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Briefing Paper 5

Bangkok Climate Change Talks
31 March - 4 April 2008

No Additionality, New Conditionality: A Critique of the World Bank's Proposed Climate Investment Funds

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31 March 2008

Introduction

The World Bank[1] is planning to establish a portfolio of climate investment funds (CIFs) to provide financing for climate-related activities. The stated objective of the funds is 'to provide concessional finance for policy reforms and investments that achieve development goals through a transition to a low carbon development path and climate resilient economy' (World Bank, 2008a).

These funds are the latest efforts on the part of the Bank to capitalise on current global concerns with climate change and form a key pillar of its larger proposed strategic framework on climate change (World Bank, 2008b). In contrast to previous financing initiatives, these proposed funds are expected to attract significant donor support. The combined target size of the CIFs already exceeds the combined total of funds held in existing trust funds administered by the Bank. In 2006, the total funds held in trust by the Bank were US$10.3 billion (World Bank, 2006: 2) while the target size of the proposed Clean Technology Fund alone is between US$5 and US$10 billion (World Bank, 2008a: annex A, para 7).

This briefing paper examines the modalities for the proposed climate investment funds and considers the impact these funds will have on existing global measures to tackle the causes and effects of climate change. In particular, the paper will consider how the Bank's role in climate change financing may create parallel frameworks of climate change governance which may undermine existing multilateral climate change regimes. The paper then considers briefly some of the alternatives to Bank-driven instruments for climate change financing.

I. Background and Aims of the Climate Investment Funds

The World Bank's proposal for the portfolio of climate investment funds stems from the institutions' dialogues with a tripartite of G8 countries – the UK, the US and Japan – and builds upon the UK's earlier initiative for an Environmental Transformation Fund (ETF), the US's proposed Clean Technology Fund and Japan's Cool Earth 50 initiative (World Bank, 2008b: para 45).

In consultation with these and other donors as well as regional development banks, the World Bank will develop these funds to make available new financing for developing countries 'interested in making a transition to a low carbon development path and climate resilient economy' (ibid). Financing will take the form of 'credit enhancement and risk management tools, such as loans, grants, equity stakes, guarantees and other support' (World Bank, 2008a: para 2) mobilised through donor contributions to the respective trust funds (see below) and implemented in collaboration with the regional development banks[2].

In other words, the CIFs will serve as the central instruments through which donor resources are collected and disbursed for climate-related financing to the various regional development banks and to the World Bank Group. Resources from the CIFs will, in effect, subsidise the financing made by the MDBs to developing countries for climate-related activities, including co-financing

[1] The term 'World Bank' here is used in reference to the International Bank for Reconstruction and Development (IBRD) and in some instances, to the Bank's concessional lending facility, the International Development Association (IDA) which both share the same board of Executive Directors. The term 'World Bank Group' will be used to refer to the IBRD, IDA and the private sector arms of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

[2] These include the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development and the Inter-American Development Bank a(World Bank, 2008c: footnote 1).

arrangements with the MDBs and buying down of interest and repayments on MDB loans to increase the concessionality of financing for the projects (World Bank, 2008e: para 4).

It is proposed that ‘the MDBs have fair and equitable access to financing from the funds and rely on their own policies and procedures in developing and managing activities financed by the funds’ in accordance with the objectives, priorities and criteria for financing established by the CIFs (World Bank, 2008c: para 13).

According the World Bank, the CIFs will aim to:

(i) provide incentives for scaled-up action and transformational change (both mitigation and adaptation) and for solutions to the climate change challenge and poverty reduction in developing countries, consistent with their low carbon growth or climate resilient development strategies;
(ii) promote international cooperation on climate change to support progress towards a post 2012 climate change agreement;
(iii) provide experience and lessons in responding to the challenge of climate change through learning-by-doing;
(iv) utilize the skills and capabilities of the international financial institutions to raise and deliver concessional climate financing at a significant scale to unleash the potential of the public and private sectors to achieve meaningful reductions of carbon emissions and adaptive actions;
(v) complement existing bilateral and multilateral financial mechanisms and seek co-financing with them as much as possible; and
(vi) maximize co-benefits in other areas of sustainable development, particularly in relation to sustainable management of natural resources and ecosystem services (World Bank, 2008c: para 1).

The funds are expected to require ‘investments at significant scale, market enabling activities, a country focus and a programmatic approach’ (World Bank, 2008a: para 3). Key features of financing through the CIFs would include support for poverty reduction and economic growth programmes ‘with an emphasis on climate change mitigation and adaptation’ and a ‘focus on countries with the greatest potential for transformation towards low carbon or climate resilient development’ (ibid).

II. Types of Climate Investment Funds

The proposed portfolio of funds will include three specific funds with ring-fenced financing objectives and a general fund providing an umbrella vehicle for receipt of donor contributions to be disbursed to the three other funds.

The three specific funds are:

a) Clean Technology Fund

The Clean Technology Fund (CTF) will aim to provide new financing and complement existing financing for the purposes of transformation to low-carbon economies and mitigation of greenhouse gas (GHG) emissions and to promote ‘international cooperation on climate change to support progress towards a post-2012 framework’ (World Bank, 2008a: annex A, para 2).

It will provide resources in the near-to-medium term for investment financing supporting ‘rapid deployment of innovative low carbon technologies’ and concessional lending and other forms of financing, such as guarantees, blended with other sources of public and private financing, to support the deployment of low carbon development (ibid: para 3).

The main objective of the fund is to ‘fill a specific financing gap in the international aid architecture’ by providing finance to middle income or ‘blend’[3] countries ‘at more concessional rates than standard [MDB] terms at the scale necessary to provide them incentives to integrate low-carbon strategies into their development plans and investment decisions’ (World Bank, 2008d: para 2).

Countries eligible for funds must demonstrate ‘greatest potential for transformation towards low carbon development and GHG emissions reductions as well as demonstrable readiness for implementation’ judged by evidence of an ‘enabling policy and regulatory framework and minimum level of macroeconomic stability and stable budget management’ (World Bank, 2008a: annex A, para 4).

Financing will be provided for both public and private sector investments. Public sector financing will include funds channelled through loans, guarantees and grants (although grant financing will be limited and disbursed mainly for technology development projects and/or capacity building) to national or sub-national entities (World Bank, 2008e: paras 5 – 20). Private sector entities

[3] ‘Blend’ countries refer to countries which are eligible for financing both from the standard as well as concessional facilities of the MDBs.

will be able to access CTF funds via private sector programmes run by different MDBs through regular project finance instruments such as equity, subordinated debt or incentivised credit lines or loans[4] (World Bank, 2008f: para 1; annex B, para 2).

The target size of this fund is the largest of the three proposed funds, that is, between US$5 and US$10 billion.

b) Forest Investment Fund

This fund is aimed at providing investment financing for forestry sector reforms to reduce deforestation and stabilise existing forests through 'sustainable forest management and conservation' with 'a strong emphasis on achieving co-benefits for environmental ecosystem services, adaptation and mitigation' (World Bank, 2008a: annex B: para 3).

Although the fund will prioritise financing to countries based on the 'vulnerabilities of forest ecosystems and their potential to benefit the local poor and address and mitigate climate change', initial support will be ring-fenced for countries participating in the World Bank's Forest Partnership Facility (FCPF) under the facility's pilot carbon trading scheme[5] or those 'with strong potential to participate in other forest carbon mechanisms' (ibid: para 4).

The Forest Investment Fund would be aimed at removing what the Bank calls 'obstacles to forest market transformation: weak regulation and enforcement; lack of access to finance; inadequate verification/certification tools; high perceived and real risk to invest in forests; and lack of technical capacity' (ibid: para 6).

As such, funds will go towards, among other things, payments to forest communities for sustainable forestry use, provision of concessional financing for countries' preparatory investments in carbon finance mechanisms, scaling up 'investment lending for biomass and biofuel feedstock supply' and facilitating forest certification and access to financing for forest-based enterprises to improve 'the access of smallholders and communities to international markets' (ibid: para 5).

The target size for this fund is US$300 – 500 million.

c) Adaptation Pilot Fund/ Climate Resilience Pilot Programme

This fund is aimed at providing technical assistance and financing for capacity building in mainstreaming climate risk and resilience into development planning and budgeting in five to ten pilot countries. The fund will test how eligible countries: 1) review or revise their Poverty Reduction Strategies[6] and five-year development plans to take into account climate impacts; and 2) review and revise sectoral development strategies and plans for short and long-term climatic impacts and sustainability (World Bank, 2008a: annex C: paras 5 – 6).

Eligible countries will initially be selected based on their 'vulnerability and readiness to shift towards climate resilient development' but the criteria 'could be expanded to demonstrate a broader range of national initiatives' (ibid: para 4).Countries receiving financing are expected to be those identified as most vulnerable in the Inter-governmental Panel on Climate Change (IPCC) reports and those who demonstrate commitment to building climate resilience into development planning (ibid).

The target size of this fund is US$300 – 500 million.

Alongside the aforementioned three funds, a Strategic Climate Fund would also be established to act as an umbrella vehicle for receipt of donor funds. Donors could therefore either contribute directly into the three specific CIFs or pass resources through the Strategic Climate Fund (World Bank, 2008a: paras 8 – 10; 2008b: para 47).

III. Governance of the Climate Investment Funds

The climate investment funds are to be established as trust funds through the World Bank's Multilateral Trusteeship and Innovative Financing Department (MTIF) under its Concessional Finance and Global Partnerships Vice-Presidency (see Box 1). It has been proposed that the portfolio of CIFs be organised so as to include:

(i) a Trust Fund Committee for each fund

[4] Most of these instruments are regularly used by the MDBs' private sector arms, notably the World Bank Group's IFC.

[5] The Forest Carbon Partnership Facility was officially launched at the Conference of Parties to the United Nations Framework Convention on Climate Change (UNFCC) meeting in Bali in December 2007. The FCPF comprises of two parts: 1) the 'readiness mechanism' to assist developing countries measure carbon forest stocks and identify sources of forest emissions and prepare a strategy for emissions reductions; and 2) 'carbon finance mechanism' to facilitate incentive payments to a selected number of countries for emissions reductions. See World Bank Carbon Finance unit website: http://carbonfinance.org/Router.cfm?Page=FCPF&ItemID=34267&FID=34267

[6] Poverty Reduction Strategy Papers (PRSPs) are pre-requisites for countries borrowing from the International Development Association (IDA), the Bank's concessional lending arm.

(ii) a Partnership Forum
(iii) a Trustee
(iv) a Multilateral Development Bank Committee; and
(v) an Administrative Unit (World Bank, 2008c: para 3).

Box 1: World Bank Trust Funds

World Bank trust funds are run by the Bank's Trust Fund Unit under the World Bank's Concessional Finance and Global Partnerships Vice-Presidency. Trust funds administered by the Bank do not form a core part of the Bank's operations and the Bank manages such funds for a fee as a service for donors. Donors can include sovereign states, inter-governmental organisations, private foundations and other non-governmental organisations and the private sector.

There were 926 trust funds administered by the World Bank Group (IBRD, IDA, IFC and MIGA) at the end of the fiscal year of 2006 with a combined total of US$ 10.3 billion (World Bank, 2006: 2).Trust funds form an increasing part of the Bank's operations, constituting around ten percent of the World Bank Group's activities, with the amount of resources channelled through such funds almost doubling since 2000 (Powell, 2005).

More than half of the resources held in trust funds in 2006 belonged to the three high-profile global trusts – the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) (US$2.6 billion), the Global Environmental Facility (GEF) (US$ 2.1 billion) and the Heavily Indebted Poor Countries (HIPC) Trust Fund (US$865 million) (ibid: 22).

There are several types of World Bank trust funds, including *global and regional trust funds*, such as the GFATM and GEF; *operational trust funds* (including co-financing funds and debt relief funds), such as the HIPC Trust Fund; and *funds which support specific Bank activities* such as research, policy and operational work. The minimum trust fund size is US$200,000 (World Bank, 1997, footnote 8).

A trust fund is administered in accordance with the terms of the Trust Fund Administration Agreement between the World Bank and the donor (World Bank, 1997: paras 1 & 7). The Bank is to ensure that the resources held in the trusts are used only for the purposes specified in the Trust Fund Administration Agreement (ibid: para 9) and the trust funds are administered under applicable Bank policies and procedures, including those governing procurement of goods, works and services (ibid: para 10).

The Bank's Operational Policy also states that the institution should accept only trust funds 'that support activities not traditionally financed under the administrative budget' and that it should not accept trust funds 'that may present a conflict of interest' (ibid: para 4).

Sovereign donors remain the top contributors to trust funds and the UK has now emerged as the lead donor, contributing US$1,190 million in 2007, followed by the Netherlands (US$766 million) and the US (US$747 million). The World Bank Group itself contributed US$408 million from its net profits to various trust funds in 2007.

The World Bank will host the Administrative Unit or secretariat for the CIFs and act as the Trustee for the funds. MDBs will serve as 'partner agencies' of the investment funds (World Bank, 2008a: para 14; 2008c). The fees to the World Bank for acting as secretariat and trustee for the funds will 'be based on costs rather than a percentage of the resources held in the fund' (World Bank, 2008a: para 28).

a) Trust Fund Committee

Each investment fund would have a separate governing committee called the Trust Fund Committee. Members of the committee would be made up of contributors to the CIFs, with contributors required to make a minimum contribution to the respective funds (ibid: paras 17 – 21; 30). Each fund's governance structure would be independent and would have 'ultimate control' over the fund in question (ibid: para 6).

Each Trust Fund Committee 'will be responsible for the overall governance, strategic decisions and resource allocation of each trust fund' (World Bank, 2008c: para 5). The proposed functions of each trust committee would include:

(i) approving program priorities, eligibility criteria and financing modalities;
(ii) determining country eligibility on a consensus basis;
(iii) keeping the fund's direction and operations under review;
(iv) approving allocation of trust fund financing for programs and projects;
(v) approving trust fund financing for administrative budgets;
(vi) approving MDBs' joint assessment of country strategies and approving joint MDB work programs;
(vii) ensuring monitoring and periodic independent evaluation of performance and financial accountability of MDBs;
(viii) approving annual reports of the fund; and

(ix) exercising such other functions as they may deem appropriate to fulfill the purposes of the fund (ibid).

In the first year of their establishment, representatives of contributors are expected to meet at a senior level three to four times and thereinafter, once or twice a year (World Bank, 2008a: para 20). The committee will organise activities once a month 'at an appropriate level' to review projects and programmes (ibid).

The trust fund committees would also 'review country level strategies, prepared and submitted by the recipient countries' and programmes and projects submitted by collaborating partners 'would need to be consistent with those strategies' (ibid: para 22).

Decision-making is to be reached by consensus and if that is not achievable, by voting in accordance to yet-to-drafted procedures (ibid: para 18). There will be a 20 or 15 percent cap on the amount of funds each country can receive from each CIF.

b) Partnership Forum

It has also been proposed that an outreach forum of donors, recipients and stakeholders be convened annually (World Bank, 2008a: para 11). This Partnership Forum will aim 'to provide institutions and entities concerned with the objectives of the CYF a forum to express views on the overall direction and results of the CIF and the strategies and operations of the funds' as well as a 'platform for debate, advocacy and communication with a broad range of stakeholders' (World Bank, 2008c: para 6).

However, there is no specification as yet on whether this forum will have any formal input into the operations of the CIFs and no indication of whether developing countries who are recipients of funds under the CIFs will be adequately represented here.

c) Trustee

The World Bank (or specifically, the IBRD) will act as Trustee for the climate investment funds and will be responsible for the following:

(i) establishing and maintaining appropriate records and accounts to identify contributions and other receipts;
(ii) recording all funding decisions made by the Trust Fund Committees to monitor funding status of the CIF;
(iii) making commitments to be financed out of the proceeds of the funds and transferring cash to the MDBs in accordance with the decisions of the Trust Fund Committees;
(iv) preparing financial reports and audit coordination for each of the funds;
(v) investing the proceeds of the funds, including currency conversions and cash management (World Bank, 2008c: para 7)..

The climate investment funds will be managed in accordance with their respective Trust Fund Administration Agreements (see Box 1). As World Bank trust funds, they will also be governed by the Bank's Operational Policy 14.40 on Trust Funds which sets the basic guidelines for all Bank-administered trusts (World Bank, 1997; see Box 1). As trustee, the Bank 'will be accountable to the Trust Fund Committees for the performance of its fiduciary responsibilities' (ibid: para 9).

Pending disbursements of the proceeds, the Bank will invest the CIFs' resources 'in accordance with World Bank policies and procedures for the investment of trust funds it administers' (ibid: para 8). The Bank will therefore act as a financial intermediary between the CIF's contributors and proceeds administered by the MDBs but will not be responsible for the use of proceeds over and above that contained within the agreements between the relevant trust fund and MDBs (ibid: para 9). The MDBs will be responsible for ensuring the financing is disbursed in accordance with their own fiduciary policies and procedures (ibid).

d) Multilateral Development Bank Committee

As implementers, the multilateral development banks will report directly to the respective Trust Fund Committees on operational matters and are 'directly accountable to the Trust Fund Committees for (i) consistency of their proposals with the Fund's criteria and priorities, (ii) quality assurance, risk management, and portfolio performance, (iii) compliance with their respective fiduciary standards, and (iv) use of Fund resources and activities implemented by them with Fund resources' (ibid: para 13).

An MDB Committee will be established to 'facilitate collaboration, coordination and information exchange among the MDBs' and will meet quarterly or more often if necessary (ibid: para 14). It is proposed that the MDB Committee will, among other things, review agendas for meetings of the Trust Fund Committees; review recommendations proposed by the secretariat on programmes for approval; monitor country progress in programme and project implementation and compliance with policies of the trust funds; review reports; serve as a forum for exchange of information and experience; and advise the secretariat on the implementation of 'a comprehensive knowledge management system, results measurement system and learning program, taking into account opportunities for synergies with the activities of the MDBs' (ibid).

e) Administrative Unit

The Administrative Unit or secretariat for the climate investment funds will be hosted by the World Bank based in the Bank's Sustainable Development Network (SDN). The head of the unit, designated by the SDN Vice-President, in consultation with the MDBs, will 'manage the day-to-day operations of the unit' and serve as 'Executive Secretary of the Trust Fund Committees and the MDB Committee' (ibid: para 16). Staff of the Administrative Unit will be appointed by the Bank in consultation with the MDBs (ibid).

The secretariat will undertake the following responsibilities:

(i) prepare all documentation required for review by a Trust Fund Committee, including developing an agenda for a Trust Fund Committee meeting, which will first be reviewed by the MDB Committee;
(ii) make recommendations, in consultation with the MDB Committee, on program criteria and priorities and the activity cycle for approval by the Trust Fund Committee;
(iii) conduct background research and analyses as requested by the Trust Fund Committee;
(iv) advise the Trust Fund Committee of prospective projects in early stage development on the basis of joint country programs.
(v) prepare an annual consolidated report on the funds' activities, performance, and lessons, including details of the funds' portfolio, status of implementation, funding allocations for the previous period, pipeline of projects and funding projections, costs incurred to administer the funds, and other pertinent information;
(vi) manage a comprehensive database of the CIF activities, knowledge management system, result measurements system and learning program;
(vii) service the meetings of the Trust Fund Committees;
(viii) manage CIF's partnerships and external relations, including convening meetings of the MDB Committee and the Partnership Forum;
(ix) collaborate with the Trustee to ensure that the Trustee receives all the information necessary to carry out its responsibilities; and
(x) perform any other functions assigned to it by the Trust Fund Committees (ibid).

IV. Problems with the Climate Investment Funds

1. Donor-Centric Design and Governance

The climate investment funds are supposed to benefit developing countries and be based on the principle of country ownership. However, the initiative has been led by a tripartite of G8 countries outside existing international climate change regulatory frameworks and designed without the participation of developing countries or other stakeholders. There is no consideration as to how this portfolio of funds will affect ongoing multilateral negotiations and processes on climate change.

Discussions on the design of CIFs have been and will continue to be conducted through a series of closed door meetings – at mainly G7 and G8 meetings – within a tight timetable for completion. While consultations with the private sector took place in February 2008, the first consultation with observers from partner agencies, recipient countries and NGOs may only be scheduled in April at the World Bank's Spring Meetings in Washington DC. Bank Executive Board approval is expected to be sought in June, shortly after discussion at the UN's Commission on Sustainable Development in early to mid-May and the final donors meeting in Tokyo in late May.

The proposed governance of the CIFs is wholly donor-centric, exacerbated by the fact that the funds are hosted by the World Bank with its asymmetrical governance structure favouring developed countries. At present, developing countries would have little or no say in the administration of the funds or how the funds are disbursed, aside from the proposed Partnership Forum (see section III above).

In fact, it is envisaged that most donors will not have much say in the day-to-day running of the funds either and that the Bank staff will be given a wide berth in implementing the disbursement of resources, including criteria for access to and terms of financing (see discussion above and point 2 below). For example, the Administrative Unit will be responsible for reviewing and making recommendations on the programme criteria and activity cycle for approval of financing programmes and advise the Trust Fund Committees of prospective projects (see discussion in section III).

Although there are various proposals on how to incorporate developing country participation in the CIFs, ranging from the establishment of an advisory committee or annual consultation meetings to providing developing countries with a role in formal decision-making (either on specific country programmes or all items considered by the Trust Fund Committees) (World Bank, 2008f), there has been no real concerted efforts so far on incorporating developing countries into the governance structures of the CIFs.

Additionally, as developing countries have been marginalised from the design of the CIFs so far, any inclusion of developing countries into the management or governance structure of the CIFs will only be ring-fenced around what the donors and MDBs have decided within the existing proposed framework. While including developing countries into the CIFs at this juncture will enable them to participate in the implementation of the funds' objectives and policies, their very exclusion from the design stage precludes any real engagement with the funds' conceptual and substantive operations.

Moreover, the design of the CIFs remain premised on an aid framework for climate change financing which places the parties to the financing in a donor-donee relationship contrary to international climate change principles and obligations. As discussed below, financial resources for climate change should be provided as part of developed countries' obligations under the international climate change regimes, notably that of the United Nations Framework Convention on Climate Change (UNFCC), and should not be considered as donor funds.

Therefore, disbursement of financial resources through a donor-driven facility based on the principle of conditionality (see point 2) is contrary to multilaterally negotiated commitments of the developed country contributors to these funds, particularly if the resources provided to the CIFs by these countries will not constitute any additional resources to funds set aside to meet these or other internationally agreed development obligations.

2. New Conditionality

Access to resources under the CIFs will be contingent upon recipient countries fulfilling the criteria of the respective trust funds, that is, adopting Bank and donor conditions in exchange for financing. Eligible countries will have to submit 'country investment strategies' which will be assessed by the respective Trust Fund Committees. Guidelines for accessing financing will be drawn up by the CIF secretariat and will also be based on existing World Bank and/or other MDB policies.

Under the Clean Technology Fund, for example, the MDBs (including the World Bank) involved in financing under a particular country programme will determine the eligibility criteria and priorities for each of the investment operations under its portfolio and the Trust Fund Committee's approval of the country programme would constitute '(a) an identification of a resource envelope for individual projects' and '(b) an authorization to the designated MDB to proceed with the development and preparation of individual investment operations' (World Bank, 2008d: para 20).

Individual loans or grants under the country programme would then be processed by the MDBs involved and each financing operation 'would follow the investment lending policies and procedures of the MDB, including its fiduciary standards and environmental and social safeguards' (ibid: para 21). In the case of the World Bank, all operations financed by the CTF 'will follow the Bank's operational policies and procedures for investment lending' regardless of whether there is IBRD or IDA co-financing (ibid: annex 1).

This means that aside from specific climate-related criteria, access to the CIFs will also be based on the Bank's traditional criteria for financing, including tight fiscal discipline and implementation of economic and other structural and policy reforms. For example, as mentioned in section III above, access to funds from the CTF would be judged not only on the applicant's demonstrated potential for transformation to low-carbon development but also its 'readiness' for such implementation, assessed by evidence of an 'enabling policy and regulatory framework' as well as a 'minimum level of *macroeconomic stability* and *stable budget management*' (World Bank, 2008a: annex A; para 4, emphasis added).

The Bank's track record in managing other trust funds, including the HIPC Trust Fund demonstrates that it has significant leverage over determining the conditions for access and use of resources by recipient countries, including the imposition of policy conditionalities which may not necessary be relevant to the objectives of the trusts administered. The same goes for the other MDBs who act as implementing agencies of the resources held by the CIFs who may subject recipient countries to different financing conditionalities, including compliance with the guidelines of the Paris Declaration on Aid Effectiveness, another donor-driven framework for aid disbursement and management.

There is also a danger that the climate investment funds will create onerous obligations on developing countries to comply with emissions targets and other rules under the international climate change regime for which they have been exempt on grounds of their differing responsibilities and capacities. As discussed above, access to financing under the CIFs will be contingent upon countries' demonstrated readiness to transit to a low-carbon economy and there appears to be no provision for assessing what impact such a transition will have on a country's overall development and efforts for poverty reduction in the context of other extenuating economic factors.

This enforcement through the back door through financing conditions goes against the principles underpinning the UNFCC and the Kyoto Protocol which states that developing countries' commitments should be non-binding in recognition not only of their lower financing and technological capabilities, but also of 'their negligible historical role in the build up of greenhouse gases in the atmosphere' and their continued need for social and economic development (Khor, 2008: 8; see also discussion below).

3. Ignores 'Polluter Pays' and Other Climate Regime Principles

The climate investment funds will be providing *loans* as well as grants to eligible developing countries. This means that developing countries will have to *pay* for dealing with a problem that has been caused by developed countries while at the same time facing other major developmental challenges. This comes at a time when many developing countries, due to debt relief initiatives and rising commodity prices, are beginning to shake off the shackles of debt which have circumscribed their social and economic development for almost three decades.

The framework of the CIFS would therefore appear to contradict internationally agreed principles on climate change, in particular that of the UNFCC and Kyoto Protocol regime which state that, as historical polluters and due to their higher technological and economic capabilities, developed countries should shoulder the main burden for resolving the crisis (see UNFCC, Articles 3 and 4).

Due to their 'common but differentiated responsibilities' in this regard, developed countries have undertaken two types of commitments vis-à-vis climate change under the UNFCC: 1) reduce emissions and 2) to assist developing countries with finance and technology transfer to comply with their obligations under the Convention (UNFCC, Article 4; see also Khor, 2008: 2).

The current international climate change regime therefore recognises that developing countries will not be able to respond to the challenges of climate change and implement their obligations if there are insufficient financial resources and technology transfer to do so. The regime also recognises that efforts to combat climate change in developing countries must 'take fully into account that economic and social development and poverty eradication are the first and overriding priorities' of the developing countries (UNFCC, Article 4(7)).

While the loans under the CIFs will be provided on a concessional basis, these loans are also expected to be ring-fenced around specific projects and programmes and will have to be repaid in the future by developing countries. Given that many developing countries will continue to be reliant on external financing for other aspects of development financing, loans will only add to their debt burden in the long run and affect their ability to generate sustainable resources for long-term economic growth and development.

Furthermore, as discussed in point 2 above, the conditionalities attached to the loans and grants under the CIFs may also have the effect of extracting emissions targets and other commitments from developing countries outside the multilateral framework of negotiations. In order to secure financing, developing countries must demonstrate that they have, among other things, an enabling regulatory framework in place to achieve a low-carbon development path. This is contrary to the UNFCC regime which emphasises that implementation of commitments by countries is contingent upon the availability of financing and technology and not the other way around.

4. No Additionality

As discussed above, for many developing countries, finance is a crucial component of present and future climate change negotiations and developing countries have accordingly 'been disappointed by the low quantum of financial resources' and by the institutional frameworks of provision of such financing (Khor, 2008: 17). Developing countries see the provision of financing for climate change mitigation and adaptation not as 'a donation but an obligation of developed countries' who are largely responsible for the problems of climate change today (Khor, 2008: 17).

The UNFCC provides that the developed country signatories to the Convention 'shall provide *new and additional financial resources* to meet the agreed full costs incurred by developing country Parties' to comply with data collection and communication of national measures to implement the Convention' as well as providing 'financial resources, including for the transfer of technology, needed by the developing country Parties to meet the agreed full incremental costs of implementing measures' under the Convention, including for mitigation and adaptation purposes (UNFCC, Article 4(3), emphasis added). Developed countries also undertook commitments to developing countries that are 'particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to these adverse effects' and also to 'take all practicable steps to promote, facilitate and finance' the transfer or access to 'environmentally sound technologies and know-how' to all developing countries (UNFCC, Article 4(4) and 4(5)).

The UNFCC Secretariat estimates that by 2030, financial flows to developing countries should be around US$100 billion annually in order to meet the costs of mitigation and between US$28 – US$67 billion for adaptation and the World Bank itself has recognised that these resources are required in *addition* to present levels of official development assistance (ODA) so as not to compete with financing for achieving the Millennium Development Goals (MDGs) (World Bank, 2008b: para 5).

However, there is a fear that the World Bank's climate investment funds will establish a parallel process for financing climate change adaptation and mitigation which will *not* result in additional resources for developing countries. In particular, many developing countries and civil society groups are concerned that significant portions of the aid budgets of donors will be diverted into the CIFs and counted as part of their annual ODA commitments.

It is not unusual for donors to classify non-traditional disbursements to developing countries as ODA. The OECD reports, for example, that the spikes in ODA levels in 2005 and 2006 were mainly due to debt relief which was counted as ODA, including significant cancellation of Iraqi debt and the cancellation of Nigerian commercial debt by OECD member states (OECD, 2007: 2). Of the total US$104.4 million in ODA in 2006, US$18.9 million was for debt relief grants (ibid: 10, Table 1.A).

In a letter sent to the UK Secretary of State for International Development recently, a group of UK-based and international NGOs highlighted the fact that substantial parts of the CIFs will be classed as ODA by donors, including the UK, and counted towards the long-standing ODA target of 0.7 percent of GNI (NGOs, 2008). Not only does this contradict existing commitments under the UNFCC, it is also in danger of subverting existing multilateral processes for implementation of these commitments, notably the UNFCC Adaptation Fund established at the climate talks in Bali in December 2007 (see discussion below).

5. Market-Based Solutions to Climate Change

The World Bank's climate investment funds appear to prioritise market-based solutions to dealing with the problems of climate change in developing countries. In its outline for the rationale of the Clean Technology Fund, the Bank states 'a priority for the international community has been the further development of innovative financing mechanisms designed to promote market-based solutions and trigger private investments in low carbon development' (World Bank, 2008a: annex A, para 1) while the Forest Investment Fund aims, among other things, to complement existing carbon finance instruments and to facilitate investments in forestry products and biomass and biofuel supplies as well for access to international markets for these products (ibid: annex B: para 5).

The Bank is also actively promoting private sector investments and partnerships as part of the CIFs and its overarching Strategic Climate Change Framework (SCCF) (see discussion below). Two of six the pillars underpinning the proposed SCCF will be that of 'expanding the World Bank Group's role in developing new markets' and 'tapping private sector resources for climate friendly development' (World Bank, 2008b: 21 – 22). In tandem, these two pillars aim to create a role for the Bank in development of new markets, including carbon markets and in financial intermediation for climate-related products, as well as creating an enabling environment for the participation of the private sector in low carbon and adaptation projects in developing countries (ibid). This includes addressing the problem of what the Bank terms 'policy and regulatory barriers' creating 'disincentives' to private sector investment in these areas (ibid: 22).

Once again, civil society groups have expressed concerns that these market-based solutions are driven by commercial interests and may serve to create new sources of revenues for logging companies and investors without the necessary safeguards for the environment or communities which depend on natural resources for their livelihoods and residence (Bretton Woods Project, 2007a: 1). The CIFs will effectively use public money to subsidise private sector investments through a combination of project finance instruments, such as joint equity rights with the investors, subordinated debt instruments (loans with a lower repayment priority) and loans with reduced interest rates and/or performance bonuses (World Bank, 2008d: annex B).

Additionally, the Bank's current carbon trading and financing activities, such as brokering carbon purchases through its Prototype Carbon Fund, has already been criticised by civil society as facilitating commercial gains without corresponding benefits for the climate. For example, NGOs have argued that the Bank's carbon funds have had 'a disgraceful record in of contracting to buy credits from projects that would likely be completed regardless of whether they received carbon credits', going against the 'additionality' principle of carbon trading, enabling financial incentives for project developers without preventing greenhouse gas emissions (NGOs, 2006: 12).

There is also the concern that dependence on market mechanisms, such as carbon trading, as a source of financing climate change mitigation and adaptation, is inadequate for meeting the financial needs of the public sector in developing countries which will be charged with the responsibility for implementing climate change commitments and dealing with the social, economic and ecological dislocations caused by climatic changes. Khor, for example, argues that the 'public sector's financial requirements (in terms of its own investment, consumption and policy work as well as in giving directions to the private sector and the public) have been under-appreciated' under current financing mechanisms and a proper 'needs assessment' should be conducted to determine more appropriate financial mechanisms with projected financial flows (Khor, 2008: 18).

6. Parallel Structures

The World Bank's climate investment funds may create parallel structures for financing climate change adaptation and mitigation outside the ongoing multilateral framework for climate change negotiations and within a process dominated by G8 countries. For example, there are concerns about conflicts between the UNFCC Adaptation Fund and the proposed Adaptation Pilot/ Climate Resilience Pilot Fund.

Although the UNFCC fund is limited in terms of the types of financing it accepts – that is, based on a two percent levy on projects under the Kyoto Protocol's Clean Development Mechanism (CDM)[7] rather than through ODA – the governance structure of the fund is much more representative than that of the Bank's portfolio of CIFs. The UNFCC Adaptation Fund is to be supervised and

[7] Clean Development Mechanism is an arrangement under the Kyoto Protocol that enables developed countries with commitments to greenhouse gas reduction to invest in projects that reduce emissions in developing countries (with no emission reduction commitments) as an alternative emission reductions in their own countries.

managed by an Adaptation Fund Board represented by developed and developing countries. Although the secretariat for the fund will be held by the Bank-based trust fund, the Global Environmental Facility (GEF), this is meant to be temporary and the secretariat would have to report to the aforementioned board and the GEF's status as secretariat will be reviewed after three years (UNFCC, 2007; UNFCC 2006: paras 1 – 5; One World, 2007).

In addition to parallel financing structures, there are also concerns that these structures will create parallel climate change governance policies outside the multilateral process. In particular, NGOs have expressed concerns that the inclusion of the US-driven Clean Technology Fund within the portfolio of funds 'could imply support for the US Major Emitters Meeting process which lies outside the UN track of negotiations on a post-2012 framework' (NGOs, 2008). In this manner, the Bank will be creeping into uncharted waters of climate change regulation through its financing policies and conditionalities (see point 2 above) and playing a role in international environmental governance which it has neither the constitutional mandate nor technical competence to perform.

Moreover, the Bank's performance in managing trust funds for the delivery of financing for global public goods also remains questionable, particularly in the quality of technical assistance delivered to client states where these form a core part of the programme. In 2004, the institution's Independent Evaluation Group (IEG)'s evaluation on the Bank's global partnerships programme found that evidence on the value-added of these programmes in terms of development outcomes varies, with many programmes lacking 'clearly defined objectives' in programme design and implementation (World Bank, 2004: xxvii).

The evaluation unit found that it is unclear whether the knowledge disseminated under these programmes were 'sufficiently evidence-based, quality-tested, and contextual to add value to what the Bank's client countries themselves do, need, or want or what the Bank can achieve working through country-level partnerships' (ibid: xxvi). Additionally, '[p]erformance indicators to assess changed donor or international agency behavior do not exist [and] when they exist at all, are focused on the behavior of developing countries' (ibid). This is compounded by the fact that the voices of developing countries in these programmes are 'inadequately represented' and that such programmes, including the trust funds, 'have increased overall aid very little' (ibid).

7. Poor Track Record

It is ironic that the World Bank is establishing itself as a lead player in the global fight against climate change given its poor track record in managing social and environmental impacts of its projects and programmes. Furthermore, despite its claims to the contrary, the institution remains heavily committed to investments in carbon-intensive energy projects and reforms in energy sectors that focus on large-scale, privatised energy provision without corresponding safeguards to ensure universal access.

Civil society groups have highlighted the inconsistencies between the Bank's rhetoric on climate change and its operational policies and practice. In particular, NGOs have argued that the Bank's core energy portfolio continues to be focused on supporting conventional fossil fuel production over renewable energy (NGOs, 2008). According to Oil Change International, the World Bank Group remains the single largest multilateral leader in oil aid[8], subsidising about US$8 billion in oil and gas investments since 2000 (Oil Change International, 2007: 2). In spite of the recommendation by the Extractive Industries Review (EIR), the Bank-commissioned independent evaluation of its activities in extractive industries, that the Bank end immediately support for coal projects and phase-out support for oil by 2008, the World Bank's support for fossil fuel projects grew by 93 percent from US$450 million to US$869 million in from financial years 2005 to 2006 (ibid: 10).

In 2006, the World Bank increased its energy sector commitments from US$2.8 billion to US$4.4 billion (ibid). NGOs report that 'in 2006, oil, gas and power commitments accounted for 77 percent of the bank's total energy programme, while 'new renewables' accounted for only 5 percent' (Bretton Woods Project, 2007b: 2; Oil Change International, 2007: 2). Meanwhile, 40 percent of what the Bank calls 'low-carbon lending' in financial year 2007 consists of large hydropower projects with questionable environmental impacts, with support for hydropower the highest since 1996 (Bretton Woods Project, 2007b: 2. The other 40 percent of its 'low-carbon' portfolio focuses on carbon finance (ibid). In 2007, the Bank's private sector arm, the International Financial Corporation (IFC)[9] 'provided more than US$645 million to oil and gas companies', an increase of 'at least 40 percent from 2006' (Oil Change International, 2007: 2).

The negative impacts of the Bank's infrastructure investments have been significantly documented over the years. Aside from social and environmental dislocations caused by large projects for energy extraction and production, such as oil pipelines and hydropower dams, the Bank's support for privatisation and deregulation of energy sectors in developing countries have also resulted in energy insecurity, especially for the poor. In a report released last year, Christian Aid noted that Bank policy advice and financing conditionalities to developing countries have prioritised 'centralised, large-scale, grid-based fossil fuel and hydropower projects as well as the privatisation of public power and electric utilities' which have not only contributed towards high carbon emissions but also reduced poor people's access to energy (Christian Aid, 2007).

[8] 'Oil aid' is defined as state practice of using public resources to subsidise the international oil and gas industry (Oil Change International, 2007: 1).

[9] The IFC provides loans and guarantees to private companies investing in developing countries.

This supplements the findings of a 2004 study which revealed that 82 percent of the World Bank Group's oil extraction projects since 1992 are designed for export[10], rather than the alleviation of energy poverty (Vallette and Kretzman, 2004: 2, 5). The study found that in most cases, the principal beneficiaries of Bank financing to oil, coal and gas projects in developing countries were developed countries' consumers and corporations, facilitating 'a massive transfer of developing countries' oil and gas resources to feed the north's energy demands rather than supplying energy to the poor in developing countries (ibid: 2). This comes at a time when energy inequality is at its highest where people living in high-income countries consume over 20 times more energy per capita than people in low-income countries (NGOs, 2006: 21).

Moreover, the CIFs' proposals for private sector involvement in the climate change agenda, particularly the use of official development financing to leverage private investment, highlights the World Bank's schizophrenic approach to public subsidies. While on the one hand, the institution claims that public sector financing can assist in creating enabling environments for private sector development and securing private financing flows in the area of climate change (World Bank, 2008d: para 3), the Bank does not necessarily apply these principles in other aspects of its operations, notably through conditionalities in its policy-based lending which require the removal of state-backed subsidies to domestic economic sectors and local firms. Therefore, while championing subsidies in one arena, the Bank, through its other financing operations, continues to remove the right of the public sector in developing countries to support its domestic private sector through policies of privatisation and liberalisation.

8. Questionable Climate Impacts

The Bank's poor track record in climate-friendly energy investments will be compounded by the fact that the proposed climate investment funds would provide financing to some ecologically-questionable projects. For example, the proposed Forest Investment Fund aims to scale up multilateral development bank (MDB) lending 'for sustainable biomass and biofuel feedstock supply' at a time when the merits of biofuels as alternative sources of energy are heavily contested.

Research has shown that current methods of commercial biofuels production rely significantly on fossil-fuel based agricultural inputs, such as inorganic fertilisers and chemical pesticides with environmental side effects of water and soil pollution, while demand for biofuels, especially from developed countries, and have led to deforestation in developing countries eager to capture the increasing market for such fuel sources (Jhamtani and Dano, 2007). It also creates competition for land and agricultural resources, including water, and led to rising food prices as food crop grains, such as soyabean, rapeseed, corn and sugarcane, are increasingly been produced for fuel rather than food or feedstock (ibid).

There is also as yet no consensus on what constitutes 'clean technology' energy. NGOs have argued that many of the Bank's proposed 'clean' technologies for investment are reliant on carbon-emitting, non-renewable resources, such as coal and natural gas, or on unproven technologies such as carbon capture and storage, or on technologies with questionable environmental and social impacts, such as nuclear power and hydropower (NGOs, 2006: 17).

For example, the Bank has promoted the use of 'clean coal' in developing countries – coal chemically washed of minerals and other impurities which, while less polluting than normal coal when burned, still emit significant greenhouse gases and relies on environmentally and socially damaging mining practices (ibid). It has also promoted the development of 'integrated gasification combined cycle' (IGCC) power plants using synthetic gas created from heating up (as opposed to burning) coal as the main fuel for energy production as well as carbon capture and storage from such facilities, both of which require significant financial investment with debatable climate outcomes while perpetuating reliance on a dirty energy source (ibid).

While there is an aim to increase the share of renewable energy in recipient countries under plans for the Clean Technology Fund, the main focus of the CTF would be on the rehabilitation or upgrading of existing coal-fired power plants, switching from coal plants to gas plants and to reduce energy transmission inefficiencies through the building of new grid connections and reducing distribution losses (see World Bank, 2008d: para 11).

V. Alternatives to the Bank-Driven Climate Financing

The climate investment funds will form a major pillar in the Bank's new ambitious climate strategy, outlined in its strategic framework on climate change which will be presented to the Bank's Executive Board for approval in September 2008 and for discussion at the institution's Annual Meeting (World Bank, 2008b). Through the administration of these climate investment funds and leveraging other aspects of its operations for climate-related financing; technical assistance work and efforts to play a leading a role in the development of carbon markets and markets for 'energy efficiency goods and services' (ibid: 21 - 22), the World Bank is setting itself up to be a key, if not *the* key, player in the governance of climate change.

The danger of such a bold move on the part of the Bank is evident. Not only does the institution have a poor track record in environmental matters, its technical 'expertise' on a variety of issues – from structural economic reforms to health and social

[10] The authors define 'export-oriented' fossil fuel projects as 'those where fuels extracted or transported with World Bank Group assistance are primarily consumed in Western Europe, Canada, the United States, Australia, New Zealand and/or Japan' (Vallette and Kretzmann, 2004: 5).

policy to public administration and governance – have been shown to be lacking if not damaging to its developing country borrowers. The Bank has neither the constitutional mandate nor the technical competence embark on the delivery of such an important global public good. Moreover, the Bank's asymmetrical governance structure will further marginalise developing countries from having a stake in the fight against climate change and is at risk of creating 'solutions' for countries which may undermine rather than support their efforts to mitigate and adapt to the effects of climate change.

Any legitimate effort to increase the amount of resources for climate change adaptation and mitigation must therefore be placed within a genuine multilateral framework which provides for adequate representation for both developed and developing countries, especially as financial resources remain the main impediment to developing countries meeting climate change challenges. Given that the UNFCC remains the only truly international framework which is not just scientifically-based but also guided by multilaterally negotiated principles and has almost universal membership, effective and sustainable financing for meeting climate change commitments of both developed and developing countries must be located within this framework.

Efforts must therefore be focused on developing a genuinely multilateral fund for climate change financing under the auspices of the UNFCC which is governed by the UNFCC membership on the basis of regional representation. This would give developing countries due representation and voice within the governance structure and ensure that the resources set aside for climate change are used in accordance with internationally agreed principles and meet the objectives of the multilateral climate change regime.

Example of alternative: Multilateral Fund for the Implementation of the Montreal Protocol

Financing instruments could also be created directly under the control of the state parties to the UNFCC and the Kyoto Protocol as was created under the Montreal Protocol. The Multilateral Fund (MLF) for the Implementation of the Montreal Protocol provides funds to help developing countries comply with their obligations under the Protocol to phase out the use of ozone-depleting substances at an agreed schedule (Multilateral Fund, 2007). It consists of three main institutions – the Executive Committee, the MLF secretariat and multilateral implementing agencies – and supplemented by a network of bilateral agencies and national and regional units (UNFCC, 2006: 12, para 18).

The MLF operates under the authority of the parties to the Montreal Protocol who decide on the fund's overall policies. Its governing body, known as the Executive Committee, was established by the state parties to the Protocol 'to develop and monitor the implementation of specific operational policies, guidelines and administrative arrangements' and members of the Executive Committee are selected on the basis of 'a balanced representation' of developed and developing parties under the Protocol, ensuring that neither set of countries dominate the decision-making (ibid: 8, para 3 & 9: para 5).

The chair and vice-chair of the Executive Committee are selected, one each, from the two different groups and alternate each year between them (ibid: 9, para 5). Decisions are reached by a two-thirds majority vote of the members, representing a majority of the parties in each of the two groups, but to date all decisions have been adopted by consensus (ibid). The Executive Committee is responsible for, among other things, developing the Fund's policies and guidelines; approving country programmes and specific projects, or groups of projects; reporting on the Fund's performance to the meeting of the parties each year; and overseeing the Fund's administration (Multilateral Fund, 2007).

The Fund's secretariat is based in Montreal and reports to the Executive Committee. Crucially, the secretariat is *independent* from the implementing agencies which are contracted through agreements between the Executive Committee and the respective agencies (UNFCC, 2006: 12: para 18). At present, there are four multilateral agencies – the UNDP, UNEP, the United Nations Industrial Development Organization (UNIDO) and the World Bank – as well as several bilateral agencies and national and regional units and networks (ibid).

These implementing agencies deliver financial and technical assistance (through grants and concessional loans) to eligible countries under the MLF, primarily through the multilateral agencies although up to 20 per cent of the contributions of the developed country contributors can also be delivered through their bilateral agencies in the form of eligible projects and activities (Multilateral Fund, 2007). The Fund is replenished on a three-year basis and pledges have amounted to US$2.2 billion over the period 1991 to 2007 (ibid).

Learning from the implementation of the Montreal Protocol, a new multilateral fund or funds can be established within the UNFCCC to finance aspects of climate-related activities decided upon by the UNFCCC members. The fund or funds can have a democratic governance system and a Secretariat functioning under the Convention. The fact that the Montreal Protocol operates in this fashion and has handled over US$ 2 billion in funds successfully show that this can be done under the UNFCCC.

Conclusion

The World Bank's mission creep into the area of multilateral environmental governance and delivery of climate-related global public goods must be placed within the context of declining relevance and waning revenue streams for the international financial institution. The Bank maintains that the proposed portfolio of climate investment funds discussed above will contribute significantly to the global fight against climate change, particularly in assisting developing countries transit towards a low-carbon and climate-resilient economy.

However, the funds must be seen in the context of the Bank's overarching strategy to capture the climate change debate. They are part of a larger Bank-wide effort to position itself as a one-stop shop for developing countries on climate change, coming at a time when the Bank's main source of business – lending for development projects – is in steep decline with the migration of many traditional borrowers to international capital markets and other alternative sources of financing. The commercial incentives for the Bank to stake a claim in global climate change negotiations are therefore abundant.

Given the Bank's chequered history in the promotion of fossil fuel investments and privatisation of natural resources in developing countries, the institution is ill-placed to manage and regulate neither the sources nor the impacts of climate change. Providing the bulk of climate change resources through a non-UNFCC and developed country-driven entity such as the World Bank-led CIF mechanism will not only be counter-productive to the aims of achieving global GHG emission reductions (which are key to combating climate change) but also be contrary to the provisions of the UNFCC to which most of the CIF contributors are signatories. Moreover, as the Bank itself is a potential beneficiary of financing from the CIFs, there is a significant conflict of interest between its roles as trustee and secretariat of the funds and its role as an implementing entity.

According to South African environment minister, Marthinus van Schalkwyk, the World Bank should keep a distance from global climate talks due to the heavy influence of developed countries in the Bank. "The World Bank shouldn't become a player in the negotiations – the donors via the World Bank and basically then the developed countries – because that will load the dice against developing countries," he told *Reuters* recently (Fogarty, 2008).

Creating parallel structures for climate change regulation would also enable developed countries to migrate away from existing multilateral channels for implementing their international climate change commitments and may add to the undermining of existing multilateral negotiations. Developing countries, especially those facing the most immediate and severe threat from the effect of climatic changes and with the least resources to deal with these impacts, will be substantially short-changed in this process.

The solution to the problem of climate financing for developing countries must therefore rest with a genuinely multilateral framework for mobilisation and disbursement of financial resources which reflects the needs and priorities of the countries in receipt of such financing and which is in line with internationally agreed principles on climate change. Besides the existing funds in the UNFCCC, new multilateral funds can be established within the UNFCCC with a Secretariat based in the UNFCCC, a model that has been successfully implemented within the Montreal Protocol.

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