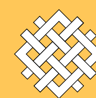

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POWER, RESPONSIBILITY, AND ACCOUNTABILITY

Re-Thinking the Legitimacy of Institutions for Climate Finance

ATHENA BALLESTEROS

SMITA NAKHOODA

JACOB WERKSMAN

KAIJA HURLBURT

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Framing a school house: Padang, Indonesia (2009).

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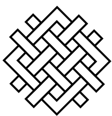

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Cover photo: Protest outside UNFCCC COP 15: Denmark, Copenhagen (2009).
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ISBN 978-1-56973-760-6

Suggested Citation: Ballesteros, Athena et al. 2010. "Power, Responsibility, and Accountability: Re-Thinking the Legitimacy of Institutions for Climate Finance." Final Report. Washington, DC: World Resources Institute. Online at http://www.wri.org.

This Report was developed from a WRI Working Paper of the same title published in December 2009 and has been updated to reflect more recent developments and additional peer review.

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Acknowledgments

The authors would like to thank the following colleagues and external reviewers who provided valuable comments and criticisms on various drafts of this paper: Manish Bapna, Rob Bradley, Renato Redentor Constantino, Charles Di Leva, Arunabha Ghosh, Sam Johnston, Hilary MacMahon, Duncan Marsh, Kirk Herbertson, Clifford Polycarp, Charles McNeill, Heather McGray, Alan Miller, Gregory Mock, Remi Moncel, Jennifer Morgan, Janet Ranganathan, Jagjeet Sareen, Dennis Tirpak, and Simon Zadek. The views expressed are the authors', and external reviewers bear no responsibility for its content.

Polly Ghazi and Gregory Mock provided extensive editorial support. Seema Kumar, David Wei, Lauren Goers, Heather McGray, Brian Lipinski, and Xing Fu-Bertaux also made written contributions to the text. Our analysis of the Global Environment Facility draws heavily on joint work by Jacob Werksman and Claude Martin. Alisa Zomer, Hyacinth Billings, Emily Chessin, and Jennie Hommel were key to the editorial and production process. WRI greatly appreciates the financial support provided by the Charles Stewart Mott Foundation, the Doris Duke Charitable Foundation, and the Rockefeller Brothers Fund.

Foreword

Preparing for the inevitable impacts of global warming and avoiding even more dangerous levels of greenhouse gas emissions will require an unprecedented mobilization of financial resources. Much of this investment will need to take place in the developing world, to meet growing energy demands with low carbon alternatives, and to enable poorer countries to build resilience to the effects of rising temperatures.

In Copenhagen, in 2009, as part of an effort to reach a new global deal to combat climate change, wealthier countries agreed to ramp up their support dramatically for poorer countries and pledged to mobilize as much as USD 100 billion a year in public and private climate finance by 2020.

The programming of these resources will need to be entrusted to one or more financial mechanisms. While a number of institutions including the World Bank, through its Climate Investment Funds, the Global Environment Facility, and the Kyoto Protocol, through its Adaptation Fund, are already playing a role in climate finance, none has yet won the confidence of both contributor and recipient countries. Governments are therefore in the process of designing something new.

What kind of institution can attract and program finance at the scale necessary to drive profound transformations in developing countries while at the same time securing the ownership and support of their governments, the private sector and civil society? *Power, Responsibility, and Accountability* seeks answers in the successes, failures, and ongoing experiments revealed through case studies of 10 international and national institutions already channeling finance to projects to address climate change.

The authors conclude that the success of future climate finance will depend on finding a new balance of power, responsibility, and accountability in the relationship between contributor and recipient countries and the financial institutions they create and operate. In particular, as developing countries gain more formal and informal power in the governance structures of these institutions, they must also embrace a greater responsibility for investing in long term emission reductions. Investments must be driven by high social and environmental standards shaped and owned by a partnership between developed and developing countries. Accountability mechanisms must be put in place that enable the communities affected by climate investments to set priorities and benefit from the outcomes of these investments. Climate finance managed by international institutions must be invested in the capacity of national institutions to design and implement ambitious but home grown climate policies.

This is a formidable challenge, and reaching consensus on the design and operation of climate finance will strain the capacity of institutions from the global to the local level. A great deal depends on ensuring that these institutions are robust enough to withstand that pressure and that the process and outcomes are widely perceived as legitimate. The stakes are high, with global efforts to reduce emissions dependent in large part on effective delivery of climate finance.

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Wind energy in the Philippines (2010).

The 2009 Copenhagen Climate Summit left unresolved major questions about how to fund low-carbon development in developing countries.[1] In a high-level political declaration—the "Copenhagen Accord"—developed countries agreed to "provide new and additional resources . . . approaching USD 30 billion for the period 2010–2012" and to a goal of jointly mobilizing USD 100 billion a year by 2020 from both public and private sources, to address the needs of developing countries.[2] As the negotiations on a global climate deal continue, disagreement remains on how much of these funds will come from public or private sources and whether these billions should be delivered through new or existing institutions. There is also heated debate over whether a single centralized institution or a decentralized approach that coordinates international, regional, and national institutions would be more effective.

Although there are many variations in government positions, broadly speaking, developed countries favor a substantial role for existing institutions, such as the multilateral development banks (MDBs) that they have funded and led for the past 60 years. Developing countries prefer new institutions, arguing that existing ones favor the interests of contributor countries and have failed to deliver on promises to support poverty alleviation and sustainable development. The ongoing negotiations on a global climate deal reflect this "north-south" gulf. Despite these differences, one thing is clear: if the institutional arrangements entrusted with managing new flows of climate finance are to succeed in raising the required resources and in investing these resources effectively, they will need to be perceived as legitimate by both contributors and recipients.

Institutional Arrangements for Climate Finance: Power, Responsibility, and Accountability

The full report seeks to ground the debate on the future of climate finance in an objective analysis of existing efforts to finance climate mitigation and adaptation in developing countries. The authors step back from the question of *which institutions* should be entrusted with new flows of climate finance to examine instead *how governments can design a climate financial mechanism in a way that is widely perceived as legitimate*. We identify three crucial dimensions of legitimacy: power, responsibility, and accountability (see Box A). While these three dimensions interrelate and overlap, we have found them to provide a useful analytical framework to analyze and guide choices in institutional design.

Box A. DIMENSIONS OF POWER, RESPONSIBILITY, AND ACCOUNTABILITY IN THE DESIGN OF A CLIMATE FINANCIAL MECHANISM

POWER:
The capacity—both formal and informal—to determine outcomes

- How will the financial mechanism's governance structure distribute voice and vote between and among contributors and recipients?
- What role will the United Nations Framework Convention on Climate Change's (UNFCCC) institutions, including the Conference of the Parties, play in guiding the financial mechanism?
- To what extent will contributors be able to determine funding priorities by placing conditions on the resource mobilization and allocation process?
- How influential will the secretariat and management staff of the financial mechanism be in determining project design and selection?
- Will advisory groups, civil society observers, and local communities play a role in determining how the financial mechanism operates?

RESPONSIBILITY:
The exercise of power for its intended purpose

- Are the financial mechanism's standards, program priorities, and eligibility criteria strong enough to ensure its resources are invested fairly and effectively?
- How do cost-sharing formulas (e.g., incremental, marginal, transformative costs) allocate responsibilities between contributor and recipient countries, and between the financial mechanisms and recipient countries?
- To what extent are national institutions and local civil society entrusted with ensuring the effective design and implementation of investments?

ACCOUNTABILITY:
The standards and systems that ensure power is exercised responsibly

- How does the financial mechanism measure, evaluate, and incentivize results?
- Are effective environmental and social safeguards in place to ensure the investments do no harm?
- How are fiduciary duties and financial management standards supported and enforced?
- Are grievance and inspection mechanisms in place to ensure that standards are followed?

We review the governance structures, operational procedures, and records to date of 10 international and national financial mechanisms, with reference to these core dimensions of legitimacy, to draw lessons for future institutional arrangements (see Box B). We place special emphasis on the experiences with the Global Environment Facility (GEF), which, in operation since 1994, is the longest serving operating entity of the United Nations Framework Covention on Climate Change (UNFCCC) financial mechanism. In addition to the GEF, we review experiences from the Multilateral Fund for the Implementation of the Montreal Protocol, in operation since 1990, which is often referred to as a model for future funds. The remaining funds reviewed are much newer and yield more insights with regard to design, rather than operation.

We recognize that perceptions of the legitimacy of a financial mechanism are inherently subjective and that this subjectivity is revealed in the very different preferences expressed by contributor and recipient countries. We believe, however, that if governments were to discuss the dimensions of legitimacy more explicitly, the stakes and the trade-offs would become more apparent, and a more shared understanding on how to design a legitimate financial mechanism would emerge. We believe that the failure, thus far, to address the distribution of power, responsibility, and accountability more explicitly has led to a proliferation of financial mechanisms that are underfunded, which in turn leads to calls to create new mechanisms.

We recognize that perceptions of a financial mechanism's legitimacy will also depend upon an institution's performance—its demonstrated capacity to commit funding to investments that reduce greenhouse gas emissions and build resilience to climate change. Most of the climate financial mechanisms studied have not been operating at a scale or for a time period that would allow a full assessment of their performance. We nonetheless seek to make recommendations that could improve the design and the performance of new and existing climate financial mechanisms.

We conclude that a new global deal on climate finance is likely to significantly redistribute power, responsibility, and accountability between traditional contributor and recipient countries. Most significantly, the power of emerging economies to control climate finance mechanisms will grow, as will their responsibility and accountability for the performance of these institutions. In light of the dramatic changes in global politics and the global economy in past decades, this redistribution seems both long overdue and necessary to provide the basis for a successful global partnership on climate finance.

Box B. FINANCIAL INSTITUTIONS REVIEWED

GLOBAL ENVIRONMENT FACILITY: *The interim financial mechanism of the UNFCCC (since 1994)*

MONTREAL PROTOCOL FUND: *The multilateral fund to phase out ozone depleting substances (since 1990)*

ADAPTATION FUND: *Created under the Kyoto Protocol, financed by a two percent levy on Clean Development Mechanism transactions and voluntary donor contributions (since 2008)*

FOREST CARBON PARTNERSHIP FACILITY: *World Bank carbon financing pilot for forest emissions (since 2007)*

CLIMATE INVESTMENT FUNDS: *World Bank and MDB pilot funds (since 2008)*[a]

- CLEAN TECHNOLOGY FUND: *Financing for clean technology deployment that significantly reduces greenhouse gases*
- PILOT PROGRAM ON CLIMATE RESILIENCE: *Funding for adaptation to climate change*
- FOREST INVESTMENT PROGRAM: *Financing to address the role of forests in climate change*

BRAZIL AMAZON FUND: *Brazilian National Development Bank fund to reduce deforestation (since 2008)*

BANGLADESH CLIMATE CHANGE RESILIENCE FUND: *National climate change fund, administered by the World Bank (since 2008)*[b]

INDONESIA CLIMATE CHANGE TRUST FUND: *Planning Ministry (BAPPENAS) fund, administered by the U.N. Development Programme (since 2009)*

Notes

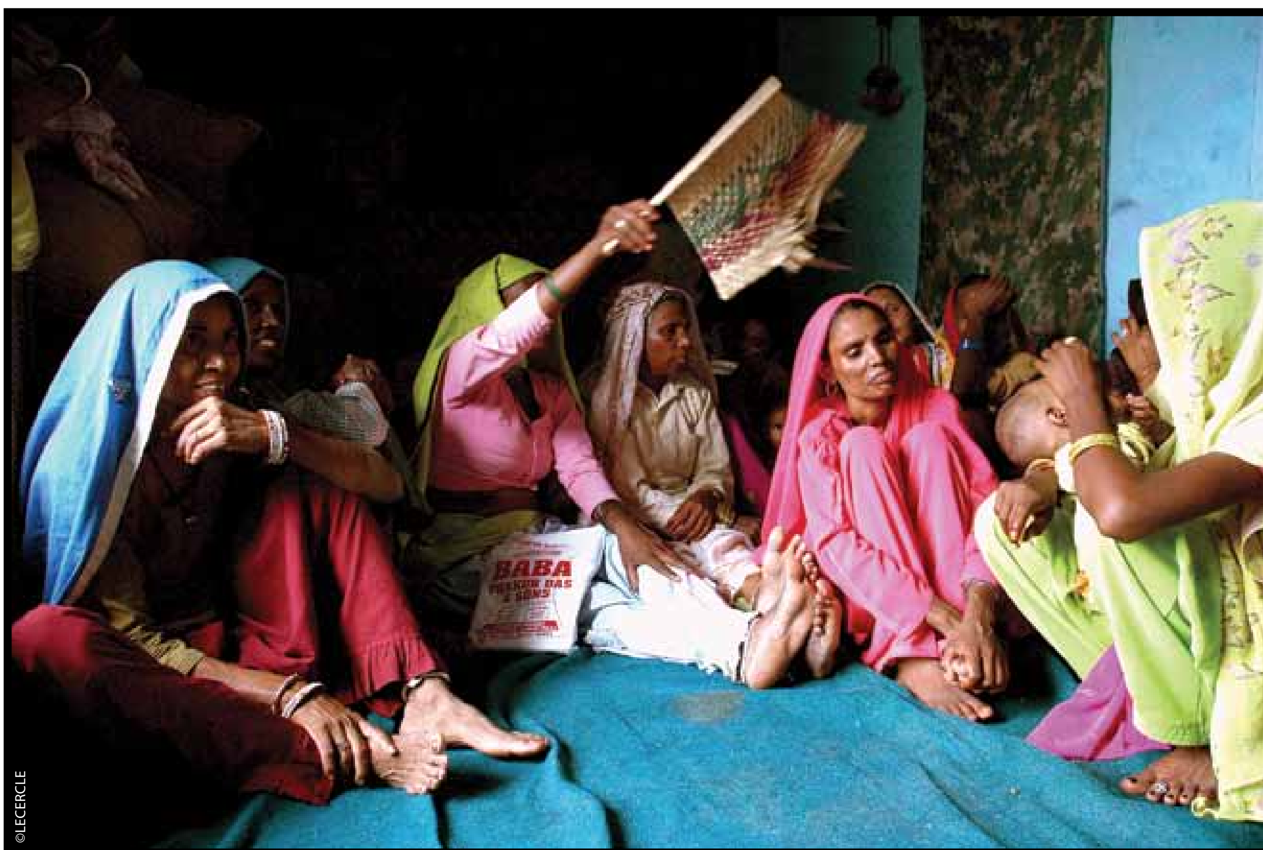
a. The Climate Investment Funds also include Scaling-Up Renewable Energy Program in Low Income Countries (SREP), which will fund scaled-up development of renewable energy in low-income countries. The SREP was not reviewed for this Report.

b. The Bangladesh Climate Change Resilience Fund was previously called the Bangladesh Multi-Donor Trust Fund

Conclusions and Recommendations

This is a dynamic time for climate finance, as the international community struggles to craft mechanisms that are perceived to be legitimate by all UNFCCC Parties and that are capable of funding climate-related activities efficiently and at scale. Our analysis of established and new climate financial mechanisms and the current UNFCCC negotiations leads us to conclude the following:

- *Change is coming.* A new global deal on climate finance will likely reinterpret the principles that in the past have guided the design of climate finance mechanisms in a way that significantly redistributes power, responsibility, and accountability between traditional contributor and recipient countries.
- *A new balance of power, responsibility, and accountability could enhance recipient country ownership.* Greater representation of developing countries on the governing bodies of international financial institutions more generally, and climate finance mechanisms more specifically, should help ensure greater emphasis on the national and local "ownership"—and thus the effectiveness—of climate finance investments.
- *A new understanding of how to balance national interests with global responsibility and accountability is required.* This will require assurance that nationally driven investments contribute to global benefits in the form of net emission reductions and that investments protect the most vulnerable countries and communities.
- *New financial mechanisms—at both the global and the national level—are necessary.* If the international community raises the scale of public finance necessary to move developing countries onto a low-carbon, climate-resilient pathway, the capacity and the creativity to spend these resources well will necessitate the creation of one or more new financial mechanisms at the global level and multiple national-level institutions.
- *Existing institutions must also be reformed.* The scale of the climate change challenge and of the scale of the funding necessary to respond to that challenge will also necessitate the reform of existing financial institutions, many of which have been supporting fossil fuel–led growth and have yet to mainstream concerns about the impacts of climate change into their strategies.



Women's meeting on micro financing: Rajasthan, India (2006).

- *Current negotiating positions reflect deep historical and ideological divisions—particularly between developed and developing countries—that will need to be overcome by building trust and experimenting with new kinds of relationships.*[3] Developed countries have been keen to build on existing financial institutions they have shaped and traditionally controlled. Developing countries are wary of these same institutions, which they see as historically having advanced contributor interests and theories of development, through both the formal and informal exercise of donor power.
- *At the international level, the choice between reforming traditional development agencies, such as the GEF, U.N. Development Programme (UNDP), the U.N. Environment Programme (UNEP), and MDBs, and creating new financial mechanisms will raise issues of institutional economy and effectiveness.* In order to generate a greater sense of trust and ownership, backers of existing agencies may have to accept a degree of duplication of existing capacity through the creation of new mechanisms—particularly where significant gaps in capacity are identified—and to accept strengthened lines of accountability of climate finance mechanisms to the UNFCCC Conference of the Parties (COP). On the other hand, those calling for the creation of new institutions may need to concede that it may waste precious resources to replicate the staff and services provided by existing agencies.
- *Balancing the roles of international and national institutions will also involve trade-offs.* Traditional development agencies have gained the trust of contributors by putting in place systems to both measure and manage impacts of their investments. Developing country recipients, however, have been frustrated by the bureaucracy and the focus on generic rather than country-specific concerns that these systems can generate. Many developing countries will likely struggle to convince contributors that their national institutions have the capacity to manage large-scale development finance without the support of development agencies. Notably, a number of developing countries are taking steps to build and strengthen this capacity and will need support to do so.
- *Delivering climate finance at scale, at least in the short term, will likely involve multiple mechanisms, both new and reformed.* This is true because of the complex politics of the international negotiations and the differing views of legitimacy held by contributors and donors. The urgency and complexity of delivering funds at scale argues for moving forward, at least in the near term, with the institutions that we have, and investing in the strength and quality of COP guidance and national planning processes to ensure coordination and coherence. This experience should then guide the design and operation of the new institutions that will become necessary as the scale of resources grows.
- *Low-carbon, climate-resilient development is an unexplored frontier for all countries and has potential risks as well as benefits.* While high standards will have to be developed and maintained to ensure emissions fall and the vulnerable are protected, climate finance will necessarily entail experiments with new policies and technologies that will need to be watched closely for unintended environmental and social impacts.
- *Policymakers must agree on ways to diversify the sources of climate finance and to de-link them from the levers of informal power.* If existing institutions are to meet evolving standards of legitimacy, then their fundamental governance structures, as well as their operational procedures, will need to be reformed to give greater voice to developing country recipients. If formal grants of power are to lead to the effective exercise of that power, the international community must also make greater efforts to identify sources of revenue, such as new levies or long-term commitments, that are independent from the discretion of contributor governments.
- *It is necessary to build the capacity of non-state actors and civil society to monitor climate finance governance.* Civil society groups at all levels can and are playing an important role in monitoring and influencing decision-making within climate finance funds. But they need to occupy such spaces more effectively than they have to date by monitoring and engaging in more inclusive decision-making processes with technical rigor and authority. However, "representation" of non-state actors can be a very difficult issue—civil society is diverse with widely differing views.

- *Near- and medium-term climate finance should focus on strengthening national institutions*. A next generation of climate investments should promote the responsibility of recipient countries by strengthening the national institutions that will implement mitigation and adaptation activities and by ensuring their transparency and accountability to citizens within countries, as well as to the international community. While it is important that development agencies provide technical support to national institutions, they should work in closer partnership with national stakeholders. It will be particularly important to engage with stakeholders outside of government, including the private sector, independent research institutions, and civil society. Such collaborations can help ensure climate finance proposals more appropriately reflect national circumstances and priorities.
- *It is important to draw from the lessons learned from decades of development finance to build national institutions that reflect universally accepted principles of good governance*. Traditional finance and development institutions have decades of experience—both good and bad—in translating internationally agreed upon agendas into national and local investments. National institutions should draw from these experiences and be designed and supported to operate in accordance with universal principles of good governance. Strong provisions for accountability should be put in place, including sound fiduciary management, anti-corruption measures, and grievance mechanisms and inspection procedures that ensure compliance with environmental and social standards and safeguards.

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Flags of the United Nations: France (2006).

Reducing greenhouse gas (GHG) emissions on a scale necessary to avert the worst impacts of climate change, while at the same time building resilience to these impacts, will require an unprecedented mobilization of financial resources.[1] A significant amount of these resources will need to be raised from public sources in developed countries, invested in developing countries, and be managed by one or more international institutions entrusted with a set of specific functions (see Table 1). The question of which international institutions—new, existing, or reformed—should carry out these functions has become central to the negotiations to reach a "global deal" on climate change.

Negotiations are taking place in the context of the Bali Action Plan, a decision of the COP to the UNFCCC, and in the context of the Copenhagen Accord, a high-level political statement that has been supported by 138 Parties to the UNFCCC.[2] The Bali Action Plan emphasizes the need for "[i]mproved access to adequate, predictable and sustainable financial resources" but provides little guidance on institutional design. The Copenhagen Accord anticipates the establishment of mechanisms to finance reduced emissions from deforestation and forest degradation (REDD+), "effective and efficient fund arrangements" for adaptation, and a "Copenhagen Green Climate Fund"[3] (see Box 1). The negotiating texts under consideration reveal that Parties are currently weighing a range of institutional options, from a centralized financial mechanism operating under the auspices of the COP, to a more decentralized system that outsources functions to a variety of international, regional, and national institutions.

This Report argues that if the institutions entrusted with managing new flows of climate finance are to succeed in raising these resources and in investing these resources effectively, they will need to be perceived as *legitimate* by both contributors and recipients. An institution is perceived to be legitimate when the decisions it makes are considered appropriate and acceptable to those who must abide by them. In general, the legitimacy of an institution should be assessed on the basis of the procedures by which it takes its decisions and the effectiveness of its investments.[4] An institution is more likely to be perceived as legitimate when it operates in a transparent, participatory, and accountable manner, and when it sets and abides by clearly articulated rules. Perceptions of a financial mechanism's legitimacy will also be based on its governance structure,

BOX 1. STATE OF PLAY: THE BALI ACTION PLAN AND THE "COPENHAGEN ACCORD": NATIONALLY APPROPRIATE MITIGATION ACTIONS, "MRV", AND CLIMATE FINANCE

International negotiations on climate finance post-2012 are being carried out under the Bali Action Plan (BAP), a set of negotiating guidelines adopted by the 13th Conference of the Parties (COP-13) of the UNFCCC. At its 15th meeting in Copenhagen, Denmark, COP-15 did not, as had been planned, reach an agreed outcome for the BAP, so these negotiations continue. One hundred and thirty-eight UNFCCC Parties have expressed support for the "Copenhagen Accord"—a 12-paragraph, high-level political declaration that helps to clarify these Parties' expectations for a global deal on climate. Because the Accord has no official status under the UNFCCC, the extent to which it will guide the conclusion of the BAP process is unclear.

The Bali Action Plan calls for improved access to adequate, predictable, and sustainable financial resources and technical support and for the provision of new and additional resources, including official and concessional funding for developing country Parties. The Copenhagen Accord reiterates these principles and commits developed countries to provide USD 30 billion for the period 2010–2012 and to a goal of jointly mobilizing USD 100 billion a year by 2020 from a wide variety of public and private sources.

Under the BAP, the funding is to be provided in a measurable, reportable, and verifiable (MRV) manner. The Copenhagen Accord adds that the accounting of the finance should be "rigorous, robust and transparent." Under the BAP, the funding is to support and enable the enhanced implementation by developing countries of nationally appropriate mitigation actions (NAMAs), which are also to be undertaken in a measurable, reportable, and verifiable manner and, according to the Accord, will be measured, reported, and verified in accordance with guidelines adopted by the COP.

Both the BAP and the Accord emphasize the importance of funding for adaptation through innovative means of funding. Financial and technical support is also to be provided for capacity building in the assessment of the costs of adaptation in developing countries, in particular the most vulnerable ones, to aid in determining their financial needs.

In terms of the design of the institutions that would manage these funds, the BAP is silent. The Accord anticipates that a "Copenhagen Green Climate Fund" will be established under the UNFCCC to support the full range of climate finance, including mitigation, forests, and adaptation. It implies that this Fund will be effective, efficient, and have a "governance structure providing for equal representation of developed and developing countries."

Sources:
Report of the Conference of the Parties to the U.N. Framework Convention on Climate Change at its 13th Session, Decision 1/CP.13 (December 2007); Report of the Conference of the Parties to the U.N. Framework Convention on Climate Change at its 15th Session, Decision 2/CP.15 (December 2009); U.S. Climate Action Network, "Who's On Board with the Copenhagen Accord?" (2009), online at: http://www.usclimatenetwork.org/policy/copenhagen-accord-commitments.

Table 1. WHAT WILL A CLIMATE FINANCE MECHANISM DO? TYPICAL FUNCTIONS AND ROLES	
FUNCTION	**ROLES**
Oversight	• Setting policies, program priorities, and eligibility criteria
Resource mobilization	• Replenishment of trust fund • Leveraging of additional sources of funding from Implementing Agencies and the private sector
Resource allocation	• Allocation of resources among multiple focal areas (e.g., mitigation, adaptation, and forestry) • Prioritization among eligible recipients
Project cycle management	• Preparation and approval of projects • Financial management of loan and grant agreements
Standard setting	• Development and approval of performance metrics • Development and approval of environmental and social safeguards
Scientific and technical advice	• Advice on appropriate policies and best available technologies • Advice on scientific trends and risk assessment
Accountability	• Monitoring and evaluation of project and portfolio performance • Review and inspection of problematic projects

for example, whether it reflects an equitable balance of contributors and recipients.

An institution widely perceived as legitimate is, in turn, more likely to gain the confidence of contributors, private investors, and recipients, which is essential to raise resources and to ensure that investments are owned and implemented in the host country. A financial mechanism's legitimacy should also be assessed on its track record. In the context of climate change, a question for assessing the legitimacy of an institution could be: does it have the capacity to back the most promising technologies, policy innovations, and investments in human and institutional capacity to stimulate the large-scale transformations necessary to achieve low-carbon, climate-resilient growth? Most of the climate financial mechanisms studied have not been operating at a scale or for a time period that allows for an assessment of performance. We, nonetheless, seek to make recommendations that would improve both the design and the performance of climate financial mechanisms.

1.1 PREVAILING APPROACHES TO INSTITUTIONAL LEGITIMACY[5]

After 20 years of climate change negotiations, the UNFCCC Parties have agreed on a set of approaches to the design of its financial mechanism in the Convention text, in related COP decisions, as well as through the operations of the Convention's financial mechanism under the GEF. Any new financial mechanism developed under the UNFCCC would likely have to follow or justify a departure from these same basic approaches:

- The governance of the financial mechanism should be based on an equitable, balanced representation of all Parties through universal membership within a transparent system of governance;[6]
- The financial mechanism should function under the guidance of and be accountable to the COP for conformity with the policies, program priorities, and eligibility criteria established by the Parties;[7]
- The wealthier developed countries should commit to provide new and additional resources in a predictable and identifiable manner that determines the amount of funding necessary and available based on appropriate burden sharing and that sets out the conditions under which that amount will be periodically reviewed;[8]
- Independent scientific and technical advice should inform program and project design;[9]
- Developing countries may, on a voluntary basis, propose projects for financing, including estimates of incremental costs and consequent benefits;[10]
- Developed countries should provide financial resources, including for the transfer of technology, needed by a developing country Party to meet the agreed full incremental costs of implementing measures as agreed between that Party and the financial mechanism;[11]
- Financial resources should support policies and measures that are cost-effective, to ensure global benefits at the lowest possible cost;[12]
- Through the principle of institutional economy, which avoids the creation of new institutions while tapping into and coordinating the comparative advantages of existing institutions,[13] and a non-exclusive but coordinated approach that allows for financial resources related to the implementation of the Convention to flow through bilateral, regional, and other multilateral channels,[14] multiple institutions and diverse accountability mechanisms should be involved in financial flows under the UNFCCC.

These approaches shaped the design of the Convention and the GEF, which in turn have attracted the near universal participation of states. It could be assumed that

the institutional arrangements based on these approaches are—or once were—perceived by the Parties as legitimate.

1.2 RETHINKING LEGITIMACY: POWER, RESPONSIBILITY, AND ACCOUNTABILITY IN POST-2012 CLIMATE FINANCE

The negotiations on climate finance are forging a new relationship among traditional contributors, traditional recipients, and the financial mechanisms they create. This new relationship is being defined through ongoing GEF operations, through the Copenhagen negotiations, and through "live experiments" in climate finance being conducted in existing and newly minted institutions vying for a role in future climate finance. It is also emerging through related discussions aimed at increasing the "voice and vote" of developing countries within the Major Economies Forum and the G-20.[15]

We examine this new relationship along three essential dimensions—power, responsibility, and accountability—as a means of better understanding how different design choices may affect perceptions of an institution's legitimacy, in terms of the fairness and effectiveness of its procedures and its impacts (see Box A). Each of these dimensions interrelates and overlaps. For example, if the power of governments is to be exercised responsibly it may need to be shared with scientific and technical experts. Power may need to be disciplined by standards and resource allocation frameworks designed to ensure responsible investment. And power may need to be diminished through the use of accountability mechanisms designed to challenge or overturn government decisions. With these interrelationships in mind, we have found the power, responsibility, accountability framework to be a useful means for analyzing and guiding institutional design.

Power: By power we mean the capacity to determine outcomes. Power is distributed both formally and informally between and among Parties, and between Parties and the institutions they create.[16] Formal power is recognized through membership and decision-making rules. In the current negotiations, developing countries are asking for more power than they have secured in previous negotiations, both formally, through more seats and more votes in decision-making bodies, and operationally, through greater participation in the programming of financial flows.

The relationship between a financial mechanism and the COP under current and future climate treaties is another important aspect of the distribution of formal power. Developing countries enjoy a numerical majority in the COP and see strengthening the COP's role in the financial architecture as strengthening their own capacity to determine outcomes. If multiple international financial mechanisms are entrusted with climate finance, the COP's authority will also set overall direction for the administration of climate funds by these institutions. This may be crucial to promoting a greater degree of coherence in climate strategies.

By informal power we mean power exercised through political and economic influence outside the formal rules on voice and vote. Informally, the power relationship between Parties and a financial mechanism will be mediated through its governing body and its administrative and management staff. As a practical matter, executive authority exercised by states is often devolved on a day-to-day basis to secretariats, technical experts, and program officers, or outsourced to Implementing Agencies and operating entities. These agencies work with the recipient government to prepare and approve projects and can be highly influential. Finally, power can be shared, to some degree, with non-state actors, including non-governmental organizations (NGOs), the private sector, and local communities with a stake in the impact of investments.

Our analysis marks a clear trend toward developing countries gaining more formal power in the governance structures of financial mechanisms both through additional seats and recognition of the authority of the COPs. It is unclear, however, whether this formal power is translating into greater capacity to determine outcomes and, if it is, whether this is enhancing Parties' perceptions of the climate financial mechanism's legitimacy in terms of the quality and impact of its decisions.

Responsibility: By responsibility we mean the exercise of power for its intended purpose, specifically, to ensure that the resources entrusted to a financial mechanism are programmed effectively and equitably. This includes responsibility exercised in allocating resources (through, for example, participation in decisions made by a governing body) and in leading the design and implementation of projects and programs in the host country.

How responsibility for responding to climate change and its impacts is shared between developed and developing countries is part of the broader dynamic of the climate change negotiations. In the context of international climate finance, developed countries will bear all or most of the responsibility for mobilizing funds. In return they, and the financial institutions they

dominate, are requesting that developing countries prepare "low-carbon development plans" as part of their participation in the post-2012 climate regime. This additional demonstration of responsibility by developing countries is justified in part by the need to show that resources are being programmed effectively and are not contributing solely to isolated projects but to changes across a country's economy that will lead, eventually, to net GHG reductions.

For their part, developing countries are now seeking to gain "direct access" to funds raised globally for climate mitigation or adaptation purposes. Essentially, direct access would enable those national and sub-national developing country institutions that meet appropriate financial standards to take direct responsibility for the programming of resources at the country level. This would entail entering into grant and loan agreements with the fund without having to rely upon Implementing Agencies, such as multilateral development banks and U.N. agencies.

At the same time, some developing countries are keen to limit their responsibilities for delivering specific climate outcomes to those efforts made possible by new and additional climate finance. Some developing country Parties see their efforts to implement national climate programs as contingent on developed countries' fulfillment of stated commitments to provide financial support.[17] However, most estimates of the level of investment necessary to shift developing countries toward low-carbon development far exceed what is likely to be available from official development assistance.[18] This suggests that new ways of sharing responsibility for the effectiveness of climate finance that combine public, private, domestic, and international financial flows will need to be agreed upon.

Since its creation, the GEF has applied the concept of "incremental costs" to determine the distribution of responsibility for financing specific initiatives at the project level (see Section 2.3). This concept, in theory, identifies and funds that portion of the project that generates "global environmental benefits," leaving the remainder to be funded by mainstream domestic and international sources. Our analysis suggests that this has been a difficult concept to apply in practice.

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Favela: Rio de Janeiro, Brazil (2007).

Current negotiations may modify or replace the use of the "incremental cost" concept as the means of determining what gets financed. For example, we highlight current experiments with new concepts such as "transformational costs" and "performance-based finance" under the Clean Technology Fund and various REDD+ funding mechanisms, while the Least Developed Country Fund and the Special Climate Change Funds measure their contributions against a "development baseline."

Accountability: By accountability we mean the standards and systems for ensuring that power is exercised responsibly. A climate financial mechanism will need to be accountable to the COP, to its contributors, to the countries in which it invests, as well as to the local communities that will depend on the benefits of its investments. Recipient countries have traditionally led the calls for greater accountability to the COP (which they see as their power base) to ensure that resources are raised and distributed fairly. Contributor countries have pushed for greater accountability at the project level, where return on investment is measured.

As developing countries seek greater power and take on greater responsibility in the programming of global environmental finance, this traditional dynamic between contributor and recipient countries will need to shift. As their role increases in setting policies through the governance of financial institutions, developing countries—particularly those with greater voting power—must be prepared to also be held more accountable by the media and civil society for the effective functioning of these institutions, including the quality of the decision-making processes and the impacts of decisions taken.

At the project level, traditional approaches to climate finance have relied heavily on Implementing Agencies, which act as intermediaries between financial mechanisms and host governments to provide systems for accountability. Initiatives by developing countries to secure "direct access" to financial resources through national institutions should be welcomed by those supportive of national "ownership" of development investments; however, these initiatives need to be supported with high standards of accountability. National institutions need to provide performance-based accounting for results to meet fiduciary standards that demonstrate sound financial management and to establish and implement environmental and social safeguards against the unintended consequences of investments. This concept of direct access is currently being tested through the operation of the Kyoto Protocol's Adaptation Fund, but with no funds disbursed or projects implemented, the lessons from this Fund are not yet clear.

1.3 ASSUMPTIONS AND SCOPE OF ANALYSIS

Climate change negotiators, particularly those from developing countries, appear to have a strong appetite for creating new institutions (see Box 2 for a survey of key proposals on climate finance from Parties to the UNFCCC). This is true despite many delegations also supporting the principle of institutional economy—that new institutions should only be created when their intended functions cannot be carried out by existing institutions. Despite past disappointments, Parties appear to retain faith that they *can* design a new financial mechanism that meets their evolving standards of legitimacy.

Our analysis therefore seeks to inform both the reform of existing institutions and the design of new ones. Our working assumption is that whatever results from subsequent climate negotiations will involve, at least in the near term, multiple institutions (multilateral, regional, bilateral, and national, both within and outside the UNFCCC)—or involve what some have referred to as a "de-centralized" model.[19] While many countries are calling for the establishment of an overarching body to oversee climate finance, we believe the politics and flows of climate finance are (and have always been) far too complex to be fully captured by any single institution. Thus, even if a new institution is established it will face the challenge of coordination, alignment, and complementarity with various other initiatives and institutions—particularly with those outside the UNFCCC umbrella. A common understanding of the principles we explore should help bind either a centralized or a de-centralized model together.

We are also aware that, in addition to involving multiple institutions, climate finance will likely flow through multiple financial *instruments*, including grants, concessional loans, private sector direct and indirect investments, and carbon markets. Our analysis focuses on institutions designed to provide grants and concessional loans from publicly raised funds. We feel, however, that many of the issues and principles discussed in this paper are relevant to any institution designed to manage climate finance, such as proposed technology transfer committees or carbon market mechanisms.

We recognize that supporting mitigation of climate change and adaptation to its impacts is an enormously

complex undertaking that will require efforts that range from capacity building to large-scale investments in infrastructure. Some of the generalizations we draw result from the experiences of significantly different institutions investing in very different kinds of activities and facing very different kinds of challenges. We have found that the larger the scale of the investment, the higher the risks, and the more challenging the relationships of power, accountability, and responsibility. We feel, however, that the conclusions and recommendations we reach are relevant and applicable to any institution entrusted with climate finance.

We recognize that perceptions of the legitimacy of a financial mechanism are inherently subjective, and that this subjectivity is revealed in the very different preferences expressed by contributor and by recipient countries. In order to explore the gap in these preferences we have had to make broad and crude generalizations about the differences between the positions of "contributor" and "recipient" countries and the context in which these relationships are being challenged. While we have attempted to ground these generalizations in the official statements and positions of governments, we recognize that many subtleties have been lost.

We believe, however, that if governments were to discuss the dimensions of legitimacy more explicitly, the stakes and the trade-offs would become more apparent, and a more shared understanding on how to design a legitimate financial mechanism would emerge. We believe that the failure thus far to address the distribution of power, responsibility, and accountability more explicitly has led to a proliferation of financial mechanisms that are underfunded, which in turn leads to calls to create new mechanisms.

Load of plastic water cans: Kigali, Rwanda (2010).

Box 2. PROPOSALS ON CLIMATE FINANCE UNDER THE BALI ACTION PLAN (2008–2010)

The G-77 Proposal for a New Financial Mechanism

The G-77 and China have proposed that developed countries should contribute 0.5 to 1.0 percent of gross national product (GNP), totaling an estimated USD 150–300 billion a year, in support of mitigation, adaptation, technology transfer, and capacity-building programs in developing countries. This would be administered through a single fund with multiple windows to address each of these priority areas. The COP would appoint a Board with an "equitable and geographically balanced representation of parties" to be assisted by a Secretariat of professional staff. It anticipates establishing a Consultative Advisory Group of "all relevant stakeholders" and an Independent Assessment Panel. Recipients would have "direct access" to the funds and would not have to work through the U.N. or other multilateral agencies. The proposal emphasizes the importance of country-level engagement and the need to support programmatic approaches to allow for "implementation at scale."

China's Multilateral Technology Cooperation Mechanism

China's proposal for financing and technology support for developing countries calls for balanced representation among Parties and a separate Monitoring and Evaluation Panel within the governance structure of the Mechanism. This structure reflects an effort to maximize the accountability of Parties and the projects and programs they finance.

India's Financial Mechanism

India's proposals for a financial mechanism have built on the central tenets of the G-77 proposal, emphasizing that UNFCCC financing should be treated as an "entitlement, not aid." It has suggested that all financing should be provided in the form of grants, as opposed to repayable loans (concessional or hard). India proposes that climate finance should be governed by a new mechanism under the COP. This "Executive Board" would be composed to "equitably" represent all Parties. National implementing entities designated by developing country Parties would be responsible for approving projects, actions, and programs. A thematic assessment unit would "carry out the relevant assessments for disbursement to the designated national funding entities of the developing country Parties." The Mechanism could also administer a registry that tracks receipt and deployment of financial resources.

Bolivia's Multilateral Climate Fund (Based on the Outcome of the World People's Conference on Climate Change and the Rights of Mother Earth)

This scaled-up variation on the G-77 proposal calls for developed country Parties to provide at least 6 percent of their GNP for climate change. It proposes that 3 percent should go to adaptation, 1 percent to mitigation, 1 percent for technology development and transfer, and 1 percent for capacity building over the longer term. It seeks USD 400 billion from public sources for fast track financing. It also seeks an equivalent of USD 150 billion in International Monetary Fund (IMF) Special Drawing Rights. The Fund would function under the authority and guidance of the COP and be fully accountable to it as the financial instrument of the Convention. An Executive Board with equitable and geographically balanced representation would oversee multiple funding windows, including for adaptation, mitigation, technology transfer and development, and capacity building. Panels of technical experts would inform programming, and a monitoring and verification mechanism would exist. Operation would follow the principles of openness, transparency, effectiveness, and easy access.

United Kingdom's Compact Model

The UK has proposed a Global Compact Model that would facilitate "delivery of finance at scale against ambitious, credible, country-owned national plans which incorporate mitigation and adaptation." The compact approach would be administered by an institution with an equal number of developed and developing country representatives to constitute "balanced" power structures. Nationally owned low-carbon and climate-resilient development strategies would provide the basis for allocating finance, and there would be an instrument for coordinating support to a country from a number of potential sources, including bilateral and multilateral programs. Systems would be put in place at the national level to measure, report, and verify implementation of the Compact. The approach has been informed in part by the UK's experience with the Climate Investment Funds,[1] which are piloting some elements of this approach.

Mexico's Green Fund Proposal

Mexico is proposing the creation of a multilateral Green Fund within the UNFCCC aimed at scaling up, instead of simply re-allocating, financing. The idea is to secure quasi-universal contributions based on common but differentiated responsibilities. All countries would contribute to the Fund on the basis of GHG emissions, population, and gross domestic product (GDP). There would be equal representation of Annex I and non-Annex I countries, but developing countries would have access to amounts larger than their own contributions.

Switzerland's Proposal

Switzerland has proposed a uniform global levy of USD 2 per ton of carbon dioxide on all fossil fuel emissions to be assessed on all countries, except those (developing) countries with an annual emissions rate lower than 1.5 tons of carbon dioxide per capita. These resources would provide financing for adaptation and mitigation in developing countries. Two sets of funds have been proposed: a Multilateral Adaptation Fund that would focus on climate change impact and risk reduction by providing finance for policies and measures, and an insurance pillar that would finance recovery and rehabilitation in response to the impacts of climate change.

Box 2. *(continued)*

European Union Proposal

In its September 2009 communication on finance, the EU suggested that "for an overall governance structure [for global climate finance] to be efficient, effective, and equitable it needs to build on ownership, subsidiarity, coherence, transparency, accountability, rewarding performance, additionality and complementarity."[2] It has proposed a new High-Level Forum on International Climate Finance to monitor and regularly review gaps and imbalances in financing mitigation and adaptation actions. It has suggested that "governance of the future international financial architecture should be decentralised and bottom-up," and should be efficient, effective, and equitable. To this end, developed countries should record financial support in a registry.

U.S.'s Financing Proposal

In October 2009, the United States proposed the establishment of a new Global Fund for Climate operating under the Convention, and in June 2010, it provided further details on how the COP could establish the new Fund by laying out a three-step process: (1) adopting a COP decision that provides the framework for designing the new Fund; (2) negotiating the design of the new Fund itself; and (3) agreeing to a memorandum of understanding (MOU) between the COP and the Fund.[3] The United States envisages the setting up of a Board as the executive authority of the Fund that is accountable to the COP alone. While the United States had initially anticipated the World Bank to be both the Trustee and the Secretariat for the Fund, it now acknowledges that other institutions staffed with professionals with relevant experience in public and private finance, as well as mitigation and adaptation, could serve as the Secretariat. However, they continue to see the World Bank as the only institution with the fiduciary standards, safeguards, and experience to serve as the Trustee.

For the process of negotiations to establish the Fund, the United States envisages either the Trustee convening a technical financial process or a working group led by a Party or group of Parties with finance experts convening a series of meetings to negotiate the instrument, approve it, and nominate the Board. Once established, the Board would negotiate an MOU with the COP. The technical financial negotiating process will address the purpose and principles of the Fund; the modalities for the Board, the Secretariat, and funding; the use of specialized windows; the monitoring and review process; and the fiduciary and safeguard responsibilities. Based on its earlier submission, the United States proposed that both developed and developing countries (except least developed countries) contribute to the Fund, and that the GEF continue to support capacity building, technology innovation, and development activities. These issues were not further elaborated on in its latest intervention.

Maldives' Proposals

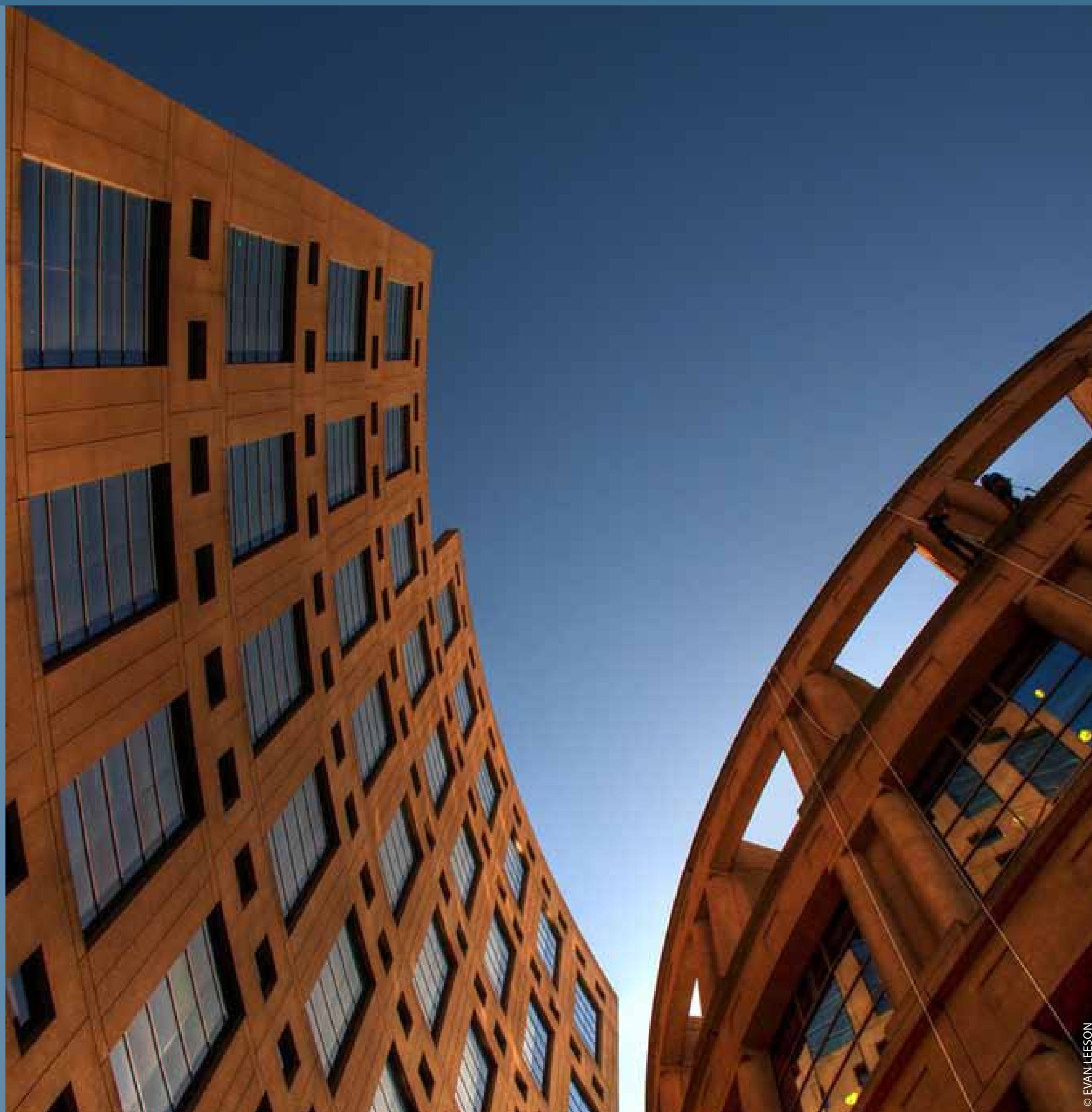
The Maldives has proposed the implementation of a Financial Mechanism for Meeting Financial Commitments building on existing commitments in the Convention. The Mechanism would include a new Board, a Secretariat, an Expert Group or Committee, a Consultative Group of stakeholders, and an Independent Assessment Panel; ensure full implementation of relevant provisions in the Convention relating to the provision of financial resources; and provide a means for registering the developing country implementation of financing obligations and for matching these with nationally appropriate mitigation actions. The Maldives emphasizes that funding under the Convention is distinct from official development assistance, as it is to be considered as compensation for damage rather than redistribution of wealth or charity. Its proposal calls upon developed countries to provide public money amounting to at least 1.5 percent of GDP, in addition to innovative sources of finance, annually by 2015 to assist developing countries make their transitions to climate-resilient, low-carbon economies. Finally, the Maldives supports the establishment of the Copenhagen Green Climate Fund and calls on the Fund to be created as soon as possible and to provide adequate financing (quick-start and longer-term), and the country further calls for "an assessment of the adequacy of short- and midterm financing pledges in light of the latest scientific and economic analysis and the Convention's obligation to provide full incremental costs to developing countries."[4]

Sources:

UNFCCC, "G77 and China—Proposal: Financial Mechanism for Meeting Financial Commitments under the Convention" (Accra, Ghana: United Nations, August 2008), online at: http://unfccc.int/files/kyoto_protocol/application/pdf/g77_china_financing_1.pdf; Ministry of Environment and Forests, Government of India, "Climate Change Negotiations: India's Submission to the UNFCCC" (August 2009); H. Reid, "UK Global Compact Model," Presentation at the Seminar on Post-2012 Architecture (Bonn, Germany, June 2009); Communication from the European Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, "Stepping Up International Climate Finance: A European Blueprint for the Copenhagen Deal" (September 2009): 12; UNFCCC, "Ad Hoc Working Group on Long-Term Cooperative Action Under the Convention" (April 30, 2010), online at: http://unfccc.int/resource/docs/2010/awglca10/eng/misc02.pdf.

Notes:

1. These manage the UK's £800 million Environmental Transformation Fund.
2. Communication from the European Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, "Stepping Up International Climate Finance: A European Blueprint for the Copenhagen Deal" (September 2009): 12.
3. The details of the U.S. proposal are based on its intervention at the Ad Hoc Working Group on Long-Term Cooperative Action under the Convention (AWG-LCA) meetings in Bonn in June 2010.
4. UNFCCC, "Ad Hoc Working Group on Long-Term Cooperative Action Under the Convention" (April 30, 2010), online at: http://unfccc.int/resource/docs/2010/awglca10/eng/misc02.pdf.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Public library: Vancouver, Canada (2009).

Taking Stock:

Lessons learned from the operation of the Global Environment Facility[20]

Before looking forward to a next generation of climate finance, we reflect on how power, responsibility, and accountability were incorporated into the design of the current "operating entity" of the UNFCCC's financial mechanism: the GEF. The GEF's role as an "operating entity" of the Convention's financial mechanism has remained controversial, particularly among developing countries, and the GEF has not yet been given a prominent role in the post-2012 climate regime.[21]

When, in 2001, the Kyoto Protocol Parties established a Special Climate Change Fund and a Fund for Least Developed Countries, they entrusted their operations to the GEF. Under the Kyoto Protocol's more recently established Adaptation Fund (AF), the GEF Secretariat will support the Fund's project cycle, but the Parties established a separate Adaptation Fund Board rather than give a governance function to the GEF Council. The October 2009 climate finance proposal from the United States, which was a main architect of the GEF, seems to relegate the GEF's role to capacity building, rather than large-scale project finance.[22]

Developing countries have expressed disappointment in what they perceive as the GEF's lack of responsiveness to their concerns. Their calls for a closer relationship between any new financial mechanism and the COP, as well as their demands for direct access, stem largely from their frustration with the GEF. Understanding why the GEF's design has not been embraced as legitimate is crucial to crafting a new set of arrangements for climate finance.

2.1 GEF GOVERNANCE: A NEW BALANCE OF POWER

In many ways the GEF was a watershed in institutional design.[23] Its founding document, the GEF Instrument, provides for universality of participation of all Parties through its Participants Assembly, and an equitable, balanced representation of participants through a constituency system in the GEF Council, which divides seats roughly evenly between developed and developing country members.[24] GEF decision-making in both the Assembly and the Council is by consensus. If consensus fails in the Council, formal voting (as yet, never exercised) is based on a double-weighted majority, which would require in effect a 60 percent majority of participants (dominated by recipient countries) and a 60 percent majority of contributors (non-recipients), to approve a decision.[25] This balance of power in the GEF structure reflected the need for a new kind of partnership that recognized developing countries as co-investors and partners in global environmental governance. As such, the GEF could be seen as a model for any new financial mechanism.

However, the South African submission to the discussion on GEF's 2009 replenishment negotiations is generally representative of views expressed by developing countries, and it strongly implies the need for change in the GEF's governance structure:

> The issue of Governance of the GEF has been another concern for us. We believe that in light of the changing landscape since the [1992] Rio Summit we must review the Governance structures with a view to assessing whether they are fully reflective of the current situation. In this context, there is an urgent need for a comprehensive and strategic review of the institutional and governance structures of the GEF, including the constituency system, the replenishment process, operational efficiency and the relationship between the various structures.[26]

Thus the general dissatisfaction with the GEF's institutional and governance structures is based not only on the formal distribution of power within the GEF Council but also on the relationship between the GEF and other structures within the complex, distributed model of climate finance.

2.2 THE GEF, THE COP, AND THE IMPLEMENTING AGENCIES: THE CHALLENGES OF "INSTITUTIONAL ECONOMY"

As with any new climate financial mechanism that may be established, the GEF has had to find its place in a relationship with the COP and with other existing institutions that currently play roles in climate finance. In 1992 the UNFCCC Parties decided, rather than creating a new institution, to "outsource" the operations of its financial mechanism to the GEF, which was then a pilot donor-run trust fund within the World Bank. This outcome was justified on the grounds of institutional economy and with the understanding that the GEF would be reformed to be made more democratic and accountable to the COP. The GEF Council was established and its project cycle designed to draw on the capacities of existing institutions, in particular the GEF "Implementing Agencies," for example, the World Bank, UNDP, and UNEP. However, this new arrangement raised a unique set of challenges about how to formalize and coordinate these institutional relationships among the GEF, the COP, and the various Implementing Agencies.[27]

Developing countries, which form the overwhelming numerical majority in the COP, have consistently insisted on the recognition of the COP as the "supreme body" of the UNFCCC, particularly in relation to its financial mechanism. One of the constraints to formalizing the relationship between the COP and the GEF has been the indeterminate nature of the "legal personalities" of both the COP and the GEF.[28] Over the course of the relationship between the two bodies, UNFCCC Parties and GEF Participants had come to the view that neither the COP nor the GEF is sufficiently endowed with legal personality to enter into a formal legal agreement, and thus settled on a loosely worded MOU.[29] The MOU between the GEF Council and the COP[30] gives effect to the respective roles and responsibilities of the two bodies; the COP is recognized as the supreme body of the Convention, and the GEF is established as the international entity entrusted with the operation of the financial mechanism. However, the GEF-COP MOU provides for only a limited means of accountability between the two bodies. For example, the MOU provides that:

> [i]n the event that the COP considers [a] specific project decision does not comply with the policies, programme priorities and eligibility criteria established by the COP, it may ask the Council of the GEF for further clarification on the specific project decision and in due time may ask for a reconsideration of that decision.[31]

The MOU does not indicate what will happen to resolve the conflict if it persists.

While no such conflict has formally arisen, an independent NGO study of the relationship between the COPs and the GEF concluded that:

> the GEF is, legally and practically speaking, functionally autonomous from the conventions it serves. No effective sanctions are available to the COPs that would empower them to force the GEF to conform with their guidance. Consequently, the COPs cannot exercise enforceable control over the entity that operates their financial mechanisms.[32]

The formal relationship between the GEF and its Implementing Agencies has also proved controversial. While each Implementing Agency has passed a resolution endorsing its assigned role in the GEF instrument, each, understandably, also remains responsible and accountable under its own rules, procedures, and governance structures.[33] GEF Participants have highlighted the need to address operational issues that arise from the involvement of multiple Implementing Agencies, such as the lack of speed and responsiveness of funding and implementation and the high transaction costs on recipient countries.[34]

2.3 POWER, RESPONSIBILITY, AND ACCOUNTABILITY IN THE GEF PROJECT CYCLE: INCREMENTAL COSTS AND THE GEF'S ALLOCATION FRAMEWORKS

Two of the most important and controversial concepts that have dominated the GEF's approach to climate finance are "incremental costs" financing and its efforts to design a framework for allocating resources. Both of these concepts are described by proponents as providing a rational, analytical basis for deciding how much money to invest in particular aspects of particular projects in particular countries.[35] Both concepts have proved controversial—particularly with smaller recipient countries—for strengthening the power of the GEF Secretariat, narrowing the amount of funds available, and decreasing the sense of national ownership of investments.

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Letter writer: India (2007).

Any new climate financial mechanism will have to struggle with similar challenges by coming up with standards and procedures for negotiating cost allocation with host countries and for allocating scarce resources between and among countries with different national circumstances.

Incremental Cost Financing

Under the UNFCCC, the Kyoto Protocol, and the GEF, eligible developing countries may receive grant funding for the "agreed full incremental costs" of measures taken to implement their commitments. The concept is designed to limit and add leverage to grants made for global environmental purposes by:

- Providing a means to distinguish between the additional, incremental costs of building a global environmental benefit (such as decreasing greenhouse gas emissions) into a development investment and a business-as-usual investment made for domestic benefits;
- Creating a grant-based incentive for Implementing Agencies, such as development banks, to mainstream global environmental benefits into conventional development loans;
- Setting the parameters for negotiating agreed costs between contributor agencies and recipients project-by-project; and
- Providing the basis for a cost-benefit analysis that allows for an assessment of the global environmental benefits derived from an incremental cost investment.[36]

From the RAF to the STAR: Lessons Learned in Resource Allocation

While the incremental cost concept operates to identify levels of funding on a project-by-project basis, since 2005 the GEF has been using the Resource Allocation Framework (RAF) to allocate funding among recipient countries.[37] The RAF is designed to create a greater sense of shared responsibility between contributors and recipients, a sense of accountability for recipient performance, and to focus resources on countries with the potential to achieve the greatest global benefit (in the case of climate change, the largest emitters). GEF recipients are ranked with regard to: (1)

Rice harvest: Santiago City, Philippines (2008).

their potential to generate global environmental benefits in a particular focal area (the "GEF Benefits Index," or GBI); and (2) their capacity, policies, and practices relevant to successful implementation of GEF programs and projects (the "GEF Performance Index," or GPI).[38]

The highest-ranked countries, which together account for 75 percent of the funds allocated in a given focal area, receive their own country-specific allocations. The remaining countries, known as "Group Allocation Countries" (GACs), are placed in a group for each of the GEF's focal areas. Each group must share the remaining 25 percent of funds available to that focal area.[39]

The RAF has provided predictability to countries with large individual allocations, which has in turn empowered these countries in negotiations with Implementing Agencies. Between 2006 and 2010, the countries receiving the five largest allocations under the RAF for climate change were China, India, Russia, Brazil, and Mexico.[40] Countries with smaller allocations (and with a small percentage of global GHG emissions)—which include most of the least developed countries (LDCs) and most vulnerable countries—receive less, and less predictable support. The RAF did not, however, apply to adaptation funding.

The midterm review of the first RAF funding period showed that 93 percent of GACs had not yet accessed any climate change funds. In addition, "the experience with the RAF pipeline negotiations brought out more strongly the inherent conflicts between the criteria of global environmental benefits and country-specific sustainability needs."[41] This has led many, if not all, GACs to conclude that the RAF has not led to greater ownership or empowerment.[42]

During the RAF midterm review survey, 60 percent of stakeholders indicated that RAF implementation "may shift project decision-making power in favor of the GEF Secretariat,"[43] which has day-to-day responsibility for its implementation. When combined with unclear guidance from the Secretariat, this has slowed access to funds.

Efforts are underway by the GEF Participants and the Secretariat to reform the RAF in the context of heated debates on the role the GEF might play post-2012. A process to develop a System for Transparent Allocation of Resources (STAR) that would replace the RAF has now been approved. One of the principal objectives of this revision is to increase the amount of funding in absolute terms that is available to least developed and vulnerable countries that do not make the top ranks of the GBI. Options for refining the GBI and enhancing the GEF Performance Index have also been proposed.[44]

2.4 CONCLUSIONS

The experience of GEF operations, as well as global shifts in economic and political power, and the heightening of shared concerns about climate change and biodiversity loss, are leading to a reinterpretation of the approaches that led to the GEF's design. However, many of the financial, political, and institutional dynamics and constraints that shaped the GEF remain relevant. If negotiators decide to design a new financial mechanism, they should consider the GEF experience.

The experience of the GEF also shows that strengthening the formal voice of recipient countries by adding membership and votes to the governance structure does not necessarily lead to their empowerment. The influence of contributors, Implementing Agencies, and international civil servants dependent on contributor resources, will remain strong in the GEF, and perhaps determinative of such crucial issues as resource allocation.

Tying the COP and the GEF Council together with a loosely worded MOU, operationalized through vague annual "guidance" from the COP and reporting from the GEF, has not created a sense of accountability. The outsourcing of finance-related functions from the COP to external institutions, such as the GEF and its Implementing Agencies, may respect the principle of institutional economy, but it also raises accountability challenges and can lead to a complex and cumbersome project cycle, requiring the approval of multiple agencies. The GEF has recognized this and has been making efforts to streamline the project cycle.

The incremental cost concept and the RAF have proved unpopular with recipient countries. However, some framework for prioritizing efforts that will be funded, and for determining what portion of a country's actions will be funded, is necessary given that the demand for financing will inevitably exceed availability. Any post-2012 climate financial mechanism will also have to grapple with the challenge of allocating scarce resources among countries and of balancing the need to support smaller countries' target emissions reductions and climate resilience with emissions reductions that can be achieved cost effectively and at a large scale.

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Installing solar panels: Rema, Ethiopia (2009).

Power

This Section reviews the ways in which developing country demands for greater power in the formal decision-making structures of finance mechanisms have led to significant increases in their "voice and vote" through more seats on boards and more balanced voting systems. They have managed to secure the formal acknowledgment that any financial mechanism be accountable to the Conference of the Parties, where developing countries have the majority of seats. However, developing countries' desire to have a greater say in the outcome of the governing boards that raise and allocate resources, and in the project cycles that design and implement investments, has been frustrated. Part of this frustration results from the interaction between power and the standards meant to represent greater responsibility and accountability. The governments that contribute the largest share of resources continue to exercise economic and political power informally, through the imposition of conditionalities and priorities in the process of resource mobilization, resource allocation, and in the operation of project cycles. Responsibility and accountability may also require government power to be shared, disciplined, and even diminished through the greater involvement of non-governmental participation that brings in scientific and technical expertise, as well as the voices of people affected by project implementation.

3.1 DEMANDS FOR REFORM IN THE FORMAL BALANCE OF POWER

Recipient countries are increasingly questioning the legitimacy of the balance of power between contributors and recipients in the context of climate finance, and they are demanding a greater say in how priorities are set and how funds are disbursed and accounted for. Their demands stem in part from the history of donor dominance of key finance institutions such as the World Bank, the IMF, regional development banks, and bilateral aid agencies.[45]

Demands for reform also reflect the overall dynamic of the Copenhagen negotiations and the tug-of-war over "common but differentiated responsibilities" and heightened expectations around the "measuring, reporting, and verification" of developing country actions to reduce emissions as well as developed country financial contributions. As the threats of climate change

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Skyline: New York City, USA (2009).

grow, developed countries are seeking to leverage greater results from their climate finance investments. Developing countries are pushing back, insisting that climate finance be viewed as "compensation" for the damage from climate change caused by the North and for any lower-cost development opportunities the South is asked to forgo.[46]

Both sides of the debate reflect a perception that previous attempts to rebalance power between contributors and recipients, such as the voting structure of the GEF Council, have failed to produce a new "global partnership." Instead, previous efforts of reform have merely replicated the donor-recipient dynamics of the past. While developing countries may have been offered more voice in GEF decision-making through its voting structure, contributors have gained back power by withholding funding until their conditions are met. For example, U.S. insistence on a Resource Allocation Framework in the context of negotiations over the fourth GEF Replenishment resulted in its adoption over the resistance of many developing country participants. As a result, developing countries' desire for greater power over the institutions that channel climate finance has become a central point in the international climate change debate.[47]

3.2 GOVERNANCE STRUCTURE, VOICE, AND VOTE

The power to set the overall policies and program priorities for a financial institution is typically entrusted to a governing body made up of a combination of contributor and recipient countries. Depending on the size of the membership, these functions will either be performed by the membership as a whole, or by a governing body of representatives elected or appointed by the membership. The large number of countries participating in the GEF (182) has, for example, led to the establishment of the GEF Governing Council, which has 32 members.

Typically, the struggle for power in the design of a financial mechanism begins with the design of its governing body and the distribution of seats and votes across different geographical regions and development groupings. As has been discussed, the climate change regime has traditionally followed the principle of "equitable, balanced representation of all Parties through universal membership within a transparent system of governance."[48]

Institutions designed under the U.N. system typically take decisions by consensus. Should consensus fail, they vote following the principle of sovereign equality by formally extending an equal vote to each country (see Box 3). As has been described in Section 2, the GEF has developed a system of double-weighted majority that weights countries' votes on the basis of their contributions to the GEF Trust Fund.

Box 3. VOTING VERSUS CONSENSUS

In most cases, the rules of procedure of the governing boards of the funds surveyed resort to formal voting only on the rare occasion when consensus cannot be reached among member states. Consensus is typically defined as having been reached when, in the opinion of the presiding officer, no member present formally objects to a proposed decision. This rule can operate to empower any individual member to block the decision of the majority. It also raises the political stakes of withholding consent and can operate to shift transparent decision-making into backroom negotiations, where less politically powerful countries lose leverage. It may also reduce the accountability of representatives to their constituencies. If governments' positions are made transparent through recorded votes, representatives may be more accountable for demonstrating that their decisions reflect the interests of their national governments or other constituencies.

Sources:
H. Schmermers and N. Blokker, *International Institutional Law* (Boston: Martinus Nijhoff Publishers, 1995), note 1 at § 771.

While there is an apparent trend toward allowing developing countries more votes and more voice in the governance of climate finance, the outcome of this aspect of the UNFCCC negotiations will depend in part on the scale and sources of the finance. Traditional recipient countries are understandably concerned about housing climate funds at institutions whose governance structures give contributor governments more power. Contributing countries will want to continue to exercise control over what may amount to tens of billions of dollars annually of public investment. These concerns have been expressed unequivocally in the context of the deliberations of the U.S. Congress over contributions to international funds for climate finance.

To date, four different governance models for climate finance have emerged within and outside the UNFCCC: (1) the GEF model, described in Section 2; (2) the Marrakesh model, which emerged after the negotiation of the Kyoto Protocol; (3) the Adaptation Fund Board model; and (4) the World Bank–Administered Funds model. These are discussed below and summarized in Table 2.

The Marrakesh Model

In 2001, as part of the Marrakesh Accords negotiations, the COP established two new Convention funding mechanisms to respond to the needs and

demands of the most vulnerable countries, particularly the least developed countries and the Small Island Developing States (SIDS). The Least Developed Countries Fund (LDCF) supports the development and preparation of national adaptation programs of action. The Special Climate Change Fund (SCCF) places a special emphasis on: (1) adaptation; (2) transfer of technologies; (3) energy, transport, industry, agriculture, forestry, and waste management; and (4) economic diversification.[49] While both Funds emanated from the desire of a majority of developing countries to create new institutional arrangements separate from the GEF Trust Fund that would be more responsive to their priorities, the governance and management of these Funds has been effectively outsourced to the GEF Council and Secretariat.[50] The SCCF and LDCF policies and procedures are determined by the GEF Council, which acts as the Council for the two Funds under the guidance of the COP.[51] Decisions are made by consensus, and should consensus fail, by a vote based on GEF double-weighted majority rules that are modified to reflect each country's relative contribution to these Funds (rather than their contributions to the GEF).[52] According to the GEF Secretariat, members of civil society and representatives of other relevant international agencies (e.g., UNDP, UNFCCC) are welcome to attend Council meetings dealing with the LDCF and SCCF agendas as observers.[53]

The Adaptation Fund Model

The Adaptation Fund Board (AFB) was designed with a composition of 10 developing country members and six developed country members. Decision-making is by consensus, and if consensus fails, by a two-thirds majority vote, based on one member, one vote. In theory, all developing country members would need to join with one developed country member to adopt a decision. All meetings of the AFB are open to observers, who may participate only upon invitation of the chair. This balance of power in favor of developing countries on the AFB may be attributable in part to the financing of the Adaptation Fund, which is drawn from a portion of the proceeds of the Clean Development Mechanism, rather than contributions from developed countries.[54]

World Bank–Administered Funds Model

Outside the auspices of the Convention, but in a parallel effort to inform the next generation of climate finance, the World Bank has been conducting a series of "live experiments" in institutional design through its Climate Investment Funds (CIFs). The governance structure of the World Bank–administered CIFs departs from the traditional Bretton Woods governance structure, in which donors have more votes (see Box 4).

Instead, the CIFs emulate the design of the GEF and the Multilateral Fund for the Montreal Protocol[55] (but without the double majority veto system), and they feature an even division of membership and decision-making power between contributors and recipients. Each of the CIFs is governed by a relatively small Trust Fund Committee with an equal number of contributor country representatives and recipient country representatives. The Clean Technology Fund (CTF) committee, for example, has eight contributor and eight recipient

Table 2. FOUR MODELS FOR CLIMATE FINANCE GOVERNANCE

GOVERNANCE MODEL	BASIC GOVERNANCE STRUCTURE	METHOD OF DECISION-MAKING	STATUS OF NON-STATE PARTICIPANTS
Global Environment Facility Model	Core governance outsourced by COP to GEF Council of 32 members: 16 from developing countries, 14 from developed countries, and 2 from economies in transition	Consensus (and if it fails, double-weighted majority voting)	The GEF CEO may invite civil society observers to contribute to the meeting; also engages with NGOs through the GEF-NGO network that includes more than 700 members
Marrakesh Model (Least Developed Country Fund and Special Climate Change Fund)	Core governance outsourced by COP to the GEF Council	Consensus (and if it fails, modified double-weighted majority voting)	Civil society and representatives from other international agencies can observe
Adaptation Fund Model	Governed by Board created by CMP and consisting of 10 developing country members and six developed country members	Consensus (and if it fails, two-thirds majority voting)	Meetings open to all Kyoto Protocol–accredited observers, who may participate if invited by chair
Climate Investment Funds Model (Clean Technology Fund and Strategic Climate Fund, including the Forest Investment Program and Pilot Program on Climate Resilience)	Each Fund governed by a Trust Fund Committee of 12–20 members with an equal number of contributor and recipient country representatives	Consensus only	"Active observer" positions open to civil society, private sector, representatives from multilateral agencies, and indigenous groups

Box 4. REFORM OF THE GOVERNANCE OF THE BRETTON WOODS INSTITUTIONS

The governance structures of the Bretton Woods Institutions—the World Bank Group and the IMF—have for 60 years provided a model for the design of multilateral financial institutions, inspired by the shareholder model of a commercial bank. Each country party to the World Bank charter has 250 votes, plus one vote for every share of stock held in the Bank. Quotas of capital stock were originally assigned on the basis of the relative economic power of the various economies of the world in the 1950s when the World Bank and IMF were established.

As developing countries have sought to join these systems the capital stock has increased, but the general power dynamics have remained constant. In April 2008, however, the formula for assigning IMF quotas was reformed on the basis of a weighted average of a number of factors: GDP (50 percent); openness (30 percent); economic variability (15 percent); and international reserves (5 percent). The IMF has also agreed to "adjust quota shares every five years to reflect members' evolving weight in the world economy and to increase the shares of underrepresented countries" in order to create a more dynamic power mechanism. Civil society groups have argued that voting shares should be assigned on the basis of human development variables in addition to economic ones. For example, it has been proposed that GDP at purchasing power parity (PPP), population, greenhouse gas emissions, external debt, and the poverty index might all be variables that should be factored into the allocation of voting shares. These perspectives inevitably color Parties' views on the design and choice of institutions that should be entrusted with financing climate change.

The Executive Board of the World Bank consists of 24 Executive Directors, where the five Executive Directors with the largest quotas/voting shares are appointed by their respective governments,[1] namely the United States (16.40 percent), Japan (7.87 percent), Germany (4.49 percent), France (4.41 percent), and the United Kingdom (4.31 percent).[2] The remaining 16 Executive Directors are elected by member states, which in theory belong to geographically related voting blocs, and each voting bloc casts their vote as one unit.

China has sought speedy implementation of the agreement reached by leaders of the Group of 20 at their Pittsburgh summit to increase developing countries' voting power and quota in the IMF and the World Bank by at least 5 percent and 3 percent, respectively. The IMF was also urged to set up an automatic adjustment mechanism for its quota in the mid- and long term to reflect the evolving weight of each member in the global economy. This includes encouraging the World Bank toward the ultimate goal of parity voting power between developed and developing members, a goal endorsed by the Bank's President.

The first round of the voice and vote reform at the World Bank Group was approved at the 2010 annual meeting of the World Bank. The Bank's 186 member countries endorsed an USD 86 billion general capital increase (a first in 20 years) and approved a shift in voting power to developing countries. The shift represents a "3.13 percentage point increase in the voting power of Developing and Transition countries, bringing them to 47.19 percent."[3] In addition, a twenty-fifth seat at the World Bank Board was approved for sub-Saharan Africa. A new post-crisis strategy was also adopted, as well as a package of reforms to make the Bank "more efficient, more flexible, and more accountable."

The decision to shift power and representation at the World Bank was welcomed as a significant step forward by developing countries, including China and India. The Chinese Finance Minister called the reform "an important step towards equitable voting power between developing and developed members."[4] China has now become the third largest member behind the United States and Japan.

Nonetheless, calls for reform continue. For example, developing country governments have suggested that the process for choosing the leaders of the World Bank and IMF needs to be more open, transparent, and merit-based. There has also been an explicit demand for the Bank and the IMF to continually increase developing countries' representation in their staffing structure, particularly senior management, in order to achieve "a good geographic balance."

Sources:

IMF, "IMF Quotas Fact Sheet" (August 31, 2009), online at: http://www.imf.org/external/np/exr/facts/quotas.htm; Group of Lecce, "Reforming Global Economic Governance: A Proposal to the Members of the G-20," Euromediterranean School of Law & Politics Sector (2009); A. Marston, Are We Nearly There Yet? Bridging UK Supported Funds and Post 2010 Climate Architecture (Bretton Woods Project, June 2009); A. Caliari and F. Schroeder, "Reform Proposals for the Governance Structures of the International Financial Institutions," New Rules for Global Finance (Mimeo, May 2004); A. Buira, "The Governance of the IMF in a Global Economy," in Challenges to the World Bank and IMF, Developing Countries Perspectives, A. Buira, ed. (London: Wimbledon Publishing Company, 2004); Statements by China, Switzerland, et al. during the WB/IMF Meetings in Istanbul, October 6–7, 2009; World Bank, "World Bank Reforms Voting Power, Gets USD 86 Billion Boost," World Bank Press Release (April 25, 2010), online at: http://go.worldbank.org/VOCHUCZQL0; Xinhua News Agency, "World Bank Increases Voting Power of Developing Countries," (April 26, 2010), online at: http://news.xinhuanet.com/english2010/world/2010-04/26/c_13266889.htm; Statement by Ashok Chawla, Department of Economic Affairs, India, April 2010.

Notes:

1. Saudi Arabia, China, and Russia also appoint their respective Executive Directors because they enjoy a single country voting bloc.
2. As of June 30, 2009.
3. World Bank, "World Bank Reforms Voting Power, Gets USD 86 Billion Boost," World Bank Press Release (April 26, 2010).
4. Xinhua News Agency, "China's Influence Grows at the World Bank," China Daily (April 26, 2010), online at: http://www.chinadaily.com.cn/china/2010-04/26/content_9772218.htm.

countries. In addition, there are a number of dedicated "active" observer positions, "self-selected" by their constituencies, that represent relevant multilateral agencies such as the GEF, UNDP, and UNEP; the private sector; civil society; and in the case of the Forest Investment Program (FIP), indigenous peoples. Under each of the CIFs, decisions are to be made by consensus. CIF Trust Fund Committee deliberations over budgets and work programs, and CTF discussions on the details of projects to be funded, have, to date, been closed to observers.[56]

In the case of the Forest Carbon Partnership Facility (FCPF), there are also an equal number of contributor and recipient country representatives of the Participant Assembly represented on its Governing Participant Committee, whose proceedings are open to observers from civil society and representatives of indigenous peoples. Civil society groups are also able to participate in the Facility as contributors. The Nature Conservancy, for example, has contributed USD 5 million to the carbon finance mechanism of the FCPF, and is therefore a voting member of the Participant Assembly.

3.3 THE POWER OF THE CONFERENCE OF THE PARTIES IN THE CONTEXT OF "OUTSOURCING"

As has been mentioned in the context of the GEF, accountability of the financial mechanism to the COP is an important part of the power struggle between contributor and recipient countries. The struggle continues in the design and operation of the Adaptation Fund, new experiments such as the Climate Investment Funds, and in the post-Copenhagen negotiations. If the Parties agree, as they did with the GEF and the AF, to "outsource" some or all of the operations of the financial mechanisms to institutions other than those created by the COP, these institutions will be outside the direct authority of the Parties and answerable to their own systems of governance. As with the COP-GEF relationship, technicalities related to legal personality and capacity will prevent the COP and outside institutions from being formally bound together.

The power of the secretariat of the financial mechanism is a key piece in the power dynamic between COP and the mechanism. Fund secretariats, the international civil servants responsible for managing the project cycle, can play a crucial role in mediating the power relationships among contributors, recipients, and the financial mechanisms they create. In decentralized structures that rely upon multiple governing boards that meet infrequently, and multiple, networked Implementing Agencies (such as the GEF and the Multilateral Fund of the Montreal Protocol), the secretariat can be a gatekeeper between policies and implementation, and between resources and recipients. The GEF Secretariat's role in implementing the Resource Allocation Framework has been seen as a particularly controversial exercise of secretariat "power."[57]

Adaptation Fund

The design and establishment of the Adaptation Fund by the Parties to the Kyoto Protocol (the Conference of the Parties serving as the meeting of the Parties, or CMP) represents the most recent and creative attempt to bring climate finance more directly under the Parties' control. This attempt revealed that the power of a financial mechanism is closely linked to its legal personality and its institutional capacity to perform the functions necessary to raise, manage, and allocate funds. Efforts by developing countries to create a functioning fund independent of the GEF and its Implementing Agencies (in particular, the World Bank) ran into the challenge that without "international legal personality" the AF is unable, on its own, to enter into the contracts necessary to hire staff, to convert Certified Emissions Reductions (CERs) into cash, and to enter into grant or loan agreements with the recipient country institutions.

Under an MOU between the CMP and the GEF Council, the AF will rely upon the GEF Secretariat to perform, on an interim basis, the institutional functions necessary to "operationalize" its project cycle. Under "legal arrangements" between the CMP and the World Bank, the Bank will act on an interim basis as the Trustee of AF funds, primarily for the purpose of monetizing CERs, and for the financial management of the trust fund. These arrangements will be reviewed at COP-16 in Cancun. Under these arrangements, the Bank undertakes to "comply with" relevant CMP decisions but also will have "no liability" as a result of relying, in good faith, on these decisions. Aspects of these Terms of Reference appear to reflect the Bank's expectation that the CMP does or will have legal personality and will be capable, for example, of participating in any disputes that may arise between the Bank and the CMP under international arbitration rules. Which institution is ultimately accountable for the intended and unintended impacts of AF investments remains ambiguous (see Box 5).

Box 5. THE TRICKY ISSUE OF LEGAL PERSONALITY AND THE ADAPTATION FUND

In order to "resolve" the issue of legal personality, developing countries asked the CMP to grant the AF international legal "personality" or capacity. Conventional understanding of international law would hold that the CMP, which itself is not an international organization, cannot therefore grant international legal personality to the AF. Because the AF is not dependent on donor funds, developing countries were able to drive through a set of CMP decisions that stand on unclear and untested legal grounds. The CMP decided that the AF "be conferred such legal capacity as necessary for the discharge of its functions with regard to direct access by eligible Parties and implementing and executing entities . . . in particular legal capacity to enter into contractual agreements and to receive project, activity and programme proposals directly." The decision is ambiguous as to how this capacity will "be conferred" if the CMP does not have the capacity to confer it directly, and further legal research has been commissioned by the AF to resolve remaining ambiguities. Germany, as the host government of the UNFCCC Secretariat, may confer domestic legal personality recognized under its domestic law, as may individual developing country governments wishing to enter into agreements with the AF.

Source:
Report of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol on its Fourth Session, held in Poznan from 1 to 12 December 2008 Addendum, Decision 1/CMP.4 Adaptation Fund.

Climate Investment Funds

Climate Investment Funds, as administered by the World Bank, establish no formal relationship with the COP. In designing the CIFs, however, participating countries asked the World Bank and the regional development banks to emphasize the primacy of the UNFCCC process and the COP when they set up the Funds. The governance frameworks for both CIFs (i.e., the main document that outlines the objectives of the Funds) include a sunset clause stating that the CIFs will not "prejudice the on-going UNFCCC deliberations regarding the future of the climate change regime, including its financial architecture, and [each fund] will take necessary steps to conclude its operations once a new financial architecture is effective."[58] At the time of this writing, all funds have been committed, so any future continuation or expansion of the program will depend on additional commitments.

Proposals for Post-2012 Climate Finance

As part of the Copenhagen negotiations (see Box 2 in Section 2), the Group of 77 and China proposed for the financial mechanism to "operate under the authority and guidance, and be fully accountable to, the COP," with all climate financing channeled through the UNFCCC.[59] China's proposal for a Multilateral Technology Acquisition Fund echoes a similar set of governance arrangements.[60] Many of the industrialized countries, on the other hand, including the United States, Japan, Canada, and Australia,[61] prefer a decentralized approach to managing climate funds by relying on existing institutions with the financial mechanism merely being guided by the COP. Developing countries, in particular the Alliance of Small Island States (AOSIS), argue that relying on existing institutions and on "the governance arrangements of the international financial institutions places small countries at a distinct disadvantage and more often the priorities of these institutions mirror the priorities of those in control."[62]

As discussed in Box 2, in October 2009, the United States proposed a new Global Fund for Climate operating under the Convention, with a balanced representation of net contributors and net recipients on its governing body. While this governance structure could be seen as a concession to developing countries, the United States proposal is ambiguous about the Fund's relationship to the COP. It also asks developing countries (excluding least developed countries) to contribute resources to the Fund. It would rely heavily on existing international financial institutions, including the World Bank, to program its resources. While some developing countries have made contributions to the GEF, they have done so voluntarily (see Table 3). For these reasons, many developing countries reacted negatively to the proposal.[63]

3.4 POWER AND CONDITIONALITIES

Whatever formal governance structures and decision-making procedures are put in place, financial mechanisms will likely remain vulnerable to the disproportionate power exercised by the countries that donate the bulk of the funds. One of the ways in which major contributors exercise this power is by withholding and adding conditions to their contributions.

As long as contributions remain voluntary and disproportionately from the North (as is the case in all the funds studied except for the AFB), the institutions in each contributing country with the authority to appropriate funding will have a significant influence over the terms on which resources are allocated. Under previous global deals on climate finance, these terms have been set, by and large, by contributor countries keen to ensure that their taxpayers' dollars were spent effectively. The United States, which because of the size of its

Table 3. DEVELOPING COUNTRIES THAT BOTH CONTRIBUTED MONEY TO AND RECEIVED DISBURSEMENTS FROM THE GEF (2005–2009)

	VOLUNTARY CONTRIBUTIONS TO THE FOURTH GEF REPLENISHMENT (GEF-4 2006) BY SELECT DEVELOPING COUNTRIES (USD MILLIONS)	DISBURSEMENTS FROM GEF TO SELECT DEVELOPING COUNTRIES (Jan 2005 to Oct 2009)	
		APPROVED (USD millions)	DISBURSED (USD millions)
China	11.09	237.33	28.43
India	10.50	35.57	3.50
Mexico	6.25	57.49	3.41
Nigeria	6.25	4.08	3.16
Pakistan	6.25	5.15	0.51
South Africa	6.25	33.55	3.38
Turkey	6.25	9.59	0.98
Total	52.84	382.75	43.38

Source: Global Environment Facility, "Summary of Negotiations on the Fourth Replenishment of the GEF Trust Fund" (May 2006), online at: http://207.190.239.143/replenishment/Reple_Documents/documents/R.4.35DraftSummaryofNegotiations.pdf.

economy is typically expected to contribute 20 percent or more of the resources of a financial mechanism, will often tie its contributions to conditionalities set by its administration or the U.S. Congress.[64] As both the power and responsibility of developing countries in development finance grow, questions arise as to how these terms will be renegotiated in a post-2012 regime.

Donor conditionalities are also a means by which power can be exercised responsibly, and financial mechanisms can be held accountable to both their donors and beneficiary communities. This aspect of conditionality is discussed in Section 4. From the contributor's point of view, such conditionalities are a straightforward expression of due diligence—the desire to ensure that resources are used in a manner consistent with their development assistance goals. The mechanism's performance against these conditionalities will affect the prospects for its replenishment and thus can have a significant influence on the decisions of its governing body and the activities of its management and Implementing Agencies. However, these conditionalities can also be profoundly disempowering for developing country governments, requiring them to perform against an imposed set of standards. Recent exchanges between the U.S. Treasury, World Bank management, and developing country members of the Bank's Board of Directors over U.S. efforts to block an investment in a coal-fired power plant in South Africa revealed the complex and dynamic relationship between power, responsibility, and accountability in the context of climate finance (see Box 6).

3.5 DISTRIBUTING POWER THROUGH PROJECT CYCLE MANAGEMENT

The project cycle is the decision-making process through which grants and loans are proposed and approved, resources are disbursed, and results are monitored and evaluated. An effective and efficient financial mechanism needs to assess on a project-by-project basis which projects are eligible, what funds will be available for each project, how performance will be measured, and what environmental and social safeguards will apply. Typically, these functions will be performed at different stages of the project cycle by the governing board, the fund secretariat, and by the program staff of Implementing Agencies.

Traditionally, as with the case of the GEF, contributor countries and the institutions they dominate have used their influence over project cycle management—from application of resource allocation rules, standards, and the design of individual grants, to the application of social and environmental safeguards—as a way of protecting their investments and advancing their interests. These concerns and interests do not always align with recipients' priorities. But practice varies considerably among the financial mechanisms studied in this report.

The Executive Committee of the Montreal Protocol Fund (composed of seven developed and seven developing countries) has been proactive in its project cycle. For example, at its third meeting, the Committee rejected all Implementing Agencies' proposed work programs. While this may have led to some frustration

on the part of Implementing Agencies, some analysts have concluded that the Committee's independence from these Agencies has been central to its success.[65] By contrast, under the CIFs, the World Bank serves both as the CIF Secretariat and as its largest Implementing Agency.

How will developing and recipient countries share and exercise power in project cycle management under a new climate regime? Will the same developing countries that have, as recipients, consistently called for more country-driven and country-owned development finance be respectful of a host country's self-determination? Will countries that resisted donor conditionalities in the past find a means of ensuring the environmental integrity of investments by some other means? In other words, can developing countries achieve both competent project cycle management and greater legitimacy than current climate financial mechanisms?

Whatever the answer, if the latest round of negotiations on climate finance is to succeed in leveraging significant transformations in developing countries, multilateral and bilateral policies will need to support and align with national planning processes. This will require a shift in power from contributor to recipient countries and a greater sense of responsibility and accountability by recipient countries. There are some indications that this shift is happening as the international community embarks on the design of the post-2012 climate regime.

3.6 SHARING POWER: THE ROLE OF TECHNICAL EXPERTISE AND NON-STATE ACTORS

Non-state participants such as civil society groups, technical experts, and private sector companies, will play a crucial role in the power dynamics of post-2012 climate finance. They can moderate power relationships of a finance mechanism by providing transparency and accountability in their role as observers, by representing the views of marginalized communities—such as indigenous peoples—that are often underrepresented by

Bank of Brazil, Petrobras and Brazilian National Development Bank (BNDES): Rio de Janeiro, Brazil (2008).

Box 6. POWER VERSUS RESPONSIBILITY: THE ESKOM SUPPORT PROGRAM

The World Bank's recent USD 3.75 billion loan to the South African national utility Eskom—the largest stand-alone energy investment in the Bank's history—offers insights into the complexities of the politics and institutional arrangements for climate finance. The loan will finance the construction of the 4,800 megawatt (MW) Medupi supercritical coal-fired power plant, a railway line to enhance the efficiency of the plant's fuel supply chain, as well as a 100 MW wind farm and a 100 MW concentrating solar thermal facility. The renewable energy components of the Eskom support program are central components of South Africa's Clean Technology Investment Plan, which will be co-financed by the CTF. The African Development Bank will co-finance, at a smaller scale, both the coal and renewable energy components of the project.

The Eskom loan has provoked controversy among governments as well as civil society, and it was seen as a test of donor, recipient, and the Bank's commitment to low-carbon development. South Africa has taken a very progressive stance in international negotiations on climate change and was one of the first major developing countries to publish "long-term mitigation scenarios" (LTMS) demonstrating how it could significantly reduce its GHG emissions over time. The Medupi plant doesn't deviate from these scenarios; it is seen by the government as necessary to meeting South Africa's near-term energy needs and is factored into the GHG reduction targets that President Jacob Zuma announced in the lead up to the Copenhagen COP.

As the loan was being prepared by the Bank staff, the United States, the Bank's most powerful shareholder, proposed guidelines for MDB lending that sought to significantly restrict World Bank support for coal as an option of last resort. The Bank, for its part, had also adopted a Strategic Framework on Climate Change and Development, which was designed to limit the circumstances under which the Bank will invest in new coal-fired power.

In the weeks before the Board of the World Bank met to consider the Eskom loan, developing country members—including China, India, and Brazil—publically rejected the proposed U.S. guidelines in an open letter to the Bank President and labeled them as an unacceptable "green conditionality," highlighting the irony that the proposal came from one of the world's largest consumers of coal-fired power.

Civil society was also split on the issue. Many U.S.-based, international, and some South African, NGOs opposed the loan and supported the U.S. efforts to move the Bank away from fossil-fuel financing, particularly at a time when the Bank was positioning itself as a future steward of climate finance. Organized business, such as Business Unity South Africa, made public statements in support of the loan as essential to meet growing demands for energy.

Bank management supported this loan as a "transitionary measure" that would, because of the components supporting renewable energy and energy efficiency, help Eskom take long overdue steps to implement more sustainable programs.

When the loan reached the Board, four traditional contributor constituencies (the United States, the UK, the Netherlands, and Italy) abstained, and the German Executive Director joined all major developing country constituencies in approval. This level of opposition to a specific loan is unusual, as the Board's "culture of approval" tends to defer to management's judgment and to avoid overriding individual members' requests for loans. In the context of the earlier skirmish over the U.S. proposed coal guidelines, it was a high-profile exercise of developing country power on the Board.

For many civil society observers, the loan may have created the impression that ultimately the World Bank's management and the majority of the Board do not prioritize environmental or social sustainability objectives. A coalition of South African and international NGOs have since triggered the Bank's most high profile accountability mechanism—its Inspection Panel—claiming that the loan doesn't comply with the Bank's social and environmental safeguards. For many developing countries, the Eskom decision may have offered some reassurance that the World Bank will be responsive to their stated development priorities, even when contributor countries express concerns.

Sources:

S. Nakhooda, "The World Bank's Eskom Support Program," (Washington, DC: World Resources Institute, April 2010); Energy Research Centre, Idasa, and World Resources Institute, *Climate Change Finance: Unlocking Low Carbon Development Opportunities for South Africa,* Workshop Report (August 2010); L. Friedman, "South Africa Wins $3.75 Billion Coal Loan," *New York Times* (April 9, 2010), online at: http://www.nytimes.com/cwire/2010/04/09/09climatewire-south-africa-wins-375-billion-coal-loan-17887.html; H. Schmermers and N. Blokker, *International Institutional Law* (Boston: Martinus Nijhoff Publishers, 1995), note 1 at § 771; L. Friedman, "South African Coal Plant Proposal Strains 'Culture' of World Bank" (E&E Publishing, LLC, April 5, 2010), online at: http://www.eenews.net/public/climatewire/2010/04/05/1.

governments, and by bringing an expert evidence base to government decision-making.

The Global Environment Facility

The GEF engages civil society on policy issues through the GEF-NGO network of accredited NGOs, managed by local focal points. The meetings of the GEF Council themselves are open to civil society observers. The GEF strategy and programs are also informed by a Scientific and Technical Advisory Panel (STAP); notably, the STAP reviews proposals for GEF funding and offers recommendations on their suitability to the GEF Council.

The need for technical advice is now widely recognized, but concerns about loss of political control to technocratic judgment continue to run deep. Developing

Pudong Development Bank: Shanghai, People's Republic of China (2006).

countries continue to express concern that if a board is formed primarily to deliver technical expertise, developing country power could be marginalized, since more technical expertise is often centered in developed countries.

NGOs can also be grantees and "executing agencies" for GEF projects, including through the GEF's Small Grants Program.

The Montreal Protocol Multilateral Fund

Among existing financial mechanisms, the Multilateral Fund for the Implementation of the Montreal Protocol stands out for its inclusion of technical experts, civil society, and the private sector. Meetings of the Montreal Protocol Fund Executive Committee are open to interested observers, unless more than one-third of the members object. Civil society groups fought hard for this provision, which has significantly enhanced the transparency and accountability of the Fund's operations.[66] The Committee can request to have any portion of its meeting concerning sensitive matters closed to observers. Industry has had a significant and often more direct role in the Montreal Protocol as well; industry representatives are often included on the country delegations of the Executive Committee.[67]

The Fund also stands out for the Technical and Economic Advisory Panel (TEAP), which reviews replenishment requests as part of its overall function of providing independent scientific advice to the Montreal Protocol. Comparisons of the TEAP and the International Panel on Climate Change (IPCC), which serves a similar function for the UNFCCC, have noted that the TEAP is far more independent than the IPCC, which includes many negotiators, and whose report conclusions are carefully edited to reflect country perspectives.[68] The TEAP also includes private sector representatives, allowing it access to information about new technological developments.[69]

The Climate Investment Funds

The World Bank CIFs may have gone further than the Montreal Protocol Fund by institutionalizing formal

observer roles for civil society, the private sector, and in some cases indigenous peoples in the governance of the trust funds. Observers are allowed to suggest agenda items as well as contribute to discussions. The FIP of the Strategic Climate Fund, in particular, includes a large number of observers: four representatives of civil society (one each from Latin America, Africa, Asia, and developed countries); four indigenous peoples representatives (three regional, and a representative of the Chair of the U.N. Permanent Forum on Indigenous Peoples); two representatives of the private sector; and representatives of the Secretariats of the Convention on Biological Diversity, the UN-REDD program, and the Forest Carbon Partnership Facility.

The design documents for the CTF were drafted before the establishment of this relatively inclusive governance structure. The basic criteria for the CTF were agreed upon at the original meeting to establish the CIFs at the beginning of 2008. As a result, stakeholders did not have much opportunity to debate or influence these fundamental design parameters (which, as we discuss in Section 5, have been quite controversial). By contrast, civil society representatives and indigenous peoples were active participants in the drafting of the FIP design documents. As a result, FIP priorities have placed significant emphasis on issues of governance, community empowerment, and the need to support programs that reassess the fundamental drivers of deforestation.

The Adaptation Fund

The Kyoto Protocol's Adaptation Fund does not provide a formal role for civil society, although all meetings are open to observers, and it has recently begun to webcast its meetings. Civil society advocates have successfully advocated for improvements in the Fund's transparency: projects will now be publicly disclosed and open to comment prior to their approval.[70] The involvement of national institutions through "direct access" may, in certain national contexts, lead to greater local civil society participation in the AF project cycle. National institutions could learn a lot from the experience of the international Implementing Agencies' policies on information disclosure, community engagement, and grievance mechanisms that have proved to be essential tools for civil society participation. Some of this experience is discussed in Section 5.

The quality of civil society and technical input within these fora can have a significant impact on the substantive outcomes and legitimacy of climate financial mechanisms. Formal space for public participation will only impact decisions if civil society groups step up to occupy that space and advance public interests, seeking transparency and accountability. In the case of the Montreal Protocol Fund, attention has been short-lived, and few civil society groups have had a sustained presence in these discussions.[71] The CIFs may have taken a step forward by institutionalizing civil society participation in the governing committee process. In the case of the CTF, however, discussions about actual country investment plans are closed to all observers.

3.7 CONCLUSIONS

Developing countries are making significant political headway in demanding greater voice and vote in the overall governance of climate financial mechanisms. But the complex nature of the institutional and procedural relationships among contributors, recipients, and financial institutions requires investigation beyond formal governance structures into the informal means by which power is exercised in the course of an institution's project cycle.

The design and implementation of standards, the application of conditionalities, and the criteria for the allocation of resources are likely to be heavily influenced by traditional donors as long as they are the major sources of financial resources and have the discretion to withhold their contributions. While many of these standards and criteria are essential to the responsible investment of climate finance, if they are developed through the coercive use of donor power, rather than the collective decisions of all stakeholders, they are less likely to have a sustained impact. Donors and recipients also exercise power through their influence over the multiple institutions involved in the project cycle, including the COP, Implementing Agencies, and secretariats. Holding each of these institutions accountable for the decisions they influence is critically important in an effective decentralized approach to climate finance.

Nameplates at UNFCCC COP 16: Cancun, Mexico (2010).

Responsibility

By responsibility we mean the exercise of power to ensure that the resources entrusted to a financial mechanism are programmed fairly, effectively, and efficiently. This includes the responsibility exercised by a governing body in setting standards designed to ensure the environmental integrity and ambition of investments. It also describes the responsibility exercised by secretariats, trustees, and international and national Implementing and Executing Agencies in implementing these standards.

By seeking more power in the governance structures of climate financial mechanisms, developing countries implicitly assume greater responsibility in the funding decisions of these mechanisms. Developing countries are also seeking to gain "direct access" to funds raised globally for climate purposes. Essentially, direct access would enable national and sub-national developing country institutions to enter into grant and loan agreements directly with existing or new financial mechanisms, without having to rely upon Implementing Agencies or other intermediaries. To perform these functions well, these national institutions will have to demonstrate the capacity to ensure that standards are met responsibly.

Critiques of past development finance suggest that successful actions to reduce GHG emissions and respond to climate change must be grounded in development priorities and national policy-making processes. Under previous arrangements for development finance, contributor countries have largely set the terms on which developing countries can access funds. Contributor-set standards attached to development assistance strategies—often described as "conditionalities"—have been heavily criticized for prioritizing the interests, agendas, and development strategies of contributor countries over the locally defined needs and constraints of recipient developing countries.[72] Increasing the power, and therefore the formal responsibilities of developing countries in setting the terms for finance at the level of the governing boards, and in programming resources at the national level, could lead to more country ownership and more successful development outcomes.[73]

This Section reviews the experiences from various institutions at the governing-board level in exercising responsibility through establishing priorities via resource allocation and standard setting, as well as at the operational level in negotiating individual investments with host countries. Our analysis emphasizes the need for climate financial mechanisms to ramp up their efforts to support planning processes and institutions at the national level and the involvement of stakeholders in these processes to ensure that climate-related objectives are owned and supported by national constituencies.

4.1 RESOURCE ALLOCATION: PRIORITIZING INVESTMENTS OF SCARCE RESOURCES

Any new financial deal that emerges from post-Copenhagen negotiations is likely to generate fewer resources than will be necessary to meet the demand for funds. As a result, governments—acting through the COP or through the governing board of a financial mechanism—will have to identify programming priorities and establish eligibility criteria to ensure that scarce funding achieves maximal impact. The GEF's Resource Allocation Framework, discussed in Section 2, is an example of an effort to develop an objective, criteria-based framework for prioritizing which countries receive financing.

As was described, the RAF proved unpopular because it was pushed through at the insistence of the United States, and because its criteria resulted in the majority of funds being channeled to large countries, neglecting least developed and most vulnerable countries. But a lack of adequate selection criteria can also undermine the impact and legitimacy of a financial mechanism. One of the critiques of the Montreal Protocol Fund is that it did not adopt a framework for prioritizing which countries received funding. As a result, it did not systematically target the most strategic or low-cost options for the abatement of ozone depleting substances (ODS). The first round of programs it supported were in countries that were not the highest producers or consumers of ODS.[74]

In the case of the Climate Investment Funds, the Strategic Climate Fund will support pilot programs in a small subset of countries. A process has therefore been put in place for experts to help the Bank select which countries will participate in pilot programs, in response to expressed country interest. The Clean Technology Fund, on the other hand, does not have a system in place to prioritize countries. Instead the priority has been to get programs off the ground as quickly as possible. Proposals have been reviewed on a first-come, first-served basis. This may be a more viable approach for a pilot program than for a longstanding fund. As more countries line up to seek CTF resources, the Trust Fund Committee will need to create a process for prioritizing proposals.

The Adaptation Fund under the Kyoto Protocol is exceptional because its resources are raised through a levy on the transactions of the Clean Development Mechanism, rather than from donor contributions. This fact alone should, in theory, significantly re-balance the power within the AF away from contributors

and generate decisions that are more reflective of the collective will and shared sense of responsibility of both developed and developing countries. The criteria for allocation of adaptation funds articulated in the AF's operational policies and guidelines suggest that financing for the most vulnerable countries should be prioritized. This principle has not yet been put into practice, however, as the Adaptation Fund Board is still developing templates for project and program screening.[75] An objective analytical basis for assessing the vulnerability of countries may help achieve this aim (see Box 7).

Agreed allocation criteria will be critical to the responsible programming of any climate financial mechanism. If the power of developing and recipient countries grows—for example, through the design of governance structures, or the de-linking of finance from the voluntary contributions of traditional donor countries—it is unclear what kind of new allocation rules may emerge. In addition to the divide between developed and developing countries, there are increasingly significant power imbalances among developing countries. The emerging economies, such as China, India, and Brazil, have begun to play the role of international donors through bilateral and regional financing mechanisms. It remains to be seen whether the allocation criteria developed by these new actors in development finance differ from previous allocation attempts and are perceived as more legitimate by the recipients of their funds.

Box 7. RESOURCE ALLOCATION FOR ADAPTATION?

As the Adaptation Fund and other adaptation funding institutions explore options for more objective allocation of finance, there is growing interest in the construction and application of vulnerability indices. Such indices evaluate a country's vulnerability to climate change by using quantitative national-level indicators that capture either biophysical or socioeconomic drivers of vulnerability. One such index, developed by Brooks et al. (2005), assesses climate vulnerability using indicators in the areas of economy, health and nutrition, education, infrastructure, governance, geography and demography, agriculture, ecology, and technology. Likewise, the Vulnerability and Adaptation Module of World Resource Institute's (WRI's) Climate Analysis Indicators Tools (CAIT; http://cait.wri.org/cait-va.php) provides data for indicators in six categories, including infrastructure, institutions, and the environment.

Vulnerability indices can guide funders in targeting especially vulnerable countries, but care is needed in their construction and application, since generic indicators often do not capture the unique processes that drive vulnerability in different countries. For example, Brooks et al. (2005) recognize that their index underestimates the vulnerability of small island states. Moreover, indices often do not capture the variation in climatic and social factors within a country and are likely to overlook the vulnerability of specific populations. Bottom-up approaches to vulnerability assessment that start at the community level may provide an alternative to such national indices by working within communities to determine key local drivers of vulnerability. One example of a bottom-up approach is the Community-Based Risk Screening Tool—Adaptation and Livelihoods (http://www.cristaltool.org), which provides communities with a framework to assess local vulnerability through determining possible local impacts of climate change and assisting in the compilation of potential coping strategies. Such approaches to vulnerability assessment are needed to complement index-based approaches, as they provide a clearer picture of how to address adaptation needs on the ground.

Sources:

N. Brooks, W.N. Adger, and P.M. Kelly, "The Determinants of Vulnerability and Adaptive Capacity at the National Level and the Implications for Adaptation," *Global Environmental Change* 15 (2005): 151–163; IISD, SEI, IUCN, "Community-Based Risk Screening Tool—Adaptation and Livelihoods (CRiSTAL)," online at: http://www.cristaltool.org; UNEP, "Vulnerability Indices: Climate Change Impacts and Adaptation" (UNEP: 2001).

4.2 SETTING STANDARDS WITH INVESTMENT CRITERIA

The COP and/or the governing board will also need to set standards—often referred to as "investment" or "eligibility" criteria—to ensure there is environmental integrity, ambition of investments, and specified activities eligible for support. In a context in which developing countries are under pressure to reduce their long-term emissions trends while struggling to power economic growth and meet the basic energy needs of poor populations, striking a balance between environmental ambition and other development objectives will be at the heart of the governing body's exercise of responsibility.

The Clean Technology Fund Investment Criteria

The investment criteria of the Bank's flagship clean technology fund, the CTF, allow support for fossil fuel technologies if the investment is shown to be "transformative" and meet a set of emission standards. This has raised important questions about the terms on which scarce public resources should be spent. For example, CTF funding can be used to support ultra-supercritical coal-fired power plants. While these plants are more efficient than conventional pulverized coal plants and therefore have cheaper lifetime operating costs, they will still emit millions of tons of carbon over their lifespan. CTF funding can also support the substitution of proposed coal-fired plants with highly efficient natural gas plants if the new facility will emit no

more than half the carbon of a coal-powered, business-as-usual alternative.

Civil society and independent analysts have sharply criticized the CTF's willingness to consider investing in coal. Many have argued that the CTF should focus on alternatives to coal, such as wind and concentrating solar power, which need public support to reach the point where they can provide competitive, reliable power without the emissions of conventional fossil fuels.[76] By contrast, developing countries and some MDB representatives have argued that the cheapest emission reductions may be gained from large-scale deployment of cleaner fossil fuel technologies.[77]

Global Day of Action: Toronto, Canada (2010).

4.3 APPLYING STANDARDS THROUGH THE PROJECT CYCLE

Standards agreed to by the governing body are typically applied through the project cycle to individual projects and programs by the secretariat, management staff, and/or Implementing Agencies of a financial mechanism. The debates over donor conditionality and recipient priorities that happen at the board level when the standards are set are often replayed in the project cycle level as projects are approved and implemented. Experience suggests that high standards that are designed to ensure funds are invested responsibly can slow the project cycle and the rate of fund disbursement. Similarly, the demand for greater civil society participation can both improve the quality of investments and slow down the approval process.

The Global Environment Facility

One of the dominant critiques of the GEF has been its cumbersome project cycle, which involves several stages of review and approval by the Implementing Agencies, the GEF Secretariat, associated technical panels, and the GEF Council.[78] One study calculates that in 2005 the average time for projects to qualify for funding was between four and five years.[79] Even after reforms were adopted in 2007 to expedite processing, the project cycle for full programs can take up to 22 months before approval.[80] The GEF Secretariat, which sits at the center of this complex process, has accrued significant responsibility in this decision-making process by managing which projects reach the GEF Council for final approval and when. The adoption of the Resource Allocation Framework detailed in Section 2 has also had a significant influence on which programs are eligible for support. The GEF Council is not a standing body and meets only twice a year, which constrains its consistent exercise of responsibility. The need for improved risk assessment and management has been recognized, as project managers are often "[unable] to adjust to changes in markets, policies, macroeconomic conditions, co-financing, and government commitments."[81]

The Adaptation Fund

By contrast, in the case of the AF, a simplified project approval process has been proposed wherein projects and programs are submitted to the AF Secretariat (a function performed, ironically, by the GEF Secretariat) using approved templates, then screened for consistency by the Secretariat within 15 days, and reviewed by the Committee on Project and Program Review at the next board meeting. Program proposals are now disclosed on

the Web site of the AF, and comments are invited while screening is underway.

The Clean Technology Fund

The CTF investment criteria were tested by Ukraine, which sought CTF funds in support of an upgrade to its gas transit system and to build a new 450 MW combined cycle gas turbine with combined heat and power facility (CCGT/CHP). While the demonstration value of the CCGT/CHP project would have been important, it was not clear that USD 50 million in concessional finance from the CTF was necessary to make it viable. Similarly, the efficiency gains from upgrading the compressors in the gas network represented a highly cost-effective investment that would deliver emission reductions and benefits to the system as a whole, including end users in European countries. It was not clear that concessional finance from the CTF was essential to realize these reductions in global greenhouse gas emissions. Importantly, the plan did not meet the specific investment criteria for natural gas.[82]

Transparency about the plan has allowed civil society to draw the attention of Trust Fund Committee members to these issues, though the investment plan discussions were held in executive session. The committee deliberations concluded that the plan did not meet the investment criteria, and requested Ukraine to revisit the plan and provide additional information on the regulatory and policy frameworks for the proposed investments. In March 2010, a revised Ukraine investment plan was submitted without these two components. The question of how to interpret the CTF investment criteria in these difficult cases will come up repeatedly: for example, the Kazakhstan investment plan sought CTF financing to build gas power plants fueled by waste gas from the country's oil pipelines.

The Forest Carbon Partnership Facility

The FCPF administrative unit has developed a template for a Readiness Preparation Proposal (R-PP) that identifies a range of issues that countries should address in developing a REDD strategy. A Technical Advisory Panel (TAP) then reviews the R-PPs and assesses whether these criteria have been met. Again, challenges have been quick to manifest and difficult to overcome: on the one hand, governments see the TAP oversight of the R-PP process as overly intrusive and have raised questions about the legitimacy of these expert panels as jurors of their program development process. On the other hand, civil society groups have been actively engaged in this space, seeking to make new links between local realities and the programming decisions made by global fora. They have raised questions about the value of a TAP if its recommendations are subservient to political decisions taken within the FCPF governing committee.

While the FCPF's "readiness plans" (R-PINs) had the potential to provide a common framework for all financing received for REDD programs and activities, donors and recipient countries have instead been developing distinct national REDD strategies with each new investment. Guyana and Indonesia, for example, have developed additional strategies and guidelines to access bilateral financing from the government of Norway for their REDD activities. Indeed, funds for the same general purposes are being channeled through different national institutions (for example, in Indonesia the Ministry of Forests has worked with the FCPF whereas the Ministry of Finance is engaging with the government of Norway, even as the national planning agency BAPPENAS develops a national climate change fund).

Strategies for supporting low-carbon development must be robust, and there have been many critics of the draft readiness proposals that have emerged from the FCPF processes. Plans for low-carbon development are only useful to the extent that there is coordinated support for them and that they are not undercut by donors who seek to work outside of national plans, or by national institutions that are also vying for international support.[83]

4.4 SHARING THE RESPONSIBILITY THROUGH AGREED COST STRUCTURES

Whatever shifts may occur in the power relationship between contributors and recipients, the level of climate finance provided to any project or program of activities will result from a case-by-case negotiation in which the responsibilities are set and shared between the climate financial mechanism and the host country.

Incremental Cost Financing Revisited

Past efforts to finance environmental projects through the GEF as well as the Montreal Protocol Fund have been based on the concept of incremental cost funding, as discussed in Section 3. The provision of financing on a grant basis to support the agreed full incremental costs of developing country actions represents what could be referred to as the "Rio bargain." The financial obligation of developed countries was limited to incremental cost financing, while the commitment of developing countries was linked to the level of financial resources provided to cover those costs.

While appealing at a conceptual level, incremental financing has proven difficult to apply in practice. For developing countries, the economic and social co-benefits of climate change programs are appropriately prioritized, but the distinction between a development activity and a climate change program is not easy to delineate.[84] Such distinctions are even more difficult to draw in the case of adaptation to climate change.[85]

The Strategic Climate Change Fund and the Least Developed Countries Fund seek instead to finance the "additional costs" imposed by climate change on the "development baseline." Activities that are considered to contribute to core development, such as the improvement of public health and education systems, infrastructure for rural development, and water sanitation, are not eligible for financing. Funding can only be sought to address the impacts of climate change on a vulnerable socioeconomic sector, beyond the development baseline. Projects need not generate global benefits, however; local benefits are adequate as long as their "additionality" can be demonstrated. Yet it can be very complex to distinguish the additional costs of climate change in this way, particularly given that many developing countries cannot meet the development needs that constitute the baseline.[86]

Recent experiments in climate finance are taking a different approach to determining the scope of what can be funded and the balance of responsibilities between contributor and recipient countries. The CTF of the Climate Investment Funds, for example, determines a project's eligibility and the level of financing on the basis of whether it will have a "transformative" effect by supporting programs that would not have been viable without concessional finance. CTF programs are intended to "stimulate lasting changes in the structure or function of a sub-sector, sector or market" and "demonstrate how CTF co-financing could be used, possibly in combination with revenues from emissions reductions, to make low GHG emissions investments financially attractive by improving the internal rates of return on such investments."[87]

The concept of "performance-based" financing may provide yet another frame for financing developing country actions. This concept is central to carbon financing, which rewards demonstrated emissions reductions. In essence, finance is made available on the basis of demonstrated changes in emissions, rather than on a distinction between global and domestic benefits. In the case of the World Bank–administered Forest Carbon Partnership Facility, "performance" encompasses more than just demonstrated emission reductions: it includes the entire process of getting "ready" for carbon finance. This may include significant institutional capacity building and policy reform. Countries are able to access grant financing to prepare a readiness plan and identify the programs and measures that they would need to implement to reduce emissions, while also putting in place the technical infrastructure to better monitor forest cover and measure past rates of deforestation and associated emissions.[88]

4.5 FROM PROJECT TO PROGRAMMATIC APPROACHES

The need to invest limited financial resources responsibly has also prompted financial mechanisms to move from a project-based approach to financing climate change to programmatic approaches that, in theory, can leverage broader societal change as well as private and domestic sources of investment. Making the shift from project to programmatic interventions can offer the opportunity to help countries demonstrate a much broader set of responsibilities than are associated with hosting projects. Programmatic funding can address some of the underlying challenges of policy, regulation, and institutional capacity that impede investment in low-carbon, climate-resilient development. Programmatic funding can also reach much deeper into a host country's national policy-making process than project funding, by, for example, increasing opportunities for civil society engagement. As such, programmatic funding at times raises concerns about the interplay between conditionality and sovereignty. In general, programmatic funding—particularly when it comes in the form of policy loans or requires other forms of co-funding by the recipient government—can in effect leverage sectoral or national-level emissions reduction commitments from developing countries.

Voluntary Goals for ODS Phaseout Under the Multilateral Fund for the Montreal Protocol

Under the Montreal Protocol Fund, eligible countries work with Implementing Agencies (the World Bank, UNDP, UNEP, and the U.N. Industrial Development Organization [UNIDO]) to develop country programs detailing the means by which they will meet their commitments to phase out the use of ODS by setting voluntary interim goals. Country programs typically contain prospective regulatory frameworks and legislation that would support ODS elimination, systems for monitoring progress in implementation, and the estimated incremental costs of action. Such programs are significantly easier to design for ODS phaseout than they

are for climate change, as the range of interventions are far more discrete.

Initially, the Montreal Protocol Fund supported discrete projects. Over time, it evolved to support sector-wide initiatives and National Terminal Phase-Out Plans.[89] Independent evaluations of early Montreal Protocol Fund country programs found that their design was driven by Implementing Agencies, and countries did not feel ownership of their stated policies and objectives. This sometimes led to significant delays in project processing, approval, and implementation by national authorities.[90] Over time, it became increasingly apparent to members of the Executive Committee that country coordination, information, training, and other forms of capacity building would be necessary to achieve Montreal Protocol objectives. Initially, many developed countries questioned the cost effectiveness and relevance of such an approach. In retrospect, reviews of the impact of the Montreal Protocol Fund have concluded that many of those interventions had significant and lasting impact.[91]

The Clean Technology Fund

The Clean Technology Fund has sought to take a programmatic approach to financing technology deployment. Discrete investments for which financing is sought are set in the context of a macro-analysis of the major sources of GHG emissions in the country, and the major opportunities for mitigation. The investment plan provides a justification for the proposed priorities for which CTF support is sought. In developing investment plans, the MDBs and countries involved are prompted to critically evaluate the extent to which there is an "enabling environment" in place for the proposed investments to be effective. In practice, however, few investment plans have addressed the underlying governance challenges that are associated with investments in significant depth.[92] These issues are beginning to be dealt with in some of the projects that have emerged from these plans, though the Fund is not yet very far into its implementation stages.

The Adaptation Fund

The AF supports both projects and programs. Projects can be implemented at the community, national, and transboundary levels, and seek to achieve concrete outcomes within a narrowly defined timeframe. Programs are processes, plans, or approaches that exceed project boundaries. It will fund both small programs (less than USD 1 million) and full programs (more than USD 1 million). The following general principles are to be used to allocate resources: "(i) a country's level of vulnerability (ii) level of urgency and risks arising from delay (iii) ensuring access to the Fund in a balanced and equitable manner (iv) lessons learned in project and programme design and implementation to be captured (vi) securing co-benefits to the extent possible (v) where applicable, maximizing multi-sectoral or cross-sectoral benefits (vi) adaptive capacity to adverse effects of climate change."[93]

The AF's track record to date is limited, as are its resources. In early 2010, the governments of Spain and Germany committed USD 68 million to the Fund. The first call for projects and proposals was issued in March. Proposals received are disclosed on the Web site for any interested stakeholders to provide comments. As of June 2010, eight project proposals had been received that seek between USD 3 million and USD 15 million; five of these were approved by the Secretariat.[94] An independent civil society review of the proposals concluded that attention to co-benefits in the project proposals was limited. It emphasized that there had been uneven engagement of stakeholders within countries in developing projects, noting that there has not been clear guidance from the Board emphasizing the importance of such engagement in the design and implementation of projects.[95]

The Forest Carbon Partnership Facility

In the case of the FCPF, countries are developing national REDD strategies that then serve as the basis for climate finance. Thirty-seven "REDD+" developing countries are currently vying for the USD 115 million in the FCPF "readiness" fund. Countries can access up to USD 5 million to implement approved plans for improving their readiness to implement REDD+ emissions reduction programs. Readiness support should help countries: (1) prepare a REDD strategy that includes issues of carbon ownership and benefit-sharing; (2) set reference scenarios for forest emissions based on recent historical emissions and estimates of future emissions; and (3) establish national monitoring, reporting, and verification systems for emissions and reductions. The sums of money on offer through the FCPF are small relative to the estimated costs of REDD.[96] The active level of country participation may be explained by an expectation that the rules and strategies developed in this forum will directly influence international negotiations on a REDD mechanism that may emerge from the UNFCCC. Stakeholder participation and inclusion in the development of readiness proposals has been uneven, and the scope and comprehensiveness of these plans has been an issue of significant debate.

4.6 DIRECT ACCESS TO CLIMATE FINANCE THROUGH NATIONAL IMPLEMENTING ENTITIES

One of the major recent innovations in climate finance has been the concept of "direct access," an approach that would enable national implementing entities (NIEs) under certain conditions to access global resources directly without the intervention of one or more multilateral implementing entities (MIEs), such as the MDBs or the U.N. agencies.[97] As has been discussed, recipient countries have led this move to entrust NIEs with the management of climate finance in an effort to gain direct control over new financial flows. This approach should also entail the increased responsibility and capacity of recipient countries to meet standards of environmental and social integrity for programming.

While multilateral and bilateral development agencies have been experimenting with various forms of direct access—primarily through direct budgetary support and the development of national climate funds—the Kyoto Protocol AF is pioneering the highest profile experiment in direct access. Under the AF's evolving practice, NIEs will need to meet a set of fiduciary standards that emphasize responsibility, financial management capacity, and accountability. These standards, however, have placed limited emphasis on underlying issues of institutional capacity. An AF accreditation panel has been proposed, which will screen applicants to see if they meet agreed-upon standards that focus almost exclusively on capacity to manage finances.[98] The expertise, mandate to address climate change, or ability to influence key processes within countries that will be affected by climate change have not yet received much attention.

Arguably, entities will build up such expertise over time, including through project and program implementation. It may not be reasonable in all cases to expect the institutions entrusted with climate change finance to demonstrate such capacity from the outset.[99] Nevertheless, these factors will impact their effectiveness over the long term.

Of the fourteen project concepts submitted to the AFB, one will be implemented by the first accredited NIE from Senegal while the thirteen will be implemented by MIEs.[100] Of the thirteen, ten are proposed by UNDP, one by the World Bank, one by UNEP and one by the World Food Programme (WFP). Several of the project concepts for financing are however still pending and deferred to the next deliberations of the AFB.[101] To date, the AFB has accredited three NIEs from developing countries signaling the operationalization of the direct access modality.[102] Senegal's Centre de Suivi Ecologique, is the first NIE to implement a program and its focus is to support adaptation to coastal erosion. The other two NIEs are the Planning Institute of Jamaica and the Agencia Nacional de Investigacion e Innovacion (National Agency of Research and Innovation) of Uruguay.[103] Interestingly, the AF did not approve the proposed World Bank program in Mauritania. Some observers have concluded that this is a sign that developing country institutions need support to be able to propose NIEs that can access the Adaptation Fund.[104] It is also possible that the resources available via the Adaptation Fund are not yet significant enough to prompt local institutions to undertake the process of seeking accreditation as NIEs.

While developing countries may have been slow to access the Adaptation Fund directly, many are setting up national institutions primarily financed through bilateral programs for the purposes of directly programming resources to address the challenges of climate change. The Amazon Fund, the Indonesia Climate Change Trust Fund, and the Bangladesh Climate Change Resilience Fund are all examples. These are discussed in greater detail in Section 5.

4.7 ENGAGING STAKEHOLDERS IN PROGRAM DESIGN

While recipient countries may resist standards or safeguards that require that planning processes include public participation, a growing body of literature suggests that more open and transparent consultative processes for development plans may improve public ownership and the quality of development outcomes.[105] A government's responsibility to manage the investment is both enhanced and shared with its intended beneficiaries. Certainly, such processes are at risk of being dominated and captured by constituents that stand to lose from ambitious climate change action, but there is also an increasingly engaged set of stakeholders interested in seeing the social, economic, and environmental co-benefits of climate change mitigation efforts realized. A growing number of stakeholders are keen to ensure that programs yield real and meaningful results for people and that climate change programs do not undermine hard won gains in social welfare and rights.

In the case of the Clean Technology Investment Plans, it is not clear how much broad stakeholder engagement has taken place. R-PINs presented to the FCPF have

sometimes been outsourced to international consultants and NGOs to draft. While the process for developing R-PINs has been led by national institutions, in several cases local civil society groups have expressed concerns about the lack of public consultation and transparency in developing these proposals and the lack of attention to critical issues of governance and institutional capacity.[106]

Such engagement will be important to ensure that programs are tailored to national needs, including those of the private sector, consumers, and citizens, and to enhance the prospects of successful program implementation. Over time, efforts by contributor and recipient country governments, and development agencies, to involve civil society in planning project or strategy implementation have increased. Such processes remain ad hoc, however, and the depth of engagement is often limited, particularly given the pressures to develop plans quickly and move to begin project implementation.[107]

4.8 CONCLUSION

Emerging experiments in climate finance are deepening and complicating the conventional top-down relationship of responsibility among contributors, recipients, and the financial institutions they create. In the future, a greater emphasis on leveraging change through the demonstration effect of transformative investment may liberate climate finance from the case-by-case bargaining of incremental cost financing.

The combination of low-carbon growth plans and direct access to funding by national Implementing Agencies may lead to a greater emphasis on country-owned climate plans that emerge from domestic planning processes rather than the existing priorities and portfolios of Implementing Agencies. National systems for measuring, reporting, and verifying funded actions, combined with an international system for measuring, reporting, and verifying that promised support is delivered, may lead to a more reciprocal relationship and deeper partnerships between contributors and recipients.

If governments invest in developing robust plans for low-carbon and climate-resilient development through inclusive, transparent, and accountable processes, then contributors must support those national programs as they emerge from national priorities and processes. By the same token, developing country governments share the responsibility for ensuring a coordinated response

Walk against warming: Melbourne, Australia (2009).

to donor expressions of interest, so that national institutions and strategies do not undercut each other.

As developing countries take on new power and responsibility in the governing structures of climate financial mechanisms, they may prove more sensitive to the concerns of recipient countries about donor-imposed conditionalities and focus instead on reaching agreement on the conditions necessary to empower developing countries to shape and manage their own climate policies. This may include providing the financial, technical, and capacity building support to create the strong, legitimate national institutions necessary to perform the functions of responsibility and accountability previously performed by Implementing Agencies.

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Protest outside of Asian Development Bank: Manila, Philippines (2010).

Accountability

To be perceived as legitimate, institutions entrusted with climate finance must be accountable to contributors and recipient governments, as well as to the intended beneficiaries of their investments. In the context of climate finance, ultimately this means achieving results in terms of reducing greenhouse gas emissions, enhancing resilience to climate impacts, and doing so in a way that is consistent with prevailing environmental and social standards. In the context of grants and concessional lending, institutions entrusted with climate finance will also need to demonstrate conformity with international standards for the delivery of development assistance, reflected in the Paris Declaration on Aid Effectiveness and elsewhere.[108]

This Section considers the standards and systems that have been put in place to ensure the accountability of various climate financial mechanisms currently in operation. We start by considering the systems in place to assess whether the funding is having its intended result. We then consider the general fiduciary and financial management standards to which financial institutions are held. Finally, we turn to the standards put in place to avoid or manage unintended negative environmental and social impacts of investments. In so doing, we also consider systems designed to hold financial mechanisms accountable to communities affected by projects.

Although such standards and systems of accountability are well established among many conventional donors and Implementing Agencies, such as the MDBs and U.N. agencies, they are often criticized for being insufficient or inconsistently applied.[109] The current competition among international financial institutions for the mandate to manage new climate finance provides an opportunity to test and compare their track records. For example, some of the resistance from civil society organizations to giving the World Bank and other MDBs a prominent role in climate finance stems from analyses that show a track record of investments that perpetuate dependence on fossil fuels.[110]

While many would consider standards and systems for accountability essential to the legitimacy of any financial mechanism, their existence has proved controversial. Recipient governments whose projects are caught up in a contributor's accountability system can find them an unwelcome intrusion on sovereignty,[111] as these standards can be higher than those required by the host governments. The systems can provide opportunities for civil society organizations to challenge the decisions and actions, can expose the shortcomings of host country governments, and can lead to the cancellation of grants and loans.

Developing countries are demanding direct access to funds through NIEs without the intervention of international agencies, such as MDBs and the U.N. agencies. This will essentially increase the responsibility and associated accountability of national and—in some cases—regional agencies. The capacity of agencies to take on these new responsibilities will differ greatly from country to country, as well as within countries. We therefore consider the accountability standards and systems in place at a number of new national institutions established in developing countries to channel financing for climate change. Specifically we analyze Brazil's Amazon Fund to address emissions from deforestation and forest degradation, Bangladesh's Climate Change Resilience Fund to support implementation of its Climate Change Strategy and Action Plan, and the Indonesia Climate Change Trust Fund, as a means to understand accountability systems in place and suggest constructive ways forward (see Box 8). Our sample therefore includes a least developed country as well as two major emerging economies to illustrate the different challenges that countries in different circumstances may confront.

5.1 ACCOUNTING FOR RESULTS

Accountability begins with a precise as possible determination of an institution's goals and objectives, as well as agreement on measurable indicators of successful performance. However, determining these is not an easy task. Complex interventions like climate finance can entail multiple, and potentially competing, goals and objectives. Early efforts at financing emissions reductions from industrial activities have, for example, been criticized for pursuing high-volume, low-cost emissions reductions with little local environmental or societal benefits. Likewise, forestry offset projects must be managed carefully to ensure that efforts to enhance or preserve forest "sinks" also provide livelihoods for forest-dependent communities. Similarly, adaptation funding is still in its early stages of experimentation, and measuring success in terms of "enhanced resilience" is bound to prove challenging.[112] Nevertheless, the axiom that "what is measured is managed" should drive those institutions entrusted with climate finance to continue to refine efforts to develop and to hold themselves accountable against results-based management frameworks.

Box 8. OVERVIEW OF NATIONAL CLIMATE FUNDS

Brazil's Amazon Fund

The Brazilian Amazon has over 1 billion acres of rainforest. Approximately 50 million acres have been lost over the past 20 years due to deforestation. Preservation of these forests, which serve as important carbon sinks, is one of the central components of Brazil's Climate Change National Plan. The purpose of the Amazon Fund is to provide an incentive for Brazil and other developing countries with tropical forests to continue to increase voluntary reductions of greenhouse gas emissions from forest deforestation and forest degradation, as proposed by the Brazilian delegation to the COP-12 in Nairobi. Created in August 2008, the Fund received a USD 1 billion donation from the Norwegian Government, with USD 110 million to be disbursed in 2009 and 2010 and the remainder to be fully transferred by 2015.[1]

Indonesia Climate Change Trust Fund (ICCTF)

The ICCTF is a financial mechanism that is designed to tap into the policy framework for climate change mitigation and adaptation as well as to support it financially with minimal transaction costs.[2] It was intended to address the immediate and emerging needs of Indonesia's Climate Change Sectoral Roadmap (CCSR) program investments.[3] The ICCTF is an independent entity operated by the Ministries of Planning (BAPPENAS) and Finance, with primary sectoral foci on energy, forestry, and climate resilience for mitigation, and on agriculture and coastal areas for adaptation. The two primary goals of the ICCTF are to: (1) achieve a low-GHG emissions economy with greater climate resilience; and (2) enable the government of Indonesia to increase the effectiveness of its leadership and management in addressing climate change. Additionally, the ICCTF aims to align international financing mechanisms and contributor support of climate change with the Indonesian Government's national investment policies and to facilitate private sector investment in climate change.

Bangladesh's Climate Change Resilience Fund

Because Bangladesh is one of the most vulnerable countries in the world to the effects of climate change, its climate financing needs add significantly to the basic development assistance required to help the country achieve sustained economic growth. The BCCRF was established to scale-up investment and meet the needs outlined in Bangladesh's Climate Change Strategy and Action Plan (CCSAP). In essence, it was designed to serve as a one-stop shop for climate change financing in Bangladesh. The UK Government, through its Department for International Development, committed USD 96 million (£60 million) to the Fund.

Notes:

1. Banco Nacional de Desenvolvimento Econômico e Social (BNDES - Brazilian Development Bank), "Amazon Fund," online at: http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/Social_and_Environmental_Responsibility/amazon_fund.html.
2. Indonesia Climate Change Trust Fund, "The Indonesian Climate Change Trust Fund (ICCTF) and National Road Map" (July 2009), online at: http://www.ccap.org/docs/fck/file/Liana%20-%20Indonesia%20slides%20for%20Amsterdam%20FAD.pdf.
3. Indonesia Climate Change Trust Fund, "Blueprint for Indonesia Climate Change Trust Fund (ICCTF), BAPPENAS" (May 2009), online at: http://www.ccap.org/docs/resources/686/ICCTF.pdf.

The Global Environment Facility

As has been described, the GEF's mission is to deliver global environmental benefits. Projects and programs are assessed by the GEF's Evaluation Office. Reporting and impact assessment requirements vary according to the size of the project, and impact assessment processes for full projects are comprehensive. In 2007, the GEF Secretariat submitted a Results-Based Management (RBM) Framework to improve management effectiveness and accountability in monitoring and evaluation. The RBM considers impacts at the institutional, programmatic, and project levels. For climate change these may include energy consumption and GHG emissions; avoided tons of carbon dioxide (or its equivalent); the policy and regulatory frameworks adopted; market penetration of on-grid renewable energy; the number and percentage of rural households served by renewable energy; the number and percentage of trips made on sustainable modes of transportation; and decreased vulnerability or enhanced resilience to climate change.[113] The RBM framework is intended to make the GEF more results-oriented and increase project effectiveness.

The Multilateral Fund of the Montreal Protocol

Under Article 5 of the Montreal Protocol, developing countries are required to report on the status of implementation of their country programs. They provide data on ODS use by sector, as well as import, export, and production information. The Secretariat prepares an update for each meeting of the Executive Committee. Project impact is now assessed with reference to a set of qualitative indicators for both investment projects (which consider the quality of preparation, technology choice, and management risk) and non-investment projects (which consider achievement of project objectives, implementation delays, and costs).

The Executive Committee has sought more regular reporting on delays to create an early warning system for potentially problematic projects. Since 2002, a Web-based system has been introduced to facilitate real-time reporting and support implementation. Funding may

be discontinued for projects with sustained delays. In general, evaluations have found that "ODS phase-out had occurred as planned. . . . The level of funding was often seen as tight at approval stage but generally proved to be sufficient to achieve the conversion, and in many cases some remaining funds were returned after project completion."[114]

Climate Investment Funds

Each of the sub-funds of the Climate Investment Funds has a specific results management framework, and efforts have been made to agree upon the general elements of this framework before program implementation begins. Committee members have expressed interest in having reporting in real time. The Clean Technology Fund Committee has not yet agreed upon the final scope of the framework. The draft framework proposes to assess the impact of financed projects in terms of:

- Deployment of low-GHG emissions technologies on a significant scale;
- Impact on carbon intensity;
- Measurement of GHG reductions against an estimated baseline that ensue from the programs funded; and
- Percentage of investment leveraged from other public and private sources.

The GHG benefit per dollar of CTF money invested has also been proposed as a measure of success.

The World Bank also has proposed to monitor overarching impacts at the country level, such as the average carbon intensity of the sector or country, the share of low-GHG emissions technologies in production, or the average efficiency of coal- and gas-fired plants. These indicators have been quite controversial with developing countries, in part because indicators are designed to measure outcomes well beyond the proposed life of the CTF (programs are supposed to be completed by 2012), and because it is difficult to make causal links between CTF programs and such macro-level trends. Portfolio performance will also be assessed through measurement of, for example, the development outcomes of projects, the aggregate emission reductions, the quality of project supervision, or delays in implementation. Developing countries have also asked the administrative unit to monitor the extent to which contributions to the Fund are new and additional to overseas development assistance. Limited emphasis has been placed on institutional or capacity issues to date.[115]

By contrast, the results framework for the Pilot Program on Climate Resilience has been developed in consultation with a number of independent experts. It seeks to assess whether projects: (1) pilot and demonstrate approaches for integration of climate risk and resilience into development policies and planning;

Power lines: Cerano, Italy (2009).

(2) strengthen capacities at the national levels to integrate climate resilience into development planning; (3) scale-up and leverage climate-resilient investment, building upon other ongoing initiatives; and (4) enable learning-by-doing and sharing of lessons at the country, regional, and global levels.[116] The indicators in the framework are less specific than the mitigation indicators used in the CTF, or for that matter in the GEF. This may reflect the much wider range of activities that countries may undertake in order to increase resilience to climate change.

Adaptation Fund

The Adaptation Fund is still in the process of developing standardized project performance indicators. In order to gain accreditation, NIEs must demonstrate that they have the capacity to manage projects. Each project is required to include a results framework with a monitoring and evaluation component containing clear indicators for measuring project impact and sustainability, according to the March 13, 2009, Draft Provisional Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund. At the recent 11th meeting of the Board, a project-level results framework and baseline guidance document was adopted.[117] Any project or program funded through the AF now has to be aligned with this results framework and has to "directly contribute to the overall objective and outcomes outlined" and use the format of a project logical framework and impact chain. The AF's Strategic Resources Framework is relatively detailed and outlines clear objectives, goals, and indicators for each output.

National Funds

The Bangladesh Climate Change Resilience Fund

This facility follows the performance monitoring standards set by the Fund's administrator, the World Bank. The procedures for review and quality control will follow Bank guidelines on advisory and analytical activities. As the Bangladesh Government Multi-Donor Trust Fund for Climate Change Draft Concept Note states: "With a view to capacity building and institutional strengthening, the Bank will execute part of the MDTF, specifically related to the preparation of analytical work and capacity building activities, as broadly identified under the [Bangladesh's Climate Change Strategy and Action Plan] pillars."[118] Additionally, a monitoring matrix will be developed to track inputs, outputs, and outcomes with intermediate and key performance indicators.

Brazil's Amazon Fund

Amazon Fund projects must comply with Brazil's National Plan on Climate Change. Funding applications need to conform to the guidelines of the Sustainable Amazon Plan (PAS) and the Prevention and Control of Deforestation of the Legal Amazon (PPCDAM). Performance monitoring is comprised of regular auditing, primarily focused on checking that Fund resources correspond to the objectives and criteria established by its Steering Committee. Additionally, the Fund's Technical Committee and external auditors will review the emissions reductions from deforestation and assure contributors that their funds are going toward these reductions.

Indonesia Climate Change Trust Fund (ICCTF)

This Fund will include a Steering Committee responsible for organizing the monitoring and evaluation of projects to assess their effectiveness and impacts. Additionally, the Secretariat will develop and implement monitoring and evaluation mechanisms for the ICCTF.[119] The tchnical committee will conduct monitoring and evaluation, including field surveys and spot checks, quarterly reporting, regular meetings with ICCTF management, and midterm and terminal evaluations. UNDP has recently been appointed to administer the ICCTF.

5.2 FIDUCIARY STANDARDS AND FINANCIAL MANAGEMENT

Fiduciary standards describe the specific duties attributable to the trustee of a trust fund holding money for the beneficiaries of that fund. In the context of climate finance, the term "fiduciary standards" has also come to describe the broader set of capacities and responsibilities required of an agency entrusted with implementing grants and loans. We focus on this second aspect. The fiduciary standards for Implementing Agencies for the GEF and the Adaptation Fund present a useful starting point for the issues raised by fiduciary standards.

Global Environment Facility

In 2005, the GEF Council, which relies on Implementing and Executing Agencies to carry out its grants, adopted a set of minimum fiduciary standards to strengthen the accountability of these Agencies. These standards include: independent oversight, audit and evaluation, and investigation functions; external financial audit; financial management and control frameworks;

project appraisal standards, including environmental assessments and other safeguard measures; monitoring and project-at-risk systems; procurement; financial disclosure; hotline and whistleblower protection; and codes of ethics. These standards were developed in consultation with the Implementing and Executing Agencies and the input of an international accounting firm. They present a comprehensive definition of fiduciary standards that include questions of overarching institutional integrity and governance. The proposed standards for project appraisal functions ask that agencies "examine whether proposed projects and/or activities meet appropriate technical, economic, financial, fiduciary, environmental, social, institutional and/or other relevant criteria." In an independent evaluation completed in 2007, some Implementing Agencies were found to be in noncompliance with these standards. UNIDO and the Food and Agriculture Organization (FAO) have since created action plans to achieve compliance.[120]

The Adaptation Fund

The major innovation of the Adaptation Fund has been to propose arrangements by which national institutions based in developing countries or regional institutions can directly access financing, bypassing traditional Implementing Agencies. Subsequently, the AF Board has commissioned its own reports recommending minimum fiduciary criteria and a process for assessing whether NIEs and MIEs meet these criteria.[121]

A template for screening prospective NIE and MIE applicants has been developed based on detailed criteria regarding their "financial management and integrity" capacity. The entities are additionally required to include documentation that proves this capacity, such as audited financial statements, a policy or published document that outlines the internal auditing function, a business plan/ budget for the upcoming year, and an end-of-year budget report. They are further required to prove that they have the capacity to ensure transparent competition in the following areas: procurement procedures; monitoring and evaluation; identification, development, and appraisal of projects; and project management.[122]

A Project and Programs Committee has been established to oversee portfolio performance and supervise executing entities.

Bridge funded by the Brazilian National Development Bank: Brazil (2010).

National Funds

All three of the national funds discussed here have established significant fiduciary standards. The proposed institutional approaches to meet these objectives vary, however, as a result of unique national factors including the level of institutional capacity in the country's financial sector, contributor perceptions of this capacity, and perceived risks of corruption.

Brazil's Amazon Fund

The Fund is administered through a trust fund managed by the Brazilian National Bank for Development (BNDES). BNDES's own reputation in the international banking community is strong. In 2001, the international credit risk rating agency Moody's upgraded BNDES to an A2 classification, the highest assigned to any Brazilian bank.[123] The Bank also has a long history of working with international financial institutions. The World Bank, for example, recently approved a USD 2 billion environmental policy loan for Brazil to be administered through BNDES, which will act as the intermediary in administering sub-projects in Brazil. BNDES seems well positioned to manage the large sums donated to the Amazon Fund, and the Bank is currently providing secretariat services for the Fund. In addition to managing its finances, the BNDES supports fundraising efforts, project selection, and project monitoring and evaluation for the Fund. This is requiring the institution to build new capacity and expertise in making positive investments that will reduce deforestation and forest degradation and to manage potential risks.

Indonesia Climate Change Trust Fund (ICCTF)

Fiduciary criteria were detailed in the original proposal for the ICCTF (see Box 9). In September 2009, the UNDP was appointed interim Trustee of the ICCTF (see Box 10).[124] The Trustee will manage funds granted by development partners and at the request of the ICCTF channel funds for payment of service providers and contractors selected by the central government ministries to implement ICCTF-financed activities. Fiduciary arrangements for these activities must satisfy both Indonesian Government and development partner (contributor) requirements. Additionally, the ICCTF is intended to follow the principles of the Jakarta Commitments and the Paris Declaration on Aid Effectiveness. As such, it has been proposed that the ICCTF follow design principles such as accountability in the management, operation, and the use of funds, with sound financial management, including the use of international fiduciary standards. These design principles would include regular financial audits,[125] as well as an annual policy compliance audit to ensure that grant funds are allocated according to the stipulations of the grant agreements. This same independent auditor will audit the performance of the Trustee.[126] It will be particularly important to ensure compliance with robust fiduciary standards in Indonesia, where the credit risk management capacity of the national bank remains weak, and corruption is widespread.

Box 9. FIDUCIARY STANDARDS FOR THE INDONESIA CLIMATE CHANGE TRUST FUND (ICCTF)

The bank that serves as the Trustee of the ICCTF is expected to meet the following criteria:

- Be registered in Indonesia
- Be credible, competent, and well-recognized national institution
- Have proven financial management capability, i.e., sufficient assets, rate of return, cash flow, and return on investment
- Have adequate human resources capacity, i.e., staff numbers and qualifications, as well as a high level of knowledge of the Indonesian Government financing and treasury system

Source:
Indonesia Climate Change Trust Fund, "Blueprint for Indonesia Climate Change Trust Fund (ICCTF), BAPPENAS" (May 2009), online at: http://www.ccap.org/docs/resources/686/ICCTF.pdf.

The Bangladesh Climate Change Resilience Fund

Fund participants have appointed the World Bank to administer the "national" fund. This has been controversial amongst local stakeholders. It reflects, in part, a lack of contributor confidence in the capacity and credibility of institutions in Bangladesh to steward funds responsibly.[128] It may also reflect the fact that a major contributor to the Fund is the UK Department for International Development, which has a close working relationship with the World Bank. Programs financed by the Fund will seek to build the capacity of local institutions in Bangladesh.[129] For each project that receives funding, a grant agreement between the World Bank and Executing Agency will be signed that contains detailed fiduciary standards (focused on financial management, procurement, and monitoring mechanics) to guide the disbursement of the funds.

Box 10. THE U.N. MULTI-DONOR TRUST FUNDS

The U.N. manages numerous multi-donor trust funds (MDTFs) that are administered by UNDP to support U.N. agencies' work, resource mobilization, donor coordination, and policy dialogue. Each MDTF is designed to meet specific country or global objectives and intended to provide predictable and coordinated support for nationally owned processes, while ensuring that resources are spent efficiently and effectively, through transparent and accountable fund management services.

Each MDTF has a unique governance structure designed by contributors and recipients to fit its mandate. In the case of the Indonesia Climate Change Trust Fund, for example, the Indonesian Ministry of Planning, BAPPENAS, proposed the governance structure for the Fund in consultation with donors. It is intended to support the achievement of Indonesia's national climate change goals, and will fund a range of mitigation and adaptation activities (see Appendix A: Climate Funds Reviewed). UN-REDD is a USD 52 million MDTF established primarily with support from Norway to reduce emissions from deforestation and forest degradation by supporting forest carbon readiness activities in nine pilot countries. The REDD governance structure has evolved to include donors, recipients, representatives of indigenous peoples, and representatives of civil society as voting partners.

In essence, the MDTFs are a mechanism to ensure that fiduciary standards are met. Fiduciary responsibility for the MDTFs is shared between UNDP as the administrating agency and the participating U.N. organizations that implement the projects using MDTF resources. The UNDP enters into a Standard Administrative Arrangement with each donor, which is posted online. Funds are administered and disbursed in accordance with the respective governing committee's instructions, and the UNDP provides annual narrative and financial reports and final reports that include a summary of results with reference to the original goals and objectives of the fund.

By some accounts, the MDTFs have been relatively effective in supporting country-driven priorities, which is in line with the principles of the Paris Declaration on Aid Effectiveness. A Web-based reporting portal has been developed to support reporting by each of the participating U.N. organizations and disclose the status of donor contributions (differentiating between commitments and funds received), as well as disbursement. If used proactively by the Implementing Agencies, these systems can allow significant transparency about the status of the fund.

Sources:
OECD, "Development Perspectives for a Post-Copenhagen Climate Financing Architecture" (November 2009); UNDP, "UNDP-Administered Multi-Donor Trust Funds," online at: http://www.undp.org/mdtf/overview.shtml; UNDP, "UNDP-Administered Multi-Donor Trust Funds & Joint Programmes, Participating UN Organizations," online at: http://www.undp.org/mdtf/un-organizations.shtml; UNDP, "Standard Memorandum of Understanding for Multi-Donor Trust Funds Using Pass-Through Fund Management" (October 2008); UNDP, "UNDP Accountability When Acting as Administrative Agent in Multi-Donor Trust Funds and/or UN Joint Programmes" (June 2007); UNDP, "Protocol on the Administrative Agent for Multi-Donor Trust Funds and Joint Programmes, and One UN Funds" (October 2008); UNDP, MDTF Office, "Finance Reporting Specifications for Participating Organizations" (December 2008); C. Davis, et al., *Ready or Not? A Review of the Forest Carbon Partnership Facility Readiness Plans and the UN-REDD Joint Program Documents* (Washington, DC: World Resources Institute, June 2009).

5.3 MANAGING ENVIRONMENTAL AND SOCIAL RISK THROUGH SAFEGUARDS AND GRIEVANCE MECHANISMS

Climate change will require significant investments in infrastructure and changes in policies. Even as they lower emissions and build resilience, climate change investments may also entail environmental and social risks. For example, low-GHG energy technologies, including wind and concentrating solar power, may require land use changes that impact on local communities. Investments in adaptation infrastructure will need to be watched closely for unintended negative impacts. Project-related stresses on water resources and ecosystem services may also need to be managed. It is therefore critically important to have systems in place to identify and assess risks, safeguards that manage risks, and grievance mechanisms that allow local people and communities to raise concerns. These systems are discussed below and summarized in Table 4.

International Funds

The GEF, Montreal Protocol Fund, and Climate Investment Funds rely on the safeguard policies and grievance mechanisms of their Implementing Agencies.[130] The most high profile of these are the World Bank's Safeguard Policies and Inspection Panel, which allow project-affected people to request an inspection where the Bank's failure to comply with its policies have led to social or environmental harm.[131] These systems have, however, been criticized by both civil society and host countries—though typically for different reasons. Civil society and project-affected people have raised concerns that the systems in place, particularly at the Inter-American Development Bank, are not sufficiently robust to ensure accountability for compliance with policies.[132] On the other hand, host governments and project partners have expressed concerns that social and environmental risk policies can be overly rigid and have complained that demonstrating compliance can pose a significant burden and can delay project implementation.[133]

The U.N. Implementing Agencies, for example UNDP, UNEP and UNIDO, tend to lead on "soft projects" involving capacity building and technical assistance and therefore have not developed impact assessments, safeguard policies, and grievance mechanisms similar to the Banks'. UNDP, for example, directs members of the public with concerns about a project to an online form designed for reporting fraud or malfeasance.[134]

The Adaptation Fund will engage both the traditional MIEs as well as NIEs. Its template for screening NIEs and MIEs will assess a prospective agency's ability to manage environmental and social issues. However, its unclear what minimum standards will apply, if any, that could be used to exclude an MIE or NIE from participating.

National Funds

The Bangladesh Climate Change Resilience Fund (BCCRF)

The BCCRF has not yet produced specific safeguards or grievance mechanisms. However, the World Bank serves as administrator, and the World Bank will sign an administration agreement with each developing partner that participates in the Fund. This is designed to ensure that funds are utilized according to the purposes and objectives mutually agreed upon by the developing partners, the government of Bangladesh, and the World Bank.

Brazil's Amazon Fund

The Amazon Fund is managed by BNDES, and programs financed will be subject to its environmental policy (adopted in 2005), as well as its social policies. Its guidelines on forestry are the most stringent of these policies, and they require certification for all forest management operations. Limited transparency of BNDES operations makes it difficult to ensure that these safeguards are being followed. However, BNDES does have an independent and impartial Ombudsman's Office that addresses citizen opinions and complaints about the Bank's activities and mediates conflicts between individuals and BNDES.[135] The World Bank's 2009 environmental policy loan to BNDES seeks to build its capacity for environmental and social due diligence, in the context of financing for renewable energy (including large hydropower) and sustainable forest management programs.[136]

Indonesia Climate Change Trust Fund (ICCTF)

The ICCTF has no explicit environmental or social safeguard policies in place. Funded activities are only required to support sustainable development and are

Protestors outside the World Bank: Washington, DC, USA (2010).

TABLE 4. ENVIRONMENTAL AND SOCIAL SAFEGUARDS OF SELECT CLIMATE FINANCIAL MECHANISMS	
CLIMATE FINANCIAL MECHANISM	**ENVIRONMENTAL AND SOCIAL SAFEGUARDS**
GEF, Montreal Protocol Fund, Climate Investment Funds	• Subject to the environmental and social safeguard policies of the Implementing Agencies they work through (World Bank and U.N. agencies) • Generally, MDBs have well-elaborated safeguard policies and grievance procedures; U.N. agencies generally do not and defer to host government's national policies
Adaptation Fund	• NIEs and MIEs will be required to disclose safeguard policies, but no minimum standards have been agreed upon
Bangladesh Climate Change Resilience Fund	• No specific safeguard polices yet in place • Participating partners will enter into agreement with World Bank (the Fund administrator) potentially applying Bank safeguards
Brazil Amazon Fund	• Subject to environmental and social safeguard polices of BNDES (Fund manager) • Forestry guidelines require certification for all forest management operations • Independent Ombudsman's Office
Indonesia Climate Change Trust Fund	• No specific safeguard policies yet in place • Technical Committee will consider potential environmental, social, and economic impacts when reviewing project proposals

assessed based on their contribution to environmental and social sustainability. A Technical Committee will consider potential impacts on the environment, society, and the economy as part of proposal review. While the ICCTF proposes to "mainstream civil society participation and local community empowerment," and civil society participation in program implementation is encouraged, few details on the specific channels for engagement have been proposed as yet.

5.4 CONCLUSIONS

More than 60 years of experience in development assistance has generated a range of policies and procedures for holding financial mechanisms accountable for delivering results, anticipating risks, and safeguarding against unintended harm. Many of the systems have been put in place at the insistence of contributor governments and remain controversial with recipient governments that have viewed them as intrusions on sovereignty. The growing role of national funds and national Implementing Agencies in climate finance may provide an opportunity to build safeguard policies and accountability mechanisms into recipient country systems.

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Carrying charcoal: Entebbe, Uganda (2010).

Conclusions and Recommendations

6.1 GENERAL CONCLUSIONS

This is a dynamic time for climate finance, as the international community is struggling to craft mechanisms that are perceived to be legitimate by all UNFCCC Parties and that are capable of funding climate-related activities efficiently and at scale. Our analysis of established and new climate financial mechanisms and the current UNFCCC negotiations leads us to conclude the following:

- *Change is coming*. A new global deal on climate finance will likely reinterpret the principles that in the past have guided the design of climate finance mechanisms in a way that significantly redistributes power, responsibility, and accountability between traditional contributor and recipient countries.
- A *new balance of power, responsibility, and accountability could enhance recipient country ownership*. Greater representation of developing countries on the governing bodies of international financial institutions more generally, and climate finance mechanisms more specifically, should help ensure greater emphasis on the national and local "ownership"—and thus the effectiveness—of climate finance investments.
- *A new understanding of how to balance national interests with global responsibility and accountability is required*. This will require assuring that nationally driven investments contribute to global benefits in the form of net emission reductions and investments that protect the most vulnerable countries and communities.
- *New financial mechanisms—at both the global and the national level—are necessary*. If the international community raises the scale of public finance necessary to move developing countries onto a low-carbon, climate-resilient pathway, the capacity and the creativity to spend these resources well will necessitate the creation of one or more new financial mechanisms at the global level and multiple national-level institutions.

Ride to support global climate change deal: Copenhagen, Denmark (2009).

- *Existing institutions must also be reformed.* The scale of the climate change challenge and of the scale of the funding necessary to respond to that challenge will also necessitate the reform of existing financial institutions, many of which have been supporting fossil fuel–led growth and have yet to mainstream concerns about the impacts of climate change into their strategies.
- *Current negotiating positions reflect deep historical and ideological divisions—particularly between developed and developing countries—that will need to be overcome by building trust and experimenting with new kinds of relationships.*[137] Developed countries have been keen to build on existing financial institutions they have shaped and traditionally controlled. Developing countries are wary of these same institutions, which they see as historically having advanced contributor interests and theories of development, through both the formal and informal exercise of donor power.
- *At the international level, the choice between reforming traditional development agencies, such as the GEF, UNDP, UNEP, and MDBs, and creating new financial mechanisms will raise issues of institutional economy and effectiveness.* In order to generate a greater sense of trust and ownership, backers of existing agencies may have to accept a degree of duplication of existing capacity through the creation of new mechanisms—particularly where significant gaps in capacity are identified—and to accept strengthened lines of accountability of climate finance mechanisms to the COP. On the other hand, those calling for the creation of new institutions may need to concede that it may waste precious resources to replicate the staff and services being provided by existing agencies.
- *Balancing the roles of international and national institutions will also involve trade-offs.* Traditional development agencies have gained the trust of contributors by putting in place systems to both measure and manage impacts of their investments. Developing country recipients, however, have been frustrated by the bureaucracy and the focus on generic rather than country-specific concerns that these systems can generate. Many developing countries will likely struggle to convince contributors that their national institutions have the capacity to manage large-scale development finance without the support of development agencies. While a number of developing countries are taking steps to build and strengthen this capacity, they will need support to do so.
- *Delivering climate finance at scale, at least in the short term, will likely involve multiple mechanisms, both new and reformed.* This is true because of the complex politics of the international negotiations and the differing views of legitimacy held by contributors and donors. The urgency and complexity of delivering funds at scale argues for moving forward, at least in the near term, with the institutions that we have, and investing in the strength and quality of COP guidance and national planning processes to ensure coordination and coherence. This experience should then guide the design and operation of the new institutions that will become necessary as the scale of resources grows.
- *Low-carbon, climate-resilient development is an unexplored frontier for all countries and has potential risks as well as benefits.* While high standards will have to be developed and maintained to ensure emissions fall and the vulnerable are protected, climate finance will necessarily entail experiments with new policies and technologies that will need to be watched closely for unintended environmental and social impacts.

6.2 BALANCING POWER

Conclusions

The formal balance of power between contributor and recipient countries in climate finance institutions is leveling out, but the informal power relationship remains tipped in favor of contributing countries. Existing and emerging climate financial mechanisms are evolving to have a more balanced governance structure with equal votes and representation of contributor and recipient countries. However, these formal shifts in power have generally been neutralized by other ways that contributors exercise influence. Contributor countries continue to dominate the processes of replenishment, resource allocation, and project cycle management through the imposition of conditionalities and standards. As long as climate financial mechanisms are dependent on voluntary contributions raised by the parliaments and finance ministries of one set of countries, and channeled to finance activities in another set of countries, contributor influence is likely to check the formal power of recipients.

Conditionalities imposed to advance contributing country priorities are problematic, but agreeing on environmental and social standards and safeguards will remain essential to the long-term success of any finance mechanism. The economic and policy conditionalities that donors have attached to their financing in the past have been neither popular

Box 11. LESSONS FROM THE GLOBAL ENVIRONMENT FACILITY

As climate negotiators deliberate on the design elements of a new financial mechanism, they should take stock of the lessons and experiences from the GEF. Many of the financial, political, and institutional dynamics and constraints that shaped the GEF remain as challenges. These include:

- *Asymmetries in power persist.* Increasing the recipient countries' membership and votes in a governance structure does not fully address power asymmetries based on continued dependence on contributing countries' resources.
- *Outsourcing can create complexity.* Outsourcing of finance-related functions from the COP to external institutions, such as the GEF and its Implementing Agencies (including UNDP, UNEP, the World Bank, and regional development banks) may respect the principle of institutional economy, but raises accountability challenges and can lead to a complex and cumbersome project cycle.
- *Allocating and prioritizing resources is unpopular but necessary.* The incremental cost concept and the RAF have proved unpopular with recipient countries. However, as long as resources are scarce, some agreed formula for determining what portion of a country's actions will be funded is necessary. Any post-2012 climate financial mechanism will also have to grapple with the challenge of allocating scarce resources among countries, and of balancing the need to support smaller countries with the need to target resources where emissions reductions and climate resilience can be achieved cost effectively and at a large scale.

with recipients nor entirely effective in leveraging long-term improvements in policy and practice. But standards attached by contributors to resource mobilization have also provided a means to prioritize scarce development financing and promote environmental and social standards and safeguards. It is unclear how developing countries, once they secure greater power, will exercise this power responsibly without deploying similar approaches.

Recommendations

Policymakers must agree on ways to diversify the sources of climate finance and to de-link them from the levers of informal power. If existing institutions are to meet evolving standards of legitimacy, then their fundamental governance structures, as well as their operational procedures, will need to be reformed to give greater voice to developing country recipients. If formal grants of power are to lead to the effective exercise of that power, the international community must also make greater efforts to identify sources of revenue, such as new levies or long-term commitments, that are independent from the discretion of contributor governments.

Climate finance mechanisms should be used to build the capacity of non-state actors and civil society to monitor climate finance governance. Civil society groups at all levels can and are playing an important role in monitoring and influencing decision-making within climate finance funds. But they need to occupy such spaces more effectively than they have to date by monitoring and engaging in more inclusive decision-making processes with technical rigor and authority. However, "representation" of non-state actors can be a very difficult issue—civil society is diverse with widely differing views.

6.3 TAKING RESPONSIBILITY

Conclusions

Climate finance must lead to investments that are country owned and have global benefits. Successful responses to climate change must identify a synergy of national priorities and global benefits. This both reaffirms and introduces a new twist to the conventional wisdom that successful investments in development must be nationally driven and country owned. While developing country–led institutions will be natural champions of nationally driven programming, they must also learn to be stewards of global benefits.

Arrangements for direct access to finance need to be supported by stronger national systems for responsibility and accountability. Developing countries are increasingly keen to have direct access to climate finance through their own national institutions, bypassing traditional development agencies. Arrangements for direct access should be supported by nationally derived low-GHG emissions development strategies and national adaptation programs developed through robust processes of stakeholder engagement at the national and sub-national levels. If these strategies and programs contain measurable, reportable, and verifiable actions, they should provide a legitimate basis for allocating resources among countries as well as for designing programs within countries.

Climate finance should be invested in accordance with nationally set priorities. Experience with the Montreal Protocol Fund, and more recent practice in the Clean Technology Fund and Forest Carbon Partnership Facility, suggests that successful climate finance will depend on upfront investments in national planning, policies, and institutions.

Recommendation

Near- and medium-term climate finance should focus on strengthening national institutions. A next generation of climate investments should promote the responsibility of recipient countries by strengthening the national institutions that will implement mitigation and adaptation activities and by ensuring their transparency and accountability to citizens within countries, as well as to the international community. While it is important that development agencies provide technical support to national institutions, they should work in closer partnership with national stakeholders. It will be particularly important to engage with stakeholders outside of government, including the private sector, independent research institutions, and civil society. Such collaborations can help ensure climate finance proposals more appropriately reflect national circumstances and priorities.

6.4 ENSURING ACCOUNTABILITY

Conclusions

Accountability will remain a central challenge in future climate financial mechanisms. Institutions that give developing countries a greater voice and vote in decision-making, as well as direct access to funds, will still need to be held accountable for their investments. This includes being accountable to national stakeholders for the outcomes of their decisions, as well as to the international community for delivering global benefits. In the case of the Amazon Fund, for example, the government of Brazil will need to demonstrate to its citizens that the programs it supports are generating valuable economic, social, and environmental benefits, and to the international community that it is delivering real reductions in deforestation, forest degradation, and the resulting emissions.

It is not yet clear how the governing body of a financial mechanism dominated by developing country governments will respond to demands for greater accountability. In light of their own experiences as recipients, will these governments support the introduction of innovative accountability mechanisms, such as greenhouse gas accounting, the use of environmental and social safeguards, and the greater involvement of civil society in project cycle oversight, or resist them as intrusions on sovereignty?

Recommendation

Draw from the lessons learned from decades of development finance to build national institutions that reflect universally accepted principles of good governance. Traditional finance and development institutions have decades of experience—both good and bad—in translating internationally agreed agendas into national and local investments. National institutions should draw from these experiences and be designed and supported to operate in accordance with universal principles of good governance. Strong provisions for accountability should be put in place, including sound fiduciary management, anti-corruption measures, and grievance mechanisms and inspection procedures that ensure compliance with environmental and social standards and safeguards.

Street scene: Kathmandu, Nepal (2009).

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Farmers returning home: Santiago City, Philippines (2008).

APPENDIX A. CLIMATE FUNDS REVIEWED[138]

		ADAPTATION FUND (AF)[139]	MONTREAL PROTOCOL[140]	GLOBAL ENVIRONMENT FACILITY (GEF)[141]
OVERVIEW	FUNDING	• Total of 2 percent of Certified Emissions Reductions (CERs) for Clean Development Mechanism (CDM) activity; USD 38.7 million from the sale of 5 million CERs as of January 2010 • USD 71 million in donor contributions received in 2010 • Total available funding: USD 99.7 million (USD 109.7 million less USD 7.28 million already attributed for AF administrative budget and reimbursement to UNEP, UK, and Australia)	• Since 1990, contributions total USD 2.7 billion (as of July 2010) • Promissory notes for 2009–11 replenishment total USD 28.3 million at a minimum	• Total resources after GEF-5 Replenishment USD 15.9 billion (Pilot Program Funds: USD 0.8 billion, GEF-1: USD 2 billion, GEF-2: USD 2.75 billion, GEF-3: USD 3 billion, GEF-4: USD 3.13 billion, GEF-5: USD 4.2 billion) • In 2010, the GEF has funded USD 8.7 billion in projects through the Trust Fund and the Least Developed Country Fund (LDCF) and Special Climate Change Fund (SCCF) • Leveraged approximately USD 33 billion in co-financing
	DONORS	• Partly financed by CDM revenues: USD 38.7 million from CER sales proceeds; USD 28.7 million available in grants and reimbursable loans after deduction of cumulative funding decisions • Voluntary contributions by Spain (USD 58 million) and Germany (USD 13 million)	• All "non-Article 5" Parties contribute to Fund replenishment in accordance with agreed schedule	• 25 developed and 7 developing countries contributed to the GEF-4 Replenishment; the GEF-5 Replenishment additionally targets 32 corporate donors
POWER	VOICE & VOTE	• Adaptation Fund Board (AFB): 16 members + 16 alternates—two from each of five U.N. Regional Groups, one from a Small Island Developing States (SIDS), one from Least Developed Country (LDC), two from Annex I Parties, and two from non-Annex I Parties; majority constituted by non-Annex I countries; the Board determines funding criteria and takes funding decisions after screening by Secretariat and reviewing by Project and Program Review Committee • Chair and Co-Chair of Board to be members of Annex I and non-Annex I Parties • GEF Secretariat serves as the interim Secretariat • Board decision-making by consensus when possible, otherwise two-thirds majority • Meetings open for attendance by observers	• Meeting of the Parties (MoP) is governing body • Executive Committee oversees operations, includes seven Article 5 and seven non-Article 5 members • Decisions reached by two-thirds majority vote • Secretariat headed by CEO, accountable to Executive Committee • Four Implementing Agencies: UNEP, UNDP, UNIDO, and the World Bank • UNEP and Secretariat provide treasury functions • NGOs can participate without right to vote	• Assembly: representatives of member countries (182 countries) reviews general policies, operation, membership, and considers amendments; meets every 3–4 years (last meeting in May 2010) • Council: functions like a board of directors with 32 members: 16 from developing countries, 14 from developed, 2 from Economies in Transition (EITs); responsible for developing, adopting, and evaluating GEF programs; meets twice every year; the Council works with the Scientific and Technical Panel (STAP) and the Evaluation Office, which report to the Council • Secretariat: headed by CEO, coordinates activity implementation, reports to Assembly and Council • Decision-making: funding decisions taken by the Council and by consensus, double majority vote if no consensus attainable; approved work programs must then be endorsed by CEO • NGOs: members of the GEF accredited NGOs (GEF NGO Network, over 700 institutions) can make interventions as observers
	EXPERTS & NGOs	• Board can establish committees/panels/ working groups to provide expert advice	• Independent technical advisory group supports research to adapt technology to local circumstances	• STAP provides advice • Six members who are experts in GEF focal areas; GEF NGO network also provides input
	ALLOCATION	• Based on: vulnerability, urgency, equitable access to fund, lesson-learning, regional co-benefits, maximizing multi- or cross-sectoral benefits, and adaptive capacity • Countries can requests funding for small (<USD 1 million) or larger (>USD 1 million) projects/programs	• Projects that result in the elimination of the maximum amount of ODS should be given priority • Prioritize projects based on: cost-effective and efficient emission reduction; geographic balance; ease of replication and technology transfer; and highest potential reduction of controlled substances	• Resource Allocation Framework (RAF) ranks recipients according to (1) their potential to generate global environmental benefits in a focal area ("GEF Benefits Index"), and (2) their capacity, policies, and practices relevant for successful implementation ("GEF Performance Index")
	CONFEREENCE OF PARTIES (COP)	• Accountable to the UNFCCC COPs	• Accountable to all Parties to the Protocol	• Loosely accountable to the COPs as established in Memorandum of Understanding (MOU)

APPENDIX A. CLIMATE FUNDS REVIEWED

		ADAPTATION FUND (AF)[139]	MONTREAL PROTOCOL[140]	GLOBAL ENVIRONMENT FACILITY (GEF)[141]
RESPONSIBILITY	PURPOSE	• Support adaptation activities that reduce adverse impacts of and risks posed by communities, countries, and sectors that face risks of climate change • Provide for full adaptation costs and to finance country-driven adaptation projects and programs	• Assist developing countries to meet their obligations under the Montreal Protocol on Substances that Deplete the Ozone Layer • Meet all agreed incremental costs of Article 5 Parties to phase out the use of Ozone Depleting Substances (ODS), with grants for financial and technical assistance	• Address global environmental issues and support sustainable development in six focal areas: climate change, biodiversity, international waters, ozone layer, land degradation, and persistent organic pollutants • Fund the incremental or additional costs associated with transforming a project with national benefits into one with global environmental benefits
	BASIS FOR FUNDING	• Project proponent submits proposal document • Secretariat screens all proposals, provides technical summary, then forwards to Projects and Programs Review Committee, which makes recommendation to the Board four times/year • Board can approve or reject a proposal with a clear explanation	• Secretariat receives proposals from Article 5 countries and sends them to the designated Implementing Agency • Implementing Agency works with the country to elaborate project documentation and approach • Executive Committee makes final approval decision according to the agreed committee priorities	• Full-sized projects (>USD 1 million): respond to both national priorities and GEF focal area strategies and operational programs • Medium-sized projects (<USD 1 million): expedited approval process • Enabling activities: for inventories, strategies, action plans, reports • Programmatic approaches: increase integration of global environmental issues • Small grants program: community-based
	ACCESS TO FUNDS	• Developing country Parties to the Kyoto Protocol vulnerable to climate change impacts can directly access funds through nominated National Implementing Agencies (NIEs) or through Multi-lateral Implementing Agencies (MIEs)	• Article 5 countries are eligible for support • Executive Committee approves project proposals with incremental costs >USD 500,000 • Implementing Agencies approve project proposals with incremental costs <USD 500,000 with an approved work program	• Any government agency, NGO, or private sector entity may propose a project • Project proposals must be: within an eligible country; consistent with the GEF operational strategy and national priorities; endorsed by government(s); address 1+ GEF focal areas; improve the global environment; and involve the public
ACCOUNTABILITY	REPORTING	• Projects and programs submit annual status reports to Secretariat • Projects and programs subject to terminal evaluation by an independent evaluator upon completion • Terminal evaluation reports submitted to Board	• Executive Committee develops and monitors implementation of specific operational policies, guidelines, and administrative arrangements; reviews performance reports; monitors and evaluates expenditures; and reports annually to the Meeting of the Parties	• Council approves an annual report on activities of GEF which is transmitted to the COPs and includes all GEF activities, a list of project ideas submitted for consideration, and a review of project activities funded by GEF and their outcomes
	PERFORMANCE	• AFB can carry out independent reviews or evaluations and provides strategic oversight • Regular reports required from NIEs and MIEs • Projects and Programs Review Committee monitors and reviews performance	• The Multilateral Fund Evaluations assess the continued relevance of Fund support, the efficiency of project implementation, the effectiveness of projects in achieving objectives, and lessons that guide future policy and practice	• The GEF Evaluation Office evaluates effectiveness of GEF projects/programs; establishes monitoring and evaluation standards; and provides quality control for monitoring and evaluation by Implementing and Executing Agencies
	SAFEGUARDS	• Subject to strategic priorities, policies, and guidelines of AF	• Safeguard policies of respective Implementing Agencies apply	• Safeguard policies of respective Implementing Agencies apply

APPENDIX A. CLIMATE FUNDS REVIEWED

		FOREST CARBON PARTNERSHIP FACILITY (FCPF)[142]	CLEAN TECHNOLOGY FUND (CTF)[143]	STRATEGIC CLIMATE FUND (SCF)[144]		
				FOREST INVESTMENT PROGRAM (FIP)	PILOT PROGRAM ON CLIMATE RESILIENCE (PPCR)	SCALING-UP RENEWABLE ENERGY PROGRAM FOR DEVELOPING COUNTRIES (SREP)
OVERVIEW	FUNDING	• USD 115 million pledged to the Readiness Fund as of June 2009, which has a target of USD 185 million • USD 55 million pledged to Carbon Fund as of June 2009, which has a target of USD 200 million • Grant financing for the Readiness Mechanism (RM); contributions to the Carbon Finance Mechanism (CFM) will purchase emission reductions • Minimum contribution of USD 5 million	• USD 4.91 billion pledged to the CTF as of 2009 • USD 2.05 billion received as of July 2010 • Grants, concessional loans, and guarantees: contributors can provide concessional loans, capital, and grants	• Intended capitalization of USD 500 million • USD 558 million pledged as of January 2010 • Grants and concessional loans • Exact terms of financing to be decided after finalization of design document	• USD 967 million pledged as of January 2010 • Grants and concessional loans • Technical assistance to integrate resilience into national development plans/sectoral strategies	• USD 292 million pledged as of January 2010 • Grants and concessional loans • Financing for use of proven "new" renewable energy technologies • Countries that receive SREP financing are expected to not receive CTF financing
OVERVIEW	DONORS	• Australia, UK, U.S., Norway, France, Netherlands, Japan, Spain, Switzerland, Norway, Germany, European Community, Nature Conservancy	• France, Germany, Spain, UK, U.S., Japan, Sweden, and Australia	• Norway, Australia, Japan, UK, and U.S.	• Australia, Canada, Denmark, Germany, Japan, Norway, UK, and U.S.	• Japan, Netherlands, Norway, Switzerland, UK, and U.S.
POWER	VOICE & VOTE	• Participant Committee: 10 donor country and 10 recipient country participants • World Bank serves as Trustee • Non-voting observers include one representative of forest-dependent indigenous peoples and forest dwellers, one private sector representative, and one civil society representative • The UNFCCC Secretariat, UN-REDD, and the GEF are also observers	• Trust Fund Committee (TFC): eight donor and eight developing country governments • World Bank, IFC, and the MDBs (Asian Development Bank, African Development Bank, European Bank for Reconstruction and Development, and Inter-American Development Bank) represented on committee but do not weigh in on funding • Decisions by consensus • Observers include: representative of the UNFCCC Secretariat, GEF, UNEP, and UNDP, plus four civil society and two private sector actors	• SCF Trust Fund Committee: eight representatives of contributor countries plus eight recipient countries • Active observers: four civil society reps, two private sector reps, and international organizations (UNFCCC, GEF, UNEP, and UNDP) • All CIF committees and sub-committees have two co-chairs: one donor and one recipient		
				FIP	PPCR	SREP
POWER	VOICE & VOTE			• Up to six donors, equal recipients • Observers: representatives of intergovernmental organizations plus four civil society; four indigenous peoples; four private sector • Decision-making by consensus	• Up to six donor countries and equal potential recipient countries selected on regional basis • GEF, UNDP, UNEP, UNFCCC, PPCR experts, civil society, and private sector observers	• Up to six donor countries (at least one should be a member of the SCF Trust Fund Committee), with equal number of recipient countries (at least one should be a member of the SCF Trust Fund Committee) • A representative from the Energy for the Poor Initiative to be an observer
POWER	EXPERTS & NGOS	• Technical Advisory Panels: Readiness Plan Idea Notes (R-PINs) and Readiness Preparation Proposals (R-PPs) before Participant Committee consideration	• No formal role for technical experts • NGO and private sector observers not included in investment plan discussions	• Expert Group will be established by FIP sub-committees to inform selection of country or regional pilot programs	• An eight member Expert Group selected by sub-committee will help select pilot PPCR countries	• Technical assistance to be provided during all stages of project development and implementation
POWER	ALLOCATION	• Countries admitted to the RM apply for a USD 200,000 R-PP preparation grant, and for up to USD 5 million for R-PP implementation • May proceed with R-PP when R-PIN accepted	• Countries develop clean technology investment plan based on detailed guidelines • Financing based on Investment Criteria for Public Sector Operations and Operational Guidelines for the Private Sector • No more than 10 percent of funds go to one country	• Criteria include: significant mitigation potential; target drivers of deforestation and forest degradation while avoiding perverse incentives; partner with the private sector; seek and ensure economic and financial viability; build local capacity	• Criteria for program selection: transparent vulnerability criteria; country preparedness and ability to move toward climate-resilient development plans, taking into account efforts to date and willingness to move to a strategic approach; regional distribution	• Criteria include: transformative impact; economic, social, and environmental development impact; economic and financial viability; leveraging of additional resources; implementation capacity of public and private sectors; "critical mass" for implementation

APPENDIX A. CLIMATE FUNDS REVIEWED

		FOREST CARBON PARTNERSHIP FACILITY (FCPF)[142]	CLEAN TECHNOLOGY FUND (CTF)[143]	STRATEGIC CLIMATE FUND (SCF)[144]		
POWER	COP	• No direct accountability to bodies outside of the World Bank Group • Intergovernmental organizations and multilateral bodies are observers	• Programs subject to MDB board approval • UNFCCC Secretariat observes Fund • Sunset clause to conclude operations once UNFCCC financing negotiated	• Intergovernmental organizations and multilateral bodies are observers to the FIP and SCF, but there is no direct accountability • Sunset clause to conclude operations once UNFCCC financial architecture is negotiated		
				FOREST INVESTMENT PROGRAM (FIP)	PILOT PROGRAM ON CLIMATE RESILIENCE (PPCR)	SCALING-UP RENEWABLE ENERGY PROGRAM FOR DEVELOPING COUNTRIES (SREP)
RESPONSIBILITY	PURPOSE	• Demonstrate REDD activities • Provide incentives per ton of CO_2 reduced	• Support deployment of clean energy technologies and transformative reductions in GHG emission trajectories in developing countries	• Mobilize funds to reduce deforestation and forest degradation and promote sustainable forest management	• Demonstrate integrating climate risk and resilience into development planning	• Promote transformational change toward low-carbon energy pathways
RESPONSIBILITY	BASIS FOR FUNDING	• Countries develop R-PINs, followed by R-PPs • Readiness supports countries to: (1) prepare REDD strategy, (2) set forest emission reference scenarios, and (3) establish MRV systems	• World Bank and the regional development banks (RDBs) organize joint missions to engage government, private sector, and other stakeholders • Clean technology investment plan identifies major GHG emission sources and mitigation opportunities	• FIP Sub-Committee selects pilot countries and regional programs • Countries must be official development assistance eligible • Governments develop projects/programs	• PPCR Sub-Committee selects pilot countries • MDBs and U.N. agencies conduct joint mission to enhance climate resilience of national development plans, strategies financing • Proposals prepared by country and MDBs	• MDBs and governments conduct joint missions to engage U.N. agencies, civil society, indigenous peoples, private sector, and other stakeholders on how the program can assist the government to enhance renewable energy investments
RESPONSIBILITY	ACCESS TO FUNDS	• Only sovereign governments can access the FCPF • Governments access funds via World Bank; funds cover World Bank costs of operation	• Governments access funds via MDBs • Private companies can access funds through International Finance Corporation (IFC) and private sector arms of RDB • Up to USD 1 million available to prepare programs	• Governments develop investment plans and access funds through pertinent MDBs		
				FIP	PPCR	SREP
				• Grants for indigenous peoples, communities • Direct access to financing under consideration	• Only countries shortlisted by the PPCR Expert Group are eligible for financing	• SREP Sub-Committee approves a provisional list of eligible countries or regions based on recommendations of the SREP Expert Group
ACCOUNTABILITY	REPORTING	• Annual performance report evaluates FCPF performance at country and program levels • Decision meetings open to observers • Key documents (R-PINs, R-PPs) available to observers	• As of May 2009, investment plans to be publicly disclosed three weeks before Trust Fund Committee (TFC) deliberations and disclosed in country prior to sharing with TFC • Periodic independent evaluations	• FIP Sub-Committee indicators to assess investment plans and measure program impact • MDBs' Independent Evaluation Units will assess the FIP and its programs after three years	• Global Support Program proposed to ensure lessons are captured and disseminated at the global and regional level, and make expertise and tools available to participating countries	• SREP Sub-Committee should approve a results framework to measure the impact of SREP
			• Annual report on CIF operations will be prepared by the administrative unit • As of May 2009, a common framework for results management that will include specific indicators for each fund is under development			
				FIP	PPCR	SREP
ACCOUNTABILITY	PERFORMANCE	• FCPF committee and assembly to ensure that operations are consistent with charter and objectives	• A results measurement framework is under development to monitor the impacts and outcomes	• Indicators are being developed	• Results Framework developed with input from experts	• Results measurement framework to define how transformational impacts will be measured
ACCOUNTABILITY	SAFEGUARDS	• Strategic environmental and social assessments with reference to World Bank Safeguards	• Programs subject to the safeguard policies of the pertinent MDBs			

APPENDIX A. CLIMATE FUNDS REVIEWED

		BANGLADESH CLIMATE CHANGE RESILIENCE FUND[145]	INDONESIA CLIMATE CHANGE TRUST FUND[146]	AMAZON FUND[147]
OVERVIEW	FUNDING	• USD 110 million pledged: UK pledged USD 86.7 million, EU pledged USD 10.4 million, Denmark pledged USD 1.6 million, and Sweden pledged USD 11.5 million • Financed by grant contributions (minimum USD 1 million) • Approximately USD 90 million executed by the government of Bangladesh, and USD 8 million will be by the World Bank as the administrator • Eligible expenditures: goods; works; consultant services; training or transfer of knowledge; operating costs	• UK deposited USD 16.5 million and Australia deposited USD 1.8 million • Innovation Fund: grants for activities with indirect economic and social benefits • Transformation Fund: domestic loans and private financing for low-carbon development	• USD 107 million was donated in 2009 by the Norwegian Government • Norwegian Government pledged USD 1 billion to be fully transferred by 2015 • Potential for USD 24.5 million (€18 million) from Germany
	DONORS	• UK, Denmark, EU and Sweden	• UK, Indonesia	• Norway
POWER	VOICE & VOTE	• Two-tiered governance structure: • Governing Council • Management Committee • Both bodies will be chaired by the Government of Bangladesh, and include representatives from line ministries, development partners and civil society. • Management Committee: project review and management; developing partners contributing USD 5.0 million–9.9 million have a seat • Policy Council: provides strategic direction; developing partners contributing at least USD 10 million receive a seat • Secretariat: manages day-to-day operations • Decision-making by consensus (majority voting if no consensus) • Observers: Bangladesh Government ministries; World Bank and Asian Development Bank Country Directors; U.N. Resident Representative; European Commission Ambassador	• Steering Committee: donors and government representatives from different ministries; each member has voting rights; responsible for management, strategic orientation, and operational guidelines • Technical Committee: to advise Steering Committee on technical matters; has suggested that representatives of the Steering Committee with voting rights automatically be members of the Technical Committee • Secretariat: consists of technical, administrative, and financial experts	• Guidance Committee: sets guidelines and criteria for the Fund and follows up on results achieved; comprised of three "blocks": federal government, state government, and civil society blocks • Each block has one vote, and each member of a block has one vote within its respective block • Steering Committee: decisions by consensus of the three blocks • Technical Committee: certifies the data and the calculation of avoided emissions
	EXPERTS & NGOs	• No formal role for technical experts • Expenditures for consultant services are eligible for financing	• Technical service providers: assist Secretariat and committees; panel of experts assists applications and selecting contractors • Financial service providers: UNDP is the interim Trustee	• Technical Committee: six scientific and technical specialists annually issue an evaluation report on deforestation data
	ALLOCATION	• Two windows distribute funds: (1) activities implemented by government of Bangladesh (90 percent of financing), (2) activities by non-governmental organizations (10 percent)	• Three windows: energy (renewable energy and energy efficiency); forestry and peatland (REDD, sustainable forest, and peatland management); resilience (climate change information system, agriculture coastal zones, fishery and water management)	• Projects included in at least one of: public forests and protected areas, sustainable production activities, scientific and technical development applied to the sustainable use of biodiversity, or institutional enhancement of forest management systems
	COP	Not specified	Not specified	Not specified

APPENDIX A. CLIMATE FUNDS REVIEWED

		BANGLADESH CLIMATE CHANGE RESILIENCE FUND[145]	INDONESIA CLIMATE CHANGE TRUST FUND[146]	AMAZON FUND[147]
RESPONSIBILITY	PURPOSE	• Improve the lives of 10 million vulnerable people by 2015 through climate change adaptation and risk reduction measures • Complement climate risk management projects under the Climate Change Fund and other development programs and leverage critical resources to address the Climate Change Strategy and Action Plan (CCSAP's) six pillars	• Promote coordinated national action to respond to climate change • Align assistance for climate change with Indonesian development priorities • Improve access to financing and facilitate private investments • Prepare policy framework for mitigation and adaptation	• Combat deforestation and promote conservation, and promote deforestation monitoring and control systems
	BASIS FOR FUNDING	• Bangladesh Government agencies prepare project concept notes (PCNs) and Project Appraisal Documents (PADs); World Bank prepares grant agreement implementer • NGOs, community organizations, research institutions, others submit proposals with proof of registration and recent financial audit, and Management Committee selects an independent organization to process and implement projects	• Sectoral ministries submit proposals to Secretariat for pre-appraisal; Secretariat submits proposal to the Technical and Steering Committees; Steering Committee approves, rejects, or provides the opportunity to amend and resubmit the proposal for approval • Contractors selected through transparent tendering process	• Institutions must formalize a preliminary application to BNDES describing the basic characteristics of the institution and its project proposal
ACCOUNTABILITY	REPORTING	• Management Committee meets "as needed" during implementation period (at least three times/year); produces meeting reports, recommendations, and shares notes with members • Minutes of bi-monthly Management Committee meetings on project concept notes prepared by the Secretariat and shared with the Management Committee and Implementing Agencies	• Secretariat will prepare technical reviews for the Technical Committee, quarterly progress reports and monthly financial reports for the Technical Committee, and provide semi-annual narratives and financial reports to the Steering Committee	• Donors may receive a diploma corresponding to the amount of the donor's contribution to the reduction of carbon emissions from deforestation in the Amazon • Annual Report will publish list of donors, donated amounts, fund guidelines and priorities, results achieved, and financial and operational performance
	PERFORMANCE	• Management Committee will review semi-annual monitoring and evaluation reports prepared by Secretariat for submission to Developing Partners • Monitoring matrix to track inputs, outputs, and outcomes will be developed with performance indicators • Administration Agreement ensures funds used according to purposes and objectives agreed to by developing partners, the government of Bangladesh, and the World Bank • Grant agreements govern use and disbursement of funds	• Monitoring and Evaluation Mechanism will be executed by the Technical Committee, and reports will be submitted regularly to the Steering Committee and interested stakeholders • An independent auditor, appointed by the Steering Committee, will annually audit "policy compliance" and service providers • Auditor appointed by the government of Indonesia will audit funds used by ministries	• Annual external audit conducted by a reputable institution • Auditing to verify resources used in line with purpose and guidelines, and outputs conform with national plans • Fund administered by BNDES, overseen by Advisory Committee and Auditing Committee • Annual meetings with donors on continuation of funding
	SAFEGUARDS	• Procurement governed by World Bank policies and procedures • World Bank safeguard measures ensure funds used for purposes specified in grant agreements with Implementing Agencies	• Projects abide by the Indonesian Government National Action Plan and Yellow Book • ICCTF should follow the principles of the Jakarta Commitments and Paris Declaration of Aid Effectiveness	• Funds are deposited in a dedicated account kept by BNDES and all transactions performed in full compliance with national and international standards and regulations

APPENDIX B. ABBREVIATIONS

AF	Adaptation Fund
AFB	Adaptation Fund Board
AOSIS	Alliance of Small Island State
AWG-LCA	Ad Hoc Working Group on Long-term Cooperative Action under the Convention
BAP	Bali Action Plan
BCCRF	Bangladesh Climate Change Resilience Fund
BNDES	Brazilian National Bank for Development
CAIT	Climate Analysis Indicators Tool
CCGT/CHP	combined cycle gas turbine/combined heat and power
CCSAP	Climate Change Strategy and Action Plan (Bangladesh)
CCSR	Climate Change Sectoral Roadmap (Indonesia)
CDM	Clean Development Mechanism
CER	Certified Emissions Reduction
CFM	Carbon Finance Mechanism
CIF	Climate Investment Fund
CMP	Conference of the Parties serving as the meeting of the Parties
COP	Conference of the Parties
CTF	Clean Technology Fund
FAO	Food and Agriculture Organization
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Program
GAC	Group Allocation Country
GBI	Global Environment Facility Benefits Index
GDP	gross domestic product
GEF	Global Environment Facility
GHG	greenhouse gas
GNP	gross national product
GPI	Global Environment Facility Performance Index
ICCTF	Indonesia Climate Change Trust Fund
IFC	International Finance Corporation
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
LDC	least developed country
LDCF	Least Developed Countries Fund
LTMS	long-term mitigation scenarios
MDB	multilateral development bank
MDTF	Multi-Donor Trust Fund
MIE	multilateral implementing entity
MOU	memorandum of understanding
MRV	measureable, reportable, and verifiable
MW	megawatt
NAMA	nationally appropriate mitigation action
NGO	non-governmental organization
NIE	national implementing entity
ODS	ozone depleting substances
PAD	project appraisal document
PAS	Sustainable Amazon Plan (Brazil)
PCN	project concept note
PPCDAM	Prevention and Control of Deforestation of the Legal Amazon (Brazil)
PPCR	Pilot Program on Climate Resilience
PPP	purchasing power parity
RAF	Resource Allocation Framework
RBM	Results-Based Management
RDB	Regional Development Bank
REDD	Reducing Emissions from Deforestation and Forest Degradation in Developing Countries
RM	Readiness Mechanism
R-PIN	Readiness Plan Idea Note
R-PP	Readiness Preparation Proposal
SCCF	Special Climate Change Fund
SIDS	Small Island Developing States
STAP	Scientific and Technical Advisory Panel
STAR	System for Transparent Allocation of Resources
TAP	Technical Advisory Panel
TEAP	Technical and Economic Advisory Panel
TFAA	trust fund administration agreements
TFC	Trust Fund Committee
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organization

NOTES

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13. UNFCCC, Article 11.1; GEF Instrument, preamble, para c.
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29. While these legal and technical issues are often beneath the notice of many negotiators, they are critically important to giving effect to the principle of accountability and recur each time the Parties create a new fund (see Chapter 3.3 on the Adaptation Fund).
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ISBN 978-1-56973-760-6