

## **THE POTENTIAL AND LIMITATIONS OF POLICY EXPERIMENTS TO SUPPORT CLIMATE FINANCE**

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Abstract:

Policy experiments (PEs) can help to create a diversified library of effective climate finance targets for the Global Climate Fund (GCF). This paper examines potential applications of PEs to support the distribution of climate finance and the limitations of PEs to support the transformations required to face climate challenges.

PEs can have broad value for climate finance. The core purpose of policy-relevant PEs is to identify effective policy and policy mechanisms and to predict broader applicability of these interventions by testing theories. In the development context, PEs have frequently examined low-tech projects, but this may be an artifact of a strategy by practitioners to prove the technique's concept by amassing a high volume of low-cost evaluations. So long as PEs do not unethically disadvantage impacted stakeholders and so long as the social costs of the PEs are small compared to value of the information they generate, they should be considered a desirable policy support. Accordingly, PEs are more likely where testable theories exist to help to generalize the results of the evaluations and thereby increase the value of the information generated. PEs are also likely to focus on treatments that can be manipulated and outcomes that are discrete in time and space. In the climate finance arena, PEs can provide valuable insights into the implementation of "bottom-up" mangrove replanting, "top-down" sea wall construction, and questionably additional projects such as opportunistically created refrigerant manufacture in China.

However, PEs do not provide insight on the relative value of testable and untestable, but potentially transformative targets. The GCF can help to shrink the untestable space by funding the development of PE-testable theories to increase the potential for cost-effective PEs. Nevertheless, a core component of the promise and the challenge of the GCF is transformative. A series of normative choices will always be needed to balance transactions and transformation to face the climate challenge.