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The World Bank and Climate Change Finance

A View from the South

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INTRODUCTION

Climate change is already happening, and millions of the world's poor are bearing its worst impacts. Erratic and extreme weather is causing an estimated 300,000 deaths per year, seriously affecting over 500 million people, and costing annual economic losses worth $125 billion.[1] Recent flooding in Southeast Asia and drought in east Africa demonstrate the extent of the damage in human life and livelihood that warming below 1°C can cause. With greenhouse gas (GHG) emissions unabated, breaching the 2°C threshold to climate catastrophe is becoming more likely. The human and economic costs of climate change in the years ahead will almost certainly mount.

The provision of finance to halt the causes of climate change, minimize losses, and ensure that people cope with its adverse effects has never been more urgent. It is an obligation the global North owes the South. The North's fossil-fuelled development path dumped greenhouse gases in the atmosphere well beyond its absorptive capacity, disrupting the climate as a result. Despite contributing little to historic emissions and sharing little of the economic benefits that profit-centered growth brought the North, it is poor countries that bear the disproportionate share of climate change's negative impacts – 99% of deaths from weather disasters and 90% of economic losses.[2] Rich industrialized countries are responsible to make compensatory financial transfers to developing countries to enable them to adapt to adverse climate impacts (adaptation), as well as shift towards sustainable, low-emissions development paths (mitigation).

As signatories to the United Nations Framework Convention for Climate Change (UNFCCC), Northern governments formally recognize their obligation to provide climate finance to developing countries in addition to flows of Official Development Assistance (ODA). But fifteen years since the Convention came into force, the level of available funds still fall far short of the amount the developing world needs. **(See Table 1)** Developed countries have also stalled on putting on the table sufficient numbers for climate finance in developing countries in the context of the two-year negotiations for enhanced commitments among Parties to the Convention that is set to end in December 2009.

Despite the woeful inadequacy of funding made available by the North for developing countries to meet climate challenges, donor-controlled climate funds have proliferated in recent years. There are currently twelve new bilateral and multilateral climate funds in operation outside the UNFCCC, most of which are administered by Northern aid agencies. Among the institutions that have staked a claim in the business of climate finance is the World Bank, which unveiled its Climate Investment Funds (CIFs) in 2008. At over $8 billion, the World Bank's CIFs and carbon funds are collectively the largest climate-related funds currently managed by any public multilateral institution, dwarfing all of the funds under the UNFCCC. **(See Table 2)**

As important as the question of the adequacy of climate funds is the question of who handles them, how they are governed, and how they are delivered to those who need them most. With the amount of resources they have given it, rich country governments clearly prefer the World Bank to manage public funds for climate action in the developing world. Given its institutional structure that is highly skewed in favor of its wealthiest contributors, and history of pursuing environmentally and socially harmful development in the South, we ask whether the World Bank is the appropriate institution to handle these funds. Should the World Bank play any role at all in climate finance?

1 How does the World Bank perceive its role in climate action and climate finance, and what is its approach?

The World Bank cites its core mandate of supporting economic growth and overcoming poverty in developing countries as its rationale for its expansion into global climate action and climate finance. It frames the climate challenge as a development challenge: climate change poses greater challenges to development in the South by worsening poverty and increasing the costs of overcoming it. The Bank then defines its role as providing financial and policy assistance towards "climate-smart" and "robust" solutions that sustain or accelerate poverty-reducing economic growth in developing countries despite adverse climate impacts.[3]

While it claims to mainstream climate change considerations to its development approach, the World Bank sticks to the familiar development strategy it had been pursuing in the South well before the imminence of climate change pushed it to the top of the development agenda. This corporate-led and market-driven growth strategy has not only failed to deliver development in the South, but also in many ways contributed to environmental destruction and global warming. **(See point 4)**

This strategy informs the World Bank's approach to climate action in developing countries. Private corporations take the lead in providing solutions through the market, while the government as the junior partner provides the appropriate policy, macroeconomic, and regulatory framework to mobilize and create economic opportunities for private capital to make profit. Likewise, with respect to climate finance, the World Bank envisages an arrangement wherein the major share of financial flows for climate action in the South comes from the private sector, to be raised and allocated through market-based mechanisms. International public finance is to play only a supplementary role.[4]

In other words the World Bank is promoting the neoliberal agenda in climate change which promotes false solutions that allow Northern corporations to continue harming the planet and the people.

Table 1

Estimates of annual funding requirements for climate action (mitigation and adaptation) in developing countries, in billion US$	
Agency	Amount
Group of 77 and China[24]	278.82 - 557.64
UNFCCC[25]	52.4 (M), 27.75 – 58.25 (A)
World Bank[26]	400 (M), 75 (A)
Estimates of available funding for developing countries, in billion US$	
Agency	Amount
South Centre[27]	28.98 - 29.2
UN DESA[28]	21

M – Mitigation; A – Adaptation

2 What financing instruments does the World Bank house and/or push developing countries to use for mitigation and adaptation?

A. Carbon finance and carbon markets

The Bank is pushing for the market for carbon offsets, and the money from developed countries used to purchase them (carbon finance) to continue to be the main source of mitigation finance for developing countries.[5] In this set-up, funds flow from Northern private corporations – looking to meet domestic emissions targets – to the South to finance emissions-reducing activities which cost cheaper than actually cutting emissions at home. Low-carbon development in developing countries is financed through the purchase by Northern entities of carbon offsets. Under the Clean Development Mechanism (CDM) of the Kyoto Protocol (KP), project-based emissions reductions in developing countries generate these offset credits or Certified Emissions Reductions (CERs) which can be used against emissions caps and traded in compliance carbon markets. Financial revenues from the CDM make up the largest source of funds for mitigation for developing countries to date.[6] **(See Table 2)**

The Bank is pressing to extend the reach of the carbon offsets market to include areas currently not covered by the CDM. These include forest emissions reductions or REDD (reduced emissions from avoided deforestation and degradation), sectoral and programmatic emissions reductions (covering entire sectors such as power, transportation, and waste management, as opposed to individual projects), and

Table 2

Current funding mechanisms and amounts available for mitigation and adaptation, amounts in billions

Name	Use	Amount	Details
Carbon Offsetting (Kyoto Protocol)			
Clean Development Mechanism[29]	M	$6.519	2008 (value of trade)
Under the UNFCCC[30]			
Global Environmental Facility Trust Fund, Climate Change focal area	M, A	$2.550	1994-2009
Strategic Priority on Adaptation	A	$0.05	2003-2007
Least Developed Country Fund	A	$0.176	As of May 2009
Special Climate Change Fund	A	$0.121	As of May 2009
Adaptation Fund*+	A	$0.0187	As of September 2009
Bilateral Funds[31]			
Cool Earth Partnership (Japan)*	M, A	$10	2008-2012
Environmental Transformation Fund – International Window* (United Kingdom)	M, A	$1.182	2008-2012
UNDP-Spain MDG Achievement Fund*	M, A	$0.092 (M), $0.022 (A)	2007-2010
Global Climate Change Alliance* (European Commission)	M, A	$0.076 (M), $0.084(A)	2008-2010
International Climate Initiative* (Germany)	M, A	$0.564 (M), $0.2 (A)	2008-2012
International Forest Carbon Initiative* (Australia)	M	$0.160	2007-2012
Climate and Forest Initiative* (Norway)	M	$2.250	2008-2012
Multilateral Funds			
UN-REDD Program*[32]	M	$0.035	
World Bank - Climate Investment Funds[33]			2009-2012
Clean Technology Fund*	M	$4.8	
Strategic Climate Fund*	M, A	$1.4	
World Bank - Carbon Funds[34]			
BioCarbon Fund	M	$0.0919	Tranches 1 and 2
Carbon Fund for Europe		EUR 0.050	
Community Development Carbon Fund		$0.1286	
Danish Carbon Fund		EUR 0.090	
Italian Carbon Fund		$0.1556	
Forest Carbon Partnership Facility *		$0.155	
Prototype Carbon Fund		$0.2198	
Spanish Carbon Fund		EUR 0.290	Tranches 1 and 2
Umbrella Carbon Fund		EUR 0.7991	
Carbon Partnership Facility*		To be established	

Note: * - New funds; M – Mitigation; A – Adaptation

+ - financed by a 2% levy on proceeds of CERs issued from CDM projects (See Point 2.A)

agricultural soil carbon sequestration.[7] To this end, the Bank established two new carbon funds in 2008 – the Forest Carbon Partnership Facility (FCPF) for REDD, and the Carbon Partnership Facility (CPF) for sectoral projects – a move that will likely lock in a greater role for an expanded carbon offsets market in mitigation finance in the future.

The Bank itself is deeply engaged in carbon credit transactions. It currently manages ten carbon funds on behalf of Northern governments and corporations with emissions commitments under KP. These funds are money pooled from these Northern parties used to finance CER-yielding emissions reductions projects in the South. **(See Box 1)** As of December 2008, the World Bank-managed carbon funds have 186 projects in its portfolio with an estimated total emissions value of $2.3 billion.[8] Apart from being the trustee, the Bank also acts as broker for carbon transactions to its Northern clients, and is currently the largest public broker of carbon purchases.

Box 1

The Umbrella Carbon Fund

The World Bank is involved in one of the largest ever CER transactions through its Umbrella Carbon Facility. The Facility purchases 129.3 million tons of carbon dioxide (CO_2) equivalent from two HFC-23 destruction projects in China. A by-product of the refrigerant HCFC-22, HFC-23 is a greenhouse gas 11,700 times more potent than CO_2. This means reducing a single ton of HFC-23 will yield 11,700 CERs.

The potential windfall profits from destroying HFC-23 using carbon finance revenues may be large enough to dwarf earnings from selling actual products. This gives industrial gas manufacturers in the South a perverse incentive to increase their production of HCFC-22 in order to generate more HFC-23 to be destroyed and create more CERs.

Northern parties also reap big profits from the sale of CERs in the secondary market for carbon credits. The International Panel on Climate Change noted in 2005 that HFC-23 emissions could be destroyed at the cost of less than $0.2 per ton of CO_2 equivalent. With CERs currently selling at EUR 12-13 ($18-$19) each, the profit margin is clearly huge.

Source: carbon-financeonline.com

B. Insurance mechanisms

The World Bank promotes insurance mechanisms as key instruments for adaptation finance.[9] This dovetails with the Bank's definition of the problem of adaptation as essentially that of risk management, i.e., protecting against losses and added costs that adverse climate impacts such as erratic or catastrophic weather might impose in the future.[10]

The Bank is looking at tapping private sources of funds and market mechanisms to finance insurance in the South. In recent years, it has facilitated the creation of index-based private insurance and risk insurance pools with access to capital markets. Its goal is to expand the reach and penetration of climate risk insurance and capital markets in the area of developing country adaptation, particularly in climate-sensitive sectors such as agriculture.[11]

Some of the risk management products and schemes it promotes are:

- Index-based insurance. Insurance that pays out insurance holders based on an index such as livestock mortality. Payments begin when a certain threshold is reached. Below the threshold, it is assumed that losses are small enough for individuals to bear. A cap on payments from private insurers is also set, beyond which losses are already too great that payments are to be assumed by the government. Covers low-probability events.
- Weather derivatives.[12] Instruments used to hedge against financial losses arising from weather fluctuations. In September 2008, Malawi entered into a rainfall index-based derivatives contract with the World Bank to hedge against drought and crop failures. The payout is based on the severity of the drought and can be used to purchase grain to cover for shortfalls in supply. This would be financed by a payout the Bank will receive from a similar transaction with a financial market counterpart. As it builds demand for weather derivatives, the Bank hopes that developing countries will buy weather derivatives on their own in the future.
- Sovereign risk pools. Developing country governments themselves share the risks of catastrophic weather by paying premiums into a regional or global sovereign risk pool. Risks are then passed on to reinsurance markets. The first multi-country risk pooling scheme, the Caribbean Catastrophe Risk Insurance Facility, was created in 2007 with the World Bank's assistance.
- Catastrophe bonds. "Cat bonds" are issued by an insurer to spread risk and protect against huge losses in the event of large-scale payouts arising from natural disasters. In October 2009, the World Bank launched its MultiCat Insurance Program, under which developing countries can buy insurance for multiple catastrophes by issuing bonds and selling them to capital markets.

C. World Bank Climate Investment Funds

In 2008, the World Bank launched its Climate Investment Funds (CIFs), a group of donor-financed trust funds aimed at financing climate action in developing countries. To date, over $6 billion in contributions have been pledged to the funds by 12 Northern countries.[13] The World Bank holds the trusteeship and hosts the secretariat of the funds. Multilateral development banks (MDBs), including the World Bank itself, act as implementing agencies, delivering the funds to developing countries through loans and grant financing.

There are currently two CIFs. First is the mitigation-focused Clean Technology Fund (CTF), which will fund projects contributing to the demonstration, deployment, and transfer of low-carbon technologies with potentials for greenhouse gas reductions. Second is the broader Strategic Climate Find (SCF), which will serve as an overarching fund for various programs to test "innovative" mitigation and adaptation actions in developing countries.[14] Each of the funds is governed by trust fund committees with a 50-50 donor-recipient composition.

The Bank claims the CIFs were developed as an interim measure to plug the gaps in climate finance for developing countries, in view of the absence of an enhanced climate finance architecture that is one focus of the UNFCCC negotiations. In particular, the Bank aims to use the funds to encourage early actions and market-based solutions and "strengthen the knowledge base in the development community".[15] The funds are designed with a sunset clause that promises to close down the funds once a new UNFCCC financial architecture is effective.

3 What are the problems with these instruments?

They offload the North's responsibility of financing climate action to the South

Carbon finance

By facilitating carbon offsetting, carbon finance aids the North in offloading to the South their responsibility to cut emissions through domestic measures. It also delays the urgently-needed frontloading of Northern investments to support the rapid shift away from energy-intensive technologies and infrastructure by diverting funds to cheaper emissions-reducing projects in the South.

But carbon finance is not even effective at delivering on its intended purpose, i.e. supporting emissions reductions in the South. Many of the projects that the Bank's carbon funds are financing have nothing to do with helping developing countries transition to low-carbon paths. In 2008, less than 16% of the Bank's carbon finance portfolio belonged to renewable energy projects.[16] HFC-23 destruction projects accounted for the largest share at 54%. Investments (as much as 75-85% according to one report)[17] flock to energy-intensive and polluting sectors such as coal, chemical, steel industries where opportunities for obtaining emissions reductions credits are greatest and cheapest, effectively subsidizing big polluters. The prospect of capturing revenue streams from carbon finance payments also encourages these Southern polluters to continue to be energy-inefficient, or worse, expand their polluting operations. Loggers and plantation owners are also likely to benefit if carbon offsetting were to be extended to include avoided deforestation and soil carbon sequestration projects.

Insurance mechanisms

Insurance mechanisms shift the costs of managing the risks posed by climate change from the North to Southern governments and households. By buying insurance or issuing bonds, Southerners are essentially paying for the cost of adaptation to climate change which should be shouldered by those who caused it.

CIFs

The Bank's CIFs is used to promote "pre-commercial technologies," including carbon capture and storage and other techno-fixes with questionable long-term benefits for the climate but certainly offer new opportunities for monopoly profits for transnational corporations (TNCs) based in the North. They help create a demand for and dependence on commercial, Northern- and corporate-controlled "clean technologies". Intellectual property rights over these renewable energy and clean technologies allow large TNCs to reap monopoly profits from the sale of these equipment. ODA spent in these technologies becomes, in effect, a disguised subsidy for corporations from donor countries like Japan and the US.

They are controlled by Northern institutions, governments, and corporations

With carbon offsetting, Northern corporations on the lookout for sources of CERs control the funds and decide what projects and which country they will be spent on. Because funding decisions are in the hands of those with capital to invest in the market, developing countries are excluded in deciding how and where these funds are to be spent. The compulsion to generate as much carbon credits in as low a cost as possible directs carbon investors to finance large, energy-intensive industries for easy pickings, helping large polluters instead of communities.

Insurance schemes defer funding decisions to private insurers and players in reinsurance markets, whose primary goals are not to protect people but to secure profit. Profit-oriented private insurers would likely insure segments of the population who are less exposed to risk and most able to bear premium costs. Those who face greater risks and therefore need insurance the most would be forced to pay higher prices or remain uninsured.[18] Likewise, funding through debt instruments like catastrophe bonds defer to financial market entities and their will to bet that the risk a developing country is insuring against will not occur. The creation of new speculative financial instruments such as weather derivatives also add new sources of volatiliy for the financial system.

The CIFs are donor-driven and donor-centric. The funds' design was shaped for the most part by World Bank staff and built upon the Bank's dialogue with donor countries. The design process was done in haste; and due to a tight timetable, limited announcements, and complicated input procedures, Southern groups and communities did not have a chance to participate.[19] Developed and developing countries have equal representation in the governing committee of the funds. But their exclusion from the design of the funds makes their participation ring-fenced around objectives and policies predetermined by donors. Moreover, their representation in the funds' governing bodies may well be superficial, as MDBs have a wide berth in implementing CIF-financed projects.[20] The bias in favor of donors is made worse by the World Bank's own governance structure, well-known to be skewed heavily in favor of its wealthiest members, notably the United States which effectively holds veto power.

They cannot be relied upon to provide new, adequate, and predictable financing for priority adaptation and mitigation needs in the South

Mitigation and adaptation funds channeled through carbon markets and insurance mechanisms respectively are essentially commercial in character and motivated by profit. Funding for cheaper emissions-reducing projects in the South in the context of carbon trading are payments in exchange for carbon credits, which corporations can use against their own emissions caps or trade in carbon markets at a profit. Likewise, in the context of private insurance, financial risks are covered in exchange for premium and interest payments. Insurance mechanisms commoditize the South's entitlement to protection from climate change's consequences, an entitlement that should be claimed against the North as compensation.

Meanwhile, the CIFs remain rooted on the traditional aid framework, in which financing is voluntarily pledged and delivered by donors to recipients. That this is the case is evidenced by the fact that donor countries report their CIF contributions as Official Development Assistance (ODA) – which are neither adequate nor predictable sources of financing for development and climate action. To make things worse, they do not even uphold the principles of aid effectiveness as set-out in the Paris Declaration and the Accra Agenda for Action.

Indeed, the existence of climate funds outside the UNFCCC ambit, in itself, creates fragmentation rather than enhancing alignment and harmonization. The modality of projects rather than comprehensive program support also fosters unpredictability and unsustainability of outcomes. This aid approach to climate finance also allows the CIFs to be used to leverage policy conditions on developing countries, especially when they are blended with conventional development loans from MDBs, thus violating the principle of country ownership as well as mutual accountability, let alone democratic participation.

Moreover, since CIFs come largely in the form of loans, they also add to the debt burden of developing countries which will have to pay the loans back with public money.

4 What are the problems with the World Bank's involvement in climate finance?

The World Bank is a major polluter.

The Bank's environmental history puts to question its involvement in climate action in the developing world. The Bank remains the single largest multilateral source of public funding for fossil fuel projects. Between 1992 – the year the UNFCCC was signed – and late 2004, the Bank funded 128 fossil fuel extraction projects amounting to $10.98 billion in loans, guarantees, and insurance. Another $11.264 billion in WBG funding was spent on building 124 fossil fuel power plants over the same period. It is estimated that the combined lifetime CO_2 emissions from these extraction and power projects approach the level if current world annual GHG emissions from all sources.[21]

In 2003, the World Bank's own Extractive Industries Review recommended an immediate end to coal financing and a phase out of investments in oil production by 2008 after finding that the Bank's support for fossil fuel and other mining projects had not alleviated poverty in developing countries. The review also recommended the Bank to increase lending to renewable energy by 20% annually. However, the Bank's fossil fuel lending continues to rise. Its fossil fuel lending rose by a three-year average of 61%, from $1.5 billion in 2006 to $3.1 billion in 2008, with coal increasing by 648% (from $119 million to $1.04 billion).[22] By comparison, only $476 million went to fund new renewable energy sources in 2008.[23]

Contrary to its intended purpose of making energy accessible to the poor in developing countries, the Bank's energy lending – which favor export-oriented extraction and privatized energy provision – have reduced people's access to energy and resulted in energy insecurity.

The World Bank's neoliberal policy conditions exacerbate climate change

The Bank remains committed to a neoliberal model of development, which it pushes on developing countries through policy-based lending. This model equates unlimited and rapid growth with development, and designates the private sector operating in a free market environment as its primary engine. This entails privatization, the liberalization of trade and capital flows, market deregulation, and the promotion of export-oriented manufacturing and industrial agriculture for Northern markets. This amounts to the reorientation of Southern economies to serve the needs of Northern corporations and economies.

This model puts unprecedented levels of strain on the environment and exacerbates climate change. Tying economic growth in the South with ever-increasing export production and ever-increasing consumption in the North drives energy use and natural resource-depletion to rise exponentially. Long-distance trade relies heavily on fossil fuels. Industrial food production and cash-crop agriculture, which the Bank promotes, is heavily dependent on fossil fuels for pesticides and chemicals, and is also a major driver of deforestation. The relaxation of environmental regulations to attract footloose Northern corporations has often led to environmental damage especially in developing countries.

CONCLUSION

The fact that rich countries have entrusted the Bank more money for climate action than they have to any other multilateral public institution speaks of their faith in the institution. We believe that by giving the Bank large sums for climate action in developing countries, the North is able to define and lock the climate agenda along lines that work in their favor. The World Bank's record of enforcing policies on developing countries that deliver outcomes beneficial to its wealthiest members is well-known. Its climate funds and financing schemes give us a picture of the kind of climate financial architecture the North, through the World Bank, is setting the developing world on track for.

The key financing instruments that the Bank is pushing on the South are carbon finance, insurance mechanisms, and Climate Investment Funds. They have three main problems:

1. These instruments allow developed countries to offload their historical responsibility for financing mitigation and adaptation to the South.

2. Northern entities - namely governments, donor agencies, and

corporations - remain in control of these instruments and the financial flows they facilitate.

3. The financial flows coming from these instruments are non-mandatory and non-compensatory, and therefore could not be relied upon in providing adequate funds for climate actions in the South.

The instruments identified above are closely linked with markets and the private sector, which the Bank admits *should* play a major role in climate finance. Carbon finance rides on the back of carbon trading, particularly carbon offsetting, which the Bank promotes as an efficient and cost-effective way to reduce global emissions. Insurance mechanisms are tied with financial markets. And the CIFs promote and create a demand for Northern-controlled, commercial technologies.

These financing schemes fit squarely into the Northern and corporate agenda for climate action, namely, the enforcement of "business-as-usual", market-based and technological fixes to climate change. By this we mean solutions that sustain the unsustainable growth economy—marked by corporate power over resources and unrestrained profit-seeking—which is behind the climate crisis in the first place.

The World Bank has been party to this economic system. Despite claims to mainstreaming climate change into its operations, it remains tightly wedded to the growth-centered, market-driven, and corporate-led model of development. This model, which entails ever-increasing energy and resource usage by corporations, drives up deforestation, pollution, and greenhouse gas emissions. It is the same model that guides the Bank's large investments in carbon-intensive energy extraction and production projects in developing countries, which benefit corporations and Northern end-users instead of poor communities.

While benefiting large business and elites, this neoliberal model has failed in delivering development to poor majorities in the South. The World Bank's adjustment and policy lending have instead bred poverty and maldevelopment. With billions in climate funds in the Bank's disposal, developing countries are under threat of being forced the same failed and unsustainable policies in exchange for access to resources to meet climate challenges.

From the point of view of the people, especially in the global South, the World Bank's climate financing instruments are inappropriate and must be rejected. The World Bank's involvement in climate finance and global climate action should be rejected and opposed as well.

PROPOSALS FOR A PEOPLES' CLIMATE FUND

A Peoples' Climate Fund (PCF) should be established to manage climate funds for developing countries. It should adhere to the principles of social justice, responsibility, people's sovereignty, and ecological sustainability.

1. SOCIAL JUSTICE. Climate change is caused by injustice. It involves the unequal use and control by global elites especially in the North of the planet's shared resources, and the disempowerment and dispossession of the poor especially in the South. Because its impacts come down hardest on the South, climate change worsens existing injustices and inequalities. Climate finance should therefore be compensatory. It should compensate the South and the poor for 1) the loss in life and livelihood they bear as a consequence of climate change; 2) the disruption of their path out of poverty and toward development, which is now seriously challenged by, on the one hand, climate change, and, on the other hand, an atmosphere that has gone over its normal carbon-cycling capacity and can no longer safely accommodate increases in emissions if the South were to develop in the same unrestrained way as the North did.

The provision of finance should be adequate and mandatory to reflect its compensatory character. It should be additional to the North's commitment to provide development assistance (at 0.7% of Gross National Income), which had been standing long before the international community's recognition of the imminence climate change and the need to combat it.

2. DEMOCRATIC OWNERSHIP. The undemocratic control and use of resources by a few rich countries, elites, and corporations for their own benefit is behind the destruction of the environment that caused climate change. Part of the solution is to bring resources, including compensatory climate funds, under the democratic control of Southern countries and the vulnerable sectors in them. They should exercise authority and ownership over the planning process which integrates climate strategies and actions into a comprehensive national development strategy, including policies related to the use of compensatory funds from the North. The principles of equitable inclusion and genuine participation should be upheld and provided for in institutional arrangements, mechanisms, and processes related to the governance and delivery of funds across all levels of climate action (international, national, sub-national).

3. ECOLOGICAL SUSTAINABILITY. "Business as usual" solutions that provide escape mechanisms for polluters, or worse, provide new opportunities for profiting out of the same unsustainable production and consumption patterns that resulted in climate change should be rejected. The needs of people and the planet are incompatible with the pursuit of profit.

The PCF's financial resources should come from mandatory assessed contributions from developed countries, supplemented by other possible sources of funding. **(See Annex 1)** Assessed contributions should be measured according to a country's responsibility and capacity to pay. Responsibility can be measured by a country's share of cumulative historical emissions. A country's per capita income or Human Development Index score can be indices of its capacity to pay (without sacrificing needs). Countries or population in them that are below a certain income or development threshold can be exempted from paying for climate action.

A democratic executive body should govern the PCF. Its members should be elected by the COP but developing countries should constitute the majority representation in the body. Civil society representation and participation, especially of the most vulnerable groups, should also be ensured together with the scientific and technical backing of the IPCC.

Programs and projects are to be funded with outright fund transfers, not grants or loans.

Funds are to be disbursed on the basis of

democratically-formulated national plans for climate mitigation and adaptation. The delivery of funds in support of national climate action plans should follow a bottom-up and needs-based approach.

Developing countries should assemble an in-country mechanism tasked to receive the financial support from the PCF and disburse funds to support programs and projects following national climate action plans. It is also responsible for regularly communicating the country's financial needs as well as climate-related strategies and plans.

The national climate action plans must be drawn up by a multi-stakeholder process. Key government ministries, climate and scientific experts, civil society organizations, and other relevant stakeholders should be represented. Because of their undue vulnerability to the impacts of climate change, poor and marginalized sectors should be well-represented. The process has to be transparent. It has to provide information to stakeholders in a timely, appropriate, and accessible manner. Mass information campaigns are crucial to inform people about the process and encourage them to participate in it.

There should also be accountability mechanisms. There should be independent and participatory monitoring and evaluation of projects and programs funded by the PCF, and should report progress to the Fund and the affected communities.

Within the framework of democratically-determined national climate plans, communities and people's organizations should also be able to directly apply for funding.

ENDNOTES

[1] Global Humanitarian Forum, Human Impact Report – Climate Change: The Anatomy of a Silent Crisis, (Geneva: Global Humanitarian Forum, 2009), 1. All figures in this report are in U.S. dollars.

[2] Ibid., 3.

[3] World Bank, "Changing the Climate for Development," in World Development Report 2010: Development and Climate Change (Washington, D.C.: World Bank, 2009, passim.

[4] Ibid, 23-26; idem, "Generating the Funding Neededfor Mitigation and Adaptation," in WDR 2010, passim; World Bank Group, "Strategic Framework on Development and Climate Change" [Publications Report] (Washington, DC: The World Bank Group, 2008), 17-18.

[5] World Bank, "Generating the Funding Needed for Mitigation and Adaptation," in WDR 2010, 3-12.

[6] Ibid., 7.

[7] Ibid., 18-21.

[8] World Bank Carbon Finance Unit, "Carbon Finance for Sustainable Development 2008," (Washington, DC: World Bank, 2008), 14.

[9] World Bank Group, "Strategic Framework," 18.

[10] World Bank, "Reducing Human Vulnerability: Helping People Help Themselves," WDR 2010, 3-6.

[11] World Bank Group, "Development and Climate Change: The World Bank Group at Work" (Washington, DC: World Bank Group, 2009), 9-13.

[12] The investor who sells a weather derivative agrees to bear this risk in exchange for a premium. If nothing happens, the investor makes a profit. However, if the weather turns bad, then the company who buys the derivative claims the agreed amount.

[13] Climate Investment Funds, "Funding,"; available from http://www.climateinvestmentfunds.org/cif/funding-basics; Internet; accessed 1 November 2009.

[14] World Bank, "Proposal for a Strategic Climate Fund," 15 May 2008, CIF/DM.3/3, p. Annex A, p. 5. There are currently three programs under the SCF: 1) the Pilot Program for Climate Resilience (PPCR), which will finance capacity building for mainstreaming adaptation into development planning and budgeting in a set of selected countries; 2) the Forest Investment Program, which will finance Reducing Emissions from Deforestation and Forest Degradation or REDD activities; and 3) the Scaling up Renewable Energy Program for Low Income Countries, which will finance low-carbon projects that seek to improve access to energy especially by rural populations.

[15] World Bank. n.d.. Climate Investment Funds. World Bank Group. Available from http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/ENVIRONMENT/EXTCC/0,,contentMDK:21713769~menuPK:4860081~pagePK:210058~piPK:210062~theSitePK:407864,00.html. Accessed November 2, 2009.

[16] Based on a loose definition of renewable energies, including solar, wind, biomass, biogas, bagasse, geothermal, and hydropower (large and mini). World Bank Carbon Finance Unit, "Carbon Finance for Sustainable Development 2008," (Washington, DC: World Bank, 2008), 15.

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[18] Barbara Sennholz, "Helping Farmers Weather Risks?: Assessing the World Bank's Work in Index Insurance" (Bretton Woods Project, 2009), 17.

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TABLE NOTES

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Annex 1

Potential sources of funding

The Chinese +0.5%-1% GDP Proposal: Developed countries should annually provide financial support to support actions by developing countries to address climate change. This would lead to USD 185-402z billion per annum.

The Mexican Multilateral Climate Change Fund: Withdrawals limited to countries that contribute amounts to be determined by a formula based on current GHG emissions, population and gross domestic product. It would aim to mobilise no less than USD 10 billion per annum. LDCs would have a quota of the revenue at their disposal without being expected to contribute.

Carbon Auction Levy: Auction a percentage of annual emission allowances for climate change activities.

The Swiss Proposal Global Carbon Adaptation Tax Proposal: Uniform global carbon tax of $2 per ton of CO2 on all fossil fuel emissions. Countries emitting less than 1.5 tons CO2 would be exempt from the tax. Expected revenues would be USD 48.5 billion per annum.

The Norwegian Proposal: At the international level, a small portion of "assigned amount units" could be withheld from national quota allocation and auctioned by the appropriate institution. Expected revenues would be USD 14 billion per annum.

Burden Sharing Mechanism (Tuvalu Adaptation Blueprint): A collection of levies on international aviation and maritime transport. Expected to raise USD 40 million from Annex 2 and USD 30 million from non-Annex 1.

International Air Travel Adaptation Levy: Levy funds from polluting individuals better off to help the less well-off victims of their pollution purely on grounds. Expected to raise USD 8-10 billion per annum.

International Maritime Emission Reduction Schemes: Global bunker levy using the global average price of carbon to achieve GHG emission reductions through the maritime industry and raise USD 9 billion annually if applied world-wide.

Source:
UNFCCC website and Müller, Benito (2008), "International Adaptation Finance: the need for an innovative and strategic approach" Oxford Institute for Energy Studies Working Paper EV 42, June 2008, Oxford