

**The Impacts of Climate Investment Funds on Multilateral Adaptation Finance**

by

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**A thesis**

**presented to the University of Waterloo**

**in fulfilment of the**

**thesis requirement for the degree of**

**Master of Environmental Studies**

**in**

**Environment and Resource Studies**

Waterloo, Ontario, Canada, 2011

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## **AUTHORS DECLARATION**

I hereby declare that I am the sole author of this thesis. This is a true copy of the thesis, including any required final revisions, as accepted by my examiners.

I understand that my thesis may be made electronically available to the public.

## **ABSTRACT**

The UN Framework Convention on Climate Change (FCCC) is a global agreement between 194 countries to stabilize greenhouse gas concentration in the atmosphere to avoid dangerous anthropogenic interference with the climate system. Through this Convention, developed countries have also agreed to provide developing countries with funds to both reduce greenhouse gas emissions (mitigate) and build resilience to the current and anticipated changes in average climate conditions (adaptation). This thesis is centered on financing for adaptation to climate change. While there are several funds administered by a UNFCCC-appointed institute, the World Bank recently launched Climate Investment Funds as an interim mechanism (set to expire in 2012, when the existing UNFCCC financial architecture is to be revised) for providing, among other things, adaptation finance in selected developing countries. This thesis will explore the opportunities and challenges for adaptation financing under the Climate Investment Funds (CIF), as compared to the UNFCCC. Document analysis and two rounds of interviews were done to generate information to assess the ability of the CIF to respond to the needs of adaptation financing and to fetch the institutional and governance issues that arise from the involvement of a World Bank-administered fund, namely CIF, in the climate finance regime. It was concluded that while there are some achievements with the CIF exercise, there are also significant institutional, governance and funding challenges for the CIF.

## ACKNOWLEDGEMENTS

It is a pleasure to thank those who have made this thesis possible. I would like to show my deepest gratitude to my advisor, professors, family and friends.

I am heartily thankful to my advisor, Dr. Jennifer Clapp, for her guidance and encouragement throughout my master's program. In the initial stages, when I was struggling to find a thesis topic, Dr. Clapp was patient and supportive; she provided room for my thoughts to grow and encouraged me to pursue my interest in climate change and international development. I am also thankful to her for providing me with quick and constructive feedbacks on the drafts of my thesis, and for organizing a thesis committee and meeting other departmental requirements in a compressed time-space to allow me to graduate on time.

I am also grateful to my thesis committee, which consisted of Dr. Jennifer Clapp, Dr. Olaf Weber, and Dr. Johanna Wandel, for reviewing my thesis in a tight time frame.

I would like to thank Dr. Wandel again for fuelling my interest in adaptation to climate change, and I would like to mention that her course, Climate Change: Human Dimensions, inspired me to base my thesis on this topic.

I am also thankful to Dr. Robert Gibson for serving as an interim advisor to me during my first term at the University of Waterloo, when Dr. Clapp was away on sabbatical. I am grateful for the chats I had with him while brainstorming possible ideas for my thesis.

I would also like to express my deep gratitude to Dr. Hargurdeep Saini, who was extremely encouraging and supportive of me during my admission process to the University of Waterloo.

Finally, I would like to thank my parents, brother, to-be sister-in law, and friends for their never-ending support and encouragement.

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## LIST OF ABBREVIATIONS

- i. **AAU** - Assigned Amount Units
- ii. **AF** - Adaptation Fund
- iii. **AWG-LCA** - Ad Hoc Working Group on Long-term Cooperative Action
- iv. **CDM** - Clean Development Mechanism
- v. **CEIF** - Clean Energy and Development: Towards and Investment Framework
- vi. **CIF** – Climate Investments Fund
- vii. **COP** - Conference of Parties
- viii. **CRS** - Creditor Reporting System
- ix. **CTF** - Clean Technology Fund
- x. **DAC** - Development Assistance Committee
- xi. **FCCC** - UN Framework Convention on Climate Change
- xii. **FIP** - Forest Investment Program
- xiii. **GEF** - Global Environmental Facility
- xiv. **GEF-SPA** - Global Environment Facility-Strategic of Adaptation
- xv. **GHG** - Greenhouse gas
- xvi. **IBRD** - International Bank for Reconstruction and Development
- xvii. **IDA** - International Development Association
- xviii. **INC** - International Negotiating Committee
- xix. **IPCC** - Intergovernmental Panel for Climate Change
- xx. **KPAF** - Kyoto Protocol Adaptation Fund
- xxi. **LDCF** - Least Developed Countries Fund
- xxii. **MDB** – Multilateral Development Bank
- xxiii. **MOU** - Memorandum of Understanding
- xxiv. **NAPA** - National Adaptation Programs of Action
- xxv. **NIE/MIE** - National and multilateral implementing entities
- xxvi. **ODA** - Official Development Assistance
- xxvii. **ODA** - Official Development Assistance
- xxviii. **OECD** – Organization for Economic Co-operation and Development
- xxix. **PPCR** - Pilot Program for Climate Resilience
- xxx. **RAF** - Resource Allocation Framework
- xxxi. **RBM** - Results Based Management
- xxxii. **SBI** - Subsidiary Body for Implementation
- xxxiii. **SBSTA** - Subsidiary Body for Scientific and Technological Advice
- xxxiv. **SCCF** - Strategic Climate Change Fund
- xxxv. **SCF** - Strategic Climate Fund
- xxxvi. **SFCCD** - Strategic Framework for Climate Change and Development
- xxxvii. **SIDS** - Small Island Developing States
- xxxviii. **SREP** - Scaling-up Renewable Energy Program
- xxxix. **TAR** - IPCC Third Assessment Report
- xl. **TFC** - Trust Fund Committees
- xli. **TWN** - Third World Network
- xlii. **UNEP** - United Nations Environment Program
- xliii. **UNFCCC** – United Nations Framework Convention on Climate Change

- xliv. **WBG** - World Bank Group
- xlvi. **WMO** - World Meteorological Organization

## **1.0 Introduction**

This thesis will explore the opportunities and challenges for adaptation financing under the World Bank's Climate Investment Funds (CIF), as compared to the UN's body for climate change (UN Framework Convention for Climate Change). As climate change has already begun to take a toll on the world's ecosystems and their associated human and animal populations – a situation which will only intensify in future – the need to adapt to climate change has become even more urgent. With developed countries responsible for the largest share of greenhouse gas emissions to date, and the comparatively higher degree of vulnerability of developing countries to the impacts of climate change, coupled with their limited capacity to individually respond to these impacts, international action to address inequities between developed and developing countries is required. This was one of the key considerations while fashioning the UN's Framework Convention on Climate Change (UNFCCC) in 1992, which also outlined a financial mechanism for transferring resources from developed to developing countries (Article 11, 1992). More recently, the World Bank has tried to “play its part” by developing a separate avenue for channeling resources towards climate change mitigation and adaptation, namely the Climate Investment Funds (CIF). Given this, there are crucial institutional, governance and funding issues for the CIF, which will be examined in this thesis.

### **1.1 The Adaptation Imperative**

The recent floods in Pakistan forced 20 million people out of their houses and killed about 1600 people (Gronewald & Climatewire, 2010). Australia's wild forest fires are feared to become even more frequent in the coming years (Walsh, 2009). Each year, environmental disasters poke us with a bitter reality – climate has altered appreciably due to anthropogenic emissions of greenhouse gases and it has impacts on human populations. Therefore, it is vital to adapt. Thankfully, international attitude towards climate change has altered significantly, from a time when some lead champions of addressing climate change, like Al Gore, labeled it as a “lazy” or “soft” approach to a time when it is agreed that adaptation to climate change is an imperative that can not be delayed (Rogers, 1998).

Adaptation forms a vital component of the climate change response system on many grounds. First, it is realized that despite all mitigation efforts, some level of climate change is inevitable (Parry, Canziani, Palutikof, van der Linden, & Hanson, 2007), and ultimately, adaptation to this change will be necessary. Second, climate change may occur in a sudden and unforeseeable, rather than gradual and predictable manner. Hence, anticipatory measures to prepare for such change will be important. On a local scale, adaptation can be beneficial at multiple levels. Fruits of adaptation actions are local and more immediately apparent than those of mitigation. Moreover, the linkages between adaptation and development can be exploited to create win-win solutions that abate climate risks and attain sustainable development objectives (Huq & Reid, 2004). In addition, adaptation responds to climate change in a selective manner – it capitalizes on the positive and decreases negative impacts (Pary et.al., 2007). Finally, adaptation efforts lower risks associated with present climatic variability as well as future climate change

(McCarthy, 2001). While international understanding and attitudes have considerably evolved, much more work remains pending to pave way for a successful international adaptation response.

A sense of the challenge confronting the international community can be appreciated by looking at the numbers. There are several estimates of adaptation costs in developing countries, all employing separate methodologies and containing different degrees of uncertainties and errors. The UNFCCC points to a need for USD 28 – 67 billion per year by 2030 (UNFCCC, 2008). In comparison, the collective multilateral funds for adaptation provided by the UNFCCC (through Adaptation Fund (AF), Least Developed Countries Fund (LDCF), Strategic Climate Change Fund (SCCF), and the Global Environment Facility-Strategic of Adaptation (GEF-SPA)) and the World Bank<sup>1</sup> (through Climate Investment Funds) amount to merely USD 1.6 billion. Accordingly, the latter sum needs to multiplied about 40 times in less than 20 years.

## 1.2 Climate Investment Funds

The CIF were launched on July 1<sup>st</sup>, 2008 as an “interim mechanism” to enhance financial resources for climate change and demonstrate what can be achieved through “scaled-up measures” (Climate Investment Funds [CIF], n.d.a). As of September 2008, USD 6.1 billion had been pledged by donor countries to the Fund, which makes the CIF a substantial contributor to the global financial resources for climate change. The CIF operates two separate funds – the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF). The CTF finances mitigation efforts and aims to accelerate transition to a low carbon economy by facilitating deployment of low carbon technologies in developing countries (CIF, 2008b). The SCF is relatively broad and supports three different programs: Pilot Program for Climate Resilience (PPCR), Forest Investment Program (FIP), and the Scaling-up Renewable Energy Program (SREP) (CIF, n.d.a). Of these three, only the PPCR is dedicated to adaptation efforts. The objective of the PPCR is to finance development and implementation of “country-led” national resiliency plans. This Program is designed to demonstrate how climate resilience strategies can be incorporated into national developmental plans (CIF, n.d.b). To this end, the Program will select 5-10 countries, at least one of which will be from the Small Island Developing States (SIDS). Furthermore, it is intended that the PPCR will complement existing adaptation funds under the UNFCCC (CIF, n.d.b). Of the USD 6.1 billion pledged to CIF, USD 972 million are promised to the PPCR (CIF, 2010b).

## 1.3 The UNFCCC

With growing scientific understanding and the subsequent political recognition of the impacts of global greenhouse emissions in the atmosphere, in 1992, the international community ratified a UN Framework Convention on Climate Change (FCCC) – a global

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<sup>1</sup> The Global Facility for Disaster Reduction and Recovery, administered by the World Bank, is set-up to help developing countries integrate disaster risk reduction and climate change adaptation into country development strategies. The fund has a modest size with pledges worth over USD 258 million (Global Facility for Disaster Reduction and Recovery, 2010).

agreement between 194 countries to stabilize greenhouse gas concentration in the atmosphere to avoid dangerous anthropogenic interference with the climate system (UNFCCC, 2009a). The objective of the Convention is to stabilize emissions at a perceived safe level in the atmosphere. Although adaptation is mentioned as an important tactic for climate change in the Convention, it is not presented as the focal response measure in the same the way that mitigation is. However, over the years, during UNFCCC negotiations among ratifying countries, the necessity of adaptation has been highlighted, as well as the need to pursue both mitigation and adaptation to climate change in a balanced manner.

In addition to the underlying objective of stabilizing emissions, the Text of the UNFCCC outlines a number of principles. Amongst these is the requirement that developed countries are to admit their historic role in contributing to greenhouse gas emissions, and in accordance with the polluter pays principle, transfer financial and technological aid to developing countries to both mitigate and adapt to climate change. The Convention also recognizes the particular vulnerability of developing countries – especially the least developed countries, small island countries, and the excessively natural-resource dependent developing countries – to the impacts of climate change and variability, and their lower capacity to mitigate and adapt to climate change. Hence, the global action to climate change must adhere to the “common but differentiated responsibilities and respective capabilities” principle, by which aid is to be transferred from developed (with greater responsibility for emissions and capabilities for action) to developing (with lower responsibility for emissions and capabilities for action) countries. The Text also stresses the importance of developed countries to act first, in terms of reducing greenhouse emissions and transferring financial and technological resources to developing countries, as the effectiveness of developing countries to implement their commitments under the Convention will hinge upon this. Further, this aid must be “new and additional” and “adequate and predictable” (Article 4.3, UNFCCC, 1992). The UNFCCC is headed by the Conference of Parties (COP) – a body of 195<sup>2</sup> members who have ratified the UNFCCC. It is supported by a UNFCCC secretariat that sits in Bonn, Germany and adheres to the United Nations rules and regulations in conducting its operations. The financial mechanism of the UNFCCC is administered by the Global Environmental Facility (GEF), whose operations in the climate change focal area are fully accountable to the COP. The COP provides regular guidance to the GEF on policies, programs priorities, and eligibility criteria for funding, and the GEF reports annually to the COP. In 2012, when the COP is due to produce a second series of legally binding commitments on mitigation targets, there is also hope to amend the UNFCCC financial architecture, so that it can handle the larger amounts of resources that are necessary for climate change.

#### **1.4 Adaptation Finance**

The UNFCCC estimates the additional annual global cost of adaptation to be in tens of billions of dollars by 2030; the United Nations Development Program’s 2007/2008 Human Development Report provides a more precise number – 86 billion dollars per year

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<sup>2</sup> This comprises of 194 States and one regional economic integration organization, namely the European Union (UNFCCC, n.d.a).

by 2015. Regrettably, the collective multilateral aid for adaptation fall grossly short (UNFCCC, 2008). Clearly, one of the most obvious needs of adaptation finance is the urgency to boost funding. However, adaptation funds must be raised, managed and disbursed in accordance to sound principles, which cater to the challenges posed by adaptation. These include taking into account that adaptation to climate change is strongly linked with development, and therefore an integrated and holistic approach to adaptation is the most appropriate. The GEF administers three climate funds, with a varying degree of focus on adaptation: GEF-Strategic Priority for Adaptation (GEF-SPA), which support pilot projects that must be integrated into national policy and should demonstrate the development of full-scale projects from adaptation plans; Least Developed Countries Fund (LDCF) that supports 49 least developed countries in preparing national plans for adaptation; and the Special Climate Change Fund, whose objective is to increase the resilience of national development sectors to the impacts of climate change, but which supports a variety of activities that are arguably not directly related to this objective (like helping fossil fuel-exporting countries diversify their economies)<sup>3</sup> (Huq & Burton, 2003 & Moore Raweston, personal communication, November 4<sup>th</sup>, 2010). There is another fund under the auspices of the UNFCCC, the Adaptation Fund, which is administered separately from GEF, by the Adaptation Fund Board. This fund was established by the UNFCCC's Kyoto Protocol (that legally binds industrialized countries to curtail their emissions) and supports a range of adaptation activities. Finally, another major multilateral resource for adaptation is the PPCR window of the CIF, which exceeds the collective sum of all UNFCCC funds (see Figure 6.4)

## 1.5 Research Focus

This thesis is centered on one aspect of the adaptation response – financing. It will explore the various needs of adaptation finance, and particularly, assess the ability of a new climate fund, the Climate Investment Funds, to deliver on these needs. The CIF are a major initiative of the World Bank that are more recent but much larger than the adaptation funds of the UNFCCC. While the CIF have a bigger magnitude, their mandate is questionable – will they deliver on the important dimensions of adaptation financing? Further, many civil society groups and some developing countries have already indicted the CIF as a donor-driven attempt to hijack the inclusive and transparent multilateral process towards a future climate financing regime, which would give adaptation its due considerations. This thesis will examine the validity of these accusations, by examining the influence of the CIF on the UNFCCC (Tan, 2008).

## 1.6 Research Questions and Rationales

The research question guiding this thesis is: **What are the challenges and the opportunities facing adaptation financing under the CIF as compared to UNFCCC?** The research realizes that the CIF is not altogether an alternate process for international

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<sup>3</sup> The GEF Trust Fund is the central fund established to aid developing countries and economies in transition to implement their commitments under the Accord and contribute to the overall objective of the Accord. The fund supports adaptation and mitigation projects; however, only 1.5% or USD 13.7 million have been disbursed for adaptation activities (Climate Funds Update, 2011)

action on climate change, and that, as the CIF documents (CIF, n.d.a, CIF, n.d.b) assert, this World-Bank administered financial mechanism contributes to the larger debates and activities occurring in the UNFCCC. However, what will be examined is the nature of contribution that the CIF can make – will they bring a useful experience or not to the UNFCCC? Will they impede progress or undermine the multilateral process of developing a new financial mechanism under the UNFCCC? How similar or different will the CIF be from other UNFCCC funds, and whether they will repeat past mistakes or offer new solutions? What new features of aid effectiveness will the CIF experiment with?

There are two components to the overarching research question – one, the response of the CIF to the needs of adaptation finance – that is, how much funding is required and for what purposes; and two, the institutional and governance issues that emerge from the relationship between the UNFCCC and the CIF as channels of adaptation funds – that is, how does decision-making take place and what is the institutional framework within which those decisions are made. It is important to point out here that there is a considerable overlap between the institutional, governance and funding issues that will be discussed.

Figure 1.1 Dimensions of the Research Question



Therefore, from the aforementioned overarching research question, two following sub-questions will be investigated, with an aim to examine the possible impacts of Climate Investment Funds on adaptation finance in general, and on the UNFCCC’s progress towards a new financial architecture for climate change in 2012:

**1. What are the needs of adaptation finance? (Funding Issues)**

Debates on how climate finance for adaptation should be raised, administered and disbursed are as old as the Convention. However, the knowledge in this area has also evolved over time, and it is important to know what the international community currently deems is necessary for adaptation. This information can be used to evaluate the response of the CIF to the needs of adaptation, and their potential to provide positive input to a new UN financial architecture for climate change.

## **2. How do the UNFCCC and CIF address adaptation? (Institutional and Governance Issues)**

There are fundamental gaps in the way adaptation finance is currently mobilized, administered and disbursed. Literature points to a number of flaws in the current UNFCCC financial architecture administered by the GEF. In light of new financial architecture for climate change, it is important to review the drawbacks in the old financial mechanism so that past mistakes are not repeated. On the other hand, with a budget of USD 6.1 billion, the CIF can be of great assistance to the UNFCCC process by narrowing the gap between the need and availability of funds for adaptation. However, it remains to be seen whether the CIF may amend, replicate, or supplement existing problems, and in doing so, whether they will undermine the UNFCCC's progress towards an improved financial mechanism. This will ultimately depend on how the CIF raise, channel and disburse these funds.

It will also depend on the governance (decision-making) rules and structures of the CIF, especially the way in which they distribute power among different stakeholders (developed and developing countries and civil society organizations) and among key institutes of climate finance (power is indirectly through institutes through their daily management and operations of the fund).

A close examination of both adaptation finance under the UNFCCC's financial mechanism (including the Adaptation Fund) and CIF can elucidate the interaction between, and effectiveness of these two institutes as the main financial bodies for adaptation to climate change. The institutional interplay between these two will help determine the capability of the CIF to provide adaptation finance.

### **1.7 Research Significance**

While many civil society organizations have raised voices against the CIF (Tan, 2008), this thesis will be one of the first in-depth studies to assess the challenges and opportunities confronting CIF adaptation financing. Hence, this thesis will be a useful contribution to the literature on multilateral finance for climate change and the CIFs in particular. Further, the emergence of the CIF raises some serious questions about its impacts on the overall aid available for adaptation and on the multilateral process under the UNFCCC. There are several reasons for these concerns as outlined below.

#### **Funding Issues**

1. The CIF may not create any new and additional resources for climate change. Since the donor countries for UNFCCC and CIF are the same, there are concerns that some of these countries may transfer their aid money to the CIF, given that they may exercise more control over the flow of resources in the CIF. Furthermore, countries may also shift money from their Official Development Assistance (ODA) contributions to the CIF.

2. The CIF may not create adequate and predictable resources. The contributions to the CIF, like to the UNFCCC funds, are made on a voluntary basis.
3. The CIF may not create significant resources for adaptation. Of the USD 6.1 billion pledged, the adaptation component of the CIF – the Pilot Program for Climate Resilience (PPCR) – received only USD 972 million (CIF, 2010b). Furthermore, the CIF permits donor countries to utilize their contributions from the PPCR for other climate related programs (CIF, 2008a & CIF, 2008b)

### **Institutional and Governance Issues**

1. There are concerns over the governance mechanisms of these funds. While the UNFCCC funds are governed by a transparent and strong multilateral body, there are doubts if a similar governance framework exists for the CIF.
2. The CIF may undermine the multilateral process under the UNFCCC. While the World Bank has declared the CIF to be an interim mechanism (CIF, 2008a & CIF, 2008b) and included a Sunset clause in its governance framework documents (CIF, 2008a & CIF, 2008b) to terminate the CIF once a new financial architecture is developed under the UNFCCC regime, it neither provides rationales for its standpoint for a financial mechanism outside the UNFCCC and administered by the World Bank, nor an exact termination date for its activities.
3. The World Bank has a poor track record of funding development activities that have been especially detrimental to the environment. This makes it difficult for some countries and NGOs to trust the World Bank with a considerable sum of money for climate change, and raises questions as to how differently will the new World Bank funds be administered and used (Tan, 2008).
4. The CIF may duplicate some weaknesses of the UNFCCC. A number of flaws are identified in the UNFCCC aid architecture, for example, the contributions to the funds are made on a voluntary basis, the process for applying for adaptation funds is tedious, etc. There are concerns that the CIF may not implement adequate measures to avert these flaws.
5. A preliminary analysis indicates that the process of applying for funds in the UNFCCC and the CIF is very similar – developing countries partner with the same multilateral institutes to prepare proposals for obtaining adaptation funds. Moreover, the UNFCCC extensively involves the World Bank in its funding process. Therefore, it is unclear what the motives of the World Bank are in devising a new fund, in stead of helping amend the existing ones under UNFCCC (UNFCCC, n.d.a., CIF, 2008a & CIF, 2008b).

### **1.8 Research Hypothesis**

For the aforementioned reasons, I make the following hypotheses:

The CIF have the potential to:

1. Lower multilateral aid for adaptation projects, as donor countries may shift money from adaptation to mitigation projects as permitted by the CIF (Clause 46, CIF, 2008a).
2. Undermine the multilateral process under UNFCCC, as donor countries will favor funds administered by the World Bank than the UNFCCC.

3. Only promote the weaknesses of UNFCCC funds, as CIF will introduce no new mechanisms of addressing some of the problems identified with the UNFCCC funds.

The possibility that the CIF can have negligible or neutral influence on the UNFCCC process is discounted because the motivations and objectives of both the CIF and the UNFCCC funds are the same – to facilitate adaptation to climate change in the developing countries, and in doing so allow countries to fulfill their commitments under the Convention. Moreover, the mechanisms of the funds under both institutes are similar in many ways, for example, same donor and recipient countries are targeted; same implementing agencies assist developing countries in procuring the funds.

### **1.9 Thesis Outline**

After a discussion on the methods employed for the study in Chapter 2, the next three sections are divided according to the sub-questions discussed in section 1.6. Chapter 3 describes the UNFCCC process and its provisions for adaptation finance, Chapter 4 presents the CIF, highlighting salient features of these funds and Chapter 5 outlines the needs of adaptation financing. Information from these chapters, alongside responses from interviews, are used in analysis in Chapter 6 to arrive at conclusions in Chapter 7.

## 2.0 Method

### 2.1 Exploratory Study

Since the CIF have not been examined in their potential to contribute to adaptation needs and a future adaptation finance mechanism under the UNFCCC, this will be an exploratory study. The distinguishing feature of an exploratory problem is that there is a lack of prior knowledge available. Henceforth, the objective of exploratory research is “to cast a wide net” (Putt & Springer, 1989), i.e. to ensure that a broad understanding of the problem is constructed. Exploratory work occurs in the beginning stages of policy formulation, and seeks to capture the scope, dimensions and the magnitude of the issue. Such a study would attempt to define the issue and chart out any emerging controversies, trends and themes. However, exploratory research does not narrowly focus on a particular detail of the problem; that work is left to subsequent projects that usually utilize the findings from exploratory work.

Given the objective of exploratory research being “to case a wide net”, the apposite methods are ones that accumulate a range of ideas and perspectives. Putt and Springer propose three techniques that are particularly apt: document review, interviews and brainstorming.

### 2.2 Information Needs

In evaluating programs, such as the CIF and UNFCCC funds, Murphy (1980) notes five distinct dimensions that researchers may examine, as listed below. While policy researchers may choose to concentrate on one of these dimensions, I am pursuing all these aspects to some degree since the aim of my thesis is to unravel the big issues involving adaptation finance, which will spring from all of these dimensions.

1. Current organizational and political setting  
Understand the current organizational, political, and administrative structures of the UNFCCC and the CIF which manage multilateral climate change financing for adaptation.
2. Essential political features  
Understand the political debates that surround adaptation finance, including the ones concerning UNFCCC adaptation response and the CIF.
3. Key individuals and institutions  
Learn more about the political and economic viewpoints of key individuals and the structures and practices of the UNFCCC and CIF.
4. Program’s evolution  
Learn about the history of funding adaptation to climate change, both under the UNFCCC and through the CIF.
5. Commonly accepted characteristics of successful programs  
Learn about the expectations from different stakeholders of the international climate change adaptation programs.

## 2.3 Data Collection

Figure 2.2 is a visual of the methodological and analytical approach I undertook. Document analysis and interviews were used to generate data and coding to analyze it. While the research began with document analysis, this method was used throughout to generate information and cross-examine it with the findings from the interviews.

Figure 2.1: Method

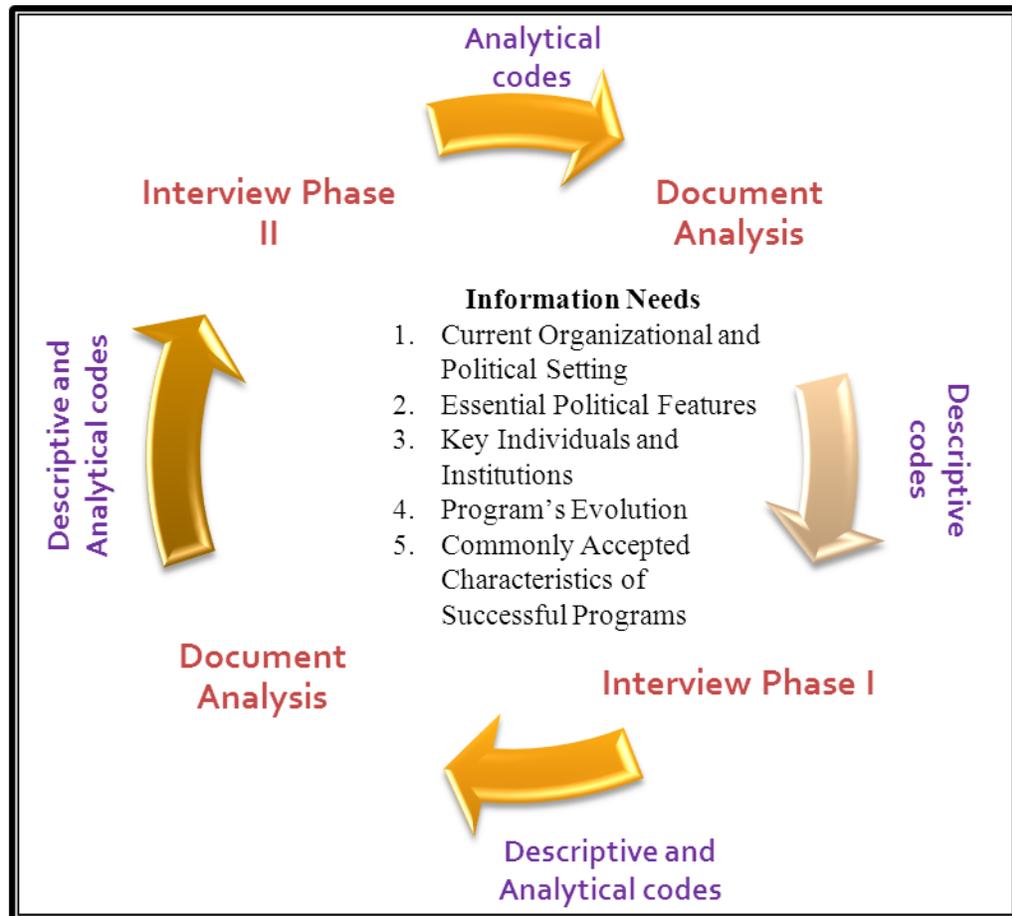


Figure 2.1: Document analysis and interviews were conducted to garner data. Findings from and within each method was triangulated to extract important themes and improve the validity of the research. Coding was done in both a progressive and reflexive manner throughout the research so that themes were based on both newer information and previous codes.

### 2.3.1 Document Analysis

David Weimer and Addan Vining (2005) identify four categories of documents: “(1) journal article, books and dissertations; (2) publications and reports of interest groups, consultants and think tanks; (3) government publications and research documents; and (4) the popular press” (Weimer and Vining, 2005, p. 311). I examined all four kinds of documents to develop a broad and representative understanding of climate financing, challenges and principles of financing adaptation, and institutional practices and

mechanisms for climate change funds. In the case of this thesis, Categories 2, 3 and 4 were especially of great use since not many journals and books evaluate the CIF. Webster and Watson (2002) provide guidance onto how to conduct structured literature reviews. The authors suggest that a successful literature review should be “concept-centric” (i.e. geared towards finding relevant information on concepts), which was adopted. Literature review was conducted in various stages, as portrayed in Figure 2.1. In the preliminary stages of literature review, relevant dimensions of the topic were culled out. The subsequent stages become progressively refined and focused on the selected concepts identified from the primary stages. Watson and Webster present recommendations on conducting the review in a structured manner. According to their suggestion, the literature review was commenced with a few key articles (critiques and commentaries on the CIF, Global Environmental Facility and climate financing from civil society organizations and think tank scholars), and progressed by tracing the articles “backwards” by reviewing some of the citations mentioned in the articles and “forwards” by reviewing articles citing the current document using electronic programs such as Web of Science or Social Science Citation Index.

I reviewed both primary and secondary literature. Primary literature mainly included documents found on the websites of UNFCCC and CIF on important decisions, financial modalities, governance and institutional arrangements, funding criteria etc. Secondary literature was mainly used to find information on the principles and characteristics of adaptation finance and critiques of current financial arrangements under the UNFCCC and the CIF.

### 2.3.2 Interviews

#### Ethics Approval

An application package that contained a research proposal (including information on the research question, research significance, hypothesis and methodology), a sample recruitment email, a sample recruitment telephone script, a sample consent form (to be signed by the interviewees to indicate their consent to participate in the research), a sample of interview questions, and an ethics application was submitted to the University of Waterloo’s Office of Research Ethics. Upon ethics approval from the said office, I was able to approach people via email (first) or telephone (second, if the email response was not received at least within a week). The emails and telephone calls for recruitment strongly adhered to the format that was submitted to the ethics board; only a few additions were made in the introductory paragraphs to indicate why the individual was being approached for the interview (e.g. by mentioning some of their works that I had read and highlighting their expertise in the field). Although a consent form was prepared, each interviewee provided their consent in written over the email.

#### Participant Selection Process

Murphy sorts respondents or informants into two categories – key informants and regular interviewees. Key informants are well aware of “the program and its environment; they know the key figures, the problems, the successes, the norms, and the

traditions” (Murphy, 1980, p. 78). Regular interviewees are the ones that researchers are more likely to encounter and who provide the bulk of information.

Regular interviewees, scholars engaged in climate finance research, were selected on the basis of names appearing from the document analysis. Key informants were selected from the websites of relevant organizations (World Bank, GEF, UNFCCC, and CIF). The interviewees included three from think tanks scholars with expertise in climate or adaptation finance, one each from GEF and World Bank, and two from individuals in the CIF governance boards (in particular, from the PPCR Sub-committee). While the views expressed by the interviewees were their own and not representative of the institute where they worked, it was hoped that a diverse set of perspectives and understanding could be garnered by interviewing individuals from various organizations.

### Interview Process

A major strength of interviews is their ability to provide information and facts quickly. An hour-long interview with a knowledgeable informant can generate as many important facts and themes as many hours of library and internet search. When timeframe of research is short, as in my case, conducting an interview in the initial stages of the research can hence be quite fruitful. As such, I conducted interviews in two phases. Phase I of the interviews took place in the initial stages of data collection, when document analysis are sufficiently (although not entirely) completed to indicate some key individuals to interview. Phase II took was executed towards the end of the research process, when the bulk of document analysis had been conducted. The first phase of the interview helped direct the research, whereas the second phase helped arrive at important conclusions about the CIF.

The interviews were carried out in a semi-structured manner, starting with some general questions (for example, perspective on the role of World Bank in climate financing, the appropriate governance arrangements for administering climate finance, etc.), and progressing according to the responses obtained. As Dexter (1970) recommends, many of the questions attempted to probe for clarifications and details to solicit information that is not easily available through other means. Regular interviewees were asked general questions about the topic, like the challenges posed by climate finance and the principles and challenges for financing adaptation to climate change. On the other hand, key informants were asked more pointed questions, for example about a particular feature of the CIF, or a noticeable difference between the CIF and the UNFCCC funds. Most interviews lasted about 30-45 minutes, and all of them were conducted over the telephone (in-person interviews could not be afforded because of budget constraints). Further, each respondent was provided with a transcript of the interview, and had the ability to review and change (add to or disavow) any statements they had made during the interview. Finally, each interviewee was also thanked (through an email letter) for their participation in the research.

It was intended that in the first phase, only regular would be interviewed, whereas in the second phase some key informants would be included. However, due to schedule

conflicts, some of the key informants (Moore Rawleston and Ari Huhtala) were interviewed in the first phase and some regular interviewees (Richard Klein) were interviewed in the second phase. Although 14 people were invited in the first phase and 16 in the second phase, only seven people were recruited due to schedule conflicts and time limitations.

Table 2.1: **Interviewees**

Phase	Name	Informant Type	Job Title	Organization
<b>First Phase</b>	Maria Athena Ronquillo-Ballesteros (Athena Ballesteros)	Regular Interviewee	1. Project Manager, Institutions and Governance program, World Resource Institute 2. Technical and Policy Advisors to the Philippine negotiating team at the UNFCCC	1. World Resource Institute
	Moore Rawleston	Key Informant	Adaptation and Country Relations Officer	Global Environment Facility
	Neil Bird	Regular Interviewee	Research Fellow	Overseas Development Institute
	Ari Huhtala	Key Informant	Sr. Environmental Specialist, Climate Change Team, Environment Department	World Bank
<b>Second Phase</b>	Anonymous	Key Informant		1. High-level official at a developed country's development agency 2. Member of PPCR sub-committee, CIF
	Arastoo Khan	Key Informant	1. Additional Secretary, Economic Relations Division of the Ministry of Finance. 2. Member, PPCR sub-committee	1. Government of Bangladesh 2. PPCR, CIF
	Richard Klein	Regular Interviewee	1. Senior Research Fellow 2. Adjunct Professor	1. Stockholm Environment Institute 2. Centre for Climate Science and Policy Research of Linköping University

## 2.4 Analysis

A prominent technique of analyzing qualitative data is coding. Coding entails carefully reading, processing and sorting obtained information into various codes. Ian Hay (2005) mentions three main functions or purposes of coding: to enable researcher to refine and condense large volumes of data; to help organize data; and most importantly to analyze data. During vigilant examination of the data, descriptive codes – which are the blatant or obvious messages and themes – and analytical codes – which describe the themes that are implied by the interviewees or the one that the researcher is interested in – are developed. Sometimes, descriptive and analytical codes are referred to as initial and interpretative codes, indicating their appearance in the analysis process. The next step in coding is to develop a coding structure in which codes are grouped into themes and concepts according to the linkages between them. This will further reduce the data, and illuminate key themes from the data. Done rigorously, the coding process can lead to new theories. Coding is both a recursive and a reflexive process as codes are developed and modified throughout the research process based on new information and emerging themes (Hay, 2005).

For analysis, initial codes were developed as soon as sufficient information was generated from the literature review. Codes were evaluated, modified, and added to throughout the research process. Finally, linkages were made between the various codes to arrive at main themes and conclusions of the research.

### 2.4.1 Codes

The initial codes helped guide the research direction, and included examination of the histories and structures (including governance and financial arrangements) of the adaptation funds in the UNFCCC and the CIF. Some of the codes developed at this stage were decision making rules, seat allocation in governance boards, representation of stakeholders (civil society participation, advisory groups, equitability, equality), power holdings of secretariat and management staff, processes of applying for and acquiring finances, allocation of funds among different climate change themes (adaptation, mitigation, forest, land use, etc) and developing countries. From this, the similarities and differences between these funds became apparent.

To gain further depth into the UNFCCC and CIF funds, I read critiques and reviews that discussed their limitations and opportunities, and also highlighted some important principles and characteristics of adaptation finance. I pursued many themes emerging from these critiques to acquire a sense of the needs of adaptation finance. Codes at this stage included nature of finance (new and additional, adequate and predictable); provision of finance (country-ownership, leadership, and access), type of finance and related terms of agreement (i.e. loans, grants, equities, guarantees), special needs of adaptation (integrated approaches, mainstreaming). These themes were refined after the two interviews and as newer information was gathered from further document research.

After the interviews were conducted, I reevaluated UNFCCC funds and the CIF with an eye for their response to the needs of adaptation finance and the institutional and governance issues relevant to raising, administering and disbursing adaptation finance. At this stage, most codes from the previous stages were simply refined, divided into more fragments (to outline different dimensions), or connected with other codes. Some of the newer themes that became apparent at this stage were political clashes among and between developed and developing countries; administration issues (institutional proliferation and conflicts, institutional priorities, bureaucracy and power dynamics); and parameters of aid effectiveness.

Finally, I categorized these codes and emerging themes as part of funding, institutional and governance issues. Funding issues contained themes pertaining to the mobilizing and disbursement of climate finance. Institutional issues described the interactions between the CIF and the UNFCCC funds as mechanisms for climate finance. It contained themes that highlighted the institutional politics of climate finance. Governance issues pertained to the set of decision-making rules and power structures in each climate finance mechanism. Given the significant overlap between funding, institutional and governance issues, demarking between them proved quite difficult.

### 3.0 UNFCCC

Before describing and discussing the CIF, it is useful to review the history and some critical components of the UN Framework Convention on Climate Change. The 1980s was a decade of rising scientific discovery and concern about anthropogenic greenhouse gas emissions, which culminated into the establishment of the Intergovernmental Panel for Climate Change (IPCC) jointly by the United Nations Environment Program (UNEP) and the World Meteorological Organization (WMO) in 1988, the same year when the landmark Toronto conference on “The Changing Atmosphere: Implications for Global Security” was also held (Ramakrishna, 2000). In the coming years, this newly born scientific body released a series of reports that would shape international political attitude towards climate change. The first assessment report of the IPCC in 1990 declared that humans were responsible for climate change, and in the same year, the United Nations convened an International Negotiating Committee (INC) for a Framework Convention on Climate Change (INC/FCCC). This Committee hosted a series of five negotiation meetings, between February 1991 and May 1992, among global government officials from more than 150 countries on climate change (Ramakrishna, 2000). The topics covered in these meetings are surprisingly not very different from the ones still conferred at global climate change meetings – setting a timeline for greenhouse gas reduction and other targets, proposing technology transfer, defining and allocating different responsibilities to all countries in meeting targets. The need for a global commitment to meet these targets was also discussed, and consequently, in May 1992 (around fifteen months after the first INC convention) itself the UNFCCC Convention was born, and opened for signatures a month later during the UN Conference on Environment and Development in Rio de Janeiro. The Convention entered force on 21<sup>st</sup> March 1994 with 50 signatures. It has now been ratified by 194 countries and one regional economic integration organizations, and all of these signatories are called the Conference of Parties (COP) (UNFCCC, 2009a). The COP is the supreme body of the Convention, and continues to meet annually since the first COP event (COP 1) in 1995. The subsidiary bodies that advise the COP may and do meet more frequently to prepare for COP meetings.

#### 3.1 Elements of the UNFCCC

The underlying objective of the Convention is to stabilize global emissions of greenhouse gases at a level that avoids “dangerous anthropogenic interference with climate system”, and occurs within a timeframe that permits “ecosystems to adapt naturally to climate change ... ensure that food production is not threatened and ... enable economic development to proceed in a sustainable manner” (Article 2, UNFCCC, 1992). To guide their work, the UNFCCC enlists several principles (Article 3, UNFCCC, 1992):

1. Common but differentiated responsibilities and respective capabilities, according to which the developed countries must take the lead in reducing greenhouse gas emissions and combating impacts of climate change;
2. Protection of vulnerable countries, in a way that “special needs and special circumstances of developing country Parties....especially those that are

- particularly vulnerable to the adverse effects of climate change, and of those... that would have to bear a disproportionate or abnormal burden under the Convention...[are] given full consideration;
3. Precautionary principle, by which measures must be taken “to anticipate, prevent or minimize the causes of climate change and mitigate its adverse effects”, and therefore, “lack of full scientific certainty should not be used as a reason for postponing such measures...”;
  4. Sustainable development, to ensure that “policies and measures to protect the climate system against human-induced change ...[are] appropriate for the specific conditions of each Party and ... integrated with national development programmes...”;
  5. Economic growth, so that “Parties ... cooperate to promote a supportive and open international economic system that would lead to sustainable economic growth and development in all Parties...”

The Convention commits Parties to a number of things, in addition to adhering to the above principles. First, developed and developing country Parties are to prepare and submit national communications, which are essentially inventories of greenhouse gas emissions, both by sources and sinks (Article 4, UNFCCC, 1992). With regards to this, the developed country Parties must cover the “new and additional financial resources to meet the agreed full costs incurred by developing country Parties in preparing their national communications” (Article 4, UNFCCC, 1992). Further, they are asked to formulate, implement, report and revise national (or regional) programs for mitigation and strategies for adaptation.

The Parties must also cooperate to support technology transfer and other practices and processes that mitigate climate change, as well as measures for adaptation to the impacts of climate change. At a national level, countries are asked to integrate climatic considerations in their policies and actions. The developed country Parties are also asked to provide “agreed full incremental costs” of implementing mitigation and adaptation measures by developing country Parties – which are agreed “between a developing country Party and the international entity or entities” – and especially assist particularly vulnerable developing country Parties in meeting their “costs of adaptation to those adverse effects [of climate change].” Developed countries should also take the lead on promoting, facilitating and financing access to environmentally sound technologies and know-how to help developing countries implement the Convention. In this regard, emphasis should be placed on enhancing national capacities and technologies, and other organizations that are better equipped to do so may assist (Article 4, UNFCCC, 1992).

In addition the developed country Parties are obliged to undertake additional measures. These Parties are listed as members of Annex II, and comprise of the OECD countries. Along with Annex II members, the Annex I constitutes of “economies in transition” (mostly states in Central and Eastern Europe)<sup>4</sup>. The latter group must adopt national

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<sup>4</sup> Annex II is a subset of Annex I and consists of only developed (OECD) countries, where as the Annex I contains economies in transition as well. Although Annex I countries are committed to reducing their

policies and undertake corresponding action to enhance greenhouse gas sinks and reservoirs (such as forests and oceans). These Parties must communicate details of these policies, measures and the resulting emission reductions within six months of enforcing Convention, and periodically thereafter. These Parties must individually or collectively aim to reduce their emissions to the 1990 levels (Article 4, UNFCCC, 1992).

### **3.2 Negotiations and Important Decisions**

#### Kyoto Protocol and the Adaptation Fund

The 1997 COP meeting, COP-3, concluded with the Kyoto Protocol, a legally-binding instrument that committed industrialized countries to reduce their emissions of four greenhouse gases (carbon dioxide, methane, nitrous oxide, sulfur hexafluoride) and two groups of gases (hydrofluorocarbons and perfluorocarbons) by 5.2% against a 1990 baseline year during 2008-2012. These emissions do not include ones from international aviation and shipping, and are in addition to the industrial gases regulated under the 1987 Montreal Protocol on Substances that Deplete the Ozone Layer. The Kyoto Protocol was opened for signatures on March 16, 1998, and by 2004, it had achieved commitments by enough Annex I Parties to fulfill the stipulation that 55% of the total emissions of Annex I Parties had to be covered by the Protocol for it to be endorsed.

In order to fulfill their commitments in a cost-effective way, a clever scheme has been invented that permits Annex I Parties to trade emissions in a carbon market. Each of these countries has agreed to targets for limiting or reducing emissions, which are measured as Assigned Amount Units (AAUs). A clever, three-tier market scheme allows countries to trade and ultimately limit or reduce emissions, as well as support sustainable development in developing countries. Under the Emissions Trading mechanism, countries that have exceeded their targets (i.e. reduced more emissions than they are committed to by the Kyoto Protocol) can sell these spare units to countries which are below their emission reduction targets. In addition to reducing national emissions, Annex I countries can also implement mitigation project in both developed and developing countries; and the incentive for doing so, among other things, is ability to earn tangible credits for reducing emissions. Along with earning AAUs by limiting or lowering emissions in their own countries, Annex I Parties can gain and trade Emission Reduction Units (resulting from the emissions reduced in another Annex I country) or Certified Emission Reductions (resulting from emissions reduced in a non-Annex I country). The latter mechanism, of implementing mitigation projects in developing countries to meet emission reduction targets of developed countries, is called the Clean Development Mechanism (CDM). The carbon market is a thriving USD 30 billion dollar industry (as of 2006) and still growing (UNFCCC, n.d.c).

A levy on the proceeds from CDM projects have been used to fund adaptation in developing country, albeit only a 2% levy is now directed for this cause.

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greenhouse emissions, only the Annex II Parties are asked to provide financial and technological resources to the developing countries (non-Annex I Parties) to implement their commitments under the Convention.

The Adaptation Fund (AF), established at the Kyoto Protocol, receives the proceeds from this 2% levy on global carbon transactions. It also obtains some investment income and money left over from its administrative budget (which is supported through voluntary contributions from individual donor countries). The budget at the end of July, 2010 for Adaptation Fund Board amounted to USD 160 million, and it is estimated that by the end of 2012, the total resources would equal USD 350 million (UNFCCC, 2010). In the AF, too, the World Bank has a role to play – that of a trustee. The secretariat role is assigned to the Global Environmental Facility. The operating entity of the Adaptation Fund is the Adaptation Fund Board which manages and supervises the Adaptation Fund, in accordance with the guidelines received from those COP members who ratified the Kyoto Protocol (CMP). The AFB is composed of 16 members and 16 alternate members, who are elected at CMP sessions. These members are composed of two representatives of each of the five UN regional groups, one representative of the Small Island Developing States (SIDS), one representative of the least developed country Parties, two other representatives of Annex I Parties, and two other representatives of non-Annex I Parties (Adaptation Fund, 2009).

In addition to a very balanced governance structure (geographically, economically, and vulnerability-wise), there are several features of the AF which make it particularly attractive to the developing countries (Harmeling & Klog, 2010). One, it permits the recipient countries to pick their desired implementing entities (either national or multilateral) for applying for resources in the Adaptation Fund. National and multilateral implementing entities (NIE or MIE, respectively) must, however, receive accreditation from the Board, which verifies the agencies' compliance with the Board's fiduciary standards (Brown, Bird & Schalatek 2010b). Two, the set-up of project cycle is such that it consciously attempts to preclude any bureaucratic delays, with a two stream procedure for small (less than USD 1 million) and regular projects (more than USD 1 million). Third, all funds are disbursed as grants, without any unreasonable (economic or political) conditionalities. Fourth, the AF resources are completely separate from Official Development Assistance (ODA), since they are mainly derived from 2% of the Certified Emission Reductions (CER) issued from CDM projects. Finally, all projects and programs are required to be fully endorsed by the recipient country government (Harmeling & Klog, 2010).

Despite these achievements, there is still room for improvement. Scholars and commentators have indicated the low success rate of NIEs in receiving accreditation from the Board, which is impeding progress towards providing direct access to resources (Brown, Bird & Schalatek 2010b & Alpha & Harmeling, 2011). In response, the AF has refused to set apart resources for improving the capacities of national institutes, and instead, has requested multilateral organizations to provide assistance in this regard. Despite chances of competition, multilateral organizations (UNDP, UNEP, World Bank) have agreed to assist national institutes; however, it still remains to be seen whether the multilateral institutes will actually do so in practice (Brown et.al, 2010b). Another problem with the Adaptation Fund is the lack of transparent reporting on project decisions. With a shortage of funds, the AF applies strict criteria to approve projects, and

information on how decisions are made can help countries improve their project proposals (Alpha & Harmeling, 2011).

### Bali Road Map

At its 13<sup>th</sup> session, the COP produced the Bali Road Map, which charted-out the course of future negotiations, and developed a two-track approach. Discussions were to be carried out in two parallel paths - the Kyoto Protocol and the Convention streams (although it was recognized that there were considerable overlaps between the topics covered in these two streams, this division was made for effectiveness). As part of this, the COP launched the Ad Hoc Working Group on Long-term Cooperative Action (AWG-LCA) and the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP), which were due to complete their assigned work and present it in COP-15 in Copenhagen (UNDP, 2008). The Bali Action Plan reiterated the need for new and additional resources, including concessional and official funding for climate change (UNFCCC, 2007). Further, the Plan asserted for these resources to be provided in an adequate, predictable and sustainable manner (UNFCCC, 2007).

### Copenhagen and Cancun

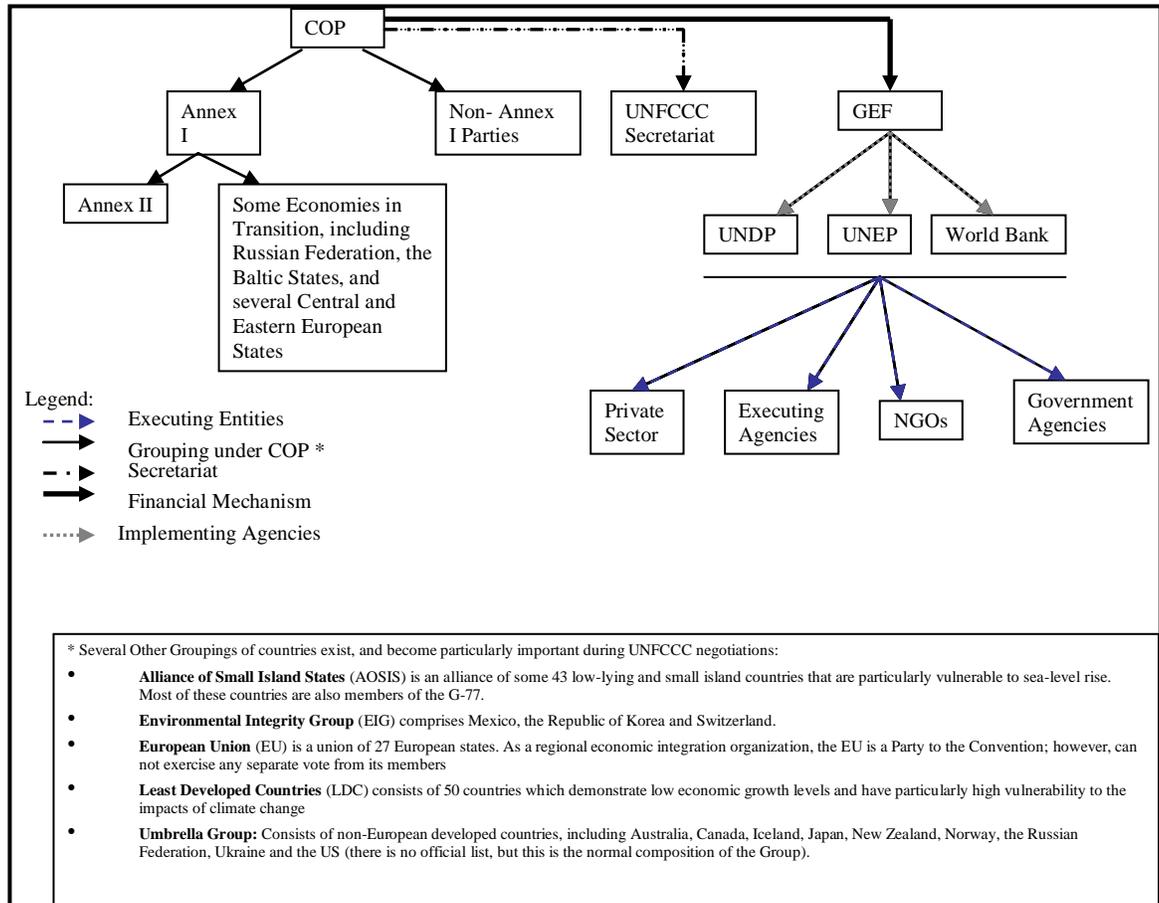
Because of various unresolved issues, the AWG-LCA was not able to conclude its work at Copenhagen. In terms of long-term financing, the only outcome was a commitment (but not a legally-binding one) from the developed country Parties to provide USD 30 billion between 2010-2012 period and rising to USD 100 billion by 2020. In addition, the Convention recognized the necessity to keep temperature rise below 2°C, but did not assign individual commitments to Annex I countries. The Copenhagen Accord was not formally endorsed by the COP, but only taken note of (UNFCCC, n.d.d).

At Cancun, the AWG-LCA submitted the outcome of its work – the Cancun Agreements – which also included a decision to further enhance its lifespan for one more year to complete its work for the 17<sup>th</sup> COP session. Also, at this COP session, the Cancun Adaptation Framework (CAF) was launched with the objective of “enhancing action on adaptation” (UNFCCC, 2011). The work outlined under the CAF would be assisted by an Adaptation Committee Progress. Further progress was made by agreeing to build a Green Climate Fund as the new financial mechanism of the Convention. The envisioned Green Climate Fund would be headed by a board of 24 members and would channel a “significant share of new multilateral funding for adaptation”. Arrangements are for equal seats among developed and developing countries (the latter group will be composed of “relevant United Nations regional groupings” and Small Island Developing States and the Least Developed Countries). In addition to the Board, a transitional committee, comprising of 40 members (25 from developed countries) and a standing committee will be formed. The transitional committee is tasked with making recommendations to the COP at the seventeenth session on the various aspects of the Green Climate Fund, including various governance issues (rules and procedures of the Board and other related governing bodies); legal and institutional arrangements and methods of administering large scale of financial resources; mechanisms for stakeholder input, expert input,

independent evaluation of the fund, performance evaluation, and ensuring financial accountability. The standing committee will be placed under the COP and assist it in carrying out its functions in relationship to its financial mechanism (such as providing specific and more frequent guidance and stricter oversight than before). The roles and functions of the standing committee are not yet defined (UNFCCC, 2011).

### 3.3 Institutional Arrangements

Figure 3.1 **Bodies of the UNFCCC**



#### COP

The COP is the supreme body of the Convention. To assign different commitments to its members, the COP distinguishes between Annex I, Annex II and Non-Annex I Parties, as discussed earlier. There are other groupings of COP members for negotiation purposes, and some of these are listed in the figure above.

#### Secretariat

The UNFCCC secretariat is located in Bonn, Germany. It is institutionally linked to the UNFCCC and is administered under the United Nations rules and regulations. It is accountable to the COP, the members of the COP who have ratified the Kyoto Protocol (the CMP), and subsidiary bodies. The head of the secretariat, the Executive Secretariat is appointed by the Secretary-General of the United Nations in consultation with the COP through its Bureau. Some of the main duties of this body are making necessary arrangements for the sessions of the COP and its subsidiary bodies; monitoring the implementation of the Convention by analyzing and reviewing information provided by the Parties, as per their commitments; assisting Parties in implementing their commitments; providing substantive analysis, as required for negotiations; maintaining registry for the issuance of emissions credits and assigned amount of emissions for Kyoto Protocol; coordinating with secretariats of relevant climate institutes, like the GEF and the IPCC; drafting official documents; preparing official documents for the COP and its subsidiary bodies (UNFCCC, n.d.b).

### Advisory Groups

At the launch of the Convention, only two advisory groups were created – the Subsidiary Body for Scientific and Technological Advice (SBSTA), which informs the COP of timely scientific and technological matters relating to the Convention, and the Subsidiary Body for Implementation (SBI), which assists in the assessment and review of COP’s implementation. The Convention, however, makes provisions for additional bodies to be created as deemed necessary during the life of the UNFCCC (UNFCCC, n.d.b).

### The Financial Mechanism

After much political dispute between the developed and the developing countries, the Global Environmental Facility (GEF) was made an interim financial mechanism of the UNFCCC in 1994. In two years, the institute’s status was raised as the financial mechanism of the UNFCCC “on an on-going basis, subject to review every four years” (UNFCCC, 2011). The legal relationship of the GEF and the Convention is laid in the Memorandum of Understanding (MOU), as agreed during COP 2 (Decision 12/CP.2). The COP provides regular guidance to the GEF on policies, programs priorities, and eligibility criteria for funding, and the GEF reports annually to the COP (UNFCCC, 2011). This annual report provides details on all GEF-financed activities executed for the purpose of implementing the Convention, including ones conducted by GEF’s implementing agencies, secretariat or other executing agencies implementing GEF-financed projects. Furthermore, to strengthen its accountability to the COP and its legitimacy as the financial mechanism of the UNFCCC, the MOU stipulates that GEF’s annual reports should indicate how the Facility has applied the guidance and decisions of the COP in its Convention-related works. This report should cover projects approved or under implementation by the GEF Council and describe the financial resources required for their support. Finally, the GEF Council should appraise its monitoring and evaluation activities for the projects in the climate change focal area (Global Environmental Facility [GEF], 2004).

GEF's governing bodies comprise of an Assembly, an Executive council, a functionally-independent Secretariat, implementing entities and an advisory group (Scientific and Technical Advisory Panel). The Assembly comprises of all GEF participants and meets once every three years to review general policies and operations of the Facility. The main governing body is the Executive Council, which is composed of fourteen from developed countries, two from Central and Eastern European countries, and sixteen from developing countries. Each member has one vote, and decision are mainly based on consensus; although, in cases when consensus is not possible, decision are made on the basis of 60 percentage majority of donation-weighted votes and 60% majority of member votes (GEF, 2004).

The World Bank serves as the Secretariat, and is "functionally-independent". After much contention between developed and developing countries on designating the World Bank with the secretariat role, the Bank was appointed as a functionally-independent Secretariat of the GEF (GEF, 2004). As a secretariat, the Bank reports to the assembly and the Council, and implements the decisions made by these two bodies. It also coordinates with the secretariat of the UNFCCC.

The World Bank also serves in other capacities. Alongside, UNDP and UNEP, it is the main implementing agency for GEF funds for climate change focal area. These three organizations have reached an agreement amongst each other on how to coordinate in carrying out the operations of GEF. In addition, other agencies can be involved in operational activities through the implementing agencies (Boisson de Chazournes, 1999).

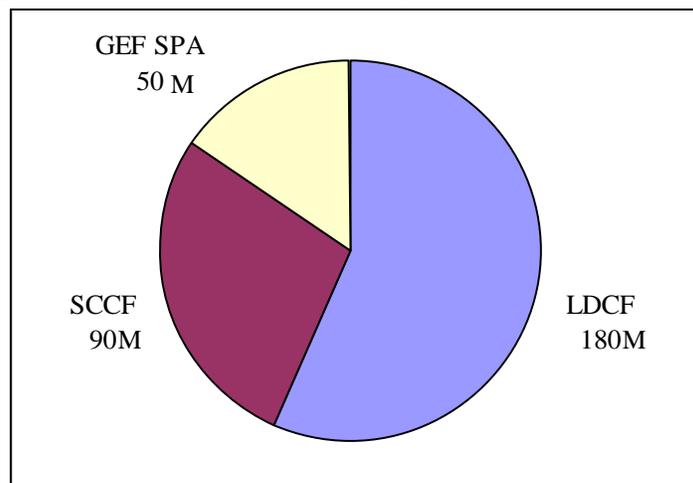
### **3.4 Funds for Adaptation**

The foremost fund established by the Convention was the GEF Trust Fund; however, most resources from this fund were allocated for mitigation efforts (Huq & Burton, 2003). Nevertheless, the rising importance of adaptation, along with the realization that certain vulnerable developing countries require financial and technical assistance to adapt to climate change led to the development of three additional funds during the seventh COP (COP 7) held in Marrakech, Morocco: The Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF), and the Adaptation Fund. Of these three funds, the LDCF and the Adaptation Fund are solely devoted to adaptation (Desai, 2003). The LDCF supports 49 Least Developed Countries (LDC) in preparing and implementing National Adaptation Programs of Action (NAPA), which identify priorities for adaptation activities for a given LDC). So-far, 44 countries have already developed their NAPA, and two projects are endorsed. Administratively, the LDCF operates separately from the GEF trust funds, and includes new elements like, emphasizing the link between adaptation and development, provisions for expediting projects cycle, no requirements for demonstrating global environmental benefits or utilizing the Resource Allocation Framework or applying the incremental costs, provisions for funding additional costs of adaptation, and options for hunting for co-financing opportunities (National Adaptation Program of Action [NAPA], n.d.). Co-financing opportunities are also explored within other GEF funds and the Adaptation Fund.

The Adaptation Fund operates from a 2% levy on the proceeds of Clean Development Mechanism (CDM). Finally, the SCCF support a range of agendas in addition to adaptation – technology transfer, transport, industry, forestry and waste management (Desai, 2003).

Despite these new financial instruments, critics argue that adaptation is still sidelined when it comes to funding. In 2004, the GEF had allotted a majority of its total USD 1.8 billion grant money to mitigation projects. By contrast, all funds for adaptation that are managed by GEF, including the Strategic Priority for Adaptation component of the GEF Trust Fund, LDCF, and the SCCF tally to more than USD 320 million. Of this, GEF has only disbursed USD 110 million since 2005 (Climate Funds Update, 2011). Furthermore, most of the GEF funds have only been disbursed to a handful of developing countries – a study pointed out that 63% of global climate change funding has been received by twenty countries; 52% by 10 countries; and 25% by India and China (Mace, 2005).

**Figure 3.2: Adaptation Funds administered by GEF**



The limited reach of climate change funds is partially due to the emphasis that GEF places on funding projects that yield global environmental benefits (which gives an advantage to large developing countries like India and China), and partially due to the institutional capabilities of some developing countries in successfully dealing with the GEF bureaucracy (Mace, 2005). Another frustration that some developing countries express in procuring GEF Funds is the convoluted and slow preparation, approval and disbursement procedures of the GEF (Greene, 2004). Delays also occur in calculating the incremental costs of a project, which is what the developed country Parties, and therefore the GEF, are required to fund under the UNFCCC. Finally, the biggest criticism of the GEF is the inadequacy of funds, especially when compared to the expectations of developing countries after the Earth Summit and the financial needs of adaptation (Greene, 2004).

Developing countries, and recently the IEA and OECD have criticized the GEF for a lack of an effective mechanism for counting contributions from developed countries (Roberts, Starr, Abdel-Fattah, 2008). Specifically, the current mechanism, OECD's Creditor

Reporting System's Rio Markers is a self reporting system, in which each donor uses its individual method to determine whether climate change is a 'principal' objective (i.e. the prime reason for funding the activity is climate change), or 'significant' objective (the activity has been formulated or adjusted to help meet climate change objectives (Brown et.al. 2010a).

### **3.5 Monitoring and Evaluation under the GEF**

After consultations with an international accounting firm and implementing and executing agencies, GEF developed a set of minimum fiduciary standards that institutes implementing or executing its activities must meet. These are rigorous standards and present a comprehensive definition of fiduciary standard, as well as pay attention to the issues of institutional integrity and governance (Ballesteros et.al, 2010a).

The GEF also employs mechanisms to ensure that implementing entities meet required fiduciary and environmental standards and to monitor its activities. Beginning with the fourth replenishment period of the GEF, in 2007, the GEF Council developed a Results Based Management framework (RBM) for monitoring and reporting on its activities. The RBM will report at three levels – institutional, programmatic and project-level. As part of the RBM, expected outcomes and indicators are developed to keep a track of clear results that are achieved (Global Environmental Facility [GEF], 2007).

## 4.0 Climate Investment Funds

Separately administered from the GEF or another UNFCCC-appointed institute, the Climate Investment Funds were introduced in the 2008 by the World Bank. They are part of the Bank's overall strategy on climate change and development. Although these funds are not an alternate to the larger multilateral negotiation and financing process under the UNFCCC, they can have substantial impact on financing for adaptation to climate change, especially given the size. As mentioned, some critiques have been quick to point out that the CIF will "undermine global climate action" (Tan, 2008). However, a closer look at some of the features of the CIF, including its overall structure, principles and objectives, governance arrangements, financial modalities, and other salient features can help decide what sort of impact are the CIF likely to have on global climate finance for adaptation. This Chapter will describe some of these features of the CIF. After a brief history of the CIF, this Chapter will outline the overall CIF structure. After this, descriptions of the CIF's two twin funds - Clean Technology Fund (the larger of the CIF funds) and the Strategic Climate Fund (a multi-purpose fund) will follow. Finally, the sole adaptation component of the CIF, the Pilot Program for Climate Resilience will be described.

### 4.1 A Brief History

The Climate Investment Funds sit at the interface of the World Bank's energy and climate change strategies. The funds, therefore, reflect the evolving agendas of the World Bank with respect to both these streams. In the 1990's, with expectations of rising investments in energy from the private sector, the World Bank curtailed its funding for energy. However, in 1997, there was a significant drop in the aggregate financing available for energy as the private sector investment had peaked and the World Bank energy program had been depressed (World Bank Group [WBG], 2009). Hence, there was a renewed demand for greater resources in energy (Development Committee, 2006). Subsequently, the World Bank hiked and revised its energy portfolio, paying greater attention to the environment and sustainable development (WBG, 2009). In 1999, the International Financial Cooperation released its energy strategy paper, entitled "Fuel for Thought: Environmental Strategy for the Energy Sector", which heavily emphasized the need to safeguard environmental interests in the energy sector, and laid out six strategic objectives by which certain environmental issues, including climate change, could be addressed within the energy sector (International Financial Cooperation, 1999).

Like the World Bank, and perhaps due to a new-found global focus on climate change, many international institutes and forums began to integrate climate change considerations in their regular affairs. The G-8 summit in Gleneagles in July 2005 marked a particularly important event for global action on climate change. The leaders of the largest economies voiced concerns over the linked issues of climate change, rising energy demand and the challenges of sustainable development. In the Gleneagles Plan of Action, officials from the G-8 countries assigned the World Bank a "leadership role" in creating a framework for clean energy and development (2005). Along with the World Bank, other multilateral

development banks were invited to enhance investments and undertake measures to promote energy efficiency, renewable energy and low carbon growth in their activities.

Shortly thereafter, in April 2006, the World Bank prepared the Clean Energy and Development: Towards and Investment Framework (CEIF) for the meeting of the Development Committee (Development Committee, 2006). In aiming to achieve a double dividend, of scaling up energy access in developing countries to spur growth, while also reducing environmental footprint, the CEIF outlined a two-track approach of activities to be completed by September 2006, and those to be completed over the next two years since the launch of CEIF, which included evaluating the impacts of climate change (Development Committee, 2006). A particular study by International Development Association (IDA), depicted the urgent need for adaptation in IDA supported countries (i.e. one of the world's poorest and most vulnerable communities) and highlighted the potential role for IDA in building resilience to climate change in these countries (International Development Association (IDA), 2007). The conclusions from this report were presented in the following Development Committee meeting, where the Board Members asked the World Bank to prepare a strategic framework to consolidate the Bank's approach in promoting low-carbon growth, poverty reduction and climate change adaptation in developing countries (International Bank for Reconstruction and Development (IBRD) & World Bank, 2008). At the same time, the Committee also requested the Bank to build greater cooperation with other development partners and harness additional resources for climate change from both public and private sectors (October 2007). In time for the next Development Committee meet in 2008, the Bank released its Strategic Framework for Climate Change and Development (SFCCD) that stands on six pillars (IBRD & World Bank, 2008):

1. Support climate actions in country-led development processes;
2. Mobilize additional concessional and innovative finance;
3. Facilitate the development of market-based financing mechanisms;
4. Leverage private sector resources;
5. Support accelerated development and deployment of new technologies; and
6. Step-up policy research, knowledge, and capacity building.

The Framework was finalized after a global consultation process, involving many countries, civil society organizations, and meetings in 76 countries. In general, there was a "broad" support for World Bank Group's<sup>5</sup> involvement in climate change. The stakeholders agreed that the Bank must adopt a development perspective to tackle this issue and underscore the importance of adaptation and climate risk management. Furthermore, the need to mobilize significant climate finance that is additional to the general development assistance (ODA) was recognized (IBRD & World Bank, 2008).

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<sup>5</sup> The World Bank Group consists of five institutes, the International Bank for Reconstruction and Development, International Development Association, International Financing Corporation, the Multilateral Investment Guarantee Agency and the World Bank.

Finally, stakeholders asked the Bank to uphold and comply with the UNFCCC principles, and value equitable and sustainable growth<sup>6</sup> (IBRD & World Bank, 2008).

The Framework outlines key initiatives that the World Bank Group can embark on in response to development challenges posed by climate change, including:

1. Scaling-up new and additional finance for adaptation;
2. Screening its general operations for identifying climate risks and opportunities;
3. Supporting the development of carbon markets;
4. Developing lessons for climate risk management;
5. Coordinating different financial instruments, both from within and outside of the Bank, to optimize their effectiveness;
6. Equipping their clients with better knowledge and capacity of dealing with climate change;
7. Collaborating with other development partners to improve the monitoring of climate finance and its additionality.
8. And promoting global dialogue on climate change through annual release of the World Development Report on Climate Change;

Finally, the Framework sets specific targets and also makes some provisions for monitoring its progress. In particular, the Framework aims to increase financing for renewable energy and energy efficiency by an average of 30 percent a year from a baseline of 600 million in average annual commitment in the FY 2005-2007; boost investments in low carbon projects from 40% in FY 2006-2007 to 50% in 2011; and enhance support for sustainable forest management to capture any mitigation potential in that sector (IBRD & World Bank, 2008).

In line with the aims of the CEIF and the SFCCD, the Climate Investment Funds (CIF) were first proposed in February 2008 as a collaborative effort among multilateral development banks to scale-up investments in low-carbon and climate-resilient development. The CIF were envisioned as a pair of multi-donor trust funds, each with a separate focus and governance arrangement. Careful to not undermine the UNFCCC track, the CIF were introduced only as an interim mechanism that would retire once a post-2012 financial architecture was developed by the UNFCCC. On July 1<sup>st</sup>, 2008, the World Bank Board of Directors finally gave the green signal to the CIF. They are housed and administered by the World Bank.

## **4.2 The CIF Structure**

The two sister funds are the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF), and their design is cemented in the following principles, which are to be

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<sup>6</sup> While these have been described as the general outcomes of the consultation process, a closer look at the feedbacks reveals the frustration of some developing country officials and civil society representatives with the design of the framework and the negotiation process (example comments from Sheila Page (Overseas Development Institute) and of Friends of Earth-Paraguay).

upheld by all the MDBs (Climate Investment Funds (CIF), 2008c & Climate Investment Funds (CIF), 2008d):

1. Promote sustainable economic growth and poverty reduction and mainstream climate change objectives into sustainable development;
2. Improve access of client countries to adequate financial resources and appropriate technologies for climate action;
3. Mobilize new and additional finance for climate change adaptation and mitigation;
4. Ensure that programs are designed using a country-led approach and integrated into country-owned development strategies, in accordance with the Paris Declaration;
5. Recognize that the UNFCCC is the “appropriate body for broad policy setting on climate change”, and exercise caution so as to not “preempt” the results of UNFCCC negotiations and to abide by the principles of the UNFCCC;
6. Build knowledge, capacity and experience of client countries with respect to actions on climate change;
7. Build partnerships amongst MDBs and other institutions and stakeholders, including the private sector. With respect to this, the MDBs must stay accountable to their own governing structure;
8. Identify complementarities between the activities of the CIF and those of the GEF and the UN to build synergies and avoid overlaps;
9. Provide transparency and openness in governance and financing operations;
10. Be aware that sustainable outcomes depend on sustaining the total wealth, including produced, human, institutional and natural.

### Governance and Institutional Arrangements

There are five elements of the CIF layout – Trust Fund Committee, MDB Committee, Administrative Unit, Trustee, and the Partnership Forum. The Trust Fund Committee is the central authority of each of the CIF funds. Amongst other things, the Committee holds the responsibility of:

1. Approving criteria and guidelines for selecting programs and setting priorities;
2. Approving allocation of Trust Fund resources for programs and projects, as well as for administrative purposes;
3. Ensuring broad compliance of CIF strategies with the UNFCCC principles;
4. Providing guidance on convening the Partnership forum, and ensuring that lessons learned from the CIF experience are shared with the UNFCCC;
5. Ensuring the monitoring and periodic independent evaluation of the MDBs, vis-à-vis their performance and financial accountability;

### Decision-Making in the Trust Fund Committee

The Trust Fund Committees have representations from five main bodies – contributor countries, recipient countries, MDBs, World Bank, and a country for which an investment plan is being considered. Of the five, only the former two bodies constitute of

decision-making members. The CIF divide votes equally among the recipient and contributing countries, so that each group has matching number of members and votes. The contributing countries are those that pledge at least an agreed minimal amount to the Trust Fund, and thereby enter into a Contribution Agreement with the trustee (CIF, 2008a & CIF, 2008b). The minimal amount is set through consultations amongst the contributing members. The eligibility criterion for recipient countries has two parameters: countries must be ODA eligible according to the OECD/DAC guidelines and have an active MDB country program (or be in the process of negotiating one with a MDB) (CIF, 2008c & CIF, 2008d).

Representatives of the donor countries and recipient countries are selected through a consultation process amongst these set of countries. However, countries are advised to consider regional balance, equity (diversity of opinions), and efficiency and effectiveness of the decision-making process while selecting representatives to sit on the Trust Fund Committee. Moreover, recipient countries are also prompted to reflect on the technical and policy expertise of their representatives. Over the years, selecting members for the Trust Fund Committee has become more complicated as the number of interested donors and recipients are growing. As such, countries are advised to elect representatives from groups of countries for membership on the Trust Fund Committee (CIF, 2008a & CIF, 2008b).

Decision on the Trust Fund Committee is made by consensus among these two groups, and in case consensus is not reached, then the proposed decision is either postponed or withdrawn (CIF, 2008a & CIF, 2008b).

### Observers

The Trust Fund Committee also has participation of active observers which include representatives from civil society organizations, UN, and the private sector. Observers are appointed to the Trust Fund Board through a self-selection process (that is coordinated by the World Business Council on Sustainable Development for private sector and by Resolve for the non profit civil societies). As active participants, observers can request agenda items for the Trust Fund Committee meetings and recommend experts to speak on a particular issue (Guidelines for inviting). They may also exercise the liberty to make verbal interventions during the proceedings of the Trust Fund Committee. While most Trust Fund meetings are open to observers, some “executive sessions”, where discussions on investment plans for client countries are conducted and finalized, are not. The civil society participants have expressed their disappointment with the exclusiveness of executive sessions and asserted that these meetings can benefit from the vast technical expertise and experience of the civil societies. Lately, therefore, the Trust Fund Committee has permitted observer to participate and provide feedbacks during MDB presentations of the investment plans. Nevertheless the executive session doors are shut for the observers (CIF, 2008a & CIF, 2008b).

### Partnership Forum

The Partnership Forum is an annual congregation of all stakeholders involved in the CIF process. It serves as a knowledge sharing platform, where the stakeholders share their experiences with CIF and discuss CIF's impacts, results and strategic direction. In addition, the donor and eligible recipient countries hold meetings to shuffle members in the Trust Fund Committee. The last Partnership Forum was held in October 2010 (CIF, 2008a & CIF, 2008b).

While the CTF and SCF have their separate Trust Fund Committee, they both share a common MDB committee, Trustee and Administrative Unit (CIF, 2008a & CIF, 2008b).

Because the CIF aim to coordinate climate financing activities amongst MDBs and collectively polish their skills and capabilities in mobilizing climate finance at a large scale, the MDB committee has a pivotal role to play. In particular, they are in charge of coordinating activities and sharing information and knowledge among the MDBs. They also serve to enhance the leveraging potential of the CIF funds by hosting annual consultations with various development partners, including bilateral agencies to identify co-financing opportunities. Finally, they monitor the implementation of CIF programs and report their compliance with the criteria established by the appropriate Trust Fund Committee (CIF, 2008a & CIF, 2008b).

The Administrative Unit, which sits in the World Bank office in Washington D.C., is the main labor force for the CIF. They have a number of responsibilities, including providing research support and making recommendations to the Trust Fund Committee on the scope and objectives of CIF and parameters of program criteria and priorities; preparing annual reports on the progress of the CIF; setting agendas for meetings; maintaining comprehensive databases; and facilitating the transmission of information and knowledge. The Administration Unit consults with all stakeholders, including the MDB committee and the Trust Fund committee, while conducting its operations (CIF, 2008a & CIF, 2008b).

The Trustee, as any other, is responsible for receiving, holding and transferring resources for various activities, as per the demand of Trust Fund Committee. The Trustee is directly accountable to the Trust Fund Committee with regards to its operations. In relation to this, it is obliged to provide regular reports to the Trust Fund Committee on the financial status of the trust funds. The International Bank for Reconstruction and Development, which is a component of the World Bank Group, serves as the trustee of all CIF Trust Funds (CIF, 2008a & CIF, 2008b).

#### **4.3 Clean Technology Fund**

CTF aims to promote low carbon growth in developing countries by catalyzing the diffusion, deployment and transfer of low carbon technologies; leveraging nationally-owned clean and low carbon development plans so that they are economically feasible; and supporting large-scale programs and projects that are "transformational" in nature. With a budget of over four billion dollars, the CTF invests in a range of activities at the sector (or sub-sector), sub-national, or regional levels. CTF employs a variety of

concessional financing (grants and concessional loans) and risk mitigation instruments (guarantees and equities) for its activities. Resources provided by the CTF become available to the country through the MDB. A number of factors are taken into account when allocating these resources, including the comparative advantage of the MDB and experience in the region/country, country requests, and the quality of the proposal. When evaluating proposals and prioritizing among projects and programs, the CTF Trust Fund Committee considers five factors (CIF, 2009b):

1. GHG reduction potential – in relation to this, the commercial and technological feasibility of the project is also assessed. The highest priority is attributed to technologies which are commercially available and promise huge mitigation potential;
2. Cost-effectiveness – calculations for cost effectiveness include variables to account for reduction in GHG emissions and the technological cost over time due to scale and learning effects;
3. Demonstration potential at scale – Projects that demonstrate significant emission reduction potential when replicated and which can stimulate strategic changes in the targeted sector, sub-sector or market are prioritized;
4. Development impact – Programs and projects will be assessed, in accordance with the standard MDB appraisal criteria, in terms of their potential for achieving environmental co-benefits, accelerating access to modern energy or transport services, and reducing energy intensity of the GDP;
5. Implementation potential – Projects with a good co-financing potential from domestic (both public and private), bilateral and multilateral sources will be prioritized. Moreover, proposals that are accompanied with enabling policy and institutional environment, which can over time sustain and manage the program independently are preferred.
6. Additional cost and risk premium – Grants will be provided to cover additional cost or risk premium to make an investment viable, and each proposal should adequately identify these factors.

In order to procure funding from the CTF, an interested country proceeds with a “joint mission” – or a discussion on how CTF resources can be employed to finance low carbon activities in the country – with a MDB and other development partners. The country then leads, with the assistance of a MDB, in the development of an investment plan that outlines how the CTF resources can be used to implement low carbon activities in a country through a joint MDB program. Investment plans are co-owned by the country and the MDB. After their submission and approval by the CTF Trust Fund Committee, each program springing from the investment plan must also be submitted to the Committee for approval on allocation of CTF resources. However, any further processing of the program, including monitoring its progress, are consistent with the normal MDB procedures. Therefore, even though the MDBs are obliged to report to the MDB

committee on the progress of any projects funded by CIF resources, the MDBs perform these evaluations using their regular procedures<sup>7</sup> (CIF, 2008a & CIF, 2008b).

The governance and organizational structure of the CTF is based on the equality principles established in the design documents of the CIF. There are eight donor country members and eight eligible recipient country members, which are the voting members. The Trust Fund committee also comprises of a representative from the MDB and the World Bank, and a country for which an investment plan is being discussed. Finally, the Trust Fund Committee is co-chaired by one recipient and one donor country members, who are elected by the Committee to serve for six months (CIF, 2008b).

#### **4.4 Strategic Climate Fund**

The SCF provides funding for a range of specific focal areas of climate change activities. With the same overall objectives as the CTF, the SCF has identified the following three programs to channel its resources (CIF, 2008d):

1. Pilot Program for Climate Resilience (PPCR): Being the first program established under the SCF, this pilot initiative seeks to integrate climate resilience considerations into national development strategies and plans.
2. Forest Investment Program (FIP): This program aims to promote sustainable forest management by providing funds to curtail deforestation and forest degradation.
3. Scaling-up Renewable Energy in Low Income Countries Program (SREP): This program supports development of “energy-efficient, renewable energy, and access to modern sustainable energy” in low income countries.

In addition to these, other programs can be established under the SCF with the permission of the SCF Trust Fund Committee, which has developed the following checklist for program approval:

1. multiple donor interest in establishing a SCF Program;
2. broad applicability of lessons to be learned;
3. sufficient resources to finance activities at scale;
4. complementary to any other multilateral financial mechanism or initiative;
5. and link between climate change and development.

The SCF governance arrangement is reflective of the general CIF format, with eight members each from donors and eligible recipient countries as part of the decision-making segment, and one representative each from the World Bank and the MDBs as part of the non decision-making segment. Distinctly, though, each of the three SCF programs have their own governance body, consisting of six donor country representative, of which one

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<sup>7</sup> However, after three years of operation of the CIF, a joint evaluation will be conducted by independent evaluation departments of the MDBs. These evaluations will take into consideration the scope and reporting criteria set by the CTF Trust Fund Committee.

belongs to the SCF Trust Fund Committee; six recipient country representative, of which one belongs to the SCF Trust Fund Committee; and other members as deemed appropriate by the SCF Trust Fund Committee.

Uniquely, the PPCR also reserves a seat for a developing country chair or vice-chair of the Adaptation Fund Board (AFB), or another member of the AFB nominated by the chair or vice-chair on its Trust Fund Committee. This is to ensure that there is a better coordination of global efforts towards climate change adaptation, and that developing country concerns are strongly represented on the board (CIF, 2009c). Each of these sub-committee members serves for only one year, as opposed to two, and it is ensured that there are no duplicate representation of the same country. The responsibilities of the sub-committee resemble that of the Trust Fund Committee, and include among others, sanctioning criteria for selecting and prioritizing programs, operations and financing modalities; approving financing for individual programs and projects; harmonizing activities with those of other development partners; and authorizing regular reports for SCF Trust Fund Committee (CIF, 2008a).

Members of the MDB Committee and the Trustee may attend the SCF Trust Fund Committee as observers (CIF, 2008a). Furthermore, any recipient countries that are not members any of the Trust Fund Sub-Committees can attend these as observers. To ensure good linkages with key partners and promote the efficient use of global resources, the PPCR Sub-Committee also invites representatives of GEF, United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP), and the UNFCCC as observers. Finally, representatives of SCF advisory groups (Expert Group) and partnering civil societies can also observe the PPCR Sub-Committee meetings.

#### **4.5 Pilot Program for Climate Resilience**

The PPCR supports initiatives that integrate climate resilience into national development strategies, while building on and complimenting previous national and international work in this area, like NAPAs and activities of the UN and other development agencies. Given this general objective, the PPCR endorses two categories of activities: first, of building technical assistance to advance or complement existing national work to integrate climate resilience in national or sectoral development plans; and second, of supporting adaptation programs which have already been identified in national or sectoral plans by providing additional financial resources for both public and private sector investments (CIF, 2009c).

An expert committee is delegated with the task to recommend countries to select for PPCR funds. The Expert Group consists of at most eight members that are selected by the PPCR Sub-Committee, and with expertise in a range of fields, including policy, development, science and environment and governance/institutional studies. This Group is recommended by the PPCR Sub-Committee to evaluate countries along eight related factors (CIF, 2009a):

1. **Country Vulnerability:** Vulnerability is to be assessed on the basis of the strength to particular climate impact; the country's exposure and sensitivity (determined as a function of the GDP's dependence on the impact) and adaptive capacity (measured using governance indicators and the Human Development Index) to the impact; the existence of any special needs of the country, in accordance with relevant conventions (particularly the UNFCCC) and international processes (like the IPCC);
2. **Country Eligibility:** Three categories of eligibility are to be used as follows – ODA eligibility in accordance to the OECD/DAC guidelines; presence of an active MDB program (physical presence of a MDB or a regular dialog with one);
3. **Country Preparedness:** The following possibilities should be considered - a country may rapidly permit adaptation-development planning that yield rapid results and replicable experiences and lessons for the international community and ensure demand-driven support to national PPCR partners; the country already receives external funding for adaptation and has absorptive capacity for more external funding; and the PPCR can support national adaptation programs, plans, and policies for building demand-driven adaptive capacity;
4. **Country Distribution:** The country should be regionally representative and in addition to the geographic spread, dimensions of governance, vulnerability and development stage can also be taken into account;
5. **Hazard types:** The pilot countries must represent a diversity of climate related hazards, and individual countries should be accordingly picked;
6. **Coherence and Value Addition:** PPCR funded activities should be complementary to those of other adaptation funds, and must add to the evolving national, regional or global activities. Therefore, synergies between different adaptation-related activities (like disaster reduction) should be explored and attempt to embed these in national country programs should be made;
7. **Replicability and Sustainability:** The possibility of imparting lessons learnt and experiences widely, both during and beyond the PPCR lifetime;
8. **Scalability and Development Impact:** Extent to which PPCR can provide sufficient resources to place national development planning on a more climate-resilient track.

After pilot countries are selected by the PPCR-SC, further operations are conducted in two phases. In Phase I, a series of cross-sectoral dialog are initiated to arrive at a common vision for a strategic approach to climate resilience. Phase I is concluded with a development of the Strategic Program for Climate Resilience (SPCR), which sketches an investment program for the each pilot country (or region) that is in line with the agreed national vision on a climate resilient path. The pilot plan is then relayed to the PPCR-SC for approval, and when this is granted, the country and the associated MDB can embark on Phase II of PPCR. Phase II is characterized by developing and implementing specific strategic programs from the SPCR. The PPCR strategic programs should be inclusive activities that involve various development partners in the country. Therefore, from the onset of Phase, special emphasis is laid on consulting with all relevant stakeholders, including relevant government agencies, NGOs, scholars and civil society members, private sector groups, country-based development partners (including UN agencies, and

bilateral and multilateral development agencies). Because the MDBs are responsible for implementing strategic programs from the PPCR in the pilot countries, alongside their other activities in their country portfolio, their participation in Phase I of the PPCR is especially crucial. The PPCR recommends that to ensure adequate roles of the MDBs in Phase I, the pilot countries can assign their chosen MDB with an equal partnership role in the development of the program or a lead administrative role for the PPCR funds. Furthermore, the SPRC should lay out the roles of the MDBs and include a confirmed agreement with other development partners on cooperation and co-financing of activities. Regardless of their role in Phase I, the MDBs are entrusted with preparation and implementation of all investment programs in Phase II, according to regular MDB procedures (CIF, 2009c).

With the PPCR, an emphasis is being laid on programmatic approaches. As examples of the kinds of actions that can be supported by the PPCR, Programming and Financing Modality documents, presents knowledge-building activities among key policy makers and stakeholders; institutional strengthening and policy revisions to mainstream climate resilience into development; support for R&D activities to improve the monitoring of and adaptation to various climate hazards; provision of concessional financing to private sector to encourage or enable them to invest in climate-sensitive sectors, with respect to adaptation (CIF, 2009d).

On the topic finance, the PPCR will provide grants, concessional loans and guarantees for supporting its activities. It will also exploit co-financing opportunities by identifying common goals and cooperating with other national, bilateral and multilateral development partners and the private sector. However, grants are set aside for preparing the Strategic Program for Climate Resilience, project preparation and for covering additional costs to make an investment climate resilient. It must be noted that the countries can choose to access only grants from the PPCR, and that the grants will be disbursed on more concessional terms than IDA loans (CIF, 2009d).

A key feature of the PPCR resources is their ability to blend with MDB loans (and funds from other interested development partners) to create larger volumes of resources available for activities and to augment the concessional factor of these loans. Furthermore, PPCR funds seek to encourage private sector investments in climate resilient national development. While the PPCR financing documents makes a strong case for concessional loans, only one pilot country is eligible for borrowing on standard MDB terms. Others have the option of accessing credit through other windows or country strategy assistance. Depending on their risk ratings (the PPCR-SC recommends following the same practice as in IDA and the relevant Regional Development Banks), countries will be eligible for either a blend of loans and grants or pure grants. Through the proposed terms, public sector projects procure 75% in concessional loans, which mature in 40 years with a grace period of 10 years with interest rates of 2% during FY 11 – FY 20 and 4% during FY 20 – 40 (CIF, 2009d).

Finally, PPCR monies, in the shape of grants, concessional loans, guarantees and risk sharing instruments, will also be employed to encourage private sector investments in

climate resilient development. Private sector projects that may not be financially feasible at the moment, however, have potential to be replicated and raise revenue without the support of subsidies will be supported. In this sense, these investments will take care as to not substitute or displace conventional commercial financing for private sector projects, but tap into newer and presently unviable projects.

#### **4.6 Monitoring and Evaluation in the CIF**

The CIF only employ multilateral development banks for implementing their projects, which have good fiduciary standards. However, there are no formal requirements of a set of standards (fiduciary, environmental and social) that are to be met to become an implementing entity for the CIF. Nonetheless, MDBs are required to report annually to either the CTF or the MDB committees. The MDBs can use their own monitoring and evaluation procedures for this purpose. To generate lessons and be transparent to the larger global community, an independent evaluation of all the SCF Trust Fund operations and their impacts will be conducted jointly by the independent evaluation departments of the MDBs after three years of operations. Results achieved and impacts made will be published and widely available.

Both the CTF and the PPCR have made some provisions for monitoring the impacts of their programs and projects. The CTF Committee has proposed a draft framework that will assess programs on a number of parameters including deployment of low-GHG emissions technologies on a significant scale; impact on carbon intensity; measurement of GHG reductions against an estimated baseline; and percentage of investment leveraged from other public and private sources. The CTF also seeks to monitor individual portfolios of projects through indicators like the development outcomes of projects, the aggregate emission reductions, the quality of project supervision, or delays in implementation. In addition, the World Bank has also offered to monitor macro-economic indicators for a country, namely 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 (CIF, 2008c & CIF, 2009d).

As opposed to the CTF, the PPCR has already composed its results framework with consultations from a group of independent experts. PPCR's Performance Measurement Framework (PMF) is designed by the PPCR Sub-Committee in consultation with interested governments, the MDBs and other development partners. The results framework assesses PPCR projects in their ability to pilot or demonstrate approaches to integrate climate risks in national development strategies; strengthen national capacities to integrate risks into development strategies; enhance and build on ongoing initiatives to raise investments into adaptation programs; and promote knowledge sharing at country, regional and global levels. Each MDB uses the PMF for its annual reporting to the Sub-Committee. This helps standardize reporting and facilitates in drawing lessons from the PPCR experience for the development community. Lessons and experience from these reports is to be compiled before the end of 2012 (CIF, 2009d).

Despite these provisions for monitoring and evaluation, there is still no mechanism under the CIF for accounting for new and additional funds (additional to ODA) from donor countries. Developed countries are able to count and report their contributions as climate aid, ODA or otherwise.

## **5.0 Needs of Adaptation**

To assess the CIF as a channel for adaptation finance, it is important to review some of the fundamental needs of adaptation finance. There has been significant development in the understanding of how adaptation financing should occur – i.e. what principles must it adhere and what practices should it adopt. It will be useful to delve into this literature, so that CIF can be examined in their ability to cater to the needs of adaptation finance. This chapter will also reveal certain areas in which some of the UNFCCC funds are weak and strong as providers of adaptation support. Hence, knowledge about the needs of adaptation finance will also facilitate the comparison between UNFCCC adaptation funds and the CIF.

After a brief introduction into the evolution of adaptation finance and the estimates of adaptation cost, the rest of the chapter will discuss various needs of adaptation finance. This portion will be discussed in three sections, covering the mobilization, management and disbursement of adaptation finance.

### **5.1 Evolution of Adaptation Finance**

The treatment of adaptation as a strategic response to climate change has evolved significantly since the first congregation of the Conference of Parties in 1995. Climate change at the time was viewed as medium to long term issue that would manifest itself in about 50 to 100 years (Huq & Reid, 2004). Therefore, the focus from the start had been on curtailing the concentration of greenhouse gas (GHG) emissions in the atmosphere. It is not surprising, therefore, that the UNFCCC's objective is centered around mitigation, not adaptation. It was only in theory, and due to much insistence from the least developed countries and the small island developing states, that adaptation found a place in the UNFCCC negotiations, especially with regards to the responsibility of developing countries to support adaptation actions in the South. However, there was confusion over how adaptation funds could be used, since there was very little knowledge about the vulnerability of developing countries and the needs of adaptation. These concerns were addressed at the first COP meeting in Berlin in 1995, when Decision 11/CP.1 was adopted to initiate a series of studies on climate change adaptation over a vaguely set time period. Three stages of adaptation were defined, of which the first was the "short term" and the last two were "medium to long term" (UNFCCC, 1995). It is noteworthy in these descriptions, however vague they sound, that early negotiators did not view adaptation as an immediate concern, and so much of the work outlined in the first two stages is of preparatory nature – i.e. one that enhances knowledge about climate change impacts and adaptation measures, instead of taking concrete adaptation actions. Moreover, even though financial provisions were made in this first COP gathering to support vulnerability and adaptation assessment in National Communications (Huq & Reid, 2004), most countries provided more information on mitigation vs. adaptations in the said reports.

The slow approach of the international community towards adaptation is not entirely due to the predominant emphasis of negotiators on mitigation vs. adaptation, but also due to

the lack of scientific know-how about adaptation. In fact, climate change is a good example of science informing policy, and vice versa. It was not until the IPCC Third Assessment Report (TAR) in 2001 that the scientific and political bodies, alike, began to grasp the urgency of adaptation actions. TAR was instrumental in highlighting that impacts of climate change are already evident, and that even if Kyoto Protocol was successfully implemented, the emission reductions achieved would only be a drop in the bucket. In other words, TAR reinforced the inevitability of adaptation, and called it a “necessary strategy at all scales to complement climate change mitigation efforts” (McCarthy et.al, 2001). With growing scientific basis for adaptation, the subsequent COP events paid far greater attention to adaptation issues.

Of particular importance is the seventh annual gathering of the Conference of Parties (COP 7) in 2001 in Marrakech, Morocco, which immediately succeeded the release of TAR. The outcome of this meeting was the Marrakech Accords – a set of decisions endorsed by the COP. The Parties agreed on establishing a number of financial mechanisms and a range of other activities for adaptation.

However, most of the resources were not going into concrete actions for adaptation; but instead on generating information about adaptation. With a severe shortage of funds for adaptation, developing countries were advocating a more action-oriented approach that would entail implementation of adaptation activities, and generating lessons from pilot exercises (Kantha, Bhandari, Schaik, Cornland, & Kjellen, 2006).

Over the years, with greater knowledge on adaptation, the inherent relationship between adaptation and development has been illuminated. The idea that adaptation activities must be integrated into the larger development agenda became popular in policy circles in 2006 (Klein, 2008). Consequently, several international forums developed proposals and adopted plans to better integrate adaptation into development, like the OECD’s Declaration on Integrating Climate Change Adaptation into Development adopted jointly by the development and environmental ministers (Organization for Economic Development [OECD], 2006b). Reflecting on this changed perspective about adaptation, leading development banks also took measures to better integrate adaptation into their activities. The World Bank, for example, made commitments to devise risk management strategies to screen and mitigate climate risks on its investments (Development Committee, 2006).

## **5.2 Needs of Adaptation Finance**

In this section, the needs of adaptation finance will be discussed, in particular the principles in which adaptation finance should be grounded and the structural and financial needs of adaptation activities. After a brief comment on the cost of adaptation finance, the needs of adaptation finance will be discussed in three sections – mobilizing, administering, and disbursing adaptation finance.

### 5.3 Adaptation Cost Estimates

A number of estimates for adaptation costs exist; a few of these are summarized in Table I. It can be gauged from the differences among these figures and from the vast range within each estimate that large uncertainties are present in the calculations. The ambiguities in the numbers are due to some limitations and assumptions employed in the methodologies. For the UNFCCC estimates, scholars have pointed out that the calculations do not envelop all the relevant sectors (mostly constrained to coasts), and even for the sectors included, not all important factors are covered. Some scholars have also argued that these numbers are arrived at by partially extrapolating values from developed country studies, hence they may not properly reflect conditions in developing countries. The IPCC also concluded in the Fourth Assessment Report that the current estimates on costs and benefits of adaptation are quite poor and generally exclude equity considerations, in terms of the distributions of costs and benefits (Parry et.al, 2007).

Klein and others quote a recent OECD that supported this view, arguing that most literature on costs make strong assumptions and operate with crude relationships between variables; and many studies assume climate change to result in temperature change and sea-level rise alone, while ignoring the possibility of abrupt change in mean climatic conditions and the frequency and intensity of extreme events (Klein et.al, 2008). Finally, the OECD study also points out that almost no attention is devoted cross-sector analysis to examine cumulative effects of adaptation, and there is very little work on macro-economic consequences of the impacts of adaptation.

Some assessments of the literature on adaptation costs have inferred that the apparent deviation and disagreement among different estimates are due to underlying interests of the research organizations. Klein. et.al (2008) have bolstered their claim by presenting that World Bank estimates are lower and different from those of the African Group, G 77 and Oxfam. Moreover, whereas the World Bank, which purportedly represents donor shareholders, makes a case for larger private sector participation, the latter groups, which represent the views of recipient countries, envision most contributions being derived from public sources. In any case, the weakness of adaptation cost estimates has suppressed the political will to augment adaptation activities. Still, the insufficient funding for adaptation is the bigger culprit in withholding politicians from setting ambitious targets for adaptation (Klein, 2008).

Figure 5.1: **Estimates of Annual Additional Costs of Adapting to Climate Change**

Research Organization	Cost Estimates (billions of USD) (per year)	Time Frame
UNFCCC	60 – 182 (overall) 28 – 67 (in developing countries)	2030
UNDP	86 – 109	2010 – 2015
World Bank	9 – 41	2010 – 2015
Stern Review	4 – 37	2010 – 2015

Figure 5.1: Although there is a big range in these numbers, they nevertheless highlight that a significant sum is needed in the next five to ten years to support adaptation activities.

#### 5.4 Mobilizing Adaptation Finance

This section deals with issues that are relevant to raising resources for adaptation.

##### New and Additional

One distinguishing feature between conventional foreign aid and funding for climate change, a characteristic that is strongly underscored by developing countries and southern NGOs, is that climate finance is not charity, but an entitlement. Some have gone as far as denoting climate finance as “climate debt” that developed countries must pay to developing countries (Wilks, 2010). The argument is that developed countries have essentially reduced the “atmospheric space” for economic growth in developing countries and resulted in various impacts to which these countries must adapt. By this reasoning, the developing countries also rightly demand that climate finance must be additional to the existing development assistance, i.e Official Development Assistance (ODA).

Conceding to these demands, the COP in 2007 launched the Bali Action Plan to chart out a process for a renewed climate change treaty. The Plan asserted that climate change finance must be “new and additional resources, including official and concessionary funding for developing country Parties” (UNFCCC, 2007). In addition, southern governments and NGOs have asked for the funds to be in the shape of grants, not loans. Since then, developed countries have continued to make claims and commitments of providing new and additional resources (the latest one being the pledge made in Copenhagen of USD 30 billion for a three year period in 2010-2012, that is to be ramped up to USD 100 billion per year by 2020). At the same time, many developing countries and civil society leaders have accused the donors of falling short of their commitments<sup>8</sup>. The tension between the two blocks is fueled by an absence of an agreed definition (by all Conference of Parties) for new and additional.

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<sup>8</sup> A WRI study that tracks fast-start finance has found that many contributions were drawn from ODA (Ballesteros, 2010b)

Nevertheless, there are many possible definitions of additionality (Stadelmann, 2010 & Brown, Bird, & Schalatek, 2010a). Stadelmann and Brown and her colleagues lists eight options for defining a baseline, each with its own advantages and disadvantages, and points to the inevitability of a compromise between developed and developing countries for achieving a universally acceptable definition. Huq and Burton (2003) assert that this move would be necessary for rebuilding trust after the failure of talks in Copenhagen. Brown and her colleagues (2010a) consider similar options for defining additionality, arguing that a common definition will ensure that adequate funding is channeled towards climate change, while also avoiding diversion from development assistance. They also outline the different implications of these definitions on the measurement, reporting, flow and computation of climate finance; nonetheless, these definitions provide enough liberty to donor countries to individually determine the most suitable approach to raise additional climate finance (Brown et.al, 2010a).

Simultaneously while defining additionality, concerns about the diversion of ODA for climate finance must be addressed. It has been pointed that with two exceptions - the Kyoto Protocol Adaptation Fund and the German International Climate initiative (an initiative of the German government to support mitigation and adaptation activities in developing countries), both of which derive resources from auctioning emission allowances in the carbon market, - all other financing instruments are also diverting resources from ODA (Oxfam, 2009). This calls for the need to explicitly delineate the relationship between ODA and funding mandated by the climate change convention. Oxfam affirms that three principles are vital for assuring additionality: binding annual commitments from the donors, a compliance mechanism with penalty provisions to ascertain whether donors have delivered pledged resources, and a revision of ODA DAC rules so that ODA is easily distinguished from climate finance (Oxfam, 2009).

### Adequacy and Predictability

Adequacy and predictability are important parameters of climate financing, which have been cemented in the UNFCCC. These characteristics are not only vital for the success of the Convention, but also for the trust between and among Annex I, Annex II and non-Annex I Parties. Unfortunately, so-far financing for climate change has neither been adequate nor predictable, except for Adaptation Fund of UNFCCC's Kyoto Protocol and the German International Climate initiative. Regardless of the uncertainty of the costs and benefits of climate change adaptation, the collective resources inarguably fall grossly short. Even if the lowest figure of adaptation cost estimates, 9 billion per year (by World Bank) is used for comparison, the collective multilateral adaptation finance amounts to only USD 1.6 billion only<sup>9</sup>. This very vague approximation, nevertheless, illuminates the intensity of the challenge lying ahead of climate finance. Moreover, to allow for strategic adaptation planning and sustainable adaptation activities in developing countries, resources must also be predictable. As of yet, the bulk of climate resources are not predictable (except the two abovementioned carbon mechanisms) because they are mainly replenished through voluntary contributions from donor countries (Muller, 2008).

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<sup>9</sup> See Figure 6.1 on Page 67 for calculation logic

## Sources of Finance

Because climate change is a public concern, and especially because adaptation has many development co-benefits, it is justified to use international public resources for climate change. However, relying solely on public resources, which are already strained and earmarked for other purposes, will neither generate adequate nor predictable funds (Baudenville, 2009). Moreover, encumbering the public sector alone with this climate challenge, may significantly lower funding for development work (Baudenville, 2009). Therefore, mobilizing resources for climate change will require a combination of public, private sources, market mechanisms and other innovative schemes. This was concluded from the Report by High-level Advisory Group on Climate Change Financing, which was specially commissioned by the UN Secretary General, Ban Ki-Moon, shortly after the conclusion of the COP 15 in Copenhagen to provide recommendations on mobilizing new and additional resources for climate change. In particular, the AGF categorized four kinds of sources for climate finance: “public sources for grants (including taxation and auctioning of emission allowances, removal of fossil fuel subsidies, other new taxes such as a financial transaction tax and general public revenues through direct budget contributions), development bank type instruments, carbon market finance and private capital”. Lately, interest have emerged in creating a financial mechanism by controlling emissions from the aviation and shipping industries, which are not formally not monitored by the Kyoto Protocol (IMERS, 2011).

With regards to public and private sources, striking the right balance between the two is heavily contested in climate finance literature and also failed to reach consensus within AGF (Advisory Group on Climate Change Financing (AGF), 2010). The AGF reports that while some of its experts argued for a prime role of the public sector, others claimed that the private sector would be more appropriate in taking the lead, as it already plays a key role in many climate-sensitive sectors by financing large-scale technology deployment and supporting entrepreneurship, and is able to provide predictable and scalable finance (AGF, 2010). Regardless, the report has strongly emphasized the role of both public and private sectors (AGF, 2010).

A related issue is the portion of grants and loans that should be used for climate finance. Providing grants alone would be consistent with the “polluter-pays” principle that many believe should guide the mobilization of resources for climate change. However, as some indicate that given budgetary constraints of developed countries, delivering on this principle may prove difficult (Baudenville, 2009). To raise adequate resources for climate change, a combination of grants and loans may be necessary. Baudenville supports this argument, indicating that grants can be used to leverage substantially greater volumes of funds through concessional loans. Moreover, she asserts pure grants may be more suitable for technical assistance and capacity building, however, other financial instruments like “concessional loans, equity participation, and partial-risk guarantees with similar grant-equivalent value” may be more apt for targeting specific market failures (Baudenville, 2009).

In addition, newer sources will become instrumental in raising money for climate change. The AGF report and other sources (Baudenville, 2009, Hallegatte, 2008, & Ballesteros et.al, 2010a) have specially drawn attention to public carbon market revenues, including international and national auctioning of emission allowances; revenues from international aviation and maritime transports; and taxation on financial transactions. Some scholars have asserted that these sources, which appear to be less like aid money, are likely to be more predictable and additional to ODA than bilateral or multilateral funding (Hallegatte, 2008). Indeed, there is a need for more studies on the right use and combination of various financial instruments and sources for the climate change (Baudenville, 2009).

Lately, interest has been seen in emission reductions from the international maritime transport. Currently this industry only accounts for 3% of the total emissions from fossil fuel; however, this number can rise to 15% by 2050, if no action is taken to curtail emissions. Emissions from maritime are more than double that of air transport, and are not currently covered by the Kyoto Protocol (International Maritime Emission Reduction Scheme [IMERS], 2011). Simultaneously, while creating newer opportunities for financing, proposals for creating market-based mechanisms to generate funds for climate change are being put on the table (International Union for Conservation of Nature [IUCN], 2010).

### Counting Contributions

Part of the reason that it has been difficult to ensure that ODA resources are separated from climate aid is due to shortcomings of the method by which contributions are counted. Currently the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) reports on all ODA flows. Since 1998, the OECD DAC monitors aid for accomplishing the objectives of Rio Conventions, including climate change. The OECD DAC applies Creditor Reporting System (CRS) and Rio Markers, according to which an activity is considered as climate change-related if “it contributes to the objective of stabilizing greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate.” The system is a self-reporting one, in which each donor uses its individual method to determine whether climate change is a ‘principal’ objective (i.e. the prime reason for funding the activity is climate change), or ‘significant’ objective (the activity has been formulated or adjusted to help meet climate change objectives). There are a number of limitations with this method. First, the definition of climate change-related activities is limited and fails to qualify adaptation as a response to climate change. Second, only bilateral aid is monitored through this system, therefore this system will not be able to track aid provided by multilateral development banks or other multilateral agencies. Third, OECD DAC only tracks aid for sector-wide activities or projects, not for programmatic budgetary support (which may become more prominent in future, especially for adaptation). Fourth, because there is a possibility that each donor can come up with different interpretations of “climate-related”, it would become difficult to compare contributions from different donors. Finally, donors may be inclined to classify their contributions as climate aid, if they are under pressure to meet their obligations of providing new and additional finance (Brown et.al, 2010a).

## 5.5 Administering Adaptation Finance

This section will discuss issues related to the management of adaptation finance

### Institutional Proliferation

Over the years, there has been an explosion in climate financing institutes, with old mechanisms renovating or simply re-labeling old practices to make their case for a greater role in channeling climate funds. One estimate suggests that a new financial mechanism for climate change springs once every six months (Wilks, 2010). Institutes perceive climate change as a new “gold rush”, and hope to gain from the vast volumes of finance that will flow for climate change (Wilks, 2010). However, the plurality of climate finance institutes has rightly raised many eyebrows. Worries of whether this proliferation of funds and mechanisms will ineffectively duplicate rather than compliment each others’ activities, impede any real progress on climate finance and squander scarce resources are circling the minds of many linked to the climate financing issues. These are also some of the concerns that arose with the introduction of CIF as yet another institute for climate change.

Eurodad, a network of 58 European Development NGOs, recommends that a government must indicate two funds that must be closed down whenever it propose a new fund (Wilks, 2010). A move towards a more consolidated climate finance regime will require merging or cessation of some funds. With a revision of the mitigation targets due in 2012, and some expected changes to UNFCCC financing regime, the question of institutional interplay will be raised. Whether the UNFCCC’s revised financial mechanism becomes an umbrella mechanism for all the existing funds, or completely replaces all the previous funds, it is time to ponder on what sensible institutional and governance practices and principles can be adopted for a new climate change regime. Furthermore, lessons drawn from the evolving understanding of climate finance can help in evaluating the strengths and weaknesses of exiting institutions and funds, like the CIF.

### Institutional Interplay

In light of the rapid emergence of climate finance institutes, a couple of relevant matters have been noted. Clearly, many of the existing institutes have comparative advantages in certain areas of climate finance – for example, institutions can function as centers of negotiations, regulations, actions and information (Michonski & Levi, 2010). This is not to say, however, that these institutes must do so at the expense of their main focus and objectives, which may be poverty reduction or food security (Michonski & Levi, 2010). However, existing institutes must be reformed, especially with regard to their ongoing support of carbon-intensive growth models and their traditional governance practice (that skews power towards the wealthier countries), to mainstream climate change considerations in their overall work program and redistribute power more equally amongst countries (Ballesteros et.al, 2010a).

An extensive WRI study on the legitimacy of climate finance institutions, “Power, Responsibility and Accountability” draws a number of characteristics that climate financing institutes must carry to appear “legitimate”. The paper argues that whether new institutes are borne or older ones prevail, a new landscape of climate finance mechanism must adhere to a set of principles and demonstrate a number of capacities that qualify it as a legitimate institute for climate finance (Ballesteros et.al, 2010a). Some of these qualities are discussed below.

### Governance

The Convention asks for power to be shared equitably amongst all Parties to the Convention (Article 11.2). The Convention is not explicit as to what this means, however, scholars have argued for a balanced representation of all stakeholders in the governance boards. Action Aid provides with a more specific definition: “Action Aid regards an equitable representation of all Parties as an actual majority of developing countries, reflecting the composition of the UNFCCC and guaranteeing the participation of those most impacted by climate change.” (Action Aid, 2009a). Action Aid emphasizes that the participation of affected communities in the decision making process, particularly for adaptation funding, is a must. The Organization adds that this can be achieved through participation of leaders or institutes accountable to vulnerable populations in the decision-making structures (Action Aid, 2009a).

Over the years, the governance boards of climate finance institutes have become more balanced in terms of allocating seats between developed and developing countries (Ballesteros et.al, 2010a). Greater representation of recipient countries on the governing boards of international financial institutes can enhance recipient country ownership (which is the ability and responsibility of the “developing countries [to] set their own strategies for poverty reduction, improve their institutions and tackle corruption ” in the Paris Declaration and the Accra Agenda for Action (OECD, n.d.), and thereby effectiveness of climate finance.

However, equality in the share of seats and votes alone does not translate into equality in the share of power. Ballesteros et.al (2010a) point out that power is not only exercised formally via the governance structure of the institute, but also through its operational procedures. In addition, they note that while the formal share of power between the developed and developing countries is leveling out (with equal votes and representation between the two blocs in the governing boards), the balance is still tipped towards the developed countries when it comes to informal power dynamics. Contributing countries are able to maintain a stronghold on climate finance institutions because they continue to make contributions on a voluntary basis, in contrast to the polluter-pays principle enshrined in the Convention. This permits donors to stick conditionalities – specifically, ones that reflect only donor priorities and are not meant as social and environmental safeguards – that may impede progress towards ambitious adaptation targets. Conditionalities allow donors to cast influence over the entire length of an institute’s portfolio, as they can affect the terms on which the resources are replenished for a fund,

or allocated to individual projects – and may thus be seen as unfair by developing country partners.

Formal power granted in climate finance institutes (such as the GEF) is further diluted when certain functions are outsourced to other institutes, which are traditionally loyal to developed countries. Because of the complexity of programs and projects, certain functions (such as implementing, monitoring, proposing projects) are designated to other institutes (like the MDBs). While this may be in obedience to the principle of institutional economics, and therefore, may be an effective use of scarce resources, it also permits these institutes to apply their own governance standards on the use of resources for climate change.

To exert more control over the use of climate finance, developing countries have begun bidding for an elevated involvement of national entities. However, for accessing this control, national institutes will have to demonstrate good environmental safeguards, high fiduciary standards, capacity to manage and use large-scale, anti-corruption measures, grievances mechanisms and inspection procedures of climate finance (Ballesteros et.al, 2010a & Brown, Bird, & Schalatek, 2010b).

#### Transparency and Accountability

Article 11 of the UNFCCC also demands that its financial mechanism function in a transparent manner. Ballesteros and her colleagues argue that to appear legitimate, institutes must be accountable to donor and recipient governments and the intended beneficiaries of the adaptation funds (2010a). In other words, institutes must be able to demonstrate their achievements to all the relevant bodies. This is usually done at two levels – first, institutes must be able to demonstrate that they have the necessary fiduciary standards and environmental and social safeguards in place to administer climate funds, and two, institutes must report on whether/how they are supporting the objectives of the fund. For the first case, multilateral institutes are required to meet certain approved standards. Implementing entities for the GEF-administered adaptation funds and the Adaptation Fund must meet certain standard criteria (only MDBs serve as implementing entities for the PPCR, and are not required to receive any accreditation or approval from the trust fund committees).

For demonstrating their ability to yield outcomes, institutes generally adopt a results-based approach, which is also recommended (Ballesteros et.al, 2010a). However, for adaptation, developing a results framework can be especially challenging, since there are usually multiple objectives and goals that are difficult to measure numerically. Even then, various adaptation funds have developed results frameworks. As was discussed in the earlier chapters, both the PPCR and the GEF-administered funds for adaptation have results framework.

#### National Capacity

The debate over balancing national and international institutes will remain. Traditional development agencies have pleased contributors by measuring and managing the impacts of their investments; unfortunately, this has at times diverted attention from national concerns and created a bureaucratic jumble in developing countries (Ballesteros et.al, 2010a). With improvements in the capacities of national institutes to manage climate finance and mechanisms to internationally evaluate and accredit national entities, a greater degree of trust between the contributor and recipient countries can be gained. In addition to being transparent and accountable to international community (through international bodies like the COP), national entities must also be so to their own citizens. In fact, national stakeholders, including civil societies, independent research institutions, and the private sector should be closely involved in the process of developing national and local proposals and investments for climate change. Participation of these stakeholders in project preparation will also increase the chances of its success (Action Aid, 2009b). Moreover, strong accountability measures and environmental and social safeguards should be implemented, including “sound fiduciary management, anticorruption measures, and grievance mechanisms and inspection procedures” (Ballesteros et.al, 2010a). Finally, a greater convergence of national and international interests is required, so that national programs contribute positively to the global environment and protect the most vulnerable countries and communities.

Climate finance institutes can also gain lessons from the failings and successes of current institutes. In particular, lessons can be drawn from the Kyoto Protocol Adaptation Fund (KPAF). While it is uncertain that given its small size, the KPAF will become a central financing entity, its successful financial arrangements should be adapted, like equitable representation in its governing board, provision of innovative and predictable finance, and direct access to resources. However, these arrangements must not simply be facsimiled. Studies indicate, for example, that despite the ability of accessing funds directly through their national entities, many countries delegate the task to multilateral institutes. One of explanation for this is that there is a conflict between Adaptation Fund Board’s fund disbursement on the basis of first-come first-serve and the current lack of capacity of some national institutes (Brown et.al, 2010b). There are signs that many developing countries are opting to apply for, and access resources through the same multilateral institutes which have received accreditation from the Adaptation Fund with relative ease (Brown et.al, 2010b). It may be useful, both for the successes of direct access through Adaptation Fund and for adaptation financing in the long-run, for other financial mechanisms, like the CIF and the LDCF, to help build capacities of national implementing entities.

### Knowledge Sharing

An important institutional need in climate finance is generating and sharing knowledge and coordinating efforts of various institutes. A number of knowledge gaps remain in the climate finance regime, such as the need to assess the viability of various financial instruments for climate financing; research on the suitability of particular financial instruments (such as loans, grants and equities) to particular climate action (mitigation or adaptation). There is a need for coordination amongst the activities of different

institutions involved in climate financing, so that their work can be more complementary than duplicative. Addressing these needs will not only have the intended benefits of improving global institutional knowledge on climate change and avoiding repetition of past mistakes (thereby enhancing the effective use of climate finance). It may also lead to consolidation and standardization of institutional rules and formalities regarding climate change, which may lower costs and simplify bureaucratic procedures. (Action Aid, 2009)

### Lessons from the Global Environmental Facility

The institutional bickering over climate finance precedes even the birth of the UNFCCC. GEF was conceived in 1989, following a number of crucial events which elevated concerns over global environment and highlighted the necessity of collective global actions, namely the publication of the World Commission on Environment and Development report, “Our Common Future” in 1987, the signing of the *Vienna Convention for the Protection of Ozone Layer* in 1985, and its *Montreal Protocol on Substances That Deplete the Ozone Layer* in 1987 (Streck, 2001). The newly-formed mood for global environmental protection permeated through the walls of many international forums. At a joint ministerial meeting of the World Bank Group and the International Monetary Fund in Bangkok 1989, the French government proposed the Global Environmental Facility that would provide dedicated financial support for global environmental programs (Ervine, 2007). As a supportive gesture for their proposal, the French committed USD100 million over a three year period. The task of developing specific modalities of the Facility was delegated to the World Bank, which presented a blueprint of the GEF in November 1990 (Streck, 2001).

Not surprisingly, the World Bank developed a proposal that would be administered by the World Bank and contain a voting structure that resembled the conventional contributions-based World Bank practice. Furthermore, the UNEP, UNDP and the World Bank were authorized as the implementing entities (Streck, 2001). Anxious that developing countries may propose an alternative fund in the upcoming Earth Summit in 1992, sixteen OECD countries alongside nine developing countries officially endorsed the GEF and pledged USD 860 million to preempt negotiations on this topic during the conference (Ervine, 2007). In November 1991, GEF was launched as a three-year, USD 1 billion pilot mechanism to co-finance projects with global environmental benefits in developing countries and countries in transitions in four focal areas – global warming, biodiversity, international waters and ozone depletion (Ervine, 2007). The institutional architecture for climate change, therefore, began as a very exclusive, donor-driven process. However upsetting this sounds, this was also the normal course of international development aid at the time – most funds extended little power and representation to the recipient in their design phases or governance structures.

In spite of this, climate financing has departed significantly from this age-old international aid tradition; mostly, because action to combat the negative impacts related to climate change is not perceived as falling under the mandate of regular development aid. In contrast, climate finance is seen as a debt incurred by the industrialized countries due their environmentally-damaging development paths, and which they owe to the

developing countries. In this sense, climate change reverses the role-play between the North and the South. In 1992, nearing the end of the UNCED conference developing countries condemned GEF for the imbalanced and inequitable governance structure and the limited focus of the mandate on global commons problems (countries demanded financial avenues for sustainable development to be a part of the GEF mandate) (Keohane & Levy, 1996). In opposition to this, the developed countries resisted making any changes – they insisted on retaining substantial authority over GEF’s processes, maintaining a focus on global commons problems, and preserving significant leadership roles for the World Bank (Keohane & Levy, 1996). Fearing a political failure and collapse of the negotiation process, both blocs of countries decided to restructure the GEF and address the concerns raised. The restructured GEF was a significant improvement on the pilot one (and more on its specific features are discussed in the UNFCCC chapter).

Despite restructuring, however, assessments of GEF reported many weaknesses of the institute. First, critiques have argued that GEF lacks technical adequacy, in terms of efficiency, fairness and responsiveness to developing countries needs (or adherence to guidance from the Convention). Some countries have complained about the excessive delays and costs involved in the preparation, approval and disbursement of funds for the project. Delays partially occur due to legitimate demands for transparency (which necessitate the publication of all project documents on the internet and the providing space for consultation of on project design, implementation and procedures for GEF decision-making) and the complex procedure for calculating incremental costs, which is criticized for being inconsistent and inflexible (Huq & Reid, 2004 & Klein et.al, 2008).

Delays also occur due to poor implementation guidance provided the Parties to the Convention and the complex design of the funds (Mace, 2005 & 2007, Ballesteros et.al, 2010a). The COP and the GEF council are tied together through a vaguely worded Memorandum of Understanding (MOU), which gives significant liberty to GEF in performing its operations, but at the expense of its accountability to GEF (Ballesteros et.al, 2010a).

As with GEF, other institutional or development partners involved in implementing the Convention must be made accountable for their actions. In particular, GEF is showing greater interest in reaping co-financing benefits from their collaboration with the private sector. Concerns have been raised that with increasing association between the GEF and the private sector, in the absence of a legal definition of the relationships between the COP, GEF and the private sector, can produce ambiguities over the future role and power share of the private sector (Ervine, 2007).

Critiques have also expressed their disapproval of the scheme by which GEF disburses its resources. According to the UNFCCC and the Kyoto Protocol, eligible developing countries must be provided with grant funding to cover the “full agreed incremental costs” of measures taken to implement their commitments (Article 4, UNFCCC, 1992). There have been inconsistencies in determining and applying this principle across GEF projects. Since 2005, GEF has mostly adhered to another scheme, the Resource Allocation Framework (RAF), to disburse resources (Ballesteros et.al, 2010a). The RAF

is heavily denounced by many developing and developed countries, including some donor countries (Ballesteros et.al, 2010a). The eligibility criteria essentially allocates GEF resources on the basis of a country's potential to generate global environmental benefits and their capacities to successfully implement GEF projects and programs (Ballesteros et.al, 2010a & Ervine, 2007).

This is especially frustrating given the low levels of funds available to GEF, which also opens discussion on co-financing. While co-financing can provide greater levels of resources for supporting adaptation activities, the difficulty of tracking the flow, type (loans or grants), theme (adaptation or mitigation) and the quantity of climate aid provided becomes difficult. Although efforts have been made to clarify this distinction – for example by the recent requirement of the UNFCCC reporting guidelines for donor countries to furnish information on climate related aid to GEF, bilateral, regional and multilateral channels and the recent OECD DAC requirements for reporting on all Rio Conventions – this still remains a problem (Ballesteros et.al, 2010a).

Finally, significant proportion of scarce GEF resources are depleted due to the high costs of implementing agencies. A South Center report discovered that LDCF and the SCCF funds lose 10.52% and 18.49% of the total approved sum for a project in additional charges incurred due to high fees of implementing agencies and the corporate budget (for administrative purposes of the secretariat and the trustee) (South Centre, 2008).

## **5.6 Disbursing Adaptation Finance**

This section discusses issues related to the delivery adaptation finance.

### Characteristics of Supported Projects

Poverty and Climate Change: Reducing the Vulnerability of the Poor through Adaptation (2003) is jointly prepared by ten bilateral and multilateral development institutes. The report spotlighted the “need to integrate responses to climate change and adaptation measures into strategies for poverty reduction to ensure sustainable development” Another report in 2003, made similar conclusions and asserted that vulnerability and resilience to climatic stresses on human and environmental systems, must be a central component of any adaptation strategy (Turner et al, 2003). The idea behind these and similar works (Oxfam, 2009) is that factors that influence vulnerability to climate change are not solely ecological or climate-related; social, economical and political dimensions are equally capable of determining a community's vulnerability or resilience to climate change and variability. In fact, a World Resources Institutes study, *Weathering the Storm: Options for Framing Adaptation and Development*, which reviewed over 100 so-called “adaptation” initiatives in developing countries, deduced that there is very little difference between these initiatives and good development practices (McGray, Hammill, Bradley, Schipper, & Parry, 2007). According to the study, the difference lies more in how the problem is stated than how solutions are implemented. In effect, adaptation can be seen as a continuum ranging from narrowly defined “stand-alone” (McGray et.al, 2007) or “vertical” activities that apply to only specific climate change-related problems

to more broadly defined “mainstreamed” or “horizontal” activities (OECD, n.d & McGray, Hammill, Bradley, Schipper, & Parry, 2007).

Successful adaptation integrates anticipated climate change impacts into the ongoing national and sectoral plans (Huq & Burton 2003, Agrawala, 2004). It should, therefore, promote sustainable livelihoods, ensure equitable growth, and enable better governance. Scholars have labeled this concept of integrating adaptation into ongoing national, sub-national and sectoral plans as “mainstreaming”. Responding to growing awareness of the intrinsic link between adaptation and development, many prominent international bodies noted the importance of incorporating adaptation into a development context, and released plans to take steps in this direction (for example, the OECD’s 2006 Framework for Common Action Around Shared Goals, which was adopted by development and environmental ministers of OECD countries (OECD, 2006a)).

Even though the importance of integrating adaptation and development planning is recognized at a conceptual level, the UNFCCC is yet to apply this strategy in its works. There are two fundamental issues that have resulted in this dichotomy between the conception and operation of mainstreaming. First, lies in the definition of the word in a UNFCCC context. Kartha et.al (2006) point that mainstreaming has appeared in two distinct sense in discussions – one, mainstreaming adaptation into development, which involves raising awareness of planners and practitioner of development work to enhance their capacity to understand and integrate climate change considerations in their work; and two, mainstreaming adaptation funding, which involves using ODA resources for climate change adaptation. The latter of the two connotations lies at the heart of the debate on mainstreaming adaptation.

Problems arise for two related reasons. First, the climate change convention has specified the use of new and additional resources to cover agreed incremental costs of climate change projects. Therefore UNFCCC does not provide funds, at least in the shape of grants, to cover baseline costs of investments. As pointed out earlier, in addition to being very difficult to implement, the incremental cost principle unable to adequately capture the benefits of mainstreamed adaptation (Gomez-Echeverri, 2009 & Streck, n.d.). For mainstreamed adaptation, the difficulty of assessing incremental costs are heightened because of the complexities in quantifying environmental benefits (by contrast, benefits for mitigation projects can be quantified using standard units like tonnage of carbon dioxide saved). Moreover, many adaptation projects don’t qualify for aid from GEF, because of the intrinsically local nature of adaptation, which makes it difficult to demonstrate their global environmental benefits. Least Developed Countries have raised concerns over the application of incremental costs for adaptation project, after which the COP requested the GEF to make the concept “more understandable” (Decision 5/CP.8) and “reduce the requirements for showing adaptation-additionality of proposed projects” (Decision 5/CP.14).

As with the incremental costs, complications have arisen in determining the relationship between mainstreaming ODA for development and climate change funds mandated by the Convention. Developing countries are concerned that with mainstreamed adaptation,

donors can divert money from existing ODA for climate change, thereby neither providing new and additional resources for climate change, nor avoiding the diminution of already insufficient development assistance. Evidence suggests that these concerns are not unreasonable as there have been cases of channeling or relabeling ODA for the purposes of fulfilling commitment under the Convention (the most recent one is swindling money from ODA to meet the Copenhagen fast-start requirements (Ballesteros et.al., 2010b).

### Aid Effectiveness

For adaptation, as argued above, horizontal approaches are most apt; they allow for greater national ownership and prevent developed countries from micro-managing project implementation, impose lower transaction costs for recipient countries, and provide a more holistic coverage to adaptation issues by including greater factors of vulnerability to climate change (Wilks, 2010). Moreover, horizontal approaches may enable countries to harmonize various donor activities from the start. Because of the multiplicity and fragmentation of international aid in developing countries, recipients waste precious resources and time understanding and complying with the specific requirement (like reporting) (Mitchell et.al, 2009).

For a greater and more successful implementation of horizontal approaches, the leadership and ownership of national governments in the design and the implementation of adaptation program is a must (Wilks, 2010). National ownership is also enshrined in the Paris Declaration on Aid Effectiveness, and, as many scholars agree, is important for the successful identification and inclusion of national priorities in adaptation programs and coordination of national sectors and stakeholders in implementing concrete adaptation actions (Brown & Kaur, 2009, Wilks, 2010, & Ballesteros et.al, 2010a). National ownership also facilitates the alignment of adaptation action into general development. With adaptation strategies properly identified with and ingrained in national priorities, the predictability and the flow of funds for adaptation programs and the accountability of governments to its citizens is also likely to improve (Wilks, 2010).

Brown & Kaur (2009) point out, that to improve the ownership of programs, a fundamental shift is required in donor-led decision making processes. In fact, the extent to which recipient country stakeholders (including officials from all the relevant sectors) are included in governance frameworks of international adaptation funds, and the extent to which the recipient nations consult and represent all relevant national stakeholder (including private sector and vulnerable communities) will determine the degree to which a recipient country owns its adaptation programs. Country ownership sometimes denotes democratic ownership, emphasizing the importance of representing civil societies and elected officials. Evidently, achieving national ownership in this sense, thorough consultation and participation of diverse stakeholders can delay access to funds. Despite this, many CSOs note that the benefits gained from this process make it worthwhile (Action Aid, 2009a).

Alongside country-ownership of adaptation programs, country leadership in designing adaptation programs and setting program priorities is also a key. For a long time, multilateral and bilateral institutes have furthered their country strategies and program priorities (Wilks, 2010). Because of the pervasive nature of adaptation, national governments must play a central role in designing adaptation programs. Moreover, irrelevant economic and policy conditionalities, such as privatization, trade liberalization and deregulation, must not accompany any eligibility criteria for adaptation funding.

Another principle that's advocated by aid effectiveness appropriate for the disbursal of climate finance is direct access. The concept describes the ability of recipient countries to access resources from a multilateral or bilateral fund directly or designate a national institute to receive these resources. There are multiple benefits to direct access, including reduction in transaction costs (incurred due to the high fees of multilateral implementing entities); streamlining access to adaptation fund by trimming bureaucratic requirements; speeding the process and the delivery of desired results; amplification in the national ownership, oversight and involvement of adaptation activities; and possibly strengthening the accountability of recipients to the Fund (Brown et.al, 2010b).

The only multilateral adaptation mechanism that has provided direct access is the Adaptation Fund (Decision 1/CMP. 3). Being a pioneer, therefore, the Adaptation Fund (AF) offers ample lessons to improve direct access for adaptation programs to recipient countries. First, it pinpoints the lack of capacity in some countries that obstruct them from gaining direct access. Because the AF allots money on a first-come, first-serve basis and does not allocate resources to improve the capacities of national institutes, many developing countries resort to multilateral implementing entities. The budget constraints of AF hinder it from pursuing development of such capacities in developing countries. However, the AF has sort cooperation from multilateral and bilateral development agencies for advancing capacities of national institutes to manage adaptation funds. Special attention must be catered to least developed countries that have severe capacity constraints, and without targeted support, they may not establish accredited national entities in the near future.

For the successful implementation of adaptation programs, there is also a need for sufficient adaptive capacity to absorb and employ funds for successfully achieving the end goals. Furthermore, care must be taken to avoid corruption risks in developing countries. A UNDP report outlines three corruption risks for adaptation activities in particular, which should be avoided. One, states can “capture and abuse...[the] process of adaptation planning, , resulting in prioritization of projects and programs favoring vested interests rather than areas of greatest vulnerability”. Two, small levels of corruption (e.g. demand of bribe from a government official) can add to the cost of adaptation activities and reduce their effectiveness. Finally, “bribery, clientelism and cronyism” can lead to poorly designed or executed programs (United Nations Development Program [UNDP], 2010).

However, it must be pointed out that donors have used the lack of certainty about the funding needs for adaptation in developing countries and the lack adaptive capacity in these countries as an excuse to postpone actions on international adaptation finance. But,

precluding further delays, there is a need to urgently furnish funds for adaptation, and simultaneously build adaptive capacity to ensure the proper use of these monies (Muller, 2008).

Adaptation also severely handicaps the effectiveness of blueprint approaches. For success of programs, it is vital to design and implement adaptation programs in accordance with its specific country context. This is partially the reason why it is so essential to adopt a country-led and country-owned strategy for climate change adaptation. Furthermore, it is realized that there are a number of delivery options, such as through the civil society, regional and UN organizations, and the state. Again, limits on flexibility of politically-unstable states must be placed to ensure that the intended recipients benefits from climate finance. This could also apply to states where marginalized communities are not well represented in the government and secluded from state ventures (Mitchell, Anderson, & Huq 2009).

For a sound delivery system, the international community must fill in the identified knowledge gaps. First, further clarity is required to define allocation criteria for adaptation and its scope. This includes agreeing on a set of parameters (like a country's socio-economic development levels, absorptive capacity, political stability, vulnerability, etc) and guidelines to efficiently distribute needs-based finance. Furthermore, greater understanding is necessary to determine what proportions of total costs of adaptation programs and projects can be funded with multilateral aid, and whether it is feasible to calculate and employ the incremental costs principle alone. There is also a need for a more refined assessment of the both the types and suitability of various financial instruments (like grants, loans, guarantees, etc) to individual adaptation programs, and an evaluation of both the supply and demand of various financial instruments. This may also help in appropriately co-financing adaptation programs and generally improve the overall effectiveness and use of climate finance.

## 6.0 Analysis of the CIFs in light of adaptation financing needs

Codes and concepts from the document analysis (previous three chapters) and interviews were organized along three issues – funding, institutional and governance issues. Funding issues delved with ideas related to the mobilization and disbursement of climate finance. Institutional issues discussed the interactions between the CIF and the UNFCCC as avenues for the flow of climate funds. Governance issues examined themes related to power share and decision-making arrangements in these institutes.

There is a considerable overlap between these themes. For example, depending on the governance structure of a particular institute, the methods of mobilizing, managing, and disbursing funds can alter significantly. Institutes with greater representation of different stakeholders and a more equitable allocation of power will resort to more democratic principles (which reflect the concerns of all stakeholders) of mobilizing, managing and disbursing climate finance.

### 6.1 Funding Issues

#### New and Additional

The CIF have emerged in the absence of an agreed baseline for classifying “additionality” of resources mobilized by the UNFCCC. Neither do the CIF create any standard mechanism of counting contributions made to their trust funds (for example, by asking donors to adhere to a base year while counting their classifying their climate aid as “new”), so that the resources are known to be new and additional. Ari Huhtala, Senior Environmental Specialist at the World Bank, highlighted some of the difficulties that a deficiency of a standard additionality definition creates (personal communication, November 10<sup>th</sup>, 2010):

They [donors] are now presenting information on their pledges what is fast-start finance, but there is no agreed definition on what is new and additional and there is no comparability between the pledges. So, in fact every donor can set their own standards for what is new and additional, and understandably developing countries do not agree with some of the definitions.

In the CIF too, donors can individually determine (if they chose to) whether their contributions are new and additional to ODA. Not only is it uncertain whether the contributions are new, but it is also impossible to compare between the resources provided by different donors for climate change. Based on the policies of individual donor countries, some countries may or may not provide new and additional resources. For the integrity of the CIF governance structure, it is even more important to ensure that these comparisons are accurately made, since the CIF allots seats on its governing bodies on the basis of the minimum contributions made by a donor.

Because the minimum amount required to qualify a contributing country for a seat in Trust Fund Committees of the CIFs is set through private consultations among these

countries, the problems faced by individual donor countries are not prominent. However, the clash between developed and developing countries during international circles is unmistakably conspicuous. As was discussed earlier, agreeing and complying by a common definition for additionality would be important for building trust between countries. Inability to agree whether the substantial amounts of resources in the CIF are actually new and additional has further fractured the trust between developed and developing countries.

In lieu of providing a solution for the international debate on new and additional finance, the CIF in fact add another layer of complexity. The CIF are experimenting with newer avenues of finance, specifically through MDBs and the private sector, and generating significant sources from these channels. For example, the World Bank claims that the USD 3 billion allocated for the CIF in 2009 leveraged an additional USD 27 billion, around 30% of which were derived from private sector (as cited in Marston, 2010). It is unclear whether funds from private sector would be counted as climate aid from a particular developed country.

Although the CIF (or the World Bank) should not impose a definition of new and additional on the UNFCCC, they could have implemented several procedures that would ensure a standard accounting mechanism for its resources, and especially highlight how they are new and additional. Oxfam enlists three principles for assuring additionality and avoiding diversion from ODA resources: binding annual commitments from the donors, a compliance mechanism with penalty provisions to ascertain whether donors have delivered pledged resources and a revision of ODA DAC rules so that ODA is easily distinguished from climate finance (Oxfam, 2009). While the latter requirement may be out of the scope of CIF mandate, the Funds have not made any arrangements for the former two either. The CIF could have also made provisions for greater transparency from donor governments on the methods used for counting their finance.

### Adequacy and Predictability

Related to a lack of definition and mechanism for ensuring additionality of funds, is the lack of adequacy and predictability of the CIF funds for supported programs. Adequacy and predictability are especially important parameters for adaptation programs, because these are integrated into the country's development programs. In other words, funds need to be reliable. Programs need to be consistently funded for a time period before they can be self-sustaining.

Most climate funds have failed to be adequate and predictable, because they rely heavily on voluntary contributions from donors. This is again another area in which the CIF are simply repeating past mistakes; with the only exception of Adaptation Fund (that draws its resources from a 2% levy on the proceeds of Clean Development Mechanism), all other UNFCCC funds are run on voluntary contributions from donors. For many, this is an unacceptable practice, because climate finance is seen as debt incurred by developed countries (Wilks, 2010).

In addition to not being predictable, voluntary contributions give significant power to the donors. Donors, for example, can impose strong conditions before renewing their funds. This is what happened during the fourth replenishment period of the GEF when the US threatened to not renew its contributions to the GEF unless it adopts their proposed framework for allocating resources (Ervine, 2007).

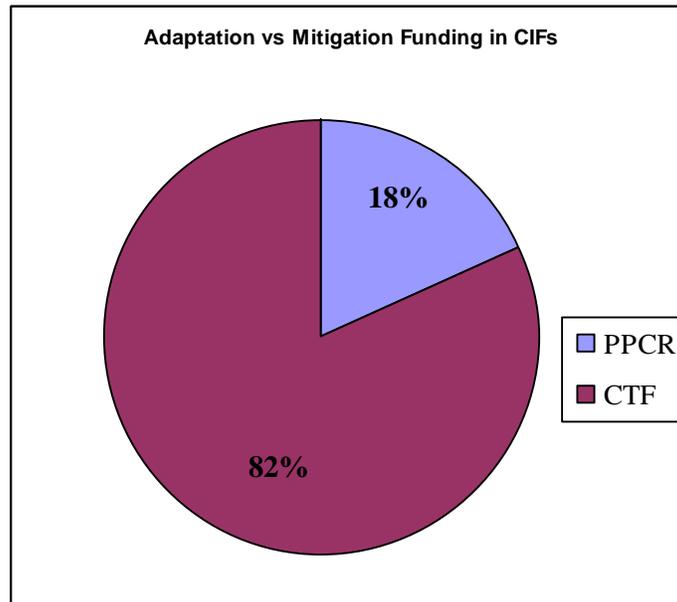
In comparison to mitigation, it has been even more difficult to raise funds for adaptation. This is despite the fact that the UNFCCC negotiations have concluded the need for a balanced allocation of funds between mitigation and adaptation. Moore Rawlestone expressed this concern, and pointed to some reasons for this during his interview. There are fewer investment possibilities in adaptation than in mitigation, therefore it's more difficult to involve development partners (like development banks) and private sector (personal communication, November 4<sup>th</sup>, 2010). The diagram below captures the discrepancy between the funding for adaptation and mitigation in the CIF. Because the CIF represent a significant portion of climate finance, more money should be devoted to adaptation measures. They should also adhere to the specification for a balanced allocation of resources between mitigation and adaptation<sup>10</sup> (UNFCCC, 2010).

Finally, while the CIF guarantee grants for constructing investment plans for adaptation work in pilot countries, there isn't a guaranteed support for implementing these national plans. It is evident that most of the funds for implementing adaptation plans are coming from outside the PPCR (through MDBs). Although investment plans may become useful in future in coordinating funding (assuming they are made with equal and rigorous involvement of all relevant national stakeholders), the PPCR does not have adequate resources for even the relatively small number of its participating recipient countries.

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<sup>10</sup> The UNFCCC also fail to provide a balanced allocation of resources between mitigation and adaptation, with adaptation receiving significantly lesser funds than mitigation (Roberts et.al, 2008).

Figure 6.1: **Adaptation vs. Mitigation Funding in CIF**



Source: CIF, 2010a & CIF 2010b

Figure 6.1: Adaptation is a much smaller focus of the CIF.

### Sources of Climate Finance

The high-level Advisory Group, which was specially commissioned by UN General Secretary, Ban Ki-Moon, to provide recommendations on mobilizing new and additional resources for climate change categorized four kinds of sources for climate finance: public sources for grants (including taxation and auctioning of emission allowances, removal of fossil fuel subsidies, other new taxes such as a financial transactions, taxation and general public revenues through direct budget contributions), development bank type instruments, carbon market finance and private capital. With the involvement of development banks and private sectors, the CIF are generating useful lessons in mobilizing financing from these two avenues. Many scholars and the AGF have also pointed to the scope of generating significant funds from other innovative sources like public carbon markets, international aviation and maritime transportation and financial transactions (Baudenville 2010, Hallegatte, 2008, Ballesteros et.al, 2010). The CIF can expand its portfolio to also experiment with these sources of finance. There is special interest in these sources, because they will make climate finance more predictable by shifting away from reliance on voluntary donor contributions.

It is also important to note that for the World Bank, working with other MDBs and private sector is not new. They have been collaborating with these partners for many years now. This raises an important concern. The nature of relationship between the World Bank and the MDBs or private sectors is quite different from the same between UNFCCC and the said development partners. Therefore, it is questionable whether the lessons generated by CIF, when they closely involve the private sector and the MDBs, will be completely replicable in a UNFCCC context. For example, the CIF Sub-

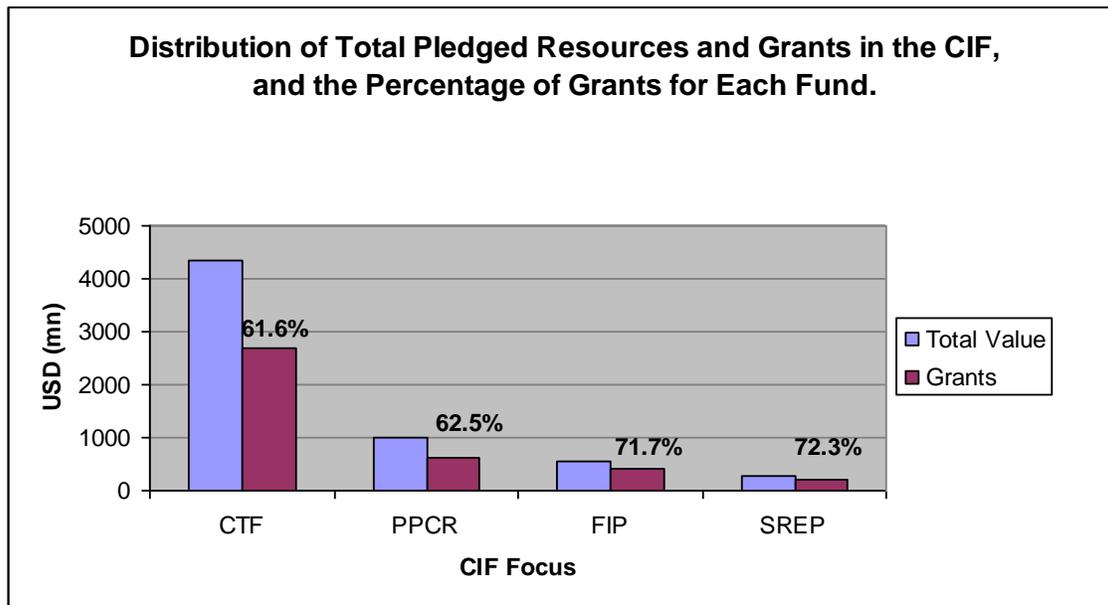
committees may grant greater levels of freedom to the MDBs and the private sector than the COP would be able to (given that it contains a larger number of stakeholders with differing takes on the roles of private sector and other MDBs in climate finance).

### Financing Instruments

Financial instruments are not neutral. The type of financial instruments and their accompanying terms of usage can greatly influence the nature and effectiveness of development aid. For example, grants and concessional loans that carry unfair conditions, reflecting only donor interests, can place huge burdens on recipient countries, which can slow their overall socio-economic growth. Risk sharing instruments like guarantees and equities may in fact enhance risks for host countries (Honkaniemi, 2011). Therefore, it is highly important that the terms and conditions of each financial instrument is thoroughly reviewed and assessed to avoid risks. While it is sufficient for these agreements to be made between the lender, the borrower and the financial institute that executes the transfer of resources; for climate change this information needs to be shared more widely, because the issue involves many stakeholders. Sharing information so broadly is especially important for public sector monies, because of the government's accountability to its constituents. Unfortunately, the CIF provide only very general information about the terms of use and the concessionality of the disbursed instruments for projects (Honkaniemi, 2011).

Donors pledged most of their resources as grants to the CIF trust funds, as depicted Figure 6.2 below.

Figure 6.2: **Distribution of Total Pledged Resources and Grants in the CIF and the Percentage of Grants in Each Fund.**



Source: CIF 2010c & CIF 2010d

Figure 6.2: The Figure shows two things – first that the share of CTF is comparatively larger than that of other funds, and second that the grant element of PPCR (sole adaptation component) and CTF (largest mitigation component) is comparable<sup>11</sup>.

From the closeness between the loan component of the PPCR and CTF, it is clear that the donors have not discriminated between mitigation and adaptation (through the reasoning that the latter can attract investment because of its potential to quickly generate revenue), while pledging resources. In fact, of the total USD 6.1 billion pledged by donors, only USD 951 million are provided as loans<sup>12</sup> (CIF 2010c & CIF 2010d).

Although most CIF resources are provided by the donors as grants, most of these, about 5/6ths, will be disbursed as loans (Honkaniemi, 2011). The World Bank does not really provide any rationale as to why the CIF funds are mostly disbursed as loans, when they are provided to the trust funds as grants.

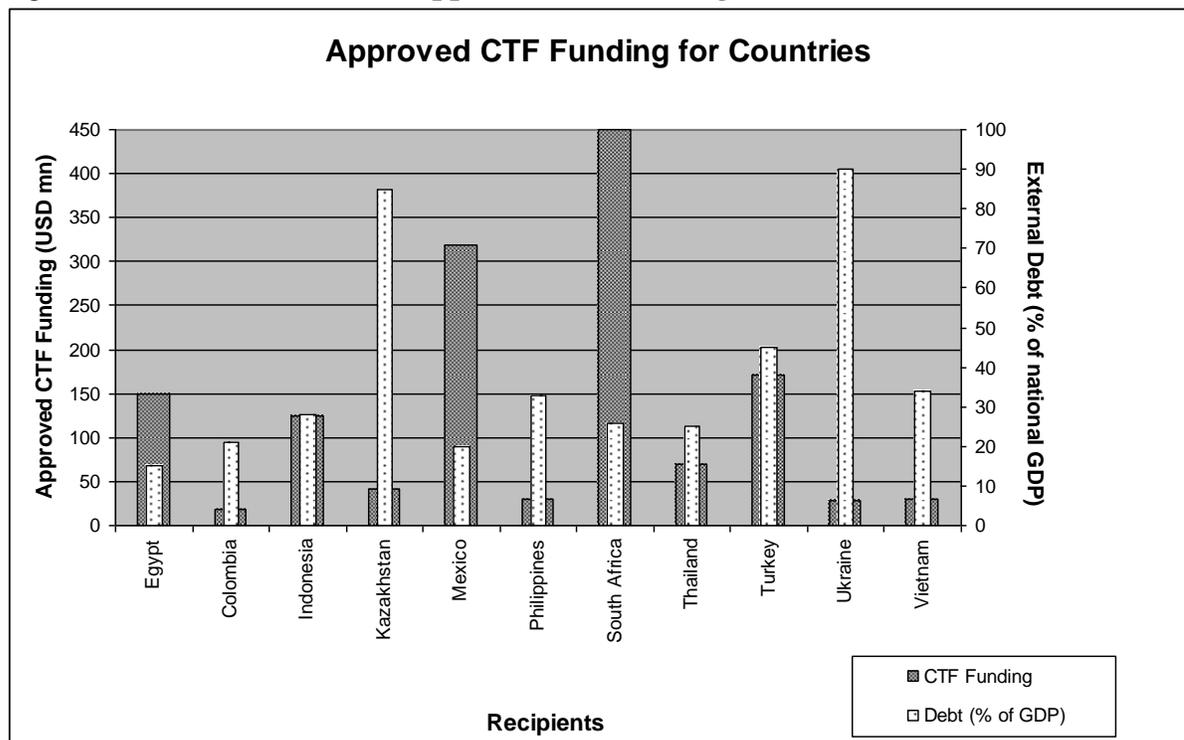
The concessionality of loans for CIF can range from 45% (which are considered as hard loans and are barely concessional at all) to 75% (which are considered as soft loans and comparable to IDA instruments)<sup>13</sup> (Honkaniemi, 2011). While there is this general information on the concessional element of the funding instruments, no specific information is available for a particular project. The lack of specific data on the ratio of loans to grants for projects is worrisome for numerous reasons. First, many of the CIF pilot countries are highly debt-ridden countries, especially those which are receiving financing from the PPCR window (see Figure 6.3).

<sup>11</sup> Only the CTF receives contributions as loans; the other funds receive a mix of grants and capital.

<sup>12</sup> Around USD 1324 million of the pledged resources are provided as Capital.

<sup>13</sup> PPCR financing modalities proposes that the loans for PPCR contain a 75% grant element (CIF, 2010c)

Figure 6.3: External Debt and Approved CTF funding for Countries



Source: CIF, 2010a & Central Intelligence Agency, n.d

Figure 6.3: This Figure shows that developing countries with high debt are accessing resources from CTF Trust Fund. It must be emphasized that the Figure only displays the amount of funds that the countries receive from the CTF Trust Fund, not the total amount of resources that are funding CTF projects in these countries. This total is likely to be significantly higher than the amount presented here, and is also mainly in form of loans. Therefore, the success or failures of the CTF projects can have great implications for the financial stability of these countries.

Second, without specific information on the concessionality and terms of use of resources for projects, it is hard to decipher how much risk these countries are acquiring through the CIF. It must be noted, however, that the CIF do provide some form of assurance in this regard to the international community – they assert that the financing modalities are set-up to distribute resources to heavily indebted poor countries and vulnerable countries on a more concessional basis. For PPCR and FIP funds, 63% and 71% of total financing is disbursed in the form of grants (Honkaniemi, 2011), and the PPCR permits countries from opting to not accept any form of loan (CIF, 2010c). Still, it cannot be ignored that seven of the eighteen countries supported by PPCR will receive loans at the risk of debt distress (Honkaniemi, 2011). Third, it is itself questionable whether providing loans (regardless of their grant element) for adaptation to climate change is justified.

As of November 10, 2010, three countries have embarked on Phase II of the PPCR, and investment plans worth around USD 50 million dollars have been approved (CIF, n.d.b). To generate adequate sources, the USD 50 million grant from PPCR is blended with other funds from within and outside of the CIF that contain a much larger loan component. For example, Bangladesh receives USD 49 million as PPCR grants, USD 60

million as PPCR loans, USD 300 million as IDA loans and USD 215 million as ADB loans. Given that the larger share of resources may come from channels outside of the PPCR, as in the case of Bangladesh, questions about the legitimacy of those channels are raised. For example, what special terms and conditions are attached to the portions of money coming from IDA or ADB pockets, in the case of Bangladesh? Who are these foreign institutes (which are not directly related to the CIF funds) accountable to? Without any transparent information on the specific modalities for financial transfer, skepticism and genuine concern over the influence of these loans on recipient countries will prevail.

### Private Sector Involvement

There are many ambiguities with regards to the financing provided by the private sector. Information is sealed by strict non-disclosure agreements between the Trust Fund Committee and the involved corporation for obvious business reasons (CIF, 2010c). Guidelines on financing modalities for private sector are very generic, and considering the fact that each agreement is prepared distinctively on a case-by-case basis, they are of not very insightful. The necessity of private sector involvement in climate finance (because of their ability to achieve good leveraging ratios and generate significant financing) is recognized widely in international circles, and therefore the CIF efforts of encouraging private sector participation are hailed by many. However, some issues must be addressed. One, it must be ensured that the private sectors maintain a high standard of development effectiveness and responsible financing. Private sectors tend to focus on short terms financial gains and may be tempted to use risky business strategies. It must be ensured that these risks are not transferred over to vulnerable communities. Also, private sectors' need for quick financial gains must not distract from the objective of safeguarding the most vulnerable communities against climate change. Private sectors mostly operate without any stringent environmental and social safeguards. Therefore, the CIF, in collaboration with recipient country governments, must create mechanisms to ensure that CIF resources are being productively and primarily used to promote low-carbon growth and climate-resiliency. Further, it is important to maintain a balance between building local business capacity and providing support to the most appropriate private company with expertise in climate-related actions. Concerns exist that much of the finances available through CIF will only subsidize northern private companies, which can jeopardize the ability of local private companies from building experience in resolving climate change activities (Honkaniemi, 2011). Finally, if private sectors are involved in the process, there is also a need to define the relationships of the private sector with the CIF Trust Fund Committee, the recipient country, and the COP (since the money provided by the company may be used for fulfilling a country's UNFCCC obligations). This concern has been raised earlier with the involvement of GEF in private sector. For example, Ervine (2007) argues that the keen interest of GEF in reaping co-financing benefits from the involvement of private sector can produce ambiguities over the future role and the power share of the private sector.

### Eligibility Criteria

The most basic eligibility requirements for recipient countries are that they must be eligible for ODA funding in accordance the OECD/DAC guidelines, and that they must house an active MDB program. Neither of these factors, especially the latter one, is directly related to the needs of adaptation finance. Amongst the countries that meet the mentioned criteria, only a few are essentially handpicked by the donor countries after recommendations from the CIF's Expert Group. The guiding questions that are supplied by the PPCR Sub-committee to its expert advisory group for selecting pilot countries offer insights into the priorities of PPCR. The Sub-committee provides eight guiding questions, and as the PPCR Expert Group points, many of these question are appropriate for assessing the success of the PPCR, rather than setting its eligibility criteria for country selection (CIF, 2009). While the criteria has parameters for ensuring diversity (in terms of geographic distribution, governance factors and hazard exposure) and accounting for vulnerability; there are other parameters in place which at best may ensure the success of the PPCR, and at worst may weaken the program's ability to contribute positively to adaptation by obstructing outreach to the most vulnerable countries and communities. In particular, country preparedness, replicability and sustainability and coherence and value addition are not appropriate factors (CIF, 2009). These factors hunt for those countries that have the ability to produce rapid and replicable results due to an existing policy or institutional capacity; who are preferably receiving external funds and have focused domestic adaptation programs which improve the chances of attaining good leveraging ratios and significant funds; and have a political or institutional environment that maximize the successes of PPCR programs. All these factors are most suited in a results framework as indicators for monitoring the effectiveness of the PPCR. The fact that these feature in the eligibility criteria highlights the desperation of the Sub-committee to generate successful results, and thereby, strengthen its bid for a strong role in a post-2012 climate finance regime.

### Integrated Approaches

The need to integrate climate change adaptation into national development strategies has been highlighted by several scholars, UN papers, and civil society bodies alike. With a strong emphasis placed on programmatic approach, there is greater likelihood that the CIF will support development goals alongside climate change responses. More on this can only be said after the investment plans are implemented. The first few investment plans, however, have depicted a great diversity in the degree to which countries are adhering to a more holistic, horizontal approach that creates win-win solutions for climate change and sustainable development. The CTF investment plans of Mexico and South Africa are good examples. Whereas the Mexican plan takes a more holistic approach emphasizing issues of institutional capacity and governance, the South African plan only notes the importance of such issues (Nakhoda, 2010).

There are, however, concerns over mainstreamed approaches too. With the close link with development, there are concerns that these responses may divert ODA for climate adaptation projects. Therefore, this offers another reason why CIF must formulate and adhere with a standard system of counting additionality of climate finance.

## Aid Effectiveness

The CIF make a cautious attempt to abide by some of the features of aid effectiveness. Particularly, CIF are adopting more programmatic (or horizontal) versus project-based approaches and promoting country ownership and country leadership of these approaches. The success of the CIF in upholding these principles can only be commented on when programs become implemented and deliver results. With regards to country ownership and country leadership, it is noteworthy that the dominance of MDBs role in the entire CIF process builds a sense of, at best, co-ownership of the programs between the countries and the MDBs. Furthermore, as literature suggests (Ballesteros et.al, 2010), the national ownership of investment plans can be enhanced if relevant stakeholders from the recipient countries (especially representatives of vulnerable communities) are involved in the CIF process, including while developing and implementing proposal and investment plans. However, a recent review indicates that the involvement of all relevant stakeholders (beyond finance and environmental ministries) is lacking in the development of investment plans (Radner, 2010). This is partially due to the rapid pace at which the plans are being furnished.

## Direct Access

Scholars have also championed the idea of direct access. But, by channeling the funds through the MDBs, CIF can only provide a facilitated access to countries. With facilitated and indirect access of this sort, while the donors can be assured that their aid is in the hands of agencies with good fiduciary and environmental standards, the incentive and the ability of national institutes to improve or showcase their capacity to administer international finance is compromised. Because climate change is a long term issue that will require a sustained response, national entities need to be ultimately strengthened to administer and disburse climate funds, in accordance with national priorities. Portions of CIF funds could have usefully employed in building this capacity in developing countries. By channeling funds through the MDBs, the CIF are only prolonging the reliance of developing countries on these foreign institutes. In addition, because the funds are channeled through more institutes (CIF → MDBs → national/sub-national institutes), more money is spent on the fees of different implementing agencies.

## Measuring, Reporting and Verification

The CIF have exclusively handed the task of implementing its programs to the MDBs, without any requirements for meeting fiduciary, environmental or social standards. While the foremost standard is generally good for multilateral development banks, they have been criticized for not enforcing strong social and environmental safeguards. Therefore, a requirement to receive accreditation for these factors would have improved the legitimacy of partnering development banks, and also signaled Bank's attention to environmental and social issues.

There are provisions for monitoring and reporting on the activities supported by the CIF. Both the CTF and the PPCR employ results-based framework to assess their progress and

accumulate lessons learned. However, the CIF leave the tasks of measuring and reporting its operations at the discretion of the MDBs. Although the MDBs are accountable to the CIF as they are mandated to report regularly on the progress of the activities, each MDB applies different tools and methodologies to fulfill their obligations. Because of a lack of standardized approach, it can become difficult to compare results.

In relation to this, Ms. Ballesteros and her colleagues named two major institutional gaps. One, there is a need for an independent institution to perform an oversight function which ascertains, among other things, that there is a fair and balanced allocation of power and resources among the various countries and themes of climate change response system (mitigation and adaptation). Ballesteros also mentions that an independent entity, not the World Bank, can fulfill this oversight function. Literature has also pointed to the critical role that civil society bodies can play in monitoring climate finance, at least at a local level (Action Aid, 2009 and Ballesteros et.al, 2010a). Without such a system in place, it would be difficult to coordinate and monitor efforts of international community.

## 6.2 Institutional Issues

The massive scale of financial transfer that is anticipated for climate change has attracted a number of international institutes. The World Bank, amongst them, has been at the forefront in strengthening its position in its bid for a substantial role in climate finance. And in many ways, it has succeeded – the new green Fund for climate change has already designated the World Bank as its interim trustee. The CIF is an exercise of the World Bank that has significantly enhanced its role in international climate finance, and which also raises various questions on the suitability of the World Bank as a major financial institution for climate change. These questions are not new; from the onset, with the proposal of CIF, NGOs and southern government have bombarded the World Bank with criticism and suspicion over the new funds (Tan, 2008). Most of these critiques have either accused the CIF for hijacking the UNFCCC negotiation process, or have targeted the lack of aptness of the World Bank in administering climate change monies.

### Will the past repeat – will CIF cripple the ability of the COP to devise a new financial mechanism?

While integration of climate change activities can be good, there is a concern that the CIF are a donor-driven intervention to place the World Bank and the MDBs as lead institutes for climate finance, undercutting the results of the UNFCCC negotiations. History is proof-enough that these concerns are not far-fetched<sup>14</sup>. In particular, there are striking similarities between the establishment of the CIF and the GEF. GEF was proposed during a joint ministerial meeting of the WBG and the IFC; likewise, the CIF also emerged from a series of meetings of the Development Committee of the World Bank. Once again to demonstrate their keen support, the developed country governments were quick to pledge

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<sup>14</sup> In his analysis of the World Bank, Bruce Rich spotlights a number of contradictions in the Bank's response to international pressure from CSOs for a more environmentally sound development path (Rich, 1990).

a significant amount of money for the CIF (over USD 6 billion), as they did for the GEF (around USD 1 billion). Furthermore, similar to the GEF that was speedily launched just before the UNCED summit, where the discussions on a potential global environmental fund were to be held; CIF were instituted before a new UNFCCC financial mechanism has been finalized by the COP. Finally, like the GEF, CIF are only constructed as a pilot mechanism with a time limit of three years. GEF has lasted for almost two decades now, and despite its many drawbacks, it is the financial mechanism of four global environmental conventions, including climate change.

It is not clear when the CIF programs will actually terminate. Although the sunset clause in CIF governance documents promises that the funds will discontinue after a new financial mechanism is established by the COP, a concrete date is not provided. Furthermore, while the COP had zero input into the decision to launch the CIF<sup>15</sup>, the UNFCCC are authorized to extend its lifespan past 2012. Needless to say (as it is already obvious from their support), donors would be very keen on doing so (Marston, 2010). Whether the CIF will stick to their deadline or not, it is clear that the programs and projects funded by CIF will live for a much longer time. Some of the loans disbursed by the CIF have payback period of forty years, and it is neither certain who will collect the interests from these loans, nor how those loans will be used (CIF, 2010c).

The similarities between the development paths of the GEF and CIF cause concern that the CIF may preempt COP negotiations and snatch the opportunity from the COP to establish a new financial mechanism, just as the GEF tried to do once before (at the UNCED conference, before it was agreed to be restructured). During the UNCED, the original GEF attempted to seize the ability of developing countries to create a global environmental fund through a more rigorous and inclusive process.

While the CIF repeatedly mention that they will not undermine the UNFCCC negotiations, there are reasons to believe otherwise. The most obvious one is the disparity in the resource base for the UNFCCC and CIF (see Figure 6.1). In contrast to the difficulty encountered during UNFCCC negotiations to convince donors to pledge funds for climate change, developed countries have rather willingly promised USD 6.1 billion for CIF. The sheer size of this resource base mocks all the other climate finance mechanisms. Second, although the CIF are not directly linked to the UNFCCC financial mechanism, many donor countries are fulfilling their financial obligations under the Convention or related protocols and agreements by channeling resources through the CIF. A WRI study indicates that a significant portion of the Copenhagen Accord's fast-start finance is being channeled through the CIF (Ballesteros et.al., 2010b). Finally, a leaked document from the Katherine Sierra, vice president of the Sustainable Development Network at the World Bank Group (WBG), bluntly states the intention of the Bank for a

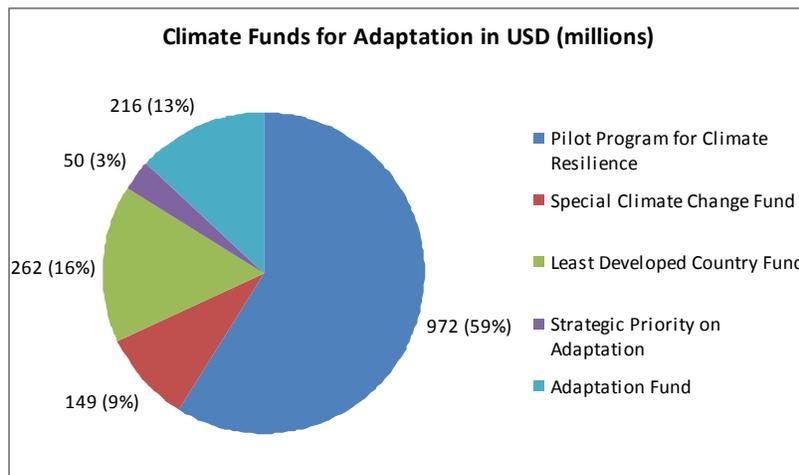
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<sup>15</sup> In a closed door preparatory meeting in Osaka, Japan for the 34<sup>th</sup> G8 summit, heads of state and finance ministers agreed to establish Climate Investment Funds to compliment meeting of heads of existing bilateral and multilateral efforts, until a post-2012 framework under the UNFCCC is implemented. Shortly thereafter, in a press release, the World Bank asserted that representatives of 40 developed and developing countries have reached an agreement to create international investment funds that will provide financing for cleaner development paths and to protect themselves for future impacts of climate change (Shamsuddoha & Chowdhury, 2008).

main role in channeling fast-start finance through the CIF. The document also contains plans to secure a significant role for the Bank in future climate finance. Among other things, the plan “includes an outreach campaign on the Bank’s role in climate finance to ministries of finance; presidents' and prime ministers' offices; and ministries of environment and foreign affairs” (as quoted in Marston, 2010).

With many developing countries are cheering the unique governance framework and other features of the Adaptation Fund (for example, provision of direct access to the funds), the emergence of CIF raises important questions. Richard Klein summed up the concerns of many developing countries and civil society organizations: “why the World Bank just at the moment when the Adaptation Fund is becoming available is putting up an alternative Fund that is not under the guidance of the UNFCCC COP, but in a way competes with one of the funds that the developing countries have fought for very hard, namely the Adaptation Fund, which has a governance system that is considered to be more democratic than that of the CIF, and which is now obviously not seen as primary funding agent because the amount of money in the PPCR” (Richard Klein, personal communication, January 19<sup>th</sup>, 2011). Adaptation Fund, indeed, has many features that are commendable, like the ability of developing countries to access resources directly through an accredited (by the Adaptation Fund Board) nationally entity; a more balanced governance structure that has permanent reservations for least developed countries and Small Island States, as well as other geographically unique developing countries; provision of resources for adaptation as grants alone; and fast project cycle that makes a cautious attempt to obviate bureaucratic delays.

Figure 6.4: **Multilateral Climate Funds for Adaptation**



Source: Heinrich Böll Stiftung, The Green Political Foundation, & the Overseas Development Institute, 2011

Figure 6.4: Although the PPCR of the CIF is the most recent multilateral adaptation fund, it already contains more money than all the other funds combined.

## Reasons why donors favor CIF

The great disproportion between the resources for UNFCCC and CIF begs the question, why? And because the donors have not explicitly addressed this concern, one can only speculate as to why the donors have entrusted the World Bank in particular and other MDBs with so much climate finance. To some extent, with stronger fiduciary standards, the MDBs deserve the trust that donors impart on them. However, it can not be discounted that the donors are able to exercise more power through the governance regimes of MDBs, as most of these institutes award voting shares based on the contributions of its member countries, whereas the UN allocates votes equally among member countries. As such, developed countries are able to influence important parameters of programs supported by the MDBs, like setting programmatic and project priorities, eligibility criteria, enforcing strict regulatory measures, and determining the composition of funds. Even GEF, with a hybrid governance structure (that draws from both Bretton Woods and UN structures where a majority is defined as 60% all participating countries and representatives providing 60% of all GEF funding) has had to yield to the demands of its main contributors. During the fourth replenishment period, beside significant opposition from developing countries and even major European countries, the US was successful in imposing the highly-controversial Resource Allocation Framework for setting eligibility and funding criteria for GEF resources (Ervine, 2007).

Furthermore, as Athena Ballesteros and her colleagues point out, most multilateral development institutes (be it UN-based or otherwise) grant enough informal power to donor countries that is exercised through the day-to-day work of secretariats, technical experts, program officers or implementing agencies and operating entities (Ballesteros et.al, 2010a). Unless COP provides rigorous guidelines to the MDBs on implementing programs for meeting commitments of individual countries under the UNFCCC, and holds these institutes liable for their actions, the power balance will always tipped towards the developed countries. Moreover, with greater formal power share in their governance systems, the donors can exercise even greater levels of informal power through development banks. Finally, the potential of MDBs to generate greater funds for climate change by leveraging donor contributions with other sources may also be attractive to the donor countries. The leveraging ratio for CTF projects is much higher than the GEF mitigation projects<sup>16</sup>. Generating resources in this way has two potential benefits for the donors. First, it alleviates the pressure on developed countries to generate a large amount of funds for climate change solely by themselves. Second, with more resources, developed countries are able to support large-scale and high impact programs through the CIF, which can be appealing to their constituencies.

If CIF are eyeing a larger role in future climate financing (as seems to be the case), they should be subjected to similar levels of legitimacy as any UNFCCC financial mechanism would be. Ballesteros and colleagues have done an extensive piece on institutional

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<sup>16</sup> The range of leverage ratio for CTF projects varies from 1:4 (South Africa) to 1:18 (Colombia). High leverage ratio indicates the extent of co-financing opportunities that the Bank is exploiting, however this also raises the concern that countries may be signing onto huge loans for CTF projects.

legitimacy and outline its three pillars: power, responsibility and accountability (2010a). Any institute that plays a key role in administering climate finance must be assessed against these dimensions of legitimacy (see Figure 6.5).

From this, it is clear that several attributes of the CIF will need to be drastically altered for it to be perceived as a legitimate funding mechanism, including altering its governance system to a more representative (with representatives from all COP members) and equitable (with more balance in governance structure that may include extending greater share of votes to non-Annex I countries, as they contain more COP members). In addition, a rigorous memorandum of understanding (MOU) between the COP and the CIF, which clarifies their legal relationship, and cements the authority of the COP will be necessary. Moreover, CIF would have to be made accountable to the COP, and required to submit regular reports of their operations and their impacts to the COP (Ballesteros et.al, 2010a). CIF would also have to align its objectives more formally with those of the COP, by identifying and fulfilling key gaps.

Figure 6.5: **Dimensions of Institutional Legitimacy**

<b>Box A. DIMENSIONS OF POWER, RESPONSIBILITY, AND ACCOUNTABILITY IN THE DESIGN OF A CLIMATE FINANCIAL MECHANISM</b>	
<b>POWER:</b>	<b>The capacity—both formal and informal—to determine outcomes</b>
	<ul style="list-style-type: none"> <li>• How will the financial mechanism's governance structure distribute voice and vote between and among contributors and recipients?</li> <li>• What role will the United Nations Framework Convention on Climate Change's (UNFCCC) institutions, including the Conference of the Parties, play in guiding the financial mechanism?</li> <li>• To what extent will contributors be able to determine funding priorities by placing conditions on the resource mobilization and allocation process?</li> <li>• How influential will the secretariat and management staff of the financial mechanism be in determining project design and selection?</li> <li>• Will advisory groups, civil society observers, and local communities play a role in determining how the financial mechanism operates?</li> </ul>
<b>RESPONSIBILITY:</b>	<b>The exercise of power for its intended purpose</b>
	<ul style="list-style-type: none"> <li>• Are the financial mechanism's standards, program priorities, and eligibility criteria strong enough to ensure its resources are invested fairly and effectively?</li> <li>• How do cost-sharing formulas (e.g., incremental, marginal, transformative costs) allocate responsibilities between contributor and recipient countries, and between the financial mechanisms and recipient countries?</li> <li>• To what extent are national institutions and local civil society entrusted with ensuring the effective design and implementation of investments?</li> </ul>
<b>ACCOUNTABILITY:</b>	<b>The standards and systems that ensure power is exercised responsibly</b>
	<ul style="list-style-type: none"> <li>• How does the financial mechanism measure, evaluate, and incentivize results?</li> <li>• Are effective environmental and social safeguards in place to ensure the investments do no harm?</li> <li>• How are fiduciary duties and financial management standards supported and enforced?</li> <li>• Are grievance and inspection mechanisms in place to ensure that standards are followed?</li> </ul>

Source: Ballesteros et.al (2010a)

Figure 6.5: Ballesteros and her colleagues define three parameters of institutional legitimacy: power, responsibility, and accountability. Any financial mechanism with a significant role-play in climate finance must be assessed in accordance to these dimensions.

### CIF - A Major MDB initiative that threatens UNFCCC?

The CIF are mainly a multilateral development banks-run initiative, in which the World Bank Group assumes the lead role. These funds provide a platform for all the MDBs to coordinate their climate related activities to gain maximum experience in the field. Therefore, the CIF can be traced back to the 2005 G8 summit when the MDBs were invited to enhance investments and undertake measures to promote energy efficiency,

renewable energy and low carbon growth in their activities, and the World Bank was asked to create a framework for clean energy and development. The goals of promoting energy efficiency, renewable energy and low carbon development are similar to that of the CIF. Additionally, the investment strategies developed by each MDB at the time can now contribute to coordination of MDB climate change activities to achieve the maximum benefit of climate change resources in the banks. The box below presents the similarities between the strategies for climate change of ADB, AfDB and IDB.

**Box 6.1: Similarities in Climate Strategies of MDBs**

*Comparison between African Development Bank, Asian Development Bank, and Inter-American Development Bank*

- 1) Enhancing capacity building (institutional and technical) at national and local levels (including of local civil societies, financial institutes, and the national and local governments);
- 2) Developing and implementing national and sub-national climate change strategies;
- 3) Mobilizing significant sources by utilizing a variety of funding instruments, such as loans, grants, guarantees, and investment grants; enhancing and enabling private-sector involvement; and exercising a greater leveraging ratio by identifying newer sources of climate finance.
- 4) Encouraging programmatic vs. project-based approaches;
- 5) Increasing knowledge and technical know-how regarding climate change and promoting knowledge sharing;
- 6) Involving key high-level government officials of recipient country, like finance ministers, earlier on in the process;
- 7) Encouraging and increasing civil society participation;
- 8) Measuring and monitoring their own GHG “footprint” and mainstream mitigation and adaptation in selected, climate-sensitive sectors. The MDBs have varying monitoring and reporting provisions, and none are accountable to the COP. IDB allows donors to monitoring access for any project they fund, and will produce unaudited versions of activities approved in the previous year with only general account of the funding source and the project. The AfDB has developed a CRMA framework that is aligned with regional targets, and will monitor progress of - (i) its own investments, with regards to implementation of climate risk management and adaptation measures, for which the Bank will use normal reporting mechanisms; and (ii) country level outcomes related to climate resilience, for which the Bank will collaborate the with those who are “specialized” in monitoring climate variability, such as the UNFCCC, IPCC, UNEP, etc;
- 9) Are already undertaking large-scale climate-related projects and have established funds for addressing climate change adaptation and mitigation challenges (the governance of the fund will be chiefly compromised of ADB staff and development partners (donor agencies), and hence will depart strongly from the equality principles followed by UNFCCC and the CIF).

Source: Inter-American Development Bank, 2010, African Development Bank, 2009, Asian Development Bank, 2011

Box 6.1: The Box was created by extracting similar elements from the climate change strategies of the African Development Bank, Inter-American Development Bank, and the Asian Development Bank.

## Role of the MDB in CIF

From the onset and throughout the whole cycle, the MDBs are closely involved with the CIF process – they aid in the conduction of initial surveys to gauge at the usefulness of CIF funds to the recipient countries, support the development of national (or sub-national) strategies and investment plans, prepare individuals projects springing from these investment plans, implement and monitor projects according to their own operational procedures and guidelines, and report on the impacts of these projects (again relying on their own abilities and using their own parameters) to the relevant Trust Fund Committees. With such intimate involvement in the entire process, the MDB will undoubtedly garner important experiences and will be well-placed for major role in the upcoming climate financing regime.

## Drawback of involving MDBs

There are several drawbacks of involving the MDBs so closely in the CIF process. Inserting a layer of MDBs between the CIF Trust Fund Committee, which controls and disburses the funds, the direct access of national government to CIF resources is somewhat compromised. Although in the near term, this kind of facilitated access to finance may be necessary, because the national systems of many developing countries are not yet capable (or reliable) of administering huge sums of international climate financing (Brown et.al, 2010b); with a requirement to have the MDBs serve as intermediaries between the Funds and the recipients, the CIF may not help improve the capacity of national institutions. Referring to the close involvement of MDBs in climate finance and other development work, which can make developing countries over-reliant on these institutes at the expense of improving their national capacities, Neil Bird suggested the idea of working out an “exit strategy” for MDBs (personal communication, November 12<sup>th</sup>, 2010). In fact, given the long life lines of these funded projects, the CIF may prolong the incapacity of national institutions to handle climate finance.

Second, the relationship between the MDBs and pilot countries and the extent to which developing countries assume leadership positions in the CIF process are ambiguous at best. It is not clear whether the MDBs will have an equal, greater, or lesser influence in the design and implementation of CIF programs and projects. The initial country assessments and the development of national country strategies, although are country-led processes, closely involve the MDBs. In fact, the PPCR recommends that pilot countries assign an equal partnership role to their partner MDBs in the development of the program or a lead administrative role for the PPCR funds (CIF, 2009d). The MDBs, therefore, are able to cast significant influence over these processes. The question is that given the influence of MDBs, will the priorities of these development partners override those of the client countries? While it is too early to make any conclusions, the concerns that the MDBs can use CIF resources to further their own agendas are not completely misguided. Because the CIF exploit co-financing opportunities with other development partners, efforts can be made to integrate CIF projects with those envisioned in MDB country strategies. In this way, CIF programs are not only country-owned, but also MDB-owned. While integration can be beneficial for securing sufficient funding for climate projects, it

can limit the ability of client countries to use CIF resources in their best interest. One way to prevent undermining the ability of developing countries in this way is to properly define power relation between the recipient countries and the MDBs and CIF (Ballesteros et.al, 2010a). In particular, the recipients must be able to more formally design and approve the final programs and projects that are implemented. Furthermore, requirements to demonstrate the country-ownership of individual programs (i.e. are they in line with national priorities and do they reflect national circumstances) can also be mandated.

A final drawback of involving multiple MDBs in the CIF process is the lack of consistency it produces. MDBs are granted freedom to implement, monitor and report progress of CIF projects and programs using their individual operational procedures and guidelines. This makes it difficult to compare and generate lessons from programs implemented by different MDBs. Because the CIF aim to generate lessons from these pilot initiatives, the lack of consistency in the operations of the MDBs can be problematic. In addition, without an oversight mechanism of the CIF Trust Fund Committee, giving such liberties to the MDBs will mean that unfair or ineffective aid practices (lack of national ownership, complex bureaucratic procedures, imposition of unfair conditionalities) by MDBs may prevail. This will be at odds with the CIF efforts of adopting some measures of aid effectiveness, like country-ownership and leadership. Therefore, the CIF Trust Fund Committee should enforce a more rigorous and consistent accountability requirement on the partnering MDBs.

#### Time Dimensions in Climate Policy

An interview with Neil Bird revealed an important note about the innate feature of climate change as a long-term public policy concern (personal communication, November 12<sup>th</sup>, 2010). This is unlike conventional international development, to which comparably shorter time perspectives are applied during planning stages (for example, the focus on achieving the Millennium Development Goals by 2015 has tended to condense time scale). With a significant managerial role in climate finance, MDBs are bidding for a much stronger and longer role in recipient countries, which should be questioned. Specifically, will climate funds administered or implemented by MDBs prevent capacity development of national institutes in developing countries? While national institutes may not have the capacity yet to manage significant flows of climate funds, there are concerns that the stronghold of MDBs in developing countries will only discourage countries to build their own capacity in this regard.

In relation to this, Ari Huhtala, the Senior Environmental Specialist, Climate Change Team at the World Bank (personal communication, November 10<sup>th</sup>, 2010) claimed that the Bank is keen about countries building capacities of national implementing entities in developing countries so that they can access funds directly. Although it is not clear how the Bank will improve national capacities by micro-managing all financial transactions, it can be hoped that the Bank acts on this statement.

## Knowledge Sharing Potential

The CIF state that one of their aims is to generate lessons for the climate finance community, including UNFCCC, by piloting transformational and scaled-up responses to climate change. Specifically for the purpose, they have designed the partnership forum, which is held annually for stakeholders to share their experiences with the CIF. This is a positive development, since the international community is in need of knowledge sharing forums like this.

### **6.3 Governance Issues**

With CIF, MDBs are departing from their conventional practice towards a new approach to governance – one in which power is divided equally among participating developed and developing countries. Yet, the CIF reside in a “donor-oriented environment” (Ballesteros et.al, 2010a) –i.e. the World Bank, where largest share of power is in the hands of largest contributor to the institute. Will the dominant power structures that embed the World Bank seep in through its walls and influence the CIF?

## Equitability

Abiding by the principle of equality, the Trust Fund Committees (TFC) of the CIF allocate equal seats to both developed and developing countries, which are the decision-making members in the TFC. Moreover, the CIF also extend memberships to a MDB and a World Bank official, as well as representatives from civil societies and private sector, thereby improving the representativeness of various stakeholders in its governing bodies. These are all positive characteristics that have been championed by many NGOs and developing country leaders. Nevertheless, there are some issues of concern. The first issue is regarding the set-up of the governance structure. Although developed and developing countries are allocated equal number of seats (CIF makes provisions to adjust the number of seats for recipient countries to always match it with the number for donor countries, in any situation when the number of interested donors drops), the Adaptation Fund has offered a more appealing arrangement, which allocate more seats to the developing countries, reflecting on their sheer majority in the COP, as well as their different adaptation needs, level of economic development, and geographic distribution. Although the CIF are not the UNFCCC’s financial mechanism, they are creating lessons to inform a future financial mechanism. The arrangement of the CIF, as compared to the Adaptation Fund seems like a regressive step.

## Representation of all Relevant Stakeholders

An additional fault with the seat allocation in Trust Fund Committee is that it is not representative of all countries and stakeholders involved in the climate process. The Trust Fund Committee selects only those developed and developing country members that are participating in the CIF process. Small donor countries, which are unable to make the minimum contributions are kept from participating in the process. Likewise, developing countries, which are not interested in the CIF (for instance, if they resist MDB

involvement) do not participate in the programs and are deprived from receiving significant proportion of climate monies. The developing countries are selected based on the recommendations from the Expert Group Committee. However, donor countries did not completely adhere to the list provided by the experts while inviting recipient countries (CIF, 2009a & CIF, n.d.b). The final reasoning for selecting the current mix of recipient countries is still unknown.

The composition of only a handful of developed and developing countries has both pros and cons. On one hand, this permits each individual member, whether developing or developed, to be more influential during CIF deliberations as compared to during UNFCCC negotiations (Richard Klein, personal communications, January 19<sup>th</sup>, 2011). Nevertheless, this also makes the process exclusive as it does not have representation of all developing countries and relevant stakeholders. This limits the ability of CIF to explore and respond to the diverse set of climate threats and opportunities facing developing countries and affected communities. Furthermore, the countries in the TFC have volunteered to participate as CIF pilots. Therefore, it can be speculated that these countries may not be affected by and overlook some of the design flaws of the CIF. Because of such a governance arrangement, the CIF's ability to generate lessons for the international community is reduced.

#### MDB and World Bank Representation

A unique aspect of the CIF governance structure is that there is representation of a MDB and World Bank officials. While the representatives of the World Bank and other MDBs are non-voting members, they attend all the sessions, including the exclusive executive sessions, which observer organizations (including UN and NGOs) don't have access to. Because decision is made on consensus, even as non-voting members, the MDB and World Bank representatives can influence the decision-making process significantly. This raises a related question, which CIF governance documents fail to clarify – what is division of power between the voting and non-voting members of the CIF Trust Fund Committee, when decision is taken on consensus. Furthermore, the CIF also do not specify what happens if consensus can not be reached among the Trust Fund Committee members.

#### Consensus Decision Making

Decision-making in the CIF only happens on the basis of consensus. While consensus is rightly hailed as a fair decision-making mechanism, in situations when there is a large number of stakeholders and a diversity of opinions, like during climate change negotiations of the COP, consensus decision-making can impede progress. From the interviews (Arastoo Khan, personal communication, January 28<sup>th</sup>, 2011 & Anonymous, personal communication, January 10<sup>th</sup>, 2011), it seems that so-far there has been little trouble using this mechanism. Nevertheless, it should be remembered that in a consensus process, any dis-consenting member can essentially veto a decision. This is what happened when the US decided to place a condition on its contributions to the CTF that it may not be used for supporting investment in fossil fuels (Nakhoda, 2010). Therefore,

the CIF governance arrangements must be reformed to contain voting processes when consensus fails. Also, in consensus decision-making, care must also be exercised that the opinions of a particular member are not suppressed or wrongly manipulated. The CIF can assure this by being more transparent in their decision-making processes, which can be achieved easily by involving observers in all their meetings, including executive sessions.

#### Extent of Observer Participation

Another feature of the CIF is the involvement of observers in the meetings of Trust Fund Committee. The inclusion of different and relevant civil society and private sector members is a significant advancement on the conventional decision-making arrangements of the development banks, which happen behind close doors and have comparatively lesser transparency. The PPCR has attempted to include a representative of the Adaptation Fund in its Trust Fund Committee (as of now, its Farrukh Iqbal Khan). This is again a commendable step, and can enhance the coordination of efforts between the UNFCCC's Adaptation Fund and the CIF.

Observers have ability to request agenda items, invite experts to speak on particular issues and make verbal interventions during Trust Fund Committee meetings. In this way, they can be influential in informing the process and decisions taken by the Trust Fund Committee. However, the scope of the observer participation is still limited to some degree. Specifically, observers can not observe "executive sessions" where investment plans are discussed and finalized. Recently, however, the civil society and private sector members expressed their frustrations over this practice and noted that their technical expertise and significant knowledge and experience can benefit the discussions on the investment plans (Nakhoda, 2010). Accordingly, since October 2009, the observers are allowed to participate in MDB presentations of the investment plans and offer their comments there; however the "executive sessions", where the plans are finalized still remain sealed to the observers. Opening executive sessions to observers would not only allow CIF to further benefit from the expertise of the observers, but also make the process more transparent. Additionally, because many of the observers represent different stakeholders, observer participation in executive session would make executive sessions more inclusive and ensure (to a greater degree) that the programs and plans endorsed by the CIF are beneficial to more stakeholders.

## 7.0 Conclusions

With USD 6.1 billion in pledged funds, the CIF are currently the largest channel of multilateral resources for climate change. The money is to be used to fund “live experiments” through four different trusts to generate important lessons in climate financing. One of these focal areas is adaptation, which receives close to USD one billion. The funding for adaptation will be channeled through the Pilot Program for Climate Resilience which provides funds for developing national strategies and investment plans for carbon-resilient development in participating countries. These strategies are developed through country leadership and in partnership with one or more MDBs working in the country.

The sum is substantial, but whether its use will be so too is uncertain. With a few commendable changes in its governance structure, which is noticeably different from the conventional decision-making structure of Bretton Woods organizations, the international community is keenly waiting for the outcomes of these live experiments. In this spirit, it is also useful to examine the opportunities and challenges for adaptation to climate change for the CIF as compared to the UNFCCC.

To analyze the latter research question, document analysis and interviews were conducted to generate information on what the needs of adaptation finance are and how the CIF and the UNFCCC address adaptation. From the information gathered, a number of funding, institutional and governance challenges and opportunities for adaptation financing under the CIF became apparent. The division between these three issues is purely meant for organizational purposes; in fact the linkages between these three issues are much too obvious. Each institute allocates authority among important stakeholders differently, which reflects their history, purpose and political disposition. This influences the manner in which they create and resolve the different funding problems relevant to adaptation financing. A number of conclusions about each of these issues can be made.

### 7.1 Funding Issues

The CIF have risen in the absence of an agreed definition (or baseline) for accounting for new and additional finance under the UNFCCC. This is specifically not a fault of the CIF, but that of the COP, who are in charge of setting and agreeing on principles of aid mobilization and transfer. However, the CIF are indirectly adding fuel to the distrust between developed and developing countries with regards to additionality of funds. A large chunk of climate aid is being channeled through the CIF, specifically for the purposes of meeting UNFCCC requirements (or that of agreements that have emerged in a COP setting, like the Copenhagen Accord). By granting liberty to donor countries to abide by their own definition of additionality, the CIF are only encouraging some donors to divert ODA resources toward climate change. This is fundamentally at odds with the UNFCCC’s requirement of providing non-Annex I Parties with new and additional resources for responding to the impacts of climate change.

Another unsolved problem is the inadequacy and unpredictability of funds. While it can be argued that the CIF are by nature a short-term endeavor, meant to only produce lessons in climate finance, the manner in which climate funds are garnered will prolong the unpredictability and inadequacy of funds. Specifically, CIF contributions are made on a voluntary basis, just like most of the UNFCCC funds (with the noble exception of the Adaptation Fund). Voluntary contributions means that the funds in CIF are unpredictable, and their renewal and flow may be contingent upon various donor conditions. Here again, CIF are only repeating the past mistakes of the UNFCCC funds. Voluntary contributions grant significant power to the contributing countries, and can obstruct from implementing new and effective ways of generating and disbursing resources. It has been argued many times that contributions towards climate change must not be voluntary, because climate change is an environmental justice issue – a view that is also broadly endorsed by the UNFCCC.

Other sources of financing, namely taxation of international transport and financial transactions and carbon markets are being advocated by many experts (as the UN's AWG-LCA report confirms), avoid this problem, and it would have been good to see the World Bank create experience with these sources.

To some extent, CIF can generate new lessons by achieving significant leveraging ratio by partnering with development banks and the private sector. Raising sources from these two avenues has also traditionally been the main forte of the World Bank. In relation to this, however, there are few concerns that must be addressed. Amidst a lack of set definition for new and additional, new questions about whether funds from private sector and development banks will count towards contributions from individual countries for fulfilling their UNFCCC obligations are raised, and need to be addressed. In addition, there are limitations to the private sector's involvement in climate finance, since they are mainly profit-driven. This is especially an important concern for adaptation financing, which intrinsically creates local (and perhaps long-term) benefits for the community with smaller profit margins for its investors. In light of this, developed countries should not shoulder off their responsibilities on the private sector; public sources will continue to be an important source of climate funds.

Just like financial sources, financial instruments have important implications for the recipient countries. There is a strong argument that climate finance, especially for adaptation, must be disbursed in forms of grants, not loans. This is especially critical for adaptation, because of small profit margins of adaptation programs, the lack of financial capacity and the intensity of climate impacts on the most vulnerable countries, which require international adaptation funds. On the other hand, it is argued that given the cost of climate change and the rising income and emissions of some developing countries, other financial instruments should be deployed for climate change. In any case, there is a need for more information to better match financial instruments with the needs of recipient countries (for example, which countries and programs can be supported by loans, and which ones should be supported by grants). The CIF may be able to generate some lessons in this regard, as they are playing with different kinds of financial instruments.

However, there are some issues with the use of loans that the CIF has failed to address. The CIF provide loans for adaptation, albeit at highly concessional terms. In his interview, Aarastoo Khan, additional secretary at the Ministry of Finance, Bangladesh and a member of the PPCR subcommittee sounded quite positive about the PPCR funds, pointing to the 75% grant element of the loans and the 40 year pay-back period (personal communications, January 2011). Despite his optimism, only the future, when the impacts of PPCR program become visible, will tell whether the CIF loans encumber developing countries with international debt, or provide timely and necessary assistance to some of the most vulnerable countries.

At this stage, what would have helped the international community determine the suitability of loans to adaptation finance is the information on the terms and conditions of the loans. Unfortunately, the CIF do not disclose the specific terms and conditions of their financial arrangements with particular countries. However, to generate lessons for the UNFCCC and to demonstrate fair use of climate funds, the CIF must be more transparent in this regard. They must make available to the civil societies and developing countries the terms and conditions and proportions of the loans that are disbursed to recipient countries. They must also, as much is possible, highlight the terms and conditions of private sector investment in recipient countries (which are even more covertly kept from the international community).

In other ways, CIF are experimenting with good parameters of aid effectiveness. Namely, with programmatic approaches and the provision of national ownership, the CIF can generate useful lessons for future adaptation financing. The success of the PPCR will depend partially on the extent of stakeholder participation in the constructing climate resilience strategies and investment plans. Developing countries should not only be encouraged to engage relevant ministries in the planning process, but also representatives of vulnerable communities.

## **7.2 Institutional Issues**

The emergence of the CIF at this time in the climate negotiations - when the Adaptation Fund has been established with many features that were strongly fought for by many developing countries and NGOs, and when the financial mechanism for the UNFCCC is still to be negotiated by the COP – seems intrusive to the negotiation process. Given the similarity in the way the GEF and the CIF have emerged – both being first proposed during ministerial meetings of the World Bank, just before an important negotiation on a financial mechanism, and with significant resources (and political support) from donor countries – the concern that the CIF may undermine UNFCCC’s negotiations on a new financial entity of the Convention is not misplaced. The World Bank has already secured a position as an interim trustee of the planned Green Fund.

In comparison with the Adaptation Fund, the CIF are at least a step behind. With greater representation, more transparency, a larger involvement of the civil society organizations and other registered observers, and complete decision-making rules (with a set procedure

of managing a situation when consensus between Parties can not be reached), the governance arrangements of the Adaptation Fund are much more equitable than that of CIF. The Adaptation Fund also provides recipients direct access to its resources base for projects and programs that they plan on their own. In contrast, recipients can access resources only through a MDB in the CIF. Recipient countries are also free to appoint implementing and executing entities, as long as they meet certain fiduciary requirements of the Adaptation Fund Board. Unlike this, MDBs implement programs for which CIF funds are used. Many would have liked to see these features of Adaptation Fund become more prominent in the future climate regime. However, with a much larger resource base and a different governance structure and funding arrangement, the CIF may be able to promote their less balanced governance and less effective funding standards on the future climate mechanism.

The CIF allot a chief role to Multilateral Development Banks as implementing entities of its funds. In fact, the involvement of MDBs is so strong that the investment plans for CIF are co-owned by recipient country and MDBs, so that their programs in recipient countries can be accordingly coordinated. This could be a good development as it permits development banks to align their country strategies with climate change responses. On the other hand, it could decrease the emphasis on climate change activities; MDBs may be prompted to just use CIF resources to further their own agenda in a country, without giving due to consideration to climate change impacts. Without a strong cooperation between all the relevant country stakeholders and the MDBs, there is a chance that the development banks could superimpose their ideas on how investment plans should be constructed. They may also try to increase their roles in implementing programs, at the expense of building the capacity of national institutes from doing so. Finally, without any standard approach for conducting operations, it can be difficult to extract lessons from the use of CIF resources. Therefore, it is crucial that the MDBs remain transparent in their operations, including during consultations with the pilot countries and implementation of their programs. Also, a special effort must be made by the pilot countries and the MDBs to include representatives of vulnerable communities in the planning process.

Given the plurality of institutes for climate finance, and given that the MDBs and the CIF may assume a more integral role in funding response activities to climate change, there is a need to legally tie these institutes to the UNFCCC. In particular, all climate finance institutes must be made accountable to the COP, so the primacy of UNFCCC is legally enforced. This will also ensure that ultimately, it will be the UNFCCC mandate (of the Convention and the subsequent Accords and Protocols) that would be supported through funds from donor countries. The parameters of institutional legitimacy, outlined in Figure 6.3, can be used to set standards for climate financing institutes. For example, all climate finance institutes must be provided with guidance from the COP and may be subjected to regular monitoring; the governance structures of these institutes must share power equally between donors and recipients; function in a transparent manner; and involve a diverse set of stakeholders (including members of vulnerable communities).

### 7.3 Governance Issues

The CIF has many features in its governance structure that are new and progressive development on the conventional decision-making structure of development banks. In particular, equal share of seats between the developed and developing countries and participation of observers (and in the case of PPCR, a member of the Adaptation Fund Board) are positive developments that make the governance structure much more equitable. Still, in comparison, the Adaptation Fund Board has a far greater representation of all Parties to the Kyoto Protocol and many more observers.

Observer participation in the CIF governance is a positive development; however, there is room for improvement here as well. Given that observers can represent various stakeholders (including vulnerable communities) and offer sound technical expertise, they should be granted equal access in the CIF boards as other members. In particular, they should be able to sit in executive sessions, where investment plans are finalized.

Another aspect of the governance structure that can be improved is the decision making rules. There is no set protocol on how to act in case consensus can not be reached during Committee meetings (except for postponement or withdrawal of the proposal). Here, voting criteria, similar to that of Adaptation Fund, could become useful.

### 7.4 Final Remarks

Some of the strengths and weaknesses of the CIF are summarized in Table 7.1 below. It is still too early to tell whether the CIF will be overall a positive or negative experience for climate finance, because the majority of the funds are not yet disbursed. However, this thesis concludes that on one hand there are several important opportunities for the CIF. With a significant resource base, the CIF can provide important lessons to future climate funds. They are also providing important experience to multilateral development banks, which can be important avenues for channeling climate finance (some of the development banks, most notably the World Bank, already play a strong role). The CIF are also experimenting with new methods of providing aid that are cheered by many experts, leaders, CSOs, like supporting mainstreaming of adaptation into national development strategies; promoting national-ownership of plans; and conducting country-led, country-wide, multi-stakeholder surveys while developing national strategies.

However, there are several challenges in the way of CIF. With only some developed and developing country members, that are not fully representative of the COP and arguably less balanced composition, the governance structure of the CIF is not as advanced as that of some of the UNFCCC funds, especially the Adaptation Fund. The Adaptation Fund that falls under the UNFCCC umbrella also has made progress in providing countries with direct access to resources, providing only grants for adaptation, streamlining access to its resources, and removing any unfair economic conditionalities tied with its resources. All these are improvements on the conventional use of resources for climate change. Unfortunately, these positive developments are not taken up by any of the CIF funds. Finally, there are also no legal obligations of the CIF towards the COP, which raises the

concern that the CIF can induce a direct competition for funds with the UNFCCC, or may preempt the outcome of COP negotiations in 2012.

In many other ways, the CIF are only promoting some of the weaknesses of the UNFCCC funds. Overall, the UNFCCC funds allocate more resources to mitigation than adaptation; the same trend continues in the CIF. Like the UNFCCC, the CIF rely heavily on voluntary donor contributions, and are therefore unable to collect adequate and predictable funds. Neither have the UNFCCC negotiations, nor the World Bank leadership been able to convince the donors to abide by a standard definition for new and additional funds, thereby allowing developed countries to divert funds from ODA. The UNFCCC funds have implemented the majority of its programs through multilateral institutes, some of which may indirectly tip the power balance towards developed countries, who are their largest shareholders (Muller, 2008). By contrast the Adaptation Fund provides the opportunity to access the funds directly through an accredited national agency; however, many developing countries are not able to avail this opportunity because of a lack of institutional capacity in these countries. CIF could have contributed usefully by building national capacities of individual countries to enable them to access resources directly through the Adaptation Fund or through its four trust funds. In addition, although the CIF are experimenting with larger leveraging ratios by partnering with development banks and private sector (this experience could generate important lessons for the UNFCCC funds), they are not experimenting with newer sources of finance, like carbon markets and taxes on international air and maritime transport.

With a bulkier resource base, the CIF also raise questions of institutional interplay between the UNFCCC and CIF. Although CIF asserts the supremacy of the UNFCCC, they are not legally accountable to the COP for their actions. Given that many developed countries are fulfilling their commitments under the UNFCCC by channeling resources into the CIF trust funds, the CIF should have been made accountable to the COP. A legal relationship should have been drawn between them (through the likes of a Memorandum of Understanding) and CIF should have received guidance from, and provided regular reports to the COP on the activities it supports. This could have further enhanced the cooperation between the two institutes, coordinated climate change activities, and improved the quality and the relevance of the lessons generated by the CIF. If the CIF (or at least some of its trust funds) are to live beyond 2012, efforts should be made in this direction.

**Table 7.1: Some Strengths and Weaknesses of the Climate Investment Funds**

<b>Strengths</b>	<b>Weaknesses</b>
Substantial sum of money	No mechanisms for determining additionality and adequacy, or ensuring predictability of funds
Experimentation with country-led and country-owned strategies	No experimentation with innovative sources of climate finance
Experimentation with programmatic approaches	Lack of transparency on the terms and conditions of loans, and of the financing provided by the private sector
Potential to reach high leveraging ratios	No provision of direct access to resources
Potential to generate useful lessons for international climate finance	Provision of loans for adaptation
	Inability to provide a balanced allocation of resources between mitigation and adaptation
	No guidance from the COP, or any defined legal relationship to the COP
	Limitations on the extent of observer participation
	Not all COP members represented on the decision-making boards

Referring back to claim made by some NGOs that the CIF are a World Bank’s attempt to undermine global climate action, this statement can not be endorsed by this thesis as it stands. However, there are significant challenges standing in the way of CIF, particularly with regards to adaptation financing. Had the World Bank aligned its mandate more formally with the UNFCCC, in an attempt to identify and bridge the gaps in the current aid architecture for climate change, the CIF process would have perhaps be seen as less invasive. Currently, the CIF does repeat some of the shortcomings of UNFCCC funds, like inability to provide new, additional (to ODA), predictable funds which are divided in a balanced way between adaptation and mitigation. There is also perplexity over the legal relationship between the COP and CIF. The governance arrangements of the CIF are not as advanced as that of the Adaptation Fund Board. Significant power is also in the hands of donor-preferred institutes, i.e. the multilateral development banks, and there is little attempt to increase the capacity of national institutes in administering climate finance. There is also no experimentation with newer sources of climate finance, especially ones which are receiving strong enthusiasm from the international community (i.e. monitoring emissions from international transport to extract funds from these industries for climate change). There is some experimentation with generating private sources of finance; however, with insufficient transparency in the disbursement of funds, the effectiveness of this arrangement remains questionable.

But with a substantial resource base, experimentation with country-led, programmatic approaches to design national strategies and investment plans for climate change, and arrangements to share experience with the international community, some good may come out of the funds. With a relatively balanced governance structure (with equal seats and votes for developed and developing countries and representation of civil society organizations), the CIF are a significant improvement on the conventional decision-making structure of the World Bank. If the World Bank and other multilateral development banks are to assume a significant role in administering climate finance, such a governance arrangement would be a step in the right direction.

In spite of the strengths and weaknesses of the CIF, time will be the true test of the CIF's success in providing for adaptation finance. The CIF projects and programs should be evaluated along a number of themes, as outlined below.

#### Quality of the programs and projects supported by the CIF

- Are adaptation programs supported by the PPCR sufficiently integrated into the country's development strategy?
- Are they reflective of the concerns of the vulnerable communities and other important stakeholders affected by climate change?

#### Influence of CIF on recipient countries

- Are these countries accumulating more international debt? Are sufficient risk mitigation strategies in place?

#### Evaluation of the multilateral development banks

- How well have they administered climate finance?
- Have they experimented with truly transformation strategies that are necessary to respond to climate change, or are they simply labeling old practices as climate strategies?
- How different are the strategies of multilateral development banks and the UNFCCC towards climate change – is there a potential conflict?

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