Civil Society Statement, September 22, 2016

Concerns Regarding Green Climate Fund and Support for High Environmental & Social Risk Programs/Projects

From the inception of the Green Climate Fund, civil society has been deeply concerned that it would support programs/projects that would cause environmental and social harm to vulnerable communities. Now, the Board of the GCF is expected to consider up to six high risk[1] programs and projects at its upcoming 14th and 15th Board meetings.[2]

The Board should not consider high risk programs/projects until appropriate policies are in place. Once that is the case, the Board should subject these programs/projects to rigorous scrutiny to ensure that the associated risks are minimized, well-managed, and commensurate with the expected benefits.

Towards this end, the Board should not consider any high risk project/program proposals until:

1. <u>It has adopted and operationalized a full Environmental and Social Management System (ESMS).</u>[3] In the absence of this policy, there are no mandatory guidelines or clear divisions of responsibility on critical issues such as project categorization, oversight, and performance benchmarks. This will exacerbate risks that have been well-documented in the intermediary portfolios of other international lenders, such as the mischaracterization of category A sub-projects as Category B, as well as significant shortcomings in self-reporting.[4]

   When crafting the policy, the Board should learn from the experiences of peer institutions in managing environmental and social risk in intermediated portfolios. Peer institutions such as the International Finance Corporation (IFC) have struggled to appropriately manage the environmental and social impacts of sub-projects funded through their financial intermediary portfolios. Independent audits, monitoring reports, and external assessments of the IFC's experience with financial intermediaries have generated a wealth of lessons learned and recommendations for improving the environmental, social, and development outcomes of intermediated lending (see Annex 1).[5] The GCF would do well to closely consider these lessons when devising its own ESMS.

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[1] Category A or Intermediation-1

[2] Environmental and social impacts assessment and environmental and social management plans have been disclosed for the following high risk projects/programs: 1. Tina River Hydropower Development Project (Solomon Islands), International Development Association, World Bank Group; 2. Nepal – Sustainable Hydropower Development for Energy Security (Phase 1), IFC; 3. Green Bond Cornerstone Fund, IFC; 4. Simiyu Climate Resilient Development Programme, KfW; 5. Global Energy Efficiency and Renewable Energy (GEEREF) NeXt, EIB; 6. Senegal Integrated Urban Flood Management Program, AFD

[3] According to the IFC, the elements of an ESMS are: policy, identification of risks and impacts, management programs, organizational capacity and competency, emergency preparedness and response, stakeholder engagement, external communications and grievance mechanisms, ongoing reporting to affected communities, and monitoring and review. http://www.ifc.org/wps/wcm/connect/22dc7500483774689335f7299ede9589/ESMS+Handbook+General+v2.1.pdf?MOD=AJPERES

[4] See, for example, Oxfam (April 2015) 'The Suffering of Others, The human cost of the International Finance Corporation's lending through financial intermediaries.' https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/ib-suffering-of-others-international-finance-corporation-020415-en.pdf

[5] See IFC Compliance Advisor/Ombudsman (2012), *CAO Audit of a Sample of IFC Investments in Third Party Financial Intermediaries*, available at http://www.cao-ombudsman.org/newsroom/documents/Audit_Report_C-I-R9-Y10-135.pdf . IFC Compliance Advisor/Ombudsman (2014), *Monitoring of IFC's Response to: CAO Audit of a Sample of IFC Investments in Third-Party Financial Intermediaries*, *available at* http://www.caoombudsman.org/documents/CAOFIAuditMonitoringReport_October102014.pdf; Independent Evaluation Group (2013) 'Results and Performance of the World Bank Group 2012.' Washington DC: World Bank. Creative Commons Attribution CC BY 3.0, http://elibrary.worldbank.org/doi/book/10.1596/978-0-8213-9853-1..

2. It has adopted and operationalized a free-standing Indigenous Peoples' Policy that is in line with the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) and other applicable international standards and instruments. An IP policy must clearly spell out the legal framework, including applicable international human rights standards and obligations, as well as criteria and principles that the GCF will follow when dealing with projects/programs that would have relevance for Indigenous Peoples. This policy must include the following elements: a) the commitment of the GCF to follow a human rights-based approach, b) respect and adherence to the right of Free, Prior, and Informed Consent, c) full and effective participation of Indigenous Peoples, d) acknowledgement of the traditional knowledge and contribution of Indigenous Peoples to climate change mitigation and adaptation, and e) capacity building opportunities for both the GCF Secretariat and National Designated Authorities to enhance understanding of Indigenous Peoples' perspectives.

   Furthermore, the GCF should commit to developing the capacity of accredited entities to adhere to international human rights obligations, standards, and related safeguards, including the rights of Indigenous Peoples as stated in the UNDRIP and ILO 169. The GCF can build on the precedents set by other climate funds and international organizations, such as the UN Development Group and the EU, which have already adopted Indigenous Peoples' policies aligned to higher standards.

Once the requisite policies are in place, the Board should ensure that high risk projects/programs are subject to more rigorous scrutiny and due diligence by:

1. Categorizing programs based on the risk level of the highest risk sub-project. Programs should be categorized based on the risk level of the highest risk sub-project. If there is a possibility that the accredited intermediary might fund even one category A sub-project under a proposed program or fund, that proposal should be subject to Intermediation-1/category A level due diligence and review by the Board.

2. Requiring Board approval of higher-risk sub-projects. Category A and B sub-projects should be subjected to the identical Board approval process as the same category projects. For example, the Asian Development Bank (ADB) requires the ADB to "clear" higher risk subprojects for financial intermediaries. To that end, the Board should approve the language in the draft decision on programmatic approaches, postponed from BM13, which would properly require category A and B sub-projects to come before the Board.[6] In the case of investment funds and other financing facilities (e.g. equity or debt funds), this same procedure should be applied if category A or B sub-projects and investments are to be funded. GCF contracts (accreditation master agreements and funded activity agreements) should require the timely disclosure of all sub-projects (including through investment funds), and binding language allowing for the suspension of support and/or refunding of the investment in cases where safeguards are not adhered to. Until such a time, there is no clear process for Board consideration of category A or B sub-projects.

3. Subjecting large hydropower and other large infrastructure projects to particularly searching reviews. Two category A hydropower projects put forward by the World Bank Group are expected to come before the Board in December. One-off hydropower or multipurpose projects are not innovative solutions to climate change, and would rarely (if ever) meet the GCF's threshold test of effecting a paradigm shift in the context of sustainable development. Large hydropower projects have been notoriously susceptible to enormous cost and time overruns and to causing significant social and environmental harms. For years, Indigenous

[6] GCF/B.13/18, http://www.greenclimate.fund/documents/20182/226888/GCF_B.13_18_-_Programmatic_approach_to_funding_proposals.pdf/b97ef633-96c7-490f-84bf-304bb852980c?version=1.0

Peoples, local communities, and civil society groups have been campaigning against big dams, which led to the World Commission on Dams report.[7] Large dams often increase the vulnerability of water and energy systems in the context of a changing climate.[8] In many cases, there are replicable small scale initiatives and policy frameworks that have been proven to achieve better results in terms of adaptation, mitigation, development, and other co-benefits.

4. Ensuring that proposals are driven by countries, not accredited entities. The Board should only review and approve those proposals that are country driven, with the strong support of civil society and local communities, and that promote real change at the national and local level. It should eschew projects that have been languishing in the pipelines of accredited entities, and that accredited entities could readily fund themselves.

5. Ensuring timely public disclosure of key documents. The minimum time period for disclosure of Environmental and Social Impact Assessments and Environmental and Social Management Plans should be counted from the date such information is made available via the GCF website. It is wholly inadequate to count the days from disclosure on the accredited entity's website, as the Secretariat appears to be doing, since it is only through the notification via the GCF Secretariat that proposed projects/programs are identified as under consideration for GCF financing support. Given this important qualification, we note that the 120-day disclosure period has not been respected for most of the high risk projects/programs. If the 120-day disclosure period cannot be met prior to a particular Board meeting, then that funding proposal must not be considered for approval at that Board meeting.

To ensure the efficacy, legitimacy, and high-standing of the GCF, we urge the Board to seriously consider and implement the above recommendations before moving forward on any high risk projects/programs.

Endorsements

11.11.11, Belgium
ActionAid International
Alianza Honureña ante el Cambio Climático, Honduras
Alliance Sud, Switzerland
Amigu di Tera/Friends of the Earth Curacao
Amur Regional Public Environmental Organization, Russia
Antinuclear of Tatarstan, Russia
Asia Pacific Forum on Women, Law and Development, Regional (Asia-Pacific)
Asian Indigenous Women's Network, Philippines
Association of Journalists-Environmentalists of the Russian Union of Journalists, Russia
Baikal Nature Reserve, Russia
BankTrack, the Netherlands
Biodiversity Conservation Center, Russia
Both ENDS, the Netherlands
Buryat Regional Union for Lake Baikal, Coalition River without Boundaries, Russia
CAFOD, England and Wales
Canadian Parks and Wilderness Society - Ottawa Valley Chapter, Canada

[7] The World Commission on Dams established the most comprehensive guidelines for dam building. It describes an innovative framework for planning water and energy projects that is intended to protect dam-affected people and the environment, and ensure that the benefits from dams are more equitably distributed. See https://www.internationalrivers.org/campaigns/the-world-commission-on-dams. Report of the World Commission on Dams, http://www.unep.org/dams/WCD/report/WCD_DAMS%20report.pdf

[8] For more, see 10 Reasons Why Climate Initiatives Should Not Include Large Hydropower Projects, https://www.internationalrivers.org/node/9204.

Carbon Market Watch, International
CARE International
CEE Bankwatch Network, Czech Republic
Centar za životnu sredinu / Center for Environment, Bosnia & Herzegovina
Center for Biological Diversity, USA
Center for International Environmental Law, USA
Center for Participatory Research and Development, Bangladesh
Center for Popular Democracy, USA
Central Ashaninka de Rio Ene, Peru
Centre for 21st Century Issues, Nigeria
Centre for Social Impact Studies, Ghana
Centro de los Derechos del Campesino, Nicaragua
Centro Mexicano de Derecho Ambiental, Mexico
CESTA/Friends of the Earth El Salvador
CHANGE Vietnam
Climate and Sustainable Development Network, Nigeria
Climate Justice Programme, Australia
CNCD-11.11.11, Belgium
Consejo Dominicano de Jóvenes Trabajadores filia Confederación Nacional de Trabajadores Dominicanos, Dominican Republic
Conservation Action Trust, India
Consumers Association of Penang, Malaysia
Derecho, Ambiente y Recursos Naturales, Peru
Eko Orgaization Greenbranch, Russia
Environics Trust, India
Environment and Society Association, Colombia
European Association of Geographers, Europe, based in Belgium
Food & Water Watch, USA
Forest Peoples Programme, UK
Foundation to Support Civil Initiatives, Tajikistan
Friends Committee on National Legislation, USA
Friends of the Earth Canada
Friends of the Earth England, Wales and N Ireland
Friends of the Earth Malaysia
Friends of the Earth Mauritius
Friends of the Earth U.S.
Fundar, Centro de Análisis e Investigación, Mexico
GAIA - Global Alliance for Incinerator Alternatives, International
GegenStroemung – CounterCurrent, Germany
Germanwatch, Germany
Grupo de Financiamiento Climático para América Latina y el Caribe Latin America and the Caribbean
Haburas Foundation/Friends of the Earth Timor Leste (East Timor)
Heinrich Böll Stiftung North America, USA
Institut Dayakologi, Indonesia
Institute for Agriculture and Trade Policy, USA
Institute for Ecology and Action Anthropology, Germany
Institute for Policy Studies, Climate Policy Program, USA
Institute for Transportation and Development Policy, International
Interamerican Association for Environmental Defense, Regional
International Accountability Project, USA
International Rivers, International
International-Lawyers.Org, International
Jamaa Resource Initiatives, Kenya

Janathakshan, Sri Lanka
JVE International, Africa
Kola Environmental Centre, Russia
Korea Federation for Environment Movement/Friends of the Earth Korea, Republic of Korea
Labour, Health and Human Rights Development Centre, Nigeria
Leave it in the Ground Initiative, International
Les Amis de la Terre France/Friends of the Earth France
M´Biguá, Ciudadanía y Justicia Ambiental, Argentina
Malaysian Nature Society, Malaysia
Maleya Foundation, Bangladesh
Massachusetts Sierra Club, USA
Movement of Khuvsugul Lake's Owners, Mongolia
Nature Protection Squad of Dzerzhinsk, Russia
NOAH - Friends of the Earth Denmark
Bureau for Regional Outreach Campaigns, Russia (Far East)
Oxfam, International
Pacific Environment, USA
Pan African Climate Justice Alliance, Africa
Physicians for Social Responsibility, USA
Plotina.Net, Russia
Pro Public/Friends of the Earth Nepal
Rivers without Boundaries International Coalition, Russia
Russian Social Ecologial Uniob/Friends of the Earth Russia
Sierra Club, USA
Socio-Ecological Union International, Russia
SONIA for a Just New World, Italy
Taiga Research and Protection Agency, Russia
Taiwan Environmental Protection Union, Taiwan
Tebtebba (International Centre for Policy Research and Education), Philippines
Third World Network, Malaysia
Ulu Foundation, USA
Umeedenoo Citizen Community Board, Pakistan
Unitarian Universalist Service Committee, USA
Urgewald, Germany
WWF International
Zambia Climate Change Network, Zambia
Zero Waste Europe, UK

Annex

Findings of CAO's Audit of a Sample of IFC Investments in Third-Party Financial Intermediaries

1. IFC's E&S processes and results do not fully correspond to IFC's overall corporate message. The IFC approach, which is based on achieving change through the application of a management system, does not generate information about actual E&S results at the sub-client level.

2. There is a lack of clarity about when IFC's two different concepts of E&S risk [do no harm and credit risk] apply, thus creating the possibility that IFC's systems do not effectively minimize environmental or social harm that may result from the action of clients or subclients.

3. There is a lack of clarity about IFC's actual E&S objectives. In addition, there is not a systematic approach to assessing whether the two broader objectives [do no harm and have a positive impact] are being achieved. The current approach is focused on confirming that clients have implemented an ESMS.

4. Differing E&S requirements of the various development finance institutions place a burden on IFC's clients and fail to take advantage of potential opportunities to increase the efficiency and leverage of the DFIs, individually and collectively.

5. There are potential opportunities for IFC to encourage the adoption of a widely shared vision of industry standards for acceptable E&S practices, behavior, and results. Requiring clients to report and disclose E&S performance and to engage third-party assurers to provide an independent check would further contribute to the propagation of global norms, while improving disclosure.

6. IFC's focus on establishing a ESMS as a legally required product—instead of as part of a more fundamental change management process—creates the risk of a reporting and compliance orientation on the part of the client. This focus, in turn, means that the ESMS can become an end in itself, rather than a means of enhancing E&S performance outcomes on the ground.

7. IFC's E&S requirements have not been adequately adapted for financial markets (FM) clients and are thus not optimally designed to assist FM clients in improving the E&S performance of their sub-clients.

8. IFC does not have a structured approach to assess and address two key elements of a successful E&S program: client commitment and client capacity to implement an effective E&S management system.

9. IFC's current approach to the application of E&S issues to financial markets transactions does not adequately reflect the significant differences in client capacity and the business, institutional, and cultural setting in which they operate.

10. The deployment of high quality E&S staff to work on FM investments in recent years has had a material impact on the quality of support provided to clients. However, this has yet to address the underlying limitations of the ESMS-based approach to E&S management.

11. IFC's allocation of E&S resources is not cost based. IFC does not have an adequate system in place to determine whether E&S resources are being used efficiently, or whether certain functions should be outsourced.