



**Article Title: Rethinking Governance in International Climate**

**Finance: Structural Change and Alternative Approaches**

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**Abstract**

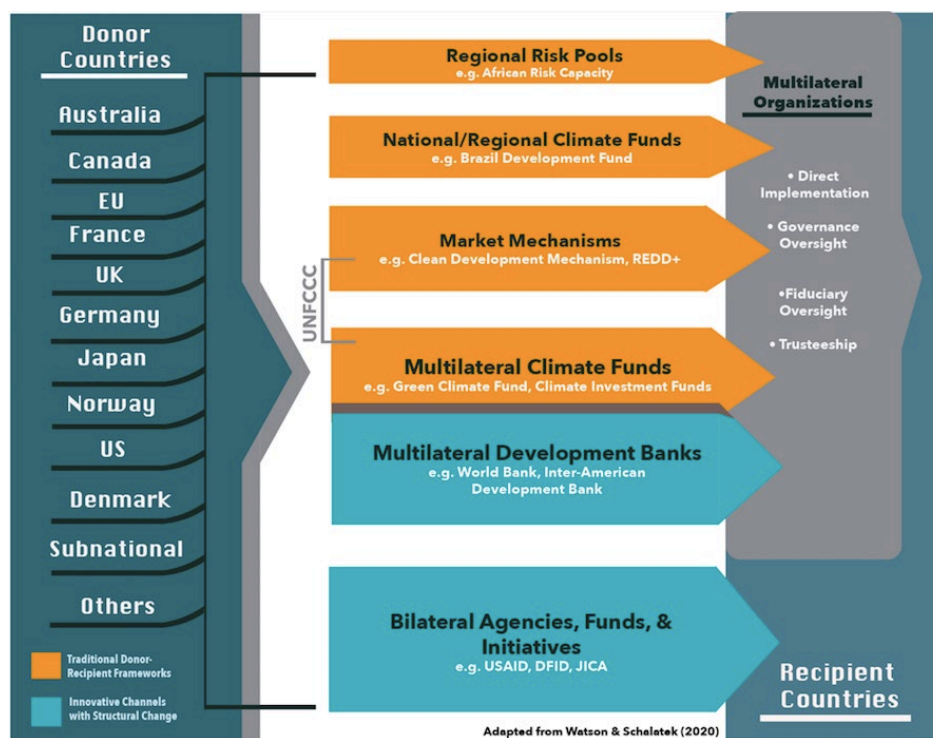
International public finance plays an increasingly prominent role in global efforts to combat climate change and, as it grows, it faces a familiar challenge: governance. Global organizations not only disburse climate funding, but are also expected to ensure the “good governance” of climate programs in recipient countries. Many of these same organizations faced similar challenges in disbursing development finance. In what became known as the “institutionalist turn,” they sought to reform governance and build effective institutions in recipient countries. At first glance, the approach to governance in climate finance appears to be a continuation of these largely ineffective policies. I argue, however, that important structural differences between climate finance and development finance have been overlooked, and that these differences create space for alternative approaches to governance. I first examine the literature on what led to the ineffectiveness of governance reforms tied

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to development finance, concluding that global organizations have been consistently unable to recognize and grapple with how power actually works in recipient countries, especially informal power. I then highlight three new principles underlying climate finance: (1) that it is restitution not aid, (2) that recipient countries should control resource allocation, and (3) that funding should support mitigation and adaptation. I demonstrate how each new principle has produced shifts in decision-making authority away from contributor and toward recipient countries. I discuss how alternative approaches could emerge from both forums where recipient countries exercise newfound authority, and from experimentation on the part of multilateral organizations.

**Graphical/Visual Abstract and Caption**



International climate finance differs from development finance in key ways, enabling new approaches to informal power in recipient countries.

**1. INTRODUCTION**

International public finance plays an increasingly prominent role in global efforts to address climate change. Wealthy countries' US\$100 billion annual pledge to support climate action in lower-income countries proved key to securing broad commitment to the 2015 Paris Agreement (UNFCCC, 2015). The growing flow of climate finance is crucial to continuing to build trust in the Agreement, and

many vulnerable countries have come to rely on this funding to support a range of climate programs (Ciplet, Roberts, & Khan, 2015). Though it is increasingly clear wealthy countries will not fully meet their commitments, climate finance is nevertheless growing rapidly in scope and impact (Carty & Le Comte, 2018; Weikmans & Roberts, 2018).

As international climate finance grows, it faces the familiar challenge of governance. In recent years, multilateral organizations tasked with oversight have faced growing pressure not only to prevent corruption and financial mismanagement of international resources, but also to ensure that funds are distributed equitably and used effectively (Khan, Robinson, & Weikmans, 2019). At first glance, the approach to these challenges appears to be a continuation of policies developed during decades of international finance, in particular interventions that promoted “good governance” and “institution building.” These reforms – which focused on reconfiguring public institutions into rule-bound systems – are now seen as largely ineffective in generating change (Booth, 2012; Evans, 2004; Repucci, 2012).

The assumption that the approach to governance in climate finance is unchanged, however, overlooks important structural differences between climate finance and development finance. Climate finance is shaped by a new political dynamic, one in which contributor countries need the cooperation of recipient countries to address the climate crisis (Ciplet, Roberts, & Khan, 2015). Arguing that climate finance is restitution, not aid, recipient countries have forced a meaningful shift in decision-making authority away from traditional donor-recipient frameworks. This shift has disrupted the established channels through which international public finance flows into national governments. It has opened new forums, dominated by recipient, not contributor countries, and reconfigured authority between global, national, and sub-national actors. In this review, I argue that as climate finance evolves beyond development finance, these structural changes create spaces for the emergence of alternative approaches to governance.

In order to understand the significance of these spaces, the first section of this paper reviews literature that evaluates what led to the ineffectiveness of governance reforms tied to development finance. Critiques of these reforms vary, but a consistent thread emerges: development organizations have been unable to recognize and grapple with how power actually works in recipient countries, particularly the role of informal power and institutions. Dominated by the perspective of contributor countries, they relied on a narrow understanding of governance grounded in a Western, liberal-

rational worldview. This worldview led them to base their interventions on assumptions about the relationships between the individual, society, and the state that applied to few, if any, of the countries targeted for reforms. Interventions focused on formal rather than informal power, rewriting rules and altering incentives that did little to change the behavior of citizens and state agents. As a broad consensus has emerged on the ineffectiveness of this approach, development scholars and practitioners have suggested numerous alternatives but they have yet to gain traction. I review these alternatives in the second section.

In the third section, I demonstrate how international climate finance is different. Drawing on literature that considers the rapidly evolving architecture and politics of climate finance, I illustrate how structural change – though more incremental than radical – creates space for alternative approaches, both through forums where contributor country perspectives no longer dominate, and through opportunities for active experimentation on the part of multilateral organizations. I first highlight how recipient countries have successfully negotiated shifts in three principles underlying climate finance: (1) that it is restitution not aid, (2) that recipient countries should control resource allocation, and (3) that funding should support adaptation and mitigation. I show how each principle is operationalized differently from development finance, how its operationalization has reconfigured authority, and how it generates space for alternative approaches, some of which can be drawn from development literature. Under each principle, I consider the significant limitations on these new spaces, including the most important: contributor country willingness to cede the space for experimentation and to tolerate imperfect governance.

## **2. THE INSTITUTIONAL TURN IN DEVELOPMENT**

Development finance has not always focused on governance. The Bretton Woods organizations – including the World Bank and International Monetary Fund (IMF) – were founded on explicitly apolitical mandates that prevented them from making lending decisions on criteria other than economic, and from interfering in members states' affairs (Thirkell-White, 2003; Thomas, 2007). Events of the 1980s, however, forced them to reconsider. High profile cases of corruption embarrassed contributor countries, while the collapse of Soviet power made development organizations – both multilateral organizations and bilateral development agencies – less inclined to turn a blind eye to abusive regimes (Doornbos, 2004; Weiss, 2000). At the same time, the widespread

failure of neoliberal Structural Adjustment Policies forced the World Bank to acknowledge that they were not just poorly implemented but also poorly conceived (Leftwich, 1993). It concluded that the failure could be largely attributed to “institutional weakness” in recipient countries (Mkandawire, 2007). As the World Bank began to consider how institutional and political factors shaped development, it moved away from its political mandate. This culminated in its 1997 “World Development Report,” which concluded that improving governance and “reinvigorating” public institutions would be key to successful development (Kulshreshtha, 2008; Landell-Mills & Serageldin, 1991, 13; Thomas, 2007).

Following the World Bank’s, and later the IMF’s, lead, development thinking thus moved from a neoliberal focus on “getting prices right” to “getting institutions right” (Mkandawire, 2009; Rodrik, Subramanian, & Trebbi, 2004). The resulting governance agenda encompassed a wide range of reforms, some implemented through active interventions, others through conditionalities. A key focus was on reconfiguring public institutions, agencies, and processes – the civil service, public service delivery, and the judiciary – into rule-bound systems that could more effectively deliver public goods. Development organizations emphasized public financial management: internal accounting and auditing systems, budgeting mechanisms, and anti-corruption measures. In addition to reforming public institutions, they sought to bolster forms of democratic governance: promoting transparency, inclusion of civil society in public decision-making, and respect for human rights (Leftwich, 1993). By the end of the millennium, the World Bank was investing a significant portion of its resources into promoting good governance and institution building. Between 1995-1997, for example, it committed a quarter of all funding (US\$5-7 billion annually) to institutional reform (Kulshreshtha, 2008).

Scholarship focusing on the “Institutional Turn” mostly agrees that despite the vast resources poured into these reforms, they have been largely ineffective in altering institutions in recipient countries (Booth, 2012a; Evans, 2004; Repucci, 2012; Unsworth, 2010). The reforms also failed to trigger the expected economic growth (Booth 2012a). Observers criticized the concept of “good governance,” arguing that the concept is so broad as to encompass nearly everything, making it difficult to operationalize (Andrews, 2008; Bøås, 1998; Gisselquist, 2014; Harrison, 2005; Kapur & Webb, 2000). Development organizations, some asserted, paid little attention to prioritizing and sequencing reforms (Grindle, 2004; Repucci, 2012). Likewise, they did not realistically engage with the actual capacity of recipient governments, with little recognition of how development finance conflicted with other political interests (e.g., promoting arms control while continuing arms sales)

(Grindle, 2011; Moore & Robinson, 1994; Nunnekamp, 1995). Others argued, however, that the ineffectiveness of governance agenda has deeper roots. Technical issues, in their view, are secondary to development organizations' fundamental misconception of how power, particularly informal power, operates in countries receiving funding.

### **The Liberal-Rational Worldview and Theory of Change**

This misconception is rooted in the nature of traditional development organizations. Despite nurturing the appearance of ideological neutrality, these organizations are political actors, guided by their own brands of political thought (Harrison, 2005). The World Bank and IMF, which award decision-making authority based on financial contributions and economic clout respectively, strongly favor contributor countries (Andersen et al., 2006; Leech & Leech, 2009). Historically, they have responded primarily to Western political audiences: not just contributor country governments, but also Western academic communities and NGOs (Thirkell-White, 2003). Bilateral development agencies respond even more narrowly to domestic political priorities and interests.

As a result of this skew toward Western political thought, the governance agenda was grounded in a liberal-rational worldview that combined elements of neoliberal economic theory with Western concepts of democracy, pluralism, and civic participation (Bøås, 1998; Harrison, 2005; Williams & Young, 1994). Development organizations designed their interventions expecting to find political relationships as they conceived of them in contributor countries. Influenced by rational choice theory, they viewed the individual as a universal economic actor whose behavior is shaped by conscious preferences and who responds rationally to incentives (Harrison, 2005; Williams & Young 1994). They saw society as an aggregation of these preferences, built on contractual relations (Harrison, 2005). The state, in this worldview, is a neutral framework through which different groups pursue their idea of what is "good" (Williams & Young, 1994). It can be institutionally structured to incentivize desirable (honest and equitable) behavior (Harrison, 2005).

Implicitly, the liberal-rational worldview relies on Weberian notions of the state and bureaucracy, which see state power as rooted in rational-legal authority (Pritchett & Woolcock, 2004). In the Weberian view, power is formal and rules-bound (Weber, 1946). The behavior and performance of state agents is shaped by the institutional structures in which they are embedded (McCourt & Minogue, 2013). The civil service is professionalized and meritocratic, providing goods to the public in

a uniform and impersonal manner (Pritchett, Woolcock, & Andrews, 2013). Political power operates separately from economic power, as the state plays a narrow, complementary role to the market, providing stability and fostering competition (North, 1990; Williams & Young, 1994; McCourt & Minogue, 2013).

This worldview undergirded development organizations' theory of change in intervening in recipient countries governance and institutions (Harrison, 2005; Williams & Young, 1994). They expected that by properly designing institutions, they could restructure incentives. This would spur more desirable behavior among individuals, both state agents and civil society, altering the relationship between society and the state (Andrews, 2013; Carothers & de Gramont, 2013). In particular, the public would demand improved performance from governments in the supply of public goods, and state agents would respond by improving delivery (Pritchett & Woolcock, 2004). Incentives would also encourage a proper (limited) relationship between the state and the market (Williams & Young, 1994).

### **Misconceiving Informal Institutions and Power**

Rooted in Western political thought and Weberian notions of the state, development organizations misconceived of how institutions and power – especially informal institutions and power – function in many recipient countries. Rather than being bounded by formal rules and institutional structures, informal power is embodied in implicit and unwritten understandings that reflect sociocultural norms and routines (Helmke & Levitsky, 2006; North, 1990). Informal institutions co-exist with formal in all countries, with the incentives of both shaping individual behavior (Brinkerhoff & Goldsmith, 2005). Politically, informal power is often personal, vested not in rules but in individuals, often at all levels of authority (Hyden, 2008). Community is built not purely on contractual relations but also informal, affective, often ethnic, ties and reciprocal relationships (Williams & Young, 1994).

Informal power often prevails over formal power, structuring political relationships and altering the functioning of the state in ways unexpected to development organizations (Thomas, 2007). Informal patrimonial and clientelistic systems – in which leaders maintain power through the distribution of patronage, or the exchange of goods for political support – frequently intertwine with the constitutional state (Bayart, 1989; van de Walle, 2003). Though such political systems manifest in different forms, they broadly tend to inhibit the state from functioning as a neutral framework (Williams & Young

1994). A leader's distribution of patronage, for example, can undermine the rule of law (Thomas 2007). Because maintaining access to political power in patrimonial and clientelistic systems necessitates excluding others and leaving them economically vulnerable, political and economic power tend to meld, contributing to politics as a zero-sum game (Harrison, 2005).

The use of public office for personal gain – through politics for pay, promotion, or employment status – also tends to distort the public service (Repucci, 2012). State agents respond not only to the formal incentives of public demands but also, and sometimes primarily, the informal incentives of client groups and superiors who can reward them (Bratton & Van de Walle, 1994). Instead of providing broad programs that benefit all according to objective criteria, the government provides goods narrowly to supporters (Pritchett & Woolcock, 2004).

Development organizations largely failed to recognize how these informal institutions shaped the behavior of actors in many states targeted for institutional reforms, as well as the fact that these institutions could be perceived as equally or more legitimate than formal ones (Steenberg 2021). Many have argued that this misconception can be traced not only to Western political thought but also the colonial underpinnings of development finance (Bhambra 2011). Anthropologists, sociologists, and postcolonial and decolonial theorists, among others, have challenged the categories that emerge from development thought, including the concepts of “good governance” and “poor governance” (Bhambra 2011; Escobar 2011; Kapoor 2008; Quijano 2000).

Despite the recognition that informal institutions are influential in all countries, development organizations characterized them as largely a problem of “corruption” in impoverished countries, particularly in Africa (Haller and Shore 2005). Many scholars identify the “anti-corruption” discourse as an assertion of hegemonic values and extension of the colonial legacy (Kapoor 2008; Sampson 2010; Steenberg 2021). In particular, they criticize development organizations' tendency to overlook numerous instances of “corruption” in global north countries and to focus on endogenous factors in recipient countries rather than larger, structural inequalities, particularly of the capitalist global system (Graeber 2015; Schneider and Schneider 2003; Werner 2000).

### **Inability to Recognize and Grapple with Informal Power**

Development organizations' approach to governance was thus based on an underdeveloped theory of change (Unsworth, 2009). Collectively, they failed to comprehend both the prevailing power



structures of recipient countries, and the political relationships that create and maintain them. By focusing institutional reform on rewriting formal rules, they overlooked the complex interplay of formal and informal institutions, failing to address how individuals, in both society and the state, are bound up in affective relations and informal power networks (Pritchett, Woolcock, & Andrews, 2013). These individuals respond to the incentives of informal institutions instead of, or in combination with, those of formal institutions (Brinkerhoff & Goldsmith, 2002). As a result, reconfiguring formal institutions and incentives alone did not prompt the expected changes in behavior (Harrison, 2005).

Additionally, interventions tended to focus on replicating institutional form rather than altering institutional function (Andrews, 2013; Pritchett & Woolcock 2004). Despite a rhetorical recognition of the need to adapt reforms to “context” and “national circumstances,” interventions focused on creating centralized, professionalized bureaucracies following a common Weberian mold (Kulshreshtha, 2008; Pritchett et al., 2013). Development organizations assumed that since such bureaucracies underpinned industrialized states, their “institutional blueprints” would facilitate similar development elsewhere (Evans, 2004). Rather than exhibiting “entrepreneurial bureaucratic behavior” that could adapt Weberian institutional forms to new contexts, state agents mimicked expected behaviors in order to maintain legitimacy (Buntaine, Parks, & Buch, 2017; Samuel, 2014). The result has often been a dual system in which reforms produced a shell of “proper governance” – formal institutions existing to placate contributors and uphold the appearance of “development” – while informal institutions continue to act as the primary influence on behavior and state-society relations.

Above all, development organizations misunderstood the incentives of leaders and elites in recipient countries. Reforms were predicated on the expectation that leaders and elites would prioritize long-term development objectives (Booth, 2012a). The primary goal of most governments, however, is to maintain political power. In many cases, political survival depended on support from informal networks as much, if not more, than the formal power vested in leaders by the state (Thomas, 2007). Reforms that limit state control over economic assets and the government’s discretion to award supporters threaten patron-client relations (Thomas, 2007). Leaders and elites are unlikely to undermine the status quo or to disassemble the structures that keep them in power (Collins, 2012; Hyden, 2008).

### 3. ALTERNATIVE APPROACHES TO INFORMAL POWER AND INSTITUTIONS

By the early 2000s, both scholars and practitioners of development finance broadly recognized the ineffectiveness of institutional reforms. Reform in many recipient countries would require nothing short of fundamental change in the relationship of state and society. This recognition led many to argue for the need to develop alternative approaches to engaging with informal institutions in recipient countries.

One option is to cede space to allow for endogenous institutional change, rather than to continue to attempt to drive such change exogenously. A number of prominent scholars have argued that governance and institutional reforms have not only been ineffective but have inhibited development in recipient countries (Rodrik, 2000). The institutional models imposed over the past decades were not the same as those that had characterized industrialized countries during their periods of rapid economic growth (Booth, 2011a). Imposing these models has been akin to “kicking away the ladder,” denying recipient countries the opportunity to experiment with their own development trajectories (Chang, 2003).

In this view, substantive institutional change must be grounded in local decision-making (Rodrik, 2000; Sen, 1999). Restoring space for recipient countries to experiment with endogenous institutions would enable these institutions to rebuild context specificity and legitimacy (Dunning & Pop-Eleches, 2004; Mkandawire, 2009). What matters is how institutions actually function: “who they help, who they hurt, and how much” (Brinkerhoff & Goldsmith, 2005). Informal systems are not always negative, and different institutional forms can deliver similar institutional performance levels (Pritchett et al., 2013). Evans (2004) argues in particular for strengthening “thick institutions” that can improve citizens’ abilities to make their own choices. A variety of forms of public discussion and interchange can contribute to making public institutions accountable to citizens (Sen, 2000). Such approaches would require development organizations to cede power to local leaders who can build contextually appropriate institutions (Acemoglu, Johnson, & Robinson, 2001; Dunning & Pop-Eleches, 2004; Subramanian & Roy, 2001).

Others have argued for the need for experimentation on the part of development organizations. Andrews (2013) recommends a “problem driven, iterative adaptation” approach based on experiential

learning, feedback, and “purposive muddling.” Building on the strengths of existing institutions arrangements could enable the emergence of “hybrid solutions” that combine local institutions with Western fiduciary standards (Andrews, 2013; Booth, 2012b). Booth and Unsworth (2014) highlight cases in which on-the-ground staff facilitated problem solving through “politically smart” approaches. They emphasize the importance of the bureaucratic environment within development organizations themselves, and the need to allow room for innovation. In particular, they highlighted funding modalities that enabled on-the-ground staff to “work at arm’s length” from contributors (Booth & Unsworth, 22). Such distance could give staff space to “adopt their own strategies and tactics” while allowing contributors “political cover and deniability.” Incremental reforms, these scholars argued, could cumulatively drive slower, but longer-term, institutional change (Levy, 2014).

Such experimentation would require a tolerance for risk-taking and imperfect governance. Some have argued for engaging realistically with the incentives that shape the decision-making of leaders and elites. Booth (2011, 2012b) calls for identifying the most stable regimes – those able to centralize management of major economic rents and adopt a long-time horizon – through a form of “development patrimonialism.” Similarly, Wright (2008) has argued for the need to recognize how the time horizons of autocratic governments shape their incentives in the use of development finance. There is tension between these strategies, which concede that not all governments will behave democratically, and the broader recognition that participatory political institutions are necessary to build better institutions in the long-run.

Others have argued for bypassing national governments altogether. Brinkerhoff & Johnson (2009), writing about fragile and post-conflict states, suggest empowering local governments in delivering public services. They argue that local government can, among other things, mitigate zero sum politics and allow for natural political experiments, with faster feedback loops. Some have argued that empowering citizenry, through monitoring and participatory budgeting practices, can also improve public services (Abers, 1998; Fox, 2001). Ultimately, however, strategies that circumvent national institutions are likely to prove only a short-term substitute for a functioning central government (Grindle, 2004).

One concrete option for working within, rather than around, national institutions emerges from scholarship on organizational culture. Case studies have shown that certain institutions can effectively deliver public services, even when they are embedded within ineffective governments (Tendler,

1997). Drawing on a number of comparative cases, Grindle (1997) attributed this effectiveness to a shared sense of mission, dedication, and autonomy among the workers themselves. Rational choice theory, which saw individuals as motivated by private incentives, could not explain such “public spirited bureaucratic behavior.” She and others have argued that promoting such positive organizational characteristics could be the “missing ingredient” to civil service reform (Grindle, 1997; Owusu, 2012).

Despite the broad recognition of the need for change, development organizations’ approaches remain largely technocratic. Efforts’ to adopt political economy approaches – such as the UK’s Department for International Development’s “Drivers of Change” – have been limited and contested (Booth, 2012b; Yanguas & Hulme, 2015; Booth & Faustino 2014; Hout, 2012; Unsworth 2009). Hout (2012) argues that development organizations are trapped in a paradox in which they recognize the need for political-economic analyses and approaches but face “insurmountable difficulty in taking political assessments seriously” (407). Constraints within these organizations – including prevailing “mental models” of development and career pathways that disincentivize country-specific expertise – prevent them from applying the insights of political economy approaches (Booth & Faustino, 2014; Unsworth, 2009; Wild et al., 2015). The result has been an “almost revolution,” in which shifts in tone have not translated into concrete changes in policy-making (Carothers & de Gramont, 2013; Hout, 2012; Unsworth, 2015).

#### **4. CLIMATE FINANCE: STRUCTURAL CHANGE, ALTERNATIVE APPROACHES**

To ensure that funding is used equitably and effectively, climate finance organizations must grapple with the nature of informal power in recipient countries. The ineffectiveness of governance reforms tied to development finance demonstrates the need for alternative approaches. In this section, I argue that structural shifts in climate finance generate space for such approaches to emerge. Though climate finance largely grew out of development finance – and involves many of the same organizations – it is shaped by a different political dynamic. In order to prevent catastrophic climate change, contributor countries need the cooperation of recipient countries (Ciplet, Roberts, & Khan, 2015). Already, the sense that contributor countries are obfuscating and failing to meet their commitments threatens implementation of the Paris Agreement (Weikman & Roberts, 2018).

Recipient countries have leveraged this need for cooperation not only to secure funding, but also greater say in how that funding is used (Moore 2012b; Schalatek 2019; Persson 2011).

Drawing on literature on the political dynamics and evolving architecture of climate finance, I advance this argument in three parts (summarized in Table 1). In each part, I first introduce the shift in underlying principles away from development finance. These principles are: (1) that climate finance is restitution, not aid (Khan & Roberts, 2013; Roberts, 2009; Pickering & Barry 2012; Müller 2009; Scoville-Simonds 2020; Moore 2012b), (2) that recipient countries should control resource allocation (Lombo et al., 2016; Persson & Remling 2014; Bird & Peskett 2008), and (3) that funding should support mitigation and adaptation (Schalatek, 2019). I describe how this shift is driving structural innovations in the architecture of climate finance, and meaningfully altering decision-making authority.

I then discuss how these innovations create space for the emergence of alternative approaches to informal power. I argue that alternative approaches could emerge from both forums where recipient countries exercise newfound authority – in which case, they could take novel and unexpected forms – and from active experimentation on the part of multilateral organizations – in which case, these organizations could draw on suggestions made by development scholars. I focus on multilateral organizations because to date these are the largest and most important actors in shaping climate finance, but other organizations – such as bilateral agencies or private entities, like the Gates Foundation – could also experiment.

It is important to note that the shifts in principle described here are ongoing and bitterly contested, part of both a broader struggle over accountability for climate change and a shift to a more multipolar world (Gomez-Eccheverri, 2013). The principles remain incompletely operationalized, representing more incremental change than radical paradigm shift. These principles also do not encompass all the ways that climate finance differs from development finance, but rather only the key ways that drive structural change relevant to the approach to national governance.

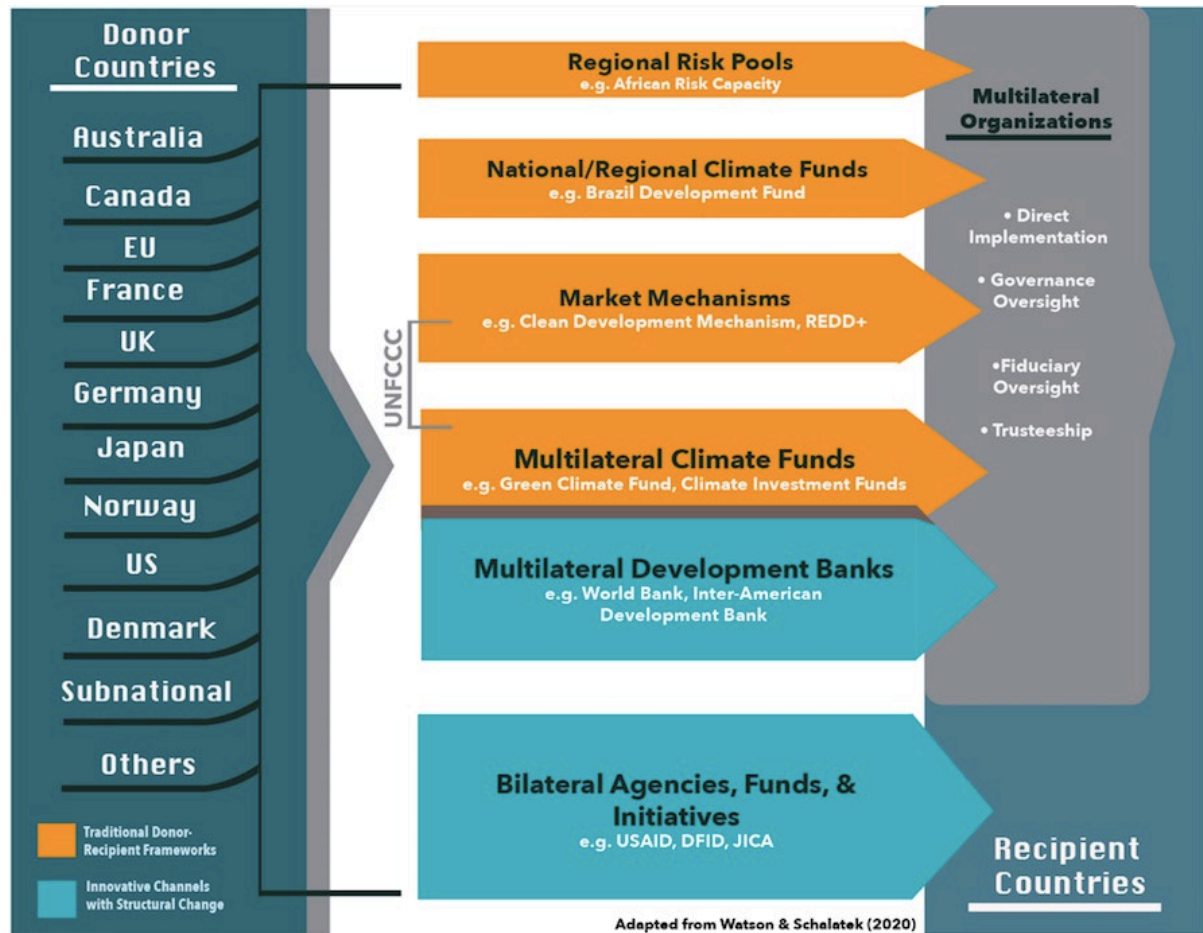
### **Traditional and Innovative Channels in Climate Finance**

There are six main channels of international public financing for climate mitigation and adaptation: bilateral finance, multilateral development banks, multilateral climate funds, national and regional climate funds, sovereign risk pools, and market-based mechanisms (Watson & Schalatek, 2020) (see Figure 1). The first two channels (*denoted in blue*) rely on traditional donor-recipient frameworks

established under development finance: contributor countries retain full authority over decision-making and financial management. The latter four (*denoted in orange*) are more innovative financial mechanisms, in the sense that in some respects they move away from these traditional donor-recipient arrangements. The new principles and associated structural changes that I describe here are limited to these innovative mechanisms. I exclude the last of the four channels – market-based mechanisms, such as the Clean Development Mechanism – from the argument because these mechanisms rely primarily on pricing carbon and therefore do not employ donor-recipient frameworks.

The financing that flows through innovative channels currently represents a small but growing portion of overall climate finance (Watson & Schalatek, 2020). Multilateral climate funds operate by aggregating funding from contributor countries and disbursing it to recipient countries. Although most of these funds operate under mandates from the UN Climate Convention, some operate outside its guidance. The Climate Investment Funds (CIFs) managed by the World Bank are an example of the latter. Many countries have also established national and regional climate funds as “national hubs,” designed to capture finance from a range of multilateral and bilateral sources (Gomez-Echeverri, 2010). The largest of these, Brazil’s Amazon Fund, has a commitment of \$1.2 billion. Finally, sovereign risk pools are currently operating in the Pacific, Caribbean, and African regions. As insurance entities that distribute risk across a group of countries, risk pools offer a new approach to adaptation. The initial capital provided by contributor countries subsidizes member countries’ access to insurance, though they also pay premiums to participate (McGee, Phelan, & Wenta, 2014).

Figure 1. Multilateral organizations play a variety of roles in the six primary channels of international climate finance



Multilateral organizations – including the World Bank, UN agencies, regional development banks, and UN climate funds – play a variety of oversight roles in these channels. They rely on a mix of safeguards, designed to ensure that programs meet international standards of good governance, and capacity-building initiatives, intended to create “enabling environments” to help recipient country institutions meet these standards. Narrower in scope than the reforms attempted under development finance, these safeguards and initiatives seek to manage governance rather than overhaul it entirely. Though on the surface this approach to governance appears to reflect the logic of the largely ineffective policies of development finance, the four innovative channels provide new spaces for experimentation.

## New Principles, Structures, and Opportunities in International Climate Finance

**Table 1. New principles, structures, and opportunities in international climate finance**

New Principle	Structural Change in Financial Mechanisms	Alternative Approaches to Governance
Climate finance is restitution, not aid.	Equal or majority decision-making authority for recipient countries in multilateral, regional, and national governance boards.	Recipient country representatives exercise greater authority to shape governance protocols.  Develop new governance policies and approaches based on non-Western political thought.
Recipient countries should control resource allocation.	Recipient countries have direct access to and direct management of financing.	Recipient country institutions have greater power to shape governance policies at the national level.  Create space for the evolution of endogenous institutions, including “hybrid institutions.”  Multilateral organizations experiment with “purposive muddling” and arm’s length funding arrangements.  Improve feedback mechanisms to link knowledge of local context to global and regional policymaking.
Funding should support mitigation and adaptation,	Technical ministries, especially Ministries of Environment, are empowered by access to finance and multilateral organizations. Decision-making authority exercised by new actors at national and sub-national levels.	Expands dialogue around resource allocation to include new actors with new expertise, enabling experimentation, e.g., with organizational culture.  Empowers sub-national actors, such as local government, well-positioned to experiment with faster feedback loops.

### 1. Climate finance is restitution, not aid.

The first important shift in the underlying principles of climate finance is toward a framing of restitution. In legal theory, restitution is the return of property or economic opportunities in order to restore the rights of those who have been violated, or those who suffer today from the past rights violations of others (Barkan, 2000; Leduc, 1969; Mackintosh et al., 2008).

*Restitution in Development Finance:* Some proponents of development finance have framed the provision of finance as restitution for colonialism and the present economic inequality rooted in these past harms (Bauer 1984; Pogge, 2005; Leduc, 1969). The clear association between colonial responsibility and the geographic distribution of finance lends credence to restitution as a motivation for the provision of finance (Bauer 1984). Contributor countries, however, rarely operationalized restitution in the financial structures of development finance. In traditional donor-recipient frameworks, contributors retained authority over funding (Moore, 2012). Not only could they dictate the channels



through which funding flows and what it was used for, but they could also withdraw it any time. This was particularly the case following the debt trap crisis of the 1970s, which led to an increased “donorship syndrome,” in which “all initiative emanates from the donor side and donors determine which values and objectives are good for beneficiaries of aid” (Edgren 2003, 4). Furthermore, contributor countries frequently used development finance to advance their own interests (e.g., trade and security objectives) (Keijzer & Black, 2020). Thus, despite a rhetoric of restitution, charitable or “gift-giving” norms dominate development finance, including the voluntary nature of contributions, contributor country oversight, and the channeling of funds through development agencies (Moore, 2012; Mackintosh et al., 2006; Calder 2010). The principle of restitution remains rarely applied at the international level, limited to narrow contexts of criminal justice such as land dispossession and the return of pillaged cultural artifacts (Barkean, 2000; Vernon 2003).

*Restitution in Climate Finance:* Since intergovernmental negotiations over climate change began in the early 1990s, countries classified as “developing” under the UN Climate Convention have argued for the need for restitution. This argument is grounded in the “polluter pays principle:” the concept that because industrialized countries bear responsibility for the bulk of historical emissions, they have an obligation to not only rapidly reduce their emissions but also to compensate low-emitting and vulnerable countries for the damage caused (Gaines, 1991; Khan & Roberts, 2013; Roberts, 2009). Compensation, they argue, should take the form of both technology transfer (to enable emissions reductions) and financing to support mitigation and adaptation to adverse impacts (Pickering & Barry, 2012). Recipient countries have explicitly sought to frame climate finance as an international obligation, a type of financial transfer “normatively distinct” from development aid (Moore 2012; Vanheukelom et al, 2012; Pickering et al., 2015). A submission from India on the Bali Action plan, for example, makes this distinction and its implications clear: “The new financial architecture for climate change derives from the UNFCCC and is fundamentally different from donor-driven aid flows...the providers of finance cannot be discretionary ‘donors,’ but must be legally obligated ‘assesseees.’” (Ministry of Environment and Forests, 2009, 41). Under such framing, the norms guiding the provision of climate finance would differ dramatically from altruistic norms of development finance (Moore, 2012b; Müller, 2009; Scoville-Simonds et al., 2020).

Recipient countries have not succeeded in enshrining the principle of restitution in the UN Climate Convention itself and claims of restitution remain highly politicized. The political dynamics of climate change, however, have enabled them to operationalize the principle within some of the more innovative channels of climate finance, particularly in terms of authority over funding (Harmeling & Kaloga, 2011; Moore, 2012; Persson, 2011; Schalatek, 2019). At the global level, recipient countries have negotiated equal or majority representation on the boards of several multilateral climate funds (Table 2). The Adaptation Fund Board is the first multilateral board of any type to have a majority of recipient country representatives, an explicit redistribution of power that indicates their “genuine ownership” of the fund as a financial instrument (Harmeling & Kaloga 2011; Winkler & Müller, 2008). This structure in turn influenced the establishment of the Green Climate Fund (GCF), the largest and most important fund in the post-Paris Agreement landscape (Al-Saidi, 2020). The transitional committee appointed to design the GCF included a recipient country majority, and the current board is split equally between contributor and recipient countries, with a co-chair drawn from each group (Green Climate Fund, 2013). Significantly, restitutorial framing has extended to funds that operate outside the UN Climate Convention. The World Bank CIF’s – worth approximately US\$8 billion – have equal representation on all decision-making committees and sub-committees (Bird & Brown, 2010; Climate Investment Funds, 2021).

The shift in authority over funding is also reflected at the national level. National and regional climate funds are largely independent entities. Though they differ in their governance structures, they are in most cases controlled by recipient country governments (Gomez-Echeverri, 2010)(Table 3). The Bangladesh Climate Change Resilience Fund, for example, operates under the “full ownership and leadership of the Government of Bangladesh, with a governing council and management committee comprised solely of national representatives” (World Bank, 2021). Likewise, the governing boards of all three active sovereign risk pools have majority representation from member countries (Table 4).

**Table 2. Board composition of multilateral climate funds (blue denotes contributor country majority, orange recipient country majority, and yellow equal representation)**

Multilateral Climate Funds	Funds Pledged (US\$ million)	Governing Board, Council, or Assembly Composition
Green Climate Fund	20,320.28	24 Members: 12 contributor country; 12 recipient country
Clean Technology Fund	5,404.31	16 Members: 8 contributor country; 8 recipient country

Global Environment Facility	4,052.99	32 Members: 14 contributor country; 16 recipient country; 2 economies in transition
Strategic Climate Fund	2,646.27	16 Members: 8 contributor country; 8 recipient country
Least Developed Countries Fund	1,686.42	<i>Under GEF Governance</i>
Adaptation Fund	1,039.20	16 Members: 5 contributor country; 11 recipient country
Adaptation for Smallholder Agriculture Programme	406.49	36 Members: 24 contributor country; 12 recipient country
Special Climate Change Fund	379.04	<i>Under GEF Governance</i>

**Table 3. Board composition of national and regional climate funds**

National and Regional Climate Funds	International Funds Pledged (US\$ million)	Governing Board or Management Committee Composition
Amazon Fund	1,288.23	23 Members: 8 national government; 9 states; 6 civil society
Brazilian National Fund on Climate Change	478.76	7 Members: 7 national government
Guyana REDD+ Investment Fund	250.00	8 Members: 4 national government; 4 contributor country
Central African Forest Initiative	244.36	7 Members: 7 contributor country
Congo Basin Forest Fund	186.02	6 Members: 2 contributor country; 4 recipient country
Bangladesh Climate Change Resilience Fund	170.00	15 Members: 7 national ministries; 4 national secretaries; 2 contributor country; 2 civil society
Climate Resilient Green Economy (Ethiopia)	200.00	N/A
Rwanda's Green Fund	50.00	10 Members: 7 national government; 1 contributor country; 1 private sector; 1 civil society
Mali Climate Fund	28.17	10 Members: 5 government; 5 technical and financial partners
Indonesia Climate Change Trust Fund	26.17	11 Members: 4 contributor country; 7 recipient country
Cambodia Climate Change Alliance Trust Fund	11.00	8 Members: 4 national government; 4 contributor country
Ecuador Yasuni ITT Trust Fund	10.58	5 Members: 3 national government; 2 contributor country; 1 civil society
Maldives Climate Change Trust Fund	10.30	N/A
Mexico Climate Change Fund	N/A	9 Members: 9 national government
Philippines People's Survival Fund	N/A	8 Members: 5 national government; 1 academic; 1 business; 1 NGO

**Table 4. Board composition of sovereign risk pools**

Sovereign Risk Pools	Board Composition
African Risk Capacity	8 Members: 7 recipient country; 1 World Food Program
Caribbean Catastrophe Risk Insurance Facility	6 Members: 4 recipient country; 2 contributor country
Pacific Catastrophe Risk Assessment and Financing Initiative	9 Members: 5 recipient country; 4 contributor country

*Emerging Spaces for Alternative Approaches:* The shift in decision-making authority at the global level opens up space for approaches driven by recipient countries. At least in theory, contributor country perspectives no longer dominate the leadership forums of some climate finance organizations, including major multilateral climate funds like the GCF. Recipient country representatives exercise greater power to set priorities, allocate funding, and, most importantly in this

case, shape governance protocols. Under traditional development frameworks, an imbalance of decision-making authority produced governance policies shaped predominantly by the Western, liberal-rational worldview (Harrison, 2005; Williams & Young, 1994). Under climate finance frameworks, recipient country representatives may be empowered in these organizations to develop approaches that are not rooted in Western political thought. In particular, they may be more willing to cede decision-making authority to national level, allowing endogenous institutions to evolve (see next *Approaches*).

As noted above, the Adaptation Fund is the first multilateral board of any type to feature a majority of recipient country representatives. It is therefore difficult to speculate about how such multilateral groups may behave, but it is not unreasonable to expect them to behave differently and for new policies to take unexpected forms. Recipient countries prevailed in early conflicts on the GCF Board, including over “no objection” procedures that give greater authority to national institutions (Smith and Rai 2014). The Board has also exhibited surprising autonomy in formulating rules and governance standards for REDD+ projects. The GCF is still in its capacity-building phase, with significant opportunities for approaches to governance to continue to evolve (Al-Saidi, 2020).

*Limitations:* It is important to recognize that recipient countries have succeeded in operationalizing the principle of restitution in only limited ways. The shift in decision-making authority at global levels is partial and uneven. The funding flowing through multilateral, regional, and national climate funds represents only a small proportion of overall climate finance (UNFCCCb, 2021). A majority of climate finance continues to flow through traditional development channels such as the World Bank and regional development banks (UNFCCCb, 2021). Though some bilateral finance is directed through regional and national funds, the bulk remains under contributor country control (Watson & Schalatek, 2020).

Because the Paris Agreement, and subsequent agreements like the 2021 Glasgow Climate Pact, bind contributor countries only to high-level, collective goals, these countries retain the ability to direct funding through whichever channels best serve their purposes (Ciplet, Roberts, & Khan, 2015). In some cases, they have circumvented forums where recipient countries exercise majority decision-making authority, such as the Adaptation Fund, preferring to funnel financing through channels where they have greater control (Harmeling & Kaloga, 2011). Recipient countries, however, recently secured

guarantees that the Adaptation Fund would continue to receive a 2% share of proceeds from Certified Emissions Reductions under the Paris Agreement (UNFCCC 2021a). This potentially significant source of finance, combined with contributor countries' record commitments to the Fund in Glasgow, may indicate broader acceptance of recipient countries' decision-making authority.

Representation on governance boards is only one aspect of decision-making, however, and significant constraints on aspects of disbursement and project implementation remain. For example, the GCF's allocation framework requires balance between mitigation (a contributor country priority) and adaptation (a recipient country priority) (Green Climate Fund, 2013). In contrast, under the World Bank CIFs, contributor countries can earmark their contributions (Climate Investment Funds, 2021). As a result, the Clean Technology Fund, which support mitigation, is significantly better resourced than the adaptation-focused Pilot Program for Climate Resilience (Update 2022).

Even in cases where recipient countries exercise majority authority, forms of oversight usually remain in place. Multilateral organizations often serve as interim trustees for national and regional funds, with the stated intent of devolving administration to the national level (Gomez-Echeverri, 2010). The World Bank, however, continues to serve as the interim trustee for the Adaptation Fund, more than twenty years after its establishment, a point of contention for recipient countries (Harmeling & Kaloga, 2011).

## *2. Recipient countries should exercise direct control over resource allocation.*

The second principle flows from the first. Under a restitutorial framing of climate finance, the primary focus is on the financial transfer itself (Bird & Peskett, 2008; Moore, 2012; Müller, 2009; Schalatek, Bird, & Brown, 2010). In principle, because funding is compensation and not a gift, recipient countries should have the authority to use it as they see fit (Lombo et al., 2016; Persson, 2011; Persson & Remling, 2014). In other words, it should be "country owned."

*Country Ownership in Development Aid:* Country ownership is not a new concept in international public finance (Booth, 2012a; Hyden, 2008). In the 1990s, growing concern over the effectiveness of conditionality-based aid led to a broad push to encourage recipient countries to assume greater "ownership" over development programs (Savedoff, 2019). The World Bank's Poverty Reduction Strategy Papers – in which recipient country governments were expected to formulate and therefore

“own” the poverty reduction agenda – embodied this approach (Hasselskog & Schierenbeck, 2017). In the 2005 Paris Declaration, as well as in the later Accra Agenda, donor and recipient countries agreed that country ownership constituted a major principle underpinning effective aid (Booth, 2012). The Paris Declaration emphasized that recipient countries – implicitly, national governments – should be involved in a range of associated activities, including problem identification, program design, resource allocation, and implementation. For resource allocation, the objective was to provide funding through recipient country’s public financial management and procurement systems, rather than donor led projects (Booth 2011; Buffardi, 2013). In theory, country ownership would help shift the paradigm from one of “charity” and “tutelage” to one of partnership and mutual accountability (Savedoff, 2019).

Donors, however, implemented the principle half-heartedly at best. Some have attributed this to a loss of focus in the aid community following the 2009 financial crisis; others have pointed to the growing “southernization” of aid, which brought competition for influence from emerging donors like China (Mawdsley, 2018). In practice, ownership was more often defined as the institutional capacity to manage a project, rather than the bottom-up process envisioned in the Paris Declaration (Buiter, 2007). The OECD increasingly defined ownership as the pursuit of mutual interest (Keijzer & Black, 2020). The implicit reliance on national governments was also increasingly at odds with the growing recognition of recipient countries as “whole societies” – with differing groups holding often contrasting development objectives – and the corresponding effort to direct funding to a broader set of partners in civil society (Carothers & Gramont, 2013; Seims, 2011). Empirical studies found that programs guided by the principle of country ownership produced various configurations of decision-making authority among actors, but overall continued to under-represent recipient country actors, especially in problem identification and resource allocation (Buffardi, 2013). Development programs continued to be designed largely by external consultants and to rely on international intermediaries, while funding continued to be channeled largely outside of national budgetary systems (Ballesteros et al., 2010, Savedoff, 2019). Ultimately the shift to country-ownership proved to be largely rhetorical, losing out to the competing demands and priorities of donor countries, such as mutual benefit and self-interest.

*Country Ownership in Climate Finance:* As the architecture of climate finance continues to evolve, recipient countries have successfully negotiated for funding structures that grant them greater (though far from complete) control over the allocation of financial resources (Keijzer & Black, 2020). Several

multilateral climate funds under the UN Climate Convention have implemented procedures, known as “direct access modalities,” that empower national governments to manage financing without international intermediaries (Afful-Koomson, 2015; Scoville-Simonds, 2016). In contrast to traditional donor-recipient frameworks, in which funding is channelled largely outside national budgetary systems, direct access devolves resource allocation directly to the national level (Bird, Billett, & Colón, 2011). Pioneered by the Adaptation Fund, the model was taken up by the GCF, in response to calls from recipient countries and civil society for alternative climate finance structures that avoided imposing top-down objectives (Bertilsson & Thörn, 2021; Chaudhury, 2020; Manuamorn & Biesbroek, 2020). Additionally, regional and national climate funds function similarly to direct access modalities (Bertilsson & Thörn, 2021). Brazil’s Amazon Fund, for example, is administered by Brazil’s National Development Bank, not a regional development bank or other multilateral organization. While direct access modalities have antecedents in development finance, such as the Millennium Challenge Corporation, funding was limited to countries that qualified by independent metrics (Müller & Pizer, 2014).

The GCF in particular has the potential to greatly increase the scale of direct access implementation. It also advanced the concept, launching an “Enhanced Direct Access” (EDA) pilot program, which further devolves programmatic control to the national level (Schalatek & Watson, 2020). Under EDA, funding decisions, fund management, and oversight all occur at the national level (Bird et al., 2011; Müller & Pizer, 2014). This explicit departure from project-based funding is expected to become GCF’s “signature access modality” (Murray, Müller, & Gomez-Echeverri, 2015). Three pilot programs are underway, with seven additional pilots likely to be funded (“Enhancing Direct Access,” 2022). The Adaptation Fund also recently launched an EDA program, with two projects currently under consideration (“Grants to Date,” 2022).

**Table 5. National entities accredited for direct access and enhanced direct access under the Green Climate Fund and Adaptation Fund. Yellow cells indicate accreditation. \* indicates the entity has received or been approved to receive funding. Entities exclude national banks and private sector.**

Country	National Government or Semi-Governmental Entity	Accreditation			
		Green Climate Fund		Adaptation Fund	
		DA	EDA	DA	EDA

Antigua & Barbuda	Department of Environment, Ministry of Health and Environment	*	*		
Argentina	General Directorate of Sectoral and Special Programs and Projects, Ministry of Agriculture, Livestock and Fisheries				
	Unidad Para El Cambio Rural				
Armenia	Environmental Project Implementation Unit, State Agency of the Ministry of Nature Protection				
Bangladesh	Palli Karma-Sahayak Foundation	*			
Belize	Protected Areas Conservation Trust				
Benin	National Fund for Environment and Climate				
Bhutan	Bhutan Trust Fund for Environmental Conservation				
Brazil	Caixa Econômica Federal				
	Fundo Brasileiro para a Biodiversidade				
Cambodia	National Committee for Sub-National Democratic Development Secretariat				
Chile	Agencia Chilena de Cooperacion Internacional para el Desarrollo				
China	Foreign Environmental Cooperation Center, Ministry of Ecology and Environment				
Colombia	Fondo para la Acción Ambiental y la Niñez				
Cook Islands	Ministry of Finance and Economic Management				
Costa Rica	Fund Cooperacion para el Desarrollo Sostenible				
Dominican Republic	Dominican Institute of Integral Development				
Ethiopia	Ministry of Finance and Economic Cooperation	*			
Honduras	Comisión de Acción Social Menonita				
Indonesia	Kemitraan bagi Pembaruan Tata Pemerintahan				
Ivory Coast	Fonds Interprofessionnel pour la Recherche et le Conseil Agricoles				
Jamaica	Planning Institute of Jamaica				
Jordan	Ministry of Planning and International Cooperation				
Kenya	National Environment Management Authority of Kenya	*			
Mexico	Fondo Mexicano para la Conservación de la Naturaleza A.C.	*			
	Mexican Institute of Water Technology				
Micronesia	Micronesia Conservation Trust				
Morocco	Agency for Agricultural Development of Morocco			*	
Namibia	Desert Research Foundation of Namibia				
	Environmental Investment Fund	*	*		
Nepal	Alternative Energy Promotion Centre	*			
	National Trust for Nature Conservation				
Philippines	Landbank of the Philippines	*			
Pakistan	National Rural Support Programme				
Panama	Fundación Natura				
Peru	Peruvian Trust Fund for National Parks and Protected Areas	*			
Rwanda	Ministry of Environment	*			
Senegal	Centre de Suivi Écologique	*			
South Africa	South Africa National Biodiversity Institute				
Tanzania	National Environment Management Council				
Tuvalu	Ministry of Finance				
Uganda	Ministry of Water and Environment				
Uruguay	Agencia Nacional de Investigacion e Innovacion				
Zimbabwe	Environmental Management Agency				

*Emerging Spaces for Alternative Approaches:* Direct access has the potential to enable alternative approaches in two ways. The first is by creating space for the evolution of endogenous institutions for climate-related decision-making (Rodrik, 2000; Sen, 1999; Acemoglu et al., 2001; Dunning & Pop-Eleches, 2004; Mkandawire, 2009). The shift in control of financing to the national level means that actors in recipient country institutions exercise greater authority to shape



governance policies. In contrast to actors within development organizations, which persist in their technocratic orientation and exhibit weak knowledge of local contexts, these actors are well-positioned to recognize prevailing power structures (Hout, 2012; Unsworth, 2009; Yanguas & Hulme, 2015). Indeed, they are embedded within these structures, both formal and informal. National actors and institutions can draw on this knowledge to develop more nuanced theories of change, based on a more accurate understanding of individual and collective incentives. Endogenous institutions are likely to be better adapted to local context and could be more effective, for example, in building resilience to climate impacts. A variety of “thick” participatory institutions could facilitate discussions and interchange around long-term planning and adaptation (Evans, 2004).

Second, direct access creates space for multilateral organizations to actively experiment with alternative approaches, such as the experiential learning and “purposive muddling” suggested by Andrews (2013). They could develop more flexible governance policies that focus on the services that informal institutions deliver, rather than their form, or allow for the emergence of “hybrid” institutions that combine local institutions with western standards of financial management (Andrews, 2013; Booth, 2012b; Brinkerhoff & Goldsmith, 2005). Direct access, and especially Enhanced Direct Access, are the sort of “arms-length” funding arrangements that Booth & Unsworth (2014) suggested could enable innovation in “strategies and tactics.”

Such on-the-ground experimentation also has the potential to improve the feedback mechanisms that link locally-relevant knowledge to global policymaking. This feedback could include not only more nuanced information about the sociopolitical relationships that shape governance, but also the results from endogenous experimentation. Both multilateral organizations that directly fund programs, like the GCF, and organizations that partner with national governments, like the World Bank, would benefit from strengthening these mechanisms. Governing boards with equal or majority recipient country representation are well-positioned to utilize this knowledge in shaping governance policies.

*Limitations:* The most significant limit to recipient country ownership is the continued reluctance of contributor countries to cede decision-making authority to national levels. The tensions of development finance – between the recognition that not all governments behave democratically and the importance of building effective and equitable institutions in the long run – are now manifest in climate finance. Contributor countries have used authoritarianism and corruption in some recipient

countries to argue that innovative governance structures amount to “just throwing money at dictators” (Moore 2012). Despite the new political dynamics of climate finance, contributor countries provide funding under a deliberately vague mandate and retain the option to withdraw it from any particular channel, such those where experimentation occurs, or altogether (Khan et al., 2019; Weikmans & Roberts, 2018). Some funds, like the CIFs, do not enable direct access at all.

Even where recipient country institutions directly manage international resources, contributor countries retain significant oversight. Under direct access, recipient country institutions must apply for accreditation, an often-lengthy review of its fiduciary procedures and capacity (Masullo et al., 2015). Funding remains heavily skewed toward projects implemented by multilateral entities (Chaudhury, 2020; Colenbrander, Dodman, & Mitlin, 2018). Though 51% of entities accredited by the GCF are national-level, only 15% of projects to date (25 projects total) have been implemented by national institutions (“GCF Portfolio Dashboard,” 2022). Earmarking, such as that under the CIFs, further undermines country-ownership.

Finally, while the EDA is intended to be the GCF’s “signature access modality,” it has gotten off to a slow start. Many direct access entities lack the financial intermediation capabilities required to implement EDA (Colenbrander et al. 2018). As a result, the GCF’s dominant “devolved” approach remains a programmatic or financing facility approach, under which the individual sub-project’s funding decisions are taken by the accredited entity after the GCF’s approval of the project or programme. When these decisions are taken by multilateral or private sector entities, such an approach contrasts with and even undermines country-ownership, as national and sub-national decision-makers do not have the opportunity to consent to such sub-projects.

### *3. Climate finance should support mitigation and adaptation.*

The third new principle is relatively straightforward. Climate finance is motivated by narrower objectives than development finance. For mitigation, the goal is to reduce emissions. For adaptation, the goal is to foster preventative, responsive, and adaptive actions. New types of expertise are needed to design and finance projects to meet these objectives (Lundsgaarde, Dupuy, and Persson 2018). This need for new expertise has empowered new ministries and actors at the national and sub-national level, partially disrupting the traditional channels by which international public finance flows into recipient country governments.

*Development Finance Objectives and Channels:* Development finance has traditionally supported a wide range of objectives. The Millennium Development Goals, which broadly guided development finance from 1990-2015 included, among other things, the eradication of extreme poverty, achievement of universal primary education, combatting diseases such as malaria, and ensuring environmental sustainability. Contributors directed funding to meet these objectives to a range of line ministries in recipient countries, which were primarily responsible for delivery of public services (Heller 2005). Funding was primarily disbursed, however, through national treasuries and Ministries of Finance, which were responsible for aggregate financing of the national budget (Bulif & Hamann, 2008; Harmeling & Kaloga, 2011). This structure effectively limited dialogue around resource allocation to a narrow set of actors, with narrow expertise: economists in Treasuries and Ministries of Finance; policy and planning experts in line ministries; and contributors (Williamson and Dom 2010). Ministries of Finance, for example, took the lead in preparing PRSPs, with little participation by line ministries or local governments (Easterly, 2002).

*Climate Finance Objectives and Channels:* The Paris Agreement states that “developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation” (Article 9). These objectives are reflected in multilateral funds’ aims and operational guidelines. The GCF, for example, states that “the Fund will promote the paradigm shift towards low emissions and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change” (Green Climate Fund, 2013, 2). Similar objectives guide bilateral climate finance (Schalatek 2019).

Given these objectives, climate change and climate finance were initially the purview of Ministries of Environment in most countries, which were seen to have the requisite technical expertise and mandate (Lundsgaarde et al., 2018; Nakhooda and Jha 2014). As climate finance evolved, it became subject to largely separate administration than development finance (Lundsgaarde et al., 2018). In addition to requiring technical expertise, there was also significant pressure to demonstrate that climate funding constituted a new and additional commitment (Persson and Atteridge 2019). Concern

that climate finance might divert from ODA led to efforts to build separate institutions and funds (Afful-Koomson 2015).

Ministries of Environment – as well as other climate relevant line ministries such as Agriculture and Meteorology – have been empowered by these structural shifts, especially vis-à-vis Finance Ministries, traditional gatekeepers in development finance. Most directly, line ministries are increasingly accredited to receive, manage, and hold liability for international funds through direct access arrangements (Murray et al., 2015) [Table 5]. Less directly but still significantly, national focal points and national designated authorities for multilateral funds are usually located within climate-relevant ministries. These actors intermediate between recipient governments and funds, and their skills, knowledge, and contacts are needed to navigate their complex application and accreditation requirements (Jaramillo 2014). Ministries of Environment have used this access to finance and multilateral organizations to expand their own capabilities and priorities (Nakhoda and Jha 2014).

Many have also noted a broader structural shift in climate finance, whereby a proliferation of actors and intensification of interaction across governance levels is leading to a reconfiguration of agency and authority (Biermann and Pattberg 2008; Bracking and Leffel 2021). One way this manifests is in climate-relevant ministries taking the lead in new financial entities intended to capture and direct climate finance at the national level. In Rwanda, for example, the Ministry of Environment and Natural Resources manages the country's Green Fund, supported by a technical committee with representation from the Ministry of Finance (Soanes et al. 2017). In Colombia, the Ministry of Environment and Sustainable Development co-leads SISCLIMA, a national committee to coordinate climate policy and finance, with the Ministry of Planning, while the Finance Ministry plays only a “weak role” (Jaramillo 2014). Recipient countries are also increasingly establishing or rebranding ministries, such as Climate or Blue Economy, intended to capture climate finance.

Direct access and enhanced direct access programs also theoretically enable sub-national actors, such as local government, to assume greater decision-making authority (Colenbrander et al., 2018). This is particularly the case for adaptation finance, which is seen to require context-specific expertise to be effective (Khan, Robinson, and Weikmans 2019; Pelling and Garschagen 2019). There is some early evidence that sub-national entities have capitalized on these new access modalities to circumvent traditional channels. A study of two direct access Adaptation Fund projects in South Africa

found that municipalities established procedures that enabled them to avoid the National Treasury in accessing funds (Keen & Winkler, 2020).

*Emerging Spaces for Alternative Approaches:* The separate administration of climate finance and emergence of new institutional arrangements for its implementation have shifted decision-making authority within recipient country governments. These shifts are significant for the approach to informal power in two ways.

First, it expands the dialogue around resource allocation beyond the narrow set of traditional actors involved in development finance. While actors associated with these traditional channels are likely to resist changes to the status quo, new actors, housed in new and historically under-funded ministries, could prove more likely to experiment with new approaches to governance. New approaches could, for example, promote positive organizational cultures, encouraging the sort of “entrepreneurial bureaucratic behavior” that Tandler (1997) identified as key to effective public service delivery. Technical ministries – such as Climate, Environment, and Meteorology – are poised to embrace a shared sense of mission.

Second, shifts in authority to sub-national actors open the possibility of experimentation at smaller, local scales. Brinkerhoff & Johnson (2009) argued that local governments were well positioned to experiment, with potential for faster feedback loops and learning. Many have argued that devolving authority to sub-national levels also opens opportunities for broader participation, including through informal institutions (Omari-Motsumi, Barnett, and Schalatek 2019). Overall, the empowerment of new actors at national and sub-national levels makes it more likely that experimental approaches sanctioned at global levels – e.g., under the GCF or Adaptation Fund – will find traction within recipient countries.

*Limitations:* As with the first two principles, shifts in decision-making authority at the national level have been incremental and uneven to date. Because the bulk of funding continues to flow through bilateral channels and traditional development organizations, Ministries of Finance retain significant decision-making authority. Finance Ministries are, for example, primarily responsible for coordinating with the World Bank CIFs (Nakhooda and Jha 2014). Despite equal representation at global levels, these funds continue to be implemented through development banks’ traditional operating procedures

(Climate Investment Funds, 2021). Though line ministries are empowered through multilateral climate funds, few have implemented projects to date [see Table 5]. Limited information on bilateral finance makes it difficult to assess how much funding is flowing into new Ministries of Climate. As little as 10% of multilateral funding reaches local-level organizations (Soanes et al. 2017).

Further, breaking away from traditional donor-recipient frameworks is a contested process at all governance levels. Structural changes that pose a threat to the vested interests of leaders and elites are unlikely to go unchallenged (Collins, 2012; Hyden, 2008). As roles and responsibilities evolve rapidly, a mix of institutions are vying to capture and control climate finance: some newly empowered actors, like climate-relevant ministries, semi-governmental climate funds, and local government; some traditional gatekeepers of international public finance, like Finance Ministries and national development banks. Bureaucratic politics and conflicts over resources are likely to limit the transfer of authority, as shown by the struggle of some Ministries of Environment in expanding their authority (Nakhoda & Jha, 2014). After initially ceding the mandate over climate change, Finance Ministries have become more active, especially in international negotiations (Skovgaard 2017). It is also important to note that decentralization has shown to lead to diminished democratic accountability (Agrawal et al. 2012). Outcomes from shifts in authority are therefore likely to differ country by country.

## Conclusion

Governance in recipient countries remains a challenge for multilateral organizations involved in international climate finance. This article reviewed literature on the “institutionalist turn” in development finance. Beyond technical explanations, this literature points to how development organizations’ deep misunderstanding of the operation of power in recipient countries contributed to the ineffectiveness of governance reforms. In particular, these organizations inability to recognize and grapple with how informal power and institutions severely limited their ability to effect meaningful institutional change. Though development scholars and practitioners have suggested alternative approaches, these have gotten little traction to date.

Climate finance has the potential to be different. Structurally, it has innovated beyond development finance. This movement away from traditional donor-recipient frameworks has been partial and uneven. Contributor countries have not willingly conceded authority, nor have the

traditional gatekeepers of international public finance within recipient countries. Nevertheless, shifts in decision-making authority at global and national levels opens spaces for alternative approaches to emerge, some of which could take unexpected forms, and for active experimentation on the part of multilateral organizations. The shift to equal or majority representation of recipient countries on the boards of multilateral, regional, and national climate funds is particularly significant. Restitutive norms have rarely been applied at the international level.

The disruption is far from total, but it generates space to rethink how multilateral organizations and other providers of climate finance engage with informal power. These spaces offer opportunities to deploy a number of alternative approaches, such as building off endogenous institutional forms, encouraging “hybrid” or “thick” participatory institutions, and promoting “organizational culture” in climate focused ministries and agencies. Multilateral organizations can enable experimentation through iterative and “politically smart” approaches that allow in-country actors operate at arm’s length from contributors. Given the limits described, alternative approaches are most likely to emerge from spaces that link leadership forums where recipient countries are empowered at multiple levels, such as the GCF’s “enhanced direct access” program. Other promising spaces are those where decision-making authority is closest to local levels – national and regional climate funds, for example – and therefore are most likely to provide substantive institutional change.

These spaces for experimentation remain small with the overall architecture of international climate finance. Limited funding flows through the more innovative channels described here, and contributor countries continue to retain significant control and oversight. The development of alternative approaches will require contributor countries to tolerate risk-taking, imperfect governance, and institutional difference. Small spaces, however, might be the right spaces for experimentation. It is broadly agreed that the past approaches of development finance have fallen short. Even as multilateral organizations have come to recognize the nature of informal power in recipient countries, their own constraints have prevented them from changing course. Allowing for experimentation, and closely monitoring the results of alternative approaches, could yield surprising results broadly relevant across international public finance.

### **Conflict of Interest**

The author has declared no conflicts of interest for this article.

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Data sharing is not applicable to this article as no new data were created or analyzed for this study.

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### Research Resources

None

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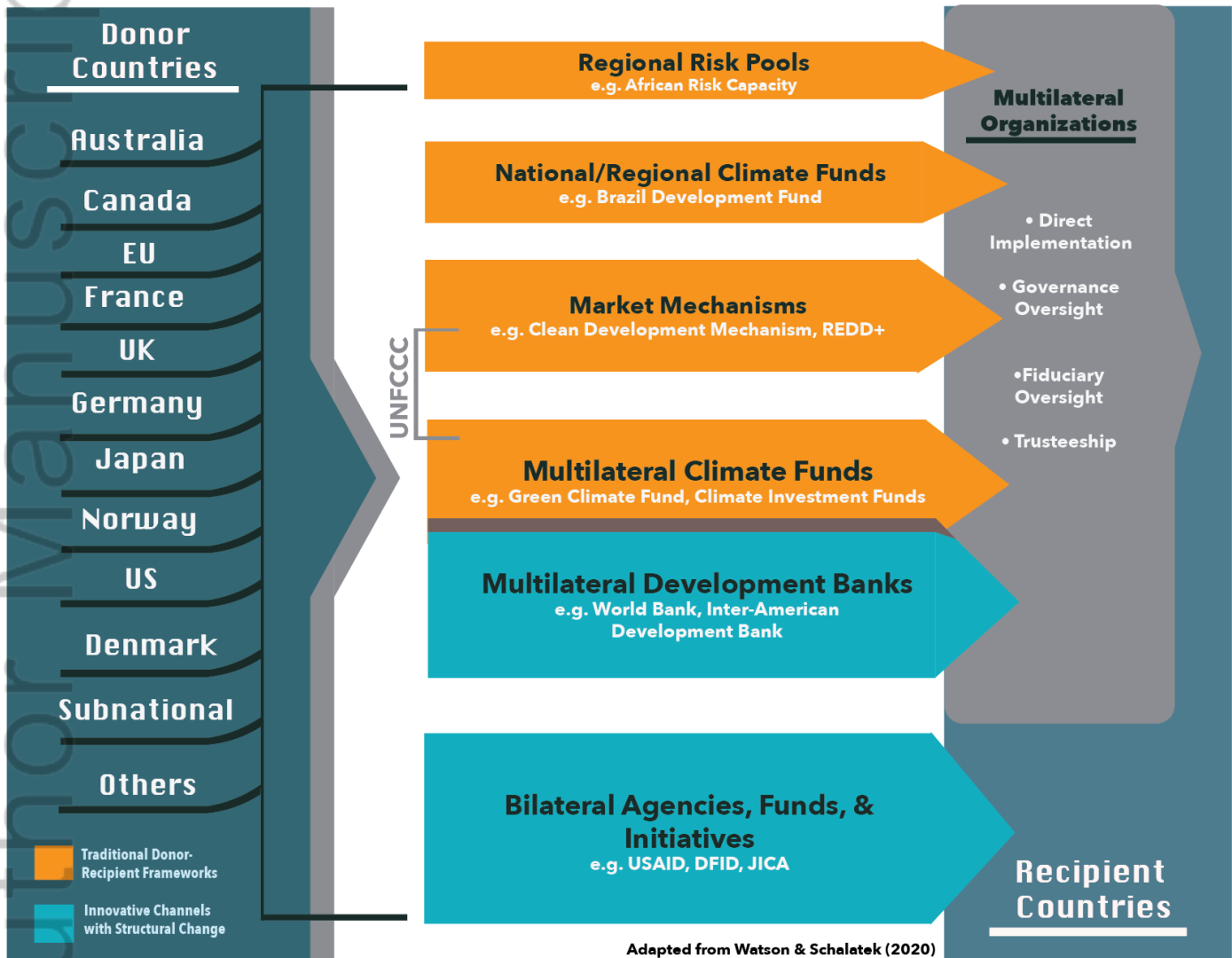
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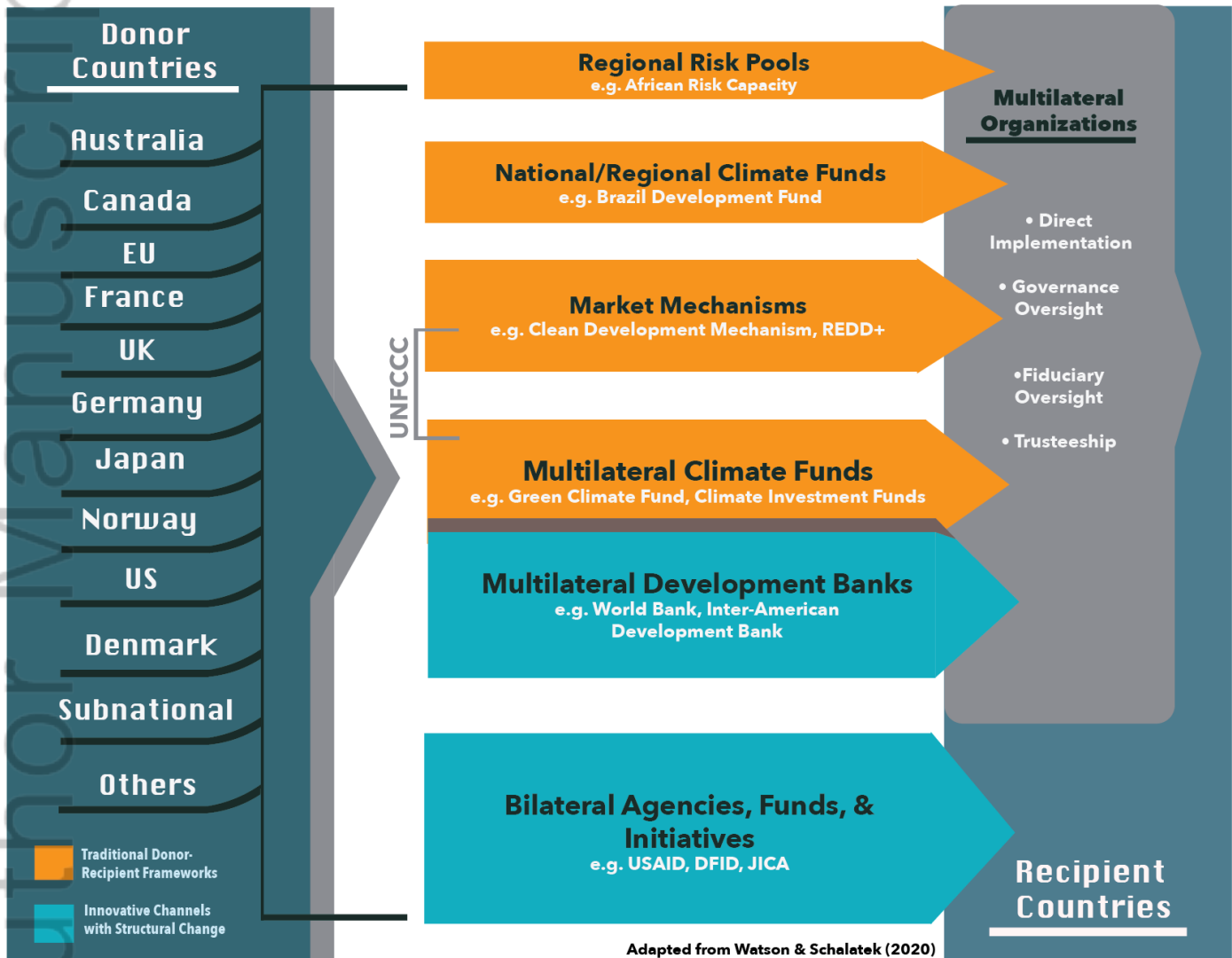


Figure 1.png