TRANSPARENCY INTERNATIONAL
the global coalition against corruption

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Dear Green Climate Fund Board,

In response to a call for input from the GCF Co-chairs, please find the below responses to their guiding questions on the GCF's business model framework. Please feel free to contact us with comments or queries.

Yours faithfully,

Lisa Elges
Programme Leader, Transparency International

I. Structure and organization of the Fund

2. What results will the GCF be supporting to contribute to this paradigm shift? For example, for mitigation, are we only interested in tCO2e, or do we want tCO2e plus some measure of transformational change (for example, some demonstration of fit of activity with national strategy/innovation/fiscal effort)?

The Green Climate Fund (GCF) can be both transformational, innovative and move toward a paradigm shift by ensuring that projects, programmes, enterprises and/or investments to cope with climate change causes and impacts are truly sustainable and rooted in national development strategies. This means also ensuring a best value for money approach which strives for efficient and effective use of climate finance. This means further that the GCF espouses principles and practices at all levels to prevent corruption and fraud which can and will undermine the ultimate transformational changes needed to take root now and to bear long lasting impacts in the future.

4. What is the optimal structure for the GCF?

At present, climate funds are governed by nominated government representatives and are administered by the World Bank, the Global Environmental Facility, the United Nations or others. As such, they comprise a number of key actors – many of which employ different standards, policies and practices regarding accountability, oversight, and civil society engagement. This means there is a general lack of coherency across such standards, policies and practices which often make accountability untenable.

The optimal structure of the GCF should be one that ensures anti-corruption at all levels. High standards for transparency, accountability, and integrity need to be common and applicable to all GCF actors, including but not limited to the Board, the Secretariat, any implementing partner (multilateral, bilateral, national and/or non-governmental), and any interim or final beneficiary of climate finance. This means that the structure should at minimum ensure independent oversight, redress or complaints mechanisms and as far as possible effective civil society participation and engagement at all levels and throughout project or funding cycles.

During the selection of the host country of the GCF, allegations of conflicts of interest and vote-buying emerged. At this time, it was unclear if and how such an allegation should be addressed, signalling a lack of clarity over accountability structures. It is not unlikely that conflicts of interest will emerge in relation to future Board decisions to approve funding, accredit implementing entities and to withdraw their accreditation. In these cases, corruption - bribery and other undue influences - cannot be entirely ruled out. These concerns would also apply in cases where the Board may be in a position to withdraw, freeze or postpone finance in the case of corruption or fraud.[1]

[1] In this case, it is not clear in the governing instrument whether or not the Board has the mandate to stop funding. This requires further clarification.

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Ways to enable independent oversight of the GCF Board beg consideration. At present, it is accountable to the UNFCCC Conference of Parties. While this may be tenable, it remains to be seen – as in the experience of other like global funds - if and how, in cases of corruption, that accountability structure will have practical and meaningful effect.

The governing instrument of the Fund seeks to establish an Independent Integrity Unit whose aim is to "investigate allegations of fraud and corruption in coordination with relevant counterpart authorities." As that unit is "to work with the secretariat and report to the Board," it is not likely that its functions extend to the activities of the Board or the Secretariat.

An independent accountability and oversight mechanism of the Board could be established. However, there is no clear guidance or best practice for how such an independent oversight body might work, aside from some developments such as with the governance reform within the FIFA. Accountability of the GCF Board nevertheless remains integral to the integrity and legitimacy of the Fund. To assure this, at minimum, there should be a transparent access to information available on the GCF website regarding the laws and legal accountability mechanisms for cases of corruption which are applicable to each of the Board members. This would at least clarify and establish the extent to which Board members can and would be held accountable nationally when and if corruption arises in their Board functions.

Regarding the GCF Secretariat, best practice of other international funds suggests that it does require an independent oversight body. Such a body should ensure that the Secretariat is prevented from and would be held accountable for cases of corruption or fraud as staff employed by the GCF.

It will be further important that any immunities and privileges provided to the Board and the Secretariat do not deter the investigation and prosecution of corruption or fraud - when a member of either the Secretariat or the Board would allegedly or in fact be complicit in an act of corruption or fraud in the course of his or her GCF functions. . The terms and conditions of immunities and privileges must thus be made explicit and unequivocal in the host country agreement between the GCF and the government of South Korea.

Finally, the role of civil society needs to be considered more fully in the structure of the GCF. At the global level, the proposed procedures for "active observers" present a number of challenges which will need to be addressed so that representation can be both genuine and meaningful. In tandem, issues regarding the transparency, accountability and integrity of these observers also require serious consideration.

Meaningful non-governmental participation will also be crucial at the national level in countries where GCF finance is to support climate change actions. This participation is best achieved in three modalities: consultation, monitoring and complaints mechanisms.

Consultations

The GCF Board should require national structures or mechanisms to enable concerned stakeholders to participate in consultations related to GCF funded actions throughout project, funding and/or accreditation cycles. Citizen consultations at the outset of financing and project development or appraisal are common practices amongst international climate funds. They should however persist once an action has been initiated, in particular where further public procurement, project-related decisions and/or funding evaluations are required.

Monitoring

Opportunities should exist for citizens to act as independent monitors of GCF funded actions at the national level. The scope and content of such monitoring can include a range of environmental, social, fiduciary and sustainability standards. Transparency International has used a citizen-based monitoring tool called an

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Integrity Pact for public procurement and contracting. Please see:
http://www.transparency.org/whatwedo/tools/integrity_pacts

This model could be a valuable approach or sub-structural arrangement for the national implementation of GCF actions. It could be particularly relevant in consideration of the private sector facility modalities.

Complaints mechanisms

The GCF governing instrument enables a "redress mechanism" which "will receive complaints related to the operation of the fund and will evaluate and make recommendations." Ideally, this redress mechanism would apply at all levels, including in relation to nationally implemented actions. It should also have an outreach capacity to citizens, and be broadly accessible to specific stakeholders including vulnerable or affected communities, but also other non-governmental actors including the private sector.

Transparency International currently operates complaints mechanisms as anti-corruption hotlines in over 50 countries, which provide legal advice to citizens and support them in pursing their claims through national legal systems. The value of TI's complaints mechanisms in climate financed projects is increasing globally. Please see:
http://www.u4.no/publications/anti-corruption-complaints-mechanisms/
http://www.transparency.az/transpfiles/Hotline_Guidance_Note_5_Nov_2009%20Final.pdf
http://www.transparency.org/whatwedo/pub/policy_position_01_2010_whistleblowing_an_effective_tool_in_the_fight_again:

5. In light of the GCF as a continuous learning institution, should the Fund employ a "phased approach" to build its business model?

The GCF needs to ensure that a "learning by doing" approach does not compromise necessary standards of transparency, accountability and integrity at all levels. Although not elaborated here, enough evaluations of existing climate and carbon finance arrangements should provide ample guidance and should be capitalised as far as possible to ensure a sustainable, needs-driven, best value and impact for money approach.

C. Financial Instruments

8. What mix of instruments should the GCF offer to achieve the desired results, and on what terms? How do we achieve maximum climate impact at least cost to the GCF? 9. Could GCF funding be blended with other sources of funding?

Financing terms should ensure the highest level of fiduciary standards, such as those recommended by the Global Environmental Facility. Requirements need to be put in place to ensure a transparent tracking of the finance and its results. This would ideally employ appropriate monitoring, reporting, evaluation and auditing requirements which are set by the GCF Board and incumbent on implementing entities at all levels.

In the case of blended financing, the sources of funding need to be made transparent, in particular the percentages marked as public finance.

12. What form of contributions (for example, grants, concessional loans and capital contributions) should the Fund be open to? What impact will different forms of contribution have on the Fund's operations? 13. How will the Fund mobilize significant amounts of funding from other sources The GCF should be completely transparent about how it mobilises funding. This means an accurate accounting and auditing of

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income and expenditures by the fund. Ideally, these processes should require an appropriate level of public debate.

Transparency International is considering these questions but has no comment at this time.

E. Allocation

14. Will there be an ex-ante allocation of funds to countries? If so, what would be suggested as the criteria for such allocations?

As stated above, criteria should include:

- Adherence to the highest level of fiduciary standards set by the GCF Board, including standards for the monitoring, reporting, and evaluation of funding results
- Requirements for stakeholder engagement for project, programme or funding cycle consultations, independent monitoring and independent complaints mechanisms.

The criteria should also include:

- A zero tolerance policy toward corruption and fraud by the national or other implementing entity
- Sufficient capacity for a national or other implementing entity to manage and track climate finance and to make that information publicly available and accessible to citizens. This can be supported by an ex-ante fiduciary risk assessment. For more guidance, see the following paper which discusses such assessments in the case of budgetary support: http://www.u4.no/publications/fiduciary-safeguards-for-minimising-corruption-risks-when-using-budget-support/

F. Complementarity

18. How will the GCF fit with the existing architecture? 19. Where will the GCF add value over and above existing funds?

The GCF has the potential to improve the overall efficiency and effectiveness of climate finance by strengthening existing governance strategies and zero tolerance policies towards fraud and corruption. This would increase the legitimacy of the fund and overall public trust in its operations, thereby making it more attractive for potential public and private financial inputs.

II. Private sector facility

A. Gap analysis

21. What does a comprehensive analysis of existing provisions (that is, best practice, pitfalls and lessons learnt) tell us? 22. Which products/interventions have worked well, where and why? Where are the key gaps? 23. What institutional models (direct, indirect or a combination of both) have worked well, where and why?

Due to time constraints Transparency International cannot fully respond to the above three questions. A brief response for now is as follows:

Generally, public climate finance inputs to private sector entities should require transparency on the amount of those inputs and financing conditions. Private sector recipients of climate finance as a leveraging mechanism should also report transparently on the use of that public money. This information needs to be made publicly available and accessible, such as on the website of the company and of the funding agency. Such information disclosure is important to reduce risks of undue influence by private sector actors, ensure

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the effective use of public resources, and enable citizens and public sector actors to ensure the accountability of private sector recipients of public climate money.

The Clean Technology Fund of the Climate Investment Funds is one such example. The CTF promotes scaled-up financing for the demonstration, deployment and transfer of low-carbon technologies. It finances public and private sector projects involving power, transportation, energy efficiency in buildings, industry and agriculture, offering a range of financing products (including loans, guarantees and grants) to both private and public sector actors. The CTF currently finances programs in 12 countries and one region. As of 28 August 2012, the CTF (and respective MDBs) had approved financing of 35 projects to a total value of USD 2,017 million.[2] Of approved projects, private sector projects comprised around two-thirds and their value around one quarter of the total amount for approved projects.

Although the CIFs generally provide good quality data information on project-level activities, no data on disbursements to the private sector are made available. While this may be standard practice for the multilateral development banks generally, it represents a gap in transparency with respect to the use of public funds[3]. The risk of undue influence of private sector actors could be mitigated by active disclosure of disbursement data.

Further, transparency, accountability, integrity and anti-corruption requirements for how funding may be allocated to private sector actors is key. Where there is competition for public support or projects, it is important to ensure as far as possible a level playing field.

B. Implications for PSF – product offer

24. Where can the PSF best add value, for example, in terms of its product offer, the sectors it focuses on, and interventions along the innovation chain (for example, from start-ups to commercially proven technology)? 25. What potential is there for the PSF to scale up existing success stories? What gaps could the PSF fill? 26. How will the PSF articulate with the other financing modalities of the Fund for funding mitigation and adaptation activities? 27. How would the PSF be more effective at mobilizing national private sector actors in developing countries?

Transparency International is considering these questions but has no comment at this time.

C. Implications for PSF - institutional model
33. Should the PSF be organized as a specialized unit in the Fund, or a separate institutional structure organized as one or several investment vehicle(s)?

[2] https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CTF_Disbursement_Report_June_30_2012.pdf

[3] The SCF publishes a semi-annual disbursement report, which includes information about MDB disbursements. Information about disbursements to private parties is not included in these reports. SCF (2012). Strategic Climate Fund (SCF): Disbursement Report (6 March 2012). Available at: http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/SCF_Disbursement_Report_Dec_31_2011_0.pdf [accessed 21 September 2012]
The most recent CTF Disbursement Report states that "the MDBs will make efforts to provide in future reports more detailed information on disbursements, including disbursements by MDBs at the project and country levels for public sector projects and programs and more qualitative information on the nature and progress of disbursing funds under private sector programs when confidentiality requirements do not permit public release of quantitative information", CTF (2012b). Clean Technology Fund (CTF): Disbursement Report (28 August 2012). Available at: http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CTF_Disbursement_Report_June_30_2012.pdf [accessed 21 September 2012]

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34. Would financial draws to the PSF include public finance in line with a Fund allocation system or should the PSF have a separate financial input? 35. How will country ownership and transaction costs be addressed for PSF-supported activities? What will be the fit between PSF-supported activities and country planning processes?

Transparency International is considering these questions but has no comment at this time.

III. Access modalities

A. Gap analysis

40. What does a comprehensive analysis of current experience of direct access (climate and non-climate) tell us, for example, best practice, pitfalls and lessons learnt? 41. What are the key elements of an effective accreditation process?

Beyond the criteria suggested in answer to question E-14 above, institutions eligible for direct access should espouse a code of conduct or ethics, including a conflict of interest policy, and attendant compliance procedures. This will be key to ensuring the integrity of staff and management of the said institution.

Regarding the scope of a code of conduct, guidance can be draw from the following paper:
http://www.u4.no/recommended-reading/model-code-of-conduct-for-public-officials/

In the assessment of an agreed set of policy, governance and management criteria for accreditation, it may be further necessary to conduct a fiduciary risk assessment (and possible also a corruption risk assessment) if deemed necessary. This can help identify particular areas where capacity development would be needed.

Accreditation criteria and processes should be accompanied by corollary criteria and processes for disaccrediting. The GCF Board will need to seriously consider those terms but should employ them ex-ante to accreditation.

B. Implications for the Fund

42. What are the options for providing access to resources through sub-national, national, regional and international implementing and funding entities? 43. How do access modalities relate to different types of financial instrument, types of activities and types of countries? 44. How will direct access under the Fund be defined and operationalized? Will there be one definition or will there be a range of ways for countries to access finance? 45. How should the Fund guarantee effective access to the most vulnerable populations? 46. What is the range of options for providing access to resources (for example, through sub-national, national, regional and international implementing entities)? 47. What kind of national institutions are needed to facilitate national implementation and execution? 48. Will the Fund or national entities be directly responsible for oversight, monitoring and reporting of grant and/or concessional lending? 49. Will the GCF's funding be made available to assist countries in the process of establishing national implementing entities and to assist in the accreditation process?

Transparency International's national chapters, having experience in working on climate finance in a host of recipient countries, would be in the best position to provide useful inputs. However, given the short time frame in which to submit a response, we were unable to solicit more comprehensive feedback. Bearing that in mind, experience so far has been:

- National institutions in many cases have less capacity to accurately report on climate finance received and spent in their countries. This is partly due to the diverse sources of funding and the

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different ways it is tagged coming into the country, which complicates how recipient governments then tag and track that money in-country. This becomes further tenuous when that money is allocated to regional or local government offices, which are often uniformed about how the money should be spent, reported and accounted. These appear to be capacity issues which can be supported even with external donor finance. However, the lack of information raises questions on the part of the public who are demanding to know that information to hold their governments accountable for both decisions and results. Capacity weaknesses are not necessarily corruption or fraud but when information remains non-disclosed, opacity can trigger corrupt behaviour and dissuade public trust.

- Again, as stated through this submission, with both direct and non-direct access, it will be crucial that civil society – local stakeholders – and citizens more broadly are engaged in climate finance consultations, monitoring and other oversight including complaints mechanisms. This will help build public trust and sustainability of the GCF actions at all levels and in ensuring environmental, social and anti-corruption safeguards.