Friends of the Earth U.S.
Recommendations for the Transitional Committee
July 29, 2011

Role of Private Sector Finance and the Green Climate Fund

As the Transitional Committee (TC) moves toward producing a design document for the Green Climate Fund (GCF), we thank you for the opportunity to submit the following views concerning:

(1) The use of GCF resources to mobilize the private sector to finance adaptation and mitigation projects, programs, policies, and other activities in developing countries (i.e. delivery and implementation of private climate finance), and
(2) Using private sector resources to capitalize the GCF (i.e. as a source of finance).

We urge the TC to consider these views when delineating a possible role for private sector finance in the GCF.[1]

Please note that this submission is a work in progress that reflects evolving thoughts and positions.

Summary of Recommendations

Minimum criteria for utilization of GCF resources to mobilize private sector financing for adaptation and mitigation in developing countries include:

1. *Demonstrable contribution to sustainable, vibrant local economies in developing countries that stimulates local entrepreneurship, including in low income countries*

   - The TC should prohibit the practice of tied climate finance (requirements that funds are to be spent on donor country-based procurement of goods and services).
   - In order to support endogenous development in developing countries, the TC should stipulate that climate finance going to the private sector should only go to developing country companies.
   - The TC should prioritize financing for small, medium and microenterprises in developing countries, particularly low income countries.
   - The TC should prohibit carbon offset projects from receiving climate finance.

2. *Responsive to country need and equitable geographic distribution*

   - There should be no independent private sector window in the GCF. Such an approach threatens to bypass the priorities and strategies of developing country governments.
   - The GCF should target at least 50% of its resources towards adaptation, and provide adaptation financing in the form of grants.

3. *Application of rigorous environmental and social safeguards and the highest standards of transparency and accountability*

[1] *For follow-up, please contact Karen Orenstein, Friends of the Earth U.S., korenstein@foe.org, +1-202-222-0717.*

- The GCF should approach the private sector with a high degree of caution and only engage private finance to the extent that private financiers can guarantee transparency and accountability for complying with robust standards on environmental, social, and development effectiveness.

4. *No links to carbon markets*

- Since the purpose of climate finance is *not* to help Annex I countries meet their own mitigation obligations, no GCF funds should be used to finance carbon offset projects.
- Offset financing to developing countries must not be counted in any way towards climate finance, particularly towards the $100 billion commitment.

5. *Exclusion of risky financial instruments*

- The GCF should only engage private finance to the extent that private financiers can guarantee the implementation of robust due diligence processes designed to address financial, social, and environmental risks, and produce effective mitigation and adaptation outcomes.
- The GCF should uphold best practices in financial oversight and governance practices, including, but not limited to, prohibiting the use of tax havens for all GCF-related investments and financing.
- The GCF should not add to unsustainable debt burdens of low income countries.

Further recommendations:

6. *The initial $100 billion capitalization of the GCF should come from public sources from developed countries.*

7. *Prior to any operationalization of private sector leveraging as a function of the GCF, a better understanding of its efficacy in generating pro-poor, climate friendly investment is necessary.*

Introduction

Years of experience in development finance and carbon finance (i.e. carbon markets) demonstrate the difficulty of matching the profit motive of the private sector with the need for financing global goods in the public interest. This submission takes lessons learned from these experiences – two types of finance which are supposed to mobilize private finance in support of sustainable development in poor countries -- and applies them to the Green Climate Fund.

We particularly look at investment patterns established by the International Finance Corporation (IFC), the private sector lending arm of the World Bank Group, and the Clean Development Mechanism (CDM). These two examples are especially relevant given the emphasis placed by some Parties on the GCF as primarily a vehicle by which to leverage and crowd in private finance, as well as statements that the IFC should be seen as a model for the GCF.

Unfortunately, the record thus far of international private investment leading to environmentally sound, equitable development in poor countries is not particularly exemplary. For example, a 2007 analysis of a sample of CDM projects found that only 1.6 percent of credits went to projects that benefited sustainable

development.[2] In its report, *Assessing International Finance Corporation's Poverty Focus and Results*, the World Bank's own Independent Evaluation Group (IEG) found that, "The majority of [IFC] investment projects generated satisfactory economic returns but did not provide evidence of identifiable opportunities for the poor to participate, contribute to, or benefit from the economic activities that projects directly or indirectly support…..Only a few of the sample projects both delivered high levels of growth and demonstrated evidence of inclusion of the poor." Of the projects the IEG examined, less than half were designed with poverty alleviation objectives in mind, and only "13 percent of projects had objectives with an explicit focus on poor people."[3] These lessons demonstrate that any role for the private sector in the GCF must be highly regulated.

Utilization of GCF Resources to Mobilize Private Sector Financing of Adaptation and Mitigation Projects, Programs, Polices and Other Activities in Developing Countries

Any GCF resources channeled to or from the private sector should be required to adhere, at minimum, to certain criteria, including:

1. ***Demonstrable contribution to sustainable, vibrant local economies in developing countries that stimulates local entrepreneurship, including in low income countries***

International private finance frequently flows from wealthy countries via multinational corporations to capital-intensive, rather than labor-intensive, sectors. Such investment often stifles the emergence of domestic firms, exports profits back to developed countries or even to tax havens, and fails to lead to endogenous technology development. The TC should incorporate the following "lessons learned" from experiences in the fields of overseas development assistance, multilateral development bank finance, and carbon finance.

GCF resources should not be used as subsidies for developed country-based multinational corporations. One way to help minimize this is to prohibit the use of "tied" climate finance, e.g. climate funds that are required to be spent on donor country-based procurement of goods and services. In addition to implications for development effectiveness, tied aid can needlessly increase costs of development projects by up to 30 percent. Ten years ago, about 54 percent of Official Development Assistance was tied, and after years of concerted effort this proportion has been brought down to about 17 percent.[4]

- **The TC should prohibit the practice of tied climate finance.**

Even in cases where tied aid is not official policy, mainstream development finance strongly favors multinational corporations over local enterprises. For example, according to publicly available data, from 2008 to November 2010, only 16 percent of all IFC investments were directed toward local companies in low income countries.[5] In contrast, 63 percent supported investment in low income countries by multinational corporations from OECD countries, while 13 percent went toward middle income-based

[2] Sutter, C. & Parreno, J.C., Climate Change, *Does the current clean development mechanism (CDM) deliver its sustainable development claim? An analysis of officially registered CDM projects,* July 2007, at http://www.cleanairnet.org/caiasia/1412/articles-72508_resource_1.pdf.

[3] Independent Evaluation Group of the World Bank Group, *Assessing IFC's poverty focus and results*, 2011, at http://ieg.worldbankgroup.org/content/ieg/en/home/features/poverty.html.

[4] Overseas Development Institute, *Untying Aid: Is it Working?*, 2009 at http://www.oecd.org/document/5/0,3746,en_2649_33721_44609413_1_1_1_1,00.html.

[5] This refers to IDA-only countries, those targeted by the World Bank's lending window for the poorest countries.

companies.[6] Local companies in low income countries – the enterprises most subject to credit scarcity and high borrowing costs – thus were also the ones that were most passed over by the IFC.

- **In order to support endogenous development in developing countries, the TC should stipulate that climate finance going to the private sector should only go to developing country companies.**

We note this is also the position of Argentina, Burkina Faso, China, Democratic Republic of Congo, Egypt, El Salvador, Gabon, India, Morocco, Nicaragua, Philippines, Saudi Arabia and Zambia in their July 14 submission, *Draft Instrument for the Establishment of the Green Climate Fund*:

> *The private sector in developed countries is encouraged to make supplementary contributions and donations to the Fund. However, resources of the Fund should not be used for subsidizing corporations or financial institutions of developed countries (as the Fund is established to provide resources to developing countries).*

The IFC ostensibly has tried to correct this bias towards OECD-based multinational corporations by shifting more of its financing towards developing country-based or –focused financial intermediaries (including banks and private equity funds), which can theoretically disburse those funds to smaller enterprises. A significant lack of transparency on the part of IFC precludes the public from substantially assessing whether such results are indeed achieved. Even the World Bank's own Independent Evaluation Group has said that the impacts on poverty may not be clear.[7]

- **The TC should prioritize financing for small, medium and microenterprises in developing countries, particularly low income countries.**

Finally, the CDM offers important lessons with respect to designing investments to achieve both emissions reductions/avoidance and sustainable development. Though CDM projects are supposed to focus on sustainable development as well as mitigation, few CDM projects actually provide poverty and local environmental benefits, and some actually have harmful impacts.[8] For example, a 2007 analysis of a sample of CDM projects found that only 1.6 percent of credits went to projects that benefited sustainable development.[9] Some studies suggest that the lack of safeguards and metrics for environmental and social performance prevents CDM projects from delivering sustainable development benefits.[10] However, the CDM may have inherent design characteristics which make it difficult to achieve development results. The CDM is strongly biased towards large-scale projects that produce large numbers of credits; smaller-scale projects, which would be more likely to have sustainable development benefits, would not generate

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[6] Bodo, E., Molina, N., and Visa, T., Eurodad, *Development diverted: How the International Finance Corporation fails to reach the poor,* November 2010, at http://www.eurodad.org/whatsnew/reports.aspx?id=4304.

[7] Eurodad, "*World Bank says IFC private investments fail to reach the poor*," 9 May, 2011, at http://www.eurodad.org/whatsnew/articles.aspx?id=4493.

[8] McCully, P., International Rivers, *Bad deal for the planet, why carbon offsets aren't working and how to create a fair global climate accord*, 2008, at http://www.internationalrivers.org/node/2826.

[9] Sutter, C. & Parreno, J.C., Climate Change, *Does the current clean development mechanism (CDM) deliver its sustainable development claim? An analysis of officially registered CDM projects,* July 2007, at http://www.cleanairnet.org/caiasia/1412/articles-72508_resource_1.pdf.

[10] See for example, Wolfgang Sterk, et al., Wuppertal Institute for Climate, Environment and Energy, *Further Development of the Project-Based Mechanisms in a Post-2012 Regime*, 2009, at http://www.wupperinst.org/uploads/tx_wiprojekt/CDM_Post_2012_Study.pdf and Center for International Environmental Law and Earthjustice, *Joint Submission on the sustainability benefits of the Clean Development Mechanism,* 3 July 2011, at http://cdm.unfccc.int/public_inputs/2011/sustainability_benefits/cfi/907gth1m85qf9hvb54abj0wedx3i8.

offsets as cheaply. As of the end of July 2009, more than 70 percent of credits went to industrial gas capture projects[11], while the most common type of project was large hydropower.

- **As a result of these problems, as well as those elucidated below, the TC should prohibit carbon offset projects from receiving climate finance.**

2. Responsive to country need and equitable geographic distribution

Private finance is driven by the desires and motivations of investors, not the needs of people in developing countries. Though it is possible for these two to overlap, such instances are more often the exception rather than the rule. The result is that private finance tends to bypass poorer countries.

Examining the financial flows of the CDM offers an instructive example. As of April 2009, some 77 percent of CDM projects were located in China, India, Brazil and Mexico. China itself generated more than 55 percent of all carbon credits.[12] According to the UNDP in 2009, China, India, Brazil, South Korea, and Mexico were projected to account for over 80 percent of carbon credit generation.

A similar bias can also be seen at the IFC, which theoretically can make proactive, geographically balanced investment selections, rather than simply responding to project applications received (which is the case with the CDM). In 2009, 52.1 percent of all IFC investment went to just 10 middle income countries. 36.9 percent went to only 5 recipient countries – Brazil, India, Russia, China, and Turkey.[13] Moreover, in 2010, more than half of all new project commitments went toward financial sector lending. Of that financial intermediary lending, only 8 percent explicitly targeted low income countries, whereas 43 percent went to upper middle income countries.[14]

Left on its own, private finance will gravitate towards more profitable investments, resulting in a strong bias towards middle income countries and towards mitigation projects. Positive development outcomes and environmental integrity are lesser priorities, and sometimes not priorities at all. As the International Evaluation Group in its IFC assessment diplomatically asserted in its recent report, "In the delivery of services, such as health, education, and sanitation, private companies may have difficulties addressing distributional and equity considerations, particularly where market failures are widespread (World Bank 2004, 2008).[15]

The GCF should therefore counterbalance this bias and ensure that GCF-supported projects and programs in developing countries meet real needs, are country-owned, and are part of larger national climate strategies and plans.

- **Therefore, there should be no independent private sector window in the GCF. Such an approach threatens to bypass the priorities and strategies of developing country governments.**

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[11] Wara, M., 2009, *Written Testimony to the U.S. Senate Committee on Energy and Natural Resources Concerning Methods of Cost Containment in a Greenhouse Emissions Trading Program*, 2009, at http://energy.senate.gov/public/index.cfm?FuseAction=Hearings.Testimony&Hearing_ID=9f3597e7-a135-e397-f850-b22b300d4b24&Witness_ID=7b5629a9-8eff-4281-b3e2-2dde0e64e2de.

[12] CDM Watch, Shortcomings of CDM, at http://www.cdm-watch.org/?page_id=24.

[13] Moody's Investors Service, *Credit Analysis, International Finance Corporation,* June 2010, at http://www.ifc.org/ifcext/about.nsf/AttachmentsByTitle/Moodys_IFC_Report/$FILE/Moodys_IFC_Report.pdf.

[14] The Bretton Woods Project and 'Ulu Foundation, *Out of sight, out of mind? The International Finance Corporation's investments through banks, private equity firms and other financial intermediaries*, November 2010, at http://www.brettonwoodsproject.org/FI2010.

[15] Independent Evaluation Group of the World Bank Group, *Assessing IFC's poverty focus and results,* 2011, at http://ieg.worldbankgroup.org/content/ieg/en/home/features/poverty.html.

However, this is not to say that the private sector has no role in implementing mitigation or adaptation priorities in developing countries. We concur with the position of the 13 developing countries' submission, *Draft Instrument for the Establishment of the Green Climate Fund*, which describes a range of different possibilities for engaging developing countries' private sector in implementing national mitigation and adaptation strategies:

> *--The Fund will encourage governments in developing countries to make use of a variety of instruments to engage with their economic public and private institutions and units, including major companies, small and medium enterprises, the urban informal sector, and the rural farmers, and to support their engagement in national efforts for mitigation, adaptation, technology development, capacity building and institutional development.*
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> *--A variety of financing instruments such as subsidies, tax breaks, concessional loans, public investment in agricultural programmes, may be employed at the national level in order to incentivize the economic units of developing countries. The incremental cost to the public and private sector to make changes for mitigation or adaptation, and various types of the relevant public-sector expenditure in incentivizing the private economic units, may be eligible to be financed through the Fund.*

GCF resources must also be used to correct the serious imbalance between adaptation and mitigation funding. As of June 2011, only 13.9 percent of approved climate funding was for adaption, whereas mitigation received 84.4 percent.[16] This is in no small part due to the fact that although adaptation is a critical need, most adaptation projects are not profitable and therefore would not attract private finance. This also suggests that it is inappropriate to provide adaptation financing in the form of loans.

- **The GCF should target at least 50% of its resources towards adaptation, and provide adaptation financing in the form of grants.**

3. *Application of rigorous environmental and social safeguards and the highest standards of transparency and accountability*

The GCF should be designed so as to ensure the robust application of stringent social and environmental safeguards, with clear policies and procedures that prevent social and environmental harm and maximize participation, transparency, accountability, equity, and the protection of rights.[17]

Here again, experience with the IFC's use of financial intermediaries to leverage private sector finance provides grounds for strong caution. In 2009, 58 percent of IFC financial sector investment went toward projects of high or medium risk of harmful social and environmental impacts.[18] However, unlike directly financed projects, the IFC does not ensure that subprojects and businesses financed through financial intermediaries comply with safeguards. Rather, it largely relies on self-assessment, monitoring, and reporting from the intermediary itself. Private sector intermediaries such as private equity funds generally do not have the expertise or inclination to analyze development effectiveness, let alone ensure it. Some IFC financial intermediaries themselves have even expressed doubts on this point.[19]

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[16] http://www.climatefundsupdate.org

[17] Civil society recommendations for the design of the Green Climate Fund, April 2011, at http://actionaidusa.org/assets/pdfs/climate_change/CSO_Recommendations_to_GCF.pdf.

[18] The Bretton Woods Project and 'Ulu Foundation, *Out of sight, out of mind? The International Finance Corporation's investments through banks, private equity firms and other financial intermediaries*, November 2010, at http://www.brettonwoodsproject.org/FI2010.

[19] See for example, National Audit Office, *Investing for Development: The Department for International Development's Oversight of CDC Group plc.* Report by the Comptroller and Auditor general, Dec 2008, at

Lack of transparency is another key concern associated with private finance. In the case of IFC financial intermediaries, no information is made public about medium or high risk projects in which the financial intermediary invests, precluding even the possibility of knowing if safeguards are mandated. Similarly, financial industry initiatives such as the Equator Principles, a set of voluntary environmental and social financing norms for project finance, suffer from poor transparency. For example, citing client confidentiality, Equator Principles financial institutions have refused to even disclose the names of transactions that are subject to the Equator Principles, let alone which particular environmental or social performance standards are required of clients in loan agreements.

A final concern relates to the financial sector's demonstrated lack of unwillingness to be held accountable for ensuring environmental, social and climate effectiveness. Again, the Equator Principles offer a relevant example: the Equator financial institutions have refused to adopt any kind of accountability mechanism that would allow affected communities to hold the institutions accountable for failing to implement their own commitments. Similarly, carbon financiers have sought to evade accountability for (the lack of) climate and development effectiveness. Lobbying groups like the International Emissions Trading Association want an appeals process that would allow them to challenge decisions by the UNFCCC CDM Executive Board to not issue carbon credits for offset projects. At the same time, they seek to block others from appealing decisions to issue credits for projects that fail to reduce greenhouse gas emissions or result in human rights violations.

The effort to leverage private investment will likely result in the prolific use of co-financiers and financial intermediaries, such as investment funds and funds of funds. The greater the use of financial intermediaries, the more intrinsically difficult it will be for the GCF to ensure implementation of and compliance with environmental and social safeguards. Similarly, the proclivity of the financial sector to desire less disclosure, less liability, and less accountability for the environmental and social outcomes of their transactions will pose a significant challenge for GCF efforts to promote sustainable development or climate effectiveness in the use of climate funds.

- **The GCF should approach the private sector with a high degree of caution and only engage private finance to the extent that private financiers can guarantee transparency and accountability for complying with robust standards on environmental, social, and development effectiveness.**

4. No links to carbon markets

A number of Parties have proposed somehow linking GCF resources with carbon markets. This must be explicitly prohibited.

First, the purpose of climate finance, as articulated by the UNFCCC, is "to meet the agreed full costs incurred by developing country Parties in complying with their obligations" under the Convention, to "assist the developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those adverse effects" and to "finance, as appropriate, the transfer of, or access to, environmentally sound technologies and know-how to other Parties, particularly developing country Parties, to enable them to implement the provisions of the Convention."

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http://www.nao.org.uk/idoc.ashx?docId=1a2db916-cf91-4ce9-89c9-7f821b3f0d12&version=-1. The report states, "Fund managers we interviewed questioned the ability of a 'funds of funds' business to secure the breadth of development benefits that DfID hopes CDC can deliver. They doubted whether higher risk and lower return investments were compatible with a commercial business model."

- **Since the purpose of climate finance is *not* to help Annex I countries meet their own mitigation obligations, no GCF funds should be used to finance carbon offset projects.**

The existing carbon offset markets generate some financial flows to developing countries, most notably through the CDM. However, a strict firewall must be enacted between financial flows resulting from international offsetting schemes and the provision of climate finance for, and the use of climate finance by, developing countries.

- **Offset financing to developing countries must not be counted in any way towards climate finance, particularly towards the $100 billion commitment.**

This position is also echoed by the 13 developing countries' submission, *Draft Instrument for the Establishment of the Green Climate Fund:*

> *Such contributions shall not include payments by companies for offsetting in the carbon trade, as financial resources provided by carbon markets are to enable developed countries to implement their mitigation commitments and are not contributions towards the financing commitment of the developed countries in accordance with the Convention.*

Moreover, as noted above, carbon markets have been heavily criticized for failing to address poverty and development, as well as for a deep lack of effectiveness in reducing or preventing greenhouse gas emissions. Dr. David Victor of Stanford University estimates that up to two-thirds of CDM projects would have occurred without the finance provided by carbon credits and thus are not additional.[20]

5. *Exclusion of risky financial instruments*

Scarce climate finance must not be subject to excessive risk. The GCF cannot afford to gamble with the global public good of climate stabilization. This means that the GCF should implement conservative and climate-friendly investment strategies on the treasury side (i.e. asset management) of its operations, and also seek to capitalize the GCF with predictable and stable, new and additional sources of climate finance. For more recommendations on the capitalization of the GCF, please see the section below.

On the disbursement side, the GCF should ensure that it does not encourage investments that are excessively risky from a financial or environmental perspective. For example, risk sharing or risk reduction instruments, such as loan guarantees or political risk insurance (in some countries), always face the danger of creating moral hazard. They may have the perverse effect of weakening due diligence processes and stimulating investment in unsuccessful projects that fail to mitigate greenhouse gas emissions or provide genuine adaptation benefits. This would result in an inefficient and ineffective use of scarce climate finance. Certain risk sharing instruments could also give rise to accusations that climate funds serve to privatize profits, while letting the public shoulder financial losses, making communities bear the brunt of any environmental or social harms.

- **The GCF should only engage private finance to the extent that private financiers can guarantee the implementation of robust due diligence processes designed to address financial, social, and environmental risks, and produce effective mitigation and adaptation outcomes.**

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[20] Vidal, J., The Guardian, "*Billions wasted on UN climate programme: Energy firms routinely abusing carbon offset fund, US studies claim*," May 26, 2008, at http://www.guardian.co.uk/environment/2008/may/26/climatechange.greenpolitics.

Finally, in light of international efforts to shore up financial oversight, such as regulating over-the-counter derivatives, combating tax evasion, providing more transparency over hedge funds and private equity, or curbing illicit financial flows, all GCF-related financing should uphold best practices in governing global finance. There are several disturbing examples of how financiers who hope to play a key role in climate finance have tried to undermine broader financial reform efforts. For example, many multilateral development banks (MDBs), including the IFC, have private financing arms that rely on financial intermediaries based in tax havens or secrecy jurisdictions. Domiciliation in such locales has led to the loss of billions of dollars from developing countries through tax evasion and avoidance. In some cases, MDBs have actually lobbied against financial reforms designed to regulate parts of the "shadow banking sector," such as private equity funds and hedge funds.[21] The International Emissions Trading Association, a key lobbying group for carbon financiers, has similarly lobbied for carbon market regulations that would allow them to keep an over-the-counter market for offsets, at a time when derivatives regulators are trying to move all derivatives trading onto transparent, regulated exchanges.[22]

- **The GCF should uphold best practices in financial oversight and governance practices, including, but not limited to, prohibiting the use of tax havens for all GCF-related investments and financing.**

In a similar vein, the international community for years has been seeking to provide debt relief to Highly Indebted Poor Countries. Climate finance must not add to the unsustainable debt burdens of poor countries. This is doubly imperative in light of the further impoverishment of many developing countries because of the global financial crisis. For example, by 2010, 24 percent of Highly Indebted Poor Countries were in debt distress or at high risk of debt distress.[23]

The GCF should not add to unsustainable debt burdens of low income countries.

6. Utilization of Private Finance to Capitalize the Green Climate Fund

It is critical that the provision of $100 billion for climate finance stipulated in the Cancun Agreements be viewed as a minimum level commitment for the GCF. Scarce climate finance must be stable, predictable, adequate, new, and additional. Therefore, the initial $100 billion capitalization of the GCF should come from a range of developed country public sources, such as assessed budgetary contributions and innovative public sources of climate finance, like financial transaction taxes, shifting of fossil fuel subsidies, conversion of developed countries' IMF Special Drawing Rights allocations into hard currency, and levies on emissions from international transport. The objective of stability and predictability in sources provides another reason why the GCF should not rely on carbon markets to provide or "count" as a source of climate finance. As one analyst explained, the lack of adequate derivatives regulation and "the legislative design of carbon markets makes carbon uniquely vulnerable to fraud and extreme price volatility." [24]

- **The initial $100 billion capitalization of the GCF should come from public sources from developed countries.**

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[21] See for example, Arnold, M., Financial Times, "*Development banks attack planned EU fund rules",* 2 May 2010 at http://www.ft.com/intl/cms/s/0/256b7704-55fe-11df-b835-00144feab49a.html#axzz1THLDCcBK.

[22] International Emissions Trading Association, *IETA Position Paper: Market Oversight Provisions of the American Power Act (Kerry---Lieberman),* July 22, 2010 at http://www.ieta.org/assets/PositionPapers/ietapositionpaper-apamarketoversight_100722.pdf.

[23] Honkaniemi, N., Eurodad, *Storm on the horizon? Why World Bank Climate Investment Funds could do more harm than good, February 2011, at http://www.eurodad.org/whatsnew/reports.aspx?id=4395*.

[24] Suppan, S., *Trusting in (Dark) Carbon Markets? The UN High-Level Advisory Group on Climate Finance,* October 2010, at http://www.iatp.org/files/451_2_107713.pdf.

Beyond the $100 billion, it may be possible to consider generation of further funds through the issuance of GCF bonds, provided that the GCF has met the 50% adaptation target, and that bond-funded investments adhere to the abovementioned standards for sustainability and governance. As mentioned in the 13 developing countries' submission, *Draft Instrument for the Establishment of the Green Climate Fund,* voluntary donations from the private sector, for example, from charitable foundations, would also be welcome.

Conclusion

Over-excitement about leveraging the private sector has pervaded the discourse on climate finance. Some reports suggest that public funds can leverage private climate finance at a ratio of up to 1:50.[25]

However, such bullish predictions should be viewed with caution. Many questions remain as to what extent public money has actually leveraged private finance and whether such investment would have happened anyways. As the Overseas Development Institute notes, "Increased transparency in the use of international public finance would elucidate the current and potential role of public finance in leveraging private finance, and would increase understanding of the effectiveness and success rates of such efforts. Metrics to measure leverage and to count the impact of public sector finance in leveraging private capital need to be developed and agreed (AGF, 2010)."[26] Prior to any operationalization of leveraging as a function of the GCF, a better understanding of its efficacy in generating pro-poor, climate friendly investment is necessary.

An excessive focus on leveraging private finance can lead to significant deficits in climate and development effectiveness. Lessons learned from development finance and carbon finance must be applied to the GCF so as to avoid climate finance outcomes characterized by poor implementation of social and environmental safeguards, low standards of transparency and accountability, excessive risk (financial, social, and environmental), low levels of adaptation finance, and neglect of the needs of low income countries. In designing the Green Climate Fund, the Transitional Committee should approach the private sector with a high degree of caution.

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[25] See for example, Ward, M., Global Climate Change Consultancy, "*Engaging private sector capital at scale in financing low carbon infrastructure in developing countries,"* May 2010, at http://www.gtriplec.co.nz/assets/Uploads/papers/psi_final_of_main_report_full_version_31_may.pdf.

[26] Brown, J. and Jacobs, M., Overseas Development Institute, *Leveraging private investment: The role of public sector climate finance*, April 2011, at http://www.odi.org.uk/resources/download/5701.pdf.