IDA]). We also selected one national development fund (the U.S. Millennium Challenge Corporation’s Millennium Challenge Account [MCA]) to better understand its unique performance-oriented approach. The Forest Carbon Partnership Facility’s Carbon Fund and the Global Fund to Fight AIDS, Tuberculosis and Malaria

(Global Fund) are among the few funds that have experience with a payment-for-results approach to allocation, which is of interest to GCF Board members.

The analysis and insights in this paper are based on a desk review of the funds, as well as a series of interviews with experts from the funds. Most of the interviews were with senior fund staff who had insight into how allocation processes had evolved over time. Through the desk review and interviews, this paper identifies the processes through which decisions on the allocation of the funds’ resources are made, and matches them to themes, countries, sectors and industries, and activities, as well as the principles, criteria, and indicators that guide and inform these decisions, which are presented in Annexes for each fund.⁴ The analysis is limited by inadequate information on how specific criteria were considered and assessed; however, many insights were gleaned anecdotally from the interviews, which remain the best information available.

In the ensuing sections, the paper provides an overview of decisions made by the GCF Board that provide the basis for developing an allocation system (section 2), and a synthesis of the key elements that appear to guide allocation decisions in the funds reviewed (section 3), including tensions that arise in seeking to maximize competing objectives (section 4). Based on this analysis, we highlight four important implications for the design of the GCF’s allocation system (section 5).

Box 3 | Theme- and Activity-Based Approach

Under a theme- and activity-based approach, the Green Climate Fund (GCF) will employ a two-tiered allocation process. Resources will be first allocated to themes (e.g. adaptation, mitigation, or the Private Sector Facility, although the GCF could introduce other themes). Within themes, the GCF would approve an activity or a program that meets the relevant standards, which could differ depending on the type or size of activity. Under this approach, the GCF is assured of reaching predefined targets of allocations among themes.

This approach differs from approaches allocating only across activities, which would give countries full control of their portfolio, but which would limit the GCF's control over the balance of the global portfolio, and would limit predictability of funding.

It also contrasts with an approach that makes allocations across themes, countries, and activities, which would increase predictability of funding, but which was described by the GCF Interim Secretariat as not feasible until the fund reaches a minimum level of \$500 million to \$1 billion per allocation period.

Source: Green Climate Fund Board, "Business Model Framework: Allocation - GCF/B.05/05"

2. GREEN CLIMATE FUND BOARD DISCUSSIONS AND DECISIONS RELATED TO ALLOCATION

The issue of resource allocation by the Green Climate Fund (GCF) has been discussed on numerous occasions, starting with the Transitional Committee that negotiated the Governing Instrument of the GCF, as well as early discussions by the GCF Board. A substantive discussion took place at the Paris meeting of the board October 8–10, 2013. At this meeting, the board considered a background paper, "Business Model Framework: Allocation," prepared by the GCF Interim Secretariat, which included three options for developing a resource allocation system: (1) activity-based with allocations made directly to specific activities, (2) theme- and activity-based with allocations made to specific thematic areas before being dispersed to specific activities, and (3) theme-, country-, and activity-based with allocations made to countries in addition to themes and activities.⁵

Prior to this meeting, the board member from Germany circulated a "non-paper" on elements of a resource allocation mech-

anism that highlighted the urgent and immediate needs of the most vulnerable developing countries and proposed a system of impact-based allocation for mitigation and adaptation funds, thus placing a strong emphasis on ambition. Several other board members and observers also made submissions to the Business Model Framework and on the issue of allocation.⁶

At its Paris meeting, the GCF Board considered the options presented in the "Business Model Framework: Allocation" and decided to:⁷

- Adopt a theme- and activity-based approach (see Box 3)
- Keep the allocation system under review with the intention of improving it over time
- Initially make allocations under adaptation, mitigation, and the Private Sector Facility, established by the GCF to allow direct and indirect financing for private sector activities
- Allocate resources for adaptation based on:
 - the ability of a proposed activity to demonstrate its potential to adapt to the impacts of climate change in the context of promoting sustainable development and a paradigm shift, and
 - the urgent and immediate needs of vulnerable countries, in particular Least Developed Countries (LDCs), Small Island Developing States (SIDS), and African States
- Allocate resources for mitigation based on the ability of a proposed activity to demonstrate its potential to limit and reduce greenhouse gas emissions in the context of promoting a paradigm shift
- Allocate resources to the Private Sector Facility based on the contribution a proposed activity makes toward promoting a paradigm shift and to:
 - directly and indirectly finance private sector mitigation to limit and reduce greenhouse gas emissions and adaptation to the impacts of climate change activities, and
 - promote the participation of private sector actors in developing countries, in particular local actors, including small- and medium-sized enterprises and local financial intermediaries, and activities to enable private sector involvement in LDCs and SIDS

Further, the board asked the Secretariat to develop a resource allocation system for consideration at its May 2014 meeting. Such a system is required to facilitate cross-cutting proposals; results-based, country-driven approaches and geographically balanced approaches; and private sector mitigation and adaptation activities at the national, regional, and international levels.

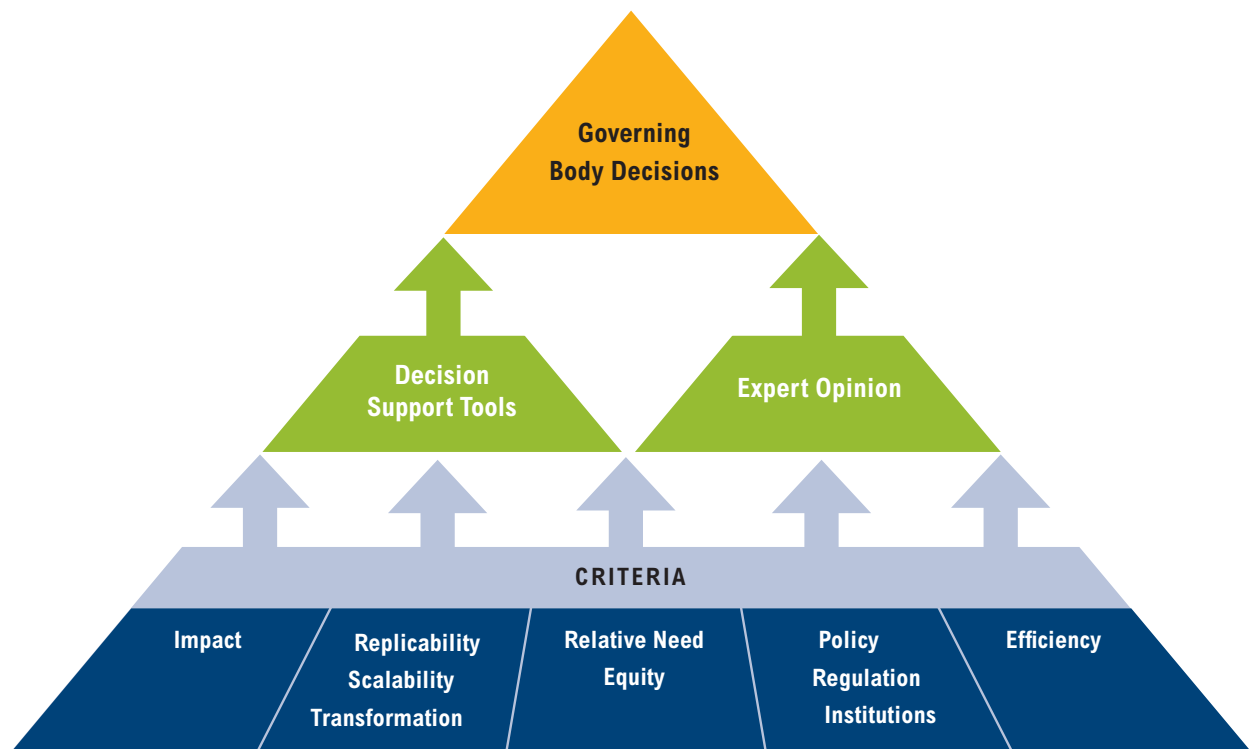
Separately, on another matter related to providing “readiness and preparatory support” to countries, the board asked the Secretariat to outline a system for determining the allocation of resources for activities for consideration at its February 2014 meeting.⁸ These activities include: (1) the preparation of low-emission, climate-resilient development strategies or plans; (2) support for and strengthening of in-country institutional capacities related to the GCF; and (3) enabling institutions that will serve as the implementing partners of the GCF or as intermediaries between the GCF and other implementing institutions to meet the GCF’s fiduciary principles and standards, and environmental and social safeguards.

3. COMPARISON OF RESOURCE ALLOCATION APPROACHES

Allocation approaches vary across funds. However, two essential elements are involved in all allocation decisions. First, there is a *decisionmaking process* typically carried out by the fund’s governing body often with the advice and support of either the fund’s secretariat or an expert body. Decisions are made for allocation at various levels—across broad thematic areas, across countries, across sectors and industries, and across activity types—and are often aided by decision-support tools, such as formulas or heat maps, or by expert bodies. Second, allocation decisions always rely on a set of *criteria and indicators*, whether they are included in a formula, used by an expert committee, or considered at the time of decisionmaking. In this section, we compare both the decisionmaking processes and the criteria and indicators employed by different funds.

An illustrative example of an allocation decision-making process is presented in Figure 1.

Figure 1 | Illustrative Allocation Framework



Source: WRI

Decisionmaking Processes

Allocation decisions are made at four interrelated levels (presented in Figure 2):

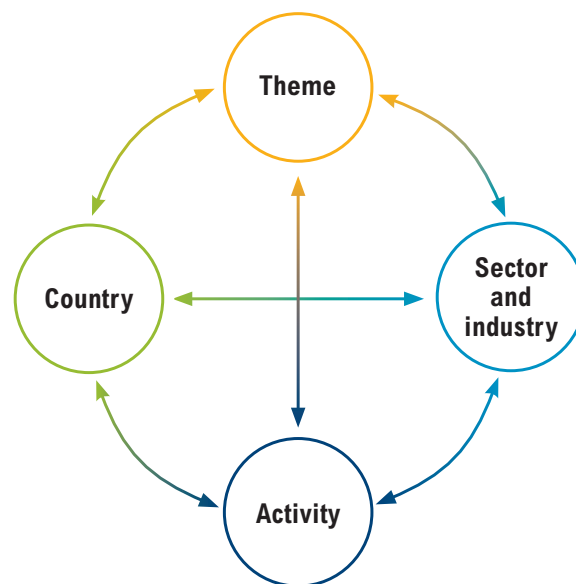
- 1. Broad thematic areas:** Broad areas include mitigation and adaptation in the case of climate change funds, areas such as climate change and biodiversity for funds such as the GEF that have broader mandates, or areas such as health and education for funds with broader development mandates.
- 2. Countries and country groups:** This level involves allocations across individual countries or across groups of countries based on geography, such as Africa; income level, such as the Least Developed Countries; the size and structure of the country, such as the Small Island Developing States; or by ecosystem, such as the Amazon Basin.
- 3. Sectors and industries:** This level involves allocations to specific sectors, such as energy, forests, or transportation, or to specific industries, such as the wind, solar, or geothermal industries within a sector.
- 4. Activity types:** This level involves allocations across specific activity types such as capacity and institution building or technology development and transfer.

At each level, the process must determine: (a) Who decides? and (b) How do they make a decision? The governing bodies of funds typically make allocation decisions, but they do not do so uniformly at each level. They sometimes delegate decisions to subsidiary bodies (such as committees or subcommittees), and, at other times, rely on the countries themselves to determine allocation decisions. Often, these decisions are guided by decision-support tools and other mechanisms such as expert opinion.

Who Makes Allocation Decisions?

Decisions about *allocations across themes* are usually made by those contributing to the fund during replenishment negotiations. The Global Environment Facility (GEF) is an example of such a process whereby the countries participating in the replenishment process decide on the allocation across its six environmental themes. For some national funds, the government leadership makes the determinations. The UK's International Climate Fund (ICF), for example, aspires to balance allocations among adaptation (50 percent of funds), low-carbon development (30 percent), and forestry (20 percent).⁹

Figure 2 | **Interrelated Levels of Decisionmaking**



Source: WRI

A fund's governing body or countries involved in a replenishment process typically decide *allocations across countries or country groups*. The World Bank's International Development Association (IDA) and the GEF determine provisional ex-ante allocations for each country during the replenishment process. There are exceptions, however: the Climate Investment Funds' (CIF) Pilot Program For Climate Resilience (PPCR) and Forest Investment Program (FIP) rely mostly on guidance from expert groups established by their boards to select pilot countries to receive funding, a de-facto allocation across countries. The Clean Technology Fund's (CTF) governing body determines allocations. The Adaptation Fund does not make ex-ante allocations, but makes decisions on a program or project basis. However, it uniquely allocates a minimum of 50 percent of its resources to national implementing entities, and limits multilateral entities from accessing more than 50 percent of its resources for its client countries.¹⁰ Funds often have eligibility criteria such as income levels or whether a country is signatory to a treaty, which preclude certain countries from receiving their resources.

Recipient country governments usually decide allocations *across sectors and industries*, as well as *across activity types* within their countries. Such decisions usually require an endorsement by the fund's governing body or secretariat, and approval of the activities ultimately supported.

However, in some cases, the governing bodies of funds during a replenishment process have made allocation decisions at these levels outside of country envelopes. For example, the CTF Trust Fund Committee (the oversight and decision-making body of the CTF) recently allocated resources to a utility-scale geothermal program targeting the private sector, while the GEF has carved out resources to directly target the private sector. Bilateral funds operated by developed countries such as Germany's International Climate Initiative (IKI) and the UK's ICF are less constrained, and thus make allocation decisions based on the merit of proposals or to advance their strategic priorities.

How Are Allocation Decisions Guided?

Allocation decisions made by funds, particularly at the governing body level, are aided by decision-support tools and the advice and opinions of experts.

Decision-support tools may include funding formulas such as the Resource Allocation Index used by the World Bank's IDA, or the System of Transparent Resource Allocation used by the GEF. They may also include heat maps that identify hotspots to prioritize certain geographies over others as was done by the Pilot Program for Climate Resilience (PPCR). The criteria and indicators that form the basis of such tools are discussed in the next subsection.

Funds also rely on the *advice and opinion of experts* to aid their decisions. Such expert advice may come from established panels, as done by the Global Fund, GEF, and PPCR. The PPCR panel was comprised of eight members with a range of scientific, economic, social, environmental, development, policy, governance, or institutional expertise, as well as climate-related knowledge.¹¹ This panel helped select pilot countries. The Global Fund relies on its Technical Review Panel to score proposals for decisions at the activity level, while the GEF relies on its Scientific and Technical Advisory Panel to screen specific projects. Other funds also rely on their secretariats and other expert consultants for ad-hoc reviews of proposals. While such advice is used in different ways by different funds, it is often used to assess the quality of proposals rather than determine allocations. However, in practice, it has an impact in influencing how a fund's resources are distributed at the four levels discussed above.

Thus, while decisions made by a fund's governing body are subjective, the tools and mechanisms used to prioritize and inform its allocation decisions help bring transparency and objectivity to what are ultimately political decisions.

Criteria and Indicators Used to Inform Resource Allocation

Criteria and indicators are the tools that inform allocation decisions irrespective of the process followed. Criteria are the standards or principles by which something is evaluated or decided; indicators provide measures using standardized metrics to assess performance against or progress toward the criteria. Both are central to informing funding formulas and expert panels, as well as decisions by the governing bodies of funds.

Criteria and indicators are not only used to determine allocations ex-ante, but are also used as investment criteria in various funds to evaluate program and project proposals. Thus, while investment criteria are used to assess the quality of proposals rather than determining ex-ante allocations per se, the resulting investment decisions distribute resources across sectors, technologies, and activity types and are de-facto allocations. Investment criteria can be the exclusive determinant of allocation in funds without theme- or country-level allocations, and thus are considered as part of the allocation process, as indicated by the inclusion of allocations across activities in discussions by the GCF Secretariat and Board.¹²

Our assessment yields five broad categories of criteria common to the funds studied (see Table 2). While these categories are common to the funds reviewed, they are not exhaustive, as funds often use unique criteria or may classify them differently.

Potential for Impact

The potential for a fund to maximize the impact of its resources in relation to its primary objectives is a fundamental criterion for all funds reviewed. It determines whether a given activity has the potential to deliver the primary results for which the funding is intended. Two of the funds—the Scaling Up Renewable Energy Program in Low Income Countries (SREP) and Millennium Challenge Corporation's Millennium Challenge Account (MCA)—do not consider an impact criterion in the selection of countries eligible for funding; these criteria are only considered in activity-level investment decisions after countries have been selected.

Table 2 | **Categories of Criteria for Allocating Funds**

CATEGORY OF CRITERIA	DEFINITION	EXAMPLE OF CRITERION	EXAMPLE OF INDICATOR
Potential for impact	Potential to contribute to the achievement of a fund's objectives	Expected reductions in greenhouse gas emissions	Metric tons carbon dioxide equivalent avoided (Indonesia Climate Change Trust Fund)
Replicability, scalability, and transformational potential	Degree to which fund can achieve impact beyond a one-off project investment	Transformational potential	Metric tons of carbon dioxide avoided if project is replicated across region or sector (Clean Technology Fund)
Relative need and equitable distribution	Degree to which a recipient (e.g. a country or a project developer) needs the finance more than others or is relatively less capable than others to fulfill this need. In responding to the relative need and capability, the fund's resources are distributed fairly and optimally	Relative vulnerability of a population to climate change impacts, such as populations living in low-lying flood-prone areas	Country ranking in Human Development Index (Pilot Program for Climate Resilience) or the use of minimum allocation thresholds such as the Special Drawing Rights (SDR) ¹³ 3 million minimum per eligible country (International Development Association)
Policies, regulations, and institutions	Recipient's capacity to implement a project or program, considering institutions in place, enabling policies, and past performance in implementation	Supportive country policy and institutional framework	Scoring of country policies and institutions; additional weight given to environment-related policies and institutions (Global Environment Facility)
Economic efficiency	Impact per dollar delivered by fund	Avoided deforestation or forest degradation	Hectares affected per dollar spent (Amazon Fund)

Source: WRI compilation based on funds reviewed

The impact criterion, the indicators that measure progress against the criterion, and the metrics used vary by the thematic focus of funds, such as low-emission energy, forests, adaptation, and development. Six of the funds reviewed also consider their impacts on objectives other than their primary objective, referred to as cobenefits. (See Table 3.)

LOW-EMISSION ENERGY

Five of the six funds with a focus on mitigation of emissions related to energy supply and demand (CTF, ICF, ICCTF, IKI, and GEF) use *greenhouse gas emissions (GHG) reduction potential* as a primary impact criterion. The indicator used to measure progress is GHG emissions reduced or avoided, and the metric for measuring it is metric tons of CO₂ equivalent (tCO₂e). GEF uses the scale of emissions in the latest year for which data is available, also measured in tCO₂e, as a proxy for potential for reductions in determining its allocation across countries. SREP does not consider GHG reduction potential as a criterion for selecting pilot countries, nor in allocating resources across countries; it allocates roughly equal resources to each pilot country.¹⁴ However, it does consider an investment's contribution to low-emission development as an investment criterion. The German IKI puts an *a priori*

emphasis on five countries—Brazil, China, India, Russia, and South Africa—over other countries it supports, but it is not clear what method it uses to distribute resources among countries within this group.¹⁵

FOREST-THEMED FUNDS

Four of the eight funds with a thematic focus on forests (IKI, ICCTF, FCPF, and UN REDD) consider the *GHG mitigation potential* as a criterion of impact, and the indicator used to measure progress is GHG emissions avoided or carbon stocks preserved in forests, measured in tCO₂e. Two funds—the Amazon Fund and ICF—consider *forests conserved or sustainably managed* as a primary impact criterion.^{16,17} The indicator of progress is the area conserved or where deforestation was avoided, the area sustainably managed, or the area where forest degradation was avoided. The metric used to quantify progress is in absolute terms in the case of the Amazon Fund, which measures the area impacted in hectares, and in both absolute and relative terms for the ICF, which measures the number and percentage of hectares impacted. The IKI and Forest Investment Program (FIP) explicitly highlight both *GHG mitigation potential* and *forests conserved or sustainably managed* in their allocation criteria.

ADAPTATION

Two (AF and ICF) of the five funds with a thematic focus on adaptation consider *reductions in vulnerability* or conversely *increases in resilience* as their primary impact criterion, while two others (ICI and PPCR) consider this criterion as one for “relative need,” which is discussed further in the subsection “Relative need and equitable distribution,” below. Indicators for assessing or measuring reductions in vulnerability vary across the funds reviewed. The AF assesses “increasing resilience to climate variability and change” at the community, national, and regional levels as its indicator to measure impact. The ICF uses indicators such as “people, including women and girls, are less vulnerable to the effects of climate change” measured in the number of individuals, or “assets protected or losses avoided” measured in dollar value.¹⁸

DEVELOPMENT

The Global Fund plans to implement a new funding model in 2014, with the aim of achieving a greater impact on its three target diseases. In its new approach, the Global Fund will provide indicative allocations per country for each three-year period, but will also incentivize impact by allocating a portion of its funds on a competitive basis. IDA considers per capita income of a country as a measure of potential for impact given the fund’s poverty alleviation mandate. The MCA does not have criteria tied to potential for impact at the level of selecting countries to receive funding, but focuses on country performance, discussed in the section “Policies, Regulations, and Institutions” later in this working paper.

COBENEFITS

Of the funds with a thematic focus on low-emission energy, the CTF considers a range of impacts in addition to its primary impact criterion. It considers increases to household access to energy, poverty alleviation, fuel savings, efficiency gains, and addressing major impacts of pollutants on health and the environment (particularly fragile ecosystems), among others.¹⁹ Similarly, the ICF considers poor people (women and men) with improved access to low-carbon energy, jobs created in low-carbon development, and low-carbon policy plans drawn up and implemented.²⁰

Of the funds with a thematic focus on forests, FIP,^{21, 22} ICCTF,²³ and IKI²⁴ also include an explicit focus on biodiversity benefits in their impact criteria, while the ICF includes ecosystem services saved measured in dollar value.²⁵ While the AF and ICCTF both include a criterion on securing regional or cross-sectoral cobenefits, neither provides information on the type or magnitude of cobenefits that an investment must deliver. The PPCR categorizes its criteria as first order, second order, or third order, and includes development impact as one of its third-order criterion, gauging “the likelihood that PPCR resources and activities will be of a sufficient size to help transform national development planning to make it more climate resilient.”²⁶

The funds do not always clearly distinguish between which of their impact criteria signal the “lead intent” of their funding and which might be cobenefits. Countries contributing funding for multiple objectives quite reasonably seek to maximize the impact of these resources on all objectives. For example, the guiding principles of the ICF support an approach that is “results-driven both in terms of poverty reduction and climate impacts” suggesting an equal importance to both.

A summary of criteria and indicators used to assess potential for impact is included in Table 3.

Replicability, Scalability, and Transformational Potential

Besides direct impacts from the use of a fund’s resources, the *replicability and scalability* of its interventions to deliver *transformational and paradigm-shifting outcomes* has emerged as an important category of criteria among funds in recent years (see Figure 3). It is also expected to be an important consideration for the GCF, given the fund’s stated priority “to promote a paradigm shift towards low-emission and climate-resilient development pathways,” and the GCF Board’s reinforcement of this principle in the context of allocation in the decision at its fifth board meeting.²⁷

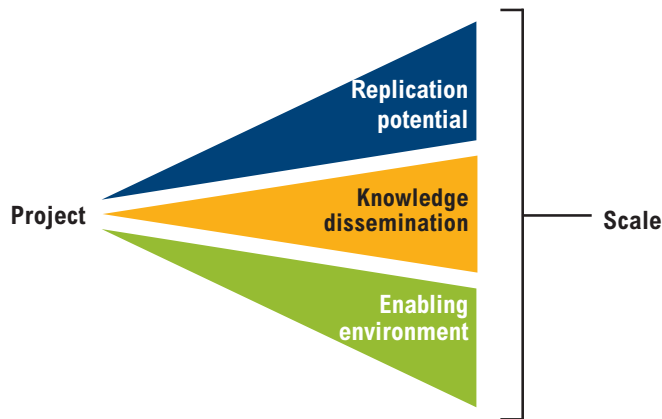
Nine of the funds reviewed include explicit criteria related to replicability, scalability, or transformational potential. Three distinct approaches were used.

Table 3 | **Criteria and Indicators by Fund Theme: Potential for Impact**

CLEAN ENERGY	ADAPTATION	FORESTS	DEVELOPMENT/OTHER
<p>GHG reduction potential</p> <ul style="list-style-type: none"> Metric tons of carbon dioxide equivalent (tCO₂e) greenhouse gas (GHG) by project (ICF, ICCTF, CTF) tCO₂e GHG by country (GEF, IKI) <p>Potential for improved access to low-carbon energy</p> <ul style="list-style-type: none"> Number of poor people with increased access (ICF) Percentage of households (CTF) <p>Low-carbon energy capacity supported</p> <ul style="list-style-type: none"> Gigawatts of capacity (ICF) <p>Increased reliability of power for business and industry</p> <ul style="list-style-type: none"> Indicator not specified (CTF) <p>Increased access to mobility for those most dependent on transport services</p> <ul style="list-style-type: none"> Indicator not specified (CTF) <p>Poverty alleviation and development potential</p> <ul style="list-style-type: none"> Indicator not specified (CTF) 	<p>Reduced vulnerability to impacts of climate change</p> <ul style="list-style-type: none"> Number of people, including women and girls (ICF) <p>Change in assets</p> <ul style="list-style-type: none"> Value of assets protected or losses avoided (ICF) <p>Development potential</p> <ul style="list-style-type: none"> Indicator not specified (PPCR) <p>Concrete adaptation actions</p> <ul style="list-style-type: none"> Indicator not specified (AF) <p>Innovative approach relative to business as usual</p> <ul style="list-style-type: none"> Indicator not specified (ICCTF) <p>Regional cobenefits</p> <ul style="list-style-type: none"> Indicator not specified (AF) <p>Multisectoral benefits maximized</p> <ul style="list-style-type: none"> Indicator not specified (ICCTF) <p>Adaptive capacity</p> <ul style="list-style-type: none"> Indicator not specified (AF) 	<p>Forest area of country</p> <ul style="list-style-type: none"> Indicator not specified (FIP, FCPF) <p>GHG reduction potential</p> <ul style="list-style-type: none"> Carbon storage potential of country (FIP, IKI, FCPF) Potential for tCO₂e GHGs saved or sequestered based on a reference level (FIP, ICCTF) Indicator not specified (AMAZON FUND) <p>Deforestation or forest degradation reduction potential</p> <ul style="list-style-type: none"> Number of hectares (AMAZON FUND, ICF, FIP) Municipalities responsible for 50 percent of deforestation in Brazil (AMAZON FUND) Percentage of hectares (ICF, FIP) <p>Biodiversity co-benefits</p> <ul style="list-style-type: none"> Protection and enhancement of biodiversity (FIP) Strengthened resilience of ecosystems (FIP) Indicator not specified (ICCTF, IKI) <p>Development and poverty reduction</p> <ul style="list-style-type: none"> Improved socioeconomic well-being of forest-dependent communities (FIP) Recognition of rights of indigenous peoples (FIP) Percentage and number of forest-dependent people living on less than \$1.25 a day (ICF) <p>Impact on watersheds</p> <ul style="list-style-type: none"> Indicator not specified (ICCTF) <p>Fostering sustainable use</p> <ul style="list-style-type: none"> Indicator not specified (AMAZON FUND) 	<p>Income of target population</p> <ul style="list-style-type: none"> Gross national income (GNI) or gross domestic product (GDP) per capita (IDA, GLOBAL FUND) <p>Health impact</p> <ul style="list-style-type: none"> Highest epidemiological priorities and most critical health system gaps in countries (GLOBAL FUND) Best evidence-based practices for prevention and treatment (GLOBAL FUND) Focus on vulnerable and key affected populations, high transmission areas, and mothers and children (GLOBAL FUND) <p>Disease burden</p> <ul style="list-style-type: none"> Percentage HIV prevalence in total or at-risk populations (GLOBAL FUND) Malaria mortality or morbidity per 1,000 at risk populations (GLOBAL FUND) Tuberculosis (TB) notification rate per 100,000 population (GLOBAL FUND) Presence of country on WHO list of high-tuberculosis burden countries (GLOBAL FUND)

Note: The specific criteria are given in bold type, and the indicators used to measure these are in Roman type below each criterion. The acronyms of the funds using each criterion or indicator are in brackets. The full names and acronyms of the funds are in Table 1. The specific criteria are given in bold type, and the indicators used to measure each criterion are listed below them.

Figure 3 | Pathways to Impacts at Scale



Source: WRI

- 1. Replication potential of demonstrations.** The Climate Investment Funds, which include the CTF, PPCR, SREP, and FIP, focus on the demonstration effect of the use of their resources by relying on indicators that show the extent to which supported activities will be replicated throughout a targeted area, region, or sector. SREP, for example, considers a country's potential to serve as a model to others in the region as an indicator of its transformational impact. Although specific metrics have not been commonly used as indicators of this criterion, the CTF uses a unique metric in its investment criteria. The transformational potential of a CTF allocation to programs within a country's investment plan is measured using the trajectory of reduced emissions as an indicator. The specific metric is a ratio of tCO₂e reduced resulting from the trajectory in a scenario in which there is replication throughout a targeted area, region, or sector over the trajectory in a scenario in which the emissions reductions result from the program or project alone. A higher ratio indicates that a program or project has a more transformational potential than one with a lower ratio.
- 2. Extent to which the underlying conditions are being addressed.** With this approach, funds seek to allocate their resources in ways that address some of the underlying conditions influencing a sector or an industry in specific geographical areas.²⁸ Funds may prioritize their resources for activities that: (a) create more enabling conditions and reduce barriers for scaled-up investments in support of their primary objectives, or (b) tackle underlying drivers that prevent funds from achieving their primary objectives.

For example, ICCTF considers whether an investment will help remove barriers to energy efficiency, while other funds include criteria related to building capacity and market familiarity with a specific technology or approach. The focus is on ensuring that allocations and investments not only support one-off activities, but result in sustained change in the underlying conditions favorable to advancing the fund's objectives.

Three of the forest-themed funds—FIP, IKI, and the Amazon Fund—have allocation criteria that address drivers of deforestation and forest degradation. The accompanying indicators focus on changing the broader enabling environments and incentive structures that drive deforestation, such as land tenure, with the objective of scaling impact beyond a specific forest area where a project is being implemented.

- 3. Extent to which learning is promoted and knowledge disseminated.** Five of the funds studied have allocation criteria with specific reference to learning, knowledge management, or information sharing components of projects or programs in relation to replicability. These criteria are particularly important for funds intended to support pilot initiatives like the CIFs to ensure that the lessons learned from their investments are catalogued and disseminated widely. The FIP criteria are unique in their specific reference to prioritizing allocations to projects with monitoring and evaluation strategies to generate evidence of impacts and to draw lessons in the service of encouraging replication. However, preliminary findings from interim evaluations of CIF projects suggest that in practice, the incorporation of information sharing and lesson-learning elements has been mixed.²⁹ The GEF's Scientific Technical and Advisory Panel has recommended that the GEF consider prioritizing a percentage of its resources for projects with experimental or quasi-experimental designs to build the evidence base of how different approaches work and then replicate the more effective projects.³⁰ The GEF has not yet implemented this approach, although the World Bank Group has increasingly relied on experimental design in impact evaluation over the past decade.³¹

A summary of criteria and indicators used to assess replicability, scalability, and transformational potential is included in Table 4.

Table 4 | **Criteria and Indicators by Fund Theme: Replicability, Scalability, and Transformational Potential**

CLEAN ENERGY	ADAPTATION	FORESTS	DEVELOPMENT/OTHER
<p>Replicability of results</p> <ul style="list-style-type: none"> Indicator not specified (IKI, CTF) <p>International transferability of projects or technologies</p> <ul style="list-style-type: none"> Indicator not specified (IKI, ICCTF) <p>Transformational potential</p> <ul style="list-style-type: none"> Emissions reductions (tCO₂e) if project were replicated across region or sector (CTF) <p>Proposed technologies are commercially viable</p> <ul style="list-style-type: none"> Indicator not specified (CTF) <p>Potential for country to be a model regionally</p> <ul style="list-style-type: none"> Indicator not specified (SREP) <p>Removal of barriers to energy efficiency</p> <ul style="list-style-type: none"> Indicator not specified (ICCTF) 	<p>Lessons learned captured</p> <ul style="list-style-type: none"> Indicator not specified (AF, ICCTF) <p>International transferability of projects</p> <ul style="list-style-type: none"> Indicator not specified (IKI, ICCTF) <p>Duplicability of results</p> <ul style="list-style-type: none"> Indicator not specified (IKI) <p>Replicability and sustainability</p> <ul style="list-style-type: none"> Indicator not specified (PPCR) <p>Scalability and development impact</p> <ul style="list-style-type: none"> Indicator not specified (PPCR) <p>Representativeness of climate hazards</p> <ul style="list-style-type: none"> Indicator not specified (PPCR) <p>Innovative approach relative to business as usual</p> <ul style="list-style-type: none"> Indicator not specified (ICCTF) <p>Delivery of support through private sector</p> <ul style="list-style-type: none"> Number of people receiving support through private sector delivery partner (ICF) 	<p>Replicability of results</p> <ul style="list-style-type: none"> Innovation at scale for improving sustainable forest management capacity (FIP) Monitoring and evaluation strategies to generate evidence of impacts and draw lessons (FIP) Learning & sharing of lessons, particularly South-South (FIP) International transferability of projects (IKI) Indicator not specified (AMAZON FUND) <p>Addresses drivers of deforestation</p> <ul style="list-style-type: none"> Identifies direct and underlying drivers of deforestation and forest degradation, and ways to address them (FIP) Generates positive and reverses problematic incentives across sectors for lasting change (FIP) Fosters land-use planning and land tenure regularization (AMAZON FUND) Indicator not specified (IKI) <p>Safeguards the integrity of natural forests</p> <ul style="list-style-type: none"> Builds on or proposes assessment of forest cover, type, and use patterns, including mapping of high conservation value forest (FIP) <p>Capacity-building</p> <ul style="list-style-type: none"> Local and national institutional and financial capacity needs assessed and addressed (FIP) Identifies and enhances capacity of indigenous peoples and local communities (FIP) <p>Catalyzes self-sustaining and financially profitable models</p> <ul style="list-style-type: none"> Indicator not specified (FIP) 	<p>Sustainability of results</p> <ul style="list-style-type: none"> Allows for rapid transition of capacity to in-country counterparts (GLOBAL FUND) Shifts financial support from external to domestic resource (GLOBAL FUND)

Note: The specific criteria are given in bold type, and the indicators used to measure these are in Roman type below each criterion. The acronyms of the funds using each criterion or indicator are in brackets. The full names and acronyms of the funds are in Table 1. The specific criteria are given in bold type, and the indicators used to measure each criterion are listed below them.

Relative Need and Equitable Distribution

The criterion of *relative need and equitable distribution* of a fund's resources stems from recognition that: (1) some segments of economies and societies, or even certain activity types, will have needs that are greater than those of others; (2) some will be more capable than others in fulfilling those needs; and (3) by taking this criterion into account alongside others, a fund will ensure that it is using its limited resources optimally. This criterion can come into play at various stages of a fund's decisionmaking process, from the determination of eligibility to final project approvals.

A range of indicators are used across different themes—low-emission energy, forests, adaptation and development. Income indicators, such as *gross domestic product (GDP)* or *gross national income (GNI) per capita*, are used by a number of funds reviewed including GEF, the Global Fund, ICF, and IDA. The indicators used vary by theme. Adaptation-focused funds often use *level of vulnerability* and *urgency of risk*, health-focused funds use the *severity of disease burden*, and low-emission-energy-focused funds favor the *risk premium or incremental cost* of specific investments. Several funds, including the AF, Amazon Fund, GEF, IDA, and PPCR also use *allocation floors and caps* to establish the maximum and minimum amount of

funding allocated to each country to ensure equitable distribution of resources. The relative importance given to any criterion vis-à-vis other criteria also varies across funds.

DEVELOPMENT

Both the Global Fund and IDA use GDP/GNI per capita measured in U.S. dollars in a given year as an indicator to guide allocations, while IDA and MCA use this indicator to guide eligibility. IDA set a threshold of \$1,025 GNI per capita in 2012 to determine countries eligible for its support in the fiscal year 2014.³² MCA requires countries to have a per capita income below \$4,085 to be eligible for assistance, and applies less stringent criteria to the 75 lowest-income countries, but does not otherwise consider relative need or equitable distribution in country selection

The Global Fund does not have an eligibility threshold like IDA or MCA, but it excludes high-income countries (based on the World Bank Atlas Method). It prioritizes its support for proposals from low-income countries and considers proposals from upper-middle-income countries only if the disease burden (using disease-specific criteria and epidemiologic data provided by the World Health Organization (WHO) and the Joint United Nations Programme on HIV/AIDS (UNAIDS) is severe or extreme.^{33,34} It also addresses need through differentiated cofinancing requirements based on country per capita income levels: 5 percent for low-income countries, 20 percent for lower-middle-income countries, 40 percent for upper-middle-income countries, and 60 percent for upper-middle-income countries.

Countries ineligible for IDA funding may access other financial instruments from the other arms of IDA's parent institution, the World Bank Group (WBG). While IDA provides grants and highly concessional loans, the other arms of WBG, including the International Bank for Reconstruction and Development and the International Finance Corporation, provide loans on less concessional terms or market terms, as well as guarantees.

The Global Fund and IDA also consider indicators other than income in determining allocations. The Global Fund prioritizes proposals from countries, not countries themselves, with a *relatively higher or severe disease burden*, which is measured using a scoring system. However, in 2013, it proposed a new funding model, in which it would focus on countries with the highest disease burden and lowest ability to pay, among other criteria.³⁵ IDA also uses *population size* in assessing a country's need with larger-population countries getting higher allocations, excep-

tional allocations for conflict-affected and fragile countries to support their *recovery needs*, and a *floor or "base allocation"* of SDR³⁶ 3 million per year to each country.³⁷

LOW-EMISSIONS ENERGY

CTF, GEF, and SREP consider *relative need and equitable distribution* as a criterion in determining the allocation of their resources. Like the development-focused funds, GEF includes GDP/GNI per capita in its formula for allocating resources to enable higher allocations to poorer countries.³⁸ However, since the weight given to this indicator in GEF's formula is small (-0.04, relative to 1.0 for a performance index and 0.8 for a global benefits index),³⁹ it has a limited impact on final allocations. However, GEF uses a *floor* of \$2 million to ensure that each country gets a minimum amount to undertake climate change activities, and sets a *cap* of 11 percent of funds available for climate change to limit some countries from taking a lion's share of the available resources. While the CTF and SREP use no such indicators or caps, SREP was created under the CIFs to ensure that low-income countries would receive support for low-emissions energy deployment. Middle income countries receive support under CTF.

Beyond demonstrating relative need at the country level, CTF and GEF prioritize allocations based on relative need at the program or project levels. They use an *incremental cost or risk premium* indicator to estimate additional need in terms of costs or risks that would not be covered without support from the fund. The CTF measures this risk in terms of the program or project's *rate of return* specifying four thresholds where the rate of return is: (1) negative, (2) below the normal market threshold, (3) above the normal market threshold, but below the risk premium for project type, technology, sector, or country, or (4) above normal market threshold, but acceleration of low-carbon investments face higher opportunity costs.⁴⁰ In its ongoing replenishment negotiations, the GEF is also considering differentiating among countries by using different financial instruments.^{41,42}

ADAPTATION

Three of the funds with a focus on adaptation, including AF, ICCTF, and PPCR, consider criteria on relative need to ensure their resources are distributed more equitably. The ICCTF, for its adaptation and resilience window, prioritizes its support for *high-risk areas* and *urgent and immediate needs* to benefit the most vulnerable people.⁴³ The AF similarly considers *levels of vulnerability*, *urgency of need*, and *risks arising from delays in action* to

prioritize countries, and although it does not specify indicators or metrics to guide its allocations, it has set a cap of \$10 million per country.⁴⁴

The PPCR uses a risk-assessment framework, which assesses exposure to climate hazards or “hot spots” and underlying vulnerability of the population to such hazards to prioritize its allocations. To measure vulnerability, it uses indicators that include the *proportion of the population in low-elevation coastal zones*, a similar indicator on *access to an improved water source*, as well as rankings in various environmental or climate vulnerability indices, among others.⁴⁵ Despite the use of these indicators, as well as receiving expert advice, the PPCR eventually provided roughly equal resources to each pilot country, with each pilot being able to access at least 5 percent and a maximum of 10 percent of the total grant to “ensure that adequate resources are available for pilot programs independent of time of submission.”⁴⁶ This translates to \$40–50 million in grant resources and \$36 million in other concessional resources per pilot country.^{47,48} The PPCR also uses its financial instruments differently, deploying both grants and concessional loans optionally. However, countries with high indebtedness are not eligible for loans to avoid increasing debt distress.

Other frameworks to guide the allocation of adaptation funds have been proposed, but not yet employed. For example, researchers at the London School of Economics and the World Bank, inspired by the IDA formula, developed a framework to make adaptation allocation decisions more transparent, efficient, and equitable.⁴⁹ It combines a suite of vulnerability measures, indicators of climate change impacts and adaptive capacity, and indicators of institutional and implementation capacity. The results, combining high climate change impact scores and low adaptive capacity, point to Africa as an early focus for adaptation funding. Other risk-based analyses, such as the PPCR’s country selection process, do not necessarily make the same conclusion as strongly.⁵⁰

FORESTS

Five of the funds reviewed with a thematic focus on forests consider relative need and equitable distribution in their allocation systems. The ICF sets an income threshold, whereby it prioritizes support for projects targeting *people living on less than \$1.25 a day* who depend on forests for their livelihoods, which is measured either in terms of absolute numbers or as a percentage of the total population. The GEF’s income indicators are also relevant to its investments in the forest sector across its focal areas.

Other than income indicators, the FCPF considers the *relevance of forests in a country’s economy*, while ICI considers the development of effective, efficient, and equitable *national benefit distribution systems* in determining its allocations. Forest-focused funds also use *floors and caps* to ensure equitable distribution of their resources. In addition to its climate change focal area, GEF has a floor of \$1.5 million for biodiversity and \$0.5 million for land degradation per country, and a cap of 10 percent of its total funds available for the biodiversity and land degradation focal areas combined.⁵¹ The Amazon Fund doesn’t establish a country cap, but sets one for biomes other than the Amazon Forest by limiting its allocations to up to 20 percent of its disbursements to support the development of systems for monitoring and controlling deforestation in other Brazilian biomes and in biomes of other tropical countries.⁵²

The criterion of relative need and equitable distribution can counterbalance allocations toward segments of economies or societies, as well as activities, which demonstrate high potential for impact and transformation, but have a relatively lesser need for the fund’s resources. This criterion can help a fund add maximum value and avoid subsidizing activities that would have happened regardless of the additional finance. It also helps counterbalance allocations that favor countries that are institutionally more capable by being more responsive to countries with relatively lower implementing capacity (see next subsection).

A summary of criteria and indicators used by funds to assess for relative need and equitable distribution is presented in Table 5.

Policies, Regulations, and Institutions

The *policy, regulatory, and institutional conditions* relevant to achieving a fund’s objectives are important criteria considered by 12 of the funds studied, and 4 of them (GEF, IDA, MCA, and SREP) give these criteria primacy over other allocation criteria. Some funds consider an indicator of *capacity or readiness* to undertake activities in support of the fund’s objectives. Some consider an indicator of *past performance* while others consider an indicator of *commitment to deliver on future performance*.

The GEF considers both capacity and past performance in a single Global Performance Indicator (GPI). The GPI scores a country’s past performance in project development as well as its policy and institutions, including environmentally relevant policies. To avoid duplication of assessments, GEF’s GPI score relies in part on IDA’s Resource Allocation Index

Table 5 | **Criteria and Indicators by Fund Theme: Relative Need and Equitable Distribution**

CLEAN ENERGY	ADAPTATION	FORESTS	DEVELOPMENT/OTHER
<p>Preference to low-income countries</p> <ul style="list-style-type: none"> ■ GNI/GDP per capita (GEF) <p>Investment represents appropriate risk premium</p> <ul style="list-style-type: none"> ■ Indicator not specified (CTF) <p>Regional balance in pilot countries</p> <ul style="list-style-type: none"> ■ Indicator not specified (SREP) 	<p>Level of vulnerability</p> <ul style="list-style-type: none"> ■ Number of vulnerable people in high-risk area (ICCTF) ■ Score on Climate Disaster Vulnerability Index (PPCR) ■ Percent of population undernourished (PPCR) ■ Number of people affected by climate-related disasters, 1978-2008 (PPCR) ■ Number and percent of country population killed or affected by climate-related disasters in 1990s (PPCR) ■ Environmental Vulnerability Index country rating (PPCR) ■ Indicator not specified (AF, IKI) <p>Adaptive capacity</p> <ul style="list-style-type: none"> ■ Human Development Index ranking (PPCR) ■ Indicator not specified (AF) <p>Urgency of risk arising from delay and urgency of need</p> <ul style="list-style-type: none"> ■ Indicator not specified (AF, ICCTF) <p>Pilot country distribution (second-order criterion)</p> <ul style="list-style-type: none"> ■ Indicator not specified (PPCR) <p>Extent to which countries are representative of range of climate hazards</p> <ul style="list-style-type: none"> ■ Indicator not specified (PPCR) 	<p>Equitable distribution of benefits</p> <ul style="list-style-type: none"> ■ Indicator not specified (FIP, UN-REDD, IKI) <p>Relevance of forests in economy</p> <ul style="list-style-type: none"> ■ Indicator not specified (FCPF) ■ Number and percent of people living on less than \$1.25 a day dependent on forests for their livelihoods (ICF) <p>Projects involving direct benefits for traditional communities and family farmers</p> <ul style="list-style-type: none"> ■ (AMAZON FUND) <p>Projects involving participation between public, private, NGO, and local stakeholders</p> <ul style="list-style-type: none"> ■ Indicator not specified (AMAZON FUND) <p>Equitable and respects human rights</p> <ul style="list-style-type: none"> ■ Indicator not specified (ICCTF) 	<p>Preference to low-income countries</p> <ul style="list-style-type: none"> ■ GNI/GDP per capita (IDA, GLOBAL FUND) <p>Disease burden</p> <ul style="list-style-type: none"> ■ Focus on vulnerable and key affected populations, high-transmission geographies, and improving health of mothers and children (GLOBAL FUND) <p>Population size</p> <ul style="list-style-type: none"> ■ Number of people (IDA)

Note: The specific criteria are given in bold type, and the indicators used to measure these are in Roman type below each criterion. The acronyms of the funds using each criterion or indicator are in brackets. The full names and acronyms of the funds are in Table 1. The specific criteria are given in bold type, and the indicators used to measure each criterion are listed below them.

and Country Performance Ratings (CPR). The MCA also uses components of the IDA Resource Allocation Index as performance indicators. The CPR is calculated using a Country Policy and Institutional Assessment (CPIA) and a Portfolio Performance Rating (PPR). The CPIA measures the extent to which a country’s policy and institutional framework supports sustainable growth and poverty reduction, and consequently the effective use of development assistance; the PPR measures the health of IDA’s active portfolio in the country. The quality of governance and public sector management and institutions are given a much higher weight (68 percent) in calculating a country’s performance rating or CPR and its importance relative to other factors has been increasing since the 1990s.

SREP and three of the forest-focused funds (FIP, FCPF, and UN-REDD) look to the existence of supportive policies and regulations as an indicator of country’s commitment to

achieve the fund’s objectives.⁵³ The Global Fund uniquely rewards programs and projects that help transition capacity from external implementers to stable, in-country counterparts, by giving them priority over those that do not help with such a transition. The MCA does not have an allocation system as such, but it applies these criteria quite strictly using indicators of *performance* to determine a country’s eligibility to receive resources under its Compact Program, the main window for its funding. It does provide some flexibility for countries with lower capacity in some areas by providing support under its Threshold Program, but only as long as the country demonstrates a significant commitment to meeting the eligibility standards of the Compact Program.

A summary of criteria and indicators used by funds to assess policy, regulatory, and institutional conditions is presented in Table 6.

Table 6 | **Criteria and Indicators by Fund Theme: Policies, Regulations, and Institutions**

CLEAN ENERGY	ADAPTATION	FORESTS	DEVELOPMENT/OTHER
<p>Supportive country policy and institutional framework</p> <ul style="list-style-type: none"> Modified IDA Resource Allocation Country Policy and Institutional Assessment score; weight added to environment-focused policies/institutions (GEF) Regulatory environment enables private sector participation (SREP) Sector-wide energy strategies supporting renewables (SREP) Good energy sector governance (SREP) Sufficient institutional capacity (SREP) Country willingness to achieve objectives (SREP) Indicator not specified (CTF) <p>Implementation potential</p> <ul style="list-style-type: none"> Indicator not specified (CTF) <p>Natural resource conditions for renewable energy</p> <ul style="list-style-type: none"> Indicator not specified (SREP) <p>Past reductions in carbon intensity</p> <ul style="list-style-type: none"> Country reduction in tCO₂ per unit of GDP from 1990 to 2000 (GEF) <p>Quality of expected project management</p> <ul style="list-style-type: none"> Indicator not specified (IKI) 	<p>Supportive country policy and institutional framework</p> <ul style="list-style-type: none"> IDA Resource Allocation Index Country Policy and Institutional Assessment score (PPCR) 	<p>Ownership by country and stakeholders</p> <ul style="list-style-type: none"> REDD strategy or sustainable forest sector strategy is approved or under development (FIP) Expression of high-level political commitment (FIP) Indicator not specified (FCPF, UN-REDD) <p>Coherence with international, national, and sectoral strategies</p> <ul style="list-style-type: none"> Clarity of responsibilities proposed activities (FCPF) Complementary to other REDD efforts (FIP) Institutional framework and coordination in place to deliver on REDD and integrate role of forests into national sustainable development strategies (FIP) Cooperation and coordination mechanisms in place and operating effectively at the national level (FIP) No indicator specified (ICCTF, FCPF) <p>Forest-related governance provisions defined</p> <ul style="list-style-type: none"> Relevant governance challenges and needs addressed (FIP) Governance criteria and indicators defined and baseline established (FIP) Local and national conflict resolution measures in place (FIP) <p>Accountability of implementing organization</p> <ul style="list-style-type: none"> Indicator not specified (ICCTF) <p>Management of risks and likelihood of success</p> <ul style="list-style-type: none"> Indicator not specified (UN-REDD) 	<p>Supportive country policy and institutional framework</p> <ul style="list-style-type: none"> Resource Allocation Index Country Policy and Institutional Assessment score, based on indicators under: <ol style="list-style-type: none"> Economic management Structural policies Policies for social inclusion Public sector management/institutions (IDA) Composite of indicators on policy and institutional performance under: <ol style="list-style-type: none"> Justice Economic policy Human development (MCA) <p>Quality of management of current project/program portfolio</p> <ul style="list-style-type: none"> IDA Portfolio Performance Rating (IDA) <p>Capacity of implementers</p> <ul style="list-style-type: none"> Has necessary implementation capacity (GLOBAL FUND) Sufficient engagement with target populations (GLOBAL FUND) Responsive to local social, legal, and economic constraints (GLOBAL FUND) Addresses barriers to accessing services, incl. related to human rights and gender (GLOBAL FUND) Coherence with other strategies Consistent with national and international health and development strategies (GLOBAL FUND)

Note: The specific criteria are given in bold type, and the indicators used to measure these are in Roman type below each criterion. The acronyms of the funds using each criterion or indicator are in brackets. The full names and acronyms of the funds are in Table 1. The specific criteria are given in bold type, and the indicators used to measure each criterion are listed below them.

Economic Efficiency

Economic efficiency, or value for money, is an important criterion considered by several funds to ensure that they are using every dollar in the most effective way possible. Eight of the funds reviewed use *cost-effectiveness* as an indicator of economic efficiency in allocating their resources, while some also consider *cofinancing leveraged* from other sources.

Funds using *cost-effectiveness* as an indicator typically seek to maximize their primary impact per dollar spent, or minimize the cost per unit of primary impact sought. The Amazon Fund seeks to minimize the cost per hectare of protected or sustainably managed forest.⁵⁴ Five of the funds (CTF, FIP, ICF, ICCTF, and FCPF) seek to minimize the cost per tCO₂e reduced or avoided. While cost-effectiveness is not always the determining factor in how funds are allocated, it does become relevant. For example, CTF established a threshold of \$200 per tCO₂e to consider

Table 7 | **Criteria and Indicators by Fund Theme: Economic Efficiency**

CLEAN ENERGY	ADAPTATION	FORESTS	DEVELOPMENT/OTHER
<p>Cost of potential GHG reduction</p> <ul style="list-style-type: none"> \$ per tCO₂e potential reduction (ICF) \$200 per tCO₂e upper threshold (CTF) <p>Financial leverage/co-investment</p> <ul style="list-style-type: none"> \$ co-invested (CTF, IKI) 	<p>Financial leverage/co-investment</p> <ul style="list-style-type: none"> \$ co-invested (IKI) <p>Cost-effectiveness</p> <ul style="list-style-type: none"> Indicator not specified (AF) 	<p>Cost of potential GHG reduction</p> <ul style="list-style-type: none"> \$ per tCO₂e potential reduction (FIP, ICCTF) \$ per tCO₂e verified reduction (FCPF) <p>Cost of forest protected or sustainably managed</p> <ul style="list-style-type: none"> \$ per hectare (AMAZON FUND) <p>Financial leverage/co-investment</p> <ul style="list-style-type: none"> Both public and private finance institutions involved in program development and implementation (FIP) Ratio of private to public funds at least 4:1, where private sector investment is appropriate (FIP) Indicator not specified (IKI) <p>Cost-efficiency</p> <ul style="list-style-type: none"> Indicator not specified (UN-REDD) 	<p>Criteria and indicators not specified</p>

Note: The specific criteria are given in bold type, and the indicators used to measure these are in Roman type below each criterion. The acronyms of the funds using each criterion or indicator are in brackets. The full names and acronyms of the funds are in Table 1. The specific criteria are given in bold type, and the indicators used to measure each criterion are listed below them.

proposals for financing.⁵⁵ Cost-effectiveness is also an indicator for allocations in adaptation-themed funds, but since none of the adaptation funds reviewed provided specific metrics for measuring cost-effectiveness, it remains unclear how it is applied.

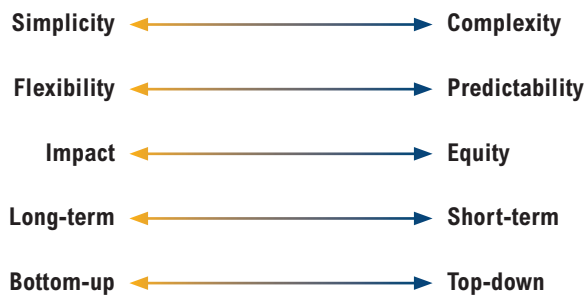
CTF, FIP, GEF, and the Global Fund include *cofinancing or mobilization of other sources of finance* as an important indicator of the efficient use of resources. CTF, FIP, and GEF measure this criterion in terms of the ratio of public and private cofinancing generated relative to the finance provided by the fund. As with cost-effectiveness, although cofinancing is a consideration, most funds do not typically specify rules for prioritization or allocation based on this indicator, but instead consider it on a case-by-case basis. The FIP, however, sets a threshold of 4:1, requiring cofinancing of at least \$4 of private sector funding for every \$1 of FIP resources used, in projects where private sector investment is appropriate.⁵⁶ The Global Fund differentiates its cofinancing thresholds by the income categories that countries fall within—5 percent for low income countries, 20 percent for lower-middle-income countries, 40 percent for upper-lower-middle-income countries, and 60 percent for upper-middle-income countries.

A summary of criteria and indicators used by funds to assess economic efficiency is presented in Table 7.

4. BALANCING COMPETING OBJECTIVES

This review of allocation approaches of different funds reveals that while there are commonalities among the key criteria employed to fulfill various objectives, the objectives themselves often conflict with one another. Thus, the governing bodies of funds have to make delicate trade-offs between objectives and do so in ways that optimally balance the different objectives. Some of the frequently observed tradeoffs in allocation decisions are explored below and are presented in Figure 4.

Complexity versus simplicity: The inability of allocation frameworks to fully satisfy the needs and wishes of all partners has led multilateral as well as bilateral funds to introduce numerous adjustments and special carve-outs into allocation mechanisms, resulting in increased complexity. As a result, the importance of each criterion to allocation decisions and the way in which it is assessed relative to other criteria tends to become ambiguous and more complex over time. Conversely, clearly defined, rule-based approaches to allocation may be simple and more objective, but may not adequately address the complex needs of all countries. The heterogeneity of recipients is an important consideration in designing allocation systems; high heterogeneity necessitates a nuanced approach that captures the complexity inherent in differing recipient needs and circumstances.⁵⁷

Figure 4 | **Spectrum of Competing Objectives**

Source: WRI

Even where funds apply an allocation formula, the tension between complexity and simplicity can create challenges. Although the International Development Association (IDA) allocates funding across countries based on clear rule-based criteria, it gives numerous considerations to countries with different circumstances (for example, a differentiated approach to fragile and conflict-affected countries). A complicated process with complex requirements can make proposal preparation a burdensome task, particularly for countries with relatively little capacity. This is evidenced by the Global Fund, where in one subset of proposals, whether or not countries received technical assistance in a proposal's development was a major predictor of its approval.⁵⁸

In the process of recommending pilot countries for the Pilot Program for Climate Resilience (PPCR), the PPCR's Expert Group articulated the tension between complexity and simplicity. It advised that relying on a single index to compare and rank the vulnerability of countries would fail to capture all aspects of risk. It suggested using indicators to group countries into vulnerability and risk categories (such as "extreme," "high," and "moderate,") and then differentiate country selection on the basis of such groupings.⁵⁹

Flexibility versus predictability: Ensuring a predictable flow of funding to allow for appropriate planning at the national level is an important objective of some allocation frameworks. A desire to provide predictability to recipients can, however, conflict with the need for flexibility by the fund to ensure that allocations are responsive to changing conditions and emerging needs, or to regional and global priorities.

Conversely, too much flexibility can result in opportunistic investments at the expense of more sustained and predictable investments needed to be transformative. For example,

the Global Fund has recently proposed a shift away from a competitive impact-based allocation system toward one that places greater emphasis on predictability by establishing indicative allocations for countries. This "new funding model" attempts to maintain an element of flexibility by setting aside a certain amount of "incentive funding" for "well-performing programs with a potential for increased, quantifiable impact, and [which] encourages ambitious requests."⁶⁰ The details of the amount and rules for incentive funding had not been determined at the time of writing.

Equity versus impact: Funds that prioritize the cost-effectiveness of a desired global benefit, such as CO₂ abatement, risk excluding some countries or regions—often those that are least able to access finance—from participation. For example, if a fund gives a high weight to a single criterion in the "potential for impact" category, most or all of the fund resources may flow to a few countries, sectors, or industries with the highest potential for impact. This challenge is part of the rationale behind the downward adjustment of the Global Environment Facility (GEF) allocation ceiling for climate change projects from 15 percent in the fourth operational phase of the GEF (under the Resource Allocation Framework) to 11 percent in the fifth operational phase (under the System for Transparent Allocation of Resources), which had the effect of limiting allocations to China, which had previously received allocations as high as 17 percent of the total available in the climate change focal area.⁶¹ By the same token, efforts to ensure equity may undermine a fund's effort to achieve its objective by spreading funds too thinly to achieve a real and lasting impact, or by prioritizing funds where the impact is less cost-effective.

The Adaptation Fund (AF) made a choice to prioritize equity by allowing all developing countries equal access to funds and setting a cap of \$10 million per country, regardless of population size or vulnerability. The rationale is that all countries are vulnerable to the impacts of climate change, and the extent of vulnerability has been exceedingly difficult to quantify. The debate as to whether emphasis should be placed on the most vulnerable countries, or on particular vulnerabilities or particularly vulnerable sectors of society in all developing countries remains unresolved in climate change negotiations

Short-term vs. long-term benefits: Temporal considerations are important in deciding which criteria should carry the most weight in allocation decisions. For example, some of the adaptation-focused funds prioritize urgent need, with the intention of responding to those most vulnerable

and immediately at risk. Providing necessary short-term responses may result in tradeoffs against activities that build underlying adaptive capacity and increase longer-term resilience. In mitigation, this tension arises when deciding the degree to which replicability and scalability are more important than immediate reductions in emissions, and for understanding at which points along technology development and deployment curves funds are intended to have an impact. The Clean Technology Fund (CTF) criterion that assesses the potential for emissions reduction if an intervention were replicated across a geography or sector is an example of how allocation and investment criteria might consider the potential for longer-term benefits.

Bottom-up vs. top-down: Decisionmaking processes that determine how funds are actually used must consider how best to balance top-down approaches responding to fund’s strategic priorities with bottom-up approaches responding to recipient country priorities or market demand emerging from the private sector. Presently, most of the multilateral funds allow the prioritization of proposals within countries to be managed at the national level, although countries may be supported in their national prioritization and portfolio management by multilateral institutions or secretariats of the institutions providing funding. Some funds have indicated that more bottom-up approaches can sometimes impede the achievement of fund priorities where fund and recipient country priorities differ.⁶²

The Global Fund’s new funding model has a stated objective of focusing more resources on countries with the highest disease burden and the lowest ability to pay, and rewarding ambitious proposals with additional allocations from a pool of “incentive” funds, both of which are top-down decisionmaking methods. At the same time, the new model responds to country priorities by introducing a more flexible timeline and emphasizing a country’s national strategic plan (developed through a bottom-up process) as a basis for funding applications. As the new funding model has yet to be tested, its effectiveness remains to be seen.

Although these tradeoffs represent tensions, they are not irreconcilable. Some examples discussed in this section point to different ways competing objectives can be balanced. Some implied lessons from these experiences for the GCF and other climate funds are discussed in the next section.

5. IMPLICATIONS FOR DESIGNING ALLOCATION MECHANISMS

Driven by their specific needs and political imperatives, the allocation systems of funds will vary based on the goals they seek to achieve. Therefore, the political mandate, the scope and size, the legal capacity, the financial tools and instruments at its disposal, and other such factors will inform the design of its allocation system. There is no “one-size-fits-all” model for determining funding allocation decisions at any level—across countries, sectors, or activities. Nevertheless, new funds can draw on the lessons learned from the allocation approaches of the 15 funds studied. Four key lessons emerge from this comparative analysis.

1. Identify allocation priorities bottom-up; calibrate them for global outcomes top-down. The allocation of resources across sectors and activity types are often, although not always, determined at the country level. This important practice has stood the test of time across the funds examined mainly to ensure country ownership. However, purely bottom-up approaches also have the potential to impede the ability of funds to optimally achieve their outcomes at the global level. Thus, balancing allocation decisions at the country level with some flexibility to allow for better achievement at the global portfolio level will be important to ensure that global priorities do not get a short shrift.

Globally focused climate funds like the GCF could employ a strong test for the delivery of global climate benefits from their investments, particularly for mitigation. Although taking a global view appears to be less important for adaptation, there remains a strong case for prioritizing support where impacts of climate change will be greatest, vulnerability and risk are highest, and a country’s ability to address that risk unassisted is weakest. In applying such tests top-down, funds can create a strong incentive for the bottom-up process to yield only those investment opportunities that also have a high impact on the global goals the fund seeks to achieve.

2. Prioritize allocations for activities that deliver long-term impacts. Because GCF aspires to achieve a paradigm shift toward low-carbon and climate-resilient development, its allocation approaches will need to prioritize support for activities that deliver long-term impacts. As a result, mitigation, activities that contribute to the longer-term objective of transitioning

to a low-carbon economy would take precedence over activities that deliver immediate, low-cost greenhouse gas emissions reductions. Thus criteria that support efforts to enhance enabling environments and promote changes to incentive structures that help alter the trajectory of sectors, but which may take a longer time to bear fruit, could be favored over shorter-term, one-off investments.

No doubt, key exceptions, such as addressing imminent humanitarian needs arising from climate change impacts, will be presented. Such needs are often assessed through indicators under the urgency criteria used by some adaptation-themed funds. Recognizing short-term and long-term objectives, and incorporating the difference in time horizons into the allocation approaches will ensure the kind of transformational impacts to which the GCF aspires.

3. Address equity in the allocation outcome; focus on impacts in the allocation approach.

The governing bodies of funds have to ensure that their balance of allocations is seen to be fair to all. Many funds start with an allocation process such as a formula based on several metrics and then make ex-post assessments or apply ex-post caps and floors to ensure that allocations are fair. This method appears to be effective in ensuring equity in the distribution of resources, particularly for low-capacity countries. An ex-post adjustment ensures that groups of countries that meet a certain criteria, such as the Least Developed Countries, have adequate access to resources even if they end up with lower rule-based allocations because of their capacity constraints. The rules-based system can be kept fairly simple to ensure that initial allocations are determined to maximize impact, then the allocation outcomes can be calibrated to ensure a fair distribution.

4. Provide flexibility to be responsive, but not at the expense of predictability.

Allocation of climate finance must be responsive to the different needs of recipients and changing circumstances. Moreover, the wide variation in socioeconomic conditions and the heterogeneity of institutional capacity and actors both across and within developing countries necessitate the design of a flexible allocation system. Efforts to create carve-outs and set-asides, and periodic changes to allocation formulas to provide more resources to some and less to others, are indicative of the limitations of more

rigid systems. Strict rules-based allocation systems can limit the ability of funds to respond to emerging opportunities that might represent a more effective use of resources. At the same time, systems that are too flexible have been found to have their own limitations: they can result in overambitious proposals and may not provide certain activities the long-term certainty of funding flows needed.

Finding a balance between predictable flows and a flexible system will be necessary. It could differ depending on the theme or the capacities of countries. Predictability of funding may be less important for mitigation where support could focus on countries with higher ambition, as well as institutional and absorptive capacity. For adaptation however, funding may need to be linked more closely to development efforts in a predictable manner, and may center more on those with relatively weaker capacities.

6. CONCLUSION

Allocation criteria and decisions are central to a fund's operations, but also extremely challenging to develop while balancing competing priorities. The lessons from the experiences of other funds, and the ways they have managed trade offs, can help GCF stakeholders understand the pros and cons of different options. Because the mandates and objectives of each fund are different, the conclusions that can be drawn from them can be only instructive, not decisive. Examining the 15 funds highlights common tensions that arise in the design of allocation mechanisms. Understanding how these funds have navigated these challenges can provide helpful signposts to guide allocation design in the GCF.

Allocation outcomes, whether determined ex-ante by theme, country, or sector, or realized through decisions on an activity-by-activity basis, need to be carried out in an open and transparent manner. The distributional implications of any allocation system make such decisions inherently political. Thus, while decision-support tools and expert opinion bring a degree of transparency and objectivity to allocation decisions, they cannot determine the final allocation outcomes. The governing bodies of funds will need to play an active role in deliberating and ultimately making final decisions.

ACRONYMS AND ABBREVIATIONS

AF	Adaptation Fund
AIDS	Acquired Immunodeficiency Syndrome
CIFs	Climate Investment Funds
CO ₂	Carbon Dioxide
COP	Conference of Parties
CPIA	Country Policy and Institutional Assessment
CPR	Country Performance Ratings
CTF	Clean Technology Fund
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Program
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
GHG	Greenhouse Gas
GNI	Gross National Income
GPI	Global Performance Indicator
HIV	Human Immunodeficiency Virus
ICCTF	Indonesia Climate Change Trust Fund
ICF	International Climate Fund
IDA	International Development Association
IKI	International Climate Initiative
LDCs	Least Developed Countries
MCA	Millennium Challenge Corporation's Millennium Challenge Account
PPCR	Pilot Program for Climate Resilience
PPR	Portfolio Performance Rating
R	Real (Brazilian official currency)
REDD	Reducing Emissions from Deforestation and forest Degradation
REDD+	Reducing Emissions from Deforestation and forest Degradation and other strategies that go beyond REDD including the role of conservation, sustainable management of forests, and enhancement of forest carbon stocks in reducing emissions.
SDR	Special Drawing Rights
SIDS	Small Island Developing States
SREP	Scaling-Up Renewable Energy Program in Low Income Countries
STAR	System for Transparent Allocation of Resources
TB	Tuberculosis
tCO ₂ e	Metric ton of CO ₂ emissions
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNFCCC	United Nations Framework Convention on Climate Change
UN-REDD	United Nations Programme on Reducing Emissions from Deforestation

GLOSSARY OF TERMS

Activity type

A standardized or uniform group of activities with shared characteristics (e.g. capacity building, technology research and development, project investment).

Allocation approach or system

A system of rules, which includes decision-making processes, as well as a set of criteria, indicators and metrics used in the decision-making process, for the distribution of a fund's financial resources towards achieving its desired results.

Criteria

Principles or standards used as a basis for making allocation and investment decisions.

Governing Instrument

The Governing Instrument or charter of the Green Climate Fund establishing its governance arrangements and approved by the Conference of the Parties to the United Nations Framework Convention on Climate Change.

Indicators

Measures (typically quantitative) used to assess potential performance against criteria (e.g. US\$ per hectare of forest conserved).

Industries

The range of economic activity around a particular technology or process, such as the wind industry or solar industry.

Metrics

Standardized measures or units (e.g. tons of carbon dioxide equivalent).

Paradigm shift

A fundamental change in approach or underlying assumptions.

Sectors

The range of economic activity around a broader set of related industries, such as the energy sector.

Theme

A broad area with a unifying objective that spans different sectors and industries, geographies, and activity types (e.g. adaptation to climate change impacts or mitigation of greenhouse gas emissions).

ENDNOTES

1. The 15 funds included in the research are the Adaptation Fund; the Amazon Fund; the Clean Technology Fund; the Forest Carbon Partnership Facility – Readiness and Carbon Fund; the Forest Investment Program; the Global Environment Facility (includes only those funds allocated through System for Transparent Allocation of Resources); the Global Fund to Fight AIDS, Tuberculosis and Malaria; the World Bank International Development Association; the International Climate Initiative – Germany; the International Climate Fund – UK; the Indonesia Climate Change Trust Fund; the Millennium Challenge Corporation Millennium Challenge Account; the Pilot Program for Climate Resilience; the Scaling Up Renewable Energy Program in Low-Income Countries; and the United Nations Programme on Reducing Emissions from Deforestation and Forest Degradation (UN-REDD).
2. SDRs are an international reserve asset, created by the IMF to supplement its member countries' official reserves, and they can be exchanged for freely usable currencies. More details at <http://www.imf.org/external/np/exr/facts/sdr.htm>.
3. For more on WRI's Climate Finance series, see <http://www.wri.org/our-work/project/climate-finance>
4. See Annexes at [wri.org](http://www.wri.org)
5. Green Climate Fund Board, “Business Model Framework: Allocation-GCF/B.05/05” (presented at the Fifth Meeting of the Board, Paris, 2013), <http://gcfund.net/fileadmin/00_customer/documents/pdf/GCF_B05_05_Allocation_fin_2013_09_30.pdf>.
6. Submissions by board members are available at <http://gcfund.net/board/input-from-board-members.html> and by observers at <http://gcfund.net/partnerships/input-from-observers.html>.
7. GCF Board Members, “Decisions of the Board-GCF/B.05/23,” in Fifth Meeting of the Board (Paris, 2013), <http://gcfund.net/fileadmin/00_customer/documents/pdf/GCF_B05_23_Decisions_5th_Meeting_of_the_Board_20131108.pdf>.
8. Ibid.
9. Department for International Development, “International Climate Fund (ICF) Implementation Plan 2011/12 – 2014/15,” Technical paper, (Department for International Development, 2011), <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48218/3390-international-climate-fund-implementation-plan-201.pdf>.
10. The issue of the conditions under which an implementing entity may be eligible for accessing a fund is covered in the WRI paper, “Within Reach: Country Ownership and Accountability in Accessing Climate Finance” (Brown, Louise, Clifford Polycarp, and Margaret Spearman, 2013), <www.wri.org/publication/ownership-and-accountability-in-climate-finance>.
11. Climate Investment Funds Web site, “PPCR Expert Group,” n.d. <<https://www.climateinvestmentfunds.org/cif/node/340>>.
12. Green Climate Fund Board, “Business Model Framework: Allocation-GCF/B.05/05” (Paris, 2013), <http://gcfund.net/fileadmin/00_customer/documents/pdf/GCF_B05_05_Allocation_fin_2013_09_30.pdf>.
13. Refer to endnote 1.
14. SREP Sub-committee, “Criteria for Selecting Country and Regional Pilots under SREP-Climate Investment Funds” (Climate Investment Funds, 2010) <<https://www.climateinvestmentfunds.org/cif/node/534>>.
15. Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU), “The International Climate Initiative – Achievements to Date” (Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, 2010), <http://www.bmu.de/fileadmin/bmu-import/files/english/pdf/application/pdf/factsheets_ici_financing_bf.pdf>.
16. Department for International Development, “International Climate Fund (ICF) Implementation Plan 2011/12 – 2014/15.”
17. Amazon Fund, “Guidelines and Criteria for Allocation of Resources,” 2012 <http://www.amazonfund.gov.br/FundoAmazonia/export/sites/default/site_en/Galerias/Arquivos/diretrizes_criterios/Diretrizes_e_Criterios_ing.pdf>.
18. Department for International Development, “International Climate Fund (ICF) Implementation Plan 2011/12 – 2014/15.”
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