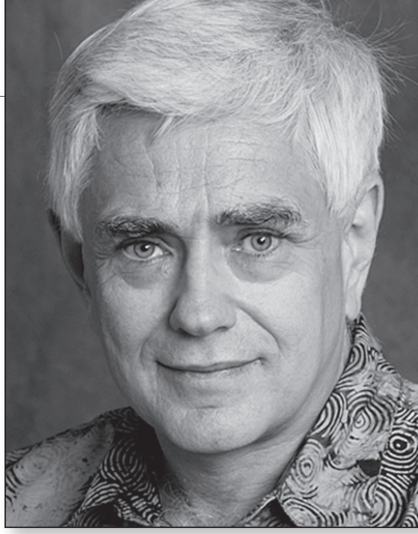

By Bruce Rich

Fatal Flaws in the UN Climate Fund?

The United Nations Green Climate Fund is the principal international mechanism to channel finance from richer nations to developing countries for climate change mitigation and adaptation. Parties to the UN Framework Convention on Climate Change agreed to create the GCF in 2010, and the GCF operates under, and is accountable to, the UNFCCC. It has an Executive Board of 24 members representing in equal proportion developing and industrialized nations, and is supposed to mobilize by 2020 $100 billion annually. It will approve its first projects later this year.

But the GCF is beset by deep flaws that in recent years have characterized both so-called climate finance and the overall effectiveness of development assistance. Rather than addressing these flaws it is on a path to exemplify them.

The GCF outsources disbursement and management of its monies through financial institutions and international and national agencies that it approves. Though the fund has developed criteria for accrediting these agencies, and the projects it will support through them, in practice oversight and monitoring is limited, since the GCF will have a small staff; 38 positions have been approved so far.

To date the fund has accredited some 20 national and international agencies, whose proven record of effective climate finance and development quality is mixed. For example, the GCF-accredited African Finance Corporation, a private-public multilateral investment institution, only adopted an environmental policy in February and has no track record in implementing it.

More troubling is the recent accreditation of the Deutsche Bank as the first purely private-sector GCF intermediary. Deutsche Bank is the world's 10th-largest financer of coal projects, and has a record of poor environmental and human rights performance. It has been subject to massive criminal investigations and fraud charges in the United States and United Kingdom for conspiracy to rig interbank interest rates and for systematically lying to regulatory agencies and investigators — resulting in U.S. and U.K. authorities leveling in April the largest fines in history on a commercial bank, some $2.5 billion. The GCF board accredited Deutsche Bank just weeks later.

In response, 29 nongovernmental development and environmental organizations from GCF member countries declared that the accreditation process involved "no substantial assessment of the track record of the institutions concerned," casting serious doubts on the fund's credibility.

Official rhetoric notwithstanding, the underlying theme seems to be moving the money

There is a more fundamental issue at the heart of the GCF's viability: how climate mitigation and adaptation are defined, measured, and monitored. This issue has plagued the evolving global system of climate finance from the outset. The OECD examined in 2013 some 24 major funders of climate finance — bilateral and multilateral aid agencies, investment funds, etc. — and found no common definition of what climate finance means. Neither has the UNFCCC itself.

The whole concept of climate finance is based on what is known as additionality. Scarce new public international financial resources should not be wasted on investments that do not result in additional real reductions in greenhouse gas emissions, or additional climate resilience in the case of adaptation. These reductions should be measured from a business-as-usual scenario, or what would be built anyway without additional funds.

Even apparently plausible methodologies can be easily gamed. This was the experience with the UN Clean Development Mechanism, whereby many hydroelectric, wind, and solar projects that were already being built or planned in countries like China and India were nevertheless approved for subsidization through CDM carbon credits. Worse, under political pressure from major developing nations, the CDM also subsidized new coal-fired power plants, under the rationale that the new plants would be more efficient.

A similar scenario is repeating itself in the GCF. At a recent board meeting, China, Saudi Arabia, and Japan all opposed a proposal that GCF funds not finance fossil-fuel projects, including new coal plants. India was reported to at first object to any GCF climate investment criteria at all, arguing that the recipient countries should receive the money and decide themselves the criteria. Japan's Foreign Ministry argues that "promotion of high efficiency coal-fired power plants is one of the realistic, pragmatic, and effective approaches to cope with the issue of climate change." Japan has included over $1.6 billion in new coal power plant finance in Indonesia, India, and Bangladesh in reporting to the UNFCCC its contributions to climate finance.

These major flaws are a reflection of the hypocrisy and bad faith of quite a few GCF member countries, both donor and developing. Official rhetoric notwithstanding, the underlying theme seems to be moving the money.

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