New Finance for Climate Change and the Environment

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As always, responsibility for the content of this report rests with the authors alone. In particular, no responsibility for the opinions here expressed should be attributed to WWF or the Heinrich Böll Foundation.

LIST OF ABBREVIATIONS

AfDB	African Development Bank
ADB	Asian Development Bank
BioCF	BioCarbon Fund (of the WB)
CDM	Clean Development Mechanism
CERs	Certified Emission Reductions
COPs	Conference of the Parties
CSOs	Civil Society Organisations
CTF	Clean Technology Fund (one of the WB's Climate Investment Funds)
DFID	Department for International Development of the UK
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ETF-IW	Environmental Transformation Fund – International Window (UK)
FCPF	Forest Carbon Partnership Fund (WB)
FAO	Food and Agriculture Organisation of the United Nations
GCCA	Global Climate Change Alliance (of the EC)
GEF	Global Environment Facility
GHG	Greenhouse Gas
GIFC	Global Initiative on Forest and Climate (of the Australian Government)
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IMF	International Monetary Fund
LDC	Least Developed Country
LDCF	Least Developed Country Fund
MDBs	Multilateral Development Banks
MDG	Millennium Development Goals
NAPA	National Adaptation Programmes of Action
NGO	Non-governmental Organisation
NRM	Natural Resource Management
ODI	Overseas Development Institute (London, UK)
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation & Development
PPCR	Pilot Program for Climate Resilience
RAF	Resource Allocation Framework (of the GEF)
SCCF	Special Climate Change Fund

SCF	Strategic Climate Fund (of the WB)
SIDS	Small Island Development State
TFA	Tropical Forest Account (of the GEF)
UN	United Nations
UNCBD	United Nations Convention on Biological Diversity
UNCCD	United Nations Convention to Combat Desertification
UNDP	United Nations Development Programme
UNEP	United Nations Environmental Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organization
WB	World Bank

PRESENTATION

The world has moved beyond simple recognition that climate change and environmental degradation pose significant risks to humanity and the planet's ecosystems. We are now witness to pledges of tens of billions of dollars in new financial commitments to be delivered through no fewer than a dozen new funding mechanisms as virtually all actors in society seek to mitigate these risks and anticipate coming changes in society and the environment.

As we have watched this quickly changing institutional landscape take form over the past year, it has become apparent that, unlike other aspects of sustainable development financial transfers, the new funds are not articulated in an overarching strategic framework. Nor are the funds subject to an agreed set of principles regarding effectiveness and efficiency between the global North and South. For example, there is no uniform call that the disbursed funds must be part of and integrated into an overall development strategy of participating countries. Respect for the Aid Effectiveness Principles requiring country ownership, harmonization of donor activities, mutual accountability of all partners, among others, have not been established as foundational principles of the funds. And methods to reduce transaction costs for recipients, donor dialogue and improve in-country effectiveness have not been articulated.

It is hard to escape the perspective that, in the rush to do good, the governments, and in particular donor governments, have risked overlooking many of the hard learned lessons which have given rise to the best practices that have been adopted for other development and environment areas. This is profoundly troubling. The environment is in dire need of an overarching strategy framework to help guide, prioritize and harmonize the various mechanisms for funding environment and climate change and to ensure coherence with other dimensions of sustainable development. At the very time when the international community needs to bring together the disparate elements, institutions, conventions and agreements in the process of strategy formulation, donor government seem to have opted for disjointed approach that encourages "balkanization" of the global response, much to the detriment of effectiveness and efficiency.

WWF and the Böll Foundation strongly embrace the provision of new financial resources to address the urgent challenges of climate change and environmental degradation. By commissioning this paper, *New Finance for Climate Change and Environment in the Developing World*, it is our hope that we can further extend the benefits and strengthen the positive impact of those new commitments in coming years. We hope that the research will broaden public understanding of the more than one dozen new funds and their interplay with existing financial mechanisms. Together, we also plan to sponsor a number of public seminars and consultations in both northern and southern capitals to encourage active involvement of stakeholders and concerned parties in shaping the final institutional architecture for environment finance.

We are deeply grateful to Gareth Porter and colleagues from the Overseas Development Institute (Neil Bird, Leo Peskett, Nanki Naur) for their persistence in ferreting out information from the many government offices and for their willingness to take on board and integrate into their analysis constantly changing updates about the funds. While we recognize that much of the information provided herein may change, we believe that their framework and analysis provide a sound foundation to track and respond to new developments as they unfold in coming months.

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EXECUTIVE SUMMARY

Fourteen international funding initiatives have been announced over the last eighteen months, all of which are aimed at addressing global environmental issues. This sudden proliferation of funds is unprecedented and warrants examination. Clearly, the need to respond to the threat of climate change has become an increasingly important international policy concern, particularly as it has become evident that those most likely to be affected soonest and most severely are the poorest people living in developing countries.

This paper begins by describing the existing architecture with regard to international funding for environmental actions, focusing on two pre-eminent institutions within this architecture: the Global Environmental Facility (GEF) and the World Bank. In many respects the current situation is tending to move the locus for strategy development and funding decisions for climate-related international investments away from the former and towards the latter. One reason for this is the limited impact that the existing system has had in addressing climate change issues, and more broadly, channelling sufficient funding to address major environmental concerns such as tropical deforestation. The present system has so far failed to deliver transformational change for the global environment.

The desire to achieve more immediate impacts is a major driving force behind the donor countries' interest in creating new funding mechanisms, as first signalled at the 2005 G-8 Summit meeting in Gleneagles - and likely to be repeated at the 2008 G-8 meeting in Hokkaido Toyako. Four European countries, together with the European Union, Australia and Japan have all made commitments of new financing to assist international measures to tackle climate change. Each of these new funding initiatives is described, focusing on three characteristics: their stated objectives; their means of financing and disbursement; and aspects of fund governance. This latter aspect is a key concern, taking into account the considerable sensitivity associated with the way funds will be controlled and disbursed.

All of the funds aim to support developing countries address the challenges associated with a changing climate. Yet, there appears to have been very limited involvement of potential recipient countries in the design of these funds. At the same time, all the funds have a limited time horizon, with no commitments being made beyond the 2012 date for negotiations on a post-Kyoto agreement. This is significant, as the short timescale suggests, at best, an opportunity for the 'piloting' of new approaches rather than establishing any long-term, new architecture for global environmental funding. There is therefore an important window of opportunity to try out new approaches and methods to secure the necessary financing for actions that respond to a changing climate across the world. Much will depend on how the various key players go about this phase. Complementarity and synergy between the various initiatives needs to be secured, underpinned by an understanding between those funding these initiatives and the national governments in whose countries activities will be undertaken.

Three new World Bank managed funds signal an institutional ambition to respond to this challenge. However, all three funds mirror similar funding schemes managed by the GEF and therefore raise at least the possibility of duplication of effort. The situation is further complicated by the involvement of bilateral funds in each of these three key areas: in supporting low carbon technologies; climate change adaptation efforts; and reducing emissions from deforestation and degradation. For example, leveraging finance to encourage the adoption of low carbon technologies is an objective of a number of the funds reviewed. Although there are obviously differences between the activities of the proposed World Bank Clean Technology Fund (CTF) and the GEF's existing funding for the elimination of barriers to energy efficient and renewable technologies, it is clear that there is a substantial overlap between them as well. Furthermore, the channelling of funding by donor countries through the CTF will not only be at the expense of funding the GEF's climate-related funding, but will likely have the effect of dramatically reducing World Bank participation in the GEF.

As to the future of the GEF, much will depend on how it reacts to this new financial landscape. Responding to new opportunities will require some changes in the organisation and likely include:

- The revision of the GEF mandate to ensure that its function of providing global environmental benefits is more intimately linked to sustainable development challenges that are besetting developing countries as climate impacts intensify;
- The reshaping of GEF priorities to respond to emerging environmental challenges and promote innovative implementation approaches with its partner agencies;
- Reviewing a host of institutional arrangements including broadening mechanisms for channelling financial resources into GEF programs, creating new funds as requested by donor and client countries, and assessing the relative merits of having the World Bank, or another agency, serve as the GEF's trustee;
- Opening a public-private partnership window to significantly reduce the bureaucratic constraints encountered in such activities initiated under GEF-4, including separate governance arrangements with private sector partners.

Policy coherence is also badly needed between the new funds and the national systems of recipient countries. The level of alignment with country systems is not yet clear, although much can be learnt from the experience with development funding and the implementation of the Paris Declaration on Aid Effectiveness. There will need to be a significant level of flexibility in these international vertical funds to ensure that their areas of intervention are consistent with nationally defined priorities.

The early stage of development of these new funds means that some questions can only be raised rather than answered. Whether the pledged financial resources will be additional to existing ODA commitments is one issue about which there has been much civil society concern, but as yet, no clear response.

The international community is therefore clearly at a crossroads with regard to securing the global environment. The proliferation of new funds and funding mechanisms over the past year coupled with the deployment of those funds through certain institutions, notably the World Bank, is bringing about incremental, yet fundamental, change in the existing architecture for global environmental finance. This apparent *ad hoc* approach in responding to mounting environmental problems has generated real and potential competition among agencies that could lead to less efficient distribution and use of funds.

There are frequent reports that other European governments are preparing to launch additional funds related to climate. Given the already considerable confusion among recently announced funds, these new funding entrants will certainly intensify the lack of cohesion and dysfunction among this patchwork quilt of funding mechanisms. To-date, there has been no effort to harmonize the new funds and their respective approaches into a coherent system. As a consequence, international agencies have launched into the quickly changing institutional dynamics seeking to maximize their respective institutional interests, rather than seeking the greatest global benefit. Clearly, out of such a competition there will be winners and losers with no certainty that the global environment will benefit.

In this context three clear conclusions stand out:

- First, every major institution involved in this re-structuring of the global financial architecture will undergo fundamental change. Donors must broaden the mandate and strengthen the institutional arrangements of the GEF or the facility will be relegated to an insignificant status in the international environmental sphere. The World Bank must dramatically reform its governance systems, its transparency and its internal incentives so as to meet the international environmental norms that have evolved over the past decades. The many agencies of the UN development system must likewise shed their bureaucratic legacies to become more responsive, flexible contributors in response to emerging problems. Changes such as these are inevitable in the coming months and years.

- Second, the dynamics surrounding these new entrants in the international financial architecture have been limited to interactions among donor countries and to northern stakeholders. This is attributable, to a certain degree, to the lack of information about the proliferation of funds and the potential consequences of this multiplicity of funding mechanisms. Another contributing factor to the relative quiescence is the tentative success of pre-eminent institutions such as the World Bank to induce the allegiance of various countries by offering privileged access to one of more of the recently announced funds. Moreover, for lack of a timely policy vehicle or institutional mechanism, voices of the Global South have been seldom heard in shaping the public debate. This can be expected to change in the coming months and, as it emerges more strongly, public dynamics will undergo considerable change and additional institutional reforms in the emerging architecture will become certain.

- Third, an overarching process of harmonization is urgently needed. To the degree that individual donors feel that the uniqueness of their funding mechanisms can be protected and rendered operational, the need for harmonization can be ignored for the time being. However, as the publicly-announced funds are translated from statements of commitment into operational terms that include geographic priorities, funding processes and qualifying criteria, the overlaps, redundancies, competing views and lack of synergies will become increasingly apparent. A harmonization process initiated sooner rather than later, will deliver benefits to donors and recipients alike and significantly increase their combined benefits for the global environment and human enterprise.

1. INTRODUCTION

2007 saw very rapid change in the proposed architecture for financing global environmental actions. With climate change arriving centre stage of the international policy agenda, an unprecedented 14 new funding initiatives were announced. This sudden proliferation of global environmental funds is not intended to replace the existing funds administered by the Global Environment Facility on behalf of the UNFCCC[1]. Nevertheless, it represents a major challenge to the existing system and raises a series of questions about the future architecture of global environmental finance - especially what role and functions the Global Environment Facility should play in that structure. One key concern revolves around the question of how funding to address climate change will be spent – and more importantly who will make those decisions. The history of the system of global environmental finance is one of conflict and compromise over those issues. This present stage of development of the international funding system poses questions about renegotiating some of those compromises.

This paper describes recent developments and trends in global environmental finance. Its aim is to:

1. Map out the new environmental funds in terms of their objectives, funding and institutional arrangements.
2. Identify factors that seem to be shaping the development of these funds.
3. Provide an initial analysis of the potential for duplication, complementarity or synergy between or among new funds and between new funds and existing funds.
4. Critically examine the dynamics between the Global Environment Facility and the multilateral development banks and their changing roles as the central institutions in financing measures for global environmental benefit, particularly with regard to climate.

The paper focuses on new funds developed within the public sector (and largely with public money) rather than private sector initiatives. These include multilateral funds administered through the Multilateral Development Banks (MDBs) and UN organizations, the UN climate convention, the GEF and bilateral funds from donor governments.

[1] The Global Environmental Facility (GEF) is the financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC)

2. EXISTING ARCHITECTURE OF GLOBAL ENVIRONMENTAL FUNDS

Existing sources of global environmental finance include: national government spending, national private sector spending, foreign direct investment, international debt and official development assistance. Globally, the private sector constitutes the largest share of investment and financial flows needed to address climate change, at approximately 86% of all such flows (UNFCCC, 2007). In stark contrast, Official Development Assistance (ODA) funds are currently less than one percent of global investment (ibid.). However, these funds target poor, aid-receiving countries and provide considerable resources for those most vulnerable to climate change.

ODA consists of several funding streams for channelling finances to developing countries to assist them address environmental issues. These include[2]:

- The financial mechanism of the Rio Conventions, specifically the Global Environment Facility (GEF);
- The Multilateral Development Banks (MDBs) including the World Bank, Asian Development Bank etc;
- Bilateral Official Development Assistance (ODA).

This section describes these three elements and briefly reviews their strengths and weaknesses.

2.1 The Global Environment Facility (GEF)

The Global Environment Facility (GEF) is at the center of the existing system of financing programs and projects to protect the global environment. The GEF Instrument states that 'the GEF…shall operate for the purpose of providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits in the GEF focal areas'. It has provided primarily grants and to a lesser extent concessional funding to recipient countries for projects and programs that have the explicit purpose of protecting the global environment in six focal areas: climate change (mitigation and adaptation), biodiversity, international waters, persistent organic pollutants, ozone depletion and land degradation (desertification and deforestation). It works with ten multilateral agencies - the World Bank, United Nations Development Program, United Nations Environment Program, IFAD, FAO, UNIDO and four regional development banks (IADB, AfDB, AsDB and EBRD)[3]. These agencies collaborate with eligible countries to develop, submit and implement projects and programs in line with the GEF strategy and overall GEF policies. Projects and programs are approved by the GEF Council, which is made up of both recipient countries and donor countries[4].

The GEF is the officially designated financial mechanism for four Rio conventions (UNCBD, UNFCCC, the Stockholm Convention and UNCCD). It achieved this status, however, only after having gone through a period of intense debate between donor and developing countries. When it was first established in 1991 as a pilot, it was an initiative of donor countries who were primarily concerned with avoiding the fragmentation of funding for addressing global environmental concerns. It is also widely believed that a primary motivation was to keep control of the funds out of the hands of developing country majorities. Thus the GEF was established as a trust fund administered by the

[2] This paper does not include an analysis of the UN environment-related agencies
[3] See GEF instrument, March 2008
[4] See GEF project cycle (GEF/C.31/7 and GEF/C.31/7/Corr1), June 2007

World Bank. The donor countries insisted on giving control over project planning and financing decisions to the World Bank, in which they held most of the votes on the governing board.

The GEF was initially strongly opposed by the Group of 77 developing countries on the grounds that it had been set up without consultation with them and that the World Bank was an instrument that primarily served the interests of industrialized countries. The developing countries demanded a governing structure based on the United Nations model of full equality for all participants, with decisions made by a simple majority. After three years of hard negotiations, the two groups of countries reached agreement on a system of governance in which both a 60 percent majority of members of the government body with one vote per state and a 60 percent majority of states making contributions was necessary to take a decision. The governance system also included a Participants' Assembly with universal membership that would meet every four years.

Since then, the conferences of parties (COPs) of the climate and biodiversity conventions have continually renewed the status of the GEF as their funding mechanism. Two other conventions have also agreed to make the GEF their funding mechanism: (i) the Stockholm Convention on Persistent Organic Pollutants (POPs), at its first meeting of the Conference of the Parties (COP), adopted the GEF as its permanent financial mechanism; and (ii) the GEF was also designated a financial mechanism of the United Nations Convention to Combat Desertification (UNCCD) in 2003. As the financial mechanism for the Rio conventions, the GEF is obliged to respond to the guidance of these conventions, including the programming of funds in the respective GEF focal areas relevant to each convention.

The UNFCCC decided in 2001 to establish a Special Climate Change Fund (SCCF) and a Least Developed Country Fund (LDCF) to finance projects relating to climate change adaptation; technology transfer and capacity building in the various sectors, including energy, transport, industry, agriculture, forestry and waste management, as well as in economic diversification. The GEF was directed to be the manager for the LDCF and SCCF, which became operational in 2002. Funding for the SCCF was raised by voluntary contributions beyond regular GEF replenishment from thirteen contributing participants (Canada, Denmark, Finland, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom). The plan for the SCCF's initial five-year period was endorsed by the GEF Council in November 2004.

2.2 Multilateral Development Banks (MDBs)

Multilateral Development Banks are key actors in the global system of financing for protecting the world's ecosystems, both as participants in the GEF and as standalone financing institutions. As commercial lending institutions they dispose of funds on a much larger scale than the GEF. At the same time they have made public commitments to support global environmental objectives and have restructured their operations significantly in order to enhance their role in financing to benefit the global environment.

The World Bank has played a major role in financing measures to achieve global environmental objectives, but that role has been linked in the past to the GEF. As one of the GEF's three Implementing Agencies, the Bank has been the largest multilateral contributor to the Fund. Since the end of the GEF Pilot Phase in 1991, the World Bank has provided more than $4.8 billion of the Bank's own funds to co-finance GEF projects, and has mobilized more than $13.8 billion in co-financing from other donors (Gorman, n.d).

The Bank's partnership with the GEF has been the key to mobilizing additional resources for renewable energy and energy efficiency investments through public-private partnerships. One such partnership was the Renewable Energy and Energy Efficiency Fund (REEF), which was the first International Finance Corporation (IFC) investment fund exclusively for financing sustainable energy investments. The World Bank-GEF Strategic Partnership for Renewable Energy, established in 1999 shifted GEF programming for renewable energy from a single-project approach to large-scale, long-term renewable energy programs.

The World Bank Group (including IBRD, IDA and IFC) has also moved over the past decade toward asserting a larger role in financing projects related to climate change outside the framework of the GEF and the UNFCCC. One strand of that role is its lending for renewable energy and energy efficiency. The share of Bank lending for those two climate-friendly segments in its total energy lending portfolio more than doubled between 1994 and 2006 and had reached 40 percent of the total by 2007 (World Bank, 2007).

The World Bank's independent role in climate-related funding has developed further in response to the 2005 G-8 Gleneagles Summit in Scotland, where the G-8 countries asked the Bank to produce a road map for accelerating clean energy investments in developing countries in cooperation with the other multilateral development banks. The Bank produced the Clean Energy Investment Framework (CEIF), which identifies the scale of investments needed to increase access to energy, particularly in Sub-Saharan Africa, accelerate the transition to a low carbon economy, and support adaptation to climate change.

The CEIF thus established a series of niches for the World Bank in funding related to climate change that also responded to its interests as a commercial bank for the development of new areas of business, including what the Bank calls 'climate proofing' development projects, which it estimates will require a few billion US dollars annually. A Bank paper on climate change has predicted that it would have to increase IDA funding by 6 to 21 percent annually just to maintain the same net level of benefits to recipient countries compared to a scenario without climate change (Mani, 2007).

The World Bank has been the leader in facilitating the development of carbon finance - the purchase of greenhouse gas (GHG) emission reductions in conjunction with the Clean Development Mechanism (CDM) of the UNFCCC's Kyoto Protocol. The Bank established the prototype carbon fund in 1999, and its group of carbon funds has now grown to ten and is worth more than $2 billion. Most of these funds were established with money provided by European states that had purchased carbon reductions carried out in the developing world (World Bank, 2008a).

Other MDBs have also increased their climate-related lending significantly in recent years. The Asian Development Bank (ADB) launched an initiative in 2005 to encourage more attention to energy savings, under which it committed to expanding investments in energy efficiency projects to $1 billion annually. The ADB also approved the Carbon Market Initiative in 2006 to help developers and sponsors prepare projects eligible for Certified Emission Reductions (CERs) of greenhouse gases under the CDM. The Asia Pacific Carbon Fund established by the ADB provides up-front funding against the purchase of an estimated 25–50% of future carbon credits expected from such CDM projects.

2.3 Strengths of the existing system

Embodiment of a Global Bargain

The GEF represents a hard-won bargain between donor and developing countries over priorities, programming strategies and specific project and program choices. Although neither group of states has been entirely happy with the result, it is nevertheless recognized that its structure, as well as its operational principles, are the result of a continued balancing act between the interests of both sets of countries. GEF programming involves a reconciliation of the interests and views of the Rio conventions, the host and recipient countries (Porter et al., 1998). Any other institutional model would likely bring renewed confrontation between donor and recipient states over control of the funding for global environmental concerns.

Synergies between grant assistance and concessional lending

A central element in the GEF's structure and operations is that it combines the impact of grant assistance with concessional lending provided by the World Bank and other multilateral banks, such as the regional development banks and IFAD. The synergy between the two has been achieved by linking bank loans with GEF grants, making investments (e.g. in forest conservation or clean technology) more attractive to recipient countries.

GEF coordinates bilateral and multilateral efforts

The GEF has been a mechanism that catalyzes the coordination between bilateral and multilateral agencies with regard to sharing knowledge of project pipelines in each country and focal area, as well as at the strategic level of policy and programming. Although duplication of effort by World Bank and UNDP was a serious problem at the beginning of the GEF's operational phase in 1994, joint pipeline reviews by all agencies has reduced that problem. The GEF also offers the framework for broader consultation and cooperation among multilateral agencies on strategic approaches to programming in or across focal areas. For example, The GEF Focal Area Task Forces bring together GEF Secretariat specialists and representatives of GEF agencies to discuss the strategic and effective allocation of GEF resources. This mechanism for coordination does not eliminate the tendency toward competition among the GEF agencies, but it does harness their common interest in utilizing GEF funds to reduce threats to the global environment.

Another advantage of the GEF is that the GEF Council offers the opportunity for donor country representatives to meet every six months to discuss policy and strategy for utilizing their contributions to fund measures that address global environmental concerns. The Council meetings have also served as a useful place for wider consultations among donors, recipient countries, multilateral agencies and the NGO community.

2.4 Weaknesses of the existing system

Low level of funding by donor countries

A critical problem of the existing system, in which the GEF has been the central institution, is that the donor countries on which the GEF has depended for its funds never intended for it to cover all the financing needed to achieve the objectives of the global environmental conventions in question. Rather it was intended to be a 'catalyst' for measures to address global environmental problems.

Despite the fact that the GEF was designated as the financial mechanism for the climate and biodiversity conventions, the funding provided by donor countries was never at the level required to produce significant progress in reversing the threats to climate stability and biodiversity conservation. Over the entire eighteen years of its operation, total funding provided to the GEF has provided $7.4 billion in grants to support over 1,950 projects. That is an average of just over $400,000 per year for projects in climate, biodiversity, international waters and land degradation. By 2007, the GEF's climate change portfolio had grown to more than $2.2 billion in grants for projects with a total value of nearly $14 billion when co-financing (a considerable amount of it provided by the private sector) is included. But it is now clear that the initial assumption underlying GEF – that relatively small amounts of grant financing, when combined with projects financed by other multilateral partners, could leverage transformational change e.g. in energy markets in the developing world – was flawed.

China has used GEF climate projects strategically to pilot approaches that it can then apply more widely using its own resources where they prove successful (UNDP Office of Evaluation, 2008). GEF's China Renewable Energy Scale-Up Project is its most ambitious effort at stimulating a transformational change in the power sector. $140 million in GEF grants within a total package of $400 million (including World Bank loans) will support implementation of a national policy to establish a mandated share of electricity consumption to come from renewable sources over a ten to 12 year period. However, the World Bank (2006) warned that this initiative and others aimed at achieving market transformation in China would require a minimum of $250-300 million *per year* over ten years – two or three times more than is now being provided by GEF and the World Bank combined in order to achieve 'significant and sustained market penetration of energy efficiency and renewable energy technologies' in China.

In the area of biodiversity and forest loss, the difficulty of achieving a measurable impact without a significantly larger scale of GEF resources is even greater. Conventional projects involving protected area schemes – even when accompanied by efforts to deal with local community-based driving forces – have not had the desired effect in slowing the commercial driving forces behind deforestation in the areas of greatest forest loss. Achieving that objective would require more ambitious concepts backed by much greater commitments of grant financing

Lack of strategic approach to climate change

The origins and evolution of the GEF reflected an approach that seemed to assume that the give and take among various interests would produce approaches that could foster transformation of energy markets over time. The result was that it has lacked a strategic focus on how to bring about much faster transformation, particularly in energy use. Thus the GEF adhered until very recently to an approach in which an interest to influence the major GHG-emitting countries' systems of energy use was balanced by a project-by-project method of allocating funds. In September 2005, the GEF Council adopted the Resource Allocation Framework (RAF), a system for allocating GEF resources to recipient countries. Resources are allocated to countries based on each country's potential to generate global environmental benefits and the country's capacity, policies and practices to successfully implement GEF projects. Implementation began in July 2006 and applies to resources for financing biodiversity and climate change projects through the 4th replenishment of the GEF. The allocations determined by the RAF use a combination of a 'GEF Benefits' Index and a 'GEF Performance' Index. [5]

The RAF provides funds for national, regional and global program objectives, encouraging the search for ways to maximize impact with limited funding. In June 2008, the CEO of the GEF, Monique

[5] The GEF Resources Allocation Framework, (GEF/C.27/Inf.8/Rev.1) October 17, 2005.

Barbut, presented an approach to the GEF Council to shift from single project interventions toward a more programmatic approach, to focus the limited funding resources of GEF-4 on the highest priority issues and to achieve a synergistic impact by linking projects together[6]. However, the funds provided by the RAF for regional and global programs were limited to only $50 million for biodiversity and $50 million for climate change. This constraint triggered the development of an incentive mechanism, the Tropical Forest Account (TFA), which rewarded tropical forest countries with additional resources if they direct their country's RAF resources to projects addressing sustainable forest management. The TFA is capitalized by a portion of the global and regional resources in Biodiversity and Climate Change and some resources from the Land Degradation focal area.

The GEF has long recognized that it needs to mobilize the investment resources of the private sector on behalf of global environmental benefit, particularly with regard to investments in low-carbon technology. The GEF Council has discussed the matter repeatedly and issued a series of decisions. Two studies were prepared in 2006 to advance toward a new private sector strategy that would collaborate with the private sector (GEF 2006a; GEF 2006b). New proposals, including one for a new fund to be focused solely on the collaboration with the private sector, were presented to the Council in June 2007. Successful collaboration with the private sector, however, may require a degree of experience and commitment that the GEF cannot achieve in a short time with its existing structure and commitment to collaboration with governments. There appears to be considerable tension between its requirements for getting government approval for projects and its desire to work more closely with the private sector. It is unlikely to make dramatic progress on the latter without sacrificing the former. The length and uncertainties inherent in the GEF project cycle also rule out the participation of a wide range of businesses in GEF projects. And the GEF Secretariat and the GEF Agencies lack the long-established relationships with investors and manufacturers, which is a necessary basis for forging the kind of collaboration needed.

Conflict of interest of the MDBs in energy lending

Even though the World Bank's recent expanded role in climate-related funding represents a substantial evolution from the Bank's role in past decades, the Bank retains some of the characteristics that have made its operations part of the problem: internal Bank incentives encourage lending large amounts of money quickly and generates a strong bias toward large-scale, capital intensive projects with predictable rates of return. Those needs have led to a dominant emphasis in the Bank's energy lending portfolio on conventional power sector loans which accelerate the threat of global climate change rather than reduce it. In 2005, the Bank loaned more than $2.5 billion for conventional power projects (i.e. fossil fuel development and large dams), whereas it used only $109 million in IBRD and IDA funds for renewable energy and energy efficiency projects (FOE, 2005). That continued a long-established pattern of failing to consider climate change in its lending to the energy and mining sectors. During the previous five years (2000-2004), 84 percent of World Bank Group lending in those two sectors gave no consideration to climate change (Nakhooda et al., 2005).

The Banks' dependency on conventional power lending conflicts with its desire to promote lending for renewable and energy efficiency projects at two levels: first, the capital provided by major industrialized countries to the Bank for such lending is at the expense of capital to be invested in alternative energy projects and programs; second, the availability of concessional lending for conventional power makes those projects more attractive than they would otherwise be and reduces the motivation of developing countries to look at alternative means of meeting future energy needs.

[6] From Projects to Programs: Clarifying the Programmatic Approach in the GEF Portfolio, (GEF/C.33/6), April 2008

Slowness of GEF project initiation

One problem with the GEF's role has been a project approval process that is far too the long and complex. When she became GEF Executive Director in late 2006, Monique Barbut found a lapse of 66 months between entry of a concept into the pipeline and project initiation. That is long enough for major changes in the situation in the recipient country that could have a serious impact on the success of the project. It also discourages participation in many proposed GEF projects by private sector entities.

The relatively complex structure of the GEF itself, involving an independent secretariat, implementing agencies and a council that must approve the inclusion of projects in the work program, as well as the final project proposal, makes it very difficult to reduce the project cycle so that it is comparable to those of the multilateral lenders.

3. THE EMERGENCE OF NEW ENVIRONMENTAL FUNDS

3.1 Driving forces behind the new funds

Increased political understanding of climate change in donor countries

Global environmental issues and particularly climate change are now high on the political agendas in many Northern and some Southern countries (especially the SIDS[7]). Related to this, there are indications of direct links between climate change concerns and voting preferences in Northern countries. In the UK, the Local Government Association recently found that 62% of respondents in a survey were more likely to vote for a candidate with policies to tackle climate change (LGA, 2008). Climate change and energy have also become major themes of party policies and there has been a large increase in media coverage of the issue in the US, the UK and other European countries (Boykoff, 2007).

Desire to achieve more immediate impacts

Despite recent efforts to move towards a results-based management system, donor governments are aware that the existing system has not produced visible progress. In searching for a new approach to climate funding they have sought out options that can be organized quickly and can also demonstrate a more dramatic impact on reducing greenhouse gas emissions. The idea of promoting low carbon technologies, which surfaced at the G-8 Summit at Gleneagles, met both of these criteria.

Desire to mobilize private sector resources

Another factor driving the creation of new funds has been the growing interest to mobilize private sector resources for global environmental benefit. One way of doing this has been to facilitate markets for environmental services (e.g. carbon and water, amongst other 'services' which can now be priced and traded). The global market for carbon emissions reductions increased in value to an estimated US$30 billion in 2006, three times greater than in 2005 (Capoor and Ambrosi, 2007). It is expected that the volume of carbon trading transactions will continue to increase as more countries having ratified the Kyoto Protocol look for cost-efficient ways to meet their commitments. Donors have been supporting the carbon market actively (e.g. through 'pump-priming' carbon markets in prototype carbon facilities such as the BioCF). At the same time, the World Bank has rapidly built up its own carbon market funds (the FCPF).

World Bank's need for new energy market niches

In the late 1990s, the World Bank had been strongly wedded to its fossil fuel lending portfolio, and had adopted a policy that explicitly ruled out rejecting any loan on the basis of its impact on the global environment, even though The Operational Policy Committee had recommended that it use a shadow carbon price to determine at what point alternatives to a conventional fossil fuel loan should be considered (Porter et al., 1998). But by 2005 its interests regarding energy loans had begun to shift. The Bank was already motivated to assert a more active role in clean energy loans outside the context of the GEF. By 2005, when G-8 leaders gave their encouragement for the World Bank to play a lead role with regard to climate-friendly technology, it had already seen its core markets for loans in the conventional power sector decline by more than 40 percent since the early to mid-1990s – a loss

[7] Small Island Development States (SIDS)

of nearly $1.3 billion on average annually for the 2000-2004 period as compared with the annual average during the 1990-1994 period (World Bank, 2007).

It was not until 2004 that the Bank's private sector arm, the IFC, started to identify clean energy opportunities within its own investments in a search for ways to expand its renewable and energy efficiency business. After the new system of tracking those opportunities was found to be successful, the World Bank itself began to apply a similar method of building up its own lending for clean energy (World Bank, 2007). The Bank's need for new energy lending niches coincided with the donor government's desire for a new vehicle to speed up climate-friendly technology to create a new alliance.

Preference for programmatic over project-based funding modalities

In the case of adaptation the way that finances are delivered is a possible driver for donor decisions on how to channel funding through multilateral routes. For example, DFID is keen to pilot a programmatic approach through integration into national plans. None of the UN special funds (or the Adaptation Fund) are presently structured in a programmatic way. Perhaps in response to this situation, DFID is planning to channel funds through the Strategic Climate Fund of the World Bank, which would allow for programmatic options.[8]

Are there differences in these drivers between the bilaterals and the multilaterals?

Whether finances for the environment are channelled through bilateral or multilateral pathways depends on a range of factors. Historically, different bilateral donors show a large variation in the levels of aid distributed through multilateral channels. Belgium and New Zealand, for example, put most (>90%) of their aid through multilaterals in the 1990s, whilst Japan and Denmark put a very small proportion through this system (<30%) (Hicks et al., 2008). In some cases this is partly due to differences in the size of the donors, with smaller donors which have lower capacity to manage funds opting for multilaterals, and larger donors opting for bilateral channels. But it also relates to factors such as how seriously countries perceive environmental treaties (Ibid.). Interestingly, the choice of multilateral agency (between loan and grant based providers) appears to depend on technical experience, number of years in existence and to multilaterals in which they have greater voting shares (ibid.).

Of key interest to this study is whether the weaknesses of the current multilateral system or the overlaps and potential competition in their aims has contributed to the emergence of the bilateral funds. The research has found little evidence to indicate that this is the case. Some interviewees from bilateral donors did mention concerns about the international system (acknowledging, for example the competition between GEF and the World Bank funds), implying that it could be part of the rationale to establish bilateral funds. But some of the bilateral funds (the UK, Australia, Norway and Japan) are considering channelling finance through multilateral channels. As mentioned above, this is occurring in the broader context of increasing proportions of aid being channelled through the multilaterals. It is therefore hard to reach a strong conclusion on drivers in this case.

3.2 The new bilateral funds

This section provides details of the new bilateral funds that aim to address the international funding gap for climate change. However, it is important to point out that most of these funds are not yet

[8] HMG and NGO meeting on the Climate Investment Funds: Adaptation 18 February 2008. Available at www.bond.org.uk

operational and so their final structure and operational practices cannot be stated with complete certainty. Information about each of these funds was collated from web searches, reading of the literature and key informant interviews during April 2008. The fact that most funds remain under development meant that not all the presently available documentation is consistent and this may have led to some errors and discrepancies in the description of the funds.

Four European countries, together the European Union[9], Australia and Japan have made recent commitments of new financing to assist international measures to tackle climate change. Most funds are aimed at supporting developing countries and hence there is a close relationship with development assistance. The following initiatives have been reviewed:

1. The Global Climate Change Alliance of the European Commission
2. The International Window of the Environmental Transformation Fund of the United Kingdom
3. The German International Climate Initiative
4. The German Life Web Initiative
5. The Spanish MDG Fund
6. The NORAD Rainforest Initiative
7. the Japanese Cool Earth Partnership
8. the Australian Global Initiative on Forests and Climate[10]

However, not all these initiatives are similar in intent. Whilst they all aim at addressing climate change adaptation and mitigation by providing direct or indirect financial support for such activities, a few have wider ambitions to facilitate the coordination and negotiation between donors and potential recipient countries in the lead up to a new post-2012 climate agreement.

Three key characteristics have been selected to explore the similarities and differences between the funds:

(i) the funds' stated objectives;
(ii) their means of financing and disbursement; and
(iii) aspects of fund governance, in terms of how the funds have been established.

(i) Objectives

All the initiatives reviewed have multiple objectives (Table 1) that add climate change mitigation and adaptation measures to existing concerns of biodiversity conservation and poverty reduction. By doing so, they broaden the scope of 'environmental concerns', making any definition of what constitutes environmental funding increasingly problematic. This can only continue the existing lack of clarity over the relationship between climate change adaptation and development (WRI, 2008). However, the combination of these objectives within the same funds may help to fill existing gaps in funding critical adaptation activities in developing countries.

The European Commission's GCCA will address mitigation, adaptation and poverty reduction via a proposed partnership with developing countries that will include the provision of both technical and financial assistance. In addition, it aims to provide an informal forum that will facilitate negotiations for

[9] The European Union and its Commission are treated as a bilateral source.

[10] The change in government in Australia since the announcement of this initiative has delayed implementation whilst it is re-considered by the present government. The initiative may be developed under a new name.

a post-2012 climate agreement. The GCCA also plans to add value by acting as a 'clearing house' mechanism to coordinate the international adaptation initiatives of EU Member States.

The International Window of the UK's ETF has two kinds of objectives. The first 'process' objectives relate to transforming how finances are delivered. These include facilitating moves towards additional finance provided in a programmatic way; avoiding aid proliferation and ensuring coherence; and piloting models that will feed into the UNFCCC negotiation process and the Kyoto Adaptation Fund. The second set are 'thematic' objectives which include supporting poverty reduction, environmental protection and tackling climate change in developing countries by addressing unsustainable deforestation, access to clean energy and activities that support adaptation. Most of the finance available under this initiative will be channelled through the World Bank's Climate Investment Funds Facility, although early support to the Congo Basin Conservation Fund has been provided to address uncontrolled deforestation in that region.

The Spanish MDG Fund, which includes a thematic window on Environment and Climate Change, will support efforts to reduce vulnerability to climate change and poverty reduction. The fund will support interventions that improve environmental management and service delivery at the local and national level; activities that will increase access to new financing mechanisms; and those that enhance adaptive capacities.

The Japanese Cool Earth Partnership has three priorities: (i) establishing a Post-Kyoto Framework that will ensure the participation of all emitters and aim at fair and equitable emission targets; (ii) strengthening international environmental cooperation, under which Japan will provide assistance to help developing countries achieve emissions reductions and to support adaptation in countries suffering from severe CC impacts; and (iii) supporting innovation – this will focus on the development of innovative technology and a shift to a low carbon society.

The German International Climate Initiative has three objectives (i) supporting sustainable energy systems, adaptation and biodiversity projects related to climate change; (ii) ensuring that investments will trigger private investments at a greater magnitude; and (iii) ensuring that financed projects will strategically support the post-2012 CC negotiations. For this purpose it will also support multilateral activities and funds focusing on adaptation and forest management.

The Norwegian NORAD Rainforest Initiative is not a fund as such, but a pledge of earmarked funding to be allocated through the national budget. It will support the conservation of rainforests by promoting large-scale forest protection and the development of forest based carbon management. More general measures will include support for adaptation and promoting clean energy in Africa.

Forests and Biodiversity

Two of the eight funding initiatives, the GIFC and the Life Web initiative (partly financed via the CC and Biodiversity window of the German International Climate Initiative), focus solely on forests and biodiversity.

The Australian GIFC aims at facilitating global action to address emissions from deforestation by providing incentives to developing countries to reduce deforestation. Its specific objectives include reducing forest destruction, increasing forest plantation cover and supporting sustainable forest management practices.

The German Life Web Initiative aims to support the creation and management of new and existing protected areas by creating a global partnership to support the CBD[11] Programme of Work on Protected Areas. Specifically, a clearing house mechanism will be established that will guide donors to country needs.

[11] CBD – United Nations Convention on Biological Diversity

Table 1. Fund objectives

Details	Name of Initiative							
	GCCA	**ETF – International Window**	**Cool Earth**	**German International Climate Initiative**	**German Life Web**	**GIFC**	**NORAD Rainforest**	**Spanish-MDG Fund (Thematic window on Environment and CC)**
Objectives	1. To foster effective dialogue and cooperation on CC between the EU and the poorest countries. 2. To facilitate the integration of climate change concerns into poverty reduction plans at local and national levels. Technical and financial support will be provided for: • Adaptation • Mitigation • Deforestation • Disaster Risk Reduction • Integrating CC into Poverty Reduction	1. To increase support for developing countries in adapting to the impacts of unavoidable climate change 2. To support mitigation, in particular through helping developing countries towards being part of the transition to a global low carbon economy, including through the promotion of clean energy 3. To support the tackling of unsustainable deforestation	1. To assist adaptation to CC. 2. To improve access to clean energy. 3. To assist the mitigation of climate change.	• The Initiative will support sustainable energy systems, adaptation and biodiversity projects related to climate change. • It aims to ensure that investments will trigger private investments at a greater magnitude • It aims to ensure that financed projects will strategically support the post 2012 CC negotiations. For this purpose it will also support multilateral activities and funds focusing on adaptation and forest management.	To support the implementation of the CBD Programme of Work on Protected Areas (PAs). This will achieved through: • Partnerships will be enhanced via a Clearing House mechanism guiding donors about partners needs. • It will provide matching funds / co-finance for the creation of new PAs and improved management of existing Pas	To facilitate global action to address emissions from deforestation. Objectives include: 1. Reducing deforestation and forest degradation. 2. Increasing new forest planting. 3. Promoting Sustainable Forest Management practices.	1. To support adaptation measures and clean energy in Africa 2. To assist climate-related research, technical cooperation and private sector development. 3. To support new multilateral climate change and clean energy initiatives.	1. To reduce poverty and vulnerability by supporting interventions that improve environmental management. and service delivery at national and local level. 2. To increase access to new finance. 3. To enhance adaptation capacity.

(ii) Financing and disbursement

Two of the initiatives, Germany's International Climate Initiative and the EC's GCCA, intend to use innovative means to mobilise finance. The International Climate Initiative plans to raise money from the European Union Emission Trading Scheme (EU ETS). This will involve the German government selling 10% of the country's allowable emission permits to businesses and then using approximately 30% of the revenue earned from this sale to finance CC-related projects. Similarly, the GCCA is looking into the potential of using earmarked auctioned revenues from the EU ETS. It is also considering using a mechanism similar to the International Finance Facility for Immunisation[12] as a means to mobilise and disburse larger sums of money in the form of grant aid to support CC Adaptation.

The sources of funding for Japan's Cool Earth Partnership are diverse and include government official development assistance (ODA) funds, private funds and support from the Japanese Bank for International Cooperation. The remaining funds will be resourced directly from the national budget of each country, although how this finance will be classified is not clear at present for all the funds. It seems that most will come from the development rather than from the environment budget.

Type of funding

Grant funding dominates the smaller bilateral initiatives, although the two larger funds (the Cool Earth partnership and the ETF-IW) are being planned mostly as concessional loans. The ETF-IW funding has been allocated by the UK's Ministry of Finance as capital expenditure, which restricts this finance to being made available on a loan basis. This in turn will likely influence the choice of potential recipient countries, as the UK has a number of bilateral agreements not to increase the debt burden of some its poorest partner countries. However, the interest element of the fund can be treated as grant assistance, as has happened with the initial allocation to the Congo Basin Conservation Fund.

The Cool Earth Partnership will provide US$ 2 billion as grant aid and technical assistance to support adaptation activities, whereas the bulk of the fund (US$ 8 billion) will be made available as concessional loans to support mitigation activities. The GCCA is looking into providing grant aid, disbursed via projects or programme-based support at the national level (raising the possibility of using budget support arrangements). Similar arrangements are being explored for the Spanish MDG Fund. The types of funding under the GIFC, the International Climate Initiative and the German Life Web initiatives are all still to be determined.

Amount and period of finance

Table 2 summarises the estimated level of funding for each of these bilateral initiatives. The total nominal amount of dedicated finance is somewhat less than US$ 3 billion per year, which represent a small percentage of the expected needs of developing countries. For example, an estimated US$ 14 billion in additional investment is needed for adaptation in the forestry, fisheries and agricultural sectors alone by 2030 (UNFCCC, 2007).

[12] The central aim of the International Finance Facility for Immunisation (IFFIm) is to help save more children's lives and to do so faster by investing the majority of resources up front - "frontloading" - to ensure reliable and predictable funding flows. See: http://www.iff-immunisation.org/index.html

All the funds have a limited time horizon, with no commitments made beyond the 2012 date for negotiations on a post-Kyoto agreement. This is significant, as this short-time scale is indicative more of a 'piloting' phase rather than any long-term, new architecture of global environmental funding. The experience gained through disbursing these funds will, however, provide much valuable experience on how to channel global funds to tackle climate change in developing countries over the long-term.

Table 2: Estimated level of funding from bilateral initiatives

Fund	Currency	Total Amount	USD Eq.[13]	Period	Nominal annual level	Comments
Cool Earth Partnership	USD	10 billion	10 billion	2008-2012	2 billion	
ETF-IW	GBP	800 million	1,593 million	2008-2010	531 million	
NORAD Rainforest fund	USD	560 million	560 million	2008-2012	112 million	
Spanish MDG Fund	Euro	90 million	143 million	2008-2011	36 million	
GCCA	Euro	50 million	79 million	2008-2010	26 million	Refers to earmarked commitment from the ENRTP; additional funding may be forthcoming
German Climate Initiative	Euro	400 million per year	634 million per year	Uncertain	184 million (international component)	30% of this funding will be used to finance CC projects
GIFC	AUD	200 million	188 million	Uncertain	Uncertain	
Total Bilateral Funding					Less than 3 billion	

Targeting of funds

All the initiatives have stated geographical preferences or donor identified criteria (e.g. the conservation of forest ecosystems). The loan-based aid disbursal of the ETF-IW will tilt financing towards middle-income countries. In contrast, the GCCA has the stated intention of focusing on poor developing countries, particularly LDCs and SIDS[14]. The NORAD Fund is likely to focus on the Congo Basin, the Amazon and SE Asia, whilst the GIFC will support regional initiatives in SE Asia (Indonesia) and the Pacific (Papua New Guinea). Access to funding under the GIFC is expected to be further subject to the achievement of pre-agreed sustainability criteria such as agreed reductions in deforestation rates. The Spanish MDG Fund provides funding to 59 countries identified by the Spanish Master Plan for International

[13] Valued at exchange rates available on 22 April 2008
[14] Least Developed Countries (LDCs) and Small Island Development States (SIDS)

Cooperation. The Cool Earth partnerships will be based on individual bilateral agreements with partner countries that have made a commitment to developing a low carbon economy.

(iii) Fund governance

The way in which these initiatives have been established will likely influence their impact on CC measures in developing countries. One important aspect associated with the design phase, in which all the funds have been engaged, is the involvement of potential recipient countries. As Table 3 shows, there appears to have been limited efforts so far to include the perspective of such countries in design considerations (e.g. about national absorptive capacity issues). Fund development seems to have taken place largely as an internal exercise within each of the donor governments. This is also reflected in the limited coordination that is apparent between the funds.

Two initiatives stand out, however, as having taken a more inclusive route. First, the German Life Web initiative will be put to the COP 9 meeting of the CBD for approval and hence involve developing countries in deciding upon the decisive design phase; and second, the Spanish-MDG Fund has been established as a joint initiative with the United Nations Development Programme (UNDP) and thus links its funding into the multilateral channels of the UN.

The remaining funds appear to have taken a more insular approach. For example, the EU's GCCA has been driven by the DG Development of the European Commission, working with the environment and climate change committees of the European Parliament on the wider issues concerning the role of the EU in international climate change negotiations. The international element of the ETF is jointly managed by DFID and DEFRA (the UK's development and environment government departments) and has been closely related to the World Bank Climate Investment Funds, of which the UK has been a lead partner. Negotiations concerning the development of these multilateral funds have been criticised by civil society representations as lacking transparency and the involvement of potential recipients (Third World Network, 2008), although these processes have opened up to civil society to some extent recently.

The GIFC was originally developed by the then Australian Minister of Environment who toured several countries to gather support for the initiative during 2007. He secured agreement with the United States in April 2007 to work together to advance priority projects to improve forest management and reduce global deforestation. However, with the change in government the initiative has progressed more slowly than originally anticipated, although the present Australian Prime Minister highlighted the GIFC at a recently held 'progressive governance summit' in the UK.

The Cool Earth Partnership was announced by the Prime Minister of Japan and is being coordinated by the Japanese Ministry of Foreign Affairs. This is seen as a bilateral initiative and so will interact with partner countries via normal bilateral channels. However, the volume of funding is so large that it may divert attention away from multilateral processes, in particular the UNFCCC.

Table 3: Potential recipient country involvement in fund design

Name of Initiative	Potential recipient country involvement
Global Climate Change Alliance	• Joint initiative between DGs Development, Environment and External relations of the European Commission • Potential recipients not involved in design or initiation phases • Stakeholders invited to development dialogue forum • Development assistance strategies with partner countries (NAPAs an option; regional forums and partnerships)
Environmental Transformation Fund - International Window	• Joint Defra-DFID initiative of the UK government; details remain unclear • Potential recipients involved in design stage though consultation processes • DFID proposes that recipients will be involved by deciding how funds under the CIF will be used, what partners they will work with to implement activities • Recipient countries to develop adaptation plans and budgets and DFID proposes budget support as a means of implementation
Cool Earth Partnership	• Announced by Japanese Prime Minister, with the Ministry of Foreign Affairs coordinating development and governed by ministerial committee • Involvement of potential recipient countries though normal bilateral channels
German International Climate Protection Initiative	• Led by the Ministry of Environment (BMU), although the Ministry of International Cooperation is likely to be involved • GTZ and KfW will be responsible for planning and implementation • Recipient countries will be involved in the development and implementation of projects and through normal bilateral cooperation channels
German Life Web	• To be under CBD structure, with the Initiative to be presented and approved/disapproved at CBD COP 9 in May 2008 • Funding and Partnership will respond to country identified needs
Global Initiative on Forests and Climate	• Planning and Delivery to be coordinated by Departments of Environment, Forestry and Foreign Affairs (including AusAid). • Involvement of potential recipient countries though normal bilateral channels
NORAD Rainforest Initiative	• Initiative currently under the Ministry of Environment
Spanish-MDG Fund (Thematic window on Environment and Climate Change)	• Initiative agreed between the Spanish Government and the UNDP,

3.3 The new multilateral funds

Six new multilateral funds have been announced since 2007:

1. The World Bank Forest Carbon Partnership Fund (FCPF)
2. The GEF Tropical Forest Account (TFA)
3. The World Bank Clean Technology Fund (CTF)
4. The GEF-IFC Earth Fund
5. The World Bank Strategic Climate Fund (SCF) and Pilot Program for Climate Resilience (PPCR)
6. The Kyoto Protocol Adaptation Fund

(i) Objectives, means, rationale and eligibility

The World Bank Forest Carbon Partnership Fund (FCPF): the FCPF has the dual objective of (i) preparing selected countries to participate in a future large-scale system of payments for verifiable emissions reductions from deforestation and degradation (REDD) and (ii) actually signing contracts with a separate group of countries for such verified emissions reductions in return for remuneration. It will therefore have two distinct parts: a 'Readiness Mechanism' to assist a group of 20 countries in building the capacity to participate in such agreements, and a 'Carbon Finance Mechanism' or 'Carbon fund', which will negotiate contracts with a smaller group of countries and provide payment for the verified reductions in emissions.

There is no geographic focus for the FCPF. All borrowing Member Countries of the IBRD or IDA that are located in a Subtropical Area or Tropical Area are eligible. However, priority will be given to countries with substantial forest areas and forest carbon stocks; and having forests that are important for the livelihoods of forest dwellers and Indigenous Peoples. The Participants Committee will select countries to participate based on the submission of a 'Readiness Plan Idea Note' in accordance with technical criteria. It appears that the FCPF will give higher priority to working in countries that can best demonstrate how the system could work rather than working in countries with the largest forest area and forest carbon stocks.

The GEF Tropical Forest Account is a financial incentive mechanism associated with the existing GEF Sustainable Forest Management Program, aimed at motivating tropical forest countries to invest country resources allocated through the RAF to projects dealing with sustainable forest management (SFM). It views tropical forests as having benefits in regard to mitigating climate change, protecting biodiversity and livelihoods and environmental services for millions who live in and depend on them. The ultimate aim of the additional funding from the TFA is to focus more investments in three GEF focal areas (climate change, biodiversity and land degradation) on forests in regions where biodiversity and carbon stocks are high and forest conversion is taking place at a high rate.

The rationale for the TFA is that the existing GEF system for allocating resources to all eligible countries in the SFM Program, the RAF, does not take into account the LULUCF (Land Use, Land Use Change and Forestry) aspect of greenhouse gas emissions and the actions necessary to mitigate them. Hence a mechanism was needed to fill the gap in the existing toolbox of GEF incentives for intensifying the focus on reducing deforestation. The initial targets for the Tropical Forest Account (TFA) are the three regions with large intact tropical forests: Amazonia, the Congo Basin and Papua New Guinea/Indonesia. Each of these regions has over 8 million hectares of broadleaf forest and is believed to be over 70 percent intact. The target regions include seventeen countries, which are home to 54 percent of tropical forest cover and 68 percent of tropical forest carbon.

The TFA creates an investment framework for a portion of the GEF global resources in biodiversity, climate and land degradation and will foster convergence of investments in high tropical forest cover regions. It will reinforce the RAF system while keeping its integrity. In financial terms, the TFA will lead immediately to an augmentation of funding for SFM within the target region by up to $60 million. It also provides a real possibility of attracting additional donors.

The World Bank Clean Technology Fund (CTF): the objective of the CTF is to accelerate the transformation to low carbon economies by financing the more rapid deployment of low-carbon technologies and sector strategies. Such development, in turn, is aimed at bringing cost-effective reductions in the growth of greenhouse gas emissions. The aim is to put entire economic sectors, such as the cement industry in China, on low-carbon growth trajectories that will prevent large carbon emissions compared to the non-CTF intervention scenario. The primary rationale for the CTF is a mitigation financing gap which the Bank estimates at $100 billion annually. A secondary rationale is that mitigation efforts need to be more "transformational" both within each sector and in overall development terms than they have been in the past.

The CTF will use a blend of financial instruments, including grants, concessional loans and guarantees, to make investing in low-carbon technologies more attractive to both public and private sector investors in the developing countries. It will also be a collaborative effort between the WB and other MDBs, in which each MDB will propose its own pipeline of programs and projects, to be approved by its own board and then forwarded to the CTF Trust Fund Committee for approval. Final project approval would be by each MDB's own board (a rather drawn out process). Eligibility requirements for participation in the CTF will include (a) ODA-eligibility (according to OECD/DAC guidelines); and (b) an active MDB country program. The CTF will primarily target the top 10 to 20 high-emitting countries – i.e. those with the highest overall carbon emissions from energy use. However, other countries may be able to obtain some proportion of the funding.

The GEF-IFC Earth Fund: the objective of the Earth Fund, which is to be a partnership between the GEF and the IFC, is to lever private sector funding to stimulate more innovative and cost-effective solutions in developing countries to the threats of climate, biodiversity loss, and land degradation. It will put emphasis on new technologies that are yet to be commercially developed to address specific environmental problems (and therefore complement the CTF). The Earth Fund will rely on the IFC's ability to engage the private sector in order to encourage venture capital to make early-stage investments, using a wide array of financial instruments, including grants, soft loans, and equity participation, as well as inducement prizes, to reward environmental innovation. When the Fund was announced in Bali in November 2007, the GEF and IFC said it would establish inducement prizes in coordination with Prize Capital LLC, a company that has experience in using a combination of prizes and capital to bring innovative environmental technologies into being.

The main rationale for the Fund appears to be that GEF efforts to engage the private sector under existing forms has not produced adequate results, and therefore a new, more flexible form of partnership with private sector entities, and particularly venture capitalists, is needed. The target of the fund is to work primarily with private investors and entrepreneurs, so it appears that there will be no country-related eligibility requirements. In fact, it is anticipated that the Fund will work in some countries that are not GEF-eligible, according to IFC.

The World Bank Strategic Climate Fund and Pilot Program for Climate Resilience (PPCR): the Strategic Climate Fund has the objective of promoting 'collaboration, synergies and learning among MDBs in the area of climate change'. It is an umbrella fund under which a series of programs is planned. The first such program to be announced is the PPCR; however, World Bank staff have indicated that they are also planning an investment program for forests, a technology transfer program for low income countries (to be funded by The Netherlands), and possibly a carbon sequestration and storage (CSS) fund.

The PPRC is intended to demonstrate a sector development risk management approach to climate adaptation. It will show how climate risk and resilience can be integrated into core development planning, so that the lessons learned can be applied in designing national adaptation programs. It will select five to ten countries from those eligible for MDB concessional funding for scaled-up support to integrate climate resilience into development planning and budgets. The countries chosen will include at least one from the Small Island Developing States. The PPCR will support in-depth studies of particular sectors to determine how development planning needs to be revamped to take into account anticipated climate impacts.

The rationale for the PPCR is that the greatest need of the most vulnerable countries in coping with climate change is not specific projects but a rethinking of their development strategies at the sector level. The impacts of climate change, according to this rationale, will be so pervasive in most developing countries that their needs for adaptation transcend the level of project. Country selection will be based on (a) transparent vulnerability criteria; (b) preparedness to move to a strategic approach in integrating climate resilience into development; and (c) country distribution across regions and types of hazards.

The Kyoto Protocol Adaptation Fund: the Adaptation Fund was established under the Kyoto Protocol to assist developing countries, which are particularly vulnerable to the adverse effects of climate change, meet their costs of adaptation. An innovative mechanism has been designed to use the proceeds from the system of certified emissions reductions (CERs) set up under the Clean Development Mechanism (CDM). The Fund will operate on the principle of funding the full adaptation cost of projects and programs to address the adverse effects of climate change (in contrast to the adaptation funds already managed by the GEF, which fund only part of the total costs of projects). The funding will cover projects at the national, regional and community levels, and will reflect the priorities and needs of the country submitting the proposal. A board with a developing countries majority will make decisions on which adaptation projects to fund. All developing country parties to the Kyoto Protocol of the UNFCCC will be eligible to receive funding for climate adaptation projects, although the emphasis on vulnerability may give higher priority to certain categories of states.

(ii) *Funding details*

The World Bank Forest Carbon Partnership Fund (FCPF)

- Amount of total funding: $165 million: $92 million for the readiness Fund, and 75 million for Carbon Fund.
- Target level is $300 million, of which $100 million would be for Readiness Fund and $200 million for the Carbon Fund. Type of funding: grants
- Sources of funds: Austria, Denmark, Finland, France, Norway, Switzerland, UK and The Nature Conservance. UK and Germany have contributed to both the Readiness Fund and the Carbon Fund; the Nature Conservancy only to the Carbon Fund, and the other six countries only to the Readiness Fund. Minimum contribution to participate is $5 million for both governments and private sector entities.
- Period covered by funding: 2008-2012.

GEF Tropical Forest Account (TFA)

- Amount of total funding: Initially $60 million Type of funding: grants
  Source of funds: GEF Global and Regional Exclusion funds ($30 million from the biodiversity allocation, $10 million from the climate change allocation and $20 million from the land degradation allocation).
- GEF intends to attract additional funding from donors. thus Duration of funding: GEF-4 (till June 2010).

The World Bank Clean Technology Fund (CTF)

- Amount of funding: Still highly uncertain; the Bush administrationhas pledged some $2 billion but, according to congressional sources, there is uncertainty what amount, if any, will be approved in FY 09 or thereafter. The UK has pledged part of the 800 million pounds ($1.56 billion) committed to "environmental transformation" last year. Japan has pledge to give part of its $10 billion package of funding to support efforts in developing countries to mitigate climate change. It is unclear whether it will attract further donor support.
- Types of funding:

  1. Concessional financing in the near-to-medium term to meet investment needs to support rapid deployment of low carbon technologies;
  2. Concessional financing at scale, blended with MDB financing, as well as bilateral and other sources of finance, to provide incentives for low carbon development;
  3. A range of financial products to leverage greater private sector investments; and
  4. Financial instruments integrated into existing aid architecture for development finance and policy dialogue.

- Sources of funding: UK, Japan, and the some from existing funds of the World Bank and other MDBs. Uncertainty prevails as regards contributions from the United States and other donors .
- Duration of funding: 2008 to at least 2012. It is proposed that the CTF would be reviewed after 2012 in light of the deliberations on a post-2012 climate change agreement, including an associated financial architecture, to determine whether it should be revised or ended.

GEF-IFC Earth Fund

- Amount of funding: Target amount is $207 million
- Type of funding: grants and concessional loans
- Sources of funding: GEF will contribute $56.2 million from its global and regional funds from the RAF and hopes to obtain $150.7 million in co-financing from private sector entities, and hopes to obtain $150.7 million in co-financing from private sector entities
- Duration of funding: The Fund will begin operating in June 2008; there is no end date for the fund.

World Bank Strategic Climate Fund and Proposed Pilot Program for Climate Resilience (PPCR)

- Amount of funding: The target for funding the PPRC is $0.5 billion to $1 billion
- Type of funding: grant and/or highly concessional financing. Grant resources will be available to provide support for technical assistance and institutional adjustment.
- Sources of funding: World Bank hoped to interest donor countries in supporting the fund, but no pledges from donor countries have been reported
- Duration of funding: 2008-2012. The World Bank has pledged publicly that it would close the program at the end of the pilot.

Kyoto Protocol Adaptation Fund

- Amount of funding: The level of funding that will be available to the Adaptation Fund is not yet known, because it will depends on the demand and price of emissions reductions on the carbon market. It is anticipated that there will not be enough money in the fund for three or four years. The World Bank estimated in 2006 that by 2012 the amount be anywhere from $100 million to $500 million.
- Type of funding: grant assistance
- Source of Funds: a two per cent levy on the emission permits – "Certified Emission Reductions" (CERs) – generated by emission reductions projects under the Kyoto Protocol's Clean Development Mechanism (CDM). The two per cent share of the CERs generated by the projects will be levied by the CDM Executive Board and monetized and disbursed by the Adaptation Fund.
- Duration of funding: No definite start date has been decided. Duration will be indefinite

Table 4: Estimated level of funding from multilateral initiatives

Fund	Total Amount (US$)	Type of funding	Period	Source of Funds	Comments
WB - FCPF	165 million of which 91 million: Readiness Fund 74 million: Carbon Fund	Grants	2008-2012	UK and Germany have contributed to both the Readiness Fund and the Carbon Fund; the Nature Conservancy only to the Carbon Fund, and six other countries only to the Readiness Fund.	Minimum contribution to participate is 5 million for both governments and private sector entities.
GEF - TFA	60 million	Grants	2008-2010	GEF Global and Regional Exclusion funds ($30 million from the biodiversity allocation, $10 million from the climate change allocation and $20 million from the land degradation allocation).	
WB – CTF	Uncertain	Concessional financing, blended with MDB financing, as well as bilateral and other sources of finance	2008-2012	UK, Japan, and the some from existing funds of the World Bank and other MDBs. Uncertainty prevails as regards contributions from the United States and other donors.	
GEF-IFC Earth Fund	207 million	Grants and concessional loans	2008 -	GEF will contribute 57 million and hopes to obtain 150 million in co-financing from private sector entities	
WB – PPCR	Up to 1 billion	Grants and highly concessional loans	2008 – 2012	World Bank hopes to interest donor countries in supporting the fund, but no pledges have been reported	
Kyoto Adaptation Fund	Not known	Grants	No start date announced	A two per cent levy on the emission permits generated under the Kyoto Protocol's Clean Development Mechanism	The exact level of funding is not yet known, because it will depend on the demand & price of emissions reductions on the carbon market.
Total Multilateral Funding	Less than 2 billion?				

(iii) Governance

The World Bank Strategic Climate Fund and Forest Carbon Partnership Facility (FCPF): Policy and project decisions will be made by a 'Participants Committee', to include all public and private entities that have made a minimum contribution. The initial proposal is that the committee will have twelve members representing governments to be divided equally between REDD country members and donor country members. REDD country participants will elect representatives to the board, with each country participant getting one vote. Donors and private sector buyers will elect their representatives to the Committee with each having one vote for each million dollars of contribution. Decisions by the board would be by majority if no consensus is reached. International organizations, NGOs, and non-contributing private sector entities will be invited to participate in meetings as observers. The World Bank will be trustee and provide secretariat services through its Facilities Management Unit.

GEF Tropical Forest Account (TFA): Decisions on the use of resources under the TFA will be made under the overall GEF governance mechanism.

The World Bank Clean Technology Fund (CTF): Governance arrangements for the CTF are still under discussion. The initial published World Bank governance proposal was that the Fund will be governed by a Trust Fund Committee, which would comprise:

(i) A still undetermined number of representatives from donor countries identified through a consultation among interested donors. It is expected that representation of the donor countries will be primarily guided by total contributions to the CTF. Such representatives will serve for two year terms. Representatives may be reappointed;
(ii) A comparable number of representatives of recipient countries chosen by recipient countries receiving financing from the fund. Such representatives will serve for two year terms. Representatives may be reappointed;
(iii) Whenever the Trust Fund Committee considers a country work program or project to be financed by the fund, the recipient country concerned will be invited to participate in the Trust Fund Committee during its deliberations on the work program or project;
(iv) A senior representative of the World Bank, recognizing the role of the World Bank as the overall coordinator of the CIF partnership;
(v) A representative of the MDB partners to be identified by the MDB Committee (the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank and the World Bank Group) and chosen on the basis of rotation among the MDBs.

The board will make decisions based on consensus, as does the World Bank Executive Board, meaning that there will be no votes, and a representative may force a proposal to be withdrawn and redrafted by voicing 'sustained dissent'. However, since the initial proposal was made public, the Bank has said that it might increase the number on the Trust Fund Committee by one or two in each of the two main groups. The question of who would chair the CTF is still being discussed. Some donors are said to want the World Bank to chair, but Bank officials have expressed concern that it would be seen by some as posing a conflict of interest for the Bank.

The GEF-IFC Earth Fund: No proposal for governance has been announced. Because the Fund deals with private sector entities, no new governance structure is to be created. Some changes in GEF rules will be necessary for decision-making on projects, because approval by the GEF focal point of any country in which a project is located would not be acceptable to IFC or potential private sector participants. There is a proposal for an advisory board that would include NGOs and private sector representatives, but without legal authority.

The World Bank SCF and Proposed Pilot Program for Climate Resilience (PPCR): The SCF will have a Trust Fund Committee, with an equal number of representatives from contributors and recipient countries, as well as representation by the World Bank and the MDBs. The governance of the PPCR will be by a Sub-Committee of the Trust Fund Committee, which will have the same representation as the full-committee. A developing country representative would be Chair or co-Chair of the Sub-Committee for the PPCR. Decision making of the committee will be through consensus. As in the cases of the FCPF and CTF, the World Bank staff will act as the Secretariat and will thus play a central role in assisting the Trust Fund Committee and the PPCR Sub-Committee in making decisions on policy and projects.

Kyoto Protocol Adaptation Fund: The Fund is governed by the Adaptation Fund Board (AFB), chosen for a two-year term and comprising 16 members representing Parties to the Kyoto Protocol, as follows:

1. Two representatives from each of the five United Nations regional groups;
2. One representative of the Small Island Developing States;
3. One representative of the Least Developed Country Parties;
4. Two other representatives from the Parties included in Annex I to the Convention (Annex I Parties);
5. Two other representatives from the Parties not included in Annex I to the Convention (non-Annex I Parties).

Decisions of the Adaptation Fund Board will be taken by consensus, but it no consensus can be reached, decisions will be taken by a two thirds majority of the members present at the meeting on the basis of one member, one vote.

The governance arrangements for the new multilateral funds fall into three categories (Table 5) - if the Earth Fund is set aside, because it probably will not have an external board to make decisions on policy and projects. The FCPF clearly favours donors by allowing for the World Bank formula of voting power depending on contribution and decisions based on a simple majority. The Kyoto Protocol Adaptation Fund, on the other hand, clearly favours developing countries by allocating a large majority of the seats to those countries while making decisions subject to a two-thirds majority. In the middle are the PPCR and CTF, with a consensus-based system, which makes a balance of representatives irrelevant, and the Tropical Forest Account, which relies on the existing system of double veto for donors and developing countries.

Table 5: Governance Mechanisms in New Multilateral Funds

Fund	Governing Board Membership	Decision-making Method
FCPF	6 representatives of REDD countries, 6 representatives of donors and buyers. Each REDD country receives one vote, each donor or buyer gets one vote per million dollars contributed	Simple majority of votes
GEF Tropical Forest Account	*Under GEF trust fund rules*: 14 developed country representatives, 16 developing country representatives, and 2 representatives from countries in Central Asia and Europe and the former Soviet union with one vote per country	If there is no consensus, decisions are made by a combination of a 60% majority of total number of participants *and* a 60% majority of total contributions.
CTF	5-7 representatives of both donor and participating recipient countries	Consensus; no votes
Earth Fund	*Under GEF trust fund rules*: 14 developed country representatives, 16 developing country representatives, and 2 representatives from countries in Central Asia and Europe and the former Soviet union with one vote per country	If there is no consensus, decisions are made by a combination of a 60% majority of total number of participants *and* a 60% majority of total contributions.
PPCR	Equal number of representatives from contributors and recipient countries	Consensus; no votes
Kyoto Adaptation Fund	10 representatives of developing countries, 4 of industrialized countries and 2 of Eastern Europe	Decisions made by two-thirds majority

3.4 Duplication, complementarity and synergy between fund activities

Is there potential duplication of activities between these new funds or between the new and existing funds? Or are these funds complementary or even synergistic in relation to one another and the existing funds? The following analysis of the interactions of new and existing funds covers three categories of funds: those that aim to support low carbon technologies, adaptation, and the reduction in emissions from deforestation and degradation (REDD).

Low carbon technologies

Leveraging finance to encourage the adoption of low carbon technologies is an objective of many of the funds reviewed. So, is the CTF going to do what the GEF was set up to do and has, in fact, been doing? The GEF has been engaged in funding projects aimed at 'buying down' the cost of climate-friendly technologies for many years by offering a blend of grant and concessional financing for promising renewable technologies. It also has a system in place to evaluate the kinds of projects contemplated by the CTF under its existing climate change focal area. This suggests that the CTF will overlap, and likely compete with, the existing operations of the GEF in the climate focal area.

In terms of the types of technologies supported, the GEF has focused its climate-related investments primarily on projects aimed at promoting renewable energy technologies that are not yet proven. The CTF on the other hand, would fund technologies that are already proven, with the ambitious aim of scaling up the adoption of such technologies by 'buying down' the costs of investments in lower carbon technologies than what would otherwise have been chosen in those countries' industrial sectors. But the GEF also has a second major niche in promoting clean technology that is much closer to what is being suggested for the CTF: its portfolio of more than 30 projects for technology upgrading and adoption and diffusion of energy efficient technologies in the industrial sector. Indeed, this industrial energy efficiency portfolio has been implemented by the World Bank and the International Finance Corporation (IFC). Rather than focusing on specific technologies or even a specific industry, it has supported the development of market and financing mechanisms, such as the Energy Service Companies that support and stimulate investments in energy efficient technologies. GEF projects have promoted energy efficient equipment, such as boilers, motors and pumps, and even co-generation of power (Miller, 2007). These appear to be exactly the kinds of investments that the CTF is aimed to promote. It would be very surprising if the CTF was not contemplating using some of the same mechanisms for 'buying down' the costs of the some of the same types of technologies in a range of sectors.

The CTF is therefore likely to be doing the same things that the Bank has done in the past through the GEF. By creating the CTF, the Bank will have much less motivation to continue in the Fund because it will be funded directly by bilateral donors rather than through the GEF. Rather than creating synergy, therefore, the new arrangement will likely have the effect of undermining an existing program that appears to have been reasonably successful.

The differentiation between the two approaches with regard to geographic focus does not appear to be clear-cut. The CTF is aimed at influencing the highest emitting countries in the developing world to adopt a low-carbon path by offering concessional loans as well as financing the blend of concessional loans and grants to provide the necessary incentives for the appropriate technological shifts to take place at sector level. It also contemplates levering policy dialogue at the sector level with grant financing. The result should be that entire sectors shift to low-carbon paths, thus preventing large carbon emissions compared to the scenario envisioned prior to the CTF intervention. The GEF has a much broader geographic focus, but it, too, has concentrated most of its funding in the climate change focal area on the highest-emitting countries.

The approach used by CTF to promote the adoption of climate-friendly technologies may also be differentiated from that of the GEF by virtue of the bigger role to be played in the CTF by IFC, which has long experience in collaborating with the private sector. The IFC's obvious advantage in working with the private sector is what led the GEF to develop a partnership with IFC through the 'Earth Fund'.

Although there are obviously differences between the proposed CTF activities and the GEF's existing funding for the elimination of barriers to energy efficient and renewable technologies, it is clear that there is a substantial overlap between them as well. Furthermore, the channelling of funding by donor countries through the CTF will not only be at the expense of funding the GEF's climate-related funding, but will have the effect of dramatically reducing World Bank participation in the GEF.

Adaptation

In the area of funding for climate adaptation, there appears to be an obvious overlap, at least with regard to objective, among the proposed new World Bank Pilot Programme for Climate Resilience (PPCR), the Kyoto Protocol's Adaptation Fund and the existing funds to support adaptation by developing countries managed by the Global Environment Facility: the fund for 'Piloting an Operational Approach to Adaptation' within the GEF's climate change focal area, the Least Developed Country Fund (LDCF) and the Special Climate Change Fund (SCCF).

In addition, activities carried out under the GCCA, the Cool Earth Partnership and the Spanish MDG Fund include mainstreaming of climate into development as a means of adaptation. The GCCA will focus on integrating adaptation plans into poverty reduction and development strategies. It plans to help develop the institutional capacity in LDCs and SIDS for mainstreaming and will focus on 'climate proofing' EU-funded programmes and projects. The Spanish MDG Fund also plans to support mainstreaming environmental issues in national and sub-national policy, planning and investment frameworks. The Cool Earth Partnership will support the mainstreaming of adaptation measures in the formulation of development plans and support measures that facilitate coordination between sectors. This points to a situation of funding overlap and complexity with, as yet, little sign of effective co-ordination.

Both donor countries and developing countries have been particularly critical of the PPCR with regard to its relationship to the Adaptation Fund. At the Paris donors' meeting in April 2008, some donors suggested that the PPCR should be revised to avoid such duplication. Similar concerns were expressed at the climate negotiations in Bangkok in April 2008, where the Philippines (for the G77), China and India all expressed concerns about the PPCR undermining the Adaptation Fund. The World Bank has denied any intention of competing with the Adaptation Fund and has promised to work with the UNFCCC Secretariat to ensure that they are not competitive in any way. It has even announced that the Chairman of the Adaptation Fund will be on the oversight committee that governs the PPCR. As a further sign of collaborative working, the World Bank and the GEF have agreed to a set of operational principles by which each party recognizes that the other has important but different roles to play in funding adaptation.

Perhaps the biggest difference between the PPCR and the GEF funds is in the types of activities they will support. The PPCR will pilot approaches to 'mainstreaming' climate change into development planning through 'sector strategies', whereas the GEF will support adaptation projects. Both approaches are prominent in the climate change literature and both have their advantages and disadvantages (see e.g. Klein et al., 2007; Huq, 2007). 'Mainstreaming' approaches may align better with other development processes such as poverty reduction strategies, but they may make it harder to disaggregate finance for adaptation activities compared to normal development activities. It may also be more difficult to see visible results in the short-term.

The PPCR is a pilot fund, which the Bank has pledged will not 'prejudice the ongoing UNFCCC deliberations regarding the future of the climate change regime, including its financial architecture.' The Bank has therefore promised that the SCF will 'take the necessary steps to conclude its operations once a new financial architecture is effective.' Specifically, the Bank says it 'will not enter into any new agreement with donors for contributions to the trust fund' at that point. However, the Bank's proposal makes it clear that it will 'transfer donors' pro-rata shares to another fund which has a similar objective as the SCF, as determined by the Trust Fund Committee', unless a donor specifies otherwise. World Bank officials have said that their aim after the conclusion of the PPCR's work is to increase funding for IDA's mainstreaming of adaptation.

The AF is to be funded from a two-percent share of the revenues from the market for certified emission reductions (CERs) under the CDM system set up by the UNFCCC. However, there are substantial uncertainties about how much funding the market will generate, because it will depend on both the size of the market and on prices. The variation is partly due to uncertainties in the future of carbon markets and size of future emissions caps, which are currently being negotiated in the Bali 'Roadmap' process up to December 2009. Estimates vary widely, from a few hundred million dollars to nearly a billion dollars by 2012, which would make expected funding for the AF comparable to the funding anticipated by the PPCR.

The uncertainties associated with the market leaves open the possibility that the AF would seek funds from donors for adaptation as well. If this happens, there will be competition between the AF, the existing GEF-managed adaptation funds and the PPCR or a successor organization which aims at continuing the same kind of work for some of the same bilateral donors' support. The Least Developed Country Fund (LDCF) and Special Climate Change Fund (SCCF) are already supported by overlapping groups of donors: the LDCF by seventeen (Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland and United Kingdom) and SCCF by thirteen (Canada, Denmark, Finland, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom).

The problem posed by the interaction of the PPCR with existing adaptation funds, therefore, is not that they are doing the same thing, but that they are competing for funding from the same donors under the same rubric. The question, therefore, is whether donors are prepared to increase their funding for adaptation to support two different approaches or will support the new approach at the expense of the old one.

Reducing emissions from deforestation and degradation

The new political urgency surrounding the threat of climate change has given rise to a multiplicity of new funds – both bilateral and multilateral - to reduce the contribution that deforestation makes to global carbon emissions. The multilateral funds already announced for targeting deforestation in relation to climate change include: (i) the World Bank's Forest Carbon Partnership Facility (FCPF) and (ii) the GEF's Tropical Forest Account (TFA). In addition to these multilateral funds, three bilateral funds - the Australian Government's Global Initiative on Forests and Climate, the Norwegian Government's Norad Rainforest Fund and the UK's Environmental Transformation Fund (ETF) - are all focused in part or in whole on reducing the contribution of deforestation to carbon emissions causing climate change. The bilateral funds have not advanced unique solutions for the contribution to carbon emissions from deforestation but appear to be oriented toward contributing to one or more of the multilateral funds dealing with the problem. The Australian, Norwegian and UK ETF have indicated their intention of channelling at least some of their resources on deforestation through the World Bank's Forest Carbon Partnership Facility.

However, the FCPF and the GEF TFA have adopted different approaches to the problem of reducing deforestation rates. The FCPF is clearly oriented toward future markets for CERs. One of it two major programs, called the 'Readiness Mechanism', is aimed at helping a small group of countries prepare to enter the CER market by providing technical assistance for the preparation of national REDD strategies, establishing reference scenarios for emissions reductions from those sources and establishing monitoring systems for such reductions. The other program, the 'Carbon Finance Mechanism' - also called the 'Carbon Fund' - will pilot 'incentive payments' for REDD 'policies and measures' in a select group of countries in accordance with actual contracts with buyers.

The GEF Sustainable Forest Management Program's Tropical Forest Account (TFA), adopted by GEF Council in November 2007, is intended to focus GEF forest investments on the tropical forest regions and countries with the highest carbon stocks and biodiversity. Thus the GEF is committed to focusing its limited resources on investments in Amazonia, the Congo Basin and Papua New Guinea/Indonesia, which together account for 68% of the world's tropical forest carbon and 43% of all the world's plants as endemic species. However, it is not at present intending to use carbon markets as a strategy for influencing the rate of deforestation.

Although the FCPF gives priority to countries with substantial forest area and forest carbon stocks, it does not appear to anticipate focusing on the tropical forest countries which are the largest sources of carbon emission from deforestation and land degradation. Rather, as a program for piloting it is more concerned with working in countries that could best demonstrate how the system could work.

The majority of the bilateral funds that aim at supporting reduced deforestation will work in the Congo Basin, the Amazon and SE Asia. For example, the small part of the ETF that is allocated for bilateral funding is currently providing support to the Congo Basin Rainforest Fund. The GIFC has made commitments to supporting activities in Indonesia and Papua New Guinea. The Spanish MDG Fund is supporting projects in Colombia and Ecuador and the NORAD Rainforest Fund is in contact with the Brazilian government. Some of the emerging funds also specifically target LDCs and SIDS. Whilst no specific details on the REDD window of the GCCA are available, it seems reasonable to assume that it will focus on ACP countries in line with the EU's Aid priorities. These facts appear to indicate a rather haphazard selection of country targeting based on existing donor priorities and initiatives (though it must be noted that most of the bilateral funds have not yet advanced to the stage where decisions about allocations to specific measures in specific countries have been made).

The GEF, should it continue to be independent of the carbon market, could capitalise on these differences and complement the approach of preparing countries to participate in the carbon market. However, the World Bank is also carrying out 'readiness' activities that aim to help developing countries prepare for reduced deforestation investments. Funding from donors in this area (which are not raised through carbon markets themselves) could be in direct competition with the sourcing of funds for GEF activities on deforestation.

In addition, the bilateral initiatives (e.g. parts of the GCCA and GIFC) could reduce funding channelled through either the GEF or the World Bank. For example, the GCCA plans to expand programs such as the forest law enforcement, governance and trade (FLEGT) initiative of the European Union and the development of new laws against illegal international trade in timber and forest products, as a way to address deforestation. The GIFC also plans to support the establishment of effective regulatory and law enforcement arrangements (including the prevention of illegal logging) to protect forests. How well integrated such efforts will be at the national level remains to be seen.

4. TOWARD A MORE COHERENT SYSTEM OF FUNDING

The creation of these 14 new global environment funds (and the likelihood of further bilateral initiatives), coupled with donor country willingness to channel a considerable portion of their new resources into the World Bank, raises questions about the future of the whole system of global environmental finance. Do the trends highlighted in the preceding sections portend a fundamental shift in the existing system of global environmental funding, in which a World Bank-centered multilateral institutional arrangement replaces the GEF as the locus of strategy and funding decisions for climate change?

Major donor countries appeared to signal their readiness to move in that direction at the 2005 climate-centered G-8 Summit at Gleneagles, when the heads of state said the World Bank should 'take a lead role in creating a new framework for clean energy and development, including investment and financing.' Whether the donors had already consciously made the MDBs the primary channel for climate-related funding or had not thought through the full consequence of decisions regarding the shift in the locus of global environmental financing, is not clear. Regardless, the Bank has acted as though it has a mandate from donors to act as the lead institution with regard to funding activities for climate mitigation – including reduced deforestation – and adaptation. Not surprisingly, GEF senior management has interpreted recent developments as a clear indication that their institution, which was intended to be the unique focus for global environmental funding, is being marginalized by the donor community.

This section examines the question of the appropriate roles of the World Bank and other MDBs, the GEF and bilateral funders in the future architecture of global environmental funding in light of four different needs in regard to that architecture:

1. the need to scale-up efforts and to act with greater urgency;
2. the need for policy coherence;
3. the need for independent coordination and control; and
4. the need for North-South accord in carrying out measures for global environmental benefit.

4.1 Major requirements of a new system of global environmental finance

Scaling-up with urgency

The primary impetus behind donor support for favoring the World Bank and other MDBs as the vehicle for investing the new wave of much larger funding appears to be the sense that efforts to reduce the carbon footprint of technologies to be introduced in the very near future had to be scaled up, and that a program had to be set in motion very rapidly. Those considerations clearly favored the World Bank and other MDBs over the GEF. The Bank has demonstrated an ability to respond quickly to new opportunities by creating three new funds (the FCPF, CTF and SCF, including the PPRC and additional subsidiary funds). The GEF, on the other hand, has been constrained by a deliberately complex management arrangement, including a cumbersome approval process. Furthermore, the GEF's sometimes fractious Council has not been able to act swiftly to innovate in order to respond to new circumstances and opportunities. This disjointed management arrangement has been a major contributing factor to its failure to recognize the need for and adopt a policy toward carbon markets.

The World Bank is accustomed to moving billions of investment dollars annually, and its culture has long put a premium on large volume investments. Thus, in a sense, scaling up comes 'naturally' to the World Bank, whereas the GEF would need to make major organizational adjustments in order to scale up technology-related operations. Moreover, the GEF has been forced by its limited replenishment funding to find ways to stretch out its funds, so it would need some shift in institutional arrangements to manage a fund for promoting clean technology that is an order of magnitude larger than the similar program it has managed in the past. The Bank was thus prepared to undertake the mission that the donors had in mind immediately, while GEF would not have been able to undertake the kind of urgent scaling up without major internal adjustments.

Policy coherence on financing mitigation

In making decisions on funding projects to reduce greenhouse gas emissions, it is vital that the system of global environmental finance acts on coherent policy guidance. As middle income countries invest billions in power generation, the system should be very clear about putting before the officials making those choices the investments that would provide the level of services required with the least greenhouse gas emissions.

But it is not clear that the CTF is designed to push for the lowest carbon alternatives available in each case. The World Bank has not been able to provide a clear definition of what it means by the term "clean energy", and the ambiguity surrounding that concept represents a serious lack of policy coherence. There is a danger, in fact, that the CTF will simply fund incremental improvements in technology rather than anything close to the lowest carbon alternative.

Bank officials have referred to "clean coal" technologies, for example, as following within the ambit of the new fund. But these are technologies that the World Bank and its private sector arm, the IFC are already funding on its normal lending terms and require less concessional terms than projects that are the lowest carbon alternative. Bank staff have suggested that such projects are indeed contemplated by stating that the starting point for determining what may be financed is the "business as usual" path. The implication is that anything that reduces emissions from that baseline would be eligible for funding by the CTF.

The danger of an unclear policy to guide investment on "clean technology" is that funds will not be invested to maximize reductions in greenhouse gases but as a compromise between that aim and the financial interests of the World Bank and other MDBs. When compared with the GEF's policy guidance from a combination of the UNFCCC and from the GEF Council, it appears that the new system will represent a serious retrogression in this regard.

Policy coherence is also needed between the new funds and national systems in recipient countries. The level of *alignment* with country systems is not yet clear, as many of the initiatives are still in a development stage. It is likely that the GCCA will use country systems to disburse funding. The use of general budget support, channelled via the Ministry of Finance (with the involvement of the Ministries of Development and Environment) is one delivery mechanism currently under review (Box 1) and the GCCA recognises it as being a potentially better way to deal with large volumes of funding. The Spanish-UNDP fund requires country proposals to identify results frameworks and indicators.

The level of *harmonisation* between the different initiatives cannot be determined at this stage. It is clear that initiatives have been donor-driven and talks between various initiatives have followed. Currently, the GCCA and the Climate Investment Funds are in initial stages of dialogue over the complementary geographical focus of their initiatives. The GCCA, the CIFs, the GIFC and the Cool Earth and NORAD Rainforest Initiatives are also consulting with other donors to gather support for their respective initiatives. The Spanish-UNDP hopes to ensure harmonisation via a bottom-up structure. This Fund relies on resident coordinators to ensure that proposed activities are not duplicating initiatives financed by other funds. The GCCA also makes specific reference to its role as a 'clearing house' mechanism that will ensure coordination between EU Member States. It also refers to the Code of Conduct promoting 'division of labour' to ensure effective aid delivery.

Box 1: The potential for new aid delivery mechanisms to strengthen environmental spending

Current levels of public funding for environment-related actions are clearly inadequate in many Developing Countries. This is reflected in the apparent limited attention given to the environment within national development strategies and within the daily practice of the public administration. With the advent of climate change and the likelihood of more severe environmental hazards arising from climatic variations, it has become increasingly important to find effective ways of addressing these concerns. International assistance, and the modality by which it is delivered, can make a significant contribution to improved national environmental governance and management.

General Budget Support (GBS) is seen as the aid modality which is most inherently aligned to national policies and systems. Its increased use holds the promise of addressing the problem of financing environmental objectives in a more creative way. Budget support can provide substantially increased and highly flexible funding for public sector budgets, through mechanisms which are low in transaction costs, serve to strengthen national financial management and accountability systems and give the beneficiary country a high degree of control over the use of the resources. This control is exercised through the democratic institutions normally in charge of the budget process, thus promoting country ownership of, and responsibility for, the development process. However, it is important to note that budget support is only a feasible option in countries with reasonably sound public financial management systems and low fiduciary risk. Also, budget support offers no guarantees that environmental objectives will be prioritised if they are not already part of government's policy priorities.

Reference: Lawson, A. and Bird, N.M. (2008). Government institutions, public expenditure and the role of development partners: meeting the new environmental challenges of the developing world

Overall, there is still very little clarity on how the implementation of these new funds will preserve (let alone strengthen) current donor harmonisation and alignment efforts at country level. There will need to be a significant level of flexibility in the definition of these international vertical funds to ensure that their areas of intervention are consistent with nationally defined priorities and that the management of the funds is absorbed by country systems. Harmonisation will need to be pursued both internationally and in-country and will need to go beyond climate-related interventions.

Independent coordination and control

In order to assure donors that financial resources are being applied in the most effective way possible to maximize impacts on climate change and other global environmental threats, there should be some independence between the agency seeking funding for its own projects and the agency that reviews project or program proposals. When an organization has the power to determine how a large pot of money is spent without such a neutral buffer, the chances are that it will spend money in ways that advances its own institutional

The GEF model has the distinct advantage of providing an independent staff and competitive proposals for project funding. It seems likely, however, that the decision making process on the Trust Fund Committee or Sub-Committee of the SCF and the Participants' Committee of the FCPF will be driven by understandings among the MDBs themselves about how to divide up the money. A notable feature of the governance arrangements for the CTF and PPRC is that either the World Bank or the other MDB representative could veto a decision, which creates a powerful incentive for deals among them. That incentive structure will have the effect of encouraging each bureaucracy to bargain to maximize its share of the funding, thus eliminating any real possibility of outside review and control over how the money is spent. The GEF model also represents a system for coordination of implementing agency strategies and project pipelines by a neutral party. This advantage, too, will be lost in the system now being created. It thus represents a significant loss compared with the existing system in terms of the desiderata of neutral coordination and control.

North-South accord

The new funds created by the World Bank will have significant implications for the North-South accord on funding, in which the GEF represents an imperfect and uneasy compromise between donor and developing country power over funding decisions. A central feature of the developing country position has been that decision-making should be based on the principle of one country, one vote, rather than on the amount of money contributed, which is the principle governing World Bank decision-making.

In this regard, the World Bank's CTF, SCF and FCPF all represent a distinct step back from the GEF compromise. In the FCPF governance structure, the World Bank has reintroduced the idea of the vote of those providing capital depending on the size of contribution. And the CTF and SCF governance arrangements give unprecedented power over programming and project decisions to the World Bank and other MDBs. Those features of the new system are almost certain to create a new level of North-South political discord over the funding for global environment at an historic juncture, when the world can ill afford it.

4.2 The Future of the GEF

This brief assessment of how the emerging system of global environmental finance – at least for climate-related issues – measures up against four key considerations suggests that there is no easy fix for the problem of constructing a system that meets all the major requirements. Although the World Bank and other MDBs are better positioned to scale up financing to reduce greenhouse emissions rapidly compared to the GEF, the World Bank also has some major limitations as the potential centerpiece of a new system of global environmental finance. Among those limitations is the lack of a clear strategic framework on climate, as well as institutional biases brought about by the WB being a commercial bank. Furthermore, giving the World Bank and other MDBs the primary role in climate funding would tilt the balance between developing countries and the donor/MDB combination subtly but decisively, toward the latter, threatening a tenuous compromise and promising a costly new North-South struggle just as the period of long-term cooperation on climate change is about to begin.

The GEF, as a network organization, has obvious weaknesses but does, nevertheless, have some characteristics that are crucial to a coherent and effective architecture for global environmental finance. In order to maximize the effectiveness of the emerging system global environmental finance, it should have a central, rather than peripheral role. Although donors have tended to be pessimistic about its future, the GEF could be strengthened by a series of reforms over the next few years so that it could undertake, for example, a scaled up program on clean technology, adaptation and perhaps even carbon markets that would have more resources behind it and greater impact than its present climate and SFM portfolios.

A quick list of key GEF weaknesses that would need to be remedied would include some provisions in the GEF Instrument that represent obstacles to obtaining funding outside the regular replenishments; its slowness to respond to new opportunities such carbon markets, and project cycle which was reformed but still has to show the desired impact in terms of shorter approval periods. Each of these obstacles to the GEF becoming a more dynamic funding institution in the area of climate change, including SFM could be fixed if the political will were present to do so.

Perhaps the single most strategic issue on which reform is needed is the power given to the GEF Council under the present GEF charter to vote on each individual project. That power has slowed the pace of adaptation to climate needs and may need to be reconsidered. A more streamlined approach, under which the Council would approve “envelopes” of funding for an MDB giving it flexibility on decisions regarding individual projects but subject to very clear policy guidelines provided in a programming document would give the GEF a big advantage in being able to move larger sums of money for strategic programs on climate change.

The shift in the role of the GEF Council would immediately help accomplish a second needed reform: the simplification and shortening of its project approval cycle. By having the Council approve packages of projects at once, it should be possible to reduce the time required for final project approval by many months. That could also make collaboration with the GEF more attractive to private enterprises that have hitherto found its years-long project cycle forbidding.
The adoption of a system of approval of funding by “envelopes” rather than by individual projects would also free up the GEF Council to focus on strategic issues confronting the GEF. That change could in turn make the GEF much more flexible and innovative in responding to emerging environmental challenges, reshaping GEF priorities and promoting innovative approaches with its partner agencies. One of the strategic challenges for the GEF Council is to make a much more compelling case for the synergies between its function of providing global environmental benefits and overcoming the obstacles to development posed by environmental threats, particularly by climate change.

The GEF also needs to be more innovative in working with donors to create new specialized funds. The GEF has been hobbled by the fact that it is legally a trust fund of the World Bank. That structural defect, left over from the origins of the GEF in 1991, means that the Bank is not in control of its funding. Replenishments must be run through the office of a Vice-President of the World Bank and in effect are a joint operation between the GEF and the Bank. Any effort by the GEF to set up additional trust funds to receive funds for a specific purpose must be approved by the Bank and would be a lengthy process at best. That legal requirement is to a large extent responsible for the GEF’s lack of flexibility in coming up with innovative ideas for funding that could attract donor interest.

The GEF would be significantly strengthened, therefore, if it were made legally independent of the World Bank, so that it would be free to set up new funds on its own. For example, that would facilitate the creation of a public-private partnership window, allowing it to reach agreement on separate governance arrangements with private sector partners.

Thus far, donors have shown no real interest in any alternative to the revision of the system implicit in the proliferation of new funds. But the needs of the system for coherence and effectiveness demand a serious consideration of a reform of the existing system in preparing for the post-2012 phase of international cooperation on climate change.

4.3 Other issues regarding the new Funds

Will resources be additional to existing ODA commitments?

Among other key concerns raised since the appearance of the new funds is the question of whether the resources provided to the new funds by bilateral donors will be additional to existing ODA commitments. Diversion of ODA relating to climate change activities has been a focus of intense civil society concern (e.g. Oxfam 2007). It has also been concluded from analyses of the financial requirements for adapting to climate change that additional finance will be required above and beyond existing ODA in order for developing countries to adapt to climate change (Stern 2006). However, in mid-2007 Oxfam found that in almost all cases climate-related finance was being counted as being part of existing assistance, with only the Netherlands explicitly committing to providing climate-related finance in addition to the 0.7 per cent of national income as aid. This is occurring in a context where total net ODA from Development Assistance Committee (DAC) donors has fallen in real terms since 2002-2005 with preliminary figures for 2007 indicating that it had declined by 8.4 percent in real terms compared with 2006.

Interviewees were generally very aware of this issue and some publicly available documentation[15] mentions the relationship to ODA, but it is still unclear as to how donor agencies will ensure that aid diversion does not occur as a result of these new funds. Climate-related finances will need to be classified and reported separately from developmental aid transfers.

The research also raised a series of wider issues in this context:

- The difficulties of disaggregating adaptation activities from normal development activities may make the aid diversion issue more prominent in the adaptation funding area
- It is easier to classify finance for specific adaptation projects as additional, compared to finance for 'climate-proofing' development interventions. This may contribute to further divisions between these two approaches and result in a tendency towards more project-based approaches.
- The shift in locus of fund governance from ministries of development to ministries of environment (e.g. in Norway and Germany) may make distinctions easier, but this depends on how funds are classified. For example, in Norway funds are still classified as ODA even under the Ministry of Environment.
- Innovative financial mechanisms relating to climate investments (such as air travel adaptation levies and carbon trading auctions and levies) which are being considered by some donors may help to raise additional funds that are more clearly separated from ODA.

[15] E.g. response letter from DFID to DEG, April 2008 regarding the ETF

Will the new funds undermine the authority of the Multilateral Environmental Agreements?

The initiatives vary in their degree of alignment with the existing structures established under the MEAs. For instance, the ETF has been deliberately created by the British government to 'transform' the ability of the World Bank to address global environment issues, notably climate-related challenges, and purposefully excluded direct contributions to the GEF. This shift has given rise to concerns among recipient countries regarding the creation of a new architecture for climate-related international finance that is parallel to the UN-driven architecture, in which the financial mechanism (up to now, the GEF) has been subject to the overall guidance established by the Conferences of the Parties to the climate, biodiversity and desertification treaties

This move reflects two quite different starting points to the debate over financing climate change actions. The first is rooted in the longstanding relationship between 'donors' and 'recipients', involving the transfer of financial resources between the North and South as part of the 'development process'. The second represents a new global response to human-induced greenhouse gas emissions, which have been generated mostly in the industrialised North. Under this latter approach, countries should respond to the challenges of climate change by applying the principle of 'common but differentiated responsibility'. Where countries in the South are unable to meet present financing demands Northern countries can be expected to assist, but not through a donor-recipient relationship. However, traditional donor countries seem to be characterising their international funding as part of developmental spending.

Particularly with regard to adaptation spending, it has proved very difficult to determine where 'developmental spending' ends and 'climate adaptation' spending begins. Under these circumstances, and certainly for those funds that have the 'co-benefit' objective of poverty reduction (which is stated in half of the national initiatives) the likely effect on multilateral environmental governance is one of some diminishing of the UNFCCC as the sole centre of negotiation for international finance.

On the other hand, the Spanish-MDG Alliance aims at supporting existing multilateral channels with its support of the 'One UN' Reform[16] programme and its use of the UNDP to guide and deliver its international cooperation. One step removed, the European GCCA, aims at complementing and supporting the UNFCCC, the Kyoto Protocol and the Nairobi Framework. In order to do so, it aims at setting up a forum and a fund (outside the UN system) that will support ongoing activities like the UNFCCC negotiations and the implementation of the GEF-funded NAPAs. It will also potentially facilitate coordination (in alignment with the UN process) by serving as a 'clearing house' mechanism for European initiatives.

Are developing countries and civil society being consulted?

With respect to *ownership*, few of the initiatives have involved recipient countries in the inception phase or have been coordinated by partner countries. The second and third consultations on the ETF (and the Climate Investment Funds) have included developing countries and a web consultation was launched as a result of requests from civil society; the GCCA has been driven by the DG Development in the European Commission (it was opened for consultation at the Lisbon Development Days, a Bali side event and through an NGO consultation event in March 2008). The Cool Earth Partnership was announced by the

[16] The objective of the One UN reform programme is to ensure faster and more effective development operations and accelerate progress to achieve the Millennium Development Goals by establishing a consolidated UN country presence, with one programme, one budgetary framework and an enhanced role of the UN Resident Coordinator.

Japanese Prime Minister (its ongoing design is based on consultations with like-minded donors and inputs from a Japanese select committee). The GIFC was presented by the Australian government (and is currently under consultation with like-minded partners and recipient countries, such as the Ministries of Environment and Forests in Indonesia).

It is likely that some of the initiatives will facilitate greater partner ownership in the implementation phase by supporting country policies and strategies. For instance, the GCCA and the Pilot Programme for Climate Resilience (under the Climate Investment Fund) will potentially finance the implementation of NAPAs. Similarly, the Spanish-UNDP fund and CIF, make a specific reference to its adherence to the Paris Declaration on Aid Effectiveness[17]. On the other hand, the imposition of specific conditionality clauses is likely to undermine nationally identified priorities. For instance access to GIFC and Cool Earth financing is likely to be determined by achievement of pre-determined indicators.

On the whole, this study concludes that the new bilateral funds have so far made insufficient efforts to promote domestic ownership. Global environmental funds' governance and priority setting remain largely driven by the interests of North-based development agencies. This problem further underlines the need for donor countries to reconsider the decisions that are now leading to a de facto reconstruction of the system of global environmental finance.

[17] http://www.oecd.org/dataoecd/11/41/34428351.pdf

5. CONCLUSION

The international community is at a crossroads with regard to the system of financing for the global environment. The proliferation of new funds and funding mechanisms over the past year is bringing about major changes in the roles of different funding institutions. Specifically, they have the effect of shifting funds for climate change as well as deforestation from the GEF to the World Bank. More importantly, it they may consign the GEF to a peripheral role in the system, while making the World Bank and other MDBs the central institutions for financing global environmental benefits.

As we have argued in this paper, this would be an unfortunate result of a development which was clearly motivated by a desire to accelerate the transformation of energy and technology markets and thus achieve much greater reductions in greenhouse gas emissions.

Donor countries correctly recognized that the World Bank must be more active and effective than it has been in that effort, and hoped to exploit its potential to scale up investments in climate-friendly technologies. They were also understandably pessimistic about the ability of the GEF to undertake that role, despite the fact that the Bank had developed its role in energy efficiency technology promotion because of its partnership with the GEF. The donor countries believed that the urgency of the situation demanded a fundamental change.

We agree that the existing system of global environmental financing needed to be fundamentally changed, but that general statement doesn't go far enough. The changes that are needed cannot be achieved simply by shifting funds for climate and deforestation from the GEF to the World Bank, because both institutions need to make some fundamental changes in the way they operate, and they need to collaborate even more closely than in the past.

The GEF should not be allowed to recede into a relatively minor role in the system, because of the distinct benefits it offers: a framework for collaboration among disparate multilateral institutions and between donor and developing countries; a secretariat that is free of commercial and bureaucratic considerations in reviewing approaches to funding the global environment and a source of scientifically-based policy guidance for maximizing global environmental benefit from investments. These are valuable assets which should be integrated fully into the new system.

However, the GEF cannot continue to operate in the same way that it has in the past. It must be more adaptable, flexible and innovative, and that means shedding the legal and institutional rigidities that have constrained it. The reforms required to make the GEF much more effective would be far-reaching, and would demand a high level of political will on the part of the donor countries themselves. But with that political will, the GEF would be capable of t could be accomplished.

The World Bank has obvious strengths that should be more fully exploited for global environmental benefit: its ability to mainstream global environmental concerns into to the broader development process and to think in terms of whole sectors and economies; its strong analytical capabilities; its private sector arm, and its ability to manage large programs. But it also needs to change the way it operates. It is still in a transition from the model of a commercial bank, which must look at its investments in terms of rates of return to an institution driven to maximize global environmental benefit by a longer-term vision and methods.

During that transition, the World Bank, like other Multilateral Development Banks, needs to have an independent source of policy guidance in regard to the targeting of investments in climate friendly technologies. The aim would be to ensure that the Bank's choices meet criteria that are free of commercial considerations.

The Bank has gone a long way toward that aim, in large part because of its association with the GEF. The legacy of that association is both the staff trained and motivated to create and carry out projects for global environmental benefit and an institutional commitment to global environmental objectives. The synergies that have been created by the Bank's participation in the GEF must continue rather than beginning to wane, as appears to be the trend envisioned by the new World Bank funds and the enthusiasm of donors for them.

An overarching aim during the next period of development of the architecture of global environmental finance should therefore be to construct a stronger partnership between the GEF and the World Bank, based on a reformed and more agile GEF.

Furthermore, a process of harmonization among the new bilateral funds is urgently needed. As the publicly-announced funds are translated from statements of commitment into operational terms that include geographic priorities, funding processes and qualifying criteria, the overlaps, redundancies, competing views and lack of synergies will become increasingly apparent. A harmonization process initiated sooner rather than later, will deliver benefits to donors and recipients alike and significantly increase their combined benefits for the global environment and human enterprise.

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