WORKING PAPER

POWER, RESPONSIBILITY, AND ACCOUNTABILITY:
Re-Thinking the Legitimacy of Institutions for Climate Finance

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EXECUTIVE SUMMARY

As the December deadline looms to conclude a new agreement under the UN Framework Convention on Climate Change (UNFCCC), negotiators have yet to agree on how to finance cuts in greenhouse gas (GHG) emissions while meeting the energy needs of developing countries. If a global deal is to be struck, many estimate that developed countries will need to commit tens of billions of dollars of public money to support developing country efforts. With little money on the table, disagreement remains on whether these billions should be entrusted to 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.

Broadly speaking, industrialized nations want to continue to rely on existing institutions they have funded and led for the past 60 years. Developing countries prefer new institutions, arguing that existing ones favor donor interests, and have failed to deliver on promises to support poverty alleviation and development. Delegations' proposals to the UNFCCC reflect this gulf. If the institutional arrangements entrusted with managing new flows of climate finance are to succeed in raising these resources and in investing them well, they will need to be perceived as *legitimate* by both contributors and recipients.

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

This Working Paper seeks to ground the debate on climate finance in an objective analysis of ongoing efforts to finance mitigation and adaptation in developing countries. The authors step back from the question of "which institution?" should be entrusted with these funds 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 institutional legitimacy: power, responsibility and accountability. (See Box A)

Box A.: Dimensions of Power, Responsibility and Accountability in Climate Finance

POWER:
the formal and informal distribution of the capacity to determine outcomes

- Distribution of vote and voice in the governance structure(s)
- Authority and guidance of the Conference of the Parties (COP) over the financial mechanism
- Imposition by contributors of conditionalities on the financial mechanism through the resource mobilization and allocation process
- Influence of the financial mechanism on relationship between the mechanism and the host country as part of the project cycle
- Influence of bureaucratic discretion, technical expertise, and civil society input

RESPONSIBILITY:
the exercise of power for its intended purpose

- Exercise of power in the governance structure(s) consistent with the mechanism's intended purpose
- Application of cost-sharing formula (e.g. incremental, marginal, transformative costs)
- Enabling of "country ownership" in the development of plans, programs and project

ACCOUNTABILITY:
standards and systems that ensure power is exercised responsibly

- Results based management and reporting
- Fiduciary duties and financial management
- Environmental and social safeguards
- Role of special accountability mechanisms

We review the governance structures, operational procedures, and records to date of 10 international and national finance institutions, 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 thus far with the Global Environment Facility (GEF) which, since 1994 has served as the operating entity of the financial mechanism of the UNFCCC.

Box B: Finance Institutions Reviewed

1. GLOBAL ENVIRONMENT FACILITY: *Since 1994, the interim financial mechanism of the UNFCCC*
2. MONTREAL PROTOCOL FUND: *Since 1990, the Multilateral Fund to eliminate Ozone Depleting Substances*
3. ADAPTATION FUND: *Since 2008, under the Kyoto Protocol, financed by a 2% levy on Clean Development Mechanism transactions*
4. FOREST CARBON PARTNERSHIP FACILITY: *Since 2007, World Bank carbon financing pilot for forest emissions*
5. CLIMATE INVESTMENT FUNDS: *Since 2008, World Bank and MDB pilot funds*
   - ►CLEAN TECHNOLOGY FUND: *finance clean technology deployment that significantly reduce GHGs*
   - ►PILOT PROGRAM ON CLIMATE RESILIENCE: *funding for adaptation to climate change*
   - ►FOREST INVESTMENT PROGRAM: *financing to address the role of forests in climate change*
6. BRAZIL AMAZON FUND: *Since 2008, Brazilian National Development Bank fund to reduce deforestation*
7. BANGLADESH MULTI-DONOR TRUST FUND: *Since 2008 National World Bank administered climate change fund*
8. INDONESIA CLIMATE CHANGE TRUST FUND: *Since 2009, Planning Ministry (Bappenas) fund administered by UNDP*

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. In light of the dramatic changes in global politics and the global economy in the past decades, this redistribution seems both long overdue and necessary to provide the basis for a successful global partnership on climate finance.

Conclusions and Recommendations

Balancing Power: Formal distribution of power within the governing body of any financial mechanism will color perceptions of its legitimacy. Funds recently established under the Kyoto Protocol and under the World Bank, establish separate governing committees which reflect a more balanced governance structure with equal votes and representation of contributor and recipient countries. However, these funds continue to rely on the existing institutions – so called "Implementing Agencies" such as the World Bank, UN Development Programme and the UN Environment Programme -- for financial and project management. As long as the underlying power structures of these institutions remain unchanged, they will continue to reinforce existing relationships between contributors, financial institutions and recipients.

Developing countries can, through their majority representation in the COP to a climate agreement, seek to exercise power over climate financial mechanisms. But the experience of the GEF has shown that the legal and institutional means of exercising this power are limited, and developing countries and other observers continue to view the GEF as unaccountable to the COP.

Formal grants of power have generally been neutralized by other ways in which contributors exercise influence. Contributor countries continue to dominate the processes of replenishment, resource allocation and project cycle management by imposing 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, donor influence is likely to check the formal power of recipients.

The economic and policy conditionalities that donors have attached to their financing in the past have been neither popular with recipient countries, nor entirely effective in achieving their objectives. But priorities and standards attached to donor resource mobilization have provided a means of prioritizing scarce development financing, and of promoting environmental and social safeguards. It is unclear how developing countries, when they are given greater power, will exercise this power responsibly without deploying similar tools.

Recommendations: 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 de-link the source of finance from the exercise of informal power by donors, by adopting new levies -- such as the levy on Clean Development Mechanism (CDM) projects.

Taking Responsibility: There is a growing consensus that, to be successful, efforts to address climate change must effectively reflect national priorities and circumstances. As developing countries gain more power in the governance of financial institutions, they should be natural champions of “nationally owned” and “country driven” programming. These countries are increasingly keen to have “direct access” to climate finance through their own national institutions, by-passing traditional Implementing Agencies. Arrangements for “direct access” to finance should be supported by nationally derived and owned low GHG emissions development strategies and national adaptation programs. If these strategies and programs contain measurable, reportable and verifiable (MRV) actions, they should provide a more legitimate basis for allocating resources between countries as well as for designing programs within countries.

The Montreal Protocol Fund, Clean Technology Fund, and Forest Carbon Partnership Facility experiences suggest that countries are ready to embed proposed projects and programs in broader national planning processes, if it leads to more sustained support. But a national plan is a far easier thing to develop than “national ownership”. Too many past efforts at national planning have been rushed, and completed with limited stakeholder engagement. Going forward, the processes by which these plans are developed, and the institutions involved, will influence whether they adequately reflect and respond to national circumstances.

Recommendations: A next generation of climate finance needs to 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 Implementing Agencies provide technical support to national institutions, they should rely less on external consultants and work in closer partnership with national stakeholders. Collaborations with local independent research institutions and civil society can be particularly important to make sure climate finance proposals appropriately reflect national circumstances and priorities.

Ensuring Accountability: If done properly, shifts of power and responsibility to developing countries, through greater voice in decision-making and “direct access” to funds, will entail greater accountability for the consequences of investment.

Many developing countries are already building the capacity of their national financial institutions to support climate friendly development. Countries including Mexico, India and Brazil have set up units within national development finance institutions that are already supporting investments in renewable energy, energy efficiency, and sustainable forest management. The trend toward greater reliance on national Implementing Agencies raises both opportunities and challenges. Recent experiments to set up national funds in developing countries to finance climate change programs have taken some significant steps to ensure good financial management of funds. Little emphasis has been placed to date on their overarching institutional accountability, or the systems in place to maximize environmental and social benefits and minimize unintended harm.

Direct access to funding for developing countries whose national institutions can demonstrate they meet fiduciary standards, and national systems for measuring, reporting and verifying funded actions are two new dimensions of a more reciprocal relationship and deeper partnership between contributors and recipients. Together, these reflect an agreement on the conditions necessary to empower developing countries to shape their own climate policies.

Recommendations: National implementing institutions that take on a greater role in climate finance need to demonstrate the capacity to be held accountable, both nationally and internationally for the results of their investments. We suggest the following standards of good governance for national implementing institutions, building on the standards to which conventional Implementing Agencies are being held accountable. First, their governance structures should be inclusive and transparent. Second, their responsibilities should be clearly articulated, and they must have the technical capacity to develop ambitious and effective programs in partnership with local stakeholders, particularly citizens and other potential program beneficiaries. It will also be essential to have strong provisions for accountability in place, including to ensure compliance with international good practice for fiduciary management, robust anti-corruption measures, and to manage potential environmental and social impacts. If these standards can be met, then national institutions may hold significant promise for climate finance.

1 INTRODUCTION

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 public financial resources.[1] A significant amount of these resources will need to be raised from public sources in developed countries and invested in developing countries, and will be managed by one or more international institutions. (See Figure 1) The question of which international institutions -- new, existing or reformed -- should be entrusted with managing these resources 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 Conference of the Parties (COP) to the UN Framework Convention on Climate Change (UNFCCC), which emphasizes the need for "[i]mproved access to adequate, predictable and sustainable financial resources" but provides little guidance on institutional design. See Box 1. 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.

Box 1: State of Play: The Bali Action Plan, NAMAs, 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 UN Framework Convention on Climate Change (UNFCCC). The outcome of this process, due to be concluded at the COP's 15th meeting, in Copenhagen, Denmark, is commonly referred to as the "Copenhagen agreement."

The Bali Action Plan (BAP) calls for improved access to **adequate, predictable and sustainable** financial resources and financial and technical support, and the provision of new and additional resources, including official and concessional funding for developing country Parties.

The funding is to be provided in a **measurable, reportable and verifiable (MRV)** manner. It is to support and enable the enhanced implementation of by developing countries of **national mitigation strategies and adaptation action (NAMAs)** which are also to be undertaken in a **measurable, reportable and verifiable manner.**

The negotiations should also result in innovative means of funding to assist developing country Parties that are particularly vulnerable to the adverse impacts of climate change in meeting the cost of adaptation. 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.

Source: Report of the Conference of the Parties to the UN Framework Convention on Climate Change at its 13th Session, Decision 1/CP.13, December 2007.

This Working Paper argues that if the institutional arrangements entrusted with managing new flows of climate finance are to succeed in raising these resources and in investing them well, they will need to be perceived as *legitimate* by both contributors and recipients. 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.[2] 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 institution's legitimacy will also be based on its governance structure, for example, whether it reflects an equitable balance of contributors and recipients.

Figure 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, private sector
Resource allocation	• Allocation of resources between multiple focal areas (e.g. mitigation, adaptation, forestry) • Prioritization between 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

A financial institution's legitimacy should also be assessed on its track record. In the context of climate change, 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? 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.

1.1 Prevailing Principles of Institutional Legitimacy[3]

After 20 years of climate change negotiations, the principles that Parties have emphasized when agreeing on institutional design have remained fundamentally unchanged. The UNFCCC and related COP decisions, as well as the operations of the Convention's financial mechanism under the Global Environment Facility (GEF) have called for:

- **Accountability of the mechanism to the COP** for conformity with the policies, program priorities and eligibility criteria established by the Parties;[4]
- Equitable, **balanced representation** of all Parties through universal membership within a transparent system of governance;[5]
- A **predictable and identifiable** manner of determining the amount of funding necessary and available, based on appropriate burden sharing among the developed country Parties, and setting out the conditions under which that amount will be periodically reviewed;[6]
- An obligation on developed countries to 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;[7]
- Support for policies and measures that are **cost-effective** so as to ensure global benefits at the lowest possible cost;[8]
- **Independent scientific and technical** advice to inform program and project design;[9]
- **Institutional economy**, that avoids the creation of new institutions while tapping into and coordinating the comparative advantages of existing institutions;[10] and
- A **non-exclusive, but coordinated approach** to finance that allows for financial resources related to the implementation of the Convention to flow through bilateral, regional, and other multilateral channels.[11]

These principles 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 principles are -- or once were -- perceived by the Parties as legitimate.

1.2 Rethinking Legitimacy: Power, Responsibility, and Accountability in post-2012 Climate Finance

However, the current round of negotiations on climate finance is forcing the re-interpretation of these principles in a contemporary context, and is forging a new relationship between traditional contributors, traditional recipients and the financial institutions 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 underway within the Major Economies Forum and the G-20.[12]

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 Figure 2)

Power: By power we mean the formal and informal distribution of the capacity to determine outcomes between and among Parties, and between Parties and the institutions they create. Formally, this distribution 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 institution and the COP under current and future climate treaties, is another important aspect of the distribution of 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 institutions are entrusted with climate finance, the COP's authority will also set overall direction for these institutions. This may be crucial to promoting a greater degree of coherence in climate strategies.

Informally, the power relationship between parties and a financial institution 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 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 institutions 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 institution'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 climate finance, developed countries will bear all or most of the responsibility for raising 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 is justified in part by the need to show that resources are being programmed effectively and are not contributing solely to one-off 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 purposes. Essentially, direct access would enable national and sub-national developing country institutions to take direct responsibility for the programming of resources at the country level by entering into grant and loan agreements with the fund without having to rely upon Implementing Agencies such as multilateral development banks, and UN agencies. At the same time developing countries are keen to limit their responsibilities to efforts made possible by new and additional climate finance. The UNFCCC has been interpreted by some to make developing countries efforts to implement national climate programs contingent on the fulfillment by developed countries of their commitments to provide financial support.[13]

Currently, at the project level, the Global Environment Facility determines the distribution of responsibility for financing specific initiatives by applying the concept of "incremental costs". 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 put into practice. The use of the "incremental cost" concept may be modified or replaced under the current negotiations to link domestic and global benefits and responsibilities. We note, for example current experiments with new concepts such as "transformational costs" and "performance based finance."

Accountability: By accountability we mean the standards and systems for ensuring that power is exercised responsibly. Even as they seek greater power and take on greater responsibility in the programming of global environmental finance, developing countries are signaling that they are prepared to be held more directly to account for how well they do this. As their policy-setting role increases in the governance of finance institutions, developing countries, particularly those with greater voting power, should also find themselves being held more accountable by the media and civil society for the effective functioning of these institutions.

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. Developing countries are increasingly seeking "direct access" to financial resources through national institutions. These initiatives should be welcomed by those supportive of national "ownership" of development investments, but efforts need to be made to ensure adherence 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 to protect against the unintended consequences of investments.

Figure 2: Dimensions of Power, Responsibility and Accountability in Climate Finance

POWER:
the formal and informal distribution of the capacity to determine outcomes

- Distribution of vote and voice in the governance structure(s)
- Authority and guidance of the COP over the financial mechanism
- Imposition by contributors of conditionalities on the financial mechanism through the resource mobilization and allocation process
- Influence of the financial mechanism on relationship between the mechanism and the host country as part of the project cycle
- Influence of bureaucratic discretion, technical expertise, and civil society input

RESPONSIBILITY:
the exercise of power for its intended purpose

- Exercise of power in the governance structure(s) consistent with the mechanism's intended purpose
- Application of cost-sharing formula (e.g. incremental, marginal, transformative costs)
- Enabling of "country ownership" in the development of plans, programs and project

ACCOUNTABILITY:
standards and systems that ensure power is exercised responsibly

- Results based management and reporting
- Fiduciary duties and financial management
- Environmental and social safeguards
- Role of special accountability mechanisms

1.3 Assumptions and Scope of Analysis

In this Working Paper, we observe that climate change negotiators, particularly those from developing countries, 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 the fact that many delegations have also supported 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 the faith that they *can* design a new financial mechanism that meets their evolving standards of legitimacy.

Box 2: Current Proposals on Climate Finance under the Bali Action Plan

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% of GNP, totaling an estimated $150-300 billion dollars a year, in support of mitigation, adaptation, technology transfer and capacity building programs in developing countries 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 UN 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".[14]

China's Multilateral Technology Cooperation Mechanism

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

India's Financial Mechanism

India's proposals for a Finance Mechanism have built on the central tenets of the G-77 proposal, emphasizing that UNFCCC financing should be treated as an "entitlement not aid".[15] It has suggested that all financing should be provide 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 will 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.[16]

UK 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 party representatives to constitute "balanced" power structures. Nationally owned low carbon and climate resilient development strategies would provide a the basis for allocating finance, and an instrument for coordinating support to a country from a number of potential sources including both 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 proponent's experience with the Climate Investment Funds,[17] which are piloting some elements of this approach.[18]

Mexico 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 several factors: GHG emissions, population and GDP. There would be equal representation of Annex-1 and non-Annex 1 countries but developing countries would have access to amounts larger than their own contributions.

Swiss Proposal

Switzerland has proposed a uniform global levy of US$2 per ton of carbon dioxide on all fossil fuel emissions to provide financing for adaptation and mitigation in developing countries. Two sets of funds have been proposed: a Multilateral Adaptation Fund (MAF) that will focus on climate change impact and risk reduction by providing finance for policies and measures, and an insurance pillar that will finance recovery and rehabilitation in response to the impacts of climate change.

EU 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." [19] It has proposed a 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.[20]

The US Financing Proposal

In October 2009, the United States proposed the establishment of a new Global Fund for Climate operating under the Convention and with a balanced representation between net contributors and net recipients. The fund would support mitigation and adaptation activities at scale, and be administered by an existing multilateral institution. As in the case of the Mexican and EC proposals, the US suggests that both developed and developing countries (except least developed countries) would contribute to this fund, which would provide loans as well as grants. The Global Environment Facility for its part would support capacity building activities in developing countries, and technology innovation and development activities. The US proposal is ambiguous about the relationship between the new Global Fund for Climate and the COP.

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 the Copenhagen and subsequent negotiations will involve, at least in the near term, multiple institutions (multilateral, regional, bilateral, national, within and outside the UNFCCC) – what some have referred to as a "de-centralized" model.[21] While many countries are calling for the establishment of an overarching body to oversee climate finance, we believe the politics and the flows of climate finance are (and have always been) far too complex to be fully captured by any single institution. Thus, if a new institution is established it will face the challenge of coordination, alignment and complementarity with various other initiatives and institutions. 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 institutions designed to manage climate finance, such as proposed technology transfer boards, or carbon market mechanisms.

Finally, we recognize that supporting mitigation of and adaptation to climate change 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. 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.

2 TAKING STOCK: LESSONS LEARNED FROM THE OPERATION OF THE GLOBAL ENVIRONMENT FACILITY[22]

Before looking forward at a next generation of climate finance, it is useful to reflect back on how power, responsibility and accountability were incorporated into the design of the current “operating entity” of the UNFCCC’s financial mechanism, the GEF. When, in 2001, the Kyoto Protocol Parties established a Special Climate Change Fund and a Fund for Least Developed Countries, they also entrusted their operations to the GEF.

Nevertheless, the GEF’s role as 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.[23] Its role in the Kyoto Protocol’s more recently established, Adaptation Fund leaves no governance function for the GEF Council, but calls upon the GEF Secretariat to support the Fund’s project cycle. The October 2009 proposal from the US, which was a main architect of the GEF, would seem to relegate the GEF’s role to capacity building, rather than large scale project finance.[24]

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 improving 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. 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.[25] 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% majority of participants as a whole (dominated by recipient countries) and a 60% majority of contributors (non-recipients) as a whole, to approve a decision.[26] This balance of power in the GEF structure reflected the need for a new kind of partnership, which 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 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 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.[27]

One obvious aspect of the GEF's structure that may be ripe for reform is the constituency system referred to in the South Africa submission. Two of the seats on the GEF Council are assigned to economies in transition (EITs) which seems somewhat obsolete in a post-cold war context. Many EITs have seen their economies grow significantly since the early 1990s when the GEF was established, and some have since joined the European Union. But the general dissatisfaction with the GEF appears to derive from the persistent dominance of contributors in its operations through the informal rather than the formal exercise of power.

2.2 The GEF, the COP, and the Implementing Agencies: the Challenges of "Institutional Economy"

The relationship between the financial mechanism and the COP is an equally important part of the discourse on distribution of power. Developing countries, which form the substantial numerical majority in the COP have consistently insisted on the recognition of the COP as the "supreme body" of the treaty, particularly in relation to its financial mechanism. When the UNFCCC Parties decided to "outsource" the operations of its financial mechanism to the GEF, it raised a new set of challenges about how to formalize and coordinate these institutional relationships between the COP, the GEF and various Implementing Agencies.[28]

One of the constraints to formalizing the relationship between the COPs and the GEF has been the indeterminate nature of the "legal personalities" of both the COP and the GEF. While these legal and technical issues are often beneath the notice of negotiators they are critically important to giving effect to the cherished principles of accountability and recur each time the Parties create a new fund. (See section 3.3, below, on the Adaptation Fund.) 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 Memorandum of Understanding (MOU).[29]

The MOU between the GEF Council and the COP[30] gives effect to the respective roles and responsibilities of the COP, as the supreme body of the Convention, and the GEF, 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]

This same study found that some GEF policies, in particular relating to the disbursement of funds under the Facility's Resource Allocation Framework (RAF) "are problematic in respect to their conformity with COP guidance and their compliance with the MoU and the GEF Instrument."[33]

The GEF's design was also revolutionary in its effort to operationalize the principle of institutional economy by tapping into and coordinating the capacities of existing institutions, in particular the GEF "Implementing Agencies", i.e. the World Bank, the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP). While each Implementing Agency has passed a resolution endorsing its assigned role in the GEF instrument, each also remains responsible and accountable its own rules, procedures, and governance structures.[34] 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.[35]

2.3 Power, Responsibility, and Accountability in the GEF Project Cycle: Incremental Costs and the RAF

Two of the most important and controversial concepts that have dominated the GEF's approach to climate finance are "incremental costs" financing and the "resource allocation framework" or RAF. 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.[36] 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.

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 for distinguishing 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 project by project **negotiating agreed costs** between contributor agencies and recipients; and

- providing the basis for a **cost-benefit analysis** that allows an assessment of the global environmental benefits derived from an incremental cost investment.[37]

Box 3: The Resource Allocation Framework of the Global Environment Facility

The GEF's Resource Allocation Framework (RAF) was adopted by the GEF Council in 2005 as a means of prioritizing the allocation of GEF resources within its focal areas. Within the climate change focal area, the

RAF formula has been criticized by Participants as well as by the GEF's own evaluation processes on a number of grounds:

It is not comprehensive. The RAF formula does not recognize land use, land use change and forestry GHG emissions, which account for an estimated 12-20% of total global GHG emissions. These exclusions distort the rankings of forest-rich countries like Brazil and Indonesia.

- It does not recognize the need for adaptation funding. Adaptation activities can be financed outside of the RAF through the Strategic Pilot on Adaptation, the LDC Fund, the Special Climate Change Fund, convention enabling activities, and potentially through the CDM. However, all of these funds involve different procedures and stakeholders can find the multiplicity of funding methods nontransparent and inaccessible.

- It is not an effective incentive for performance. Increases in GBICC will naturally be more long-term, so the shorter-term window for improving RAF scores is through the GPI. Yet GPI scores do not correlate well to country allocations, and the GPI is not a driving force in determining individual country ranks. It is therefore a poor incentive for performance. In particular, Group Allocation Countries (GACs) are likely to remain GACs even if their GPI increases. The RAF mid-term review found that increasing the exponent weight of the GPI in the RAF formula would be insufficient to make it an effective incentive.

- Small allocations inherently reduce access to RAF funds. For GACs, a small project at the $1 million floor allocation faces relatively high transactional costs and cannot satisfy the GEF's ambitious climate change priorities. Some GACs had more predictability prior to the RAF when they could work for years on a project and likely have it approved at some point. The first period of the RAF saw substantially lower use of climate change funds than in previous replenishment periods. 93% of the climate change GACs had not accessed any RAF funds as of the midterm review.

- Complex requirements reduce access to RAF funds by countries with limited capacity. The requirements for GACs are as stringent as those for large individual allocation countries with more capacity. Unclear GEF guidelines have further limited the access of GACs to GEF funds.

- The RAF has resulted in the reduced participation of NGOs, the private sector, and civil society. Previously, NGO consultation took place at the project design level, but priority setting under the RAF has moved up to the portfolio level. There are now no projects executed by the private sector, and the emerging pipeline does not reveal a high likelihood of future private sector projects.

- The RAF is a disincentive for project preparation grants, enabling activity grants, and regional or global projects, which are funded from the same country allocations as climate change projects. Similarly, access to funds for convention obligations leaves little for GACs for another project of meaningful scope. The RAF also constitutes a disincentive for regional and global projects, since GACs have not been voluntarily providing funds for these from their country allocation.

Sources: D Wei, "Background Memo on the RAF" prepared for this Working Paper and on file with authors, and based on GEF Evaluation Office, Midterm Review of the Resource Allocation Framework (May 2009); GEF Secretariat, Management Response to the Midterm Review of the Resource Allocation Framework, GEF/ME/C.34/3 (Oct. 17, 2008); GEF Technical Note, GEF Resource Allocation Framework: GEF Benefits Index for Climate Change (GBICC) (May 4, 2005)

The Resource Allocation Framework

While the incremental cost concept operates to identify levels of funding on a project by project basis, the GEF has, since 2005 been using a resource allocation framework (RAF) to allocate funding among recipient countries. The GEF's RAF is designed to create a greater sense of shared responsibility between contributors and recipients, as well as a sense of accountability for recipient performance. GEF recipients are ranked with regard to (i) their potential to generate global environmental benefits in a particular focal area (the "GEF Benefits Index," or GBI) and (ii) 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 whose cumulative allocations equal 75% of the funds available in the focal area receive country-specific indicative allocations equal to their respective adjusted allocations. The remaining countries, group allocation countries (GACs) are placed in a group for each of the GEF's focal areas. Each group must share the remaining 25% 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 2006-2010, under the RAF the GEF countries receiving the largest five allocations were China, India, Russia, Brazil and Poland. However, countries with smaller allocations, and in particular "group allocation countries" (GACs), which include most least developed countries (LDCs) and most vulnerable countries, have not received these benefits due to several compounding problems. The consultations necessary to implement the RAF have taxed their capacity, and "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." [40] This has led many if not all GACs to conclude that the RAF has not led to greater ownership or empowerment.[41]

The RAF has, however, shifted decision-making power to the GEF Secretariat, which has day to day responsibility for implementing the RAF. When combined with unclear guidance from the Secretariat, this has slowed access to RAF funds. During the RAF midterm review survey, 60% of stakeholders indicated that RAF implementation "may shift project decision-making power in favor of the GEF Secretariat."[42]

Box 3 unpacks the details of the RAF formula, and its implications for recipient countries. 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 is now underway. 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.[43]

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 principles that led to the GEF's design. However, many of the financial, political, and institutional dynamics and constraints that shaped GEF remain as challenges. If negotiators decide to design a new financial mechanism they should learn from the GEF experience.

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 and of the Implementing Agencies and international civil servants dependent on contributor resources will remain strong, perhaps determinative.

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 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 will be 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 large scale.

3 POWER

3.1 Demand for Reform

Recipient countries are increasingly questioning the legitimacy of the balance of power between contributors and recipients in the context of climate finance, and demanding a greater say in how priorities are set, and how funds are disbursed and accounted for. Their demands stem in part from a long history of coercive relationships between donor dominated institutions, such as the World Bank, the IMF, regional development banks and bilateral aid agencies, and host countries urgently seeking financial capital.[44]

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 (MRV) of developing country actions as well as developed country financial contributions. As the threats of climate change grow, developed countries are seeking to leverage greater results from their investments in climate finance. Developing countries are pushing back, insisting that climate finance be viewed as "compensation" for the damage done by the North and for any lower cost development opportunities the South must forgo.[45] Both sides of the debate reflect a perception that previous attempts to rebalance power between contributors and recipients, such as the design of the GEF Council, have failed to produce a new "global partnership".

Instead, as noted in Section 2, previous efforts at GEF 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 clawed back power by withholding funding until their conditions are met. For example, US 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.[46]

In light of the GEF experience, and taking into account more recent experiments in climate finance under the UNFCCC, the Kyoto Protocol and elsewhere, we examine the evolving dynamic of the exercise of power in a range of existing and proposed financial mechanisms through:

- the **overall governance** structure of the mechanism;
- the **relationship between the mechanism and the COP**;
- the exercise of contributor-imposed conditionalities through the **resource mobilization and allocation** process; the relationship between the mechanism and the recipient country **as part of the project cycle**, and
- the **role of secretariats, scientific and technical advice, and NGO** observers

We examine the efforts of developing countries to assert power, and the implications of these efforts for the legitimacy of climate finance.

3.2 Overall Governance

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 contributing to, and receiving funding from, a climate financial mechanism 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."[47]

Institutions designed under the UN 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 4.) As has been described, 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 4: Formal Voting vs. Consensus

In most cases, the rules of procedure of the governing boards of the funds surveyed only resort to formal voting when a consensus cannot be reached among member states. In practice voting is rarely if ever resorted to. 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 does, however, raise 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 positions taken through voting are made transparent, representatives may be more accountable for demonstrating that their decisions reflect the interests of their national government, or other constituencies.

Sources: H Schmermers and N Blokker, International Institutional Law (1995) (note 1), at § 771

While there is an apparent trend in climate finance, described below, toward allowing developing countries more seats and more voice in governance, the outcome of this aspect of the Copenhagen 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.

Four different governance models for climate finance have emerged within and outside the UNFCCC. The GEF model, described in Section 2, above, the Marrakech model, which followed the negotiation of the Kyoto Protocol; the Adaptation Fund Board model; and, under the auspices of the World Bank, the World Bank Administered Funds model.

The Marrakesh Model

In 2001, as part of the Marrakesh Accords negotiations, two new Convention funding mechanisms were established by the COP to respond to the needs and demands of the most vulnerable countries particularly the LDCs and the 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 (a) adaptation, (b) transfer of technologies, (c) energy, transport, industry, agriculture, forestry and waste management; and (d) economic diversification.[48] 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.[49] The SCCF and LDCF policies and procedures are determined by the GEF Council, acting as the Council for the two funds, and under the guidance of the COP. In terms of decision-making, the GEF Council meets as council for the LDCF and the SCCF.[50] GEF Council Members, such as the United States, that have not contributed to the Funds do not participate in decision-making. Decisions are made by consensus, and should consensus fail, by a vote based on GEF double weighted majority rules, but modified to reflect each countries' relative contributions to these funds (rather than their contributions to the GEF).[51] According to the GEF secretariat, civil society observers and representatives of other relevant international agencies (e.g.,UNDP, UNFCCC) are welcome to attend -- as observers -- Council meetings that are dealing with LDCF and SCCF agenda.[52]

The Adaptation Fund Board Model

The Adaptation Fund Board (AFB) was designed with a composition of 10 developing country members and 6 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 Adaptation Fund Board are open to observers, who may participate only upon the invitation of the chair. This balance of power in favor of developing countries may be attributable in part to the financing of the Adaptation Fund, which is not based on developed country contributions. The Kyoto Protocol stipulated that a portion of the proceeds of the Clean Development Mechanism would be used "to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation."[53]

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.

Instead, the CIF emulates the design of the GEF and the Multilateral Fund for the Montreal Protocol[54], and features 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 8 contributor and 8 recipient 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, however, over budgets and work programs, and CTF discussions on the details of projects to be funded have, to date, been closed to observers.[55]

Formal Power v. the Constraints of Reality

Merely increasing developing country participation on governing bodies may not substantively increase their capacity to determine outcomes within these bodies. For example, in the case of the GEF, the fact that contributor countries tend to be represented by officials from Ministries of Finance, Development and other “donor” agencies, while developing countries are represented by less powerful Ministries of Foreign Affairs and Environment Ministries and other “recipient” agencies, may create an imbalance in the power dynamic of the GEF Council.[56] Differences in the quality of participation are also observable.[57]

Under the World Bank Administered Funds model, separate governing committees have been established, but continue to be nested in the Bank’s infrastructure and rely on it as trustee and for project management. The fundamental power structure of the Bank remains unchanged, and this will shape the relationship between the Funds and recipients. If these Funds are to meet new standards of legitimacy, then the Bank’s governance will also need to be reformed. (See Box 5.)

Box 5 Reform of the Governance of the Bretton Woods Institutions

The governance structures of the Bretton Woods Institutions -- the World Bank Group and the International Monetary Fund (IMF) -- have for sixty 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 over time, 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%) openness (30%) economic variability (15%) and international reserves (5%). 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 (EDs), where the five EDs with the largest quotas / voting shares are appointed[58] by their respective governments, namely the United States (16.40%), Japan (7.87%), Germany (4.49%), France (4.41%), and United Kingdom (4.31%).[59] The remaining (16) EDs are elected by member states, which, in theory, belong to geographically related voting blocs, and each voting bloc casts their vote as one unit. There are several cases in which developed and developing countries have joined together to form a voting bloc: for example, the bloc headed by Austria includes Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, and Turkey and has 4.80% of the votes in the Internal Bank for Reconstruction and Development.

The need to reform voice and voting systems was central to discussions at the 2009Annual Meetings of the World Bank and IMF in Istanbul. China has sought speedy implementation of the agreement reached by the leaders of the Group of 20 leaders at 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. China and other developing member country governments called for the “IMF [to] speed up its quota reform and complete its

14th General Quota Review before January 2011 to realize a significant transfer of quota and voting power to emerging markets and developing countries so as to enhance its legitimacy and effectiveness". The IMF was also urged to set up an automatic adjustment mechanism for its quota in the mid- and long-term to timely reflect the evolving weight of each member in the global economy. This includes getting the World Bank reform towards the ultimate goal of parity voting power between developed and developing members.

Donor countries are likewise seeking greater progress in negotiations towards a consensus on the enhancement of the voice and participation of developing and transition countries (DTC) in the decision making at the World Bank Group, and want to finalize an agreement at the 2010 Spring Meetings. It is expected for example that by 2010, a 25th seat at the World Bank Board would have been created for sub-Saharan Africa.

Finally, developing country governments led by China have asked for the process for choosing the leaders of the two institutions be open, transparent and merit-based. There was also an explicit demand for the Bank and the IMF to continually increase developing countries' representation in its staffing structure, particularly senior management, in order to achieve "a good geographic balance".

Sources:
IMF Quota Fact Sheet 31August 2009 Available online: 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,* ed. by Ariel Buira (London: Wimbledon Publishing Company 2004); Statements by China, Switzerland, et al during the WB IMF Meetings in Istanbul, October 6-7, 2009.

3.3 Authority vs. Guidance of the Conference of the Parties

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 AFB, new experiments such as the Climate Investment Funds, and in the Copenhagen negotiations. If the Parties agree, as they did with the GEF and the AFB, 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.

Adaptation Fund Board

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 of its Implementing Agencies (in particular the World Bank) ran into the challenge that without "international legal personality" the AFB 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. This last function is particularly important if the AFB is to provide "direct access" of national entities to its funds.

Under an MOU between the CMP and the GEF Council, the AFB 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, on an interim basis act as the Trustee of AFB funds, primarily for the purpose of monetizing CERs, and for the financial management of the trust fund. 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 AFB investments remains ambiguous. (See Box 6.)

Box 6: The tricky issue of legal personality and the AFB

In order to "resolve" the issue of legal personality, developing countries asked the Protocol's COP (CMP) to grant the AFB 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 AFB. Because the AFB 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 AFB "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 leaves ambiguous 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 AFB 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 AFB.

Sources: 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."[60]

Proposals for post-2012 Climate Finance

As part of the current Copenhagen negotiations (see Box 2, above, section 2), the Group of 77 and China have 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[61]. China's proposal for a Multilateral Technology Acquisition Fund echoes a similar set of governance arrangements.[62] Many of the industrialized countries, on the other hand, including the

US, Japan, Canada and Australia[63] 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."[64]

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 US proposal is ambiguous about the proposed 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 Figure 3.) For these reasons, many developing countries reacted negatively to the proposal.[65]

Figure 3: GEF Contributions from and Disbursements to Developing Countries (2005-2009)

	Contributions to GEF 4 (2006) by developing countries	Disbursements (Jan 2005 to October 2009)	
	USD (millions)	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

Sources: SUMMARY OF NEGOTIATIONS ON THE FOURTH REPLENISHMENT OF THE GEF TRUST FUND (http://thegef.org/GEF-3-4Replenishment/Reple_Documents/SummaryofNegotiations_Revised_October2006.pdf)

3.4 Resource Mobilization

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 disproportionate (as is the case in all the funds studied, but the AFB), the institutions in each contributing country with the authority to appropriate funding 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 tax payers' dollars were spent effectively. As both the power and responsibility of developing countries in development finance grow, questions arise as to how these terms will be re-negotiated in a post-2012 regime.

The United States, which because of the size of its economy is typically expected to contribute 20% or more of the resources of a financial mechanism, will often tie its contributions to conditionalities set by the administration or the US Congress.[66] 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. These conditionalities can also be profoundly disempowering for developing country governments, requiring them to perform against an imposed set of standards. In the case of the Global Environment Facility's Resource Allocation Fund, the fact that it was pushed forcefully by donors, and without the authorization of the COP, undermined the GEF's legitimacy, and has led to a reconsideration of the RAF.[67]

3.5 Resource Allocation

The Adaptation Fund (AF) under the Kyoto Protocol is exceptional because its resources are raised through a levy on the transactions of the Clean Development Mechanism. This fact alone should, in theory, significantly re-balance the power within the AFB and generate decisions that are more reflective of the collective will 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.[68] An objective analytical basis for assessing the vulnerability of countries may help achieve this objective (See Box 7).

Box 7: Resource Allocation for Adaptation?

As the Adaptation Fund and other adaptation funding institutions explore options for more objectively based 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 WRI's Climate Analysis Indicators Tools (http://cait.wri.org/cait-va.php) provides data for indicators in six categories, including infrastructure, institutions, and the environment. Anticipated tool updates in 2010 will allow CAIT users to construct custom indices using the indicators they deem most important.

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 work within communities to determine key local drivers of vulnerability that are not present in national-level indices. One example of a bottom-up approach is the Community-based Risk Screening Tool – Adaptation and Livelihoods (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 compliment index-based approaches, as they provide a clearer picture of how to address adaptation needs on the ground.

Sources:

Brooks, N.; Adger, W.N.; and Kelly, P.M. "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). www.cristaltool.org.

UNEP. "Vulnerability Indices: Climate Change Impacts and Adaptation." 2001.

Any new financial deal that emerges from Copenhagen is likely to generate fewer resources than will be necessary to meet demands. In this context, Parties will have to agree programming priorities and refine eligibility criteria to ensure that scarce funding achieves maximal impacts. The GEF's RAF provides an example of an effort to develop an objective, criteria-based framework for prioritizing which countries receive financing. As discussed in section 3, the selected criteria result in the majority of funds being channeled to large countries, neglecting least developed and most vulnerable countries. The RAF has been extremely unpopular with recipient countries, but the US made its contributions to the fourth GEF replenishment conditional on the adoption of such a framework.

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.[69] In the case of the Climate Investment Funds, the Strategic Climate Funds 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. As we discuss in section 5, 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 more longstanding fund, however as more countries line up to seek CTF resources, the Trust Fund Committee will need to come up with a process for prioritizing amongst proposals.

Thus, no entirely successful allocation systems have yet been established, although clear allocation terms will be critical to the success of any climate financial mechanism. If the power of developing and recipient countries grows, 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, including 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 terms influenced by these new actors in development finance differ from the standard and are perceived as more legitimate by the recipients of their funds.

3.6 Power in Project Cycle Management

Project cycle management is designed to ensure that project funds are used efficiently and effectively, to enhance the social, economic and environmental benefits of the investment, and protect against unintended environmental or social harms. Traditionally, as described earlier in the case of the GEF, contributor countries and the institutions they dominate have used their influence over project cycle management -- from application of eligibility rules, the design of individual grants, to the imposition of social and environmental safeguards -- as a way of justifying and protecting their investments, and advancing their interests. These interests and concerns of contributors may be aligned with those of recipient countries. However, it is not uncommon for the priorities of contributor and recipient to diverge.

An effective and efficient financial mechanism needs to be able 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, 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 any Implementing Agencies.

Among existing institutions, the Executive Committee of the Montreal Protocol Fund has proven to be surprisingly proactive about its oversight function. For example, at its third meeting, the committee rejected all the Implementing Agencies proposed work programs. The secretariat has taken on a proactive role in program review as well as design.[70] While this may have led to some frustration on the part of Implementing Agencies, on the whole, it has enhanced program effectiveness. The independence of the committee and the secretariat and the ability of the system to respond to difficulties has been central to its success. By contrast, the World Bank serves as both the secretariat of the Trust Fund Committee of the CIFs as well as one of its Implementing Agencies. As a result, while final decisions are taken by the committee, the World Bank has significant influence over priorities.

Looking ahead, as with resource allocation, the question arises regarding how developing and recipient countries would exercise an increased power in project cycle management. Will the same developing countries that have, as recipients, consistently called for the need for country driven and country owned development finance be respectful of a host country's self-determination, if they are given greater power in the project cycle?

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. These issues are discussed in more detail in section 5.

3.7 The Role of Secretariats, Technical Experts, and Non-State Actors

Fund secretariats, the international civil servants responsible for managing the project cycle, can play a crucial role in mediating the power relationships between 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 key 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".[71]

Non-State participants in the post-2012 climate change negotiations will play a crucial role in the power dynamics of climate finance architecture because they can question the legitimacy of the political and economic drivers of national governments' behavior in the decision-making processes of climate finance distribution and implementation. Technical and scientific experts, civil society, and the private sector are fundamental to not only balance dominant political and international economic agendas, but also to emphasize the principles of fairness and effectiveness within the various climate finance funds.

The GEF provides financing to civil society through its Implementing Agencies as well as its small grant program. It 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 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.

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 who contact the secretariat, unless more than 1/3 of the members objected to any interested party's presence. Civil society groups fought hard for this provision, which has significantly enhanced the transparency and accountability of the fund's operations.[72] The committee could 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 (MoP) as well; industry was often included amongst country representatives on the Executive Committee.[73]

The fund also stands out for the relationship of the Technical and Economic Advisory Panel (TEAP), which reviewed replenishment requests as part of its overall function of providing independent scientific advice to the MoP. 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 was far more independent than the IPCC, which includes many negotiators, and whose report conclusions are carefully edited to reflect country perspectives.[74] The TEAP also included private sector representatives allowing it access to information about brand new technological developments.[75]

The Climate Investment Funds

The World Bank CIFs, at least in theory, 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 entitled to suggest agenda items as well as contribute to discussions. The Forest Investment Program (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 UN Permanent Forum on Indigenous Peoples); two representatives of the private sector; and representatives of the secretariats of the Convention on Biological Diversity (CBD), the UN-REDD program, and the Forest Carbon Partnership Facility.

The design documents for the Clean Technology Fund (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 Board

The Adaptation Fund Board 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 gained significant improvements in the Fund's transparency by getting board members to agree that projects will be publicly disclosed and open to comment prior to their approval.[76] While the Adaptation Fund is broadly supported by many global civil society groups active on climate change, NGOs have not engaged as actively as they might in the actual decision-making processes.

The quality of civil society and technical input within these fora can have a significant impact on the substantive outcomes and legitimacy of climate finance institutions. Formal space for public participation will only impact decisions if civil society 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.[77] 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.

3.8 Conclusions

Developing countries are making significant political headway in demanding greater voice and vote in the overall governance of climate finance institutions. But the complex nature of the institutional and procedural relationships between contributors, recipients and financial institutions requires investigation beyond formal governance structures into the means by which decisions are taken 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. 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.

4 RESPONSIBILITY

By responsibility, we mean the legitimate exercise of power, specifically the exercise of power to ensure that the resources entrusted to a financial mechanism are programmed fairly, effectively, and efficiently and achieve the desired outcomes. This includes responsibility exercised in the context of allocating resources through, for example, participation in decisions made by a governing body in setting the policies for, and approving, investments. Responsibility, in this context, also includes taking the lead in the design and implementation of projects and programs in the host country.

By seeking more power in the governance structures of climate financial mechanisms, developing countries implicitly assume greater responsibility in funding decisions. 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.

Critiques of past development finance suggest that actions to reduce GHG emissions and respond to climate change, if they are to succeed, must be "country owned", i.e., well-grounded in national priorities and decision-making processes. Under previous global deals on climate finance, the terms on which developing countries can access funds have been largely set by contributor countries. Contributor-set conditionality has been a key part of past heavily-criticized development assistance strategies, that were designed to support programs that aligned with contributor interests.[78] Increasing the responsibilities of developing countries in setting the terms for and approving finance, and in programming resources at the national level, could lead to more country ownership and more successful development outcomes.

4.1 Sharing the Responsibility through Agreed Cost Structures

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 costs financing, while the commitment of developing countries to fulfill their commitments was linked to the level of financial resources provided to cover those costs.

Part of the logic of incremental cost financing was to leverage global environmental benefits from underlying investments sourced in domestic budgets, development banks or other mainstream sources of finance. It requires a project proponent to articulate a counterfactual baseline describing the kind of investment that would have taken place under a business as usual scenario. Thus the implicit boundary between developed and developing country responsibilities divided between domestic and global benefits.

In previous negotiations on climate finance, developing countries resisted incremental cost analysis as restricting their access to funds by, at least in theory, limiting funding to those aspects of a project linked to global environmental benefits. Under the current negotiations, where developed countries are calling on developing countries to bear responsibility for some share of global as well as environmental benefits, developing countries are seeking to hold on to the incremental costs concept.

The European Commission has suggested that if an incremental investment in a global public good yields a near term savings or surplus, then the support should be provided from domestic sources, or via a loan rather than a grant from international financial mechanisms. Grant financing would therefore be made available on the basis of an assessment of whether, and how quickly a host government would be reasonably likely to recoup an investment.[79] In other words, such approaches have been inspired by influential analyses such as the Global Abatement Cost Curves developed by the international consulting firm, McKinsey.[80]

Alternatives to Incremental Costs to Financing?

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 recipients. The Clean Technology Fund 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.

One component of this CTF approach assesses the potential impact of the Fund to reduce the higher risks and costs of deploying clean technologies. 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."[81]

This "transformative" approach is, in part, a response to a critique of the incremental cost approach. By focusing on what it takes to generate the desired outcome, rather than what would have happened under a counterfactual scenario, some of the convoluted negotiations and perverse incentives of an incremental cost approach can be avoided. Transformative financing recognizes that the costs of action are -- and should be -- dynamic. The costs of new technologies are likely to reduce over time, and as a result of expanded deployment. While not all actions to address climate change will necessarily be more expensive than business as usual, there are often likely to be capacity, information, and other institutional barriers that impede implementation. International support to overcome such barriers, support improved transparency in decision-making, and incentivize action can have an important long term impact.[82] The leverage, in other words, may come from the effect of demonstrating that transformative investments can generate local benefits, rather than through incentivizing concern for global benefits. It would seem more difficult, however, to make the case that financing for "business as usual" technologies such as efficient coal and gas represent "transformative" investments that could not have transpired without public support.

Performance Based Financing

The "performance based" concept may present another framing for financing developing country actions. This concept is central to carbon financing, which rewards demonstrated emissions reductions. In essence, the financing is made available on the basis of demonstrated changes in behavior or operation, and the demonstrated impacts of these changes, rather than on a distinction between global and domestic benefits. In the case of the World Bank administered Forest Carbon Partnership Facility and other "phased" approaches to funding reductions in forest emissions, "performance" has been expanded to encompass more than just emission reductions, but the entire process of getting "ready" for large scale carbon markets. This includes 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 in order 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.[83]

4.2 Defining Responsibilities through Country Programs

The framing of individual project investments in the context of recipient country programs can be essential to ensuring that these investments are sustainable and are contributing to an overall plan to reduce emissions and promote resilience. These programs can also define the scope and balance of responsibilities between financial mechanisms, Implementing Agencies, and recipient countries.

Global Environment Facility's Operational Programs

The GEF Council sets "operational programs" for each of its focal areas, and national institutions in eligible countries work with the GEF Implementing Agencies (the World Bank, UNDP and UNEP) to develop project proposals within these parameters.[84] The central role of the Implementing Agencies in the GEF project cycle is justified in part as a means of "mainstreaming" global environmental concerns into the capacity building programs and lending portfolios of these development agencies. GEF funding has often been tacked onto programs that the agencies already had underway in a given country. When GEF funds are attached to multilateral development bank (MDB) financing for projects and programs, they can serve to "sweeten the deal" for borrowers by lowering the overall cost of capital, thereby drumming up new business for the Banks.[85]

The GEF's project cycle has, as a result, become notoriously cumbersome, involving several stages of review and approval by the implementing agencies, the GEF secretariat, associated technical panels, and the GEF Council.[86] Even after reforms were adopted in 2007 to expedite processing, the project cycle for full programs can take up to 22 months before approval.[87] 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 3, has also had a significant influence on which programs are eligible for support. The GEF Council is not a sitting body, and meets only twice a year, which constrains its consistent exercise of responsibility.

Setting voluntary goals for ODS phase-out under the Multilateral Fund for the Montreal Protocol (MFMP)

Under the MFMP, eligible countries work with Implementing Agencies (the World Bank, UNDP, UNEP, and UNIDO) to develop country programs detailing the means by which they will meet their commitments to phase out the use of Ozone Depleting Substances (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.

Initially, the Montreal Protocol Fund supported discrete projects; over time, it evolved to support sector wide initiatives, and National Terminal Phase-out plans.[88] The scope of activities supported by the Fund also expanded to include institutional strengthening activities. It became increasingly apparent to members of the Executive Committee that country coordination, information, training, and other forms of capacity building support 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 these programs have had significant and lasting impact.[89]

The review and feedback loops built into the Montreal Protocol supported implementation progress. Countries were required to report annual consumption and production figures for all controlled substances to the Ozone Secretariat and Multilateral Fund.[90] A periodic review of country programs and goals set supported countries to respond to new developments. Several countries found that they were able to adopt accelerated phase out schedules without incurring significant additional costs as a result.[91]

Clean Technology Investment Plans under the CTF

The Clean Technology Fund (CTF) supports programs that meet a set of detailed criteria for financing public and private sector programs. These criteria were based on technical proposals prepared by the World Bank administrative unit and partner MDBs, and agreed upon through a process of negotiation amongst members of the participant committee. The CTF criteria and design parameters were agreed upon before the formalization of its present governance structure, which includes observers in some aspects of decision-making. Civil society and other observers did not have significant input into the definition of its criteria. The eligibility of more efficient coal technologies for CTF support has been a source of significant controversy. While deployment of such technologies may initially incur somewhat higher capital costs and some human capacity barriers, these are generally quickly offset by reduced fuel costs, while still locking in significant GHG emissions for many decades to come. In addition, funds can be used to rehabilitate old plants, address gas flaring, support fuel switching, and waste-to-power initiatives.

Eligible countries are required to work with the World Bank and the respective Regional Development Banks to develop a clean technology investment plan, as a basis for accessing CTF funds for programs that meet the requisite criteria. The plan identifies the major sources of GHG emissions in the country, and major opportunities for mitigation, and justifies proposed priorities for which CTF support is sought. It is based on a “desk review” of the options available to a country, followed by a series of joint missions to engage country stakeholders. The plans identify programs to be implemented, and justify the share of CTF financing sought. The plans are intended to be “living documents” that can be revisited periodically. While the guidelines for investment plans emphasize the need for donor coordination, they have placed less emphasis on the government, private sector, and civil society stakeholders that should be engaged in the process to date.[92] The plans additionally have not placed consistent emphasis on issues of institutional capacity and governance in the sectors where they propose to intervene.

The Forest Carbon Partnership Facility’s Readiness Plans

More than 40 developing countries are currently vying for the modest sum of $386 million in the Forest Carbon Partnership Facility (FCPF). In order to participate in the FCPF, countries develop Readiness Project Idea Notes (R-PINs) explaining their approach to reducing emissions from deforestation and degradation (REDD). In theory, developing countries prepare R-PINs of their own volition, and with their own resources. In practice, however, international conservation organizations and foreign consultants have played a prominent role in drafting these strategies,[93] which has in turn raised questions about the extent to which the R-PINs reflect country commitment to REDD objectives.

R-PINs are reviewed by a technical advisory panel, before being approved by the FCPF committee. Countries with approved R-PINs are admitted to the Readiness Mechanism, and develop R-PINs into an R-Plan using a prescribed template. Countries can access up to $5 million to implement approved R-Plans. Readiness support should help countries: (i) prepare a REDD strategy including issues of carbon ownership and benefit-sharing (ii) set reference scenarios for forest emissions based on recent historical emissions and estimates of future emissions (iii) establish national monitoring, reporting and verification system for emissions and reductions. Experience with the first round of R-Plans, however, suggests that there was insufficient clarity with regard to what developing countries were expected to produce, and the terms on which they would produce it (specifically, through a consultative and inclusive process). The scope of the R-Plan itself has now been scaled back significantly, and countries are required to prepare a more concise readiness preparation proposal (RPP) which outlines a process by which they will develop a full Readiness plan over a specified period of time.

The sums of money on offer through the FCPF are small, relative to the estimated costs of REDD.[94] 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 emerge from the UNFCCC. Some countries are also exploring the use of the R-Plan as a basis for coordinating contributor support for REDD. For example, the Government of Indonesia attached a price tag of several hundred million dollars to its readiness plan. Notwithstanding significant substantive and content limitations of the Draft R-Plan developed by the Ministry of Forests, the Plan can only serve as an effective instrument for contributor coordination if all agencies of the government see it as the framework for channeling assistance for REDD. At present, there are a multitude of agencies including the National Coordinating Council on Climate Change, and the national planning agency, Bappenas, involved in processes in Indonesia that will address emissions from deforestation with little coordination amongst them.

Adaptation Fund Board's general guidelines and ease of access

The Adaptation Fund 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 time frame. Programs are processes, plans or approaches that exceed project boundaries. More specific guidance on adaptation programs is under development. It will fund both small programs (less than $1 million) and full programs (more than $1 million). The following general principles will 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."[95]

A simplified project approval process has been proposed wherein projects and programs are submitted to the AFB secretariat (the GEF) 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. Projects and programs are implemented by executing entities in recipient countries which may include government agencies as well as NGOs.

Parties may access funds via conventional Implementing Agencies (what the AFB refers to as multilateral implementing entities (MIEs)) from the UN system and the MDBs, but they may also establish national Implementing Agencies, which will increase recipient country responsibilities. Regional institutions are also eligible to act as MIEs. These agencies will need to meet a set of fiduciary standards that demonstrate that they will use these funds responsibly and accountably. The draft standards released in August 2009 for the AFB focused almost exclusively on financial management capacity and accountability, and placed limited emphasis on underlying issues of institutional integrity and governance. The expertise, mandate to address climate change, or ability to influence key processes within countries that will be affected by climate change have not received much attention. Arguably entities will build up such capacities over time, including through project and program implementation in cases, and it may not be reasonable to expect them to demonstrate such capacity ex-ante.[96] Nevertheless, these factors will impact their effectiveness, and it would be useful to monitor the capacity of Implementing Agencies on these aspects over time, and explore options to enhance such aspects. An AFB accreditation panel has also been proposed, which will screen applicants to see if they meet the agreed upon standards.[97] The monitoring, reporting and fiscal due diligence aspects of the proposed criteria for National Implementing Agencies for the Adaptation Fund are discussed in more detail in section 6 of this paper.

4.3 Country ownership

"Country ownership", or "country driven" development assistance describes the extent to which a development strategy has been designed, supported and implemented by the agencies of government and society in the host country.[98] Programs to address global environmental benefits that have, in theory, limited domestic benefits, will depend in particular on country ownership to be sustainable. Engaging parliaments, civil society and other stakeholders in the design of development strategies, crucial to this ownership, has been hard to achieve in practice.

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. In turn, this sometimes led to significant delays in project processing, approval and implementation by national authorities.[99] In the case of the Clean Technology Investment plans, it is not clear how much broad stakeholder engagement has taken place. Readiness project idea notes presented to the FCPF have sometimes been outsourced to international consultants and NGOs to draft, and in many cases local civil society has expressed serious concerns about the lack of public consultation and transparency in practice in developing Readiness Plans.[100]

Governments, particularly in least developed countries, may have limited staff time, expertise, and capacity to develop these plans. It may be both necessary and appropriate to draw on external resource people to help develop such strategies. But the dominance of international Implementing Agencies in setting program priorities, and dependence on international consultants who may have limited understanding of the local contexts, has raised questions about the extent to which the proposals considered for funding reflect country needs, priorities and commitment. While recipient countries may resist conditionalities or safeguards that require that planning processes include public participation, a growing body of literature suggests that more open and transparent consultative processes for developing development plans may improve public ownership and the quality of development outcomes.[101] Certainly, such processes are at risk of being dominated and captured by constituents that stand to lose from ambitious actions on climate change; but there are also an increasingly engaged set of stakeholders interested in seeing the social, economic and environmental co-benefits climate change mitigation efforts realized. In addition, a growing number of stakeholders are keen to ensure that programs implemented yield real and meaningful results for people within a given developing country, and that climate change programs do not undermine hard won gains in social welfare and rights.

4.4 A Framework for Mediating Contributor and Recipient Responsibilities: Low Carbon Growth Plans?

Since the adoption of the Bali Action Plan, which is guiding the negotiation of a post-2012 climate regime, the concept of "low carbon" or "low GHG emissions" development plans has generated increasing interest as a potential vehicle for identifying, reporting on, and financing, nationally appropriate mitigation actions (NAMAs). As has been described, developing country emissions reductions efforts in a post-2012 climate regime are to be expressed and supported in the form of NAMAs. The EU has proposed such plans as a mechanism to match developing country NAMAs with support.[102] The United Kingdom has recently proposed a "compact" approach, where financing would be allocated towards country-owned low carbon development strategies.[103] Governments, including developing country governments, participating in the Major Economies Forum have recently agreed to "undertake transparent nationally appropriate mitigation actions, subject to applicable measurement, reporting, and verification, and prepare low-carbon growth plans".[104]

A number of major developing economy countries, including Brazil, India, China, Mexico and South Africa, have already developed national climate change plans and strategies that could be characterized as low-carbon growth plans.[105] There are, however, a number of reasons to be cautious about how low-carbon growth plans are institutionalized. Low-carbon growth plans, when combined with proposals to subject these plans to international "measurement, reporting and verification" could be used to lock countries into mitigation commitments that could compromise the achievement of poverty eradication and development objectives. Developing countries are understandably wary of the planning and reporting burden entailed by low-carbon planning particularly if it becomes a conditionality to qualify for financial, technology and capacity support for NAMAs. In addition, the low-carbon planning concept may imply a more centralized approach to economic development than exists in many countries, where a multitude of institutions may be involved in highly decentralized initiatives.

For low carbon growth planning to become a constructive part of post-2012 climate finance, they will need to be become an instrument for mediating contributor and recipient responsibility. While contributor support for the development of these plans may be welcomed, they need to be "nationally-owned," provide a common planning tool for both contributors and recipients, and not duplicate or undermine existing development planning tools. Experiences with Poverty Reduction Strategies which seek to create a framework for coordinating IMF, World Bank, and international contributor support in least developed countries are instructive. While pains have been taken to develop these strategies through a broad based consultative process, contributors have not always harmonized their programs with these efforts. Instead of investing in country identified priorities, they have supported social initiatives and programs that can deliver quick results.[106] But recipient governments also need to be clear about which institutions and planning instruments will coordinate contributor support, and proactively demand that contributors provide their financing through these agreed instruments.

4.5 Conclusions

Emerging experiments in climate finance are deepening and complicating the conventional "top down" relationship of responsibility between contributors, recipients and the financial institutions they create. Going forward, a greater emphasis on leveraging change through the demonstration effect of transformative investment may liberate climate finance from the petty 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 exiting priorities and portfolios of Implementing Agencies. And 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 partnership between contributors and recipients.

As developing countries take on new power, and new 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.

5 ACCOUNTABILITY

To be perceived as legitimate, institutions entrusted with climate finance must also be accountable to both contributors and recipients for investing resources fairly, efficiently and effectively. In the context of climate finance, ultimately this means achieving results in terms of net reductions in greenhouse gas emissions, enhancing resilience to climate impacts, and doing so in a way that is consistent with prevailing environment 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.[107]

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 financial institutions are held to. 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.

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 emission from forest deforestation and degradation, as proposed by the Brazilian delegation to the COP12 in Nairobi; the fund was created by Brazil's Decree Nº 6,527 on August 1st, 2008.[108] The Fund received a US$1 billion donation from the Norwegian government, $110 million to be dispersed in 2009 and 2010, with the remainder to be fully transferred by 2015.

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.[109] The ICCTF was designed to address the emerging and immediate needs of Indonesia's Climate Change Sectoral Roadmap (CCSR) program investments.[110] The ICCTF is an independent entity operated by the Ministries of Planning (Bappenas) and Finance, with primary sectoral focuses 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 (GOI) 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 GOI national investment policies and facilitating private sector investment in climate change.

Bangladesh Multi-Contributor Trust Fund

Bangladesh is one of the most vulnerable countries in the world to the effects of climate change, and its climate financing needs add significantly to the basic development assistance required to help the country achieve sustained economic growth. The Multi-Contributor Trust Fund (MDTF) was established to scale up investment and meet the needs outlined in Bangladesh's Climate Change Strategy and Action Plan (CCSAP). The MDTF is designed to serve as a one-stop shop for climate change financing in Bangladesh. The British government, through DfID, committed US$96 million (£60 million) to the fund.

Although such standards and systems of accountability are well established at many conventional donors and Implementing Agencies such as the MDBs and UN agencies, they are often criticized for being insufficient or inconsistently applied.[111] 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.[112]

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. 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' demands for "direct access" to funds, without the intervention of Implementing Agencies, raises questions as to how well national Implementing Agencies could or should be expected to meet the standards set for international agencies. As has been discussed, "direct access" would 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 degradation, Bangladesh's Multi-Contributor Trust Fund to support implementation of its Climate Change Strategy and Action Plan, and Indonesia's 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, in order to illustrate the different challenges that countries in different circumstances may confront.

5.1 Accounting for Results

According to the Paris Declaration on Aid Effectiveness, "[m]anaging for results means managing and implementing aid in a way that focuses on the desired results and uses information to improve decision-making."[113] Accountability thus begins with as precise as possible a determination of an institution's goals and objectives, as well as agreement on measurable indicators of successful performance. Complex interventions like climate finance can entail multiple, and potentially competing, goals and objectives. Early efforts at financing reduced emissions from industrial activities have, for example, been criticized for pursuing high volume, low costs emissions reductions with little local environmental or societal benefits. Likewise, forestry offset projects must be managed carefully to ensure efforts to enhance or preserve forest "sinks" also provide livelihoods for forest dependent communities. Adaptation funding is still in its early stages of experimentation and measuring success in terms of "enhanced resilience" is bound to prove challenging.[114] 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.

5.1.1 International Funds

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 in order 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.[115] The RBM framework is intended to make the GEF more results-oriented, and increase project effectiveness.

The Multilateral Fund of the Montreal Protocol

Under the Montreal Protocol, Article 5 (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 secretariat tends to rely first on desk reviews, and then follow up with field visits to address potential issue areas in more detail. 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." [116]

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 projects financed in terms of:

- the deployment of low GHG emissions technologies on a significant scale;
- the impact on carbon intensity;
- the GHG reductions against an estimated baseline that ensue from the programs funded; and
- the 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 has also 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 than 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: for example, the development outcomes of projects, the aggregate emission reductions, the quality of project supervision, or delays in implementation. Developing countries have asked the administrative unit to also 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.[117]

By contrast, the results framework for the Pilot Program on Climate Resilience (See Box 9) has been developed in consultation with a number of independent experts. It seeks to assess whether projects: (a) pilot and demonstrate approaches for integration of climate risk and resilience into development policies and planning; (b) strengthen capacities at the national levels to integrate climate resilience into development planning; (c) scale-up and leverage climate resilient investment, building upon other ongoing initiatives; and (d) enable learning-by-doing and sharing of lessons at the country, regional and global levels.[118] The indicators in the framework are less specific than the mitigation indicators used in the CTF, or for that matter the GEF. This may reflect the much wider range of activities that countries may undertake in order to increase resilience to climate change.

Box 9: Pilot Program on Climate Resilience: Results Management Indicators

- extent to which PPCR money is delivered;
- extent to which priorities in key policy documents reflect climate resilience considerations;
- extent to which budget allocation is inline with plans developed;
- extent to which PPCR knowledge is integrated into existing knowledge sharing mechanism;
- proportion of strategies revised during the PPCR period that integrates climate resilience (per country); and
- extent to which the appropriate stakeholders were consulted. [119]

Adaptation Fund

The Adaptation Fund does not currently standard project performance indicators. In order to gain accreditation, Implementing Agencies must demonstrate that they have the capacity to manage projects. However there is no specific impact analysis or results framework against which projects are measured. 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. However, the only mention of a results framework in the most recent draft (August 31, 2009) comes under the review criteria for Implementing Agencies, which ask if a results framework is included. No specific requirements are listed for performance or results monitoring.

5.1.2 National Funds

The Bangladesh Multi Contributor Trust Fund (MDTF) 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. "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."[120] Additionally, a monitoring matrix will be developed to track inputs, outputs, and outcomes with intermediate and key performance indicators.

The 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 towards these reductions.

The ICCTF/Bappenas Fund will include a Steering Committee that will be 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.[121] The technical committee will conduct monitoring and evaluation, including field survey/spot checking, quarterly reporting, regular meetings with ICCTF management, and mid-term and terminal evaluations.

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 beneficiary 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 Global Environment Facility and the Adaptation Fund present a useful starting point for the issues raised by fiduciary standards.

5.2.1 International Funds

The Global Environment Facility

In 2005 the GEF Council, which "outsources" the implementation of its grants to Implementing and Executing Agencies, adopted a set of minimum fiduciary standards to strengthen the accountability 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 safeguards measures, as appropriate; monitoring and project-at-risk systems; procurement; financial disclosure; hotline and whistleblower protection, and codes of ethics." These standards were developed in consultation with these 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." Not all Implementing Agencies were found to be in compliance with these standards in an independent evaluation completed in 2007. UNIDO and the FAO have since put in place action plans to achieve compliance.[122]

The Adaptation Fund Board

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, by-passing traditional Implementing Agencies. Subsequently, the AF board has commissioned its own reports recommending minimum fiduciary criteria, and a process for assessing whether national implementing entities (NIEs) and Multilateral Implementing Entities (MIEs) meet these criteria. The objectives of these criteria are much narrower than those proposed by the GEF. They seek only to ensure that "allocated moneys are applied for the purpose for which they are intended" and that "funds are spent in as efficient manner as possible in order to maximize value for money." 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 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.[123]

A Project and Programs Committee has been established, to oversee portfolio performance and supervise executing entities. The Committee may: "(i) undertake site visits to monitor implementation performance and verify results; (ii) provide inputs for decisions regarding continuation of grant; (iii) undertake a review at grant closure; and (iv) perform ad-hoc assignments, including investigations related to suspected misuse of funds."

5.2.2 National Funds

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

Brazil's Amazon Fund is administered through a trust fund managed by the Brazilian National Bank for Development (BNDES). BNDES' 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.[124] The Bank also has a long history of working with international financial institutions. Recently the World Bank, for example, approved a 2 billion dollar environmental policy loan for Brazil to be administered through BNDES, which will act as intermediary in administering sub-projects in Brazil. BNDES seems well-positioned to manage the large sums donated to the Amazon Fund. BNDES is also providing secretariat services for the Amazon Fund. In addition to managing its finances, it supports fundraising efforts, project selection, and project monitoring and evaluation. This is requiring the institution to build new capacity and expertise in making positive investments that will reduce deforestation and degradation, and to manage potential risks.

In the case of Indonesia's *ICCTF/Bappenas Fund*, a financial service provider or trustee has yet to be established. The Ministry of Finance is to appoint a reputable national bank to serve this purpose in accordance with the criteria detailed in Box 10. 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-finance activities. Given that the Trustee has not yet been appointed, it is currently unclear what fiduciary standards the fund will follow. However, fiduciary arrangements for activities financed by the ICCTF must satisfy both Government of Indonesia 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 the funds, with sound financial management, including the use of international fiduciary standards. These design principles would include regular financial audits.[125]

Box 10. Fiduciary Standards for the ICCTF

The Bank that serves as the trustee of the ICCTF is expected to meet the following criteria:

- Registered in Indonesia.
- Credible, competent, and well-recognized national institution.
- Proven financial management capability i.e. asset, ROR (rate of return), cash flow, ROI (return on investment).
- Adequate human resources capacity i.e. numbers of staff and their qualifications as well as their level of knowledge of the GOI financing and treasury system.

Source: Republic of Indonesia, Blueprint for Indonesia Climate Change Trust Fund (ICCTF)

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, corruption is wide-spread.[126] The ICCTF will include an annual policy compliance audit that will seek 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.[127] Indonesia has recently announced that the UNDP will act as the interim trustee of the ICCTF.[128]

In the case of the *Bangladesh Multi-Contributor Trust Fund*, participants have appointed the World Bank to administer the "national" trust 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.[129] 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.[130] 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.

5.3 Managing Environmental and Social Risk

While actions to respond to climate change will require fundamental changes to how economic development objectives are pursued, many choices will still incur significant environmental and social risks that need to be managed. For example, many low GHG emissions energy technologies that might replace conventional fossil fuels are still likely to run into challenges around project siting that may impact local communities and people. They may create new stresses on water and ecosystem services that also need to be managed. It is therefore critically important to have systems in place to assess the social impacts of projects and programs and to ensure that the rights and aspirations of local people and communities are respected. It will also be essential to ensure that solutions to climate change do not create new environmental problems (or exacerbate existing ones). It is therefore important to consider the standards, policies, and approaches that institutions entrusted with climate finance use to assess and address environmental and social risks associated with the projects and programs they support.

5.3.1 International Funds

While the Adaptation Fund template for screening NIEs and MIEs does take note of a prospective agency's ability to manage environmental and social issues, the Adaptation Fund does not at present have any policies to manage the potential environmental and social impacts of large scale environmental impacts.

Whenever the GEF, the Montreal Protocol Fund, and the Climate Investment Funds have worked through the MDBs as Implementing Agencies, the latter's internal safeguard policies have applied to projects implemented, and their internal grievance mechanisms have served an additional accountability function.[131] In the case of the Montreal Protocol Fund, most World Bank supported projects were sufficiently small scale to be classified "Category B" and therefore were not actually subject to a complete environmental impact assessment process. While all of the MDBs have some environmental and social policies in place, and most have a grievance mechanism, these systems have in general been criticized – though typically for different reasons, by both civil society and host countries. 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] Both clients and project implementers have expressed concerns that policies should not be overly rigid about how to manage risk, and that demonstrating compliance with overly detailed policies can hold up project implementation and pose a significant project implementation burden.

UN agencies for their part do not have stand alone "safeguard policies". Environmental and social issues are integrated into project design (as is also often the case with MDB projects). There is limited clarity or consistency with regard to how these issues are considered. Usually, there are few formal accountability mechanisms in place for program or project affected people or beneficiaries. UN agencies have tended to engage in technical assistance and capacity building programs rather than project implementation of the kind that MDBs finance, which may make such mechanisms less essential in their case.

5.3.2 National Funds

The Bangladesh MDTF does not include specific safeguards or grievance mechanisms. However, the World Bank serves as administrator and an administration agreement will be signed by the World Bank with each Developing Partner that participates in the MDTF. 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.

The Amazon Fund is managed by BNDES, and programs financed will be subject to its environmental operational policy (adopted in 2005) as well as its social policies. Its guidelines on forestry are the most stringent of these policies, requiring 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.[133] The World Bank's 2009 environmental policy loan to BNDES seeks to build the Bank's environmental and social due diligence capacity, in the context of financing for renewable energy (including large hydropower) and sustainable forest management programs.[134]

The ICCTF/Bappenas Fund has no explicit environmental or social safeguard policies in place. Activities funded are only required to support sustainable development, and are assessed based on their contribution to environmental and social sustainability. A Technical Committee will consider potential impacts on the environment, society, and the economy in reviewing proposals. 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.[135]

5.4 Conclusions

More than sixty years of experience in development assistance has generated a range of tools for holding financial mechanisms accountable for delivering results, managing resources and safeguarding against unintended harm. Critiques of development assistance remain sharp, and the expectations for rapid and transformative impacts in the context of climate finance have never been higher. The expressed willingness of recipient countries to voluntarily undertake measurable, reportable and verifiable NAMAs under a future climate regime and to empower national institutions, through direct access, to manage the financing of these actions, may signal an important move towards an internalization of accountability by national institutions, necessary for success.

6 CONCLUSIONS AND RECOMMENDATIONS

If the international community raises the scale of public finance necessary to move developing countries onto a low-carbon, climate resilient pathway, this will likely catalyze the creation of one or more new financial mechanisms. The creation of such mechanisms also provides an opportunity to significantly reform existing financial institutions competing for a role in programming these resources.

Recent statements of the Group of 20, whose members represent the bulk of the world's financial resources, as well as the bulk of global GHG emissions, signal a willingness to pursue reform. In the context of approving new resources to deal with the financial crisis that began in 2008, G20 ministers agreed in London in April 2009 that:

> . . . alongside the significant increase in resources agreed today we are determined to reform and modernize the international financial institutions to ensure they can assist members and shareholders effectively in the new challenges they face. We will reform their mandates, scope and governance to reflect changes in the world economy and the new challenges of globalization, and that emerging and developing economies, including the poorest, must have greater voice and representation. This must be accompanied by action to increase the credibility and accountability of the institutions through better strategic oversight and decision making.[136]

With regard to the World Bank, G20 leaders subsequently committed in Pittsburgh in September 2009:

> . . . to pursue governance and operational effectiveness reform in conjunction with voting reform to ensure that the World Bank is relevant, effective, and legitimate. We stress the importance of moving towards equitable voting power in the World Bank over time through the adoption of a dynamic formula which primarily reflects countries' evolving economic weight and the World Bank's development mission . . .[137]

The question of which institutions should (or should not) legitimately be entrusted with administering funds for climate finance has been central to the UNFCCC negotiations. Developed countries have been keen to build on and reform the existing financial institutions they currently dominate. In contrast, developing countries are wary of these same institutions, stating that they have "failed" to deliver on promises to support poverty alleviation or development. They are also concerned over the power developed countries exercise both formally and informally in such settings.[138] The current set of proposals on climate finance under consideration in the Copenhagen negotiations reflects this dynamic.

From an operational standpoint, the traditional funding and Implementing Agencies, such as the GEF, UNDP, UNEP and MDBs have relatively well developed systems in place to ensure that funds are used appropriately for intended purposes. They tend to have relatively robust policies and systems in place to both measure and manage impacts. They have the "trust" of donors. Developing country recipients, however, may be frustrated by both the slowness of their bureaucracy, and in some cases, the high handedness of their interventions, and the lack of sensitivity to national circumstances and priorities. Implementing Agencies have at best a mixed record of engaging deeply with stakeholders within recipient countries to develop shared ownership of strategies.

On the other hand, in many developing countries, national institutions may have limited capacity to manage money, the systems in place may not be adequate to ensure trust and accountability even from a purely financial perspective. Technical capacity to manage programming creatively may be quite limited. There are thus trade offs to be made between the efficiencies of working through established Implementing Agencies vs. investing in national agencies to build their own capacity to manage funds and develop new programming which may take both time and resources.

A new global deal on climate finance will likely reinterpret the principles necessary to design a legitimate financial mechanism in a way that significantly redistributes power, responsibility and accountability between traditional contributor and traditional recipient countries. This redistribution is both long overdue and necessary to ensure the national and local "ownership" of -- and thus the effectiveness of -- mitigation and adaptation actions in developing countries. However, we also conclude that any redistribution of power, responsibility and accountability must take into account lessons learned from decades of experience from the operation of the institutions designed and led by donors.

6.1 Lessons from the GEF

As climate negotiators continue to 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 GEF remain as challenges. These include:

- Increasing the recipient countries' membership and votes in a governance structure does not address power asymmetries based on continued dependence on contributing countries' resources.

- Outsourcing of finance-related functions from the COP to external institutions, such as the GEF and its Implementing Agencies (such as UNDP 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.

- 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 will be 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 large scale.

6.2 Balancing Power

Formal distribution of power within the governing body of any financial mechanism, and its closer accountability to the COP will color perceptions of its legitimacy. Existing climate financial mechanisms are evolving to have a more balanced governance structure with equal votes and representation of contributor and recipient countries. Funds recently established under the Kyoto Protocol and under the World Bank, establish separate governing committees which reflect a more balanced governance structure with equal votes and representation of contributor and recipient countries. However, these funds continue to rely on the World Bank, UN Development Programme and the UN Environment Programme for financial and project management. As long as the underlying power structures of these institutions remain unchanged, they will continue to reinforce existing relationships between contributors, financial institutions and recipients.

Developing countries can, through their majority representation in the Conference of the Parties (COP) to a climate agreement, seek to exercise power over climate financial mechanisms. But the experience of the GEF has shown that the legal and institutional means of exercising this power are limited, and developing countries and other observers continue to view the GEF as unaccountable to the COP.

Formal grants of power have generally been neutralized by other ways in which 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, donor influence is likely to check the formal power of recipients.

The economic and policy conditionalities that donors have attached to their financing in the past have been neither popular nor effective. But priorities and standards attached to donor resource mobilization have also provided a means to prioritize scarce development financing, and promote environmental and social safeguards. It is unclear how developing countries, when they are given greater power, will exercise this power responsibly without deploying similar tools.

Recommendations

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 de-link the source of finance from the exercise of informal power by donors, by adopting new levies - such as the levy on CDM projects.

6.3 Taking Responsibility

There is a growing consensus that, to be successful, efforts to address climate change must effectively reflect national priorities and circumstances. As developing countries gain more power in the governance of financial institutions, they should be natural champions of "nationally owned" and "country driven" programming. Developing countries are increasingly keen to have "direct access" to climate finance through their own national institutions, by-passing traditional Implementing Agencies. Arrangements for direct access to finance should be supported by nationally derived and owned low GHG emissions development strategies and national adaptation programs. If these strategies and programs contain measurable, reportable and verifiable actions, they should provide a more legitimate basis for allocating resources between countries as well as for designing programs within countries.

The Montreal Protocol Fund, Clean Technology Fund, and Forest Carbon Partnership Facility experiences suggest that countries are ready to describe the role of projects and programs in the domestic policy context for which they seek financing, if they feel the rewards at the end of the process are likely to be adequate. A plan is a far easier thing to develop than "national ownership", however. Too many past efforts have been rushed, and completed with limited stakeholder engagement. Going forward, the processes by which these plans are developed, and the institutions involved, will influence whether they adequately reflect and respond to national circumstances.

Recommendations

A next generation of climate finance needs to 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 Implementing Agencies provide technical support to national institutions, they should rely less on external consultants and work in closer partnership with national stakeholders. Collaborations with local independent research institutions and civil society can be particularly important to make sure climate finance proposals appropriately reflect national circumstances and priorities.

6.4 Ensuring Accountability

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. These institutions will need to be 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 and stakeholders that the programs it supports are developing real economic, social, and environmental benefits, and to the international community that it is delivering real reductions in both deforestation and emissions.

It is not yet clear how the governing body of a financial mechanism dominated by developing and recipient governments, such as the Adaptation Fund, will exercise power differently than an institution dominated by traditional donors. Developing countries could be expected to avoid the more egregious mistakes made by traditional donors, and refrain from using international financial mechanisms to drive national, geopolitical agendas. But as recipients of development finance, developing countries have sometimes resisted, as intrusions on sovereignty, the introduction of innovative accountability mechanisms, such as greenhouse gas accounting, the use of environmental social safeguards, and the greater involvement of civil society in project cycle oversight. It is also not clear that the NGO community, which has played an important role in demanding accountability from traditionally donor dominated institutions, will have the tools and procedural space to effectively influence and demand accountability as power dynamics shift from North to South.

Developing countries are increasingly keen to have direct access to climate finance through their own national institutions. The Adaptation Fund Board has taken some innovative steps in this direction, by setting out fiduciary standards that national implementing entities would have to meet in order to access funds. The fund has not yet made any investments, and it is not yet clear how this trend is affecting the quality and impact of investments made. Nevertheless, the trend towards greater reliance on national implementing entities raises both opportunities and challenges. Recent experiments to set up national funds in developing countries to finance climate change programs have taken some significant steps to ensure good financial management of funds. Little emphasis has been placed to date on the overarching governance of these institutions.

Direct access to funding for developing countries whose national institutions can demonstrate they meet fiduciary standards, and national systems for measuring, reporting and verifying funded actions are two new dimensions of a more reciprocal relationship and deeper partnership between contributors and recipients.

Recommendations

Many developing countries are already building the capacity of their national financial institutions to support climate friendly development. Countries including Mexico, India and Brazil have set up units within national development finance institutions that are already supporting investments in renewable energy, energy efficiency, and sustainable forest management. The trend towards greater reliance on national Implementing Agencies raises both opportunities and challenges. Recent experiments to set up national funds in developing countries to finance climate change programs have taken some significant steps to ensure good financial management of funds. Little emphasis has been placed to date on their overarching institutional accountability, or the systems in place to maximize environmental and social benefits and minimize unintended harm.

We suggest the following standards of good governance for national implementing institutions, building on the standards to which conventional Implementing Agencies are being held accountable. First, their governance structures should be inclusive and transparent. Second, their responsibilities should be clearly articulated, and they must have the technical capacity to develop ambitious and effective programs in partnership with local stakeholders, particularly citizens and other potential program beneficiaries. It will also be essential to have strong provisions for accountability in place, including to ensure compliance with international good practice for fiduciary management, robust anti-corruption measures, and to manage potential environmental and social impacts. If these standards can be met, then national institutions may hold significant promise for climate finance.

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Appendix: Climate Funds Reviewed

		Adaptation Fund (AF)	Montreal Protocol	Global Environment Facility (GEF)
POWER	FUNDING	- Total of 2% of CERs for CDM activity (5,725,532 CERs awaiting monetization)	- Since 1990, US$2.49 billion committed. - Promissory Notes for 09-11 replenishment total US$28.3 mln	- Since 1991, Pilot Program Funds ($1 billion) with GEF Replenishments = US$10 billion; leveraging approximately US$33 billion in co-financing
	DONORS	- Solely financed by CDM revenues - $3,750,362 in grants and reimbursable loans	- All "non-Article 5" Parties contribute to MFMP replenishment in accordance with agreed schedule	- 25 developed and 7 developing countries contributed to the latest GEF replenishment
	VOICE & VOTE	- Adaptation Fund Board (AFB): 16 members – 2 from each of 5 UN Regional Groups, 1 from a SIDS, 1 from an LDC, 2 from Annex I Parties, and 2 from non-Annex I Parties. - Chair & Co-Chair of Board to be members of Annex I & non-Annex I Parties. - GEF Secretariat serves as the interim Secretariat. - Decision-making by consensus when possible, otherwise 2/3 majority - Meetings open for attendance by observers	- Meeting of the Parties (MoP) is governing body - Executive Committee (EC) oversees operations, includes 7 Article 5 & 7 non-Article 5 members - Decisions reached by 2/3 majority vote - Secretariat headed by CEO, accountable to EC - 4 implementing agencies: UNEP, UNDP, UNIDO, World Bank - UNEP and Secretariat provide Treasury functions. - NGOs can participate without right to vote	- Assembly: Representatives of Participants; reviews general policies, operation, membership, & considers amendments - Council: 32 Members: 16 from developing countries, 14 from developed, 2 from EITs - Secretariat: headed by CEO, coordinates activity implementation, reports to Assembly and Council - Decision-making: by consensus, formal vote if no consensus attainable - NGOs: 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	- Scientific & Technical Advisory Panel (STAP) provides advice - 6 members who are experts in GEF focal areas. GEF NGO network also provides input.
	ALLOCAT-ION	- Based on: vulnerability; urgency; equitable access to fund; lesson-learning; regional co-benefits; maximizing multi- or cross-sectoral benefits; adaptive capacity - Countries can requests funding for small (< $1 million) or larger projects/programs (> $1 million)	- Projects that result in the elimination of the maximum amount of ODS should be given priority. - Prioritize projects based on: cost-effective & efficient emission reduction; geographic balance; ease of replication & technology transfer; and highest potential reduction of controlled substances	- "Resource Allocation Framework" (RAF) ranks recipients according to (i) their potential to generate global environmental benefits in a focal area ("GEF Benefits Index") and (ii) their capacity, policies, and practices relevant for successful implementation ("GEF Performance Index")
	COP	- Accountable to the UNFCCC COPs	- Accountable to all parties to the Protocol	- Loosely accountable to the COPs as established in MoU
RESPONSIBILITY	PURPOSE	- Support adaptation activities that reduce adverse impacts of and risks posed by climate change facing communities, countries, and sectors	- Assist developing countries to meet their obligations under the Montreal Protocol on Substances that Deplete the Ozone Layer.	- Address global environmental issues and support sustainable development in six focal areas: climate change, biodiversity, international waters, ozone layer, land degradation, & persistent organic pollutants
	BASIS FOR FUNDS	- 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 4 times/yr - Board can approve or reject a proposal with a clear explanation.	- Secretariat receives proposals from Article 5 countries and sends it to the designated Implementing Agency - Implementing Agency works with the country to elaborate project documentation and approach. - EC makes final approval decision according to the agreed committee priorities	-Full-Sized [> $1million]: respond to both national priorities and GEF focal area strategies and operational programs -Medium-Sized Projects [< $1mln]: expedited approval process -Enabling Activities: for inventories, strategies, action plans, reports -Programmatic Approaches- increase integration of global environ. issues -Small Grants Program - community-based
	PURPOSE	- Provides full adaptation costs to meet the costs of adaptation & to finance country driven adaptation projects & programs	- Meet all agreed incremental costs of Article 5 Parties to phase out the use of ODS, with grants for financial, technical assistance	- Funds the incremental or additional costs associated with transforming a project with national benefits into one with global environmental benefits
	ACCESS TO FUNDS	- Developing country Parties to the Kyoto Protocol vulnerable to climate change can directly access funds through nominated National Implementing Entities (NIE) that or through multilateral implementing entities (MIEs) eg. MDBs/RDBs meet fiduciary standards,	- Article 5 countries are eligible for support. - EC approves project proposals with incremental costs >$500,000 - Implementing Agencies approve project proposals with incremental costs < $500,000 with an approved work program	- Any Government Agency, NGO, or Private Sector may propose a project - Project proposals must be: within an eligible country; consistent with GEF operational strategy & national priorities; endorsed by government(s); address 1+ GEF focal areas; improve global environment; involve the public

		Adaptation Fund (AF)	Montreal Protocol	Global Environment Facility (GEF)
ACCOUNTABILITY	RESULTS	- Projects & programs submit annual status reports to Secretariat - Projects & programs subject to terminal evaluation by an independent evaluator upon completion - Terminal evaluation reports submitted to Board	- EC develops and monitors implementation of specific operational policies, guidelines and administrative arrangements; reviews performance reports; monitors and evaluates expenditures; reports annually to meeting of the Parties	- Council approves an annual report on activities of GEF which is transmitted to the CoPs - includes all GEF activities, list of project ideas submitted for consideration, & review of project activities funded by GEF & their outcomes.
	PERFORM ANCE	- AFB can carry out independent reviews or evaluations provides strategic oversight - Regular reports required from NIEs and MIEs. - Projects & Programs review committee monitor and review	- The Multilateral Fund Evaluations assesses 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; provides quality control for monitoring and evaluation by Implementing and Executing Agencies
	SAFE-GUARDS	- Subject to Strategic Priorities, Policies, and Guidelines of AF	- Safeguard Policies of respective Implementing Agencies apply	- Safeguard Policies of respective Implementing Agencies apply

		Forest Carbon Partnership Facility (FCPF)	Clean Technology Fund (CTF)	Strategic Climate Fund (SCF)	
				Forest Investment Program (FIP)	**Pilot Program on Climate Resilience (PPCR)**
OVERVIEW	FUNDING	- $385 million Capitalization target: $150 million for Readiness Mechanism (RM), $200 million for Carbon Finance Mechanism (CFM) - Grant financing for the RM. Contributions to the CFM will purchase emission reductions - The minimum contribution $5 million	- $4.91 billion pledged to the CTF as of 2009 - Grants, concessional loans, and guarantees: contributors can provide concessional loans, capital and grants	- Intended capitalization of $500 million - $204 million committed as of May 2009 - Grants and concessional loans - Exact terms of financing to be decided after finalization of design document	- $546 million pledged as of April 15, 2009 - Grants and concessional loans - Technical assistance to integrate resilience into national development plans / sectoral strategies
	DONORS	- Australia, UK, US, Norway, France, Netherlands, Japan, Spain, Switzerland, Norway, Germany, EC, Nature Conservancy	- France, Germany, Spain, UK, US, Japan, Sweden, Australia	- Norway, Australia, & UK (the US is expected to contribute to the SCF in FY 10 budget)	- Australia, Canada, Germany, Japan, and UK
POWER	VOICE & VOTE	- Participant committee: 10 donor country and 10 recipient country participants - World Bank serves as trustee - Non-voting observers including 1 representative of forest-dependent indigenous peoples and forest dwellers, 1 private sector representative, 1 civil society representative - The UNFCCC Secretariat, UNREDD, and the GEF are also observers	- Trust fund committee (TCF): 8 donor and 8 developing country governments - World Bank, IFC, and the MDBs (ADB, AfDB, EBRD, and IDB) represented on committee but do not weigh in on funding - Decisions by consensus - Observers include: representative of the UNFCCC secretariat, GEF, UNEP and UNDP + 4 civil society and 2 private sector	- SCF Trust Fund Committee: 8 representatives of contributor countries + 8 recipient countries - Active observes: 4 civil society reps, 2 private sector reps, and international organizations (UNFCCC, GEF, UNEP, and UNDP) - All CIF committees and sub-committees (SCs) have 2 co-chairs: one donor and one recipient	
				FIP	**PPCR**
				-Up to 6 donors, equal recipients -Observers: representatives of IGOs + 4 civil society; 4 indigenous peoples; 4 private sector -Decision-making by consensus	- Up to 6 donor countries & equal potential recipient countries selected on regional basis -GEF, UNDP, UNEP, UNFCCC, PPCR experts, civil society, private sector observers
	EXPERTS AND NGOs	- Technical Advisory Panels: review Readiness-Plan Idea Notes (R-PINs) & 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-SC to inform selection of country or regional pilot programs	- An 8 member Expert Group selected by SC will help select pilot PPCR countries
	ALLOCATI ON	- Countries admitted to the RM apply for $200,000 R-PP preparation grant, and for up to $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% of funds to one country	- Criteria include: significant mitigation potential; target drivers of deforestation degradation while avoiding perverse incentives; partner with the private sector; seek & ensure economic & financial viability; build local capacity	- Criteria for program selection: transparent vulnerability criteria; country preparedness and ability to move towards climate resilient development plans, taking into account efforts to date and willingness to move to a strategic approach; regional distribution

		Forest Carbon Partnership Facility (FCPF)	Clean Technology Fund (CTF)	Strategic Climate Fund (SCF)	
	COP	- No direct accountability to bodies outside of the World Bank Group - IGOs and multilateral bodies are observers	- Programs subject to MDB board approval -UNFCCC secretariat observes fund - Sunset clause to conclude operations once UNFCCC financing negotiated	- IGOs and multilateral bodies are observers to the FIP and SCF, but no direct accountability -Sunset clause to conclude operations once UNFCCC financial architecture negotiated	
RESPONSIBILITY	PURPOSE	- Demonstrate activities that reduce emissions from deforestation and forest degradation (REDD) - Provide incentives per ton of C02 reduced	- Support deployment of clean energy technologies and transformative reductions in greenhouse gas (GHG) emission trajectories in developing countries	**FIP** - Mobilize funds to reduce deforestation and forest degradation & sustainable forest management	**PPCR** - Demonstrate integrating climate risk and resilience into development planning
	BASIS FOR FUNDING	- Countries develop R-PINs, followed by R-PPs - Readiness supports countries to: (i) prepare REDD strategy (ii) set forest emission reference scenarios (iii) establish MRV systems	-World Bank & RDB organize joint mission to engage government, private sector, other stakeholders - Clean technology investment plan identifies major GHG emission sources & mitigation opportunities	- FIP-Sub Committee (SC) selects pilot countries & regional programs - Countries must be ODA eligible - Governments develop projects/ programs	- PPCR Sub-Committee selects pilot countries - MDBs & UN agencies conduct joint mission to enhance climate resilience of national development plans, strategies financing - Proposals prepared by country & MDBs
	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 IFC and private sector arms of RDB - Up to $1million available to prepare programs	- Governments develop investment plans and access funds through pertinent MDBs	
				FIP	**PPCR**
				-Grants for indigenous peoples, communities - Direct access to financing under consideration	- Only countries shortlisted by the PPCR expert group are eligible for financing
ACCOUNTABILITY	REPORTING	- Annual performance report evaluates FCPF performance at country and program levels - Decision meetings open to observers -Key docs (R-PINs, R-PLANs) available to observers	- As of May 2009, investment plans to be publicly disclosed 3 weeks before TFC deliberations & disclosed in country prior to sharing with TFC - Periodic independent evaluations	- FIP SC Indicators to assess investment plans and measure program impact - MDBs Independent Evaluation Units will assess the FIP and its programs after 3 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
			- 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 under development		
	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	**Forest Investment Program (FIP)** - Indicators are being developed	**PPCR** - Results Framework developed with input from experts
	SAFEGUARDS	- Strategic environmental & social assessments with reference to World Bank safeguards	- Programs subject to the safeguard policies of the pertinent MDBs		

		Bangladesh Multi-Donor Trust Fund (MDTF)	Indonesia Climate Change Trust Fund (ICCTF)	Amazon Fund
OVERVIEW	FUNDING	- US$98 million: DfID - $96 million & DANIDA $2 million - Financed by grant contributions (minimum US$1 million) - Approximately US$90 million executed by GoB , and US$8 million will be by the World Bank as Administrator - Eligible expenditures: Goods; Works; Consultant Services; Training or transfer of knowledge; operating costs.	- UK committed £10 million to the ICCTF - Innovation fund: grants for activities with indirect economic and social benefits - Transformation fund: domestic loans & private financing for low-GHG development	- US$110 million earmarked by the Norwegian government with disbursements in 2009 and 2010 - Norwegian government pledged US$1 billion to be fully transferred by 2015 - Potential for $24.5 million (€18 million) from Germany
	DONORS	-United Kingdom, Netherlands	- United Kingdom, Indonesia	- Norway

		Bangladesh Multi-Donor Trust Fund (MDTF)	Indonesia Climate Change Trust Fund (ICCTF)	Amazon Fund
POWER	VOICE &VOTE	- Management Committee: project review & management; Developing Partners (DPs) contributing US$5-9.9 million have a seat - Policy Council: provides strategic direction; DPs contributing at least US$10+ million receive a seat - Secretariat: manages day-to-day operations - Decision-making by consensus (majority voting if no consensus) - Observers: GoB Ministries; WB & ADB Country Directors; UN Resident Representative; EC 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; suggested that representative of the steering committee with voting rights automatically be members of the technical committee - Secretariat: consists of technical, administrative & financial experts	- Guidance Committee: sets guidelines and criteria for the fund and follows up on results achieved; comprised of 3 "blocks": federal government, state government & civil society blocks - Each block has one vote, & each member of a block has one vote within its respective block. - Steering Committee: decisions by consensus of the 3 blocks - Technical Committee: certifies the data and the calculation of avoided emissions
	NGOs AND EXPERTS	- No formal role for technical experts - Expenditures for consultant services are eligible for financing	- Technical service providers: assist Secretariat & committees; panel of experts assists applications & selecting contractors - Financial service providers: UNDP is the interim Trustee	- Technical Committee: 6 scientific & technical specialists annually issue an evaluation report on deforestation data
	ALLOCA-TION	- 2 windows distribute funds: (I) activities implemented by GoB (90% of financing), (II) activities by non-GoB orgs (10%)	- 3 windows: Energy (renewable energy & energy efficiency); Forestry & peatland (REDD, sustainable forest & peatland management); Resilience (climate change information system, agriculture coastal zones, fishery & water management)	- Projects included in at least one of: Public Forests & Protected Areas, Sustainable Production Activities, Scientific & Tech. Development Applied to the Sustainable Use of Biodiversity, Institutional enhancement of Forest Management systems
	COP	Not specified	Not specified	Not specified
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 CCF & other development programs and leverage critical resources to address the CCSAP's 6 pillars	- Promote coordinated national action to respond to climate change -Align assistance for climate change with GoI development priorities -Improve access to financing & facilitate private investments -Prepare policy framework for mitigation & adaptation	- Combat deforestation and promote conservation, and promote deforestation monitoring & control systems
	BASIS FOR FUNDING	- GoB agencies prepare project concept notes (PCNs) & Project Appraisal Document (PAD); WB prepares grant agreement implementor - NGOs, community organizations, research institutions, others ubmit proposals with proof of registration and recent financial audit, and Management Committee selects an independent organization to process & implement projects	- Sectoral ministries submit proposals to Secretariat for pre-appraisal; Secretariat submits proposal to the Technical & 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	REPORTIN G	- Management Committee meets "as needed" during Implementation period (at least 3 times/year); meeting reports, recommendations, and notes shared with Members - Minutes of bi-monthly Management Committee meetings on PCNs prepared by secretariat & shared with management Committee and implementing agencies	- Secretariat will prepare technical reviews for the Technical Committee, quarterly progress reports & monthly financial reports for the Technical Committee, and provide semi-annual narratives & 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
	PERFORM-ANCE	- Management Committee will review semi-annual monitoring and evaluation reports prepared by Secretariat for submission to DPs - Monitoring matrix to track inputs, outputs, and outcomes will be developed with performance indicators - Administration Agreement ensures funds used according to purposes & objectives agreed to by DPs, GoB, & WB - Grant Agreement govern use and disbursement of funds	- Monitoring & 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 Steering Committee, annually audit 'policy compliance' and service providers - Auditor appointed by GoI will audit funds used by ministries	- Annual external audit conducted by a reputable institution - Auditing to verify resources used inline with purpose & 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
	SAFE-GUARDS	- Procurement governed by WB policies & procedures -WB safeguard measures ensure funds used for purposes specified in grant agreements with implementing agencies	- Projects abide by the GoI National Action Plan & 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

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[26] GEF Instrument, para 25.
[27] South Africa. "Proposal on the Special Themes for the GEF-5" (GEF/R.5/6). Proposal discussed at the First Meeting for the Fifth Replenishment of the GEF Trust Fund, Paris France, March 17-18, 2009. Online at: http://www.gefweb.org/uploadedFiles/Replenishment/GEF.R.5.6%20%20Special%20themes.pdf.
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[40] GEF Evaluation Office, *Midterm Review of the Resource Allocation Framework* (May 2009) [herein after Midterm Review] at 14.
[41] Ibid.
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[43] Global Environment Facility, System for Transparent Allocation of Resources (STAR): Options and Scenarios. 21 September 2009. http://www.gefweb.org/uploadedFiles/Policies/Resource_Allocation_Framework/STAR_Options%20and%20Scenarios_Final.pdf
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[45] World Resources Institute, "Summary of UNFCCC Submissions - India's UNFCCC Submission on Finance" (working paper, World Resources Institute, Washington, DC, September 2009), p. 48. Online at: http://pdf.wri.org/working_papers/unfccc_submissions_summary_2009-09-18.pdf.
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[48] "Funding Under the Convention" in UNFCCC *Report of the Conference of the Parties on its Seventh Session, Held at Marrakesh from 29 October to 10 November 2001* (FCCC/CP/2001/13/Add.1), 2001, p. 43-44. Online at: http://unfccc.int/resource/docs/cop7/13a01.pdf.
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[52] All three climate change funds managed by the GEF (LDCF, SCCF and AF) are considered 'voluntary funds' operated under the governance structure of the GEF. They are established "not by virtue of the Instrument for the establishment of the Restructured GEF (the Instrument) but by virtue of multi-donor trust fund administration agreements (TFAA)". These TFAAs are entered into between the IBRD (the Bank) as trustee of the funds and the Parties contributing to the funds. Governance of Climate Change Funds, para 12.

[53] Kyoto Protocol to the UNFCCC, 1998, Article 12.8. Online at: http://unfccc.int/resource/docs/convkp/kpeng.pdf.

[54] The Montreal Protocol Fund features equal representation of 7 Article 5 members (developing countries using less than 0.3kg of ozone depleting substances (ODS) per capita per year) and 7 non-Article 5 members. Votes are taken by a 2/3 majority of each block. In the entire history of the fund, however, all decisions have been made by consensus and none have ever come down to a vote.[54] The committee has always had two co-chairs: one from a developed country and one from a developing country. Non-governmental observers including civil society groups and the private sector were allowed to observe and participate in meetings without a right to vote.

[55] S Nakhooda, "Catalyzing Low GHG emissions Development? The Clean Technology Fund" (working paper, World Resources Institute, Washington, DC, May 2009). Online at: http://pdf.wri.org/working_papers/development_clean_technology_fund.pdf; Climate Investment Funds. "Design Documents for the Climate Investment Funds." Available online at: http://www.worldbank.org/cif.

[56] http://www.gefweb.org/participants/Council/council_members/council_members.html

[57] For example, in the case of the CIFs, developing country representatives have often remained silent in debates over programming priorities, whereas contributor countries are vocal about their perspectives. In the on line consultations for the first round of Clean Technology Plans approved by the Clean Technology Fund, contributor countries (notably the U.S. and the UK) provided significant comments on the proposals prior to their electronic approval, whereas few comments were received from developing country members of the fund. Personal Observations by S Nakhooda, CSO Representative to the CTF.

[58] Saudia Arabia, China, & Russia also appoint their respective EDs because they enjoy a single country voting bloc.

[59] As of June 30, 2009.

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[62] UNFCCC, "China's Views on Earth Enabling the Full, Effective, and Sustained Implementation of the Convention through Long-Term Cooperative Action Now, Up to and Beyond 2012," (Poznan, Poland: United Nations, September 2008).

[63] UNFCCC, "Ideas and proposals on the elements contained in paragraph 1 of the Bali Action Plan," Submissions from the Governments of Australia, Norway, Japan, and the US, Document no. FCCC/AWGLCA/2009/MISC.4/Add.2 GE.09-70154, (Bonn, Germany: United Nations, May 2009). Online at: http://unfccc.int/resource/docs/2009/awglca6/eng/misc04a02.pdf.

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[66] Congressional conditionalities imposed on the Bank CIFs, and persistent objections to the approval of any grant to Cuba are examples of this kind of conditionality. If Cuba is otherwise eligible for the funding the US typically will formally object but allow the grant to go forward. See, e.g., http://www.gefweb.org/Documents/Work_Programs/documents/03_16_06_USposition_GEF-feb06-intersessional.pdf.

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