# A faulty model?

## What the Green Climate Fund can learn from the Climate Investment Funds

June 2011

Bretton Woods project

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# Contents



## Acronyms used

| | |
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| ADB | Asian Development Bank |
| AGF | UN Secretary General's High-level Advisory Group on Climate Change Financing |
| CIFs | Climate Investment Funds |
| COP | Conference of the Parties to the UNFCCC |
| CTF | Clean Technology Fund |
| FCPF | Forest Carbon Partnership Facility |
| FIP | Forest Investment Program |
| IBRD | International Bank for Reconstruction and Development |
| IDA | International Development Association |
| IDS | Institute of Development Studies |
| IFC | International Finance Corporation |
| IFI | International financial institutions |
| GCF | Green Climate Fund |
| GFATM | Global Fund to fight Aids, Tuberculosis and Malaria |
| LDC | Least developed country |
| LIC | Low-income country |
| MDB | Multilateral development bank |
| MIC | Middle-income country |
| NGO | Non-governmental organisation |
| NIE | National Implementing Entity |
| ODA | Overseas development assistance |
| ODI | Overseas Development Institute |
| PPCR | Pilot Program for Climate Resilience |
| REDD+ | Reducing Emissions from Deforestation and Degradation |
| SCF | Strategic Climate Fund |
| SIDS | Small island developing state |
| SPCR | Strategic Program for Climate Resilience |
| SREP | Scaling Up Renewable Energy Program in Low-Income Countries |
| TSU | Technical Support Unit to the transitional committee of the Green Climate Fund |
| UN | United Nations |
| UNFCCC | United Nations Framework Convention on Climate Change |

# Executive Summary


Various civil society groups from across the world called for a new global climate fund that is representative, democratically governed, accountable, and tailored to meet the needs of the world's poorest.

At the United Nations Framework Convention on Climate Change (UNFCCC) negotiations in Cancun in December 2010, the World Bank was granted the interim trusteeship of the newly established Green Climate Fund (GCF). Recent events indicate that the Bank and other multilateral development banks (MDBs) will also have an influential role in the design of the fund. The Climate Investment Funds (CIFs), a collaborative MDB climate finance initiative housed at the Bank, are being pointed to as 'a best practice' model for the GCF.

This paper critically assesses the appropriateness of the CIFs as a model for a global climate finance fund. It takes proposals and recommendations by civil society groups as its starting point, and uses them as benchmarks to analyse the CIFs. It finds that in terms of institutional arrangements the CIFs have achieved some notable progress that acknowledges some of the critical issues raised by civil society groups. However, in operations and performance there are serious concerns. The paper focuses on six benchmark areas:

**Role of the trustee** – There is a potential conflict of interest in the multi-functional role that the Bank plays in the CIFs, where it acts as trustee, secretariat and implementing agency. Any decision that replicates this arrangement in the GCF would introduce questions over its legitimacy.

**Governance** – The CIFs have equal representation amongst developed and developing countries on the governing boards, but fall short of the representation called for by civil society groups and many developing countries, which would give recipient countries the majority of seats and allocate positions for the most vulnerable and affected communities. The civil society observer role on CIF governing committees is an important innovation, but it is not powerful enough to influence decision making, and, given the resources available and the scope of the role, may not fairly and legitimately represent many constituencies.

**Country ownership** – There are significant concerns that country ownership in CIF programmes is undermined by the MDBs acting as implementing agencies. This contravenes civil society and developing country calls for direct access to climate finance in a global fund. Furthermore, evidence from in-country operations shows that the MDBs can wield undue influence over the planning and delivery of CIF projects, at the expense of real country-driven policies and planning.

**Participation** – The participation of affected communities and civil society groups is vital in building responsive and accountable climate finance projects and programmes, which is recognised in CIF design documents and implementation guidelines. However, evidence suggests

that to a large extent affected communities and local civil society have played a very limited role in the design, delivery and monitoring of CIF programmes.

**Financing modalities** – There is a need to address the current imbalance favouring mitigation funding over adaptation funding. CIF projects overwhelmingly favour mitigation efforts, and contrary to the polluter pays principle, adaptation funding under the CIFs overwhelmingly consists of loans rather than grants. There are also serious doubts over MDBs' ability to leverage large amounts of private finance, and a lack of transparency and effective measurement to be able to gauge the extent of additional investment leveraged.

**Reaching the most vulnerable** – Climate finance allocation disproportionately favours middle-income countries, who also receive the majority of CIF financing. The CIFs have developmental aims codified in their objectives, however, recent evidence suggests that, in practice, the potential developmental impact of CIF projects, as well as their effect on gender issues, is not being realised.

Any affirmation of the CIFs as a model for the GCF should be regarded with scepticism. It is vital that the transitional committee of the GCF take into account the concerns and critiques reiterated in this paper when considering lessons to be learned from the CIFs, and that the GCF is designed to ensure these problems are not replicated.

# Introduction

Civil society groups from across the world have advocated for a new global climate fund that is representative and democratically governed, effective and accountable, and tailored to meet the needs of the world's poorest. These calls for a new fund are drawn from critiques of the current configuration of climate finance, and contain detailed proposals for what such an institution should look like.[1] The effects of climate change are already adversely impacting the lives of the world's poorest people, and the current financial system is failing to address their needs. As international NGO Oxfam notes, "to date, the climate finance landscape has been characterised by a disparate jumble of sources, channels, institutions, and governance arrangements, and a history of unfulfilled promises and demands".[2]

At the United Nations Framework Convention on Climate Change (UNFCCC) in Cancún in December 2010, the World Bank was granted the interim trusteeship of the newly established Green Climate Fund (GCF).[3] Much discourse around the GCF is decidedly positive, with many hoping it will be a vehicle for rationalised, adequate and effective global climate finance.[4] However, many observers, both official and civil society, are more cautious, and there remain many details and issues to be resolved as the GCF is designed this year.[5] One principal concern is how lessons learned from existing climate finance mechanisms will be integrated.

The World Bank-housed Climate Investment Funds (CIFs) are a high profile funding initiative that has attracted much donor support, as well as widespread criticism, and are seen by many as providing essential lessons for the construction of a future climate finance architecture. This paper takes civil society proposals for a global climate fund as benchmarks and then uses them to analyse the CIFs. In doing so it seeks to effectively understand whether the CIFs are the appropriate model for the GCF. This task has become more important as the Bank's role in the GCF seems set to expand.

First, this paper will look at why it is important to analyse the CIFs in the context of the GCF design process. Then civil society proposals are categorised into six benchmark areas: role of the trustee, governance, country ownership, participation, financing modalities, and reaching the most vulnerable, and used to analyse the institutional arrangements, operational modalities, and performance of the CIFs.

# Background – The CIFs as a model for the GCF?

The Cancún statement mandating an interim trustee role for the World Bank maintains that the Bank will act in accordance with the relevant decisions of the GCF board. It also states that the trustee role is on an interim basis, subject to review after a three-year period. While this position has yet to be properly defined and agreed, the Bank has already secured a role in the GCF's design. A transitional committee has been set up to oversee its design, comprised of members from developed and developing country governments. The Cancun agreement also stipulates that the UNFCCC will make arrangements for staff to be seconded from multilateral development banks and UN agencies. In the meantime, a Technical Support Unit (TSU) has been established to advise and support the committee members in their design discussions. While the composition of the TSU has so far not been made public, it is clear that seconded staff from the Bank and multilateral development banks (MDBs) are likely to be in the majority. One of the first confirmed members of the TSU was a prominent Bank staff member.[6] As Liane Schalatek of the Heinrich Boll Foundation noted, this Bank expert "was previously involved in setting up and managing the Bank's own Climate Investment Funds and [is] certainly ready to

**Box 1**

**The Climate Investment Funds**

The Climate Investment Funds consist of the Clean Technology Fund (CTF), and the Strategic Climate Fund (SCF), which aim to support developing countries' move toward climate resilient-development that minimises the output of greenhouse gases. The CIFs are administered by an independent secretariat housed at the World Bank. The Bank also acts as trustee for the CIFs. As of May 2011, developed country donors have pledged $6.4 billion to the funds, of which $322 million has been disbursed.

The funds are channelled via partnerships with five implementing agencies. The World Bank Group is one of these, and the CIFs work through the Bank's arms: the International Bank for Reconstruction and Development (IBRD, for middle-income countries), the International Development Association (IDA, for low-income countries), and the International Finance Corporation (IFC, for the private sector). The other partners are the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank. CIF projects often integrate into and are co-financed by existing MDB in-country programmes.

The **CTF** aims to finance the scaled-up demonstration, deployment, and transfer of clean technologies. It hopes to do so by using minimum levels of concessional financing to catalyse investment opportunities that will reduce emissions in the long term. The CTF focuses on financing projects in middle-income and fast-growing developing countries.

The **SCF** comprises three lines of programming: the Forest Investment Program (FIP); the Pilot Program for Climate Resilience (PPCR); and Scaling Up Renewable Energy Program in Low-Income Countries (SREP). The **FIP** is a financing instrument aimed at assisting countries to reach their goals under Reducing Emissions from Deforestation and Degradation (REDD+). It aspires to provide scaled up financing to developing countries to initiate reforms identified in national REDD+ strategies, which detail the policies, activities and other strategic options for achieving REDD+ objectives. It anticipates additional benefits in areas such as biodiversity conservation and protection of the rights of indigenous people.

The **PPCR** aspires to demonstrate how climate risk and resilience can be integrated into core development planning and implementation. PPCR funding includes two types of investment: technical assistance and finance. The technical assistance is to allow developing countries to integrate climate resilience into national and sectoral development plans, resulting in a Strategic Program for Climate Resilience (SPCR). Then financing of up to $60 million in grants and up to $50 million in loans can be provided for implementation of this plan.

**SREP** is still at an early stage of development, having only been approved in May 2009 and launched at the Copenhagen climate summit in December 2009. It aims to catalyse scaled up investment in renewable energy markets in low-income countries by enabling government support for market creation and private sector implementation.

suggest that the CIFs would be a good 'best practice' model for funding windows under the GCF."[7]

In Cancún the Bank held a high profile event promoting the CIFs as "a new model for transparency, cooperation, and scaling-up climate action."[8] At a subsequent event in the UK parliament, comments by Bank president Robert Zoellick suggested the Bank was eager to apply knowledge from the CIFs to the new fund. In the UK Department for International Development's review of multilateral aid, the CIFs were described as meeting "a critical gap in delivering climate change outcomes, delivering finance at scale, informing future climate change architecture."[9]

These events are indicative of a growing advocacy by the Bank and its governmental supporters that, in the context of the GCF design process, the CIFs can serve as a model for international climate finance. This is part of a larger argument, advocated by some, that affirms the effectiveness and desirability of MDBs as implementing agencies, managers and sources of climate finance. The Bank has increasingly positioned itself as an important player in climate finance through its capacity to administer and disburse finance via its country programmes, and its ability to leverage large amounts of private finance.

In 2010 the UN Secretary Generals High-level Advisory Group on Climate Change Financing (AGF) produced a report on how the level of finance promised at UNFCCC negotiations could be delivered and sourced. It praised the MDB's ability to leverage private finance, and concluded that "the multilateral development banks, in close collaboration with the United Nations system, can play a multiplier role, leveraging significant additional green investment in a way that integrates climate action into overall development programmes. Their capacity to do so should be strengthened through additional resources in the course of the next decade."[10] The AGF working paper on MDBs and climate change states that "the CIFs have been a key innovation in enabling concessional finance to be combined at a large scale with MDB financing in support of transformational climate change investments."[11]

However, as work by the Bretton Woods Project and other groups has shown, there are numerous issues and concerns around the operations of the CIFs. These include, but are not limited to: the accountability of the implementing MDBs; transparency over project materials and investment plans; participation of affected communities in project design; lack of country ownership; a majority of funding directed towards middle- and lower-middle-income countries; the criteria used to select recipient countries; the use of financial intermediaries in private-sector projects; the fact that financing is heavily loan-based; questions over developmental outcomes; and an inadequate approach to gender issues.[12]

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# 1. Role of the trustee

In anticipation of the GCF transitional committee beginning the process of drawing up the details of the fund, 82 civil society organisations and networks from across the world produced a briefing outlining recommendations for the fund's design. It advocates a strictly curtailed role for the trustee, limited "to holding the financial assets of the Green Climate Fund, maintaining appropriate financial records, and preparing financial statements and other reports required by the Board of the Green Climate Fund".[13] In this limited role the trustee holds the money for donors and disburses it as instructed by the fund's board. The trustee has no relationship with fund recipients and it does not apply any of its own policies. The World Bank currently follows this model in its role as trustee for the Global Fund to fight Aids, Tuberculosis and Malaria (GFATM).

## A controversial model of trusteeship

At the CIFs, the International Bank for Reconstruction and Development (IBRD), the Bank's middle-income country lending arm, acts as trustee.[14] At the same time the CIF administrative unit (the CIFs secretariat) is housed at the Bank.[15] Furthermore, alongside four other MDBs, the Bank also acts as implementing agency for various CIF programmes (see Box 1).

This model of trusteeship has proved controversial in other Bank-managed facilities, and leaves the Bank open to accusations of a conflict of interest. For example, a 2008 statement by a group of civil society organisations on the then-proposed Forest Carbon Partnership Facility (FCPF) noted that as the Bank acts as trustee and implementer of the facility, it is exposed to "significant risks of conflict of interest".[16]

In a June 2010 briefing the Legal Response Initiative, which provides free legal support to low-income countries and NGOs in relation to the UNFCCC negotiations, discussed the potential for the Bank to act as trustee for a future global climate fund. It stated that a 'financial intermediary fund' – whereby the Bank has the flexibility to administer funding according to the needs of the donor community and provide varying levels of administrative

Potential conflicts of interest risks may arise when the World Bank has the authority to make or influence allocation decisions in its own favour

**Legal Response Initiative (2010)**
*Copenhagen Green Climate Fund and the World Bank*

and operational support – is the most probable model for a Bank trusteeship for a global climate fund, and is also the model used for the CIFs. It warned that although this model offers advantages, "potential conflicts of interest risks may arise when the World Bank has the authority to make or influence allocation decisions in its own favour".[17] At the Bank's annual meetings in Istanbul in 2009 the Bank itself acknowledged that one of the lessons learned from the CIFs has been that legitimacy is questioned when one institution is setting standards for accessing climate finance and simultaneously distributing such funding,[18] and that it would be more effective to have decisions about strategy and eligibility for funding housed in a separate body.[19]

This debate came to a head at the first meeting of the transitional committee in late April 2011, when members from some developing countries, including Nicaragua, the Philippines and India, called for a severely constrained role for the Bank in the new fund. They argued that, considering the Bank's role as trustee, any part it plays in the design process amounts to a violation of international fiduciary standards. Nicaragua pointed to the famous 2010 US court ruling on Enron that precludes the combination of consultancy and fiduciary functions. The Philippines also argued that, as the Bank-housed CIFs have a sunset clause executable once a new climate finance architecture is effective under the UNFCCC, then the involvement of CIF staff in the GCF design process also amounts to a conflict of interest.[20]

# 2. Governance

The governance of global climate finance initiatives has been a key concern of civil society groups, who argue that existing climate finance institutions have replicated the donor-recipient dynamics of the aid system. Understandably, a central tenant of civil society and developing country proposals has been the importance of equitable representation on high level governing boards. To ensure a genuine transformation of climate finance into a system which directly benefits the poorest and most vulnerable groups, equitable representation must mean that civil society organisations from both the developed and developing world and representatives from climate-affected communities should be granted some level of board member status.[21] At the same time recipient countries and civil society groups have argued that equitable means that, in order to reflect the composition of the UNFCCC, developing countries have a majority of seats on the board.[22] Seats should also be specifically reserved for countries most vulnerable to climate change. This system is already established at the UNFCCC Adaptation Fund.

Developing countries have weak representation in the decision-making processes of most funds, which give undue weight and influence to donors and institutions such as the World Bank (where developed countries are major shareholders). The proliferation of (vertical) funds focused on discrete objectives has also undermined the priorities of recipient governments.

**Oxfam, 2011**
*Righting two wrongs: Making a new global climate fund work for poor people*

## Board representation at the CIFs

In terms of developing country representation on boards, the CIFs have achieved some notable progress. On each of the trust fund committees governing the CTF and the SCF, as well as on the sub-committees of the three SCF programmes, there is equal representation between donor and recipient countries . Each of the trust fund committees also has active observers from the UNFCCC and the Global Environmental Facility, two representatives from the private sector (one each from donor and recipient countries), and four representatives from civil society (one each from Africa, Latin America and Asia, plus one from a developed country). The SCF trust fund committee also has representatives from indigenous peoples organisations, and each of its programme sub-committees has a similar board composition. The 'active' component of observer status means the representatives can request the floor to make interventions, recommend experts and put forward agenda items . Observers are chosen through a 'self-selection' process, with each observer expected to be responsible and accountable to other stakeholders in their constituency.

This model is an improvement over current governance structures at international financial institutions (IFIs), representing a step towards greater country ownership, and alleviating some concerns over donor-dominated dynamics and lack of civil society input. However, this

**Box 2**

**The observer role at the CIFs**

A current civil society observer on how the role could be improved:

"Observer outreach to their respective constituencies is a serious challenge. Observers are expected to represent the views of their constituency in contributing to CIF policy/project development and implementation. They are also expected to relay these issues back to their constituencies. Without a clear picture of what that constituency is and who are its members, there is a danger that representation is falsely conveyed. Further, constituency outreach is generally under-resourced. Observers must rely on their own capacities and resources to support their CIF functions. This time and financial commitment is usually additional to the normal professional commitments of individuals selected to observer positions. Developing a well-organised network and communications platform to facilitate shared-learning, information exchange, advocacy and CIF monitoring activities could be a useful improvement to current practices. It could overall promote more meaningful and effective observer participation in the CIFs."[26]

board seat allocation does not reflect the composition of the UNFCCC, and does not reserve positions for the most vulnerable.

Furthermore, there have been concerns over the effectiveness of the observer role on CIF committees. As Anju Sharma from the Oxford Institute of Energy Studies has pointed out: "Although NGOs have the right to make interventions during the meetings at the discretion of the chair, they have no way of ensuring that their concerns are adequately taken on board … This model clearly fails to harness the strengths of civil society, to ensure more effective national and local implementation and protect the rights of the most vulnerable."[25]

Sharma further highlights the difficulty the CIFs model has in offering genuinely legitimate representatives from the constituencies of the most vulnerable. As Sharma points out, the CIF model has a: "globally centralised, top-down structure for civil society participation in Council/Committee meetings, designed to reflect the top-down decision-making structure of [its] own architecture. The term civil society is left largely undefined, papering over differences between its global, national and local constituents, and their varied interests and perspectives. Terms such as 'self-selection' may give the impression of a highly democratic process. However, ensuring fair and legitimate representation is an extremely difficult – some might even say impossible – task to achieve in this global-to-local manner."[27]

There are examples of a more meaningful and participatory form of civil society engagement in global fund board decision making. For example, the GFATM includes civil society members with voting rights.

# 3. Country ownership

Effective climate finance must promote country ownership, as the Heinrich Boll Foundation has noted: "In order to guarantee that the disbursement of funding for climate change action meets actual spending needs in the developing world, funding priorities should not be imposed upon a country or a community from the outside. Rather, funding decisions – in keeping with the concept of subsidiarity as expressed in both the Paris Declaration on Aid Effectiveness and the Rio Declaration on Environment and Development Principle 10 – should be made at the lowest possible and appropriate level."[28]

Direct access is already operational under the UNFCCC Adaptation Fund and the GFATM. There have undoubtedly been challenges, especially around the accreditation and capacity of national implementing entities (NIEs). The terms of reference for the design of the GCF stipulate that "direct access" should be included when considering funding windows and access modalities. This inclusion indicates the potential for the GCF to use in-country entities such as national and local governments, representative civil society bodies, indigenous peoples groups and other entities, and is in tune with civil society recommendations for the funds' design.[29]

## Country ownership? Or traditional donor-recipient dynamics?

Direct access to climate finance would be through a national implementing agency or implementing entity of the recipient country's choosing, thus increasing country oversight, ownership and involvement.[30]

However, at the CIFs the MDBs act as implementing agencies of investment programmes and projects. In some respects the CIFs have made progress in providing for country ownership through governance structures, and the fact that investment plans are drawn up in conjunction with national agencies and governmental departments.[31] However, commentators have consistently observed that the CIFs still display the symptoms of a top-down, donor-driven approach to climate finance, in which the World Bank, an institution in which developed countries dominate decision making, voting shares and board representation, wields disproportionate influence. As the Third World Network has observed: "the design of the CIFs remain premised on an aid framework for climate change financing which places the parties to the financing in a donor-donee relationship contrary to international climate change principles and obligations. Climate change financing premised on such a relationship means that the strategic priorities of financing are determined by the donors ... rather than the potential recipients and will continue to be so."[32]

The CIFs were conceived in a dialogue largely between MDBs and G8 countries. The design process faced criticism for being largely conducted by the MDBs and donor countries, with limited consultation with civil society and developing countries, and serious time constraints.[33] The CIFs are also housed at the Bank as trust funds, which as the Bank states, are "financial and administrative arrangements with an external donor that leads to grant funding of high-priority development needs".[34] There is significant concern that funding is disbursed according to the priorities of the donor parties, as expressed in their written agreements with the trustee. Civil society groups have warned that this means that donors retain a lot of influence on how the funds are allocated and for what purpose.[35]

So far the in-country operations of the CIFs have also led to complaints that the role of the MDBs as implementing agencies has had a negative impact on country ownership. Central to the findings of a 2010 study commissioned by the CIF administrative unit is the tension between rolling out CIF programmes quickly, often using existing MDB capacities and systems, and developing maximum country ownership.[36] The Institute of Development Studies (IDS), a UK development research body that has recently conducted a study of the PPCR, notes that "in many cases ... a lack of country level capacity has meant that the national government appoints the MDB as de facto leader of the process".[37]

A January 2011 Oxfam study looking at the PPCR program in Tajikistan confirms this, finding that because of limited national capacity, and the lack of a concentrated

> Direct access is key to ensuring country-ownership and should increase the accessibility of funding to developing countries.
>
> **ActionAid et al. (2011)**
> *Civil society recommendations for the design of the UNFCCC's Green Climate Fund*

PPCR programme to improve this, MDBs actively lead the process: "Government commentators expressed concern that the number of Tajik experts involved in the development of PPCR/SPCR was very limited, whilst significant funds were allocated to cover the costs and fees of visiting international experts".[38] The 2010 CIF study highlights that a consistent complaint from in-country governments was that a lack of assistance in capacity building in CIF projects meant that there was much room for improvement in country ownership.[39]

There has also been concern that the CIFs' focus on integrating programmes into existing MDB operations negates country ownership. A clear example of this is highlighted in the IDS study of Mozambique's PPCR, where pilot programmes were concentrated in areas with existing MDB projects, though these sites were not included in Mozambique's National Adaptation Programme for Action (NAPA). As the study finds, "it was hard to see any evidence of 'country ownership' in this selection".[40] These cases confirm IDS' conclusion that "at the country level the emphasis on the MDBs as implementing institutions clearly shapes the direction of PPCR delivery".[41]

# 4. Participation

It is now widely accepted that the participation of affected communities and local civil society groups in development programmes increases the effectiveness and probity of expenditure through more direct accountability. The collaborative civil society briefing *Civil Society Recommendations for the Design of the UNFCCC's Green Climate Fund* (see section one) asks that the operational guidelines of the GCF include: "Full participation of civil society and other stakeholders, including local communities and marginalised populations … in the development of national adaptation and mitigation strategies and planning processes; full participation of those same stakeholders in the implementation process; complete reporting on that participation and on the extent to which the views of these stakeholders were reflected or not in strategies and implementation; and a robust monitoring and evaluation process of the implementation of climate finance that includes full participation of stakeholders."[42]

## Participation at the CIFs

At the CIFs there has been some progress in involving affected communities and local stakeholders in-country. The operational guidelines of the different CIFs reveal that there is an emphasis on engagement with local stakeholders, including civil society groups, affected communities, local government and the private sector. For example, the PPCR programming document emphasises that: "The PPCR will promote a participatory approach [and] … will involve a broad range of stakeholders from cross-sectoral government departments, non-government actors, including civil society groups and highly affected communities, and the private sector."[43]

To a lesser extent, both the CTF and SREP have guidelines stipulating that investment plans and other in-country processes must engage local stakeholders in design. The Forest Investment Program (FIP) has received positive feedback for the range of provisions it includes for participatory and consultative processes.[44] The FIP includes guidelines on how participation with indigenous peoples and affected communities should take place, stressing the recognition of local decision making processes and concerns, and is also establishing a dedicated grant mechanism aimed at providing financial and technical support to facilitate the active participation of affected communities in FIP investment strategy planning.

However, to a large extent these provisions remain

Public participation in the administration of and decision-making on climate funding, where it is even envisioned, is still insufficient in most public climate finance instruments.

**Heinrich Boll Foundation (2011)**
*A matter of principle(s)- A normative framework for a global compact on public climate finance*

**Box 3**

**Participation and the PPCR in Mozambique**

A recent study by the IDS of the PPCR project in Mozambique revealed that "interviewees stated that CSOs rarely have access to processes controlled by the government and MDBs, and the PPCR process was seen as just another illustrative example of this tendency". The authors noted that the "PPCR guidance emphasises 'broad participation', but it generally focuses on the role of such participation in promoting consent and buy-in to a predefined programme, rather than on its potential contribution to shaping the programme itself". Local sources of knowledge and community level initiatives are often ignored. In Mozambique local communities who had been developing innovative strategies to protect and restore mangrove forests were not consulted in the mangrove forest restoration project under the PPCR.

The authors concluded that: "Ultimately, by driving a process that allows decisions on major climate resilience investments (including tens of millions of dollars in loans that the people of Mozambique will be expected to repay) to be taken without broad civil society engagement or even public awareness, the MDBs undermine the PPCR's claim that it is 'designed to catalyse a transformational shift' in climate change policy and adaptation practice, and increase the risk that it will in fact end up reinforcing rather than transforming 'business as usual'".[50]

guidelines for how implementing agencies and partnering governments should ensure participation. They do not formally recognise or guarantee a place for affected communities within the local and national decision making structures of CIF projects, nor in the implementation or monitoring processes. Participatory processes have remained ad-hoc and many have been marked by complaints of a limited depth of engagement.[45]

There is significant concern that given the pressure to compile plans with haste in order to begin implementation, the guidelines for participation offered by the CIFs are not effective enough to ensure meaningful and widespread participation.[46] For example, a review of CTF operations by the US think-tank the World Resources Institute, found that in Thailand's investment plan there was "limited discussion of the role that civil society may play in program implementation or oversight", with similar verdicts for investment plans from the Ukraine, South Africa, Morocco, the Philippines, Vietnam and Indonesia.[47] A recent environmental, social and gender assessment commissioned by the CIF administrative unit found that "public consultation and civil society representation in the design and implementation of clean technology projects is also important for maximising the development co-benefits although there is little reference to this in the CTF investment plans. The Kazakhstan Plan is the only one that states that a consultation process took place during the design of the CTF investment plan."[48]

Instead, participatory processes fall within the existing dynamics of MDB engagement (see Box 3). A recent report by IDS on the political economy of the PPCR finds that the "approach to stakeholder ownership at the country-level means [civil society organisations] have little access to decision-making processes and vulnerable groups are rendered objects rather than citizens in a change process".[49]

# 5. Financing Modalities

## 5a The volume and terms of adaptation finance

Civil society and developing countries have repeatedly underlined the serious imbalances in climate financing, with estimates that, as of April 2011, 84.4 per cent of total approved funding in major climate funds has been allocated to mitigation, and only 13.2 per cent to adaptation.[51] As Oxfam has noted, this means that "vulnerable developing countries are wronged by climate change impacts and by an inadequate response from those countries most responsible".[52] The GCF should, according to its terms of reference, "achiev[e] a balanced allocation between adaptation and mitigation". The recent civil society briefing, *Civil Society Recommendations for the Design of the UNFCCC's Green Climate Fund*, asked "that at least 50% of GCF funding is dedicated to [an] adaptation window".[53]

There is now a long-established view amongst developing countries and civil society groups that adaptation funding should fall under the polluter-pays principle, which recognises that financing for adaptation is not donated to developing countries as 'aid', but is owed as compensation from high-emissions countries to those most vulnerable to climate impacts.[54] Correspondingly it should be delivered as grants, not as loans or through other financial instruments.

The PPCR is one of the SCF's programmes, and is dedicated towards mainstreaming adaptation into development. The balance between total donor pledges to the PPCR compared to the CIFs as a whole mirrors current global imbalances in adaptation finance. Of a total $6.24 billion pledged to the CIFs, only $970 million is pledged to the PPCR. This is only 16 per cent of total CIF pledges.[55]

> While the World Bank states that loans are 'optional', in reality many countries will likely have no other choice but to take on loans just to access desperately needed adaptation funding.
>
> **ActionAid USA (2009)**
> *Equitable adaptation finance: the case for an enhanced funding mechanism under the UN Framework Convention on Climate Change*

**Box 4**

**Protest in PPCR countries over loans**

The use of loans in the PPCR has caused outcry amongst civil society organisations in recipient countries. In February 2011 in Bangladesh civil society organisations formed a human chain in Dhaka protesting the fact that financing for the PPCR programme is heavily loan-based. Prodip Kumar Roy, of NGO Campaign for Rural Sustainable Livelihoods, said that the loans are "imprudent and premature as the multilateral climate financing process of UNFCCC is going to take shape by 2012".[57] In Nepal, 11 civil society groups released a statement demanding that the government only accept the grant component of its PPCR package. The statement echoes that of Bangladesh, saying that "we oppose the World Bank on pledging of loans for adaptation and resilience to the nations that need immediate financial support to adapt to the adverse effects of climate change … This is intended to devalue and defame the ongoing climate funding process under the UNFCCC mechanism."[58]

Furthermore, funding for PPCR investment programmes, called Strategic Programmes for Climate Resilience (SPCRs), is heavily loan based and not compensatory. For example, the SPCR for Bangladesh consists of a $50 million grant and a $60 million concessional loan from the PPCR. However, the SPCR is co-financed by IDA and the Asian Development Bank (ADB), with SPCR projects integrated into already existing programmes in the country run by these institutions. This co-financing consists of a $300 million loan from IDA and a $215 million loan from the ADB, meaning that only around 8 per cent of total programme financing is offered as grants.[56]

The CIFs argue that these concessionary loans are optional and that countries are under no obligation to accept them. However, with a deficit of adaptation finance, and the urgent need for scaled-up adaptation in vulnerable countries, many countries will have no other choice but to accept this funding.[59] The polluter pays principle, widely considered to be vital in ensuring that developing countries attain a just and equitable source of much needed adaptation finance, is not recognised under the PPCR. NGO network Jubilee USA has stated that, "instead of the polluter pays principle, in the PPCR the polluter gets paid."[60]

## 5b Leveraging private finance

There is an expectation amongst some parties that a significant proportion of GCF funding will be aimed at leveraging private finance. The AGF report on climate finance argued that, in order to reach the goal of $100 billion per year by 2020, private capital will need to play an important role. Some AGF members emphasised "that private financing would be the primary source, inter alia, because of the important role that private investments already play in climate-relevant sectors in scaling up technology deployment and catalysing entrepreneurship, and because of its predictability and scalability."[61] As prevalent as this view has become, it is not without controversy, with many civil society groups and developing countries against a central role for private capital in future climate financing.[62]

However, it seems likely that the GCF will be designed in some way to harness the potential of using donor public finance to mobilise private sector capital. The AGF report, and many developed countries and MDBs, have stressed the benefits of using public finance to 'crowd in' private capital by compensating private investors for what would otherwise be lower than their required risk-adjusted rates of return. As UK think-tank the Overseas Development Institute (ODI) observes: "A number of these tools are now being used or developed to support private sector investment in low carbon projects. The Multilateral Development Banks (MDBs), including the International Finance Corporation (IFC), are the most significant players in this field."[63]

The ODI also accepts that: "Increased transparency in the use of international public finance would elucidate the current and potential role of public finance in leveraging private finance, and would increase understanding of the effectiveness and success rates of such efforts. Metrics to measure leverage and to count the impact of public sector finance in leveraging private capital need to be developed and agreed".[64]

As pointed out by the ODI, there are insufficient transparency and measuring tools available to adequately evaluate whether public finance is actually creating new and additional private investment in climate-related projects, above and beyond whatever investment may have taken place if public finance had not been deployed. This concern is consistent with developing country and civil society demands that climate finance be additional, new and predictable, and have a genuinely transformative impact. Similarly, methods to assess whether the leveraged private finance delivers the adaptation and mitigation benefits needed are still underdeveloped.

The CIFs are generally held up as a model for effective leveraging of private investment. At the Bank's annual meetings in 2010, Bank president Robert Zoellick declared that the CIFs have been able to leverage $10 dollars for every dollar of donor money, and claimed that 30 per cent of the leveraged $50-60 billion was from private capital.[65] However, this figure has been cast in doubt by the very problems of transparency and measurement identified by the ODI. For example, at the November 2010 CTF trust fund committee meeting, considerable concern focussed on the inability of the committee to effectively monitor and review the implementation of project proposals from the MDBs, with particular reference to the ability to assess whether the CTF principles and criteria for transformative investments are being met.[66]

Smita Nakhooda of the WRI, a civil society observer to the CTF, has noted that transparency has been an ongoing issue in CTF projects, with large levels of inconsistency in details of modalities, terms of engagement with the private sector, and terms of financing. As of

**Box 5**

**The CTF in Turkey**

Finance for a CTF project in Turkey is disbursed to two national banks with the aim of increasing lending to localised clean energy projects. Christine Eberlein of Swiss NGO the Berne Declaration, who has been monitoring the project, states that "although the Turkish CTF project is underway and funding totals $600 million, the privacy policy of the Turkish banks, which the World Bank obeys, does not allow any information on the funds to be released to the public. The information on the Bank's homepage is similarly scarce. The non-disclosure policy of the financial intermediaries and the Bank is not acceptable and is in contrast to the recent announcement by the Bank to increase transparency and also the aim of the Turkish CTF to improve stakeholder engagement".

Civil society groups have been informed that the majority of finance is being used to build small hydropower projects, which has already called into question the additionality of this investment. As Eberlein observes, "financing mostly hydropower projects is very questionable as raising private money for small hydro is much easier than raising money for renewable energies like solar and wind power or energy efficiency projects. It also does not contribute to the CTF's objective of transformational change, as the Turkish government is in the process of building over 1,000 small dams anyway."

yet the lack of transparency has had "the effect of undermining the CIF's stated objective of helping the international community learn about how to finance clean technology."[67]

So far nine of the 15 CTF projects have been lead by the IFC, with the aim of financing and offering technical assistance to local financial institutions, and other financial intermediaries, to leverage local sustainable energy investment. The use of financial intermediaries in development finance has become a serious cause of concern for many in civil society groups. They have highlighted how this type of investment often leads to a lack of transparency, inadequate attention to social and environmental concerns, and significant difficulties with linking directly to proven developmental impacts.[68]

Civil society groups have warned of the lack of developmental benefits in CIF financing to the private sector, and through financial intermediaries. European NGO Eurodad notes that "channelling public funds through profit making entities may not always support the most vulnerable and address the needs of the poor … civil society groups are concerned that these market-based solutions are likely to be driven solely by commercial interests".[69] Their paper, *Storm on the horizon? Why the World Bank Climate Investment Funds could do more harm than good*, describes how investment in the private sector and through financial intermediaries poses a number of risks. It concludes that "at the very least, in order to ensure that private sector finance contributes to positive climate and development outcomes, high standards of responsible financing and developmental effectiveness must be ensured. However, nowhere in the CIF's guidelines are such provisions made."[70]

# 6. Reaching the most vulnerable

## 6a Allocation

There is growing acceptance amongst the climate community, among both officials and civil society groups, that climate finance must reach the most vulnerable, and be directed equitably. As Liane Schalatek of the Heinrich Boll Foundation points out in the report *A matter of principle (s) – a normative framework for a global compact on public climate finance*: "Access to and the benefits of climate financing should be distributed equitably, thus corresponding to the differing needs and capabilities of countries and regions to deal with the challenges of climate changes as well as the social and economic realities of recipient countries and the people living in these countries … special funding provisions for public climate finance should be made for LDCs and SIDS".[71]

On the apportionment of finance between countries, the CIFs are making very little progress towards moving away from global imbalances in finance allocation. Of a total $6.24 billion pledged to the CIFs as of April 2011, $4.4 billion has been pledged to the CTF, whose mandate is to finance clean technology in middle-income countries.[72] Furthermore, at present, SREP selection criteria do not prevent applications from lower middle-income countries, as evidenced in the selection of one lower middle-income country for pilot programmes (Honduras), and two for alternate pilots (Armenia and Mongolia).[73] Furthermore, at present, SREP selection criteria do not prevent applications from lower middle-income countries (MICs), as evidenced in the selection of one lower-MIC for pilot programmes (Honduras), and two for alternate pilots (Armenia and Mongolia).[74] These classifications are made according to the Development Assistance Committee's List of ODA Recipients, which the SREP sub-committee requested to use as criteria for selection. However, according to the Bank's own classifications, the Maldives, which was selected as a pilot programme, and Yemen, selected as an alternate, are also classified as lower-middle income countries.[75]

## 6b Development impact

The recent set of civil society recommendations for the GCF argues that in-country projects should take account of developmental, social and gender impacts, and project planning should integrate pro-poor approaches into its processes to ensure benefits for the most vulnerable. Further, it states that operational guidelines must include "clear policies and procedures that prevent social and environmental harm and maximise public benefit".[78]

Part of the driving rationale behind the CIFs is to mainstream climate concerns into development and poverty-reduction programmes under the MDBs. This means that the CIFs have developmental aims codified in their objectives and purposes. For example, the SREP objectives state that "SREP should also lead to economic, social and environmental co-benefits".[79] One of the core principles of the CTF is that "climate change mitigation and adaptation considerations need to be integrated into the sustainable development process as addressing these issues contributes to the basic human needs of the poorest who are disproportionately impacted by the negative effects of climate change".[80]

However, the recent environmental, social and gender assessment commissioned by the CIF administrative unit has highlighted how principles of developmental impact enshrined in the design documents of the CIFs are not being integrated into in-country investment plans. After reviewing investment plans from the CTF, the assessment found that "in general the plans do not give much detail on the development co-benefits of the CTF investments. Most references to development impact are in very general terms on overall economic development and improvements in energy security and access but they do not present more specific strategies for targeting poor people in order to maximise the development impact".[81]

**Box 6**

**Allocation criteria at SREP**

The allocation criteria for CIFs, and SREP in particular, has provoked serious concern amongst civil society groups. As Eurodad has pointed out, "In determining the countries for inclusion in the first SREP pilots, the underlying criteria include an enabling regulatory environment that promotes business, supports private sector participation, public-private partnerships, and availability of financing for renewable energy technologies and potential capacity for implementation, including a business friendly environment and sufficient institutional capacity."[76] There is no mention of need or vulnerability as factors to decide the allocation of funding. The criteria also explicitly mentions indicators from the IFC's Doing Business ranking report, which has come under fire for its controversial approach to taxation and employment rights.[77]

The report found that there is significant potential for CIF projects to increase social and gender benefits, but only if the CIFs acknowledge that projects "need to be designed in a 'pro-poor way' for social and gender co-benefits to be realised". For example, it finds that small scale hydropower projects, financed by the CIFs in five countries, could only achieve increased energy access and employment opportunities for local people if they included training "to help local people get employment in renewable energy" and provided for "community participation in the management of small-scale renewable energy".[82]

## 6c Safeguards

In order for programmes to allow development to proceed in a sustainable manner, civil society recommendations argue that the GCF will require both a rigorous planning process and a set of safeguards consistent with existing international conventions, standards and obligations on human rights, environment and labour.[83]

The CIFs currently require that each implementing agency use its own safeguards in project operations.[84] There is widespread dissatisfaction with MDB safeguards in general, which are deemed narrow in their scope (limited to violations of the MDB's own policies) and inconsistently applied, while having limited mechanisms for monitoring and enforcement.[85] For example, recent controversy has surrounded the IFC, one of the implementing agencies under the CIFs, and the lack of recognition of international standards of human rights in its review of its performance standards.[86]

## 6d Gender and the CIFs

Civil society proposals for a global climate fund have also recognised the inadequacy of current financial mechanisms to acknowledge and integrate the gender dimensions of climate change into their operations. Oxfam notes that not only are women "most vulnerable – as principal food producers and stewards of natural and household resources – they are also often the first line of defence and best positioned to maximise pro-poor outcomes. The finance mechanism and new fund must include provisions to ensure that women have decision-making power with respect to how funding … is governed, allocated, monitored, and evaluated – globally and nationally."[87]

To some extent, the CIFs have illustrated an understanding of the importance of mainstreaming gender into project planning. A November 2010 report by the Global Gender and Climate Alliance and the United Nations Development Programme exploring the gender dimensions of CIF policies noted that, under the SCF, there has been progress in integrating gender into operational policies and procedures. However, it recommended that gender considerations need strengthening and that more gender experts should be included in joint missions that oversee the formulation of strategic plans. It also notes that despite a stated commitment to gender parity on governing committees, gender balance remains uneven. For example, 13 men and only three women sit on the CTF trust fund committee.

The report argues that "the current commitment to invest 70 per cent of pledged CIF funding in large-scale CTF energy and transportation programmes and projects — traditionally male-dominated working sectors of the formal economy — risks perpetuating existing gender imbalances in climate change funding", and that discussions over CTF frameworks have "overlooked the relationship between gender, energy use and climate change".[88] The recent environmental, social and gender assessment of the CIFs found that bus-rapid-transport systems, financed by the CTF in seven countries, "could make travel safer and easier for women if gender analysis is taken into account in the design. Also increased access to electricity in remote areas could result in major improvement in the lives of women. There are real opportunities here but this will require an explicit gender focus in order to maximise the development co-benefits for women."[89]

> In general the plans do not give much detail on the development co-benefits of the CTF investments. Most references to development impact are in very general terms on overall economic development and improvements in energy security and access but they do not present more specific strategies for targeting poor people in order to maximize the development impact
>
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# Conclusion

The GCF is seen by many developing countries and civil society groups as an opportunity to deliver scaled-up, equitable and predictable finance to address climate change. It has the potential to transform the current international climate finance architecture, which is complicated by a plethora of varied institutions and governmental channels, coloured by donor interests, and widely seen as unable to meet the current urgent need for mitigation and adaptation. With the design process for the GCF already underway we are at a critical juncture, where the decisions made in the lead up to COP 17 in Durban could have a profound effect on the nature of future climate financing arrangements.

There is a powerful trend emerging that sees the World Bank-housed CIFs as a model for the GCF. The Bank and the other MDBs, backed by many of their most powerful donors, are putting the CIFs forward as an example of how multi-donor funds administrated and executed by the MDBs can deliver climate finance and development. The Bank has already been granted the role of GCF interim trustee, and staff from the Bank and other MDBs are expected to feature prominently in the design process of the fund as technical advisers to the transitional committee.

This paper has documented civil society recommendations for what an effective, equitable and just global climate fund should look like, and used them to evaluate the design and performance of the CIFs. In doing so it has taken into account a broad array of concerns and critiques of the CIFs from civil society. The results indicate that any affirmation of the CIFs as a model for the GCF should be regarded with deep scepticism.

It finds that in terms of institutional arrangements the CIFs have achieved some notable progress that acknowledges some of the critical issues raised by civil society groups. However, from their inception and design, to the planning of investment strategies and the rolling out of projects, the CIFs have also illustrated numerous problems that put in doubt any notion that they are a model for effective climate finance. It is vital that the transitional committee of the GCF take into account the concerns and critiques reiterated in this paper when considering lessons to be learned from the CIFs, and that the GCF is designed to ensure these problems are not replicated.

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This report was written by Tom Fry of the Bretton Woods Project.

The author would like to thank the many people who provided comments and inputs, particularly Ilana Solomon, Liane Schalatek, Smita Nakhooda, Lisa Elges, Christine Eberlein, Ama Marston, Jesse Griffiths, Peter Chowla, Ana Paula Canestrelli and staff from the Climate Investment Funds administrative unit.

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