Ten Top Questions about the World Bank Climate Investment Funds

1- What are the Climate Investment Funds and what is their objective?

In reaction to the growing urgency of climate change and in anticipation of a new climate protocol post-Kyoto, to be negotiated in Copenhagen in December 2009, it was internationally recognized that funds were needed to assist developing countries in counteracting climate change (mitigation) and protecting the most vulnerable groups and eco-systems against the effects that are already taking place (adaptation). This in reaction to mounting evidence that those most likely to be affected soonest and most severely are the poorest people living in developing countries.

Initiated by the US, the UK and Japan, the so-called Climate Investment Funds (CIF) were set up to be managed by the World Bank. In July 2008, the CIF were approved by the World Bank's Board of Directors. The CIF are implemented jointly with the Regional Development Banks (the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development and the Inter-American Development Bank). Each multilateral development bank will apply its own policies and procedures for investment project preparation, approval and implementation, including environmental and social safeguards.

The stated objective of the CIF is "to pilot what can be achieved to initiate transformational change towards low-carbon and climate-resilient development through scaled-up financing".

2- How are the CIF structured?

The CIF are composed of two different funds and currently three sub-funds. Each one of these has a specific scope and objective as well as a specific governance

and administrative structure. The two main funds are the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF). The CTF has the objective to finance demonstration, deployment and transfer of low carbon technologies with significant potential for greenhouse gas emissions savings. These funds are destined mainly for middle-income and transition countries. Investment plans have already been endorsed for Egypt, Mexico and Turkey.

The SCF will comprise targeted programs with dedicated funding to provide financing to pilot new approaches with potential for scaling up. It will help more vulnerable countries adapt their development programs to confront the impacts of climate change ensuring climate resilience and contribute to mitigation measures by supporting efforts to promote renewable energy as well as the reduction of deforestation in low income countries.

Three sub-funds fall under SCF:

1. The Pilot Program for Climate Resilience (PPCR) aims to help countries mainstream climate resilience in development planning.
2. The Forest Investment Program (FIP) will support efforts to reduce deforestation and forest degradation (REDD) by financing investments to address drivers of deforestation and forest degradation.
3. The Program for Scaling-Up Renewable Energy in Low Income Countries (SREP) will help low income countries to exploit renewable energy potential to move toward low carbon energy paths.

3- How are the CIF governed?

Separate trust fund committees have been established for the CTF and SCF as well as the PPCR. For FIP and SREP, committees are currently being formed.

When establishing the CIF, the World Bank was responsive to criticism - by both civil society and G-77 countries + China - to its original plan to follow its regular decision-making structures, dominated as it is by Western donor countries. It then agreed to a 50-50 representation by donor and receiving countries on the trust fund committees. Each committee hosts a different mix of countries as well as representatives from a range of UN institutions (UNDP, UNEP and UNFCCC), the Global Environmental Fund (GEF) and the private sector. Moreover, a civil society observer process was put in place, however without attributing any formal decision-making power to these observers.

Although this structure is preferable to the more donor-dominated World Bank Board structure, the CIF still fall under general management of the same Bank and the regional development banks. The UN, by contrast, gives one voice to every country, thereby giving developing countries a larger share in decision-making.

4- How are the CIF funded?

In October 2008, a total of US$ 6.2 billion was pledged to the CIF. This is a significant amount compared to the total annual budget of the World Bank Group of US$ 24.7 billion in Financial Year 2008. The largest chunk of US$ 5.1 billion goes to the Clean Technology Fund, thereby benefitting middle income and transition countries most. This while one of the greatest imperatives for the world's premier development organization in this context should be the provision of funds for adaptation in low-income countries.

The major contributors to the funds are the US, the UK and Japan. The table below gives an overview of pledges by different donor countries.

It is possible that more funding will become available during the climate negotiations in Copenhagen or thereafter.

Next to this, the World Bank sees a significant role for the private sector in financing climate change mitigation and adaptation. Working through the private sector arms of the multilateral development banks, the CIF will seek to

provide incentives for the private sector to participate in achieving the objectives of the funds. As part of the CIF framework, they will provide packages of technical assistance and financing which may include blends of loans, grants, equity, carbon finance, and guarantees as appropriate and available. This mix of financing methods hosts numerous problems. First of all, it highlights that the CIF are not uniquely provided in the form of grants, but also as (concessional) loans. This is not in line with the "polluter-pays principle", which should be at the base of climate funds. Secondly, carbon finance the way it is currently set up provides developed countries and their heavy industries the possibility to continue to do business as usual or even get rich from trading the permits they were generously granted. In 2009, a year in which the European economy was affected by the financial crisis, many heavy

Table 1. CIF Contributions

Country	Pledge (in US$ x million)
Australia	118
Canada	86
Denmark	24
France	283
Germany	766
Japan	1,200
Netherlands	76
Norway	173
Spain	111
Sweden	75
Switzerland	20
United Kingdom	1,285
United States	2,000
TOTAL	6,217

Source: Fact Sheet Climate Investment Funds, World bank, September 2009

polluters, such as oil and gas companies like ExxonMObil and Total as well as heavy industrials, like Corus, Hanson and Lafarge received millions of euros for their surplus carbon permits. It is highly questionable whether the World Bank should contribute to the continuation of developed countries and their polluting industries on their carbon-intensive paths, thereby escaping their historical responsibility.

5- What is the relation with UNFCCC?

Over a decade ago (in March 1994), 192 countries joined the United Nations Framework Convention on Climate Change (UNFCCC), an international treaty that sets an overall framework for intergovernmental efforts to tackle the challenge posed by climate change. Climate negotiations, like the conference in Copenhagen in December 2009, take place within the UNFCCC framework. The establishment of CIF well before binding agreements have been made at the global level, can undermine UNFCCC negotiations. Climate finance is one of the most contentious issues to be discussed in Copenhagen and donors could misuse their contributions to the CIF as a way to circumvent binding agreements related to global climate funding. These are counted as voluntary ODA-contributions, however, and should not be counted as a fulfilment of obligations under an international treaty.

In reaction to criticisms about undermining the UNFCCC process, the World Bank decided to integrate a sunset clause in its policy framework guiding the CIF. This clause entails the ending of CIF in 2012 in case they are not in line with the outcomes of the UNFCCC process.

6- What is the relation between the CIF and other climate funds?

The CIF were not the first climate funds to be established. Together with existing bilateral and multilateral (mostly UN) funds addressing adaptation and mitigation needs of developing countries, they currently add up to a total of about 18 funds. The Global Environmental Fund (GEF) is at the heart of the existing system. It is the officially designated financial mechanism for UNFCCC and works with 10 multilateral agencies, like the World Bank, UNDP, UNEP and the regional development banks. The GEF has been criticised for its limited capacity to channel sufficient funding to address major environmental concerns such as tropical deforestation and for its failure to deliver transformational change for the global environment. The aim to deliver more immediate results is the driving force behind the newly established climate funds. There are, however, serious risks to this approach, where efficiency arguments leave limited room to seriously address legitimacy aspects.

While the CIF contribute to a further proliferation of funds, they enhance the risk of a duplication of efforts with each fund setting up its own structures, whereas the global effects of climate change ask for concerted action. There is a need for an overarching strategic framework for all climate funding, setting out a number of shared principles related to effectivity, fairness and efficiency which guide how available funds are spent.

Complementarity and synergy among the various initiatives needs to be secured within the UNFCCC framework, underpinned by an understanding between those funding these initiatives and the national governments in countries where activities will be undertaken.

7- What are the criteria for projects supported by the Climate Investment Funds

As a publicly funded international financial institution, now claiming a leading role in the climate change arena, it would be expected that the Bank would apply its substantial resources to help developing countries meet the incremental costs associated with a shift to renewable energy and energy efficiency. As a disburser of public climate funds, the CIF should serve to help finance this energy transition process. In reality however, the CIF criteria allow for funding of large-scale dams and super-critical coal plants.

The CTF will support renewable energy, enhanced efficiency of energy usage, improved transport sector efficiency and modal shifts and the improved efficiency of energy supply. With respect to the improved efficiency of energy supply, clean technology will have to meet one of the following two criteria (a) there are highly cost effective opportunities for significant GHG emissions reductions and/or (b) there is potential for developing readiness for carbon capture and storage. As to coal, the World Bank notes that fossil fuel, including coal, is expected to play a major role in the provision of primary energy up to 2030. A recent article in the Scientific American, however, explains that it will be possible to meet the world's energy needs through wind, water and solar resources by 2030. It would be expected that publicly funded international financial institutions such as the World Bank would bankroll this type of visionary energy transition, especially through the CIF.

8- What are the main criticisms on the World Bank's role as a climate funder?

Some of the major critiques on the World Bank's CIF have already been mentioned above, such as the potential undermining of the UNFCCC process, lack of ambition of CIF criteria to really lead to transformational funding, the worries that the fact that CIF fall under the umbrella of the World Bank casts doubt as to the additionality of this funding to ODA, the donor-dominated structure of the bank, the provision of loans instead of grants, the Bank's contribution to the carbon market and the fact that most of the CIF funding goes to middle-income countries and countries in transition, instead of the poorest countries that are most in need of funding.

Next to that, there are two additional lines of criticism:

- The lacking level of democratic structures and real participation of civil society. Adaptation is a policy area par excellence in which local circumstances should be weighed and where involvement of local stakeholders is essential. The World Bank focuses its lending on central governments and is not open to other, more suitable, channels to effectively disburse mostly relatively small amounts of funds at the local level.
- Last but not least, the World Bank has a controversial portfolio in terms of climate effects of its loans and grants. While the Bank has invested more in energy efficiency and renewable energy in FY 2008 than previously, it is worrying to see that it still invests in the expansion of the exploration and the use of fossil energy sources (especially coal-fired plants) at a much larger scale, and showing a strong increase in recent years. This make the Bank's position in the area of climate change ambiguous and even controversial.

In conclusion, the World Bank clearly lacks legitimacy to take on the role as "climate bank". While the Bank together with the regional development banks "recognises the primacy" of the UNFCCC, it did not wait for instructions from the Conference of Parties in Copenhagen to start setting up its CIF, which are now structured in a way preferred by the World Bank and its donors, but not necessarily (and very doubtfully) by the developing countries that should benefit from them.

9- Where can I find more information on the CIFS and how do I stay up-to-date?

Bank Information Centre: World Bank and climate:

http://www.bicusa.org/en/Issue.48.aspx

Bretton Woods Project: Environment:

http://www.brettonwoodsproject.org/topic/environment/index.shtml

- The role of the World Bank in climate finance, briefing, Bretton Woods Project, e.a., 20 November 2009, http://www.brettonwoodsproject.org/art-565618
- "Don't bank on it! Challenging the World Bank's role in future climate finance", briefing, Bretton Woods Project, e.a., 4 december 2009, http://www.brettonwoodsproject.org/art-565737

Climate Funds update:

http://www.climatefundsupdate.org/projects

Friends of the Earth: The World Bank and Climate Change:

http://www.foe.org/international-work/world-bank-and-climate-change

Google group on World Bank and Climate:

http://groups.google.com/group/world-bank-and-climate

Overseas Development Institute: Climate Change and the Environment:

http://www.odi.org.uk/themes/climate-change-environment/default.asp

- Porter, G., e.a., "New Finance for Climate Change and the Environment", Overseas Development Institute, July 2008

World Bank: Climate Investment Funds/ Climate change:

http://www.climateinvestmentfunds.org/cif

http://beta.worldbank.org/climatechange

http://blogs.worldbank.org/climatechange

10- How can CIF projects/decisions be influenced?

Both ENDS has regular contact and meetings with the Executive Director for the Dutch constituency at the World Bank as well as the Dutch Ministries of Foreign Affairs and Finance, responsible for World Bank matters. Please contact Anouk Franck at Both ENDS (af at bothends.org) in case you there are issues related to CIF that you would like to see discussed at these meetings.

A "civil society observer" process has been put in place, which gives civil society observers the chance to attend Trust fund meetings, however without any rights to formal participation in the decision-making. For a list of civil society observers and alternates for the different funds, see: http://go.worldbank.org/J7OM77LSL0