Are we nearly there?

Bridging UK supported funds and a post 2012 climate architecture

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Executive Summary

A number of 'pilot' funds are underway to develop climate related interventions in key sectors. Significant UK financing has been dedicated to these funds, primarily through the World Bank, and has served in both designing them and leveraging funding from other donors.

It is critical, for reasons of practicality and trust, that these pilot programmes can be seen as building blocks towards an appropriate post 2012 financial architecture. Based on an emerging UK civil society consensus this paper highlights the form that this architecture should take, what development models it should build upon and what technological approaches it should encompass.

Civil society proposals for a post 2012 climate architecture fall in to five main areas: *climate funds are accountable to the UN, ownership and participation, accountability, fair and equitable governance and effectiveness.*

The current climate pilot programmes raise a number of areas of concerns:

Competition with the UNFCCC / limitations to World Bank funds
There is concern that these pilot funds will compete with the UNFCCC's own financial mechanism. As such, the agreed sunset clauses must be upheld to limit the mandate of the Bank's Climate Investment Funds, the largest pool of financing thus far and phase them out upon creation of relevant UN frameworks.

Donor driven/ lack of equal participation
Current pilots have been created through donor-driven, top-down processes. As such they have lacked true participation of those most affected by climate change from their inception. Responding to such criticism these World Bank funds have structured their governance as to have equal developing country and donor representation in their boards, but still draw critique with respect to developing country input. There has also been disappointment with arenas for strategic civil society input, such as the Partnership Forum.

Loans-vs-grants / polluter pays principle-
Investigations are underway as to the efficacy of loans in climate financing. At the same time developing countries and civil society are increasingly drawing attention to moral obligations and calling for financing to be consistent with the polluter pays-principle and delivered as grants.

Lack of truly transformational development / need for investment in alternatives
The scale of investments in World Bank mitigation programmes, such as the Clean Technology Fund (CTF), are skewed toward technologies which are not truly transformational, as opposed to scaling up renewable energy. None of the countries that requested and received funding from the CTF have chosen these controversial technologies, highlighting that in the broader debate they may be redundant and inconsistent with global efforts to address climate change. Furthermore, public financing should be used to work towards making renewable energy a viable option for developing countries to meet their energy and development needs.

While climate finance is of a different nature than aid, there is a need for greater attention to be paid to lessons learned from the aid effectiveness debate over the past years with respect to good governance, participation, the use of loans and conditionality if climate pilots are to contribute substantially to the development of a solid financial architecture under the UNFCCC.

Introduction

As the United Nations Framework Convention on Climate Change (UNFCCC) negotiations continue in the run up to the 15th Conference of the Parties (COP) in Copenhagen this December, it is increasingly apparent that reaching an agreement on a support package for adaptation and mitigation in developing countries will make or break the deal.

While it is vital that significant new and additional finances be made available to developing countries, a number of other concerns are less often addressed. In addition to raising sufficient funds, a financial and institutional governance mechanism needs to be put in place that will be acceptable to both developed and developing countries. Developing countries have long argued for greater delivery on commitments and increases in financial resources and have maintained that such resources should be placed under the guidance of the Conference of Parties to the Convention. In addition, all parties need to be assured that the technical capacity, expertise and mechanisms will be put in place to ensure that finances can be effectively used, for mitigation and adaptation, in ways that also safeguard sustainable development. These various components between them make up what is increasingly referred to as the 'financial architecture' of a post 2012 climate agreement.

A number of 'pilot' funds are already underway to develop climate related interventions in key sectors. They aim to develop capacity and knowledge on how best to undertake transfers of public finance from north to south.

The Climate Investment Funds (CIFs), administered by the World Bank, are the largest, and probably best known of these (See annexes I and II for a fund-by-fund analysis). However, there are a number of others delivered through both bilateral and multilateral channels.

The UK has pledged £800 million[i] from the Environmental Transformation Fund for pilot funds to assist developing countries respond to the pressures of climate change. These funds will all be channelled to the World Bank administered CIFs, apart from £50 million earmarked for the Congo Basin Fund administered by the African Development Bank. In addition, the UK has allocated a separate £75 million for the climate change fund for Bangladesh also under the administration of a World Bank Multilateral Donor Trust Fund.

It is critical, for reasons of practicality and trust, that these pilot funds can be seen as building a bridge towards an appropriate post 2012 financial architecture. This discussion paper considers whether this is the case, based on an emerging consensus amongst civil society organisations in the UK on the form that architecture should take, what development models it should build upon, what technological approaches it should encompass, and what can be learned from past international development undertakings.

Towards a Post 2012 Architecture

The governance of the financial mechanism under the Convention has the ability to make or break a deal in Copenhagen. If the mechanism works, it will attract more support and funding. However, in order to function, it needs to be politically palatable to all parties.

A recent report by the Commission on Climate Change and Development convened by the Swedish Government, highlighted that "The management of any mechanism for funding adaptation should learn from weaknesses of the current aid system, and its functioning should go beyond traditional donor-recipient relationships."[ii]

Financing for climate change must be framed within the 'polluter pays' principle and therefore be seen as 'restitution' or the act of restoring or giving back something to its owner. This departs from the traditional donor-recipient dynamic and creates entitlements for developing countries, such as requirements that climate financing be additional to existing ODA commitments. In addition, it begins to place climate financing within an important new framework, the details of which are highlighted below.

Expectations of post-2012 institutional arrangements[iii]

The following five key characteristics are essential to ensure that the mechanisms for climate financing are equitable and effective.

Oversight by the Conference of Parties

- Climate funding must come under the authority of and be fully accountable to the COP. Political oversight of the COP is essential to enabling effective accountability and political agreement.
- There must be a separation of the powers of the COP and Executive Board/high level body of the financial mechanism, with clear remits for each. The aim should be to avoid micro-management by the COP in the operations of the financial mechanism whilst respecting the COP's authority and oversight.
- Financial flows should be through mechanisms accountable to the Convention, in order to meet the obligation that financing be Measurable, Reportable and Verifiable (MRV).

Ownership and participation

- National ownership is vital, both at government and civil society levels, as is coordination among donors and mutual accountability.
- An element of centralised control is required, but with an emphasis on the importance of decentralisation to the national level to ensure harmonisation of financial flows with national planning and budgeting processes. The principle of subsidiarity must apply, ensuring developing country ownership over activities in their countries.
- Funds at a national level will ensure that synergies between both mitigation and adaptation activities are enhanced, and aligned with national environmental and broader policies.
- There should be no economic policy conditionality attached to financing.

Accountability and transparency

- Independent scrutiny of the mechanism is needed – accountability is of paramount importance. An independent complaints procedure and civil society consultative platform, with an outreach process and information exchange are important.
- Accountability must flow up as well as down – ensuring transparency and inclusive decision-making.
- Trustees should be appointed on the basis of open tender and reviewed every five years.
- There should be direct access by developing countries to the fund. In addition, access for the most vulnerable should be prioritised, and care taken to prevent lack of understanding about funding opportunities, the complexity of design, or the detail of compliance mechanisms preventing access. There must be opportunities for civil society to access funding.

Fair decision-making

- Political decisions should be on the basis of equitable representation. Non-political decisions should be based on competency, technical expertise and decision-making by consensus. When consensus can't be reached, voting should take place on basis of one country, one vote.
- Sequencing is vitally important – there is no incentive for non-Annex I parties to develop new plans, without assurances that plans already agreed will be funded i.e. National Adaptation Programmes of Action (NAPAs) and National Appropriate Mitigation Actions (NAMAs).

Effectiveness

- Expert groups have an essential role in providing independent expertise to the mechanism.
- Emphasising and building institutional capacity for monitoring and evaluation will be vital to ensure the plans deliver.
- Ability to handle scaled up financial flows – it is important that the financial mechanism can handle large sums of measurable, reportable and verifiable finance to meet the scale of the challenge.

UK Supported Funds Assessment

The Commission on Climate Change and Development reinforced many of the above principles. In its recent report *Closing the Gap*, it affirms that many of these elements should in fact be integral to existing funding mechanisms. Among them are transparent and balanced governance; accountability of industrial and developing countries; demand driven with involvement of recipients during identification, definition and implementation of programmes; devolving management to the lowest level of effective governance; and inclusion of independent monitoring and evaluation.

Furthermore, while ongoing investigations are looking at the efficacy of loans as opposed to grants in climate financing, there is a need to focus on arguments beyond purely economic considerations, since not all impacts can be financially measured. Those made by civil society against the use of loans for climate change have been acknowledged. However, less attention has been drawn to the increasing number of nation states that have raised concerns about loan financing, who argue that it is central to the climate debate and the potential for reaching an agreement in international negotiations. This concern has been highlighted by OASIS states, India, South Africa and others in the UNFCCC process and draws attention to the argument that: "consistent with the polluter pays-principle financing to developing countries for adaptation should be in the form of grants rather than loans."[iv]

As the UK is a driving force behind the development and funding of international climate pilots, its support for funding mechanisms must be evaluated in light of this. It is important to note that the UK's financing for both adaptation and mitigation is not additional to existing ODA and is largely required to be offered as concessional loans. While many of the existing climate funds are still under development or are just beginning to disburse resources, there is a crucial window of opportunity to look at what lessons can be learned while the international architecture is being debated.

Adaptation

Currently adaptation funding is housed under the UN and the World Bank. The main source of adaptation funding is under the UN Framework Convention on Climate Change (UNFCCC) and is channelled through four funding streams:

- The Least Developed Countries Fund (LDCF)
- The Special Climate Change Fund (SCCF)
- The Global Environment Facility (GEF) Trust Fund's Strategic Priority for Adaptation (SPA)
- The Adaptation Fund (AF), which sits under the Kyoto Protocol.

The LDCF, SCCF and GEF Trust Fund are relatively small funds based on voluntary pledges and contributions from donors. All three are managed by the Washington DC-based GEF, the interim operating entity of the financial mechanism of the UNFCCC.

These three funds were set up as a result of the UNFCCC negotiations in Marrakech in 2001. The LDCF is designed to support the 48 poorest nations by granting each one $200,000 to develop a National Adaptation Program of Action (NAPA) to identify the most urgent and immediate adaptation needs in a country before 2013. To date 39 least developed countries (LDCs) have submitted NAPAs to the UNFCCCC. Thus far no funding has been provided for implementation of any of these plans.

It is seen as beneficial that NAPAs are country driven and are consistent with national development plans. However, the NAPAs are not an ideal instrument for addressing long-term adaptation needs (they were never intended to be), but provide a list of urgent requirements for immediate adaptation actions. This tension between short-term and more sustainable adaptation activities, together with the lack of delivery of commitments by developed countries to fund them, has damaged the confidence and trust between developed and developing countries in the UNFCCC negotiations on finance. Furthermore, the NAPAs didn't allow for full development of project proposals, which are necessary to apply for funding from the GEF. This created perceptions of extra hurdles for LDCs to overcome in accessing climate finance.

The Pilot Program for Climate Resilience (PPCR) is the only fund under the World Bank CIFs focused on adaptation, and falls parallel to the Bank's other main CIF fund, the Clean Technology Fund. Like all of the Bank's climate investment funds, the PPCR is donor driven and was established very quickly, leaving little time for developing country or adequate southern civil society engagement.

The PPCR is not prescriptive in technical actions that developing countries should take, but rather supports coordination of agencies within a country to address adaptation issues and develop plans, allowing for improved national level decision-making and coordination.

However, the PPCR has been heavily criticised because it offers loans to developing countries to finance the development of climate resilient development plans. This creates debt for developing countries, which raises concerns, particularly since adaptation efforts are not generally revenue generating and developed countries are historically responsible for the activities that have caused climate change.

Governance of the PPCR is novel considering the World Bank's usual donor-heavy governance arrangements. The Board is split 50:50 between developed and developing countries. However, it fails to mirror the hard won governance structure of the Adaptation Fund Board, which has a developing country majority.

The UN Adaptation Fund has a unique and pioneering governance structure and was the subject of protracted negotiations. It is under the authority of the Conference of Parties/ Meeting of Parties and has representatives from the five UN regions on its board with special seats for the LDCs and the Small Island Developing States (SIDS). The AF's finance is additional to aid flows: it raises funding through innovative means, taking a levy on the international carbon market. Nonetheless, at present the fund is not yet operational and its funding is heavily tied to the volatile carbon market.

One of the biggest problems facing all the funds is the lack of finance to bridge the gap between what has been pledged thus far and the amount needed. So far $298 million has been committed to the three funds managed by the Global Environment Facility (GEF) but only $201.7 million has been deposited. Contrasted with the $2 billion needed to implement the NAPAs this is a fraction of the amount required.[vi]

In addition to the aforementioned UN and World Bank administered funds, a special fund has been set up primarily focused on adaptation in Bangladesh (see box below). The UK contributed £75 million to a Multi Donor Trust Fund (MDTF) aimed at helping the country to scale up investment to respond to climate change and its impacts on economic development. The UK's support was specifically given for the preparation of Bangladesh's Climate Change Strategy and Action Plan, which has six pillars focused on food security, social safety and health, comprehensive disaster management, research and knowledge management, capacity building and mitigation and low carbon development.

Bangladesh Fund

The UK supported Multi Donor Trust Fund (MDTF) for Bangladesh is expected to complement and leverage the resources needed to implement the climate related Strategy and Action Plan. There is one channel for public sector projects and another for civil society projects. The MDTF will serve as a one-stop mechanism for large scale climate financing, which will be provided as grants. In parallel, the government of Bangladesh has set up a Climate Change Fund with their own funds.

The World Bank has played a central role in the design of the MDTF, and it is proposed that the Bank administers this fund, which has raised concerns from civil society in Bangladesh and the UK. Bangladesh's negative experience with multilateral financing mechanisms has led to the conclusion that management of any fund by a single agency is not productive and therefore raises concerns about the Bank's intended role.

Likewise the process that was followed for the selection of the World Bank as the administrator of this Trust Fund was not done in a transparent manner. For Bangladeshi civil society, administration and management of climate funding should be the primary responsibility of the government of Bangladesh, with support and monitoring from an independent national board on climate change to include a relevant range of stakeholders, including local community representatives. Bangladesh should develop its own management mechanism and be supported to do so by the international community.[vi]

The Bangladeshi government is in the process of reviewing the fund. Nonetheless, the Prime Minister has recently stated that 'We will not take the fund from the World Bank if we have to accept their conditions,' in reply to a question in the parliament. 'They will have to give us the fund as per our terms.'[vii]

Mitigation

There are several mitigation efforts under way, many of which are housed under the World Bank CIFs, such as the Clean Technology Fund (CTF) and the Scaling-up Renewable Energy Program (SREP) for low income countries. While these funds address renewable energy sources, there is a bias towards technology which is not truly transformational.

The UK Department for International Development (DFID) has shown strong support, channelling approximately 48% of its £800 million Environmental Transformation Fund to the CTF, one of the largest funds for addressing climate change mitigation through energy technology. This places initial distribution of funds targeted for the CTF at £383 million.[viii]

It is widely accepted that in order to address climate change the dependency on fossil fuels of key sectors needs to be reduced radically due to the high level of greenhouse gas (GHG) emissions that these produce.

While many developing countries would like to 'leapfrog' out of fossil fuel technology, they are held back by financial and technical barriers. Alternative energy technologies can have several advantages for developing countries. They could reduce local pollution as well as contributions to climate change and provide more accessible 'non-grid' technology for the poor. Furthermore, developing countries could save in the long run if they do not have to repeatedly change from one technology to another. However, the global support to achieve this is lacking.

This is reflected by undertakings such as the World Bank's Clean Technology Fund (CTF). The CTF, the biggest of the World Bank climate investment funds, boasts $5.046 billion in pledged financing (See Annex III). The CTF describes itself as being 'technology neutral'. The technology offer of the CTF considers carbon intensive technology and includes ultra-hypercritical coal[ix] and carbon capture and storage (CCS) coal as acceptable for reducing GHGs.

Carbon capture and storage is a technology which aims to siphon off waste CO_2 and store it underground, possibly in porous rock beneath the seas and oceans. While CCS may play a role in reduction of emissions at some point, it has not yet been proven at scale in an integrated power plant and it may not prove to be technically or economically feasible.[x] Thus the inclusion of "carbon capture and storage ready" coal power plants in CTF criteria relies on a distant, unproven technology to reduce emissions.

These technologies have been politically debated, leading to discussion in the US Congress in 2008-2009 about how appropriate the inclusion of coal is in a climate fund. Likewise none of the countries that have so far requested funding from the CTF, and that have their investment plans approved, have chosen any of these controversial technologies, highlighting the fact that in the broader context of the climate change debate these technologies may become redundant and potentially inconsistent with the global efforts to address climate change. Thus far, many middle income countries do not to appear to be particularly interested in such technology and some such as the Special Envoy to the Prime Minister of India have come out against the use of CCS in addressing climate change. [xi]

In comparison to the quantity of investment in the CTF, little investment has been specifically put into new renewable energy projects and scaling up of renewables. The SREP is proposed to help low income countries make a transformational change to low carbon energy pathways by optimally exploiting their renewable energy potential to offset fossil-based energy supply. Target funding is only a $250 million, a small portion of that proposed for the CTF, and pledges fall far short of this. [xii]

Transformational pathways

Emerging models for addressing climate change have been heavily reliant upon technology with significant emphasis on the engagement of emerging economies. These models emphasize techno-economic responses and all too often overlook broader environmental and social outcomes.

Ongoing discussions at the international level have focused on technology transfer from North to South to support the reduction of GHG emissions, with the implicit understanding that economic growth, particularly low carbon growth, would address climate and poverty challenges simultaneously. The development of locally appropriate and innovative responses that may help a broader and more diverse number of countries depart from high emissions development pathways for decades to come, does not seem to be a priority for donors to the CIFs, just as it is not for current private climate flows.

For instance, the CTF fails to aspire to a truly transformational vision that would enable technological leap-frogging over heavy carbon infrastructures, allowing transitions to low carbon economies for a number of countries. Instead it focuses primarily on technological solutions to stabilise the energy and transport sector contributions to GHG emissions. Furthermore, since it focuses substantial resources on a limited number of countries, the assistance that the larger number of developing countries requires to transit to a low carbon development path, as per commitments under the Convention, remains unaddressed. In spite of their minimum actual GHG emissions, a number of these countries still require development planning that moves away from the industrial models which caused climate change and addresses current day development constraints due to requirements to reduce emissions.

Low carbon development requires strong regulatory policies, combined with increased public financing and use of market instruments that also lever positive changes to private investment flows. These are needed to ensure that the scale of investments required to achieve transformational pathways, including from the private sector, are sufficient, appropriate, and that any private investments are secure with positive returns for investors in the medium term.

With the complexities of both addressing the technical and financial aspects of climate change, emerging economies – the main target group of the climate pilots – are increasingly approaching the challenge with multi-dimensional approaches. For instance, China, which is often argued to be at the forefront of the demand for coal, also has the fastest growth in wind and the highest adoption of solar thermal power. This is just one example of emerging economies simultaneously addressing energy poverty as well as energy efficiency and low-carbon technology. Others like India, Brazil and South Africa are also taking their own steps since the implications of climate change for their economies, poverty eradication efforts and environment are becoming increasingly evident.

Learning From Development Initiatives

As policymakers, governments and civil society look at how to bridge the gaps between existing pilots and an equitable international climate architecture, it is critical that the lessons learned from multilateral and bilateral development finance in the past are incorporated into the design and implementation of climate finance.

The problems with development financing have been discussed by donors at successive aid effectiveness conferences in Rome 2003, Paris 2005 and Accra 2008. Guiding principles for effective aid were adopted by donors in the 2005 "Paris Declaration". The *Better Aid* [xiii] report written and endorsed by over 380 civil society organisations in 2008 set out key civil society critiques of this 'Paris agenda'. While the nature of climate finance is not that of aid, key issues raised by the report can provide essential lessons to ensure that the climate pilots, particularly those of the World Bank, benefit participant countries, including the need for democratic ownership, transparency, predictability and fair allocation. The issues are just as relevant to the UK bilateral funds for the Congo Basin countries and Bangladesh, despite the limited information that has been made public about the administration and operational models of these funds.

In particular, the World Bank's CIFs present a set of problems that stem from the fact that they have been donor driven. They have been shaped by three G8 countries in particular, the UK, US and Japan, as well as World Bank staff. Developing countries have long argued for the prompt delivery of the resource commitments and increases in financial resources under the UNFCCC to enable them to fulfil their obligations under the Convention. They have maintained that such resources should be placed under the guidance of the state parties to the Convention to ensure consistency with internationally agreed principles and accountability by all those parties involved.

Additionality

So far most of the finance pledged to the CIFs will be counted as part of donor countries ODA, diverting funds from other pressing development needs. Where finance is provided as a loan, many of the countries will already be sustaining high levels of debt, as countries suitable for Reduced Emissions from Deforestation (REDD) and Climate Resilience financing are likely to be very poor already. It seems likely that the overall effect will be to add to developing countries debt burdens without reference to their existing levels of debt in order to pay for the damage caused by developed countries.

There is a risk that the lessons from the Highly Indebted Poor Countries initiative (HIPC) will not be applied to climate financing as the CIFs and the multi-lateral development banks (MDBs) are also likely to impose further debt and with it another round of conditionality.

Conditionality

Disbursement of climate funding should not be tied to changes in economic policies of recipient countries. Conditionality has been criticized for undermining democratic policy-making and reducing policy space in developing countries. It has also often led to the adoption of policies that have increased poverty and inequality such as privatization of basic services such as water or banking liberalization in developing countries.[xiv]

Countries obtain access to climate finances by putting forth an investment strategy, which the Trust Fund Committees examine against eligibility criteria drawn up by the Bank. Countries must have an existing programme with an MDB as a precondition for most funds. These existing programmes will usually entail significant conditionality. Once selected, implementation of projects and programmes in a particular country is then the responsibility of the MDBs including the World Bank. At this stage participant countries may then be subject to additional conditionality. The Bank has shown through the HIPC initiative that it can include conditions for access and use of resources even when they are not necessary to the objectives of the trusts administered.

Rights, participation and social dimensions

In order for the funds to achieve results it is of great importance that poverty reduction, gender equality, human rights, social justice and the environment are central to their design and impact measurement. This requires adhering to internationally agreed upon legal norms on rights and environmental standards. Although many of the funds have the express intention of mitigating climate change people's rights must be upheld. This relates for example to schemes to incentivise companies to protect forests, which aim to slow and reverse deforestation such as under the Forest Carbon Partnership (FCPF) and the Forest Investment Program (FIP). These must involve stakeholders throughout to ensure that, for instance, Indigenous Peoples' rights are respected and they are consulted in anything that affects their land and livelihoods.

While the CIFs include in their design a platform –the Partnership Forum (PF) – where all relevant stakeholders including governments and civil society could contribute to the strategic direction of the funds and learn from emerging lessons, the outcomes of the first Partnership Forum held in 2008 served to highlight the existing deficits of vision by the World Bank to implement a new approach to engagement and participation. In spite of the promise that the PF would be a genuine forum to engage in constructive and critical dialogue, civil society participants felt that there was little interest in their contributions or genuine discussion around the CIFs, their governance, civil society concerns and focus.[xv] Since then some steps have been taken to facilitate the presence of civil society observers in the CIFs. However, it is not clear how the next Partnership Forum will address the shortcomings initially identified and whether it will become an information exchange exercise as opposed to an opportunity to influence the development and operationalisation of the CIFs.

Democratic governance

It is essential that these funds are country-owned. The World Bank climate investment funds use committees to govern the decisions related to the funding of countries and regional programmes. These aim for a balance of donor and participant country representatives. However, the limited capacity of developing countries in the pilot funds as well as the weak co-ordination of efforts between government departments in these countries (mainly finance and environment) may mean that participating developing country representatives base their decisions on the availability of financing rather than on the impacts for the negotiation and implementation process of the UNFCCC. Furthermore, some would argue that, given that developing countries will disproportionately bear the impacts of climate change, they should have greater representation than donor countries following the example set by the Board of the Adaptation Fund.

Accountability

Openness and transparency are essential to democratic ownership. It is important that the populations of participant countries and not just their governments are able to input and respond to each country programme agreed. Each fund requires a country strategy for how funding will be used. However, it is not clear whether these strategies will include appropriate consultation with the affected populations. Nor is it clear how the monitoring of the work will be made public or what recourse there would be for complaints that arise in the course of implementing a funding strategy.

Both public and private sector investments will be made through the climate funds and the relationship between the two will need to be scrutinised for each fund. In the case of the energy sector (the CTF, and SREP) there need to be mechanisms to ensure that the public sector can regulate private energy projects to ensure that they benefit the poor.

Coordination

To be effective, it is accepted that funding must be predictable, harmonized among donors and allocated to the countries that need it most. The harmonization of funds is of particular concern with respect to climate financing because the CIFs are in danger of establishing a financing structure that competes with the UNFCCC. The Commission on Climate Change and Development has already identified that a proliferation of adaptation funds has been problematic, creating a coherence problem and putting pressure on the management capacity of developing countries. The same is true of the other sectors that the CIFs target.

At the moment there is ongoing discussion and work to coordinate the work of the FCPF and the UNDP-REDD fund. The resources of the PPCR are meant to support the area of focus of the UNFCCC Adaptation Fund. However, there must be greater concerted efforts to ensure that the proliferation of funds is not matched by a corresponding proliferation of reporting mechanisms.

Quantity of and access to funding

The amount of money available through the funds is not clear as many donors have pledged but not yet delivered their funding. It is essential that this lack of clarity does not result in unfulfilled pledges to individual countries, but that the climate pilots disburse the amounts promised at the start. There must be binding mutual agreement so that the participant countries have a means of recourse in the event of promised funding being delivered late or not at all.

Finally the funding mechanisms must ensure that the countries and populations that most need funding to adapt to and mitigate climate change can access it. So far the different eligibility rules and priorities governing which countries access the different funding pots make it hard to judge whether this will be the case, particularly with respect to direct community access.

Recommendations

In light of the disconnect between a desired post 2012 architecture and the trajectory of the current pilot projects, the UK government, as an international leader on issues of climate financing should draw on the lessons learned from a range of international development undertakings and support the following steps:

Supremacy of the COP

- Ensure that sunset clauses established to limit the life-span of the World Bank climate investment funds are upheld and respected in honouring the supremacy of negotiated UNFCCC mechanisms.
- Ensure that resources are channelled into the development of capacity for addressing climate change issues through the UN.

Ownership

- Contribute to and advocate for broader financing for climate change with resources that are additional to ODA commitments, drawing on innovative sources of finance where possible.
- Support civil society engagement as a legitimate stakeholder in governance structures of climate funds in the future as well as funds currently under development, such as the decision to allow civil society decision-makers (as opposed to observers) in the governance structure being debated for the Forest Investment Programme.

Fair decision-making

- Advocate for structuring of climate financing within a restitution/ polluter pays framework. Support should be shown for proposals such as those by Bolivia within the UNFCCC negotiations for evaluating developed countries' historical climate debt to developing countries.[xvi]
- Incorporate moral obligations and developing country concerns into any analysis of loans versus grants in climate financing as well as taking into account the nature and legitimacy of the issuing agency (i.e. a UNFCCC mechanism as opposed to an MDB which is in the business of issuing loans).
- Ensure there is no economic policy conditionality for accessing climate funds, through engagement with and contributions to multilateral development banks.

Accountability and transparency

- Support the formation of an overview body and/ or process to identify gaps in the current set of pilots and make sure that they are filled and that there is coordination amongst them.
- Support the formation and development of independent scrutiny of financial climate mechanisms.

Effectiveness

- Ensure that investment fosters cross-sectoral responses to climate change, incorporating responses into existing development and environment plans of countries rather than channelling funding through multilateral agencies that largely focus on technological responses.
- Support direct access to resources for vulnerable communities under climate funds as seen under the Adaptation Fund, rather than require national level accessing of funding which may not reach those most in need.
- Ensure that public funds are used to finance the renewable energy developments identified through developing countries' national action plans, taking into account the impact of technologies such as large hydro-electric dams. Provide technological and financial support for countries to make renewable energy an equally accessible option for development of their energy sector and growing response to energy demands.
- Require a review of the World Bank's progress on "greening" of its energy investment portfolio (focusing on resources dedicated to new renewable projects, given the preference of the UK government to work through the World Bank up until a UNFCCC mechanism is in place.)
- Match the UK's practice to its principles, by urging the World Bank to revisit the recommendations of the 2004 Extractive Industries Review, in particular the recommendation calling for the Bank to phase out investments in fossil fuels, and fundamentally rethink its involvement in extractive industries.

Annex I. Selected UK Supported Funds

	Pilot Program for Climate Resilience	Scaling-Up Renewable Energy Program for Low Income Countries	Forest Investment Program	Clean technology Fund	Forest Carbon Partnership
Pledged	$ 240 million	$100 million	US$ 58 million	$ 2,149 million	$165 million has been pledged for both the Readiness Fund and the Carbon Fund ($92 million for the Readiness Fund; $75 million for Carbon Fund). Of this $79.1 million has been confirmed.
Targeted	$500 million	$250 million	-	-	-
Deposited	None	None	None	-	Unknown
Operational timespan	The first phase of funding to prepare climate resilient development plans will occur, primarily during 2008-2009. The Sub-Committee will not approve any new PPCR financing for activities after calendar year 2012.	To be defined.	Unknown	Approved by the World Bank Board of Directors on July 1, 2008. As with all the CIFs the CTF states that it will take necessary steps to conclude operations once a new financial architecture is effective.	2008-2012; the Carbon Finance Mechanism will begin in 2009.
Disbursed	None as yet	None	None	None	Unknown
Countries selected so far	Bangladesh; Bolivia; Cambodia; Mozambique; Nepal; Niger; Tajikistan; Zambia.	The UK recommended limiting to a handful of countries to ensure that limited funds have national-level impact. These decisions are still under negotiation	To be decided	Turkey, Mexico, Egypt have drawn up investment plans, only Turkey's has been agreed so far.	Bolivia, Costa Rica, the Democratic Republic of Congo, Gabon, Ghana, Guyana, Kenya, Lao PDR, Liberia, Madagascar, Mexico, Nepal, Panama and Vietnam, Cameroon, Colombia, Ethiopia, Papua New Guinea, Paraguay, Peru, Argentina, Nicaragua, Republic of Congo, Uganda, and Vanuatu
Balance of grants/ loans	Funding will be channelled to countries in the form of grants for the preparation of investment programs. Either grants or highly concessional loans will be provided to finance these programs to increase the climate resilience of existing development priorities. Additional costs directly associated with technical assistance and institutional adjustment should be through grants.	SREP will offer grant financing, blended with IDA and other concessional financing, to leverage other public and private sector resources.	To be defined – although there is emphasis on country led approach the FIP also specifies that: Access to resources under the CIFs will be contingent upon recipient countries fulfilling the criteria of the respective trust funds– adopting Bank and donor conditions in exchange for financing. Eligible countries will have to submit 'country investment strategies' which will be assessed by the respective Trust Fund Committees. Guidelines for accessing financing will be drawn up by the CIF secretariat and will be based on existing World Bank and/or other MDB policies.	CTF financing will provide a grant element to cover the identifiable additional cost of an investment, or the risk premium required, in order to make the investment viable. The CTF will use a blend of financial instruments, including grants, concessional loans and guarantees to make investing in low carbon technologies more attractive to both public and private sector investors in the developing countries.	The Readiness Mechanism is grant-based. The REDD Country Participant in the FCPF enters into a Grant Agreement with the Bank acting as a Trustee of the Readiness Fund. For the Readiness Mechanism, a grant will be disbursed at an average of US$3.6 million (inclusive of the original US$200,000 disbursed in preparation of Readiness Plan). However, the funds would be made available to the country in disbursements. Within the Carbon Finance Mechanism, money is delivered in exchange for emission reductions.

Annex II. Climate Fund Analysis of Governance, Technical and Implementation

The Clean Technology Fund (CTF) Aims to support the rapid deployment of low-carbon technologies on a significant scale. It will provide incentives for the demonstration of low carbon development and long term mitigation of greenhouse gas emissions (GHG). Preparation of Investment Plans: The Trust Fund Committee (TFC) could approve an up front grant of up to $1 million per country to develop an investment plan. Strategies for achieving transformational outcomes will need to include a combination of public and private initiatives.	***The Strategic Climate Fund is the other multi donor trust fund alongside the CTF. It encompasses PPCR, SREP and FIP*** **The Pilot Program for Climate Resilience (PPCR)** Will provide programmatic finance to develop and implement climate resilient national development plans, building on National Adaptation Programs of Action. It will then provide additional finance for implementation over the next three to five years. The PPCR may provide funding for technical assistance to enable developing countries to build upon existing national work to integrate climate resilience into national or sectoral development plans. It may also help to fund public and private programmes of investment to address climate resilience.	**Scaling Up Renewable Energy in Low Income Countries (SREP)** • The goal is to demonstrate the economic, social and environmental viability of low carbon development pathways in the energy sector by creating new economic opportunities and increasing energy access through renewable energy. • The SREP aims to facilitate a shift in energy generation so that renewable energy is adopted as a mainstream choice to increase energy supply. It will fund mainstream energy projects on a large scale rather than undertaking pilot-scale or single projects and will co-finance with multilateral development banks. $100 million has been pledged so far but the fund will need $250 million in order to achieve its goals.
Positives • Scaled up finance – able to handle large sums of finance. • Programmatic approach –aim is to tackle sectors in middle income countries. • Partnership forum – although this is not currently seen as effective. • Investment Plans will be developed on a country specific basis. • There will be work to link low carbon development with national growth and poverty alleviation strategies.	**Positives** • Pilot countries choose a implementing agency. • Country ownership – with climate resilience national development plans. • Parity between developed and developing countries on the Committee – novel under the World Bank, although not as representative as Adaptation Fund board. • Civil society platform through partnership forum (see comments above). • Links between Adaptation Fund Board and PPCR Sub-Committee – enhance coordination. • Uses expert groups to de-politicise decision-making. • Can be scaled up.	**Positives** • There is a clearer connection between sustainable development and poverty eradication than in the other World Bank Climate Investment Funds. • There are clear links with low carbon development • While main benefits will be mitigation of GHGs, adaptation will be a co-benefit.
Negatives • Not accountable to the COP. • Independent scrutiny – World Bank audits itself. • Under Bank's operational policies for lending, which may include economic conditionality. • TFC only ensure one meeting per year, effectively putting decisions in the hands of the MDBs, such as World Bank, to be signed off by the TFC . • World Bank and MDBs on TFC as observers (no voting power, but with capacity for influencing). • Limited consultation with developing countries in design of fund. • Consensus based decision-making, no votes. • The inclusion of increased energy efficiency for funding means that fossil fuel based and coal based energy will be funded with the hope of CCS technology being developed in the near future. • Providing loans to bridge the gap between fossil fuel based energy and low carbon energy is not coherent with the principle of restitution.	**Negatives** • Funding not additional to ODA commitments. • Loans available for adaptation is unacceptable. • Not accountable to the COP. • Limited involvement of recipient countries in design. • Consensus based decision-making, no votes – voting gives opportunities to raise concerns, but through consensus decision-making processes there is no such opportunity and also implies if parties are silent then they comply. Not the most democratic, transparent approach.	**Negatives** • Not additional to ODA Commitments • Limited involvement of recipient countries in design

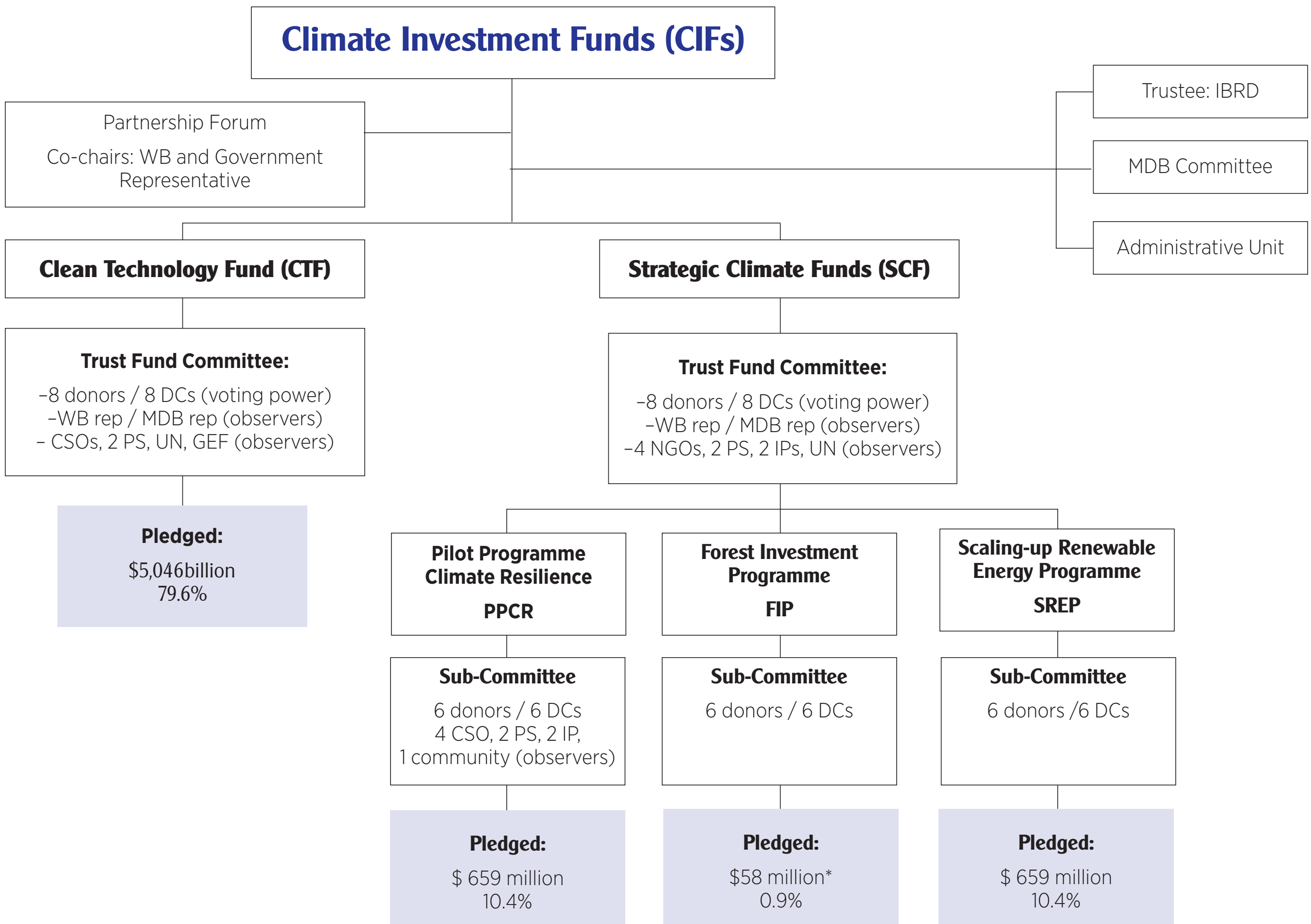
The Forest Investment Program (FIP)	The Forest Carbon Partnership Facility (FCPF)	Bangladeshi Multi-donor Trust Fund
• Aims to promote a large-scale shift in policy toward conservation and sustainable forest use. • The FIP will support countries to reduce emissions from deforestation and land degradation (REDD) by financing the implementation of REDD measures agreed at national level. • Impacts of the FIP will be measured to increase understanding of effective methods.	• Aims to get countries to draw up a national strategy to reduce emissions from deforestation and land degradation (REDD) including a large-scale system of incentives for REDD. • First step for accessing financing under the Readiness Mechanism is to complete the Readiness Plan Idea Note (R-PIN), which describes the problem in a country and the types f activities for which assistance will be sought. Upon approval, funds are disbursed for preparation and implementation of readiness plans (R-Plans). • In addition, a Carbon Fund will remunerate a small group of countries in exchange for contracts for verifiable reductions in emissions from deforestation and land degradation.	• Aims to support the preparation of Bangladesh's Climate Change Strategy and Action Plan, which has six pillars focused on food security, social safety and health, comprehensive disaster management, research and knowledge management, capacity building and mitigation and low carbon development. • Will serve as a one-stop mechanism for large scale climate financing, which will be provided as grants. There is one channel for public sector projects and another for civil society projects. • In parallel, the government of Bangladesh has set up a Climate Change Fund with their own funds.
Positives • Still to be seen as design is still under way..	**Positives** • Follows guidelines to take into account the need for effective participation of forest dependent indigenous peoples and forest dwellers in decisions that may affect them, respecting their rights under national law and applicable international obligations'. • Aims to adhere to several principles of engagement, including 'inclusiveness and • Broad stakeholder participation' at the national and international levels. • It's a small fund but could be a catalyst for formulation of long term national REDD strategies if done properly. • Acknowledges that benefits should reach local communities but is vague on how this will happen.	**Positives** • Holds an on-budget and off-budget window – allowing for funds to be accessible for community based activities, targeting the vulnerable. • Allows for funding harmonisation – between public funds and non-public funds, can encourage the attraction of additional funds from internal/external sources. • Policy council – endorse priorities, strategic vision – composed of all essential government sectors, plus civil society (although 'donors' also sit on the council – this would not be acceptable in the new mechanism – blurs national/international institutional boundaries.
Negatives • Key donor countries are blocking progress on finalizing the governance structure because they do not want civil society to have voting seats on the governing board, but would rather have them be observers. • Only able to have an impact for 5-10 countries.	**Negatives** • REDD readiness projects are not classic Bank lending operations, but rather a series of terms of reference for studies, policy work and capacity building. Therefore the Bank can decide to what extent to apply safeguards and when. Currently this has been delayed to later in process and will not require consultation. • The critical issues of human rights and land tenure are not sufficiently addressed in any of the planning documents. • Consultation in participant countries has been inadequate, geographically limited and hasn't provided enough information to give participants clear understanding of REDD initiatives. • R-pins are not clear about forest governance and have inadequate strategies on forest governance reforms. • Insufficient analysis of and action about the underlying causes of deforestation. • Need for monitoring social impacts is not strong and overall monitoring of emissions reductions weak.	**Negatives** • MDB's/Donors interference at country level – subsidiarity principle not adhered to. • Trustee not appointed in transparent and open manner. • Not additional to ODA Commitments. • Bi-lateral, not multi-lateral fund.

UNFCCC Adaptation Fund	Global Environment Facility (GEF)
Established to finance adaptation projects and programmes in developing countries that are Parties to the Kyoto Protocol. The Fund is to be financed with a share of proceeds from clean development mechanism (CDM) project activities and receive funds from other sources. The share of proceeds amounts to 2% of certified emission reductions (CERs) issued for a CDM project activity.	GEF projects in climate change help developing countries and economies in transition to contribute to the overall objective of the United Nations Framework Convention on Climate Change (UNFCCC). Projects support measures that minimize climate change damage by reducing the risk, or the adverse effects, of climate change. Climate change mitigation: The GEF supports projects that reduce or avoid greenhouse gas emissions in the areas of renewable energy, energy efficiency, and sustainable transport. Climate change adaptation: The GEF supports interventions that increase resilience to the adverse impacts of climate change of vulnerable countries, sectors, and communities.
Positives • Representation on the Board – developing country majority. • Under the authority of and accountable to the COP/ Meeting of Parties (MOP). • Transparency of decision-making – meetings are webcast. • Negotiated governance structure – developing country involvement in design. • Additional to ODA commitments. • Decisions made by 2/3rds majority votes.	**Positives** • GEF adheres to the principles of compensatory funding – but this is not followed up in its governance structure. • Negotiated fund – It has been through a process whereby all parties have engaged. (However developing countries, which largely opposed it, were told this was the only way they could access the funds). • Aligned with other Multi-lateral Environmental Agreements and implementing agencies – creating more synergy on global environment goods and services. • Aspirational programmatic approach (but this is limited given its constrained budget).
Negatives • Limited in its programmatic approach. • WB as Trustee – appointment is up for review after the first three years, but it is a cosy relationship. • Costs of Trustee – no concrete evidence but anecdotal evidence suggests administrative costs are high.	**Negatives** • Can't handle large scale finance – only ever meant as a catalyst, and not all funds pledged by donor's have been released. • Has its own council and own set of operational principles. Pays little attention to COP direction. • Has complicated rules for access to funds (often requires hiring of consultants to be able to create a proposal for developing countries). • Has a long project cycle and follows a project based approach. • Has produced few concrete results during its existence. • Not additional to existing ODA commitments. • Limited separation of powers – GEF council has burdensome responsibility hence its inflexible nature, very complex Programme Cycle Management procedures. • No independent scrutiny – only the GEF Evaluation office (house in the GEF). • Limited accountability, and not accountable to the COP (has MoU with COP). • Representation – GEF Council has regional representation—but hasn't worked well because they don't consult with constituents. All countries have to pay into the GEF. • Double majority voting system—means that donors have veto power. No votes have ever been taken by GEF Council. • World Bank is the Trustee—not put to open tender. • Links loans from MDBs to GEF grants – leveraging is an unspoken conditionality of GEF grants, comes as standard practice tied up to MDB loans.

Annex III. World Bank Climate Investment Funds and Structure

Donor	Total pledged US$	CTF US$	PPCR US$	FIP US$	SREP US$	Unallocated US$	Other funds US$
Australia	127		34	8			
Canada	82	85	82				
France	300						
Germany	813	300	74				
Japan	1,200	739	50			150	
Netherlands	50	1,000			50		
Norway	50			50			
Spain	118						
Sweden	92	118					
Switzerland	20	92			20		
United Kingdom	1,488	712	419		47	190	120 (for CBF and FCPF)
United States	2,000	2,000					
Total	6,340	5,046	659	58	117	340	120
%	100.0	79.6	10.4	0.9	1.8	5.4	1.9

Based on the CIF Financial Status as of January 26,2009, WB and DFID's allocation of ETF by 16 February 2009.



*May increase to 2.5% if UK puts all its allocation for forestry in the FIP

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i Equivalent to approximately $1.3billion at time of writing.

ii Commission on Climate Change and Development. Closing the Gaps. 2009.

iii Muller, Benito and Luis Gomez-Echeverri. The Reformed Financial Mechanism of the UNFCCC. Part 1: Architecture and governance. Oxford Institute for Energy Studies. April, 2009.

iv Presentation by Mr S. Hart on behalf of OASIS at the 2nd session of the AWG-LCA. June 5,2008. Bonn.

v The GEF develops its projects through ten Implementing Agencies: the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP) the World Bank, the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IAD), the International Fund for Agricultural Development (IFAD), the United Nations Food and Agricultural Organization (FAO), and the United Nations Industrial Development Organization (UNIDO).

vi Adaptation funding and development assistance some FAQs, IIED, November 2008

vii "No conditional WB fund for climate projects: Says Prime Minister of Bangladesh". New Age Bangladesh Newspaper. Website accessed on June 11,2009.

viii Personal communication with DFID, Policy and Research Division. February 16, 2009.

ix According to coal industry figures, ultra-supercritical coal is approximately 20% more efficient than low efficiency coal and between 4-9% more efficient than super-critical coal plants currently being built in China, and other rapidly developing economies. It has been argued, however, that energy efficiency should not qualify coal for public funding.

x The International Climate Change Partnership, a global coalition of companies and trade associations, predicts it will not be commercially viable until at least 2050.

xi India Opposes Carbon Storage As Climate Change Tool. Bloomberg. April 13, 2009 http://www.bloomberg.com/apps/news?pid=20601130&sid=aEMIishWO_VA

xii Climate Funds Updates Website. Overseas Development Institute. http://www.climatefundsupdate.org/listing/scaling-up-renewable-energy-program

Better Aid: A civil society position paper for the 2008 Accra High Level Forum on Aid Effectiveness. March 2008. www.betteraid.org.

xiii Bull, Benedict and Alf Morten Jerve, Erlend Sigvaldsen. The World Bank and IMF's Use of Conditionality to Encourage Privatization and Liberalization. November 2006. Centre for Development and Environment. University of Oslo.

xv "The Partnership Forum of the World Bank's Climate Investment Funds: Report from southern civil society participants", Development and Environment Group, Bond. 2009

xvi See the 'climate debt' approach proposed by Bolivia under the UNFCCC process. P. 44 of http://unfccc.int/resource/docs/2009/awglca6/eng/misc04p01.pdf