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Rt Hon Douglas Alexander MP  
Secretary of State for International Development  
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11 March 2008

Dear Secretary of State

**Environmental Transformation Fund / Climate Change Investment Funds**

We appreciated the opportunity to meet with Gareth Thomas at the end of November last year regarding the Environmental Transformation Fund (ETF). As you know, since then there have been a number of significant developments, in particular the proposal to set up a series of multi-billion-dollar Climate Investment Funds (CIFs) at the World Bank, in which the UK – along with the US and Japan – has been closely involved. We have had a number of useful discussions recently with DFID officials on further details of the Funds, and we also understand that the CIFs were discussed with you and President Zoellick at a recent meeting with BOAG Directors.

While we welcome the renaming of the initiative (because it provides greater clarity as to what the funds will and will not do), this of course also underlines that they may not meet the full range of environmental and development challenges originally set out by the ETF. We are writing to outline the key concerns we have about the current direction of the proposals:

- The initiative is currently being led by a small group of G8 members, and without clear participation by developing country governments or civil society. For initiatives taken by the UK and other countries to be beneficial, it is vital that these proposals are opened up to wider ownership and engagement from civil society and developing countries at this critical design stage.
- We are worried that inclusion of the US-led Clean Technology Fund could imply support for the US Major Emitters Meeting process, which lies outside the UN track of negotiations on a post-2012 framework.

- We are concerned about the complications which may arise from two parallel processes going forward: the proposed CIF Adaptation Pilot Fund, and the UNFCCC Adaptation Fund agreed at Bali. While this latter fund faces some challenges going forward, it importantly has a far greater degree of developing-country ownership. We appreciate that difficulties may exist as to whether the UNFCCC fund can accept certain types of funding, but we believe that all options need to be fully considered, and the option of DFID channelling significant funds via this route should not be discounted at this stage.
- We understand that it is currently suggested that the proposed Adaptation Pilot Fund will offer highly concessional loan finance for adaptation. We believe it is inappropriate to use loans, given that the problems that developing countries must tackle were largely created by rich countries in the first place.
- We have reservations about the role of the Bank itself: its energy portfolio continues to be skewed towards fossil fuels over decentralised renewable energy, and there are also concerns about the Bank's own environmental track record and governance arrangements. In order for the Bank to be a credible partner in the CIFs, these concerns will need to be addressed. In addition, if the Bank were only to be the administrator of the CIFs, then a further concern would be whether the implementing agencies - such as regional development banks - have adequate social and environmental safeguards in place.
- As you know, substantial parts of the Climate Investment Funds will be counted as ODA, including by the UK. We believe, however, that funding to help developing countries respond to the challenges of climate change should be additional to the long-standing ODA commitment of 0.7% GDP.

We believe this is a critical time to ensure that these proposals are right. While we believe urgent action is required, we are concerned that the current rush could lead us into establishing top-down funds, without adequate participation of developing countries, without much-needed accountability mechanisms, and without promoting the wider environmental and development benefits and sustainable transformation we all agree are so vital. In particular we believe it is vital that the principles of the Paris Declaration on Aid Effectiveness are applied to the emerging financial infrastructure for climate change.

We are attaching a list of questions on the mechanics of the CIFs (then the TFSD) which we raised with DFID in November, and we would welcome a response to both these and the concerns outlined in this letter. We also understand that a meeting is being considered between NGOs and yourself in May to discuss this issue. However, given that the CIFs are planned to be launched in early July, we would welcome an earlier opportunity to discuss these issues with you and Gareth Thomas.

We look forward to continued and constructive dialogue with you and your officials in order to ensure that the future climate change funding architecture truly delivers the impacts we all wish to see.

Yours sincerely

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 Lucy Baker, Policy and Networking Officer, The Bretton Woods Project  
 George Gelber, Head of Policy, CAFOD

Sylvie Aboa-Bradwell, Coordinator of the International Office, Centre for Democracy and Development  
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Camilla Toulmin, Director, International Institute for Environment and Development (IIED)  
Trisha Rogers, Director, Jubilee Debt Campaign  
Barbara Stocking, Chief Executive, Oxfam GB  
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Martin Khor, Director, Third World Network  
Toby Quatrill, Head of International Governance, WWF-UK

Cc:

Rt Hon Hilary Benn MP, Secretary of State for Environment, Food and Rural Affairs  
Gareth Thomas MP, Parliamentary Under-Secretary of State  
Joan Ruddock MP, Parliamentary Under-Secretary of State

**ANNEX: Questions and Concerns about the Climate Investment Funds  
(Based on submission to civil servants (November 2007): Transformation Fund for  
Sustainable Development: Questions and concerns – DEG/UKAN/BWP)**

**1. ETF and the TFSD**

- Is all of the ETF planned to go through the TSFD?
- How does DFID envisage that ETF funding of the TFSD will help transform the very institutions they are being set up to work with to ensure they are better governed, more sustainable and with the adequate capacities?

**2. Overall objective**

- What is the rationale for creating yet another fund? What is the link between this fund and these others and what will be its added value?
- There is indication that there will be a changing objective over time (“initial focus of TSFD to provide finance to MICs”), but the timescales are not made clear: After which period would low-income countries qualify for the fund?
- There is no recognition that different recipients, and different sectors need different modalities, especially vis a vis loans or grants. How does the fund envisage concessional finance working in the context of adaptation and forest management?

**3. Governance**

- How is the governance of this fund envisaged? There is reference to ensuring that developing countries take the lead, what are the mechanisms to make this happen?
- What does it mean to have mechanisms that generate ‘reflows for capital subscribers, who acquire an equity stake as do contributors to IDA’. What does this mean in terms of governance and decision making structure?
- If the World Bank is only the administrator of this fund, what is the envisaged decision making mechanism on funding, impact assessment, etc.

**4. Proposed funding mechanisms**

- The TFSD document says the trust fund aims to invite other donors into it, can these be public as well as private? Carbon finance is mentioned in this context, but no international agreements have been made yet on the nature of these markets.
- If private sources are allowed to contribute, and acquire an equity stake in the fund, does this equal public money underwriting private profit?
- The document says resources will be blended with other financing, such as that of the IFIs . To what extent is this different from being just a contribution to the Bank?
- The World bank has reasonably good safeguard policies, how will the fund work to support these rather than become a race to the bottom via other banks or viable distributors.
- How will DFID ensure that the loans issued under this fund don’t contribute to future problems of debt sustainability in low income countries?

**5. Clean energy**

- Will the Climate Investment Funds underpin the Clean Energy Development Investment Framework (CEIF) of the World Bank as recently indicated by Chancellor Alistair Darling?:
- If so, will DFID challenge the World Bank’s definition of ‘Renewable Energy and Energy Efficiency<sup>1</sup>’. Will DFID call on the Bank to adopt ambitious targets to scale-up investment in ‘new renewables’ (renewable energy such as wind, solar, and small hydro).

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<sup>1</sup> Current definitions include large hydro-electric dams without specifying they need to be compliant with the recommendations from the World Commission on Dams.

- Is Carbon Capture and Storage considered within the Technology Investment Fund, and if so, what proportion will be channelled towards this as compared to new renewables? NGOs are very concerned about ODA resources being spent on CCS as these are currently unproven technologies which are very unlikely to benefit the poor.

#### **6. Further questions**

- The paper mentions that ‘transparent and objective criteria for prioritisation’ will be used. How will these criteria be developed? Will there be consultation on these criteria?
- The proposed criteria (point 8) include measures such as ‘development impact’. How is this proposed to be measured? Overall GDP figures are not sufficient as they do not capture distributional impact.